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NEWS RELEASE

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PSC Grants Emergency Rate Increase to Southern Water *Meter problems force move to flat rate for customers of utility in Floyd County*

FRANKFORT, Ky. (June 6, 2019) – The Kentucky Public Service Commission (PSC) has granted an interim emergency rate increase to Southern Water and Sewer District in Floyd County in order to forestall the utility's financial and operational collapse.

In an order issued today, the PSC cited "extraordinary circumstances" in directing Southern Water to shift to a flat rate for all retail customers and to immediately suspend all reading and testing of water meters. The PSC set the flat rate at \$58.82 per month, an increase of \$17.42, or 42 percent, for a typical residential customer using 4,000 gallons per month.

The PSC said it reached the decision reluctantly after finding that Southern Water has not tested its meters for at least 10 years, has no stock of replacement meters and cannot rely on the accuracy of the meters in use.

In fact, at least 700 to 750 of the more than 5,000 water meters in the Southern Water system register no usage, despite the fact that those customers are receiving water service, the PSC said. Those customers pay only the minimum bill, regardless of how much water they use.

That means that those customers who are paying based on metered use are, in effect, subsidizing the customers whose meters register no usage, the PSC said. Raising the current usage-based rates would exacerbate the problem, the PSC said.

"Given this reality, there is no way to ensure that Southern (Water's) ratepayers receive fair, just and reasonable treatment other than to institute a flat rate" until a final decision is reached in the matter, the PSC said. With a flat rate in place, there is no longer a need to read or test meters.

In its application for a rate increase, Southern Water said it has been losing \$40,000 to \$50,000 per month, is unable to pay its bills, and has had to borrow money from Floyd County in order to cover expenses. Without an emergency rate increase, Southern Water said it would be unable to continue in business.

The PSC in January turned down an earlier request from Southern Water for a rate increase, citing the district's failure to provide required financial information. The PSC also indicated it would open investigations into Southern Water's management and governance.

Southern Water's board of commissioners subsequently resigned, and the utility's general manager followed suit after the PSC initiated action against him for management deficiencies. The district now has an entirely new board of commissioners who have contracted with a management firm to oversee day-to-day operations.

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The current rate increase application was filed by the new board of commissioners. The interim rates take effect today.

Southern Water has about 5,450 customers. It sold its sewer operations and some water operations to the city of Prestonsburg in 2017.

In today's order, the PSC directed Southern Water to prioritize the replacement of all the retail meters in its system, issue by July 15 a request for bids to replace its meters, and provide monthly updates on its progress toward a full meter replacement. Any contract to obtain new meters will have to be reviewed and approved by the PSC.

Similarly, the PSC required Southern Water to obtain prior PSC approval before obtaining any additional loans or making other financing agreements.

Finally, the PSC said it "strongly encourages" Southern Water to consider merging with or being acquired by another water utility. Doing so could improve the district's financial position and provide better service to its customers, the PSC said.

Southern Water told the PSC it wants to try to improve the utility's financial situation before considering a sale. But, given the district's financial, managerial and operational problems, the best solution may be acquisition by a financially stable water system, the PSC said.

The rates set by today's order will remain in effect while the PSC conducts a more exhaustive analysis of Southern Water's financial condition and revenue needs. If the ultimate decision is to set rates at a level lower than the interim rates, any resulting over collection will be refunded to customers.

The PSC conducted a hearing in the case on May 9. The only other party to the case is the Kentucky Office of Attorney General.

Today's order, the case files and a video of the hearing are available on the PSC website, psc.ky.gov. The case number is 2019-00131.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

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