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August 9, 2013

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

RECEIVED

AUG 09 2013

PUBLIC SERVICE
COMMISSION

Re: Case No. 2013-00092

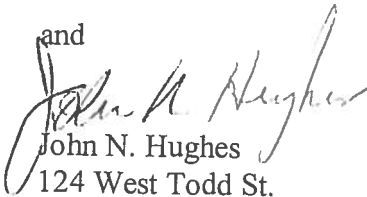
Dear Mr. Derouen:

Mountain Water District submits the testimony of Roy Sawyers and Jody Hunt. A copy of the testimony has been served by first class mail on counsel for complainants.

If you have any questions about this filing, please contact me.

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and



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Attorneys for Respondent

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION

RECEIVED

AUG 09 2013

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

CLARK MCCOY; DEBBIE MCCOY;
DAVID VARGO; PATRICIA VARGO;
MIKE COCHRAN; IRENE COCHRAN; AND
DARRELL OWENS

PETITIONERS

VS:

MOUNTAIN WATER DISTRICT

RESPONDENT

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)
)
) CASE No.
) 2013 -
) 00092
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)
)

TESTIMONY OF JODY G. HUNT

Q.1 State your name.

A. Jody Grant Hunt.

Q.2 Where are you employed?

A. I am employed by Summit Engineering. I work from the Pikeville office located at 131 Summit Drive, Pikeville, KY 41501. The telephone number is 606-432-1447. My registration number is 25374.

Q.3 What is your involvement with Mountain Water District?

A. I have worked with the District for 12 years, and have been involved with most of their water and wastewater projects during that time period. I have also been involved with the wastewater issues raised in this matter.

Q.4 When did Summit begin its participation in the development of a wastewater plan for the District?

A. In 2001, the District requested Summit to review the wastewater project area and to perform appropriate hydraulic analysis to find the property that would hydraulically “flow” the sewage into a plant. It found only one suitable location that would meet the necessary Division of Water criteria. The property was located on Pegs Branch and was owned by a coal company that had the property under lease for mining. I was not personally involved in the initial planning of the project at that time, but later became involved with the project.

Q.5 Explain what has occurred since that time in relation to the location of a treatment plant.

A. The District developed a “201 Plan”, during which Pegs Branch was identified as the preferred location for the plan in late 2001. Due to the requirements of the plant and the nature of the community, the Pegs Branch site was the only viable location in the area.

Q.6 Do factors such as terrain, change of elevation and distance between customers affect the suitability of a plant site?

A. Yes. Pegs Branch is centrally located and has no residence within two hundred feet as required by law. It is also at an elevation that would require minimal pumping cost, and is situated such as it would not be a nuisance in the community.

Q.7 Given the options available to the District, do you think it is possible to serve all areas of the District with one plant?

A. No. The mountainous terrain in Eastern Kentucky would restrict a plant to each major watershed. If wastewater is pumped too far, it creates odor issues and other problems.

Q.8 Have you been involved in the effort to secure funding for the project?

A. Summit has advised the Board on funding options and we have assisted the District with some of their funding applications on this project.

Q.9 Are you aware of any options that the District has failed to consider in its efforts to expand its wastewater services?

A. We have considered four different design options for the wastewater treatment system, and have looked at one alternative location for a plant site that did not materialize.

Q.10 Have you reviewed the complaint filed in this case?

A. Yes.

Q.11. Have the complainants raised any issues that the District has not been aware of and has not analyzed?

A. No.

Q.12 Have the complainants provided any information that would help resolve the problems the District has faced in dealing with this issue?

A. No.

Q.13 Have you reviewed the testimony of the witnesses for the complainants?

A. Yes, I have reviewed the testimony of Mike & Irene Cochran and the testimony of David & Patricia Vargo.

Q.14 Does anything stated in the testimony provide you with information you were not aware of?

A. No.

Q.15 Does any of the information in the testimony for the complainants provide any options or solutions you have not already addressed?

A. No.

Q.16 From an engineering perspective, are you aware of any reasonable option the District has failed to consider in relation to the expansion of its wastewater facilities?

A. No. The District has been very thorough in its efforts. It has looked at two parcels of land, and analyzed various options for this project. In addition, it has sought funding from multiple sources, however, all of the pieces of the project have yet to fall into place.

Q.17 Were you involved in the development of the four options referenced in the testimony of Mr. Sawyers?

A. Yes, I helped with those options and the funding associated with them.

Q.18 Did those options involve additional debt to the District?

