

MARTIN COUNTY UTILITY BOARD

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May 20, 2021

Linda C. Bridwell
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
PO Box 615
Frankfurt, KY 40602-0615

Re: Revisions to Rate Request Submittal; Case No. 2021-00154

Dear Ms. Bridwell:

The Commission Staff's First Request for Information to Martin County Water District requires that Martin District "make timely amendment to any prior response if Martin District obtains information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect."

Because revisions were needed, Martin District now submits the amendments on the following pages to its original rate submittal.

Sincerely,



Craig Miller
Division Manager

cc: Jimmy Don Kerr, Martin County Water District
James A. Sneed, AWR
Ann Perkins, AWR
Brian Cumbo

SCHEDULE OF ADJUSTED OPERATIONS

Martin County Water District

TYE 12/31/2020

| <u>Operating Revenues</u> | Test Year | Adjustment | Ref. | Pro Forma |
|--|------------------------|------------------------|------|------------------------|
| Sales of Water | | | | |
| Metered Water Sales | \$ 2,146,384.00 | | | \$ 2,146,384.00 |
| Total Sales of Water | <u>\$ 2,146,384.00</u> | | | <u>\$ 2,146,384.00</u> |
| Other Water Revenues | | | | |
| Forfeited Discounts | \$ 13,416.00 | | | \$ 13,416.00 |
| Miscellaneous Service Revenues | \$ 43,016.00 | \$ (22,872.00) | A | \$ 20,144.00 |
| Other Water Revenues | \$ 300,616.00 | \$ (107,436.00) | B | \$ 193,180.00 |
| Total Other Water Revenues | <u>\$ 357,048.00</u> | <u>\$ (130,308.00)</u> | | <u>\$ 226,740.00</u> |
| <u>Total Operating Revenues</u> | <u>\$ 2,503,432.00</u> | | | <u>\$ 2,373,124.00</u> |
| <u>Operating Expenses</u> | | | | |
| Operation and Maintenance Expenses | | | | |
| Employee Pensions and Benefits | \$ 119,701.00 | \$ (119,701.00) | C | \$ - |
| Purchased Power | \$ 320,969.00 | | | \$ 320,969.00 |
| Materials and Supplies | \$ 6,511.00 | | | \$ 6,511.00 |
| Contractual Services | \$ 2,017,014.00 | | E | \$ 2,017,014.00 |
| Water Testing | \$ 6,831.00 | | D | \$ 6,831.00 |
| Rents | \$ 9,053.00 | | | \$ 9,053.00 |
| Insurance | \$ 48,400.00 | | | \$ 48,400.00 |
| Regulatory Commission Expenses | \$ 5,983.00 | | | \$ 5,983.00 |
| Bad Debt Expense | \$ 118,530.00 | | | \$ 118,530.00 |
| Miscellaneous Expenses | \$ 8,132.00 | | | \$ 8,132.00 |
| Total Operation and Maintenance Expenses | \$ 2,661,124.00 | \$ (119,701.00) | | \$ 2,541,423.00 |
| Depreciation Expense | \$ 786,741.00 | | | \$ 786,741.00 |
| <u>Total Operating Expenses</u> | <u>\$ 3,447,865.00</u> | <u>\$ (119,701.00)</u> | | <u>\$ 3,328,164.00</u> |
| <u>NET UTILITY OPERATING INCOME</u> | <u>\$ (944,433.00)</u> | <u>\$ (250,009.00)</u> | | <u>\$ (955,040.00)</u> |

REVENUE REQUIREMENTS

| | | | |
|---|---|--|-----|
| Pro Forma Operating Expenses | | \$ 3,328,164.00 | |
| Plus: Avg. Annual Principal and Interest Payments | F | \$ 207,376.00 | |
| Additional Working Capital | F | \$ 42,491.00 | |
| Total Revenue Requirement | | <u>\$ 3,578,031.00</u> | |
| Less: Other Operating Revenue | | \$ (226,740.00) | |
| Revenue Required From Retail Rates | | \$ 3,351,291.00 | |
| Less: Revenue from Sales at Present Rates | | \$ 2,146,384.00 | |
| Required Revenue Increase | | <u>\$ 1,204,907.00</u> | |
| Percent Increase | | <table border="1" style="margin-left: auto; margin-right: auto;"><tr><td style="text-align: center;">56%</td></tr></table> | 56% |
| 56% | | | |

