

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN WATER )  
DISTRICT FOR AN ADJUSTMENT OF WATER )  
AND SEWER RATES )

CASE NO: 2014-00342

**ATTORNEY GENERAL'S SUPPLEMENTAL REQUEST FOR INFORMATION**

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits this Supplemental Data Request for Information to Mountain Water District ("MWD") to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following instructions:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Please identify the witness (es) who will be prepared to answer questions concerning each request.
- (3) Please repeat the question to which each response is intended to refer. The Office of the Attorney General can provide counsel for MWD with an electronic version of these data requests, upon request.

(4) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(5) Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

(6) If you believe any request appears confusing, please request clarification directly from Counsel for the Office of Attorney General.

(7) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(8) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(9) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(10) As used herein, the words "document" or "documents" are to be construed broadly and shall mean the original of the same (and all non-identical copies or drafts thereof) and if the original is not available, the best copy available. These terms shall include all information recorded in any written, graphic or other tangible form and shall include, without limiting the generality of the foregoing, all reports; memoranda; books or notebooks; written or recorded statements, interviews, affidavits and depositions; all letters or correspondence; telegrams, cables and telex messages; contracts, leases, insurance policies or other agreements; warnings and caution/hazard notices or labels; mechanical and electronic recordings and all information so stored, or transcripts of such recordings; calendars, appointment books, schedules, agendas and diary entries; notes or memoranda of conversations (telephonic or otherwise), meetings or conferences; legal pleadings and transcripts of legal proceedings; maps, models, charts, diagrams, graphs and other demonstrative materials; financial statements, annual reports, balance sheets and other accounting records; quotations or offers; bulletins, newsletters, pamphlets, brochures and all other similar publications; summaries or compilations of data; deeds, titles, or other instruments of ownership; blueprints and specifications; manuals, guidelines, regulations, procedures, policies and instructional materials of any type; photographs or pictures, film, microfilm and microfiche; videotapes; articles; announcements and notices of any type; surveys, studies, evaluations, tests and all research and development (R&D) materials; newspaper clippings and press releases; time cards, employee schedules or rosters, and

other payroll records; cancelled checks, invoices, bills and receipts; and writings of any kind and all other tangible things upon which any handwriting, typing, printing, drawings, representations, graphic matter, magnetic or electrical impulses, or other forms of communication are recorded or produced, including audio and video recordings, computer stored information (whether or not in printout form), computer-readable media or other electronically maintained or transmitted information, and all other rough drafts, revised drafts (including all handwritten notes or other marks on the same) and copies of documents as hereinbefore defined by whatever means made.

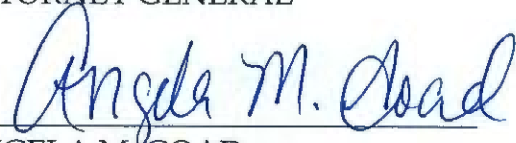
(11) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(12) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(13) Please provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response, in compliance with Kentucky Public Service Commission Regulations.

(14) The Attorney General reserves the right to pose additional preliminary data requests on or before the due date specified in the Commission's procedural schedule.

Respectfully submitted,  
JACK CONWAY  
ATTORNEY GENERAL

A handwritten signature in blue ink that reads "Angela M. Goad". The signature is written in a cursive style and is positioned above a horizontal line.

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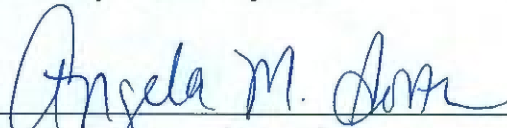
*Certificate of Service and Filing*

Counsel certifies that an original and ten photocopies of the foregoing were served and filed by hand delivery to Jeff Derouen, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; counsel further states that true and accurate copies of the foregoing were mailed via First Class U.S. Mail, postage pre-paid, to:

Honorable John N. Hughes  
Attorney at Law  
124 West Todd Street  
Frankfort, KY 40601

Daniel P. Stratton  
Stratton Law Firm PSC  
P.O. Box 1530  
Pikeville, KY 41502

this 27<sup>th</sup> day of January, 2015

  
\_\_\_\_\_  
Assistant Attorney General

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

1. Please reference the current pending Mountain Water District ("MWD") Case No. 2014-00395 to appoint two Water District Commissioners. In reference to the Appalachian News Express article entitled "Documents: MWD board candidate didn't make disclosure to Kentucky PSC" in the February 7-8, 2015 edition please explain if MWD intends to amend the candidates' applications.
  - a. Specifically, explain if MWD intends to amend Mr. Hurley's information where he states "none" for contracts he has entered into with MWD.
  - b. Also indicate if MWD intends to amend Mr. Hurley's information where he states he is not related to any MWD employee/commissioner.
  - c. Provide any further information that MWD intends to amend. If no amendment will be submitted, explain why in full detail.
  
2. Please reference the Company's response to AG 1-50 where MWD states, "In each of the four major contract negotiations with UMG ("Utility Management Group"), being 2005, 2008, 2011 and 2014, MWD has asked for audited financial statements from UMG, but UMG has declined to provide the same, and since it was not proved for in the contract, they do not have to provide it."
  - a. Please explain in full detail why MWD would continue to approve multi-million dollar sewer and water contracts that do not contain language requiring the vendor, UMG, to produce audited financial statements as to the operation of the contract and details as to expenditures made under the contract. Please explain in full detail why MWD has not engaged in a bidding process for the water and sewer contracts to determine if there are lower cost options.
  - b. Please explain in full detail why MWD has not engaged in a bidding process for the water and sewer contracts in order to work with a Company that will provide requested audited financial statements and be open and transparent concerning the costs that the ratepayers are paying.
  - c. If MWD has not audited UMG's financials then how does it know that the funds are not being mismanaged, misapplied, misused, allocated to MWD incorrectly versus the other clients of UMG, etc.?

