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February 22, 2016

RECEIVED

FEB 22 2016

PUBLIC SERVICE
COMMISSION

Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

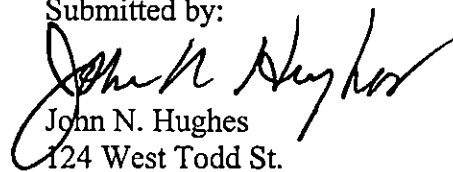
Re: Case No. 2016-00062

Dear Executive Director:

Mountain Water District submits its responses to the Commission's first data request.

A copy of these responses has been mailed to the Attorney General's Office of Rate Intervention by first class mail on this date.

Submitted by:



John N. Hughes
124 West Todd St.
Frankfort, KY 40601
(502) 227 7270
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Attorney for Mountain Water District

AFFIDAVIT

COMMONWEALTH OF KENTUCKY

COUNTY OF FLOYD

Affiant, Michael Spears, CPA appearing personally before me a notary public for and of the Commonwealth of Kentucky and after being first sworn, deposes, states, acknowledges, affirms and declares that he is authorized to submit this Response on behalf of Mountain Water District and that the information contained in the Response is true and accurate to the best of his knowledge, information and belief, after a reasonable inquiry, and as to those matters that are based on information provided to him, he believes to be true and correct.

Michael Spears
Michael Spears, CPA

This instrument was produced, signed, acknowledged and declared by Michael Spears to be his act and deed the 22 day of February, 2016.

Denise P. Strickland
Notary Public
Registration Number: 403718

My Commission expires: August 28, 2017

AFFIDAVIT

COMMONWEALTH OF KENTUCKY

COUNTY OF PIKE

Affiant, Roy Sawyers, appearing personally before me a notary public for and of the Commonwealth of Kentucky and after being first sworn, deposes, states, acknowledges, affirms and declares that he is District Administrator, that he is authorized to submit this Response on behalf of Mountain Water District, and that the information contained in the Response is true and accurate to the best of his knowledge, information and belief, after a reasonable inquiry, and as to those matters that are based on information provided to him, he believes to be true and correct.

Roy B. Sawyers
Roy Sawyers

This instrument was produced, signed, acknowledged and declared by Roy Sawyers to be his act and deed the 19th day of February, 2016.

Thomas S. Mullins
Notary Public
Registration Number: 494201

My Commission expires July 29, 2017

CASE : Mountain Water District
CASE NO : 2016-00062
RE : PSC First Data Request

Q 1. Provide a copy of the minutes of each regular or special meeting of the Board of Mountain District held from October 9, 2015, to date. Include with the response, for each meeting, a copy of any materials distributed or presented to the Board during the meeting.

WITNESS : Sawyers.

RESPONSE Q1:

See attached minutes for the following meetings:

October 16, 2015 (*Special Meeting*)
October 28, 2015
November 25, 2015
December 30, 2015
January 20, 2016 (*Special Meeting*)

Also, see attached memorandums sent to the Board prior to regularly monthly meetings, dated:

October 12, 2015
November 23, 2015
December 29, 2015

PSC Order 2014-00342 - October 16, 2015 (*Special Meeting*)
Financial Statement – January 20, 2016 (*Special Meeting*)

1

**MOUNTAIN WATER DISTRICT
BOARD OF COMMISSIONERS SPECIAL MEETING**

October 16th, 2015
2:00 PM

ATTENDEES

Julia Roberts, Appalachian News Express
Mike Spears, Spears Management
Dan Stratton, Stratton Law Firm
Roy Sawyers, Mountain Water District Administrator
Tammy Olson, Office/Compliance Manager, UMG
Kevin Lowe, Office/Finance Manager, UMG
Carrie Hatfield, Financial Administrator, MWD

CALL TO ORDER

The Mountain Water District Board of Commissioners Special Called Meeting was held on Friday, October 16th, 2015 at 2:00 PM.

Commissioners present for the meeting were as follows:

Commissioner Ancie Casey
Commissioner Kelsey Friend, III
Commissioner Michael Blackburn
Commissioner Eddie Hurley

Commissioner Johnny Tackett was not present for this meeting.

CALL TO ORDER

Chairman Casey called the meeting to order.

AGENDA ITEM I

Approval of New Tariff Revision -

Mr. Stratton stated that we received the PSC order. It sets out a tariff revision that is phased in over three phases over a two year period. We need a motion to approve it as approved by the Public Service Commission. Mr. Spears clarified that the District has twenty days to submit the amendment to the tariff to the PSC. Commissioner Blackburn made the motion to amend the District's tariff with rates as approved by the PSC and to send the revision to the PSC within 20 days of the order. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Nay
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-10-001

Mr. Stratton clarified with Mr. Lowe that was something he could do. Mr. Lowe stated that he would do that. Mr. Stratton stated that Mr. Lowe will do the tariff amendments and submit those to the PSC as required.

AGENDA ITEM II

Executive Session –

- **Review Options Concerning PSC Order**

Chairman Casey requested a motion be made to enter into executive session. Commissioner Hurley made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-10-002

Chairman Casey requested a motion be made to reconvene from executive session. Commissioner Hurley made the motion. Commissioner Blackburn seconded the motion. Commissioner voting as follows:


Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-10-003

Mr. Stratton stated that there were two items coming out of executive session need to be addressed. In regards to the Public Service Commission order concerning our rate increase, there was an extensive order outlining a plan and directing the District to present a plan to the Commission regarding water loss prevention. The Board, approximately three months ago, started a review of the water loss situation and the committee has been formed and initial steps have been taken to start that review. However, the time frame set forth by the Public Service Commission order is fairly short and we are asking for the Board to direct counsel to file for a rehearing only as to the time line provided for concerning the water loss prevention plan. They are to go back with a new plan to submit to the Commission for their consideration on that petition for rehearing.

The second item concerns the Request for Proposals concerning bidding of contract services for the District's management. The Board is to direct counsel to ask for a clarification from the Public Service Commission as to whether or not the Request for Proposal would be required if the Board elected to take over management and operate independently of a contractor. The purpose of this clarification request is that the cost of the RFP as outlined would be substantial and if that cost could be avoided, we would like to try to do so.

Chairman Casey stated that we have heard the two things that have come out of the session that we had, and he requested a motion to approve both items as presented by legal counsel. Commissioner Blackburn made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:



Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-10-004

ADJOURN MEETING

Chairman Casey requested a motion be made to adjourn the meeting. Commissioner Hurley made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-10-005

MOUNTAIN WATER DISTRICT BOARD OF COMMISSIONERS REGULAR MEETING

October 28th, 2015
10:00 AM

ATTENDEES

Bobby Varney, Magistrate, District 6
Donna Sue Johnson, Resident, Virgie, Ky.
Julia Roberts, Appalachian News Express
Jamie Noe, Vaughn & Melton
Jody Hunt, Summit Engineering, Inc.
Stephen Caudill, Bell Engineering
Tim Campoy, EDC, Inc.
Dan Stratton, Stratton Law Firm
Mike Spears, Spears Management
Roy Sawyers, Mountain Water District Administrator
Grondall Potter, Manager, UMG
Tammy Olson, Office/Compliance Manager, UMG
Kevin Lowe, Office/Finance Manager, UMG
Carrie Hatfield, Financial Administrator, MWD

CALL TO ORDER AGENDA ITEM I

The Mountain Water District Board of Commissioners Regular Meeting was held on Wednesday, October 28th, 2015 at 10:00 a.m.

Commissioners present for the meeting were as follows:

Commissioner Ancie Casey
Commissioner Kelsey Friend, III
Commissioner Mike Blackburn
Commissioner Eddie Hurley
Commissioner Johnny Tackett

VISITORS AGENDA ITEM II

Chairman Casey inquired if there were any visitors who wished to speak. The Chair recognized Donna Sue Johnson, a resident of Virgie. Ms. Johnson stated that she had a complaint regarding the auto-pay system. She stated that she is a retired school teacher and every month when her retirement went in she would call and pay her bill. She calls all her bills in as soon as her teacher's retirement goes in. she had been calling over here and paying it. All of a sudden she called and was told they couldn't take her payment now, that she has to call Next Bill Pay. They charge \$3.50 to pay by debit card or \$2.00 to pay by check. She always did it debit and still does it debit and she resented do that \$3.50 but she did it and it showed it went through last month on September 8th, no problem. September 30th she called in again with the same card and had no clue that it didn't go through because she used the account that her teacher retirement goes in and pays all the bills from there and then she transfers it over to another account she lives on. She didn't know it hadn't gone through and all of a sudden she gets this bill that says balance forward. She made a phone call as soon as she got this and opened it up and she asked why she had a balance forward on the bill when she had paid it. She doesn't know what happened with the system. They are not infallible. It says \$27.54 and also says down here "Due Date 11/1/15". The current bill was \$20.02 and the total amount was \$48.16 then it says amount after the due date is \$50.16. Since she retired teaching, she has become a taxi for her daughter's children taking them to school at Shelby Valley, and also a babysitter for her son. There are a lot of times she is not even home for 3 or 4 days in a row. She

went home and everybody was talking about getting their water cut off. She had no doubt hers was still on and didn't even turn it on. She didn't get home on Monday til...she had been to the doctor...she has had a heart attack and has two brain tumors she deals with. Has a lot of medical things...got to have a knee replacement. Right now she is scheduled for a thyroid biopsy and all kinds of lung tests. The hospital down here has instituted a \$17.50 every time she goes called a facility fee. Other people's goes up to \$60.00 and all of you sit in your areas like this and figure out a way to get a chunk of the pie from people like her who have no one behind them to get a piece of that pie from. There is nothing left. So \$3.50 may not mean a lot to you, but it is like that straw that broke the camel's back; it's not the weight of that straw, it is the weight of every straw. It is not those three one dollar bills and fifty cents; it is the accumulation added to everyone else's hunk out there they are wanting. It's like the Emperor's New Clothes; they are sitting in their little board rooms like you all do here, and she is sorry, she doesn't want to....she addressed Ancie Casey that he has known her for years and knows that she is not a dishonest person and stands for the good, but right now this economy in Pike County sucks. She stated that she hates to use that word, but it does. We have got a fiscal court that instituted a tax because Pike County doesn't have money to operate, yet when she calls down here and asks about this \$3.50 and Next Bill Pay, that money goes to Alabama and she was told that somebody here that the District doesn't get a penny of that money. She asked why in the heck is that job taken from Pike County and sent to Alabama when this county is sinking. That might not mean anything to them but you count how many people call in their bills at \$2.00 a person or \$3.50 a person and that is a lot of money that is going somewhere else. She can show them that she paid that phone bill on September 8th and September 30th with the same card. People asked her if she wrote down the confirmation number. She normally does that but she was in her car on a cell phone and didn't have anything to write with. You call and pay your bill with it and see how fast they read it. Then she is told that there is nothing they can do to help her even though she has a good record with your company and you are like a monopoly. There is no other water to be had and we have no other choice but to pay what you say. You just took another raise on top of all of this. She inquired why do you not designate...you have to be paying this Next Bill Pay company...they are not going to do this out of their heart and somebody told her that they get \$3.50 for every person that calls in and somebody told her that you don't get one nickel of that money. Chairperson Casey stated that he appreciates her concern and he knows she is a good person. He inquired if Mr. Lowe, who administers that billing part, would answer her legitimate question. Mr. Lowe began to speak and Mrs. Johnson interrupted saying "I'm just saying, why when right now, I've got medicine at the hospital pharmacy that has been laying there waiting for my retirement to come in for me to go pick up, and they are telling me that you will charge me \$60.00 reconnect for something I had no idea that wasn't paid. Why can you not invest in a little bit more ink to go on here and say if your balance forward isn't paid by a certain date you will be disconnected? I had no clue." Chairman Casey stated that he appreciated that and inquired if Mr. Lowe had an answer for her. Mr. Lowe stated that as far as Next Bill Pay, we don't pay them anything. They take their fee from the customer who calls in to pay and we pay them nothing. It basically eliminates 2,500 payments that our staff in the office takes a month. Mr. Potter stated that it was one of the things the Board voted on to give another option to customers. Mr. Stratton stated that is not the issue she is asking about. Mrs. Johnson stated that it is not an option. You have no choice if you want to pay it by phone you have to pay them. Mr. Potter stated that we just went from one company to another. Mr. Lowe stated that the bill itself and adding something on there about the balance forward; those are ordered in 100,000 preprinted at a time so, in order to make changes to it, we have to wait until all of that stock is used or you have to buy that stock back and then order again with changes. Mr. Potter stated that we have discussed that before with the Board about changing it, but were told to wait until we got our last 100,000 through if we are going to make changes. Mr. Lowe stated that as far as her payment, he can't say...Chairperson Casey inquired if that was a disconnect notice she had. Mrs. Johnson stated that she did not get a disconnect notice but she did get this thing that says balance forward and called immediately. If she had gotten a disconnect she wouldn't be standing here in front of them today. Commissioner Tackett inquired if her water was disconnected. Mrs. Johnson stated that her water was disconnected even though it says plainly on this bill that the balance forward \$27.54...and she asked Melissa if she could pull her call because she thought that they thought that she was just trying to get out of paying something. Chairman Casey stated that he knows better than that. Mrs. Johnson stated that she resents paying \$60.00 and she was told there is nothing they can do about it. Once you are disconnected to have to pay that. She was told they can waive the \$75 deposit but you have to pay the \$60.00. Mr. Stratton stated that something she may not understand is that our fees are all governed by what's called a tariff filed with the Public Service Commission. The purpose of filing that tariff publicly is so that everybody will be treated the same regardless of the situation. There are things that we can waive

and things that we can't waive and the disconnect fee, if he understands correctly, is something that we can't waive because that is on our tariff. The Board's hands are tied in the sense that we do not have the latitude to make that adjustment that she is requesting. Mrs. Johnson stated that this bill gives her until November 1st to pay \$48.16. This is not November 1st. Mr. Lowe stated that he can verify that we mailed a red notice which is a disconnect notice. He can't say that it didn't get lost in the mail, he doesn't know. Mrs. Johnson stated that she asked everybody that she knows up there and nobody got a disconnect notice. She knows that it has not been unheard of that batches of mail don't get there. She has had her teaching check not get there because it went to Meta or somewhere and had to come back. Commissioner Hurley stated that if she got a letter saying she had until November 1st then she should have until November 1st to pay it and that is all they are to it. They shouldn't have disconnected her water before November 1st. Mr. Lowe stated that we sent a disconnect notice on October 7th with a disconnect date of October 16th. After that, we sent next month's bill which is what she has. Mrs. Johnson stated that she paid it by phone on September 30th with the same card. Commissioner Blackburn inquired if the bill she didn't get credit for that actually didn't come out of her account she paid by phone. Mrs. Johnson confirmed that and it was dialed from her cell phone. Commissioner Blackburn stated that she should have a record of that. He is of the opinion that, this would be an extenuating circumstance, if she dialed it from her cell phone the cell phone carrier should have a record of that number being dialed. Mrs. Johnson stated that they should have. She hasn't been down there to ask them. Chairman Casey stated that what he has a problem with is that if it says November 1st, we are still in October and he thinks she should be afforded the opportunity... Mrs. Johnson stated that she has the \$50 to pay that \$48 bill today but she has to have \$60 extra dollars. Commissioner Blackburn clarified that the disconnect notice came separate from this bill. Mrs. Johnson stated that they said it came separate and there is no place on this bill that even mentions disconnect. Commissioner Blackburn stated that there were two things that happened there; one was that she called that telephone number to pay the bill, hung up with them and thought it was paid. And then the next bill you got shows a balance forward with a due date of November 1st. He stated that the cell phone bill would indicate the date that she called and it will have that number on it. Not that you should have to wait to do that. He thinks that we need to get this lady's water hooked back up. He directed her to bring her cell phone bill in here and we will waive the reconnect fees. Chairman Casey agreed with that and stated that we want to be fair and transparent and he thanked her for appearing before the Board and explaining it in very good detail. Mrs. Johnson stated that she has never asked for a cell phone bill down there like that. She doesn't know how they do that. Commissioner Hurley stated that if you just ask they'll give it to you. Mrs. Johnson stated that she doesn't know if they have a record of each individual call. Chairman Casey clarified that she called a lady here also. Mrs. Johnson stated that she has called here repeatedly. She called the day she got this bill and asked why she was getting a balance forward when it was paid and her call was listened to her call. Chairman Casey inquired if her water was off now. Mrs. Johnson stated that her water has been cut off for over a week. The Board agreed to turn her water back on until we can verify the attempted the payment to see if the fees can be waived. Mrs. Johnson stated that she just wanted to know how much more ink would it would have cost to put that on there. Chairman Casey stated that they should be about trying to help people and the explanation he has heard, he thinks her water needs to be turned on immediately. Mrs. Johnson stated that she resents having to pay \$60. Mr. Stratton stated that he would look and see if there is a way around that. He doesn't want to get the Board in trouble for waiving something that they can't waive. Mr. Sawyers stated that if she provides the documentation it shouldn't be a problem. Mr. Stratton stated that he will look and see. Chairman Casey stated that she can be working on that avenue. Commissioner Tackett inquired if she has Appalachian Wireless. She stated that she did. Commissioner Tackett stated for her to go down to the Appalachian office below Penny's and request a copy of your bill for the time frame that you called and it will show that on that paper. Bring that over here and then we can waive it. Mrs. Johnson stated that she is just saying that if it has happened to her, there is going to be somebody else out there too. Chairman Casey stated that for her to do what the Board has requested of her and it is his opinion to get her water back on immediately. Mrs. Johnson stated that she has waited. She has had that \$50 and could have sent it in any time but she waiting to come in and talk to the Board today because she wants them to realize that...she doesn't want to offend anybody, but everybody is sitting around making these decisions that doesn't cost you anything. Well that is saving you money when you say that these girls out here can't take those payments and she bets they have answered a heck of a lot of phone calls for disconnects; especially with things like this. Commissioner Blackburn stated that he doesn't think this kind of thing happens normally. The Board agreed. Commissioner Blackburn inquired from Mr. Lowe if he'd had more instances of this kind of thing happening. Mr. Lowe responded that he had not. Commissioner Blackburn stated that it could very well happen just like she said, he doesn't doubt

that, but as Mr. Stratton pointed out, we are under the purview of the PSC and we can't arbitrarily waive that but he thinks there may be, let Mr. Stratton research it, but there may be something we can do due to the circumstances. Commissioner Hurley stated that if she just brings in the bill that will prove it. Mrs. Johnson stated that they didn't take the money out of her account. She used the same card she used on September 8th. She stated that she had no reason not to believe that it was her water bill but you say these forms are printed up long before your disconnects, right? Mr. Lowe stated that the forms are ordered at the same time. Mrs. Johnson stated that it states on there that the District is not responsible for undelivered mail, then why couldn't you put it in there down below it that if your balance forward is not paid by a certain date you will get a disconnect. Mrs. Hatfield stated that there are calls that go out also before disconnection. Mrs. Johnson stated that she has heard people say they get calls but she doesn't have caller ID and she is in and out all the time with her kids and is gone from home 3 or 4 days at a time. Chairman Casey stated that he appreciated her coming before the Board and their legal counsel will be doing some research to see if there is any relief channel possible that we can take and he knows the Board is in agreement to make sure she gets water and in her condition she is going to need it and every Pike Countian needs water. Mr. Potter clarified that they were directing him to go ahead and order the reconnect. Chairman Casey stated that they needed a motion on the floor to make it legal. Commissioner Blackburn made a motion to reconnect her water and direct legal counsel to research the Board's ability to waive disconnection and reconnection fees. In the event that it is permissible, the fees can be waived contingent upon her bringing in a cell phone showing the call made to Next Bill Pay to pay the bill that she didn't get credit for. Commissioner Tackett seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-10-006

Mrs. Johnson stated that when they told her that Ancie Casey ran this Board she said "you knew me and you have known me for about 30 years." Chairman Casey stated that they have known each other a long time and that she is a great teacher and he appreciates that service that she rendered to our children. She thanked the Board and left the meeting.

APPROVAL OF MINUTES AGENDA ITEM III

Chairman Casey requested a motion to approve the minutes of the regular meeting held on September 30th, 2015 as presented. Commissioner Tackett made the motion to approve the minutes as presented. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-10-007

Chairman Casey requested a motion to approve the minutes of the special meeting held on October 16th, 2015 as presented. Commissioner Friend made the motion to approve the minutes as presented. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye

Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-10-008

FINANCIAL REPORT – MIKE SPEARS, CPA AGENDA ITEM IV

Mr. Spears gave the financial status report. Mr. Spears stated that for the month of September, cash in bank was \$510,304. Accounts receivable was \$1,026,303. Plant in place was \$139,686,757. Accounts payable at the end of the month was \$2,179,623. Equity position is \$78,589,607. Revenues for the month were \$705,971 and for the year is \$5,552,063. Utility Operating Expenses were \$952,101 and \$8,549,627 year to date. The loss for the month was \$277,829 and \$2,282,733 year to date. Included in the loss is depreciation of \$271,779 and as we have talked about in the past, our loss has exceeded our depreciation and we all know our cash flow is basically 0. Anytime those get close we see what we are seeing. Hopefully that will change but he did want to point that out. Depreciation year to date is \$2,446,014. Operating income for the month was negative in the amount of \$246,130. Cash flow increased to \$180,229 which had a lot to do with our grants. The current operating account balance is \$110,893 as of the end of September. We will be transferring the \$11,340 to the KIA reserve account and the \$9,902 to the RD reserve account. Current balances in those are \$773,899 and \$782,159. We also continue to transfer our sinking fund payments over to pay our debt service and those will be due next month and they will be on the agenda. KIA is due in November and RD is due in December. Other than that he doesn't have anything else to report at this time.

Chairman Casey requested a motion to approve the financial report as presented. Commissioner Tackett made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-10-009

District 6 Magistrate Bobby Varney was in attendance and inquired if he could ask a question. Chairman Casey thanked Magistrate Varney for being at the meeting. Magistrate Varney clarified that when he said that revenue was down for the month of September, is that pretty common. Mr. Spears stated that it is pretty common. We are getting toward the end of summer's actual water usage and we will start seeing a steady decline.

Mr. Spears stated that he would also need to have direction from the Board to go ahead and prepare a budget next month as well, which is due. We have to submit that to the Fiscal Court and they will approve it at their next meeting and then we send it on to Frankfort. It has to be submitted by the end of the year. Chairman Casey requested a motion to direct Mike Spears to prepare a budget for the District to be approved at the November meeting and forwarded on to the Pike County Fiscal Court, then on to Frankfort. Commissioner Blackburn made the motion. Commissioner Tackett seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-10-010

PAYMENT OF BILLS

AGENDA ITEM V

Mrs. Olson distributed handouts for the payment of the bills to the Board members. After several minutes of review, Chairman Casey requested a motion to approve the payment of the bills. Commissioner Friend made the motion to approve the bills as presented upon availability of funds. Commissioner Tackett seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-011

Mr. Potter stated that until November he likes to call it the "free" month on power because the peak demands are not kicking in from part of October down into November, but once we get back in to the winter months, peak demand kicks in for AEP. Mr. Taylor and he will contact AEP and look at those demand structures and will try to get all of the pump stations they can in off peak hours for reduction of power and ones that they have special situations with, they will talk to Bob Shurtleff and work out what is going on with the power consumption there. You get that peak surcharge in the winter and in the summer. There is a gap in March/April and in October/November that they don't have that peak demand service factor added in. So any time we are making changes, we revisit all 136 pump stations and see what we are going to do to get them set up. Then we get with AEP and actually tell them, "These are the stations we are going to designate as off peak runners." They will put a special code on their billing and watch us. If I get out of that zone, it will hit me a little harder. But if it happens due to a power outage or whatever..but still in the long run it does save you power. Chairman Casey stated that he was looking at the power bills on the list and it shows \$40,400+ and inquired if that was running around \$480,000 per year or around \$500,000 for electricity a year. Mr. Potter stated that this is just one cycle of bills. It runs about \$1M per year. Ms. Olson clarified for the Board that there are multiple payments to AEP on this list and that is just one of them. Mr. Potter stated that he has a power consumption break down and he has tracked it since 2009 with what we are doing and kilowatt hour usage. Even though with the addition of additional pump stations and power users versus kilowatt hours used, kilowatt hours has actually went out but through our measures and VFD control and watching off peak demand, the ratio of payment versus kilowatt hours is actually about 10% to 15% less with the trend we were going on. We do try to keep a tight eye on it. Chairman Casey stated that the auditor in his report last month made a recommendation regarding that and we may need to form a committee to go sit down with the power people and see if we can get a better rate. Mr. Potter stated that is kind of what he is doing with power consumption. He doesn't think they will give you a customized rate outside of their tariff but the Board can do that if they wish, but we are a large customer for them and have worked closely with them for years. He has that analysis is anyone wants to look at it and see where we are at with that. Ms. Olson stated that after speaking to Mrs. Hatfield about the power bills, they bill in cycles like we do, so that is only a portion of the monthly power bills. It is usually around \$80,000 average per month. Mrs. Hatfield stated that she gets in bills the last week of the month also like the water plant. So this is about half of what we actually receive for bills. The ones on the list are what we have received to date in October. Chairman Casey thanked her for the explanation.

CUSTOMER ADJUSTMENTS

AGENDA ITEM VI

Chairman Casey requested a motion to approve Customer Adjustments in the amount of seven thousand, eight hundred, sixty-nine dollars and sixty-nine cents (\$7,869.69) as presented. Mr. Potter stated that this

up a bit from the average. This is a transition period between summer and winter. He doesn't know how they much ascribe to it but they have a lot of leaks ourselves this time of year as the ground is shifting and thawing and the people, whatever the type of material they have, shrinks and expands, and usually it will strain and in a transitional period to winter, leaks occur. Customers get one adjustment per 12 month rolling period. The adjustment is calculated by the formula in the PSC tariff. Commissioner Blackburn inquired these are all leak adjustments. Mr. Potter stated that these are all on the customer side leak adjustments. Commissioner Blackburn stated that we have mentioned problems with the batteries in the meters and was inquiring if any were due to that. Mr. Potter stated that these people are customer leaks on their side that were verifiable with documentation brought in by the customer. If you look at it, you can see the gallons over there like 7-11 said they had a 44,000 gallon leak but there are 1440 minutes in a day and if you take that over a month that is a miniscule commode leak over a month. A flapper valve not sealing and dribbling and actually he has some demonstrations and things he can show them, like he has this pipe with different variant holes drilled in it and at certain pressures he can tell them what they leak a day. A quarter a gallon per minute for 1440 minutes is going to be about 1,000 gallons roughly per day and can put you up 30,000 gallons on the month. It doesn't take much and that is something he tells people. If you are concerned watch your meter. Check it once a month. All you have to do is to look in it and there is a leak indicator and if any of the Board members want to see that later he can show you, turn off everything in the house and go outside and watch that leak indicator. Go away for 30 minutes and if it moves, you have a leak. It is a positive displacement meter and it isn't going to move unless water goes through it. Commissioner Tackett made the motion to approve the customer adjustments as presented. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-012

CONSTRUCTION REPORT AGENDA ITEM VII

Update by Jamie Noe, Vaughn & Melton

1. Millard Curve Line Relocation –DOT Project

There is no change on this project since the last meeting. Ms. Noe stated that she has heard that the highway contractor has not started his portion yet either, so when they were told spring back last spring, she suspects it will be summer or maybe fall of next year before we move on it. Chairman Casey stated that they'll just put it off again and inquired how we get them started. We have been dealing with Millard Curve for over 2 years. Mr. Potter stated that it is a highway department relocation project and it is in their hands. Ms. Noe stated that the District is just a pass through for the project pretty much. Chairman Casey stated that he had a tragedy on that curve with a bus and that thing needs to be fixed. It has been two years or more that we have dealt with that. Mr. Potter stated that the Board agreed to let them pay for the relocation to do the work. He believes they have had easement issues but it is sort of in their hands. When they say go we'll go. Ms. Noe stated that at the meeting last spring they still had one house that they had an issue with and she doesn't know if that was resolved. Mr. Potter stated that going around the curve there is a double wide on the right and they had an issue with getting that gentleman out. They just got him out recently and the house is still there and not been removed and he thinks that is a transition tie in point. Chairman Casey stated that they need to get with all property owners and get all the necessary paperwork done and fulfill their obligations and get on with the project. Ms. Noe agreed.

2. Majestic Alternative Sewer Project

Ms. Noe stated that since the last meeting, she, Mr. Sawyers and representatives from the local health department and regional public health office met at the site they really want. They looked it over and said "yeah, maybe, but before we do anything you have to dig a grid". So every 50 to 100 feet we would have to dig a hole and let them check the soil. As they were leaving, they said "that is going to cost a lot so give me some more numbers". So that is what she has been looking at. Mr. Potter stated that we are talking about a 700 foot long hollow fill. Chairman Casey stated that they do test the soil that deep too. He has done that. Mr. Sawyers stated that one of the problems they have run into is that the site that the coal company wants us to utilize, we can't. This one is permitted. Ms. Noe stated that when we met with them down there we said that there are two sites but we really want this hollow fill, and they said that it was within a permitted boundary already so we couldn't have that, but we could have the site up on top of a ridge. She has since talked to them again and gotten some more information from them and that site up on top of a ridge, they have completely mined that out and it's completely down to rock so you can't put a sewer in rock. So she talked to them about that also and basically begged them to look at that fill site again and see if they will let us use that. They said they would go back and look and talk to their people and see if there is some way they can work with us on that fill site. Chairman Casey clarified that the money is in that account designated for the Majestic Sewer. Mr. Spears confirmed that as correct. Chairman Casey stated that that we need to utilize that because here it is three years later and he knows Magistrate Dotson has been here on behalf of his constituents at Majestic, and he doesn't care what hurdles we have to jump through with whatever agency, we just need to get this done. Mr. Sawyers stated that is what she is leading up to now. What he had her do is to look at economic feasibility for this project. Mr. Potter stated that over the last 4 or 5 years, he has met with everybody that has anything to do with this site. We have to get some sort of blessing or something like that from somebody at Division of Water or Public Service or Department of Health and nobody will give us a good direction to go with. You are right, we have been trying different options. Chairman Casey stated that we just need to make an extra effort because we have tangled with it for so long and he knows that the people up there needs it and the money has been designated for that project and the Magistrate over there wants it so let's see if putting in some extra effort can move it along. Mr. Sawyers stated that we have been looking at it in an economic perspective. Ms. Noe stated that according to the studies we did there are about 136 homes. 88 said yes and 22 said no and the rest were either undecided or vacant homes. You are going to have both gravity line and some force main as well. She has spoken to aquaflo, the treatment system that we have been looking at, and he gave her the number of \$6,000 to \$8,000 per home is about what that treatment process will cost. So she put that in there for construction cost and he also told her that each system requires a half an acre of land. Chairman Casey clarified that is for the alternative system. Ms. Noe confirmed that as correct. Mr. Potter stated that land is a major issue. Chairman Casey stated that is correct for up there because those homes are right together in many places. Ms. Noe stated that what they recommended was a way to kind of help you out during operation, is to put in smaller clustered units instead of one big one because that will get you out of having to have as many permitting and monitoring requirements as you go along. He gave her some O & M costs for electric for what they typically see. He told her it was usually about \$96,000 per year and advised her to budget in replacement of pumps every 6 years and average maintenance on those. You are going to need someone working on them about 2 hours per week and need someone to clean the nozzles monthly. She talked to Mr. Potter and Mr. Sawyers about that and they both said that it is another employee and a vehicle. Mr. Potter stated that if you project 2 hours per week, 20 units in a cluster, that is 40 hours and there is going to have to be a man there rotating with a vehicle, doing that job and monitoring those. Ms. Noe stated that one of the benefits too of the smaller ones is that we don't have a big piece of land to buy and put a big system so if we use the smaller ones we may get lucky and get enough small lots to get a small system on it. If you go down to the construction cost, which is the really ugly part, aquaplant system is right around \$1,000,000 and she used \$7,000 average number. She put a growth multiplier in there because she was required to but she can't imagine there would be much growth there, but what you could have is a lot of homes where you have an elderly couple or a widow and they move out and a family five moves in, so you have to account for some growth with that. The older the system gets also, the more leaks

you are going to have going into it so you have to account for that capacity also. Your gravity and force main, just the line alone, is about \$1,400,000 for just over 6 miles of line. We need at least two pump stations in your force main to get it up to the fill area where our drip irrigation is and those are roughly \$200,000 for the two. The price she doesn't have on there that they know will be a big number is power to the site. Bear Branch Hollow is where they are looking at and the fill area is all the way at the end of it and there is not power there. They might can come across the mountain at the top at Lynntrough but it is still going to be an expense where there is not power there. She put in a 15% contingency which is a little more than normal but there are still a lot of unknowns. Construction cost is \$3.1M and project cost which includes engineering, administrative and other fees is \$3.5M. Mr. Stratton inquired how much we have in the bank for this. Mr. Sawyers stated that it was a little over a million in there and the fiscal court took some of it out for a fire truck. Commissioner Blackburn clarified that 88 homes said they would take the sewer. Mr. Potter confirmed that. Commissioner Blackburn inquired when that was done. Chairman Casey stated that this has been a long project and was probably about a year and a half ago. Commissioner Blackburn said "should that not be resurveyed?" Chairman Casey stated that he thinks it ought to be. Mr. Sawyers stated that there are some things not factored in here like an additional employee, Division of Water monitoring and reporting, chemicals, additional electric as far as the additional lift stations, multiple recurring bills that are not factored in. Ms. Noe confirmed that as correct. Commissioner Tackett stated that this is called an alternative project. If it is an alternative, did we have one before and this is the alternative to that or is this an add on? Mr. Potter stated that this is monies given several years ago by the legislature and they wanted to see...Mountain kind of looked at it years ago...getting a force main and trying to get it back to our plant now is going to be way above this number, so they said "we'll give you some money to try to find and put in something beyond a conventional system since there is limited land space and rock. If you can find something that will work here we will give you the money to do it." And they put that "alternative" word in there to try to do it. Chairman Casey stated that when we first talked about this, this system was used primarily in Japan. Mr. Potter stated that we looked at those and met with them on that but the health department would not give us the variances for cut backs that we need to make that work. Then we went and talked to the Division of Water and they said that if we tried to use some sort of system that discharged each home we would have to have 88 permits to do sampling on and the cost of that wasn't feasible. So everywhere we have turned we have kind of hit a wall at this point. Mr. Potter stated that a drip system is an alternative type system where you are basically taking it to a large area and taking the water up there...Commissioner Hurley stated that his system wasn't that expensive and it was about 250 gallon per day system. It cost about \$60,000. Ms. Noe stated that this is approximately 137,000 gallons per day system. Mr. Potter stated that the way that Kentucky makes you put in multipliers, there are things done differently and it is inherently more costly to do sewer than water. Commissioner Hurley stated that his was through the TVA and was on the lake so you can imagine how particular they are. They won't let you have a package plant under any conditions. Ms. Noe stated that she had nothing else to add unless they had any questions. There were none. Chairman Casey stated that he appreciated her for giving a good estimation from Vaughn & Melton. Mr. Sawyers stated that she is saying there is only 88 that are willing to take the service, based on the current sewer rate you are only looking at \$31,257 a year in generation of revenue. That's not even counting hiring an employee or any of the other of the issues we have discussed. Chairman Casey stated that is the way any sewer we install will be. Commissioner Hurley stated that there ain't no way this system will use 137,000 gallon per day for sewer. Mr. Potter stated that you have to use Kentucky's Division of Water numbers. We all know what it takes and the engineers can tell you, it may take...we estimate that every customer uses about 150 gallons per day for water and the water is going to go through the sewer. If you have water and sewer it is about 150 gallons per day. That is what he sees historically at Mountain Water, but you can't use that number, you have to use 300 (you have to double it). Commissioner Hurley stated that even at 300 gallons that is not nearly 137,000 gallons per day.

1. Cabin Knoll/Scott Fork DOT Relocation Project -

Mr. Campoy stated that on the Cabin Knoll Project, Bush & Burchett are still pushing us out on the final installation of the bollards around the PRV and the grout along the bank where the pump station is at. They just keep moving their construction schedule and that job is part of the bridge construction and is what we are dealing with. It is kind of like Millard Curve. We are still looking at mid November doing that part of the work and that finishes up the contract for the waterline relocation. He had a conversation with the highway department over there and they are about to make off with about 4 pieces of property that we need to be able to move the water and sewer lines over there and that is the first movement he has seen out of them on several months on this. They are good with us separating out the construction and relocation out of the contract so that is a plus for us. Once they acquire this right of way, that will give us the opportunity to move forward and go ahead and advertise for bids and get a contractor for that. We are still waiting on them but at least they have moved forward with it.

2. KY 610 – Virgie Bridge DOT Relocation Project –

Mr. Campoy stated that he had a conversation with the highway department and they are about to finalize about 4 pieces of property that we need to be able to move the water and sewer lines over there and that is the first movement he has seen out of them in several months on this. They are good with us separating the construction and relocation out of the contract so that is a plus for us. Once they acquire these rights of way it will give us the opportunity to move forward and go ahead and advertise for bids and get a contractor for that. We are still waiting on them but at least they have moved forward with it.

3. Lower Big Creek Waterline Relocation –

Mr. Campoy stated that they have got plans that should be ready to go within the next couple of days and they have taken care of the easements down on the lower end of the job. We had two people down there they had to deal with and have that done and in the meantime, they had an issue come up at the confluence of Big Creek and Long Fork where the water line across the creek has gotten exposed there, too. They have worked with Mr. Potter and Mr. Sawyers on a plan for it to go in with this to replace that creek crossing with a directional bore and will require another highway bore right there close to where that trestle crosses the road and tie those back in together. They will have one more easement to deal with but have already talked to the guy and he is generally good with what we are doing and just wants to go out on site with them because he lives on Sookeys Creek. Mr. Sawyers inquired when he would have the cost for the project ready. Mr. Campoy stated that he hoped to have something by the end of this week. They were going to get someone else to take a look at the bore again and give them a number on it now that we have a better handle on how that is going to fit together. Mr. Sawyers stated that this is an additional area inside the area we are having issues with down there that we have added to the project because we have line exposed along the creek bed and are just adding it to this project and he is not sure yet how it is going to go along with the cost of what we borrowed from the bank to do this repair. Chairman Casey stated that it has to be fixed. Mr. Sawyers stated that just as soon as he gets the cost together they need to know as well as visiting the project area immediately. Mr. Campoy inquired if he could have permission to go ahead and when we get this together, to advertise it to bid, bid it, and accept the low bid so we can move forward on it since we have water lines laying on the ground and winter is coming. Chairman Casey requested a motion to that effect. Commissioner Blackburn made the motion. Commissioner Tackett seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-013

Commissioner Blackburn inquired if the funding this project is secured. Mr. Spears confirmed that as correct. He then inquired if they had any idea what the extra cost will be. Mr. Campoy stated that he is not sure as of yet. Chairman Casey stated that we want to hold that to as low as we can. Mr. Campoy stated that we have a 350 to 400 foot directional bore on 6" plus another road crossing and three tie ins on the additional work. There is just no way to pare it down given the work that needs to be done there but he is working toward getting that extra cost in and will get back Mr. Sawyers as soon as he has something definite.

Update by Stephen Caudill, Bell Engineering

1. Deskins Curve Line Relocation

Mr. Caudill stated that both the tank contract and line contract are ongoing. The tank contractor has the access road totally to grade and have also got the tank site to grade. Geotechnical engineers have come out and viewed the site and have signed off on it. They will be preparing the foundation shortly and the tank components themselves will be arriving this week and progress is being made there. The line contractor has completed both bores in the priority area where the slip is. They have also got about 80% if the line in that area and are proceeding along. As soon as they get that area tied in they will move down to the recycling center and proceed there.

2. Marshall's Branch DOT Relocation Project -

Mr. Caudill stated that there are no key changes with this project and the plans and specifications are complete. This is one project that we requested permission to take out of the highway department and they wouldn't allow it. They are saying the earliest they would possibly advertise this project is toward the end of the year with construction to begin sometime next spring or summer.

Update by Summit Engineering – Jody Hunt, P.E. – on the following projects:

1. Awarded Projects:

- Douglas WWTP Upgrade Project – Mr. Hunt stated they are currently working on the site layout and hydraulic modeling. They have gone back and forth with Ovivo getting additional drawings and getting additional drawings and making changes to the ones that they sent. The geotechnical investigation is complete as of last month. They expect to receive the report any day now. They have been coordinating with the structural engineer on this project also.
- Belfry/Pond Sewer Project Update – Mr. Hunt stated that in conjunction with the Douglas Project they are also doing the Belfry Project. Ovivo is also the contractor there. They have completed the revised site layout from what was done earlier and the hydraulic

modeling. They have begun coordinating with the structural engineer and geotech engineer as well. Hopefully, by next month they will have this site drilled as well.

- FEMA BPS Mitigation Project – Mr. Hunt stated that the contractor has been working on the main line and the installation of the roadway bores. This project is near the Deskins Curve project so the contract has been working in both areas at the same time. The contract has resubmitted the submittals for the pump stations. Mr. Potter, Mr. Sawyers and he has reviewed those earlier this week and he is in the process of submitting those electronically back to the contractor so he can get those ordered. Mr. Sawyers has one copy of each pump station that was submitted for approval if any of the Board members would like to review those. They are really nice pump stations and you can see what you are getting in the project.

Going hand in hand with this FEMA project, we have been notified by Kentucky Emergency Management that there may be additional funds available to open projects. We are working with them and these additional funds may be available in the amount of \$2M to \$2.5M. This is FEMA money and there is only a 13% match that goes with this. There are currently only six available open projects in this grant and you have one. Chairman Casey stated that we needed to pursue that. Mr. Hunt stated that he has a letter and Mr. Stratton has reviewed it. We don't know exactly how much of that money we are going to get at this time. It is his understanding that the county has one also and they will get some of that, but we are going to apply for some also. He has prepared a simple interim agreement letter basically saying that they are currently working on an HMGP project and there are additional funds and we don't know exactly how much it will be but gives Summit authorization to pursue those funds. There is a 30 day window and when they tell us to go, we have 30 days to get all of our documentation in to them so they can run a benefit cost analysis and determine if the project is viable. It also has to be a similar scope to what we are already working on. They have identified line relocations and two additional pump stations that could be replaced through this if money allows. Summit has stated that they will do it at the RD rate as they do typically. Mr. Sawyers stated that they are looking at Phelps 1 and Phelps 2 BPS's. They went ahead and acquired those easements as well. Mr. Potter stated that with regard line relocations, there are additional locations on Big Creek that have been an issue. They spoke to Amanda LeMaster about that. As soon as they heard about this getting ready to come down, he had Ms. Olson pull research and historical documentation on the flooding of pump stations, electrical outages that are related to hazard mitigation type issues and storms, floods, high winds and that sort of thing. We have the documentation pretty well together and have pulled the data on the last 5 years on line breaks showing the impact down on Big Creek. He thinks that they are ready as soon as they say "give me a package". It may be a rather...it's one of them that he recommends shooting for the moon and ask for a lot and see what happens and if they say they can't give you that one, we will trim it back and try to get the most we can get and go to the worst place first. We just got notified not too long ago that this was probably going to occur. Mr. Hunt stated that he will disclose also is that typically the District has the 85% of RD rate scale rule. He proposed to do it at the RD rate due to the additional hoops and stuff that they have go through with FEMA. They have to do all of this certification and write all of these different reports to make sure that this project qualifies. They have to do the benefit cost analysis, obtain easements, do necessary mapping and there are a bunch of hoops and that is the reason for that Rural Development rate. Chairman Casey requested a motion to allow this proceed so Summit can apply for this extra FEMA funding. Commissioner Tackett made the motion. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-014

- Various Short Line Extension Project – Magisterial District #2: - Mr. Hunt stated that construction is complete and they have performed a final walk out on the project. He has the release of liens and final change order and final pay request with him today to final out the project. They identified 6 areas where they wanted to try to get water service in Magisterial District #2 and were able to do the majority of them. There was one that they didn't think they had the funds to do that at first but were able to partially serve that with a new line, however there is a CSX right of way issue and they applied for the permit but there were not enough funds for that permit acquisition. CSX wanted \$40,000 for the right of way. They did a survey in that area and there were 7 or 8 customers out through there and 2 of them said they would take it. Chairman Casey stated that we need to get them people water. Mr. Hunt stated that we would love to get those people water also but...Mr. Sawyers stated that the only other thing we could do is offer to set two bases and let them come to it and they would have to speak to CSX on that. Mr. Hunt stated that there are some additional monies left over on that project. There is a deduct of roughly \$15,000 and additional contingency that was never touched if the District would like to elect to purchase additional equipment or small extension somewhere else. Mr. Sawyers inquired if the extra lane they were talking about, what was the length of it. Mr. Potter stated that he thinks it was 800 to 1,000 feet. Mr. Spears stated that on the draws, he will have a small draw on this project for administration that he thinks is \$1,000 but he won't know for sure until he sees Mr. Hunt's percentages. Mr. Hunt stated that this was a successful project and provided water to a lot of customers that didn't have it. We didn't have enough funds to serve everyone and in the event funds are available, they already have projects designed and can serve it.
- Pompey Water Line Extension – Mr. Hunt stated that this project is funded by ARC, a coal company and AML. The projects additional design that was required is complete and submitted to the Division of Water for approval. They are waiting on that to come back from DOW and are currently working with Elwood Howe with Rural Development on the ARC requirements for the funding. Once they jump through all of those hoops and provide right of way certificates and things of that nature, they will go to bid on this project.

