

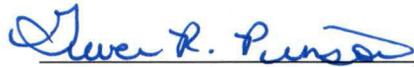
COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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 16, 2019 Southern Water and Sewer 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 16, 2019

**Case:** In Re: Southern Water District

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COMMONWEALTH OF KENTUCKY  
KENTUCKY PUBLIC SERVICE COMMISSION

CASE NO. 2019-00041

IN RE:

SOUTHERN WATER DISTRICT

\* \* \* \* \*

HEARING HELD ON:

JULY 16, 2019

FRANKFORT, KENTUCKY

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2

APPEARANCES:

3

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PUBLIC SERVICE COMMISSION:

6

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

8

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11

ON BEHALF OF THE COMMISSION STAFF:

12

Nancy J. Vinsel, Esq.  
Ariel Miller

13

14

15

ON BEHALF OF THE ATTORNEY GENERAL:

16

Justin McNeil, Esq.

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ON BEHALF OF SOUTHERN WATER DISTRICT:

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Steven Bailey, Esq.

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1 COMMISSIONER SCHMITT: Okay. We are now on  
2 the record. This is the Kentucky Public  
3 Service Commission. My name is Michael  
4 Schmitt. I'm Chairman of the Commission.  
5 Seated to my right is Vice Chairman Robert  
6 Cicero, and to my left, Dr. Talina Mathews.

7 We're here this morning for the  
8 purpose of taking evidence in Case  
9 No. 2019-00041, the Investigation Into  
10 Excessive Water Loss by Kentucky's  
11 Jurisdictional Utilities. This case is one,  
12 combined with ten others, whereby the  
13 Kentucky Public Service Commission is  
14 basically taking evidence in cases where  
15 water districts -- or of water districts  
16 which routinely have water loss at  
17 35 percent or more. The purpose of the --  
18 of these proceedings is really not just  
19 water loss, because water loss is a symptom  
20 of a -- of a serious, usually management  
21 problem.

22 And so in this case, for instance,  
23 Southern Water and Sewer District has new  
24 management. And the questions that are --  
25 will be asked, in large part, consist of

1 what appear to be glaring failures of past  
2 management. Also, because Southern has a  
3 pending rate case, some of the questions  
4 will pertain to information needed by our  
5 financial analysts in order to put together  
6 a final order insofar as rates are  
7 concerned.

8 In addition, the -- Southern has --  
9 Southern commissioners have the terrible  
10 disadvantage of being newly appointed and  
11 not having undergone the required statutory  
12 training, which they have obviously one year  
13 to do. Three of their members came down  
14 here and went through a one-day course,  
15 which was sort of a crash course in what --  
16 maybe more how not to do it as opposed to  
17 how to do it. And so I suspect that those  
18 commissioners will be receiving their formal  
19 training before the end of this year.

20 Also, that management change was a  
21 result of the resignation of the five  
22 commissioners after a hearing here, and the  
23 Commission basically had prepared charges or  
24 civil penalty assessments against those  
25 commissioners. Later, the same type of

1 proceeding was initiated against the general  
2 manager Dean Hall, who resigned prior to the  
3 hearing. And as a result, the Southern  
4 Water and Sewer District is without an  
5 experienced board of commissioners and is  
6 without a general manager. But I think  
7 wisely, Southern has obtained the services  
8 of Utility Management Group in order to  
9 provide utility services, and I suspect that  
10 some of the questions, at least I'll ask,  
11 will be designed to flesh out why that was  
12 done and probably to pursue the idea that  
13 some type of professional management is  
14 going to be required into the future.

15 I know also that -- that there will be  
16 some issues about, you know, some ongoing  
17 things, some matters about internal policies  
18 and procedures that the Prior Commissioners  
19 apparently never adopted, or if they did,  
20 they never followed. So Southern has a lot  
21 on its plate. And it's not an enviable  
22 position for -- for the new management to be  
23 in.

24 Nevertheless, this case is only one.  
25 It's not, unfortunately, a particularly

1 isolated issue. The ten other water  
2 districts which are involved in this  
3 investigation, and about which we're holding  
4 hearings, are Morgan County Water District,  
5 Cawood Water District, North Manchester  
6 Water Association, Estill County Water  
7 District, Farmdale Water District, West  
8 Carroll Water District, Rattlesnake Ridge  
9 Water District, Big Sandy Water District,  
10 Milburn Water District, Hyden-Leslie Water  
11 District. And there are two others which  
12 are not combined in this proceeding because  
13 they are already separate cases open  
14 involving them, and they are Cannonsburg  
15 Water District and the Martin County Water  
16 District.

17 Now, in order to try to complete these  
18 proceedings within a reasonable period of  
19 time, the Commission determined to hold two  
20 hearings a day. So the first hearing this  
21 morning, obviously, involves Southern Water  
22 and Sewer District. And this hearing will  
23 go until 12 noon, at which time a noon lunch  
24 break will be taken. If this hearing is not  
25 completed by then, Commissioner Mathews will

1 begin a second hearing in Hearing Room 2  
2 involving the Hyden-Leslie Water District.

3 This proceeding in this hearing room  
4 is being streamed live over the internet,  
5 and later this evening will become a  
6 permanent record and published upon the  
7 Public Service Commission website. The  
8 hearing in Hearing Room 2 involving  
9 Hyden-Leslie Water District will not be  
10 trans -- transmitted live over the internet,  
11 because it's not possible from that hearing  
12 room. But later this evening, it too will  
13 appear on the Kentucky Public Service  
14 Commission website.

15 For those who practice regularly  
16 before the Commission, you know that we  
17 usually have a log kept by one of our  
18 paralegal staff, and to sync in with the  
19 video and the video transcript is the  
20 official transcript of all proceedings. In  
21 these cases, however, we have, in addition,  
22 hired a shorthand reporter. And the court  
23 reporter will type up an official written  
24 transcript, which together with the video  
25 will constitute the official transcript of

1           this proceeding. At the conclusion of these  
2           proceedings when the official transcript has  
3           been filed in the record, it will be  
4           available to the parties and their counsel  
5           upon request.

6                       Now, at this time, would counsel for  
7           Southern Water and Sewer District please  
8           identify yourself, his client, and the  
9           witnesses who he has here today who will  
10          testify in this matter?

11          MR. BAILEY: Your Honor, I'm Steven Bailey.  
12          I'm the attorney for Southern Water. We  
13          have here today for testimony, Don Compton,  
14          Grondall --

15          MR. POTTER: Potter.

16          MR. BAILEY: -- Potter, Chairman Jeff  
17          Prater, Greg May from UMG, Jeff Reed, who  
18          is our CPA. And I think we also have  
19          Mr. --

20          MR. PAULMANN: Paulmann.

21          MR. BAILEY: -- Paulmann, which is an  
22          auditor.

23          COMMISSIONER SCHMITT: Thank you.

24                       All right. For the Office of Kentucky  
25          Attorney General?

1 MR. McNEIL: Good morning, Chairman.  
2 Justin McNeil, on behalf of the Attorney  
3 General's Office.

4 COMMISSIONER SCHMITT: And staff?

5 MS. VINSEL: Nancy Vinsel on behalf of the  
6 Commission.

7 COMMISSIONER SCHMITT: Now, Mr. Bailey, how  
8 we will do this, because it's an  
9 investigation, more like a legislative  
10 hearing as opposed to -- or a deposition as  
11 opposed to a contested proceeding,  
12 Ms. Vinsel will begin the questioning.  
13 When she does, if she will identify who she  
14 would like to question first. And if you  
15 would then, if you would ask your witness  
16 to take the stand, I will swear the witness  
17 in. And if you could ask a few preliminary  
18 questions such as name, address, what your  
19 connection is with Southern Water and  
20 Sewer, so that we'll set up Ms. Vinsel's  
21 subsequent questioning.

22 After Ms. Vinsel has completed her  
23 questioning, the Commissioners will then  
24 have the opportunity to ask any questions we  
25 may want to, followed by Mr. McNeil from the

1 Attorney General's Office. And then at the  
2 end, you will have the opportunity, if you  
3 want, to ask any questions of any of the  
4 witnesses to clear up anything. But you  
5 don't -- don't feel compelled to do that.  
6 It's only if something is confusing or  
7 something that you would like at that  
8 point -- particular point you'd like to  
9 make, okay?

10 Ms. Vinsel, are you -- oh, I wanted to  
11 ask, I assume that the notice of this  
12 proceeding was published in the newspaper?

13 MR. BAILEY: Yes, Your Honor. Couple weeks  
14 ago, I believe, and I think I filed notice  
15 in the record.

16 COMMISSIONER SCHMITT: Okay. We didn't --  
17 I usually look, but I neglected to do that,  
18 so thank you very much.

19 Ms. Vinsel, are you ready to proceed?

20 MS. VINSEL: Yes, Your Honor.

21 COMMISSIONER SCHMITT: And who would you  
22 like to call?

23 MS. VINSEL: Chairman Prater.

24 COMMISSIONER SCHMITT: Chairman Prater.  
25 Please raise your right hand.

1 \* \* \* \* \*

2 The witness, JEFF PRATER, after first  
3 being duly sworn, was examined and testified as  
4 follows:

5 COMMISSIONER SCHMITT: Please be seated.

6 Mr. Bailey?

7 MR. BAILEY: Thank you.

8 EXAMINATION

9 BY MR. BAILEY:

10 Q Can you please state your name  
11 for the record?

12 A My name is Jeff Prater, and I'm  
13 chairman of the board for Southern Water at  
14 McDowell, Kentucky.

15 Q What's your address?

16 A 1365 Salyers Branch, Kentucky --  
17 or Hueysville, Kentucky. I'm sorry.

18 Q And when -- when were you  
19 associated with Southern? When did you become  
20 chairman?

21 A February 6th I was sworn in as  
22 commissioner, along with four other -- three other  
23 gentlemen. A fourth one came about a month later.  
24 The entire board of Southern was replaced in  
25 February of 2019, and I was elected as chairman of

1 those commissioners that was appointed in February.

2 Q Is there any -- any relevant,  
3 brief history you want to go through regarding  
4 Southern?

5 A My -- I would like to say, you  
6 know, myself and the other board members are all  
7 new. We were -- in February there was a completely  
8 new Board. Having looked at the situation, we  
9 really didn't see very many options due to the dire  
10 financial situation. We hired UMG Group to come  
11 in, because we felt like that there needed to be a  
12 complete overhaul of the organization. And UMG had  
13 the -- the personnel, the expertise and the  
14 knowledge we felt to be able to turn the district  
15 around.

16 MR. BAILEY: I tender the witness.

17 MS. VINSEL: Thank you.

18 First, I would like to start with a  
19 brief housekeeping matter. The Commission  
20 staff would like to introduces Exhibits 1  
21 through 19. We have distributed this to  
22 counsel for Southern and to the Assistant  
23 Attorney General prior to the hearing. And  
24 we would like to introduce them at this  
25 time.

1 COMMISSIONER SCHMITT: Mr. Bailey, any  
2 objection?  
3 MR. BAILEY: No objection, Your Honor.  
4 MR. McNEIL: No objection.  
5 COMMISSIONER SCHMITT: All right. Let the  
6 Exhibits 1 through 19 be entered into  
7 evidence as PSC Staff Exhibits 1 through  
8 19. Reporter has those --  
9 MS. VINSEL: Yes.  
10 COMMISSIONER SCHMITT: -- already? Okay.  
11 MS. VINSEL: And, Mr. Prater, if you could  
12 get a copy --  
13 MR. PRATER: Yes, I have a copy here to  
14 reference.  
15 (PSC Exhibit Nos. 1 through 19 were marked.)  
16 MS. VINSEL: Before we get started, we  
17 will -- Commission staff will ask to  
18 incorporate part of the record of the  
19 pending rate case, 2019-00131, into this  
20 case because of relevant information in  
21 that case. And I will keep asking you that  
22 there -- here.  
23 THE WITNESS: Okay. I understand.  
24 \* \* \* \* \*  
25

1 EXAMINATION

2 BY MS. VINSEL:

3 Q Can I just put a few things into  
4 the record though to be clear? That when you took  
5 over, as you said, it was a dire financial  
6 circumstances, there -- as I understand correct,  
7 that since UMG come in, there is a discovery that  
8 750 of the meters were zero-read meters?

9 A That is my understanding. And,  
10 of course, Mr. May is here that can give testimony.  
11 There was about 750 meters that were -- my  
12 understanding, they were minimum-billed meters,  
13 meaning they used less than the 2,000 minimum bill.  
14 Some of those were zero read, some of them were  
15 very low usage and suspected of not working  
16 properly or many not working at all.

17 Q And, also, to the best of your  
18 knowledge, have any of the meters for Southern been  
19 tested in the past ten years?

20 A Not to my knowledge. And  
21 Mr. Compton could probably speak more directly to  
22 that.

23 Q Thank you. Can I have you turn  
24 to Commission Staff Exhibit No. 1? And let me know  
25 when you're there.

1           A           (Witness does same.) I'm there.

2           Q           This is the cost of the water  
3 loss in 2018 that was calculated by staff. Now,  
4 Southern had reported a water loss rate of  
5 62.5 percent in 2018, and the cost of that water  
6 loss was a little over \$474,000; correct?

7           A           Yes, that's correct.

8           Q           As the new commissioner, have you  
9 been able to determine or start to determine how  
10 Southern got to this point?

11          A           You know, most of the efforts  
12 have been put into trying to look forward as to how  
13 to address these things. I -- the feeling that I  
14 have, is that it happened over a long period of  
15 time. That amount of excessive water loss --  
16 excess water loss would have had to have been a  
17 result of years of neglect, I would say.

18          Q           So not spending on -- appropriate  
19 amounts on maintenance, not conducting leak  
20 detection inspections, things like that?

21          A           I would think so, yeah. And  
22 neglect of testing the meters, making sure the  
23 meters are working, and tracking down -- doing leak  
24 detection and having a good leak detection plan,  
25 from what I've learned in my short time being

1 involved with the water district.

2 MR. CICERO: Can -- can I ask you to have  
3 him read in the amount, the dollar amount,  
4 just for the record?

5 MS. VINSEL: Okay. For the -- for the  
6 record?

7 THE WITNESS: For the record, the total for  
8 2018 was \$474,299.

9 MS. VINSEL: Thank you.

10 Q You just talked about how your  
11 focus is really on moving forward and how to  
12 address this. So can you talk a little bit about  
13 what is being done to address this?

14 A We -- the board authorized and  
15 the new manager had sent out bid requests for  
16 pricing on new metering systems, that those bid  
17 packets have come back. The board probably will  
18 have a special called meeting later this week to  
19 review the information. The board, myself and the  
20 others, we feel like that the -- the one most  
21 important thing that we can do to address the water  
22 loss is to replace the meters of the entire system.  
23 That way we'll have accurate meters.

24 From what I've learned from UMG and others,  
25 people that I've talked to in the water business,

1 that without accurate residential and commercial  
2 meters, you can't determine your water loss, because  
3 the water loss is basically the amount of water you  
4 sell deducted from the amount you have treated, and  
5 there is no confidence in the meters. And moving  
6 forward, we have to change the meters out in order  
7 to develop a good, reliable leak detection program  
8 so that the leak detection program can be designed  
9 and billed upon different areas of the system using  
10 the consumer billing data from each area.

11 On top of that, UMG has already identified  
12 the need for master meters at different locations so  
13 that those areas or zones can be broken down.  
14 Without the accurate meters, true leak detection and  
15 a real improvement in the water loss is going to be  
16 difficult to do. So the board has -- or is -- will  
17 be looking at the purchase of meters. And, of  
18 course, funding, being able to pay for those  
19 replacements is going to be the biggest challenge or  
20 the thing that we'll have to be able to work on or  
21 find a way to fund those.

22 Q Thank you very much. That was a  
23 very thorough answer and you've got to several of  
24 the questions I was going to ask, so thank you.

25 Let me circle back to a few things. Let's

1 just jump to the funding. You're right, it will be  
2 an issue. Have you -- has UM -- I don't know. I  
3 know you can't really speak for UMG. But to the  
4 best of your knowledge, have either of you  
5 investigated funding for the meters?

6 A In the bid packets the request  
7 was for the -- the pricing from the meter  
8 manufacturer, where that the meter manufacturer  
9 will fund or -- I guess would install the meters  
10 and Southern would pay installment payments for the  
11 entire installation. So that's one avenue that  
12 we'll be looking at. A second avenue would be to  
13 borrow money from Rural Development. That process  
14 is possible. I've spoken to Ms. Hilda Legg. It's  
15 possible that we could borrow money from Rural  
16 Development. There are questions about our current  
17 rate as being a temporary rate increase. So that's  
18 a second option, but it would be a -- a more time-  
19 consuming option. If the meter manufacturers  
20 finance the installation, we feel like that that  
21 might be the fastest approach to getting all the  
22 meters changed out. But, certainly, we have to  
23 look at every option available, but that seems to  
24 be the two most likely avenues.

25 Q Have you considered asking the

1 Commission for authority to impose a surcharge to  
2 assist in paying for the meters?

3 A We have not, but that may be  
4 something that we will need to do. We haven't --  
5 the board hasn't looked at the meter bids yet and  
6 we haven't explored the options, but if necessary,  
7 we will, you know, certainly, come back to the  
8 Commission and ask for whatever adjustment would be  
9 needed or whatever would be needed so that we can  
10 fund the installation of those meters. And we feel  
11 like that it's critical and that we want to do that  
12 as quickly as practicable, I guess.

13 Q Given that you do have a pending  
14 rate case, would you see -- and I'm not asking you  
15 to commit to this, but could you see developing  
16 information timely, so that you might incorporate  
17 that request into the pending rate case?

18 A I'm not sure I understood your  
19 question. You're referring to that we would  
20 incorporate the cost of changing the meters out  
21 into our current rate case?

22 Q I'm sorry, a surcharge?

23 A A surcharge.

24 Q Into the current rate case?

25 A It's a consideration. I think

1 that -- that we need to meet -- the Commission to  
2 meet and look at the pricing options that might be  
3 available from the meter manufacturer first. If we  
4 feel that's attractive enough, then we would submit  
5 that bid packet to the PSC for approval. That  
6 would probably be the preference, because it would  
7 speed up the process.

8 COMMISSIONER SCHMITT: And let me say, it's  
9 an option.

10 THE WITNESS: It's an option.

11 COMMISSIONER SCHMITT: If you do it, it  
12 doesn't mean that we have to go through  
13 with it if you don't want to. But if you  
14 don't submit anything at all, we're  
15 precluded, when the time runs out, of  
16 basically doing any anything to help.

17 THE WITNESS: Yes.

18 COMMISSIONER SCHMITT: Do you understand  
19 what I'm saying? If you provide the  
20 information and say, this is what it is and  
21 then we can discuss it with you later, that  
22 option will exist to move in that  
23 direction, if you so desire. Or if you  
24 don't, then, you know, you can say, well,  
25 we'd rather not do this. Also, if you are

1 applying for a loan, whether it's an RD  
2 loan or Kentucky Infrastructure, you  
3 might -- you'd say, well, that's going to  
4 take time. A surcharge can be limited in  
5 time so that it could be structured in such  
6 a way that it would provide you the  
7 opportunity to get the meters now and then  
8 substitute the loan for the surcharge at a  
9 later time. That's all I'm saying, is that  
10 there may be -- that might be something  
11 that you'd want to consider as a  
12 possibility of allowing the district to get  
13 the meters now, even though you might plan  
14 on paying for them in the end with a loan,  
15 because the surcharge would might -- would  
16 guarantee to the manufacturer or the seller  
17 that you're going to get paid, that there's  
18 a fund which would basically pay the money  
19 until your loan came through.