A. Yes.

Q.19 Would any of those options solve all of the wastewater problems in the District's service area?

A. No.

Q.20 Would any of those options serve all of the complainants in this case?

A. No.

Q.21 Is there a single solution to serving all of the un-served areas of the District?

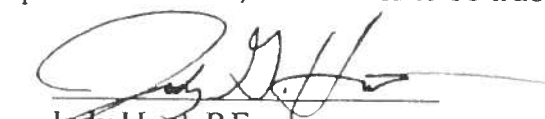
A. No.

AFFIDAVIT

COMMONWEALTH OF KENTUCKY

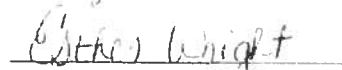
COUNTY OF PIKE

Affiant, Jody Hunt, P.E., after being first sworn, deposes and says that he is authorized to submit this testimony on behalf of Mountain Water District and that the information contained in the testimony 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.



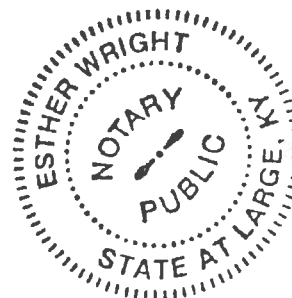
Jody Hunt, P.E.

This instrument was produced, signed, acknowledged and declared by Jody Hunt to be his act and deed the 5th day of August, 2013.



Notary Public

My Commission expires: March 10, 2015



COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION

RECEIVED

AUG 09 2013

IN THE MATTER OF:

PUBLIC SERVICE
COMMISSION

CLARK MCCOY; DEBBIE MCCOY;)	
DAVID VARGO; PATRICIA VARGO;)	
MIKE COCHRAN; IRENE COCHRAN; AND)	
DARRELL OWENS)	
)	CASE No.
)	2013 -
)	00092
VS:)	
)	
MOUNTAIN WATER DISTRICT)	
)	RESPONDENT

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TESTIMONY OF ROY SAWYERS

Q.1 State your name.

A. Roy Sawyers.

Q.2 Where are you employed?

A. I am employed by Mountain Water District as District Administrator. My address is Box 3157, Pikeville, KY 41502.

Q.3 How long have you worked for Mountain Water District?

A. I have worked with the District for 2 years.

Q.4 Have you participated in the development of the expansion of the District's wastewater facilities?

A. Yes, since I began working with the District, the wastewater issues have been given a great deal of time and effort.

Q.5 Explain the history of the wastewater expansion efforts of the District.

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

CLARK MCCOY; DEBBIE MCCOY;)	
DAVID VARGO; PATRICIA VARGO;)	
MIKE COCHRAN; IRENE COCHRAN; AND)	
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A. Yes, since I began working with the District, the wastewater issues have been given a great deal of time and effort.

Q.5 Explain the history of the wastewater expansion efforts of the District.

A. In 2001 the District contacted Summit Engineering, Inc. to review the wastewater project area and to perform appropriate hydraulic analysis to find a property that would hydraulically “flow” the sewage into a plant. It found only one suitable location that would meet the necessary Division of Water criteria. The property was located on Pegs Branch, which was owned by a coal company that had the property under lease for mining. The District spent the next five years developing the project, which would allow for funding required to support a 6.2 Million Dollar project that requires a 400,000 gallon plant to serve potentially 1,100 customers.

Q.6 Did the District obtain the funding for this project?

A. The District submitted applications to both Pride and Commonwealth of Kentucky for coal severance funding. It was awarded Two Million Eight Hundred Fifty Thousand Dollars (\$2,850,000.00) to be spread over the 2008 – 2010 budget periods. Even though this was not enough money to fund the project, the District moved forward with RFQ’s for engineering firms to design the plant. The Division of Water indicated it wanted the waste water plant constructed first; however, it was not feasible to have a finished plant sitting dormant with no flow going into it.

Q.7 Were any other options considered?

A. Another option that was considered was the relocation of an existing plant at Mossy Bottom in Pikeville. It was subsequently determined that the cost of dismantling and moving the plant was not financially feasible.

Q.8 What happened next?

A. In 2009 The Tierney Company was contacted regarding the property at Pegs Branch as was the Pike County School Board for an adjacent tract. It was discovered the Tierney property was under lease to Massey Coal Company, which had already permitted the property for mining. The cost of acquiring the property essentially doubled because it required the District to purchase the "lost coal". While negotiations with the School Board were successful, negotiations with Tierney were never completed. Tierney had to get a release on that portion of Massey's lease that was impacted. Massey had a number of other issues at that time and the matter was not resolved. Massey subsequently sold to Alpha Energy and everything was in limbo during that twelve to eighteen month period in which that sale was taking place.