PROJECT DRAWS:

Mr. Spears stated earlier in the meeting that he needed to add an additional \$1,000 draw to the District #2 Various Waterline Extension Project for Administration that he had not submitted prior to the meeting. Chairman Casey requested a motion to pay the draws as corrected contingent upon funding agency approval. Commissioner Friend made the motion. Commissioner Blackburn seconded the motion.

DESKINS BRANCH CURVE DOT RELOCATION PROJECT

Bell Engineering	DOT Funds	\$ 12,282.00
\$12,282.00	Engineering Services	

Ky Glass Lined Tank	DOT Funds	\$ 6,615.27
\$6,615.27	Contract Construction	
H2O Construction	DOT Funds	\$ 87,330.60
\$87,330.60	Contract Construction	

DISTRICT #2 VARIOUS WATERLINE EXTENSION PROJECT

Summit Engineering	Coal Severance Funds	\$ 1,712.69
\$1,712.69	Engineering Services	
US Rentals	Coal Severance Funds	\$ 52,695.08
\$52,695.08	Contract Construction	
Spears Management	Coal Severance Funds	\$ 1,000.00
\$1,000.00	Project Administration (Added During Meeting)	

FEMA/JOHNS CREEK BPS RELOCATION PROJECT

Summit Engineering	FEMA Funds	\$ 7,288.00
\$7,288.00	Engineering Services	
H2O Construction	FEMA Funds	\$ 24,962.40
\$24,962.40	Contract Construction	

DOUGLAS WWTP UPGRADES PROJECT

Summit Engineering	Coal Severance/Long Fork Funds	\$ 13,079.02
\$13,079.02	Engineering Services	
Summit Engineering	Coal Severance Funds	\$ 11,384.79
\$11,384.79	Engineering Services	

LOWER BIG CREEK RELOCATION PROJECT

EDC, Inc.	Line of Credit/US Bank	\$ 12,802.72
\$12,802.72	Engineering Services	

BELFRY POND CREEK SEWER PROJECT

Summit Engineering	Coal Severance Funds	\$ 10,480.00
\$10,480.00	Engineering Services	

Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-015

MANAGER / ADMINISTRATOR REPORT

1. **Water Loss Information** - Mr. Potter stated that they had their Water Loss Committee Meeting this morning before the Ops Meeting. They are looking through the PSC's order and identifying areas by master meter that they currently have that identify the most leaks that need repair. They talked about trying to go for some additional monies to get additional submeters in some of the systems that there are none. He has started pulling information on leaks that have been associated with each area, how many leaks we have by size, by line and try to identify the service lines in the areas that are older and seem to have most of the problems. That is one place we may look at doing a service line replacement program after we get some more submetering in additional areas. He will be working with Mr. Sawyers, David Taylor, Mike Spears and those Board members on the committee to try to go ahead and do a response and get a plan in to them. Mr. Stratton stated that in addition to that, pursuant the Board's instructions, he has prepared a motion to request an extension of time from the PSC and are moving forward with that.
2. **Lot Access**— Mr. Sawyers stated that they are still pending a decision from the Pike County Fiscal Court so they need to table this item for today.
3. **Vehicle Replacement** – Mr. Potter stated that we have two service trucks that he has tried to hold out until next spring to try to replace but the issues they are incurring...both of them have over 200,000 miles on them. One of them is on our Wastewater crew and the other is on the Marrowbone crew. He wants to go ahead and get authorization to replace those. They are getting to the point where the repair costs are excessive. He anticipates issues with one engine and the transmission in the other. These are older vehicles. Mr. Sawyers knows the couple he is talking about and has looked at them and he would like authorization to do this. They are both 2006 models, one is a diesel and one is a gas, and he wants to go back with gas for the simple fact that neither hauls heavy equipment. He wants to try to do trade ins on these current vehicles. Normally we don't. We usually do a surplus sale and historically we don't get much of anything for them when we sell them. He would like authorization to bid two service trucks to replace the ones that have become issues, vehicle 127 and vehicle 107, and we will make them viewable for bidders. Commissioner Blackburn inquired if they had already gotten quotes on them. Mr. Potter stated "no", that they have to be bid out. Commissioner Blackburn stated that he would suggest that they be given authorization to bid it out and then bring those back to the Board meeting for their review. The Board agreed. Chairman Casey requested a motion to authorize Mr. Sawyers and Mr. Potter to bid out the purchase of two replacement vehicles with trade ins and to bring the bids to the next Board meeting for the Board's review. Magistrate Bobby Varney stated that as a suggestion on some of the District's older equipment is that the county is having an auction and he would entertain a motion to let the District bring some of their stuff over there and anything you can get out of it, you get it. Mr. Potter stated that is the only two he has right now and he has to keep using them until the new ones are bought. Most of our old equipment like that we have already surplused out and any of our scrap we gather together and see who can give us the best price for it but we appreciate it. Commissioner Blackburn made the motion to authorize the advertisement for bid for replacement vehicles. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-016

Mr. Potter stated that if the Board wants to change the wording and add additional information to the bill...like he said that carry over does not go...if you're sent out a bill and you do not pay it, we have that time frame in between there. You are going to get another bill because of delinquent status will fall in there and the next one you get is assuming you paid that one. So the Board needs to decide how you want the bills to appear. The reason we never done this is because they print 100,000 at a time and it may actually change your billing card and you may have to go into an additional program and change the rate structure. We looked at this a while back and it was costly to do. Mr. Stratton stated if we changed the language at the bottom to say "if there is a balance forward, you are subject to having your water cut off" then that will allow for either situation. Chairman Casey stated that he thinks that will help a lot because like Mrs. Johnson here today had a legitimate concern. Mr. Potter stated that they will look at it again. Sometimes adding more lines, the program knocks it off the page and you lose something. There is only so much information that can be included. Chairman Casey stated that the language should be drafted so that it would protect and help any paying customer to understand when it is due. Mr. Potter stated that if the Board wants to do that, let Mr. Sawyers review whatever we come up with and go ahead and make the purchase. He needs to check on what the stock is today. Commissioner Blackburn inquired if we generate all of the invoices here. Mr. Lowe stated that we use a printing company in Charleston, WV. Mr. Potter stated that it saves money and that is what we went to. Mr. Lowe stated that when our stock gets down, they go ahead and print 100,000 more but he will call and see where our stock stands at this point. Mr. Lowe stated that the way this works is, and he will use this customer that came in as an example, the original bill went out on September 16th and was due October 1st. We still did not have any record of payment on that account as of October 7th and mailed a disconnection notice with a disconnect date of October 16th. Commissioner Blackburn stated that what he took from what she told us was that two anomalies happened; one was that her payment didn't process properly and the other was that she didn't get the disconnect notice. Mr. Potter stated that delinquent phone calls go out in between there also. Mr. Lowe stated that actually two separate phone calls went out on this account. Commissioner Blackburn inquired if we know if either of them was actually answered. Mr. Lowe stated that we do not. Commissioner Blackburn stated that we just need to look at being able to add the language that Mr. Stratton mentioned to the bottom of the original invoice which puts them on notice. The Board agreed to have Mr. Lowe to check the options of adding that language for past due balances and report back to the Board at the next meeting.

Mr. Sawyers stated that with regard to tank maintenance, we had a contract with Southern Corrosion and added a tank site maintenance at Town Mountain in good faith. They have begun doing to the exterior of the Town Mountain tank.

Mr. Potter stated that the rest of the Manager's report is listed on their summary. We have done 56 paid taps this year. It has slowed down but is starting to pick up here a little bit. 2,900 payments were made in the office, 9,000 were processed through the mail which the girls handle, and 700 by bank bill pay option and 4,000 that were made by credit card and/or check over the internet or phone, so we processed 16,577 payments last month.

Commissioner Blackburn stated that we receive a repair and maintenance summary by packet via email before the meeting and one thing he would like to see is the maintenance and supplies tied back to each vehicle that is serviced. If we are buying 10 sets of brake pads, it would be additionally reported or it may already be something that is being generated, he doesn't know. Mr. Potter stated that he believes that is done each month. Mrs. Olson stated that what she has is that we take the purchase orders for the month and generate a report every month. It shows the PO number, the date of the report, the vehicle number, the amount spent and what the purchase was for and she can provide that each month to the Board. Commissioner Blackburn stated that it helps them understand ongoing history of the vehicles. Mr. Potter stated that he sees it internally and these vehicles have reached the break point of repair versus new and he

can share that on each one. Ms. Olson can add that to the packet. Mr. Potter stated that an issue we are hitting with these 2010 Colorado's is that the manifold splits. That may have been what you were looking at there. He has two more that have done that in the last month. It is like \$390 for the manifold but that is an issue with the Colorado's. Commissioner Hurley inquired if we bid the maintenance on the vehicles. Mr. Potter stated that we provide 90% of it in house. If we do have to have something done outside of the garage, we call and get quotes for the work before we take it. Commissioner Hurley inquired if we do it in house we just charge for parts and no labor. Mr. Potter stated that we do it just like it really costs. We use our guys and that labor number and everything. Commissioner Hurley stated that when he says "we", who is "we". Mr. Potter stated "Utility Management Group". We put the cost in there to show how much it would cost. We don't charge you additional for it but it shows just as if you had the work done somewhere. Commissioner Hurley stated that what he is saying is that if you do the work, you put labor on it and we don't have any outside bid on it or anything. Commissioner Blackburn stated that UMG is just tracking labor. The actual employee cost has already been incurred in the contract price. Commissioner Hurley confirmed that actually labor is not paid on and above. Commissioner Blackburn and Mr. Potter confirmed that as correct. Commissioner Blackburn stated that it is a component of maintenance that they are breaking out and that is good. Mr. Spears stated that they might be able to run them a report off of accounts payable. A lot of those would be included in there. Mr. Potter stated that Ms. Olson already has it generated each month. Ms. Olson stated that it not cumulative, it is month by month but if she needs to search it, like if you want to see anything in 2015 on a particular vehicle, all she has to do is search it by the number and it will pull it up for her in one particular month. Commissioner Blackburn stated that is fine.

Chairman Casey requested a motion to approve the Manager/Administrator Report as presented. Commissioner Blackburn made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-017

NEW BUSINESS

1. **Big Creek Line Replacement:** Mr. Sawyers stated that this item was already discussed during the meeting.

Magistrate Varney stated that he would like to say something. He would like to thank this Board by the way you handled the lady's complaint and stuff. You are showing me that you are looking out for the people and he is all for that. He would like to thank Grondall Potter for coming down on the clean up that they had on the Tug River. He got right out in the middle of the river and picked up tires and stuff. They picked up 200 tires near the flood wall in South Williamson and he wants to thank him for coming down and doing that. He inquired from Mr. Sawyers if the water going to the Stone Lodge, if there was any idea on when they might be able to do that. Mr. Potter stated that he is trying to get them scheduled back in. He hasn't heard back from BOCA. BOCA would have to do it and he will try to run Kirby Bowling down again. Magistrate Varney stated that one of them people up there is calling him once a week. Mr. Potter stated that he will try to get in touch with him again. He is on another job right now but will try to get him something in the next few days. Magistrate Varney stated that he appreciates that and the other item is the hydrant that we were going to put up in Walters Branch of Meathouse. He will send them a note on it. Mr.

Sawyers stated that he will check on that and let him know. Magistrate Varney stated that he thinks we had a bad leak at that hydrant and we took it out and it probably need to put it back, or someone may have backed over it or something. Mr. Sawyers stated to just shoot him email and he will get on that one. Magistrate Varney thanked the Board. Chairman Casey thanked him for attending the meeting and Magistrate Varney left the meeting.

Mr. Stratton stated that we have had a partial compliance with the letter we sent out regarding the disconnection of sewer service for delinquent customers in South Williamson. We have had 11 that failed to respond and have cut offs going out next week in that area and would like authorization to go ahead and cut off those sewer customers who have not responded to our letters. Mr. Potter stated that as a side note, it may be costly with regards to blacktop repair, repaving and gravel fees. Mr. Stratton stated that if Mr. Lowe will get those to him he will send a letter saying you have failed to pay and we are going to be cutting it off and give them that notice in case they want to come back again and take care of it. We just need to authorize the cut off for failure to respond to our letters. Chairman Casey requested a motion to that effect. Commissioner Blackburn made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-018

Mr. Stratton stated that this would be a notice and cut off for not responding.

2. Legal Issues

- Executive Session to discuss litigation and potential litigation

Chairman Casey requested a motion to convene into Executive Session. Commissioner Hurley made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-019

Chairman Casey requested a motion to reconvene from Executive Session. Commissioner Blackburn made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-020

Mr. Stratton stated that reporting to the Board on the update on our motion to ask for reconsideration for various items in the PSC order and also based on a recommendation in a seminar he attended yesterday with Kentucky Rural Water is that in the event that the PSC would seek to bring any charges over the assumption of debt issue for the \$500,000 forgivable loan with UMG, that the Board needs to pass a resolution authorizing the Board to pay for any legal fees incurred by individual Commissioners and would propose a resolution authorizing that any action brought against the Commissioners for any reason that the Board would reimburse their legal expenses. If something like that were to happen, then we would have proper representation. Chairman Casey requested a motion to that effect. Commissioner Blackburn made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-021

COMMISSIONER COMMENTS

Chairman Casey inquired if there were any Commissioner comments. There were none.

ADJOURN MEETING

Chairman Casey requested a motion to adjourn the meeting. Commissioner Hurley made the motion. Commissioner Tackett seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-10-022

MOUNTAIN WATER DISTRICT BOARD OF COMMISSIONERS REGULAR MEETING

November 25th, 2015
10:00 AM

ATTENDEES

Bill Deskins, Pike County Judge Executive
Bobby Varney, Magistrate, District 6
Julia Roberts, Appalachian News Express
Jamie Noe, Vaughn & Melton
Jody Hunt, Summit Engineering, Inc.
Stephen Caudill, Bell Engineering
Tim Campoy, EDC, Inc.
Dan Stratton, Stratton Law Firm
Mike Spears, Spears Management
Roy Sawyers, Mountain Water District Administrator
Grondall Potter, Manager, UMG
Tammy Olson, Office/Compliance Manager, UMG
Kevin Lowe, Office/Finance Manager, UMG
Carrie Hatfield, Financial Administrator, MWD

CALL TO ORDER AGENDA ITEM I

The Mountain Water District Board of Commissioners Regular Meeting was held on Wednesday, November 25th, 2015 at 10:00 a.m.

Commissioners present for the meeting were as follows:

Commissioner Ancie Casey
Commissioner Kelsey Friend, III
Commissioner Mike Blackburn

Commissioners Hurley and Tackett were absent from this meeting.

VISITORS AGENDA ITEM II

Chairman Casey inquired if there were any visitors who wished to speak. The Chair recognized Pike County Judge Executive Bill Deskins and Bobby Varney, Magistrate for District 6. Neither wished to speak at that time. Chairman Casey stated that he appreciated them for being at the meeting and all of the help that the Judge has been able to do for Mountain Water District. He has always been there when they needed it. He inquired if Magistrate Varney would like to make a comment. Magistrate Varney stated that he just wanted to wish everyone a happy Thanksgiving. They have had a couple of projects going on his District that were wrapping up or getting ready to wrap and the District has done a great job with that. Judge Deskins stated that he just came to listen and talk a little. Chairman Casey stated that the Board appreciated him being there. Chairman Casey inquired if there any further visitors that wished to speak. There were none.

APPROVAL OF MINUTES AGENDA ITEM III

Chairman Casey requested a motion to approve the minutes of the regular meeting held on October 28th, 2015 as presented. Commissioner Blackburn made the motion to approve the minutes as presented. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-11-001

FINANCIAL REPORT – MIKE SPEARS, CPA AGENDA ITEM IV

Mr. Spears gave the financial status report. Mr. Spears stated that for the month of October, cash in bank was \$281,255. Accounts receivable was \$996,385. Plant in place was \$139,983,767. Accounts payable at the end of the month was \$2,181,015. Equity position is \$78,443,239. Revenues for the month were \$697,000 and for the year is \$7,249,638. Utility Operating Expenses were \$932,355 and \$9,481,982 year to date. The loss for the month was \$266,508 and \$2,549,313 year to date. Included in the loss is depreciation of \$271,779. Depreciation year to date is \$2,717,794. Operating income for the month was negative in the amount of \$234,779. Cash flow decreased to \$229,049 which is reflective of construction projects where the money comes in and goes out. Last month we were positive \$184,000 due to that. The current operating account balance is \$65,526 as of the end of October. We will be transferring the \$11,340 to the KIA reserve account and the \$9,902 to the RD reserve account. Current balances in those are \$783,808 and \$793,499. We also continue to transfer our sinking fund payments over to pay our debt service and we have bond payments due and have those today for approval for payment. We will need an approval on the financials and an approval for the payment of the bond payments and then he has the budget to present

Chairman Casey requested a motion to approve the financial report as presented. Commissioner Friend made the motion. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-11-002

Chairman Casey requested a motion to approve the payment of the bond payments due this month as presented. Commissioner Blackburn made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-11-003

Mr. Spears stated that he has prepared the 2016 annual budget and has presented a copy to each Board member. This needs to be approved. He asked Magistrate Varney to take it to the fiscal court to put it on their agenda for the next meeting. This budget is for submission to the Department for Local Government (DLG). Basically the expenses have pretty much stayed the same. He did estimate in for the rate increase and we should have a full year of that next year and as per discussions, any assets were converted to capital improvements and infrastructure replacements. The first page is a summary and the rest is detail

behind it. Operation and maintenance expenses are showing down a little bit and depreciation expenses are up slightly with direction from the PSC on that. Revenues are about \$2.7M more than it was in actual budget for 2014. There is one section back on the water statistics on page 7 which are the actual numbers for 2014, what we budgeted last year for 2015 and the estimate for 2016. He didn't significantly change the water loss percentage because he didn't think we could do that in a year and then with the time limits, he did significantly change because of that. Magistrate Varney inquired that with the water loss, is it pretty well standard with other systems and other districts. Commissioner Blackburn stated that it is less than other systems. Mr. Potter stated that he will give Magistrate Varney the sheet he has prepared with the Board's approval. It shows some of our surrounding systems and some out in other parts of the state, and where we fall. You'll have some that are 10%, 15% or 20% and then there are some that are as high as 45% and 47%. We are sort of in the middle of that. Mr. Stratton stated that we are under an order from the PSC to reduce our water loss. Magistrate Varney inquired if Mr. Stratton would clarify that. Commissioner Blackburn stated that we have to get it, long term, within compliance which is 15% or below and we have target dates to reach 5%, 10% and ultimately 15%. We formed a committee prior to getting this order from the PSC because it was there and had been there and he didn't know as a new Board member how much attention it had gotten in the past, so we formed a committee to address it and within two months now we got the order from the PSC mandating that we address it so we are a little bit ahead of the curve and feel pretty good about where we are at in identifying these leak areas. He believes that Mr. Sawyers or Mr. Potter has aptly identified...this water loss is not one or two areas where water is gushing everywhere; he thinks they called it "death by a 1,000 cuts". You've got all of these service lines that have small incremental leaks that after you look at them in total and put them all together it is pretty substantial. Mr. Potter stated that what you really need to do when you look at the spreadsheet that he has worked up is to look at the miles of line and how much infrastructure each system compared to us has. We exceed anybody by a magnitude. He is not absolving us but it is just like when people say "how come they spend so much on road down there in Pike County?" Well it is not flat and it is not straight like down around Lexington and Louisville. We have geology and geography that we have to deal with and pressure zones that we run are a lot higher than what they run in those areas. This gives you a sampling of what the numbers look like out in the state and the numbers are available on the PSC's website from the Annual Reports of each location. We used the 2013 data when we did this, but the 2014 reports just came out and we used those numbers for the Rattlesnake Ridge information. He will go back through that later on but as you can see cities do not have to report and the only thing that would be included in the PSC's annual reports are associations and districts. Municipalities inherently, there are some neighboring ones and he won't mention any names, but they should take 80,000 to 90,000 per day to take care of them but they are taking 180,000 per day so they have 100% water loss, but are in the same area we are. Over the years there has been improper installation of lines, the geography, from the contractors. Various things have contributed to it and we document each one to show what issues may be. If anyone has any questions on that they are more than welcome to talk to him about it after the meeting. Chairman Casey requested a motion to approve the budget as presented to be submitted to the PCFC for approval and then on to DLG. Commissioner Blackburn made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-11-004

PAYMENT OF BILLS

AGENDA ITEM V

Mrs. Olson distributed handouts for the payment of the bills to the Board members. After several minutes of review, Chairman Casey requested a motion to approve the payment of the bills. Commissioner Blackburn made the motion to approve the bills as presented upon availability of funds. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-11-005

CUSTOMER ADJUSTMENTS AGENDA ITEM VI

Mr. Lowe stated that he needed to give the Board a "heads up" for a customer for next month. We have a commercial customer in the South Williamson area that we read their meter last week and sent their bill out today. The use in the last month is just short of 700,000 gallons of water which is approximately a \$12,000 bill. That is about 10 times what they normally use. Chairman Casey stated that they must have a massive leak. Mr. Lowe stated that our billing department is supposed to contact them this morning and make them aware of it. Chairman Casey stated that it is good to see our customer adjustment total has feel back to around normal. Mr. Potter stated that it usually hovers around \$3,000 to \$5,000. Chairman Casey requested a motion to approve Customer Adjustments in the amount of four thousand, one hundred, and sixty-one dollars and ninety-nine cents (\$4,161.99) as presented. Commissioner Friend made the motion to approve the customer adjustments as presented. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-11-006

CONSTRUCTION REPORT AGENDA ITEM VII

Update by Jamie Noe, Vaughn & Melton

1. Millard Curve Line Relocation –DOT Project

Ms. Noe stated that there is not really anything new to report on this project. It has still not started. She believes it will be next summer before construction begins. Chairman Casey stated that we just need to keep our fingers crossed. He has had a bunch of children hurt there and a driver nearly killed on that curve and you just can't make any speed on it. It needs fixed as soon as possible.

2. Majestic Alternative Sewer Project

Ms. Noe stated that she doesn't have a whole lot to report since the last meeting. She has tried to look at other alternatives that may work there and are cheaper but hasn't come up with anything yet but will keep looking. Chairman Casey inquired if we needed to do further surveying in that area. Mr. Sawyers stated that he wants to discuss that in more detail with him at a later time.

1. Cabin Knoll/Scott Fork DOT Relocation Project -

Mr. Campoy stated that the contractor finally finished putting up the bollards around the PRV and grouting the rip rap around the base of the creek against the booster pump station. This job is complete and he heard this morning that the road is back open. Magistrate Varney inquired if they got the guard rail up on the bridge. Commissioner Blackburn stated that they must have gotten it done yesterday afternoon. Mr. Potter stated that they did and they drilled through our electrical conduit and shorted out the station and cost the District about \$1,200 in repairs. They cut all of the electrical in two. We had to put a new disconnect in, replace the telemetry they tore out...even though the highway department watch us lay the new line up there and knew where it was. Mr. Potter stated that he will bill them and see where it goes. We were out about 6 hours. It didn't really cause a water issue but we had to call some people out and do some scrambling to get some things back on line. Mr. Campoy stated that as far as the contractor is concerned he has the final documents in to Mrs. Olson today on that project.

2. KY 610 – Virgie Bridge DOT Relocation Project –

Mr. Campoy stated that the highway department has agreed to break out the contract on the water line from the bridge contract in an effort to move it along quicker. They are still working toward easements so there is no real progress at all on that one and we are still waiting on them to complete the easements so we can do this project.

3. Lower Big Creek Waterline Relocation –

Mr. Campoy stated that last month the Board instructed him to bid the project and award to the low bidder. That has been done and US Rentals and Construction was the low bid at \$196,780 which was well within the estimate. Now we have need of the Chairman to sign the contracts and the contractor is ready to start work probably early next week. Chairman Casey clarified that there are two different places down there that we have to work on. Mr. Campoy stated that is correct. The original planning was lower Big Creek and about 3,200 feet of water line to be reinstalled. Once we got into that, another place showed itself at the mouth of Long Fork where the line is exposed in the creek so they added that job back into the contract. The invoice for engineering will change and he has those documents for signature today. Chairman Casey stated that it has to be corrected. Magistrate Varney inquired what they are projecting to. Mr. Potter and Mr. Sawyers confirmed that they are planning to move the line. Mr. Potter stated that the line runs through the bottom and on the creek side. The contractor was given the dispensation at the time not to install it in the ditch. He wasn't here then and we have historically had issues with the line anytime it floods as it meanders down through there. We are going to take it back across to the ditch and tie several customers back in. There are several sections he would like to do where they have had issues and we are looking at a FEMA project for mitigation funding. We are trying to get some other sectors fixed as well that we have had trouble with but right now, with these in the project we have some jumpers laying on top of the ground where we deaded the line and we run 1" services to tie people back together in an emergency. Cold weather is hitting and he was afraid we would have some freezing, so we have some bleeders going on to keep that water going to there is a little loss but he has to keep it from freezing until the contractors get everybody reestablished. That was a concern and he was hoping we would get this done before it gets real cold. Magistrate Varney inquired if we would be able to do this job this winter. Mr. Potter confirmed that as correct. Commissioner Blackburn asked Mr. Campoy when he expects them to wrap it up. Mr. Campoy stated that he believes it will take them at least a month to six weeks. Mr. Potter stated that UMG will make sure to keep the water on. Mr. Campoy stated that there are a lot of crossings to deal with, plus with this short of line there is an inordinate number of road bores to tie everybody back together. There are 14 customers that have to be retied and then you have the directional bore at the mouth of Long Fork that has to be dealt with. It's not just the line to be laid but also a lot of tedious other work. He suspects there will be some rock also so they will have to do some hammering. Mr. Potter stated that we will start at Francis Subdivision and take it

from the creek side to the ditch side of the road and take it almost to the Martin County bridge behind the last set of houses there and tie those 14 people back on to the new line. Mr. Sawyers stated that in addition to this project we had that second section. In the beginning we asked for \$225,000 from the bank in regards to the loan to do the project, and since adding that section we need to pass a resolution to request an additional \$50,000 to complete the project in our loan with US Bank. Chairman Casey requested a motion to approve the request of an additional \$50,000 for the loan from US Bank to complete the Lower Big Creek Line Relocation Project. Commissioner Blackburn made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-11-007

Update by Stephen Caudill, Bell Engineering

1. Deskins Curve Line Relocation

Mr. Caudill stated that the tank contractor has been moving along pretty well. The access road and tank site are at grade. The ring wall and floor of the tank have been poured. The tank components are on site and they will start erecting those next week. Mr. Potter stated that the jump around sector we had through the woods, H2O has laid that around through there. Mr. Caudill clarified that what Mr. Potter is talking about is that the line contractor has been working in the priority area and the reason it was a priority was because it was an area where there was a slip and the line was exposed. Chairman Casey stated that they had to do a road bore right on the curve. Mr. Caudill confirmed that as correct, to tie that in and the highway department had to do some directional drilling as well. The contractor has that line entirely laid and in service and as Mr. Potter stated that the area that had the jump around where the water line was exposed is completed and in service and he will be moving on down from there.

2. Marshall's Branch DOT Relocation Project -

Mr. Caudill stated that there are no key changes with this project and the plans and specifications have been complete for some time. They are waiting on the highway department to go ahead and move on it. The earliest we will see any construction would be spring or summer of next year.

Update by Summit Engineering – Jody Hunt, P.E. – on the following projects:

1. Awarded Projects:

- Douglas WWTP Upgrade Project – Mr. Hunt stated that he will update Douglas and Belfry together since they are being worked on together. Ovivo has given them the final plans and specifications for the equipment. They have incorporated those into the drawings and working-on final notes and final contract documents for that. They hope to

have the plans and specifications to the Division of Water for review early to mid December. The structural engineer is also working feverishly on the structural calculations for the basins on that. They expect to receive those fairly soon. They are still working with BSADD on the funding. Mr. Sawyers may have an update on the funding. Mr. Sawyers stated that he hasn't seen anything come down on that yet but he will mention that Representative Harris was able to get us ARC funding for the Belfry Pond Project for \$500,000. Mr. Hunt stated that BSADD is still working on the Rural Development funding. Mr. Sawyers inquired where we stand on the schedule with the Douglas Project. Mr. Hunt stated that we are fine with the schedule. They have to coordinate with the Division of Water on that and will be giving them a call when they return from the holiday and giving them an update on where we are with that schedule.

- Belfry/Pond Sewer Project Update – Mr. Hunt covered this update under the Douglas WWTP Upgrades Project
- FEMA BPS Mitigation Project – Mr. Hunt stated that the contractor has been working on installation of the highway bores on this project and the main line that needs to be relocated. They anticipate the contractor to be piped out within the next couple of weeks and then he will be waiting delivery of the pump stations. This project, as Mr. Potter alluded to earlier, we have been notified by FEMA that there are some additional monies out there and we are trying to utilize those as much as we possibly can. He and Mr. Sawyers met yesterday and had a great discussion on the project. There are two additional pump stations that have been identified by UMG and Mr. Sawyers that they want to do. They are Phelps #1 and Phelps #2 which are the next two in line. They will qualify according to Amanda LeMaster with HMGP and these pump stations are eligible and are similar to what we have done in the past, we just have to make sure that FEMA approves all of the paperwork and that they meet all of their requirements. It is still in limbo but we are trying to get that. That is roughly in excess of another \$1,000,000 we are going to get for the District to replace aging underground pump stations that really need to be replaced. Chairman Casey stated that is good news because money is so tight now everywhere and if we can go and get \$1,000,000 somewhere be sure and stay on it. Mr. Hunt stated that there are two that are in the contract that H2O Construction is doing now. With the additional money there is a possibility of two more and these pump stations have all of the bells and whistles. They are the Cadillacs of pump stations. Commissioner Blackburn stated that the target is the two more that have already been identified. Mr. Potter stated that the criteria you have to meet for the FEMA Hazardous Mitigation Program, as soon as we got wind that this was coming down, Mrs. Olson went ahead and correlated any issues through our work order system for the last 3-5 years. We got the criteria ready to send it to them; she glanced at it and said "you are good". Now there are hoops you have to jump through but it met the initial criteria. Actually right after the meeting we have to submit a preliminary by December 1st. They just sent an email last Friday to go ahead and get some of the other things done. He and Mr. Hunt are actually going out today and looking at the sites, getting pictures from panoramic view and they have a lot of Federal hoops. They are going to go out and get some of the data we need to get into them and he is meeting with Mr. Hunt on Monday to work through the project profiles on them to make sure we are all good to go, let Mr. Sawyers review it, and go from there. Mr. Hunt stated that the environmental portion of the data has to be submitted first. Also with this project, it has come to his attention that there is an emergency area in the Big Creek area that is also repeatedly hit by floods and he has spoken to her about that area also. We cannot guarantee that it will be eligible or that we will be able to do what we want to do, but if there is a chance that we can get that money for the District, we will. Mr. Potter stated that he has already gotten Ms. Olson to gather 5 years of data on that and he has each sector. Commissioner Blackburn inquired how many feet of line are impacted by that. Mr. Potter stated that basically it is most of Big Creek but he is going to pick the areas where we have had repeated issues with and it

will probably be in the neighborhood of 2,000 foot. He has a packet of information showing repeated areas affected by floods over the years and we just have to prioritize it. She told us we could probably get about \$500,000 so he will have to fit the worse area into the money slot. Mr. Hunt stated that they have to do a benefit cost analysis and prove to them how many customers will benefit from the project and the cost of repairing it this way, outweighs not doing it. The reason we think that Phelps #1 and Phelps #2 Booster Pump Stations will qualify so greatly is that you have to do a benefit/cost ratio and it has to equal at least a 1. When we did the first pump station project it qualified as a 7 so we are in good shape there. Magistrate Varney inquired if we are doing anything preventative to these pump stations. Mr. Hunt confirmed that as the cause for the mitigation project. These pump stations are underground and old and getting continually inundated with water and flooded. We are moving them off the creek bank outside of the flood area, running all new ductile iron pipe, installing new above ground pump stations with generators in case of power outages. Mr. Potter stated that when we did a project years ago, you would make a big project and as the bids come in you would have to have things cut out like a generator or telemetry and you would finally get the basic. These stations are what the District needs. You get the back-up emergency generation with auto transfer switch, the telemetry remote control and we are going to get what we need to efficiently run these stations and we are getting these out of trouble areas and putting them where there shouldn't be an issue.

- Various Short Line Extension Project – Magisterial District #2: - Mr. Hunt stated that this project was completed last month.
- Pompey Water Line Extension – Mr. Hunt stated that this project is in to the Division of Water for approval. After we get their documentation for approval back we can jump through all of the hoops with Rural Development who is administering the ARC money. There is a check list we have to go down and submit all of this paperwork to them.

PROJECT DRAWS:

Mr. Campoy, EDC, Inc., stated that due to the change in the scope of the Lower Big Creek Project and additional area, his draw has been changed to \$11,665.98 for Engineering Services. Chairman Casey requested a motion to pay the draws as corrected contingent upon funding agency approval. Commissioner Friend made the motion. Commissioner Blackburn seconded the motion.

DESKINS BRANCH CURVE DOT RELOCATION PROJECT

Bell Engineering	DOT Funds	\$ 8,112.00
\$8,112.00	Engineering Services	
Ky Glass Lined Tank	DOT Funds	\$ 182,862.80
\$182,862.80	Contract Construction	
H2O Construction	DOT Funds	\$ 91,302.00
\$91,302.00	Contract Construction	

FEMA MITIGATION PROJECT

Summit Engineering	FEMA Funds	\$ 7,288.00
\$7,288.00	Engineering Services	

H2O Construction	FEMA Funds	\$ 17,325.00
\$17,325.00	Contract Construction	

DOUGLAS WWTP UPGRADES PROJECT

Summit Engineering	Coal Severance/Long Fork Funds	\$ 4,463.81
\$4,463.81	Engineering Services	

LOWER BIG CREEK RELOCATION PROJECT

Ross Anderson	Line of Credit/US Bank	\$ 989.00
\$989.00	Easement Work	
EDC, Inc.	Line of Credit/US Bank	\$ 3,657.92 (\$11,665.98)
\$3,657.92 (\$11,665.98)	Engineering Services	

BELFRY POND CREEK SEWER PROJECT

Summit Engineering	Coal Severance Funds	\$ 15,720.00
\$15,720.00	Engineering Services	

CABIN KNOLL DOT RELOCATION PROJECT

EDC, Inc.	KDOT Funds	\$ 2,394.00
\$2,394.00	Engineering Services	

Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-11-008

MANAGER / ADMINISTRATOR REPORT

1. **Vehicle Replacement** – Mr. Sawyers stated that at the last board meeting the Board approved him to bid out the purchase of two trucks and wanted to review the bid tabulation and history of the trucks. Ms. Olson distributed the bid tabulation sheet for the truck bids. Chairman Casey clarified that this price is for both of them. Mr. Sawyers stated that the amount is for both trucks and included the trade in of the other two trucks. Mr. Potter stated that we usually do a surplus sale and didn't really get anything for them in the past. We got a pretty good trade in on both trucks. Commissioner Blackburn clarified that you take these numbers and divide by two and that is what we are paying for each truck. Mr. Sawyers confirmed that as correct. Commissioner Blackburn then inquired what the trade ins were. Mr. Sawyers stated that it was two older utility

trucks that we have. Mr. Potter stated that they are 2006 models. One is a diesel and one is a gas and both have over 250,000 plus miles on them. Mr. Sawyers stated that if we bid them out as surplus you are lucky to get \$1,000 or \$1,500 out of them. The low bidder was Bruce Walters Ford. The only difference is that we did get a phone call from Thornhill who told Ms. Olson that he has the trucks ready to roll right now off the lot, whereas with anyone else, we request them to do it in 6-8 weeks and it usually takes them 10-12 weeks before we get the trucks. If the Board is interested in getting the two trucks immediately, you have that option. If not, then Bruce Walters Ford is your low bidder. Chairman Casey inquired if the trucks we are trading in are usable. Mr. Sawyers stated that we are using them now. Mr. Potter stated that one of them is a 2006 diesel truck and when they break down it is usually the motor and it is \$7,000. The other is a gas job and both have in excess of 250,000 miles on each one and the transmission is getting weak on the gas truck. Mr. Sawyers stated that if you can make it 2 to 2 ½ months with them then the others should be in. Commissioner Blackburn inquired if the trucks were 4 wheel drive full size trucks. Mr. Potter confirmed that they are ¾ ton utility trucks with 4 wheel drive. Mr. Sawyers stated that he could get him a copy of the specs. Commissioner Blackburn stated that that without seeing the specs he would be inclined to make the motion that we go ahead and buy the trucks locally from Bruce Walters, but he would like to see the spec sheets. Ms. Olson left the meeting to go get copies of the spec sheets for the Board. Chairman Casey clarified that we would be able to use the other 2 trucks until they get the new ones in. Mr. Sawyers confirmed that as long as there are no break downs. Ms. Olson brought in the spec sheets on the trucks that were bid for purchase. Commissioner Blackburn clarified that these would have to have the bed installed on them. Mr. Potter stated that is usually the way most of the dealerships do. We have sort of changed our bed style we had been getting. We put the individual locking handles. Theft has been an issue. These have the rod locks we are going to try. It is basically a white basic 4 wheel drive heavy duty pick up, 2500 series with the tow package to do what we need. Commissioner Blackburn made the motion to award the bid of these two vehicles to the low bidder, Bruce Walters Ford and authorize Mr. Sawyers to place the order for the trucks. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.

Resolution No. 15-11-009

- FEMA Hazard Mitigation Project – Generator Request** – Mr. Potter stated that FEMA had this mitigation project and we got notification from Amanda LeMaster about a month ago. There is additional funding that got dumped back into the state from the Federal level and is about \$3.5M available for mitigation items but it does not have to be ones particularly that you have had issues with before. He did have, where we had ice storms and severe wind storms, documentation showing outages due to those. What we decided to do was to go ahead and put in for two (2) generators large enough to run your largest pump stations. We do not have any capable to do that at this time. There are 100 HP pumps in those stations so theoretically to run it all you need about a 273 KW generator; a big one that has to be pulled with the dump truck and he is requesting two of these. He got Mr. Hunt to help him run through the package with sizes, he got quotes from a generator dealer to show them and we are going to apply for it. Mr. Hunt stated that the application is already in and has been applied for but he hasn't heard anything back yet. Mr. Potter stated that there are about 6 pump stations that he cannot run during outages, but since there is \$3.5M statewide, he tried not to get greedy but he asked for two (2). Hopefully we will get at least one (1). He can leap frog those and the reason he didn't ask for a permanent mount is because we have a dump truck and CDL drivers and he can move them around as needed. We went ahead and put into the package to have a docking station so

you don't have to rewire it, you just come in and hook up and you are ready to go. We asked for two (2) and for docking stations for four (4) of the larger pump stations with two (2) portable generators. Hopefully we will get at least one. There is a 13% local match on the funds, but anytime you can get them that way it is well worth the money.

3. **DOW Wastewater Survey/Inspection** – We have a Division of Water Wastewater Survey Inspection coming up the first of December. They will go through all of the sewer sites; it will be Brian Rice, our inspector for this region. We will be walking through everything with him and he will look at everything from record keeping to sites. We should be in good shape. We have upgraded the Phelps WWTP and the only issues are pending violations. The District has several small wastewater plants like Modern MHP, Keene Village, etc that they have adopted over the years from individuals and are 30, 40, 50 years old and have corrosion issues. You can't plate the rust and he has notified the Board that they need to look at a scenario for replacement of these locations. They have not written a violation but the way they write it up on their reports is that they are tracking an impending violation trend. We have two or three of those that they have put us on notice that they are watching. We did get a couple of violations on the Douglas WWTP and the Phelps WWTP from 2011 through 2013. They finally looked at the reports we have been sending and noticed we were out of compliance on some of the parameters occasionally for various things. UMG has notified the Board that we are going to have to upgrade these plants because we are getting some issues. So that is why we just finished the Phelps project and we have been in good shape after we dialed it in with the new chemical additions. We have been good at the Douglas Project so far but his guys really have to stay on it because they are running at hydraulic capacity up there and there are certain times you will bump out due to the nature of the force main influents coming in, you cannot run it through fast enough so you really have to circuit it back into it.
4. **Upcoming DOW Potable Water Sanitary Survey** – Mr. Potter stated that he expects a violation to come on the lagoons at the plant where they need dipping. Three years ago with the sanitary survey they noted to the Board that the ponds were at capacity and needed to be dipped and that has not been done. We have an upcoming water sanitary survey in the spring and he thinks they will write that violation at that time. Magistrate Varney inquired where you haul that dipped material to. Mr. Potter stated that it is to an appropriate permitted land fill site. Before, when we dipped them after the flooding, UMG through the City of Pikeville had a location they were using for sludge and the contractor at that time made a deal with them so he didn't have to haul it all the way to the land fill. Whoever does that will have to meet the criteria and we usually leave that up to the contractor to go through the environmental hoops to find an appropriate location and that is where all of the permitting and all of that is taken care of. He expects that may happen. Also, the City of Pikeville had gotten a fine for trihalomethanes exceedance and we purchase water from them so the water we are getting from them is out of compliance with the regulatory agency. So we have to send in an operational evaluation report and tell them what we are trying to do to combat that. We flush and try to limit time in the system of the water, we do everything we can without spending money operationally, but at some point, this is a thing across the whole United States when they kicked in the new trihalomethanes/haloacetic acids lower requirements, there will be at some point a violation and we will probably have to pay a fine and the Board will have to look at alternatives for either aeration of tanks or other mechanical means to meet the requirements. We have been doing what we can in the field by manipulation of the flows, flushing and those things but at some point you are going to reach, we need to do other items...aeration, intermixing of tanks, and those kinds of things. He expects that we may get one. He started tracking recently at some of our purchasing points which you have several that are the City of Pikeville; but the two main ones...trying to build a history that shows the water is out of compliance when we get it. You can't go backwards once you get it. Currently the EPA does not recognize that, but he is building a history and within two weeks Kentucky Rural Water is supposed to come in and sit down with the City of Pikeville and they want to include Mountain Water District operations. KRWA has been contracted by the state to work with some systems that are having trouble meeting the criteria. He will set down with them and develop a plan on what we project and what we are going to do to try to combat it and KRWA will review it and we will sort of being ahead of the game.

