

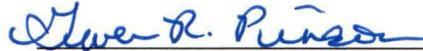
COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO EXCESSIVE )  
WATER LOSS BY KENTUCKY'S JURISDICTIONAL ) CASE NO.  
WATER UTILITIES ) 2019-00041

NOTICE OF FILING

Notice is given to all parties that the transcript of the July 9, 2019 Morgan County Water District hearing prepared by Todd & Associates Reporting, Inc. has been filed into the record of this proceeding.



Gwen R. Pinson  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED OCT 07 2019

cc: Parties of Record



Transcript of the Testimony of **PSC Hearing**

**Date:** July 9, 2019

**Case:** In Re: Morgan County Water District

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In Re: Morgan County Water District

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COMMONWEALTH OF KENTUCKY  
KENTUCKY PUBLIC SERVICE COMMISSION

CASE NO. 2019-00041

IN RE:

MORGAN COUNTY WATER DISTRICT

\* \* \* \* \*

HEARING HELD ON:

JULY 9, 2019

FRANKFORT, KENTUCKY

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APPEARANCES:

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PUBLIC SERVICE COMMISSION:

6

7

Chairman Michael J. Schmitt  
Vice Chairman Robert Cicero  
Commissioner Dr. Talina Mathews

8

9

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11

ON BEHALF OF THE COMMISSION STAFF:

12

John Park, Esq.  
Sam Reed, Financial Analyst

13

14

15

ON BEHALF OF THE ATTORNEY GENERAL:

16

Justin McNeil, Esq.

17

18

ON BEHALF OF THE MORGAN COUNTY WATER DISTRICT:

19

Earl Rogers, Esq.  
Erica Stacey-Stegman, Esq.

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In Re: Morgan County Water District

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1 COMMISSIONER SCHMITT: This is the hearing  
2 for the PSC on July 9, 2019 at 9:00 a.m.  
3 Morgan County Water District.

4 Please be seated. Everybody ready?

5 MS. STEGMAN: Erica Stegman for Morgan  
6 County Water District. I wanted to let the  
7 Commission know upfront that the third  
8 request for documents that was in the  
9 July 1st order, we have those here today,  
10 we're happy to e-file those after the  
11 hearing. We just got that together, but we  
12 have copies for everyone.

13 COMMISSIONER SCHMITT: Well, that would be  
14 fine. That would be fine. I guess we need  
15 to go on the record. We're not on the  
16 record yet.

17 Somebody is controlling the record.  
18 Oh, okay, Brenda.

19 Well, we have a new system here, and  
20 it's not like the old system that we used to  
21 control up here.

22 So all right, let's go on the record.

23 We're now on the record. This is the  
24 Kentucky Public Service Commission. My name  
25 is Michael Schmitt. I'm Chairman of the

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1 Commission. Seated to my right is Vice  
2 Chairman Robert Cicero, and to my left  
3 Dr. Talina Mathews. We are here this  
4 morning on Case No. 2019-00041,  
5 Investigation Into the Excessive Water Loss  
6 By Kentucky's Jurisdictional Water  
7 Utilities.

8 And in this case, which was filed on  
9 March the 12th, 2019, there were 11  
10 utilities who at that time, based on  
11 information we had, were sustaining more or  
12 less consistent water loss or non-revenue  
13 water loss above 35 percent, and those were  
14 Morgan County Water District, Caywood Water  
15 District, North Manchester Water  
16 Association, Estill County Water District,  
17 Farmdale Water District, West Carroll Water  
18 District, Southern Water District,  
19 Hyden-Leslie Water District, Rattlesnake  
20 Ridge Water District, Big Sandy Water  
21 District and Milburn Water District.

22 There are two more water districts,  
23 which are a part of this case, except  
24 they're not in it because we already have  
25 cases pending, and one is Cannonsburg Water

1 District and the other is Martin County  
2 Water District.

3 The purpose of the hearing this  
4 morning is to conduct an examination of  
5 witnesses on the Morgan County Water  
6 District.

7 The purpose of these hearings, as  
8 indicated in a prior on-the-record  
9 conference with counsel for the parties, is  
10 to determine the current status of the water  
11 districts, the cause of the problems, and  
12 what options may be available insofar as  
13 they're concerned to fix the problem.

14 At present we have determined to try  
15 to take care of these 11 cases by having two  
16 hearings a day. And this hearing will  
17 start, or is starting at 9:00 a.m., and we  
18 have Cawood Water District hearing beginning  
19 at 1:00 p.m. It is highly likely that we  
20 will not be finished with this hearing at  
21 the time the Cawood hearing will start. So  
22 at 1:00 -- this case will adjourn for lunch  
23 at 12:00 noon. If we are not finished at  
24 1:00, I will go back into the Hearing Room 2  
25 and commence the Cawood hearing, and Vice

1 Chairman Cicero will conduct the conclusion  
2 of the present hearing.

3 As you know, or believed, and we did  
4 until this morning, this hearing was to be  
5 broadcast live over the internet. As of  
6 last night the system was working, but as we  
7 understand this morning, while we're  
8 videoing this proceeding and it will appear  
9 on our website, something has happened and  
10 the broadcast will not be live over the  
11 internet.

12 Hearings that are going to be  
13 conducted in the second or smaller hearing  
14 room are not -- are going to be available on  
15 the website, but they will not be broadcast  
16 over the internet, because that hearing room  
17 does not have that capability. This is a  
18 new system and we suspect in a year or two  
19 we'll have all the bugs worked out of it.

20 Also, so everyone will know, our  
21 hearings usually have Brenda Warfield, who's  
22 our paralegal here, who is not -- has left  
23 temporarily, doing a log so that the  
24 essence -- the essential elements of  
25 testimony can be looked at against the

1 record, the video record that one receives.  
2 But in these cases we've determined to hire  
3 an official court reporter, and the official  
4 record will be the video and the transcript  
5 from the court reporter. And when the  
6 transcript is typed up, a transcript  
7 obviously will be available for you if  
8 you -- if you choose to have it.

9 I think that's basically all of the  
10 preliminaries, other than we probably ought  
11 to have counsel of record identify  
12 themselves, their clients and, insofar as  
13 Morgan County is concerned, the witnesses  
14 that Morgan County has with it today.

15 Sir, will you please --

16 MR. ROGERS: Yes, sir. My name is Earl  
17 Rogers, attorney for Morgan County Water  
18 District, and I'll be sitting second chair  
19 today. Erica will be conducting the  
20 hearing.

21 COMMISSIONER SCHMITT: Okay, thank you.

22 MS. STEGMAN: Erica Stegman for Morgan  
23 County Water District. And as far as  
24 witnesses go, we have Mr. Paul Nesbitt, our  
25 engineer; Shannon Elam, who is our board

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1 chairman; Chernell Holbrook, who was not on  
2 the Commission's list, but she's the  
3 business manager and we thought she might  
4 be an important witness; and Steve Pelfrey,  
5 who is the general manager.

6 COMMISSIONER SCHMITT: Thank you. And the  
7 only intervener in the case is the Office  
8 of the Kentucky Attorney General. Would KY  
9 Attorney General's designee please identify  
10 himself for the record?

11 MR. McNEIL: Yes, sir. Justin McNeil,  
12 Attorney General's office.

13 COMMISSIONER SCHMITT: And for PSC staff?

14 MR. PARK: Yes, sir, good morning. My name  
15 is John Park. I'm a staff attorney with  
16 the Public Service Commission. Here with  
17 me at counsel table is Sam Reed, financial  
18 analysis with the Commission.

19 COMMISSIONER SCHMITT: Okay, thank you.  
20 Because of the nature of this proceeding,  
21 our procedures will be a little different  
22 this morning. As indicated in the formal  
23 conference, examination will be started by  
24 staff counsel Mr. Park. The Commissioners  
25 will then have an opportunity to ask

1 questions. And one of the reasons is, is I  
2 like to ask some questions generally, and I  
3 may not be here after noon.

4 And then Mr. McNeil will have an  
5 opportunity to ask, and then counsel for  
6 Morgan County Water District, you'll have an  
7 opportunity to ask your -- any witness any  
8 questions you might want to to clear  
9 something up, but you don't feel compelled  
10 to do that because it's more in the nature  
11 of an investigation or a discovery  
12 deposition or something that, you know, you  
13 might be familiar with in civil practice.

14 So if we're ready to begin, Mr. Park,  
15 we'll let you -- if not designate a witness,  
16 ask who you would like to have on the stand,  
17 and then Ms. Stegman can call the witness,  
18 ask the witness the initial questions on  
19 name, office, or whatever relationship with  
20 the Morgan County Water District, and then  
21 turn it over to Mr. Park for some  
22 questioning.

23 MS. STEGMAN: Yes.

24 MR. PARK: Yes, staff would like to hear  
25 from Shannon Elam.

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1 COMMISSIONER SCHMITT: Okay. Mr. Elam,  
2 would you please raise your right hand.

3 \* \* \* \* \*

4 The witness, SHANNON ELAM, after first  
5 being duly sworn, was examined and testified as  
6 follows:

7 COMMISSIONER SCHMITT: Please be seated.  
8 Ms. Stegman, you may ask.

9 EXAMINATION

10 BY MS. STEGMAN:

11 Q Could you state your full name  
12 for the record, please?

13 A My name is Shannon Wyatt Elam.

14 Q And what is your position with  
15 Morgan County Water District?

16 A As of March of this year I'm the  
17 board chairman.

18 Q And how long have you been board  
19 chairman?

20 A Since March.

21 Q Now, you submitted some Direct  
22 Testimony in this matter on May 31st, 2019; is that  
23 correct?

24 A Yes, ma'am.

25 Q And I'm going to provide Mr. Elam

1 a copy. These are the documents he might have to  
2 reference.

3 And there's a copy of your Direct Testimony  
4 in there. Is there anything that you feel like  
5 is -- is that correct, to your knowledge, everything  
6 in that testimony?

7 A Yes.

8 Q Okay. And is there anything you  
9 would like to add at this time?

10 A No.

11 MS. STEGMAN: Turn it over to Mr. Park.

12 COMMISSIONER SCHMITT: Okay, Mr. Park,  
13 questions?

14 EXAMINATION

15 BY MR. PARK:

16 Q Yes, thank you.

17 Mr. Elam, good morning. I believe you  
18 indicated you became chairman of the Morgan County  
19 Water District board earlier this year?

20 A Yes, sir.

21 Q And looking at the minutes that  
22 were -- are to be filed today from the beginning of  
23 the year, it looks like nobody was really jumping  
24 into that position.

25 A No, sir.

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1 Q It took a while to convince you  
2 to --

3 A Several months.

4 Q And prior to being chairman, you  
5 were on the board of the district?

6 A Yes, sir.

7 Q And when did you first join the  
8 board?

9 A I believe it was August or  
10 September of '16.

11 Q And Ms. Stegman referenced the  
12 Direct Testimony that was prefiled in this matter.  
13 In that testimony you identified the district's  
14 main problem is aging infrastructure that has led  
15 to water loss, that in turn has led to deep  
16 financial problems for the district.

17 Describe the current financial condition of  
18 the district in general terms and how it's changed  
19 since you have been on the board.

20 A We realized -- since I've been on  
21 the board, I think there's been a culture of, you  
22 know, the water -- the water district has been in  
23 trouble, and it's kind of been the culture of, you  
24 know, it's in trouble but nothing is -- you know,  
25 we worked on a couple of different things, and I

1 think the biggest thing -- before I became  
2 chairman, one of the big things that we were able  
3 to do, we sold some of our old vehicles that we  
4 entered into a lease agreement with I think  
5 Enterprise, and that was able to help us out as far  
6 as, you know, updating our trucks and stuff.

7 But as far as addressing water loss, I feel  
8 like -- like I say, we would -- we would come to the  
9 board meeting, we would identify -- we would look at  
10 the water loss report, and then we would basically,  
11 you know, talk about, well, have we been out looking  
12 for leaks, have we spotted leaks. And, you know,  
13 it's typically reported back that, yeah, we found  
14 this leak, we found that leak, and it's been fixed  
15 or it's been addressed.

16 When I became board chair, you know, at that  
17 time I think we had already realized that we were  
18 going to be coming down here for that, and I took it  
19 upon myself -- my background, I've been operations  
20 and manufacturing most of my employment history. So  
21 I bring -- I was able to bring that to the table.

22 Now, I've never worked in water at all in my  
23 career, so it's been a learning curve for me. But I  
24 took, just on myself, and then we had board  
25 turnover. Since March we've hired a new -- went

1 into the process of hiring a new engineer. You  
2 know, we kind of feel like before, the engineer  
3 before, not bashing or anything like that, but I  
4 feel like probably wasn't meeting our needs. So we,  
5 I would say, aggressively went after a new  
6 engineering firm.

7 The one that would partner with us, that --  
8 with the board being -- with the board turnover they  
9 had, someone that could come in and advise us and  
10 maybe even mentor us in the water, because all the  
11 board members right now on the board, there's been  
12 no prior water experience. So we -- you know, we  
13 have -- we have a business owner, we have someone  
14 that works for the state, he's a state engineer, we  
15 have someone that's worked in local government, and  
16 we have a banker and then myself on that board. So  
17 no prior water.

18 So for me it was important to find someone  
19 that would, like I say, partner with us, work with  
20 us, bring that experience to the table as we started  
21 digging in and addressing our needs. So one of the  
22 things that we done was meet with Mr. Hoffman, or  
23 Hoff, Doug. I think we had -- I had a meeting with  
24 Chernell and myself, and I think Steve was in some  
25 of that, just to go over our current financial

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1 situation. At that time we were struggling to meet  
2 our bond payment at the 1st of July -- it was around  
3 \$47,000 -- and he addressed concerns about that.

4 So I went out and basically put a plan  
5 together that I felt like -- actually, I put two  
6 plans together to bring in front of the board, and I  
7 believe it was -- I want to say either the April,  
8 May board meeting -- I believe it was the April  
9 meeting, or maybe the May, but I brought those plans  
10 in front of the board, and Plan B was accepted as  
11 far as how we're going to get our bond payments and  
12 to -- to get back on track with those payments.

13 At that time as well we were struggling to  
14 pay our two water distributors. So that March -- as  
15 of March I've had meetings with Mr. Hoffman, I've  
16 had staff meetings, I have talked to one of our  
17 water distributors, and basically put forth a plan  
18 of how we're going to do this.

19 And so as of July 1st -- we had our board  
20 meeting last night. For the first time since I've  
21 been on the board, we were able -- one, we was able  
22 to make our July bond payment, \$47,000. We have a  
23 plan in place now of -- our bond payment is \$12,000  
24 a month, and then we have \$8,300 bond payment as  
25 well. That one we've been able to keep up because

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1 it's automatic draft out of our bank account. But  
2 the \$12,000 one we kind of always struggled with  
3 since I've been on the board, and this month we were  
4 able -- part of the Plan B was we was going to put  
5 in the extra \$4,000 a month to make up for if we  
6 have a 97,000-dollar payment due at the end of the  
7 year. So we was going to be able to make that  
8 97,000-dollar payment by having the additional  
9 \$4,000 added in there.

10 So as of our meeting last night we did have  
11 the funds to make that 16,000-dollar payment. We  
12 was also able to make both of our water payments.  
13 We still owe the city of West Liberty some back  
14 water, which we have worked out kind of an agreement  
15 that, you know, we're working with that. But the  
16 agreement that we kind of came up with is starting  
17 July 1st we was going to make our bond payments, and  
18 we're going to make our water payments, first thing  
19 every month. Without question, without anything,  
20 those payments are going to be made first every  
21 month, and then it will trickle down through  
22 payroll, through -- through our equipment and  
23 through everything else that -- utilities,  
24 everything else would come out of that.

25 So I feel as of March 1st, since I took

1 over, I've tried to engage the board. They kind of  
2 laughed last night. You know, I told them last  
3 night, this is not the Shannon Elam show at the  
4 board meeting. You know, I expect the board to  
5 offer their input, to offer their experience, bring  
6 that to the table, because I think we have a good,  
7 diverse board right now that can bring their  
8 expertise in on all the different angles of  
9 operating a business.

10 And, you know, I've challenged them to take  
11 it seriously, to -- to come to the table each month,  
12 and we make the best decisions that we can make as a  
13 board for our county and for our citizens, you know,  
14 to provide the best water and to be -- you know, to  
15 be -- my goal is, is as we get into this -- and as  
16 I'm learning from Paul here, our engineer, this is  
17 not going to be an overnight fix. As much as I want  
18 it to be, it's not going to be an overnight fix.  
19 But working with Paul, we have some plans in place,  
20 some goals in place that over the next several  
21 years, you know, one of the things that we're  
22 looking at is replacing the meters and then looking  
23 at some of the aging water lines that's been in the  
24 ground. And the -- the project that we're working  
25 with Paul right now is going to be addressing that.

1           And then we're not going to stop there.  
2           We're going to continue to work on it throughout the  
3           upcoming years and stuff.

4           Q           Regarding your board membership,  
5           who is the treasurer?

6           A           Zach Engle is the treasurer. He  
7           is a banker with First National Bank there in West  
8           Liberty.

9           Q           And how long has he been  
10          treasurer?

11          A           I want to think he was treasurer  
12          when I came on. I think Zach came on in 2015, and  
13          I think at that time he was already the treasurer.

14          Q           And if you could describe more  
15          specifically how excessive water loss affects the  
16          district financially.

17          A           Well, you know, where -- I think  
18          where -- we don't make our own water, and I've  
19          learned this over the last couple of years. We  
20          don't make our own water. I don't know how many  
21          districts are actually like that. I don't know if  
22          we're, you know, one of the -- in the smaller  
23          percentage of that or not, but we have to buy our  
24          water from two different places.

25                    And I've quickly realized over these last

1 few months that we have to aggressively report and  
2 meet and talk about when -- with our water loss,  
3 because that to me is -- we talked about it last  
4 night, you know, that's -- that's just money going  
5 back into the ground. That's our -- that's, you  
6 know, the district's money and our citizens' money  
7 going back in the ground.

8 So I think over the last couple of years,  
9 when we were having, you know, 50, 60 percent water  
10 loss, and we're -- we're paying for that water, like  
11 I say, and we can't account for it, it's getting  
12 lost through leakage or whatever, it's just made a  
13 strain over -- I think over the course of the last  
14 few years. Not just recently, but I think it's  
15 been -- it's been a gradual thing over the years.  
16 And I think our resources have been exhausted.

17 I think at one time we had some money in our  
18 depreciation account. I think that's kind of got --  
19 that's got down to -- I think there's \$500 in that  
20 account right now. Looking back on it, again, I'm  
21 not -- I don't want to talk bad about the previous  
22 board members, but I feel like at that -- if that  
23 money could have maybe been used for water loss as  
24 far as the -- on prevention or being proactive  
25 instead of using it more as a crutch -- to get us

1 through our financial difficulties, you know, maybe  
2 that would help where we're at today.

3 Q What were those funds used for?

4 A It was before my time. I'm  
5 unsure, but it's my understanding in years past  
6 that it was used to maybe help meet bond payments  
7 and just things like that. And when I came on the  
8 board I think there might have been \$20,000 in  
9 there.

10 At that meeting with Mr. Hoff he allowed us  
11 to go in and take that 20,000 out to help make that  
12 40 -- the payment in July. So at that time there  
13 was 20 -- I think 20,500 in that depreciation  
14 account.

15 Q Including the debts to the water  
16 distributors in the city, do you know what the  
17 current amount of past due bills approximately is?

18 A We looked at that last night.  
19 Right now I think we made our -- we have one --  
20 one -- part of our plan was we was looking at just  
21 improving our cash flow, overall cash flow, so we  
22 made a board decision that we was going to approve  
23 everything coming through except payroll, except  
24 for utilities.

25 So last night I would say we have 28- --

1 22,000 for pay run. I think we paid a 28,000 last  
2 night and a 48,000, I think. So we have 22,000 that  
3 is due in June, so it's just now becoming after 30  
4 days. And then probably adding up the others, we  
5 probably have another 20,000 with all those other  
6 invoices.

7 Q Any disputes as far as amount, or  
8 is that a recognized --

9 A No. Yeah, I don't know off the  
10 top of my head what -- I'm just -- a ballpark, I'm  
11 just trying to remember -- I know there's -- we  
12 also have, I think, 42,000 that is owed to the city  
13 of West Liberty that we -- yeah, so we kind of  
14 worked out an agreement with them that we're going  
15 to try to pay them a thousand or \$2,000 a month.

16 We're going to keep our current -- as of  
17 July 1st, we're keeping our current bill paid. We  
18 paid them \$48,000 last night, and we owe I think  
19 around 42. We're going to try to chip away at that  
20 42, but continue to make our regular month payment.

21 Q And you spoke to the culture of  
22 the board in previous years. Was it also a  
23 situation where the board was not being kept  
24 informed or apprised of the financial situation, or  
25 just a gradual worsening?

1           A           You know, like I say, I've only  
2           been on the board since '16, and that's just my  
3           opinion, you know, of things. I think -- I think  
4           there's nothing being withheld. I think the office  
5           out there has not withheld anything, to my  
6           knowledge. I don't believe that.

7           But I think it was the kind of thing of,  
8           well, this is the way the business is. This is the  
9           way the water -- the water business is like this,  
10          you know, that's -- that's kind of the feel I got.  
11          This is life of owning a small rural water district,  
12          being in charge of it is you -- that you have these  
13          issues, and that's just part of it.

14          COMMISSIONER SCHMITT: It's just destined  
15          to go broke, is that what you're saying?

16          THE WITNESS: I wouldn't say destined to go  
17          broke, because I think we've been operating  
18          20 plus years, but I think it's -- I  
19          believe that there's struggles there that  
20          maybe should have been addressed that  
21          should have got a hold on quicker than what  
22          we have.

23                   And I think it might have been the  
24                   part of wishing it away, or maybe not  
25                   looking at it, you know, kind of hoping that

1           it's going to improve or that we're going to  
2           find the miracle water leak that's going to  
3           solve all of our problems; instead of  
4           looking at it as -- I look at it as  
5           systematic, so that's one of the things --  
6           we brought in maps of our water lines. I  
7           wanted the board to understand where our  
8           water lines are, so we have maps in our  
9           boardroom now where we meet.

10                   And I'm looking at it as -- again,  
11           it's not going to be an overnight thing, but  
12           we have to address each section, or what's  
13           the most effective way to address and get as  
14           much gain as we can in the short term, but  
15           also address our long-term needs. And I  
16           think maybe that's kind of what -- the way I  
17           look at it is, is that -- that it wasn't  
18           addressed, yeah.

19           BY MR. PARK:

20                   Q           As commissioner, were you made  
21           aware of when the Public Service Commission would  
22           conduct standard inspections of the water system?

23                   A           Say it again?

24                   Q           Sure. Was the board aware of and  
25           kept informed when staff from the Kentucky Public

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1 Service Commission would do an annual or a standard  
2 inspection --

3 A Yes.

4 Q -- of the water system?

5 A Yes, sir. Now, I don't know if  
6 any of the board members were actually there. I  
7 think that was handled by the offset, but that was  
8 reported at the board meetings, yes, sir.

9 Q Were you aware in 2017 that PSC  
10 staff cited the district for excessive water loss?

11 A I don't recall that. Off the top  
12 of my head, I don't.

13 Q Okay. In response to that  
14 deficiency, the district submitted a water loss  
15 control program that outlined steps the district  
16 intended to take. Are you aware of that?

17 A Not off the top of my head, but I  
18 know -- it might have been a meeting that I -- I  
19 don't want to -- I don't want to say that -- that  
20 it didn't happen, but I -- off the top of my head  
21 right now, I don't.

22 MR. CICERO: So you're not aware of any  
23 water loss program that's officially been  
24 submitted back to the Public Service  
25 Commission?

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1 THE WITNESS: If it has, I don't remember.  
2 I don't. And that was in 2017?

3 MR. CICERO: Yes.

4 BY MR. PARK:

5 Q Yes.

6 A So I would have came on in '16,  
7 and that's almost two years ago, and I'm just being  
8 honest, I -- if there's one in place, I don't  
9 remember it, or I don't -- yeah, I don't.

10 Q So it's safe to say the board was  
11 not tracking the district's progress in meeting  
12 that?

13 A To be honest, I would say not --  
14 no.

15 Q The district's last rate case was  
16 an ARF case, Case Number 2016-00068. Were you on  
17 the board at the time of that ARF case, that rate  
18 case in 2016?

19 A I came on late. It was already  
20 kind of in process, and I think -- like I say, I  
21 think it took effect in '17, but I came on, like I  
22 say, in the fall of '16, and everything kind of --  
23 it was more at that time that it was recorded at  
24 the board meeting, and that, you know, it was  
25 approved and it was going to be coming into effect.

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1           Q           In that case the district  
2 requested increase in rates of 15 percent. After  
3 analysis the Public Service staff considered, or  
4 concluded that an increase of 26.6 percent was  
5 justified.

6           In response, the district said, no, we only  
7 want 15 percent, and that was a letter from then  
8 chair Ray Collett. Do you think the district's  
9 finances in 2016, '17 justify not taking the full  
10 amount of that increase?

11          A           I don't.

12          Q           Do you know why that decision was  
13 made?

14          A           Again, it was before me, but just  
15 looking at where I think the board was at that  
16 time, I think it was more of maybe trying to  
17 protect the citizens from a rate increase, you  
18 know. Morgan County, we're a poor county, we  
19 have -- a lot of our customers are on fixed  
20 incomes, and I think they were looking at it more  
21 on that side of things of if we can't -- if we  
22 don't have to raise it that high and we think we  
23 can get by with it, then, you know -- I think they  
24 were looking at it more as trying to help our  
25 citizens instead of maybe looking at it as a

1 business decision.

2 COMMISSIONER SCHMITT: May I ask?

3 THE WITNESS: Sure.

4 COMMISSIONER SCHMITT: Does that make sense  
5 to you as a businessman?

6 THE WITNESS: At this time, no, no, it  
7 doesn't. Because I think if we go through  
8 that process and we're asking, you know --  
9 it's my -- I've not been through the one --  
10 the whole process of how it goes through  
11 and gets asked, but I know we have to  
12 submit things to you guys, and you-all  
13 give -- I think if you-all give us a  
14 recommendation after your analysis of  
15 everything, I would think that we would --  
16 should follow that recommendation of  
17 what -- if you-all thought it was, you  
18 know, for our best interest as a  
19 functioning operational business that  
20 26 percent was the right thing, then -- you  
21 know, that's one of those hard decisions  
22 that you have to make, but I believe that  
23 that was not a right decision.

24 COMMISSIONER SCHMITT: One of your  
25 commissioners is Mr. Wells. What's his

1 first name?

2 THE WITNESS: Brian Wells.

3 COMMISSIONER SCHMITT: And is he part of  
4 The Wells Group?

5 THE WITNESS: Yes, he is.

6 COMMISSIONER SCHMITT: Is he related to  
7 Scott Wells?

8 THE WITNESS: Yes, brother.

9 COMMISSIONER SCHMITT: Brother. Now, in  
10 Mr. Wells' business if I asked him, or you  
11 asked him, what -- as an owner of a  
12 business, what's my first duty to the  
13 business I run, what would you think that  
14 would be?

15 THE WITNESS: I think the sustainability of  
16 the business.

17 COMMISSIONER SCHMITT: That's right. Don't  
18 you think that's also true of a public  
19 official who's operating a water district?

20 THE WITNESS: Yes, sir.

21 COMMISSIONER SCHMITT: I mean, you're there  
22 to serve the public; isn't that correct?

23 THE WITNESS: Yes, sir.

24 COMMISSIONER SCHMITT: And how is the  
25 public served if over time the system is

1           allowed to deteriorate to the point where  
2           it won't -- it can't deliver a reliable  
3           supply of clean water?

