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RECEIVED

January 4, 2017

JAN 4 2017

PUBLIC SERVICE
COMMISSION

Dr. Talina R. Mathews
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

via: Hand Delivery

Re: **Mountain Water District Case No. 2016-00356**

Dear Ms. Mathews:

Enclosed please find the original and ten (10) copies of the Response to Attorney General's Initial Request for Information.

Please let us know if any additional information is required.

Sincerely,

Rubin & Hays

By


W. Randall Jones

WRJ:jl
Enclosures
cc: Distribution List

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**Re: Mountain Water District Douglas Wastewater Treatment Plant Project, PSC
Case No. 2016-00356**

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RECEIVED

JAN 4 2017

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:

THE APPLICATION OF THE MOUNTAIN)
WATER DISTRICT FOR A CERTIFICATE)
OF PUBLIC CONVENIENCE AND NECESSITY)
TO CONSTRUCT AND FINANCE PURSUANT)
TO KRS 278.023)

Case No. 2016-00356

Response to Attorney General's Initial Request for Information

The Mountain Water District (the "District"), by counsel, hereby files its Response to the Attorney General's Initial Request for Information, dated December 21, 2016, as follows:

Q 1. Reference the Application of Mountain Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct and Finance a System Improvements Project Pursuant to the Provisions of KRS 278.020, KRS 278.300, and 807 KAR 5:001 ("Application"), paragraph 8(iii) to answer the following questions.

- a. Mountain Water asserts that the \$3,472,921 loan being utilized to fund the majority of the improvements project, including the alternatives, will be "secured by and payable from the gross revenues of the District's water and sewer system."
 - i. Provide a breakdown of the allocation of costs for the improvements project between the water and sewer customers.
 - ii. Confirm that Mountain Water has sufficient gross revenues to pay the estimated annual debt service for the requested Kentucky Infrastructure Authority ("KIA") loan of \$194,266. If confirmation is not given, explain in full detail why it has not been provided.

WITNESS: Roy Sawyer, General Manager, Mountain Water District

RESPONSE: 1(a)(i):

One hundred percent of the cost of the project will be for sewer services. The Application's reference "secured by and payable from the gross revenues of the District's water and sewer system" was a general reference to all revenues which would be available to pay the debt service on the KIA Loan.

RESPONSE: 1(a)(ii):

The District currently has sufficient revenues to pay the estimated annual debt service on the KIA Loan.

Q 2. Reference the Application, paragraph 11 where Mountain Water states that, "[n]o rate adjustment will be necessary."

- a. Confirm that Mountain Water does not plan on requesting a rate adjustment/increase to pay the debt service on the requested \$3,472,921 KIA loan. If confirmation is not given, provide all known details concerning any and all potential future rate adjustment/increase requests.
- b. If confirmation is not given, provide a detailed explanation as to what Mountain Water means by the above referenced statement.

WITNESS: Roy Sawyer, General Manager, Mountain Water District

RESPONSE: 2(a):

As of the date of this Response, the District does not plan to file a request for a rate adjustment/increase to pay the estimated annual debt service on the KIA Loan.

RESPONSE: 2(b):

Not applicable.

Q 3. Reference the Application, Final Engineering Report, where Mountain Water states that an expansion of the Douglas Wastewater Treatment Plant is proposed in order to further increase its customer base. However, it is indicated in the Application, Exhibit D under the Demographics Section VII., that there has been a 20% loss of population in the District's service area. Explain in full detail why the District proposes to expand in light of the loss of population in its service area.

WITNESS: Jody Hunt, P.E., Summit Engineering.

RESPONSE: 3:

The existing plant has exceeded its biological capacity. This is due, in part, to long runs of force main introducing anoxic wastewater to the plant with little to no biological activity. The project will attempt to address this ongoing issue first and foremost.

As stated in the Final Engineering Report, the District has added approximately 700 customers since 2004. The demographics listed in the Application, Exhibit D, show a decrease in population beginning two decades before this expansion. The District has added customers by expanding the collection system into previously unsewered areas replacing private, on-site sewage treatment facilities that are often in poor to failing condition. This generally has a positive effect on local water quality. Per the Lower Shelby Facilities Plan (January, 2013, approved September, 2014), the District intends to continue extending the collection system into unsewered areas, based on need and cost justification.

Q 4. Reference Mountain Water's KIA Conditional Commitment Letter filed with the Commission on November 9, 2016 to answer the following questions.