Commissioner Blackburn stated that in this report it is showing 14 taps added in October. He would like to start tracking disconnects either voluntarily or by default. It may show up on another report somewhere but he would like to see it. Ms. Olson clarified that he wants disconnects for nonpayment or people who request to be turned off. Commissioner Blackburn stated that we should track both, the nonpayment or by default and those that voluntarily say they no longer want water or sewer. Ms. Olson stated that the number of disconnects is in the MOR that they get every month. Commissioner Blackburn stated that he wants these guys to put it in this report so they can see it. Mr. Stratton stated that what you can have is a net gain or loss in days and then for the month. Commissioner Blackburn stated that it is just like you are doing on the taps, just do that same thing with disconnects either by default or by long term when they tell us they are moving. He wants to see net loss, just something quick to look at in this report.

5. **Town Mountain Tank Maintenance** – Mr. Sawyers stated that the exterior of the tank is complete and looks pretty nice. He and Mr. Potter will do a site visit to go over and inspect it and check the paint thickness.
6. **Bill Form Change Update** – Mr. Lowe stated that at the last meeting the Board had requested that we look into making some changes to the bill form to add something to let the customer know that the current due date does not affect the past due balance. What he is passing out is a proof that has the additional language on it and they have done that in blue ink or red. The Board had mentioned possible having it in red and they have given him prices on that. The blue ink would not change the current price the Board is paying for the bills but if you choose to have it in red, it would increase the cost approximately \$2,140 per month. Chairman Casey stated that he thinks they should stay with blue. Mr. Lowe stated that they told him that you would then have three colors on the bill and they say that is another process and more expensive. Mr. Lowe stated that it raises the price about 16.8 cents per bill which would raise it to 27.5 cents per bill total. On the proof we also thought about moving...you'll see that we put the text here on the form...and we thought about moving everything down and moving that particular sentence to the top. Commissioner Blackburn clarified that it could be done at no charge. Mr. Lowe confirmed that as correct but that we have to wait until the stock they have is gone otherwise we have to buy the stock they have. Current stock should be gone in the spring. Commissioner Blackburn stated that he thinks moving it up there and maybe ask them if making it bold costs more. Mr. Lowe stated that he would ask. Also, for now, what he can do is that there is a box that we have four lines that he can type in. Currently, it tells the pay by phone telephone number but we had recently done a change in the last month to the form and that phone number now appears up at the top of the form, so he can type it in there until we can make the new change. Keep in mind, if he puts that there...normally this time of year we put a notice on there to remind them to make sure their meter lid is secure and all of that for winter, so he won't be able to put that on there if he puts this on there. Commissioner Blackburn stated that UMG should make that call operationally. If you think it is more beneficial to have people focus on getting ready for winter, make that call. Mr. Potter stated that we can have Mr. Lowe manipulate it and see if we have any room in there and if he has enough space, we may not be able to put the whole blurb we usually do, but may just put "be prepared for winter" or something in there. He wants to make sure before we move forward that this will satisfy what the Board and Legal Counsel wants to put out to the customer. Mr. Lowe stated that essentially what we added was a line that says "Any balance forward subjects the account to disconnection until paid in full". We also added a little bit to the last sentence that basically says that the District is not responsible for failure of third party payment providers. For example, if a customer uses their banks bill pay service and we don't get it in time, there is nothing we can do about that. Mr. Potter stated that if that satisfies what the Board wants done, we can have Mr. Lowe type that in up there and see if we can put something about winter also, until we can get the stock turned over. Chairman Casey inquired if the Board was okay with what has been presented. Commissioners Blackburn and Friend both agreed this was satisfactory as well as the Chairman.
7. **Division of Water Violations** - This item was covered previously in the meeting.

Chairman Casey requested a motion to approve the Manager/Administrator Report as presented. Commissioner Friend made the motion. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.

Resolution No. 15-11-010

Chairman Casey inquired if there were any comments prior to adjourning to executive session. He again stated how much the Board appreciates both Judge Deskins and Magistrate Varney being in attendance. They are both good people and have always worked closely with the people and with Mountain Water and he appreciates them being here.

NEW BUSINESS

1. Legal Issues

- Executive Session to discuss litigation and potential litigation
- PSC Order

Chairman Casey requested a motion to convene into Executive Session. Commissioner Blackburn made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.

Resolution No. 15-11-011

Chairman Casey requested a motion to reconvene from Executive Session. Commissioner Friend made the motion. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.

Resolution No. 15-11-012

Mr. Stratton stated that in response to the Public Service Commission's order concerning our appeal, they sustained our request for an extension of time for the water loss. Our committee has been appointed and is working on that. UMG is working diligently to comply with that time line to move forward. In regards to the extension of time we requested for the RFP concerning bidding out contractual services, that was denied. We are going to move forward with soliciting a request for proposals for contracting out services. The Chairman has appointed Mike Blackburn and Kelsey Friend to a committee to review RFPs and make recommendations as to the engineering firm that will draft that RFP. We have looked at moving forward on a time line to get that done within compliance with the PSC's order. Mr. Sawyers clarified that

the committee will consist of Commissioner Blackburn, Commissioner Friend, Mr. Stratton, Mr. Spears and himself. Mr. Stratton stated that is correct. Chairman Casey requested a motion to approve the committee and to move forward with the RFP for engineering services to administer the RFP process. Commissioner Blackburn made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-11-013

Mr. Stratton stated that a resolution was needed with regards to the issue with the PSC for the loan that was made with UMG in 2009, that counsel be authorized to negotiate a resolution with the PSC if possible if that opportunity presents itself. Chairman Casey requested a resolution to that effect. Commissioner Blackburn made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-11-014

COMMISSIONER COMMENTS

Chairman Casey inquired if there were any Commissioner comments. There were none.

ADJOURN MEETING

Chairman Casey requested a motion to adjourn the meeting. Commissioner Friend made the motion. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Absent
Commissioner Tackett	Absent

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-11-015

MOUNTAIN WATER DISTRICT BOARD OF COMMISSIONERS REGULAR MEETING

December 30th, 2015
10:00 AM

ATTENDEES

Bobby Varney, Magistrate, District 6
Jamie Noe, Vaughn & Melton
Jody Hunt, Summit Engineering, Inc.
Stephen Caudill, Bell Engineering
Tim Campoy, EDC, Inc.
Dan Stratton, Stratton Law Firm
Mike Spears, Spears Management
Roy Sawyers, Mountain Water District Administrator
Grondall Potter, Manager, UMG
Tammy Olson, Office/Compliance Manager, UMG
Carrie Hatfield, Financial Administrator, MWD

CALL TO ORDER AGENDA ITEM I

The Mountain Water District Board of Commissioners Regular Meeting was held on Wednesday, December 30th, 2015 at 10:00 a.m.

Commissioners present for the meeting were as follows:

Commissioner Ancie Casey
Commissioner Kelsey Friend, III
Commissioner Mike Blackburn
Commissioner Eddie Hurley
Commissioner Johnny Tackett

VISITORS AGENDA ITEM II

Chairman Casey inquired if there were any visitors who wished to speak. The Chair recognized Bobby Varney, Magistrate for District 6. Neither wished to speak at that time. Chairman Casey inquired if Magistrate Varney would like to make a comment. Magistrate Varney stated that he just wanted to wish everyone a happy and prosperous new year and we have a lot of things to do. He was in a budget meeting at the court yesterday for about 5 ½ hours and doing some more today and we just have to come to grips with it. It is what it is and we have to deal with it. Chairman Casey thanked Magistrate Varney for being at the meeting and inquired if there were any other visitors. There were none.

APPROVAL OF MINUTES AGENDA ITEM III

Chairman Casey requested a motion to approve the minutes of the regular meeting held on November 25th, 2015 as presented. Commissioner Tackett made the motion to approve the minutes as presented. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-12-001

FINANCIAL REPORT – MIKE SPEARS, CPA AGENDA ITEM IV

Mr. Spears gave the financial status report. Mr. Spears stated that for the month of November we are actually seeing some impact from the rate increase and cash in bank was \$399,200. Accounts receivable was \$1,165,685. Our revenue was up about \$180,000 but the bulk of it is sitting in AR because we haven't seen the cash flow side as of November. Accounts receivable last month was about \$985,000 so it is about \$180,000 up as well. When he started doing the review of these he was expecting it to look a lot better cash flow wise than it did but basically what is happening is that it has been billed but not moved up to cash yet by being collected. That AR is always going to stay up there because it is 95% of collections from previous months billing and old bills. That is why we didn't see a bigger impact in November but he expects in December and January we will see the full effect in the cash stream. Plant in place was \$140,318,757. Accounts payable at the end of the month was \$2,426,177 which was up one more payment on UMG but talking to Carrie that is two in December and we are on schedule to pay two in January. Even though the revenue on these financials is going to show \$899,000 which is higher than we've had in any month, it was billed but wasn't due to be collected until 30 days on the customer's bill. Equity position is \$78,632,416. Revenues for the month were \$886,814 and for the year is \$8,136,452. If you look on page 13 of your financials, in the total sales column you can kind of see that \$797,000 was the highest month we had all year until this month. You can see the partial impact of the new rates which are about 27% higher than the previous month. Utility Operating Expenses were \$982,842 and \$10,464,824 year to date. The loss for the month was \$128,359 and if you will recall in previous months that has been running about \$240,000 to \$250,000. Loss for the year is \$2,677,671. Included in the loss is depreciation of \$271,779. Depreciation year to date is \$2,989,573. Operating income for the month was negative in the amount of \$96,000. Cash flow increased to \$117,945 which is reflective of construction projects where the money comes in and goes out. The current operating account balance is \$196,975 as of the end of November. We will be transferring the \$11,340 to the KIA reserve account and the \$9,902 to the RD reserve account. Current balances in those are \$793,716 and \$804,839 respectively. RD will be fully funded in May of this year. We will then start transferring those reserve payments over into the O & M reserve which will take a long time to accumulate. It is two months in expenditures so we are looking at \$1,500,000 needed in that account. He was hoping we could get out of that and start being able to utilize that but those numbers will go back. At that point in time he believes our agreement with RD of \$9,902 goes out the door and it will just be whatever the standard is which is probably about \$2,500 per month put over in the O & M so will free up a little bit of cash flow then. He hasn't don't a full analysis of KIA reserves but it should be fully funded in October or November of this year and there is no O & M on it and that will be it for that one and we'll be fully funded on those meaning they will be 100% paid up. We also continue to transfer our sinking fund payments over to pay our debt service and we have RD bond payments due and have those today for approval for payment. We will need an approval on the financials and an approval for the payment of the RD bond payment.

Chairman Casey requested a motion to approve the financial report as presented. Commissioner Tackett made the motion. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-12-002

Chairman Casey requested a motion to approve the payment of the RD bond payments due this January 1st as presented. Commissioner Tackett made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution 15-12-003

PAYMENT OF BILLS **AGENDA ITEM V**

Mrs. Olson distributed handouts for the payment of the bills to the Board members. After several minutes of review, Chairman Casey requested a motion to approve the payment of the bills. Commissioner Blackburn made the motion to approve the bills as presented upon availability of funds. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-12-004

CUSTOMER ADJUSTMENTS **AGENDA ITEM VI**

Chairman Casey requested a motion to approve Customer Adjustments in the amount of three thousand, four hundred, and ninety-one dollars and thirty-five cents (\$3,491.35) as presented. Commissioner Friend made the motion to approve the customer adjustments as presented. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-12-005

CONSTRUCTION REPORT **AGENDA ITEM VII**

Update by Jamie Noe, Vaughn & Melton

1. Millard Curve Line Relocation –DOT Project

Ms. Noe stated that there is no change on this project and she will let them know whenever she hears something there.

2. Majestic Alternative Sewer Project

Ms. Noe stated that since our last meeting the District has sent out surveys and got a total of six back so far. Commissioner Blackburn inquired how many had signed up. Mr. Sawyers stated that 130 to 140 were signed up and each was sent a survey. We gave them until January 11th to respond. We also stated in the letter that if they did not respond it was the same as them saying they didn't want it. Chairman Casey clarified how much longer they had on the survey. Mr. Sawyers stated that they had until January 11th to respond. We can proceed to make some kind of decision on it at the next board meeting.

Update by Tim Campoy, Environmental Design Consultants

1. Cabin Knoll/Scott Fork DOT Relocation Project -

Mr. Campoy stated that this project is completed. All of the as-builts have been turned in to the highway department. The only thing we don't have from the contractor over there is the signed release. He believes he is owed some money from the highway department for several of the reconnects that he had to do. In our paperwork with the highway department those were listed as a lump sum. What they did after that, he believes that he ought to be paid some additional due to some footage being longer than what they anticipated it being. We just told them they had to work that out with the highway department. Mr. Sawyers stated that basically they put in the specs that had to be bid as a lump sum, and they bid it as a lump sum and came up short and now they want paid by the foot. Chairman Casey clarified that was with the state and not on us. Mr. Campoy confirmed that as correct. Chairman Casey stated that they can work that out between them. Mr. Campoy stated that they don't have that one document from them that they usually get from the contractor and this is why. Again, that is the reason why we want to be able to control when there is a bridge construction like that, we want to be able to control the utility changes. Just like at Virgie, they did agree to break it out but they still haven't made any progress in getting the right of way for that job so we are still in the same position that we were, waiting on that to occur so we can get moving on that.

2. KY 610 – Virgie Bridge DOT Relocation Project –

Mr. Campoy stated that the highway department has agreed to break out the contract on the water line from the bridge contract in an effort to move it along quicker. Design has been approved and it is just the matter of getting the right of way to be able to proceed.

3. Lower Big Creek Waterline Relocation –

Mr. Campoy stated that Project Area A is the section that starts at Francis Subdivision and goes down to the 292 bridge. They have put in 3,060 feet of 6" water main and both of the 12" bores are done. This week they are moving in to Project Area B which is the creek crossing and railroad trestle at the mouth of Long Fork of Turkey Creek. The job is about 42% complete and he anticipates in the next couple of weeks to wrap it up if the weather holds out okay. One of the things that has come up on that job is the highway department came out on it after they had had it for quite some time and talking about the job site at the Francis Subdivision. There is a culvert across the road and instead of taking the line through the creek on the inlet side of the culvert like is typical, they wanted it crossed over top of the culvert which required another 20' section of casing pipe which isn't that critical to the job, and then another item we discussed with them was another 6" valve to be put in to help in the process of doing the flushing and disinfection of the system and keep them in water the whole time. He has a change order #1. What they did agree based on a request from Mr. Sawyers was to do the valve at cost. So the other item is just a per foot item for a total cost of \$2,400 for both items. Mr. Sawyers inquired if Mr. Campoy had a hard

copy of their request to put that line over top of the drain and culvert. Mr. Campoy stated that they have asked them for it but haven't received it yet. Magistrate Varney inquired if that was a good idea to put that line over the culvert. Mr. Sawyers stated that it is not an issue if you encase it and have it far enough to where if they need to replace it it is not a problem. What they did is that they didn't want it down in front of it because they were afraid they would dig into it. The thing is, if we normally do that, they kick on it and that is why he asked for a hard copy of their request. Because somewhere down the road they are going to fuss at us for having it over top of the culvert even though they requested it. Mr. Campoy stated that they will continue to harp on them to get that paper from them. There is enough vertical and cover over the pipe to where we felt safe doing it. Typically, though, we don't design them that way. Mr. Stratton stated that if they don't give you what you want, then send them a letter and copy Mr. Sawyers saying "you have directed this to take place and if your understanding is different than this, please let us know" and that provides the record we need in the future. Mr. Campoy stated that he will do that and he brought the change order with him for approval. Chairman Casey requested a motion to approve change order #1 for Lower Big Creek as requested. Commissioner Tackett made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-12-006

Mr. Sawyers stated that the change order was not going to impact the cost of the project that much since they are doing at cost so we have enough money factored in to cover it.

Mr. Campoy stated that the only other item he has is that they are continuing to work with Mr. Sawyers and Mr. Potter on the water loss analysis.

Update by Stephen Caudill, Bell Engineering

1. Marshall's Branch DOT Relocation Project -

Mr. Caudill stated that there are no key changes with this project and the plans and specifications have been complete for some time. They are waiting on the highway department to go ahead and move on it. The earliest we will see any construction would be spring or summer of next year.

2. Deskins Curve Line Relocation

Mr. Caudill stated that construction has continued on this project. The tank is erected now. The line contractor has been waiting until the tank was erected because they are having to share the road there. He is preparing to move back in and lay the line up to the tank. Hopefully that will be moving along the early to middle next week.

Update by Summit Engineering – Jody Hunt, P.E. – on the following projects:

1. **Awarded Projects:**

- Douglas WWTP Upgrade Project – Mr. Hunt stated that they have received the final structural drawings and the plans and specs have been submitted to the Division of Water.
- Belfry/Pond Sewer Project Update – Mr. Hunt stated that they have received the final drawings from Ovivo on the screens and have prepared the summary of addendum as required from RD and have sent that in to them. That is the next step in funding the project. They anticipate finalizing the WWTP design and beginning the final work on the line portion of the project in the next couple of months. He inquired if Mr. Sawyers was still anticipating doing an additional survey in that area. Mr. Sawyers stated that it was his understanding that it was the Board's initial decision to do one, but he thinks they are so far along with regards to the RD loan, the recent money we got from ARC and we have purchased the properties, it would be difficult to back pedal on the project now. Chairman Casey stated that it is kind of a no-brainer. Magistrate Varney stated that some of the prospective customers are talking with everything the way it is now "I don't know if I'll sign up for that" and stuff. So he doesn't know what to tell him. Just be cautious there because he thinks we have a lot of people that is not really sold on it now. Mr. Hunt stated that he still feels confident that this project will still be a viable thing for the District because you are going to pick up 300 plus customers there with Forest Hills immediately. Mr. Sawyers stated that Southside Elementary also requested us to install it because they are maintaining a small treatment plant and want to cease using that. Magistrate Varney stated that a question he had for Mr. Hunt was if you have to have a certain number to maintain that plant with the fiber stuff, you don't have to do that, correct? Mr. Potter stated that it is not as critical and he thinks we can work with it and one of the things that the Board had indicated that they would like to do is be in control of their own sewer and intercept what we are currently sending to Williamson to be processed. That is about 60,000 per day average flow there. If we can take care of that, it will make it a viable option. Commissioner Blackburn inquired if we don't add any additional customers what is the total customer base. Mr. Sawyers stated that you have all of Forest Hills, which is about 300 customers, which is currently going across the river. Mr. Hunt stated that there are currently about 280 customers total that is not counting Forest Hills. Commissioner Hurley inquired if that is a package plant where you first go up into Forest Hills. Mr. Hunt stated that it used to be but it was done away with when we done the Forest Hills project years ago. Commissioner Blackburn clarified that Mr. Hunt said it would be 280 customers but that is not counting Forest Hills. Mr. Hunt confirmed that. Magistrate Varney stated that there are 47 homes for sale at Forest Hills right now. Chairman Casey stated that tells you something too. Magistrate Varney stated that 4 years ago there wasn't 7. Commissioner Blackburn stated that will service nearly 600 people without any new customers. Mr. Hunt stated that you will roughly have 280 new customers and gaining 300 existing on your system that are currently being treated by Williamson. Commissioner Blackburn stated that existing people that are on sewer is 300 and the 280 are currently not served. Mr. Hunt stated that they are potential and are not officially signed up or anything. You will also pick up the school at Southside. Magistrate Varney inquired if Belfry High School is on the public sewer now or does it go to Williamson or anything. Mr. Potter stated that it goes to Williamson and may be one you can reverse to Belfry WWTP also. Chairman Casey stated that would be three big customers. Mr. Sawyers stated it would be them plus the court house. He inquired if the Board wanted them to sit down and crunch the numbers on that. Commissioner Blackburn stated that like he said, we are way into this project to back up now. Mr. Sawyers stated that we have the purchased the property and gotten money from ARC and working on the RD information right now. Plus, go back to the law suit that we had on some of those areas

where the people wanted sewer. There were like six or so. Some we couldn't serve and some of them wanted us to serve them.

- **FEMA BPS Mitigation Project** – Mr. Hunt stated that the contractor has been working on the bores on this project and line. They are anticipating within the next week or so they will be piped out and nothing left to install with the exception of the connections. The contractor is working this week on the final bore. They will then be just waiting on pump stations. They have submitted as discussed in the last meeting, about additional funds being available. They talked about getting additional money for Big Creek also. That didn't fly. They didn't have additional money to support that, however, they were able to do a benefit cost analysis and everything is looking very promising looking forward with adding two additional pump stations which will be Phelps #1 and Phelps #2. We got additional.... If everything goes right, we are anticipating getting the agreement here in the next month or two of another \$1M to replace those existing aging pump stations. It is basically in FEMA's hands now.
- **Pompey Water Line Extension** – Mr. Hunt stated that the plans have been sent to the Division of Water. We still have not received the approval letter back to date. Mr. Sawyers has secured the final easement on the project. There are a few documents that they still need to get together to send to RD for the ARC portion and until they get the permit back they cannot send that in. Mr. Sawyers stated that he knows that Jonathan was supposed to contact the DOW and inquired if he had an anticipation date of when that might be received. Mr. Hunt stated that it should have already been back but he doesn't have a date as of yet. Those folks usually disappear around the holidays and won't be back in the office until about the 10th. Mr. Sawyers stated that he thinks he has some information through RD that needs to be sent out as soon as possible. Mr. Hunt stated that they have sent the Summary of Addendum in on Belfry. They have everything they needed on that one until they ask for some more. Mr. Sawyers stated that he would like to get all of the Pompey information in within the next couple of weeks if he can and then all we are doing is waiting on the plans. Mr. Hunt agreed with that.

PROJECT DRAWS:

Chairman Casey requested a motion to pay the draws as corrected contingent upon funding agency approval. Commissioner Friend made the motion. Commissioner Tackett seconded the motion.

DESKINS BRANCH CURVE DOT RELOCATION PROJECT

Bell Engineering	DOT Funds	\$ 11,710.50
\$11,71.50	Engineering Services	
Ky Glass Lined Tank	DOT Funds	\$ 56,739.15
\$56,739.15	Contract Construction	

FEMA MITIGATION PROJECT

Summit Engineering	FEMA Funds	\$ 14,576.00
\$14,576.00	Engineering Services	
H2O Construction	FEMA Funds	\$ 67,460.40

\$67,460.40 Contract Construction

DOUGLAS WWTP UPGRADES PROJECT

Summit Engineering	Coal Severance	\$ 4,463.81
\$4,463.81	Engineering Services	

LOWER BIG CREEK RELOCATION PROJECT

US Rentals & Construction	Line of Credit/US Bank	\$ 76,677.50
\$77,677.50	Contract Construction	
EDC, Inc.	Line of Credit/US Bank	\$ 8,844.67
\$8,844.67	Engineering Services	

BELFRY POND CREEK SEWER PROJECT

Summit Engineering	Coal Severance Funds	\$ 20,480.00
\$20,480.00	Engineering Services	

Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-12-007

MANAGER / ADMINISTRATOR REPORT

1. **Bill Form Change Update** – Ms. Olson distributed bill form changes that Mr. Lowe obtained for the Board's review. She stated that the line that reads "to avoid penalties, payment must be received in our office by 4:30" has been moved to the top. In blue he has added "any balance forward subjects the account to disconnection until paid in full". If the Board will remember, putting it in blue was not a cost change to the bill form. If we would have put it in red or any other color it would have cost about \$2400 extra a month in the cost of the bills she believes. If the Board is in agreement with this change as presented, we just need it approved and it will be printed for the next printing when the current stock is used up. Mr. Stratton stated that he also changed the last sentence there in that column that reads "the District is not responsible for undelivered mail or failure of third party payment providers". Ms. Olson confirmed that was added because we do have people who pay through their own bank, which we can't control the receipt of those payments. Mr. Sawyers inquired if that should be in bold and blue also. Ms. Olson stated that we can do that if the Board wishes to do that. Since it would be blue it shouldn't change the cost. Commissioner Blackburn stated that would make just about everything blue. Mr. Sawyers stated that we only have two items that are most important. Commissioner Blackburn stated that we could add that since it probably wouldn't add a charge

for that. Chairman Casey agreed that he thinks it should be added also. Ms. Olson made the note that the Board wishes to have the last sentence about third party providers in bold and blue as long as it is no additional charge. The decision was made to hold on approval until the next Board meeting since the new forms can't be printed until spring anyway, due to current stock amounts. Ms. Olson stated that she will give this to Mr. Lowe with the Board's request and for him to provide a new proof at the next Board meeting.

2. **Water Loss Update** – Mr. Sawyers stated that the Water Loss Committee met this morning and talked about UMG continuing to collect additional information for the test points and to look at a potential area for a zone meter and to identify potential service line replacements and combine all the mapping from both engineering firms. Mr. Potter stated that the engineering firms have broken out the existing master meter areas, miles of line, and we have used a consumption analysis to determine where the leak zones were and how many miles of line we are really kind of “blind” at. This is the first step in picking an area to try to cut it down to see what we have got. That is what we have been working on the last few months with the leak detection program, is to go ahead and get the consumption down, check all of the routes, make sure we have good numbers for the engineers to do a basis on it, and using that data and what flows we get instantaneous at night to try to determine the locations where the Board can get the most bang for the buck for money expended for the leak detection program. Mr. Sawyers stated that there were several handouts in the meeting showing what percentages of what areas were worse than others. Mr. Potter stated that we talked about focusing in the Marrowbone area which seems to be one of our higher loss areas and is one of our oldest areas. We are anticipating it being a lot of service line type leaks and by putting a zone meter in that area, we are basically splitting it in half. That way we can generate some good data over a length of time without trying to do instantaneous flows to see where we need to concentrate our efforts. Commissioner Blackburn stated that we should have a quote at the next meeting to install this zone meter as discussed earlier. We are not going to solicit bids, we are just going to come up with a cost estimate for us to buy the chamber and install it in house. Mr. Spears stated that the Board needs to keep in mind that they will have to bid the meters if they anticipate spending over \$20,000 to purchase the meters. Chairman Casey stated that if it was over \$20,000 we would bid it out. Mr. Spears stated that it is an accumulated thing within the year. If you got 4 of them and they are \$19,000 but you are going to put three more in later in the year, then you have anticipated spending more than \$20,000 on that item and have to bid it out. That is how that works. Mr. Sawyers stated that it would be the same thing with the vault. Commissioner Blackburn stated that another thing that came out of the meeting was that Mr. Sawyers, Mr. Potter and Mr. Taylor have been pretty active in repairing new leaks. He inquired from Mr. Potter if all of these leaks were completely new or if they had been leaking and came to the point that they came to our attention. Mr. Potter stated that most of them were newer leaks. One or two we think have been leaking for a while but finally opened up enough to actually zone out and find. We have talked about, in some of these areas, as you go forward you will lose 5 gallon a minute here, 10 here, and you have 8 miles to chase it in, well they've finally brought themselves to light and go a little bigger. He thinks a few of them were older leaks that finally made themselves visible. That is what we are going to look at. It is not going to be a leak of 100 gallon a minute at Mountain Water District, it will be like the “death of 1,000 cuts”. There are minute leaks over a 1,000 miles of line and until we get enough zone metering in to find them or they show themselves, that is what it is going to be...or service lines as discussed in our meeting. Chairman Casey is right. Marrowbone is our oldest system. Class 160 PE was put in and was not installed well for service lines. He thinks one of the areas to get some more bang for your buck will be a service line replacement program. We are correlating with repairs on work orders how many we are getting in that area to pick a good zone and say we might want to do 50 or 100 or whatever in that area. Chairman Casey inquired if the water plant can help show us where the bigger problems are throughout the area. They visited there before and he was amazed at what they can do from there. Mr. Potter stated that they use the tank drop rates from the telemetry information coming into the plant and that is a lot of good information but the set up on some of those zones takes a day or two to set up and you are just taking a snap shot and we try to correlate them over a length of

time. He can give us instantaneous information on a tank drop because we have alarms set, but as we put in the sub meters what we want to do is put them on telemetry, so we can actually see that there is 200 gallon a minute going through the Town Mountain meter for example. We don't currently have that. We physically read them and back calculate them but if we can get some of our large meters where we instantaneously see what is going on, he can pull it up on his phone and know right then that something is developing and go after it.

3. **Grinder Unit Replacement Program** – Mr. Sawyers stated that the Board approved for him a while back to purchase 15 new units each month. They have additional repairs every month and he has talked to Mr. Potter and Mr. Keathley and we would like to try to bump the grinder replacement program from 15 to 20 if possible. These are roughly \$1100 each and would be about \$5500 more per month. Chairman Casey inquired where most of these are being used at. Mr. Potter stated that now they are starting to spread out across the system. Historically though it was in the Phelps area. Mr. Sawyers stated that was the area we put in first. Mr. Potter stated that we have started reaching the age where they are out of their 5 year warranty period and have rebuilt them at least once in the Shelby Valley area and he is starting to get rebuilds in that we track and they have already been rebuilt once or twice and he thinks it would behoove the board to start trying to purchase a few more instead of trying to rebuild some that have been rebuilt a couple of times because he doesn't think they are getting the life out of them. Mr. Spears stated that truthfully once we get this cash flow in place and start getting some of this stuff caught up, we probably need to look at about purchasing about 400 a year or 35 a month to turn them over. That would at least give you a warranty cycle. Mr. Sawyers stated that we need to keep ourselves in the warranty cycle and then do one rebuild. Mr. Potter stated that it costs between \$400 and \$625 to rebuilt one depending on how far you have to go into it. There are some out there that haven't been rebuilt and we can get at least one on these but there are still going to be some repair parts purchased until you get the whole replacement through. Mr. Spears stated that ideally once you get the bulk of them changed out, the repairs will go down and you won't need 40 a month and the number can be lowered. Mr. Potter stated that then we can get into a maintenance cycle and realize that if we bought 100 this year and they have a 5 year warranty, we need to start hedging ourselves that some of these may drop out and buy one or two. Commissioner Hurley stated that he can't help but go back to the thought that if you've got a real congested area like in Phelps, and you have one house right on top of the other, that you should be able to put in a pump station, put them on gravity and eliminate all these grinders in that one area, because that is the only fix for what you got. There is no other fix for it. Mr. Sawyers stated that there is an option of looking at doing a hydrology study and putting in lift station to help alleviate the other lift stations operating under high pressure. We talked about doing that as well. If you are talking about doing gravity over there then you are talking about a pretty good sized project. Commissioner Hurley stated that he understands it would involve a project but what he is saying there is no other fix for it. Mr. Sawyers stated that if you put in a couple of more lift stations it would alleviate the pressure that those are having to pump against. A good example is the one at Phelps Intersection which is 80 to 90 lbs they are having to pump against and that is too high. Mr. Potter stated that with additional stations, you break the pressure zones. Commissioner Hurley clarified that it would be using the same line though. Mr. Potter stated that it would be the same line, but it is better to lower the line pressure which would extend the life of the grinders. Commissioner Hurley stated that he thought a major issue with these units was that they fill up and run into electric issues and go down from that. Mr. Potter stated that when there is a power outage there is an issue with that on the homeowner's side. But putting in a gravity system over there would probably be tens of millions of dollars. Commissioner Hurley stated that it wouldn't be in just one area where you've got all of these houses right on top of each other. Mr. Potter stated that if you had the money it could be done. It would be costly but like he said, you could do it over around the Hornet's Nest through there. Commissioner Hurley stated that is what he is talking about; the extremely congested areas in downtown Phelps. Mr. Potter stated that you would have to gravity it to a lift station and pick up and intercept. Commissioner Blackburn inquired if any of these lift stations are on some kind of power backup. Mr. Potter stated that a couple of them are. That was another scenario when then projects were made and bid out and the money you received was not adequate, the first thing you do is cut out backup generation. He does have a couple of the lift stations with generators

that we have bought over the years with grant money and put out there, but not all of them. We do have a bypass pump if we have a power outage and have set up to be able to intercept in the check valve pit around them. He can pick them up and pump around them until the power is back on. It is diesel powered and has a float system but we only have one right now. He has towable generators that operate most of the stations but if there is a wide spread power outage he usually uses the generators to move potable water. Commissioner Blackburn stated that if you have 3 lift stations and 2 of them have backup and one of them doesn't, we probably should look at getting the third one some kind of backup. Mr. Potter stated that he has the bypass pump and pumps around that. Usually we aren't out of power for a long time. The most we have every had was about 7 days a couple of years ago but the diesel powered bypass pump works really well and we do have the tow behind. The Intersection at Phelps has backup generation, the Phelps WWTP has backup power but not enough to run the entire plant. They can do the basics with it. Commissioner Blackburn stated that getting back to the grinder units, if we add 5 that puts us at 20 total per month that we are purchasing. He inquired if we are rebuilding as well. Mr. Potter confirmed that as correct. Commissioner Blackburn clarified that they are still rebuilding the rebuildable units. That was confirmed as correct. Commissioner Blackburn inquired as to how many a month they were rebuilding. Mr. Potter stated that he would have to get him those numbers but it ranges about 20 to 30 per month but as high as 40 or 50. There are some months that you pull 20 that are bad and some months you pull 70 or 80. The District has approximately 2,000 grinder unit customers and the rest are gravity. Mr. Spears stated that basically to but a new in over a rebuild is \$500 extra dollars and you can relieve some of that maintenance on that by getting a warrantee on it. Mr. Spears stated that we looked at it and we needed about 35 or 36 each month to get the program going. Chairman Casey stated that we are rebuilding about that many every month for \$600 each versus spending about \$500 or \$600 more for a new one but you get a 65 month warranty. Mr. Sawyers stated that before we were average a little over \$400 per unit but now we are using a different style and it costs a little more. Mr. Potter stated that new technology has come through and you can't really even rebuilt the old, old units so we are having to rebuild the newer units and taken the new units and putting them in the worse scenario situations that are in the higher pressure zones. The new ones go to the trouble areas. Commissioner Blackburn inquired if we needed to rebid these. Mr. Spears suggested that at the next meeting they look at bidding a large number of items out. Mr. Sawyers stated that it would be an annual procurement that we have talked about doing before. Mr. Spears stated that there are so many different items and you don't bid every item obviously. Mr. Stratton stated that he will review the last contract the last time we bid it and go from there. Mr. Sawyers stated that we bid this number of grinders back in the summer when we started these monthly purchases. He is confident of that. They decided to review an annual procurement at the next meeting. After further discussion Chairperson Casey requested a motion to approve to increase the number of purchased grinder units from 15 to 20 per month. Commissioner Blackburn made the motion. Commissioner Tackett seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.

Resolution No. 15-12-008

4. **Legislative Breakfast** – Mr. Sawyers stated that every year the legislators meet in January in Frankfort and talk about monies, project funding, what is going on in our area this session. Mr. Potter stated that they are down there in session and KRWA sponsors a breakfast and invites all of its members. We go down and see Leslie, Ray Jones, Johnny Short, Chris...all of the representatives. Chairman Casey inquired if he just read in the last few weeks that Representative Harris got a million dollars for Pike County; \$500,000 for Elkhorn City and \$500,000 for the Belfry Project. Mr. Sawyers confirmed that we did get \$500,000 for the Belfry Project. Chairman Casey stated that it is good and we want to thank him. This Board need to really thank him for doing because in today's time, that is a heck of a lot of money to get. Mr.

Potter stated that they will be in session and this is good. We had a Board member go one year and it went really well. You get to meet a lot of the other representatives that are close to our area as well. Chairman Casey stated that they needed to send a Board member to represent them at this breakfast. Chairman Casey nominated Commissioner Blackburn to be the one to go. Mr. Sawyers stated that they will have to change the date of the January Board meeting because this is on that date, January 27th. Chairman Casey stated that we can still have the Board meeting even if Commissioner Blackburn was representing the Board at that meeting. Mr. Sawyers stated that he would recommend changing the date. Commissioner Blackburn suggested that they meet the week before the 27th then. Chairman Casey remembered that he would be out of town on the 27th also. Commissioner Blackburn suggested to change the meeting to January 20th. Mr. Potter stated that it will be a special meeting on January 20th. Chairman Casey stated that anyone who has anything to add to the special meeting needs to get it in prior because it has to be on the agenda. The Chairman requested a motion to change the regularly scheduled meeting date of January 27th to the Wednesday prior on January 20th, 2016. Commissioner Blackburn made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-12-009

Mr. Potter stated that if any other Board members would like to go, that would be good. Chairman Casey stated that Mike Blackburn is going to Frankfort but if any other member of this Board wants to go, they can get with him and go and they would take care of that.

5. **Capital Assets** – Mr. Potter stated that he and Mr. Sawyers have postponed this until after the PSC issues were done and it slowed down a bit to work on the Capital Assets. He usually has two lists; one he sits down with Mr. Sawyers and they review what he thinks Mountain needs to get in capital items, and then he reviews the vehicles and the UMG side and what he purchases and what he wants UMG to get for the project. They are going to develop that and present it at the next Board meeting. If there are any items that the Board want to add for the Mountain Water District, please let him or Mr. Sawyers know so that they can add it to the capital list. If there is a piece of equipment that you feel that Mountain needs to add or anything, like the parking lot needs to be sealed and that would be a Mountain capital expense. If you know of anything, let him know and they will present it to the Board at the next meeting.
6. **End of Year Inventory** – Mr. Potter stated that we are currently doing the end of the year inventory. Every year in December the employees inventory all of the trucks, chemicals, water plants and everything. Most of it is already in and he usually presents that to the Board at the January meeting.

Mr. Potter stated that the Board can review the rest of the MOR on the summary. In January he would like to scheduled a couple of Board members or whoever wants to see it...we had an AMR representative show up with a new radio read meter. The Board is aware that we have batteries that are dropping out in the system for the AMR and are going to have to look at replacing them. These are a two way meter but he thinks they need to go through the whole presentation. He thinks Mr. Hunt has been through it. They actually put 10 meters in our system. They are actually a full watt transmit and they do receive both. We drove through and he let them test run with the meter reader and he was impressed with it. They give you a lot of good information and the provide the software for free. The other company charges you \$10,000 if

there is a software change. They also give you a free laptop and the other company charges about \$6,000 for a reading laptop. He would like to bring them in and let a couple of Board members see the demonstration. They are about 30% cheaper than what we are paying for our radio read replacement heads right now and he thinks they need to look at those and see what is out there. Commissioner Blackburn stated that they are aware that they are going to have mass failures if we don't start exchanging these. Mr. Potter stated that the batteries now are lithium ion and are 20 year batteries. When we got them, they were 10 year and we are running on the edge right now. He has started slowly replacing some and that is why they may see them purchased but it is time to work on that. Commissioner Blackburn inquired if they would remind them of the total dollar amount that we need to replace the meter heads for the batteries. Mr. Potter stated that if you just purchase the radio head and not a new meter, and there are about 17,000 out there in the system, this is about \$3 million dollars. Commissioner Blackburn inquired if he sees a point where we would have to do, say Pond Creek. Mr. Potter stated that we are losing a few here and there right now but it is coming and he is afraid that maybe by spring or summer we may start to see some large failures. Mr. Hunt inquired if we actually did a project profile for the replacement of these. Mr. Potter stated that we did do that when we were looking for SRF funding for AMR meter replacement. It won't hit until the 2016 round of funding if we can get approved. Commissioner Blackburn stated that he would like to attend that meeting with the AMR demonstration and Mr. Potter could work on the schedule and get it kind of later in the afternoon he would like to see what he has. MR. Potter stated that he would set it up.

Mr. Potter stated that he wanted to point out the customer counts that Commissioner Blackburn had requested on the report has been added. He stated that he believes that MWD peaked out in 2012 in customer base in sales. In November of 2011 we sold 77,000,000 gallons. In November of 2012 we sold 81,000,000 gallons. In November of 2013 we sold 77,000,000 gallons. In November of 2014 we sold 71,000,000 and this past November sales was 66,000,000. So historically, with the customer drops, that we peaked in 2012 are on the decline. Commissioner Blackburn stated that he thinks that tells us is that the customers we lost were the big water users. Mr. Potter stated that he is right. That is the mines. Last year we pulled forty-two 2" or larger meters from mines. Mr. Sawyer stated that we should start tapering off some. Mr. Potter stated that we will continue to track it and as Magistrate Varney said, there were 47 homes for sale at Forest Hills, and he is seeing that on Elkhorn Creek and he has talked to a lot of people during Christmas who tell him that if something doesn't break in the next few months, they are looking at going out of Pike County for work. Chairman Casey stated that there are 199 kids at Phelps High School. The Pike Central freshman class is bigger than their high school. It is in danger all over the county. When we opened up East Ridge High School, we had 782 and are now down to about 500. Mr. Potter stated that their infrastructure....the roads out there, the kids are out in the hollows, and if there used to be 40 people in the hollow and now there are 10, we still have to pump the water to them and the buses still have to go get them. That is something to think about as the Board is going through this. He hears this trend is supposed to continue for the next two to three years before it finally plateaus. You will get down to the point where your retired people are here and that will be your base.

Chairman Casey requested a motion to approve the Manager's/Administrator's Report as presented. Commissioner Tackett made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-12-010

NEW BUSINESS

1. **Review RFP for Consultant** – Mr. Stratton stated that he wanted to defer the development on the RFP to Executive Session.

2. **Legal Issues**

- Executive Session to discuss litigation and potential litigation
 - MWD vs. Coleman
 - PSC Order

Chairman Casey requested a motion to convene into Executive Session. Commissioner Friend made the motion. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-12-011

Chairman Casey requested a motion to reconvene from Executive Session. Commissioner Tackett made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-12-012

Mr. Stratton stated that the Board appointed a committee to solicit bids for RFP's for a consultant to view the RFP's for contract management pursuant to the Public Service Commission's order. The committee solicited bids or recommendations from our local engineers and as a result of that, we sent out seven request for proposals. Responses were due on the 28th. We had 3 no responses, 3 declinations and 1 response that was contingent upon the Public Service Commission extending its time line for about a month. Their bid was also what we deemed to be excessively high. After consulting with Jack Hughes, our PSC attorney, and the Board, he has been directed to meet with the PSC to see if we can get relief from the order concerning the RFP and/or the time line given the responses that we have received and he will move forward with that directive.

COMMISSIONER COMMENTS

Chairman Casey inquired if there were any Commissioner comments. Commissioner Blackburn wished everyone a happy new year and hoped everyone travels safe and he will see everyone next month.

ADJOURN MEETING

Chairman Casey requested a motion to adjourn the meeting. Commissioner Hurley made the motion. Commissioner Tackett seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 15-12-013

MOUNTAIN WATERDISTRICT BOARD OF COMMISSIONERS SPECIAL MEETING

January 20th, 2016
10:00 AM

ATTENDEES

Julia Roberts, Appalachian News Express
Jody Hunt, Summit Engineering, Inc.
Stephen Caudill, Bell Engineering
Tim Campoy, EDC, Inc.
Dan Stratton, Stratton Law Firm
Mike Spears, Spears Management
Roy Sawyers, Mountain Water District Administrator
Grondall Potter, Manager, UMG
Kevin Lowe, Office/Finance Manager, UMG
Tammy Olson, Office/Compliance Manager, UMG
Carrie Hatfield, Financial Administrator, MWD

CALL TO ORDER AGENDA ITEM I

The Mountain Water District Board of Commissioners' Special Meeting was held on Wednesday, January 20th, 2016 at 10:00 a.m.

Commissioners present for the meeting were as follows:

Commissioner Ancie Casey
Commissioner Kelsey Friend, III
Commissioner Mike Blackburn
Commissioner Eddie Hurley
Commissioner Johnny Tackett

VISITORS AGENDA ITEM II

Chairman Casey inquired if there were any visitors who wished to speak. There were none.