4           THE WITNESS: I agree.

5           COMMISSIONER SCHMITT: And would you also  
6           agree that over time, if the system is  
7           allowed to deteriorate and infrastructure  
8           isn't gradually replaced and rates aren't  
9           gradually increased, that the cost over  
10          time to your citizens, to the consumers, is  
11          a lot more than if you basically kept the  
12          system up to date over time? Would you --

13          THE WITNESS: Yes, sir.

14          COMMISSIONER SCHMITT: -- agree with that?

15          THE WITNESS: I do. Absolutely.

16          BY MR. PARK:

17                 Q           Prior to the 2016 case, do you  
18          know when the last time the district sought a rate  
19          adjustment, other than the --

20                 A           The pass-throughs?

21                 Q           Yeah, other than the  
22          pass-throughs.

23                 A           To my knowledge, my  
24          understanding, so, you know, I don't want to be,  
25          you know, quoted or -- but it's my knowledge that

1       there's -- that we -- there was never a rate  
2       increase. I think -- I think the water district  
3       has been there since '92, and there's never been a  
4       water rate increase, except for the pass-throughs.

5               MR. CICERO: This is where having a  
6               26 percent increase because you requested  
7               it only once instead of periodically having  
8               rate increases, which would --

9               THE WITNESS: Yeah.

10              MR. CICERO: -- mitigate the financial  
11              impact on your poor customers -- if they  
12              were receiving 5 percent to 7 percent over  
13              five years or six years instead of  
14              26 percent after -- I guess that would be  
15              15 years or whatever it is, it would be  
16              much less of an impact.

17              THE WITNESS: Sure, yeah.

18              MR. CICERO: That's the problem that you  
19              run into when the actual financial costs  
20              aren't passed through on a timely basis,  
21              and then you run into -- I think you said  
22              there's \$500 in the depreciation account?

23              THE WITNESS: Yes.

24              MR. CICERO: That's not going to repair any  
25              water lines --

1 THE WITNESS: No, sir.

2 MR. CICERO: -- in the future, as far as I  
3 can tell.

4 THE WITNESS: No. And with my limited time  
5 being on the board, I realized essentially  
6 these last three months as I got more  
7 involved with the -- with trying to learn  
8 the operation -- you know, I work  
9 full-time. I've been going up some on my  
10 lunch from my other -- from my full-time  
11 job, and meeting with Chernell and just  
12 trying to understand the operations. It's  
13 my goal later on maybe this fall, when kind  
14 of things slow down, is to maybe take a  
15 couple of vacation days and go out in the  
16 field, because I've not been out in the  
17 field at all, and try to get a better  
18 understanding of just the operation.

19 Because, you know, my main -- my  
20 management background, what I'm a true  
21 believer in, in order to be able to manage  
22 something effectively, you got to have an  
23 understanding of the operation. And that's  
24 where I'm kind of at right now.

25 And like I say, I've been doing this

1           for three months, so I'm trying to get my  
2           head wrapped around water operation. Like I  
3           say, since -- prior to 2016 I had no  
4           experience in water whatsoever. My  
5           background has mainly been in manufacturing  
6           and that type of business, so that is -- our  
7           goal, as I'm getting more and more involved  
8           in this, is to get a much better  
9           understanding of how the operation works.

10       BY MR. PARK:

11           Q           Prior to the initiation of this  
12       case -- well, strike that.

13           At some point the district reached out to  
14       the Commission and asked whether the district could,  
15       in fact, go ahead and take that full 26 percent.  
16       That was after the case had closed. Do you know  
17       when that was?

18           A           I do remember that. I do  
19       remember the discussion as far as -- it might have  
20       been in '18, 2018, or maybe late 2017. I think,  
21       you know -- again, I think with the new board  
22       member, when I come on, and then -- I want to say  
23       we had some turnover in '18, I think we had a new  
24       board member come in, and then as we started kind  
25       of digging in and looking at the -- every month

1       come in and looking at the finances and seeing how  
2       we're struggling, then it was, like, you know what,  
3       we probably should have taken, or taken the 26  
4       just to help -- help to alleviate some of the  
5       financial difficulties that we've had.

6               Q               The minutes provided of the  
7       board's February 11, 2019 meeting states that the  
8       county judge executive attended the meeting and,  
9       I'm sorry, I don't have his name here.

10              A               John Stacy.

11              Q               John Stacy. Thank you.

12              A               John Will Stacy.

13              Q               And it indicates that he advised  
14       that -- he advised the board it was a bad time to  
15       seek a rate increase because of the district's  
16       water losses were so high; is that correct?

17              A               Yes, sir.

18              Q               Are you aware that certain  
19       districts have been awarded, in fact, a surcharge  
20       specifically to address water loss?

21              MR. CICERO: You are or you aren't?

22              A               Yeah, I was. Yes, sir. I'm  
23       sorry.

24       BY MR. PARK:

25              Q               Do you know the value of the

1 water loss by the district in 2018? Have you-all  
2 put a number on that, as far as the amount in  
3 excess of that 15 percent?

4 A I don't know off the top of my  
5 head. I mean, we get a report every month, but  
6 knowing the total at the end of the year, I don't  
7 know off the top of my head.

8 Q Since this case was initiated,  
9 the district has hired Nesbitt Engineering, as you  
10 mentioned. What specifically was Nesbitt hired to  
11 do? What is the scope of his contract?

12 A When we looked at the new project  
13 we were looking at replacing aging water lines  
14 that's been in the ground, and we were looking at  
15 meters to be able to identify water loss faster, so  
16 we could address the problem faster.

17 Q Zone meters or just customer  
18 meters?

19 A No. The -- I don't -- the  
20 meter --

21 Q The master meters?

22 A Yeah. It's a meter at I guess a  
23 certain point on a line where you can read how fast  
24 the water is coming through. That's not technical,  
25 I know.

1 Q Describe the process the board  
2 went through to hire Nesbitt Engineering.

3 A I know I have that in here, but,  
4 you know, once we decided we were going to do that,  
5 we got -- I think Gateway came and helped us  
6 through that process, and we advertised it out, I  
7 think. Off the top of my head, I'm trying to  
8 think, I think there was 16 or so engineering  
9 firms. We had a score card. She helped us develop  
10 a score card on how we could score each engineering  
11 firm, and we narrowed that down to -- I want to say  
12 six, I think around there, that we actually brought  
13 in to interview. And we used that score card as a  
14 scoring process.

15 Q And who was that that helped with  
16 the process?

17 A It was -- she was with Gateway.

18 Q Gateway?

19 A Gateway Community Action, I  
20 think. Is that -- is it Gateway?

21 MR. PELFREY: Gateway ADD.

22 A Gateway ADD.

23 BY MR. PARK:

24 Q Did the board make the decision  
25 to hire Nesbitt Engineering to look -- to solicit

1 proposals after this case was initiated, or was  
2 that something that the board had undertaken prior  
3 to this case opening?

4 A No. We had talked about doing  
5 the change in engineering since the last project  
6 that we -- that we completed.

7 Q The request for bids was sent out  
8 after this case was initiated; is that correct?

9 A Now, that -- let me look.  
10 So it looks like here I have the water  
11 district -- Nesbitt Engineering was hired April of  
12 '15, so we would have done those initial interviews  
13 probably early April, so the bids probably would  
14 have went out in March.

15 Q Okay. And the county -- what  
16 sort of relationship does the district have with  
17 the county and county judge executive? How  
18 involved is he in the board's operations?

19 A Well, I can speak -- as of 2016  
20 our county judge before was not involved.

21 Q And who was that, I'm sorry?

22 A Stanley Franklin was the prior  
23 judge executive. He came to meetings and was  
24 basically swearing people in for new board  
25 positions and stuff. But he -- he left the --

1 everything up to the board.

2 I mean, since John Will came on in January,  
3 he's been to several meetings and he has taken more  
4 of a foothold with the -- you know, as far as he  
5 sees that there's an issue or problem with it and,  
6 you know, he's kind of directed us to make sure --  
7 to fix it, to put it bluntly.

8 Q Would the prior judge executive,  
9 Judge Franklin, rather, have had any role in the  
10 district's decision to reject the full amount of  
11 the rate increase in the 2016 case?

12 A No, sir, not to my knowledge.

13 COMMISSIONER SCHMITT: Well, let me ask a  
14 question. So Judge Stacy's -- apparently  
15 has advised the water commissioners not to  
16 seek a rate increase until the excessive  
17 water loss problem can be solved. What --  
18 what do you think about that advice?

19 THE WITNESS: I mean, I know where John  
20 Will is talking about. He's, you know -- I  
21 think he's looking at it more on the lines  
22 of, you know, you're punishing your  
23 citizens because of your neglect of the  
24 water loss, but...

25 COMMISSIONER SCHMITT: How do you solve the

1           problem if you don't have any money? I  
2           mean, somebody ultimately has got to pay  
3           for it.

4           THE WITNESS: Right.

5           COMMISSIONER SCHMITT: Either you or you go  
6           out and get a handout from a grant or  
7           something.

8           THE WITNESS: Right, right. I think, you  
9           know, he came on, and I think he came, like  
10          I said, early -- he might have been in  
11          office a month or so and, you know, he made  
12          that comment of that. We took it under  
13          advisement, but, again, we're tasked with  
14          the operation of the business. And, you  
15          know, we're working on this new project and  
16          things.

17                    But there -- there's going to have to  
18                    be a rate increase. I mean, there's just --  
19                    to -- my opinion is there's not -- we're in  
20                    a hole and we're going to have to dig  
21                    ourselves out again. It's not going to  
22                    happen overnight. It's going to take time  
23                    to dig into it, but, I mean, I think a rate  
24                    increase.

25                    And I think if we go back and show

1 John Will our improvements in our plan -- I  
2 think maybe it's more of he didn't know what  
3 our plans were or -- of how we're going to  
4 address the water loss. So I think if we  
5 could go back, and even if we had, you know,  
6 a citizen come into one of our board  
7 meetings and -- we say, well, you know, this  
8 is the plan, we have improved our water loss  
9 some over the last couple of months, but in  
10 order to stay operational, you know, this is  
11 going to have to happen.

12 COMMISSIONER SCHMITT: Are you aware that  
13 this Public Service Commission has adopted  
14 a policy or a position of trying to assist  
15 local water districts by granting  
16 surcharges for limited periods of time for  
17 leak detection and buying new meters and  
18 replacing lines; and when that's done, that  
19 basically the surcharge will drop off of  
20 the bill?

21 THE WITNESS: That has been discussed at a  
22 couple of meetings, but -- yeah. So we do,  
23 and I think that's something we're  
24 definitely going to have to look at.

25 I don't know the process of how we go

1           about doing that, I'll be honest with you on  
2           this. I don't know, is it something that --  
3           does it take six months to get that  
4           surcharge on there, or is it something kind  
5           of emergent to where --  
6           COMMISSIONER SCHMITT: Well, you got to ask  
7           for it.  
8           THE WITNESS: I gotcha, sir. I do.  
9           COMMISSIONER SCHMITT: Let me ask you, and  
10          then I'll go back to Mr. Park. But while  
11          we're on the subject, what do you  
12          understand the duty of a water district  
13          commissioner to be toward the county judge  
14          or the county fiscal court?  
15          THE WITNESS: It's my understanding that  
16          the fiscal court and the county judge  
17          appoint the commissioners. I think they  
18          have to be approved through the fiscal  
19          court, but then the water district operates  
20          as its own separate entity.  
21          COMMISSIONER SCHMITT: That's right, you  
22          owe no duty. One of the problems that we  
23          have seen over the years we have been here  
24          is that most water districts get in trouble  
25          because local politicians pressure the

1 board members not to keep the rates up, or  
2 to -- or to basically give service to some  
3 people free of charge, a lot of people free  
4 of charge.

5 Do you know if you -- if you --  
6 basically, if all of your customers are  
7 actually metered?

8 THE WITNESS: Yes, sir, it's my  
9 understanding that all customers are  
10 metered. And I can speak from prior  
11 experience, you know, the board -- there's  
12 no one that gets free water, that -- you  
13 know, now they might get -- we've had, you  
14 know, problems with theft, you know, things  
15 like that, but to my knowledge and to my  
16 understanding there is no one that has a  
17 meter sitting out there and doesn't receive  
18 a water bill.

19 COMMISSIONER SCHMITT: Thank you.

20 MR. CICERO: Do you prosecute those that  
21 steal water?

22 THE WITNESS: We turn it over to the county  
23 attorney, yes, sir.

24 BY MR. PARK:

25 Q How significant a problem is

1 water theft?

2 A There's been -- there's been a  
3 few cases of -- maybe over my couple of years,  
4 maybe three or four that I can remember off the top  
5 of my head that's been brought to the board.

6 I think the -- the staff, they'll go out and  
7 they put a lock on it, and then they'll go back and  
8 check it. And I think they have even -- if it had  
9 been reoccurring issue, I think they go out and they  
10 pull the whole meter out of the ground, you know, to  
11 where they -- they can't do it.

12 So I don't think it -- I'm sure it's an  
13 issue with other counties, and I'm sure it's an  
14 issue with us, and we might not recognize as many,  
15 but at this time I don't -- it's not our -- it's not  
16 a huge -- or the main concern for us right now.

17 Q What about water usage by fire  
18 departments? I know in some of the minutes there's  
19 a discussion about fire departments not providing  
20 timely and accurate reports.

21 A Yeah, and we've had -- I know  
22 probably in 2017, the summer, I do remember us  
23 calling in all the county fire departments in  
24 and -- you know, just to reiterate with them on  
25 keeping your records, keeping everything coming in

1 on a timely manner, and to report any usage that  
2 you're using and stuff.

3 Q Under the district's tariff, a  
4 fire department that does not submit timely reports  
5 is subject to certain fees and can be charged a fee  
6 for water usage. Do you know if the district has  
7 ever held a fire department responsible under -- or  
8 charged the rates that are authorized by the tariff  
9 for fire departments?

10 A Not since I've been on the board,  
11 no, sir.

12 Q And back to water theft, has the  
13 board ever sought to recover the cost of that  
14 stolen water?

15 A I think it goes on to their  
16 account, or we have that account. Well, I know we  
17 turn it over to the county attorney and -- but  
18 that's -- that's about where I know it's gone to.

19 MR. CICERO: You ever got a conviction?

20 THE WITNESS: Not that I know of.

21 MR. CICERO: So does the county attorney or  
22 county prosecutor, they try the case or  
23 they don't try the case?

24 THE WITNESS: I can't speak -- I -- I don't  
25 know.

1 MR. CICERO: So what status does that put  
2 the account? If you know that there's  
3 somebody stealing the water, what's the  
4 process that you go through for that  
5 customer to say, he can't receive water  
6 anymore until his bill is paid, or -- I  
7 mean, what status goes into his account  
8 that says you recognize he was stealing  
9 water?

10 THE WITNESS: I'm going to be honest with  
11 you, I have not dug that deep yet. Maybe  
12 the staff members might be able to answer  
13 that, but I'm speaking honestly, I have not  
14 got that deep into it.

15 MR. CICERO: I'm sorry, your name was --  
16 who's the office manager?

17 THE WITNESS: Chernell.

18 MR. CICERO: All right. So maybe that's a  
19 better question to find out.

20 THE WITNESS: Yes, sir. Yeah. I'm sure  
21 there is, but I'm being honest, I have not  
22 got that deep into it.

23 MR. CICERO: Okay.

24 BY MR. PARK:

25 Q Back to the contract with Nesbitt

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1 Engineering, what is Nesbitt Engineering's  
2 compensation under the contract and how is the  
3 district going to pay that?

4 A I don't know if I can answer off  
5 the top of my head. Let me look.

6 I can't answer that off the top of my head,  
7 sir.

8 Q Either question --

9 COMMISSIONER SCHMITT: Ms. Stegman and  
10 Mr. Nesbitt would both agree that a good  
11 lawyer and a good engineer are worth every  
12 penny.

13 BY MR. PARK:

14 Q So your question (verbatim) is  
15 you don't know the compensation. Do you know how  
16 the district is going to pay for it?

17 A To be honest with you, it's my  
18 understanding -- and I've only been on one project  
19 where we had an engineering firm on that project --  
20 it's my understanding that it's paid through the  
21 project.

22 Q Project financing?

23 A That's my understanding.

24 Q Who will be responsible at the  
25 district for interfacing with Nesbitt Engineering,

1 providing requested data, making sure you-all are  
2 on track with what needs to be done?

3 A It will be the office staff.

4 Q Office staff?

5 A Yeah. And then Paul has been  
6 coming to our board meetings. He's attended every  
7 board meeting since he came on board, to give us an  
8 update on the project that he's currently working  
9 on.

10 Q And in your prefiled Direct  
11 Testimony you state that at the May 13 board  
12 meeting, the board adopted a written statement of  
13 water loss program goals. These program goals  
14 include short-term goals, median-term goals and  
15 long-term goals. A copy of that statement is  
16 attached to your Direct Testimony.

17 A Uh-huh (affirmative).

18 Q Describe what actions the  
19 district plans to take to address each of these  
20 levels of goals.

21 A With the short-term goals, I  
22 think it was -- one, is that it was to improve our  
23 cash flow. So we looked at the cash flow first to  
24 try to at least be able to get to where -- to stop  
25 the bleeding, with being able to pay our bond

1 payments and to be able to pay our water  
2 distribution companies on time, first and foremost,  
3 because at that time that wasn't -- that wasn't  
4 going.

5 So then we also brought in -- short term we  
6 brought in Kentucky Rural Water. We brought in a  
7 listening device, I think maybe last month, and  
8 then -- or in May, and they spent some time with the  
9 field staff, and they went out and they actually  
10 identified some leaks with that sonar, or the sound  
11 where they can listen to the water. They -- so they  
12 done that, and I think they are coming back.

13 And then we are looking at getting one of  
14 our field staff members trained in that, and then  
15 we're also looking at buying that piece of equipment  
16 for ourselves, so we'll be able to go out and just  
17 make that part of our routine maintenance of the  
18 water lines as to be able -- to be able to do that.

19 So I know we've done that in the short term.  
20 We have identified and fixed several significant  
21 leaks over the last couple of months, and from our  
22 last two board meetings our cash flow has improved  
23 to where we are able -- like I say, and the goal was  
24 July 1st to be able to pay our water distributions  
25 for the -- for that month, and to also make our --

1 be able to make our bond payment.

2 In the long term, looking out, we have the  
3 project with Paul that we're looking at, and, again,  
4 that's going in and replacing aging infrastructure,  
5 be able to put those water loss meters in there to  
6 where we can be able to identify water loss faster,  
7 and also look at replacing some of the customer  
8 meters as well.

9 And we feel confident that we will be able  
10 to reduce our water loss from these -- from these  
11 measures.

12 And then it's just going to be the  
13 responsibility of the board. You know, water loss  
14 now -- you can ask the board members or our staff --  
15 water loss is a key element of our board meeting.  
16 You know, we spend time on the water loss, we look  
17 at those reports more quickly, and then we -- as a  
18 board we're asking more questions of the staff on  
19 how we're addressing those water losses. And like I  
20 said, that -- that will continue on as we -- as we  
21 go forward.

22 MR. CICERO: So let me understand. You  
23 have a plan, some of it requires money.  
24 You have talked about --

25 THE WITNESS: Uh-huh (affirmative).

1 MR. CICERO: -- infrastructure replacement.

2 THE WITNESS: Yes, sir.

3 MR. CICERO: You got \$500 in a depreciation  
4 account; you're talking about what your  
5 plan is in order to meet past due payments  
6 on some purchased water.

7 THE WITNESS: Uh-huh (affirmative).

8 MR. CICERO: How do you reconcile the fact  
9 that you're having difficulty with current  
10 regular accounts payable, a depreciation  
11 account with only \$500 in it, and trying to  
12 purchase new meters and replace  
13 infrastructure?

14 THE WITNESS: With the -- with bringing  
15 Paul on, we -- he is looking at securing a  
16 grant. And then we have also went back to  
17 Mr. Hoff, and we're working getting a  
18 \$400,000 bond with him to -- so I think we  
19 have -- I think it ended up being 1.2 or  
20 3 million-dollar project that we're looking  
21 at; hopefully, I think from the board  
22 meeting last night, to have those funds  
23 secured maybe by the end of the year and to  
24 be able to start addressing those issues.

25 MR. CICERO: So then you're going to have a

1 plan that says here's how I intend to spend  
2 the money for these different projects to  
3 be completed by some date. Will you have a  
4 timeline schedule?

5 THE WITNESS: Yes, sir. Yes, there will  
6 be.

7 MR. CICERO: And so this will increase your  
8 requirement for amortization payments for  
9 the bond, and I guess if you get a grant  
10 you're all set on that. But at any rate,  
11 you're still going to have a --

12 THE WITNESS: 400,000.

13 MR. CICERO: -- financial obligation to  
14 meet and, again, you're behind on whatever  
15 it is that you're trying to do as far as  
16 revenues, because you didn't take the full  
17 26 percent --

18 THE WITNESS: Yes, sir.

19 MR. CICERO: -- and you're struggling.

20 THE WITNESS: That is -- you know, looking  
21 forward, I think that's why it's going to  
22 be important for us to make that  
23 16,000-dollar payment every month, because  
24 at the end of this year we'll have that  
25 97,000-dollar payment, and then we'll be

1           able to drop that back down to the 12,000  
2           that we're supposed to put in every month,  
3           12 months of the year to meet that 144 --  
4           both of those payments add up to 144,000.

5                        So what I -- what I'm hoping to be  
6           able to look at is that \$4,000 we're going  
7           to gain in cash flow at the end of this year  
8           will hopefully offset, be able to make that  
9           additional bond payment. Does that make  
10          sense?

11          MR. CICERO: It does, except you used  
12          "hopefully" too much.

13          THE WITNESS: I -- I know, sir. You know,  
14          we are -- you know, we're trying to steer a  
15          sinking ship right now, and I just put it  
16          as bluntly as that. But I feel confident,  
17          we have a good engineering firm, he  
18          seems -- what I've got to know Paul, he's  
19          very dedicated, he's here to help us, he's  
20          got the experience to be able to do it. I  
21          feel we have a plan in place. I feel we  
22          are taking the water loss seriously as a  
23          board and as a staff. I will -- I look to  
24          continue to meet with the staff.

25                        And the other part of that is that I'm

1 going to look at -- we've not been able to  
2 do it yet, but also to educate our citizens,  
3 either through -- on our bill, through maybe  
4 Facebook, or through some other social media  
5 or through radio, TV, or something to that  
6 effect that's not going to be so much on  
7 cost, on helping us identify those leaks.  
8 So, you know, if you are a citizen and  
9 you're out in the county and you see a leak,  
10 report it. Help us, report -- you know,  
11 help that water loss. So I think some type  
12 of customer awareness campaign to that  
13 effect.

14 I don't know if you-all -- you know, I  
15 might be -- but I don't know if you-all  
16 might have something along those lines that  
17 is kind of we can run on the radio or  
18 something like that, but that's something in  
19 the future that I want to look at, is trying  
20 to get our citizens involved in, you know,  
21 helping identify water loss, getting our  
22 staff involved in identifying the water loss  
23 and, you know.

24 But I think with that, and then also  
25 just continued education with -- with our

1           staff. You know, when I do the -- come to  
2           those staff meetings and stuff, you know, I  
3           always want to try to educate. I brought to  
4           one of those staff meetings the -- and I  
5           think that's how we got the rural water  
6           sound. I found an article that another  
7           water district had done -- I think it was  
8           out in California. I went out and  
9           started -- when I took this position, I --  
10          you know, not knowing -- I started going out  
11          and looking at other water districts and the  
12          issues and problems that they have as far as  
13          water loss, and that's an article that I had  
14          found was on the -- using the sonar for leak  
15          detection, so I printed that out and brought  
16          it to that staff meeting. And it was  
17          shortly after, you know, it was brought up,  
18          hey, you know, we probably can get that, and  
19          that's -- I think that's how that came  
20          about, so...

21                    But like I say, just the -- not to be  
22                    rattling, but to sum it up, we do have a  
23                    plan and I know the board is dedicated. You  
24                    know, everyone that's stuck around now  
25                    after -- after these last few months is

1           dedicated to the board. I think the staff  
2           is dedicated to solving the issue and  
3           problem, and I think right now we're going  
4           to be in the middle of that culture change.  
5           It's that culture change of -- to  
6           aggressively pursue what we can to keep the  
7           operation financially sound.

8           MR. CICERO: I think you're making  
9           progress, but I think the thing that  
10          concerns me the most is looking at the  
11          response that Morgan County sent in  
12          September of 2017 that talked about what  
13          their water loss plan was, and you not  
14          being aware that it was submitted; and it  
15          talks about changing out all the meters,  
16          their modern -- the SCADA system and master  
17          meters. They divided to the subsection of  
18          the system to prioritize leak detection.  
19          It goes through a whole slew. It's almost  
20          three pages long.

21                 But that's '17. You were on the board  
22          in '16, and I know you have become the  
23          chairman of the board, but it sounds like  
24          the board wasn't even aware that this was  
25          submitted to the Public Service Commission.

1 THE WITNESS: I don't want to say that.  
2 I'm sure it was. I'm just saying off the  
3 top of my head, I don't recall it, and I'm  
4 just being honest. I can sit here and say  
5 that I do, but I don't.

6 MR. CICERO: But that tells me that no  
7 attention --

8 THE WITNESS: I know what you're --

9 MR. CICERO: -- being given to this  
10 program.

11 THE WITNESS: Right, I know what you're  
12 saying. And, you know, all I can say is  
13 that -- that we'll do -- we'll do better.  
14 You know, to hold the board members  
15 accountable I think is going to be a big  
16 part of my job.

17 All I can say is that -- I don't --  
18 that that plan wasn't followed through, I  
19 guess would be a way of saying it. That's  
20 all I can say on that.

21 MR. CICERO: I guess -- I came on the  
22 Commission in 2016, and one of the  
23 priorities since I have been here with the  
24 current Commissioners has been water loss.  
25 And I'm certain that when a purchased water

1 adjustment comes through, you notice in the  
2 language that it talks about you're  
3 exceeding the 15 percent limit, therefore  
4 you're losing X number of dollars of water.  
5 The Commission is looking more closely at  
6 utilities that don't pay attention to their  
7 excess water loss, and inaction by the  
8 utility may result in action by the Public  
9 Service Commission, which I think is where  
10 we are right now, is the fact that you seem  
11 to have good intentions, which I think  
12 that's a great first step, because I know  
13 over the next 11 hearings that we have, or  
14 ten hearings, we may not be so fortunate to  
15 see that.

16 But if there's not a plan that goes  
17 forward that everybody is tuned into and is  
18 on board with, it can be the same thing over  
19 and over again, it's a false start, you make  
20 so much progress, the culture changes again.  
21 And we're just trying to make certain that  
22 progress is made and people are trained and  
23 aware of what their responsibilities are,  
24 and that hopefully they go forward and their  
25 system becomes viable, because right now

1           nobody can sustain a 40 to 70 percent water  
2           loss forever and expect to financially  
3           survive.

4           THE WITNESS: I will say this, I think  
5           coming today -- I have never been in a  
6           courtroom, I have never testified. I've  
7           never been a witness in my 47 years. With  
8           these -- with this coming up and stuff,  
9           it's forced, I think, us to really dive  
10          into it and to prepare and to understand  
11          that we're going to be held accountable.  
12          Maybe in years past maybe -- you know, I'm  
13          just -- maybe it wasn't, but I can assure  
14          you now, being down here today and speaking  
15          in front of everyone in this room, that  
16          it's taken very seriously, it will be taken  
17          seriously, and that the plan that we come  
18          up with working with Paul will be followed.