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- d. Why has MWD not sought to amend the original contract that requires UMG to provide audited financial documents to MWD in all of the negotiations that have occurred since 2005?
3. Please reference the Company's application generally. What expertise does the MWD Board of Directors/Water Commissioners possess that would allow them to determine whether or not the UMG contract is excessive, fair, just, or reasonable?
  - a. Do any members of the MWD Board of Directors/Water Commissioners have financial expertise that would assist in contract negotiations with UMG or any other contractor?
  - b. Does MWD independently know how much it costs to operate the water district or does it merely rely upon UMG's contract?
4. Please reference the Company's application generally. Provide the amount of profit that UMG collects from the MWD contract.
  - a. Is MWD provided the amount of profit that UMG realizes from the MWD contract? If so, provide this information. If not, why not?
5. Please reference the Company's response to AG 1-55. Explain why Roy Sawyers' salary was raised from \$31,499.95 to \$55,999.92 between 2011 and 2012? Provide justification for this salary increase.
  - a. Provide justification and reasoning for Roy Sawyers salary almost doubling between the years of 2011 and 2015, from \$31,499.95 to \$61,200.00?
  - b. Explain the justification for Carrie Hatfield being hired in 2012 at a \$52,000 salary as the Financial Administrator, when the District Administrator was hired in 2011 at \$31,499.95?
6. Please reference the Company's response to AG 1-54. Explain why "it has not yet been determined whether or not MWD will open the contract up for competitive bidding..." when the UMG Contract ends in 2016.
  - a. Please explain any justifiable reason for MWD not to engage in a competitive bidding process in order to determine the least cost option for its customers/ratepayers?



Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

7. Please reference the Company's response to AG 1-3(b). The answer provided is non-responsive. Provide in detail the water and sewer rate increases that occurred due to the loan agreements. In other words, provide all water and sewer rate increases that have occurred since MWD's last general rate case in 1997.
  - a. Provide the amount of revenue increase due to each loan agreement.
  - b. Provide the water and sewer rates were before the proposed increase.
  - c. Provide the rates after the increase, and the month and year that each increase took effect.
  
8. Please reference the Company's response to AG 1-6. MWD responded that MWD did not maintain any contracts with vendors whose principals are in any manner related by blood or marriage to MWD, etc.
  - a. Per Exhibit 6 to the response it appears Rhonda James indicated that she had a conflict of interest since she was employed by the Pike County Fiscal Court until 1/5/2015. Please elaborate and explain in full detail the conflict of interest and explain how this conflict of interest was resolved.
  - b. Per Exhibit 6 to the response it appears Prentis Adkins indicated that he had a conflict of interest with Tri County Auto and Truck Parts, Inc. and Tri County Hardware. Please elaborate and explain in full detail the conflict of interest and explain how this conflict of interest was resolved.
  - c. Per Exhibit 6 to the response it appears Kelsey Friend indicated that he had a conflict of interest as a current employee of Elliott Companies. Please elaborate and explain in full detail the conflict of interest and explain how this conflict of interest was resolved.
  - d. Per Exhibit 6 to the response it appears that Attorney Daniel Stratton did not check the box to indicate there was a conflict, but did list that he represents vendors for Mountain Water District including Eastern Telephone, Mayhorn's Inc., Worldwide Equipment, and Cardinal Glass, Inc. Please elaborate and explain in full detail the conflict of interests and explain how it was resolved.
  
9. Please reference the Company's response to AG 1-7. Are there anti-nepotism policies in place as to the MWD's Board of Directors, Water Commissioners; Officers, etc.?

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

10. Please reference the Company's response to AG 1-11. This answer is non-responsive. State whether MWD intends to seek recovery of any performance bonus expenses, Christmas bonus expense, or any other bonus expense that have been given since the last rate case in 1997, for ratemaking purposes for MWD or UMG employees, and if so provide the following:
  - a. A quantification of the amount of the bonus with the recipient(s) if officers, directors, or management;
  - b. A quantification of how many employees received a performance bonus and the amount of each; and
  - c. A complete justification for recovering such expense.
11. Please reference the Company's response to AG 1-12. Elaborate on how the proposed water rate alternate 1 which is an across the board rate increase, chosen by MWD, will provide more revenue stability throughout the year.
12. Please reference the Company's response to AG 1-13. What is the Company's justification for keeping wholesale rates artificially low, which in turn forces the residential and other rate classes to pay higher rates?
  - a. Confirm that by proposing the Rate Alternate 1 opposed to Rate Alternate 2, the Residential and other rate classes will continue to pay a higher rate in order to allow the wholesale customers to not receive the 98% increase that the cost of service study recommended.
13. Please reference the Company's application generally. Provide the location, city, and state of each wholesale water customer, and explain whether the customers are exclusively Kentucky residents or residents of another state.
  - a. If non-Kentucky residents are receiving wholesale water at substantially lower prices, which in turn increases the price for the Kentucky residential customers, how does the Company justify this result?
14. Please reference the Company's response to AG 1-13(a). Why does MWD not think it would be prudent to compare the Company's wholesale rates to other local utilities wholesale rates in order to determine reasonableness of the rates?