APPROVAL OF MINUTES AGENDA ITEM III

Chairman Casey requested a motion to approve the minutes of the regular meeting held on December 30th, 2015 as presented. Commissioner Blackburn made the motion to approve the minutes as presented. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution 16-01-001

FINANCIAL REPORT – MIKE SPEARS, CPA AGENDA ITEM IV

Mr. Spears gave the financial status report. Mr. Spears stated that he has handed out the financials for the month of December. Keep in mind that there will be some audit adjustments. Cash in bank was \$321,760. Accounts receivable was \$1,185,161. Plant in place was \$140,833,427. Accounts payable at the end of the month was \$2,366,686. Equity position is \$78,977,464. On the income statement, we started seeing the rate increase numbers show up last month and were even higher again this month. Revenues for the month were \$900,527 and for the year is \$9,036,980. Utility Operating Expenses were \$939,764 and \$11,404,588 year to date. The loss for the month was \$70,646 and loss for the year is \$2,748,317. Included in the loss is depreciation of \$271,779. Depreciation year to date is \$3,261,352. Operating income for the month was negative in the amount of \$39,237. If you recall a few months ago, we were pretty well right where our depreciation was for that number basically and that was when our cash flow was at its tightest. Cash decreased by \$77,441. At the end of the month we had \$128,429 as of December 31st in the operating account. Our reserve accounts are now over \$1,600,000. Current balances in those are \$806,625 and \$816,383 respectively. We have made our bond payments are continuing to transfer \$55,000 per month to the sinking fund. We are starting to see some cash flow from the rate increase come into play and hopefully will see our accounts payable start decreasing, too. Mr. Spears stated that was all he has for now unless the Board had any questions. There were none.

Chairman Casey requested a motion to approve the financial report as presented. Commissioner Blackburn made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution 16-01-002

PAYMENT OF BILLS **AGENDA ITEM V**

Mrs. Olson distributed handouts for the payment of the bills to the Board members. After several minutes of review, Chairman Casey requested a motion to approve the payment of the bills. Commissioner Tackett made the motion to approve the bills as presented upon availability of funds as reviewed by the finance committee. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-003

CUSTOMER ADJUSTMENTS AGENDA ITEM VI

Chairman Casey requested a motion to approve Customer Adjustments in the amount of six thousand, eight hundred, and forty-four dollars and fifty-two cents (\$6,844.52) as presented. Commissioner Hurley made the motion to approve the customer adjustments as presented. Commissioner Tackett seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-004

CONSTRUCTION REPORT AGENDA ITEM VII

Update by Roy Sawyers in the absence of Jamie Noe, Vaughn & Melton.

1. Millard Curve Line Relocation –DOT Project

Mr. Sawyers stated that there is no change on this project and it is anticipated to begin in the spring of 2016 and is still on hold.

2. Majestic Alternative Sewer Project

Mr. Sawyers stated that they are still waiting on some of the surveys to trickle in and should have the results at the next board meeting.

Update by Tim Campoy, Environmental Design Consultants

1. Cabin Knoll/Scott Fork DOT Relocation Project -

Mr. Campoy stated that they are still waiting on Bush and Burchett to settle up with the DOT on the service reconnects. They have contacted the DOT and confirmed that they are still working on that and so we are still waiting on the release signed by the contractor yet.

2. KY 610 – Virgie Bridge DOT Relocation Project –

Mr. Campoy stated that the highway department is still working on the right of way issues and until they can get that taken care of we are in a holding pattern. Once that is done we can move forward with bidding the job out.

3. Lower Big Creek Waterline Relocation –

Mr. Campoy stated that in Project Area A has the majority of the line work. Everything is done on that area except for a reconnect on one end, a tie in on one end, and trying to get the reconnects

done. Once the reconnects are done, they will tie in and have those folks on water. It has already passed the pressure and bacteriological tests so everything is good there. Mr. Sawyers confirmed that all three bact's passed. Mr. Campoy confirmed that as correct. On Project Area B, the 12" road bore has been installed and the directional boring machine is supposed to be there this week to start that and go in under the creek and tie in on the other end of that. So once that bore is done, there are two reconnects that have to be made on either side of the road bore; one going down the creek and one coming back up at the intersection of Long Fork Road. They are looking for all of that to be completed the first full week of February. Mr. Sawyers inquired if the contractor was on site today. Mr. Campoy confirmed that they are. Mr. Potter stated that they needed to see if they were able to go ahead and transfer those two services at least at Francis. He has spoken with Mr. Sawyers and let him know that if the contractor can't do it right away, he will have to go ahead and let the UMG crew do it because we have used 12 rolls of line down there trying to keep those customers in water due to the freezing temperatures. He just needs to eliminate that issue as soon as possible. He can do that and we will work out something but he will get with Mr. Campoy after the meeting and discuss it. Mr. Campoy confirmed that they have had some freeze offs where lines are laying on the ground down there. He stated that the last thing is that on the bore with Project Area B, the highway department required us to extend the bore beyond the toe of the slope on either side of the road farther than we originally planned so they added another 10' of road bore to the bore and case and then an additional small bore for our service line down on the lower side, which the change order would be based on unit prices there and were are still within the amount approved for the project. He requested that the Board approve change order number 2 for that. Mr. Sawyers inquired if he is satisfied with those distances required by the highway department and considers their argument valid. Mr. Campoy confirmed that as correct. Chairman Casey requested a motion to approve change order #2 for Lower Big Creek as requested. Commissioner Tackett made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-005

Update by Stephen Caudill, Bell Engineering

1. Marshall's Branch DOT Relocation Project -

Mr. Caudill stated that there are no key changes with this project and the plans and specifications have been complete for some time. They are waiting on the highway department to go ahead and move on it.

2. Deskins Curve Line Relocation

Mr. Caudill stated that work on the tank has been in process and the tank is essentially erected. The contractor, earlier this week, stubbed out the valve vault and it is supposed to be delivered this week or the first of next week depending on the weather. The line contractor is finished in the priority area. He was ready to start on the line to the tank but the tank contractor asked him to wait until they got the valve vault set so they would interfere with the road. The line contractor has indicated that he should start laying the line to the tank next week.

Update by Summit Engineering – Jody Hunt, P.E. – on the following projects:

1. Awarded Projects:

- Douglas WWTP Upgrade Project – Mr. Hunt stated that the plans and specifications have been submitted to the Division of Water for review. They are doing the final coordination with OVIVO today with the electrical engineer on the instrumentation of the plant.
- Belfry/Pond Sewer Project Update – Mr. Hunt stated that they submitted the summary of addendum to Rural Development and are also working on the final site layout and hydraulic modeling of the additional lines.
- FEMA BPS Mitigation Project – Mr. Hunt stated that the contractor has completed 99% of the main line. He has some main line connections to do and has pretty much moved off of the project until the pump station arrives. Engineer anticipates the contractor pouring the concrete pad and being ready for the pump stations, but aside from that, that is all the work he can do until the pump stations are delivered.

With the additional two pump stations, it still looks good for FEMA Mitigation funding. He anticipates getting an agreement in the next month or so from FEMA with additional monies and it is a little over a million dollars that they are anticipating to get on that. It is for two additional pump stations, Phelps #1 and Phelps #2 which are very similar, so we have already gotten easement and are ready to go with the design on that once they sign the contract. Mr. Potter stated that Phelps #1 and Phelps #2 are on the recommendations list for replacement as they discussed in the Ops meeting. If those two get taken care of through this project, then we can roll the others up and reprioritize the others but he was waiting to see if they were going to fund these. Mr. Hunt stated that all indications from Amanda LeMaster says that everything is good to go on that one. Mr. Sawyers stated that while we are on this subject, he inquired if Mr. Hunt wanted to address the one we got turned down on with regards to the generators. Mr. Hunt stated that we submitted for generator funding as discussed in a previous meeting. We applied to purchase 2 mobile generators with quick connects at several different pump stations. We actually were turned down on that one. There wasn't a whole lot of money to go after but in his mind, they were probably thinking "hey we are going to give Mountain Water another million dollars. Let's spread the wealth around a little bit." He thinks that is maybe why they turned us down and what happened but it will remain in their system and if there is another disaster declared or additional monies that come available, it will be pulled for consideration. Mr. Potter stated that those are the ones he explained before the meeting and he has a quote that he has in hand that he got last year. The District has several main pump stations that are 100 HP, 80 HP, or 100 plus, that the towable generator capacity that we have will not operate and that is our limiting factor in some of the disasters. For the startup, he and Mr. Sawyers contacted the representatives with the electrical engineering and they recommended a 263 KW generator to operate the whole station, telemetry and all. The quote is about \$110,000 and for each site that we put the hookups will be about \$7,000 each. You'll see this later on the capital assets recommendations when it comes up. Pikeville does have a generator that will operate that and they have been a good neighbor and let us utilize it on occasion. Commissioner Blackburn inquired how much time do we have in a power outage before we get into trouble and have to hook power back to these stations. Mr. Potter stated that he can go

static and hold at certain locations for 8-12 hours until he really starts getting nervous. When we enter something like we did on the ice storms last year and were out a week in some locations, that is when he knows after the 12 hour time frame that he starts to scramble for the generators and see if he can get us in line. As long as Pikeville usually has power at their pump station that feeds that Town Mountain system, (it is a large station also), they'll let us utilize their generator. But the Board actually does need one on hand.

- Pompey Water Line Extension – Mr. Hunt stated that they are working on submitting some information to RD for the ARC money to add into this project funding. They have everything compiled and there is very minimal stuff they have to put together before they print it out and send it to RD. They were waiting on the permits to come in. They have been submitted for quite a while now and we are waiting for the Division of Water to get back with us. He thinks the holidays has thrown them off. They have made numerous calls and sent emails and are still not hearing back on the permit needed. In the mean time, they have spoken to Elwood Howe and he told them to submit what we already have and once that permit comes in we can submit it and they will finalize it. Mr. Sawyers stated that their goal is to submit what they have on Monday of next week so RD can go ahead and start the review.

Mr. Sawyers stated that with regard to the Belfry Pond Sewer Project, he inquired if he had heard anything from the Big Sandy Area Development District in regards to them supposed to do the environmental assessment. Mr. Hunt stated that he had not heard from them on that but he spoke to Brandon yesterday when we got some emails and he knows that they have done the environmental assessment and they have sent some notices out in the paper and everything but the one that Elwood Howe discussed with them yesterday, he is not sure if that exact one went out or not and he will check with Brandon on that.

PROJECT DRAWS:

Ms. Olson stated that she was told this morning that there is a correction to the amount of the draw for US Rentals and Construction for the Lower Big Creek Project. It should be \$32,718.20. Chairman Casey clarified that the \$83,486.80 is incorrect. Ms. Olson confirmed that as correct. Chairman Casey requested a motion to pay the draws as corrected contingent upon funding agency approval. Commissioner Blackburn inquired what the balance was on this project. Mr. Campoy stated that to finish it would be about \$83,000. Commissioner Blackburn stated that the amount on the draws list is the balance remaining, not this draw. Mr. Campoy stated that the number showing there was pulled off of the balance and not the "pay this amount" line. Commissioner Hurley inquired who was US Rentals and Construction. Mr. Campoy stated that is Keith Robinson's company. Commissioner Blackburn stated that he may have a crew over there helping them get these last connections done. Mr. Sawyers stated that he had subbed the work out to Waterdog Construction. Commissioner Blackburn made the motion. Commissioner Friend seconded the motion.

DESKINS BRANCH CURVE DOT RELOCATION PROJECT

Bell Engineering	DOT Funds	\$ 8,533.00
\$8,533.00	Engineering Services	

FEMA MITIGATION PROJECT

Summit Engineering	FEMA Funds	\$ 2,622.00
\$2,622.00	Engineering Services	
H2O Construction	FEMA Funds	\$ 126,264.60
\$126,264.60	Contract Construction	

DOUGLAS WWTP UPGRADES PROJECT

Summit Engineering	Coal Severance	\$ 2,678.29
\$2,678.29	Engineering Services	

LOWER BIG CREEK RELOCATION PROJECT

US Rentals & Construction	Line of Credit/US Bank	\$ 83,486.80 \$32,718.20
\$83,486.80	Contract Construction	
EDC, Inc.	Line of Credit/US Bank	\$ 5,264.69
\$5,264.69	Engineering Services	

BELFRY POND CREEK SEWER PROJECT

Summit Engineering	Coal Severance Funds	\$ 15,480.00
\$15,480.00	Engineering Services	

Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-006

MANAGER / ADMINISTRATOR REPORT

- 1. Bill Form Change Update** – Mr. Lowe distributed a new proof for the bill changes that the Board asked for. At the last meeting the Board wanted him to check to see if there was any additional charge to change the last line on the language on the right hand side to bold blue print as well as the previous changes. They prepared a new proof for us and there will no additional charge for that. Mr. Potter stated that if the Board approves and this is where you want to go with it, we need this proof to be approved. Commissioner Blackburn inquired how many of the old bills we have left. Mr. Lowe stated that he didn't know the exact total but they are expecting the current stock to run out around the end of March. During Board discussion, it was decided that the new bill form covered everything they needed it to and it was acceptable. Chairman Casey

requested a motion to approve the bill form change as presented. Commissioner Hurley made the motion. Commissioner Tackett seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-007

- 2. Water Loss Committee Update** – Mr. Sawyers stated that they had a committee meeting this morning. Both engineering firms have completed their mapping with regards to the pressure zones and the locations of the master meters. It was discussed to proceed to install a master meter location at Rockhouse in the Marrowbone area. The estimate on that to do it in-house is somewhere in the neighborhood of \$35,000 and that is with telemetry and everything. If we can't put telemetry on it the cost is about \$24,000. Mr. Potter stated that they will have to check signal path availability to see if telemetry will work there. Commissioner Blackburn stated that we have pretty well isolated Marrowbone as the first place we want to try to tackle and we have a line loss rate up there that if we are able to get 60% of that line loss eliminated, you can actually do it on 100% and then we will calculate or ballpark what we think we will be able to do this project and implement that. It is approximately 700 customers in that area. Mr. Potter stated that without running a route is about 700 customers. He thinks that there are about 3,000 in the whole zone but about 700 just in the Marrowbone sector that we are getting ready to work on. Chairman Casey clarified that it is our oldest infrastructure. Mr. Potter confirmed that as correct. Commissioner Blackburn stated that we are losing about 100 gallon per minute. Mr. Potter stated that it is spread over about 26 miles of line and he only has one master meter at the head of the hollow so what we are wanting to do is set a master meter half way basically, and get a differential on what zone will be the first location to implement the line replacement to have as much impact as we can. Commissioner Blackburn stated that we will put that thing basically in the middle and have about 350 each way. Mr. Potter stated that he thinks there are a little more at the lower end and are about 400 or 450 to 300 or something like that but it will at least give us a potential direction and based on the work order program with line leaks that we have documented on ¾" and service lines, we can use that to project the location to go. Commissioner Blackburn stated that we will need a motion to approve to implement this meter and spend the money and get the meter ordered and get the ball rolling on this. Mr. Potter stated that this will be with UMG doing it in-house. We can get the vault and all of the appropriate piping and the meter and project the telemetry radio path for right around \$35,000-\$38,000. It depends on when you actually order parts. Chairman Casey stated that if it is over \$20,000 you have to bid it. Mr. Potter stated that all together it would be but the individual parts purchased would not be. Mr. Stratton stated that if it is a unit he thinks we have to bid it out. Mr. Potter stated that we usually do the telemetry as its own unit. This would just be parts and we are doing it in-house. Mr. Sawyers stated that you would have all sorts of different parts to make up this one master meter location and we are doing it in-house, not with a contractor. Chairman Casey stated that it all goes toward the same thing and it would be over \$20,000. Mr. Potter stated that we can do that if that is what the Board wants to do and they have an item list, but he projects, if they bid it out, it will raise the cost to around \$60,000 without telemetry. Commissioner Hurley inquired if any part of that will be over \$20,000. Mr. Potter stated that the telemetry may be. Commissioner Tackett stated that is what he is saying, that it is over the limit. Commissioner Hurley stated that who you buy the telemetry from can bid that. Chairman Casey stated that you can still go ahead with all of the other little things. Mr. Spears inquired if we intended to buy two of these this year. To them, if you expect to spend \$20,000 in a year, 12 month rolling period. Commissioner Blackburn stated that the water loss plan is to go to Marrowbone and we want to

put this meter in and it will help us with the telemetry in it, because if you have a leak beyond that meter point, immediately these guys will know that there is a problem. The other thing that we want to do is to stay right there once we get the meter set, and basically do an exposure of the service lines coming off the main line. Mr. Spears inquired if they are going to approach that in a format that once you get X percent of that leak are you going to try to get 100%. Commissioner Blackburn stated that we want to get as much of it as we can. Mr. Spears stated that after some point it won't be cost effective to keep doing it. Mr. Sawyers stated that he also want to say that this water is produced from the water treatment plant and that will affect the numbers of how to come up with the cost of that. Mr. Spears stated that if you anticipate spending \$20,000 on an item in a 12 month rolling period, you have to bid it. Commissioner Hurley stated that they said that one item costs \$20,000. The companies that make them, let them bid that item. Mr. Spears stated that he agreed with that, he is just saying that on the other part that we are going to do two of them and anticipate it being \$10,000 each then we still have bid requirements to meet. The wording is if you anticipate it. Mr. Sawyers stated that to simplify that we can do a 12 month bid and hold the price for every how many you are going to buy. Commissioner Blackburn inquired if they bid the total package and it is \$32,000 why could Mr. Sawyers not make his own bid to do it internally. If he thinks he can do it at that number and it comes in at \$45,000....Mr. Sawyers stated that we are not bidding labor, just parts. The labor is being absorbed. Telemetry is pretty much sole source. Bidding it out to a contractor, you are talking about \$60,000 for a meter station plus \$30,000 for the telemetry or do it in-house for the cost of the parts. Commissioner Tackett stated that they are saying that any part included in this, if it is over \$20,000 it has to be bid. Chairman Casey confirmed that as correct. Mr. Spears stated that if they are only doing the one and it is a one time thing and not buying two sets it should be fine. Commissioner Blackburn stated that he thinks we will be focused pretty well and if you dedicate two people to the line loss project there at Marrowbone, you will be a year doing half of it. Mr. Spears stated that is one of the reasons that "anticipated" is in there, to keep people from paying \$19,900 for something without bidding it. Chairman Casey stated that we don't want to get into any of that. Mr. Spears stated that is why it is in the law, to deter that. Mr. Sawyers stated that the water loss committee also decided that UMG and he needed to sit down and work out the time line on what has been completed and accomplished so far for the report. Chairman Casey requested a motion to move forward with the Marrowbone area leak detection plan, and to approve to bid out the parts and components for the master meter as discussed. Commissioner Blackburn made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-008

- 3. Legislative Breakfast** – Mr. Sawyers stated that the Legislative Breakfast is next Wednesday and he had scheduled Commissioner Blackburn to go with him and he is unable to attend, and he wanted to see if anyone else wanted to go in his place. Chairman Casey stated that he would be in Frankfort but he will be busy. Mr. Potter stated that he will be attending also. Commissioner Hurley stated that he had other plans but if he could get out of it, he would let him know. Mr. Sawyers stated that he had a room reserved that was to be Commissioner Blackburn's so the room is already booked. Commissioner Tackett indicated to Mr. Sawyers that he would let him know this evening if he can attend. Mr. Potter stated that he has already contacted most of the legislators from the area and they can talk to them and speak to them about what we want to accomplish and hopefully they can help.

4. **Capital Assets** – Ms. Olson distributed a capital assets list to the Board members. Mr. Potter stated that we usually get this out in November but due to all of the things we have been doing with the PSC and leak detection and those items, Mr. Sawyers and he has reviewed and these are the items that he recommended that Mountain Water District purchase for the project that will be useful in the field or office. These are items that you have that needs replacement or do not have currently. The list included a sewer camera, an ultrasonic flow meter, a metal detector, a large generator, as well as office repairs and maintenance, replacement furniture and office needs. UMG's list includes an ultrasonic flow meter, a metal detector, three (3) vehicles and computers. The big ticket item is the generator which the District needs because we have four large pump stations that we cannot operate during outage events without one this large. Commissioner Blackburn inquired if when we borrow Pikeville's generator, do we just have an electrician who wires it into the box. Mr. Potter confirmed that as correct and that it takes some time. They make a plug in type set up and there is a new one that is color coded and is not like dragging a big heavy cable, it is four separate cables called the tri-star system and he really likes it. A lot of utilities are going to that and it is about \$6,500 to \$7,000 per set up per docking station. Chairman Casey inquired if there was any possibility that we could get some help on that. Mr. Potter stated that is the one we got turned down for. He tried but FEMA didn't approve the funding and he has tried several times over the years with no luck yet. Commissioner Hurley inquired what it costs to rent one. Mr. Potter stated that he has never rented one of this nature. Commissioner Hurley stated that we need to check because it may be cheaper to rent one when we need it than to pay this price for one. Mr. Potter stated that the trouble is that when we run into this, there is usually a wide spread issue and when you call to get one, there aren't any available before we get in line because the weather system usually comes across the state and we have tried multiple times and they just aren't there. He rented a big one at the water plant and it cost \$30,000 a month when he rented it. Commissioner Hurley inquired how big it was. Mr. Potter stated that it was much bigger than this and was a tractor trailer sized one. Commissioner Blackburn stated that we need to check and see if any are available via some surplus sale. Mr. Potter stated that he has looked into that and most of them are 30s or 50s and it is really hard to find about a 250. People who have them tend to hang onto them. He does look at the state surplus list and Mountain does have cards allowing them to get into state surplus sales, but he doesn't usually see anything of that nature but he will continue looking. The office building needs some guttering and maintaining and other items. Mr. Sawyers stated that when you have a building there is maintenance that needs to be done and kept up with. The parking lot needs to be sealed again also. Mr. Potter stated that we are continuing getting maps in and need those map hangers because we are running out of room. Mrs. Hatfield's office furniture is on its last legs and file cabinets are needed for the District's filing. Mr. Potter stated that if the Board sees any changes or wants to move on this now, it is for the Board's consideration. Commissioner Blackburn stated that after you get beyond the field equipment, the maintenance on the building, file cabinets, office furniture and that sort of thing should be brought to the Board on an ad hoc basis. If he wants to spend \$10,000 or \$12,000 on the building, let's get quotes and bring it to us and we'll try to give some direction. The other things are almost discretionary and things that are needed. Mr. Potter stated that he just tries to include anything over a couple of hundred dollars that may be projected and considered as assets. Ms. Olson stated that it has always been, when Mr. Potter presents this list, that the Board can approve it as it is, but any big ticket item will always be brought to the Board for bid before anything is purchased like that. Commissioner Blackburn stated that there are only two things on the office list that he would like to see again; the office maintenance and the other is the parking lot and sign. Mr. Potter stated that there is really not a sign here other than a block in the building but we haven't ever had one. Commissioner Blackburn stated that Mr. Sawyers should bring back those three items. The others, if the Board is in favor of doing it, he thinks that is just discretionary spending by Mr. Sawyers if those things are needed. These other big ticket items...he sees the need for the generator and maybe somehow we can get some assistance for that but he suggested that they get quotes for these other items to look at. Mr. Potter stated that he will get quotes from the vendors and bring them back to the Board. He stated that he has been watching the impending weather pattern and all of the District's tanks have been prepped, all generators have been fueled and tested. We try to stay ahead of the weather. In case something does happen we are in as good of shape as we can be. Chairman Casey requested a motion to approve the capital items list as presented with the exception of the three items mentioned that they wanted to see

quotes on. Commissioner Tackett made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-009

5. **End of Year Inventory**—Mr. Potter stated that this has been done. We have went through all of the vehicles, all of the parts on hand and all of the tools and those kinds of items. He has made Mr. Sawyers a copy, he has a copy and Mrs. Hatfield has a copy if anyone wants to look at it.
6. **Conflict of Interest Statements** – Mr. Sawyers stated that we do those annually. Ms. Olson distributed those with a copy of the vendor list. He stated that those need to be turned in to him once completed. If they have any questions, he or Mr. Stratton can help with that.

Mr. Potter stated that he received in the mail yesterday, and it was anticipated and we have talked about it before, the new updates have been done at the Freeburn WWTP to change to chlorine. During the time frame that led up to the prompting of the upgrades and to repair the plant, the Division of Water has finally reviewed that we were out of compliance on some of our e-coli sampling so they issued the District a Notice of Violation and will probably want to have an administrative conference so they can “discuss resolutions to the outstanding issues”. He called John Durbin the other day when he received this and told him that the plant upgrades had been done and that is what prompted the plant to be repaired and changed from UV to chlorine disinfection and he got the standard response “We will notify you when the hearing will be”. He just wanted to let the Board know. That is all he has unless they have any questions.

Chairman Casey requested a motion to approve the Manager’s/Administrator’s Report as presented. Commissioner Blackburn made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-010

NEW BUSINESS

1. **2016 Election of Officers** – The Board proceeded with nominations for the 2016 officers for the Board of Commissioners.

Commissioner Casey made the motion that Commissioner Blackburn fill the Chairman position for 2016. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-011

Commissioner Tackett made the motion that Commissioner Hurley fill the position of Vice Chairman for 2016. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-012

Commissioner Tackett made the motion that Kelsey Friend, III remain in the position of Treasurer for 2016. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-013

Commissioner Blackburn made the motion that Commissioner Casey fill the position of Secretary for 2016. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-014

2. Review of UMG Contract

Mr. Stratton stated that the Board has asked them to look at the UMG contract and appointed Mr. Spears, Mr. Sawyers and himself to do so. This has been an ongoing thing for a long time and for the record he would like to summarize the process of what they have done and how the Board has been informed in regards to what the issues are with the contract. He will also discuss some issues that they may want to consider in a decision concerning the contract. Mr. Spears has a

financial review composing different options. He stated that he wanted to point out that new Commissioners go through an in-house training program, and in this training program, besides teaching them the rules and regulations that they are bound to observe, we teach them about their legal duties and responsibilities of deciding things based on what is in the best interest of the District. We also look extensively at and spend substantial time on reviewing the UMG contract because that is an integral part of our operation. In reviewing this, we provide them a history of what the UMG contract has been since 2005 and discuss with them the reasons for the contract, the pros and cons of contract management in general, and the financial issues with that. We have also reviewed with all of the Commissioners the issues raised in the state audit that was done a few years ago concerning the contract process and what we should consider if we do that again. Next, we look at the UMG contract itself. We review the various forms and variations that we have worked through and the evolution of the contract that has taken place over time. We have looked at UMG's duties and Mountain Water's duties in regards to the contract. We have also looked at the financial structure of the contract and how that contract's financial structure has changed over time. During these discussions, there has been active questioning about why and what things are and why we do the things that we do and we answer those questions to the best of our ability. When the PSC, in case number 342, directed the Board on October 9th to bid out the contracting of the contract services, the Board, at its October 28th meeting, went into executive session to discuss whether or not that order should be appealed or to request a modification. During that session, there was extensive discussion as to whether or not we would go independent and the issue was that if we were not going to look at going independent or consider that as an option, then there was no need to address the issue of the PSC order. However, based on those discussions, the Board said that there was a basis for seriously looking at whether or not they should continue the UMG contract, so we asked for relief from this Order. That is when we petitioned in early November for reconsideration or modification of the PSC's Order that required us to bid out contract services. On November 17th, the PSC denied our request in part as it applied to doing an RFP for consultants in regards to bidding out the work. On November 25th at the monthly meeting, the Board directed the staff to comply with the PSC's Order. We went through an extensive process to find...we had 7 proposals that went out to consultants. We had 3 'no responses', 3 declinations and 1 acceptance; however, that acceptance was subject to an amendment to the PSC's time line which they felt was unrealistic and the cost of that proposal was estimated to be between \$65,000 and \$75,000 with a price not to exceed \$90,000 which we felt was excessive. From here, the Board weighed the merits of making a final decision about UMG's contract and we delayed until we could talk to the PSC and inform them that the Board was seriously considering looking at terminating the contract and asking if so, do we really need to go forward with the bids. We met last week with the PSC. Now we are currently in a situation where compliance with the PSC order is not physically possible and we have a resolution to present to you in executive session. In the executive session that they had in October, one of the issues that they discussed was when would be the proper time to make a decision in regards to the UMG contract. There was great concern on the Board if they delayed that decision, then the cost of that contract extension would be at the expense of the Board, or the expense of the Director rather, and that is money that could be saved if they terminated the contract sooner rather than later. They have a real issue in terms of timing on this because we have a six month lead time in regards to giving notice to UMG and to transition to whatever direction we go. We are caught in a situation where we can't give adequate lead time notice before the end of the contract and probably comply with PSC's Orders for request for bidding everything out. So we are in a situation now where we can make a decision one way or another and then we will have to go back and work with the PSC on trying to address what they may or may not require us to do. In addition to this process, we have looked at proposed management organizational charts, we have looked at financial matters and we have looked at how this would be done, which was essentially based on how we did it in 2009 when the contract was terminated. He wanted to establish for the record, the process the Board has gone through in regards to looking at this analysis and that they considered a number of things. The last thing he will share is this; in looking at this, the benefits of direct versus indirect Board control...under the statute KRS 74, the Board is empowered to "control and manage the affairs of the District" to the extent that they contract out, that is a delegation of that control, which you can do. When we first went to contract management one of the main considerations was that the Board did not have to deal with employees directly and we have had to tweak that a little bit in the process to

have better oversight and control for the Board by bringing in an Administrator and a Financial Administrator and we had to weigh personnel management against contract management. So while we haven't had to manage personnel, there has been considerable time spent on management of contract issues. The other issue with contract management is that you can direct a contractor on what needs to be done but cannot direct them on how to do it. That is the whole purposes of an independent contract and that is something that you should weigh in your consideration. Another issue, as we have found, although nobody's fault, contracts can't cover every contingency. We had provided, for example, the water loss was paid for by our contractor, which was fine, and he thinks they have done a good job trying to manage it, such as it is, but now the PSC has come in and said that we've got to do a better job managing water loss and whether or not that is something that we would have done better independently, he doesn't know. The bottom line comes down to how tight of control on operations that you can through contract management. Those are the issues to think about and consider. He deferred to Mr. Spears at this time to speak to the Board with regard to the financial analysis.

Mr. Spears stated that during the PSC's rate increase study we were tasked that we had never done a cost analysis of what it would cost us to operate the District on our own and he prepared at that time a projected cost which ran for the rate study period of July 1, 2013 through June 30, 2014. At that point in time, he used UMG's direct numbers, our additional expenses that we anticipated to have over and above their direct expenses not including their management fees. At that time he came up with the number of about \$370,000 and that was with the addition of a Human Resources person, Safety Director and Accounts Payable Clerk in addition to the staff and those were positions that were filled at corporate office and were part of the corporate overhead. In discussions, best case scenario, we believe that possibly we can absorb an HR Director and Safety Director, if the Board chose to go back independent, you could absorb those into other positions existing at the District within UMG's direct expense categories. With that in mind, if you look at page 1 with UMG's direct expenses and go down to the first set of totals, that is the payroll and administrative expenses which takes into account salaries and wages. They are itemized as health insurance, life insurance expense, long term disability, state retirement (which theirs is a private 401K), travel, and office expense. This is not the operations in the field but the payroll and administrative expenses. They totaled \$3,276,018. In addition to that you will see the third column over that says "Mountain Water Additional" where we projected the AP Clerk additional. The HR and Safety Directors are eliminated. Keep in mind that will give you a range from the \$370 to where he came to. The payroll taxes below there are the payroll taxes on that one personnel. The health insurance expense is \$800 a month over 12 months and is where we are at with some of our current employees and that could change. Keep in mind the base is UMG's, what they have expended. Life insurance, long term disability, same thing. With state retirement being the big number. UMG's is a private 401K. We'll get the state retirement. On page 3 has some of the numbers and assumptions and will correspond to these numbers. That will be 18.6% on all employees that will be what it will take to get us there and 364 will be that number in the projected cost total. He has taken out vehicle leases and he will touch on that later in the presentation. The totals for payroll and administrative, UMG's direct expenses during this period were \$3,276,018 and the additional is \$288,758 for a total of \$3,564,766. The next category is direct operations which is uniforms, safety supplies, chemicals and all the fancy words that the project supervisors use and he doesn't know what these are; dechlorination agents, etc. But it is the direct expenses of the operations side. UMG's cost is \$2,703,011 and he has not adjusted that because we will be producing the same amount of water and treating the same amount of sewer, etc. Repair and maintenance, same theory. They spent \$771,775 on repair and maintenance and again, we will have the same expenditures. Now getting back to where he reduced for the lease payments, we have some cash expenditures for note payments if the Board were to take control and run independently, of approximately \$69,306 that UMG currently pays for the capital items that they keep updated, vehicles and equipment that we would have to pay what they currently pay. We also have estimated for five additional vehicles for some of the corporate positions and some of the positions that we feel like we will have to replace that are used directly on our project. Those would be for the management employees. For an additional \$30,000 for a total of \$99,306 and we are currently paying nothing for that so that would be a total increase. The total expenditures for UMG's direct operations is \$6,750,784 and he added \$388,064 to that for a total of \$7,138,848. During that same period of time, July 1, 2013 – June 30, 2014, we paid

UMG \$7,600,837 and projected differential would be, with one employee, \$462,000. If we had to use all three, it would be \$370,000 so that will be your range of how you will absorb those employees into that number. With that, Mr. Spears concluded his presentation.

Mr. Stratton stated that the decision at this time would be if you want to keep the contract or if the Board wants to go independent. The appropriate motion would be if you want to terminate the contract and go independent or take no action. Commissioner Tackett stated that he makes a motion to terminate it looking at these numbers and the savings that he would see at the end of this thing considering it is the same number of employees that UMG is using at this, plus a lot of those were current employees of Mountain Water. Chairman Casey stated that he has a motion by Commissioner Tackett and needs a second. Commissioner Blackburn seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-015

Mr. Stratton stated that the Board would need to direct him to provide notice to UMG as required in the contract. Commissioner Blackburn agreed that he needed to provide the notice.

3. Legal Issues

- Executive Session to discuss litigation and potential litigation
 - MWD vs. Coleman
 - PSC Case No. 2015-00342
 - PSC Case No. 2015-00353
 - City of Williamson Utilities

Chairman Casey requested a motion to convene into Executive Session. Commissioner Hurley made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-016

Chairman Casey requested a motion to reconvene from Executive Session. Commissioner Tackett made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-017

Mr. Stratton stated that with regard to MWD vs. Coleman, the Board has given counsel the authority to settle the case in mediation scheduled for February. In regards to PSC Case No. 2015-0342, in light of the fact that the Board has voted to terminate the contract with UMG, counsel, in cooperation with Jack Hughes, has been directed to file a new petition with the PSC requesting relief from the requirement to bid the contract out again. With regard to PSC Case No. 20015-00353, counsel has reported a tentative settlement of the matter subject to PSC's Commission approval and it has not yet been presented to them. In regards to the City of Williamson Utilities, this involves the rate increase recently announced by the City of Williamson and he needs a motion for the Board's approval to engage David Hannah of Charleston, WV, a PSC Attorney there, to represent us. Chairman Casey requested a motion to employ Mr. Hannah to assist the Board in the affairs with the PSC in WV in this matter. Commissioner Blackburn made the motion. Commissioner Tackett seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-018

Mr. Stratton continued by stating that they have also discussed different options on how this can be best resolved and counsel has been given direction on how to move forward in that issue.

COMMISSIONER COMMENTS

Chairman Casey inquired if there were any Commissioner comments. There were none.

ADJOURN MEETING

Chairman Casey requested a motion to adjourn the meeting. Commissioner Tackett made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

Commissioner Casey	Aye
Commissioner Friend	Aye
Commissioner Blackburn	Aye
Commissioner Hurley	Aye
Commissioner Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-01-019

Memo

TO : MWD Board of Commissioners
FROM : Daniel P. Stratton, Esq.
DATE : October 12, 2015
REGARDING : PSC Rate Order

SUMMARY OF DEADLINES

The PSC's Order provides for a number of deadlines to which we are obligated to respond, and they are as follows:

- 1) Within twenty days (**October 29, 2015**), the District will file revised Tariff sheets with the Commission, using Commission's electronic Tariff filing system, setting forth the water and sewer rates approved herein.
- 2) Within ninety days (**January 7, 2016**), District should:
 - a) identify the sources of 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 estimated cost for each project.

- 3) Within one hundred twenty days (**February 6, 2016**), provide a detailed plan to find each identified water loss project that specifically identifies credible funding sources.
- 4) Within one hundred eighty days (**April 6, 2016**), obtain services of an outside independent consultant that has no past history with Mountain Water District, or its current or former members of the Board, or UMG, or UMG's owners, to perform the following:
 - a) prepare and issue an RFP to solicit bids from firms interested in providing managerial and operational services to MWD; and
 - b) analysis the bids received based on factors including cost and bidder's qualifications, identifying the top response and document the analysis.
- 5) Within two hundred forty days (**June 5, 2016**), MWD should submit to the Commission, a written report that discusses the results of the RFP solicitation for the management of its water and sewer divisions, reports shall include a detailed analysis supporting the decision.

In the near future (?), the Commission will initiate a new proceeding to more thoroughly investigate MWD for issuing evidence of indebtedness without prior Commission approval (being the \$500,000 UMG loan made to the District in 2009 to extend the contract).

Memo

TO : MWD Board
FROM : Daniel P. Stratton, Esq.
DATE : November 23, 2015
REGARDING : PSC Rate Study

CONTRACT SERVICES

PSC has ordered MWD to obtain the services of an outside consultant (with no prior ties to MWD) to prepare and issue an RFP to solicit bids for providing managerial and operational services. The consultant is to also analyze the bids, identify top responses, and document responses by April 8, 2016.

MWD will submit to the PSC, a written report that discusses the results of the RFP solicitation by June 8, 2016.

This process is mandated, even if you elect to go independent.

After reviewing various options, and the UMG Contract, we are recommending that the following time table be established so if the Board elects to select a new contractor, keep UMG, or go independent, either choice can coincide with the end of UMG's current contract in December 2016.

OPTION I

TIMELINE

- November 25, 2015
(*Regular Meeting*)
 - Approve plan for getting RFP.
 - Letter to local engineers asking for recommendations for consultants.
- December 4, 2015
 - Deadline to receive recommendations.
- December 7-11, 2015
 - Contact potential consultants and provide necessary information.
- December 23, 2015
 - Deadline to receive proposals for consultants.
- December 29, 2015
 - Send information for consultants to Board.
- December 30, 2015
(*Regular Meeting*)
 - Board to select consultant / Notify winner.
- January 2, 2016
 - Make decision on UMG contract. Notify UMG if contract is terminated.
- January 15, 2016
 - Consultant to develop RFP.
- January 18, 2016
 - Advertise RFP (per consultant's plan).
 - Site visits may be needed by prospective applicants.
- March 22, 2016
 - Deadline to receive bids.
- March 30, 2016
(*Regular Meeting*)
 - Consultant to document responses and recommendations to MWD.
- April 6, 2016
(*Special Meeting*)
 - Review consultant's recommendations, and to make a decision.
- April 8, 2016
 - Consultant to document responses and recommendations to PSC. (PSC deadline)
- April 27, 2016
(*Regular Meeting*)
 - Consultant to report to PSC. (PSC deadline 6/8/16)
- July 1, 2016
 - UMG Contract ends if Notice sent on January 2, 2016.

OPTION II

TIMELINE

- | | |
|---|--|
| November 25, 2015
(<i>Regular Meeting</i>) | - Approve plan for getting RFP. |
| | - Letter to local engineers asking for recommendations for consultants. |
| December 4, 2015 | - Deadline to receive recommendations. |
| December 7-11, 2015 | - Contact potential consultants and provide necessary information. |
| December 23, 2015 | - Deadline to receive proposals for consultants. |
| December 29, 2015 | - Send information to Board. |
| December 30, 2015
(<i>Regular Meeting</i>) | - Board to select consultant / Notify winner. |
| January 15, 2016 | - Consultant to develop RFP. |
| January 18, 2016 | - Advertise RFP (per consultant's plan). |
| | - Site visits may be needed by prospective applicants. |
| March 22, 2016 | - Deadline to receive bids. |
| March 30, 2016
(<i>Regular Meeting</i>) | - Consult to document responses and recommendations to MWD. |
| April 6, 2016
(<i>Special Meeting</i>) | - Board meeting to review consultant's recommendations, and to make a decision. Notify UMG if contract is cancelled. |
| April 7, 2016
(<i>Regular Meeting</i>) | - Consultant report to PSC and notice to UMG, if applicable. |
| April 8, 2016 | - Consult to document responses to PSC. |
| October 6, 2016 | - UMG contract ends, if notice from April 6 th . |

MEMO

TO : **MWD Board of Commissioners**

FROM : **Daniel P. Stratton, Esq.**

DATE : **December 29, 2015**

REGARDING : **PSC ORDER 2015 - 00342**

REQUEST FOR PROPOSAL ("RFP")

The Board submitted seven (7) requests for RFPs for a consulting engineer to solicit and evaluate RFPs for management of the District, pursuant to the Public Service Commission's ("PSC") order. Of the seven (7) proposals sent out, we received one (1) response; three (3) declinations; and three (3) no responses.

The one (1) response that we received was contingent upon the PSC extending its timeline, about a month and extending our timeline about six (6) weeks. This offer, from The Prime Group of Louisville, Kentucky, gave an estimated price of \$65-75,000, with a price not-to-exceed \$90,000. We consider this price to be too high. At their top hourly rate, this would constitute more than *four hundred* (400) hours of work, and we believe that is excessive.

The PSC's timeline for a preliminary report on RFP's for contractors is April 6th, with a final report analysis due on June 5th. The Prime Group is proposing a preliminary report on or about June 20th (assuming we approve them today), and a final report would be due July 6th. It was our goal to have the information available to make a decision about going independent, or to use a third-party contractor, by April 6th. If we do not have this information until June or July, then it would not be feasible for us to make

a decision about going independent, based on the bids, until that time. This would extend UMG's contract another six (6) months, which would be the longest we could delay it, because we need six months as a transition period, if the Board elects to exit the contract.

Roy, Mike, Jack and I, have reviewed the matter, and we propose the following options for your consideration:

First, Jack would submit a request for a meeting with the PSC to review the facts concerning the price and timeline issues with the contingent bid that we did receive for the RFP. At that conference, we would state, subject to the Board's verification today, the Board's preference to terminate the UMG contract and go independent. However, we did not want to make that decision formally, until such time as this issue is cleared up concerning the RFP. We believe, based on the rate study, that there is sufficient information for the Board to make an informed decision to support going independent, even without considering any new bids.

Second, the Board does not want to go to this expense for an RFP, especially since we want to go independent.

Third, if the PSC directs us to do an RFP, then we would ask that we be allowed to do so on our own because we only anticipate two (2) bids at this time, one being from UMG, and one being from Veolia, and we can meet the timeline that we need to move forward. In the alternative, we will be able to use a local engineer as a consultant.

Lastly, in the alternative, if the PSC grants us relief from the order, we would agree to comply with it in the event that we ever elected to contract out services in the future.

Pursuant to Jack's conversations with the PSC staff, in order to address this issue, it appears that we are going to either have to ask that the old case be reopened, or that a new case be opened to address the relief needed from the prior order. They will not be able to give us a status conference on the prior matter, because it has been closed. Accordingly, it will take several weeks in order to get this set up with the PSC.

REQUEST SENT

J.R. Wauford - Nashville, TN	12/08/15
Lamar Dunn & Associates - Knoxville, TN	12/08/15
Barge, Waggoner, Sumner & Cannon, Knoxville, TN	12/08/15
Jacobs, Knoxville, Tennessee	12/08/15
Hungate Engineering, PC, Johnson City, TN	12/08/15
Appalachian Technical Services	12/08/15
The Prime Group	12/15/15

RESPONSE RECEIVED

J.R. Wauford	_____	no response
Lamar Dunn	12/13/15	declined
Barge Waggoner	12/14/15	declined
Jacobs	_____	no response
Hungate	_____	no response
ATS	12/___/15	declined
Prime Group	12/28/15	submitted

RFP SCHEDULE

<u>TASK</u>	<u>PSC</u>	<u>MWD</u>	<u>PRIME</u>
Select Consultant		12/30	
Develop RFP		1/22	3/1 (60 days)
Advertise RFP		1/25	3/1
Deadline for Bids		3/29	5/30 (90 days)
Preliminary Report	4/6	4/4	6/20
Bid Decision (<i>special meeting</i>)		4/6	6/27
Preliminary Report to PSC		4/8	
Final Report to PSC	6/5	4/27	7/6

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

Mountain Water District ("Mountain District") applied for an adjustment of its water and sewer rates pursuant to the procedures set forth in 807 KAR 5:001, Section 16. Mountain District proposed water rates that would produce additional revenues of \$2,550,075, or 33.5 percent, over operating revenues from existing water rates of \$7,620,897; and sewer rates that would produce additional revenues of \$1,673,407, or 188.34 percent, over operating revenues from existing sewer rates of \$888,494. For the district as a whole, the applied-for rates would produce additional revenue of \$4,223,482, or approximately 49.6 percent more than the current \$8,509,391.