19                 And hopefully, you know, a year from  
20          now or two years from now, you know, we  
21          can -- you can look at the Morgan County  
22          Water District and use that as a success  
23          story for these hearings of, you know, you  
24          brought us down to hold us accountable to --  
25          to what we signed up to do, and -- and just

1 look at the Morgan County Water District,  
2 you know, this is a success from these --  
3 from these hearings today that we can speak  
4 of.

5 MR. CICERO: That would be a success story,  
6 I agree.

7 COMMISSIONER SCHMITT: Let me just make one  
8 comment. Of course, we're actually here,  
9 contrary to what some water districts  
10 believe, to help you. We want to see -- I  
11 tell people all the time, you know, I don't  
12 care about you as a -- I care about the  
13 customer --

14 THE WITNESS: Yes.

15 COMMISSIONER SCHMITT: -- and the long-term  
16 interest of the customer of having good,  
17 reliable service. And you can't have  
18 economic development -- nobody is going  
19 someplace where you can't produce water at  
20 a reasonable price.

21 But go back to your question, or your  
22 statement about your application for this  
23 \$400,000 loan. Is that a Rural Development  
24 loan? Is that the --

25 THE WITNESS: Yes.

1           COMMISSIONER SCHMITT: Okay. Now, do you  
2 know on Rural Development loans they will  
3 go through and make a calculation of a rate  
4 increase that will go on your bill that  
5 will pay the loan and, in theory, give you  
6 money to operate on. But all I can tell  
7 you is this, is that since we've been here  
8 we have had several instances where those  
9 Rural Development calculations will see  
10 that their loan is paid back, but if you  
11 rely on that to keep your system  
12 functioning, you may be making a mistake.

13                   Last week I went back through all --  
14 tried to find all of your rate increases and  
15 everything financial that Morgan County had  
16 done, and there was a -- the only rate  
17 increase prior to 2016, that we saw one in  
18 the year 2000, a 15 percent rate increase.  
19 But since then, everything were just  
20 purchase water adjustments, which were  
21 pass-throughs, and several Rural Development  
22 loans.

23                   And the Rural Development loan that  
24 occurred prior to the one that immediately  
25 preceded the 2016 rate case, our -- one of

1           our financial analysts on her own went  
2           through the calculations in the Rural  
3           Development loan, because we get copies of  
4           those things --

5           THE WITNESS: Okay.

6           COMMISSIONER SCHMITT: -- and basically you  
7           weren't given enough money to survive.

8                       And so I'm -- you know, I know in one  
9           of the data requests, or Interrogatories  
10          that was sent, the question was asked, does  
11          Morgan County Water District intend to  
12          obtain another rate increase; and the answer  
13          was, yes, in conjunction with our Rural  
14          Development loan.

15                      So the question I have is, is what  
16          you're saying is that your rate increase is  
17          going to be limited to what you get in the  
18          Rural Development loan to pay your money  
19          back? Is that what you're saying?

20          THE WITNESS: Yes, sir, that's my  
21          understanding.

22          COMMISSIONER SCHMITT: All right.

23          THE WITNESS: But I see what you're saying.

24          COMMISSIONER SCHMITT: Well, I'm saying  
25          that if you don't get periodic rate

1 increases through here over time -- I mean,  
2 you hadn't had a rate increase in 16 years.  
3 Now, if I asked you, or any reasonable  
4 person would say, have costs gone up in 16  
5 years?

6 THE WITNESS: Absolutely, sir.

7 COMMISSIONER SCHMITT: Wage rates have gone  
8 up, the cost of everything we buy has gone  
9 up. The dollar is worth less; right?

10 THE WITNESS: That's right.

11 COMMISSIONER SCHMITT: And if you don't  
12 keep it going, you can't keep your company  
13 going.

14 THE WITNESS: Right.

15 COMMISSIONER SCHMITT: I mean, simple as  
16 that.

17 THE WITNESS: Yeah.

18 COMMISSIONER SCHMITT: Nothing further.  
19 Thank you.

20 THE WITNESS: Thank you.

21 BY MR. PARK:

22 Q I think it's demonstrated by the  
23 2017 water loss program, the written one submitted  
24 to Commission staff, demonstrates it's one thing to  
25 have a plan. So you-all have adopted goals now.

1 How is the district -- how is the board going to  
2 track your performance compared to those goals?

3 A One of the things that I'm  
4 looking at is just going back and taking data, and  
5 just basically taking the data and putting it into  
6 an Excel spreadsheet, and just be able to compare  
7 and look -- what I want to be able to do is -- I  
8 have not got -- dug into it, but what I want to be  
9 able to do is be able to put the data into a  
10 spreadsheet, be able to look at it, and then look  
11 for trends, you know.

12 So that way we're going to be able to  
13 prepare -- you know, in the wintertime, it seems  
14 like we have more water loss due to line and  
15 freezing of the ground and breaks. We've had two  
16 significant over the last two Decembers. So what I  
17 want to be able to do is be able to put the data  
18 into place to where we'll be able to look ahead and  
19 say, well, you know what, we know in December and  
20 January that we have more water loss due to the cold  
21 weather and line breaks, and then we're -- but to be  
22 able to budget our year.

23 And that's the other part of it I want to be  
24 able to dive deeper in, is to be able to look at our  
25 budget and be able to get more in tuned and more

1 accurate yearly budget, operational budget.

2 Q Regarding the \$400,000 loan you  
3 reference, how was that amount arrived at?

4 A How was that arrived at.

5 Q How was it determined how much  
6 the district would apply to borrow?

7 A We -- I guess we looked at -- we  
8 went up -- and Paul might be able to answer this  
9 better, but I think we just went out and we looked  
10 at, you know, what our ideas were and, you know, we  
11 kind of looked at it as these are different phases  
12 that we're looking at, so we looked at initially  
13 looking at doing like a \$1.3 million loan through  
14 the R&D, and then when Paul came on, you know, he  
15 said, well, you know, let me check and see what's  
16 out there.

17 And then I think it kind of came back, you  
18 know, that there's a possibility of this grant money  
19 out here. But I think the \$1.2 or \$3 million that  
20 we were looking at, I think that was just an  
21 estimated of our first initial when we looked at  
22 meters, when we looked at the -- the meters on the  
23 main lines, and then looking at just some of the  
24 aging structure.

25 MR. CICERO: Did your engineer come up with

1           that amount or --  
2           THE WITNESS: I know it was discussed early  
3           on. You know, the R&D, when we had that  
4           meeting in April, he just threw different  
5           numbers at us, and I think we kind of  
6           looked at it as -- you know, he talked  
7           about having all this money out there, you  
8           know. I think I kind of looked at it more  
9           along the line of, well, we don't want to  
10          take on a 5 or -- 4 or 5 million-dollar  
11          bond at this time, because, one, you know,  
12          how are we going to make it.

13                 So I think we looked at it more of,  
14          you know, let's do a lower bond or money to  
15          come in, and let's look at it as phases.

16                 So how did we come up with 1.3 or 4?  
17          I think it was just a number, you know, that  
18          kind of started with -- as I say, we started  
19          looking at the different phases as we go  
20          down the years past, or you know, as we go  
21          forward.

22          MR. CICERO: So therein lies the problem.  
23          You're going to have \$1.3 million, and  
24          right now, if I understand correctly,  
25          there's no specific plan that says, I'm

1           allocating this much money for this  
2           project, this much money for this project.  
3           And it's kind of like winning the lottery.  
4           You fall into this large amount of money,  
5           and then people start saying we can do  
6           this, this and this, without really a road  
7           map that says this is really what we got  
8           the 1.3 for.

9           THE WITNESS: And I think to be fair to  
10          Paul, when he came on -- he's been coming  
11          out and I think he's had a couple of his --  
12          they're still in that process of analyzing  
13          our overall system. And the way I think  
14          we're looking at it as a board is, like,  
15          okay, we have this money, where can we make  
16          the biggest impact the quickest. And I  
17          think that's where we're kind of looking.

18                 So as far as breaking it down, I can  
19          probably say -- unless Paul -- we don't  
20          naturally have it broke down exactly,  
21          because I think we're looking at it more as  
22          where can we make the biggest impact right  
23          now. And the items that have been brought  
24          up is the meters, being able to detect it  
25          quicker and faster, so we can get it turned

1 off; and then looking at the -- where we  
2 have the number of breaks in those certain  
3 areas, looking at replacing that first. I  
4 don't think we got to that point, as far as  
5 the breakdown.

6 MR. CICERO: So if I said -- your new  
7 meters are going to cost how much?

8 THE WITNESS: I think last night we talked  
9 about that. I think they're \$110 a meter,  
10 does that sound right? No? \$160.

11 MR. CICERO: The reason I'm saying is -- I  
12 mean, that's a fairly simple calculation,  
13 and if that's part of the spending, then  
14 you would know that that much money is  
15 being allocated for meters.

16 They could say so much is being  
17 allocated for service lines, so much is  
18 being allocated for tank repair, so much is  
19 being allocated for main line replacement.  
20 I don't know, maybe Mr. Nesbitt will be able  
21 to answer some of that. But without a plan,  
22 a budget, I'm not sure how you get there.

23 THE WITNESS: Right, I gotcha. I gotcha.

24 BY MR. PARK:

25 Q You mentioned something about

1 someone throwing numbers out there. Was that  
2 Mr. Hoff?

3 A I think he -- what he had stated  
4 was that, you know, there's different amounts  
5 available. There's different amounts available  
6 that's out there at this time.

7 Q As far as loan levels?

8 A Yes. Yeah.

9 Q And what is the status of the  
10 applications for the loan and for the grant?

11 A We talked about it a little bit  
12 last night. I think everything is proceeding as  
13 planned. I think Paul will probably speak more on  
14 that. We are looking at, I think, all the  
15 paperwork being finalized and turned in and  
16 everything kind of broken down by the end of this  
17 year, yes, sir.

18 Q Does the district hope to also  
19 submit its application for rate increase by the end  
20 of the year?

21 A Yes, sir. Yeah. I think I  
22 can -- I can say that. It will go back in front of  
23 the board and everything, but everyone on the board  
24 realizes that it's going to have to happen, yes,  
25 sir.

1           Q           You mentioned trying to select  
2           the projects that would make the biggest impact  
3           most quickly. Who is -- who is prioritizing --  
4           who's doing the cost-benefit analysis to make sure  
5           you proceed with the projects that will have the  
6           biggest bang for the buck?

7           A           I think that's where we have  
8           Paul. That's why I think it's not fair really  
9           probably for him where he's only been on for the  
10          last few months. I think they're still in their  
11          process of discovery, learning our system. Driving  
12          down, I know we talked about engineers being out a  
13          couple of times. He's been out, and I think he's  
14          just trying to get an idea of, you know, of our  
15          system right now.

16          Q           In addition to Rural Development  
17          and Appalachian Regional Commission, what other  
18          sources of financing has the district considered or  
19          pursued?

20          A           I know we have the bond payments.  
21          I think that's all we have.

22          Oh, we did -- we done a -- Bank of  
23          Mountains, we do have a small loan, note, with them  
24          right now. That's the only one that comes to mind  
25          that I can think of.

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1 Q And what is the amount of that?

2 A 30,000.

3 Q 30?

4 A It's on a one-year note.

5 Q All right. And when is it due?

6 A It's due in May of next year, I  
7 think.

8 Q In the district's responses to  
9 some of the discovery requests in this matter, the  
10 district identified three main problems to  
11 addressing the excessive water loss problem.

12 The first is financial, which we've been  
13 talking a lot about. The second is staffing, if you  
14 could speak to that a little bit. What are the  
15 district's staffing issues and how does it plan to  
16 address them?

17 A I think right now we're probably  
18 still -- with the field staff I think we're in  
19 better shape than we have been. I know we've had  
20 some turnover since I've been on the board, several  
21 turnover. Recently -- we lost one of our office  
22 staff last month, probably last -- yeah, she left  
23 last month.

24 So right now we only have two in our office.  
25 And, you know, right now that's -- we talked about

1 it last night at our board meeting. That's kind of  
2 putting a strain on our office staff with collection  
3 at first of the month. They're keeping them pretty  
4 busy. So, you know, Chernell brought up last night  
5 at our board meeting about the possibility of  
6 bringing on that other office person again like we  
7 had before.

8 Q Does the district plan to hire an  
9 employee whose time would be dedicated to leak  
10 detection?

11 A That is our ultimate goal with  
12 the training of one of our field technicians. He's  
13 getting trained in that right now. And I think  
14 that's definitely one of our goals, is to have a  
15 full-time person to be able to do that.

16 Another thing that we're looking at, too,  
17 maybe down -- first of the year or even sooner, is  
18 the -- Steve is retiring at the -- in November, and  
19 we're going to be able to do some -- I think some  
20 internal promotion to -- we're looking at probably  
21 doing a field manager. We had this model a while  
22 back, before our other general manager left, to have  
23 an office manager and a field manager, and then have  
24 a general manager.

25 And we've talked about with the general

1 manager bringing them on, definitely look for  
2 someone with operations and business experience to  
3 be able to work with Chernell, with -- being able to  
4 look at the data, to be able to -- be able to look  
5 at the reports and be able to do -- help take some  
6 of the load off of her right now as far as  
7 day-to-day operations and the financial part of it.

8 Q When is Mr. Pelfrey retiring? Is  
9 it November?

10 A It's going to be in November.

11 Q And how does the district plan to  
12 transition to his retirement?

13 A We have someone that we have been  
14 working with. His name is Andy Legg. He has his  
15 Class 1 license right now, and then I think he's  
16 studying and I think he's going to take his  
17 Class 2s in the first of November. And that is  
18 something that we have talked about as a board, of  
19 possibly coming back to the Kentucky Rural Water if  
20 Andy doesn't pass, or if there's some issue there  
21 with the lapse, of maybe Kentucky Rural Water being  
22 able to help us in emergent situation with the  
23 Class 2, maybe help bring someone along.

24 So we do have that plan in place. And we  
25 talked to -- had Andy come to the board meeting last

1 night, and I told him last night to start coming to  
2 the board meetings as he's starting -- he's starting  
3 to work with Steve more out in the field. And so we  
4 have several months to get him up to speed to kind  
5 of what Steve is doing as far as the field work and  
6 stuff.

7 Q The third area that the district  
8 identified as being a major obstacle is leak  
9 detection equipment. What leak detection equipment  
10 does the district currently own?

11 A Currently own, Steve will  
12 probably be able to answer that.

13 MR. PELFREY: None.

14 A None? So it will be we have  
15 none.

16 MR. CICERO: That's easy.

17 A Yeah, that's easy.

18 But we are -- that's what I -- I stated  
19 earlier, we are -- the Kentucky Rural Water coming  
20 out with that sonar listening device, I think we --  
21 we're getting Andy trained in that, and then we --  
22 we're looking at purchasing that later on in the  
23 year. And then we're also -- with the project that  
24 we have coming up, we're looking at adding those  
25 meters. They will be able to pick up the water

1 leaks quicker.

2 Q Would the leak detection  
3 equipment, would the purchase of that be something  
4 outside of this project that's being -- the funding  
5 of this project, or is that something the district  
6 would need to wait?

7 A The -- I think it's part of that  
8 breakdown. I know that's the two things that we --  
9 that we have recognized as probably essential. I  
10 know the meters we talked about. But since we had  
11 the leak detection with the sonar, I think that --  
12 we were able to spot some leaks pretty quick with  
13 that. And so I think that was recognized as a  
14 needed item. So I think that's probably  
15 discussions later on with Paul as far as adding  
16 that into, yes, sir.

17 Q You referred to the district's  
18 response to the staff's discovery requests dated  
19 May 3rd, and specifically the response to Question  
20 23, which concerns the district's leak adjustment  
21 policy. Right here.

22 A May 3rd?

23 Q Yes, the second --

24 A Page 23?

25 Q Response to Request No. 23.

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1 A Okay, hold on a second. Okay.

2 Q Are you familiar with the  
3 district's policy on leak adjustment where there's  
4 a leak on the customer's side of the meter?

5 A Am I familiar with it?

6 Q Uh-huh (affirmative).

7 A No, sir. I mean, I'm sure it's  
8 been explained to me, but off the top of my head  
9 I'm not -- I couldn't tell you what it is or  
10 explain the process.

11 Q According to the tariff, for all  
12 water used in excess of that customer's average  
13 monthly usage, the district doesn't charge the full  
14 rate; it allows the customer -- customer to pay  
15 basically the wholesale rate. And would you agree  
16 that that leak adjustment rate does not take  
17 account of non-revenue water?

18 A I'm sorry, I'm reading through  
19 it. Hold on, just give me a second.

20 Okay, so ask your question again. I'm  
21 sorry.

22 Q Well, for example, Morgan County  
23 Water District's water loss report for April 2019,  
24 water loss is 53.4 percent; water used, non-revenue  
25 water used is 8.7 percent. So combined it's over

1 60 percent non-revenue water.

2 For every 1,000 gallons that the district  
3 sells, it must purchase approximately 1,600 gallons.  
4 So if you're only charging the customer the  
5 wholesale rate for all the usage above the average,  
6 you're not covering all the cost of providing that  
7 water to the customer water; is that accurate?

8 A That's accurate, yes, sir.

9 Q Would the district be willing to  
10 revise that leak adjustment policy?

11 A If you-all make a recommendation.

12 Q Are you aware that this leak  
13 adjustment policy can be changed by the district  
14 outside of a rate case just by a tariff filing?

15 A I didn't.

16 Q How often does the board meet?

17 A Monthly, and then we also have  
18 special meetings.

19 Q How often -- it looks like  
20 there's been a number of special meetings this  
21 year.

22 A Since I started -- took over in  
23 March, I've had several special meetings, yes, sir.

24 Q What sort of water commissioner  
25 training do board members receive?

1           A           Everyone is the -- there's one  
2           that is required, I think within 12 months of being  
3           a commissioner. I have attended that. We had two  
4           new board members that came on that I think are  
5           looking at doing it by the end of this year, that  
6           training. And then Steve had called me -- I'm not  
7           going to be able to attend there.

8                    There is a seminar training available in  
9           August, I think a two or three-day, I'm not going to  
10          be able to attend that, but it's going to be my goal  
11          as I move forward, to be able to attend those and  
12          try to get more training as far as being a board  
13          member and being a board chair. That's something as  
14          far as my personal goals of being the board chair.

15          Q           Do you know in the past whether  
16          funds for training has been in the budget?

17          A           Yes, sir.

18          Q           Does the district anticipate that  
19          its customer base will get larger or smaller over  
20          the next five to ten years?

21          A           We -- Morgan County went through  
22          the tornado in 2012, and I worked there at the  
23          local hospital with the clinics, and it's my  
24          understanding that we probably lost 1,000, 1,500,  
25          2,000 people out of our population there.

1           I think our countywide census is around  
2   14,000, and I want to say the last time I looked at  
3   it it was probably around 12,000. So I think, if  
4   anything, we'll maintain. I don't know if we'll  
5   necessarily decrease or increase, but I think we're  
6   kind of -- we'll be stagnant.

7           Q           The district is adjacent to  
8   several other water systems, the city of West  
9   Liberty, Magoffin County Water District, also I  
10  believe the city of Frenchburg and Campton Water  
11  System; is that accurate?

12          A           Yes, sir.

13          Q           Since you have been on the board,  
14  has there been any discussion about consolidation  
15  with one or more adjoining water systems?

16          A           Not at -- no, not at one of our  
17  board meetings. I know we had sold water to, I  
18  think, Campton at one time. Before I was on the  
19  board, we had sold water to them, and I think we  
20  had talked about maybe doing something with  
21  Magoffin County, but I don't know if that ever was  
22  pursued or not as far as selling water back to  
23  them.

24          Q           Would you see any benefit to  
25  consolidation where the systems would have -- would

1 be operated together and have combined resources?

2 A You know, one of the things that  
3 I asked early on as a new board member was, how can  
4 you be a water district and not have your own  
5 water, you know, the -- your own -- that we buy  
6 water. You know, I think -- you know, I've only  
7 been doing this for two years, but to me, you know,  
8 one of the obvious things would be to -- you could  
9 help your costs by having your own water  
10 distribution.

11 Being a rural county in Eastern Kentucky,  
12 one of the things we always talk about is being able  
13 to pool our resources and try to work together in  
14 the community, and -- because our, you know,  
15 resources can be limited for us there in Eastern  
16 Kentucky.

17 So, you know, I think one of the things that  
18 maybe down the road -- and, you know, this -- like I  
19 said, this has not been mentioned, but, you know,  
20 maybe some kind of partnership with the city of West  
21 Liberty down the road. I mean, that might be  
22 something that -- that might be looked at because  
23 they do have the water treatment plant there on 519,  
24 and to pool those resources. Again, that's --  
25 that's just my opinion.

1 Q What is the status of -- you  
2 mentioned earlier some of the maps. What is the  
3 status of the district's mapping of the system?

4 A I think we are -- I think  
5 everything's pretty well up to date and mapped out.  
6 We have a map out in the lobby, the county map, and  
7 then in our boardroom we have the county map, and  
8 we also have it broken out by sections. I would  
9 feel that it's up to date.

10 Q Pretty good shape?

11 A Yeah, I do.

12 MR. PARK: I have no further questions.

13 COMMISSIONER SCHMITT: Mr. Cicero,  
14 questions?

15 EXAMINATION

16 BY MR. CICERO:

17 Q What is your total debt payment  
18 for all your loans, your amortization of your debt,  
19 on a monthly basis?

20 A Of our bonds you're talking?

21 Q Whatever outstanding debt that  
22 you're trying to pay off.

23 A Right now --

24 Q What are the total monthly  
25 payments?

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1           A           With the -- with the bonds we  
2    have --

3           Q           I'll write them down. You give  
4    me the numbers.

5           A           Okay. With our bonds it's --  
6    we're kind of in a special place where we're trying  
7    to catch up. So normally it's 12,000, around  
8    \$12,000 a month for our bond payments. We have a  
9    \$8300 payment with Regions that we refinanced  
10   that's deducted out. Our water company -- you want  
11   to go through all of them or just --

12          Q           Whatever your monthly  
13   amortization payments are.

14          A           I think that's the only two.

15          Q           12 and 8.3, you're paying \$20,000  
16   a month. You don't have any other revenue, bonds  
17   you're paying, or any other type of loans that  
18   you're paying?

19          A           Not off the top of my head.

20          Q           Okay.

21          A           I know we're supposed to put that  
22   depreciation money in there.

23          Q           That's okay. I was just  
24   interested in whatever debt payments.

25          A           Okay, okay.

1           Q           So your 2017 water loss percent  
2           was 38 percent, or slightly above that. And 2019,  
3           I think Mr. Park indicated it was at 53 percent.  
4           So it's gone up 15 percent despite whatever water  
5           loss reduction efforts have been made, which is a  
6           pretty substantial increase.

7           The value of the water lost above  
8           15 percent, not looking at the 15 percent, which the  
9           Commission doesn't -- says that's a pretty standard  
10          number -- but \$114,000 a year. In 2019 you increase  
11          by another 15 percentage points above the 38,  
12          which -- do a rough calculation, maybe 40 percent.  
13          But if you throw that on top of the 114,000 that you  
14          were losing, you're losing probably close to  
15          \$150,000 a year just in water loss above 15 percent.

16          So you got \$20,000 in loan amortization.  
17          You could take care of all of that debt, all of the  
18          Rural Water whatever debt that you're talking about  
19          there, and have money in depreciation if you could  
20          bring your water loss down to 15 percent.

21          A           I agree.

22          MR. CICERO: I think the goal here is to  
23          make sure that if you're going to spend  
24          money, it's spent for a useful cause, not  
25          to water the garden or whatever else the

1 water going into the ground is doing, but  
2 it's certainly not helping your customers  
3 whatsoever.

4 I have already asked all my other  
5 questions. I don't have anything else,  
6 Mr. Chairman.

7 COMMISSIONER SCHMITT: Commissioner  
8 Mathews, questions?

9 DR. MATHEWS: I don't have any.

10 COMMISSIONER SCHMITT: All right. I have a  
11 few. Why don't we take a ten-minute break  
12 until like 10:45 and then we'll come back.

13 MR. PARK: Thank you-all. Appreciate it.

14 COMMISSIONER SCHMITT: Be in recess until  
15 10:45.

16 (THEREUPON, A BREAK WAS TAKEN.)

17 COMMISSIONER SCHMITT: Okay. We're back on  
18 the record.

19 Mr. Elam, can you retake the stand? I  
20 have a few questions.

21 THE WITNESS: Yes.

22 EXAMINATION

23 BY COMMISSIONER SCHMITT:

24 Q Mr. Elam, I think you mentioned  
25 earlier that your background or, I guess, career

1 background had been in, what, manufacturing?

2 A Yes, sir.

3 Q What has your history --  
4 employment history been?

5 A I started in '91 with a company  
6 called Whitey Manufacturing. It was an apparel  
7 manufacturer there in Wolfe County. I was the  
8 plant foreman on second shift for a number of  
9 years.

10 And then I moved down to Central Kentucky,  
11 met my wife here, and then worked for different  
12 companies. I worked for staffing agencies, so I put  
13 employees out at Toyota, Louisville Forge, Johnson  
14 Controls there in Georgetown. And then I came back  
15 and then I worked for a company American National  
16 Rubber as a -- made rubber gaskets and stuff for  
17 automotive industry.

18 Before I moved into the healthcare field, I  
19 worked for a company called Boneal. They were a  
20 government contractor. We had a manufacturing plant  
21 there in West Liberty. We did vacuum kits for the  
22 postal service as a government contract.

23 So I would say I have about 20 years of  
24 manufacturing HR experience, and then the last  
25 almost five years I've been in the healthcare field.

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1 Q I think I saw in your -- maybe in  
2 your prefiled testimony or in a data response, or  
3 something, you're employed by Appalachian Regional  
4 Healthcare?

5 A Yes, sir.

6 Q And what do you do for them?

7 A I'm the clinic administrator. I  
8 have three clinics that I manage on a day-to-day  
9 basis. I have a couple supervisors under me. I  
10 have seven providers that I work with.

11 Q And are those all in -- what?

12 A Morgan County.

13 Q Morgan and Wolfe?

14 A Morgan.

15 Q You're not the hospital  
16 administrator?

17 A No, sir.

18 Q Okay. The only reason I ask is  
19 that ARH was an old client of mine, years and  
20 years.

21 A Okay.

22 Q So in terms of formal education,  
23 how much formal education do you have?

24 A I have a master's degree in  
25 healthcare administration, and I got a bachelor's

1 from Morehead State.

2 Q So essentially you know  
3 something -- you've had experience in running a  
4 business --

5 A Yes, sir.

6 Q -- and operating a business --

7 A Yes, sir.

8 Q -- and managing employees.

9 And let me just ask your opinion. Is that  
10 experience useful to you, valuable to you now that  
11 you're the chairman of the -- of the water district?

12 A I believe so, yes, sir. I  
13 believe so.

14 Q I know you've just become  
15 chairman, but you have some background in  
16 administration, in operating an enterprise of some  
17 size, of managing employees. That must be valuable  
18 going forward in terms of dealing with people and  
19 trying to see that the water district can pay its  
20 bills and operate successfully?

21 A I agree, yes, sir. And I think  
22 that's one of the first things that I done as the  
23 board chair was get a grasp on our cash flow. I  
24 think at that time in March we were struggling with  
25 cash flow, we were trying to figure out how to --

1 you know, how we was going to be able to make our  
2 July payment.