- a. Under the Financial Analysis, Section IX., it is stated that the sewer revenues will need an additional 8% in 2019 and 7% in 2020 to meet the KIA 1.1 debt coverage ratio requirements. Does Mountain Water intend to file a rate case to request further increases for sewer customers as indicated by this financial analysis?
- b. Does Mountain Water intend to file a rate case to request further increases for water customers based upon the financial analysis?
- c. Under the Project Description, Section I., it states that the District rebid the project in August 2016 with modification to the grading and odor control roof which resulted in lower bids.
 - i. Provide a detailed explanation of the exact modifications that the District made to the project before the rebid.
 - ii. Additionally, since odor control is one of the reasons that Mountain Water contends the project is necessary, explain in full detail why the District modified the odor control roof.
- d. According to the Customer Composition and Rate Structure, Section VI., the sewer rates have risen from an affordability index of 1.1% in 2013 to a projected 2.7% in 2017.
 - i. Provide the underlying data used to calculate the affordability index.

ii. Provide the average affordability index for sewer and water rates in Kentucky.

WITNESSES: Roy Sawyer, General Manager, Mountain Water District - questions 4(a) and 4(b); Jody Hunt, P.E., Summit Engineering - questions 4(c) and 4(d).

RESPONSE: 4(a):

The current projections as shown would indicate a need for a future rate increase, however, at this time, the projected savings on the UMG contract which was recently terminated, have been greater than anticipated. If that trend continues, then it may eliminate the need for a future rate increase. If not, a future rate increase may be needed.

RESPONSE: 4(b):

No, the District does not plan to file a rate case to request increases for customers at this time.

RESPONSE: 4(c)(i):

The project was rebid with only the most critical elements included in the Base Bid. All items that were removed for the rebid were included on the Bid Form as Add Alternatives.

It should be noted that there are typographical errors in the Project Description. The word "grading" likely refers to aluminum grating that was removed from the original bid and replaced with handrails. This was done after a review of the original bids showed that the cost of aluminum grating was more than expected.

"Odor control roof" likely refers to multiple items that were removed after the original bid. Odor control was included in the work of both the Penny Road Lift Station Renovation and the Lick Branch Lift Station Renovation. The word "roof" likely refers to the equipment and motor control rooms that originally featured a hollowcore slab roof system. After the original bid, it was determined that some costs could be saved by using a treated wood truss roof instead.

Additionally, the following items were modified for the rebid:

1. Asphalt pavement as shown on the plans was removed as the District planned on doing the work in-house.
2. The plans originally called for removal and disposal of the existing steel tanks upon successful startup of the new facilities. This work was modified to instead drain and backfill the tanks in-place.

3. The plans originally included a monorail crane system for the MBR basins. This was eliminated as it was thought that the crane would likely not be used enough to justify its installation and that the work could be done by a portable crane system.
4. The 400 KW Diesel Standby Generator was removed as a cost-saving measure. The District plans to add the generator at a later date, if possible.

RESPONSE: 4(c)(ii):

Odor control is an important part of the project, however, it was critical that the new plant be built to replace the existing failing systems. The two items including odor control, Penny Road Lift Station Renovation and Lick Branch Lift Station Renovation, were removed from the Base Bid since they were two of the largest cost items and would have the most significant impact on the Base Bid total. It was anticipated that removing these items would bring the project within budget.

RESPONSE: 4(d)(i):

The median home income used for the District's region was set at \$27,491. The 2013 rate was \$26 and the 2017 rate was \$70.07, which represents the minimum price plus 4,000 gallons.

RESPONSE: 4(d)(ii):

The average median household income for Kentucky as a whole, is \$43,342. We do not have any information as to what the average sewer rates are for Kentucky as a whole in order to make the calculation that has been requested. Also, please further note that sewer rates will differentiate based on whether or not they are gravity based systems or force main based systems. Forced main based systems, as we have here, are always more expensive due to the pumping system involved.

Q 5. Reference Mountain Water's Response to the PSC Staff's First Request for Information, SRF Project Cost Summary, filed December 8, 2016, to answer the following questions.

- a. Provide a detailed breakdown by cost component of each of the thirteen (13) Cost Classifications listed on the SRF Project Cost Summary.
- b. According to the Cost Classifications, there will be a contingency of \$210,743.48. Explain in full detail how Mountain Water intends to utilize any contingency amount that is not used for the Douglas Wastewater Treatment Plant Expansion Project.

- c. Provide a list of any and all additional grants available for this project besides the funds listed for HB 608 and HB 269. If any exist, explain in full detail why the District did not utilize each specific grant.

WITNESS: Jody Hunt, P.E., Summit Engineering

RESPONSE: 5(a):

Please find attached as **Exhibit "A"** a detailed breakdown of Cost Classifications listed on the SRF Project Cost Summary. Breakdowns are provided for Equipment and Construction costs. Plant site work and provision and installation of components were bid as a single lump sum. Soft costs such as legal, accounting and engineering fees are already broken down in the SRF Cost Summary.