By this Order, the Commission establishes water rates that will produce an annual increase in revenues from water sales of \$1,265,720 and sewer rates that will produce an annual increase in revenues from sewer service of \$1,505,720. The total of \$2,771,440 is an increase of approximately 32.6 percent over current total revenue.

Because of the magnitude of the increase in sewer rates, and in keeping with the Commission practice of gradualism to mitigate rate shock, the rate adjustments are to be implemented in three phases over two years. In order to provide Mountain Water

with consistent annual revenue, water rates are being temporarily set at a higher level than the final increase, and will decline as sewer rates rise.

This will gradually reduce the long-standing subsidization of sewer service through water rates. At the end of the two-year period, both water and sewer rates will more closely reflect the cost of providing those services.

Our action will increase the monthly bills for a residential customer with a 5/8-inch by 3/4-inch meter that uses 5,000 gallons of water monthly as follows: the bill for water service initially will increase from \$41.05 to \$53.28, or 29.8 percent, and will decline to \$47.89 – a 16.6 percent increase over current rates – in two years; and the bill for sewer service initially will increase from \$32.00 to \$50.08, or 56.5 percent, and will rise to \$86.24 – a total increase of 169.5 percent – at the end of the two-year phase-in period.

BACKGROUND

Mountain District is a water district organized pursuant to KRS Chapter 74. It owns and operates water treatment and distribution facilities that provide retail water service to approximately 17,145 customers in Pike County, Kentucky and wholesale water service to Mingo County Public Service District (located in West Virginia), Martin County Water District, the city of Jenkins, Kentucky, and the city of Elkhorn, Kentucky.¹ Mountain District's sewer division owns and operates sewage collection facilities in Pike and Floyd counties, Kentucky, that serve 2,178 residential customers and 194

¹ *Annual Report of Mountain Water District Water Division to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2013* ("2013 Water Annual Report") at 12, 53, and 59.

commercial customers.² Its last general rate adjustment for the water division occurred in December 1997.³

PROCEDURE

On September 25, 2014, Mountain District notified the Commission in writing of its intent to apply for a general adjustment of water and sewer rates using a historical test year. On November 20, 2014, Mountain District tendered its application ("Application"). After Mountain District corrected filing deficiencies, its Application was accepted for filing on December 11, 2014. The Commission established this docket and permitted the Attorney General of Kentucky ("AG") to intervene in this matter.

In its December 23, 2014 Order, the Commission established a procedural schedule to ensure the orderly review of Mountain District's Application. After Mountain District filed a revised tariff complying with the requirements of KRS 278.180(1) and 807 KAR 5:011, Section 9, the Commission issued an Order on January 9, 2015, suspending the operation of the proposed rates for a period of five months from their proposed effective date of January 11, 2015, up to and including June 10, 2015.

Following extensive discovery, the Commission held an evidentiary hearing in this matter on May 20, 2015, in Frankfort, Kentucky.⁴ The Commission also held a

² *Annual Report of Mountain Water District Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2013* at 9 and 25.

³ Case No. 1996-00126, *In the Matter of an Investigation into the Operations and Management of Mountain Water District* (Ky. PSC Aug. 11, 1997).

⁴ The following persons testified at the evidentiary hearing on behalf of Mountain District: Kevin Howard, P.E., Vice President of Summit Engineering; Roy Sawyers, Mountain District Administrator; Michael Spears, CPA; Grondall Gene Potter II, Utility Management Group ("UMG") Project Manager; and Rob Meyer, UMG Corporate Financial Office. The AG did not sponsor any witnesses.

public meeting in Pikeville, Kentucky, on April 16, 2015, to receive public comment on the proposed rate adjustment. All parties submitted written briefs following the conclusion of the evidentiary hearing.

ANALYSIS AND DETERMINATION

Test Year

Mountain District proposes to use as its historical test year the 12-month period ending June 30, 2014, as adjusted for known and measurable changes. The Commission finds the use of this period reasonable.

Income Statement

For the test year, Mountain District reported actual operating revenues and expenses for its water division of \$7,620,897 and \$8,954,342,⁵ respectively.⁶ Mountain District proposed several adjustments to the water division's operating expenses to reflect current and anticipated operating conditions resulting in pro forma operating expenses of \$9,521,847.⁷

For the test year, Mountain District reported actual operating revenues and expenses for its sewer division of \$888,739 and \$2,431,895, respectively.⁸ Mountain District proposed several adjustments to the sewer division's operating expenses to

⁵ \$6,265,396 (Operating Expenses) + \$3,444 (Amortization) + \$11,816 (Payroll Taxes) + \$2,673,686 (Depreciation Expense) = \$8,954,342.

⁶ Application, Exhibit B-1, Schedule W-B, Pro Forma Adjustments to Historic Test Year at 1-2.

⁷ *Id.* \$6,832,901 (Pro Forma Operating Expenses) + \$3,444 (Pro Forma Amortization) + \$11,816 (Pro Forma Payroll Taxes) + \$2,673,686 (Depreciation Expense) = \$9,521,847.

⁸ Application, Exhibit B-5, Schedule S-B, Pro Forma Adjustments to Historic Test Year at 1-2.

reflect current and anticipated operating conditions resulting in pro forma operating expenses of \$2,448,647.⁹

The Commission's review of Mountain District's pro forma adjustments for its water and sewer divisions is set forth below.

Stand-Alone Analysis. Mountain District executed a new management contract with UMG on March 27, 2014.¹⁰ The term of the March 27, 2014 management contract was for three years commencing on January 1, 2014, and ending on December 31, 2016.¹¹ The contract allows for either party to terminate the agreement, without cause, at the end of the second year and with 180 days prior notification.¹² Mountain District agreed to pay to UMG an annual fee of \$7,680,850 (\$640,070.83 per month) in calendar year 2014 and an annual fee of \$ \$7,757,660 in calendar years 2015 and 2016.¹³

The total test-year UMG management fee was \$7,349,659, of which Mountain District allocated \$5,887,776¹⁴ to its water division and the remaining \$1,461,883¹⁵ to its

⁹ *Id.*

¹⁰ Application, Exhibit O, Agreement for Operations, Maintenance and Management Services at 1.

¹¹ *Id.*, Paragraph 11.1, Term, Termination and Default at 14.

¹² *Id.*

¹³ *Id.*, Paragraph 7.1, Compensation at 11.

¹⁴ Application, Exhibit B-2, Schedule W-B at 1. \$5,812,426 (Contract Services – UMG Management) + \$465,864 (Contract Services – R&M) - \$350,460 (Contract Services – Assumed Expenses by UMG) - \$40,054 (R&M Overage) = \$5,887,776.

¹⁵ Application, Exhibit B-5, Schedule S-B at 1. \$1,224,408 (Contract Services – UMG Management) + \$98,136 (Contract Services – R&M) - \$73,830 (Contract Services – Assumed Expenses by UMG) + \$213,168 (R&M Overage) = \$1,461,882.

sewer division. Mountain District proposed to increase the UMG management fee by \$250,026 to reflect: a 1 percent management fee increase of \$76,009;¹⁶ a 3 percent estimated electric rate increase of \$33,288; an annual 1 percent adjustment of \$41,500; and the elimination of the final loan forgiveness of \$99,229. The pro forma UMG management fee being allocated to the water and sewer divisions is \$6,121,050¹⁷ and \$1,478,635,¹⁸ respectively.

Because Mountain District stated that it did not know exactly how much it would cost to operate the district without a third-party contractor, the AG argues that Mountain District was unaware whether the UMG contract price was a benefit or detriment to the ratepayers.¹⁹ The AG points to Mountain District's analysis that showed "it would see initial cost savings of at least \$374,565 if operations were brought back in-house."²⁰ The AG takes issue with the following two basic assumptions in Mountain District's analysis: (1) Mountain District's staffing levels would remain the same as UMG; and (2) the UMG repair and maintenance budget is reasonable and documented by evidence.²¹

¹⁶ Mountain District states that the 1 percent increase is required by the Agreement, but the Agreement does not specifically mention a 1 percent management fee increase. The difference between the 2014 and 2015 annual management fee is 1 percent, and there is no increase in the management fee in 2016.

¹⁷ Application, Exhibit B-2, Schedule W-B at 1. \$5,870,550 (Contract Services – UMG Management) + \$29,762 (3% Increase Purchased Power Increase) + \$470,523 (Contract Services – R&M) + \$41,500 (Annual 1% Adjustment) - \$251,231 (Contract Services – Assumed Expenses by UMG) - \$40,054 (R&M Overage) = \$6,121,050.

¹⁸ *Id.*, Exhibit B-5, Schedule S-B at 1. \$1,236,654 (Contract Services – UMG Management) + \$3,526 (3% Increase Purchased Power Increase) + \$99,117 (Contract Services – R&M) - \$73,830 (Contract Services – Assumed Expenses by UMG) + \$213,168 (R&M Overage) = \$1,478,635.

¹⁹ Attorney General's Post-Hearing Brief ("AG's Brief") at 19.

²⁰ *Id.* at 9.

²¹ *Id.*

The AG states that Mountain District's analysis ". . . simply carried over 100 percent of the contractor's employees, which included two executive assistants, two customer service managers, an Operations Manager, a Senior Project Manager, an Electrical Maintenance Manager, an HR Director, a Safety Officer, and seven separate area Managers, among a multitude of hourly employees who were deemed to be necessary to run the day to day operations."²² According to the AG, the only salary study provided by Mountain District was a comparison performed by UMG of its contractor positions to the Kentucky Rural Water Association ("KRWA") salary survey and not the possible consolidated positions.²³ The AG adds that this analysis shows that the contractor positions were at or above the maximum KRWA salary range, thus demonstrating that UMG's salaries are on average higher than the other Rural Water Districts in the Commonwealth.²⁴

The AG contends that the annual repair and maintenance ("R&M") budget has increased every year since the inception of the UMG contract in 2005.²⁵ According to the AG, the R&M increases have been so substantial that in the March 27, 2014 contract, UMG forgave \$118,932 of the R&M overage because Mountain District did not have sufficient funds to pay the contract fee, the R&M overage, and its required bond payments.²⁶ The AG points to Mountain District's claim that its employees have oversight of every invoice billed as an R&M expense, but Mountain District was unable

²² *Id.* at 9-10.

²³ *Id.* at 10.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

to point to an example where an R&M work order was rejected or denied.²⁷ Because UMG pays some R&M expenses out of pocket and Mountain District pays some directly, the AG states that Mountain District “cannot illuminate a clear path for how these vendor payments get paid, billed or logged.”²⁸

The AG states that Mountain District’s response to Item 14 of the Post-Hearing Data Request lacks detail or analysis, and contradicts the term in the March 27, 2014 UMG contract, wherein \$118,932 of the R&M overage was to be forgiven upon execution.²⁹ The AG adds that, “[t]here is no incentive for UMG to keep the R&M costs low, as any amount that exceeds the set fee is repaid through R&M overage account.”³⁰ For these reasons, the AG argues that there is no credible evidence to show what the R&M budget would be if the District returned the operations back in-house.³¹

The AG argues that Mountain District failed to eliminate the Corporate Fee of \$300,000 and the Corporate Overhead of \$467,927 from its stand-alone analysis, which “would inure to the rate payers, should the District return to independent operations.”³² The AG concludes that Mountain District’s financial analysis is not comprehensive, and “failed to consider the savings that would inure to the ratepayers if UMG profits were eliminated.”³³

²⁷ *Id.* at 11.

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.* at 12.

³² *Id.*

³³ *Id.*

The Commission agrees with the arguments as presented by the AG. For these reasons, the Commission finds that test-year operating expenses should be adjusted to reflect the cost Mountain District would incur if it operated the water and sewer divisions on a stand-alone basis. Accordingly, the Commission removed the cost of the UMG contract from the water division's and sewer division's test-year operations in the amounts \$5,887,776 and \$1,461,883, respectively, and replaced these amounts with the expenses Mountain District would incur on a stand-alone basis. These adjustments are explained below and are accounted for on the pro forma operating statements that appear on pages 27 and 28 of this Order.

Water Division Expenses. In the test year, Mountain District's water division reported the following expenses:

	Test-Year Water
Salaries & Wages	\$ 124,224
Commissioner Fees	30,000
Materials and Supplies	20,077
Accounting	72,550
Legal	39,034
Rental of Building - Real Prop	100
Other Legal PSC Expense	4,918
Education, Dues, and Meetings	31,397
Settlement Expense	3,010
Service Fees	3,730
Bank Service Fees	23,857
Retirement	20,760
Payroll Taxes	11,816
	<hr/>
Total	\$ 385,473

In responding to interrogatories, Mountain District explained that none of the expenses are allocated to the sewer division, but that if the Commission deemed it necessary to allocate the expenses between the two divisions, then 83 percent should

be allocated to the water division and 17 percent to the sewer division. Mountain District did not explain the basis for its allocation or provide supporting documentation.³⁴

The operating expenses in the table above are primarily related to customer service and administrative activities that were incurred by Mountain District for the benefit of both divisions. The Commission finds that there is a direct correlation between these expenses and the number of customers served by each division. Using the ratio of customers served by each division, the Commission is allocating 12.105 percent³⁵ of the expenses to the sewer division, as shown in the table below:

	Test-Year	Cost Allocation Between Divisions	
	Water	Water	Sewer
Salaries & Wages	\$ 124,224	(15,037)	\$ 15,037
Commissioner Fees	30,000	(3,632)	3,632
Materials and Supplies	20,077	(2,430)	2,430
Accounting	72,550	(8,782)	8,782
Legal	39,034	(4,725)	4,725
Rental of Building - Real Prop	100	(12)	12
Other Legal PSC Expense	4,918	(595)	595
Education, Dues, and Meetings	31,397	(3,801)	3,801
Settlement Expense	3,010	(364)	364
Service Fees	3,730	(452)	452
Bank Service Fees	23,857	(2,888)	2,888
Retirement	20,760	(2,513)	2,513
Payroll Taxes	11,816	(1,430)	1,430
Total	<u>\$ 385,473</u>	<u>(46,661)</u>	<u>\$ 46,661</u>

Purchased Water. The reported test-year purchased water expense for Mountain District's water division was \$1,114,660.³⁶ According to Mountain District, the test-year

³⁴ Mountain District's Responses to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 18.

³⁵ $2,357$ (Sewer Division Customers) + $17,115$ (Water Division Customers) = $19,472$ (Total System Customers). $2,357$ (Sewer Division Customers) ÷ $19,472$ (Total System Customers) = 12.105%.

³⁶ Mountain District's Responses to Commission Staff's First Request for Information ("Staff's First Request"), Item 2, MWD Department P and L, for 12 Periods from 7/1/2013 to 6/30/2014, Transmission/Distribution at 2.

water loss for its water division was 27 percent. However, the Commission has determined that the actual test-year water loss was 29.32 percent, as calculated below:

Water Produced/Purchased	1,677,079,000
Less: Water Sales	(959,939,000)
Other Water Used	<u>(225,414,000)</u>
Line Loss - Gallons	<u>491,726,000</u>
Divide by: Water Produced/Purchased	1,677,079,000
Line Loss - Percentage	<u>29.320%</u>

Because Mountain District is the combination of four different water utilities, it "is unsure of the condition of the facilities it inherited or the previous practice and procedures of installation, repairs, and routine maintenance performed by those districts."³⁷ Mountain District attributes the excessive water loss to inaccurate meters, theft of service, and infrastructure failure caused by climate, soil corrosion, and improper installation.³⁸

Mountain District states that it operates a complex system in the largest county in the state, with sparse population density and mountainous terrain.³⁹ According to Mountain District, it has since its inception maintained a Water Loss Program that encompasses: (1) use of a leak detection crew; (2) master meter monitoring; (3) accuracy testing on residential and commercial meters; (4) monitoring of troubled areas for leaks; and (5) a service line replacement program.⁴⁰

³⁷ Mountain District's Responses to the Commission Staff's Third Request for Information Clarification Responses ("Staff's Third Request – Clarification"), Item 15.b.

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *Id.*

Mountain District's goal is to reduce its water loss to 25 percent in five years and to reduce water loss to 20 percent in ten years.⁴¹ Mountain District currently identifies and ranks locations that have the most water loss issues.⁴² Based upon that analysis, Mountain District will begin replacement of the identified infrastructure to meet its water loss percentage goals.⁴³ However, Mountain District admits that until a funding source is located, it will be unable to reach its water loss goals.⁴⁴

Mountain District is requesting that the Commission grant it a deviation from 807 KAR 5:066, Section 6(3), but the AG argues that "[t]he District has not submitted any credible evidence sufficient to meet the burden of proof to establish an alternative level and the request should be denied."⁴⁵ Although Mountain District's Water Loss Control Program has been in place since 2005, the AG contends that "there has been no documented improvement or reduction in the water loss since its inception."⁴⁶ According to the AG, Mountain District's proposal to reduce water loss to 20 percent is not supported by any specific activity contained in the existing Water Loss Plan. Mountain District made no mention of conducting an audit or working on the metering system, and the plan did not contain "any hard evidence to support this goal."⁴⁷

⁴¹ *Id.*

⁴² *Id.*

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ AG's Brief at 12.

⁴⁶ *Id.* at 13.

⁴⁷ *Id.*

Arguing that Mountain District has not met its burden of proof, the AG proposes to deny the requested deviation and asserts that the Commission should disallow any costs, including purchased power and chemicals, above the 15 percent allowable water loss limitation.⁴⁸ The AG further proposes that the Commission require Mountain District to "prepare and submit a comprehensive Water Loss Plan, which includes details of sufficient specificity for funds to support the plan, within six months of the entry of an Order in this underlying action."⁴⁹

807 KAR 5:066, Section 6(3), states that:

Except for purchased water rate adjustments for water districts and water associations, and rate adjustments pursuant to KRS 278.023(4), for rate making purposes a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water used by a utility in its own operations. Upon application by a utility in a rate case filing or by separate filing, or upon motion by the commission, an alternative level of reasonable unaccounted-for water loss may be established by the commission. A utility proposing an alternative level shall have the burden of demonstrating that the alternative level is more reasonable than the level prescribed in this section.

807 KAR 5:066, Section 6(3), places the burden upon Mountain District to demonstrate the reasonableness of its alternative level for unaccounted-for water loss. Although Mountain District has identified several infrastructure replacement projects that might reduce its water loss, it has not produced an analysis or study to quantify the impact the identified infrastructure replacements will have upon water loss; neither has it presented a plan as to how it will maintain its target water loss into the future.

⁴⁸ *Id.* at 15.

⁴⁹ *Id.*

The Commission agrees with the AG in that Mountain District has not met its burden to demonstrate that it is capable of reaching or maintaining the alternative level for unaccounted-for water loss of 20 percent. Therefore, the Commission is denying Mountain District's requested deviation from the requirements of 807 KAR 5:066, Section 6(3). Limiting Mountain District's water loss to 15 percent results in a purchased water expense for the water division of \$955,040, as shown in the table below:

Test-year Purchased Water	\$ 1,114,659
Multiplied by: Percentage Water Loss In excess of 15 Percent	<u>-14.320%</u>
Water Loss Limitation	(159,619)
Add: Test Year Purchased Water	<u>1,114,659</u>
Pro Forma Purchased Water - Line Loss Limitation	<u>\$ 955,040</u>

Mountain District provided a three-year water line replacement schedule that included the estimated construction cost for each identified project.⁵⁰ However, as previously mentioned, Mountain District did not quantify the impact each infrastructure replacement would have on its water loss or identify a plan to finance the total estimated construction cost of \$953,000.

The Commission finds that within 90 days from the date of this Order, Mountain District should: (1) identify the sources of the excessive water loss; (2) quantify the water loss from each source; (3) prioritize the identified water-loss projects; (4) establish a time schedule for eliminating each source of water loss; and (5) provide an estimated cost for each identified project. The Commission further finds that within 120 days from

⁵⁰ Mountain District's Responses to the Staff's Third Request - Clarification, Item 15.b.(3).

the date of this Order, Mountain District should provide a detailed plan⁵¹ to fund each identified water loss project that specifically identifies credible funding sources.

Purchased Power. Mountain District proposes to increase purchased-power expense to reflect an anticipated 3 percent increase in Kentucky Power Company's rates by increasing the operating expenses for its water division and its sewer division by \$29,762 and \$12,244, respectively.⁵² The test-year electric expense for the water division was \$828,846, and the electric expense for the sewer division was \$333,804.⁵³

On June 26, 2015, the Commission issued its final Order in Case No. 2014-00396⁵⁴ granting Kentucky Power Company an overall increase of 8.1 percent. Since an adjustment to reflect Kentucky Power Company's increased rates would meet the ratemaking criteria of being known and measurable, the Commission is increasing the test-year purchased power expense for the water and sewer division to reflect Kentucky Power Company's 8.1 percent rate increase as shown in the table below:

	<u>Water Division</u>	<u>Sewer Division</u>
Test-Year Purchased Power	\$ 828,846	\$ 333,804
Multiplied by: Overall Rate Increase - Kentucky Power	108.100%	108.100%
Pro Forma Purchased Power	<u>\$ 895,983</u>	<u>\$ 360,842</u>

⁵¹ The Commission has included depreciation expense of \$2,071,674 in the water division's pro forma operating expenses. Mountain District's funding plan should include reinvestment of the depreciation expense in its infrastructure replacement as suggested by the Kentucky Division of Water.

⁵² Application, Exhibit B-2, Schedule W-B at 1, and Exhibit B-5, Schedule S-B at 1.

⁵³ Mountain District's Responses to the Post Hearing Information requests, Item 21.

⁵⁴ Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting all Other Required Approvals and Relief* (Ky. PSC June 26, 2015).

The Commission is reducing the purchased-power expense for the water division by \$128,305⁵⁵ to remove from Mountain District's test-year operations the cost of pumping the excess water loss. The pro forma purchased power expense for the water division is \$767,678.⁵⁶

Chemicals. The test-year chemical expense for the water division and the sewer division was \$104,428 and \$65,637, respectively.⁵⁷ The Commission is reducing the chemical expense for the water division by \$14,954⁵⁸ to remove from Mountain District's test-year operations the cost of treating the excess water loss. The pro forma chemical expense for the water division is \$89,474.

Maintenance and Repairs. The test-year maintenance and repair expense for the water division and the sewer division was \$425,237 and \$311,306, respectively.⁵⁹ In reviewing the schedule of test-year maintenance and repair expenses provided in the post hearing information request, the Commission determined that the items in the following table are capital expenditures that should not be reported as operating expenses.

⁵⁵ $\$895,100$ (Pro Forma Electric – Purchased Water) x 14.32% (Excess Water Loss) = \$128,305.

⁵⁶ $\$895,983 - \$128,305 = \$767,678$.

⁵⁷ Application, Exhibit B, Appendix C, Table 1.

⁵⁸ $\$104,428$ (Test-year Chemicals – Water) x 14.32% (Excess Water Loss) = \$14,954.

⁵⁹ Mountain District's Responses to the Post-Hearing Information Requests, Item 21.

Vendor	Description	Amount
Water Division		
Consolidated Pipe and Supply	Meter Service Parts	\$ (6,333)
Micro Comm	Greasy Creek Tank	(8,800)
Wascon	Pump	(16,375)
Total Water Capital Expenditures		\$ (31,508)
Sewer Division		
Southern Sales	Grinder Pumps	\$ (7,463)
Wascon	Grinder Pumps	(169,331)
Total Sewer Capital Expenditures		\$ (176,794)

Accordingly, Commission is including repair and maintenance expense for the water division of \$393,729⁶⁰ and for the sewer division of \$134,512.⁶¹

Rate Case Amortization. Mountain District proposed to increase its water division's operating expenses by \$41,500 to reflect amortizing estimated rate case expense of \$124,500.⁶² The actual cost Mountain District incurred to prepare and pursue its request for rate adjustment was \$147,453.⁶³ The Commission has reviewed the invoices supplied by Mountain District and finds that the rate case cost is reasonable. Amortizing actual rate case cost over three years results in an amortization expense of \$49,151. Using the ratio of customers served by each division, the Commission is allocating \$43,201 to the water division and \$5,950 to the sewer division.

Tank Inspections. On July 27, 2011, Mountain District entered into a Water Tank Management Agreement ("Water Tank Agreement") with Southern Corrosion, Inc. for

⁶⁰ \$425,237 (Water Division Repair and Maintenance) – \$31,408 (Capital Expenditures) = \$393,729.

⁶¹ \$311,306 (Sewer Division Repair and Maintenance) – \$176,794 (Capital Expenditures) = \$134,512.

⁶² Application, Exhibit B, Appendix D, PSC Rate Case Expense.

⁶³ Mountain District's Response to Post Hearing Information Requests, Item 13.

the annual inspection and repair of its water tanks.⁶⁴ The Water Tank Agreement requires annual premiums of \$334,231 for the first five years of the service and a premium of \$161,154 for the sixth year of service.⁶⁵ On August 13, 2013, Mountain District and Southern Corrosion amended the Water Tank Agreement, noting that Mountain District was experiencing cash-flow problems and that all work on this project would be suspended for 18 months.⁶⁶ Mountain District proposes to increase the water division's test-period operating expenses by \$334,231 to reflect the continuation of the Water Tank Agreement.⁶⁷

On April 29, 2015, Mountain District and Southern Corrosion amended the Water Tank Agreement to reflect that within six months of the date of the amendment, one identified tank would be repainted and that the previous work schedule would be restarted 90 days after Mountain District's new rate structure is implemented.⁶⁸

Given the recent failure of a water storage stand-pipe owned and operated by U.S. 60 Water District of Shelby and Franklin Counties⁶⁹ the Commission is aware of the importance for the water utilities that are under its jurisdiction to maintain a routine maintenance program to inspect and repair all of their tanks. Further, the requirements

⁶⁴ Application, Exhibit B, Appendix G, Water Tank Management Agreement.

⁶⁵ *Id.*, Pricing & Terms.

⁶⁶ Mountain District's Responses to Post Hearing Information Requests, Item 1.a.

⁶⁷ Application, Exhibit F, Pro Forma Financial Statements, Notes to the Pro Forma Financial Statements at 6.

⁶⁸ Mountain District's Responses to Post Hearing Information Requests, Item 1.b.

⁶⁹ Case No. 2015-00037, *U.S. 60 Water District Alleged Failure to Comply with 807 KAR 5:006, Sections 26 and 27, and 807 KAR 5:066, Section 7* (Ky. PSC Aug. 17, 2015).

of the April 29, 2015 amended Water Tank Agreement make Mountain District's adjustment known and measurable. Prior to the agreement with Southern Corrosion, Mountain District had not incurred any expense for tank inspections. Accordingly, the Commission is increasing the test-year operating expenses for the water division by the full amount of \$334,231.

Operational Costs. Mountain District attempted to show how much it would cost if there were no third-party contract operator by using UMG's core expenses adjusted for appropriate assumptions.⁷⁰ Mountain District's analysis showed that there would be an expected cost savings of approximately \$374,565 if the UMG agreement were to be eliminated.⁷¹ The costs shown in Mountain District's analysis are for a combined water and sewer operation and were obtained from a response to a Commission Staff data request.⁷²

According to the AG, however, Mountain District's analysis does not reflect the elimination of the corporate fee and corporate overhead of \$300,000 and \$467,927, respectively.⁷³ Another flaw with Mountain District's analysis alleged by the AG is that there were no adjustments made to UMG staffing levels; the analysis simply carried over 100 percent of UMG's employees with no consideration given to consolidating or eliminating employee positions.⁷⁴

⁷⁰ Mountain District Clarification Responses to Commission Staff's Third Request for Information ("Staff's Third Request") to Mountain District, Item 18.c.

⁷¹ *Id.*

⁷² Mountain District's Responses to Staff's Second Request, Item 2.

⁷³ AG's Brief at 12.

⁷⁴ *Id.* at 9.

In reviewing the UMG cost information, the Commission agrees with the AG that the corporate fees and overheads were reported in the category corporate and other expenses of \$922,725.⁷⁵ The only costs from this category included in Mountain District's analysis are for the following employee positions: Human Resource, Safety, and Accounts Payable Clerk. Further, Mountain District correctly assumed that in order to maintain the same level of customer service, it should include the number of employee positions that UMG currently has dedicated to operating Mountain District. Until a more thorough and detailed analysis is performed by an unaffiliated outside consultant, this is a reasonable assumption.

The Commission has broken down the costs included in the analysis into two categories: direct operational costs and indirect operational costs.

1) Direct Operational Costs. The following costs are reported as the direct operational costs for the water and the sewer divisions. The Commission has reviewed the direct operational costs and finds that they are within a range of reasonableness and they have been included in the operating expense of the water and sewer divisions.

⁷⁵ Mountain District's Responses to Staff's Second Request, Item 2, Administrative, Corporate and Other Expenses.

	<u>Totals</u>	<u>Water</u>	<u>Sewer</u>
Salaries and Wages	\$ 1,205,068	\$ 1,048,574	\$ 156,494
Payroll Taxes	101,615	88,059	13,556
Gasoline	136,192	97,758	38,434
Diesel	36,469	36,468	0
Miscellaneous	1,469	891	578
Janitorial Expense	7,194	6,608	586
Workers' Compensation	28,048	23,165	4,883
Mobile	9,361	6,668	2,693
Uniforms	23,454	17,808	5,646
Safety Supplies	14,846	9,559	5,287
Laboratory Supplies	2,978	1,898	1,080
Laboratory Testing	37,172	1,305	35,867
Other Outside Services	2,400	0	2,400
Sewage Fees	163,514	0	163,514
Solid Waste	6,805	0	6,805
	<u> </u>	<u> </u>	<u> </u>
Total Direct Operational Costs	<u>\$ 1,776,585</u>	<u>\$ 1,338,761</u>	<u>\$ 437,823</u>

2) Indirect Operational Costs. There are numerous expenses identified as indirect costs that Mountain District or UMG did not allocate between the two divisions. The Commission finds that there is a direct correlation between these expenses and the number of customers served by each division. Using the ratio of customers served by each division, the Commission is allocating 87.895 percent to the water division and 12.105 percent of the expenses to the sewer division, as shown in the table below:⁷⁶

⁷⁶ 2,357 (Sewer Division Customers) ÷ 17,115 (Water Division Customers) = 19,472 (Total System Customers). 17,115 (Water Division Customers) ÷ 19,472 (Total System Customers) = 87.895 percent. 2,357 (Sewer Division Customers) ÷ 19,472 (Total System Customers) = 12.105 percent.

	Total	Allocated	
		Water 87.895%	Sewer 12.105%
Multiplied by: Customer Allocation			
Indirect Salaries and Wages	\$ 826,425	\$ 726,386	\$100,039
Payroll Taxes	74,609	65,578	9,031
Pensions and Benefits	766,047	673,317	92,730
Training	5,505	4,839	666
Travel - Lodging, Meals, and Mileage	11,031	9,696	1,335
Vehicle Lease	-	-	-
Gasoline	38,770	34,077	4,693
Miscellaneous	588	517	71
Office Storage Rental	1,090	958	132
Office Equipment Lease	7,253	6,375	878
Office Supplies	31,930	28,065	3,865
Janitorial Expense	12,898	11,337	1,561
Postage	111,210	97,748	13,462
Professional Fees Accounting	749	658	91
Professional Fees Other	47,941	42,138	5,803
General Liability	149,073	131,028	18,045
Auto Insurance	15,417	13,551	1,866
Workers' Compensation-Allocated	7,656	6,729	927
Office	11,736	10,315	1,421
Mobile	4,487	3,944	543
Other	1,910	1,679	231
Security	459	403	56
Uniforms	3,043	2,675	368
Safety Supplies	1,428	1,255	173
Total	\$2,131,255	\$1,873,267	\$257,988

Depreciation. The test-year depreciation expense for the water division and the sewer division was \$2,673,688 and \$970,013, respectively.⁷⁷ Mountain District states that it has not performed a depreciation study, but the attached schedules accurately reflect its plant.⁷⁸

⁷⁷ Application, Exhibit B-2, Schedule W-B at 2 and Exhibit B-5, Schedule S-B at 1.

⁷⁸ *Id.*

In a previous decision, the Commission noted that a depreciation study requires detailed information and is expensive to complete, and, therefore, no water district operating under the Commission's jurisdiction has an approved study.⁷⁹ The absence of a depreciation study does not prevent the Commission from reviewing the depreciation practices of those utilities.⁸⁰ Historically, the Commission has relied upon the National Association of Regulatory Utility Commissioners ("NARUC") Study of Depreciation Practices for Small Water Utilities ("NARUC Study"), dated August 15, 1979, to evaluate the reasonableness of a water utility's depreciation practices.⁸¹ The NARUC Study outlines expected life ranges for asset groups, and an adjustment is made when a water utility is using a depreciation life that falls outside this range.⁸²

Mountain District uses a 40-year depreciation life for the majority of its transmission and distribution mains, while the NARUC Study has a depreciation life range of 50 to 75 years for this asset group and a mid-point life of 62.5 years. According to Mountain District, a depreciation life of 62.5 years is an unreasonable life expectancy for water mains installed in rocky and mountainous terrain.⁸³ Mountain District explains that using a 50-year depreciation life for transmission distribution mains is acceptable, given Mountain District's unusual terrain and its repair/replacement

⁷⁹ Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21, 2007) at 3.

⁸⁰ *Id.*

⁸¹ *Id.*

⁸² *Id.* at 3-4.

⁸³ Mountain District's Responses to Staff's Third Request, Item 20.c.

schedule.⁸⁴ Mountain District adds that a 50-year life is supported by the NARUC Study, which assigns 50 to 75 years to transmission and distribution mains.⁸⁵

When a water utility has not provided an approved depreciation study or evidence to support its proposed depreciation lives, the Commission has traditionally utilized the mid-point life of the NARUC Study expected life range. In this instance, Mountain District's proposed depreciation life of 50 years for its transmission and distribution mains is solely supported by statements made by its CPA, with no evidence or study to support his conclusions.

Using Mountain District's depreciation Excel spreadsheet, the Commission determined that using a 62.5 depreciation life for all of the listed transmission and distribution mains will decrease depreciation expense by \$602,802.⁸⁶ By also reflecting the increase in depreciation expense for the capital expenditures that were removed from the water division's repairs and maintenance expense of \$788,⁸⁷ the net decrease to water division's depreciation expense is \$602,014.⁸⁸

Depreciating the capital expenditures that were removed from the sewer division's repairs and maintenance expense over 40 years results in an increase to the sewer division's depreciation expense of \$4,420.⁸⁹

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ \$1,037,196 (Transmission and Distribution Mains 6.5 years) - \$1,639,998 (Current Depreciation) = \$(602,802).

⁸⁷ \$31,508 (Capital Expenditures – Water Division) ÷ 40 years = \$788.

⁸⁸ 788 (Depreciation Capital Expenditures – Water Division) – \$602,802 (Depreciation Adjustment – Transmission and Distribution Mains) = \$602,014.

⁸⁹ \$176,794 (Capital Expenditures – Sewer Division) ÷ 40 (years) = \$4,420.

Short-Term Interest. Mountain District currently owns the seven vehicles that are being used by UMG to operate the water and sewer divisions. During the test year, Mountain District's debt service (principal and interest) for the seven vehicles was \$69,306. UMG makes the monthly debt service payments on behalf of Mountain District and recovers the vehicle debt service through its annual contract fee.⁹⁰

In its analysis to show how much it would cost if it operated the water and sewer divisions on a stand-alone basis, Mountain District determined that it would need five additional vehicles, which would increase the annual vehicle cost from \$69,306 to \$99,306, an increase of \$30,000.⁹¹ In its original analysis, Mountain District incorrectly reported the vehicle debt-service payments as lease payments, but changed this classification to note payments "as they are a cash outflow that MWD is not currently making but would be obligated to fund."⁹²

The note payments listed by Mountain District include both interest and principal payments. Payments of principal are not included as an expense on the income statement, but rather are recorded on the balance sheet as a reduction to the loan balance. Since Mountain District did not separately report the interest and the principal on the note payment, the Commission has not included an allowance for the short-term interest expense in the revenue requirement calculations for the water or the sewer divisions.

⁹⁰ Mountain District's Responses to Informal Conference Questions filed May 14, 2015, Item 3.

⁹¹ *Id.*

⁹² *Id.*

The current arrangement with UMG concerning the payment of the vehicle debt service is not transparent and is overly complicated. It would be simpler to reduce the contract fee by the \$69,306 and let Mountain District make the debt payments itself.

Summary – Income Statement for the Water Division

The table below is a summary of Mountain District's test-year operations for its water division and the Commission's pro forma adjustments.

	Water Division Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:			
Revenues from Metered Water Sales	\$ 7,622,097	\$ -	\$ 7,622,097
Other Operating Revenues:			
Late Payment Penalties	165,153		165,153
Other Water Service Revenues	244,741		244,741
Connection Fees - Water	146,700		146,700
Total Operating Revenues	8,178,691	0	8,178,691
Operating Expenses:			
Operation & Maintenance:			
Salaries & Wages	124,224	(15,037)	109,187
Commissioner Fees	30,000	(3,632)	26,368
Materials and Supplies	20,077	(2,430)	17,647
Accounting	72,550	(8,782)	63,768
Legal	39,034	(4,725)	34,309
Contract Service - UMG Management	5,887,776	(5,887,776)	0
Rate Case Expense	0	43,201	43,201
Rental of Building - Real Prop	100	(12)	88
Advertising	3,963	(595)	3,368
Other Legal PSC Expense	4,918	(3,801)	1,117
Education, Dues, and Meetings	31,397	(364)	31,033
Settlement Expense	3,010	(452)	2,558
Service Fees	3,730	(2,888)	842
Bank Service Fees	23,857	(2,513)	21,344
Retirement	20,760	(1,430)	19,330
Tank Painting and Repair Contract	0	334,231	334,231
Purchased Water	0	955,040	955,040
Purchased Power	0	767,678	767,678
Chemicals - Total	0	89,474	89,474
Direct Operational Expenses	0	1,338,761	1,338,761
Indirect Operational Expenses	0	1,873,268	1,873,268
Repairs and Maintenance	0	393,729	393,729
Total Operation & Maintenance	6,265,396	(139,055)	6,126,341
Depreciation	2,673,688	(602,014)	2,071,674
Amortization	3,444		3,444
Taxes Other Than Income - Payroll	11,816	(1,430)	10,386
Utility Operating Expenses	8,954,344	(742,499)	8,211,845
Net Utility Operating Income	(775,653)	742,499	(33,154)
Interest Income	3,040		3,040
Income Available for Debt Service	\$ (772,613)	\$ 742,499	\$ (30,114)

Summary – Income Statement for the Sewer Division

The table below is a summary of Mountain District's test-year operations for its sewer division and the Commission's pro forma adjustments.

	Sewer Division Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:			
Sewer Service Revenues	\$ 888,494	\$ -	\$ 888,494
Connection Fees	1,245		1,245
Total Operating Revenues	889,739	0	889,739
Operating Expenses:			
Operation & Maintenance:			
Salaries & Wages	0	15,037	15,037
Commissioner Fees	0	3,632	3,632
Materials and Supplies	0	2,430	2,430
Accounting	0	8,782	8,782
Legal	0	4,725	4,725
Contract Service - UMG Management	1,461,883	(1,461,883)	0
Rate Case Expense	0	5,950	5,950
Rental of Building - Real Prop	0	12	12
Other Legal PSC Expense	0	595	595
Education, Dues, and Meetings	0	3,801	3,801
Settlement Expense	0	364	364
Service Fees	0	452	452
Bank Service Fees	0	2,888	2,888
Retirement	0	2,513	2,513
Chemicals	0	65,636	65,636
Electricity	0	360,842	360,842
Direct Operational Expenses	0	437,823	437,823
Indirect Operational Expenses	0	257,987	257,987
Repairs and Maintenance	0	134,512	134,512
Total Operation & Maintenance	1,461,883	(153,902)	1,307,981
Depreciation	970,013	4,420	974,433
Payroll Taxes	0	1,430	1,430
Utility Operating Expenses	2,431,896	(148,052)	2,283,844
Net Utility Operating Income	(1,542,157)	148,052	(1,394,105)
Other Income & Deductions:			
Interest Income	19		19
Income Available for Debt Service	\$ (1,542,138)	\$ 148,052	\$ (1,394,086)

REVENUE REQUIREMENT DETERMINATION

Debt Service Water Division

Mountain District proposes a debt service of \$960,552 to reflect its total annual test-year debt payments.⁹³ Using its loan amortization schedules, Mountain District calculated a debt service of \$1,084,805 to reflect a three-year average of its principal and interest payments for the calendar years 2015 through 2017.⁹⁴ Eliminating the debt-service payments for short-term loans, the Commission calculates a three-year average debt service of \$1,029,313, as shown in the table below:

<u>Series</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Totals</u>	<u>3 Year Avgs.</u>
KIA B291-01	\$ 17,154	\$ 17,154	\$ 17,154	\$ 51,462	\$ 17,154
KIA F01-07	71,538	71,538	71,538	214,614	71,538
KIA B291-07	258,958	258,958	258,958	776,874	258,958
RD 2008	35,945	35,585	36,225	107,755	35,918
RD 2005	91,040	91,005	91,925	273,970	91,323
RD 2001	36,629	37,126	36,606	110,361	36,787
KRWFC	519,068	518,018	515,818	1,552,904	517,635
Totals	<u>\$ 1,030,332</u>	<u>\$ 1,029,384</u>	<u>\$ 1,028,224</u>		<u>\$ 1,029,313</u>

Debt Service Sewer Division

Mountain District proposes a debt service of \$95,431 to reflect its total annual test-year debt payments.⁹⁵ Using its loan amortization schedules, Mountain District calculated a debt service of \$93,028 to reflect a three-year average of its principal and interest payments for the calendar years 2015 through 2017.⁹⁶ Based upon its review of

⁹³ Application, Exhibit B-2, Schedule W-B at 1.

⁹⁴ Mountain District's Responses to Staff's First Request, Item 11.

⁹⁵ Application, Exhibit B-5, Schedule S-B at 1.

⁹⁶ Mountain District's Responses to Staff's First Request, Item 12.

the loan amortization schedules supporting the sewer division's calculation, the Commission finds that it is accurate and has used it in its revenue requirement determination.

Revenue Requirement Water Division

Based upon the Commission's findings and determinations herein, Mountain District's water division requires an increase in revenues of \$1,266,726, determined as follows:

Pro Forma Operation and Maintenance	\$ 6,127,771
Pro Forma Depreciation and Amortization	2,075,118
Pro Forma Payroll Taxes	<u>10,386</u>
Pro Forma Operating Expenses	8,213,275
Plus: Average Annual Debt Principal and Interest Payments	1,029,313
Debt Coverage Requirement	<u>205,863</u>
Total Revenue Requirement	9,448,451
Less: Other Operating Revenue	(556,594)
Non- Operating Revenue	0
Interest Income	<u>(3,040)</u>
Revenue Required from Rates	8,888,817
Less: Normalized Revenues from Water Sales	<u>(7,622,097)</u>
Required Revenue Increase	<u>\$ 1,266,720</u>
Percentage Increase	<u>16.62%</u>

Revenue Requirement Sewer Division

Based upon the Commission's findings and determinations herein, Mountain District's sewer division requires an increase in revenues of \$1,505,720, determined as follows:

Pro Forma Operation and Maintenance	\$ 1,307,981
Pro Forma Depreciation	974,433
Pro Forma Payroll Taxes	<u>1,430</u>
Pro Forma Operating Expenses	2,283,844
Plus: Average Annual Debt Principal and Interest Payments	93,028
Debt Coverage Requirement	<u>18,606</u>
Total Revenue Requirement	2,395,478
Less: Other Operating Revenue	(1,245)
Non- Operating Revenue	0
Interest Income	<u>(19)</u>
Revenue Required from Rates	2,394,214
Less: Normalized Revenues from Water Sales	<u>(88,494)</u>
Required Revenue Increase	<u>\$ 1,505,720</u>
Percentage Increase	<u>169.47%</u>

OTHER ISSUES

Rates

Water Division. To calculate the rates to produce the Staff-calculated revenue requirement, Staff increased current rates by the percentage increase in the Staff-calculated revenue requirement evenly across the board to Mountain District's current rates. This method, which Mountain District also used, allocates the revenue requirement increase to all customers in an equal manner. Mountain Water included a cost-of-service study in its application, but chose to increase all rates in an across-the-board manner as it "avoids the possible confusion that might result from implementing a new rate structure with a customer or service charge and a volumetric rate."⁹⁷ Additionally, this option "provides more revenue stability throughout the year, which

⁹⁷ Application, Exhibit G, P. 5, Pre-filed Testimony of Ray Sawyers

helps the cash flow and helps minimize the need to defer expenses or take other action to meet current operating expenses during low volume months.”⁹⁸

Sewer Division. Mountain District proposed to increase its volumetric rates for sewer customers who received metered water service by an across-the-board percentage increase. For Mountain District’s sewer customers who do not receive metered water service, the Commission previously ordered Mountain District to clearly state whether it will be charging those customers a variable rate or a fixed rate.⁹⁹ In its response on December 11, 2014,¹⁰⁰ Mountain District stated that it would be charging its non-metered sewer customers a flat rate which was calculated by increasing the current average bill across the board by the overall percentage increase in revenues.