Q.9 Did the Board look for other options?

A. Yes, in 2009 the Board authorized a redesign of the plant to reduce the size in half in order to try to reduce the cost. The redesign reduced the size from 400,000 to 200,000 and then down to a 100,000 gallon plant which would serve approximately 100 customers in an effort to move the project forward within the available funding. When the project was bid under the 100,000 gallon plant option, bids were such that services, pipelines and grinder pumps could only be provided to 36 homes as opposed to the projected 100 customers. In 2010 the State awarded 2.85 Million Dollars and Division of Water approval was received for construction of the waste water treatment plant. The District requested another one million dollars to help complete the

scaled down version of the plant or change the project to make it viable by reversing the flow from Williamson, who is processing current service in the area; but no additional funding was received. The Board then voted to reject all bids for this project due to the lack of funding.

Q.10 What happened next?

A. In 2011 the Board revisited the project to see what could be done and learned that the cost of the plant had gone up and that the Massey acquisition by Alpha was still on-going. Another design change was made to reduce the plant to 50,000 gallons, but it did not significantly impact the cost. The Board requested an additional 1.5 Million Dollars for the 2012-2014 budget periods, but was only allocated \$308,846.00, which isn't available until prioritization and funding disbursement.

In 2012 the Board continued to have the engineers and myself investigate alternative scenarios for the project looking at different technologies and different locations for a plant. A possible alternative site was identified, along with possible new alternative technologies.

Q.11. What is the current status of the project?

A. In late 2012 the Pegs Branch site became available after completion of the sale of assets from Massey Coal Company to Alpha Energy. The District then renewed its offer to Tierney for the property, who made a counter-offer, which was being submitted to the Board, and which we believe would have been accepted, but the Board put this project on hold at advice of legal counsel due to the filing of this lawsuit.

The District had also asked Summit to develop other options that would include new debt, which the District previously hoped to avoid. See Sawyers Exhibits 1, 2, 3 and 4. Three of these options would create a new wastewater treatment plant at Peg's Branch which would serve between 206 – 471 residences, for an additional cost ranging from \$3,580,000 to \$3,700,000. The fourth priority option would utilize the Williamson wastewater treatment plant, and would serve 278 residences, for an additional cost of \$290,000. However, this option would incur additional unknown cost to upgrade the Williamson plant to handle the additional volume.

Another issue concerning using the Williamson plant is that this restricts future expansion. In the event the District desires to serve anything beyond the existing customer base and the 278 customers for the proposed extension shall require an entire new mainline to be installed to serve any further expansion due to line capacity.

The District's four priorities are options 2, 1, 4, 3.

Q.12 Is there any current option that would serve all of the residents of the District's service area?

A. No.

Q.13 Is there any current option that would serve all of the complainants in this case?

A. No.

Q.14 Has the District attempted to work with the residents in the area to develop a workable plan to expand the wastewater facilities?

A. Yes, we have had one public forum to discuss the issues of wastewater services, which we discussed the proposed options listed

above and proposed surveys, and have had multiple meetings with local officials. In addition, we have completed the surveys in the community to determine the level of demand, and who would commit to signing up for services if they were made available.

Q.15 Is there anything in the complaint or the complainants' testimony that the District is not aware of or has not considered?

A. No. I believe we have been diligent in our efforts to resolve the issues raised in the complaint, but because of the number of variables we have to deal with, it has not been feasible to move forward with this pending outstanding litigation.

Q.16 What is the current status of the wastewater expansion?

A. The Board has elected at advice of legal counsel to place everything concerning this project on hold until this litigation can be resolved by the PSC as the Board does not want to take any action that would be inconsistent with the Commission's directions.

Q.17 What is the current amount of funding available to the District for wastewater projects?

A. The District was awarded 2.85 Million Dollar in coal severance funding for the 2009-2010 biennium. Of that amount, approximately \$300,000 has been spent for engineering services, leaving approximately \$2.55 Million Dollars available for this project. The project will have an additional \$308,846 in coal severance funding for the 2013-2014 biennium pending prioritization and funding disbursement.

The surveys that were recently conducted showed that approximately 80% of the customer base would sign up for this service if

it were provided. This would generate sufficient cash flow to allow the District to assume some debt in order to complete the project. Prior to the survey, the option of additional debt to fund the project had not been seriously considered, because we did not know how many people would commit to the project, and the District did not have any additional debt capacity.