20 THE WITNESS: That -- that certainly sounds  
21 very reasonable and something that we  
22 should pursue.

23 COMMISSIONER SCHMITT: Ms. Vinsel.

24 BY MS. VINSEL

25 Q Recognizing again that this is

1 preliminary and you have not looked at the bids, do  
2 you have a rough timeline for the meter replacement  
3 project? I -- let me back up. I know in Exhibit 2  
4 that -- and I'll let you turn to that.

5 A (Witness does same.)

6 Q This was provided in response to  
7 a data request in your pending rate case?

8 A Yes.

9 Q And this is a very detailed  
10 timeline of the process for developing and then  
11 bidding on and deciding on meter replacement. Do  
12 you have anything similar that you are working out  
13 for the replacing of the meters?

14 A I would have to defer that  
15 question to Mr. Compton or Mr. Potter. They could  
16 answer that better as to -- as far as -- inasmuch  
17 as how long it would take to get the meters changed  
18 out. And I think that's your question. This --  
19 this timeline, which would be -- it's possible that  
20 the board could meet in a special meeting this  
21 week, and then meet to approve a particular  
22 manufacturer or award a particular manufacturer's  
23 bid pending Public Service Commission approval by  
24 the 22nd. But I would have to defer to Mr. Potter  
25 or Mr. Compton as to how long it would take for

1 those meters to be changed out. But somewhere  
2 between six months and 12 months would be a rough  
3 estimate from what I've -- my understanding.

4 MS. VINSEL: Thank you.

5 MR. CICERO: May I ask a quick question?

6 MS. VINSEL: Yes.

7 MR. CICERO: So your timeline shows  
8 basically July 22nd?

9 THE WITNESS: Yes, sir.

10 MR. CICERO: And you're saying that's still  
11 a good timeline?

12 THE WITNESS: Yes. Mr. Compton has the  
13 request for pricing from multiple  
14 manufacturers back. We could review those  
15 later this week in a special meeting, and  
16 we could award one of the manufacturer's  
17 bids on the 22nd at our regular meeting.  
18 That would be pending Public Service  
19 Commission approval and the ability to --  
20 to finance those meters.

21 MR. CICERO: Okay. So that's where I was  
22 going with the question. Next Monday is  
23 the 22nd --

24 THE WITNESS: Yes, sir.

25 MR. CICERO: -- which means less than a

1 week from today you're going to review the  
2 bids, select a manufacturer, and then ask  
3 the Public Service Commission for approval  
4 to determine what your funding is going to  
5 be?

6 THE WITNESS: Well, we would -- the -- we  
7 would expect to review the information  
8 Thursday of this week at a special called  
9 meeting, choose the winning bidder on  
10 Monday, and refer that winning bid to the  
11 Commission for approval. If the  
12 manufacturer financed it, then it would  
13 probably take 30 more days to finalize  
14 everything with the manufacturer, I would  
15 think. But it could be done in a very  
16 short time, in a matter of probably  
17 30 days, if financing is available or if  
18 the funding is available.

19 MR. CICERO: So if I understand correctly,  
20 the reason why you haven't gone forward  
21 with approaching RD for actually applying  
22 for a loan is because you're hoping the  
23 manufacturer will finance?

24 THE WITNESS: Well, and the request -- and  
25 I -- and Mr. Compton can speak to this

1 better than I. But some of the meter  
2 manufacturers offer financing for the  
3 complete installation of the meters, the  
4 entire project, where that they would  
5 finance the project and Southern then would  
6 become -- would -- would pay the meter  
7 manufacturer installments just like a loan.  
8 And perhaps that could be done temporary  
9 for a period of time until we could obtain  
10 RD funding to pay that loan off. But the  
11 reason we haven't approached RD is we -- we  
12 don't know the dollar amount of the bids --  
13 I don't, nor the board, and we don't know  
14 how much would be required for that, and we  
15 don't know what kind of financing terms the  
16 meter manufacturers would offer us.

17 Of course, the terms would have a lot  
18 to deal with -- you know, if they ask us a  
19 10 percent interest rate, of course, we're  
20 going to -- you know, that's unreasonable.  
21 If they offer us what we consider reasonable  
22 financial terms for financing the project,  
23 then, certainly, we would -- in order to  
24 speed the project up, we would ask for  
25 Commission's approval to do so.

1 MR. CICERO: Okay. Thank you. I'm sorry.  
2 Go ahead.

3 BY MS. VINSEL:

4 Q Is it correct that the board and  
5 UMG are together working on a cost-benefit analyst  
6 of the meters and that that would be part of the  
7 consideration of the bids?

8 A It's a -- yes, it would be a part  
9 of the consideration of the bids. You know, at  
10 this point, with the current age of the meters, and  
11 the meters are not in compliance with Public  
12 Service Commission rules and regulations, I don't  
13 see that Southern has any choice other than to  
14 change the meters out. The expense of -- the  
15 meters have to be changed and tested regardless.  
16 So a cost-benefit analysis would definitely be a  
17 part of what we will do over the next week in  
18 reference to, do we just buy a regular meter and  
19 start that change-out process or do we buy the  
20 radio-read meters that would improve the  
21 operational efficiencies.

22 MR. CICERO: So -- so in your bid packages  
23 you've asked for different types of meters  
24 to be bid on?

25 THE WITNESS: We only asked for radio-read

1 meters. I think that Mr. Compton would  
2 have a -- we would have an ideal -- a  
3 pretty good idea of what regular meters  
4 would cost so we can make that comparison,  
5 but there -- the real need we feel is for  
6 the radio-read meters because of the  
7 reduction in operational cost.

8 MR. CICERO: Wouldn't you have a general  
9 idea of what -- if you're just going to use  
10 an estimate for the regular meters,  
11 wouldn't you have a general idea of what  
12 the radio -- is that what you called them,  
13 radio-read meters? That what those costs  
14 are and be able to do your cost-benefit  
15 analysis so -- now so you didn't --

16 THE WITNESS: Well --

17 MR. CICERO: -- waste time on that in going  
18 forward?

19 THE WITNESS: I -- I believe -- and I would  
20 have to defer to Mr. Potter, Mr. Compton --  
21 that a regular meter is about \$65, and that  
22 would be in comparison to the cost of the  
23 radio. So it would be very easy for us to  
24 do a cost analysis of the difference  
25 between the radio read and the regular.

1 MR. CICERO: So the radio versus regular is  
2 whether you're going to have a truck go  
3 read the meters --

4 THE WITNESS: Yes.

5 MR. CICERO: -- and a rollout, and instead  
6 eliminate the rollout. I mean, you could  
7 be doing that analysis now, couldn't you?

8 THE WITNESS: Yes, sir, we could.

9 MR. CICERO: I mean, that would save you  
10 time.

11 THE WITNESS: We haven't.

12 MR. CICERO: Given the situation as you  
13 described it, the dire financial situation,  
14 and the fact that you've got at least --  
15 approximately, at least, a third or a  
16 fourth of the meters aren't accurately  
17 reading, and it's a known problem that you  
18 can't have a metered billing rate because  
19 nobody can determine what the usage is,  
20 then the quicker you do this, the better;  
21 right?

22 THE WITNESS: Yes, sir. And we could do  
23 that -- we could do that analysis. And  
24 I'll just -- we'll -- the board will  
25 discuss that with Mr. Compton and

1 Mr. Potter. Hopefully, we could do that  
2 very quickly.

3 COMMISSIONER SCHMITT: Which one? The  
4 issue about having meters that are manually  
5 read, the district has a poor track record  
6 of having meter readers who actually read  
7 the meters in the first place, isn't  
8 that -- based on the testimony in the past,  
9 isn't that -- isn't that fair to say?

10 THE WITNESS: Yes, sir. I mean -- and from  
11 my perspective, you know, the radio-read  
12 meters are the best option, because the  
13 operational cost of reading those meters  
14 manually each month is going to be a lot  
15 compared to how quickly they could be read  
16 by radio read. Just the manpower and the  
17 transportation costs alone, I feel  
18 confident would be more than -- more --  
19 would save much more money than doing the  
20 manual reads. I mean, that's a easy  
21 calculation I think we can make. We'll do  
22 that.

23 I think we -- to do due diligence, we  
24 need to look at what it would cost to  
25 replace the meters with a manual read meter,

1 and look at the cost of reading the meters  
2 every month and the cost of transportation  
3 per month. I think that's only fair that we  
4 do that. But I truly expect that the  
5 radio-read meters will be a far better  
6 option for Southern.

7 MR. CICERO: And I think we agree that to  
8 do your due diligence, you should do a  
9 cost-benefit analysis of both.

10 THE WITNESS: Yes.

11 MR. CICERO: We're just suggesting that you  
12 don't need to put that further back in the  
13 process. It can be done now. And when the  
14 bids come in on your radio-read meters,  
15 you'll have an idea whether that's the  
16 selection you're going to go with or not.  
17 And it might -- I just --

18 THE WITNESS: Yes.

19 MR. CICERO: -- I think time is of the  
20 essence. That's all.

21 THE WITNESS: I think that's correct, sir.

22 BY MS. VINSEL:

23 Q And, Chairman Prater, I've got a  
24 few questions now that I'll be asking you and also  
25 be asking UMG personnel, so I want to give you that

1 heads up ahead of time.

2 As I understand -- and tell me to the best  
3 of your knowledge, Southern did not have a water  
4 loss detection and repair plan in place when you  
5 became a commissioner; correct?

6 A That is my understanding from  
7 what I've been told by UMG, that they did not have  
8 a plan.

9 Q And I also understand that UMG  
10 was developing a plan for you?

11 A Yes, they are.

12 Q And has it been developed yet, or  
13 is it in the process?

14 A It's in the process, is my  
15 understanding. It may have been developed, but...

16 Q And, again, I understand that  
17 this hasn't been very much time.

18 A Yes.

19 Q We're just trying to get a lay of  
20 the land.

21 A Okay.

22 MR. POTTER: We found one that they did  
23 have.

24 THE WITNESS: Okay.

25 MR. PAULMANN: We're optimizing it.

1 MR. POTTER: We -- we did find one that  
2 they --

3 MS. VINSEL: Oh, I'm hearing a correction.

4 THE WITNESS: They have -- they have found  
5 one and I'll -- and -- and Mr. May or  
6 Mr. Potter, whomever you call later, could  
7 address that better.

8 MS. VINSEL: Okay. Thank you.

9 Q Also, I understand that -- that  
10 UMG personnel were going to help Southern develop a  
11 capital improvement plan. Can you tell us the  
12 status of that?

13 A Well, I'm -- I'm assuming that's  
14 still ongoing. UMG has identified the most  
15 pressing needs and presented that to the board. A  
16 long-term capital improvement plan is still being  
17 worked on. The recommendation by UMG is that the  
18 most pressing needs are meter replacements and  
19 master meters. And the reason, of course, for both  
20 of those is the -- the inaccuracies in the current  
21 metering system and the development of a truly good  
22 leak detection program is going to be -- hinge on  
23 having accurate meters and a good selection of  
24 master meters to meter different zones or different  
25 areas.

1           Q           As part of the meter bid, were  
2           the master meters, the zone master meters part of  
3           the bid that went out? Or will this be a separate  
4           bid?

5           A           I believe that's a separate bid,  
6           isn't it?

7           MR. POTTER: Some of them --

8           A           Same --

9           MR. POTTER: We -- we actually got pricing  
10          on large meters in case it came in favor --

11          THE WITNESS: Okay.

12          MR. POTTER: -- of the purchase, also.

13          THE WITNESS: Mr. Potter or Mr. Compton  
14          would be better able to answer that  
15          question.

16          MS. VINSEL: Thank you. One moment,  
17          please.

18          THE WITNESS: Yes.

19          (OFF THE RECORD)

20          MS. VINSEL: Sorry. We had to have a  
21          little conference.

22          Q           Do you anticipate that your  
23          customer base will increase or decrease over the  
24          next ten years?

25          A           I would expect Southern's

1 customer base to decrease over the next ten years.  
2 But the current economic situation in our area is a  
3 population decrease, lack of any economic  
4 development. My expectation would be to see a  
5 continual slight decrease in the -- in the customer  
6 meter base or customer base.

7 Q And to the best of your  
8 knowledge, is that expectation being considered in  
9 part of the ongoing future planning for Southern?

10 A Well, certainly, yes, it's a part  
11 of the planning. It's a part of the planning,  
12 obviously, in that Southern is not planning for any  
13 growth in the water distribution load, I guess for  
14 lack of a better word. There's no expectation that  
15 we would have to serve a higher volume of water  
16 because of the decrease in population.

17 Q We're going to -- we're going to  
18 switch gears and get to some things that we talked  
19 about in the pending rate case.

20 One of the issues that came up had to do  
21 with policies and procedures. And I understand that  
22 UMG is helping to develop policies and procedures.  
23 I will tell you, I recently -- one of my coworkers  
24 showed me a copy of this. It's called the Water  
25 Board Bible. It was actually, I believe, written on

1       behalf of the Kansas Rural Water Association, but  
2       Kentucky Rural Water Association is helping to -- or  
3       was helping to distribute it. Have you seen this?

4               A               I don't think so.

5               Q               And I can bring it over to you,  
6       if that would be helpful.

7               A               I don't think I've seen it. I've  
8       gone through so much information in the past few  
9       months, I don't recall if I have.

10              Q              I can understand. I -- I have  
11       found it to be helpful. And I will just tell  
12       you -- not to be testifying here, but I have  
13       reached out to Kentucky Rural Water to ask for some  
14       copies.

15              A              Yes.

16              Q              So that might be something that I  
17       would suggest your counsel would follow up and I  
18       can get with you after the hearing.

19              A              Sure.

20              Q              Can you tell us what the status  
21       is of the negotiations between Southern and  
22       Prestonsburg in regard to the transfer of asset?

23              A              I guess -- I guess the word I  
24       would use would be stalled.

25              Q              Okay.

1           A           I'm -- myself, I'm in favor of  
2    rescinding the original contract and returning both  
3    the wastewater treatment plants and all the meters  
4    back to the operational control of Southern Water.  
5    Prestonsburg has indicated that they would like to,  
6    perhaps, finish the deal. So there's kind of a  
7    stall between the -- in the negotiations. We have  
8    discussed both options, myself and Mr. Music have  
9    discussed both options of -- of some type of a --  
10   of a rescission of the contract. And we've talked  
11   about the options of going forward and Prestonsburg  
12   paying an amount that would be acceptable to Rural  
13   Development for finishing the transfer. But at  
14   this point, those negotiations, I would -- I would  
15   think stalled would be appropriate word to use.

16           Q           Thank you. If -- if Southern --  
17   if the transaction were to be unwound and Southern  
18   regained control of both assets -- all those assets  
19   again, would Southern be in a position to operate  
20   the -- particularly the sewer --

21           A           Yes.

22           Q           -- the sewer assets?

23           A           The sewer plants or -- and UMG --  
24   and I don't remember which of these, but UMG had  
25   personnel visit the wastewater treatment plants.

1 Kentucky Rural Water Association sent people to  
2 visit the wastewater treatment plants. We received  
3 a report. The -- the wastewater treatment plants  
4 are operating. They're in good operational order.  
5 Southern would have to hire operators, licensed  
6 operators to operate the plants. We have discussed  
7 that. We have discussed the additional personnel  
8 needed. The additional revenue from bringing all  
9 those assets back would -- would pay for the  
10 additional employees. And we feel confident -- I  
11 feel confident that Southern could hire the people  
12 to operate and maintain the wastewater treatment.  
13 And we even talked about what would be necessary  
14 for -- to operate the approximately 1,200 customers  
15 that were -- the assets were not transferred, but  
16 Prestonsburg is currently operating and billing  
17 those assets.

18 MR. CICERO: Can I ask a question? So you  
19 said the plants are in good operating  
20 condition?

21 THE WITNESS: Yes, sir.

22 MR. CICERO: And the initial reason for the  
23 sale was because the plants were not in  
24 good operating condition and the Department  
25 of -- Division of Water was citing Southern

1           for violations. And Southern determined  
2           that in order to -- it couldn't pay the  
3           violations, and in order to remove that  
4           problem, they would sell the assets. And  
5           as a condition, Prestonsburg wanted the  
6           water included. Is that basically a  
7           summary of that?

8           THE WITNESS: That's my basic understanding  
9           of what happened previously, yes.

10          MR. CICERO: My understanding after that is  
11          Prestonsburg invested money in those  
12          treatment plants in order to bring them up  
13          to standard and to comply with the Division  
14          of Water. Is part of this negotiation some  
15          kind of -- I can understand why Southern  
16          would want to rescind the transaction and  
17          bring the plants back under their  
18          management if all of the repairs that were  
19          necessary were made, but they were made by  
20          another entity. Is that part of this  
21          negotiation or are you looking at it as, it  
22          was an investment made, rescinded, but now  
23          Southern will operate?

24          THE WITNESS: Well, obviously, the amount  
25          that Southern would pay to rescind that

1 contract is the biggest issue.

2 Prestonsburg City Utilities had spent a  
3 considerable amount of money in rehabbing  
4 those -- two of those plants, obviously.  
5 And the -- the amount that Southern would  
6 reimburse, if you wanted to use that word,  
7 Prestonsburg is probably the key to how we  
8 could unwind the deal.

9 MR. CICERO: So that leads me to the other  
10 question that I wanted to ask. And you  
11 said the negotiations are stalled?

12 THE WITNESS: Yes, sir.

13 MR. CICERO: And so usually when a  
14 negotiation is stalled, unless there is  
15 some motivation or some force that pushes  
16 one side or the other side to action,  
17 stalled means just like a car out of gas.  
18 Until you don't put something into it, it  
19 stays not running. And I'm curious what's  
20 going to -- what's the timeline or what is  
21 going to be the outside arbitrator or  
22 who -- how are we going to get negotiations  
23 unstalled?

24 THE WITNESS: My expectation is that  
25 Southern will reach out to Rural

1           Development. And since Rural Development  
2           has -- is the only entity, in my  
3           understanding, that has not approved the  
4           original agreement, that Rural Development  
5           would be the first place we reach out to.  
6           Barring that, I would assume that we will  
7           have to request the Public Service  
8           Commission to intervene and make a decision  
9           as to which direction that goes.  
10          Definitely, either the assets will need to  
11          be transferred -- the water assets need to  
12          be transferred to Prestonsburg or the deal  
13          needs to be unwound. One of those two has  
14          to happen for -- for both utilities to go  
15          forward. But the catalyst of that would  
16          have to be RD or perhaps the Public Service  
17          Commission.  
18          MR. CICERO: From a financial standpoint,  
19          you have revenues being collected on assets  
20          that right now Southern transferred to  
21          Prestonsburg, and has a liability to  
22          Prestonsburg for those collected and are  
23          due and payable. On other side, you've got  
24          the water assets that Prestonsburg is  
25          collecting revenue on that aren't

1           officially transferred because the whole  
2           deal has been held up. I don't know who  
3           does the depreciation and I'm not -- I'm  
4           not sure how the financial is being  
5           unwound, but there should be some kind of a  
6           timeline established that indicates what  
7           points -- and I'm not asking to say it  
8           here, but Southern should establish a  
9           timeline of how those -- what those dates  
10          are. In other words, we're going to go to  
11          RD and request their input, or we're going  
12          to have some kind of arbitration or what  
13          the data is that you expect from the Public  
14          Service Commission. But, again, if there  
15          is no timeline established, it will just go  
16          on and on and on and on, and that's not  
17          beneficial to either Prestonsburg or  
18          Southern or to your ratepayers or to  
19          anybody else that's involved that has -- is  
20          affected by it.

