

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MARTIN COUNTY)	
WATER DISTRICT OF MARTIN COUNTY,)	
KENTUCKY, FOR A CERTIFICATE OF PUBLIC)	CASE NO.
CONVENIENCE AND NECESSITY TO)	2007-00245
CONSTRUCT, FINANCE AND INCREASE RATES)	
PURSUANT TO KRS 278.023)	

O R D E R

On June 19, 2007, Martin County Water District ("Martin District") applied for a Certificate of Public Convenience and Necessity to construct, finance, and increase rates for a \$1,641,000 waterworks improvement project. This project consists of the construction and installation of two 500,000-gallon water storage tanks and appurtenances and the demolition of an existing 300,000-gallon water storage tank. Project funding consists of a \$1,151,000 loan from the U.S. Department of Agriculture's Rural Development ("RD") and a grant from RD in the amount of \$490,000.

Martin District applied pursuant to KRS 278.023, which requires the Commission to accept agreements between water utilities and the U.S. Department of Agriculture or the U.S. Department of Housing and Urban Development and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements. KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of such agreements, but permits the Commission to recommend changes.

In recent years, the Commission has investigated Martin District's operations and has uncovered conditions that limit the water district's ability to provide reliable and adequate water service.¹ As part of its investigation, the Commission retained Barrington-Wellesley Group, Inc. to conduct an audit of Martin District to identify necessary improvements in Martin District's management and operations. On April 18, 2007, the auditor issued a report of its findings and recommendations.² On June 14, 2007, it issued a second report³ in which it further identified and prioritized the actions necessary for Martin District to provide reliable and adequate water service and to sustain and improve the water district's financial operations.

The Commission recommends that RD review these reports and consider whether some or all of the recommended actions be imposed as conditions for its proposed financial assistance to Martin District. To the extent that the recommended actions will not only improve the quality of Martin District's service, but also strengthen its financial viability, their imposition appears to be in the best interest of Martin District's customers and the federal government.

¹ See, e.g., Case No. 2002-00116, Investigation of the Operating Capacity of Martin County Water District (Ky. P.S.C. initiated April 5, 2002); Case No. 2006-00303, Investigation Into the Management and Operation of Martin County Water District (Ky. P.S.C. June 27, 2006).

² Barrington-Wellesley Group, Inc., Management and Process Audit of Martin County Water District – Final Report (April 18, 2007).

³ Barrington-Wellesley Group, Inc., Management and Process Audit of Martin County Water District – Management Audit Action Plans (June 14, 2007).

IT IS THEREFORE ORDERED that:

1. Martin District is granted a Certificate of Public Convenience and Necessity for the proposed construction project.
2. Martin District's proposed plan of financing with RD is accepted.
3. Martin District is authorized to issue its Series A Bonds from the RD loan in the amount of \$910,000 at an interest rate not exceeding 4.375 percent per annum, maturing over 40 years, and its Series B Bonds in the amount of \$241,000 at an interest rate not exceeding 4.125 percent per annum, maturing over 40 years.
4. The proceeds from the loan agreement with RD shall be used only for the purposes specified in Martin District's application.
5. Notwithstanding Ordering Paragraph 3, if surplus funds remain after the approved construction has been completed, Martin District may use such surplus to construct additional plant facility if RD approves of the use, and the additional construction will not result in a change in Martin District's rates for service. Martin District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 3.
6. Martin District shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certified herein.
7. Martin District shall monitor the adequacies of the expanded water distribution system after construction. If the level of service is inadequate or declining, or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section

5(1), Martin District shall take immediate action to ensure that the level of service conforms to the regulations of the Commission.

8. Martin District shall notify the Commission one week prior to the actual start of construction and at the 50 percent completion point.

9. The rates set out in Appendix A, which is attached hereto and incorporated herein, are the rates approved for service rendered on and after the date of this Order.

10. Within 30 days of the date of this Order, Martin District shall file with the Commission its revised tariffs setting out the rates approved herein.

11. Three years from the effective date of this Order, Martin District shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet its operating expenses and annual debt service requirements.

12. The Executive Director shall serve upon the RD State Director a copy of this Order, Management and Process Audit of Martin County Water District – Final Report, and Management and Process Audit of Martin County Water District – Management Audit Action Plans.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

Done at Frankfort, Kentucky, this 16th day of July, 2007.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2007-00245 DATED JULY 16, 2007

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

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000	Gallons	\$ 20.00	Minimum Bill
All Over	2,000	Gallons	6.55	per 1,000 Gallons

1-Inch Meter

First	3,000	Gallons	\$ 26.55	Minimum Bill
All Over	3,000	Gallons	6.55	per 1,000 Gallons

1 1/2-Inch Meter

First	4,000	Gallons	\$ 33.10	Minimum Bill
All Over	4,000	Gallons	6.55	per 1,000 Gallons

2-Inch Meter

First	6,000	Gallons	\$ 46.20	Minimum Bill
All Over	6,000	Gallons	6.55	per 1,000 Gallons

3-Inch Meter

First	12,000	Gallons	\$ 85.50	Minimum Bill
All Over	12,000	Gallons	6.55	per 1,000 Gallons

4-Inch Meter

First	25,000	Gallons	\$ 170.65	Minimum Bill
All Over	25,000	Gallons	6.55	per 1,000 Gallons

6-Inch Meter

First	112,000	Gallons	\$ 740.50	Minimum Bill
All Over	112,000	Gallons	6.55	per 1,000 Gallons

8-Inch Meter

First	494,000	Gallons	\$ 3,242.60	Minimum Bill
All Over	494,000	Gallons	6.55	per 1,000 Gallons

Water sales to the Federal Correctional Institute will be in accordance with existing contract and any amendments thereto.