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

15. Please reference the Company's response to AG 1-13(c). Does MWD not think it is prudent and fair to determine what rates the wholesale customers are charging its ratepayers in order to assess whether the Company's ratepayers are paying higher rates than the wholesale customer's ratepayers?
16. Please reference the Company's response to AG 1-14. Please confirm that losses of water customers versus additions of new water customers equaled exactly zero ("0"). Provide documentation evidencing this calculation.
17. Please reference the Company's response to AG 1-15. Explain why the wholesale water revenues should not be included in the revenue section of Exhibit B-2, Schedule W-B, p.1 of 3 of the Application.
18. Please reference the Company's response to AG 1-18. Provide a detailed breakdown of what is included under the expenses "Compensation-Administration" for \$124,224. Provide MWD employees' total salary that falls under this expense in a dollar amount, and also include any benefits that fall under this expense section such as a car provided, if so provided the type and amount of purchase, cell phones, etc.
19. Please reference the Company's response to AG 1-20(a) and explain why MWD did not engage in competitive bidding for the Accounting and Audit contract to ensure that the \$72,550, with a year to date balance of \$90,988.49, payment is the most cost effective option for its ratepayers, even if not required?
20. Please reference the Company's response to AG 1-21(a) and explain why MWD did not engage in competitive bidding for the Legal Services contract to ensure that the \$39,034 payment, with a year to date balance of \$57,504.50, is the most cost effective option for its ratepayers, even if not required?
21. Please reference the Company's response to AG 1-22, Exhibit 22(a)(i), and AG 1-41.
  - a. Why has MWD not engaged in competitive bidding for the roughly \$6 million dollar plus per year contract for Operations, Maintenance, and Management contract for water and \$1,225,000 million dollar contract for sewer since 2005 in order to determine if there are more cost effective options for its ratepayers over UMG?



Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- b. Why did MWD choose to award the water and sewer contracts to UMG when the company was only formed mere months before awarded the MWD contract?
  - c. Why did MWD not deem it an inherent conflict of interest that Will Brown, who was the current MWD Superintendent during the bidding process, and was also an employee of (and part owner) of UMG?
  - d. Per the UMG contract with MWD located in Exhibit 22(a)(i), p. 27, why did the current fulltime employees receive a 3% salary increase at the start of the contract?
  - e. Why did MWD not award the water and sewer contract to Alliance Water Resources since that company had over 20 years experience in managing, operating, and maintaining water districts opposed to UMG's few months of being in existence, and MWD was UMG's first utility client.
  - f. Why did MWD not award the contract to Alliance Water Resources since it appears the company provided a much lower budget of \$4.2 million dollars with a refundable repair budget of \$300,000 opposed to UMG's 6.87 million dollars with a maintenance and repair limit of \$456,140 per year.
22. Why did MWD not provide sufficient time for Alliance Water to submit a Complete application before scoring the proposals? Please reference the Company's response to AG 1-24. Provide an explanation of what the almost \$100,000 "final forgiveness of debt by UMG" entails, and why MWD received an apparent loan from UMG?
23. Please reference the Company's response to AG 1-27 and Exhibit 27.
- a. Provide an explanation as to why Appalachian Wireless cell phone bills are included under the "Education and Meetings" expenses?
  - b. Please explain why phone/internet expenses to Lightyear Network Solutions and Birch Communications are included under the "Education and Meetings" expenses? Please confirm if the Company has compared costs and determined that this is the least cost option for phone and internet.
  - c. Please provide an explanation and justification as to why \$258.62 for Christmas Cards is listed under "Education and Meetings" and why this should not be removed for ratemaking purposes.

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- d. Please provide an explanation and justification as to why \$63.60 for funeral arrangements are included under the "Education and Meetings" expenses and why this should not be removed for ratemaking purposes.
  - e. Provide an explanation as to what the \$137.91 to Carrie Hatfield for "Mileage and Reimb. For PO Paid" entailed, and provide a full description for the expenditure.
  - f. Provide an explanation as to why Employee insurance expenses are included under the "Education and Meetings" expenses? In relation to the employee insurance expense of \$9,393.17 please confirm this is for the two MWD employees, and explain whether the Company has compared insurance costs and determined this is the most cost-efficient approach?
  - g. Provide an explanation as to why workers comp insurance expenses are included under the "Education and Meetings" expenses? In relation to this expense of \$4,434.53 please confirm this is for the two MWD employees, and explain whether the Company has compared costs to other companies and determined this is the most cost-efficient approach?
24. Please reference the Company's response to AG 1-28. This answer is non-responsive.
- a. Provide information as to why \$10 August Maintenance Fee is listed under Settlement Expenses and what this fee entails.
  - b. Provide information as to why \$500 was paid to J.S. Walters, and what this fee entails. Provide complete information as to the details of the claims, case number if any, settlement negotiations, and settlement amount.
  - c. Provide information as to why \$2500 was paid to Don Dotson, and what this fee entails. Provide complete information as to the details of the claims, case number if any, settlement negotiations, and settlement amount.
25. Please reference the Company's response to AG 1-29 where a complete and detailed breakdown of expenses listed under "Bank Service Fees" for \$23,857 were requested. The Company provided Exhibit 29 which is a General Ledger; however there are no details as to what each transaction represents. Provide details as to what the transactions represent. Furthermore, has MWD compared the current bank's fees/rates to other banks to determine if it is the most cost-efficient option?



Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

26. Please reference the Company's response to AG 1-30 where a complete and detailed breakdown of expenses listed under "R&M Overage" for \$20,760 was requested. This answer is non-responsive. Provide the breakdown of expenses as requested. Also produce all invoices associated with the overage.
27. Please reference the Company's application generally. Provide a complete and detailed breakdown of expenses for the R&M. Provide all invoices associated with this expense.
28. Please reference the Company's response to AG 1-38. Provide the location, city, and state of each waste water plant, and state whether the customers of each plants are exclusively Kentucky residents.
29. Please reference the Company's response to AG 1-35 and 1-36. Since MWD did not perform studies to determine if the water and sewer customers could afford a 25% and 159% rate increase respectively, is MWD aware that per the 2014 United States Census statistics the Pike County per capita income was only \$19,351, with 23.4% of residents living below the poverty level?
30. Please reference the Company's response to AG 1-41.
  - a. Why has MWD not engaged in competitive bidding for the roughly \$1,225,000 per year contract for Operations, Maintenance, and Management contract for sewer since 2005 in order to determine if there are more cost effective options for its customers over UMG?
  - b. Why did MWD choose to award the contract to UMG when the company was only formed mere months before awarded the MWD contract?
  - c. Why did MWD not deem it a conflict of interest that Will Brown, who was the current MWD Superintendent during the bidding process, was also an employee of UMG?
  - d. Why did MWD not award the contract to Alliance Water Resources since that company had over 20 years experience in managing, operating, and

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

maintaining water districts opposed to UMG's few months of being in existence, and MWD as the first utility client.