21          THE WITNESS: Yes, I -- I agree. It's --  
22          it's gone on far too long and it's -- and  
23          it's a hindrance to both utilities moving  
24          forward. I'll discuss that with our board  
25          and we'll definitely try to implement some

1 type of timeline to -- you know, to spur  
2 that along.

3 BY MS. VINSEL:

4 Q As part of the data responses in  
5 the pending rate case, Southern provided minutes  
6 from a meeting that -- where the board discussed --  
7 and I want to be very delicate about this -- about  
8 an employee termination?

9 A Yes.

10 Q Leave it at that. In a previous  
11 rate case with Southern, we had asked for all board  
12 minutes between a particular time, and those board  
13 minutes should have been included and they weren't.  
14 So we feel like we need to get a copy of all board  
15 minutes. And now it appears that -- again, let me  
16 be clear, this was not this commission or this  
17 council that these board minutes were withheld. So  
18 we're going to do as a post-hearing data request,  
19 ask for all board minutes from 20- -- the year 2015  
20 through 2017.

21 Are all your board minutes kept in one  
22 place?

23 A I would have to refer that  
24 question to Mr. Compton. I'm not sure. I think  
25 they're available, though; aren't they?

1 MR. COMPTON: Should be.

2 MS. VINSEL: If I may, although there will  
3 be a due date for this response, if it  
4 cannot be timely complied with, let us know  
5 and let us know when it can be complied  
6 with, because you do have a lot on your  
7 plate.

8 MR. BAILEY: Sure.

9 COMMISSIONER SCHMITT: I'd like to ask him  
10 a question.

11 Mr. Prater, have you -- have you had  
12 an opportunity to basically go back and look  
13 at any of the prior board minutes?

14 THE WITNESS: I think I -- I think I've  
15 read all of -- I know I've read all of 2018  
16 board minutes. I don't recall if I read  
17 anything prior to 2018. But all of 2018, I  
18 have read.

19 COMMISSIONER SCHMITT: At least in the  
20 boards that I have been on or represented,  
21 in addition to just to the printed minutes  
22 are -- generally, there is an agenda that  
23 is handed out to the board -- board members  
24 or commissioners before the meeting -- or a  
25 packet. Usually, there's a packet. When I

1 was on Paintsville Utility Commission, we'd  
2 get -- like on Thursday before a Monday  
3 meeting, we'd get a packet and it would  
4 have an outline of everything of the  
5 meeting. And if it were -- for instance,  
6 invoices that had been paid, and that we  
7 would approve in arrears. Some we would  
8 approve, you know, before the checks were  
9 written. But you'd get every -- everything  
10 that had gone on, the board members would  
11 be able to see it. Do you know if any  
12 material like that is found in the annals  
13 or records of Southern Water and Sewer  
14 District or --

15 THE WITNESS: No, I'm not --

16 COMMISSIONER SCHMITT: -- is it just the  
17 minutes? Is that all that you have ever  
18 seen?

19 THE WITNESS: All -- the only thing that I  
20 have seen would be documents that were  
21 submitted in the prior rate case to the  
22 Commission. And the minutes were typically  
23 a 8 1/2 X 11 sheet of paper.

24 COMMISSIONER SCHMITT: And if you just read  
25 the minutes, honestly, you couldn't tell

1                   what happened at the meeting?

2                   THE WITNESS: No, sir. It was more of just  
3                   looking at an agenda.

4                   COMMISSIONER SCHMITT: Thank you.

5 BY MS. VINSEL:

6                   Q                   Mr. Prater, can I have you turn  
7                   to Commission Staff Exhibit 3.

8                   A                   (Witness does same.)

9                   Q                   And, again, I want to be very  
10                  delicate about this.

11                  A                   The Severance Agreement.

12                  Q                   The Severance Agreement. This is  
13                  a Severance Agreement between a former employee of  
14                  Southern for a payment of \$35,000. Can I have you  
15                  turn to -- it's Page 3 of this. It's unnumbered  
16                  Page 3, the last page. Staff using the data  
17                  request, the response to data requests filed in the  
18                  pending rate case, we compiled a list of the  
19                  payments that were provided and it looks like one  
20                  payment is missing. Do you know if this has  
21                  been -- amount has been paid in full?

22                  A                   No, I -- I do not.

23                  Q                   I will follow up with Mr. Reed  
24                  then and -- and perhaps Mr. Reed is aware of this  
25                  also.

1           One of the pieces we talked about were  
2           canceling Sirius XM Radio. And perhaps either  
3           Mr. Reed or Mr. Compton can best answer it, but do  
4           you know?

5           A           Mr. Compton had indicated to me  
6           that he cancelled the Sirius XM Radio.

7           Q           Okay. I will -- I will follow  
8           up.

9           A           Yes.

10          Q           Also, in the pending rate case an  
11          issue was -- became clear about payments to Frasure  
12          Electric in --

13          A           Uh-huh (affirmative).

14          Q           -- in 2018. There was about  
15          \$30,000 in payments in excess of the amount of  
16          invoices.

17          A           Yes.

18          Q           And as you may recall, Ms. Burke  
19          testified that she was just directed to pay X  
20          amount of money.

21          A           Yes, I recall that.

22          Q           She -- Ms. Burke also testified  
23          that she understood that some amount was owed to  
24          Frasure Electric. I can tell you what we will be  
25          looking at is Exhibits 4, 5, 6 and 7. And, again,

1 from responses to data requests, staff went back  
2 and calculated, in 2016, there were invoices from  
3 Frasure Electric that were \$72,301.33.

4 A Yes, I see that.

5 Q And then if you turn to  
6 Exhibit 5, the payments to Southern in 2016 were  
7 \$75,000. So, again, about \$2,000 over the amount,  
8 unless my math is off here. About \$3,000 over?

9 A Uh-huh (affirmative).

10 Q And then in 2017 -- and this is  
11 Exhibit 6 -- Frasure Electric invoiced Southern for  
12 \$73,937.84 for services. And then if you turn to  
13 Exhibit 7, Frasure Electric was paid \$73,340.89.  
14 So there was about a 600-dollar underpayment in  
15 2017.

16 A Yes, there -- there's obviously a  
17 discrepancy between those figures, but I wouldn't  
18 have any -- I wouldn't have -- I wouldn't be able  
19 to offer any insight to that.

20 Q That was what I was going to ask,  
21 was, again, recognizing that the board is new to  
22 Southern, has there anyone that has looked into  
23 this discrepancy and perhaps get the money back if  
24 there was an overpayment?

25 A Not to my knowledge. You know,

1 Mr. Compton may be able to answer that. But not to  
2 my knowledge, there's not been anybody look back at  
3 the -- and try to retrieve any funds.

4 Q Who would ultimately be  
5 responsible for authorizing an investigation like  
6 that?

7 A I suppose the board would be  
8 responsible for authorizing an investigation into  
9 that.

10 Q Would the board consider doing  
11 that? Again, knowing your hands are full, but --

12 A I'm -- yeah, I'm -- I'm certain  
13 they would.

14 MS. VINSEL: Thank you.

15 MR. CICERO: Can I ask a question?

16 MS. VINSEL: Yes.

17 MR. CICERO: So this goes to one of the  
18 core issues that I think created the  
19 Southern problem. There's, obviously, a  
20 deficiency in the control of -- in the past  
21 of payments and invoices, and who  
22 authorized what, and what should have been  
23 paid or what shouldn't have been paid.

24 Now, going forward, we have UMG. Is UMG  
25 managing the entire operation including the

1 accounting function or just the operation  
2 of the water plant and the servicing of  
3 customers?

4 THE WITNESS: UMG has implemented internal  
5 controls and -- and set up vendor  
6 accountings to keep anything like that from  
7 happening. They are in direct control of  
8 that. UMG has completely revamped the  
9 process all those vendors are paid, in  
10 which they are paid. So I feel confident  
11 that they already have internal controls in  
12 place that would prevent anything like this  
13 happening going forward.

14 MR. CICERO: So the office staff reports to  
15 UMG; is that correct?

16 THE WITNESS: Yes. Yes.

17 MR. CICERO: Okay. So -- and I'm not  
18 saying the board shouldn't be involved, but  
19 in known instances where there is a  
20 problem, the office staff is reporting to  
21 UMG --

22 THE WITNESS: Yes.

23 MR. CICERO: -- so hasn't basically the  
24 board already delegated to UMG to follow up  
25 on issues like this?

1 THE WITNESS: Yes, they -- they have been  
2 given the ability to make employee and  
3 management decisions. And, yes, they  
4 would -- they would have the right to  
5 investigate that, if that's what you're  
6 asking. They have the authority to  
7 investigate that on behalf of the water  
8 district.

9 MR. CICERO: Well, what I'm asking is,  
10 these are already known deficiencies. So  
11 the investigation only involves why the  
12 payments -- if there's over or under --  
13 underpayments -- we already know that there  
14 probably are. So at this point isn't it a  
15 matter of going to the vendor and either  
16 making the additional payment or asking for  
17 restitution for an overpayment?

18 THE WITNESS: Yes, sir, it would be -- yes,  
19 sir, I think it would be that simple,  
20 asking for the -- it to be balanced up,  
21 whether he owes Southern or whether  
22 Southern owes him.

23 MR. CICERO: And I guess all -- the only  
24 thing I'm suggesting is, from the board's  
25 perspective that -- as the Chairman was

1 talking about the package that you have of  
2 setting out an agenda and having the  
3 minutes be official and more complete and  
4 detailed so that they could be followed.  
5 In an agenda item for the board to consider  
6 is to make certain that they have -- UMG  
7 understands that you expect as part of  
8 their function and responsibility for the  
9 office, especially in items that are  
10 already known --

11 THE WITNESS: Uh-huh (affirmative).

12 MR. CICERO: -- and should be corrected,  
13 that they go back, and if there's a  
14 question whether they should be doing it or  
15 not, that the board is requesting as part  
16 of their responsibility to go back and do  
17 that. I mean, those -- those things can be  
18 done.

19 THE WITNESS: Yes, sir. Let me make sure I  
20 understand what you're saying. You're  
21 saying the board should consider or make  
22 sure that UMG understands that we are  
23 requesting them to go back on any invoice  
24 or vendor payment in the past that they can  
25 definitively show there was a mistake and

1 go ahead and correct that?

2 MR. CICERO: So here -- let me lay it out a  
3 little better so it's not such a broad  
4 statement that you made, because UMG would  
5 then argue that they don't have the  
6 resources to go back into an unknown --

7 THE WITNESS: Yes.

8 MR. CICERO: -- period of time.

9 Through the previous case it's already  
10 been established that there are overpayments  
11 and underpayments. Those are known?

12 THE WITNESS: Yes.

13 MR. CICERO: It doesn't require research to  
14 determine that those known overpayments or  
15 underpayments exist. It's just a matter of  
16 taking action on them, isn't it?

17 THE WITNESS: That's correct.

18 MR. CICERO: And if there's a question from  
19 UMG on whether they should be taking  
20 action, as part of your board minutes to  
21 establish that you have authorized them to  
22 go forward with that, to go ahead and  
23 indicate to UMG on these known issues,  
24 please go back and take the action  
25 necessary through the staff that's

1 available to either make collections or  
2 restitutions, or whatever it is, but to  
3 correct those items that are already known  
4 to be deficient because they were  
5 discovered in the prior case.

6 THE WITNESS: Yes, sir, that is fair. I  
7 will address the board and we will do that.

8 MS. VINSEL: Thank you.

9 MR. CICERO: Thank you.

10 BY MS. VINSEL:

11 Q When the Vice Chairman was  
12 speaking about internal controls and you mentioned  
13 that UMG had put some in place, can I have you turn  
14 to Commission Staff Exhibit 8. And tell me when  
15 you're there.

16 A (Witness does same.) Yes, I'm --  
17 I'm there.

18 Q And, again, this is from a  
19 response to a data request in the pending rate  
20 case. This -- am I correct that UMG created these  
21 documents and that the Southern board approved  
22 them?

23 A Yes.

24 Q And for the record, let me say  
25 what this exhibit is, is showing, first of all, the

1 dual control of cash and payments, the flowchart  
2 for that, as well as form?

3 A Yes --

4 Q So --

5 A -- that is correct.

6 Q And, also, a flowchart for  
7 ordering supplies. And these are some of the  
8 internal controls that are in place; correct?

9 A These are two specific examples  
10 of internal controls that were developed by and  
11 implemented by UMG since they have taken over the  
12 management duties of the district.

13 MS. VINSEL: Okay. Thank you.

14 MR. CICERO: So any questions regarding  
15 these processes should be directed to UMG?

16 THE WITNESS: Yes, that would be -- need to  
17 be directed to Mr. Compton or Mr. May.

18 MR. CICERO: Okay.

19 BY MS. VINSEL:

20 Q Going back to Frasure Electric,  
21 to the best of your knowledge is -- is Southern  
22 still using Frasure Electric?

23 A Yes, it's my understanding that  
24 we still use Frasure Electric for electric pumps  
25 and electrical problems.

1 Q And I will follow up with UMG.

2 I'll have you turn to Commission Staff

3 Exhibit 9 and tell me when you're there.

4 A (Witness does same.) Okay.

5 Q This is -- again, as you can see  
6 from the top, this was also filed in response to a  
7 data request in the pending rate case. And this  
8 document is an engagement agreement between a Tyler  
9 Green, who is an attorney, and Southern's board.  
10 This was dated -- or the period of time of this was  
11 February 1st, 2014 through 2015, but there was an  
12 automatic renewal on an annual basis, unless the  
13 parties provided notice of termination.

14 Can I ask, does Southern still have a  
15 retainer agreement with Mr. Green?

16 A No. And I'm trying to remember,  
17 I don't know if Mr. Green provided any  
18 documentation, but Mr. Green -- it was my  
19 understanding and I have not -- I don't recall any  
20 paper documentation -- that Mr. Green resigned as  
21 attorney from Southern sometime late in 2018 or  
22 early 2019.

23 Q Thank you. Also in response to a  
24 data request this -- as I understand, is it correct  
25 that the Southern's board had authorized UMG to

1 pursue prosecution for water theft --

2 A Yes, and --

3 Q -- when it was discovered?

4 And -- I'm sorry, go ahead.

5 A Well, it's part of their -- you  
6 know, they -- the board has contracted UMG to take  
7 care of all the day-to-day operations, and so under  
8 that is water theft prosecution.

9 Q And is there any -- are there any  
10 cases pending right now that you know? Well, let  
11 me back up.

12 A I think so, but --

13 Q Being prosecuted?

14 A That -- that -- I would have to  
15 defer that question to Mr. May or Mr. Compton.

16 Q Thank you.

17 The previous board had adopted the ethics  
18 policy from Floyd County Fiscal Court. Has the  
19 current board adopted any ethics policies?

20 A Not currently. We -- of course,  
21 that's something that the board needs to review,  
22 and I think the board needs to review all of our  
23 policies. You know, we just haven't had time to  
24 get to that one yet. But, yes, it's needed.

25 Q Is that something that UMG would

1 help the board with or is there somewhere --  
2 someone else who would assist the board with that?

3 A UMG is currently in the process  
4 of, I guess, analyzing all of the personnel  
5 policies and would help us with the board policies.  
6 The -- you know, and we are going to do those over  
7 the next -- my expectation would be over the next  
8 12 months we will review and revise those as  
9 necessary, all the -- both personnel policies and  
10 the ones relating to the board.

11 Q Sounds like UMG has a lot on its  
12 plate. Would you agree that basically UMG and the  
13 board are completely reorganizing Southern?

14 A I think that's a very fair  
15 characterization. You know, UMG came in on day one  
16 and examined every process from -- from billing to  
17 work order system to water treatment plant. UMG  
18 has looked at every operational aspect of the  
19 entire district and, you know, it's a -- it's an  
20 overwhelming process and -- in a sense, they are  
21 starting from scratch. They have made changes  
22 to -- to billing, to work orders, to meter reading.  
23 They have looked at and evaluated the water  
24 treatment plant. So, yes, it's a -- it's an  
25 enormous project for them. And it takes time to go

1 through each process and to look at the operational  
2 efficiencies, and it's an ongoing process.

3 I would say that we're making progress  
4 and -- and we've made a lot of progress, I feel  
5 like, in a short amount of time, but it's still an  
6 ongoing process. And it's going to take another 12  
7 to 24 months, in my opinion, to really turn the  
8 district around and have it operating in an  
9 efficient manner.

10 Q Thank you.

11 Just one last question from me. There is  
12 another pending case with Southern and request for  
13 -- approval of financing --

14 A Uh-huh (affirmative).

15 Q -- of the loan of \$150,000.

16 A Yes.

17 Q Can you just help with context,  
18 that when Southern obtains the initial loan from  
19 Floyd County Fiscal Court, that was basically a  
20 three-month loan; correct?

21 A Yes, that's correct.

22 Q And was there an attorney who  
23 worked with you on developing that --

24 A No.

25 Q -- no --

1           A           The county attorney developed the  
2    loan agreement.

3           Q           And is that why there are  
4    liquidated damage, do you think, damages in that --

5           A           That's -- that's --

6           Q           -- agreement?

7           A           Yeah, that's why I think it's in  
8    there.

9           Q           And when did Southern initiate  
10   discussion for another entity, a bank or whoever,  
11   for repaying Floyd County Fiscal Court?

12          A           Perhaps a week to two weeks after  
13   we received the first installment of the loan,  
14   we -- the board had authorized me to -- to obtain a  
15   loan to repay Floyd County Fiscal Court. And  
16   the -- Mr. Tackett at Community Trust has been  
17   working on that.

18          Q           Have you had any discussions with  
19   Floyd County Fiscal Court, because it's very  
20   unlikely that the loan will be repaid by the --  
21   well, today is the day for repayment.

22          A           Yes. I've not had -- I've not  
23   had a specific discussion, but I have contacted the  
24   judge. The judge is aware that it's going to be  
25   beyond July 16 for us to obtain the loan to repay

1       them. We have not had any specific discussion  
2       about the penalty that is included in that original  
3       loan document. The expectation would be that we  
4       would get -- I think Mr. Bailey is ready to file  
5       the case, we're hoping, one day this week. But  
6       I've not had any specific discussion about the  
7       penalty part of the loan.

8               COMMISSIONER SCHMITT: If a penalty is  
9               extracted or insisted on by the fiscal  
10              court, it will essentially be paid by the  
11              ratepayers of Southern Water, who are  
12              residents of Floyd County; correct?

13             THE WITNESS: Yes, sir, that's correct.

14             MS. VINSEL: Staff has no further  
15              questions.

16             COMMISSIONER SCHMITT: Commissioner Cicero,  
17              questions?

18             MR. CICERO: I'm curious, who was the  
19              attorney for --

20             THE WITNESS: Oh, Floyd County Attorney  
21              Keith Bartley.

22             MR. CICERO: Clarify for me again, who is  
23              Tyler Green again?

24             THE WITNESS: Tyler Green is -- works for  
25              Keith Bartley. I don't know the title. He

1 was also the legal representative for  
2 Southern Water from 2014 'til sometime, I  
3 think, in 2018. He did that, as well as  
4 working for the county attorney.