3 And we had several special meetings in  
4 April, once I started getting in there a little bit  
5 and looking. And I feel like with the experience  
6 that I have had, you know, I quickly realized that  
7 now that I'm the chair, that ultimately this  
8 responsibility is going to fall on my shoulders,  
9 and, you know, I've taken a much more vested --  
10 interest is not the right word, but much more  
11 involved with the -- with the water district than I  
12 was previously.

13 Again, I feel like -- this morning, with the  
14 question, I'm still learning, I'm still learning the  
15 operations side of it, I'm still learning the --  
16 kind of the government side of it. I've not dived  
17 down into exactly how the tariffs work or anything  
18 like that. I think that's just going to come with  
19 time.

20 But I'm -- I feel like I'm up for the  
21 challenge. That's always kind of -- I look at  
22 things of -- you know, we had board members step off  
23 at the beginning of the year. Maybe they saw the  
24 writing in the wind or, you know, whatever, but I  
25 kind of looked at it as, you know, I'm going to stay

1 with this sinking ship no matter what happens. I'm  
2 dedicated to it. I want to see it succeed, not only  
3 for the district but for our county. Like I say,  
4 you know, we're -- Morgan County is a poor rural  
5 county in Eastern Kentucky and we -- I feel like now  
6 we have a board, like I say, that is across the  
7 board, that we're well vested in many areas.

8 We have Linda Bradley, who's been involved  
9 in local government for many, many, many years, I  
10 think she's worked for the city and county  
11 government. Zach Engle, being with the bank, so  
12 he's really keen on making sure that we're getting,  
13 you know, the right interest rates when we start  
14 looking at things like that.

15 We mentioned Brian Wells earlier. I mean,  
16 he's part of a multi-million dollar business, and  
17 Brian has been I think a great asset of coming in  
18 and asking those hard questions as well, because he  
19 realized early on, once he started diving into it a  
20 little bit -- now, he's only been on the board since  
21 February, I think -- but, you know, we're in  
22 trouble. I think he recognized pretty quick that we  
23 were in trouble. So I think he's going to be a  
24 great asset.

25 And then having Steve Gunnell, who works

1 for -- I think he works for the Transportation  
2 Cabinet Department as an engineer, so he has the --  
3 him and Brian both have that engineering background  
4 and stuff to be -- I'm not an engineer. I'm not  
5 technical, I'm not mechanical, so, you know, I  
6 struggle with some of those questions, you know,  
7 earlier because I'm just -- that's just not my  
8 expertise.

9 Q Well, I mean, you seem to have  
10 sort of a blue ribbon panel of commissioners, and  
11 oftentimes you don't -- you don't see that, or  
12 people get into trouble because they don't know how  
13 to make a budget or stick with it or how to, you  
14 know, read financial documents.

15 A Uh-huh (affirmative).

16 Q The previous chairman, what was  
17 his -- what was his background?

18 A The previous chairman was Kyle  
19 Risner. He was only the chair only a few months.

20 Q And then before him there was --

21 A It was Roy Collett. Roy -- he  
22 stepped off the board. He ran into health issues.  
23 I'm not sure how long he was on board. I think he  
24 was on the board quite a while, a number of years.  
25 His background was in banking. He had a banking

1 background. He was a loan officer there at one of  
2 the local banks.

3 But I think, you know, just talking about  
4 the board that we have now, what I've looked at, and  
5 I've had this conversation with the board is, the  
6 board now that we have, there's no personal agendas.  
7 No, there's -- no one comes to the table with a  
8 personal agenda of, you know, I'm trying to get this  
9 pushed or that pushed through. Everyone right now  
10 is coming -- when they come to the board meeting  
11 it's what's in the best interest of our -- our  
12 customers, you know.

13 And that's -- and that's what I kind of  
14 explained to them when I took over. You know, I  
15 made the statement of, you know, we're not going to  
16 bring our personal agendas to this. And every  
17 decision from March on, every decision that this  
18 board makes, it's going to be, ask the question of  
19 how does this affect our customers, how does this  
20 improve our customers, how does this improve our  
21 water loss.

22 So every decision I feel like that we're now  
23 making as a board, that ultimate question is asked,  
24 okay, how does this affect our customers, how does  
25 this affect our water loss, how does this affect us

1 long term. And I think right now we -- I think we  
2 do have the right board to turn this thing around.  
3 I think the board is committed, and like I say, a  
4 year or two from now I think Morgan County Water  
5 District will be a success.

6 Q On your -- has anyone from  
7 Kentucky Rural Water done any testing, or has  
8 anyone done any testing on your meters? I know  
9 apparently you have a number of meters that are  
10 over ten years old. I didn't know if you regularly  
11 tested, or tested samplings of meters; and; if so,  
12 what you have learned from that.

13 A I think Steve could probably  
14 answer that better. We actually talked about that  
15 last night at the board meeting. We did -- Steve  
16 and Andy did pull some meters out. And I think we  
17 work with another firm that they send the meters  
18 off to, and that's actually one of the things we  
19 kind of talked about last night, was looking at  
20 being able to do that testing at our facility,  
21 because it's -- what we kind of talked about last  
22 night, it's up to three months those meters are  
23 gone, and right now we don't have a backlog of  
24 meters, so -- but it was brought up last night in  
25 our board meeting that the meters, it's been ten

1 years.

2 Q Well, the reason that I ask is  
3 because we've had some other water districts who  
4 basically have had a number of old meters, and when  
5 tested found that they -- they all seem to run  
6 slow. So they were maybe 11, 12 percent water  
7 loss, so customers were getting -- you know, they  
8 were underbilling at least by 11 or 12 percent.  
9 Others weren't reading anything other than the  
10 minimum. I mean, Southern Water District claimed  
11 it had 700 to 750 residential water meters that  
12 wouldn't register any -- that weren't even working.

13 I didn't know if you -- I know you've got  
14 AMR readers, so somebody drives by.

15 A Yes, sir. Yeah, we have the  
16 radio. But that is one of the things we talked  
17 about last night, is something that we're  
18 definitely going to have to look at.

19 I think when we first started talking about  
20 it seriously back, you know, in the first of the  
21 year, we were really looking at the infrastructure  
22 of the -- of the lines, but over the last couple of  
23 months I think we've taken a harder look at the  
24 meters, and then realizing that it's been ten years.  
25 And so I think that's part of Paul's plan that we

1 talked about a little bit last night, is try to  
2 incorporate some of the -- where I talked about  
3 earlier about phases, is start a phase now, and  
4 we're getting these meters at least checked and  
5 verified.

6 Q People say, well, I can't afford  
7 new meters. You can't afford not to have them.  
8 They actually will pay for themselves, and then  
9 some, over time.

10 All of your board members, are all of  
11 your -- all of the commissioners paid?

12 A No, sir.

13 Q None of you take --

14 A No, sir.

15 Q -- any kind of -- any kind of  
16 payment as permitted by statute?

17 A No, sir. No. The board members  
18 receive no benefit. The only benefit that I am  
19 aware of for board members is the helicopter  
20 insurance, that -- through the local air evac  
21 hos- -- the helicopter insurance is the only thing  
22 that's offered to the board members, and I think  
23 it's 30 or 40 bucks a year, something to that  
24 effect. That's the only -- that's the only benefit  
25 that the board members get right now.

1           You know, I keep joking a little bit about,  
2           you know, if we ever get things cleared up we might  
3           try to have dinner at our board meetings. Right now  
4           we don't even provide a meal for our board members.  
5           But like I say, the board members, you know, taking  
6           that on, you know, looking at myself, I think that  
7           speaks of our board of doing this as a volunteer. I  
8           mean, they're all busy, they all run -- we all have  
9           full-time jobs and, you know, we -- sometimes we  
10          spend -- at those board meetings it will last three  
11          hours.

12           And then like the last couple of months  
13          where we have been having all these special  
14          meetings, you know, there's -- I think in April we  
15          might have had three or four special meetings, those  
16          were a couple hours.

17           So, you know, our board members --  
18          especially our new board members that came on in  
19          February, they -- we -- we have put in some  
20          significant time over the last few months.

21           Q           I take it that -- I guess this is  
22          true. I think I got this from maybe a data  
23          request. Morgan County Water District doesn't have  
24          a preventive maintenance program or a capital  
25          improvement program, where you replace

1 infrastructure, or basically try to work on your  
2 equipment to keep it from failing?

3 A I think the one -- what we did do  
4 is -- and it was more with our trucks and our  
5 backhoe. We looked at -- so what I was looking at  
6 when I first come on the board, we were spending  
7 significant amount of money each month on auto  
8 repairs. Just our truck fleet was just aging. We  
9 owned them, and then like I said, we worked out an  
10 agreement with Enterprise where now we have new  
11 vehicles.

12 We ended up trading -- or selling, I'm  
13 sorry -- selling our -- we sold our -- we had a full  
14 size backhoe. We ended up selling that to the  
15 county, and we was able to purchase a mini  
16 excavator, which is -- actually worked better for us  
17 getting into tighter spots and things like that.

18 But as far as -- I think with the water  
19 lines and infra- -- the water infrastructure itself,  
20 I'm not aware of any, but I think it's been more  
21 of -- and I think this is ultimately that's led to  
22 where we are at today, it's been more reactive. You  
23 know, we get a water leak or someone calls in, or we  
24 are out and we see one, and we're going to fix it,  
25 instead of, like you were saying, have the

1 preventive maintenance side.

2 I think that's what we're looking at,  
3 getting this leak detection, getting in these new  
4 meters, and then also being able to purchase the  
5 equipment where we can pull the meters out ourselves  
6 and do the testing ourselves to kind of get ahead of  
7 that, because I think we paid that other company to  
8 test our meters a significant amount of money when  
9 we -- when we do do that.

10 I think one of the things that Paul talked  
11 about last night was, you know, we might be able to  
12 go out there and replace 200 meters, and bring those  
13 200 meters in, put new meters in, pull those  
14 200 meters in, test them ourselves, and that gives  
15 us kind of a backlog to then go back out, and when  
16 we go out and test other meters we got that backlog  
17 of meters in place that we can put one in while  
18 we're testing another meter.

19 Q Have your commissioners ever  
20 considered or discussed at this point any type  
21 of -- if not merger, I know you haven't discussed  
22 that, but any type of regional sharing of expenses  
23 with other water districts, such as maybe West  
24 Liberty would be -- it seemed to me to be a good  
25 partner in terms of cooperation in terms of buying

1 equipment, of loaning each other -- using each  
2 other's equipment, so as to basically, you know,  
3 utilize economies of scale in terms of purchases --

4 A Uh-huh (affirmative).

5 Q -- even in terms of employees.

6 A Uh-huh (affirmative).

7 Q I don't know if you've thought  
8 about that or whether you would consider it.

9 A I haven't, but I think that's a  
10 good point to bring up. I think I will make me a  
11 note to bring it up, and maybe start those  
12 discussions and just see, you know, how the board  
13 feels about it and -- I think anything we can do at  
14 this point, like you said, to pool our resources.

15 We were able to do our lease agreement  
16 through the county, through our fleet, where -- I  
17 guess we work a lot with the county, I know in  
18 the -- I'm sure we work with the city of West  
19 Liberty, too, but I know we do work with the county  
20 hand in hand.

21 Q Sure. I'm sure that they --  
22 yeah, that would be a natural --

23 A Uh-huh (affirmative).

24 Q -- because it's a county water  
25 district.

1           A           Yeah.

2           Q           And sometimes for some reasons  
3 that are just -- I don't know, maybe examples of  
4 nativism or something, people in the county don't  
5 like the city, and the city don't like the county.  
6 And it's kind of silly as far as I'm concerned, but  
7 apparently it isn't silly.

8                   But there ought to be -- for instance, years  
9 ago I was on the Paintsville Utility Commission.

10          A           Uh-huh (affirmative).

11          Q           And we had an agreement, not  
12 formally written, with Prestonsburg. And they'd  
13 provide equipment for us, we'd provide things for  
14 them, share personnel from time to time, and it  
15 saved everybody some money.

16                   And I looked at a -- at a management audit  
17 for a certain water district in Eastern Kentucky  
18 years ago, and basically one of the things they  
19 suggested was that you consolidate purchases, that  
20 water districts -- small water districts couldn't  
21 afford a full-time engineer, but that you might  
22 share an engineer, or the salaries with a couple or  
23 three other districts. Paintsville, where I lived,  
24 we had an engineer on staff, but we had -- were  
25 maybe three and a half times larger than --

1           A           Morgan.

2           Q           -- other counties, because we go  
3 into other counties.

4                    But that might give you not only some  
5 additional buying power and help you maintain  
6 inventory, but it might allow you through  
7 cooperation to ultimately get to the position where  
8 you could share management. Maybe even you have  
9 three members on a board and they have three members  
10 on a board --

11          A           Uh-huh (affirmative).

12          Q           -- or something, where you could  
13 ultimately expand the customer base and expand the  
14 size of the utility to the benefit of everybody.

15          A           Absolutely.

16          Q           Are you a native of Morgan  
17 County?

18          A           I am, yes, sir.

19          Q           You know, you talk about Eastern  
20 Kentucky, we need to share and basically cooperate,  
21 but a lack of desire to cooperate has often been  
22 Eastern Kentucky's biggest problem, hasn't it?

23          A           Absolutely.

24          Q           I'd rather see somebody else get  
25 it or nobody; if I didn't get it, I wouldn't want

1 you to have it.

2 A Yeah.

3 Q Isn't that what --

4 A Absolutely.

5 Q Unfortunately we're guilty of  
6 that, aren't we?

7 A Uh-huh (affirmative). Yes, sir.

8 Q Your manager, Mr. Pelfrey --

9 A Uh-huh (affirmative).

10 Q -- is going to retire, and I  
11 think one of the questions that we asked, and we  
12 asked all of the water districts as part of this  
13 proceeding, how much you pay your general manager,  
14 or your manager. And I know you had an office  
15 manager and a field manager. Mr. Pelfrey, now,  
16 what is his title exactly?

17 A He's general manager.

18 Q He's the general manager.

19 A Uh-huh (affirmative).

20 Q Okay. And I think it was said  
21 that he makes something like \$20.00 per hour? Does  
22 he make more than that or --

23 A When we were reviewing it last  
24 night I saw something that I think it was 47,000 a  
25 year. And then Chernell is around 27 or 5,

1       somewhere around there.

2               Q           All right.  Now, when Mr. Pelfrey  
3       retires, how do you intend on -- how does the water  
4       district commission intend on filling that vacancy?

5               A           We have an employee, his name is  
6       Andy Legg, he's been with us probably a couple  
7       years now.  He's already went and passed his Class  
8       1.  I had him come to the board meeting last night,  
9       and basically we talked to him a little bit about,  
10      you know, our expectations.

11              He's wanting to move into that role, the  
12      field manager role.  He's already been working with  
13      Steve on that.  We have told him that, you know, as  
14      he starts taking this long -- that we were looking  
15      at doing a salary increase for him, and then once he  
16      passes his Class 2 to bump him up a little bit more,  
17      and then let him slowly kind of move up with  
18      increment merit raises over the next few years.

19              I think Steve has been with the water  
20      district 20 years, probably close to 20 years.  How  
21      many?

22              MR. PELFREY:  Seventeen (17).

23              A           Seventeen (17) years.  So that's  
24      where he's kind of at.  So, you know, we're going  
25      to be losing a lot of experience there, but I feel

1 good about Andy coming on. He's -- he has that  
2 willingness to learn. He seems to be passionate  
3 about learning. He's eager, I think, to learn, and  
4 then he has the -- I feel like he probably has some  
5 of that take ownership of it.

6 COMMISSIONER SCHMITT: Commissioner Mathews  
7 would like to ask you a question.

8 THE WITNESS: Sure.

9 EXAMINATION

10 BY DR. MATHEWS:

11 Q So you're thinking of this  
12 gentleman for the field manager?

13 A Field manager.

14 Q And then still filling a general  
15 manager position at some point in the future?

16 A Yes, ma'am. That was the model  
17 we had before. Before we went through all the  
18 turnover in the last six or nine months, we had a  
19 general manager and then we had a office manager  
20 and a field manager, field technician manager.

21 Q So what are you going to be  
22 looking for with regards to the general manager?

23 A I think with the general manager,  
24 my thoughts are -- we've really not got into it a  
25 whole lot as far as a board. We just been more

1 working on, you know, the pressing issues. But as  
2 we start getting things in line, I think the field  
3 manager or the general manager, you know, I think  
4 probably a college degree, something with business,  
5 finance, something with operations. I think it  
6 would be a plus to have someone with water  
7 experience, but with, you know, having the field.

8 I think looking for a general manager, the  
9 one that kind of helps take some of the pressure off  
10 Chernell, because I think Chernell probably has more  
11 that's been placed on her over the last few months  
12 than probably what should be. But she's -- she has  
13 stepped up and done a great job with everything that  
14 we have asked her to do over the last six or nine  
15 months.

16 Q That's a pretty lengthy request.  
17 You're going to have to --

18 A Well --

19 Q -- cast a wide net and pay a --

20 A Well, one of the things that  
21 actually that I'm looking at, or that I thought  
22 of -- again, this has not been discussed with the  
23 board, but my own personal thoughts or opinion on  
24 it is, is maybe we go after someone young, maybe  
25 someone -- you think of Eastern Kentucky, there's

1 not a lot of job opportunities out there unless you  
2 do something with the -- there in Morgan County we  
3 have basically one manufacturer, we have Wells, we  
4 have a hospital, we have telephone company, we have  
5 the electric company, we have the prison. And  
6 other than that, you know, it's more of minimum  
7 wage type jobs.

8 Q Okay.

9 A So my -- I'm kind of looking at  
10 it as maybe we go after someone, a recent college  
11 grad that is -- you know, that is kind of hungry,  
12 that's wanting to learn, and then we bring them in  
13 and we learn -- let them learn the business from  
14 kind of the ground up. Maybe start them out out in  
15 the field, and like I said earlier, you know, in my  
16 management experience, whenever I go in somewhere  
17 to manage I want to learn everything from the  
18 ground up, because to me you can't effectively  
19 manage unless you know the operations. And that's  
20 where I'm -- I'm in that process now as the board  
21 chair.

22 But that's kind of my inkling, though, is to  
23 bring someone in young that has the opportunity.  
24 You know, what we kind of say there is we're not  
25 going to be able to pay you as well as other places,

1 but you're at least going to be home and you won't  
2 have to drive.

3 In my career I've had to drive from Morgan  
4 County to Georgetown to Lexington to Louisa,  
5 Pikeville. And it means a lot when you're five  
6 minutes from home. You can be at your hospital --  
7 you know, right now I'm five minutes from the  
8 hospital. I live just outside of town. But, you  
9 know, I can -- I was kind of thinking about this  
10 morning on the drive down of, you know, leaving for  
11 work two hours early to, you know, get through the  
12 traffic and stuff, and then you got your two-hour  
13 drive back home.

14 So that's -- I think that's -- in my opinion  
15 or my thoughts, that's what -- that's what I'm kind  
16 of looking at. But again --

17 Q Mostly wanted to clarify --

18 A Sure.

19 Q -- that you have the existing  
20 person that you are going to -- that's on a track  
21 to likely become your field manager, but you're  
22 still going to look for a general manager?

23 A Yeah, exactly. That's kind of  
24 what we've done with Andy, the one we're talking  
25 about replacing Steve as the field manager. You

1 know, we brought him in as a general field laborer.  
2 He left the prison in Elliott County to come, and  
3 he left -- he took a pay cut, and I think it was a  
4 pretty significant pay cut, but I think he had had  
5 some water experience with the city of West Liberty  
6 before, so he had some water experience.

7 And, you know, we basically brought him in,  
8 and once we got him in, said, look, you know,  
9 here's -- this is your opportunity. Steve's looking  
10 to retire in a few years and, you know, if you're  
11 willing to put the work in and go get your Class 1,  
12 Class 2 license, you know, this job could be yours.

13 And we've been very fortunate that he's done  
14 that. And like I talked to him last night, he's  
15 pretty gung-ho about being able to complete his  
16 Class 2 and be able to move in that role.

17 DR. MATHEWS: Thank you.

18 EXAMINATION

19 BY COMMISSIONER SCHMITT:

20 Q Insofar as your general manager  
21 position is concerned, are there specific job  
22 duties, written job duties, responsibilities for  
23 the general manager?

24 A I do believe there is a -- I have  
25 not reviewed it. I'm being honest, I have not

1 reviewed it, but I think there is a job  
2 description. But I think as we start looking at  
3 that, that would be something that we would have  
4 pulled before the board, and then I think the  
5 board, with the experience we have there on the  
6 board, they would be able to go through it and  
7 maybe have more defined, clear roles of what we're  
8 looking for in that general manager.

9 Because I think before, with Kyle being a  
10 general manager and Steve being a general manager,  
11 they have that water experience. They both had --  
12 they knew the water side of it. So I think this  
13 time around, I think the -- to have that day-to-day  
14 operations, and like I said, to help Chernell, is to  
15 have that -- more of the office side of it.

16 And then you have that field manager with  
17 the technical knowledge and, you know, that person  
18 is basically just --

19 Q Who develops the budget? Do you  
20 have a budget every year?

21 A We do.

22 Q Do you do a budget?

23 A Our treasurer sits down, and then  
24 we normally sit down -- I attended that one last  
25 year. It was me, Zach, who's our treasurer, he

1 kind of led that, and then our general manager at  
2 that time. So there was three of us that sat down  
3 and formed out the budget.

4 Q And does the -- does the general  
5 manager have authority to spend outside the budget?  
6 You got an item budgeted to a certain --

7 A Uh-huh (affirmative).

8 Q -- whatever, equipment, X  
9 dollars, but do you need more between a meeting?  
10 Does the general manager have the authority to buy?

11 A I would say -- I would say right  
12 now not at this time. Because since I took over in  
13 March, right now we -- what we as a board decided,  
14 we give Chernell guidance on you can pay the  
15 utilities and you can pay the payroll and the  
16 retirement and all those taxes and the benefits and  
17 everything to keep everything operational, but the  
18 board, when we come to our board meeting, we will  
19 decide, you know, how fast things get paid and what  
20 gets paid.

21 Q And does the general manager have  
22 the authority to hire and fire?

23 A The board typically does the  
24 hiring. When we done hiring in the past, we'll put  
25 the job opening out in the local paper, run that

1 ad; and then the applications, the general manager  
2 will typically go through and weed out, the  
3 weed-out process, and then they -- the general  
4 manager will then normally present four or five  
5 qualified applicants to the board, and then that  
6 board will do the interview process with the  
7 general manager there.

8 Q And who authorizes overtime, if  
9 there is overtime?

10 A Typically that's fallen on the  
11 general manager. Right now, you know, the -- we're  
12 keeping a close eye on the overtime, but typically  
13 I think we -- we give leeway to the general  
14 manager, essentially of leaks, and there's times  
15 that they're called out in the evening. We do  
16 have -- I think each of the field technicians take  
17 a turn about on weekend call, excuse me, so I think  
18 there is some call pay in that. But --

19 Q Well, somebody has to authorize  
20 that or approve the time; correct?

21 A Yes, sir.

22 Q Is that the general manager?

23 A Yes, sir. Yeah, the board does  
24 not approve the -- we don't approve the time  
25 sheets.

1           Q           Are you familiar with the  
2 Kentucky Rural Water Association's management  
3 training program?

4           A           I'm not.

5           Q           The courses they have?

6           A           That was actually going to be one  
7 of my questions.

8           Q           For less than \$1,000.

9           A           Okay.

10          Q           And they give you two years to go  
11 through it, but probably ought to go through it  
12 quicker than that. But they have maps -- courses  
13 for general managers to take.

14          A           Okay.

15          Q           And at the end of the course  
16 there's a certification that goes with it. Would  
17 you be willing -- and basically it talks about, you  
18 know, how to manage an office.

19          A           Uh-huh (affirmative).

20          Q           And how to basically do what's  
21 necessary to run a business and do the -- provide  
22 the reporting to the commissioners, et cetera, and  
23 community outreach, customer service. Would  
24 your -- would your water district consider sending  
25 your new general manager for that kind of training?



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1 A Uh-huh (affirmative).

2 Q Looks like four so far in 2019,  
3 about two in 2018. To your knowledge is that about  
4 the rate historically that you see them?

5 A Since I've been on the board, I  
6 think so. I couldn't speak from years past, but  
7 since I've been on the board, I think so.

8 Q And you said you don't remember  
9 any convictions, though?

10 A I don't.

11 Q Okay. Do you-all have a process  
12 for following up on that with the county  
13 prosecutor?

14 A No.

15 Q After you refer it you don't --

16 A There might be. I'm not aware at  
17 this time.

18 Q Okay. So is looking for cheater  
19 bars, is that part of the process, everyday process  
20 in leak detection, or just everyday duties of field  
21 techs?

22 A To be honest with you, probably  
23 the staff here would be more of the day-to-day --

24 Q Sure.

25 A -- of exact -- the process.

1           Q           Okay. A couple questions that  
2 staff had asked before on data requests. Asked to  
3 refer to specific policies or procedures, missed  
4 customer billing, time it takes to fix a line,  
5 meter testing, and you answered you either did not  
6 have those policies or they were not written down.

7           Have you-all made any sort of effort to, you  
8 know, formalize -- formalize more written policies  
9 and procedures going forward with this water loss  
10 plan?

11          A           I think that's something we've  
12 talked about in the past of having more clearly  
13 outlined policies and procedures on different  
14 things, yes, sir, because, you know -- I think one  
15 of the things we talked about is employee handbooks  
16 and things to that nature. I know -- it kind of  
17 goes with the -- with our staff being part of the  
18 county employee, but we're separate, but I think  
19 still with the water district that would be  
20 something that I would want to look at, is some  
21 type of -- right away is to have some type of  
22 employee handbook.

23           And then, you know, being in manufacturing,  
24 you have work standards and policies and procedures  
25 for everything. And, you know, when you start

1 looking at it you start -- well, what's our policy  
2 say. And, you know, that's kind of -- that's kind  
3 of what you go back to.

4 So that's absolutely something we will  
5 definitely be looking at.

6 Q Okay. As far as putting the  
7 water loss plan together with everything going on,  
8 makes sense I think to sort of address some of  
9 those.

10 A Uh-huh (affirmative).  
11 Absolutely.

12 Q You spoke about the return to the  
13 general manager and the field manager, operations  
14 manager model. Is there a timeline on filling the  
15 general manager slot? Is that by or before  
16 November?

17 A My personal goal -- again, this  
18 has not been brought to the board as -- to be put  
19 in the minutes or anything like that, and I don't  
20 want to -- I don't necessarily want to speak for  
21 them. But as the chairman, I would like to see a  
22 general manager placed by the first of the year.

23 That way -- because at that time you're  
24 going to have Andy. Steve is going to be gone. You  
25 will have Andy, who's a brand-new field manager, and

1 then you -- I feel Andy will probably be leaning on  
2 Chernell even more at that time for different  
3 things. So I think it's important for, I think,  
4 Chernell's sanity that we as a board recognize that  
5 and try to have someone in there.

6 So I -- you know, I think it will be a  
7 fairly -- well, I say this not knowing, but a  
8 process of advertising it out through the local  
9 newspaper exactly what we're looking for, and then  
10 being able to do some stuff around, and then  
11 hopefully have someone around the first of the year,  
12 is kind of what I'm looking at. Again, I have bring  
13 it to the board --

14 Q Sure.

15 A -- for approval, but that's kind  
16 of, in my mind, what -- what we're looking at.

17 Q You're confident in sort of the  
18 transitional period if you can't find someone by  
19 the first of the year?

20 A Well, I tell you, to be honest  
21 with you, what -- I feel like part of my  
22 responsibility -- part of my responsibility will be  
23 that I will probably need to be there more when we  
24 go through this transition, because I do have that  
25 experience, you know. Chernell and Steve both have

1 my cell phone and they know they can call me any  
2 time with questions.