- e. Why did MWD not award the contract to Alliance Water Resources since it appears the company provided a much lower budget than UMG.
31. Please reference the Company's response to AG 1-42. This answer is non-responsive. Provide a detailed breakdown of expenses listed under "Contract Services-R&M" for \$98,136 as well as for the pro forma adjustment of \$99,117. Produce all invoices associated with this expense.
32. Please reference the Company's response to AG 1-43. This answer is non-responsive. Provide a complete and detailed breakdown of expenses listed under "Contract Services – Assumed Expenses by UMG" for \$73,830. The General Ledger attached states "Reclass Between Periods", "To Adjust Contract Services," "Sewer Exp Assumed"; however, it does not provide what any of the descriptions actually mean or details of each transaction, so please provide the same. Also, provide all invoices associated with these expenses.
33. Please reference the Company's response to AG 1-45. This answer is non-responsive. Provide the specific number of employees that UMG employs that work exclusively for MWD.
- a. Provide the specific number of employees that UMG employs that work only partially for MWD and partially for another client.
    - i. For these employees provide how the salary/benefits/etc. expense is allocated amongst the various clients.
  - b. Provide all invoices, accounting records, ledgers that evidence the revenue received from MWD.
34. Please reference the Company's response to AG 1-45(b). Provide a detailed description as to what job functions UMG provides to the City of Pikeville, Kentucky, and how much revenue is received from this client.
- a. Provide the total revenues of UMG, and the percentage revenue that the City of Pikeville as a client contributes to the total revenues of UMG.

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- b. Provide all invoices, accounting records, ledgers that evidence the revenue received from the City of Pikeville.
35. Please reference the Company's response to AG 1-45(b). Provide a detailed description as to what job functions UMG provides to Dickenson County Public Service Authority (Virginia) and how much revenue is received from this client.
- a. Provide the total revenues of UMG, and the percentage revenue that Dickenson County Public Service Authority (Virginia) as a client contributes to the total revenues of UMG.
  - b. Provide all invoices, accounting records, ledgers that evidence the revenue received from the Dickenson County Public Service Authority (Virginia).
36. Please reference the Company's response to AG 1-45(b). Provide a detailed description of the "various contractors" that UMG provides HVAC installation services to, and how much revenue is received from these clients.
- a. Provide the total revenues of UMG, and the percentage revenue that the HVAC installation services contribute to the total revenues of UMG.
  - b. Provide all invoices, accounting records, ledgers that evidence the revenue received from the "various contractors."
37. Please reference the Company's response to AG 1-45(b). Provide a detailed description of the administrative support for Small Engine Solutions, and how much revenue is received from this client.
- a. Provide the total revenues of UMG, and the percentage revenue that the administrative support for Small Engine Solutions contributes to the total revenue of UMG.
  - b. Provide all invoices, accounting records, ledgers that evidence the revenue received from Small Engine Solutions.
38. Please reference the Company's response to AG 1-44. This answer is non-responsive. Provide a complete and detailed breakdown of expenses listed under "R&M Overage" for \$213,168 with invoices provided. Please ensure that any ledger provided has full descriptions and details of each line item.

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

39. Please reference the Company's response to AG 1-48(a). This answer is non-responsive.
- a. Provide all known future increases in the UMG base contract and the UMG repair and maintenance contract that explains the 1% UMG contract increase in 2015.
    - i. Produce all correspondences, internal memos, invoices, audits, etc. that would justify the increase.
  - b. If the Company does not have information justifying the UMG contract increase, why did it not request this information before approving an increase in contract price?
40. Please reference the Company's response to AG 1-48(b).
- a. Provide invoices with detailed breakdowns and descriptions as to the Operational expenses and R&M expenses.
  - b. Has the Company ever audited the R&M Expense Budget, since the Actual R&M is consistently higher than the budgeted amount, to ensure the expenditures are prudent and necessary?
41. Please reference the Company's response to AG 1-49(a). This answer is non-responsive. Please explain how Mike Spears, the MWD accountant, knows that a minimum rate increase of 3% among all types of meters will occur when the Kentucky Power Company rate increase case is still pending and the PSC has not ruled upon it as of yet?
42. Please reference the Company's response to AG 1-49(b). This answer is non-responsive. Explain how MWD believes it is proper to use an assumed electric rate increase, since the rate case is still pending before the PSC.
43. Please reference the Company's response to AG 1-49(c). This answer is non-responsive. Please explain why MWD believes it is an accepted practice to use forecasted electricity rate expenses in a historic test year rate application filing, when the electricity rate case is still pending and has not been ruled upon by the PSC?
44. Please reference the Company's response to AG 1-51.
- a. Provide the education qualifications and/or work resume of Roy Sawyers.



Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- b. Provide the vehicle allowance for Roy Sawyers and describe in detail if MWD allows the vehicle to be used only at work or for personal use as well. If MWD purchased the vehicle for Mr. Sawyers then provide the year, model, make, and purchase price with invoice. Furthermore, explain why a vehicle, if used as a personal vehicle and not exclusively left at work, is a necessary and reasonable cost.
  - c. Provide the cell phone allowance provided for Roy Sawyers and describe in detail if MWD allows the cell phone to be used only for work use or for personal use as well. Furthermore, explain why a cell phone is a necessary and reasonable cost.
45. Please reference the Company's response to AG 1-52.
- a. Provide the educational qualification and/or work resume of Carrie Hatfield.
  - b. List any and all job duties that Ms. Hatfield has as the Financial Administrator.
  - c. As a Financial Administrator is Ms. Hatfield qualified to review and analyze UMG invoices, financial statements, etc. and report the findings to the District Administrator Sawyers? If so, explain in full detail the review process. If not, why not?
  - d. Is Ms. Hatfield in a position to disallow expenses charged to MWD by UMG, and if so, please describe the process by which these expenses are removed from the invoices submitted by UMG.
46. Please reference the Company's response to AG 1-56. This answer is non-responsive. Provide the salaries and raises of the UMG employees for the past ten (10) years with job title in a similar chart as MWD provided to AG 1-55.
- a. Provide a chart that displays how each UMG employee's salaries, benefits, raises, etc. are allocated to MWD and the other UMG clients.
  - b. Do any UMG employees use company owned property for personal use, for example, cell phones, vehicles, etc. If yes, provide a detailed list and a justification as to why.



Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

47. Please reference the Company's response to AG 1-56. Explain in full detail if the information given represents the full salaries, benefits, etc. of the employees, or just the allocated portion of the salary to MWD.
  - a. Explain why there are cell phone charges on the employee's checks. Also state whether UMG and/or MWD contributes monies towards this expense.
  - b. Explain in full detail why there are YMCA Membership charges on the employee's checks. Also state whether UMG and/or MWD contributes monies towards this expense.
  - c. What is the 401k employer match percentage? Provide a full description of the 401k employer match program for both UMG and MWD.
48. Please reference the Company's response to AG 1-61(a). Provide all complaints received by MWD or UMG concerning lack of sewer pipe access by residents, since a large majority of people in the service area must still rely upon septic tanks.
49. Please reference the Company's response to AG 1-61(b). Provide all complaints that have been received by MWD and UMG concerning foul odors being emitted, air quality, noise, etc. Furthermore, explain in detail the location of the larger "force main" sewer lift stations as well as the larger wastewater treatment plants.
50. Please reference the Company's application generally. Provide all complaints, and specify the number, received by MWD or UMG concerning lack of water by the ratepayers.
51. Please reference the Company's application generally. Provide a copy of MWD and UMG's current water and sewer emergency response plan.
  - a. Describe whether the emergency response plan was followed when there were mass water outages suffered by the ratepayers in February 2015. Please consider this a current and ongoing information request subject to update as any new information becomes available.
52. Please reference the Company's response to AG 1-59. List any and all plans the Company has in place to reduce the 30.2% water loss above and beyond what is listed in response to AG 1-60.

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

53. Please reference the Company's response to AG 1-66(d). Provide the names of all contractors that conducted the work and bid amount versus the actual amount paid in full.
54. Concerning health care cost for MWD:
- a. Please provide the most current health care premiums and related invoices.
  - b. Show in detail how the current health care premiums and/or invoices were used to derive the Company's requested amount of health care cost.
  - c. Reconcile the amount of the Company's requested amount of health care cost to the most current invoices. Identify, quantify and explain all differences.
  - d. Has the Company raised premiums for employees, raised co-pays for doctor visits and/or pharmacy in order to assist in keeping the insurance costs within reason?
55. Concerning health care cost for UMG:
- a. Please provide the most current health care premiums and related invoices.
  - b. Show in detail how the current health care premiums and/or invoices were used to derive the Company's requested amount of health care cost.
  - c. Reconcile the amount of the Company's requested amount of health care cost to the most current invoices. Identify, quantify and explain all differences.
  - d. Has the Company raised premiums for employees, raised co-pays for doctor visits and/or pharmacy in order to assist in keeping the insurance costs within reason?
56. Please reference the Cost Of Service Study (Water), Schedule W-C, p. 2 of 16. Why are the Wholesale class of customers not allocated any costs associated with water storage (tank painting)? Please provide any documents or analyses to demonstrate that the storage tanks are not used in any manner to provide reliable service to the Wholesale class of customers.
57. Please reference the Cost Of Service Study (Water), Schedule W-C, pages 2 and 3 of 15.

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- a. Why are all Legal fees under Customer Accounting (and allocated on factor 12) rather than under Administrative and General (and allocated on factor 14)?
  - b. Why are all Accounting and Audit fees under Customer Accounting (and allocated on factor 12) rather than under Administrative and General (and allocated on factor 14)?
  - c. Does any of the credit for Contractual Services - UMG - Assumed Expenses by UMG (allocated on factor 14) relate to the Contractual Services - UMG - Account Service charges (allocated on factor 12)? If so, how much of the credit is associated with account service fees?
58. Please reference the Cost of Service Study (Water), Schedule W-C, page 5 of 16. Why are Penalties allocated using factor 19, rather than an allocator that is based on the customer class paying the penalties or an allocator that credits the revenues to billing and collection costs (factor 12)?
59. Please reference the Cost of Service Study (Water), Schedule W-C, p. 4 of 16. Why are fire hydrants allocated using factor 12 (billing, collecting, and meter reading)?
60. Please reference the Cost of Service Study (Water) Schedule W-C, p. 4 of 16.
- a. Why are the costs of mains 10 inches and larger allocated using factor 3 (maximum day), while the costs of mains less than 10 inches are allocated using factor 4 (maximum hour)?
  - b. Why are the Wholesale class of customers not allocated any costs less than 10 inches? Please provide any documents or analyses to demonstrate that mains less than 10 inches are not used in any manner to provide reliable service to the Wholesale class of customers.
61. Please reference the Cost of Service Study (Water), Schedule W-D, page 3 of 17.
- a. Why is factor 3 different from factor 2 if there is no weighting for fire protection?
  - b. Why is the weighting of average day demand in factor 3 (0.8057) different from the weighting of average day demand in factor 2 (0.8065)?