5 MR. CICERO: In the county attorney's  
6 office or just as a contractor for the  
7 county?

8 THE WITNESS: As a contractor for Southern  
9 Water. I think he attend- -- I believe he  
10 attended most of the Southern board  
11 meetings and was paid a retainer for their  
12 legal -- for his legal services.

13 MR. CICERO: So I guess my question is, was  
14 he a county employee as well as being a  
15 contractor for Southern?

16 THE WITNESS: Yes, sir. My understanding,  
17 yes.

18 MS. VINSEL: Vice Chair, I can clarify that  
19 for you per the terms of the engagement  
20 letter. Mr. Green was a full-time employee  
21 of the Floyd County Attorney. He was  
22 actually -- his title was Assistant Floyd  
23 County Attorney.

24 MR. BAILEY: Correct.

25 MR. CICERO: And the payments ceased to

1 Mr. Green when? When was the last payment  
2 that he...

3 THE WITNESS: I am not certain of the last  
4 payment made to him.

5 MR. CICERO: All right. Thank you. We'll  
6 check later. That's -- the only other  
7 question I have, and I know that your plate  
8 is busy, but I -- just as a general  
9 comment, in your perspective, you seem to  
10 have made progress. So I'm certain you  
11 believe that as an ongoing entity, Southern  
12 has the potential to be very viable. Does  
13 that preclude you from in the future  
14 con- -- considering any type of sales  
15 prospect to an outside entity or a merger  
16 or consolidation with another water  
17 district, especially given the comment that  
18 you made at the beginning that there is not  
19 much opportunity for growth or economic  
20 development, and, if anything, you would  
21 probably be stagnant or low growth,  
22 declining for your customers?

23 THE WITNESS: In -- I can only speak for  
24 myself. I can't speak for the other board  
25 members. I am not in favor of any sale to

1 a private corporation, but I would  
2 definitely entertain a consolidation or a  
3 merger with a -- with another district that  
4 is under public control, preferably  
5 contiguous, but I would not be in favor of  
6 any sale to a privately-owned corporation,  
7 a for-profit corporation, if you will.

8 MR. CICERO: So that seems to be a --  
9 apparently, an opinion held by you that is  
10 a personal opinion. And as you said,  
11 you're not speaking for the board.

12 THE WITNESS: Yes.

13 MR. CICERO: Is there a reason why you  
14 precluded public -- or a privately-owned  
15 company, or an IOU, or any other type of  
16 company other than another contiguous water  
17 district?

18 THE WITNESS: Well, there would be several  
19 reasons for the -- for my feelings on that.  
20 First would be, a privately-owned company  
21 for profit wouldn't have a local board.  
22 And I think it's publicly known, American  
23 Water Works -- or Kentucky American Water  
24 has expressed interest in buying Southern  
25 Water. But if Southern Water is sold to

1 Kentucky American Water, then there is no  
2 local board. Decisions made about Southern  
3 Water, in my opinion, would be made by a  
4 board of directors in Camden, New Jersey.  
5 COMMISSIONER SCHMITT: Okay. Let me ask --  
6 I hate to interrupt, but could they do any  
7 worse by Southern's citizens and ratepayers  
8 and its own people did, and the prior  
9 board, over the past 15, 20 years? What --  
10 whatever they did, how could they do any  
11 worse?  
12 THE WITNESS: I -- I'm not saying they  
13 could have done any worse. I mean, it's a  
14 bad situation, but I still believe in local  
15 control. The -- you know, a for-profit  
16 corporation, there would be no local  
17 control. I personally believe that  
18 Kentucky American Water wants to buy  
19 Southern Water. They have expressed  
20 interest in paying off all the debts.  
21 Southern is about 6 million dollars in  
22 debt, 27 million dollars in assets. I  
23 think they want to come in and buy it up  
24 for pennies on the dollar to what it's  
25 worth, knowing that it's a long-term

1 investment and there's going to be -- it's  
2 an appreciating asset with a guaranteed  
3 revenue stream.

4 The other thing about it that is  
5 concerning to me is if -- and we're using a  
6 hypothetical situation, and specifically, if  
7 Southern Water were sold to Kentucky  
8 American Water Works, then the Public  
9 Service Commission would be, in a sense,  
10 abdicating its authority --

11 COMMISSIONER SCHMITT: No, no, no. We got  
12 -- no, no. We control Kentucky American.

13 THE WITNESS: Well, I say that because the  
14 Public Service Commission has the legal  
15 ability to remove a Commissioner from  
16 Southern Water now for neglect of duty. If  
17 it were owned by a privately-held company,  
18 you would have -- you would have the right  
19 to regulate the rates, but you could not --  
20 you wouldn't have the ability that you have  
21 now in removing commissioners from the  
22 board, or you would not have the same level  
23 of control that you currently have on  
24 Southern Water.

25 MR. CICERO: So wouldn't you agree that, in

1 your last example, that the Public Service  
2 Commission's ability to remove  
3 commissioners causes much more  
4 disruptive -- disruption in the continuity  
5 of operations than it would be if Kentucky  
6 American Water were to be in here for a  
7 rate increase and we were to refuse a  
8 portion of their increase because of  
9 mismanagement or some other known fact, but  
10 the continuity of service and the potential  
11 of falling into the dire financial  
12 circumstances that you have right now would  
13 be much less.

14 And I'm not advocating for Kentucky  
15 American Water. I'm just trying to point  
16 out that while you hold those personal  
17 beliefs, you still have a fiduciary  
18 responsibility to your customers to evaluate  
19 on a cost-benefit analysis of what is best.  
20 And I certainly appreciate your opinion, but  
21 I don't think that it's based on anything  
22 other than an opinion. There is no fact,  
23 there is no analysis -- excuse me -- that  
24 says this is what the cost would be on a pro  
25 and con basis if we went with Kentucky

1 American Water, and this is the benefit if  
2 we stay as a separate entity and merge with  
3 another local group. I just don't think  
4 that analysis -- I find that with all the  
5 companies that we speak to, they want local  
6 control, but I don't think there's ever that  
7 option that's given to the public to say  
8 that you might have a rate decrease or you  
9 might have more stability or whatever, and  
10 these are the reasons we say that it should  
11 happen or it shouldn't happen. It's just an  
12 opinion.

13 THE WITNESS: Yeah, I understand this.  
14 It's not -- my opinion is not based on --  
15 my opinion is not based on the actual  
16 dollar amount that our customer would pay  
17 on the water bill, no. It's based on a  
18 fear of what the future rates might be if  
19 it were turned over to a private  
20 corporation.

21 COMMISSIONER SCHMITT: I can tell you  
22 something. About three weeks ago we had a  
23 case -- Kentucky American Water came in for  
24 a rate case. And unlike most rural water  
25 districts, they come in about every three

1 years, and rates are obviously -- when  
2 costs goes up, the rates go up slightly.  
3 But they tend to provide -- I live in  
4 Lexington now and they provide all of  
5 Fayette County's water. And they have  
6 130,000, apparently, they say, about  
7 customers in other surrounding counties.

8 Within the last few years they bought  
9 two rural water districts. They bought East  
10 Rockcastle Water Association and I think  
11 Middletown or --

12 MS. VINSEL: North Middletown.

13 COMMISSIONER SCHMITT: North Middletown or  
14 something. Anyway, these -- these two  
15 entities had trouble providing water and  
16 trouble providing quality water. In any  
17 event, as a result of this rate case, those  
18 two districts, which had minimum water  
19 bills of maybe 47, \$48 a month, their  
20 water -- their minimum water bills were  
21 reduced by \$20 a month each, because they  
22 could spread the cost over a lot of people,  
23 which small districts can't.

24 And all I think we're saying -- and  
25 we're not advocating Kentucky American or

1 any independent, but like Mr. May's company,  
2 if you have professional managers,  
3 professional managers for a profit, can --  
4 in my opinion, produce a better quality  
5 water, a resilient supply of water at over  
6 time a much lower cost than local government  
7 can.

8 It's a question of like Ronald Reagan,  
9 you know, about the difference between a  
10 government and private enterprise. But  
11 it's -- it's amazing, and I wouldn't have  
12 believed it either. I would have thought  
13 why -- any local government ought to own  
14 their own water company because they ought  
15 to be able to produce water at a lower cost.  
16 And that's absolutely true. But you know  
17 what? When politicians get involved, it  
18 just don't happen.

19 THE WITNESS: Well -- and I'm not saying  
20 that I would never support, you know,  
21 selling the water district, but I'm saying  
22 that I -- if it became necessary and that  
23 we were looking at having to look at  
24 economies of scale, my preference would be  
25 consolidation, not an outright sale.

1 COMMISSIONER SCHMITT: Consolidation would  
2 give you more customers and give you an  
3 opportunity to hire a higher quality  
4 management; wouldn't you agree with that?

5 THE WITNESS: Yes, sir.

6 MR. CICERO: I just wanted to point out  
7 that while I know that there is a lot on  
8 the plate of Southern, that that option  
9 shouldn't be discarded just out of pocket.  
10 If you're successful, obviously, the  
11 Commission is not going to push you to do  
12 anything other than to do whatever it is  
13 that you can do to manage it on your own,  
14 and your customers are happy, and you  
15 provide safe, quality drinking water, and  
16 your management practices are up to snuff,  
17 and do your training, we're not going to  
18 push that.

19 But the reason that you're here today  
20 is because that didn't happen in the past  
21 and, unfortunately, you're answering  
22 questions for a group that is prior to your  
23 being in your position. So I -- we're just  
24 trying to manage the situation that as it  
25 now exists. And as far as the water loss

1 goes, until you have the meters installed  
2 and you have the master meters installed,  
3 you won't know what that water loss is. But  
4 it was a threshold, obviously, with your  
5 prior rate case, that's why you won the  
6 lottery and came in today and had the  
7 privilege to talk.

8 THE WITNESS: Yeah. And if I may, I  
9 would -- and I think that the current board  
10 at Southern, I think they all feel this  
11 way: Our first preference in what we're  
12 striving for is to turn the district around  
13 and make it viable, operationally  
14 functional. If we see that that's not  
15 going to work, then I think the second  
16 preference would be for us to look around  
17 at our neighbors and consider  
18 consolidation. And if that didn't work,  
19 then certainly then we would not be  
20 opposed -- I would not be opposed at that  
21 point in looking at the district going to a  
22 private entity.

23 MR. CICERO: Thank you for all your  
24 answers. They were very good. I don't  
25 have any other.

1 COMMISSIONER SCHMITT: Commissioner  
2 Mathews?

3 EXAMINATION

4 BY DR. MATHEWS:

5 Q Just a general notion of how you  
6 think -- you had the rate increase, I guess it's  
7 been one month or the -- the new rates --

8 A Yes.

9 Q -- flat because there's --  
10 without metering, it's not possible to bill your  
11 customers otherwise.

12 How -- I mean, are you covering your bills  
13 every month, or this, you know --

14 A And Mr. Reed can speak to that  
15 better than me. I think we had about \$100,000 in  
16 the bank at the end of last month. We are  
17 currently receiving bills -- am I saying that  
18 right? Under the new rate is currently being paid.

19 MR. COMPTON: Yes.

20 A Yeah, I just paid my new water  
21 bill and it is on the new rate. We will know at  
22 the end of this billing cycle the financial impact  
23 of the new rate adjustment. Until then, we  
24 won't --

25 Q And I recognize that, you know,

1 the folks that are there every day have a better  
2 sense of that, but I just wanted to make sure as  
3 Board Chairman you're getting a sense of the  
4 direction? Are you continuing to -- to, you know,  
5 three step forward and four steps back? Or are you  
6 three steps forward and only two steps back?

7 A Well, my -- the only way I look  
8 at it is that from the -- the rate increase under  
9 the flat rate was going to be averaged out at about  
10 \$17 per customer. We were losing about 40 to  
11 \$50,000 a month, and we should take in an extra  
12 90,000 plus. I want to wait and see the numbers,  
13 but I do believe that there will be enough revenue  
14 going forward to address the problems.

15 DR. MATHEWS: Okay. Just -- and that was  
16 more just a how often do you stick your  
17 finger up in the air and see how the wind's  
18 blowing. That's all I have.

19 COMMISSIONER SCHMITT: Well, I'll bet you  
20 stick your finger up in the air and hear a  
21 lot of customers --

22 DR. MATHEWS: Yeah.

23 COMMISSIONER SCHMITT: -- who don't like  
24 this flat rate. But there's not much we  
25 can do since you -- so many people were

1 basically paying the minimum, no matter how  
2 much water they used. And the other people  
3 were -- appeared to have been subsidizing  
4 that when -- how do you raise reasonably  
5 the volumetric charge when a third or so of  
6 the meters basically aren't registering  
7 correctly?

8 THE WITNESS: Yeah.

9 COMMISSIONER SCHMITT: That -- that's the  
10 problem. And one of the reasons, of  
11 course, we would like to see you get new  
12 meters quickly is because our position is,  
13 is that we can't reasonably or won't  
14 reasonably change that rate until you can  
15 get new meters in place. And then  
16 everybody can be treated on the basis on --  
17 fairly on -- on what they actually -- they  
18 pay for what they actually use. And we  
19 know this system is not the best.

20 THE WITNESS: Yes. Yeah, and that's -- and  
21 that is our number one goal, to replace all  
22 the meters, but -- and it -- people have  
23 not been very receptive to the rates.

24 COMMISSIONER SCHMITT: Well, you know, we  
25 got -- when I guess we had the -- the other

1 rate case, we got comments from people that  
2 said, I -- they're not reading my meters.  
3 I complain and they say they are reading my  
4 meter, but I cut a tree down over my meter  
5 and it hasn't been moved and nobody's  
6 there, so they couldn't be reading the  
7 meter. And I think Mr. Hall said, we read  
8 these meters every month. We get these --  
9 and -- and, obviously, if they're -- I  
10 don't know. I mean, they weren't reporting  
11 that the meters weren't working or,  
12 obviously, reporting that a number of  
13 people apparently didn't have a meter, at  
14 least in the -- in the -- you know, the  
15 Route 23 area going up toward the Pike  
16 County line. So I don't know what the --  
17 what it was, but, ultimately, I know you  
18 haven't -- your acceptance of appointment  
19 and continuing on in this position is a  
20 sacrifice that you and the other  
21 commissioners have made for the people of  
22 Floyd County who are served by Southern  
23 Water District. And, unfortunately, you'll  
24 probably never get the credit you-all  
25 deserve for -- for having gutted this thing

1 out 'til the end. In terms of -- of  
2 financial -- your financial position, you  
3 know, as long as we got this case open, the  
4 rate case, you know, we can consider things  
5 and -- and adjust.

6 We had a water district in here last  
7 week who has -- has some serious financial  
8 problems, a neighbor of yours. And a couple  
9 of years ago, they found out for the first  
10 time that -- they stumbled on the fact they  
11 were broke or going broke. They filed a  
12 rate increase and came in here and asked for  
13 a 5 percent rate increase. And the -- and  
14 one of the ladies sitting at the table over  
15 here and the others in this room said, you  
16 need 27, 28 percent. And if you don't have  
17 that, you can't make it. Well, they turned  
18 it down. Only wanted 15 percent. Then when  
19 they couldn't make a payment on their RD  
20 loan, they wrote a letter, two years later,  
21 saying can you give us the additional money?  
22 And we said, well, you know, it's too late.  
23 That case is over. So all I'm saying is,  
24 is, you know, I know you-all are busy and  
25 you have a job, and the other Commissioners

1           have -- have jobs, professions that they  
2           have to work at to make a living, and you  
3           can't spend full time on this. But if you  
4           will get us what you think you need -- we  
5           may not be able within the boundaries of the  
6           regulations and the laws to give you  
7           everything you want, but we'll try to help  
8           you survive, okay?

9           THE WITNESS: I appreciate that. And I  
10          think the only -- I think the biggest  
11          concern going forward is that any financing  
12          agency, whether it be a meter manufacturer,  
13          RD or KIA be confident that the Commission  
14          is going to give us a revenue stream that  
15          will allow us to pay our bills. So if  
16          there's any complications, we will  
17          certainly come to the Commission with --

18          COMMISSIONER SCHMITT: We have -- we have  
19          in the past, even for private, small  
20          utilities. Where a gas company, for  
21          instance, in Southern Kentucky had a  
22          problem, a serious problem, and needed to  
23          replace a gas line, but had no -- and it  
24          was the only line going to a town there.  
25          But they could not get financing. But,

1            basically, through us and a surcharge put  
2            on so that the bank would loan them the  
3            money, because they knew that they had  
4            essentially the guarantee that the Public  
5            Service Commission would see --

6            THE WITNESS:    Yes.

7            COMMISSIONER SCHMITT:  -- that they got  
8            their money back.  And that's about all,  
9            you know...

10          THE WITNESS:  And I think that -- yeah.  
11          And we will -- we will -- we'll certainly  
12          look at that option if it's needed in the  
13          near future.

14          COMMISSIONER SCHMITT:  Let me ask you  
15          about -- I know that after the --  
16          you-all -- the new commissioners came on  
17          board, and Mr. Hall, the prior manager  
18          resigned, you had Mr. May and Utility  
19          Management Group in place; correct?

20          THE WITNESS:  Yes.  Utility Management  
21          Group was put in place I believe  
22          March 25th, and they have been in place  
23          since.

24          COMMISSIONER SCHMITT:  Well, I guess, if it  
25          were not for Utility Management Group at

1           this time, would -- would Southern Water  
2           District be able to function and operate as  
3           a public utility? Who would be running  
4           your company if you didn't have a  
5           professional management, a group in place?  
6           THE WITNESS: In my opinion, the district  
7           could not have survived without a private  
8           company coming in to take over the  
9           management operations.  
10          COMMISSIONER SCHMITT: Since Mr. Hall left,  
11          has Southern lost any employees?  
12          THE WITNESS: I believe two employees have  
13          quit since UMG took over. Mr. Compton  
14          could answer that question better. I  
15          believe there were only two employees  
16          and -- but I don't believe we could -- I do  
17          not believe we would be where we are today  
18          without UMG. They've made fundamental  
19          changes. They have also done a lot of  
20          things to help control our costs to --  
21          COMMISSIONER SCHMITT: Such as? Such as?  
22          THE WITNESS: They've cut the overtime  
23          costs; they've cut the fuel costs. Those  
24          are things that we have seen the numbers go  
25          down on. So those are two very specific

1 examples of savings that we have seen. And  
2 like I say, they're still in the process  
3 of -- of trying to help us with operational  
4 efficiencies. They have -- Mr. May has  
5 been very involved with a problem at the  
6 water treatment plant with a -- with Grit  
7 King, which, my understanding, separates  
8 particles from the water, that was not  
9 engineered properly. I think they have  
10 that situation resolved. That would save  
11 us money at the water treatment plant.  
12 That's another specific example that I can  
13 think of right off. And I'm sure there's  
14 others that I can't think of right now.  
15 COMMISSIONER SCHMITT: I know that the --  
16 your contract with UMG runs into -- I  
17 guess, maybe mid to late September --  
18 THE WITNESS: Yes, sir.  
19 COMMISSIONER SCHMITT: -- of this year?  
20 Do you plan on renewing that contract  
21 or -- or how do you plan on moving forward,  
22 if you've thought about it, at the end of  
23 their contract?  
24 THE WITNESS: Well, the contract -- the  
25 contract was for six months. Looking back

1 now, I feel like we should have had a  
2 one-year contract. The contract allows an  
3 automatic renewal for another six months at  
4 the end of the first six months. It would  
5 be my recommendation to the board that we  
6 make a decision to allow that to extend for  
7 six months because of -- we're in the  
8 middle of a process, and still, in my  
9 opinion, we're sort of in an emergency  
10 situation, that we keep UMG on for an  
11 additional six months to give us time to  
12 make some changes, and that would allow us  
13 perhaps a chance to go through a  
14 procurement process for a management group,  
15 or at least a bidding process if we renewed  
16 UMG's contract beyond that.

