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January 29, 2014

Mr. Leihman Howard
Hyden-Leslie County Water District
325 Wendover Road
Hyden, Kentucky 41749

W. Randall Jones, Esq.
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202

Mr. Michael Maggard
Sisler-Maggard Engineering, PLLC
220 East Reynolds Road, Suite A3
Lexington, Kentucky 40523-3780

Re: Case No. 2013-00388
Hyden-Leslie County Water District

VIA ELECTRONIC MAIL

Gentlemen:

The enclosed memorandum has been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Gerald Wuetcher, Executive Advisor/Attorney, at (502) 782-2590.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen
Executive Director

gw
Enclosure

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2013-00388

FROM: Gerald Wuetcher **GEW**
Executive Advisor/Attorney

DATE: January 29, 2014

RE: Telephone Conference Call of January 28, 2014

On January 28, 2014 Commission Staff conducted a conference call in this matter. Participants in the conference call were:

Jonathan Beyer	-	Commission Staff
George Wakim	-	Commission Staff
Gerald Wuetcher	-	Commission Staff
W. Randall Jones	-	Hyden-Leslie County Water District
Michael Maggard	-	Hyden-Leslie County Water District

Beginning the conference call, Mr. Wuetcher stated that Commission Staff would prepare minutes of the conference for the case record, that a copy of the minutes would be provided to all parties, and that all parties would be given an opportunity to submit written comments upon those minutes.

Mr. Wuetcher advised Mr. Jones and Mr. Maggard that Commission Staff had reviewed documents obtained from Kentucky Infrastructure Authority (KIA) pertaining to WRIS Projects WX21131007; WX21131008, and WX213111. He stated that these documents indicated that Hyden-Leslie County Water District had, as of September 29, 2013, drawn approximately \$1,328,896 from coal severance grants to pay the contract vendor, Packs, Inc., for costs related to Contract No. 15. Approximately \$1,001,859 of this amount was reimbursement for construction work and \$318,037 was for materials stored. Mr. Maggard agreed with that this amount had been received from KIA and used to reimburse Packs, Inc. for work on Contract No. 15.

In response to questions from Mr. Wuetcher, Mr. Maggard stated: Hydent-Leslie County Water District opened bids for Contracts No. 15 and No. 16 in April 2013. It accepted the bid from Packs, Inc. for Contract 15 in July 2013 and work on the project began in that month. Hyden-Leslie County Water District began the construction on the water mains to avoid loss of the grant funds. It was concerned that the funds might be de-authorized if not used. Currently less than 50 percent of Contract No. 15 project is completed. Work on the project ceased in December 2013. Hyden-Leslie County

Water District is awaiting receipt of the proceeds of the proposed loan from Kentucky Rural Water Finance Corporation (KRWFC) before resuming construction activity.

Mr. Maggard further stated that no construction work on Contract No. 16 had begun. Some site preparation – the clearing of trees and brush – had been done for one of the tank sites. No facilities had been constructed.

Mr. Wuetcher inquired whether Hyden-Leslie County Water District had commenced construction of Contract No. 15 facilities before receiving the approval of the Division of Water (DOW). He noted that the DOW approval letter was dated September 25, 2013. Mr. Maggard stated that DOW official Mark Rasche had given verbal approval for the construction of all facilities but the 2-inch water lines at a conference in the summer of 2013, prior to the commencement of construction work.

Mr. Wuetcher stated that he believed that all issues related to the application had been resolved and that there was sufficient evidence in the record for the Commission to render a decision on the application. He noted that the commencement of construction prior to the issuance of a Certificate of Public Convenience and Necessity raised several policy concerns. He was not certain how those policy concerns would affect the Commission's decision. Mr. Wuetcher also stated that, due to the commencement of construction prior to the issuance of a Certificate, the Commission may consider proceedings to investigate a possible violation of KRS 278.020(1).

Mr. Jones advised that the KRWFC closed its loan last week. The proceeds of that loan that are allocated to Hyden-Leslie County Water District are in escrow and will not be accessed until the Commission has authorized the water district's loan with KRWFC. Mr. Jones further noted that Hyden-Leslie County Water District is incurring interest on those proceeds as of the date of the loan closing.

The conference then adjourned.