REVENUE REQUIREMENT CALCULATION - DEBT COVERAGE METHOD

(This method is used commonly by non-profits that have long-term debts outstanding.)

| | |
|--|------------------------------|
| Pro forma Operating Expenses | \$3,328,164.00 |
| Plus: Average Annual Debt Principal and Interest Payments* | 207,376.00 |
| Debt Coverage Requirement** | 41,475.00 |
| Total Revenue Requirement | <u>3,577,015.00</u> |
| Less: Other Operating Revenue | -56,432.00 |
| Non-operating Revenue | -193,180.00 |
| Interest Income | -386.00 |
| Revenue Required from Rates | <u>3,327,017.00</u> |
| Less: Revenue from Sales at Present Rates | <u>-2,146,384.00</u> |
| Required Revenue Increase | <u><u>\$1,180,633.00</u></u> |

Required Revenue Increase stated as a Percentage of Revenue at Present Rates 55.01%

* This should be a 3 year average calculated using the debt principal and interest payments for the three years following the test year.

** This amount is calculated by multiplying the average annual debt principal and interest payments by the debt service requirement of the utility's lending agency.

REVENUE REQUIREMENT CALCULATION - DEBT COVERAGE METHOD

(This method is used commonly by non-profits that have long-term debts outstanding.)

| | |
|--|----------------|
| Pro forma Operating Expenses | \$2,541,423.00 |
| Plus: Average Annual Debt Principal and Interest Payments* | 207,376.00 |
| Debt Coverage Requirement** | 41,475.00 |
| Total Revenue Requirement | 2,790,274.00 |
| Less: Other Operating Revenue | -56,432.00 |
| Non-operating Revenue | -193,180.00 |
| Interest Income | -386.00 |
| Revenue Required from Rates | 2,540,276.00 |
| Less: Revenue from Sales at Present Rates | -2,146,384.00 |
| Required Revenue Increase | \$393,892.00 |

Required Revenue Increase stated as a Percentage of Revenue at Present Rates 18.35%

* This should be a 3 year average calculated using the debt principal and interest payments for the three years following the test year.

** This amount is calculated by multiplying the average annual debt principal and interest payments by the debt service requirement of the utility's lending agency.

EXECUTIVE SUMMARY

Background

Over the past decade the PSC has received multiple reports outlining the issues concerning the Martin County Water District (The District). These concerns and the lack of progress towards correcting the issues has caused the PSC to be hesitant in approving the full rate requests that have been submitted by the District, with assistance from the Kentucky Rural Water Association & Bluewater Kentucky.

The primary issues repeated in multiple reports were: 1) A lack of competent management, 2) The need for good financial data, 3) Water loss, and 4) Certified Operators to run the system.

In 2020, Alliance Water Resources, Inc. (AWR) began Operations & Management of the Martin County Water District & the Martin County Sanitation District. In the past year, a new billing software meeting industry standard was installed, all prior audits were completed, and staffing adjustments were made for improved record keeping.

Water loss has not yet begun to decline, but an AWWA modeled standard process has been implemented, along with GIS / Asset Management. The water loss strategy is discussed in more detail in attachment 4g. In addition, The District now has properly certified Operators in Water Treatment, Water Distribution, Wastewater Treatment and Collection Systems. The District continues to train and certify the local staff.

Approach

Using several methods including the PSC's "Revenue Requirement Calculation -Debt Coverage Method" the required revenue increase is approximately 49%. The supporting data can be found in the SAO, as well as attachments 4a, and 4d.

The District, being aware of two very significant issues water loss and affordability (discussed in more detail in attachments 4g and 4h) and in line with the language in the Nov 15, 2019 Order (...*For ratemaking purposes, current expenses related to depreciation are suspended and the revenue utilized for payment of Alliance Contract services until further Order from the Commission...*) is submitting a request based on calculations that exclude depreciation. Both methods are included in the submittal for comparison. It should be noted that funds for depreciation or replacement/repair of assets are addressed in three ways. First the budget is submitted with the proper debt coverage ratio, this should generate some cash reserves (estimated at \$42,000 in 2021 and \$55,000 in 2022). Second the AWR contract has \$125,000 dedicated for repair of the system. Finally, there are several multimillion dollar projects underway using various grant and AML funds that will replace aging infrastructure.