17 COMMISSIONER SCHMITT: Well, I want you to  
18 know, because I know that we -- in our last  
19 order, had placed a prohibition against  
20 entering into any, you know, long term  
21 or --

22 THE WITNESS: Yes.

23 COMMISSIONER SCHMITT: -- long term, 30  
24 days. That wasn't -- that wasn't addressed  
25 at U -- at UMG. But what we didn't want to

1 do until we got this rate case up and  
2 going, and until we could see what you-all  
3 might intend to be doing, basically get  
4 involved in where you might be giving --  
5 the district might be giving contracts to  
6 other people for all kinds of things  
7 without it having been thought through.  
8 THE WITNESS: Yeah. The only -- the only  
9 thing that I could see happening is that  
10 the board -- I guess, the board would have  
11 to make a decision to let that contract  
12 renew itself for six months, but with the  
13 progress that we made and with the things  
14 that we're seeing from UMG and they're  
15 helping us with right now, I couldn't  
16 imagine Southern not having UMG and not  
17 letting that contract renew for another six  
18 months to, you know, keep things going. I  
19 think they're going in a positive direction  
20 and I've seen a lot of things happen, and  
21 I'm happy with the progress so far.  
22 COMMISSIONER SCHMITT: Insofar as you and  
23 the other commissioners are concerned, I  
24 guess you got a -- have you thought about  
25 when the commissioners will get their

1 training, their -- that's required, the  
2 12 hours training in the first year?

3 THE WITNESS: All of the commissioners --  
4 to my understanding, we all plan to attend  
5 the Whitesburg training in October. There  
6 is a training. Ms. Vinsel had provided us  
7 with paperwork. I think all of the  
8 Commissioners are planning to attend the  
9 training. And I think it's at Whitesburg  
10 and I think it's in October.

11 MS. VINSEL: I -- I'll have to  
12 double-check.

13 THE WITNESS: Yeah.

14 MS. VINSEL: I think you're right.

15 THE WITNESS: Yeah. There is an October  
16 training that we was provided information,  
17 that all of us intend to -- to be there.  
18 There was another training listed as a fall  
19 back in December here at Frankfort. So  
20 we -- all the commissioners plan on  
21 receiving that training either in October  
22 or December of this year. I'd like to say,  
23 I appreciate Mr. Malekovich --

24 COMMISSIONER SCHMITT: Yes.

25 THE WITNESS: -- gave us a one-day crash

1 course, which was very enlightening. And  
2 there was a lot of effort on the Commission  
3 staff here to accommodate us for a -- for a  
4 one-day training that was very much needed.  
5 COMMISSIONER SCHMITT: Well, thank you for  
6 that. Our staff has always been willing to  
7 do what's necessary to help commissions --  
8 new commissioners, especially where and --  
9 and there have been others, where the  
10 entire board has changed --

11 THE WITNESS: Yes.

12 COMMISSIONER SCHMITT: -- under less than  
13 optimal circumstances, like what you've had  
14 to go through. And so we just -- it's part  
15 of the service and the -- and staff has  
16 been more than willing to do it.

17 THE WITNESS: Yeah. And we're very  
18 grateful. They were very gracious and they  
19 were very helpful.

20 COMMISSIONER SCHMITT: In the -- in your  
21 asset -- in your sale in unwinding, or  
22 whatever, involving the abortive attempt to  
23 close the agreement with Prestonsburg -- I  
24 mean, if things get to the point -- at some  
25 point, the Public Service Commission

1 approved that transaction. Disappointing  
2 to me personally was the fact that it  
3 turned out the way that it did, because I  
4 had known people on both sides and I was  
5 really sorry -- I wish we had had a  
6 period -- when we do the next one, the  
7 unwinding, we're probably going to have to  
8 have one, just for -- just for  
9 transparency's sake. But -- but in the  
10 event that things get bogged down and  
11 somebody needs to move forward, if a  
12 proceeding would be filed here, we'll  
13 undertake to facilitate that one way or the  
14 other, okay? And you may not want to do  
15 that on that basis. You know, it's kind of  
16 like a -- you know, it's an unknown.

17 THE WITNESS: Well, and I think Vice  
18 Chairman Cicero said it well. I mean, if a  
19 car is out of gas, it may become necessary  
20 for -- something is going to have to spark  
21 a movement in this, so...

22 COMMISSIONER SCHMITT: I have no further  
23 questions. Commissioner McNeil, questions?

24 MR. McNEIL: Just briefly, Your Honor.  
25 Very briefly.

1 EXAMINATION

2 BY MR. McNEIL:

3 Q Mr. Prater?

4 A Yes.

5 Q Good morning.

6 A Good morning.

7 Q Could you turn back to PSC  
8 Exhibit 7 quickly for me?

9 A (Witness does same.) Okay.

10 Q This is -- this is listing the  
11 district's payments to Frasure Electric in 2017; is  
12 that correct?

13 A Yes.

14 Q Do you see how there are multiple  
15 entities there, Frasure Manufacturing, Frasure  
16 Electric, and Rick Frasure? Do you understand --  
17 can you tell me how the district pays Frasure  
18 Electric?

19 A I will -- in -- I'm making an  
20 assumption, but Frasure Manufacturing -- Rick  
21 Frasure owns Frasure Manufacturing, Frasure  
22 Electric. Those are all three the same entity.  
23 He's a small operator. He does a lot of motor work  
24 and used to do a lot of mining work. But Frasure  
25 Manufacturing is the name of the little business,

1 but Rick Frasure is the owner/operator of that  
2 business. Does that answer your question?

3 Q Sure. I guess, what I'd ask  
4 then, do you know if all entities, or just one  
5 invoices the district? Do you just pay the entity  
6 who invoiced you or -- you know, how do you know --  
7 do you know?

8 A I don't know the answer to that.  
9 I'm -- I'm certain that it's the same -- it's the  
10 same person, same entity, but how they write the  
11 check or how he submits the invoice, I'm not -- I'm  
12 not certain.

13 Q Do you agree that could have  
14 contributed to the discrepancies in the billing?

15 A I don't think so, because the --  
16 and I don't think so, because the people at  
17 Southern all know Frasure Manufacturing, Rick  
18 Frasure to be the same entity, same -- the same  
19 company, or Frasure Electric.

20 MR. McNEIL: No further questions,  
21 Chairman.

22 COMMISSIONER SCHMITT: Mr. Bailey, do you  
23 have anything?

24 MR. BAILEY: Nothing, Your Honor.

25 COMMISSIONER SCHMITT: Anything further

1 from staff?

2 MS. VINSEL: I just want to confirm that  
3 the training is October 8th and 9th at Pine  
4 Mountain State Park.

5 THE WITNESS: Yes, that's the one we plan  
6 on attending.

7 COMMISSIONER SCHMITT: There might be --  
8 the facilities there might be a little --  
9 little different than Whitesburg. The  
10 park --

11 THE WITNESS: Yes. Thank you.

12 COMMISSIONER SCHMITT: If nothing further,  
13 may Mr. Prater be excused? May he step  
14 down?

15 MS. VINSEL: Yes.

16 COMMISSIONER SCHMITT: Please step down,  
17 Mr. Prater.

18 All right. So why don't we take a  
19 break until five minutes after 11:00. Then  
20 we'll go to lunch and then finish up this  
21 afternoon. We'll be in recess until 11:05.

22 (THEREUPON, A BREAK WAS TAKEN.)

23 COMMISSIONER SCHMITT: We are now back on  
24 the record. Ms. Vinsel, would you like to  
25 call another witness?

1 MS. VINSEL: Yes, we'd like to call Richard  
2 Paulmann at this time.

3 \* \* \* \* \*

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

7 COMMISSIONER SCHMITT: Please be seated.  
8 Mr. Bailey?

9 MR. BAILEY: Thank you.

10 EXAMINATION

11 BY MR. BAILEY:

12 Q Will you please state your name  
13 for the record?

14 A Richard Paulmann.

15 Q And what is your profession,  
16 Mr. Paulmann?

17 A I'm a CPA.

18 Q What is your affiliation with  
19 Southern Water?

20 A I prepared audits from 2014  
21 through '17.

22 MR. BAILEY: I pass the witness.

23 COMMISSIONER SCHMITT: Ms. Vinsel.

24 MS. VINSEL: Thank you.

25 EXAMINATION

1 BY MS. VINSEL:

2 Q You said you prepared an audit  
3 for 2014?

4 A Yes.

5 Q The Commission cannot find a copy  
6 of that audit. Would you still have a copy?

7 A If you give me an e-mail, I  
8 can -- I'll -- I can e-mail it to you.

9 COMMISSIONER SCHMITT: I have that audit  
10 right here.

11 MS. VINSEL: Oh, okay.

12 COMMISSIONER SCHMITT: It's on the website.  
13 I ran it off this morning. I had several  
14 other copies, but...

15 MS. VINSEL: All right.

16 COMMISSIONER SCHMITT: Just wait a second  
17 and let's see what we've got here.

18 MR. CICERO: This one's '13.

19 COMMISSIONER SCHMITT: Is it '13?

20 MR. CICERO: Uh-huh (affirmative).

21 COMMISSIONER SCHMITT: Oh, it's the -- the  
22 year ended 2013, I guess is what we have.  
23 Well, it would have been provided in 2014;  
24 right?

25 MR. CICERO: It would be --

1 THE WITNESS: Yes.

2 MS. VINSEL: Yes, we believe it's correct  
3 that we do not have the audit for calendar  
4 year 2014. Let me --

5 MR. CICERO: Calendar year.

6 MS. VINSEL: Let me double-check since I've  
7 got this right here.

8 COMMISSIONER SCHMITT: I think you're  
9 right. I think there is a gap when I  
10 checked again this morning when I -- we had  
11 '13 that was done in '14.

12 MS. VINSEL: Yes.

13 COMMISSIONER SCHMITT: And then there is a  
14 gap. And then you get '15, '16, '17 or  
15 something.

16 MS. VINSEL: Yes. So -- and this will be a  
17 post hearing data request that we will send  
18 to Mr. Bailey. I will send you a courtesy  
19 copy also. So we would like the audit for  
20 2014.

21 THE WITNESS: Okay.

22 MS. VINSEL: And excuse me while I take a  
23 second to write a note to myself to make  
24 sure that I e-mail this to you.

25 Q Can I have you turn to the

1 Commission Staff Exhibit 14?

2 A (Witness does same.) Okay.

3 Q And this is the audit that was  
4 conducted for Southern for the year ended  
5 December 31st, 2015.

6 A Okay.

7 Q Let me ask first -- and I know  
8 this is a very delicate subject, so I want to be  
9 careful about what I say. There was an employee of  
10 Southern who was -- allegedly embezzled \$35,000.  
11 And the termination was in spring of 2015, so it's  
12 unclear when everything was discovered. Do you  
13 know anything about this?

14 A I can tell you some, yes.

15 Q Do you know how it was  
16 discovered?

17 A She confessed to Dean Hall  
18 that -- what was going on. What she was doing is  
19 there was a small payment where people would come  
20 in and make it, and it never hit the records,  
21 meaning she pocketed it and it didn't hit the  
22 accounting system. So the only way you could catch  
23 that is if you were -- physically had eyeballs on  
24 her.

25 Q Okay. Would this be considered a

1 material weakness in internal controls?

2 A This was after the fact, and then  
3 you've got to go back to that with -- an audit of  
4 this size, your tolerable misstatement is \$160,000.  
5 There -- had I known about it at the time of audit,  
6 I probably would have given a material weakness on  
7 it, yes.

8 Q So you were not informed of this?

9 A I was informed after --  
10 afterwards, with the next year.

11 Q Okay. Can I have you turn in  
12 that Exhibit No. 14, have you turn to Page 29 of  
13 the audit and tell me when you're there.

14 A (Witness does same.) Okay, I'm  
15 there.

16 Q Pardon me. I've got some  
17 questions just to help us understand some of the  
18 terminology that, at face value, appears to be in  
19 conflict, so it will be helpful to understand.

20 In Statement No. 2 it says, "No material  
21 weaknesses were identified during the audit of the  
22 financial statements"; correct?

23 A Yes.

24 Q And then down in -- I'm sorry,  
25 let me take a step back.

1           What this page is, is a summary of the audit  
2 results and you've listed nine statements that  
3 summarize the audit results?

4           A           This is a summary of the Schedule  
5 of Findings and Questioned Cost, so this is the  
6 A-133 section only, not...

7           Q           Thank you for that clarification.  
8           Down here under the summary of the audit,  
9 Section A on No. 9 it says that, "Southern Water and  
10 Sewer District was determined to be a high-risk  
11 auditee." Could you explained what's meant by that?

12          A           What goes on there is if they  
13 didn't have a A-133 audit the prior year, you're  
14 automatically a high-risk auditee, and that --  
15 that's where that comes from.

16          Q           Okay. And explain to me what  
17 this particular audit is. You say it's an A-113  
18 and is that referring to a particular code or  
19 statute?

20          A           Well, that's the highest level of  
21 work a CPA can do, you know. There you go to the  
22 actual granting agreements, loan agreements,  
23 every -- which I -- I tell all my clients also, all  
24 the circulars have to be summarized out up there.  
25 You know, then there's a program for the -- which

1 you can find in the catalog off the -- the Federal  
2 ID number, which is the program for this section.  
3 But you summarize all the circulars and everything  
4 mentioned in the granting agreements. Then you go  
5 to that program, but you also go to a matrix of  
6 compliance. And there's -- depends on the years,  
7 as many as 14 different compliance areas that you  
8 have to look at. But that is specifically on the  
9 federal funds spent. So you're only talking about  
10 what's on that schedule of federal awards. You're  
11 not talking about -- and those items are all looked  
12 at for -- you know, for those categories and those  
13 items.

14 MR. CICERO: May I ask a quick question?

15 MS. VINSEL: Yes.

16 MR. CICERO: So are you saying that the  
17 reason for the Item No. 9, high-risk  
18 auditee is because the audits performed on  
19 Southern weren't done at the higher level  
20 of audit that is commensurate with the  
21 different --

22 THE WITNESS: Exactly. If there's not  
23 A-133 the previous year, you're  
24 automatically a high-risk audit.

25 MR. CICERO: But the A-133 doesn't

1 necessarily have to be completed for you to  
2 have said you performed an audit of the  
3 company? In other words, you did a  
4 cursory -- you did the cursory review of  
5 the books; it just wasn't done at this  
6 different level?

7 THE WITNESS: I did do the audit before,  
8 but because it wasn't at this level, yes.  
9 So it's automatically high risk if there  
10 wasn't an A-133 on the previous year.

11 MR. CICERO: The previous year was 2014,  
12 which you completed, but that wasn't done  
13 at the same level as 2015?

14 THE WITNESS: No. Here you're -- you know,  
15 they -- this is a single audit, maybe three  
16 or five out -- one out of three or one out  
17 of five years.

18 MR. CICERO: That you would do the A-133?

19 THE WITNESS: It depends on the accrual  
20 base federal expenditures. If there's more  
21 than \$750,000 of federal expenditures on  
22 accrual base, then -- then it needs the  
23 A-130 -- under the current rules.

24 MR. CICERO: Okay. This wasn't an  
25 expression of your opinion that it was a

1 high-risk auditee. This was a mandatory  
2 statement required because of the type of  
3 audit that was performed in the prior year?

4 THE WITNESS: Mandatory requirement. Yes,  
5 that -- that has to be there.

6 MR. CICERO: Okay.

7 MS. VINSEL: Thank you.

8 BY MS. VINSEL:

9 Q I want to make sure that I'm  
10 understanding this. And I think I am, but I need  
11 you to help educate me. So what you're saying is  
12 the A-133 audit is required only when there's more  
13 than \$750 in accrual -- federal accrual  
14 expenditures?

15 A Yes.

16 Q If it's not at that level, then  
17 that audit is not required?

18 A That's correct. And that's a  
19 Yellow Book Governmental audit.

20 Q Okay. Now, if Southern had under  
21 the \$750,000 threshold in 2014 -- no. Let me  
22 strike that.

23 Is the Statement No. 9, is it saying that  
24 Southern should have had an A-133 audit in 2014?

25 A No.

1 Q Or just simply that it didn't  
2 have because it --

3 A Yes.

4 Q And, typically, wouldn't have it  
5 because it didn't meet the threshold?

6 A Yes.

7 Q And then in 2016 and 2017, did  
8 you also perform an A-133 audit?

9 A I think this was the last A-133  
10 year. I think those next two years -- I don't have  
11 it in front of me, but I think they're Yellow Book  
12 Governmental.

13 Q Thank you. Now, this particular  
14 page here with the information that's provided,  
15 exhibits -- just for your reference Exhibits 15 and  
16 Exhibit 16 are the audits for -- Exhibit 15 is the  
17 audit for end -- year ended 2016; Exhibit 17 is for  
18 2017.

19 A Okay.

20 Q I want to make sure I don't get  
21 my years crossed up.

22 There's not a similar page in either of  
23 those audits. Is there a reason for that?

24 A It's not required under the --  
25 the Yellow Book.

1 Q Okay, thank you. That clarified  
2 a lot of things.

3 Let me have you turn to Page -- on Exhibit  
4 14, please turn to Page 25.

5 A (Witness does same.) Okay.

6 Q And in that last paragraph, can  
7 you confirm that you did not identify any  
8 deficiencies in internal controls that would be  
9 considered to be material weaknesses?

10 A I did not. Yes.

11 Q Can I have you now turn to Staff  
12 Exhibit 17 and tell me when you're there.

13 A (Witness does same.) Okay.

14 Q For the record, this is published  
15 by the Kentucky Auditor of Public Accounts, its  
16 Recommendations for Public and Nonprofit Boards.  
17 This was current as of March 4th, 2010. Can I have  
18 you turn to Page 4, please?

19 A Okay.

20 Q In Item 23 there, it references  
21 about, "If the use of credit cards is needed, the  
22 Board should implement particular oversight  
23 controls." Do you see that section?

24 A I do, yes.

25 Q And I'm not going to make you

1 read, but would you agree with me, that first  
2 bullet point says that, A Board member or committee  
3 of the Board should an assigned to review, at a  
4 minimum, the credit card statements prior to  
5 payment?

6 A Okay.

7 Q And the second bullet point says  
8 that, "Credit card charges should be supported by  
9 detailed receipts --

10 A Okay.

11 Q -- documented business purpose  
12 and supervisory approval."

13 A Okay.

14 Q And the last simply says,  
15 "Policies established by the Board should ensure  
16 that review procedures are performed in a timely  
17 manner to avoid late fees and finance charges."

18 A Okay.

19 Q Now, I recognize that you were  
20 not here for the hearing -- previous hearing in the  
21 pending rate case. But as part of that hearing, we  
22 heard testimony about credit card usage. And in  
23 that case the general manager Dean Hall had -- was  
24 the sole user of the credit card. He was also the  
25 sole approver of credit card payments before they

1 were made. Would you consider that to be a  
2 material weakness?