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

62. Please reference the Cost of Service Study (Water), Schedule W-D, pages 4 and 6 of 17.
- a. Why are no maximum hour costs allocated to the Wholesale class of customers?
  - b. Why is it assumed that the Wholesale class of customers have average hourly consumption of zero gallons?
63. Please reference the Cost of Service Study (Water), Schedule W-D, p. 6 of 17. Please provide a copy of the reference in footnote \*\* (Chin, 2000).
64. Please reference the Cost of Service Study (Water), Schedule W-D, p. 9 of 17. Why is the weighting of mains costs based on the total footage of mains rather than the inch-feet of mains (which would recognize that it can be more costly to maintain larger-sized mains)?
65. Please reference the Cost of Service Study (Water), Schedule W-E, page 1 of 2.
- a. Please provide the source documents and/or calculations for the column 5/8" Dollar Equivalent.
  - b. Why are dollar equivalents rather than capacity equivalents used in the calculation?
66. Please reference the Cost of Service Study (Water), Schedule W-E, p. 2 of 2.
- a. Please provide the source documents and/or calculations for the column 3/4" Dollar Equivalent.
  - b. Why are dollar equivalents rather than capacity equivalents used in the calculation?
67. Please reference the Cost of Service Study (Water), Schedule W-H. Please provide the source documents and/or electronic files used to determine the number of bills and usage in each rate block for each customer class.
68. Please reference the Cost of Service Study (Water), Schedules W-H and W-J. The revenues calculated on these schedules do not accurately represent the multiplication of the rate by the billing units. It appears that while the rate is displayed to two decimal places, the calculation is based on a rate that is not rounded. Is it the



Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

District's intention to charge rates to two decimal places or to use rates to three or more decimal places?

69. Please reference the Cost of Service Study (Water), Schedule W-I, p. 1 of 1. Why were 3/4-inch service line equivalents used on this schedule instead of 5/8-inch meter equivalents?
70. Please reference the Cost Of Service Study (Sewer), Schedule S-E. Please provide the source documents and/or electronic files used to determine the number of bills and usage in each rate block for each customer class.
71. Please reference the Cost Of Service Study (Sewer), Schedules S-E and S-H. The revenues calculated on these schedules do not accurately represent the multiplication of the rate by the billing units. It appears that while the rate is displayed to two decimal places, the calculation is based on a rate that is not rounded. Is it the District's intention to charge rates to two decimal places or to use rates to three or more decimal places?
72. Please reference the Howard testimony, lines 123-127. Please provide a copy of the power point presentation by Robert Pitt that the witness relied upon.
73. Please see the Company's application, Exhibit B-2, p. 1, and explain how the \$350,460 figure for Contract Services (Assumes Expenses by UMG) was calculated for the value given in the historic test year for July 1, 2013-June 30, 2014.
74. Please see the Company's responses to PSC 1-4, found in the electronic record at p. 255 of 502 in Volume 2 of 7, specifically counsel Daniel Stratton's letter to Bob Meyers dated December 23, 2010.
  - a. Did the Water Commissioners request an additional 30 days from the date of receipt of the confidential State Audit Report on December 23, 2014, to review the audit thoroughly so as not to commit a breach of their fiduciary duty?
  - b. Did contract negotiations with UMG on a new contract extension continue with Stratton's office, separate from the Water Commissioners' review of the Audit Report?
  - c. Despite the request for an additional 30 days on December 23, 2010, was a correspondence sent by Honorable Daniel Stratton on January 6, 2011



Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

confirming the revised contract. If so, please explain what sort of review of the State Auditor's Examination of Mountain Water District was undertaken by the Commissioners in those fourteen (14) days to meet their fiduciary obligation to the customers of the Water District.

- d. Please describe, by identifying the paragraph number or section number, any changes that were made to the contract draft, that can be attributed to a recommendation made within the State Auditor's Examination Report? If none, please state why.
75. Please reference the State Audit Examination Report dated January 27, 2011 and see generally the Findings and Recommendations listed within the Executive Summary, as AG 1-63, 1-64, 1-65, and 1-68, are non-responsive. For each and every Finding and Recommendation that follows, please state in narrative form, what action was taken in response to the specific recommendations given, who took the action, what date the changes were implemented, and were these changes reflected in any contract amendments or additions with UMG. If no action was taken, please explain why.
- a. As to Finding #1, page iii: "The MWD Board entered into a privatization contract with insufficient planning to determine the benefits to or financial impact on MWD. "
    - i. The Board should ensure that any significant contracts are properly evaluated for benefits they will provide to the district and its customers.
    - ii. Discussions of these contracts should be conducted in an open and public process.
    - iii. A complete analysis of the financial benefit to MWD be performed prior to the finalization of the management contract.
    - iv. Board should have sufficient information to properly plan all aspects of the decision to privatize service, and ensure that the contract requires detailed financial and other information to appropriately oversee the management of the district.
    - v. MWD should follow best practices required in statute for privatizing public service.

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- b. Finding # 2 "The Cost to Operate MWD Services are Unknown due to lack of Financial Information provided by the Vendor."
  - i. MWD Board should ensure that any privatization contract for management and operations services contains a provision that will allow for access to cost information about the operations of MWD.
  - ii. MWD should require the vendor to report to MWD operational costs on a monthly and annual basis.
  - iii. Board should consider a management fee structure to operate and maintain MWD and provide an agreed upon margin of profit.
- c. Finding #3, "The initial contract for management services had a detrimental impact on MWD, and the Board failed to act in a timely manner to address the issues."
  - i. Board should ensure any future contracts for operations, management and maintenance are closely examined before entering into an agreement with a contractor to perform those services.
  - ii. The Board should ensure in the final contract for services, that any suggested revisions and agreed upon additions to a contract are actually included in the final contract.
  - iii. Board should avoid provisions increasing fees automatically to the district.
  - iv. If the cost of service increases, due to an increase in the customer base or an increase in the cost of materials and supplies to provide the service, the increased cost should be justified, reviewed by Board or independent representative, and approval shall be documented.
  - v. Board should ensure all contract terms are clear, concise and well defined, including the role of the contractor and the district.
- d. Finding #4, "Irregularities were identified in the initial MWD contract for operations, management, and maintenance and the established contract bid process was not followed."

