FRANKFORT, Ky. (Nov. 15, 2019) – The Kentucky Public Service Commission (PSC) has ordered Martin County Water District to sign a contract with an outside management firm that will take over the water utility’s operations.

In an order issued today, the PSC said that if Martin County Water fails to execute the contract with Alliance Water Resources by Wednesday, November 20, it will no longer be allowed to collect a surcharge dedicated to paying off the district’s old debts and will not be able to institute a previously approved surcharge to pay for management service and infrastructure repairs.

If the contract is executed, Martin County Water’s surcharges will be restructured to reflect the cost of the management contract without changing the total surcharge amount.

The PSC noted in today’s order that Martin County Water has made little progress in either hiring a general manager or contracting for outside management, despite nearly two years of pressure from the PSC to do so. That is in keeping with Martin County Water’s lengthy history of financial and operational problems brought on by chronic mismanagement, the PSC said.

Martin County water “is in desperate need of strong leadership and expertise that a management company would bring,” the PSC said in today’s order. The utility’s problems are so severe that no one person can correct them, the PSC said.

Should Martin County Water not enter into the contract with Alliance, it will no longer be authorized to collect the $4.19 monthly surcharge that has gone into a separate account for repayment of the utility’s old debts and will have to refund to customers any money remaining in the account. Nor will it be able to collect an additional $3.16 monthly surcharge that was authorized by the PSC in March 2018, but made contingent on the district hiring a management company.

If Martin County Water signs the contract with Alliance, the debt repayment surcharge will be reduced to $2.63 per month, with the management and infrastructure surcharge increased to $4.72 per month to reflect the cost of the management contract. The combined amount of the two surcharges will remain at $7.35.
In today’s order the PSC reviewed Martin County Water’s lengthy history of problems, which date to at least 1997, when the PSC first instructed the utility to take steps to curb excessive water loss due to leaking lines. Since that time, Martin County has resisted increasing rates or taking other steps to improve its operations or finances, the PSC said.

Because of the system’s deteriorated state and poor reliability, water service is often interrupted or the water provided is of poor quality, forcing customers to resort to bottled water to meet their daily needs, the PSC said.

Since opening the most recent investigation of Martin County in 2016, the PSC has held regular hearings to monitor the district’s actions to improve service, institute better management, strengthen its finances and pay down its debts. In today’s order, the PSC said that Martin County water has made insufficient progress.

Specifically, the PSC noted the following issues:

- Martin County Water has failed to complete an annual outside audit for 2016 and has not initiated audits for 2017 and 2018, has failed to properly maintain and provide the records needed to conduct annual audits, and has failed to act with any urgency to remedy the situation. The lack of audits makes it impossible for the district to apply for loans or other assistance to address its failing infrastructure.
- The district failed to file a final and corrected annual report for 2017 with the PSC and has never filed a report for 2018, which was due in March of this year.
- Members of Martin County Water’s board of commissioners have not undergone training as required by state law.
- Martin County Water continues to have excessively high water loss – averaging 60 percent since 2012.
- Martin County Water has provided the PSC with inconsistent or misleading information on the extent of its water theft problem and the steps taken to address it.
- Despite receiving rate increases twice in 2018, Martin County Water continues to operate at a loss, accumulating a deficit of nearly $300,000 in the first seven months of this year. The district is solvent only because it is paying day-to-day expenses with money that should go to infrastructure repairs.
- Although Martin County has been collecting a surcharge for the purpose of paying overdue bills since March 2018, the amount of overdue bills has declined only slightly, falling from $816,877 in January 2018 (when the current rate case was filed) to $799,391.50 as of October 31, 2019.
- Martin County Water failed to hire a general manager after being directed by the PSC to do so, leading the PSC to impose the requirement to obtain outside management.

Financial details of the contract with Alliance are confidential, but the management company would be responsible for all district operations, including meter reading, billing, bookkeeping and collection. Alliance would hire a general manager and operations manager and would offer employment to current district employees.

Martin County Water will continue to be responsible for debt repayment, commissioner compensation and certain other costs.

In analyzing the impact of the management contract on Martin County Water’s rates, the PSC determined that the cost of the contract could be absorbed without increasing the total customer bill beyond the amount set in November 2018, when the management and infrastructure surcharge was approved. The surcharge amounts were revised accordingly.

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The lower debt service surcharge will remain in place until the existing debts have been repaid and then, pending further action by the PSC, the money collected will go into an account set aside for infrastructure replacement and repair.

Today’s order closes the rate case filed by Martin County Water in January 2018. Although the PSC set rates in a November 2018 order, the case has remained open in order to address the water district’s management deficiencies.

A parallel case, opened in 2016 to investigate Martin County Water’s ability to provide satisfactory service and its financial condition, remains open.

Today’s order, videos of hearings in both cases, and other records are available on the PSC website, psc.ky.gov. The case number is the rate case 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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TIMELINE FOLLOWS
MARTIN COUNTY WATER DISTRICT TIMELINE

1997  PSC directs MCWD to address excessive water loss; little action results

2002  Prompted by inspection that finds MCWD water treatment plant is in poor condition, PSC opens investigation.

2003  Settlement in 2002 investigation results in list of 43 action items for MCWD to address. Some improvements made.

2006  PSC opens investigation after finding that many earlier action items remain unaddressed.

2007  PSC initiates management audit of MCWD.

2008  Management audit report lists 78 remedial actions required.

2014  PSC review finds 37 uncompleted actions from 2008 report. Follow-up inspection finds many deficiencies.

2016  PSC opens investigation into MCWD operational and financial capabilities. Begins series of regular monitoring hearings.

January 2018  MCWD files rate increase application; asks for emergency increase.

March 2018  PSC grants emergency rate increase and surcharge for debt repayment.

November 2018  PSC revises MCWD rates; conditions debt repayment surcharge on MCWD contracting with an outside management company; establishes infrastructure and management surcharge to go into effect upon execution of contract with outside manager.

June, July 2018  Meetings held to negotiate contract between MCWD and Alliance Water Resources.

October 2, 2019  PSC holds last of four hearings in MCWD rate case.