3 But I kind of see myself up there. Maybe  
4 more on my lunches I can run up to do some things  
5 and maybe after -- and maybe even in the evenings to  
6 try to address this up.

7 And then typically with my -- in the  
8 hospital business, we shut down, or my clinics  
9 are -- they mandate us a week of mandatory PTL time  
10 during the Christmas holidays. So I was kind of  
11 looking at that time, too, as a time to go up during  
12 that week and spend time there at the water board as  
13 we're going through that transitional time.

14 I'm -- I've already kind of started looking  
15 at that as far as -- I plan my stuff out about six  
16 months out, so I'm already starting to look at, you  
17 know, the first-of-the-year-stuff things. So that's  
18 something that I'll probably be looking at just to  
19 help us get through the transition.

20 Q Okay. And you also mentioned one  
21 person recently left the office staff. Would you  
22 also look to fill that before that period?

23 A Yeah.

24 Q Okay.

25 A Like I said, Chernell brought it

1 up last night, and that's something that we will  
2 look at this fall as well, is being able to fill  
3 that, absolutely. Because like I said, she's got  
4 more on her, and she gets pulled away to help with  
5 when we have our customers come in and stuff, and  
6 that's -- that's actually something that we looked  
7 at last night.

8 The first few days of the month, of course,  
9 that's when all of our customers come. We have a  
10 night deposit box that -- I think it was Brian that  
11 brought it up last night -- of automatic payments,  
12 and we do have that in place, but we talked about  
13 doing some more education, maybe putting it on our  
14 bill, to where we get more of our customers paying  
15 online just to help with the -- with the office time  
16 of collecting payments.

17 MR. McNEIL: Okay. Thank you.

18 I have just one more thing. I have a  
19 document submitted into the record. I can  
20 pass out for convenience. Approach  
21 Chairman? This is a -- it was the tariff  
22 that was submitted March 18th.

23 COMMISSIONER SCHMITT: Would you like that  
24 marked?

25 MR. McNEIL: No. It's part -- I mean, it's

1 part of the record. I just have a  
2 question.

3 COURT REPORTER: If you have an extra one.

4 MR. McNEIL: Yeah, yeah.

5 COMMISSIONER SCHMITT: We could mark it for  
6 identification.

7 MR. McNEIL: Sure, that will be fine.

8 COMMISSIONER SCHMITT: Have it with the  
9 transcript.

10 (Attorney General's Exhibit No. 1 was  
11 marked.)

12 BY MR. McNEIL:

13 Q Does this look like the tariff  
14 that's been filed with the PSC?

15 A Uh-huh (affirmative). Yes.

16 Q So I have a question. On the  
17 Minimum Bill line, there's a notation. I can't  
18 tell if it's plus UT 76 cents, and it increases the  
19 minimum bill by that. I apologize if I didn't see  
20 it in the record, but I did not see an explanation  
21 for that notation. Do you know what that refers  
22 to?

23 A I'm just trying to remember back.

24 Q And I didn't think it was on --  
25 it's not on the currently filed one that I saw with

1 the Commission here.

2 MS. HOLBROOK: Local tax.

3 MR. McNEIL: Okay.

4 MR. CICERO: UT being utility tax, is that  
5 what UT stands for?

6 MS. HOLBROOK: (Nods head.)

7 MR. McNEIL: Okay. No further questions.

8 COMMISSIONER SCHMITT: Ms. Stegman?

9 MS. STEGMAN: Just a couple of questions,  
10 Commissioner.

11 EXAMINATION

12 BY MS. STEGMAN:

13 Q Mr. Elam, you mentioned that the  
14 board is fairly new. When did the various members  
15 come on the board?

16 A Zach Engle, our treasurer, came  
17 on I believe in the fall of 2015. I came on in  
18 2016, the fall. Steve Gunnell came on in '17, and  
19 then Brian Wells and Linda Bradley came on in  
20 February, March of this year, I believe.

21 Q Okay. And you kind of previously  
22 mentioned this culture of these are just kind of  
23 the issues you deal with with the water district  
24 and not being as proactive as you think that they  
25 thought to be. Do you think that this rollover in

1 the board has helped that culture?

2 A Absolutely, yeah. You know, when  
3 I came on the board there were several board  
4 members that had been there for a number of years,  
5 and I come on the board -- I was asked to get on  
6 the -- get on the board -- Dr. Holbrook, the  
7 veterinarian there, he had fallen ill and needed to  
8 be replaced, so that's how I got onto there.

9 But I feel when I came on, you know, I was  
10 relying mainly on everyone else that had been there  
11 that number of years. They knew -- they kind of  
12 knew what was going on. You know, you had Roy  
13 Collett and Kyle Risner, and Roy had been the  
14 chairman for a number of years. So, you know, I was  
15 kind of the new guy, not knowing anything about the  
16 water. So, you know, that first year, year and a  
17 half, I was just basically coming and asking really  
18 dumb questions trying to understand the overall  
19 process of things.

20 And then really the -- you know, the water  
21 loss really -- we talked about it. I can remember  
22 talking about it, but it seemed like in my mind it  
23 really became evident over the last two years around  
24 December of when we had these really bad cold  
25 spells, and we had main line breaks and things like

1 that, and -- and that's where -- I think that that's  
2 where our problems really started snowballing, was  
3 with those two lines.

4 And, you know, we was always talking about  
5 trying to get caught up from those breaks in the  
6 winter, and we would go through winter, and then you  
7 hit summer, and summer things would be better, and  
8 we would kind of get maybe close to back to even,  
9 and then we would be back in the winter. We was  
10 just in this vicious cycle.

11 So with the new board members coming on, I  
12 feel like now the board is more engaged on  
13 day-to-day and they have a better understanding of  
14 the importance of how the water loss affects really  
15 everything. It affects our revenue, it affects our  
16 income, and it affects our ability to -- to be able  
17 to keep the preaintenance of our -- our  
18 infrastructure without having to go out every so  
19 many years.

20 When I was looking at this last night at  
21 home, I was just noticing how we done these bonds.  
22 Every couple of years there's a bond, there's a  
23 bond, there's a bond to fix things. And then, you  
24 know, I'm like, to me that's -- that's a Band-Aid,  
25 you know, of -- that's the only way we're able to

1 improve, and I'm sure some of that -- I wasn't  
2 around at the board, but just seeing that, maybe  
3 that was new water lines going out to different  
4 customers and things like that.

5 But I think you made the point while ago of  
6 if we can get our water loss around 15, we'll save  
7 \$150,000. You know, kind of my goal, if -- to the  
8 best of my knowledge, right now we have around  
9 \$3.5 million in bonds that things are out there and  
10 they're selling these 40 years. But, you know, my  
11 long-term goal in the next 10, 15 years would be to  
12 have those -- to have this money, to get our water  
13 loss under control, and then to be able to have that  
14 paid off. I mean, that's -- again, that's long  
15 range, but that's kind of my goal.

16 Q With the business background of  
17 some of the new board members, do you think that  
18 the new board is more willing than the previous  
19 board to consider needed rate increases?

20 A I think so, yeah. I think  
21 especially with Brian coming on board, again,  
22 he's -- it's a family-owned business with Wells  
23 Group. They are in three states, multi-million  
24 dollar business, and he -- I feel like he's been a  
25 huge asset in just the three or four months there.

1           Because I even noticed him last night, the  
2 first thing he'll get into is he'll look at the  
3 profit and loss statement, and then he'll look at  
4 the water loss, and then he'll start circling, and  
5 then, you know, he'll -- when we get into the  
6 meeting and stuff, he's asking questions and getting  
7 engaged and figuring out pretty quick, you know,  
8 that we're -- we're going to have to do something,  
9 you know.

10           So I feel like with the addition of Ryan and  
11 Linda, I think -- I think we're going to be able to  
12 turn it around. I do.

13           Q           And I want to be conscious of the  
14 Commission's time here, but I wanted to follow up  
15 briefly.

16           You briefly mentioned the tornado at West  
17 Liberty. What year was that?

18           A           2012.

19           Q           And did the tornado have any  
20 impact on the water district that you believe could  
21 have impacted the water loss issue?

22           A           You know, at that time -- again,  
23 this is years before I got on the board, but that  
24 was one of my questions, is because at that time  
25 the water district, we had our own building in West

1 Liberty, and it was in the old Kennedy Library  
2 there beside the old high school. We owned that to  
3 my knowledge.

4 The tornado came through in 2012. It  
5 totally destroyed that building, and then we were  
6 moved to a county building that was purchased months  
7 after the tornado. And, again, I wasn't there, I'm  
8 just -- kind of from the best of my memory, we  
9 were -- the county water district was moved there.

10 And then at some point there was a lease  
11 agreement made with the county, and at that time  
12 there was -- I think the insurance money that we got  
13 for our building was around \$460,000, give or take,  
14 ballpark. That money was turned over to the county,  
15 and a lease agreement was set up for the building  
16 we're in now for I think 99 years.

17 You know, that was one of my first questions  
18 when I came on the board, is, you know, what  
19 happened with all this -- you know, why are we now  
20 in this building. We're not -- and, you know, that  
21 money was used for -- went back to the county. You  
22 know, why didn't we rebuild, why didn't -- and, you  
23 know, it was kind of like the -- I think the judge  
24 executive at that time just came in and got the  
25 money.

1           So that -- again, I wasn't there. I know  
2    this is going to be recorded and stuff and, you  
3    know, I'm not trying to bash anyone --

4           COMMISSIONER SCHMITT: We've seen that  
5    before.

6           THE WITNESS: Huh?

7           COMMISSIONER SCHMITT: We've seen that  
8    before.

9           THE WITNESS: Okay. So I think -- I think,  
10   you know, I look back on it as that was  
11   \$460,000, give or take and, you know, I got  
12   asked some pretty hard questions when we  
13   met with Mr. Hoff on -- I guess that  
14   building was tied into a bond and, you  
15   know, he -- he implied to me that, you  
16   know, he had a lien on that property and  
17   that building, that, if anything, he should  
18   have got that money to help pay that off.  
19   So I had to answer some pretty hard  
20   questions at that time about that.

21                   And, again, you know, that's in the  
22   past. It is -- it is what it is. We're --  
23   as a board, you know, this is the hand we've  
24   been dealt with, and we're going to make  
25   every effort to make this work. I feel --



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1 15 percent. Would that surprise you?

2 A No, not at all.

3 MR. PARK: I have no further questions.

4 COMMISSIONER SCHMITT: Commissioner Cicero?

5 MR. CICERO: And your amortization payments  
6 are \$240,000 a year, so I guess those  
7 numbers --

8 THE WITNESS: You know, looking at all this  
9 and -- it can be done. You know, the --  
10 the pieces are there. It's just getting in  
11 there, kind of roll- -- the old saying of  
12 rolling up your sleeves and getting in  
13 there. And as a board we're going to have  
14 to do that, and -- but it can be done.  
15 It's there.

16 MR. CICERO: Well, I don't know what your  
17 timeline is. I'm going to be asking  
18 Mr. Nesbitt what his thoughts are on how  
19 long it's going to take, I'm going to be  
20 asking Mr. Pelfrey what his thoughts are,  
21 but, obviously, the sooner you reach that  
22 target, the more money the district saves  
23 from putting water into the ground that  
24 doesn't return any value.

25 So it's important that your plan is

1 something that's workable and that there's a  
2 timeline that provides for success with the  
3 sooner the better results.

4 I don't have anything else.

5 COMMISSIONER SCHMITT: Dr. Mathews?

6 DR. MATHEWS: I don't have anything. Thank  
7 you.

8 COMMISSIONER SCHMITT: I applaud your  
9 enthusiasm for moving forward and trying to  
10 fix it.

11 The only thing that discourages me,  
12 and it's not just Morgan County, but a lot  
13 of water districts, and unfortunately most  
14 of them appear to be in Eastern Kentucky  
15 where I'm from, like you, is that these  
16 problems should never have happened in the  
17 first place. If someone had managed  
18 properly, that should never have occurred.  
19 But like you said, it is what it is, and you  
20 are just stuck with it.

21 THE WITNESS: Yeah. That's the hand we got  
22 dealt, absolutely, sir.

23 COMMISSIONER SCHMITT: Mr. McNeil?

24 MR. McNEIL: I have nothing further.

25 COMMISSIONER SCHMITT: Ms. Stegman?

1 MS. STEGMAN: No questions.

2 COMMISSIONER SCHMITT: May this witness be  
3 excused?

4 MR. PARK: Yes, Your Honor.

5 COMMISSIONER SCHMITT: Thank you. You may  
6 step down.

7 THE WITNESS: If this wouldn't be out of  
8 order, could I ask one question?

9 COMMISSIONER SCHMITT: You may.

10 THE WITNESS: I don't know how these  
11 proceedings work and stuff, but you-all --  
12 I have not had a chance to write it down,  
13 but you-all mentioned recommendations.  
14 Would it be possible after this that  
15 you-all send -- after you-all have reviewed  
16 everything to send recommendations back to  
17 us?

18 COMMISSIONER SCHMITT: We'll give you an  
19 order and do some things -- we'll have  
20 something written up later. It may be a  
21 little more than 30 days after we're  
22 finished.

23 THE WITNESS: Sure.

24 COMMISSIONER SCHMITT: Because we'll try to  
25 do it in coordination with the other ten.

1 THE WITNESS: Uh-huh (affirmative).  
2 You-all did bring up a lot of great  
3 points --  
4 COMMISSIONER SCHMITT: We'll have  
5 something.  
6 THE WITNESS: -- things for us to look at.  
7 You know, I didn't have a chance to write  
8 them down, but I want to make sure that --  
9 DR. MATHEWS: The video will be up this  
10 evening.  
11 THE WITNESS: Okay. I might be getting  
12 some phone calls this afternoon.  
13 DR. MATHEWS: If you want to revisit.  
14 COMMISSIONER SCHMITT: We'll get an order  
15 and then there will be a written transcript  
16 that your counsel will have access to as  
17 well.  
18 THE WITNESS: I appreciate you-all. Thank  
19 you.  
20 COMMISSIONER SCHMITT: You may step down.  
21 THE WITNESS: Thank you.  
22 COMMISSIONER SCHMITT: Do you want to call  
23 another one? You got 20 minutes or so.  
24 MR. PARK: Be glad to. I believe counsel  
25 for the district indicated that Mr. Nesbitt

1           perhaps had some -- not travel plans, but  
2           since he's a private party here and at the  
3           district's expense, it might make sense to  
4           proceed with him.

5           COMMISSIONER SCHMITT: Mr. Nesbitt, would  
6           you like to take the stand?

7           THE WITNESS: Thank you.

8                           \* \* \* \* \*

9           The witness, PAUL NESBITT, after first  
10          being duly sworn, was examined and testified as  
11          follows:

12          COMMISSIONER SCHMITT: Please be seated.

13                         Ms. Stegman, you may ask.

14          MS. STEGMAN: Thank you.

15                           EXAMINATION

16          BY MS. STEGMAN:

17                         Q           Would you please state your full  
18          name for the record?

19                         A           My name is Paul Nesbitt.

20                         Q           Where are you employed?

21                         A           At a firm called Nesbitt  
22          Engineering, Incorporated.

23                         Q           Okay. And are you the engineer  
24          for Morgan County Water District?

25                         A           Yes, I am.

1 Q And you submitted Direct  
2 Testimony on this matter on May 31st, 2019; is that  
3 correct?

4 A That's correct.

5 Q And to the best of your  
6 knowledge, is that testimony true and correct?

7 A Yes, it is.

8 Q And is there anything you'd like  
9 to add to that testimony at this time?

10 A Not at this time.

11 MS. STEGMAN: No further questions.

12 COMMISSIONER SCHMITT: Mr. Park?

13 EXAMINATION

14 BY MR. PARK:

15 Q Yes, good morning, Mr. Nesbitt.  
16 Would you please state your business occupation and  
17 business address for the record, please?

18 A I'm an engineer, and business  
19 address is 227 North Upper Street, Lexington,  
20 Kentucky 40507.

21 Q What is your understanding as to  
22 why your firm was hired by Morgan County Water  
23 District?

24 A From what I -- the discussions we  
25 had with them when the request for proposal came

1 out, we're always looking to understand the needs  
2 of the community, and the real issue was the lost  
3 water issue.

4 Q And as part of the scope of the  
5 services, will Nesbitt Engineering assist the  
6 district in financing plans in terms of grants and  
7 applications?

8 A Yes, we will, and we already have  
9 been working on that.

10 Q Okay. You have heard reference  
11 to a potential loan in the amount of \$400,000 from  
12 R&D?

13 A Yes.

14 Q And is that something -- that  
15 application, is that being prepared?

16 A Yes, it is. The ADD district is  
17 actually writing -- it's in conjunction with the  
18 800,000-dollar ARC grant. When we were employed,  
19 we went to Frankfort and talked to the Department  
20 for Local Government. I know at one point there  
21 was some discussion of a million-dollar RD  
22 grant/loan combination. Of course, RD will only  
23 give you 30 percent grant, 70 percent loan.

24 And we approached the Department for Local  
25 Government with the issue, and they agreed to put

1     \$800,000 in, and then -- so we then went to a  
2     \$400,000 RD, of which it would be -- \$280,000 of it  
3     would be loan and \$120,000 of it would be grant.

4             Q             The \$800,000 grant we've heard  
5     reference to, that would be from the Department of  
6     Local Government, is that --

7             A             Yes. It would be Appalachian  
8     Regional Commission grant administered by  
9     Department for Local Government.

10            Q            When do you anticipate these  
11     applications will be completed?

12            A            The application should be  
13     completed very soon. The ADD district, Gateway  
14     Area Development District, is working on the  
15     applications in conjunction with us. We have -- we  
16     have talked to all the agencies. We anticipate the  
17     ARC, Appalachian Regional Commission, to be  
18     approved by the end of September, the end of the  
19     federal fiscal year.

20            And we will have the applications for Rural  
21     Development in, and we anticipate that being also  
22     approved by the end of September, or at least reach  
23     some level of approval so the funds can be  
24     committed, because that's the end of the federal  
25     fiscal year for them also.

1           With Rural Development it will take some  
2     time. They have numerous steps and documentation,  
3     but we have already started working on them,  
4     including you earlier referenced the financial  
5     analysis, which they call the summary addendum, we  
6     already prepared most of that. We prepared the  
7     preliminary engineering report, other things that  
8     would come up.

9           And our goal is to have everything in place  
10    and have all the grants approved and have the funds  
11    ready and be ready to bid by the end of the year.  
12    It's a very enthusiastic goal, but you have to have  
13    one and go after it.

14           Q           Will the applications for the  
15    grant and the RD loan identify the specific  
16    purposes for which each of those financing  
17    applications is being filed?

18           A           Yes, they will.

19           Q           And have those measures been  
20    identified at this point?

21           A           We have preliminary. I mean,  
22    they are always subject to revision as we go  
23    forward, but yes, we have identified lots of the  
24    aspects that we're addressing in this initial  
25    application as part of the plan to improve the

1 infrastructure for Morgan County Water District.

2 Q So I assume there would have to  
3 be some level of cost estimates that --

4 A Yes.

5 Q -- go into that?

6 Do you know how it was determined how much  
7 money to seek in financing?

8 A I'm sorry, would you repeat the  
9 question?

10 Q Certainly. I think at this stage  
11 we're talking about a \$800,000 grant and a \$400,000  
12 loan, for 1.2 million in project financing. Do you  
13 know how it was determined how much financing to  
14 seek at this stage?

15 A How much -- well, actually, the  
16 RD will give a 30 percent grant. So of the  
17 400,000, only 280,000 of it will be loan.

18 Q As far as the 1.2 million total,  
19 though --

20 A Yes.

21 Q Instead of borrowing 2 million,  
22 how was the decision made to borrow 1.2? Did  
23 you-all add up the number -- the cost of the  
24 projects or?

25 A Well, there's two ways to

1 approach projects as an engineer. You give me  
2 5 million, I can spend it on water loss. The  
3 question is, what can we get.

4 And in looking at this, the problem is  
5 defining the scope of the nature of the issues that  
6 need to be handled. And in this initial project,  
7 is -- part of it will be a discovery process where  
8 other projects will be developed in subsequent  
9 phases. So it's a multi-year, multi-project  
10 approach.

11 But the first one is almost a discovery  
12 phase. And when you look at -- when we looked at  
13 it, we -- you know, there was talk of a one  
14 million-dollar project, and they were looking at  
15 taking all of it out with RD. And I felt like I  
16 could obtain better terms by approaching other  
17 agencies, and we were successful.

18 And the 1.2 gives these -- as part of it  
19 we're looking at replacing some water lines where we  
20 know there's water lines that need to be replaced.  
21 We're replacing master meters, or placing master  
22 meters within the system with SCADA that will report  
23 back to the office so that office personnel can look  
24 at the normal operating changes of flows in the  
25 system, and when those are breached then that will

1 certainly be an alert that there's some issue going  
2 on in that section of the distribution system.

3 Replacement of meters, they have no meters  
4 in inventory now. We're looking at replacing  
5 200 meters, and then giving them the necessary --  
6 not giving them. As part of the grant, purchasing  
7 the necessary equipment to do the meter testing,  
8 such as a bench test, and then we take the 200  
9 meters that were taken out, bring them to the  
10 office, then they can test the meters and put them  
11 back into service if they are accurate? If not,  
12 they can rebuild them and put them into service.

13 Part of the grant will be the leak detection  
14 equipment, as well as training for it. The  
15 manufacturer of the equipment will be required to  
16 come in and spend a certain amount of time training  
17 the personnel for the water district on how to use  
18 it.

19 As part of this program we anticipated  
20 developing additional projects for funding next  
21 year. That program has been accelerated. We're  
22 dealing with -- perhaps we say rumors, but we  
23 understand that there's a possibility of an  
24 infrastructure bill coming out of DC; and if those  
25 projects are not developed, they could not receive

1 the funds. So in the next 60 days, rather than in  
2 the next six to nine months, we will be developing  
3 two other -- at least two other projects to put into  
4 the system, because in order to receive grant monies  
5 you have to have the profiles of the system and have  
6 to have the problems defined.

7 Now, if we have to take those projects into  
8 the next year funding cycle, those could be revised  
9 as we move forward. We will be able to get  
10 another -- at least one other project funded next  
11 year, I'm very confident.

12 Q As far as prioritizing projects,  
13 I think you mentioned the first step is identifying  
14 where your problem is. And as far as spending,  
15 who's going to decide what goes first? Are you  
16 going to start a number of different measures at  
17 one time? Is that your advice?

18 A This one is -- it's almost an  
19 exploratory type project. In other words, we have  
20 identified some areas where there is some high  
21 degree of leakage, breaks, and so there's a certain  
22 amount of line replacement. But in terms of  
23 spending the total amount of money to replace lines  
24 in the system, the problem is I don't know where  
25 the hardest -- where the issues are at this point.

1           And part of this project will be identifying  
2 those issues as we go forward to make sure that  
3 future funds, as they come forward, can be put to  
4 use in the best place possible.

5           Q           As part of that process will a  
6 cost-benefit analysis of any sort be performed on  
7 each of the proposed measures or purchases or  
8 investments?

9           A           Yes.

10          Q           You mentioned the benefit of  
11 exploring other financing sources, which you did.  
12 What other sources of potential financing are there  
13 out there that you considered?

14          A           Well, the Community Development  
15 Block Grant program is available. The problem is  
16 that the water district is not eligible for that.  
17 We would have to have the county sponsor that, and  
18 the medium household income for the county as a  
19 whole does not meet the CDBG program. But if we  
20 could identify certain pockets of the county where  
21 something could be used, that program would be used  
22 also.

23                   Kentucky Infrastructure Authority has a  
24 program, and, again, the fact is that they're not  
25 eligible for loan forgiveness because of the medium

1 income in the county, but that's -- but we would put  
2 those into the -- the next time there's a call for  
3 projects in Kentucky Infrastructure, which unless  
4 there's special infrastructure money coming down  
5 this fall, would be next spring, we would certainly  
6 put those in.

7 And we would pursue some additional  
8 Appalachian Regional Commission grants. There's  
9 been quite a bit of money from congress being placed  
10 in the Appalachian region, especially in distressed  
11 counties, which Morgan County is classified as a  
12 distressed county under ARC. So we would anticipate  
13 pursuing funds from there.

14 Funding, I always say, is like working a  
15 jigsaw puzzle, with the exception that the -- the  
16 size and shapes of the pieces change every day. So  
17 it's just a matter of going after it.

18 Q There were water loss program  
19 goals attached to your prefilled Direct Testimony.  
20 Did you prepare these goals for the district?

21 A Yes, I did.

22 Q You think these goals are  
23 reasonable and attainable by the district --

24 A Yes --

25 Q -- based on what you know?

1           A           Yes, I do.

2           Q           Do you have any information  
3 regarding the status in meeting the short-term goal  
4 at this point? Is this something that you're  
5 following as well?

6           A           Well, the first meeting I went  
7 to, you know, short term and -- you know, short  
8 term usually is, you know, a year. It became very  
9 apparent after the first meeting, after they  
10 procured us as an engineering firm, that they were  
11 very serious and they were also struggling with  
12 almost immediate goals rather than short term. And  
13 that's not something -- the types of water loss  
14 programs we typically get involved in takes some  
15 time to develop.

16                   So in talking to them we recommended  
17 bringing Kentucky Rural Water in to deal with the  
18 short-short-term, or almost immediate term goals.  
19 And in talking to them, it became very apparent they  
20 were extremely serious and very dedicated to getting  
21 this done. And so we came up with a three-step  
22 process, that being the first one trying to identify  
23 as many measures to save water and to conserve, to  
24 fix leaks.

25                   And after that program started looking at

1 the lost water reports and looking at the water  
2 purchased, they have had some success with that  
3 already; not to the degree that obviously everyone  
4 would like, but there has been steps moving forward  
5 that is positive.

6 And then the medium range goals, which,  
7 again, typically, medium range would be longer out,  
8 would be at the end of this year, to have all the  
9 grant for the first one in process; and the longer  
10 range goals would be to start funding capital  
11 improvement projects, with at least one project next  
12 year. And I could see a total of six or eight  
13 projects being planned out in the future as part of  
14 this program.

15 Q And you mentioned your firm's  
16 work on other water loss projects. What have you  
17 done in this area before for water districts, water  
18 utilities?

19 A It became very apparent to me --  
20 most of my practice is in Eastern Kentucky. My  
21 first job out of college, I was city engineer for  
22 the city of Hazard for five years. So I became  
23 very aware of mountains and the types of  
24 infrastructure issues that are there.

25 It became apparent to me in my career about

1 15 years ago that it's not that -- for the most  
2 part, I'm not saying this is a -- true of all, that  
3 we don't need a whole lot more water plants. We  
4 need to fix the water lines that we have in the  
5 ground.

6 We were the city engineer for the city of  
7 Jenkins. The city of Jenkins is not regulated by  
8 the Public Service Commission, but at that point  
9 they had 80 percent water loss, and the mayor turned  
10 to me in the council meeting one night and said,  
11 What are you going to do? And I said, Well, the  
12 only thing we can do is give you a brand-new water  
13 system.

14 I'm here to tell you that 12 years later  
15 they were at 12 percent. We have one more project,  
16 they will have a total new water system. We have  
17 master meters in the system, we've replaced meters  
18 everywhere. And the mayor mentioned to me two years  
19 ago -- they have a lake as a source, if you have  
20 ever been to Jenkins. He said they had a drought,  
21 and if they had not replaced water meters or went  
22 through the infrastructure that they had to do, that  
23 they would have had to start cutting people off  
24 during the drought.

