

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE)	
OPERATIONS AND MANAGEMENT OF)	CASE NO. 96-126
MOUNTAIN WATER DISTRICT)	

O R D E R

Mountain Water District ("Mountain") requested emergency rate relief by petition filed April 1, 1997. In support of its request for interim rates, Mountain provided an income statement current through March 31, 1997 and a letter from the Department of Agriculture's Rural Development ("RD") regarding Mountain's potential default on an upcoming bond interest payment.¹ The Commission, by Order dated April 8, 1997, directed Mountain to publish notice to the public of its request for rate relief and notice of the public hearing to be held April 23, 1997. Intervenors in this case, the Attorney General and the Concerned Citizens of Pike County, Inc. ("Concerned Citizens"), appeared at the hearing.

The Commission has given serious consideration to the testimony presented at the hearing and the comments provided by Concerned Citizens. The Commission finds that, based upon the following, Mountain's current operations have been and will further be materially impaired if interim rate relief is not granted.

¹ Exhibit 6.

Mountain experienced a net loss on its calendar year 1996 operations of (\$1,176,045).² Mountain's first quarter 1997 operations reflect revenues of \$821,921, operating expenses of \$953,327, and a net loss of (\$242,979).³ Mountain testified that its accounts payable as of April 16, 1997 totalled approximately \$466,000. Of that amount, approximately \$198,000 is accounts aged 0-30 days, \$50,000 is accounts aged 31-60 days, \$59,000 is accounts aged 61-90 days, and \$160,000 is accounts payable over 90 days old.

The foregoing should come as no surprise to anyone who has reviewed Mountain's financial statements over the last few years. There is no question that Mountain's operating expenses have continually exceeded its revenues. Historically, Mountain's annual reports (on file since 1986) demonstrate that this utility has never operated with a net income.

Mountain's net losses have been exacerbated by the filing of at least 5 petitions pursuant to KRS 278.023 for approval of construction projects financed by RD and other lenders. The problem has not been created by the filing of the petitions alone, but because Mountain's rates, which were mandated by RD as a condition of the funding received for those projects, have not generated sufficient revenues to meet additional debt service obligations and increasing operating expenses as a result of adding new customers. Mountain testified that its projections regarding the new customers to be added as a result of those new projects have never materialized. According to Mountain,

² Exhibit 3, page 1.

³ Exhibit 3, page 2.

at best, customer projections fell 40 percent short. A continuing failure to use realistic estimates in project planning has obviously led to insufficient rates and corresponding revenue shortfalls. While the Commission recognizes that the rates historically designed by RD⁴ and proposed by Mountain have been a problem in the past, we also recognize that these rates may be no better. However, these are the only rates for Mountain currently proposed and pending before the Commission. The Commission has directed its Staff to perform a rate study which will be made available to the parties prior to further hearings in this case, and until further proceedings are held, the exact magnitude and appropriate design for rates to sustain operations on an annual basis will not be known.

Mountain testified on cross-examination that its present Board of Commissioners has not considered a moratorium on new construction projects to halt the rapid growth of the system. While Mountain expressed its belief that such rapid growth is not necessarily bad, in this situation, the Commission disagrees. Such rapid growth, without revenues to support increasing costs, and a sufficient number of customers to generate the revenues necessary to sustain operations, has directly contributed to the financial instability presently being experienced by Mountain.

Exhibit 6 to Mountain's petition for interim rates demonstrates that receivership may be an option RD is considering if Mountain fails to meet its bond obligations in the

⁴ Case No. 97-112, The Application of Mountain Water District Of Pike County, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023.

future. In our view, the first step in ensuring that Mountain can meet future obligations is to refrain from initiating new projects and obligations. Mountain's Board must declare a moratorium on any new project which requires a certificate under KRS Chapter 278 until some measure of financial stability is achieved. Any measure less than a full moratorium on new construction will not benefit and will not protect Mountain's existing customers and operations.

Mountain's financial condition has been in steady decline for several years, and while it may take some time to turn the district around, the Commission expects Mountain's Board to take an active role in identifying solutions to alleviate Mountain's current financial problems. While the cause of Mountain's deteriorating financial condition may be debated, certainly inattentive management for whatever reason contributed. Mountain's present Board must take its charge seriously and aggressively pursue any measure which will improve the overall financial condition of this utility. The management and oversight of Mountain is the statutory responsibility of this Board. For those reasons, individual Board members should appear and be available to testify regarding their ongoing commitment to turn this district around and improve its financial condition at the next hearing.

Mountain's Board of Commissioners should produce a business plan which specifically addresses immediate measures to stabilize its finances. The plan shall specifically identify both immediate and long-term actions to be taken by the Board and management of the district to improve Mountain's current financial condition; these actions should include immediate implementation of the management audit

recommendations. The Commission expects Mountain's Board to initiate discussions with county officials and the parties to this case, where appropriate, in formulating its business plan. Consumer interests should be considered and addressed before the next hearing.

Mountain should meet immediately with its lenders to consider consolidation or refinancing of its existing debt.⁵ Mountain should provide evidence of these discussions and details of other revenues or lending sources that have been pursued, with specific details on reducing its present cost of debt.

Mountain should explore all possible avenues to long-term solutions including, but certainly not limited to, the potential to sell unneeded utility assets, the potential for merger, consolidation, satellite management or specific management contracts which may lower actual operating costs for this district. Privatization should also be considered. Mountain's Board should be prepared to address these areas at the hearing as well.

IT IS THEREFORE ORDERED that:

1. Mountain's proposed rates, attached as Appendix A, are approved on an interim, emergency basis, subject to refund, for service rendered on and after the date of this Order. Mountain shall keep its books and records in such a manner that refunds can be determined, if later ordered by the Commission.

2. Mountain and its Board of Commissioners shall appear and be available to testify at a hearing scheduled June 24, 1997 at 10:00 a.m., Eastern Daylight Time,

⁵ Mountain's 1995 Annual Report reflects two current long-term debts payable at interest rates of 7 and 9 percent, respectively. Mountain should actively seek a refinancing agreement at lower rates of interest.

in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky.

3. Mountain's Board and management shall prepare a business plan with specific proposals to present to this Commission at the June hearing. Mountain shall provide a copy of the plan to the Commission and the parties to this proceeding on or before June 17, 1997.

4. Within 30 days of the date of this Order, Mountain shall file its revised tariffs setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 2nd day of May, 1997.

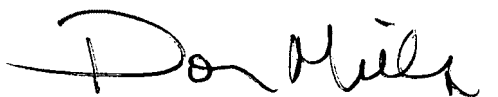
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 96-126 DATED MAY 2, 1997

The following rates and charges are prescribed for the customers in the area served by Mountain Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

5/8 x 3/4 Inch

First	1,000	Gallons	\$13.00	Minimum Bill
Over	1,000	Gallons	4.90	Per 1,000 Gallons

1 Inch

First	15,000	Gallons	\$81.60	Minimum Bill
Over	15,000	Gallons	4.90	Per 1,000 Gallons

2 Inch

First	50,000	Gallons	\$253.10	Minimum Bill
Over	50,000	Gallons	4.90	Per 1,000 Gallons

3 Inch

First	75,000	Gallons	\$375.60	Minimum Bill
Over	75,000	Gallons	4.90	Per 1,000 Gallons

4 Inch

First	100,000	Gallons	\$498.10	Minimum Bill
Over	100,000	Gallons	4.90	Per 1,000 Gallons

6 Inch

First	150,000	Gallons	\$743.10	Minimum Bill
Over	150,000	Gallons	4.90	Per 1,000 Gallons