Rate Phase-In. The Commission has previously found that an across-the-board percentage increase is an appropriate and equitable method to increase rates in the absence of a cost-of-service study. However, an increase of 169 percent to the sewer division customers will result in rate shock and violates the Commission’s long-recognized principle of gradualism. In prior cases,¹⁰¹ the Commission has found that a phased-in approach to a large rate increase is an appropriate way to manage gradualism in an effort to lessen rate shock. The Commission therefore finds that the 169 percent increase in the sewer division’s rates should be phased in over a two-year

⁹⁸ Application, Exhibit G, page 5, Pre-filed Testimony of Kevin Howard, P.E.

⁹⁹ Case No. 2014-00342, *Application of Mountain Water District for an Adjustment of Water and Sewer Rates* (Ky. PSC Dec. 8, 2014).

¹⁰⁰ Case No. 2014-00342, *Mountain Water District* (Ky. PSC Dec. 11, 2014).

¹⁰¹ See, e.g., Case No. 2012-00152, *Application of Big Sandy Water District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Mar. 8, 2013) at 5.

period in three phases. During this two-year period, the water division's rates will be adjusted to ensure that Mountain District has the opportunity to collect rates that produce the total revenue requirement determined reasonable herein. The table below summarizes the impact of the phase-in plan on a residential water and sewer customer who purchases 5,000 gallons of water per month through a 5/8-inch by 3/4-inch meter. Also shown in the table is the impact of the phase-in plan on a sewer customer who does not receive water service and is billed a flat monthly sewer rate.

	Current	Phase 1	Phase 2	Phase 3
Metered Customers				
Sewer Service	\$ 32.00	\$ 50.08	\$ 68.16	\$ 86.24
Water Service	41.05	53.28	50.58	47.89
Combined Service	73.05	103.36	118.74	134.13
Unmetered Sewer Customers				
Flat Sewer Rate	29.00	45.39	61.77	78.15

Management Contract

In the ten years that the UMG has been operating as Mountain District, there were seven Amendments to the initial management agreement and a new three-year agreement was executed on March 27, 2014. During that time period, Mountain District did not issue a new RFP or attempt to conduct a benefit analysis to show that the outsourcing of its operations to UMG is beneficial to its ratepayers.

Based on the significant difference between Mountain District's cost under the UMG contract and the stand-alone basis, Mountain District will need to obtain the services of one or more independent consultants who have no prior work experience with Mountain District and have expertise in areas including economic analyses and engineering, to assist in the process described below.

The independent consultants will work with Mountain District to prepare a request for proposals ("RFP") to be sent to potential bidders who may be interested in operating Mountain District. Once the RFP is developed and sent out, the independent consultants are to assist in the analysis of the bids received. A written report needs to be prepared to document the procedures used to analyze the bids, which should be reviewed based on all relevant factors, including costs and bidder's qualifications.

Forgivable UMG Loan. The UMG contract amendment dated April 29, 2009, included a \$500,000 forgivable loan that would be amortized over a five-year term and would have an effective interest rate of 5 percent per annum.¹⁰² KRS 278.300(1) provides that "[n]o utility shall issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person until it has been authorized so to do by order of the Commission."

The forgivable \$500,000 loan to Mountain District was clearly an obligation and evidence of indebtedness that Mountain District assumed, and prior Commission approval was therefore required. Mountain District neither requested nor received approval for the loan. Mountain District contends that the loan was not an evidence of indebtedness, as it was a contract for services.¹⁰³ However, this argument conflicts with the fact that the loan bound Mountain District to repay the funds contingent upon maintaining the contract. No actual services were exchanged as a result of this

¹⁰² Mountain District's Responses to Staff's First Request, Item 3.c.

¹⁰³ Brief of Mountain District at 23-24.

agreement; the loan was effectively no different from any other financial agreement with a lender.

Accordingly, the Commission finds that the forgivable loan was an evidence of indebtedness subject to Commission approval. In the near future, the Commission will initiate a new proceeding to more thoroughly investigate Mountain District for issuing an evidence of indebtedness without prior Commission approval.

SUMMARY

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The water and sewer rates set forth in Mountain District's Application produce revenue in excess of that found reasonable herein and should be denied.

2. The Phase 1 Water and Sewer rates set forth in Appendix A to this Order should be approved for water and sewer service rendered by Mountain District on and after the date of this Order.

3. The Phase 2 Water and Sewer rates set forth in Appendix B to this Order should be approved for water and sewer service rendered by Mountain District effective the day after the first anniversary of the date of this Order.

4. The Phase 3 Water and Sewer rates set forth in Appendix C to this Order should be approved for water and sewer service rendered by Mountain District effective the day after the second anniversary of the date of this Order.

5. Within 20 days of the date of this Order, Mountain District should file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, setting forth the water and sewer rates approved herein.

6. Within 90 days from the date of this Order, Mountain District should:
 - 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.

7. Within 120 days of the date of this Order, Mountain District should provide a detailed plan to fund each identified water loss project, that specifically identifies credible funding sources.

8. Within 180 days of the date of this Order, Mountain District should obtain the services of an outside independent consultant that has no past history with Mountain District, Mountain District's current or former members of the Board of Commissioners, UMG, or UMG's owners to perform the following:

- a. Prepare and issue an RFP to solicit bids from firms interested in providing managerial and operational services to Mountain District; and
 - b. Analyze the bids received based on factors including costs and bidder's qualifications, identify the top response, and document the analysis.

9. Within 240 days of the date of this Order, Mountain District should submit to the Commission a written report that discusses the results of the RFP solicitation for the management of its water and sewer divisions. The report shall include a detailed analysis supporting the decision.

10. In the near future, the Commission will initiate a new proceeding to more thoroughly investigate Mountain District for issuing an evidence of indebtedness without prior Commission approval.

IT IS THEREFORE ORDERED that:

1. The water and sewer rates set forth in Mountain District's Application produce revenue in excess of that found reasonable herein and are denied.

2. The Phase 1 Water and Sewer rates set forth in Appendix A to this Order are approved for water and sewer service rendered by Mountain District on and after the date of this Order.

3. The Phase 2 Water and Sewer rates set forth in Appendix B to this Order are approved for water and sewer service rendered by Mountain District effective the day after the first anniversary of the date of this Order.

4. The Phase 3 Water and Sewer rates set forth in Appendix C to this Order are approved for water and sewer service rendered by Mountain District effective the day after the second anniversary of the date of this Order.

5. Within 20 days of the date of this Order, Mountain District shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, setting forth the water and sewer rates approved herein.

6. Within 90 days from the date of this Order, Mountain District shall:
- 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.

7. Within 120 days of the date of this Order, Mountain District shall provide a detailed plan to fund each identified water loss project that specifically identifies credible funding sources.

8. Within 180 days of the date of this Order, Mountain District shall obtain the services of an outside independent consultant that has no past history with Mountain District:

a. Prepare and issue an RFP to solicit bids from firms interested in providing managerial and operational services to Mountain District; and

b. Analyze the bids received based on factors including costs and bidder's qualifications, identify the top response, and document the analysis.

9. Within 240 days of the date of this Order, Mountain District shall submit to the Commission a written report that discusses the results of the RFP solicitation for the management of its water and sewer divisions. The report shall include a detailed analysis supporting the decision.

10. In the near future, the Commission will initiate a new proceeding to more thoroughly investigate Mountain District for issuing an evidence of indebtedness without prior Commission approval.

By the Commission

ENTERED ⁰¹⁵
OCT 09 2015
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

David D. Beccomelli
Executive Director *for*

Case No. 2014-00342

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00342 DATED **UCI 0-9 2015**

The following water and sewer rates are prescribed for the customers in the area served by Mountain Water District for water and sewer service rendered on and after the date of this Order. 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 – Phase 1

5/8- x 3/4-Inch Meter

First 2,000 Gallons	\$25.98 Minimum Bill
Next 8,000 Gallons	9.10 Per 1,000 Gallons
Over 10,000 Gallons	8.07 Per 1,000 Gallons

1-Inch Meter

First 5,000 Gallons	\$53.28 Minimum Bill
Next 5,000 Gallons	9.10 Per 1,000 Gallons
Over 10,000 Gallons	8.07 Per 1,000 Gallons

2-Inch Meter

First 20,000 Gallons	\$179.48 Minimum Bill
Over 20,000 Gallons	8.07 Per 1,000 Gallons

3-Inch Meter

First 30,000 Gallons	\$260.18 Minimum Bill
Over 30,000 Gallons	8.07 Per 1,000 Gallons

4-Inch Meter

First 50,000 Gallons	\$421.58 Minimum Bill
Over 50,000 Gallons	8.07 Per 1,000 Gallons

6-Inch Meter

First 100,000 Gallons	\$825.08 Minimum Bill
Over 100,000 Gallons	8.07 Per 1,000 Gallons

Martin County Water District	\$3.11 Per 1,000 Gallons
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Mingo County Public Service District	\$4.87 Per 1,000 Gallons
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Jenkins Utilities

First 50,000 Gallons Per Day	\$3.11 Per 1,000 Gallons
Over 50,000 Gallons Per Day	\$3.57 Per 1,000 Gallons

Elkhorn City

First 215,000 Gallons Per Day	\$2.92 Per 1,000 Gallons
Over 215,000 Gallons Per Day	\$3.11 Per 1,000 Gallons

Monthly Sewer Rates – Phase 1

Sewer Customers With Metered Water Service

Any customer with both the District's sewer and water service will be billed at the current sewer rates based on the number of gallons of water consumed per month.

Monthly Rates

First 2,000 Gallons	\$21.91 Minimum Bill
Over 2,000 Gallons	9.39 Per 1,000 Gallons

Sewer Customers Without Metered Water Service

Flat Rate	\$45.39 Per Month
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APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00342 DATED **OCT 09 2015**

The following water and sewer rates are prescribed for the customers in the area served by Mountain Water District for water and sewer service effective the day after the first anniversary of the date of this Order. 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 – Phase 2

5/8- x 3/4-Inch Meter

First 2,000 Gallons	\$24.66 Minimum Bill
Next 8,000 Gallons	8.64 Per 1,000 Gallons
Over 10,000 Gallons	7.66 Per 1,000 Gallons

1-Inch Meter

First 5,000 Gallons	\$50.58 Minimum Bill
Next 5,000 Gallons	8.64 Per 1,000 Gallons
Over 10,000 Gallons	7.66 Per 1,000 Gallons

2-Inch Meter

First 20,000 Gallons	\$170.38 Minimum Bill
Over 20,000 Gallons	7.66 Per 1,000 Gallons

3-Inch Meter

First 30,000 Gallons	\$246.98 Minimum Bill
Over 30,000 Gallons	7.66 Per 1,000 Gallons

4-Inch Meter

First 50,000 Gallons	\$400.18 Minimum Bill
Over 50,000 Gallons	7.66 Per 1,000 Gallons

6-Inch Meter

First 100,000 Gallons	\$783.18 Minimum Bill
Over 100,000 Gallons	7.66 Per 1,000 Gallons

Martin County Water District	\$2.96 Per 1,000 Gallons
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Mingo County Public Service District	\$4.62 Per 1,000 Gallons
--------------------------------------	--------------------------

Jenkins Utilities

First 50,000 Gallons Per Day	\$2.96 Per 1,000 Gallons
Over 50,000 Gallons Per Day	\$3.39 Per 1,000 Gallons

Elkhorn City

First 215,000 Gallons Per Day	\$2.77 Per 1,000 Gallons
Over 215,000 Gallons Per Day	\$2.96 Per 1,000 Gallons

Monthly Sewer Rates – Phase 2

Sewer Customers With Metered Water Service

Any customer with both the District's sewer and water service will be billed at the current sewer rates based on the number of gallons of water consumed per month.

Monthly Rates

First 2,000 Gallons	\$29.82 Minimum Bill
Over 2,000 Gallons	12.78 Per 1,000 Gallons

Sewer Customers Without Metered Water Service

Flat Rate	\$61.77 Per Month
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APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00342 DATED **OCT 09 2015**

The following water and sewer rates are prescribed for the customers in the area served by Mountain Water District for water and sewer service effective the day after the second anniversary of the date of this Order. 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 – Phase 3

5/8- x 3/4-Inch Meter

First 2,000 Gallons	\$23.35 Minimum Bill
Next 8,000 Gallons	8.18 Per 1,000 Gallons
Over 10,000 Gallons	7.25 Per 1,000 Gallons

1-Inch Meter

First 5,000 Gallons	\$47.89 Minimum Bill
Next 5,000 Gallons	8.18 Per 1,000 Gallons
Over 10,000 Gallons	7.25 Per 1,000 Gallons

2-Inch Meter

First 20,000 Gallons	\$161.29 Minimum Bill
Over 20,000 Gallons	7.25 Per 1,000 Gallons

3-Inch Meter

First 30,000 Gallons	\$233.79 Minimum Bill
Over 30,000 Gallons	7.25 Per 1,000 Gallons

4-Inch Meter

First 50,000 Gallons	\$378.79 Minimum Bill
Over 50,000 Gallons	7.25 Per 1,000 Gallons

6-Inch Meter

First 100,000 Gallons	\$741.29 Minimum Bill
Over 100,000 Gallons	7.25 Per 1,000 Gallons

Martin County Water District	\$2.80 Per 1,000 Gallons
------------------------------	--------------------------

Mingo County Public Service District	\$4.37 Per 1,000 Gallons
--------------------------------------	--------------------------

Jenkins Utilities

First 50,000 Gallons Per Day	\$2.80 Per 1,000 Gallons
Over 50,000 Gallons Per Day	\$3.21 Per 1,000 Gallons

Elkhorn City

First 215,000 Gallons Per Day	\$2.62 Per 1,000 Gallons
Over 215,000 Gallons Per Day	\$2.80 Per 1,000 Gallons

Monthly Sewer Rates – Phase 3

Sewer Customers With Metered Water Service

Any customer with both the District's sewer and water service will be billed at the current sewer rates based on the number of gallons of water consumed per month.

Monthly Rates

First 2,000 Gallons	\$37.73 Minimum Bill
Over 2,000 Gallons	16.17 Per 1,000 Gallons

Sewer Customers Without Metered Water Service

Flat Rate	\$78.15 Per Month
-----------	-------------------

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Utility & Rate
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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

*Denotes Served by Email

Service List for Case 2014-00342

Mountain Water District

Projected Cost Comparison of Assuming Operations of the District
June 30, 2014

	UMG Direct Expenses	MWD Additional	MWD Projected Cost
Payroll and Administrative Expenses			
Salary and Wages			
Regular Pay	\$ 1,609,414		\$ 1,609,414
Overtime	85,925		85,925
Paid leave	222,271		222,271
HR, Safety, AP Clerk	-	34,869 (1)	34,869
Total Salaries and Wages	\$ 1,917,610		\$ 1,952,479
Payroll Taxes			
Fica	141,479	2,667 (2)	144,146
Futa	6,993	144 (2)	7,137
Suta	17,837	324 (2)	18,161
Total Payroll Taxes	166,309		169,445
Health Insurance Expense	375,656	9,600 (3)	385,256
Life Insurance Expense	7,462	136 (4)	7,598
Long Term Disability	6,715	122 (5)	6,837
State Retirement System	54,522	310,201 (6)	364,723
Training Expense	5,505		5,505
Travel			
Lodging	4,931		4,931
Meals	5,245		5,245
Mileage	855		855
Total Travel	11,031		11,031
Vehicle Expenses			
Lease Expense	69,306	(69,306) (8)	-
Gasoline	174,962		174,962
Diesel	36,469		36,469
Miscellaneous	2,057		2,057
Total Vehicle Expense	282,794		213,488
Office Storage Rental	1,090		1,090
Office Equipment Lease	7,253		7,253
Office Supplies	31,930		31,930
Janitorial Expense	20,092		20,092
Postage	111,210		111,210
Professional Fees accounting	749		749
Professional Fees Other	47,941		47,941
Insurance			
General Liability	149,073		149,073
Auto	15,417		15,417
Workers Compensation	35,706		35,706
Total Insurance Expense	200,196		200,196
Telephone			
Office	11,736		11,736
Mobile	13,848		13,848
Other	1,910		1,910
Total Telephone	27,494		27,494
Security Service	459		459
	\$ 3,276,018	288,758	\$ 3,564,776
Direct Operations			
Uniforms	26,497		26,497
Safety Supplies	16,274		16,274
Laboratory Supplies	2,979		2,979

Laboratory Testing	37,171		37,171	
Other Outside Services	2,400		2,400	
Carbon	802		802	
Disinfectants	54,950		54,950	
Fluoride	17,909		17,909	
Polymers	8,313		8,313	
Dechlorination Agents	13,841		13,841	
Nitonox	11,270		11,270	
Other Chemicals	62,977		62,977	
Purchased Water	1,114,659		1,114,659	
Electricity	1,162,650		1,162,650	
Sewage Fees	163,514		163,514	
Solid Waste	6,805		6,805	
		2,703,011		2,703,011
Repair and Maintenance				
Repair and Maintenance	758,439		758,439	
Hand Tools	13,316		13,316	
		771,755		771,755
Cash Expenditures for note payments.				
Note payments for existing vehicles curenly paid by UMG.		69,306 (8)	69,306	
Note payments for 5 additional vehicles		30,000 (7)	30,000	
		99,306		99,306
		<u>\$ 6,750,784</u>		\$ 7,138,848
		<u>388,064</u>		
Amount Paid to UMG				<u>7,600,837</u>
Projected Saving by Operating the District Internally				<u>\$ 461,989</u>

Mountain Water District

**Projected Cost Comparison of Assuming Operations of the District
Assumptions
June 30, 2014**

Number

- 1 The district will require 1 additional employee included in UMG's Corporate Overhead Number
Propose the addition of an A/P Clerk at \$34,869
- 2 The additional Fica is calculated at 7.65% of the Salary, FUTA at .006 of \$8,00 per Employee and SUTA at prorata to UMG's cost related to total payroll
- 3 Cost estimated at \$800 per new employee multiplied by 12 months.
- 4 Pro rata UMG's number to their total payroll, adjusted for the 1 new employees
- 5 Pro rata UMG's number to their total payroll, adjusted for the 1 new employees
- 6 Total payroll of \$1,952,479 multiplied by the current KERS Retirement percentage of 18.68% less the UMG costs of \$54,522.
- 7 UMG currently uses 7 trucks of theirs on our project, we will only replace 5 of those. Estimated at \$500 per month by the five new trucks.
- 8 UMG pays for notes that are in MWD's name for vehicles used on our project. We would not have this expense without the contract with UMG. We would however have to make the payments on those notes.

CASE : Mountain Water District

CASE NO : 2016-00062

RE : PSC First Data Request

Q 2. Provide a copy of the minutes of each regular or special meeting of the Mountain District committee formed to conduct a search for a consultant held from November 25, 2015, to date. Include with the response, for each meeting, a copy of any materials distributed or presented to the Committee during the meeting.

WITNESS : Sawyers.

RESPONSE Q2:

The committee did not keep minutes of their meetings. Correspondence to the committee concerning this process is attached:

December 1, 2015

December 14, 2015

STRATTON LAW FIRM, P.S.C.

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PIKEVILLE, KENTUCKY 41502
TELEPHONE: (606) 437-7800
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P. B. STRATTON
(1874-1953)

DANIEL P. STRATTON
dan@strattonlaw.net

HENRY D. STRATTON
(1925-1989)

December 1, 2015

Kelsey Friend, III, *Treasurer*
Mountain Water District
1381 Lizzie Fork Road
Pikeville, Kentucky 41501
email: kfrien00@hotmail.com

Michael Blackburn, *Vice Chairman*
Mountain Water District
9952 Bent Branch Road
Pikeville, Kentucky 41501
email: mblackburn@alphanr.com

Roy Sawyers, *Administrator*
Mountain Water District
Post Office Box 3157
Pikeville, Kentucky 41502
email: rsawyers@mtwater.org

Mike Spears, *CPA*
Michael R. Spears, *CPA*
107 South Arnold Avenue # 201
Prestonsburg, Kentucky 41653
email: mikespears@setel.com

RE: MWD CONSULTANT COMMITTEE

Gentlemen:

Please find attached a list of recommendations made by our engineers for a consultant to do the RFP for contracting services for the District pursuant to the PSC's order. We have a good mix of large firms and regional firms from which to choose. I would direct your attention to their websites for any research you may want to do. I will update the list as additional recommendations are received.

Based on our timeline, our goal is to get a letter out to these companies by no later than December 11th. We need to set up a time to meet, and I am proposing either Monday, December 7th, Tuesday, December 8th or Wednesday, December 9th, about 4:30 P.M. at my office, to give everyone sufficient time to review the companies online, and do whatever research you deem is appropriate. Please advise what date works best for you.

Lastly, I have enclosed a draft letter that would be sent to all of the prospective companies from which we will solicit a proposal, for your review and consideration. We can make any adjustments to this letter that you deem appropriate when we meet.

I look forward to working with you on this project. If you have any questions, please feel free to call.

Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
Email: dan@strattonlaw.net

DPS/dsm
Attachments

EXHIBIT "A"

J.R. Wauford - Nashville, TN

<http://jrwco.net/>

Lamar Dunn & Associates - Knoxville, TN

<http://www.ldaengineering.com/>

Barge, Waggoner, Sumner & Cannon, Knoxville, TN

<http://www.bargewaggoner.com>

Jacobs, Knoxville, Tennessee

<http://www.jacobs.com/>

HDR, Lexington, Kentucky

<http://www.hdrinc.com/>

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(1874-1953)

HENRY D. STRATTON
(1925-1989)

December 1, 2015

Re: Mountain Water District

Dear _____:

On behalf of Mountain Water District ("MWD") in Pikeville, Kentucky, I am requesting your company to submit a proposal for the drafting of a request for proposal ("RFP") for a company to operate MWD. This request has been directed by the Kentucky Public Service Commission ("PSC"), who ordered, as a part of our recent rate application, that MWD put out to bid the contract management of its operations. As a part of that order, they have directed us to hire a consultant to prepare a request for proposal on behalf of MWD, to advertise and solicit bids for the same, to evaluate and grade the bids, and to make a recommendation to our Board. Lastly, the consultant that we have been asked to hire, must not have had any prior connection with MWD and/or Utility Management Group ("UMG"), our current contractor.

Pursuant to this order, the Board requested recommendations from our current engineering firms, and your company was recommended. The Board has formed a Committee of two Commissioners, our Administrator, our CPA and myself, to solicit and evaluate proposals from consulting candidates, and to bring back a recommendation to the Board at its December 30, 2015 meeting.

We are requesting a brief proposal of your qualifications to do the RFP as directed by the PSC, your hourly pricing and estimated cost to do the same, with a price not to exceed. If you are interested, we need to receive your bid no later than December 23, 2015. The price will not be the sole determinative of the company selected, but will obviously be a major factor in selecting the overall best proposal.

STRATTON LAW FIRM, P.S.C.

December 1, 2015
Page 2

If you are selected, we have the following timeline established for this project:

- December 23, 2015 - Deadline to review proposals for consultants.
- December 30, 2015 - Board to select consultant.
(Regular Meeting)
- January 15, 2016 - Consultant to develop RFP.
- January 18, 2016 - Advertise RFP (per consultant's plan).
- Site visits may be needed by prospective applicants.
- March 22, 2016 - Deadline to receive bids.
- March 30, 2016 - Consultant to document responses and
(Regular Meeting) recommendations to MWD.
- April 6, 2016 - Review consultant's recommendations, and to
(Special Meeting) make a decision.
- April 8, 2016 - Consultant to document responses and
recommendations to PSC. (PSC deadline)
- April 27, 2016 - Consultant to report to PSC. (PSC deadline 6/8/16)
(Regular Meeting)

By way of background, MWD is the primary supplier of water and wastewater services for Pike County, Kentucky. It has 17,000 plus water customers, and approximately 2,400 wastewater treatment customers. Pike County is one of the largest geographic counties in the county, covering _____ square miles, with over a thousand miles of waterline. Due to the mountainous terrain, we have _____ tanks, _____ lift stations and _____ pump stations. We draw water from our own plant, and purchase water from two other sources.

MWD was established in 1986 through the combination of four (4) local Districts, that were then serving the county. In July 2005, the then Board of Commissioners, elected to contract out management services under the belief that it would be done more efficiently than doing it ourselves. At that time, a request for proposal was made, and the winning company was UMG, a startup company by a local entrepreneur, who had previously worked for Viola Enterprises and the City of Pikeville.

STRATTON LAW FIRM, P.S.C.

December 1, 2015

Page 3

Over the last ten years, the contract with UMG has been extended for various reasons, but has not been rebid. During our recent rate application, the PSC expressed concern about the lack of bidding, and therefore, ordered that the project be bid again in order to insure that we were receiving the lowest price possible. To avoid any appearance of political influence, the PSC has directed that MWD hire an outside consult under the terms and conditions outlined above to conduct the search.

The UMG contract will terminate pursuant to its terms, on December 31, 2016, and the District can give notice as early as January 2nd as to whether or not it is going to be extended. Thereafter, UMG has to stay six (6) months to assist in the conversion.

In addition to soliciting a request for proposals as outlined above, MWD is also reviewing its cost to operate the District independently, and that is being conducted through an internal self study, and will be an option to be considered by the Commissioners when the bids for contract services are reviewed.

Please advise if this is a project you are willing to consider, and if so, we would request your proposal no later than January 23, 2015.

If you have any questions, please feel free to call.

Sincerely,
STRATTON LAW FIRM, P.S.C.

DPS/dsm

Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

STRATTON LAW FIRM, P.S.C.

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HENRY D. STRATTON
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December 14, 2015

Kelsey Friend, III, *Treasurer*
Mountain Water District
1381 Lizzie Fork Road
Pikeville, Kentucky 41501
email: kfrien00@hotmail.com

Michael Blackburn, *Vice Chairman*
Mountain Water District
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Pikeville, Kentucky 41501
email: mblackburn@alphanr.com

Roy Sawyers, *Administrator*
Mountain Water District
Post Office Box 3157
Pikeville, Kentucky 41502
email: rsawyers@mtwater.org

Mike Spears, *CPA*
Michael R. Spears, *CPA*
107 South Arnold Avenue # 201
Prestonsburg, Kentucky 41653
email: mikespears@setel.com

RE: REQUESTS FOR RFP

Gentlemen:

Jack Hughes called today with another recommendation for an engineer to request an RFP firm, the name of the engineer is Steve Seely from Prime Group of Louisville, Kentucky. This firm does mostly utility work, and he did not think they would have any connection with UMG or any of their owners or contacts. Our deadlines are pretty close, so I did not want to send out this last request, if it wasn't first approved by the group.

To that end, please advise if you want me to send one out, and I will take the majority vote and go from there.

I look forward to hearing from you quickly.

Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
Email: dan@strattonlaw.net

DPS/dsm

CASE : Mountain Water District
CASE NO : 2016-00062
RE : PSC First Data Request

Q 3. State whether Mountain District advertised for, or otherwise solicited the services, of an independent consultant through water or wastewater industry publications, message boards, or newsletters. If so, provide a copy of each advertisement or solicitation. If not, state why not.

WITNESS : Sawyers.

RESPONSE Q3:

Mountain Water District did not advertise or otherwise solicit services of an independent consultant through publication, message boards or newsletters, because there was not sufficient time to do so after the request for reconsideration was denied. Further, any response would have had to have a follow-up letter to get confirmation that they met the criteria set forth by the PSC as all of those items would have been difficult to put into an advertisement.

CASE : Mountain Water District
CASE NO : 2016-00062
RE : PSC First Data Request

Q 4. Provide a copy of the correspondence between Mountain District and its engineers relating to the six firms identified in Mountain District's Petition as having had been recommended by Mountain District's engineers.

WITNESS : Sawyers.

RESPONSE Q4:

Please find enclosed correspondence requesting recommendations as follows:

- 1) Summit Engineering dated November 20, 2015;
- 2) Environmental Designs Consultants dated November 20, 2015;
- 3) Bell Engineering dated November 20, 2015; and
- 4) Vaughn & Melton Engineering dated November 20, 2015.

Please find enclosed responses as follows:

- 1) Vaughn & Melton Engineering dated November 25, 2015;
- 2) Summit Engineering dated November 25, 2015;
- 3) Environmental Design Consultants dated November 25, 2015; and
- 4) Bell Engineering dated December 1, 2015.

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P.B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

November 20, 2015

Jody G. Hunt, P.E.
Summit Engineering
131 Summit Drive
Pikeville, KY 41501
email: jhunt@summit-engr.com

Re: Mountain Water District

Dear Mr. Hunt:

Pursuant to an order issued by the Public Service Commission, the District has been directed to bid out contract services for management of the district. The district was directed to retain a qualified consultant, who has no prior history with Mountain Water District and/or Utility Management Group, to develop the RFP, advertise and solicit bids for same, and to score and evaluate the proposals received.

We are requesting your assistance in recommending two or three engineering companies who would have the expertise and knowledge of water/sewer services; who would be qualified to do this work. Based on the recommendations we receive, we'll select three or four firms to submit their qualifications and pricing structures.

Our goal is to select the consultant at our December meeting, so please make your recommendations by December 4, 2015. The Board would prefer that we choose an out-of-state firm, so as to ensure that there is no question as to their impartiality.

STRATTON LAW FIRM, P.S.C.

Mr. Jody G. Hunt, P.E.
RE: Mountain Water District
November 20, 2015
Page 2 of 2

Your assistance in helping us to identify qualified firms in this matter is greatly appreciated. Please send the firm information to:

Roy Sawyers
Mountain Water District
P.O. Box 3157
Pikeville, Kentucky 41502.

Sincerely,
STRATTON LAW FIRM, P.S.C.


Daniel P. Stratton
email: dan@strattonlaw.net

DPS/gfc

Cc: Roy Sawyers

STRATTON LAW FIRM, P.S.C.

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HENRY D. STRATTON
(1925-1989)

November 20, 2015

Tim Campoy
Environmental Design Consultants
43 Village Street
Pikeville, Kentucky 41501
email: tmcampoy@bellsouth.net

Re: Mountain Water District

Dear Tim:

Pursuant to an order issued by the Public Service Commission, the District has been directed to bid out contract services for management of the district. The district was directed to retain a qualified consultant, who has no prior history with Mountain Water District and/or Utility Management Group, to develop the RFP, advertise and solicit bids for same, and to score and evaluate the proposals received.

We are requesting your assistance in recommending two or three engineering companies who would have the expertise and knowledge of water/sewer services; who would be qualified to do this work. Based on the recommendations we receive, we'll select three or four firms to submit their qualifications and pricing structures.

Our goal is to select the consultant at our December meeting, so please make your recommendations by December 4, 2015. The Board would prefer that we choose an out-of-state firm, so as to ensure that there is no question as to their impartiality.

STRATTON LAW FIRM, P.S.C.

Mr. Tim Campoy
RE: Mountain Water District
November 20, 2015
Page 2 of 2

Your assistance in helping us to identify qualified firms in this matter is greatly appreciated. Please send the firm information to:

Roy Sawyers
Mountain Water District
P.O. Box 3157
Pikeville, Kentucky 41502.

Sincerely,
STRATTON LAW FIRM, P.S.C.


Daniel P. Stratton
email: dan@strattonlaw.net

DPS/gfc

Cc: Roy Sawyers

STRATTON LAW FIRM, P.S.C.

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HENRY D. STRATTON
(1925-1989)

November 20, 2015

Mr. Steve Caudill, P.E.
Bell Engineering
2480 Fortune Drive, Suite 350
Lexington, KY 40509
email: scaudill@hkbell.com

Re: Mountain Water District

Dear Mr. Caudill:

Pursuant to an order issued by the Public Service Commission, the District has been directed to bid out contract services for management of the district. The district was directed to retain a qualified consultant, who has no prior history with Mountain Water District and/or Utility Management Group, to develop the RFP, advertise and solicit bids for same, and to score and evaluate the proposals received.

We are requesting your assistance in recommending two or three engineering companies who would have the expertise and knowledge of water/sewer services; who would be qualified to do this work. Based on the recommendations we receive, we'll select three or four firms to submit their qualifications and pricing structures.

Our goal is to select the consultant at our December meeting, so please make your recommendations by December 4, 2015. The Board would prefer that we choose an out-of-state firm, so as to ensure that there is no question as to their impartiality.

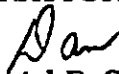
STRATTON LAW FIRM, P.S.C.

Mr. Steve Caudill, P.E.
RE: Mountain Water District
November 20, 2015
Page 2 of 2

Your assistance in helping us to identify qualified firms in this matter is greatly appreciated. Please send the firm information to:

Roy Sawyers
Mountain Water District
P.O. Box 3157
Pikeville, Kentucky 41502.

Sincerely,
STRATTON LAW FIRM, P.S.C.


Daniel P. Stratton
email: dan@strattonlaw.net

DPS/gfc

Cc: Roy Sawyers

STRATTON LAW FIRM, P.S.C.

POST OFFICE BOX 1530
PIKEVILLE, KENTUCKY 41502
TELEPHONE: (606) 437-7800
FACSIMILE: (606) 437-7569

DAVID C. STRATTON
david@strattonlaw.net

DANIEL P. STRATTON
dan@strattonlaw.net

REGENA T. JONES
regenajones@strattonlaw.net

P.B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

November 20, 2015

Darl Hall, P.E., PLS
Vaughn & Melton Engineering
1909 Allor Avenue
Knoxville, TN 37921
dlhall@vaughnmelton.com

Re: Mountain Water District

Dear Mr. Hall:

Pursuant to an order issued by the Public Service Commission, the District has been directed to bid out contract services for management of the district. The district was directed to retain a qualified consultant, who has no prior history with Mountain Water District and/or Utility Management Group, to develop the RFP, advertise and solicit bids for same, and to score and evaluate the proposals received.

We are requesting your assistance in recommending two or three engineering companies who would have the expertise and knowledge of water/sewer services; who would be qualified to do this work. Based on the recommendations we receive, we'll select three or four firms to submit their qualifications and pricing structures.

Our goal is to select the consultant at our December meeting, so please make your recommendations by December 4, 2015. The Board would prefer that we choose an out-of-state firm, so as to ensure that there is no question as to their impartiality.

STRATTON LAW FIRM, P.S.C.

Mr. Danl Hall, P.E., PLS
RE: Mountain Water District
November 20, 2015
Page 2 of 2

Your assistance in helping us to identify qualified firms in this matter is greatly appreciated. Please send the firm information to:

Roy Sawyers
Mountain Water District
P.O. Box 3157
Pikeville, Kentucky 41502.

Sincerely,
STRATTON LAW FIRM, P.S.C.


Daniel P. Stratton
email: dan@strattonlaw.net

DPS/gfc

Cc: Roy Sawyers

Daniel P. Stratton

From: Danl Hall <dlhall@Vaughnmelton.com>
Date: Wednesday, November 25, 2015 10:58 AM
To: rsawyers@mtwater.org
Cc: Dan Stratton; Donna Mullins; Geneva Coleman; Jamie Noe
Subject: RE: Recommendations for Firms to Develop RFP for Water/Sewer Management Services - Mountain Water District

Roy,

Please find below two firms who meet the criteria of Mr. Stratton's request:

~~Jacobs~~
9721 Cogdill Road # 201
Knoxville, TN 37932
865-966-1000
Contact: Rick Kirby

Need to get their web address

~~HDR~~
2517 Sir Barton Way
Lexington, KY 40509
859-629-4800
Contact: Charlie Scroggin

While HDR has a Lexington office, they have offices in locations around the world. I do not believe either of these two firms have performed work for the Mountain Water District.

Regards,

Danl Hall, P.E., P.L.S.
Senior Project Manager
Vaughn & Melton Consulting Engineers, Inc.
1909 Ailor Avenue
Knoxville, TN 37921
dlhall@vaughnmelton.com
www.vaughnmelton.com
865-546-5800 ext. 238

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Daniel P. Stratton

From: Jody Hunt <jhunt@summit-engr.com>
Sent: Wednesday, November 25, 2015 8:19 AM
To: Daniel P. Stratton
Cc: 'Roy Sawyers'
Subject: Recommendations for Firms to Develop RFP for Water / Sewer Management Services

Dan,

I spoke to Kevin Howard about the letter concerning the above referenced project.

The following are a list of firms he suggested the District consider.

1. ~~U.R. Wauford - Nashville, TN - <http://irwco.net/>~~
2. ~~Lamar Dunn & Associates - Knoxville, TN - <http://www.ldaengineering.com/>~~
3. ~~Barge Waggoner Sumner & Cannon - Knoxville, Nashville, Kingsport - <http://www.bargewaggoner.com/>~~

We can discuss further today.

Please let me know if you have any questions,

Thanks,

Jody G. Hunt, PE
Associate / Sr. Project Engineer
Summit Engineering, Inc.
131 Summit Drive, Pikeville, KY 41501
(606) 432-1447 Ext. 327
jhunt@summit-engr.com

Donna S. Mullins

From: Tim Campoy <tmcampoy@bellsouth.net>
Sent: Tuesday, December 01, 2015 1:31 PM
To: Donna S. Mullins
Cc: Dan Stratton Esq.
Subject: Re: Recommendations for Firms to Develop RFP for Water/Sewer Management Services - Mountain Water District

Donna:

Please see my message below to Geneva on November 25. If I can be of further assistance, please let me know.

Regards,

Tim

Thanks, Tim! I forwarded your message. Have a great holiday weekend!

Regards,

Geneva Coleman

Geneva Coleman
Legal Assistant
Stratton Law Firm, P.S.C.
P.O. Box 1530
Pikeville, KY 41502
Phone (606) 437-7800 Ext. 309
Fax (606) 437-7569

*Management is doing things right;
Leadership is doing the right things.*
-Peter F. Drucker

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Thank you.-

From: Tim Campoy [mailto:tmcampoy@bellsouth.net]
Sent: Wednesday, November 25, 2015 2:30 PM

To: Geneva Coleman <gcoleman@strattonlaw.net>

Subject: Re: Recommendations for Firms to Develop RFP for Water/Sewer Management Services - Mountain Water District

Geneva:

Hungate Engineering, PC is interested in being considered for this project and the contact information is provided below. Please pass along this information to Mr. Stratton. If he has any questions, please let me know. Thanks.

Tim

Robert W. Hungate, PE
Hungate Engineering, PC
1652 East Jackson Blvd.
Johnson City, TN 37604

Office: 423-913-2860
Fax: 423-913-2543
Cell: 423-956-1567

----- Original Message -----

From: Geneva Coleman

To: tmcampoy@bellsouth.net

Cc: [Dan Stratton](#) ; [Donna Mullins](#)

Sent: Friday, November 20, 2015 2:47 PM

Subject: Recommendations for Firms to Develop RFP for Water/Sewer Management Services - Mountain Water District

Dear Mr. Campoy:

Pursuant to Dan Stratton's instructions, please find attached letter regarding the above-referenced matter. If you have any questions, do not hesitate to contact Mr. Stratton.

Regards,

Geneva Coleman

Geneva Coleman
Legal Assistant
Stratton Law Firm, P.S.C.
P.O. Box 1530
Pikeville, KY 41502
Phone (606) 437-7800 Ext. 309
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-Thank you.-

--- Original Message -----

From: Donna S. Mullins
To: Tim Campoy
Cc: Dan Stratton Esq.
Sent: Tuesday, December 01, 2015 11:46 AM
Subject: FW: Recommendations for Firms to Develop RFP for Water/Sewer Management Services - Mountain Water District

Dear Mr. Campoy,

In regard to the attached correspondence sent November 20, 2015, Mr. Stratton would appreciate your response, if you intend to make one, by the end of today.

I would also request confirmation of this email.

Sincerely,

Donna S. Mullins

Legal Assistant to Daniel P. Stratton, Esq.

STRATTON LAW FIRM, P.S.C.

111 Pike Street

Post Office Box 1530

Pikeville, Kentucky 41502

Telephone: (606)437-7800

Facsimile: (606)437-7569

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From: Donna S. Mullins [mailto:dsmullins@strattonlaw.net]

Sent: Monday, November 23, 2015 3:00 PM

To: Roy Sawyers (rsawyers@mtwater.org) <rsawyers@mtwater.org>

Subject: FW: Recommendations for Firms to Develop RFP for Water/Sewer Management Services - Mountain Water District

From: Geneva Coleman [mailto:gfc Coleman@strattonlaw.net]

Sent: Friday, November 20, 2015 2:47 PM

To: tmcampoy@bellsouth.net

Cc: Dan Stratton <dan@strattonlaw.net>; Donna Mullins <dsmullins@strattonlaw.net>

Subject: Recommendations for Firms to Develop RFP for Water/Sewer Management Services - Mountain Water District

Dear Mr. Campoy:

Pursuant to Dan Stratton's instructions, please find attached letter regarding the above-referenced matter. If you have any questions, do not hesitate to contact Mr. Stratton.

Regards,

Geneva Coleman

Geneva Coleman
Legal Assistant
Stratton Law Firm, P.S.C.
P.O. Box 1530
Pikeville, KY 41502
Phone (606) 437-7800 Ext. 309
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Thank you.-

Donna S. Mullins

From: Steve Caudill <scaudill@hkbell.com>
Sent: Tuesday, December 01, 2015 3:42 PM
To: Donna S. Mullins
Cc: Dan Stratton Esq.
Subject: Re: FW: Recommendations for Firms to Develop RFP for Water/Sewer Management Services - Mountain Water District

Ms. Mullins,

After considerable discussion, we were unfortunately unable to come up with any firms that would be a good fit to provide the requested services.



engineering
Stephen H. Caudill, PE
Vice President

859-278-5412 | C: 859-221-7229 | F: 859-278-2911
scaudill@hkbell.com | www.hkbell.com

2480 Fortune Drive, Suite 350
Lexington, KY 40509

On Tue, Dec 1, 2015 at 11:42 AM, Donna S. Mullins <dsmullins@strattonlaw.net> wrote:

Dear Mr. Caudill,

In regard to the attached correspondence sent November 20, 2015, Mr. Stratton would appreciate your response, if you intend to make one, by the end of today.

I would also request confirmation of this email.

Sincerely,

Donna S. Mullins

Legal Assistant to Daniel P. Stratton, Esq.

STRATTON LAW FIRM, P.S.C.

