

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN WATER DISTRICT)	CASE NO.
FOR AN ADJUSTMENT OF WATER AND SEWER)	2014-00342
RATES)	

ORDER

On October 9, 2015, the Commission issued a final Order in this matter that, *inter alia*, set new rates for Mountain Water District (“Mountain Water”), required Mountain Water to conduct a water loss study and to issue a request for proposals (“RFP”).

The Commission’s Order specifically required Mountain Water, within 90 days of the Order’s date, to identify sources of excessive water loss, quantify the amount of water loss from each identified source, prioritize the identified water loss projects, establish a schedule for eliminating each source of water loss, and within 120 days of the date of the Order, to provide a detailed plan to fund each identified water loss project and specifically identify a credible funding source.

The Commission’s Order further required Mountain Water to obtain the services of an outside independent consultant to prepare and issue an RFP to solicit bids from firms interested in providing managerial and operational services to Mountain Water. We ordered Mountain Water to analyze the bids received, identify the top response, and document the analysis within 180 days of the Order. We required Mountain Water to submit a written report that discusses the results of the RFP solicitation within 240 days of the October 9, 2015 Order.

On October 28, 2015, Mountain Water filed an application for rehearing pursuant to KRS 278.400. It requested rehearing of the October 9, 2015 Order on the two issues pertaining to the water loss plan as set forth in ordering paragraphs 6 and 7, as well as the obligation to issue a RFP as set forth in ordering paragraphs 8 and 9.

Regarding the water loss plan, Mountain Water first argues that it is not possible to complete the water loss study within the time allotted by the Order. Mountain Water contends that due to the length of water mains in service and the mountainous terrain, the physical effort to monitor, test, and identify leaks necessitates a longer period of time. Moreover, it states that the potential for cold weather, ice, and snow during the study period may further impede the process. Mountain Water proposes new time requirements for the water loss requirements set forth in the Commission's Order.

Mountain Water's proposed new time requirements are as follows:

- (a) Identify water loss sources – six months;
- (b) Quantify the water loss – seven months;
- (c) Prioritize the identified water loss projects – eight months;
- (d) Establish a schedule for eliminating water loss sources – ten months; and
- (e) Provide an estimated cost for each project – ten months.

Mountain Water further proposes to file the detailed water plan to fund each water loss project within 12 months.

Regarding the RFP requirement, Mountain Water seeks to modify or clarify the October 9, 2015 Order as to whether Mountain Water must issue the RFP and prepare the written report should it elect to operate with district employees rather than contracted employees. Mountain Water requests the deletion of the requirement to

issue an RFP and submit a written report on the analysis of the RFP or, alternatively, clarification that the RFP is not required if the district's board adopts a resolution prior to January 1, 2016, to terminate the management contract and resume management of the operations of the district with employees of the district. Mountain Water takes the position that a decision to end contractual services will render an RFP unnecessary.

Mountain Water states that if it has not notified the Utility Management Group ("UMG") of the termination of the current agreement by January 2, 2016, the time line for issuing the required RFP and the required actions on this point should commence on January 2, 2016.

Based on a review of the application for rehearing and being otherwise sufficiently advised, the Commission finds that Mountain Water has presented good cause to modify the time line for completing each step of the water loss plan as originally ordered by the Commission. The October 9, 2015 Order required Mountain Water to complete five discrete steps within 90 days, and to provide a detailed plan to fund each identified water-loss project within 120 days. Given the unique circumstances that exist in Mountain Water's territory, including the length of water mains, the terrain, the severity of the water loss problem and the imminent winter weather, the Commission finds that Mountain Water's request for additional time is reasonable and should be granted. The Commission further finds that the time line proposed by Mountain Water within which to perform each of the steps set forth in

ordering paragraphs 6 and 7¹ to the October 9, 2015 Order is reasonable and should be adopted.

Second, Mountain Water requests that the Commission modify its Order to either (1) remove the RFP requirement or (2) permit Mountain Water the option of cancelling its contract with UMG and to conduct its operations in-house—or if it chooses not to operate with its own employees, to then issue an RFP. Mountain Water further proposes that if it does not cancel the UMG contract by January 2, 2016, the RFP requirement would then be triggered. Mountain Water contends that removing the RFP requirement would save expenditures that would potentially be wasted if it did not decide to contract with another management group to run the utility's operations.

Having considered Mountain Water's arguments, the Commission finds that Mountain Water's request to modify the RFP requirement should be denied. As noted in the Commission's October 9, 2015 Order, in the last ten years Mountain Water has not issued an RFP or "attempt[ed] to conduct a benefit analysis to show that the outsourcing of its operations to UMG is beneficial to its ratepayers."² The RFP is necessary to assess the potential costs of operating the district, particularly in consideration of the passage of a decade since the contract was last bid. While Mountain Water contends that the RFP would be unnecessary should it choose to

¹ Ordering paragraph 6 required, within 90 days, Mountain to:

- a. Identify the sources of the excessive water loss;
- b. Quantify the amount of water loss from each identified source;
- c. Prioritize the identified water loss projects;
- d. Establish a time schedule for eliminating each source of water loss; and
- e. Provide an estimated cost for each identified project.

Ordering paragraph 7 required Mountain to provide a funding plan for each water loss project within 120 days.

² October 9, 2015 Order at 33.

perform its operations internally, the RFP would clearly still provide useful information for Mountain Water in assessing the most reasonable and cost-effective means for operating the district.

Moreover, Mountain Water has not presented any evidence or made any showing that conducting an RFP would be especially onerous in regards to costs or resources. Conversely, the Commission finds that the RFP will provide value by enabling Mountain Water and its ratepayers to learn whether the UMG's continued operation of the utility is in the ratepayers' best interest. It will further provide valuable information for Mountain Water to utilize in ultimately assessing the efficacy of conducting its operations with its own employees. A utility board fully informed as to the range of methods and costs of operating its district will best serve its ratepayers in the most transparent and cost-effective manner. Accordingly, the Commission affirms the requirement that Mountain Water conduct an RFP as directed by our October 5, 2015 Order.

IT IS THEREFORE ORDERED that:

1. Mountain Water's application for rehearing is granted in part and denied in part.
2. Mountain Water's request to amend ordering paragraphs 6 and 7 of the Commission's October 9, 2015 Order is granted.
3. Ordering paragraph 6 of the October 9, 2015 Order is modified as follows:
Mountain Water District shall:
 - (a) Within six months, identify water loss sources;
 - (b) Within seven months, quantify the water loss;
 - (c) Within eight months, prioritize the identified water loss projects;

(d) Within ten months establish a schedule for eliminating water loss sources; and

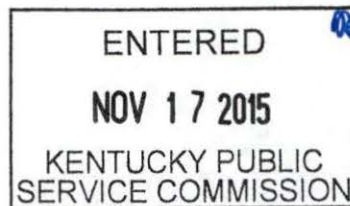
(e) Within ten months, provide an estimated cost for each project.

4. Ordering paragraph 7 of the October 9, 2015 Order is modified as follows:

Within 12 months of the date of the October 9, 2015 Order, Mountain Water District shall provide a detailed plan to fund each identified water loss project that specifically identifies credible funding sources.

5. Mountain Water's request to amend paragraphs 8 and 9 to the Commission's October 9, 2015 Order is denied.

By the Commission



ATTEST:


Executive Director

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

*Jennifer Black Hans
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

*Honorable John N Hughes
Attorney at Law
124 West Todd Street
Frankfort, KENTUCKY 40601

*Stefanie J Kingsley
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

*Mountain Water District
6332 Zebulon Highway
P. O. Box 3157
Pikeville, KY 41502-3157

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