25 To me that is the poster child of a city, a

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1 community that grabbed the projects by the boot  
2 straps and did it well, and I'm very proud to have  
3 been involved in that.

4 Q Have you done similar work for  
5 any water districts?

6 A Well, Morgan County Water  
7 District?

8 Q Or other --

9 A Any water districts? We probably  
10 work more for cities than we do water districts,  
11 but we also do work for Breathitt County Water  
12 District as well. They're a fairly new system.  
13 They just started building lines about 12 years  
14 ago, so they do not have the water loss issues that  
15 you see in some of the other parts of Eastern  
16 Kentucky.

17 We do work for some cities that have water  
18 lines throughout the county, though, but we don't  
19 work as much for people in -- regulated by Public  
20 Service Commission as other engineers might.

21 MR. PARK: I have nothing further.

22 COMMISSIONER SCHMITT: Mr. Cicero?

23 \* \* \* \* \*

24

25

1 EXAMINATION

2 BY MR. CICERO:

3 Q So do you have a formal contract  
4 with the Morgan County Water District?

5 A We were procured. We don't have  
6 a formal contract yet, and there is a reason for  
7 that. It depends on which funding agency puts the  
8 money in, because each contract is worded  
9 differently, and I was waiting to make sure that we  
10 got the -- the Rural Development contract would be  
11 the standard EJC, and we will get that -- present  
12 that to them in the near future.

13 Q So how do you bill now?

14 A We -- our money is being -- will  
15 be paid out of the -- the project.

16 Q At what established rate?

17 A The -- what is called the RD  
18 curve. Are you -- I don't know --

19 Q I'm not.

20 A -- if you're familiar. The RD,  
21 Rural Development, years ago published a table,  
22 which we refer to it as the curve, which we have  
23 digitized and made a curve out of it; which means  
24 that when you bid a project, the amount of money  
25 that you get is based on the size of the project.

1           Now, they have later modified that to make  
2           them lump sum payments, but the lump sums are based  
3           on the curve, so essentially it's based on the  
4           curve.

5           Q           So is your compensation right now  
6           totally dependent on what happens with this grant  
7           and this loan?

8           A           Absolutely.

9           Q           So you're not receiving any  
10          compensation directly from Morgan County Water  
11          District for the services thus far?

12          A           No, sir. No, sir, not yet. I  
13          mean, there may be things that are identified in  
14          the future that says what I can -- you know, what  
15          we can do, and we might say, well, here's a project  
16          in -- we can't -- this is not going to be part of  
17          the grant, but we'll do that. But most of our  
18          compensation for almost everybody we work for comes  
19          out of the program itself.

20          Q           So do you have an established  
21          goal or timeline for reducing water to 15 percent,  
22          water loss 15 percent?

23          A           This first project, if we get it,  
24          would be constructed next year, and it would reduce  
25          water loss -- our goal was 5 percent. I thought I

1 was conservative in that because I prefer to beat  
2 the goal. Then the next project after that would  
3 probably reduce it some more.

4 I -- there's no quick fix to these issues.  
5 We've discovered that in working on water loss  
6 programs. And I think you can see in three, four,  
7 five years down the road the district could be in  
8 really good shape, but there's no quick fix.

9 Q So three, four, five years down  
10 the road, good shape means 20 percent, 25 percent?

11 A I'm sorry, I can't hear what you  
12 said.

13 Q I said five years down the road,  
14 four years down the road, and the district being in  
15 good shape means 20 percent water loss, 25 percent  
16 water loss?

17 A Well --

18 Q I'm trying to get an idea.  
19 Because right now somewhere between 38 and 53  
20 percent depending on what year we talk about.

21 A I know -- the philosophy of water  
22 loss, I probably differ from Public Service  
23 Commission on that.

24 Q You wouldn't be the only one.

25 A I probably don't want to get into

1 a discussion of water loss. Mountain rural water  
2 districts are at an extreme disadvantage, because  
3 if you look at the anticipated water loss that can  
4 be done even in a well-operated system, and you  
5 take the parameters as defined by AWWA, or in all  
6 the textbooks on water loss, which we have them  
7 all, there's -- one of the operating parameters is  
8 you multi- -- you put in a bunch of parameters and  
9 you multiply it times the pressure. Well, that's  
10 great if you're in an area where you don't have  
11 uneven terrain.

12 Morgan County, for example, might be  
13 carrying a higher pressure in their main lines so  
14 that they can carry the water up to the tops of the  
15 areas to where they can serve people. The  
16 alternative to that would be to have a lower  
17 pressure in your line and have a pump to pump it up,  
18 but then you have to pay the electric cost and the  
19 maintenance cost of the pump.

20 So if you're multiplying times the pressure  
21 to achieve water loss, if the pressure is double,  
22 which it probably is in the mountains, then you're  
23 going to have double the anticipated water loss.

24 So there's -- there's established formulas  
25 for that. And Jenkins, for example, I gave -- I

1 give talks on water loss quite often at these  
2 conferences. I use Jenkins as a poster child.  
3 Recently I did a case study in northern Kentucky,  
4 and I said, well, we got them down to 12 percent,  
5 and somebody in the audience asked the question, So  
6 they have a brand new system?

7 Yes, they do.

8 With all the bells and whistles?

9 Yes, they do.

10 And you only received 12 percent?

11 That's right.

12 And that's probably as good as you're going  
13 to be able to get with the type of terrain and the  
14 customers per mile and the pressures they have to  
15 operate in their system.

16 Q That's why you do a hydrostatic  
17 study to determine what type of load or pressure  
18 that you're going to have in certain parts of the  
19 system, right, is that --

20 A Yes. And one of the things we're  
21 going to look at for Morgan County, we're not --  
22 I'm not certain that there are certain areas of the  
23 county that we can't lower the operating pressure  
24 in the system, don't know that, but that's  
25 something we're going to be looking at.

1           This first phase we'll be doing a hydraulic  
2 model for the entire county to look and see, say,  
3 well, what could we do, could we lower the pressures  
4 in certain areas, could we create different pressure  
5 zones that would allow us to do that. So the  
6 question is, what could we get them to, can we get  
7 them to 15 percent? Maybe, but I can't guarantee  
8 that because of the very inherent nature of  
9 infrastructure in the mountains.

10           Q           I'll accept your answer with the  
11 caveat that when spending 1.2 million, or 5 million  
12 is the other example you use, usually there's some  
13 kind of targets that each phase of that spending  
14 represents.

15           A           I understand.

16           Q           And that's usually how the  
17 project --

18           A           I can guarantee --

19           Q           -- is justified.

20           A           I can guarantee you we will make  
21 a difference.

22           Q           We're not shooting for  
23 35 percent.

24           A           I know, but you're asking for a  
25 specific number. Can you get to 15 percent? I

1 would certainly hope so, but my dialogue was to  
2 emphasize the fact that there's a reason why the  
3 majority of the 12 districts that you have in here  
4 are mountain counties.

5 Q I know, and our goal is to try to  
6 make certain that we can emphasize the reduction of  
7 non-revenue water, or however you want to identify  
8 it, but to make certain that if there is going to  
9 be money spent, that there are results from the  
10 money spent and there's some kind of timeline that  
11 says it's not a 20-year project, it's a much  
12 shorter timeline.

13 A I -- I agree. One of the things  
14 we have found in our experience with water loss  
15 programs is that -- I have even done where the  
16 first project we did in a community had almost no  
17 impact whatsoever on water loss. Now, there's a  
18 reason for that, is because when you tie up that  
19 and you no longer have water leaking out of your  
20 system, the rest of your system is operating at a  
21 higher pressure; albeit a smaller one, but still  
22 two, three, four pounds per square inch higher  
23 because the water is not leaking out, and it's  
24 being pushed to that system.

25 Therefore, if you have a weak area in that

1 system, what you find is you get more leakage in the  
2 old system than you will in the new system that you  
3 put in. So in terms of -- this is based on my  
4 professional experience, and we have done this  
5 before.

6 Q I would agree with everything you  
7 have said so far.

8 A And so sometimes it takes two,  
9 three projects to really make an impact, and  
10 sometimes that's what you have to do.

11 Now, can we make an impact? Yes. Will the  
12 initial program do it? Yeah, because, you know,  
13 when we put in new meters, the chairman has already  
14 testified -- or mentioned, I'm sorry, he's not  
15 testified -- the fact that the meter program will  
16 make a difference. We will make a difference by  
17 replacing the meters.

18 The master meters, by putting them in the  
19 system -- for example, now they have master meters  
20 around the perimeter of the county. They don't have  
21 anything in the interior of the county. So if  
22 there's a leak, where do you look? Well, by putting  
23 some meters into the system around the county, we  
24 will be able to identify an area if there's a major  
25 leak. Say, well, the major leak is coming from this

1 region. In today's world, having text messages from  
2 SCADA systems that says that your flow is abnormal  
3 in this region, is really easy to do. It's a lot  
4 different than it was when I started my career.  
5 There's a lot of things that you can do now that are  
6 really neat.

7 Q We already know from prior water  
8 districts that we dealt with that it all depends on  
9 the philosophy that you take when you do the  
10 repairs or when you do replacement, and we know  
11 that there's some districts that were being the  
12 Band-Aid approach, that every time there was a leak  
13 there was a repair to the pipe; found out if they  
14 just replaced sections of pipe it was a much better  
15 fix, and that when the pressure increased you just  
16 didn't pop another hole. That section of the line  
17 became functional and more -- the structural  
18 integrity was there so that you could continue to  
19 make improvements and reduce the water loss.

20 So it's just a matter of how you take your  
21 approach on what types of repairs and replacement  
22 you're going to do. So, yes, I understand there can  
23 be a level of fluctuation between whether you reach  
24 30 percent in one project or whether it takes three  
25 projects. We understand that.

1           A           In defining, you know, the  
2 previous question by Mr. Park, I believe is his  
3 name, you know, is there a cost-benefit, yes. We  
4 look at that, where can we spend money. We're not  
5 just spending money to spend money. Where can you  
6 spend money that will lower the cost structure to  
7 where -- if you look at the last three audits of  
8 Morgan County, 2018, '17 and '16, their purchased  
9 water went from 630,000 to 730,000 to 787,000, but  
10 yet their sales are consistent. We will impact  
11 that.

12           Q           I hope so.

13                   Talking about cost-benefit, you said that  
14 there's 200 meters you wanted to start with with  
15 replacement, and then you were going to look at  
16 those and do a refurbishment of those, and then put  
17 them back in the system?

18           A           Yes.

19           Q           And I also heard \$160 for a  
20 replacement meter, brand new. Has there been a  
21 study done that says only do 200, or should you be  
22 looking at replacing all of the meters? I'm  
23 curious whether 200 came up, then why going back --  
24 it would seem that it would cost more to take out,  
25 test, rebuild and replace a meter, an old meter,

1 than it would be to just buy a new meter with an  
2 extended depreciation life.

3 A It's not just buying a new meter  
4 in the first phase, because my experience, again,  
5 is the staff of a city or a water district is so --  
6 they have leaks, they have issues they have to deal  
7 with, they have to read meters. There's lots of  
8 issues with a limited number of men, personnel.

9 I would recommend, and they have accepted  
10 this recommendation, that the contractor that's  
11 hired actually replaces the meters, so that you get  
12 it done quickly, get it in the ground. It's not  
13 just enough. \$160 you're talking about is the  
14 purchase price of a meter.

15 Q Well, I --

16 A So --

17 Q -- I know that depending on what  
18 type of meters you obtain --

19 A Yes.

20 Q -- makes a big difference on what  
21 the cost of the meter is and what is included as  
22 part of that service --

23 A Right.

24 Q -- whether it's installed, not  
25 installed; everything impacts that. Is there a

1 value of what it costs to pull the meter by the  
2 company, test it, repair it and put it back?  
3 Because that's the true comparison that you need to  
4 make, isn't it?

5 A Yes, it is.

6 Q Okay.

7 A So what we would do is start out  
8 in a section of the county, and could we borrow  
9 more money from Rural Development, another million  
10 dollars, and do the entire county of meters? Sure.  
11 But I'd like to get a better grip on where we are  
12 in this first project before we do that.

13 But by doing the 200 meters, which is the  
14 number we arrived at -- and it's a budgetary  
15 constraint -- then we pull those meters back in the  
16 shop, they want to buy the -- the bench testing  
17 equipment so that they can test the meters theirself  
18 rather than sending it off to a third party to test,  
19 and then we can start a meter program so that they  
20 can then replace the meters on their own.

21 It very well could be -- we'll decide in the  
22 next few months -- that one of the next projects we  
23 do next year will be maybe replace everything else  
24 in the system. I don't know the answer to that now.

25 Q And that's an honest answer, and

1 I appreciate that, and my only comment would be  
2 that as long as the county is going to take a look  
3 at the benefit and the cost between the two  
4 options, because if you got meters that are  
5 basically depreciated out, as you know, it doesn't  
6 make a lot of sense to spend a lot of money to put  
7 them back into the ground when their useful life is  
8 almost expired. So it's -- and I don't know what  
9 the age of their meters are.

10 A You can rebuild -- you can  
11 rebuild them to where the useful life is ten years  
12 again.

13 Q You can, but the technology  
14 advances, and you have already talked about SCADA  
15 and --

16 A Well --

17 Q -- remote read and those kinds of  
18 things. Older mechanical meters aren't as  
19 adaptable to do that as newer technology.

20 A That's a good point.

21 MR. CICERO: I don't have anything else.

22 COMMISSIONER SCHMITT: Commission Matthews?

23 DR. MATHEWS: I don't have anything. Thank  
24 you.

25 \* \* \* \* \*

1 EXAMINATION

2 BY COMMISSIONER SCHMITT:

3 Q Mr. Nesbitt, are you familiar  
4 with the depreciation schedule that the -- I guess  
5 the water district has used in its most recent rate  
6 case? I say that about the pipes, you know. There  
7 are books available which -- and other studies,  
8 which place a useful life of a polyethylene pipe at  
9 a certain age, 50, 60, 75 years; iron pipe at a 100  
10 years.

11 The reason I say that is because, I mean,  
12 Morgan County Water District apparently was only  
13 formed in 1992, and somewhere in this case there  
14 were some charts that basically showed most of  
15 their -- their older mains were less than 30 years  
16 old.

17 A That's true.

18 Q But it's -- do you believe that  
19 the problems, and if there are problems, and I  
20 assume there are, that basically they're the result  
21 of either excessive pressure or perhaps poor  
22 construction, or poor location on, you know, edges  
23 of slopes and so forth that resulted in leakage  
24 that perhaps otherwise wouldn't have occurred on  
25 flat land.

1           A           I think all of the above, but  
2 back to your point is -- of course, I'll make the  
3 editorial comment, I always say it depends upon the  
4 age of the pipe as to depends where you're talking  
5 for. A PVC pipe supplier or a cast iron pipe  
6 supplier, they will tell you if the other was  
7 different. But my experience is that in a 50-year  
8 period, pipes need to be replaced, and these pipes  
9 are -- are fairly young in terms of the age.

10           I also know that during that time period  
11 there was a lot of PVC pipe that was put in the  
12 ground that was not quite as good as the PVC pipe  
13 that we're getting today.

14           They also -- in my professional experience,  
15 I found that when we lay a line out to a region, a  
16 lot of times -- years ago we used to do some very  
17 sophisticated analysis to see what the pressure  
18 rating of the pipe should be, so we could save the  
19 water district 50 cents a foot, because the pipe  
20 might be -- use a thinner wall pipe.

21           What I found is that later on we're  
22 extending that line, and what we find is we're  
23 running excessive pressure in the pipe that is not  
24 rated for that pressure. So it's been my philosophy  
25 for several years now, we put a high pressure pipe

1 rating in regardless of where it is, because, you  
2 know, it helps in leakage and so on.

3 But one of the issues there might be that  
4 some of the -- because of the higher pressure as  
5 they extended the lines on out, that they have got a  
6 lower pressure rated pipe in the ground. And we  
7 hope to determine all that as we go forward. And  
8 the only way to solve that is to either lower the  
9 pressure or replace the pipe.

10 Q You noted, I guess, a few moments  
11 ago that the water district had no meters currently  
12 in inventory; is that correct?

13 A Yes, sir.

14 Q Have you had -- and I assume you  
15 have had an opportunity to look at its inventory  
16 overall. I assume that its inventory of parts,  
17 equipment, meters is probably less than what you  
18 would recommend.

19 A Absolutely.

20 Q Can you comment on that? Because  
21 I know we have had other districts where we had  
22 issues, and they said, well, we didn't have a pump,  
23 you know. We couldn't do this and we couldn't do  
24 that, and essentially they had no inventory at all.  
25 But it -- it would be helpful to know what you have

1       seen about Morgan County's, because contrary to  
2       what a lot of people believe, we actually usually  
3       want to give more money than the water district  
4       wants to take.

5               But can you tell us about the importance of  
6       inventory and what their inventory looks like?

7               A               Well, the inventory in Morgan  
8       County, as they replace parts and used pipes and so  
9       on, because of the lack of cash, they're not  
10       replacing inventory as they go forward. They're  
11       basically cannibalizing their inventory to keep the  
12       system going, which later on turns into  
13       inefficiencies, because if you have a break then  
14       you've got to go somewhere. In the meantime you've  
15       got issues that you have to deal with.

16               So those -- it's a very good point, and that  
17       is that the inventory needs to be -- restocked is  
18       the word I'm looking for, but the only way to do  
19       that is to have the cash to be able to restock it.  
20       And I think they're making moves towards making that  
21       happen.

22               Q               And to do that you have to have  
23       rates at a sufficient level to be able to buy what  
24       you need; correct?

25               A               Absolutely.

1           Q           One last thing -- I don't know if  
2           you have checked or whether it's available --  
3           funding from abandoned mine lands up at the Energy  
4           and Environment Cabinet, have you checked on that?

5           A           Funds for that?

6           Q           Yes.

7           A           Most of the AML areas that are  
8           eligible for funding have been funded. There's not  
9           a lot of AML funds available right now. They're  
10          way down in their funding cycle. There's another  
11          bill before Congress called the Reclaim Act, which  
12          can change that entirely. But at this point it's  
13          stalled in committee.

14          But the AML funds cannot be used for  
15          maintenance and cannot be used to replace water  
16          lines that are leaking, at least at this point they  
17          haven't said that; only to construct new ones. And  
18          we have been successful.

19          Q           Because that's the problem where  
20          you -- most of the people are served by water,  
21          isn't it?

22          A           Yes, it is. One of the things  
23          we've been successful at, though, if there is a new  
24          AML project, we have been able to convince the  
25          powers over in that section that in order to get

1 the water out to the new line, they have got to  
2 replace the water line all through the system to  
3 the new water line, and we have been very  
4 successful with that program.

5 In fact, part of the Jenkins money we got  
6 was because they were replacing water lines from the  
7 water plant out to the area, so we were able to  
8 replace a water line -- a lot of water lines with  
9 that.

10 But in terms of going to AML and saying we  
11 have a problem, we have mines in this region, these  
12 are -- these are citizens that would be eligible for  
13 AML funding, but they're already on water supply,  
14 they won't do anything with that.

15 COMMISSIONER SCHMITT: I have nothing  
16 further. Mr. McNeil?

17 MR. McNEIL: I don't have any questions,  
18 Your Honor.

19 COMMISSIONER SCHMITT: Ms. Stegman?

20 MS. STEGMAN: Just a couple quick  
21 questions.

22 EXAMINATION

23 BY MS. STEGMAN:

24 Q Will you be helping the district,  
25 Mr. Nesbitt, in determining what level of water

1 rate increase they will need? I'm sorry, rate  
2 increase?

3 A Has anybody -- I'm sorry?

4 Q Will you be helping the water  
5 district in determining what level of rate increase  
6 they will need?

7 A Yes.

8 Q Okay. And have you been in  
9 communication with Morgan County's current judge  
10 executive regarding the work you're doing with the  
11 district and the current water loss?

12 A Yes. In January I met with Judge  
13 Stacey. He's an old friend of mine from a long  
14 time ago. When he became elected judge, I went and  
15 met with him and we talked about the water  
16 district, we talked about other things that the  
17 county needs.

18 And at that point he said the water  
19 district, you know, he felt like because of the lost  
20 water issue that, you know, he didn't feel like we  
21 needed a rate increase.

22 I've had subsequent conversations with him  
23 probably a couple months ago, where I told him that  
24 given the current situation it's kind of a Catch-22.  
25 Yes, you've got a lot of lost water, but you can't

1 deal with it unless you get a rate increase so that  
2 you can deal with it. And he -- he concurred with  
3 that and said that he felt like the water district  
4 needed a rate increase.

5 MS. STEGMAN: Okay. No further questions.

6 COMMISSIONER SCHMITT: Okay. Thank you.

7 Anything further, Mr. Park?

8 MR. PARK: Just one follow-up question.

9 EXAMINATION

10 BY MR. PARK:

11 Q You referred to two projects that  
12 you hope to get in the pipeline for potential  
13 federal money that may come online next year?

14 A Yes.

15 Q On the KIA website under Water  
16 Resource Information System, there are two projects  
17 that are currently listed; one is for scattered  
18 water line replacement, pump station rehab, and  
19 that's -- that project is listed as pending, not  
20 funded.

21 There's another project for countywide water  
22 line extension that's approved but not funded, and  
23 that's for 1.23 million. The scattered line  
24 replacement was pending and not funded for one  
25 million dollar.

1           Are these different projects?

2           A           The scattered water line  
3 replacement was -- is the one that we're working on  
4 currently, and that was the language that was used.  
5 When you start the process, you put some language  
6 in the project description, the project profile,  
7 and revise it as you go forward, because as the  
8 project gets fleshed out and defined, that will be  
9 changed again.

10           The other one I think you mentioned, if I  
11 remember, is an extension of the water lines into  
12 some unserved areas, and at this point I think the  
13 focus of the board is to deal with water loss rather  
14 than extending out into some other areas.

15           And that's the reason why I say there has to  
16 be additional profiles put in. Once we define what  
17 needs to be done in this first project as we move  
18 forward -- I've been working with them now three or  
19 four months, and there's a lot to be learned. And  
20 as we go forward, we will define some additional  
21 projects that will make an impact, whether it's  
22 meter replacement, line replacement, more master  
23 meters, whatever it may be, and put those in the  
24 system so they can be eligible for funding.

25           Without something in the system, I mean,

1 it's not going to get funded.

2 Q So you anticipate two more  
3 projects to be put into the system?

4 A I would like to have at least two  
5 more, yes, and have it available -- I'd like to  
6 have it available -- this fall I'd like to have it  
7 in the system. And the reason is, again, if  
8 infrastructure money comes down, the first thing  
9 you're going to do is go to those project profiles  
10 and fund. If you don't have a project profile in,  
11 it's too late. So we want to be ready.

12 And now, it may not happen, it would be next  
13 year, but by the next year I would like to have --  
14 in addition to those two, to have another four or  
15 five stacked up behind it in terms of as we define  
16 it, that would be your long range goals of having  
17 systems, having projects stacked in sequence so that  
18 you get one funded every -- if not every year, every  
19 couple of years, anyway.

20 MR. PARK: No further questions.

21 COMMISSIONER SCHMITT: Commissioner  
22 Mathews? Commissioner Cicero? Anyone  
23 else, questions? May this witness be  
24 excused?

25 MR. PARK: Yes, Your Honor.

1 COMMISSIONER SCHMITT: We thank you,  
2 Mr. Nesbitt.

3 THE WITNESS: Thank you.

4 COMMISSIONER SCHMITT: You may be excused.

5 Let's go into recess for lunch until  
6 1:30, how's that.

7 (THEREUPON, A LUNCH BREAK WAS TAKEN.)

8 MR. CICERO: You're kind of stuck with me  
9 for the rest of this. I'm sure we'll make  
10 it through with no problem.

11 Okay, we're now back on the record.

12 Mr. Park, do you have an additional  
13 witness you'd like to call?

14 MR. PARK: Yes, we do, Your Honor. Steve  
15 Pelfrey.

16 MR. CICERO: Mr. Pelfrey, will you take the  
17 stand, please.

18 \* \* \* \* \*

19 The witness, STEVE PELFREY, after first  
20 being duly sworn, was examined and testified as  
21 follows:

22 COMMISSIONER SCHMITT: Please be seated.

23 Ms. Stegman, would you like to do the  
24 initial?

25 MS. STEGMAN: I would.

1 EXAMINATION

2 BY MS. STEGMAN:

3 Q State your full name for the  
4 record, please.

5 A Steven Pelfrey.

6 Q Where are you employed?

7 A Morgan County Water District.

8 Q What's your current position with  
9 the water district?

10 A Right now, general manager.

11 Q How long have you been general  
12 manager?

13 A One year.

14 Q One year. And prior to June of  
15 last year, what position did you hold with the  
16 water district?

17 A Field manager.

18 Q Okay. And how many years total  
19 have you been employed by the water district?

20 A Sixteen (16) and a half.

21 MS. STEGMAN: Okay.

22 COMMISSIONER SCHMITT: Okay, Mr. Park.

23 MR. PARK: Yes, thank you.

24

25

1 EXAMINATION

2 BY MR. PARK:

3 Q Before being general manager, you  
4 were in field operations. Was your title field  
5 operations manager, or did you have a title?

6 A Yes, I was the field -- what they  
7 call field manager, and before that I worked for  
8 the city of West Liberty in water and waste water  
9 for 21 years. I've done this for 42 years.

10 Q In staff's report of its standard  
11 inspection conducted in 2016, you were identified  
12 as field operations, and do you recall staff's  
13 inspection of 2016?

14 A By Jason Pennell, probably?

15 Q Yes.

16 A I know it was before that other  
17 lady. Yes, I remember that.

18 Q One of the areas of concern that  
19 he noted in his staff report was that there were no  
20 test records for the master meters for sales to  
21 Campton or Frenchburg, or for purchases from Cave  
22 Run Water Commission. And, of course, that doesn't  
23 give you a lot of confidence that you know how much  
24 water you were selling to these two systems or how  
25 much water you were purchasing. Has that problem

1       been corrected?

2                   A               We've not sold to the city of  
3       Campton for a long time.   The one for Cave Run  
4       Water, Cave Run owns it.   What we purchase water  
5       from Cave Run, Cave Run owns that meter there, and  
6       their latest -- or earliest test date was, like,  
7       2016.   I had my master meters all tested once a  
8       year.   Don't matter what size they are.

9                   Q               Is Cave Run supposed to check in  
10       at least once a year in the contract?

11                   A               I never did see their contract.  
12       I seen the city of West Liberty's contract, but  
13       I've never seen the Cave Run contract.   I know the  
14       city of West Liberty, according to our contract,  
15       says that we can ask them no -- at least once a  
16       year, not no earlier, you know, like six months or  
17       something, but we can ask them, I mean, the city of  
18       West Liberty, but we own all those meters now.

19                   Q               You own the meter at the purchase  
20       point?

21                   A               Yes.   But not the one on Cave  
22       Run's site.

23                   Q               Not the one on Cave Run, okay.  
24       And that was last -- last test records you've seen  
25       were from inspection in 2016?

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1           A           Yes, sir.

2           Q           Following the 2017 inspection,  
3 Public Service Commission staff cited the district  
4 for having excess water loss in excess of the 15  
5 percent. In response, the district provided a  
6 written water loss control program dated  
7 December 28, 2016. Are you familiar with that?

8           A           No, sir.

9           Q           But you wouldn't know who  
10 prepared it or whether the board considered it?

11          A           I think I know who prepared it,  
12 but I didn't have nothing to do with it, if it was  
13 done in that time frame, was the --

14          Q           Who would have prepared it, do  
15 you think?

16          A           Probably Kyle Risner.

17          Q           Kyle Risner?

18          A           That used to be --

19          Q           He was the general manager at  
20 that time?

21          A           Yes, uh-huh (affirmative).

22          Q           The plan says that the district  
23 had changed out all of its meters, but that's not  
24 the case, is it?