RESPONSE: 5(b):


The District intends to utilize any remaining contingency not used for the Douglas Wastewater Treatment Plant Expansion Project to purchase spare parts and equipment for maintenance and operations of the plant and collection system. These purchases may include items such as grinder pumps, lab equipment and heavy equipment.

RESPONSE: 5(c):

The District applied for Appalachian Regional Commission and Community Development Block Grants for this project, both of which were denied.

Respectfully Submitted:

Rubin & Hays

By 
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Affidavit

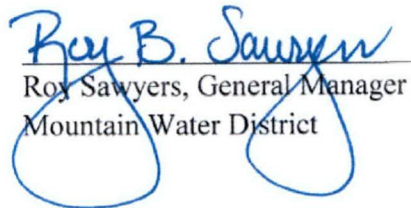
COMMONWEALTH OF KENTUCKY)

) SS:

COUNTY OF PIKE)

The undersigned, Roy Sawyers, being duly sworn, deposes and states that he is the General Manager of the Mountain Water District, Applicant, in the above proceedings; that he is authorized to submit this Response on behalf of Mountain Water District and that the information contained in this 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.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this January 3, 2017.



Roy Sawyers, General Manager
Mountain Water District

Subscribed and sworn to before me by Roy Sawyers, General Manager of the Mountain Water District, on this January 3, 2017.

My Commission expires: January 16, 2020



Notary Public


Notary Public Identification No.: 548290

Certificate of Service and Filing

The undersigned, Counsel to the Mountain Water District, in Case No. 2016-00356, hereby certifies (i) that an original and ten copies of the foregoing were served and filed, via hand delivery, to Ms. Talina Mathews, Executive Director of the Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; and (ii) that true and accurate copies of the foregoing were mailed via the United States Postal Service, first class, postage prepaid to:

Honorable Andy Beshear
Kentucky Attorney General
1024 Capital Center Drive
Suite 200
Frankfort, Kentucky 40601-8204

On this January 4, 2017.



W. Randall Jones, Esq.
Rubin & Hays

Cost Classification - Equipment
Douglas Wastewater Treatment Plant Expansion
MBR Equipment Cost Components

Item No.	Description	Unit	Amount
1	Engineering Assistance and Preparation of Favorably-Reviewed Submittals	LS	\$ 35,000.00
2	Membrane Modules for 0.3 MGD Initial Installation, Expandable to 0.4 MGD Ultimate Capacity	LS	\$ 306,360.00
3	Additional Aeration Blowers	LS	\$ 76,000.00
4	MBR System Equipment for 0.3 MGD Initial Installation, Expandable to 0.4 MGD Ultimate Capacity	LS	\$ 590,770.00
5	Factory Test I&C System	LS	\$ 1,200.00
6	Field Services	LS	\$ 37,500.00
7	10-Year Warranty	LS	\$ 20,000.00
TOTAL			\$ 1,066,830.00

Cost Classification - Construction
Douglas Wastewater Treatment Plant Expansion
Construction Cost Components

Item No.	Item Description	Unit	Quantity	Unit Price	Amount
1	All Work Shown, Specified, or Implied in the Contract Documents	LS	1	\$ 1,985,000.00	\$ 1,985,000.00
2	Penny Road Lift Station Renovation	LS	1	\$ 160,000.00	\$ 160,000.00
3	Lick Branch Lift Station Renovation	LS	1	\$ 175,000.00	\$ 175,000.00
4	400 KW Diesel Stationary Standby Generator	LS	1	\$ 100,000.00	\$ 100,000.00
TOTAL					\$ 2,420,000.00

Cost Classification	KIA	HB 608	HB 269					
Administrative Expenses	50,000.00							50,000.00
Legal Expenses	2,000.00							2,000.00
Land, Appraisals, Easements								0.00
Relocation Expenses & Payments								0.00
Planning		4,070.47	929.53					5,000.00
Engineering Fees - Design		72,679.32	16,596.90					89,276.22
Engineering Fees - Construction		31,148.28	7,112.96					38,261.24
Engineering Fees - Inspection		86,610.80	19,778.26					106,389.06
Engineering Fees - Other		66,348.74	15,151.26					81,500.00
Construction	2,143,347.52	225,221.39	51,431.09					2,420,000.00
Equipment	1,066,830.00							1,066,830.00
Miscellaneous								0.00
Contingencies	210,743.48							210,743.48
TOTAL	3,472,921.00	486,079.00	111,000.00	0.00	0.00	0.00	0.00	4,070,000.00