How much debt would be assumed would be based upon which option is selected and securing a funding source for the same. Accordingly, we may select one option and be unable to fund the difference with debt financing, and may have to change options according to what can be reasonably financed.

Q.18 Is there a timetable for the expansion of wastewater service?

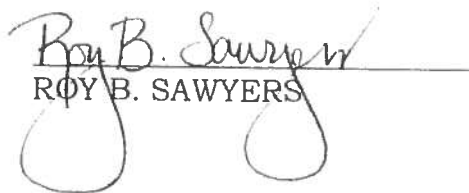
A. No, however, the District is prepared to move forward with the project as soon as this litigation is resolved.

Q.19 What is the next step for the District to take to extend wastewater service?

A. After this litigation is resolved, the District's next step would be to select an option and see what debt financing can be arranged. We would also restart the negotiations with Tierney Coal for acquisition of the Pegs Branch property.

Q.20 Does this conclude your testimony?

A. Yes.


ROY B. SAWYERS

Belfry / Pond Creek
Sanitary Sewer Collection System and Wastewater Treatment Plant
 Summary of Alternates
 2/21/2013

FUNDING AVAILABLE	
Coal Severance	\$2,850,000.00

RATE SCHEDULE AND AVERAGE REVENUE	
First 2,000 Gallons (Minimum Monthly Bill):	\$14.00
Every 1,000 Gallons Over 2,000:	\$6.00
Average Usage per User, Gallons per Month:	4,500
Average Monthly Revenue per User:	\$29.00

ALTERNATE 1 - FLOW REVERSAL FOREST HILLS TO NEW BELFRY 0.1 MGD WWTP	
Description	
Construct force main from existing Forest Hills lift station to new 100,000 GPD wastewater treatment plant at Pegs Branch near Belfry. Includes new lift station near Toler and service connections to Southside Elementary and Belfry Middle School. No residential service connections are included.	
Project Cost and Funding	
Total Project Cost for Collection System:	\$1,030,000.00
Total Project Cost for WWTP:	\$2,400,000.00
Combined Total Project Cost:	\$3,430,000.00
Additional Funds Needed: *	\$580,000.00
RD Grant Amount Needed:	\$174,000.00
RD Loan Amount Needed:	\$406,000.00
Users Served	
Residential Users Served (Forest Hills Only):	215
Schools Served:	3
Projected Revenues	
Anticipated Monthly Revenue from Residential Users:	\$6,235.00
Anticipated Average Monthly Revenue from Schools:	\$2,598.00
Total Anticipated Monthly Revenue:	\$8,833.00
Total Anticipated Annual Revenue:	\$105,996.00
Expenditures and Balance	
RD Annual Loan Payment Amount (Assume 40-year Loan at 2.85%)	\$17,141.17
Remaining Annual Balance After RD Loan Payment: **	\$88,854.83
*Additional funds to be borrowed by MWD	
**Additional expenses above DSC	

**Belfry / Pond Creek
Sanitary Sewer Collection System and Wastewater Treatment Plant**

Summary of Alternates
2/21/2013

FUNDING AVAILABLE	
Coal Severance	\$2,850,000.00

RATE SCHEDULE AND AVERAGE REVENUE	
First 2,000 Gallons (Minimum Monthly Bill):	\$14.00
Every 1,000 Gallons Over 2,000:	\$6.00
Average Usage per User, Gallons per Month:	4,500
Average Monthly Revenue per User:	\$29.00

ALTERNATE 2 - FLOW REVERSAL FOREST HILLS TO NEW BELFRY 0.2 MGD WWTP	
Description	
Construct force main from existing Forest Hills lift station to new 200,000 GPD wastewater treatment plant at Pegs Branch near Belfry. Includes new lift station near Toler and service connections to Southside Elementary, Belfry Middle School, and 256 additional businesses and residences from	
Project Cost and Funding	
Total Project Cost for Collection System:	\$3,000,000.00
Total Project Cost for WWTP:	\$3,550,000.00
Combined Total Project Cost:	\$6,550,000.00
Additional Funds Needed:	\$3,700,000.00
RD Grant Amount Needed:	\$1,110,000.00
RD Loan Amount Needed:	\$2,590,000.00
Users Served	
Residential Users Served (Includes Forest Hills):	471
Schools Served:	3
Projected Revenues	
Anticipated Monthly Revenue from Residential Users:	\$13,659.00
Anticipated Average Monthly Revenue from Schools:	\$2,598.00
Total Anticipated Monthly Revenue:	\$16,257.00
Total Anticipated Annual Revenue:	\$195,084.00
Expenditures and Balance	
RD Annual Loan Payment Amount (Assume 40-year Loan at 2.85%)	\$109,348.86
Remaining Annual Balance After RD Loan Payment:	\$85,735.14