111 Pike Street

Post Office Box 1530

Pikeville, Kentucky 41502

Telephone: (606)437-7800

Facsimile: (606)437-7569

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From: Donna S. Mullins [<mailto:dsmullins@strattonlaw.net>]

Sent: Monday, November 23, 2015 3:00 PM

To: Roy Sawyers (rsawyers@mtwater.org) <rsawyers@mtwater.org>

Subject: FW: Recommendations for Firms to Develop RFP for Water/Sewer Management Services - Mountain Water District

From: Geneva Coleman [<mailto:gfc Coleman@strattonlaw.net>]

Sent: Friday, November 20, 2015 2:51 PM

To: scaudill@hkbell.com

Cc: Dan Stratton <dan@strattonlaw.net>; Donna Mullins <dsmullins@strattonlaw.net>

Subject: Recommendations for Firms to Develop RFP for Water/Sewer Management Services - Mountain Water District

Dear Mr. Caudill:

Pursuant to Dan Stratton's instructions, please find attached letter regarding the above-referenced matter. If you have any questions, do not hesitate to contact Mr. Stratton.

Regards,

Geneva Coleman

Geneva Coleman

Legal Assistant

Stratton Law Firm, P.S.C.

P.O. Box 1530

Pikeville, KY 41502

Phone (606) 437-7800 Ext. 309

Fax (606) 437-7569

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-Peter F. Drucker

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CASE : Mountain Water District
CASE NO : 2016-00062
RE : PSC First Data Request

Q 5. Describe the process through which The Prime Group was identified as a firm that would be sent a request.

WITNESS : Sawyers.

RESPONSE Q5:

Daniel P. Stratton, as general counsel for Mountain Water District, discussed with Jack Hughes, Esq., the District's PSC attorney, about whether or not he could be of assistance in making a referral. Based on a referral to Mr. Hughes, he forwarded the name of The Prime Group. The initial request was made by telephone call, and Mr. Hughes response was forwarded to the committee via the attached letter dated December 14, 2015.

STRATTON LAW FIRM, P.S.C.

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PIKEVILLE, KENTUCKY 41502
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david@strattonlaw.net

P. B. STRATTON
(1874-1953)

DANIEL P. STRATTON
dan@strattonlaw.net

HENRY D. STRATTON
(1925-1989)

December 14, 2015

Kelsey Friend, III, *Treasurer*
Mountain Water District
1381 Lizzie Fork Road
Pikeville, Kentucky 41501
email: kfrien00@hotmail.com

Michael Blackburn, *Vice Chairman*
Mountain Water District
9952 Bent Branch Road
Pikeville, Kentucky 41501
email: mblackburn@alphanr.com

Roy Sawyers, *Administrator*
Mountain Water District
Post Office Box 3157
Pikeville, Kentucky 41502
email: rsawyers@mtwater.org

Mike Spears, *CPA*
Michael R. Spears, *CPA*
107 South Arnold Avenue # 201
Prestonsburg, Kentucky 41653
email: mikespears@setel.com

RE: REQUESTS FOR RFP


Gentlemen:

Jack Hughes called today with another recommendation for an engineer to request an RFP firm, the name of the engineer is Steve Seely from Prime Group of Louisville, Kentucky. This firm does mostly utility work, and he did not think they would have any connection with UMG or any of their owners or contacts. Our deadlines are pretty close, so I did not want to send out this last request, if it wasn't first approved by the group.

To that end, please advise if you want me to send one out, and I will take the majority vote and go from there.

I look forward to hearing from you quickly.

Sincerely,
STRATTON LAW FIRM, P.S.C.


Daniel P. Stratton, Esq.
Email: dan@strattonlaw.net

DPS/dsm

CASE : Mountain Water District
CASE NO : 2016-00062
RE : PSC First Data Request

Q 6. Provide a copy of all correspondence between Mountain District and the six firms identified by its engineers and a copy of all correspondence between Mountain District and The Prime Group.

WITNESS : Sawyers.

RESPONSE Q 6:

Please find enclosed copies of correspondence as follows:

- 1) J.R. Wauford dated December 8, 2015;
- 2) Lamar Dunn & Associates dated December 8, 2015;
- 3) Barge Waggoner Sumner & Cannon dated December 8, 2015;
- 4) Jacobs Engineering dated December 8, 2015;
- 5) Hungate Engineering, P.C. dated December 8, 2015;
- 6) Appalachian Technical Services dated December 8, 2015; and
- 7) The Prime Group dated December 15, 2015.

Also, please find enclosed response via email from Lamar Dunn & Associates dated December 13, 2015, declining to bid.

Barge Waggoner Sumner & Cannon and Appalachian Technical Services declined to bid via telephone calls. A memo to file dated December 14, 2015, was made for BWS&C, but not for ATS.

We had no response from the other three (3) engineering companies.

Please find enclosed the response from The Prime Group dated December 27, 2015.

STRATTON LAW FIRM, P.S.C.

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HENRY D. STRATTON
(1925-1989)

December 8, 2015

Scott B. Carroll, P.E.
J. R. Wauford & Company
Post Office Box 140350
Nashville, Tennessee 37214
Via email: scottc@jrwauford.com

Re: Mountain Water District

Dear Mr. Carroll:

I am contacting you on behalf of Mountain Water District ("MWD") located in Pikeville, Kentucky. MWD is accepting proposals from a select group of engineering firms to draft a request for proposal ("RFP") to contract operations and maintenance of its facilities and infrastructure.

MWD has been ordered by the Kentucky Public Service Commission ("PSC"), as a part of its recent rate application, to advertise to bid the contract management of its operations. As a part of that order, MWD is directed to select and engage a consultant to prepare a request for proposal to advertise and solicit bids for the same, to assess and score the bids, and to submit a recommendation to the MWD Board. Lastly, the consultant selected must not have had any prior connection or association with MWD and/or Utility Management Group ("UMG"), its current contractor.

Pursuant to this order, MWD's Board requested recommendations from its current engineering firms, and your company was recommended to prepare the RFP. The Board has formed a Committee of two Commissioners, its Administrator, its CPA and myself, to solicit and evaluate proposals from consulting candidates, and to submit a recommendation to the Board at its December 30, 2015 meeting.

MWD is requesting a proposal of your qualifications to do the RFP as directed by the PSC. Please provide your hourly rate and cost estimate to do the same, with a fixed price not to exceed. If you are interested, MWD needs to receive your bid proposal no later than December 28, 2015. The price will not be the sole determinative of the company selected, but will obviously be a major factor in selecting the overall best proposal.

STRATTON LAW FIRM, P.S.C.

December 8, 2015
Page 2

If you are selected, we have the following timeline established for this project:

- December 28, 2015 - Deadline to review proposals for consultants.
- December 30, 2015 - Board to select consultant.
(*Regular Meeting*)
- January 22, 2016 - Consultant to develop RFP.
- January 25, 2016 - Advertise RFP (per consultant's plan).
 - Site visits may be needed by prospective applicants.
- March 29, 2016 - Deadline to receive bids.
- April 4, 2016 - Consultant's preliminary report to Board.
- April 6, 2016 - Review consultant's recommendations, and
(*Special Meeting*) make decision.
- April 8, 2016 - Consultant to document responses and
recommendations to PSC. (PSC deadline)
- April 27, 2016 - Consultant to report to PSC. (PSC deadline 6/8/16)
(*Regular Meeting*)

By way of background, MWD provides water and wastewater services to approximately 17,000 residential and business water service connections, and approximately 2,400 residential and business sewer connections. MWD operates a complex system with a vast amount of infrastructure in the largest county (789 square miles) in the state of Kentucky. MWD is geographically challenged do to the mountainous terrain; MWD has approximately 1,100 miles of mainline; 135 booster pump stations; 108 water storage tanks. MWD operates a water treatment plant and purchases water from two other sources. MWD will provide all the technical information needed to complete an RFP for contracting operations.

MWD was established in 1986 through the combination of four (4) local Districts, that were then serving the county. In July 2005, the then Board of Commissioners, elected to contract out management services under the belief that it could be done more efficiently. At that time, a request for proposal was made, and the contract was awarded to UMG, a startup company by a local entrepreneur, who had previously worked for Veolia Enterprises and the City of Pikeville.

STRATTON LAW FIRM, P.S.C.

December 8, 2015

Page 3

Over the last ten years, the contract with UMG has been extended for various reasons, but has not been rebid. During MWD's recent rate application, the PSC expressed concern about the lack of bidding, and therefore, ordered that the project be bid again in order to insure that it is receiving the lowest price possible. To avoid any appearance of political influence, the PSC has directed that MWD hire an outside consult under the terms and conditions outlined above to conduct the search.

The UMG contract will terminate pursuant to its terms, on December 31, 2016, and MWD can give notice as early as January 2nd as to whether or not it is going to be extended. After notice of termination, UMG has to stay six (6) months to assist in the conversion.

In addition to soliciting a request for proposals as outlined above, MWD is also reviewing its cost to operate the District independently, and that is being conducted through an internal self study, and will be an option to be considered by the Commissioners when the bids for contract services are reviewed.

Please advise if this is a project you are willing to consider, and if so, MWD would request your proposal no later than December 28, 2015.

If you have any questions, please feel free to call.

Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm

cc: Roy Sawyers

STRATTON LAW FIRM, P.S.C.

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DANIEL P. STRATTON
dan@strattonlaw.net

P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

December 8, 2015

Jason Brooks, P.E., *President and CEO*
Lamar, Dunn & Associates
3305 Maloney Road
Knoxville, Tennessee 37920-4749
Via email: jbrooks@ldaengineering.com

Re: Mountain Water District

Dear Mr. Brooks:

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STRATTON LAW FIRM, P.S.C.

December 8, 2015
Page 2

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STRATTON LAW FIRM, P.S.C.

December 8, 2015

Page 3

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Please advise if this is a project you are willing to consider, and if so, MWD would request your proposal no later than December 28, 2015.

If you have any questions, please feel free to call.

Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm
cc: Roy Sawyers

STRATTON LAW FIRM, P.S.C.

POST OFFICE BOX 1530
PIKEVILLE, KENTUCKY 41502
TELEPHONE: (606) 437-7800
FACSIMILE: (606) 437-7569
WWW.STRATTONLAWFIRM.NET

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david@strattonlaw.net

DANIEL P. STRATTON
dan@strattonlaw.net

P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

December 8, 2015

Casey Tyree, PE, PMP
Barge Waggoner Sumner & Cannon, Inc.
520 West Summit Hill Drive, Suite 1202
Knoxville, Tennessee 37902
Via email: casey.tyree@bwsc.net

Re: Mountain Water District

Dear Mr. Tyree:

I am contacting you on behalf of Mountain Water District ("MWD") located in Pikeville, Kentucky. MWD is accepting proposals from a select group of engineering firms to draft a request for proposal ("RFP") to contract operations and maintenance of its facilities and infrastructure.

MWD has been ordered by the Kentucky Public Service Commission ("PSC"), as a part of its recent rate application, to advertise to bid the contract management of its operations. As a part of that order, MWD is directed to select and engage a consultant to prepare a request for proposal to advertise and solicit bids for the same, to assess and score the bids, and to submit a recommendation to the MWD Board. Lastly, the consultant selected must not have had any prior connection or association with MWD and/or Utility Management Group ("UMG"), its current contractor.

Pursuant to this order, MWD's Board requested recommendations from its current engineering firms, and your company was recommended to prepare the RFP. The Board has formed a Committee of two Commissioners, its Administrator, its CPA and myself, to solicit and evaluate proposals from consulting candidates, and to submit a recommendation to the Board at its December 30, 2015 meeting.

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STRATTON LAW FIRM, P.S.C.

December 8, 2015
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STRATTON LAW FIRM, P.S.C.

December 8, 2015
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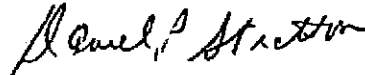
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Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm
cc: Roy Sawyers

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DANIEL P. STRATTON
dan@strattonlaw.net

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(1874-1953)

HENRY D. STRATTON
(1925-1989)

December 8, 2015

David Reece, *Manager of Operations*
JACOBS ENGINEERING
9721 Cogdill Road, Suite 201
Knoxville, Tennessee 37932
Via email: david.reece@jacobs.com

Re: Mountain Water District

Dear Mr. Reece:

I am contacting you on behalf of Mountain Water District ("MWD") located in Pikeville, Kentucky. MWD is accepting proposals from a select group of engineering firms to draft a request for proposal ("RFP") to contract operations and maintenance of its facilities and infrastructure.

MWD has been ordered by the Kentucky Public Service Commission ("PSC"), as a part of its recent rate application, to advertise to bid the contract management of its operations. As a part of that order, MWD is directed to select and engage a consultant to prepare a request for proposal to advertise and solicit bids for the same, to assess and score the bids, and to submit a recommendation to the MWD Board. Lastly, the consultant selected must not have had any prior connection or association with MWD and/or Utility Management Group ("UMG"), its current contractor.

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STRATTON LAW FIRM, P.S.C.

December 8, 2015
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STRATTON LAW FIRM, P.S.C.

December 8, 2015

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If you have any questions, please feel free to call.

Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm

cc: Roy Sawyers

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(1925-1989)

December 8, 2015

Mr. Robert Hungate
Hungate Engineering, PC
1652 East Jackson Boulevard
Johnson City, Tennessee 37604
Via email: hungate@hungate-eng.com

Re: Mountain Water District

Dear Mr. Hungate:

I am contacting you on behalf of Mountain Water District ("MWD") located in Pikeville, Kentucky. MWD is accepting proposals from a select group of engineering firms to draft a request for proposal ("RFP") to contract operations and maintenance of its facilities and infrastructure.

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STRATTON LAW FIRM, P.S.C.

December 8, 2015
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STRATTON LAW FIRM, P.S.C.

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HENRY D. STRATTON
(1925-1989)

December 8, 2015

Charlie Hibbitts, Esq.
Appalachian Technical Services
Post Office Box 3537
Wise, Virginia 24293
Via email: wise@atsone.com

Re: Mountain Water District

Dear Mr. Hibbitts:

I am contacting you on behalf of Mountain Water District ("MWD") located in Pikeville, Kentucky. MWD is accepting proposals from a select group of engineering firms to draft a request for proposal ("RFP") to contract operations and maintenance of its facilities and infrastructure.

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STRATTON LAW FIRM, P.S.C.

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STRATTON LAW FIRM, P.S.C.

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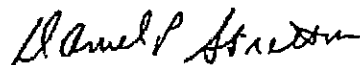
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cc: Roy Sawyers

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DANIEL P. STRATTON
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P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

December 15, 2015

Mr. Steve Seelye
The Prime Group, LLC
6001 Claymont Village Drive, Suite 8
Crestwood, Kentucky 40014
Via email: sseelye@theprimegroupllc.com

Re: Mountain Water District

Dear Mr. Seelye:

I am contacting you on behalf of Mountain Water District ("MWD") located in Pikeville, Kentucky. MWD is accepting proposals from a select group of engineering firms to draft a request for proposal ("RFP") to contract operations and maintenance of its facilities and infrastructure.

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STRATTON LAW FIRM, P.S.C.

December 15, 2015

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STRATTON LAW FIRM, P.S.C.

December 15, 2015

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Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm
cc: Roy Sawyers

REQUEST SENT

J.R. Wauford - Nashville, TN	12/08/15
Lamar Dunn & Associates - Knoxville, TN	12/08/15
Barge, Waggoner, Sumner & Cannon, Knoxville, TN	12/08/15
Jacobs, Knoxville, Tennessee	12/08/15
Hungate Engineering, PC, Johnson City, TN	12/08/15
Appalachian Technical Services	12/08/15
The Prime Group	12/15/15

RESPONSE RECEIVED

J.R. Wauford	_____	no response
Lamar Dunn	12/13/15	declined
Barge Waggoner	12/14/15	declined
Jacobs	_____	no response
Hungate	_____	no response
ATS	12/___/15	declined
Prime Group	12/28/15	submitted

Donna S. Mullins

From: Stefanie Farrell <SFarrell@ldaengineering.com>
Sent: Sunday, December 13, 2015 8:12 PM
To: 'dan@strattonlaw.net'; 'rsawyers@mtwater.org';
'dsmullins@strattonlaw.net'
Cc: Jason Brooks; Greg Jones; Lauran Canacaris
Subject: FW: Mountain Water District
Attachments: image001.jpg; image002.jpg

Dear Dan,

Regarding the following, in effort to align with our goals, we evaluated the prospect and collectively determined not to respond to this request. We would like to keep the communication channels open and welcome the opportunity for future interaction.

Thank you very much for your consideration.

Sincerely,

Stefanie Farrell

3305 Maloney Road | Knoxville, TN 37920

(o) 865.573.7672 | (m) 865.389.0126

www.ldaengineering.com | sfarrell@ldaengineering.com



From: Donna S. Mullins [<mailto:dsmullins@strattonlaw.net>]
Sent: Tuesday, December 08, 2015 2:58 PM
To: Jason Brooks <JBrooks@ldaengineering.com>
Cc: Dan Stratton Esq. <dan@strattonlaw.net>; Roy Sawyers <rsawyers@mtwater.org>
Subject: Mountain Water District

Pursuant to Dan's instructions, please find attached correspondence concerning the above referenced matter. If you have any problems opening and/or viewing the same, please advise.

I would also request confirmation of this email.

Sincerely,

Donna S. Mullins

Legal Assistant to Daniel P. Stratton, Esq.

STRATTON LAW FIRM, P.S.C.

111 Pike Street

Post Office Box 1530

Pikeville, Kentucky 41502

Telephone: (606)437-7800

Facsimile: (606)437-7569

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MEMO

TO : DAN & FILE
DATE : DECEMBER 14, 2015 @ 11:48 A.M.
FROM : DONNA
REGARDING : MOUNTAIN WATER DISTRICT

**PSC ORDER
REQUEST FOR RFP**

I took a telephone call today from Mr. Casey Tyree with Barge Waggoner Sumner & Cannon, Inc., concerning your letter to their company on behalf of Mountain Water District, soliciting their qualifications to prepare an RFP for MWD.

Mr. Tyree advised that he had forwarded our letter of request to the department responsible, and after careful consideration, they have determined that their company would not be a good fit.

Mr. Tyree wanted to respectfully decline submission of his firm's qualifications to prepare the RFP, and personally thank you and the MWD Board for considering his firm.

■ The Prime Group ■

December 27, 2015

Mr. Daniel P. Stratton, Esq.
Stratton Law Firm, P.S.C.
Email: dan@strattonlaw.net

Re: Mountain Water District

Dear Mr. Stratton:

The Prime Group, LLC (The Prime Group) is pleased to submit this *contingent* response (The Prime Group's Response) to the bid request that you sent us on December 15, 2015, on behalf of Mountain Water District (MWD), seeking a consultant to draft a Request for Proposal (RFP) for contract operations and maintenance of MWD's facilities and infrastructure.

As will be discussed in greater detail below, The Prime Group will team up with Salt River Engineering (SRE) to perform all work on this project. The Prime Group has extensive experience performing economic evaluations and evaluating responses to RFPs for electric, gas, water and wastewater utilities. SRE has provided engineering consulting services for Eastern Kentucky water and wastewater utilities for over 20 years. SRE will serve as a sub-contractor for this project and will be heavily involved in the project if we are awarded the contract.

The Prime Group's Response is contingent on (i) MWD successfully obtaining authorization from the Kentucky Public Service Commission ("Commission's) to modify the due dates set forth in the Commission's Order dated October 9, 2015, in Case No. 2014-00342, and (ii) correspondingly modifying the timeline for the project that was set forth on page two of your letter to The Prime Group dated December 15, 2015 (which is attached hereto). The Prime Group was unaware of the Commission's Order in Case No. 2014-00342 regarding MWD's need for a consultant prior to December 13, 2015; therefore, we were unable to recommend earlier that MWD petition the Commission to change the schedule set forth in its Order.

Specifically, the schedule set forth on page 2 of your letter to The Prime Group dated December 15, 2015, does not provide enough time for our firm to develop an RFP, develop a plan for soliciting firms to respond to the RFP and advertise the RFP. Furthermore, in our opinion, the schedule does not provide enough time for potential bidders to perform an adequate review of MWD's facilities and service territory and to develop adequate responses to the RFP. Assuming that the Commission allows MWD to modify the schedule, The Prime Group would require at least 60 days from the date that the Commission issues an order allowing for a delay, or from the date we are notified

■ The Prime Group ■

December 27, 2015
Mr. Daniel P. Stratton, Esq.
Stratton Law Firm, P.S.C.
Page 2

that we are awarded the work, whichever is later, to develop the RFP and advertise the RFP. The prospective bidders should then be allowed at least 90 days to submit and receive answers to their questions, make site visits, and submit their proposals. The Prime Group would then require at least 21 days to evaluate the bids, make formal follow-up enquiries to the bidders, prepare our recommendations, and submit a report to MWD's Board. After MWD's Board makes its decision, The Prime Group would then need 14 days to prepare a final report to be submitted to the Commission.

If MWD selects The Prime Group to prepare and evaluate the RFP, we would recommend that, prior to making a formal request with the Commission for an extension in the schedule, MWD request a Staff Conference at the Commission to discuss our scheduling concerns. Representatives from The Prime Group would be available to meet with the Commission Staff concerning an extension if this is an avenue that MWD would like to pursue. We would recommend that attorneys for MWD also attend any Staff Conferences.

Scope of Work

The Scope of Work contemplated for this project is as follows:

- (1) **Consultant to Develop RFP.** In developing the RFP, the Prime Group will review MWD's current contract(s) for the operation and maintenance of its facilities, prior bid requests for these services, and billing documents for work performed by the current firm. We will also examine maps of the service territory and examine other records concerning its system relevant to preparing an RFP. The Prime Group will then develop the RFP. The RFP will include description of the managerial, technical and operational tasks required to provide potable water and wastewater treatment in compliance with the operating permits issued by the Commonwealth of Kentucky. In addition, the RFP will include required measures to provide for a plan to identify and reduce non-revenue water, adopt a formal asset management plan, revise financial records to sufficiently functional O&M costs, develop rate-funded capital improvement plans and provide dynamic GIS inventories of all water and wastewater facilities. The Bid form will be structured so that tasks beyond those required for permit compliance are

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■ The Prime Group ■

December 27, 2015
Mr. Daniel P. Stratton, Esq.
Stratton Law Firm, P.S.C.
Page 3

priced separately to enable MWD to determine if they will be included in the operating contract with the successful Bidder.

- (2) **Staff Conference to Review Draft RFP.** Prime Group recommends requesting an informal conference with the Commission Staff to present a draft of the RFP to the Staff and provide the Staff the opportunity to comment on the RFP and make suggestions. (This is in addition to the Staff Conference we recommended to discuss the possibility of obtaining an extension to the filing requirements set forth in the Commission's Order in Case No. 2014-00342.).
- (3) **Develop a Plan for Advertising the RFP.** The Prime Group will develop a plan for advertising the RFP, including developing drafts of the advertisement material and recommending media outlets for advertising the RFP. MWD will be responsible for all advertising costs.
- (4) **Respond to Inquiries from Bidders and Conduct Site Visits.** The Prime Group will coordinate the development of all responses to inquiries from bidders and will coordinate any required site visits by bidders.
- (5) **Receive and Perform Preliminary Review of Bids.** The Prime Group will receive and evaluate all bids for responsiveness.
- (6) **Organize and Provide Bids and Summary of Bids to MWD Board.** The Prime Group will receive all bids from the bidders. We will then organize and provide all bids to MWD Board Members along with an initial, high-level overview of the bids.
- (7) **Submit Formal Follow-up Inquiries to Bidders.** Working with the MWD Board Members, The Prime Group will develop follow-up inquiries to the bidders.
- (8) **Perform Bid Analysis.** The Prime Group will perform a detailed evaluation of all bids, performing any required analysis to normalize the bids so that the various bid offerings can, to the extent practicable, be evaluated on an equal footing.

■ The Prime Group ■

December 27, 2015
Mr. Daniel P. Stratton, Esq.
Stratton Law Firm, P.S.C.
Page 4

- (9) **Provide Preliminary Report to Board.** The Prime Group will prepare a preliminary report containing the bids, summarizing the bids, and describing The Prime Group's qualitative and quantitative analysis of the bids. The Prime Group will then present the preliminary report to the Board.
- (10) **Document Board's Responses to the Preliminary Bid Report and the Board's Recommendations.** The Prime Group will document the Board's responses to The Prime Group's report. The Prime Group will also document the Board's recommendations.
- (11) **Prepare Report to PSC.** The Prime Group will prepare a report to be submitted to the PSC and will work with MWD's attorneys to prepare the filing of the report with the Commission.

Fee Schedule and Cost Estimate of Project

The Prime Group's and its subcontractor's hourly rates for this project are:

<u>Consulting Resource</u>	<u>Billing Rate per Hour</u>
Managing Partner – Steve Seelye	\$220
Special Consultant – Connie Allen	\$150
Principal – Eric Blake	\$150
Principal – Jeff Wernert	\$150
Senior Consultant – Larry Feltner	\$175

These rates include all salaries and fringe benefits as well as expenses for secretarial services, phones, FAX, overnight delivery, etc. Travel expenses will be recovered at \$0.575 per mile and lodging expenses will be billed at cost. As indicated above, MWD will be responsible for the costs of advertising the RFP.

The deliverables will include the RFP, in digital format, report to MWD's Board describing The Prime Group's evaluation, and the summary report to be filed with the PSC. The Prime Group will endeavor to provide an RFP that captures the operational and

■ The Prime Group ■

December 27, 2015
Mr. Daniel P. Stratton, Esq.
Stratton Law Firm, P.S.C.
Page 5

managerial tasks required to not only operate the water utility in compliance with state and federal regulations but also to bind the successful Bidder to procedures and record keeping that will provide for better cost studies and asset management. The RFP will be thorough and organized to a degree that it will provide far more value than simply a bidding document. The Prime Group will endeavor to develop an RFP that will endure as a management tool for the operation of the utility.

All work required after the submittal of the report to the Commission will be outside of the scope of this project, and billed hourly, including responding to Commission data requests concerning the report, providing expert testimony in support of the report, assisting attorneys in developing contracts with the successful bidder.

We estimate the cost billed by The Prime Group and its subcontractor will be between \$65,000 and \$75,000, but with a not-to-exceed cost of \$90,000. Any work performed after submitting the report to the Commission will be at the hourly rates shown above and will not be subject to the cap.

Project Team Resumes

Steve Seelye is one of the founders of The Prime Group and a Managing Partner of the consulting firm.

Mr. Seelye has more than 35 years of experience in providing economic analysis, cost evaluation, ratemaking, planning, and regulatory support for electric, gas, water and wastewater utilities. He has developed RFPs, performed operational and managerial audits, and negotiated complex joint ownership agreements for numerous utilities. Steve has assisted investor-owned, cooperative, and municipal utilities all over the United States and Canada in performing cost of service studies, developing retail and wholesale rates, analyzing revenue requirements, managing major regulatory initiatives, preparing depreciation studies, and performing economic studies. He has worked with more than 100 electric, gas, water and wastewater utilities.

Steve Seelye has testified as an expert witness before numerous state regulatory commissions and the Federal Energy Regulatory Commission ("FERC") in the areas of revenue requirement support, embedded and marginal cost of service studies, rate design, merger and acquisition studies, depreciation studies, lead-lag studies, fuel

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■ The Prime Group ■

December 27, 2015
Mr. Daniel P. Stratton, Esq.
Stratton Law Firm, P.S.C.
Page 6

adjustment clauses, territory disputes, and the pricing of reactive power service. During his tenure with The Prime Group, Steve Seelye has testified on behalf of Nevada Power Company, Sierra Pacific Power Company, Mobile Gas Company, LG&E Energy, Kentucky Utilities, East Kentucky Power Cooperative, Big Rivers Electric Corporation, Delta Natural Gas Company, Vectren, Central Illinois Lighting Company, Richmond Power and Light, Intermountain Rural Electric Association, Prestonsburg Municipal Utilities, and other utilities.

Prior to joining The Prime Group, Steve Seelye led the Market Management and Rate department at Louisville Gas and Electric Company where he was responsible for rate and regulatory filings for the gas and electric businesses at the utility. He has managed gas and electric rate cases including strategy development, witness preparation, timeline development, filing preparation, witness preparation, cost of service study development, financial pro forma analysis, rate and tariff development and responding to data requests. His accomplishments include developing performance-based, environmental cost recovery and fuel supply cost recovery rate mechanisms, as well as negotiating numerous special contracts with large industrial and commercial customers. He also has experience in negotiating sales of generating assets and in negotiating unit power sales. Steve has designed load research programs, prepared electric and gas demand forecasts, prepared system planning studies, and performed numerous economic studies.

With expertise in applied mathematics, his technical background includes performing optimization and statistical studies, developing pricing structures for utility products and services, developing cost studies for complex rate filings, preparing financial pro-formas and business cases for new product development, managing the rate case preparation and filing process and preparing financial support for rate case filings. He has a B.S. degree in Mathematics and extensive graduate training in engineering and physics from the University of Louisville.

Connie Lea Allen is the owner of Salt River Engineering and principal engineer with the firm. She designs water distribution and storage facilities and wastewater collection and pumping stations for large private water companies, municipalities and rural water utilities. She develops design solutions that include identification and mediation of inadequate facilities and lines, reduction of disinfection by-products through effective sizing and finished water storage, establishment of pressure zones, and hydraulic modeling for initial distribution system evaluations. She provides agency construction

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■ The Prime Group ■

December 27, 2015

Mr. Daniel P. Stratton, Esq.

Stratton Law Firm, P.S.C.

Page 7

management and contract administration for municipal and private utility capital construction including time, cost and general project management; provides regional facilities plans, preliminary engineering reports and other capital planning consultation and deliverables. She also performs rate designs and cost of service studies for municipal utilities in accordance with AWWA and generally accepted rate-setting methodology.

Prior to forming Salt River Engineering, she was Senior Principal Engineer for Hazen and Sawyer, PSC, a Project Manager for CDP Engineers, Inc., Project Manager for Nesbitt Engineering, Inc., and Project Manager for Commonwealth Technology, Inc.

Ms. Allen holds a B.A. degree in Political Science from the University of Kentucky, a B.S. degree in Civil Engineering from the University of Kentucky, and an M.B.A. specializing in Project Management from Grantham University. She is a Registered Professional Engineer in Kentucky and Ohio and a Certified Construction Manager. She is also a Colonel in the United States Air Force Reserve.

Eric Blake is a Senior Consultant with the Prime Group. He graduated from Purdue University with a Bachelor's Degree in Mechanical Engineering Technology. Since joining The Prime Group in 2000, he has performed cost of service studies, developed unit cost analyses, performed profitability analyses and rate design for electric utility clients. He has made numerous presentations and facilitated strategic planning sessions with Boards of Directors. He has taught classes on cost of service studies and rate design to various clients all over the country.

Jeff Wernert is a Principal with the Prime Group. He graduated from the University of Louisville with a B.S. degree and a M.S. degree in Electrical Engineering. Since joining The Prime Group, Jeff has performed numerous cost of service studies for investor-owned and cooperative across the country, developed unit cost analyses for unbundled and time-differentiated rate designs, developed retail and wholesale rates for G&Ts and distribution cooperatives, performed lead-lag analyses and assisted in retail rate case filings in Kentucky, Indiana, and Maryland. He has also made presentations on cost of service studies and rate design to industry groups and cooperative utility Boards. He also assists several clients by representing them and providing reports regarding Midcontinent ISO technical committees including the: 1) Transmission Owners Committee; 2) Market Subcommittee; 3) FTR Working Group; 4) Balancing Authority Task Team; 5) Resource

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December 27, 2015
Mr. Daniel P. Stratton, Esq.
Stratton Law Firm, P.S.C.
Page 8

Adequacy Subcommittee; 6) Reliability Subcommittee; 7) Reliability Operations Working Group - Closed; and 8) Planning Advisory Committee.

Larry Feltner is a Senior Consultant and Managing Partner with The Prime Group. He has almost 30 years of experience in pricing, regulation, marketing and forecasting and planning.

Since joining The Prime Group, Larry Feltner has assisted gas and electric clients in developing unbundled products and services, developing new rate schedules, preparing cost of service studies, performing economic evaluations, preparing divestiture studies and developing marketing programs.

He has developed rate case strategies, written direct and rebuttal testimony, responded to, and written intervenor data requests, and assisted in witness preparation. He has also reviewed intervenor testimony and constructed lines of questioning to rebut their positions. He has calculated ancillary services rates for filings at FERC and also has calculated Attachment O rates for submittal to the Midwest Independent System Operator (MISO). He has made numerous presentations and facilitated strategic planning sessions with Boards of Directors. He has provided training and taught classes on cost of service studies, rate design, and line extension policy to various clients all over the country.

Prior to joining The Prime Group, his accomplishments include developing performance based rates, environmental cost recovery, fuel supply cost recovery and gas supply cost recovery rate mechanisms. He also constructed economic evaluations for various projects, including appliance rebates, capital contributions from customers, various marketing initiatives, and several unregulated projects. He developed a sampling plan for testing gas meters. He has experience in designing and negotiating electric and gas special contracts with large industrial and commercial customers. He developed an innovative gas transportation tariff that was the first of its kind approved in Kentucky. He worked extensively on FERC Order 888 compliance filings and developed the transmission and ancillary services pricing. He was responsible for model development and forecasting of gas sales and send-out. He also did extensive work on model development and forecasting electric sales and demands.

Larry Feltner has a B.A. degree in Business Management from Transylvania University and an MBA from the University of Kentucky.

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December 27, 2015
Mr. Daniel P. Stratton, Esq.
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Page 9

The Prime Group is looking forward to working with MWD on this project. Please contact me if you have any questions.

Sincerely,

William Steven Seelye
Managing Partner

The Prime Group, LLC
P.O. Box 837 · Crestwood, KY · 40014-0837
Phone 502-241-4684 FAX 502-241-4392

CASE : Mountain Water District
CASE NO : 2016-00062
RE : PSC First Data Request

Q 7. State whether Mountain District provided a written notice of termination to UMG. Provide a copy of all correspondence between Mountain District and UMG from October 9, 2015, to date.

WITNESS : Sawyers.

RESPONSE Q 7:

Please find enclosed copies of written correspondence from Mountain Water District dated January 20, 2016, concerning termination of the UMG contract.

Also, please find enclosed the following correspondence between MWD and UMG:

- 1) January 22, 2016;
- 2) January 25, 2016;
- 3) February 3, 2016;
- 4) February 9, 2016;
- 5) February 12, 2016.

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P. B. STRATTON
(1874-1953)

DANIEL P. STRATTON
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HENRY D. STRATTON
(1925-1989)

January 20, 2016

Mr. Greg May, COO
Utility Management Group, LLC
Post Office Box 663
Corbin, Kentucky 40702
Via Certified Mail Number 7010 3090 0001 9558 1162

Mr. Greg May, COO
Utility Management Group, LLC
287 Island Creek Road
Pikeville, Kentucky 41501
Via Certified Mail Number 7010 3090 0001 9558 1179

RE: NOTICE OF CONTRACT TERMINATION

Dear Greg:

On behalf of the Board of Commissioners for Mountain Water District, please be advised that the Board, at its special meeting on January 20, 2016, voted to terminate its Contract with Utility Management Group dated March 27, 2014. This notice is provided pursuant to Section 1.1 of the Contract, and shall be effective as of January 21, 2016. The six (6) month transition period provided for under the Contract will end on Monday, July 18, 2016. It would be our goal to start independent operations on that Monday, which would mean, we will need to have everything completed by Friday, July 15th, if not before.

Representatives of the District will be getting with you shortly to start on the transition process. We anticipate a smooth transition.

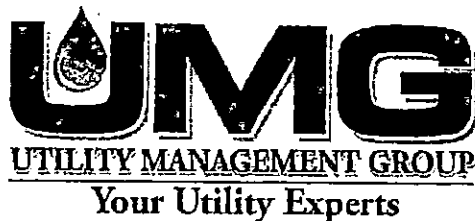
If you have questions concerning the same, please advise.

Sincerely,
STRATTON LAW FIRM, P.S.C.


Daniel P. Stratton
email: dan@strattonlaw.net

DPS/dsm

cc: Mountain Water District Board
Roy Sawyers



01/25/16
dam

Mr. Mike Blackburn, Chairman
Mountain Water District
Board of Commissioners
6332 Zebulon Highway
Pikeville, KY 41501

RE: Contract Termination

Dear Mr. Blackburn:

I received your letter dated January 20, 2016 wherein you gave us formal notice of Mountain Water District's decision to terminate the Management & Operations Agreement with Utility Management Group. I have several concerns related to the contract termination and have outlined those concerns below:

1. As I read the contract, at this time, the contract may be terminated only for a material breach of contract. Please advise me as to how UMG breached its contract with Mountain Water District and how it is a "material" breach.
2. Please prepare a written transition plan to ensure that we all understand what the interim goals and time lines are and that we are all pulling in the same direction. In that same context, all requests for assistance from UMG employees in working on transition related items shall be forwarded to Grondall Potter, Project Manager or his designee. Alternatively, requests for assistance can be channeled through me or Bob Meyer.
3. Advise us as to how you plan to address accrued paid leave (vacation and personal) for all UMG employees assigned to the Mountain Water District project. We need to know if you are going to allow employees to carry the amount of leave they have accrued at UMG back over to Mountain Water District (assuming they are offered employment by the District). If you do not intend to let employees carry their accrued leave forward, we will coordinate them utilizing their accrued leave between now and the actual termination of services.
4. Finally I was to address the past due amounts owed to UMG for routine semi-monthly contract payments as well as Repair & Maintenance overages from previous years. Although I did sign a letter dated December 30, 2015 that was prepared by Roy Sawyers addressing the repayment of these amounts, I was not aware of the District's intent to terminate the contract with UMG right after that letter was signed. In the same context, I am sure that the individuals representing Mountain Water District were aware of the intent to terminate. I would certainly have taken a different position had I known that the contract was going to be terminated within three weeks of our meeting. Given those facts, I want to address that repayment schedule again, with my preference being that the entire amount of past due balances owed to UMG by Mountain Water District be paid in full by the date that UMG returns operations back over to the District on July 18, 2016.

287 Island Creek Road - Pikeville, Kentucky 41501
Phone: 606-437-4754 - Fax: 606-437-5083

Please give me a call to discuss these concerns in more detail or to get any clarifications you need in regard to the issues identified above.

Sincerely,


Greg May, Chief Operating Officer

Cc: Mountain Water District Commissioners
Dan Stratton
Mike Spears
Bob Meyer, Grondall Potter

MOUNTAIN WATER DISTRICT

Post Office Box 3157
Pikeville, Kentucky 41502
Telephone: (606)631-6165

January 25, 2016

Mr. Greg May, COO
Utility Management Group, LLC
287 Island Creek Road
Pikeville, Kentucky 41501
Via email: gregmay@umgllc.net

RE: CONTRACT TERMINATION

Dear Mr. May:

This letter is in response to your letter of January 22, 2016, concerning Mountain Water District's termination of the UMG contract.

In response to the first question, please be advised that the contract was not terminated because of a breach of the agreement by UMG. The contract was terminated under Section 11.1, which provides:

"Either party shall have the right, without cause, to terminate this agreement at the end of the second agreement year. Notice of termination shall be given in writing no less than 180 days in advance of the effective date of termination, and notice cannot be given prior to January 1, 2016."

The Board terminated the agreement under this provision of the contract.

In response to your second request to prepare a written transition plan, please be advised that we will soon be appointing a committee to develop a specific transition plan. We will be happy to coordinate all requests of UMG personnel through Mr. Potter, his designee, Bob Meyer or you.


In response to paragraph three, please be advised that we have yet to make a determination on how to address the accrued paid leave (vacation and personal) for UMG employees that return to MWD. It would be helpful if you could send us a schedule for all employees (vacation and personal time), and their wage schedules. Once we have this information, I will have the transition team address this issue first.

Mr. Greg May, COO
Utility Management Group, LLC
January 25, 2016
Page 2

In response to paragraph four concerning the agreement reached between MWD and UMG on the past due balances owed UMG, please be advised that we are willing to work with you concerning the same. However, I think it is fair to say that everyone in the meeting knew a decision was coming regarding the contract. At our meeting concerning the past due balances due UMG, you specifically ask when the contract might be terminated; you even discussed bidding for the contract again. At that time, a final decision concerning the contract had not yet been made. We certainly did not mislead you on anything. I think you know our finances well enough to know that we do not have the capacity to pay the balance of the funds due UMG by July 18th, but we will look and see what, if anything, can be done differently than what we previously agreed to do.

It is our goal to make this as smooth a transition as possible.

Sincerely,
MOUNTAIN WATER DISTRICT


Michael Blackburn, Chairman
email: mblackburn@alphanr.com

cc: MWD Board of Commissioners
Dan Stratton, Esq.
Mike Spears
Bob Meyers
Grondall Potter

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HENRY D. STRATTON
(1925-1989)

February 3, 2016

Mr. Greg May, COO
Utility Management Group, LLC
287 Island Creek Road
Pikeville, Kentucky 41501

RE: EMPLOYEE VACATION TIME

Dear Greg:

The Transition Committee for Mountain Water District, which consists of Mike Blackburn, Johnny Tackett, Roy Sawyers, Mike Spears, Carrie Hatfield and myself, have met to begin outlining what must be done to complete a smooth transition. The Committee will make recommendations to the Board at each regular meeting. If we have to have a special meeting from time to time, we will do so. As you know, the Committee has no authority to bind the Board, and can only make recommendations; therefore, final Board approval will be required for all actions.

In response to your last letter, we would like to propose a recommendation on how to handle the vacation pay, with hopes that we can negotiate something that you will have agreed upon, prior to presenting it to the Board. We think this will expedite the process. Based on what was done in 2009, Mountain Water District would assume up to forty (40) hours of vacation and personal time, and offset the balance greater than forty (40) hours against MWD's debt to UMG. This keeps UMG from having to cash-flow any vacation time, and would prevent the necessity of forced vacation time on the employees.

We currently plan to provide all the basic benefits package UMG provides, and would like to rollover the employees into the new plans as seamlessly as possible. To that end, if you could provide the name and contact information, and the current healthcare, disability insurance, uniforms, phones, etc., provided, it would be appreciated.

As to employee communications, it is my understanding that you have already sent a notice to employees that they are going to be terminated at the end of the six (6) month transition period. I do not know if this was your official notice under the Warren Act, which was an issue the last time, but if you believe that you have complied with the Warren Act Notice, we will proceed accordingly.

STRATTON LAW FIRM, P.S.C.

February 3, 2016
Page 2

We anticipate talking to individual employees about future employment shortly. At this time, we anticipate having everyone apply for their current jobs. It is our goal to give existing employees first option for their position. Their hiring would probably be subject to the normal pre-hire testing and reviews that any new hire would require. We would like to send a letter to that effect, which we would submit to you for review prior to sending.

We believe both parties should agree to work together to insure a smooth transition. To that end, we would ask that all parties refrain from making any disparaging remarks about the other, either to the employees of UMG or to the public.

We understand that any work that we request of your employees concerning the transition needs to be coordinated through Grondall, Bob or you, and we will be happy to do so. We have been allocated under the contract, fifteen (15) hours of Tammy's time, and we do anticipate using some of that time. We are assuming that time would not have to be cleared in advance, but please advise if you disagree.

Lastly, we do not have a timeline completed, but will get that to you as soon as we do. Our contract does set out the following obligations that are summarized for your convenience:

A. UMG's Obligations (2014 Contract)

- 1) Section 2.3 - UMG will supply District all computerized programs, codes, records, instruction manuals and other items necessary for the District to execute a complete transfer of their records and operating systems necessary to access and maintain the same within 30 days. (February 19th)
- 2) Section 2.4 - Within 90 days UMG will provide the District a physical inventory of the District's vehicles and equipment, and a general statement as to the condition of each vehicle and piece of equipment. (April 20th)
- 3) Section 2.5 - UMG will provide the District a physical inventory of chemicals and other consumables at the time UMG begin services under this agreement. Upon termination, the inventory shall be the same.

STRATTON LAW FIRM, P.S.C.