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- i. Board should review and ensure understanding of its RFQ/P before voting to approve advertisement of such.
  - ii. Board should be actively involved in determining the content of the document directing its process.
  - iii. Board should require conflict of interest statements and disclosure statements for management employees reporting directly to the Board to ensure full disclosure of any interests by its management.
  - iv. Should fully grade, consistent with criteria stated in RFQ/P.
  - v. Should be graded only after all information is submitted, as long as it is within the deadlines.
  - vi. Should use calculations in bid proposal analysis that are adequately supported, and that supporting documentation should be maintained to eliminate any disputes that arise as a result of those calculations.
- e. Finding #5 "UMG received payments for services not specified in the contract with MWD without approval by the MWD Board."
- i. Board should carefully examine bills before approving payment.
  - ii. Board should ensure payments made in compliance with the contract.
  - iii. Any additional payments made to contractors should be for agreed upon services, approved in writing by the Board.
  - iv. Board should approve those payments, in open meetings.
  - v. Board should hire an individual that reports to them, that will provide more direct oversight into the district's day to day operations.
  - vi. This individual should be able to track and ensure appropriate payments are made to the appropriate entities under the contracts maintained by the district.
  - vii. The Board should specifically discuss its payments to its contractor providing water to Elkhorn City.

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- viii. If the Board agrees to continue these payments to the contractor for this service, the Board should formalize this agreement in writing.
- f. Finding #6 "Procurement requirements appear to have been circumvented, resulting in over \$171,000 for services provided with no contract."
  - i. The Board should ensure that the procurement process is fully documented in a policy and procedures manual.
  - ii. All parties, Board, staff and vendors should receive a copy of this manual for their review, and receiving training upon it.
  - iii. Board should establish a process to ensure compliance with procedures outlined in the manual.
  - iv. Board should ensure competitive bidding is used when aggregate amount to vendor for project exceeds \$20,000.
  - v. Board should ensure written contracts for vendors are established detailing the services to be performed, the payment details, and other details necessary to protect the interests of MWD.
  - vi. Board should ensure that agreements with vendors to provide services are based on objective criteria such as price and qualifications of the vendor.
- g. Finding #7 "MWD had not adopted a method to adequately track construction project payments."
  - i. Board should formally adopt a format for tracking construction project payment and funding information consistent with those used by the engineers, that includes the funding source, the date of the payment, the check number, the vendor name, the amount, and reference to the associated contract.
  - ii. These documents should be presented at each board meeting monthly.
- h. Finding #8 "MWD did not comply with Kentucky's Open Meetings Law when discussing the decision to contract out the operations of a public entity or the renegotiations of that contract."



Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- i. Each time a meeting is moved to executive session, the specific exception to open meetings should be documented.
  - ii. Specific and complete notification in the open session of all topics to be addressed in closed session, and the specific statutory exemption allowing the reason why closed session is needed.
  - iii. That specific topic listed should be the only topic discussed in closed session.
  - iv. Discussions related to significant operating decisions should not be conducted in closed session to avoid public distrust and to ensure decisions are supported and well documented.
  
76. Please reference the Company's response to PSC 1-4, Exhibit 1, the attachment to the December 23, 2010 letter of Hon. Daniel Stratton to Bob Myers of UMG found in the electronic record page 256, Volume 2 of 7. Explain why UMG is submitting, as an independent contractor, items for its break room and computer servers.
  - a. Are other clients of UMG, other than MWD, billed for portions of the inventory at UMG that you are aware of? If yes, provide documentation. If no, explain in full detail.
  - b. Do you know what percentage use of these items are allocated to MWD work, and explain how this is tracked. If not tracked, please explain why not.
  - c. Do the employees at UMG use the capital assets purchased by Mountain Water on other projects. If no, how is this verified. If yes, please describe how those shared costs are allocated among the various clients of UMG.
  
77. Please reference the Company's application generally. Does MWD have the ability to remove purchases from UMG's billing invoices monthly, if those purchases are less than \$250.00? If yes, please describe the process for questioning an expense and/or removal of inappropriately assigned capital expenditures or purchases.
  - a. Has MWD ever refused to pay any portion of a UMG billing invoice? Please explain the answer in full detail.
  
78. Please reference the Company's application generally. Does MWD have the ability to remove purchases from UMG's billing invoices monthly, if those purchases are more



Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

than \$250.00? If yes, please describe the process for questioning an expense and/or removal of inappropriately assigned capital expenditures or purchases.

- a. Has MWD ever refused to pay any portion of a UMG billing invoice? Please explain the answer in full detail.

79. Please reference the Company's application generally. Explain MWD's position on whether or not purchases made on MWD's behalf by UMG are exempt from sales tax, and the source of reliance on your interpretation of the Tax Code.

- a. Has MWD ever had to pay sales tax on purchases made by UMG that would have been exempt from sales tax if purchased directly by MWD? If yes please describe the nature of the purchase, and the amount of sales tax paid.

- i. If yes, would this not be a direct increase of expenses that ratepayers must pay?

- b. Provide in full detail the nature of the sales tax exemption for MWD.

80. Please provide a copy of the 2007 Audit completed by Griffith Delany Hilman and Company that was distributed at the September 24, 2008 Board Meeting of MWD.