Requested Increase

The PSC form using debt coverage and excluding depreciation indicates a rate increase requirement of 18.35%. (Attachment 4a adjusted to remove emp pension credit)

The District is requesting an **emergency and immediate increase** of 12% on the base meter fee and 11% on the per 1,000-gallon usage rate as shown in attachment 2. This will increase the average users' monthly bill (4,000 gal) by \$5.86. It is the District's belief that a delayed or reduced rate approval will exacerbate the situation and hinder efforts to develop a sustainable system for the community.

Martin County Water District

Fiscal Year Budget-Actuals & FYE2022 Estimate

Statement of Revenues and Expenditures
(in Dollars)

Cash Needs Basis

| | <u>Actual</u> | <u>Budget</u> | <u>Actual</u> | <u>Budget</u> | <u>Budget Est</u> |
|--|---------------------|---------------------|--------------------------------|---------------------|---------------------|
| | <u>2019</u> | <u>2020</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
| | | | Prior was Projected | | |
| <u>Revenue Source</u> | | | | | |
| Water Sales | \$ 2,220,203 | \$ 2,177,390 | \$ 2,146,349 | \$ 2,425,425 | \$ 2,692,402 |
| All Other Revenue, Connection Fees | <u>308,885</u> | <u>300,844</u> | <u>264,344</u> | <u>266,978</u> | <u>300,000</u> |
| Total Revenue | \$ 2,529,088 | \$ 2,478,234 | \$ 2,410,693 | \$ 2,692,402 | \$ 2,750,000 |
| | | | | | |
| <u>Expenditures</u> | | | | | |
| All General & Operating Expenses | \$ 2,424,794 | \$ 2,453,450 | \$ 2,421,722 | \$ 2,437,429 | \$ 2,485,000 |
| Interest Expense(s) | <u>93,472</u> | <u>85,521</u> | <u>85,496</u> | <u>80,458</u> | <u>85,000</u> |
| Total Operating Expenditures | \$ 2,518,266 | \$ 2,538,971 | \$ 2,507,218 | \$ 2,517,886 | \$ 2,570,000 |
| | | | | | |
| Net Revenue B4 Principal Payments | \$ 10,822 | \$ (60,737) | \$ (96,525) | \$ 174,516 | \$ 180,000 |
| | | | | | |
| <u>Debt Service Coverage Calculation</u> | | | | | |
| Net Revenue B4 Principal | \$ 10,822 | \$ (60,737) | \$ (96,525) | \$ 174,516 | \$ 180,000 |
| Plus Above Interest Expense | <u>93,472</u> | <u>85,521</u> | <u>85,496</u> | <u>80,458</u> | <u>85,000</u> |
| Net Revenues Available for Coverage | \$ 104,294 | \$ 24,784 | \$ (11,029) | \$ 254,973 | \$ 265,000 |
| | | | | | |
| P&I Debt Service | \$ 208,111 | \$ 215,995 | \$ 215,995 | \$ 212,483 | \$ 207,375 |
| | | | | | |
| Net Revenue after Oper & Debt Exp. | \$ (103,817) | \$ (191,211) | \$ (227,024) | \$ 42,491 | \$ 54,890 |
| | | | | | |
| Debt Service Coverage (Required Coverage 1.2) | 0.50 | 0.11 | -0.05 | 1.20 | 1.28 |
| | | | | | |
| Projected YE Unrestricted Cash Reserves | \$ 104,294 | \$ - | \$ - | \$ 42,491 | \$ 54,890 |
| | | | | | |
| Projected CI Funded Outside Sources | \$ 142,500 | \$ 104,500 | | \$ 5,859,518 | \$ 5,859,518 |
| | | | | | |
| Projected CI Funded from Operations or Unfunded | \$ 125,000 | \$ 275,000 | | \$ 1,293,606 | \$ 1,293,606 |
| | | | | | |
| Total Capital Improvements (CI) | | | | \$ 7,153,124 | \$ 7,153,124 |