25          A           Yes, in -- probably ten years ago

1 we was going to go with radio reads. Radio read,  
2 we had the old meters, you know, you get out, look  
3 in the box. We changed out every meter we had at  
4 that time.

5 Q When was that?

6 A Right at ten years ago.

7 Q From that -- ten years ago from  
8 today, or 2019?

9 A 2019, I guess, sometime in  
10 that -- I think it was in the fall of that year.

11 Q Fall of 2009, approximately?

12 A Uh-huh (affirmative).

13 Q Because we had understood there  
14 are at least 107 meters that were older than ten  
15 years.

16 A What happened, they run out of  
17 money on that project, and we had so many meters  
18 they changed the register out, but they didn't  
19 change the actual working mechanisms in the meter.  
20 We changed the register, though, I remember him  
21 doing that. But they didn't change -- and I guess  
22 they did -- yeah, they didn't. They just changed  
23 the register, changed the data to radio read. They  
24 didn't change the brass part of the meter,  
25 mechanical.

1 MR. CICERO: So just so I understand,  
2 because there's been some discussion about  
3 the meters. The meters themselves have  
4 been changed out or have not been changed  
5 out either ten years ago or recently or  
6 whatever; are the meters that are in place,  
7 how old are they? Whether they're --  
8 THE WITNESS: 99 percent of them is  
9 probably right now becoming ten years.  
10 MR. CICERO: So 99 percent of the meters  
11 are only ten years old?  
12 THE WITNESS: Yes, sir. That's not  
13 accounting my master meters.  
14 MR. CICERO: Well, I'm just looking at  
15 their --  
16 THE WITNESS: I bought them after that  
17 also.  
18 MR. CICERO: Just the residential meters?  
19 THE WITNESS: Yes.  
20 MR. CICERO: What's the useful life of the  
21 meters?  
22 THE WITNESS: Well, I always thought a  
23 meter ought to be good for 15 to 20 years,  
24 and our water loss -- I'm beginning to  
25 think a lot of our water loss is in our

1 meters right now, are they picking up low  
2 flows, because we kindly went and random  
3 tested a few last week, and out of ten that  
4 I tested three of them was plumb dead.  
5 Another boy tested 11, found three dead.

6 I guess out of 20, 25 meters, we  
7 probably found seven to eight meters that  
8 are just not registering at all.

9 MR. CICERO: So initial testimony was given  
10 by Mr. Elam, he indicated that he didn't  
11 think there was much of a problem for that  
12 type of water loss. But seven out of  
13 25 meters is a little over 25 percent.  
14 That seems to be pretty significant for  
15 meters that are only ten years old.

16 THE WITNESS: I agree. The board didn't  
17 know anything about this until last night  
18 at the meeting, I was talking about it.

19 MR. CICERO: Is there a CPCM filed with the  
20 Commission when they did the --

21 THE WITNESS: I couldn't hear.

22 MR. CICERO: Was there a CPCM filed with  
23 the Commission when they did the  
24 replacement of the meters ten years ago?

25 THE WITNESS: I'm sure there probably was.

1 I really don't know.

2 MR. CICERO: Do we know that, John?

3 MR. PARK: There was a construction case in  
4 2005. Not that I'm aware of. I'm not sure  
5 what that refers to. We can look into  
6 that. But not that we're aware of.

7 MR. CICERO: We need to find out what the  
8 deal is on the meters.

9 I'm sorry. Please continue your  
10 questioning.

11 MR. PARK: All right.

12 Q Staff, again, cited the district  
13 for excess water loss after a 2018 inspection. In  
14 response the district stated that lots of road  
15 projects involving line relocates and blacktopping  
16 led to water loss. District states that it had a  
17 problem with getting accurate water use reports  
18 from contractors and fire departments.

19 How do these road projects use water? Is it  
20 just breaking lines or are they using it as part --

21 A Stealing it out of the water  
22 hydrants to water the roads down.

23 Q The contractors are stealing the  
24 water?

25 A The blacktopping crews, most of

1 the time, and the contractors will, too. You have  
2 to watch them like a hawk.

3 And the fire departments, been aiming to  
4 have a meeting with them the last few months, but I  
5 was going to wait probably another week. Like you  
6 said earlier, we will go by our tariff if they don't  
7 start reporting. Every month Ms. Holbrook has to  
8 call them and beg them, what did you use? You know,  
9 we give them these reports, but they don't want to  
10 cooperate with us.

11 So my suggestion is use our tariff, fine  
12 them \$50.

13 MR. CICERO: I was going to say, the  
14 quickest way to have somebody respond is  
15 just to issue them an invoice.

16 THE WITNESS: Yeah. I mean, you can just  
17 be good to so -- people so long.

18 MR. CICERO: By statute you're required to  
19 start collecting from them if they don't  
20 pay. Your tariff says you are going to  
21 charge them if they don't provide you with  
22 an estimate. Well, if they're not going to  
23 provide an estimate --

24 THE WITNESS: Yeah.

25 MR. CICERO: -- then you're obligated to

1 give them an invoice. It's not -- you  
2 don't have a choice of being lenient or  
3 whatever.

4 THE WITNESS: Yeah.

5 MR. CICERO: You need to provide the  
6 invoice.

7 THE WITNESS: And we've also had problems  
8 with some blacktop companies, had to shut  
9 one plumb off back last fall. We caught  
10 them -- I give them a meter that hooks on  
11 the fire hydrant, it was on a road job, and  
12 caught them filling their water trucks up  
13 without using that meter, so I just cut  
14 them plumb off.

15 MR. CICERO: Really just have a situation  
16 where you issue a minimum invoice  
17 regardless, since they don't attach the  
18 meter, that says since you haven't done  
19 what you're supposed to do, here's the  
20 minimum billing?

21 THE WITNESS: We just more or less have to  
22 take their word for it, how much they  
23 actually get.

24 MR. CICERO: Well, but you provided a meter  
25 and they didn't use it.

1 THE WITNESS: Yeah. That's whenever I cut  
2 them off and told them if we caught them  
3 again, we would prosecute them.  
4 MR. CICERO: Well, you should.  
5 THE WITNESS: Yeah. Yeah.  
6 MR. CICERO: That is theft.  
7 THE WITNESS: And it wasn't only just one  
8 company. It's been two companies that I  
9 have trouble with every year.  
10 MR. CICERO: Well, the same companies every  
11 year?  
12 THE WITNESS: Uh-huh (affirmative). That's  
13 the only two in our area that does  
14 blacktopping.  
15 MR. CICERO: And they violated more than  
16 once?  
17 THE WITNESS: Yes, sir.  
18 MR. CICERO: And you haven't prosecuted  
19 them?  
20 THE WITNESS: It wasn't left up to me at  
21 that time.  
22 MR. CICERO: Okay. Well, I guess that's  
23 one of those issues that going forward the  
24 new board will --  
25 THE WITNESS: Yes. They will back me 100

1           percent.

2           MR. CICERO: Sorry.

3 BY MR. PARK:

4           Q           Did the district try to recover  
5 the cost of that stolen water from the two road --

6           A           The last time I caught one of  
7 them, a blacktop company, they went ahead and made  
8 it right. They come up with a estimate which I  
9 think was more than fair. I think they may have  
10 even paid us a couple hundred dollars more than  
11 what they actually got, because they wanted to go  
12 ahead and get water again.

13          Q           That was my next question, is how  
14 do you determine water usage when somebody just  
15 pulls their water truck up?

16          A           It's about impossible, unless you  
17 know what size tank they got and how much they are  
18 actually hauling.

19          Q           Right. Are you aware that under  
20 the tariff the district can -- if a fire department  
21 doesn't submit timely usage reports, you can not  
22 only impose a 50-dollar fee, but you can charge for  
23 the cost of the water?

24          A           No, I didn't know that. I read  
25 their tariff, but I didn't see that in it. I read

1 the 50-dollar fine, but I didn't read the...

2 Q I've got -- yes, any city,  
3 county, urban county fire protection district that  
4 withdraws water from the utility's system, if the  
5 fire protection fails to submit the required report  
6 on water usage in a timely manner, shall be  
7 assessed the cost of this water. Shall be, so...

8 A You know, you're dealing with  
9 rural fire departments, which I'm a member of two  
10 of them, or used to be. You know, we -- we just  
11 ask them to fill the form out. We don't charge  
12 them for fighting fires, for training or anything  
13 like that, but it all goes back to the political  
14 stuff. You hate to do anything to a fire  
15 department. You know, they're all volunteers. But  
16 then, again, you know, a thousand gallon of water  
17 is a thousand gallon of water. It don't matter if  
18 it's a customer stealing it or a fire department or  
19 a contractor stealing it, it's still -- nobody's  
20 reporting it.

21 MR. CICERO: I think all that you're  
22 requiring them to do is provide an estimate  
23 and the water --

24 THE WITNESS: It is.

25 MR. CICERO: -- is free. That's not a --

1           that shouldn't be an undue burden --

2           THE WITNESS:   No.

3           MR. CICERO:   -- to provide the estimate.

4           THE WITNESS:   And we shouldn't have to call  
5           them every month begging for them to fill a  
6           form out or tell us.  But it's went on for  
7           years, though.  I mean ever since I've been  
8           there, it's always been like that.

9           MR. CICERO:   That's what change is all  
10          about.

11          THE WITNESS:   Yes.

12          BY MR. PARK:

13                 Q           From your experience in  
14           operations, what do you think the primary source of  
15           the district's leaks are, the distribution main,  
16           service lines, meter sits?

17                 A           Like I was saying a while ago, I  
18           thought we had a whole lot of leaks.  Rural Water  
19           come down last month and helped us do one whole  
20           west end of the county where we purchase water from  
21           Cave Run Water Commission.  We found one small  
22           leak.  We've got another 8-inch line, he found a  
23           little something in it, but whatever it is it's not  
24           coming to the top of the ground.  And that's part  
25           of the profile that Paul's working on, that we may

1 replace that section of line.

2 I never heard nothing to have anything to  
3 do. I didn't know what water loss was until 12  
4 years ago, because at one time we sold to the city  
5 of Campton and sold Frenchburg a little water.  
6 Well, after they quit buying, we said, water losses,  
7 we don't know what you're talking about. And then  
8 as time went on, I learned what it was about.

9 But I think it's a number of different  
10 things. It could be service lines, like you was  
11 saying. I have found a few where the saddle, the  
12 tapping saddle had loosened up and was spraying out.  
13 But I think a lot of it's now possibly in our  
14 meters.

15 Q Your current role as general  
16 manager, is it your responsibility to supervise the  
17 employees of the district?

18 A Yes, sir.

19 Q Both field and office?

20 A Yeah.

21 Q And how many total employees do  
22 you currently have?

23 A Five.

24 Q Five?

25 A Six counting me.

1 MS. HOLBROOK: Five, yeah.

2 BY MR. PARK:

3 Q Six counting you?

4 A Yeah. We've had a hard time  
5 keeping employees.

6 Q And why is that?

7 A The pay, for one thing. And then  
8 in a year's time I lost four employees for drug  
9 testing.

10 I have a good group of employees right now  
11 that I trust, I trust with my life, I'll put it that  
12 way. But it's to the point these small companies  
13 like Morgan Water, and probably some of the others  
14 here, they just can't afford to pay what Morehead or  
15 Mt. Sterling or somebody like that can pay.

16 Q So is there a --

17 A And it's hard to keep --

18 Q -- problem retaining them?

19 A Pardon?

20 Q A problem keeping them with the  
21 district once you've trained them?

22 A Yeah. My oldest employee  
23 outside, he's been there a year and a half. I've  
24 been here 16 and a half years, Chernell has been  
25 here 16, or somewhere around there. And then

1 another office lady, she has been there 12 or 13.  
2 But we're the oldest ones there.

3 Q And there's one office vacancy  
4 currently?

5 A Yes, sir.

6 Q Any vacancies in the field that  
7 the district is looking to fill right now?

8 A I need another one, but we just  
9 can't afford one right now, which -- whenever I  
10 retire I think they will be hiring another one plus  
11 a manager.

12 Q And if an additional field  
13 personnel is hired, additional person in the field,  
14 do you think it would be appropriate to sign that  
15 person to leak detection, leak fixing, or do you  
16 want to get a handle on the meter issue first?

17 A I'd like to see what's going on  
18 with the meters first, but also in that same  
19 project we're -- we're planning on -- and I know  
20 you-all do this, I think you-all have a lot to do  
21 with it, we was talking about getting a bench,  
22 meter testing bench. You-all certify people in  
23 those, don't you? Don't they have to go through  
24 you-all to get certified?

25 MR. CICERO: I don't think that's the case

1           anymore.

2       BY MR. PARK:

3           Q           I don't believe that's the case  
4       anymore.

5           A           Oh, I thought that's how it was;  
6       okay.

7           MR. CICERO: It was at one time, but...

8           THE WITNESS: Okay.

9           MR. CICERO: The Public Service Commission,  
10       just like a lot of the state and local  
11       governments, has had employee reductions,  
12       and some departments --

13       THE WITNESS: Yeah.

14       MR. CICERO: -- have been eliminated, and I  
15       believe that was one of the ones that is  
16       not funded anymore.

17       THE WITNESS: Oh, okay.

18       BY MR. PARK:

19           Q           There's a self-certification  
20       process.

21           A           We're hoping -- I got that one  
22       gentleman they kept talking about earlier that's  
23       probably going to take over the outside. He will  
24       be doing a whole lot of the -- the testing, the --  
25       looking for leaks, you know, and get him certified.

1 And I was telling them, you know, if we do get  
2 somebody certified and we get a test bench, we  
3 could test for other -- other towns, you know.  
4 Probably do it cheaper than what a bigger company  
5 can do it.

6 Q Do you feel like you have  
7 sufficient staff currently for daily operations of  
8 the district?

9 A No.

10 Q You need one office person and  
11 you feel like you need one additional in the field?

12 A Yes.

13 Q And the district currently uses a  
14 status system to monitor the master meters. What  
15 sort of shape is that system in?

16 A It's in pretty fair shape.  
17 There's times I lose a -- loss of signal on some of  
18 my pump stations and stuff, but depends on the --  
19 if it's cloudy or if it's raining or time of the  
20 year.

21 Q And the current process is just  
22 to monitor the master meters for any anomalies, and  
23 then send out your crew to look for the problem?

24 A I can -- which I was there  
25 whenever it was put in. Say, for instance, Sunday

1 morning, I got up, I can see my SCADA on my cell  
2 phone. I looked at it and I knowed there was  
3 something going on. I had used, compared to other  
4 mornings, probably 40,000 gallon more water,  
5 purchased 40,000 more than what I needed to. And  
6 the gentleman we was talking about, Mr. Legg, I  
7 knowed he was at church, so I thought I'll wait  
8 until he gets out of church and we go start  
9 looking.

10 Well, before he got out of church this guy  
11 called me. We had set a new setting last month, but  
12 didn't have the meter in the base yet. The guy  
13 hadn't hooked his line up. He called and said, I  
14 have water running across the road. I said, How  
15 long? He said, Probably a day or so.

16 And went out there and it had blowed out of  
17 the back of the meter, the service line had, for  
18 some reason or another. I don't know why.

19 But I can -- that's what I keep telling  
20 Mr. Legg. I said, You keep an eye on the SCADA  
21 system, you will know what your system is doing.  
22 You know if you're using too much water or if  
23 something's tore up. If you pay attention to it, it  
24 will learn you a whole lot.

25 Q Does the district have a policy

1 for how frequently it tests its meters?

2 A No. I know my master meters --  
3 like I said, I've got 3-inch and 4-inch. I have  
4 them tested every year. I know -- I don't have to,  
5 but I do. But as far as our other meters, we do  
6 whatever -- try to do whatever the PSC recommends,  
7 every ten years.

8 Q How do you track the age of the  
9 meters and when you need to have your testing done  
10 by?

11 A It's like I said, right now all  
12 these was put in at the same time.

13 Q So they will all have to be  
14 tested within ten years of that time, which should  
15 be coming up pretty soon?

16 A Uh-huh (affirmative).

17 Q Refer to Morgan County Water  
18 District's response to the discovery request dated  
19 May 3. Do you have those with you?

20 A Probably. If I can find where it  
21 would be in the book. 5th and the 3rd?

22 Q It would be the second data  
23 request.

24 MS. STEGMAN: May I approach the witness to  
25 help him?

1 MR. CICERO: Uh-huh (affirmative).

2 MS. STEGMAN: You said the May 3rd?

3 MR. PARK: Yes.

4 MS. STEGMAN: Yes, okay. He has that here.

5 THE WITNESS: Yeah, that's what I was  
6 looking at.

7 MS. STEGMAN: Yeah.

8 THE WITNESS: Okay.

9 BY MR. PARK:

10 Q If you could refer to the  
11 district's response to Question No. 19, and that's  
12 regarding master zone meters.

13 A Yeah, I know what you're talking  
14 about. I can't find it in here, but I know what  
15 you're talking about, though.

16 Q I'll ask a question if you need  
17 to refer --

18 A Go ahead.

19 Q How many zones is the district  
20 currently divided into?

21 A On our meter reading book we have  
22 19 routes, but that's way too many. I think we  
23 could narrow it down to like four to five zones.

24 Q Four to five zones?

25 A (Witness nods head.)

1           But meters out in the certain sections of  
2 those zones; not just your master meters, but test  
3 bypass -- not bypass meters, but something like, you  
4 know, zone meters --

5           Q           Zone meters?

6           A           -- is what I'm trying to say.

7           Q           How many additional zone meters  
8 do you think the district needs?

9           A           Five to six, just guessing.

10          Q           How is it determined how many  
11 additional bypass meters will be needed? Who will  
12 make that determination and how will they make  
13 that?

14          A           It will be left up to me, or, you  
15 know, I keep the board involved in it. And I work  
16 with Mr. Nesbitt and also talk to Tim Blaine with  
17 Rural Water, and he was helping us with it, trying  
18 to narrow it down by the number of customers, so  
19 many miles of line.

20          Q           Design your zones based upon  
21 that --

22          A           Yes.

23          Q           -- that information?

24                   And we've heard discussion of the financing  
25 project. Outside of that testimony is there any

1 plan to purchase these master meters, or you just  
2 assume it's going to be part of this project?

3 A It should be part of this  
4 project.

5 Q Is it a short-term goal,  
6 long-term goal? How soon do you-all hope to get  
7 the system zoned the way you want it?

8 A I'd say it will be next year,  
9 because they don't expect to get anything done on  
10 this project until late winter.

11 Q And if you now refer to Question  
12 21, which concerns the 811 call before you dig --

13 A Yes.

14 Q -- it states the district does  
15 not participate in the 811 call program.

16 A No.

17 Q And why is that?

18 A I called them about five years  
19 ago, and best I could get out of them, they charge  
20 you so much to be -- to be a member of that, and we  
21 just never -- never did sign up for it.

22 I hear that the Public Service Commission,  
23 they were working to possibly take over the 811. Is  
24 that the truth, or can you comment on it?

25 MR. CICERO: The 811 law was passed in

1 Kentucky by the legislature requiring the  
2 Public Service Commission to start  
3 regulating it, which we did in July of last  
4 year.

5 THE WITNESS: Yeah.

6 MR. CICERO: And we now monitor through  
7 relocates and calls and determine who is at  
8 fault in the case of a hit gas line, and  
9 then assess penalties per the statute that  
10 are required. As far as taking over the --  
11 I know there's an 811 organization --

12 THE WITNESS: Yeah.

13 MR. CICERO: -- that's separate from the  
14 Commission, that we do some work with them,  
15 John, but we're -- I mean, we're not part  
16 of that. I don't know if that's part of  
17 the question you are asking him or not.  
18 From a regulatory perspective, we're just  
19 enforcing the legislation that was passed  
20 last year.

21 THE WITNESS: Oh, okay.

22 MR. CICERO: We're the ones that collect  
23 the fines, and we're doing some advertising  
24 and things like that to make people aware  
25 of the fact that they're supposed to call

1 before they dig, but other than that...

2 THE WITNESS: Yes.

3 BY MR. PARK:

4 Q How do you-all handle excavators?  
5 Do you-all advertise to call you-all before you  
6 dig, or do you have a problem to deal with  
7 excavation?

8 A Our county's kind of small --  
9 well, it's small and it's not small. I've not had  
10 a -- say somebody gets out here in the middle of a  
11 field to dig and -- I've not had nobody cut a line  
12 in quite a while. Most of the time somebody lives  
13 around there will say, yeah, there's a water line  
14 there, you better call, you know, or if we see  
15 someone digging.

16 But 95 percent of the time people will call  
17 us and say, look, I'm wanting to do some digging or  
18 going to drill, something like that. I've had a few  
19 people call and say, I called 811 but you're not  
20 part of it. I said no. But they always find out  
21 who they need to call, though, seems like.

22 Q So how many dig-ins do you think  
23 you would have in an average year where a pipeline  
24 or water line is damaged?

25 A I might go two years and maybe

1 have one.

2 Q All right. And is your current  
3 mapping system accurate enough for you to locate  
4 those lines?

5 A Yes. Which I was there whenever  
6 a lot of the lines was laid, and I -- I know by  
7 just memory where -- I could probably take you to  
8 95, 96 percent of our lines.

9 Q As far as the maps that will be  
10 here after you retire, are they accurate enough to  
11 enable your successor to go out there and locate  
12 them?

13 A Yeah. We still have plans from  
14 the previous projects, except we lost a lot of our  
15 old ones during tornado, but Joselyn -- I can't  
16 think of her last name. She works for Gateway ADD  
17 District. After, like, three years she found them  
18 in the archives division of water. And they're not  
19 the best ones in the world, but at least you can --  
20 you can see them and tell what size line it is and  
21 stuff like that.

22 And Gateway ADD brings us a new map every  
23 year. It's not always accurate, and that's what I'm  
24 working with Nesbitt Engineering with, telling them,  
25 because just the other day they showed a line as a

1 4-inch, but really it's 8-inch. So I'm working with  
2 them on that to get an up-to-date set of maps before  
3 I leave.

4 Q Refer to the response to question  
5 21B in the same set of discovery. That's  
6 concerning mapping. And the question is, "Provide  
7 an approximate date for completion of a mapping of  
8 the entire distribution system for service line and  
9 connections." And the response is, "About five  
10 years." Are you familiar with that?

11 A Yes.

12 Q And what is the basis --

13 A I was the one probably answered  
14 that.

15 Q Okay. What's involved in doing  
16 that?

17 A Time. And like I said, it's  
18 going to be hard to tell where a lot of the service  
19 lines is. Just because a meter is right here, that  
20 don't mean straight across the road is where they  
21 tapped it. It may be 20 foot here and they have  
22 had to run it up a ditch line. But just having the  
23 time and the manpower to do it.

24 Q So this is not actually something  
25 that's planned --

1 A No.

2 Q -- it's just best-case scenario  
3 you can do it in five years?

4 A Yeah.

5 Q We previously heard testimony  
6 about water thefts. I'm going to ask you a few  
7 follow-ups. Have you ever dealt with the county  
8 attorney on these water thefts?

9 A I'm the only manager we've had  
10 that actually took people to court. I know I  
11 probably caught like six, and I think two that's  
12 actually possibly went to court.

13 Q You think two were taken to  
14 court?

15 A I'm pretty sure they settled. I  
16 don't think -- I don't know if they actually went  
17 to court. The lawyer got warrants on them, I do  
18 know that, and they did arrest one guy. He come  
19 and he paid for all the water, and he even hooked  
20 back up to our water.

21 And the other one, I'm pretty sure he went  
22 to court, but we never heard nothing from him. I  
23 don't know what the court decided to do. But now,  
24 some of the rest of them, like the information we  
25 sent to you-all on the ones we took to court, some

1 of them don't look like they was ever picked up by  
2 the sheriff's department or whoever.

3 Q Does the district typically send  
4 a bill for that stolen water or pursue recovery?  
5 It sounds like the one person paid you for the cost  
6 of the water they stole.

7 A Yes.

8 Q But the other folks that have  
9 been suspected of stealing, do you-all try to bill  
10 for that or --

11 A Yeah. Most of them just moves  
12 off, don't know where they -- where they went.

13 Q I'm going to refer to the  
14 district's response to Question No. 24, and that is  
15 the question about flushing equipment.

16 A Yes.

17 Q Several districts have reported  
18 they had problems with their automatic flushing  
19 equipment. Is that an issue that Morgan County has  
20 experienced?

21 A I've got one right now that's --  
22 the controller is messed up. I've got a new one  
23 ordered. I did have one one winter that it  
24 actually stuck wide open and run for like a month  
25 before we ever found it.

1           And they're supposed to put out 200 gallon a  
2     minute. I don't know if they actually will put out  
3     that much, but we knowed something was going on. We  
4     was looking for a leak. That's whenever I was field  
5     manager. Me and the manager and another guy that  
6     works with us was out looking for a leak, and just  
7     happened to run up on this automatic flusher stuck  
8     wide open.

9           Q           Is that something the SCADA  
10    system would have alerted you-all to?

11          A           No, sir. I mean, yes, I could  
12    have told -- that's the reason I was going out  
13    looking for a leak. I could tell I was using more  
14    water from the Cave Run side than what I normally  
15    did.

16                 But, yes, every now and then you have faults  
17    with them, battery run down or something like that.  
18    I think I'm running six, seven right now, six or  
19    seven.

20          Q           Does the -- previously we heard  
21    testimony that the district has some informal  
22    policies and procedures, maybe some written  
23    procedures. Does the district have an operation  
24    and maintenance manual that would cover the  
25    day-to-day operations of the district? For

1 example, set forth how you track the inspections in  
2 your meters, the intervals at which you inspect  
3 your meters, just various protocols for operations?

4 A No, sir.

5 Q Do you think that would be  
6 helpful?

7 A Yes. I think our new board will  
8 have that done. I'll help them all I can while I'm  
9 still there.

10 And, you know, like Mr. Elam was talking,  
11 all of our board members is new, they got good  
12 background, good business sense to them. I've  
13 worked with different board members, but I think --  
14 I'm thinking -- Mr. Elam thinks it may take three or  
15 four years, but the way they're going now and the  
16 way they're trying, should be able to tell a big  
17 difference in Morgan County Water District within  
18 another 12 months.

19 Q Do you feel like you're getting  
20 the support you need from this board?

21 A Yes, sir. And the new judge, he  
22 don't bother us unless we need him. If we call  
23 him, he's there for us.

24 MR. PARK: I have no further questions.

25 \* \* \* \* \*

1 EXAMINATION

2 BY MR. CICERO:

3 Q Mr. Pelfrey, you seem like you  
4 have a lot of legacy knowledge and a lot of  
5 experience.

6 A That's about all I've ever done.

7 Q But when you talk about support  
8 from the board and you think there will be a lot of  
9 major changes, what's your estimate on --

10 A Pardon?

11 Q -- progress that you could see on  
12 water loss towards the 15 percent?

13 A I have always argued years ago  
14 that if somebody said they had 15 percent or lower,  
15 what they report, that they was lying.

16 Q Probably.

17 A I don't know if we'll ever see  
18 15 percent or not, myself. If I can get it in the  
19 low 20s, I'll be tickled.

20 Q Okay.

21 A The last couple of months on the  
22 West Liberty side has been, like, 26 percent for  
23 the last two months. Before that it run  
24 62 percent. I found a leak that I'd been looking  
25 for for possibly a year, and whenever I did find

1       it, it was under backwater, and it was in a road  
2       bore, a 4-inch line. Never had but two customers  
3       on it.