3 A It's poor -- poor internal  
4 control, but I don't know if I would go to a  
5 material weakness there or not.

6 Q Can you just help me understand  
7 why not?

8 A Well, first, is there anything  
9 material? Is there any findings? You know, if you  
10 got findings there, then I -- then I -- that were  
11 material, which is \$160,000 --

12 Q Uh-huh (affirmative).

13 A -- you know, then -- then I  
14 would, but...

15 MR. CICERO: Are you saying that any  
16 incident to be material has to be \$160,000?

17 THE WITNESS: That's -- we -- we prepare a  
18 form called materiality and the tolerable  
19 misstatement is \$160,000, which means below  
20 that, you know, there -- there's not a lot  
21 of looking at items below tolerable  
22 misstatement.

23 MR. CICERO: Any materiality would be based  
24 on the size of the organization, not on the  
25 standard \$160,000; correct?

1 THE WITNESS: Well, it -- it could depend  
2 on the situation, too, you know, but...

3 MR. CICERO: You would agree that a  
4 500,000-dollar entity with a 160,000-dollar  
5 threshold, that materiality bar would be  
6 way too high for that entity?

7 THE WITNESS: Yeah, for that entity that  
8 form would calculate a slower -- a smaller,  
9 you know, tolerable misstatement. Meaning  
10 here, because you've got a huge amount of  
11 assets, it's a large tolerable  
12 misstatement. But if it was your case  
13 there with 500,000, you know, it might be  
14 5,000 for tolerable misstatement.

15 MR. CICERO: So the materiality bar is  
16 being based on the asset base, I take it,  
17 the undepreciated asset base?

18 THE WITNESS: Asset or revenue. You know,  
19 there's different ways to calculate it, but  
20 here your assets are so large that it would  
21 be calculated off the assets. Unless  
22 you're an A-133, then it has a separate  
23 materiality calculation.

24 MR. CICERO: Wouldn't you agree that that  
25 160,000-dollar threshold in the case of a

1 water entity whose assets are depreciated  
2 over an extended period of time and  
3 requires such an initial huge capital  
4 investment, that if you base your  
5 materiality on any one year, that \$160,000,  
6 we have the situation that we have with  
7 Southern where it can fail because of  
8 mismanagement and issues like what  
9 Ms. Vinsel pointed out with the credit card  
10 situation?

11 THE WITNESS: There, again, did Dean -- was  
12 there -- you know, I'm not privy to -- to  
13 your earlier meeting, so I don't know what  
14 Dean did with that -- that credit card.

15 MR. CICERO: Well, we understand that in a  
16 small organization that optimal control  
17 will never be obtained just because of a  
18 lack of bodies to spread the control over,  
19 so that -- that's a given. But in this  
20 case where you had the general manager, who  
21 is charging items to a company credit card,  
22 approving them and authorizing payment, I  
23 would think somewhere in the sampling  
24 process you would at least check some of  
25 those to see that there was an issue or

1 not. Usually, you pull some sample out of  
2 each area that you're going to audit.  
3 THE WITNESS: Again, was anything in there?  
4 You know, was it material? Was it large?  
5 Was it a large item for me to pull to  
6 sample? That would be first. And then,  
7 two, we always did go over four parts of  
8 credits cards and then inquire. But to  
9 sample -- you know, to sample something  
10 \$1,000 at Southern Water just is not  
11 normally done.  
12 COMMISSIONER SCHMITT: So -- well, let me  
13 ask this question then. You would normally  
14 do a sitdown with the executive management  
15 when you go in to perform your audit, which  
16 I presume would be Dean Hall at the -- at  
17 that time?  
18 THE WITNESS: Dean and probably Yogi and  
19 about four other -- there's probably four  
20 people in the room, yes.  
21 COMMISSIONER SCHMITT: Who is Yogi?  
22 THE WITNESS: He's another employee that  
23 either is still there or was there.  
24 MR. CICERO: And those four employees  
25 constitute the entire office staff or --

1 THE WITNESS: Well, I sat with, you know,  
2 with the person you're talking about on the  
3 receivables. I sat with her, I sat with  
4 Mary Beth when she was there. You know, I  
5 sat with all of them and we went over  
6 controls and -- and different, you know --  
7 so I was in front of all those people for  
8 some period of time.

9 MR. CICERO: How long does it typically  
10 take to perform an audit at -- at location?

11 THE WITNESS: On site is two to three days  
12 for Southern.

13 MR. CICERO: What would you do as part of  
14 that your routine for that three to four  
15 days?

16 THE WITNESS: Well, we set an agenda, which  
17 is we look at internal control. We --

18 MR. CICERO: When you -- I don't mean to  
19 interrupt you, but when you say internal  
20 control -- so at that point are you just  
21 doing a, okay, please advise what your  
22 different functions are and then do an  
23 evaluation from an accounting perspective  
24 of, this is a preferred control procedure  
25 or this kind of falls out of the bounds,

1 without really addressing materiality or  
2 any other aspect of it, just the control?  
3 THE WITNESS: I sit and watch them do --  
4 with deposits, watch them with checks, you  
5 know, cut the checks, watch them with the  
6 payroll, check the payroll to the  
7 authorizations of the -- the supervisors on  
8 the time cards. Then, too, everything  
9 individually significant is pulled. And  
10 those invoices are all pulled. Those  
11 are -- the checks are looked at for  
12 approval. You know, then accounts payable,  
13 there's a search on that after -- of  
14 transactions after yearend. Receivables,  
15 there's a search on that of transactions  
16 after yearend. Myself, I even have them  
17 take me to inspect various fixed assets off  
18 the list even and look for obsolete.  
19 MR. CICERO: And so when you go through the  
20 initial phase, the control aspect phase of  
21 it, is that a situation where you say --  
22 you do a little writeup that says, this  
23 isn't the optimal way that -- for control  
24 purposes, but I performed a sampling and  
25 everything appears to be in order? In

1 other words, is there a suggestion to  
2 management that this isn't optimal,  
3 something along those lines?

4 THE WITNESS: Every year there's management  
5 comments, every audit that I do, and  
6 there's -- you know, do you-all have the  
7 management -- any of the management  
8 letters?

9 MR. CICERO: We have the audits -- I read  
10 through the first one that I have here.

11 THE WITNESS: In the back page of the  
12 management letter is -- is comments.

13 MR. CICERO: Well, I have the letter, for  
14 example, reading 2016 it says, "A  
15 deficiency in internal control exists when  
16 the design or operation of a control does  
17 not allow management or employee in the  
18 normal course of performing their assigned  
19 functions to prevent or detect and correct  
20 misstatements on a timely basis."

21 THE WITNESS: Yeah, that's not the  
22 management letter. The management --  
23 there's a separate letter.

24 MR. CICERO: Do we know if we have that?

25 MS. VINSEL: I don't think we have that.

1 COMMISSIONER SCHMITT: I think we just have  
2 the audits. Is this like an executive  
3 summary?

4 THE WITNESS: It's -- you know, there's  
5 items that hit the audit, and then there's  
6 a management letter which -- for areas to  
7 improve.

8 COMMISSIONER SCHMITT: Where -- let me ask  
9 you, who does that go to? Who does the  
10 management letter go to?

11 THE WITNESS: Well, two different places on  
12 it. It says it's between the board and  
13 myself, you know, and not meant for -- not  
14 a required part of the audit, and that --  
15 that's actually written in the management  
16 letter in two separate places.

17 COMMISSIONER SCHMITT: Who gets the  
18 management letter?

19 THE WITNESS: The Board and -- and myself.

20 COMMISSIONER SCHMITT: Did you mail that to  
21 Paula Johnson --

22 THE WITNESS: No. I sit there --

23 COMMISSIONER SCHMITT: -- who was the  
24 chairman of the board, or did you mail it  
25 to Dean Hall?

1 THE WITNESS: I sit there and present it.

2 COMMISSIONER SCHMITT: You present it to  
3 them?

4 THE WITNESS: They all were -- every  
5 management letter I did with Southern was  
6 presented to the board.

7 MR. CICERO: Well, I think we're asking  
8 these questions because I'm looking for  
9 that summary letter, and I've gone through  
10 three years and I don't see it. I only see  
11 the disclaimer that's presented at the  
12 beginning of the --

13 THE WITNESS: Add that in and I can e-mail  
14 you the management letters.

15 MS. VINSEL: I will do that --

16 MR. CICERO: Do that as a post-hearing data  
17 request.

18 MS. VINSEL: -- post-hearing data request.

19 MR. CICERO: I think the concern that we  
20 have is that there's audits being  
21 performed. And so when somebody says  
22 they've been audited, there's a comfort  
23 level that, well, they must be doing  
24 something right because they have been  
25 audited and they received a qualified

1 opinion, so everything is okay. And then  
2 we have a situation with Southern where we  
3 find out there were a lot of deficiencies,  
4 payments, overpayments, underpayments.  
5 THE WITNESS: Again, those would not be  
6 material. Had I even located those, I  
7 would have looked at them to see if they  
8 ended up on -- on a management letter. But  
9 they -- those -- \$1,000, \$1,500 on Southern  
10 Water is not going to --  
11 MR. CICERO: I understand your statement.  
12 I think that in a typical audit -- and I  
13 don't know whether it's part of yours when  
14 you perform yours, but you would take the  
15 largest vendors and do a sampling of the  
16 largest vendors of which, in this case,  
17 Rick Frasure Electric would be one of the  
18 largest vendors at \$75,000 a year. That --  
19 that's the level of materiality we are with  
20 Southern, other than the power and the  
21 chemicals and -- and electric repair --  
22 THE WITNESS: Again, though --  
23 MR. CICERO: -- and the labor --  
24 THE WITNESS: -- that's individually, not  
25 in total. And you're talking in total.

1 MR. CICERO: I'm talking in total for  
2 Frasure Manufacturing, Frasure Electric,  
3 Rick Frasure. Unfortunately, it sounds  
4 like these invoices are processed under  
5 different names. I don't know if it's a  
6 d/b/a or what it is. But whatever it is,  
7 it's -- it may confuse the situation, but  
8 appears it's all the same entity.

9 THE WITNESS: Okay.

10 MR. CICERO: I'm not -- I'm not trying to  
11 be critical. I'm just talking about where  
12 materiality starts and what level at these  
13 type of entities that becomes critical.  
14 Because right now, you heard the initial  
15 statements by Mr. Prater about, we're in a  
16 dire financial situation. And the  
17 situation that occurred and the runup to  
18 the changeover in the commission was a  
19 complete mismanagement of the system. Not  
20 only from the perspective of sale of assets  
21 that wasn't consummated, but if you look at  
22 it from payments of invoices that don't  
23 match up the totals and payments for  
24 someone authorizing his own expenses and  
25 issue -- I know you're performing an audit

1 and it sounds like you know what you're  
2 talking about, but it leaves us with  
3 questions on what to expect when an audit  
4 is complete if these kinds of situations  
5 can arise even after an audit and you're  
6 left with a complete -- well, at this point  
7 if we let it go, it would be complete  
8 failure of the system because only the  
9 150,000-dollar loan from the Floyd Fiscal  
10 Court floated it long enough for hopefully  
11 the rate increase to take effect for them  
12 to survive. Basically, they're at the  
13 doorstep of bankruptcy.

14 THE WITNESS: Okay.

15 MR. CICERO: I know that's about -- I  
16 didn't really ask for an answer, but you  
17 understand the -- the position that we're  
18 in?

19 THE WITNESS: I do, yes.

20 MR. CICERO: So I guess there is no bar  
21 there that would prevent this from  
22 happening based on the fact that you've  
23 done a complete audit and we are still in  
24 this situation?

25 THE WITNESS: Okay. Yes.

1 MR. CICERO: I don't have any more  
2 questions.

3 MS. VINSEL: Thank you.

4 BY MS. VINSEL:

5 Q Just -- just to be clear. When  
6 you ask, some of the issues that were questionable  
7 expenses on credit cards were a little -- well, a  
8 little under \$2,000 worth of meals for which they  
9 are very questionable expenses, the largest of  
10 which was a little under \$650 at a Chinese buffet.  
11 So these were the types of things that really  
12 jumped out about questionable internal control and  
13 payments. As Vice Chair mentioned, the payments to  
14 Frasure Electric where there was a 30,000-dollar  
15 difference between the amount invoiced and the  
16 amount paid by Southern. So that's the gist behind  
17 some of these questions.

18 I really only have one more question for  
19 you. Have you performed or are you performing an  
20 audit for the calendar year ending December 31st,  
21 2018?

22 A I am signed, yes.

23 Q And what is the progress on that?

24 A We have not yet planned field  
25 work. Confirmations are out and field work is

1 not -- is not yet planned.

2 Q Okay. Do you have an estimate --  
3 knowing that field work is not yet planned, is  
4 there an estimate when that audit might be  
5 completed?

6 A The -- the end of September.

7 MS. VINSEL: Okay. One moment, please.  
8 Staff has no further questions.

9 MR. CICERO: I have one. Ms. Vinsel, can  
10 you take this to the witness and ask him if  
11 this is his summary letter?

12 THE WITNESS: No. That's -- that's the  
13 major program for the A-133. That's not  
14 the management letter.

15 MR. CICERO: Just wanted to make certain.  
16 Thank you. Sorry. I don't have any  
17 further questions.

18 COMMISSIONER SCHMITT: Commissioner  
19 Mathews?

20 EXAMINATION

21 BY DR. MATHEWS:

22 Q A lot of form numbers, A-133s and  
23 so forth. So you really do these audits to satisfy  
24 the lenders; correct? KIA, RD?

25 A Well, most -- a lot of them I do

1 are all governmental audits, so they're required by  
2 state statute, meaning they may not even have a  
3 loan and --

4 Q Okay.

5 A -- still have a audit  
6 requirement.

7 Q Okay. I wasn't sure where A-133  
8 came from, what you actually -- I think somebody  
9 said, is that code, and you just said the form  
10 number. I was trying to figure out whose --

11 A That --

12 Q -- whose A-133 is it.

13 A That would be a federal  
14 requirement.

15 Q For local government entities or  
16 for folks receiving funds?

17 A Local government and nonprofit.

18 DR. MATHEWS: Okay. That was all I -- I  
19 just was trying to get a handle on that  
20 number.

21 COMMISSIONER SCHMITT: Mr. Paulmann, you, I  
22 guess, did -- your first audit was the 2013  
23 audit for the Southern Water District?

24 THE WITNESS: Yes.

25 COMMISSIONER SCHMITT: How did it -- how

1 did it come about that you were determined  
2 to be the auditor?

3 THE WITNESS: I placed a bid. I was -- I  
4 was called and then placed a bid, and my  
5 bid was low bid and approved.

6 COMMISSIONER SCHMITT: You were called by  
7 whom?

8 THE WITNESS: By the people doing the  
9 accounting with Southern Water.

10 COMMISSIONER SCHMITT: Mr. Spears or  
11 Mr. Reed called you?

12 THE WITNESS: Yes.

13 COMMISSIONER SCHMITT: Do you know anybody  
14 else who bid on that -- who bid on that  
15 work?

16 THE WITNESS: I'd have to go back and find  
17 the minutes and look to see who bid.

18 COMMISSIONER SCHMITT: After the first year  
19 did you ever bid again? Were --

20 THE WITNESS: My understanding is --

21 COMMISSIONER SCHMITT: -- were request for  
22 auditing services ever bid after the -- you  
23 did the 2013 audit?

24 THE WITNESS: Yeah, I would think they were  
25 all bid.

1 COMMISSIONER SCHMITT: Well, I don't know.  
2 I -- you know, you can't read these stupid  
3 minutes these people had, but I've been  
4 through a number of them. I see they gave  
5 you a contract on October 22nd, 2018 for  
6 the next three years; is that correct?

7 THE WITNESS: Yes.

8 COMMISSIONER SCHMITT: And you bid -- was  
9 that bid? Was that work bid?

10 THE WITNESS: No. That time when I  
11 presented the audit to the board and the  
12 management letter to the board, I brought a  
13 new engagement letter. They were happy, so  
14 they just re-signed with me.

15 COMMISSIONER SCHMITT: Yeah. I mean, it's  
16 kind of like, you know, you got the -- the  
17 fox-in-the-henhouse situation, don't you?  
18 I mean, these people -- did you ever -- did  
19 you ever look at the unauthored -- did you  
20 know about the unauthorized loans these  
21 people had taken out with local banks that  
22 were against the wall? Did you know that  
23 at all?

24 THE WITNESS: I didn't know there was any  
25 unauthorized loans, no.

1 COMMISSIONER SCHMITT: So what's the  
2 purpose of your audit? Aren't you supposed  
3 to try to find things like that?

4 THE WITNESS: I do try to find things like  
5 that, yes.

6 COMMISSIONER SCHMITT: I mean, so who do  
7 you ask? Do you look at their loans? Do  
8 you say what -- I need to know, you know,  
9 what your -- you got, you know, X amount --

10 THE WITNESS: Yeah.

11 COMMISSIONER SCHMITT: -- of loans. Can  
12 you --

13 THE WITNESS: Every single loan --

14 COMMISSIONER SCHMITT: -- show me  
15 something?

16 THE WITNESS: Every single loan is tied  
17 completely back to statements. Then not  
18 only that, with the current requirements,  
19 we're required to break out that going  
20 forward, the principal and interest over  
21 the entire life of those loans, which goes  
22 into the footnotes in the back. So every  
23 single loan is -- is tied back to  
24 something, and the interest and principal  
25 is spelled out in the --

1 COMMISSIONER SCHMITT: Well, what about --  
2 what about when they're not tied -- when  
3 the law prohibits them from making a loan,  
4 taking out a loan without Public Service  
5 Commission approval, and they've got three  
6 or four loans where that's occurred and  
7 they're all over \$100,000, maybe some over  
8 \$160,000?

9 THE WITNESS: Okay. I had no knowledge of  
10 that.

11 COMMISSIONER SCHMITT: But how would you --  
12 how would you find out? How would you -- I  
13 mean, you do an audit. I know -- I mean, I  
14 know you say, well, you're out here fishing  
15 with a net that has open squares, so you  
16 could catch a whale or a shark, but you  
17 can't get a tuna or something that, you  
18 know -- I don't understand it, really. I  
19 mean, you say, well -- if what you say is  
20 true, and I'm assuming it is, that unless  
21 there was a -- one customer, one vendor  
22 where the -- where the expense was more  
23 than \$160,000, you wouldn't consider it  
24 material and you wouldn't look at it;  
25 correct?

1 THE WITNESS: I did look at things, you  
2 know, to as low -- there may be some  
3 20,000-dollar items that I picked in my  
4 sample.

5 COMMISSIONER SCHMITT: I know, but here  
6 isn't this a weakness -- and I'm not saying  
7 just you, but in the whole process. I mean  
8 say I'm management; I'm managing Acme  
9 Corporation and we want you to audit.  
10 You're auditing management. Now  
11 management's working; correct? And I -- I  
12 just go in and I -- I steal \$140,000 from  
13 him or I -- I pay somebody and they  
14 kickback money to me, but it's all -- we  
15 keep everything within -- below \$160,000.  
16 How do you catch that? You'd never catch  
17 it, would you? I'm not saying it happened.  
18 I'm just saying if that's the criteria,  
19 what in the hell is the purpose of having  
20 them?

21 THE WITNESS: I -- I have caught things,  
22 you know, with some audits at some times.  
23 You know, I have -- I have caught some  
24 theftage.

25 COMMISSIONER SCHMITT: Did you ever get the

1 idea there was something wrong with  
2 Southern Water District's management? Did  
3 you ever get the idea something just stinks  
4 here? Did you ever -- did that ever occur  
5 to you?