**Belfry / Pond Creek
Sanitary Sewer Collection System and Wastewater Treatment Plant**

Summary of Alternates
2/21/2013

FUNDING AVAILABLE	
Coal	\$2,850,000.00

RATE SCHEDULE AND AVERAGE REVENUE	
First 2,000 Gallons (Minimum Monthly Bill):	\$14.00
Every 1,000 Gallons Over 2,000:	\$6.00
Average Usage per User, Gallons per Month:	4,500
Average Monthly Revenue per User:	\$29.00

ALTERNATE 3 - BELFRY TO FOREST HILLS LIFT STATION / WILLIAMSON WWTP	
Description	
Construct force main from Murphy Bottom near Belfry to existing Forest Hills lift station and on to the Williamson WWTP. Includes new lift station near Toler and service connections to Southside Elementary, Belfry Middle School, and 278 additional businesses and residences in the Toler and Belfry areas.	
Project Cost and Funding	
Total Project Cost for Collection System:	\$3,140,000.00
Total Project Cost for WWTP:	\$0.00
Combined Total Project Cost:	\$3,140,000.00
Additional Funds Needed:	\$290,000.00
RD Grant Amount Needed:	\$87,000.00
RD Loan Amount Needed:	\$203,000.00
Users Served	
Residential Users Served:	278
Schools Served:	2
Projected Revenues	
Anticipated Monthly Revenue from Residential Users:	\$8,062.00
Anticipated Average Monthly Revenue from Schools:	\$1,408.00
Total Anticipated Monthly Revenue:	\$9,470.00
Total Anticipated Annual Revenue:	\$113,640.00
Expenditures and Balance	
RD Annual Loan Payment Amount (Assume 40-year Loan at 2.85% Interest):	\$8,570.59
Agreement with Williamson WWTP at \$3.58 per 1,000 Gallons for Additional	\$63,795.60
Remaining Annual Balance After RD Loan and Additional Williamson	\$41,273.81

Belfry / Pond Creek
Sanitary Sewer Collection System and Wastewater Treatment Plant
 Summary of Alternates
 2/21/2013

FUNDING AVAILABLE	
Coal Severance	\$2,850,000.00

SCHEDULE AND AVERAGE	
First 2,000 Gallons (Minimum Monthly Bill):	\$14.00
Every 1,000 gallons	\$6.00
Average Usage per User, Gallons per Month:	4,500
Average Monthly Revenue per User:	\$29.00

ALTERNATE 4 - BELFRY ONLY TO NEW BELFRY 0.1 MGD WWTP	
Description	
Construct force main in the Belfry area only to new 100,000 GPD wastewater treatment plant at Pegs Branch. Includes service connections to Belfry Middle School and 206 businesses and residences from	
Project Cost and Funding	
Total Project Cost for Collection System:	\$2,050,000.00
Total Project Cost for WWTP:	\$2,400,000.00
Combined Total Project Cost:	\$4,450,000.00
Additional Funds Needed:	\$1,600,000.00
RD Grant Amount Needed:	\$480,000.00
RD Loan Amount Needed:	\$1,120,000.00
Users Served	
Residential Users Served:	206
Schools Served:	1
Projected Revenues	
Anticipated Monthly Revenue from Residential Users:	\$5,974.00
Anticipated Average Monthly Revenue from Schools:	\$884.00
Total Anticipated Monthly Revenue:	\$6,858.00
Total Anticipated Annual Revenue:	\$82,296.00
Expenditures and Balance	
RD Annual Loan Payment Amount (Assume 40-year Loan at 2.85%)	\$47,286.00
Remaining Annual Balance After RD Loan Payment:	\$35,010.00

AFFIDAVIT

COMMONWEALTH OF KENTUCKY

COUNTY OF PIKE

Affiant, Roy Sawyers, after being first sworn, deposes and says that he is the District Administrator of Mountain Water District, that he is authorized to submit this testimony on behalf of Mountain Water District and that the information contained in the testimony 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 B. Sawyers

This instrument was produced, signed, acknowledged and declared by Roy Sawyers to be his act and deed the 5th day of August 2013.

Geneva Coleman
Notary Public

My Commission expires: 4-26-15