81. How many households are currently on the wait list for installation and service by MWD for both water and sewer?

82. Please describe, or provide a map of the boundary lines for water and sewer provision that exist between the City of Pikeville and Mountain Water District.

- a. Please describe the areas of expansion of Mountain Water District in new sewer service that are adjacent to the City of Pikeville's Sewer Lines.

- b. Please explain the additional capacity for sewer expansion under the current structure maintained by UMG or MWD, and if additional customers are able to be served under the current structure without capital improvements to the existing plants.

- c. Please describe any new sewer expansion that is not adjacent to the City of Pikeville, and describe its location.

83. Would UMG be eligible for rural low interest grants or rural water service loans if the applications were made in the name of the company rather than MWD's name?

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

84. Who first offered the \$500,000 payment as a condition of the 2008-2009 initial contract extension, and did the contract term get introduced by MWD or by UMG?
- a. In what context was this offer made, as a loan or advance?
  - b. Was this money used to pay off the loan to Community Trust?
  - c. What was the interest rate of the loan with Community Trust that was paid off?
  - d. If those funds were used for other items, please describe where they were applied.
85. Please reference the Company's application generally. The contract with UMG was extended, and as relayed in the Board meeting minutes, the decision to extend was based in part by additional funds that might become available through contacts UMG had discussed, in the amount of a \$1,000,000.00 grant and \$750,000 award. After the contract was executed, did those monies and grants ever materialize?
- a. Please itemize from what source those monies were originated from.
  - b. Please describe which entity was requesting the funds, UMG or MWD, or if it was a joint request.
  - c. Whether those applications or requests for funds had been in process at the time of the 2008-2009 contract negotiation or were obtained thereafter.
  - d. Describe what projects were funded with those monies, and what contractor performed the work under those projects.
86. Please see generally, responses to PSC 1-3, found in the electronic record at page 246 of Volume 1 of 7, and review Pike County Magistrate Chris Harris's statements at the April 3, 2009 Board Meeting, under Agenda Item II:
- a. Describe what steps if any were taken by MWD to ensure that none of the District's funds were involved in the alleged mismanagement of funds by UMG that resulted in a Federal Criminal Indictment referenced in Clay Mason's affidavit.
  - b. Provide a copy of Clay Mason's affidavit that was handed out at the April 13, 2009 Board meeting.

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

87. If no steps were taken to ensure that MWD's funds weren't involved in the alleged mismanagement of funds by UMG, please explain why the Board has not conducted such a review.
88. Prior to entry into the original contract with UMG, the District had over \$900,000 in reserve for emergencies. Please describe what limitations were put upon the reserve funds, and how they were drawn down under UMG's management.
89. Please describe all other funding opportunities that have been reviewed by MWD that are available from SOAR, or any other low-interest rate grant that were available to rural utilities. If no review has been taken, please explain why not.
90. Please describe under what process the MWD receives Coal Severance Funds.
  - a. In what amount?
  - b. How often?
  - c. Are these funds tied to a particular project, or are they used as general operating funds.
  - d. Would UMG be eligible for any or all of these Coal Severance Fund projects if it applied on its own, in its own name?
91. Please describe what financial benefits MWD may obtain as a non-profit utility, that would be otherwise unavailable to UMG as a for profit company, that UMG in turn directly benefits from?
92. Please describe what money would have been owed by MWD to UMG at the time of the 2008-2009 contract negotiations if the Board elected to cancel the UMG contract?
  - a. What money would be owed by MWD to UMG at the end of the 2015 contract if the Board elects to cancel the UMG contract? If so, please provide detailed information.
93. How much money today is owed to UMG by MWD?
  - a. What is the money owed for?
  - b. What are the repayment terms?

Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- c. What portion of these outstanding loans has ever been forgiven? What was the scheduled rate for forgiveness?
94. Please list by date and amount any money that MWD ever borrowed from UMG and describe what the money was used for.
  95. Both the \$1,500,000.00 in startup costs in 2005, and the \$500,000 loan at the time of contract renewal in 2009 were described as "forgiven" by UMG over time. Please describe the purpose of these loans. Further, provide the terms of "forgiveness" and how that was reflected in MWD's Balance Sheets?
  96. Were any payments directly made to UMG by MWD for any of those loans that were to be "forgiven" or were the balances reduced for each month under the terms of the "forgiveness" of these loans?
  97. Please see responses to PSC 1-8 where the list of Major R&M Equipment, Hand Tools R&M, and PS/LS R&M are listed and explain if these expenses are all for equipment maintained by UMG.
    - a. Are these costs in addition to the monthly R&M fee to UMG as described in the Contract?
    - b. Who is responsible for approving these R&M costs, and what oversight is given to these expenses?
    - c. Is there any oversight given as to whether these hand tools are exclusively used by Mountain Water District contractors, or if these are proportional expenses borne by all of UMG's contractors. If not, please explain why not.
  98. Please list end of year totals for repairs and maintenance, both for UMG's contract R&M monthly flat fee, and additional monies paid to UMG by Mountain Water in excess of the monthly fee for the years 2008, 2009, 2010, 2011, 2012, 2013 and 2014.
  99. Please see response to PSC-1-8A, Volume 3 of 7, under the Operating Account, and describe what the monthly checks from the Customer Deposit Escrow Account made payable to Mt. Water District Oper. are for?
    - a. Are these funds being utilized as Intercompany Transfers? Explain in full detail.



Attorney General's Supplemental Request for Information  
Application of Mountain Water District For An Adjustment of Water  
Case No. 2014-00342

- b. Where were these funds transferred to, and why were they transferred from the customer deposit account? Explain in full detail.
100. Are all the increased revenues requested in this Rate Increase going to be handed over as profit to UMG?