6 THE WITNESS: Truth? No, not really. I  
7 didn't -- you know, I -- I did not, no.

8 COMMISSIONER SCHMITT: Do you -- do you  
9 know whether or not a public entity in  
10 Kentucky, a water district, a school board,  
11 any public body is entitled or can legally  
12 give away money or gifts or dinners to its  
13 employees? Do you know whether they can or  
14 not, whether that's legal?

15 THE WITNESS: I would need to -- to go look  
16 at it. I would need to find it in the  
17 book.

18 COMMISSIONER SCHMITT: So if you found Dean  
19 Hall's dinner for \$696 to a Chinese  
20 restaurant in Pikeville, that would never  
21 register that, you know, that -- that  
22 may -- there may be something wrong with  
23 that?

24 THE WITNESS: That -- that wouldn't hit my  
25 radar. It's just too -- too small of a

1 transaction.

2 COMMISSIONER SCHMITT: And -- and --

3 THE WITNESS: You know, then, too, what you  
4 ask is was that a Christmas dinner or, you  
5 know...

6 COMMISSIONER SCHMITT: Well, let's say it  
7 was. You tell me where you can find any  
8 law -- we got the Attorney General's guy  
9 here -- where a public body can give away  
10 public money to an employee for something  
11 other than services rendered? Or do it  
12 like that and not withhold taxes on the  
13 value of the meals?

14 THE WITNESS: Yeah, there should  
15 withholding or 1099 or --

16 COMMISSIONER SCHMITT: But it wasn't done?

17 THE WITNESS: Again, it was so small. You  
18 know, if it was this -- any of -- if it --  
19 if it was my years, it was so small, it was  
20 not on the radar.

21 COMMISSIONER SCHMITT: Well, I know. But  
22 isn't the point -- the whole thing is you  
23 could have a whole lot of small things that  
24 add up to quite a bit of money?

25 THE WITNESS: Well, like the theftage you

1 do have, that lady made it disappear before  
2 it hit the accounting system, so there was  
3 no record for someone like me to -- to even  
4 trace. So things -- sometimes things do  
5 happen.

6 COMMISSIONER SCHMITT: Yeah. Now, did you  
7 ever check the gasoline receipts, receipts  
8 for vehicles' gas, where the credit card  
9 was used to buy gas?

10 THE WITNESS: No. You know, I may have  
11 inquired if the gas expense was materially  
12 different than the prior year, but I --

13 COMMISSIONER SCHMITT: Okay. Let me give  
14 you a hypothetical. Southern Water  
15 District's service area is in Floyd County  
16 Kentucky; correct?

17 THE WITNESS: Yes.

18 COMMISSIONER SCHMITT: And if you actually  
19 went through a gas receipt and saw one for  
20 a gas station in Claiborne County,  
21 Tennessee, would that -- would you even ask  
22 how come -- how did that happen?

23 THE WITNESS: I would have inquired, yes.

24 COMMISSIONER SCHMITT: No further  
25 questions.

1                   Let me ask you this. You got this  
2                   three years here. Do you intend on  
3                   insisting that you fulfill -- that that the  
4                   Floyd -- that the Southern Water District  
5                   fulfill this alleged obligation to keep you  
6                   as the auditor for the next three years?

7                   THE WITNESS: No.

8                   COMMISSIONER SCHMITT: No further  
9                   questions.

10                  Mr. McNeil?

11                  MR. McNEIL: I don't have any questions.

12                  COMMISSIONER SCHMITT: Mr. Bailey?

13                  MR. BAILEY: No.

14                  COMMISSIONER SCHMITT: Anything?

15                  MS. VINSEL: Nothing further.

16                  COMMISSIONER SCHMITT: Nothing further?

17                  May this witness be excused?

18                  MS. VINSEL: Yes.

19                  COMMISSIONER SCHMITT: You may be excused.

20                  You want to try to take another one,  
21                  start another one?

22                  MS. VINSEL: Yes. Greg May.

23                  COMMISSIONER SCHMITT: Okay. Mr. May, it's  
24                  your turn. Please raise your right hand.

25                                   \* \* \* \* \*



1 BY MS. VINSEL:

2 Q Good morning -- good morning,  
3 Mr. May.

4 A Good morning.

5 Q We're going to -- we're going to  
6 cut to the chase. I think you've heard some of the  
7 questions and --

8 A Yes, ma'am.

9 Q -- let me just ask the status of  
10 certain things you can tell me about. The capital  
11 improvement plan?

12 A The capital --

13 Q The capital improvement plan?

14 A Yeah, we're working on a capital  
15 improvement plan. Just to tell you, right now,  
16 that plan is probably ten on a priority list of ten  
17 other things we're working on.

18 Q Fair enough.

19 A So we are gathering information  
20 on line replacement, pump stations and all that.  
21 That's just -- at this point in time that's not a  
22 priority.

23 Q That's a fair statement. I  
24 understand.

25 The written leak detection plan?

1           A           What we found is, when we first  
2 went over there, we didn't think they had a plan --  
3 and I think I'll defer this to Don when he  
4 testifies, but I think we've uncovered a plan that  
5 they had in place.

6           Q           Okay.

7           A           I just don't think it was being  
8 implemented and we're not really sure how thorough  
9 the plan is.

10          Q           If it's the plan I'm thinking of,  
11 I believe it wasn't authorized until December of  
12 2018.

13          A           I -- that's possible. I just  
14 know Don uncovered it and informed me in the last  
15 couple of weeks that we did have a written plan --  
16 or they did have a written plan.

17          Q           Okay. I'm looking through to see  
18 what I can defer on to Mr. Compton and Mr. Potter.

19                 Once -- once Southern decides on a bid on  
20 new meters, what would be your best estimate for a  
21 timeline for getting them all installed?

22          A           I think UMG's personnel, we're  
23 looking at six to nine months.

24          Q           Six to nine months?

25          A           Depending on if we can negotiate

1 with the meter company within 30 days. If we -- if  
2 the board decides on a meter company and we can  
3 live with the -- the agreement, we'll sit down and  
4 negotiate the agreement. But we don't think -- if  
5 the money is available and we can get the  
6 financing, we're hoping to have that completed six  
7 to nine months.

8 Q Okay. Speaking of money, as you  
9 know in the pending rate case, the Commission  
10 issued an interim order with an interim rate of a  
11 flat rate. At the time the records did not have  
12 any information about commercial customers. Since  
13 that time has UMG obtained information about water  
14 usage by commercial customers?

15 A Yes, ma'am. What we did was,  
16 when the order was down, we determined that the  
17 commercial customers -- first thing we did was, we  
18 went to the billing system and have them print out  
19 a customer billing list. Well, that was pretty  
20 incomplete. So one of our staff went and actually  
21 did a walk-thru of ever commercial meter and listed  
22 the size.

23 Q Can -- can I interrupt you? When  
24 you say a walk-thru, you mean one staff member  
25 actually went out physically to every location?

1           A           I had one of -- not Southern  
2 Water staff, but my staff that works for me out of  
3 the Pikeville project, because I wanted to make  
4 sure it was thoroughly complete. He may have went  
5 with one of the meter readers.

6           MR. COMPTON: Yeah, he did. He did.

7           A           Okay. So one of the Southern  
8 staff was with my guy. He actually audited every  
9 meter, every commercial meter, and listed the size  
10 of the meter so we could have that information to  
11 put into the billing system.

12 BY MS. VINSEL:

13           Q           So that is in the billing system  
14 now or is it in the process?

15           A           It's in the process.

16           Q           And, again, I understand.

17                   Is it possible for you to provide to the  
18 Commission staff a copy of commercial customer water  
19 usage?

20           A           Yes. What I did was, after we  
21 identified -- I think we identified 161 commercial  
22 customers, what we -- I went back and asked the  
23 billing personnel to the best of their knowledge,  
24 and I based that on information that they printed  
25 out on their computer, the full year's water usage

1 of those 161 customers. And I personally sat down  
2 and -- I think my math is right. I had my  
3 secretary go over my numbers, anyway. And what we  
4 did was, we compared that, the flat rate, compared  
5 to what they paid in 2018. And I think with that  
6 comparison, we looked like that we're going to lose  
7 about \$120,000 from those commercial customers if  
8 the flat rate stays in place.

9 Q So without putting words in your  
10 mouth, it sounds like you may have some thoughts on  
11 how the interim order and the flat rate could be  
12 refined?

13 A Yes. I think the Commission  
14 should consider allowing Southern Water to go back  
15 to the original rate for commercial customers --

16 Q So --

17 A -- than the flat rate.

18 Q So a volumetric rate for  
19 commercial customers?

20 A Yes.

21 Q But keep a flat rate for  
22 residential customers?

23 A Yes. And I have -- I brought  
24 with me -- and I don't mind sharing them. I  
25 scribbled on them where I did the calculations.

1 That's a copy of 2018, all the commercial customer  
2 billing. And so that's what I compiled the  
3 numbers from.

4 Q Is that a copy that we could  
5 have? Or is it something that we need to make a  
6 copy of?

7 A I'll give it to you. I mean,  
8 I've done my work on it. So I've just scratched on  
9 the numbers on the top of it, so...

10 MS. VINSEL: That -- that's fine -- that's  
11 fine with us. If we could get that, that  
12 would help us move forward quicker.

13 COMMISSIONER SCHMITT: Are you asking that  
14 it be filed?

15 MS. VINSEL: Yes. We will go ahead and  
16 file --

17 COMMISSIONER SCHMITT: Okay. We'll go  
18 ahead and file it in the record --

19 MS. VINSEL: I -- I would --

20 COMMISSIONER SCHMITT: -- as a Staff what?

21 MS. VINSEL: I would suggest we file it  
22 into the pending rate case, though, rather  
23 than this case.

24 COMMISSIONER SCHMITT: All right.

25 MS. VINSEL: And -- and staff will take

1 care of filing it in.

2 COMMISSIONER SCHMITT: All right. We'll  
3 file -- that will be filed in the pending  
4 rate case.

5 MR. BAILEY: If I may approach.

6 BY MS. VINSEL:

7 Q There's another issue about  
8 master meters in terms of testing. In the interim  
9 order, we, the Commission, ordered that meter  
10 testing be ceased. Do you still need to test the  
11 master meters? Would you prefer that that be  
12 clarified? Or does it not -- is it okay as of  
13 right now?

14 A I don't think that's a priority  
15 right now with the condition of the residential  
16 meters and the lack of master meters not being in  
17 the system. I don't think that's going to gain us  
18 any -- or it's going to allow us to make any  
19 headway on water loss at this point.

20 Q Okay. Very briefly, the plan for  
21 zoned master meters, will that be bid as a separate  
22 project?

23 A Could be.

24 Q Could be? Okay.

25 A We have identified the locations

1 for the master meters. We know how many it's going  
2 to take and what size. We actually have an  
3 estimated quote. We brought -- Mr. Potter and I  
4 worked on quotes and we know what the cost of those  
5 are.

6 Q Oh, okay. And I just have really  
7 one -- one last question, and this is in regard  
8 to -- it's Commission Staff Exhibits 12 and 13.  
9 And tell me when you're at 12.

10 A (Witness does same.) Okay.

11 Q And this -- these documents are  
12 from the pending rate case. Exhibit 12 is an  
13 appendix to the contract between Southern and UMG  
14 for the Management Agreement. Appendix B sets  
15 forth the hourly rates to be charged and mileage to  
16 be charged. I'm sorry. It's all in Exhibit 12.  
17 Excuse me. The second page is a copy of the  
18 invoice for UMG's services between March and June  
19 of 2019.

20 A Yes, ma'am.

21 Q We just had a question about a  
22 couple of the numbers because they -- they don't  
23 quite line up with the hourly rate.

24 A Yeah, I noticed one of them. We  
25 undercharged on one of them.

1 Q I was going to say, did you  
2 intend to --

3 A I'm not -- I'm not really sure,  
4 because I let --

5 Q Okay.

6 A -- I let Grondall and my office  
7 staff do that billing and calculate the rates.

8 Q Okay.

9 A The one thing I can tell you is I  
10 didn't charge for any of my time. And it's been  
11 considerable.

12 Q I was just going to ask about  
13 that.

14 A Yeah. And I'd like to make one  
15 clarification --

16 Q Yes, please.

17 A -- why UMG is -- I have 15  
18 employees that live and work in -- on that water  
19 district. Also, my wife's family is all served on  
20 that district. So I feel like I got an obligation  
21 or I will have an obligation to -- to help fix that  
22 district. And so that's why I'm free -- gratis my  
23 time --

24 MS. VINSEL: Thank you for sharing that.

25 A -- personally.

1 MS. VINSEL: Thank you.

2 Staff has no further questions.

3 COMMISSIONER SCHMITT: Vice Chairman  
4 Cicero?

5 EXAMINATION

6 BY MR. CICERO:

7 Q Let me follow up on her invoice  
8 question. You have mileage at .75 cents a mile at  
9 4x4, and 4x2 at .53 cents a mile. Do you provide a  
10 breakdown to Southern that shows the mileage by  
11 vehicle so that they can determine whether the  
12 mileage being charged is accurate to the statement  
13 provided?

14 A I will defer that to Mr. Potter,  
15 but almost everything we have is 4x4.

16 Q Okay.

17 A I don't -- I don't know that  
18 we've got a --

19 Q You provide a rate for it.

20 A Yeah, I know, but -- we do have  
21 some, so but I don't think any of us have used  
22 that.

23 Q Do you actually provide a  
24 statement with the mileage --

25 A We do.

1 Q -- when you present the invoice?

2 A (Witness nods head.)

3 Q Okay.

4 A We do.

5 Q I'll ask some question on there.

6 The other question I had for you: Would it  
7 be Mr. Compton or Mr. Potter that would be  
8 responsible for the policy and procedure  
9 development? I'm curious on these -- like the  
10 purchasing procedure that's in the exhibits that I  
11 have. I think it's under Tab 8, the last page,  
12 Ordering Supplies.

13 A Which -- which section?

14 Q Tab 8.

15 A I think we all collectively sit  
16 down and work on those.

17 Q So here's the issue that I have  
18 with almost every water district that comes in and  
19 attempts to develop policies and procedures. It's  
20 a good start, but when submit for approval,  
21 approved, and then amend order to requirements,  
22 there's never a position referred to on who is  
23 approving the requisition. In other words, it  
24 leaves it wide open. Is it the clerical staff  
25 that's approving it? Is it a UMG office person

1 approving it? Who -- who does the approval?

2 A It will be in the operations  
3 manual. Everything goes back to Don Compton. Don  
4 Compton --

5 Q That's great, but your procedure  
6 doesn't say that.

7 A Well, I know that, but you have  
8 to remember we've only been there --

9 Q It's okay.

10 A We had no procedure.

11 Q It's okay. I'm just using this  
12 as an example.

13 A I understand.

14 Q That when I look at policies and  
15 procedures, it's approved, but it's approved by  
16 whom?

17 A Yeah.

18 Q How does the -- it's a good  
19 start, but it's not really a procedure because I  
20 don't know who's approving it.

21 A Well --

22 Q That means that anybody that  
23 signs it could be approving it.

24 A Everything has to be approved --  
25 final approval has to come from Don.

1 Q And that's -- no need to tell me,  
2 just so long as when you finalize these procedures  
3 that position is on here. Not even his name, but  
4 the position, because people change positions.  
5 Positions usually stay.

6 A I understand.

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

8 COMMISSIONER SCHMITT: Commissioner  
9 Mathews?

10 EXAMINATION

11 BY DR. MATHEWS:

12 Q Do you regret answering your  
13 phone when they called you?

14 A Well, I'll make one more comment.

15 Q All right.

16 A About --

17 Q That was my understanding. That  
18 was --

19 A Since this flat rate has went in,  
20 yes, I kind of blocked the 478 numbers.

21 Q Yeah, I -- I -- that was kind of  
22 facetious.

23 A And one comment I would like to  
24 make to clarify, and I think the PSC needs to  
25 consider these commercial rates. We had -- I think

1 all of us, and I know I have, even in church on  
2 Sunday, because I go to church in Floyd County.  
3 But people are saying, oh, it's \$58 and they're  
4 mad. They're really mad at these rates. And  
5 they're saying, oh, I watered my garden, I left the  
6 hose running all night. And so now, all of a  
7 sudden, we're starting to have an issue with  
8 keeping tanks full and stuff because people are mad  
9 and their swimming -- they're filling -- they're  
10 draining their swimming pools and filling them up  
11 with fresh water because it's only \$58. So we  
12 can't sustain that, so we've got to get these  
13 meters changed out and get this rate fixed.

14 Q So step one would be to get the  
15 commercial rate changed?

16 A I think -- yeah, that -- I think  
17 from everything calculates that we have, that's  
18 costing us \$10,000 a month at least.

19 Q Just the commercial?

20 A Just the commercial.

21 MR. CICERO: Interesting that people are  
22 willing to cut off their nose to spite  
23 their face, because eventually this will  
24 all catch up. And if you abuse the \$58,  
25 you think, okay, I'll just run the water

1 'til the tank is dry --

2 THE WITNESS: And we --

3 MR. CICERO: -- at the end, they will cost  
4 them more.

5 THE WITNESS: Yeah. And we're trying to  
6 educate the public. But I think, you know,  
7 that's probably not a widespread thing, but  
8 we have heard it a lot.

9 DR. MATHEWS: I don't have anything else.

10 EXAMINATION

11 BY COMMISSIONER SCHMITT:

12 Q Mr. May, I guess when you were  
13 last here, you had spoken about the meter issues  
14 and water loss. Has anything occurred since you  
15 were last here and testified with respect to how  
16 the meters in general are measuring water, or if at  
17 all, since you were last here?

18 A I think what we have --  
19 Mr. Chairman, I think what we determined, and I  
20 think Don and Grondall report -- we think there's  
21 at least 20 to 30 percent misuse in the bad  
22 meters, and we think probably 60 to 70 percent of  
23 those are that bad. And I think what we've done,  
24 or what we've seen is, I think somebody referred to  
25 take the one step forward and three back somewhere.

1 But we take -- finding the leaks and stuff, we know  
2 that we have not lost a tremendous volume of water  
3 since we've been there, other than fixing small  
4 leaks. And we know that we've got the water loss,  
5 we think at this point, what our numbers are  
6 showing, as good as they can be with the meters the  
7 way they are. We think for the first time we've  
8 got the water loss at 49 percent just comparing to  
9 what we're producing and what we're buying. So we  
10 think we're making some headway on that, but really  
11 it's like throwing a dart until we get these meters  
12 replaced.

13 Q Well, if you replace the meters,  
14 assuming you're correct about your estimate of the  
15 lack of accuracy, it's possible that your water  
16 loss could go much lower than that?

17 A I think we could be looking in  
18 the range of 30 -- high 20s, 30 percent.

19 Q Just from upgrading the meter --  
20 changing out the meters?

21 A Upgrading meters. And it could  
22 be lower than that. I think we're all in different  
23 opinion, but we know that --

24 MR. CICERO: Isn't it sad that a  
25 requirement to have meters inspected every

1           ten years was ignored, and the meters have  
2           degredated to the point that your whole  
3           problem might be the result of just faulty  
4           equipment?

5           THE WITNESS: I think that could be  
6           70 percent of it. They do have some aging  
7           lines and they have some pump stations they  
8           have not taken care of very well. And so,  
9           you know -- but if you had the revenue,  
10          then you could afford to take care of those  
11          issues. So I guess the answer is yes.

12         BY COMMISSIONER SCHMITT:

13                 Q           I mean, the meter situation is  
14           such that they say, well, the meters may cost well  
15           over a million dollars and we can't afford the  
16           meters, but you really can't afford not to have the  
17           meters; isn't that the case?