4               We just grew too big too quick back in the  
5       mid 2000s, from like 2003 on up. It was one project  
6       after another. Someone was playing politics with  
7       it. We run lines that shouldn't have been run, not  
8       at that time.

9               Q           Politics are always involved.

10              A           Yeah.

11              Q           No doubt about it.

12              A           And I know how it is. I mean,  
13       that's -- it's not only Eastern Kentucky, it's  
14       everywhere. Politics is everywhere.

15              Q           So you were asked a question  
16       about policies and procedures, and you said that  
17       you would help as much as possible to develop  
18       those.

19              A           Yes.

20              Q           Has there been any discussion  
21       from the board regarding about what priority that  
22       has become within the organization, or is that  
23       something on the back burner that is not being  
24       concerned right now just because of other issues?

25              A           It's kindly on the back burner, I

1 guess. I mean, that's a question Mr. Elam could  
2 probably answer better than me. But I'm sure if I  
3 asked the board, they would jump on it right now.  
4 And I'll probably -- if they still want me after I  
5 retire, I'll probably work for them a couple days  
6 out of the week.

7 Q Well, given your retirement  
8 plans, I'm sure that if you're going to help it  
9 will have to be sooner than later.

10 A Well, with the state retirement  
11 you know you got to sit out 90 days, or something  
12 like that, which I don't like cold weather no way.  
13 I'm froze to death in here, too.

14 MR. CICERO: Understood. At any rate,  
15 that's for the field policies and  
16 procedures. I'll ask Ms. Chernell when she  
17 comes up about the office policies and  
18 procedures.

19 Mr. McNeil, any questions?

20 MR. McNEIL: Just a few follow-up. Thank  
21 you.

22 EXAMINATION

23 BY MR. McNEIL:

24 Q Mr. Pelfrey, do you think water  
25 theft is a serious issue as to the district's water

1 loss in total?

2 A No, no.

3 Q No?

4 A It's a part of it, but it's a  
5 very small part.

6 Now, are we talking theft as of contractors  
7 or residential?

8 Q Either, or both. I mean,  
9 which --

10 A Residential more than the  
11 contractors.

12 Q Residential is a bigger problem?

13 A Yes.

14 Q So how do you -- how do you-all  
15 go about finding, you know, cheater bars or stolen  
16 water? How do you do that?

17 A If the meter has been tampered  
18 with, whenever we go read them it will throw a red  
19 flag out to us with our radio read. And a lot of  
20 times neighbors will tell on people if they see  
21 them out digging.

22 What we do, we lock them down, and about  
23 every week or so we go check it. Sometimes they  
24 took the lock off of it. We pull the whole meter,  
25 and then put a -- probably a padlock on it the next

1 time.

2 And then used to, the previous board -- not  
3 the board we have now -- they decided to give the  
4 people -- you know, didn't want to step on nobody's  
5 toes -- we give you one chance; don't do this no  
6 more. Well, the new board give me the authority --  
7 I don't even give them a chance anymore. They do it  
8 to us one time, I take them to court. I catch them  
9 stealing and I take them -- go get a warrant on  
10 them.

11 Q So, yeah, used to be there's an  
12 answer that you would lock the meter, you would  
13 send a letter, then maybe you might go back and  
14 pull --

15 A That's the way it used to be.

16 Q So now you're saying you find it,  
17 you might pull the meter, lock it, and pull it  
18 right away --

19 A Yeah.

20 Q -- refer it to the prosecutor?

21 A Yeah.

22 Q Okay.

23 A And I've had great response from  
24 our board for letting me do that, you know, because  
25 you know, it's costing everybody whenever they

1 steal it. It's...

2 Q And then as far as the blacktop  
3 contractors, are you confident that going forward  
4 you can -- the district can take --

5 A I don't know -- I don't know if  
6 you can ever stop it or not.

7 Q Yeah.

8 A Just like a road contractor. If  
9 they're out there and they see a fire hydrant out  
10 in the middle of nowhere, they don't think they  
11 will get caught on a country road or somewhere,  
12 somebody is always going to hook to it. I'm sure  
13 it happens everywhere.

14 Q Is that something where if you  
15 look at the SCADA, you can maybe figure it out, or  
16 is it not enough?

17 A No, not really, because if  
18 they're just filling up a 500 or 1,000 gallon tank,  
19 you're not going to be able to tell that right  
20 off -- right off the bat.

21 Q What about when you get -- if you  
22 get master meters zoned right -- the right way,  
23 will you be able --

24 A Pardon?

25 Q When you get master meters

1 zoned --

2 A Yes.

3 Q -- the right way, could you see  
4 it through that?

5 A I would doubt it. It would be  
6 such a small amount.

7 Q Okay.

8 A I think it would have to be  
9 something that's carrying on for three or four  
10 hours. I don't think just -- I don't think you'd  
11 be able to tell, really.

12 Q So I saw some of the -- in the  
13 materials submitted I saw some work orders there  
14 were reported leaks, and then it was written down  
15 didn't find the leak. How often is that the case,  
16 do you think?

17 A During this wet weather we've had  
18 quite a bit of it, in the last couple years  
19 especially. And it don't bother me because at  
20 least somebody has seen some water in a ditch line  
21 or something. It's -- of a wintertime it's a whole  
22 lot easier to find one because we use a chlorine  
23 test kit; it shows chlorine, you know it's coming  
24 from somewhere. But now of a summer, whenever it's  
25 real hot, sunlight kills that chlorine pretty --

1 and the heat kills that chlorine fast.

2 Q So you think when you get the  
3 master meters zoned and you have the kind of  
4 reporting, people reporting leaks that you have  
5 now, could see a much better rate, finding those  
6 leaks and fixing them?

7 A It would be hard to tell. I  
8 think it would help. There's no doubt it will  
9 help. It will just tell me in that one certain  
10 zone, you know.

11 Q Right.

12 A Yeah, I think it will help.

13 Q So if it's in the zone, how do  
14 you go about finding it?

15 A If it's in the zone, what I would  
16 probably do is drive from that master meter, if  
17 it's three or four miles -- we have close to  
18 400 miles of line, and we just drive the road or  
19 walk. Sometimes our lines is way off the edge of  
20 the road and sometimes you got to walk.

21 Q So it could take a while?

22 A Yes, sir.

23 Q Okay.

24 A But the main thing probably what  
25 I'd do first, I pass that master meter, if it's a

1 big enough leak I'd shut a valve off the first one  
2 I come to, and then try to -- try to find where  
3 it's coming up through the ground.

4 Q Right. So there was some talk of  
5 Kentucky Rural Water having a sonar --

6 A Yes, sir.

7 Q -- listening device, and that's  
8 something you might be getting through this  
9 project?

10 A Hope so.

11 Q Is there anything besides that,  
12 anything else that would help you-all in leak  
13 detection that you're looking at?

14 A We're putting in for a listening  
15 device, too. I have an old one we've had for  
16 years. Sometimes it works, sometimes it don't.  
17 It's got like headphones you put on and a magnet.  
18 You can put it down on a meter and you can hear if  
19 there's water going -- you know, least small amount  
20 of water you can hear going through a pipe or a  
21 valve, either one.

22 It won't tell you -- the sonar thing will  
23 tell you how much water is going through that pipe  
24 at a certain speed and everything, but it -- you  
25 can't hear it through it, I don't think, the one we

1 was using. You could look at a graph and tell,  
2 but...

3 Q Okay. The listening device is  
4 totally separate from the sonar equipment?

5 A Yes.

6 MR. McNEIL: Okay. That's all I have right  
7 now.

8 MR. CICERO: Ms. Stegman, do you have any  
9 questions?

10 MS. STEGMAN: Just a couple.

11 EXAMINATION

12 BY MS. STEGMAN:

13 Q Has there been some recent  
14 improvement in the water loss?

15 A Yes, in the last two months.

16 Q Can you tell us kind of from --  
17 starting, say, in January of this year kind of how  
18 your water loss has trended on your water loss  
19 reports?

20 A How it's went down?

21 Q Yeah. What kind of -- what kind  
22 of difference are you seeing?

23 A Okay. Cave Run side, it'd been  
24 running up in the 64 to 65 percent. Right now it's  
25 44 percent or 34. It was --

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1 MS. HOLBROOK: I don't remember. Last  
2 night...

3 A It was last night whenever we  
4 turned it in.

5 MS. STEGMAN: May I approach?

6 MR. CICERO: Yes, you may.

7 BY MS. STEGMAN:

8 Q Do you recognize these two  
9 documents?

10 A Yes.

11 Q What are those?

12 A This is the water loss report for  
13 June.

14 Q And is May there as well?

15 A Yes.

16 Q Okay. And can you tell the  
17 Commission what the water loss was total from both  
18 Cave Run and West Liberty for May and June?

19 A I was looking for Cave Run's.  
20 This is...

21 Q These are the combined reports,  
22 so it will just be a total number at the bottom.

23 A Oh, okay.

24 Q Yeah.

25 A Combined in May?

1 Q Yes.

2 A If I'm looking at this one right,  
3 48.6 percent. Or down at the very bottom?

4 Q Down at the very bottom.

5 A Okay. In May is 27.5 percent and  
6 in June 26.8.

7 MS. STEGMAN: Okay. And if I can approach,  
8 I'd like to --

9 MR. CICERO: Yes, you may.

10 MS. STEGMAN: No further questions.

11 MR. CICERO: Mr. Park?

12 MR. PARK: Real quick.

13 EXAMINATION

14 BY MR. PARK:

15 Q Regarding the loss that counsel  
16 was just -- or the decline in the loss that counsel  
17 has just referred to, what do you attribute that  
18 to?

19 A I fixed a few small service line  
20 leaks, and like I said, on the West Liberty side I  
21 fixed that one 4-inch line that was leaking in the  
22 casing, that the -- on the Cave Run side Rural  
23 Water helped us find one. And the ones that I did  
24 find over in the west end of the county, which --  
25 where we buy it from Cave Run, they was all small

1 service line leaks, not just one big leak. We  
2 found a service line leak that I know was putting  
3 out probably 100,000 gallon a day through a  
4 3/4-inch line.

5 MR. PARK: I have no further questions.

6 EXAMINATION

7 BY MR. CICERO:

8 Q So looking at the two monthly  
9 water loss reports, system flushing was responsible  
10 for a very large portion of your water consumption  
11 that's not considered water loss.

12 A Probably, what was that, 3  
13 million gallon or so?

14 Q Actually, 4.7 on both of them.

15 A Okay.

16 Q Is that considered typical,  
17 4.7 million gallons for system flushing?

18 A Well, where I got like six or  
19 seven of them running right now, then if we have  
20 a -- have a major line leak, a transmission line,  
21 we do a lot of flushing trying to get the air and  
22 the chlorine.

23 Q So this is probably high because  
24 of identified leaks; is that an accurate statement?

25 A Leaks and auto flushers together.

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1 Q What would be a typical flushing  
2 month?

3 A February -- February or March.

4 Q About how many --

5 A Where I don't have them on --  
6 there's two of them I run year-round.

7 Q Okay. And so what would be the  
8 gallons associated with that flushing?

9 A Depends on how many hours or  
10 minutes a day I have them set for.

11 Q That's what I'm asking. What's a  
12 typical month? Just -- I'm not looking for a  
13 specific number, just an estimate.

14 A This would be a guess, just a  
15 guess.

16 Q Just a guess.

17 A Maybe a million and a half, two  
18 million.

19 Q So there's a lot of system  
20 flushing going on right now?

21 A Yes, sir.

22 Q Okay.

23 A And some of it's for -- to keep  
24 the chlorine up and then water quality, too, for my  
25 THMs and HAAs.

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1 MR. CICERO: Do you want to introduce this,  
2 or is this just for your information?

3 MS. STEGMAN: However you would like to do  
4 it, Commissioner, because we will be filing  
5 this electronically after the hearing. So  
6 if you'd like to introduce it, we can do  
7 that, or if you want it to just be filed  
8 after the fact, that's fine, too.

9 MR. CICERO: Why don't we just introduce it  
10 and call it Morgan County -- this is the  
11 first one you handed out?

12 MS. STEGMAN: Yes.

13 MR. CICERO: Morgan County Exhibit 1. Did  
14 you have a copy?

15 MR. McNEIL: I got a copy, yes.

16 MR. CICERO: I guess we're all set on that.  
17 You don't have anything else?

18 MS. STEGMAN: Nothing else.

19 MR. CICERO: May the witness be excused?

20 MR. PARK: Yes, your Honor.

21 MR. CICERO: You may step down. Thank you  
22 for your --

23 THE WITNESS: Okay. I'm just now getting  
24 in a talking mood. Thank you-all.

25 MR. CICERO: We have some hearings that go

1 on a lot later than what this one's going  
2 to go.

3 Do you have another witness?

4 MR. PARK: I do not.

5 MR. CICERO: Would you like to call your  
6 office manager?

7 MS. STEGMAN: Not unless the Commission has  
8 questions.

9 MR. CICERO: I'd like to ask her a few  
10 questions.

11 MS. STEGMAN: Sure.

12 \* \* \* \* \*

13 The witness, CHERNELL HOLBROOK, after first  
14 being duly sworn, was examined and testified as  
15 follows:

16 EXAMINATION

17 BY MS. STEGMAN:

18 Q State your full name for the  
19 record.

20 A Chernell Holbrook.

21 Q And where are you employed?

22 A Morgan County Water.

23 Q What's your current position at  
24 the water district?

25 A Office manager.

1                   Q                   And how long have you been the  
2 office manager?

3                   A                   One year.

4                   Q                   Okay. And prior to that what  
5 position did you hold?

6                   A                   Utility clerk.

7                   Q                   And how many years total have you  
8 been with the district?

9                   A                   Nearing 16.

10                  MS. STEGMAN: Okay.

11                  MR. CICERO: Do you have any questions?

12                  MR. PARK: I got a few that Mr. Reed has  
13 provided to me.

14                                       EXAMINATION

15 BY MR. PARK:

16                  Q                   Does the district have any  
17 problems with the accuracy of the AMR meters?

18                  A                   AMR?

19                  Q                   The radio read?

20                  A                   Well, if the radio is reading, it  
21 will read correctly, if the meter is not dead.

22                  Q                   Do you have problems --

23                  A                   If we have problems -- we know  
24 they're active in the system. We send the men out  
25 manually to read them until we can fix the problem.

1           Q           Does the district experience many  
2           billing errors, or are billing errors an issue that  
3           you-all have to deal with, either over or  
4           underbilling?

5           A           That would all depend on the  
6           meter, if we got a defective meter, and then if we  
7           go out and find that it's got some crazy read, we  
8           correct it and rebill.

9           Q           Is that -- how often is that? Is  
10          that --

11          A           Rarely.

12          Q           -- a rare problem?

13                 Do you know the status of the county  
14          attorney's prosecution, or looking at prosecuting  
15          water theft?

16          A           He does do that for us. We had  
17          one for sure, and we've had several others that's  
18          paid for their water, come clean and paid for the  
19          water.

20                 And beyond that, we've also -- the only  
21          thing us girls can do in the office to help is we  
22          started printing this list off that one of the  
23          software people told us how to do, and that prints  
24          off the list of the non-active meters. They are  
25          read every month, even though they're not active,

1 and we printed off a list and we've slowly been  
2 going through them and finding the customers who  
3 have turned off -- turned on meters that should be  
4 off.

5 MR. CICERO: So when you say non-active it  
6 would be somebody that moved and they --

7 THE WITNESS: Supposed to be locked down,  
8 yeah.

9 MR. CICERO: Okay. So they have had a  
10 prior violation of theft or --

11 THE WITNESS: Not necessarily. They could  
12 just, you know, moved out and somebody else  
13 moved in.

14 MR. CICERO: And didn't --

15 THE WITNESS: Popped the lock and, you  
16 know, never come in and activated it. And  
17 we found -- so far we found two, I believe,  
18 and both of them has come in and paid, and  
19 one of them is upwards \$1,500.

20 BY MR. PARK:

21 Q Does the district have much of a  
22 problem with delinquent accounts?

23 A We've got quite a large bill of  
24 delinquent accounts, but I'd say about 90 percent  
25 of people pay their bill when it's due. Another 10

1 percent will pay past due, and maybe 3 percent  
2 we'll cut off.

3 Q The ones that are cut off, do you  
4 pursue collection efforts or turn those over to a  
5 collection agency?

6 A Generally they will eventually  
7 come in. We've got some that they'll move off or  
8 they'll come in and put it in their spouse's name,  
9 and that's a big pet peeve for us. And we know it.  
10 We know it, but, you know, can't deny them water.

11 Q Are you responsible for  
12 submitting the quarterly meters reports --

13 A Yes.

14 Q -- to the Commission? Okay.

15 I've been informed that we appear to be  
16 missing the first and third quarterly meter reports  
17 for 2018. Is that something you-all can provide?

18 MS. STEGMAN: The first and third --

19 MR. PARK: First and third quarterly meter  
20 reports for 2018.

21 MS. STEGMAN: Okay.

22 MR. CICERO: He will provide you a written  
23 request as a post hearing data request.

24 MS. STEGMAN: Okay.

25 MR. CICERO: If you don't get it from us in

1 writing, you don't have to respond. Same  
2 thing with the AG, if he has any requests  
3 he will put them in writing.

4 MR. PARK: That's all I have.

5 EXAMINATION

6 BY MR. CICERO:

7 Q So you are the office manager and  
8 you were previously employed there in other  
9 positions. And did the prior office manager decide  
10 to leave, or what happened that they are no longer  
11 there?

12 A They created my job, my position.

13 Q They created your job?

14 A Yeah. The other general manager  
15 left. When he left he just said, I want to give  
16 you this position because I know you're going to  
17 get more work thrown on you.

18 Q So have you had any experience  
19 with developing policies and procedures,  
20 purchasing, procurement, accounting, anything along  
21 those lines?

22 A No, sir.

23 Q There are places to find  
24 package-type, you know, boilerplate policies which  
25 you can go online and have. And it would be a good

1 start in order to put in place some procedures in  
2 order to make things run on a consistent basis so  
3 people -- I mean, it's just like you found the  
4 software. You were advised on the software that  
5 this program exists that could print out this list  
6 of customers that was supposed to be inactive and  
7 then you started to find out that there -- some of  
8 them were showing activity, and that's a good way  
9 to determine that somebody has either inadvertently  
10 decided to turn their water back on or forgot to  
11 come to you, or they're just out stealing. I'm not  
12 going to throw any stones.

13 A Stealing.

14 Q Probably. I try to give them as  
15 much benefit of the doubt as I can.

16 A Yeah.

17 Q At any rate, those types -- even  
18 like purchasing, I don't know how you -- do you own  
19 trucks, do you lease trucks?

20 A Lease.

21 Q Okay, you lease trucks. And  
22 they're assigned to employees?

23 A Uh-huh (affirmative).

24 Q When they fill up for gas, how do  
25 you determine that the purchase for that truck is

1 gas actually going into the truck and not --

2 A They put their mileage in.

3 Q So do they call and ask for  
4 approval or do they just turn in a receipt?

5 A Turn -- I gather all the receipts  
6 and put it with the bills.

7 Q There's no way to actually check  
8 and see whether the gas going in -- you're looking  
9 for reasonableness, I guess, but there's no firm  
10 that says if you're going to buy gas, you're  
11 supposed to use a piece of paper that says I'm  
12 going to match this up at the end of the month or  
13 whenever the credit card bills comes in. Does  
14 anybody reconcile gas receipts? I presume it's by  
15 credit card?

16 A Well, through Fleet -- through  
17 Fleet.

18 Q So it's a Fleet credit card --

19 A Yes.

20 Q -- that's part of --

21 A And the men bring in the receipts  
22 and I put the receipts with the statements every  
23 month.

24 Q Okay. So you are reconciling --  
25 I don't know what you call that -- Fleet credit

1 card or whatever it is. It's just an example of  
2 what I'm referring to in terms of other purchasing.  
3 I don't know what is permitted by Morgan County of  
4 their employees, whether they buy --

5 A We've got a purchase order book.  
6 If they want to go get tools or anything of that  
7 nature, they have to -- they have to have a PO for  
8 it.

9 Q So who issues the PO? Do you?

10 A Steve or I.

11 Q One of the two of you?

12 A Uh-huh (affirmative).

13 Q So if a PO is issued and they  
14 have called in and said, I need a PO because I have  
15 to go to the hardware store and I need a new set of  
16 sockets, and one of the two of you says, okay, that  
17 sounds good, I give you -- I'm giving you a PO, you  
18 issue it to the hardware store, the hardware store  
19 says, here's your tools, and they send a bill  
20 directly to Morgan County?

21 A Yes.

22 Q And then those are matched up,  
23 and anything like that is done all by you or by  
24 your clerical people or your staff?

25 A Myself.

1           Q           Do you have a -- kind of like a  
2 book list of instructions that says in case you're  
3 not there this is how it's supposed to work?

4           Because, obviously, Mr. Retirement is going to be  
5 gone over there and that leaves you about one-half  
6 of the equation here that --

7           A           Yeah.

8           Q           I don't believe you're going to  
9 be there every day, so I'm just --

10          A           I haven't had a vacation in three  
11 years.

12          Q           Okay. There you go.

13                 So I guess my point is, if nothing is ever  
14 memorialized in a set of real procedures, then  
15 things tend to get skewed. They get off track  
16 because there's no real roadmap to follow. People  
17 have a general idea what goes on, but the people  
18 that put in place those and make sure they work, if  
19 they're not there, then the people that remain have  
20 an idea what's going on, but they can't really  
21 follow the tracks on how it's supposed to work. So  
22 I'm going to -- I would strongly recommend that --

23          A           Put it in writing?

24          Q           Not just for the office, but  
25 for --

1 MR. ELAM: I'm taking note.

2 BY MR. CICERO:

3 Q It will probably be mentioned in  
4 whatever comes out in terms of -- especially the  
5 final order. I'm sure we're going to put something  
6 like that in for everybody because it's just good  
7 business practice to know what you're doing in  
8 terms of how you function on a day-to-day basis  
9 with the people you have.

10 People -- you know, your operations should  
11 be able to continue to run if, God forbid, somebody  
12 got hit by a bus, but things don't grind to a halt,  
13 or they don't become chaotic as you're working  
14 through it. So, I mean, that's the whole purpose of  
15 it.

16 So I guess I won't ask any questions on the  
17 theft and the other because there's no real  
18 procedure in place. It's just you're kind of --

19 A Find them and prosecute them.

20 Q Find them and prosecute them.

21 But even if you turn it over to the prosecutor, it  
22 sounds like in some cases if you don't hear back  
23 from the prosecutor, you don't know what happens to  
24 that customer; if they have stolen water, whether  
25 they have actually been prosecuted. I mean, I

1 don't know what you do on your side of the  
2 equation, whether you say --

3 A We need better -- better  
4 follow-up, sounds like.

5 Q You need better follow-up, plus  
6 you tag them and cut them off, or if they've stolen  
7 water -- I mean, you got these meters, and that's  
8 one of the meters that may continue to -- I mean,  
9 do you go out and make sure it's locked off as soon  
10 as you find out they're stealing, or what -- what  
11 happens?

12 A If they're stealing, we go ahead  
13 and pull the meter, if we don't trust them. If  
14 they've unlocked it once on us, we pull the meter.

15 Q Okay. All right. Well, I guess  
16 it would be good if you had some way to follow from  
17 beginning to end once you decided that somebody is  
18 worthy of being turned over to a prosecutor, that  
19 they have either been found not guilty, or got  
20 prosecuted and fined, if there is a judgment  
21 entered against them and the district qualifies for  
22 a payment. I mean, all those things would be  
23 pertinent, I would think, to long-term knowing  
24 whether you're due funds, not due funds or what the  
25 outcome was, at least, of any prosecution they

1 initiated.

2 A Yes.

3 Q I would encourage invoices to be  
4 issued to the fire department if they are not going  
5 to provide an estimate of the water. And I  
6 understand how volunteer fire departments work. I  
7 applaud them for their work. But providing an  
8 estimate is not that big of a deal, I don't think.  
9 And I think the way to encourage them to comply  
10 with your tariff, which you have a tariff that says  
11 they are going to pay if they don't provide an  
12 estimate, is to go ahead and bill. And first I'd  
13 call up and say what the heck are you doing, but  
14 after a while they realize their responsibility and  
15 hopefully you'll receive the estimate so that you  
16 can have a better accounting.

17 A Yeah, I just ask for them by the  
18 5th, and that's not unreasonable.

19 MR. CICERO: I don't think asking for one  
20 anytime is unreasonable, but that's my  
21 opinion.

22 I guess that's all I have.

23 Do you have questions, Mr. McNeil?

24 MR. McNEIL: I don't have any questions.

25 MS. STEGMAN: No questions.

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1 MR. CICERO: May this witness be excused?

2 MR. PARK: (Witness nods head.)

3 MR. CICERO: Thank you very much. I  
4 appreciate you coming up, even though you  
5 weren't requested.

6 Is there any other witnesses that  
7 you --

8 MR. PARK: No, Your Honor.

9 MR. CICERO: Ms. Stegman, anything else?

10 MS. STEGMAN: Nothing further.

11 MR. McNEIL: I would just move to admit my  
12 exhibit.

13 MR. CICERO: Certainly.

14 MR. PARK: No objection.

15 MR. CICERO: Pleased to admit AG Exhibit 1  
16 and Morgan County Exhibit 1. I guess that  
17 will be 1 and 2; right?

18 MS. STEGMAN: Yes.

19 MR. CICERO: Morgan County Exhibit 1 and 2.

20 Is there any other business?

21 MR. PARK: Nothing else.

22 MR. CICERO: Okay. So that being the case,  
23 you will have your request for any post  
24 hearing data information out by -- let's  
25 see, today's Tuesday -- today's Tuesday the

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1 9th. The 16th?

2 MR. PARK: Certainly. There's not much  
3 else going on.

4 MR. CICERO: I know. That's why I'm not  
5 trying to push it this week, because I know  
6 what's going on. But there's not that many  
7 requests to be made anyway. I don't think  
8 you had any.

9 MR. McNEIL: I had none.

10 MR. PARK: That's not a problem.

11 MR. CICERO: You may have two or three, I  
12 mean, at the most. So it will certainly be  
13 by that time or before.

14 MS. STEGMAN: Okay.

15 MR. CICERO: And then a response back by  
16 the 23rd. You're not going to have that  
17 much that you're going to have to supply.

18 MS. STEGMAN: Okay.

19 MR. CICERO: That being the case, the  
20 meeting is adjourned. Thank you.

21 \* \* \* \* \*

22 THEREUPON, the Hearing was concluded at  
23 2:43 p.m.

24 \* \* \* \* \*

25

PSC Hearing  
In Re: Morgan County Water District

1

2 STATE OF KENTUCKY )

3 COUNTY OF FAYETTE )

4

5 I, JOLINDA S. TODD, Registered

6 Professional Reporter and Notary Public in and for

7 the State of Kentucky at Large, certify that the

8 facts stated in the caption hereto are true; that

9 at the time and place stated in said caption the

10 witnesses named personally appeared before me, and

11 that, after being duly sworn, were examined by

12 counsel for the parties; that said Hearing was

13 taken in stenotype by me and later reduced to

14 computer-aided transcription and the foregoing is a

15 true record of the testimony given by said

16 witnesses.

17 My commission expires: August 24, 2019.

18 IN TESTIMONY WHEREOF, I have hereunto set

19 my hand and seal of office on this the 10th day of

20 August 2019.

21

22

JOLINDA S. TODD, RPR, CCR(KY)  
NOTARY PUBLIC, STATE AT LARGE  
ID# 449787

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