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NEWS RELEASE

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Martin County Water Ordered to Obtain Outside Management *PSC grants rate increase, but imposes stringent conditions*

FRANKFORT, Ky. (Nov. 5, 2018) – The Kentucky Public Service Commission (PSC) has granted Martin County Water District a permanent rate increase, while also ordering the district to contract with an outside party to manage the troubled utility.

In an order issued today, the PSC told Martin County Water that a failure to comply with the terms of the order could prompt the commission to either force a merger with another water system or seek appointment of a receiver to operate the utility, removing all local control.

The rate increase granted today will add another \$3.30 to the average monthly bill for Martin County Water residential customers, bringing it to \$54.37. The PSC in March granted Martin County Water an emergency rate increase that brought the average bill to \$51.07, an increase of \$11.17, from the previous \$39.90 for a customer using 4,000 gallons per month.

Included in the total bill is a temporary monthly surcharge of \$4.19 that goes into a separate account and may be spent by Martin County Water only with PSC permission to pay off a portion of the utility's debt of about \$1.1 million.

Today's order also authorizes a separate temporary monthly surcharge of \$3.16 per month that would take effect only if Martin County Water obtains outside management and submits and receives PSC approval for a plan to repair its crumbling water system. The plan must be submitted within a year from today.

With both surcharges in place, Martin County Water residential customers would see a total increase since March of \$17.53 per month, or about 44 percent.

The PSC noted in today's order that even with the emergency increase granted in March, Martin County Water's financial condition "has not improved and remains critical" and the utility is still "struggling to maintain services to the ratepayers."

"The Commission has repeatedly asked Martin District to hire a general manager, requested new policies and requested development of an improvement plan, to no avail," the PSC said in today's order. "Martin District's current commissioners will either comply with the requirements of the rate increase and will proceed with contracted management or the (PSC) will be forced to pursue even more extraordinary means through appointment of a receiver who can implement the changes needed to provide safe, clean and reliable water service."

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The PSC left in place the stringent financial controls and reporting mandates it imposed on Martin County Water when it granted the emergency rate increase in March, including a requirement that Martin County Water receive prior PSC approval for all disbursements of funds collected through the debt service surcharge.

However, the debt service surcharge will terminate on Jan. 30, 2019, unless Martin County Water complies with provisions in the order related to obtaining outside management services. Those provisions, all with a Jan. 30, 2019 deadline, include:

- Issuing a request for proposals (RFP) to qualified management entities, including seven identified by the PSC. They include the municipal water systems of the cities of Paintsville and Prestonsburg.
- Presenting the PSC with each RFP and all responses received.
- Analyzing the responses, with the assistance of Martin County Water's current outside consultant, selecting a preferred proposal, and submitting to the PSC a detailed written analysis of the responses to the RFP and the reasons for selecting preferred proposal.

Within a year of today, Martin County Water must submit to the PSC a detailed plan for retaining and compensating an outside manager and for the repair, replacement and management of its distribution system. Without PSC approval of such a plan, the management and infrastructure surcharge will not take effect.

The combination of the base rate increase and the two surcharges would generate slightly less revenue than the increase originally sought by Martin County Water. It would have raised rates by about 49 percent. A PSC staff analysis determined that the slightly lower revenue would be adequate.

Today's order notes that Martin County Water's "ratepayers are suffering the dire consequences" of "years of incompetent management and inept decision makers," leaving them with "deficient water service or no water service at all."

With the history of poor management and an unwillingness to raise rates and invest in the water system, Martin County Water's current situation is "grim and desperate," with "nothing less than access to safe and reliable drinking water at stake," the PSC said.

Martin County Water requires management that is experienced in water utility operations, the ability to address the extreme circumstances in Martin County and "the skills to address the political and cultural norms that pressured the past management into the poor decisions that led Martin District to the current crisis," the PSC said.

PSC Chairman Michael Schmitt wrote an 11-page concurring opinion in which he detailed the history of Martin County Water's problems and the PSC's past unsuccessful attempts to correct them. He noted that the PSC investigated Martin County Water in 2002 and again in 2006, ordering corrective actions that went largely unimplemented.

Martin County has had chronic problems with water loss through leaks, theft and other problems in its system, Schmitt said. In some years, more than 60 percent of all the water the utility produced or purchased disappeared before reaching a customer's meter, he noted.

Had Martin County Water implemented the PSC recommendations and increased rates on an incremental and regular basis, its customers "could today be the beneficiaries of a clean reliable source of potable water" through new infrastructure at a cost likely to be much lower than what it will take to repair the current system, Schmitt said.

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Instead, Martin County Water has ignored the efforts of the PSC and the recommendations of numerous experts, with the result that the system is now in crisis and the district's management has lost the trust of its ratepayers, Schmitt said.

"The residents of Martin County are, unfortunately, the captive customers of what most certainly has been, over the last two decades, the most poorly operated water district in the state of Kentucky," Schmitt wrote in his concurrence.

Undoing the damage will be a lengthy and expensive undertaking, he said, with no good alternatives to the path chosen by the PSC in today's order, he said. Even the last-resort option of receivership could eventually lead to "a return to local management, which has shown no evidence over the past two decades of having either the political will or the business acumen to be successful," Schmitt said.

"For too long, county officials and Martin District board members have deliberately allowed the utility's assets to deteriorate in order to keep rates artificially low," Schmitt concluded. "The result of that financial mismanagement is now painfully clear. In the near term, the best hope of obtaining a reliable supply of clean water for the people of Martin County must be found in professional utility management and, unfortunately, in a significant increase in customer rates."

Beginning in January, the PSC held six hearings in which evidence was presented in the rate case. Those included three hearings called in the PSC's ongoing investigation of the operational capability of Martin County Water.

The only other party to the rate case is Martin County Concerned Citizens, Inc., which represents the utility's ratepayers. It is also a party to the investigation case.

Today's order, video recordings of the hearings and other records in the rate case and investigation case are available on the PSC website, psc.ky.gov. The rate case number is 2018-00017. The investigation case is 2016-00142.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,100 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

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