February 3, 2016

Page 2

- 4) Section 2.6 - UMG shall provide MWD a record of manufacturer warranties on new equipment purchased by MWD.
- 5) Section 2.7 - UMG will provide the District documentation of the maintenance performed on the District owned equipment.
- 6) Section 2.14 - UMG will produce plant performance reports, as of the time of the transfer.
- 7) Section 2.15 - UMG will provide copies of all lab reports on water tests, and all tests required by state and federal regulation will be current as of the time of transfer.
- 8) Section 2.19-2.21 - UMG will provide all monthly reports to the District's project activities and water loss, meter readings and billings.
- 9) Section 2.25 - A summary of any outstanding debt to be assumed by MWD for capital asset purchases.
- 10) Section 11.4 - Upon notice of termination, UMG will assist the District in assuming or transferring operations of the project for a period up to six months from the date of notice of termination. UMG's compensation for such services shall be it's cost not otherwise incurred in operation of the project. If additional cost is incurred by UMG, at request of District, District shall pay UMG such cost within 30 days of receipt of invoice.
- 11) Section 11.5 - Upon termination, UMG will return the project to District in the same condition as it was upon the effective date, ordinary wear and tear accepted.

Please advise as to the requested information, and if you have a problem with any of these proposals.

Sincerely,
STRATTON LAW FIRM, P.S.C.


Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm

cc: MWD Board
MWD Transition Committee

STRATTON LAW FIRM, P.S.C.

POST OFFICE BOX 1530
PIKEVILLE, KENTUCKY 41502
TELEPHONE: (606) 437-7800
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DAVID C. STRATTON
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DANIEL P. STRATTON
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P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

February 9, 2016

Mr. Greg May, COO
Utility Management Group, LLC
287 Island Creek Road
Pikeville, Kentucky 41501
Via email: gregmay@umgllc.net


RE: MWD / UMG TRANSITION

Dear Greg:

Please find attached copy of my last letter to you dated February 3, 2016. We are trying to schedule a Transition Committee meeting prior to our Board meeting on February 24th, and if you could please advise when you can respond to the above referenced letter, we will try to plan our transition meeting so that we can fully consider your response.

If you have any questions, please feel free to call.

Sincerely,
STRATTON LAW FIRM, P.S.C.


Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm
Attachment

cc: MWD Transition Committee



February 12, 2016

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

RE: Operations Transition Process

Dear Mr. Stratton:

With regard to your letter of February 3, 2016, I want to assure you that UMG will fulfill all our responsibilities pursuant to those clauses addressing termination of contract. Beyond that, we will make every effort to make this transition as painless as possible and conduct it in a professional matter. With regard to specifics:

Employee vacation and personal leave. We are not prepared to absorb all employee vacation and personal leave expenses above and beyond the 40 hours which you stated that Mountain Water District would be willing to accept responsibility for. While paying for that additional cost would not have an immediate impact on UMG's cash flow, it will over time, as it will reduce the amount of funds that you will be repaying UMG. In lieu of that, we will coordinate with all Mountain Water District project employees to schedule and take all excess leave by the contract termination date.

With regard to other employee benefits we will provide you with invoices, etc. for each benefit plan which will contain specifics about who is on the plan, premium costs, etc. Beyond that we will provide you with the name of the broker so that you can contact them at your convenience. We will also provide you with the names and contract information for the insurance broker UMG has been utilizing for Mountain Water's property, auto, and liability policies.

Please advise us as quickly as possible when and how you will be communicating with UMG employees regarding offers of employment as they are already expressing a great deal of confusion and concern as to what is happening subsequent to the termination of their employment with UMG.

There is not a problem with utilizing those 15 hours for Tammy, but as with utilization of all UMG employees in this process, please schedule that through Grondall, Bob, or me.

All of the UMG obligations specified in the Mountain Water District / UMG contract (ie: Section 2.3 through 11.5) appear to be consistent with the obligations listed in our copy of the Agreement. We will organize and turn the required information over to the District by the date stipulated in the contract.

287 Island Creek Road - Pikeville, Kentucky 41501
Phone: 606-437-4754 - Fax: 606-437-5083

At your earliest convenience, please provide us with a specific time frame that you are proposing with regard to moving the transition process forward.

Sincerely,


Greg May, Chief Operating Officer

Cc: Board of Commissioners
Roy
Grondall Potter, Bob Meyer

CASE: Mountain Water District
CASE NO: 2016-00062
RE: Initial Request

Q 8

Provide a complete copy of the work papers, calculations, and assumptions that Mountain Water District used to develop the financial analysis supplied and discussed in its Petition.

WITNESS: Michael Spears

Response:

Attached you will find the financial analysis and workpapers used to develop the analysis used in the petition. The list of assumptions is attached to the analysis and is very straight forward and is tied by footnote to the column "MWD Additional". Also attached is the MWD Financial Statement for UMG which was submitted to the PSC in the "PSC Data Request Number 3, Item 2b" for rate case 2014-00342 by UMG. This was their financial as it pertained to the MWD project and was submitted under oath.

UMG's financial statement was the starting point for my analysis. I used all of the "direct cost" from the UMG provided financial since they submitted these under oath. The items will follow line item for line item with my analysis for Payroll and Administrative Expenses, Direct Operations Expenses, Department R&M, and Hand Tools. These items are listed under the Column "UMG Direct Expenses" on my analysis.

In the previous case the Attorney General and PSC Staff, felt as though the analysis was flawed because we did not add back to the savings the line items "Corporate Overhead" and "Corporate Fee". If you will follow the analysis, neither of those are included in UMG Direct Expenses. On Item 2b of the PSC Data Request Number 3 those two categories are included in "Corporate and Other Expenses" and I did not use any figure from that category since it represents expenses that are only UMG's and are of no consequence in this analysis. I only used the direct operational expenses as that is all the MWD would be responsible for in analyzing our costs to operation internally versus contract management by the current UMG contract. Hopefully that will clarify that issue in the case.

The column "MWD Additional" represents the columns for our assumptions and is tied by footnote to the Assumptions page attached.

Mountain Water District

**Projected Cost Comparison of Assuming Operations of the District
June 30, 2014**

	UMG Direct Expenses	MWD Additional	MWD Projected Cost
Payroll and Administrative Expenses			
Salary and Wages			
Regular Pay	\$ 1,609,414		\$ 1,609,414
Overtime	85,925		85,925
Paid leave	222,271		222,271
HR, Safety, AP Clerk	-	34,869 (1)	34,869
Total Salaries and Wages	\$ 1,917,610		\$ 1,952,479
Payroll Taxes			
Fica	141,479	2,667 (2)	144,146
Futa	6,993	144 (2)	7,137
Suta	17,837	324 (2)	18,161
Total Payroll Taxes	166,309		169,445
Health Insurance Expense	375,656	9,600 (3)	385,256
Life Insurance Expense	7,462	136 (4)	7,598
Long Term Disability	6,715	122 (5)	6,837
State Retirement System	54,522	310,201 (6)	364,723
Training Expense	5,505		5,505
Travel			
Lodging	4,931		4,931
Meals	5,245		5,245
Mileage	855		855
Total Travel	11,031		11,031
Vehicle Expenses			
Lease Expense	69,306	(69,306) (8)	-
Gasoline	174,962		174,962
Diesel	36,469		36,469
Miscellaneous	2,057		2,057
Total Vehicle Expense	282,794		213,488
Office Storage Rental	1,090		1,090
Office Equipment Lease	7,253		7,253
Office Supplies	31,930		31,930
Janitorial Expense	20,092		20,092
Postage	111,210		111,210
Professional Fees accounting	749		749
Professional Fees Other	47,941		47,941
Insurance			
General Liability	149,073		149,073
Auto	15,417		15,417
Workers Compensation	35,706		35,706
Total Insurance Expense	200,196		200,196
Telephone			
Office	11,736		11,736
Mobile	13,848		13,848
Other	1,910		1,910
Total Telephone	27,494		27,494
Security Service	459		459
	\$ 3,276,018	288,758	\$ 3,564,776
Direct Operations			
Uniforms	26,497		26,497
Safety Supplies	16,274		16,274
Laboratory Supplies	2,979		2,979

Laboratory Testing	37,171		37,171	
Other Outside Services	2,400		2,400	
Carbon	802		802	
Disinfectants	54,950		54,950	
Fluoride	17,909		17,909	
Polymers	8,313		8,313	
Dechlorination Agents	13,841		13,841	
Nitrox	11,270		11,270	
Other Chemicals	62,977		62,977	
Purchased Water	1,114,659		1,114,659	
Electricity	1,162,650		1,162,650	
Sewage Fees	163,514		163,514	
Solid Waste	6,805		6,805	
		<u>2,703,011</u>		<u>2,703,011</u>
Repair and Maintenance				
Repair and Maintenance	758,439		758,439	
Hand Tools	13,316		13,316	
		<u>771,755</u>		<u>771,755</u>
Cash Expenditures for note payments.				
Note payments for existing vehicles currently paid by UMG.		69,306 (8)	69,306	
Note payments for 5 additional vehicles		<u>30,000 (7)</u>	<u>30,000</u>	
		99,306		<u>99,306</u>
		<u>\$ 6,750,784</u>	<u>388,064</u>	<u>\$ 7,138,848</u>
Amount Paid to UMG				<u>7,600,837</u>
Projected Saving by Operating the District Internally				<u>\$ 461,989</u>

Mountain Water District

Projected Cost Comparison of Assuming Operations of the District

Assumptions

June 30, 2014

Number

- 1 The district will require 1 additional employee included in UMG's Corporate Overhead Number. Propose the addition of an A/P Clerk at \$34,869.
- 2 The additional Fica is calculated at 7.65% of the Salary, FUTA at .006 of \$8,00 per Employee and SUTA at prorata to UMG's cost related to total payroll.
- 3 Cost estimated at \$800 per new employee multiplied by 12 months.
- 4 Pro rata UMG's number to their total payroll, adjusted for the 1 new employees.
- 5 Pro rata UMG's number to their total payroll, adjusted for the 1 new employees.
- 6 Total payroll of \$1,952,479 multiplied by the current KERS Retirement percentage of 18.68% less the UMG costs of \$54,522.
- 7 UMG currently uses 7 trucks of theirs on our project, we will only replace 5 of those. Estimated at \$500 per month by the five new trucks.
- 8 UMG pays for notes that are in MWD's name for vehicles used on our project. We would not have this expense without the contract with UMG. We would however have to make the payments on those notes.

MWD Financial Statement
for 12 Periods from 7/1/2013 to 6/30/2014
Consolidated All Departments

	6 Periods End 6/30/2014	12 Periods End 12/31/2013	6 Periods End 6/30/2013	12 Periods From 7/1/2013 To 6/30/2014
Revenue				
O&M Revenue	3,507,271	6,893,185	3,372,784	7,027,672
Miscellaneous Revenue	1,253	6,453	3,940	3,766
Total Revenue	3,508,524	6,899,638	3,376,724	7,031,438
Expenses				
Payroll and Administrative				
S&W: Regular MWD Adm	791,337	1,612,676	794,599	1,609,414
S&W: Overtime MWD Adm	44,129	78,280	36,484	85,925
S&W: Paid Leave MWD Adm	93,724	225,124	96,577	222,271
FICA Expense	68,436	140,973	67,930	141,479
FUTA Expense	1,760	6,948	1,715	6,993
SUI Expense	14,074	17,076	13,313	17,837
Health Ins Expense	179,561	400,406	204,311	375,656
Life Insurance expense	3,677	7,635	3,850	7,462
LTD Expense	3,273	6,902	3,460	6,715
401K Expense	27,570	53,524	26,572	54,522
Training Fees & Tuition	2,420	7,774	4,689	5,505
Travel: Lodging	1,755	5,581	2,405	4,931
Travel: Meals/Ent:	2,562	5,112	2,429	5,245
Travel: Mileage	122	1,398	665	855
Vehicle lease expense	30,192	79,555	40,441	69,306
Vehicle: Gasoline	89,342	173,186	87,566	174,962
Vehicle Diesel	20,644	33,967	18,142	36,469
Vehicle Loan Interest	0	235	235	0
Vehicle Misc	126	2,100	169	2,057
Office Rent	540	1,110	560	1,090
Office Equipment Lease	3,502	7,274	3,523	7,253
Office Supplies	13,232	37,149	18,451	31,930
Clean/Janitorial Expense	10,877	19,469	10,254	20,092
Postage Expense	43,798	117,301	49,889	111,210
Prof Fees Acct	0	749	0	749
Prof Fees Other	25,309	45,368	22,736	47,941
Ins: General Liability	83,248	123,535	57,710	149,073
Insurance: Auto	0	33,917	18,500	15,417
Insurance: W/C	11,811	43,614	19,719	35,706
Telephone: Offices	7,873	5,198	1,335	11,736
Telephone: Mobile	5,202	17,882	9,236	13,848
Telephone: Other	944	1,695	729	1,910
Security Services	219	5,576	5,336	459
Total Payroll and Admin.	1,581,259	3,318,289	1,623,530	3,276,018
Direct Operations				
Uniforms	9,476	35,068	18,047	26,497

MWD Financial Statement
 For 12 Periods from 7/1/2013 to 6/30/2014
 Consolidated All Departments

	6 Periods End 6/30/2014	12 Periods End 12/31/2013	6 Periods End 6/30/2013	12 Periods From 7/1/2013 To 6/30/2014
Safety Supplies	8,494	14,815	7,035	16,274
Laboratory Supplies	614	4,195	1,830	2,979
Laboratory Testing	19,553	32,334	14,716	37,171
Other Outside Services	2,400	996	996	2,400
Coagulants	0	11,499	11,499	0
Carbon	802	0	0	802
Disinfectants	33,043	46,565	24,658	54,950
Fluoride	9,096	8,813	0	17,909
Polymers	7,373	4,700	3,760	8,313
Dechlorination Agents	9,995	9,140	5,294	13,841
Nitronox	7,213	8,104	4,047	11,270
Other Chemicals	20,151	80,300	37,474	62,977
Purchased Water	558,401	1,090,181	533,923	1,114,659
Electric	574,837	1,051,856	464,043	1,162,650
Sewage Fees	83,680	162,967	83,133	163,514
Solid Waste	6,805	735	735	6,805
Capital Expenditure	0	867	867	0
Total Direct Operations	1,351,933	2,563,135	1,212,057	2,703,011

Corporate and Other Expenses

Corporate Overhead	214,307	490,765	237,145	467,927
Corporate Fee	150,000	300,000	150,000	300,000
Bank/Finance charges	14	94	82	26
Depreciation Expense	9,534	35,479	15,980	29,033
Amortization Expense	37,742	113,227	33,333	117,636
Dues/Subscriptions	693	2,185	990	1,888
Contributions	0	100	0	100
Public Relations	0	310	310	0
Physical Exams	606	1,581	479	1,708
Miscellaneous Expense	-158	6,025	2,592	3,275
Total Corporate and Other Expenses	412,738	949,766	440,911	921,593

Total Expenses	3,345,930	6,831,190	3,276,498	6,900,622
Net Income from Operations	162,594	68,448	100,226	130,816

Repair & Maintenance

R&M Revenue	-355,355	-658,717	-282,000	-732,072
Depart. R&M	356,765	658,717	257,043	758,439
Hand Tools	7,680	12,527	6,891	13,316
Total Repair & Maintenance	9,090	12,527	-18,066	39,683

Net Income (Loss)	153,504	55,921	118,292	91,133
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CASE : Mountain Water District
CASE NO : 2016-00062
RE : PSC First Data Request

Q 9. Provide a complete copy of any analysis performed by or on behalf of Mountain District relied upon by Mountain District in making its decision to terminate the contract with UMG.

WITNESS : Sawyers.

RESPONSE Q9:

In addition to the Exhibits submitted by Mike Spears, CPA, in response to Question No. 8, please find enclosed a memorandum prepared by Daniel P. Stratton, general counsel, to Mountain Water District Board dated January 19, 2016, listing non-financial consideration for going independent. The January 19, 2016, memo was not sent to the Board, but was reviewed in the meeting of January 20, 2016.

In addition to this information, there have been numerous questions and conversations by and among individual commissioners, among themselves, and with Roy Sawyers as MWD Administrator; Michael Spears as CPA; and Dan Stratton as general counsel, concerning the pros and cons of going independent. It is believed that the financial report submitted in No. 8; and the written report No. 9, by and large summarize most of the topics of discussion, in these individual conversations.

The above referenced memorandums and financial information that were reviewed are attached as follows:

- 1) October 22, 2015; Memo to Board
- 2) January 19, 2016; Memo to Board
- 3) Outstanding Payables to UMG;
- 4) Draft Time Line;

- 5) Organizational Chart;
- 6) UMG Payroll Information for the calendar year 2014;
- 7) Draft Personnel Timeline;
- 8) Benefits Comparison chart
- 9) Memo from Dan Stratton to MWD Board of Commissioners dated February 2, 2016;
- 10) MWD / UMG Transition Meeting Agenda dated February 2, 2016;

Memo

TO : Roy Sawyers, Carrie Hatfield & Mike Spears
FROM : Daniel P. Stratton, Esq. *DS*
DATE : October 22, 2015
REGARDING : Mountain Water District

ANALYSIS FOR INDEPENDENT OPERATIONS

To follow up on our meeting on the 20th, the following is an outline of the assignments we agreed upon in regard to the division of labor for the above referenced project. Of course, we will all be helping each other with various phases, and reviewing everything, but the primary responsibility for the following tasks are listed below:

Mike:

- 1) Proforma statement
- 2) Debt repayment plan for UMG

Roy / Carrie:

- 1) New MWD Organizational Chart
- 2) Cost breakdowns for salaries, health insurance, miscellaneous benefits and two outlines for retirements, one being a defined contribution plan, the other being participation in the state system.
- 3) Identify by subject matter, assets to be transferred back to MWD.

Dan:

- 1) Review respective duties for each party pursuant to the contract
- 2) Time table for the conversion
- 3) Rewrite the HR Policy

- 4) Review liability, property and casualty, and workers' comp insurance, with pricing for the same.

We have agreed to get back together the first week in November to review where we are, with a plan to submit a final draft report to the Board before November 20th.

If you have any questions, please feel free to call.

MEMO

TO : **MWD Board of Commissioners**
FROM : **Daniel P. Stratton, Esq.**
DATE : **January 19, 2016**
REGARDING : **Review of UMG Contract**

MANAGEMENT FACTORS TO CONSIDER IN EVALUATION OF THE UMG CONTRACT

Pursuant to the Board's direction to fully evaluate the UMG contract, in addition to the financial analysis provided by Mike Spears, this memo is to summarize various management issues the Board needs to consider before making any decision concerning the UMG contract. This analysis to address past criticisms of the Board by both, the PSC and the State Auditor of Public Accounts, who have stated that the Board needs to make an informed decision as to what is in the best interest of the District, and must do so with sufficient planning to determine the benefits to and/or financial impact on the District.

1. **DIRECT VERSUS INDIRECT BOARD CONTROL.** KRS 74.020 empowers the Board to "Control and manage from affairs of the District". Contracting out services results in the delegation of some control. When the UMG contract was first entered into in 2005, one of the main considerations was

that the District would not have any employees, as all functions of the District, other than those reserved for the Board, were being delegated to UMG. We have since, of course, amended the contract to provide for an Administrator and a Financial Officer to allow better oversight of UMG's functions, and to have a better handle on our finances. The original purpose of the Administrator's position was oversight of the UMG contract, and created a liaison for Board communication on a day to day basis. The need for this position, and the Financial Officer's position, indicated a need for more control by the Board, over the Contractor's operations. The Board can only function as a group at its monthly meeting, and the need for additional oversight has proven needed, as many day to day decisions have been delayed for lack of Board input, or have been made without Board input by the Contractor. While the Administrator and Financial Officer's positions have improved this situation, going independent would allow the Board full control of its operations.

2. **CONTRACTS CAN'T COVER EVERY CONTINGENCY.** While we have a detailed contract with UMG, no contract can provide for every contingency, so there are always issues which need to be resolved. The water-loss issue is a prime example. MWD thought that it had covered the issue of lost water when it required UMG to be responsible for the cost of all water, thus giving them an incentive, in theory, to promptly fix leaks and address

systemic failures. When UMG acquired the contract, they may very well have priced in the cost of water-loss as it was a known factor at the time. Water-loss has stayed approximately the same during their tenure, which would indicate that this provision of the contract did not provide a financial incentive for UMG to reduce lost water from leaks. With independent management, the Board would have an on-going incentive to manage that cost. There are numerous other gaps and ambiguities that will always exist in any contract.

3. **CUSTOMER SERVICE.** All customer issues are handled by UMG. While UMG has given satisfactory customer service to date, front line accountability to the Board for customer service would create an incentive for the Board to insure that the best of service is maintained.

4. **PERSONNEL ISSUES.** A major consideration of contracting services was to relieve the Board of the issue of personnel management. While that has by and large, been to our benefit, it has not relieved MWD of the work as the time and trouble of management has shifted to the Contractor. We have spent a great deal of time and cost negotiating revisions on the UMG contract dealing with various issues that have been raised over time concerning the contract, and the brunt of a great deal of public criticism over how the contract has been managed. The Board needs to weigh

dealing with personnel issues versus the burden of managing UMG's contract.

5. **BOTTOM LINE CONTROL.** The independent operation give the Board more control over its finances in that it can cut expenses in the event of a revenue shortfall. To the contrary, our inability to cut UMG's contract fees, tied the Board's hands. Flexibility would be greatly increased by independent management as we would not be tied to a fixed price contract that would have to be paid regardless of declines in revenue. If sales continue to fall, this would be an issue with a fixed price contract.

6. **PSC ORDER.** To be in compliance with the PSC Order, we are required to bid the contract out again, and to do so at this time, we only anticipate bids from UMG and possibly one other national company who provides contract services in Eastern Kentucky. While we still may be required to complete the RFP, there is no requirement that we contract out services, if in fact, we have gone independent. If the Board so elects, it gives the Board sufficient time to convert the operations under the six (6) month notice provisions of the UMG contract, and will allow for an orderly transition.

7. There are numerous other reasons that each of the Commissioners may have, but these are issues for your review and consideration.

Outstanding Payables to UMG

Sept. 1- Sept. 15, 2015	\$323,235.83
Sept. 16-Sept. 30, 2015	\$323,235.83
Oct.1- Oct. 15,2015	\$323,235.83
Oct.16-Oct. 31,2015	\$323,235.83
Nov.1- Nov.15,2015	\$323,235.83
Nov.16-Nov.30,2015	323235.83
Total Outstanding Contract Service	\$1,939,414.98
R & M overage balance as of 2013	\$ 236,415.67
Forgiveness in 2014 contract	\$ (118,932.00)
R & M overage for 2014	\$ 144,343.38
Total overage as of 12/31/14	\$ 261,827.05
Total Outstanding	\$2,201,242.03

Owed to MWD for R & M as of 11/15/15

414,102.79

\$1,787,139.24

DRAFT TIME LINE

DATE

EVENT

January 20, 2016

Notice of Termination

February 19, 2016

1. UMG to supply all computerized programs, codes, records and instruction manuals.
2. Provide list of employees with copies of any contracts, if any, respective compensation benefits, accrued vacations, etc.
3. Copies of all existing insurance coverages.
4. Operating procedure manuals.
5. MWD communication to employees.
6. Contact key employees (effective with transfer).

March 30, 2016

1. List of all real estate deeds, leases, easements, transferred into the name of UMG.
2. List of all equipment to be transferred back to the District.
3. List of all equipment to be retained by UMG.
4. List of all deferred and prepaid expenses.
5. Copies of all contracts and agreements effecting the District.
6. List of all claims and litigation made against UMG or MWD by any party. (To be updated the day of closing).
7. List all outstanding regulatory issues.

April 30, 2016

1. Report on all plant performance, plant maintenance, and all related documentation. (To be updated the day of closing).
2. Provide all project warranties, easements and licenses that have been transferred to UMG.
3. Transfer to the District, all appropriate and needed warranties, easements and licenses.

May 15, 2016

1. Notice to employees by UMG of layoff.

May 16, 2016

1. Interview for available positions.

May 30, 2016

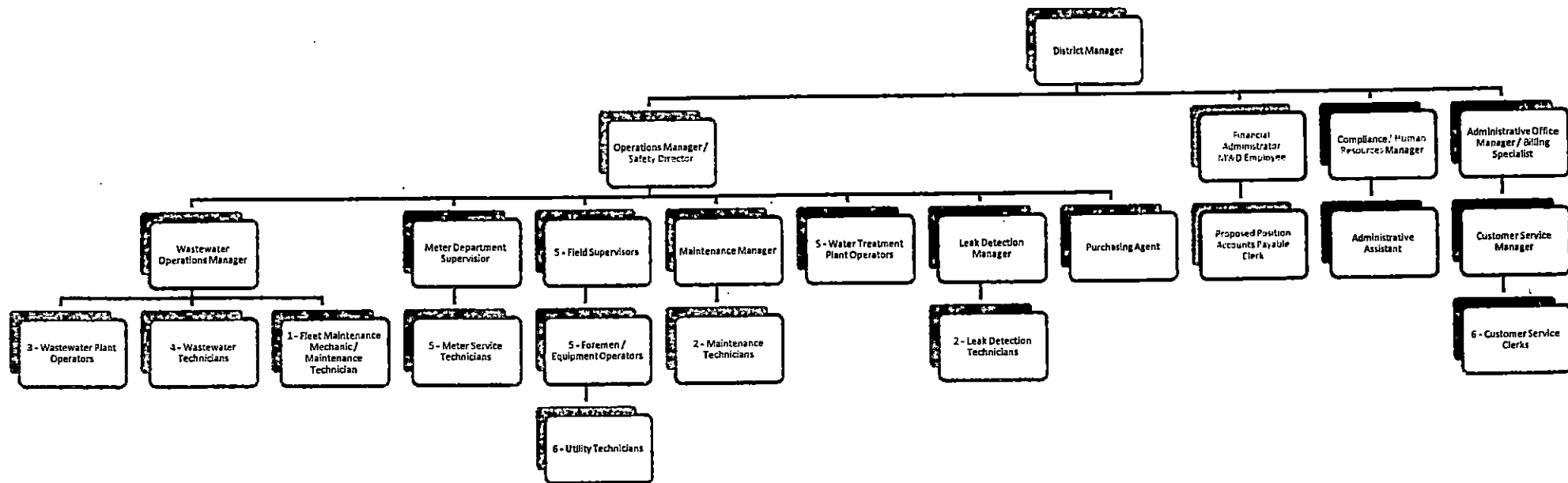
1. Complete hiring process (effective with transfer).

July 15, 2016

1. Inventory of chemicals and other consumables be provided by UMG.
2. All lab reports and water tests at time of transfer.
3. Effective transfer.

Completion of payment obligations to UMG.

①



UTILITY MANGEMENT GROUP
Calendar Year 2014

PAYROLL INFORMATION
Mountain Water District and Shared Employees

	POSITION	Hourly rate or base pay	RATE	GROSS YEARLY	REG HOURS	OT HOURS	% Increase 2013 to 2014
11-250	Water Plant Operator	\$11.68	hourly	\$28,998.88	2,224.0	156.0	6.3%
11-296	Water Plant Operator	\$15.75	hourly	\$11,983.40	727.9	22.0	-1.7%
11-578	Water Plant Operator	\$9.40	hourly	\$19,434.74	1,784.9	177.0	4.4%
11-608	Water Plant Operator	\$9.94	hourly	\$23,824.21	2,006.0	234.5	12.4%
11-790	Water Plant Operator	\$9.31	hourly	\$16,020.58	1,563.0	88.0	New Employee
11-907	Water Plant Operator	\$9.00	hourly	\$2,727.00	282.0	14.0	New Employee
11-960	Water Plant Operator	\$12.84	hourly	\$30,528.89	2,210.0	91.0	7.0%
12-128	Utility Worker	\$11.13	hourly	\$29,418.10	2,193.0	284.0	3.2%
12-147	Utility Worker	\$8.50	hourly	\$1,581.00	186.0		New Employee
12-149	Leak Detection	\$12.49	hourly	\$30,299.55	2,191.0	128.5	1.7%
12-156	Mechanic	\$17.11	hourly	\$38,889.07	2,168.5	52.5	1.5%
12-233	Meters/Inventory/Purchasing	\$14.21	hourly	\$30,825.89	2,121.5	11.5	1.7%
12-252	Utility Worker	\$9.28	hourly	\$14,908.08	1,576.5	3.0	3.1%
12-254	Area Manager	\$44,200.00	salary	\$45,591.43	2,080.0		0.0%
12-324	Electrical Maintenance Mgr	\$50,564.80	salary	\$52,041.25	2,080.0		0.9%
12-349	Utility Worker	\$12.82	hourly	\$40,715.99	2,145.5	241.5	2.6%
12-352	Maintenance Technician	\$16.64	hourly	\$39,308.94	2,196.5	94.0	1.3%
12-374	Utility Worker	\$8.51	hourly	\$340.40	40.0		0.0%
12-471	Utility Worker	\$13.37	hourly	\$30,493.30	2,129.0	83.0	1.4%
12-534	Area Manager	\$41,828.80	salary	\$43,198.43	2,080.0		0.9%
12-576	Area Manager	\$44,033.60	salary	\$45,310.90	2,080.0		1.1%
12-597	Area Manager	\$44,553.60	salary	\$45,949.26	2,080.0		0.9%
12-730	Leak Detection	\$12.81	hourly	\$30,253.13	2,161.0	110.5	2.3%
12-737	Area Manager	\$45,905.60	salary	\$47,351.84	2,080.0		1.1%
12-814	Area Manager	\$48,942.40	salary	\$50,441.73	2,080.0		0.7%
12-821	Utility Worker	\$15.37	hourly	\$34,336.13	2,134.0	48.0	1.7%
12-828	Utility Worker	\$14.04	hourly	\$43,131.85	2,136.5	179.0	2.5%
12-865	Utility Worker	\$9.43	hourly	\$21,671.26	2,082.3	126.0	4.8%
12-905	Equipment Operator	\$15.22	hourly	\$33,559.32	2,120.0	43.5	2.4%
12-912	Operations Manager	\$84,801.60	salary	\$86,712.90	2,080.0		0.0%
12-926	Equipment Operator	\$17.93	hourly	\$39,503.64	2,127.0	35.0	1.5%
12-958	Equipment Operator	\$12.96	hourly	\$25,703.26	1,704.5	163.5	1.9%

UTILITY MANGEMENT GROUP
Calendar Year 2014

PAYROLL INFORMATION
Mountain Water District and Shared Employees

	POSITION	Hourly rate or base pay	RATE	GROSS YEARLY	REG HOURS	OT HOURS	% Increase 2013 to 2014
12-965	Maintenance Technician	\$14.00	hourly	\$33,794.63	2,175.0	139.0	2.3%
13-100	Wastewater Plant Operator	\$15.17	hourly	\$35,888.57	2,220.5	84.5	1.4%
13-101	Maintenance Technician	\$9.05	hourly	\$16,393.19	1,642.4	101.0	6.5%
13-255	Maintenance Technician	\$9.87	hourly	\$21,021.44	1,975.1	84.0	4.8%
13-347	Wastewater Plant Operator	\$12.32	hourly	\$27,272.53	2,138.5	23.0	9.0%
13-569	Area Manager	\$56,097.60	salary	\$57,563.35	2,080.0		0.4%
13-779	Wastewater Plant Operator	\$11.56	hourly	\$26,048.14	2,160.0	36.5	2.4%
13-899	Maintenance Technician	\$8.50	hourly	\$3,593.38	399.5	15.5	New Employee
13-973	Maintenance Technician	\$12.57	hourly	\$30,766.93	2,201.0	148.0	1.9%
14-142	Meter Department/Service Supervisor	\$42,723.20	salary	\$43,813.79	2,080.0		1.2%
14-320	Maintenance Technician	\$9.00	hourly	\$12,604.93	1,357.0	17.0	New Employee
14-491	Customer Service Rep	\$8.56	hourly	\$10,616.53	1,214.0	4.3	New Employee
14-512	Cashier	\$9.06	hourly	\$19,638.81	2,115.8	12.5	3.0%
14-515	Customer Service Rep	\$9.75	hourly	\$4,652.61	463.2	3.8	3.9%
14-521	Customer Service Rep	\$8.00	hourly	\$4,763.43	573.3	1.3	New Employee
14-558	Service Tech	\$12.08	hourly	\$26,588.18	2,120.8	33.0	2.2%
14-581	Customer Service Rep	\$12.95	hourly	\$28,260.31	2,126.0	22.0	1.8%
14-634	Service Tech	\$9.17	hourly	\$20,544.36	2,136.5	37.8	5.4%
14-660	Billing Clerk	\$14.20	hourly	\$30,724.13	2,121.3	14.3	2.1%
14-695	Customer Service manager	\$39,582.40	salary	\$8,236.58	428.5		0.7%
14-712	File Clerk	\$8.00	hourly	\$2,990.00	373.8		New Employee
14-965	Service Tech	\$13.71	hourly	\$31,007.58	2,150.5	52.3	1.7%
14-769	Deliquent Billing Clerk	\$12.27	hourly	\$26,920.84	2,148.5	13.3	1.7%
14-781	Customer Service Rep	\$9.00	hourly	\$7,290.47	804.1	4.0	New Employee
14-863	Tank maintenance	\$12.93	hourly	\$12,680.34	951.4	19.5	1.2%
14-940	Service Tech	\$13.04	hourly	\$28,668.07	2,128.5	25.5	2.0%
14-972	Customer Service manager	\$32,177.60	salary	\$33,395.04	2,126.8	10.3	Changed to salaried
15-590	Executive Assistant	\$56,201.60	salary	\$57,618.91	2,080.0		0.9%
15-711	Administrative Assistant	\$12.35	hourly	\$27,269.85	2,136.3	32.0	1.9%
15-744	Executive Assistant	\$54,204.80	salary	\$55,549.09	2,080.0		0.9%
15-772	Senior Project Manager	\$90,000.00	salary	\$93,482.93	2,080.0		0.0%
1c-145	Maintenance Technician	\$13.92	hourly	\$39,145.93	2,209.5	390.0	2.4%

UTILITY MANGEMENT GROUP
Calendar Year 2014

PAYROLL INFORMATION
Mountain Water District and Shared Employees

	POSITION	Hourly rate or base pay	RATE	GROSS YEARLY	REG HOURS	OT HOURS	% Increase 2013 to 2014
1C-148	Maintenance Technician	\$8.50	hourly	\$3,055.75	347.5	8.0	New Employee
1C-943	Maintenance Technician	\$9.87	hourly	\$3,828.06	335.4	24.0	4.6%
	Shared Employees						
98-226	HR Specialist	\$17.20	hourly	\$39,833.78	2,162.5	90.3	2.4%
98-394	IT Tech	\$18.65	hourly	\$43,531.50	2,175.0	95.3	2.1%
98-464	Safety Director	\$16.43	hourly	\$39,179.52	2,148.0	139.5	1.9%
98-604	COO	\$90,000.00	salary	\$91,730.65	2,080.0		0.0%
98-618	Accounts Payable Clerk	\$15.87	hourly	\$34,869.11	2,141.8	24.5	1.7%
98-667	Controller	\$90,000.00	salary	\$91,730.62	2,080.0		0.0%

PROPOSED TIME LINE PERSONNEL MATTERS

<u>DATE</u>	<u>EVENT</u>
January 20, 2016	Notice of Termination
February 24, 2016	<ol style="list-style-type: none">1. Approve Organizational Chart and number of positions.2. Approve benefits package.3. Approve joint UMG Memo to employees.
March 1 , 2016	Memo to Employees
March 10, 2016	Contract Key Employees; Retain PT, HR Director
April 4 , 2016	Start Employee Applications/
April 29, 2016	Complete benefits package/Personnel and HR Handbooks Completed
May 30, 2016	Confirm hires for MWD
July, 17, 2016	Last day of UMG employment
July 18, 2016	First day of MWD employment

BASIC BENEFITS COMPARISON

<u>BENEFIT</u>	<u>UMG</u>	<u>PIKE</u> <u>COUNTY</u>
1. Paid Vacation	10-15 days (1-5 years) May accrue up to 2 years	10-15 days (1-5 years) May accrue up to 2 years
2. Paid Holidays	11 days	8 days
3. Paid Personal Leave	0	Up to 6 days
4. Paid Sick Leave	10 days May accrue up to 20 days	2 days/month May accrue up to Up to 60 days
5. Paid Funeral Leave	up to 3 days in case of Passing of immediate family	N/A
6. Disability Insurance	N/A	N/A
7. Retirement	401K	County Retirement Plan
8. Hospitalization	Employees Only Employer paid 100% unless Cost become excessive, then Employer pay 80% of premium	County pays 100% of Emp and Fam (new hires after 3/1/16 Emp and children only)
9. Dental/Vision	Employee Only, Employer Paid	N/A
10. Life Insurance	\$50,000 Term Life Policy	\$20,000 Term Life
11. Tuition Reimbursement	Reimbursement between 0-75% Grade Dependent with Pre-Approval From Employer/Job Related Time Commitment to MWD required	N/A
12. Incentive Raises/bonues	Hourly incentive increases .15 - .30 For Certifications obtained	Longevity raises beginning one year After employment From 1% - 2%

MOUNTAIN WATER DISTRICT / UTILITIES MANAGEMENT GROUP
TRANSITION MEETING
FEBRUARY 2, 2016

AGENDA

I. REVIEW RESPECTIVE CONTRACTUAL OBLIGATIONS

A. UMG's Obligations (2014 Contract)

- 1) Section 2.3 - UMG will supply District all computerized programs, codes, records, instruction manuals and other items necessary for the District to execute a complete transfer of their records and operating systems necessary to access and maintain the same within 30 days. (February 19th)
- 2) Section 2.4 - Within 90 days UMG will provide the District a physical inventory of the District's vehicles and equipment, and a general statement as to the condition of each vehicle and piece of equipment. (April 20th)
- 3) Section 2.5 - UMG will provide the District a physical inventory of chemicals and other consumables at the time UMG begin services under this agreement. Upon termination, the inventory shall be the same.
- 4) Section 2.6 - UMG shall provide MWD a record of manufacturer warranties on new equipment purchased by MWD.
- 5) Section 2.7 - UMG will provide the District documentation of the maintenance performed on the District owned equipment.
- 6) Section 2.14 - UMG will produce plant performance reports, as of the time of the transfer.
- 7) Section 2.15 - UMG will provide copies of all lab reports on water tests, and all tests required by state and federal regulation will be current as of the time of transfer.
- 8) Section 2.19-2.21 - UMG will provide all monthly reports to the District's project activities and water loss, meter readings and billings.

- 9) Section 2.25 - A summary of any outstanding debt to be assumed by MWD for capital asset purchases.
- 10) Section 11.4 - Upon notice of termination, UMG will assist the District in assuming or transferring operations of the project for a period up to six months from the date of notice of termination. UMG's compensation for such services shall be its cost not otherwise incurred in operation of the project. If additional cost is incurred by UMG, at request of District, District shall pay UMG such cost within 30 days of receipt of invoice.
- 11) Section 11.5 - Upon termination, UMG will return the project to District in the same condition as it was upon the effective date, ordinary wear and tear accepted.
- 12) Need a list of UMG property that was paid for by the District, or for which the District specifically reimbursed UMG for the cost incurred. These items are to be returned to the District.

B. Mountain Water District's Obligations

- 1) Section 2.24 - Mountain Water District shall release UMG of its obligation to maintain a \$1,000,000 surety bond upon termination of this agreement and compliance by UMG with its obligations hereunder.
- 2) Section 11.3 - District shall pay UMG a termination fee based on the remaining unamortized balanced of start up cost and capital expenditures made by UMG.
Appendix F - After 3 years, this amount is ZERO.
- 3) MWD will need to pay the past due balances.

II. EMPLOYEE ISSUES

- A. Resolving vacation pay issue with UMG.
- B. Organizational chart.
- C. Compensation and benefits.
- D. Personnel policy.

E. Employee communication plan.

F. Interim HR Director.

III. INSURANCE ISSUES

A. Property and casualty.

B. Liability.

C. D & O.

D. Workers' compensation.

IV. MANAGEMENT ISSUES

A. Verification of asset inventories.

B. Receipt of software programs, instruction manuals, etc.

C. Verification of UMG's miscellaneous obligations.

V. TIME TABLE - see attached schedule

MEMO

TO : **MWD Board of Commissioners**
FROM : **Daniel P. Stratton, Esq.**
DATE : **February 2, 2016**
REGARDING : **UMG Contract Termination**

AGENDA ITEMS FOR EXECUTIVE SESSION

The following are the agenda items for Executive Session concerning the transition.

1. Confirm engagement of Roy Sawyers as MWD's Superintendent/Manager, and Carrie Hatfield as Chief Financial Officer.
2. Approve organizational chart structure and designated number of positions.
3. Approve proposed benefit packages for employees.
4. Review communication to UMG and their employees on the transition process.
5. Review draft timeline.

CASE : Mountain Water District
CASE NO : 2016-00062
RE : PSC First Data Request

Q 10. Mountain District states that it is willing to comply in full with the RFP requirements should a decision to seek contract operator be made at a future date. Mountain District also states that the cost of the effort as well as the possibility that there will be only a limited number of contractors that respond to the RFP makes the expense and delay unjustifiable. Setting aside for the purpose of responding to this question the issues of expense and delay, state whether it is Mountain District's position that an RFP that is issued in the future will result in a greater number of contractors that respond to the RFP. Fully explain the factors and assumptions that Mountain District believes support the premise that an RFP issued in the future would provide more information or generate more options than an RFP issued in compliance with the Commission's October 9, 2015 Order in Case No: 2014-00342.

WITNESS : Sawyers.

RESPONSE Q 10:

Mountain Water District cannot say with any degree of certainty that an RFP that is issued in the future will result in a greater number of contractors that would respond to the RFP. It was the District's understanding that the purpose of the RFP requested in the Commission's Order was to force a bid of the contract, which would then prevent an extension or a renewed contract with UMG without the benefit of the bidding process. Prior contracts had either been extended or renewed in order to grant some concession of one type or another. By requiring the District to issue new RFP's, that requirement broke up the cycle that previously existed.

The second perceived objective of the Commissioner's order was that it would create a neutral third-party report, who would objectively analysis the various proposals. This would eliminate any local bias that may exist and allow the Board to have an objective third-party recommendation.

The District has agreed to comply with this process in the future to address any perceived concerns the Commission may have, if the Board ever elected to contract out management in the future.

CASE : Mountain Water District
CASE NO : 2016-00062
RE : PSC First Data Request

Q 11. State whether Mountain District believes that conducting its operations with its own employees is the most reasonable and cost-effective means for operating the District. Provide a copy of any analysis or documentation relied upon by Mountain District in support of its position.

WITNESS : Sawyers.

RESPONSE Q 11:

Yes, Mountain Water District believes that conducting its operations with its own employees is the most reasonable and cost effective means of operating the District. While contract management has certain benefits, it also comes with a number of disadvantages. The primary disadvantage is that the Board loses flexibility in adjusting its expenses, should revenue grow slower than expenses. Fixed based contracts escalate over time, and therefore, are always going up. Self-management allows more flexibility in the reduction of cost as necessary, in the event of a slowdown in revenue.

Second, no contract can provide for every contingency that arises concerning the management of the District. As a result, there are always going to be issues concerning what is or what is not covered under the contract, and who bears that expense. Therefore, when a non-contractual expense arises, the District must assume that expense and if it does not have the ability to reduce other expenses, then budgets can be pushed out of balance.

Third, while most contractors are responsible in what they do, their business is to maximize their return. As such, customer service can be negatively impacted at the expense of the bottom line.

The District successfully operated itself from a creation by the merger of four (4) local Districts in 1986, until July 2005. During that time, there was substantial expansion of water services and sewer services for the citizens of Pike County. The key to successful self-management is the Board's ability to retain qualified senior management. All of the personnel in 2005 were hired by UMG when they took over in 2005. All of the original management personnel, except for one, are still working on behalf of the District. It is the District's plan to allow each of the current employees of UMG assigned to the Mountain Water project, to reapply for their current positions. We anticipate a very high retention rate. This means that Mountain Water District will continue to be operated by the same key management employees that have been running it since before UMG took over. They are familiar with the systems and how it works. In addition, we also have an experienced Administrator, Roy Sawyers, who reported directly to the Board for several years. He has overseen UMG's Operation of the District and can provide the necessary leadership to manage the District.

As to documentation, see Responses to Questions 8 and 9.