18                 A           Well, you know, and I keep  
19           telling Jeff, has to be the number one priority. I  
20           mean, if you don't do anything else, whatever you  
21           have to do, those meters have to be replaced.  
22           You're not going to make any headway on this system  
23           until those meters are replaced.

24                 Q           And even if we just looked at  
25           the -- the study that was filed here in another

1 case with a firm in Texas, check some of the  
2 meters, the old meters that -- that Prestonsburg  
3 replaced when they took over the Route 23 area, I  
4 mean, the -- in that scenario, just with that  
5 group, if that sampling was correct, the new meters  
6 would not -- would not only pay for themselves in a  
7 little over three years, but would be generating  
8 150-, \$200,000 a year going forward.

9 A I think that's true.

10 Q Presumably, if water loss wasn't  
11 as great, rates wouldn't have to be as high as they  
12 are; would that be fair to say?

13 A I think that's fair to say. And  
14 I really, I think -- I talked to the chairman about  
15 it, what I'd really like to see is try to get those  
16 meters replacements in, get this system  
17 operationally, and I'd like to see for the first  
18 time a rate to come down, to come back and adjust  
19 those rates down, because I think -- it's -- I'm  
20 not going to say it's highly probable, but it's  
21 possible that it could happen.

22 Q And I don't know. I know the  
23 public is not -- never accepting of higher rates.  
24 But, unfortunately, the way the district was  
25 managed in the past has mandated either higher

1 rates for water or no water at all. Isn't that  
2 simply the way it is?

3 A Yeah, and I think a lot of the  
4 people understand that. I think what people --  
5 when this flat rate came out, they don't understand  
6 the hospital or a school or a coal mine -- that's  
7 the biggest one we've heard about -- is \$8,000 a  
8 year payment for six months. And now they're  
9 paying \$58. And they're having to pay \$58.00 when  
10 they was paying 26.40. And that's the  
11 conversation. Now, everybody don't understand  
12 that, but then a lot of them do. And the ones that  
13 do, really complain about it.

14 Q Insofar as management is  
15 concerned, after -- after UMG has taken over  
16 management of Southern under its current agreement,  
17 have all of the Southern employees stayed, have  
18 they quit, have some not panned out, or how would  
19 you describe it?

20 A So we've had one to quit probably  
21 two days in. It was one of the girls that was  
22 doing the billing. And there's no use of going  
23 into that. It was just there's a lot of questions  
24 and I don't think she was up to answering all the  
25 questions or trying to explain all the questions we

1 had. So she left. And other than that, we made a  
2 lot of changes in who supervises who, and a lot of  
3 restructuring of the staff. And so far we're  
4 pleasantly pleased with the willingness of the  
5 employees to try to do better. I mean, we're  
6 always going to have one or two. And we have not  
7 been there long enough to determine if they're  
8 going to work with the program or not, but we're  
9 pleasantly pleased with what we've seen so far.  
10 They just need leadership and some tools to work  
11 with.

12 Q I may be asking you a question  
13 that's self-serving as far as you're concerned, but  
14 it's the same question that I asked Chairman  
15 Prater, and that is, absent professional  
16 management, such as UMG having come in when it did,  
17 would Southern Water District be in a position it  
18 could even operate efficiently or effectively  
19 today?

20 A I don't think so. I mean, that's  
21 my professional opinion. And I don't mean --  
22 because there's other people could do it besides  
23 us. We're not the only ones --

24 Q But they couldn't do it with the  
25 staff they had; is that correct?

1           A           They could do it with the proper  
2 management and some guidance and the tools to work  
3 with.

4           Q           But that's -- I assume is that  
5 the kind of management they had before?

6           A           No.

7           Q           When -- when UMG's contract is  
8 up, I guess, in September 25th, sometime mid to  
9 late September, does UMG intend on working with  
10 Southern to either renew that contract or  
11 renegotiate it?

12          A           At this point in time, we would  
13 renegotiate it. And what I'd like to say, why we  
14 probably -- our rates wouldn't be as high if he had  
15 a longer term contract. Because UMG don't have a  
16 tractor-trailer load of people sitting back here  
17 waiting to go in. So our company has to distribute  
18 its people, which is our asset, is people. We have  
19 to plan for who we're going to put where and --  
20 because we do have a lot of other projects. So,  
21 yeah, I mean, at this point I'm not -- I want to  
22 help them, at least to get them until they're  
23 viable. And then that will be up to their decision  
24 if they want to keep us or not.

25           COMMISSIONER SCHMITT: No further

1 questions.

2 Mr. McNeil?

3 MR. McNEIL: I have no questions, but I  
4 would like to say the Attorney General's  
5 Office, in light of testimony by Mr. May,  
6 would support his proposal to change the  
7 commercial customers back to the volumetric  
8 rate and keep residential on a flat rate  
9 for the time being.

10 COMMISSIONER SCHMITT: Okay. Mr. Bailey?

11 MR. BAILEY: Nothing, Your Honor.

12 COMMISSIONER SCHMITT: Ms. Vinsel?

13 MS. VINSEL: Just one question.

14 EXAMINATION

15 BY MS. VINSEL:

16 Q In terms of the information you  
17 have about the commercial customer water usage --

18 A Uh-huh (affirmative).

19 Q -- in your opinion, how accurate  
20 is this information?

21 A We're going on the same meters.  
22 It could be a lot higher than -- I would expect it  
23 will be more.

24 MS. VINSEL: Okay.

25 DR. MATHEWS: You would expect that --

1 THE WITNESS: I expect the usage --  
2 DR. MATHEWS: You're underbilling?  
3 THE WITNESS: We're underbilling, yes.  
4 DR. MATHEWS: You wouldn't be hurting any  
5 commercial customers by using this -- these  
6 meters?  
7 THE WITNESS: Yeah.  
8 MS. VINSEL: Nothing further.  
9 COMMISSIONER SCHMITT: Vice Chairman  
10 Cicero?  
11 MR. CICERO: I have nothing else.  
12 COMMISSIONER SCHMITT: Commissioner  
13 Mathews?  
14 DR. MATHEWS: I have nothing else.  
15 COMMISSIONER SCHMITT: Anyone else? May  
16 Mr. May be excused?  
17 MS. VINSEL: Yes, he may.  
18 COMMISSIONER SCHMITT: Thank you. You may  
19 be excused.  
20 THE WITNESS: Thank you.  
21 COMMISSIONER SCHMITT: Let's basically go  
22 into a lunch recess, unless Ms. Mathews, do  
23 you want to quit or would you like to hear  
24 another witness?  
25 DR. MATHEWS: I'm going to get started at

1 1:00 and then you guys can join me.

2 COMMISSIONER SCHMITT: All right. All  
3 right. We'll be in recess then until --  
4 let's give everybody an hour and make it  
5 1:15 and we'll be back. Thank you.

6 (THEREUPON, A BREAK WAS TAKEN.)

7 COMMISSIONER SCHMITT: We are now back on  
8 the record.

9 Ms. Vinsel, would you like to call  
10 another witness?

11 MS. VINSEL: I would, but before I do that  
12 Chairman, Commission staff would like to  
13 make a motion.

14 COMMISSIONER SCHMITT: Yes. Go ahead.

15 MS. VINSEL: Based upon the testimony we've  
16 heard this morning about commercial  
17 customers, their usage and the fact that  
18 the information about commercial customer  
19 usage was only just available now,  
20 Commission staff would propose that we  
21 revise the -- the current rate that's being  
22 charged, so that all commercial customers  
23 are charged a volumetric rate based on what  
24 Southern Water asked for in their original  
25 application, which is for the first 2,000

1 gallons minimum bill is \$33.34. And then  
2 for over 2,000 gallons, it's \$11.51 per  
3 2,000 gallons. And then the flat rate  
4 would remain the same at this point.  
5 COMMISSIONER SCHMITT: For residential  
6 customers?  
7 MS. VINSEL: For residential customers,  
8 excuse me, yes.  
9 MR. BAILEY: We would join in on that  
10 Motion.  
11 COMMISSIONER SCHMITT: I assume,  
12 Mr. McNeil -- you already expressed your  
13 opinion.  
14 MR. McNEIL: That's right.  
15 COMMISSIONER SCHMITT: And you are for it.  
16 MR. McNEIL: I think we would support that  
17 motion, yes, Your Honor.  
18 COMMISSIONER SCHMITT: All right.  
19 MR. CICERO: Would the residential rate  
20 decline at any point --  
21 MS. VINSEL: When we have some better  
22 numbers and lets us know, then, yes, that  
23 would be the expectation that the  
24 residential numbers would decline. At this  
25 point, we don't have sufficient information

1 to make that.

2 COMMISSIONER SCHMITT: Well, Chairman  
3 Cicero, what do you say?

4 MR. CICERO: I say, yes, approve it.

5 COMMISSIONER SCHMITT: And I say yes, and I  
6 think I can speak for Commissioner Mathews,  
7 who also -- we discussed this briefly  
8 before we started and I know she was in  
9 favor. So that rate can take effect when?

10 MS. VINSEL: We will -- yeah, we will  
11 prepare a written order. We could try to  
12 get one out tomorrow or -- tomorrow or the  
13 next day.

14 COMMISSIONER SCHMITT: All right. Thank  
15 you.

16 MR. POTTER: And we'd put it on the next  
17 applicable billing cycle?

18 MS. VINSEL: It would -- it would be  
19 effective for all service provided after  
20 the date of the order.

21 COMMISSIONER SCHMITT: Okay. Would you  
22 like to call a witness?

23 MS. VINSEL: Yes. Mr. Potter, please.

24 COMMISSIONER SCHMITT: Mr. Potter.

25 Please raise your right hand,

1 Mr. Potter.

2 \* \* \* \* \*

3 The witness, GRONDALL POTTER, after first  
4 being duly sworn, was examined and testified as  
5 follows:

6 COMMISSIONER SCHMITT: Please be seated.

7 Mr. Bailey?

8 MR. BAILEY: Thank you.

9 EXAMINATION

10 BY MR. BAILEY:

11 Q Would you please state your name  
12 for the record?

13 A Grondall Potter.

14 Q And what's your occupation?

15 A I am a project manager for  
16 Utility Management Group.

17 Q Okay. And what's your  
18 association with Southern?

19 A I'm assisting in the oversight  
20 and operations of Southern, assisting Don.

21 Q And who is your employer again?

22 A Utility Management Group.

23 MR. BAILEY: I tender the witness.

24 COMMISSIONER SCHMITT: Okay. Ms. Vinsel.

25 MS. VINSEL: Thank you.

1 EXAMINATION

2 BY MS. VINSEL:

3 Q Good afternoon, Mr. Potter.

4 A Good afternoon.

5 Q I would like to ask you a  
6 question that I also asked Chairman -- Chairman  
7 Prater. Because you've got extensive experience in  
8 this area, in your opinion, how did Southern get to  
9 this point?

10 A Well, it didn't happen overnight.  
11 That's for sure. By not following good management  
12 practices and complying with PSC Regulations -- I  
13 mean, meters, as we all said, one of the most  
14 important -- it's the revenue stream for a  
15 district. And once you start falling behind with  
16 your revenue stream, maintenance, keeping up with  
17 the infrastructure, it all falls behind.

18 Q Thank you. That was very  
19 straightforward and appreciate that.

20 As I understand, there's not a current map  
21 of Southern's system that shows all service  
22 connections; is that correct?

23 A Not service connections, no,  
24 ma'am.

25 Q Okay.

1 A Now, if we -- pardon me.

2 Q Go ahead. Yes, sir.

3 A If we do engage in -- for meters  
4 that was actually put in on the meter RFP, that all  
5 meters are to be GPS located. That will give us a  
6 better idea where the service lines in a close  
7 proximity are. Usually 3/4 inch service lines,  
8 especially in our region, are not placed on  
9 mapping.

10 Q Ah.

11 A I mean, your mains are online  
12 and -- and -- yes, sir?

13 MR. CICERO: So you said all meters will  
14 have GPS placing?

15 THE WITNESS: Yes. They will be GPS by the  
16 meter installation company and it will be  
17 included on mapping.

18 MR. CICERO: And it won't matter whether  
19 these are radio controlled or standard  
20 meters?

21 THE WITNESS: It will be -- with the RFP we  
22 asked for radio-read meters. So it would  
23 be radio only at this point.

24 MR. CICERO: Okay. I'm just trying to  
25 clarify because of --

1 THE WITNESS: I understand.

2 MR. CICERO: -- of the discussion --

3 THE WITNESS: Yes.

4 MR. CICERO: -- we had this morning about  
5 whether they were going to be regular  
6 meters or radio-read meters, and it sounds  
7 like you're going down the path of  
8 radio-read meters. But as we discussed,  
9 there's going to be a cost-benefit analysis  
10 that substantiates that the radio-read  
11 meters are the way to go?

12 THE WITNESS: Yes, sir. And I actually  
13 talked to Chairman Prater and Greg. We'll  
14 help walk through that later, but, I mean,  
15 there's a lot of advantages today using the  
16 radio read. You can reduce the --

17 MR. CICERO: I don't -- I don't think the  
18 Commission would argue with --

19 THE WITNESS: All right.

20 MR. CICERO: -- the radio-read meters are  
21 probably the best way to go.

22 THE WITNESS: Personally, that's what I  
23 would recommend. And if we have to do some  
24 cost analysis to show them -- not only  
25 cost, but it will free up additional

1 employees to do leak detection, and we can  
2 reallocate employees that are currently  
3 reading manually. So there are other  
4 things that will help with also.

5 MR. CICERO: I think that the only reason  
6 why we think the cost-benefit analysis  
7 would be good because there's so many times  
8 when what we think is correct isn't always  
9 correct, so --

10 THE WITNESS: And you are correct.

11 MR. CICERO: -- it's always good to  
12 justify --

13 THE WITNESS: Yes, sir.

14 COMMISSIONER SCHMITT: -- with numbers.

15 THE WITNESS: Yes, sir.

16 MS. VINSEL: I'm sorry, we have to -- we  
17 have to have a brief conversation.

18 (OFF THE RECORD)

19 MS. VINSEL: Thank you for your patience.

20 Q As we're talking about radio-read  
21 meters, if Southern goes with radio-read meters,  
22 will the billing software, the current billing  
23 software have to be updated?

24 A They -- it depends on which --  
25 most -- most meters nowadays, their software

1 integrates with most of the major billing  
2 softwares. If not, there might be a translation  
3 program that has to be wrote to pair them up, but  
4 most meter companies will provide that to ensure  
5 that it happens.

6 MR. CICERO: Of course, we know the problem  
7 with writing a custom software is that  
8 custom software has to be updated whenever  
9 there's a change in the canned software?

10 THE WITNESS: And, actually, included that,  
11 that will be an ongoing process. The meter  
12 company will help us with that. They will  
13 match whatever the billing software. That  
14 will be a service provided.

15 MR. CICERO: So at this point your billing  
16 software, you believe, is not compatible  
17 with the radio-read software?

18 THE WITNESS: I'm not sure. We've not  
19 selected which company, and each meter  
20 company uses --

21 MR. CICERO: Different?

22 THE WITNESS: -- different software for  
23 their proprietary meters. But most of  
24 these meter companies have matched up with  
25 United. The system that Southern currently

1 has for billing software, most of the major  
2 billing softwares they already got  
3 translation programs to deal with.  
4 MR. CICERO: So when you say there's a good  
5 probability, no custom software is  
6 required?  
7 THE WITNESS: Yes, no custom, just a  
8 translation program that they already have  
9 and will update. It's not custom for only  
10 Southern. It works with different --  
11 MR. CICERO: Okay. It's a standard  
12 package --  
13 THE WITNESS: Yes.  
14 MR. CICERO: -- depending on what the  
15 billing software --  
16 THE WITNESS: Yes, sir. Yes, sir.  
17 MR. CICERO: -- is utilized by the --  
18 THE WITNESS: I'm sorry.  
19 MR. CICERO: -- water utility?  
20 THE WITNESS: Yes. I didn't explain --  
21 MR. CICERO: Okay.  
22 THE WITNESS: -- it well. I'm sorry.  
23 MR. CICERO: There's situations where  
24 interfaces, in order to be compatible,  
25 actually requires someone to write software

1           for the entity that's -- that needs the  
2           interface.  And that's when you start to  
3           run into problems, because then when  
4           there's changes in the canned software and  
5           the custom software isn't compatible  
6           anymore has to be updated?

7           THE WITNESS:  I understand.  Yes.

8           MR. CICERO:  Okay.

9           BY MS. VINSEL:

10           Q           When you were at the hearing in  
11           the pending rate case, you spoke about training  
12           Southern's staff for leak detections.

13           A           Yes.

14           Q           Can you give us an update on  
15           that?  How is that going?

16           A           As Mr. May said, we've identified  
17           some employees that may have the necessary skills  
18           and we have done some internal changes already.  
19           And we -- I've actually repaired some of their leak  
20           detection equipment they have, had some minor  
21           issues, didn't work.  But we have been training  
22           them.  Another one of our employees with UMG, he's  
23           an excellent leak detection person.  And we're  
24           training them on how to identify leak noises and  
25           sounds using Aqua-Scopes.  And we are training

1 personnel as -- as we have time, so...

2 And -- and we went through with the water  
3 plant, looking at drop rates. So they're monitoring  
4 tank drops on off times at night. So we --  
5 unfortunately, without reading the meters, I'm a  
6 little bit hamstrung. I'm making some assumptions.  
7 And we were already making assumptions on what is  
8 the water loss through the meters. So I think we --  
9 we're doing more reactive water loss. When the tank  
10 drop rate changes from what we see historically, we  
11 know there's an issue.

12 But like we discussed before, now that the  
13 customers are aware they're paying \$58.00 -- and you  
14 made a good point. They're biting their nose off to  
15 spite their face. But they're hurting me, because  
16 I -- I may go out and be chasing a ghost at night  
17 that goes away the next day.

18 MR. CICERO: There's going to be a fallacy  
19 in any --

20 THE WITNESS: Yes.

21 MR. CICERO: -- flat rate like that,  
22 because you could have somebody that has a  
23 water service and fills up their vehicle to  
24 sell water for 58 bucks.

25 THE WITNESS: Yes, sir. But -- but we are

1 identifying personnel. And we actually  
2 have put remote viewing, the telemetry  
3 program, on the -- the person we put into  
4 the distribution field supervisor, so he  
5 can monitor it. And I'm monitoring it and  
6 Duane is, and Greg's also monitoring it.  
7 So we're all keeping an eye on where the  
8 water is going. And if we see a change, we  
9 know, too. Actually Duane and I will try  
10 to narrow it down where the guys will go  
11 out. And that's when we say, okay, I think  
12 we found it. We'll see if they will find  
13 it. And we're trying to train them as we  
14 go.

15 BY MS. VINSEL:

16 Q Does Southern have their  
17 appropriate equipment for leak detection? You  
18 mentioned you had repaired some?

19 A They got -- yes, they do have  
20 some good equipment. They got a digital ultrasonic  
21 flow meter. And I've looked at it and it's -- it's  
22 a good piece of equipment. And they know how to  
23 utilize it. And we went back through how to  
24 utilize it. And they do have acoustic listening  
25 devices also. So they do have equipment.

1           Q           Is there any equipment that  
2 they're missing that you would recommend they get?

3           A           Not at this time. As the system  
4 gets into better shape, and -- and when we do put  
5 in master meters, I would like to see those also be  
6 radio read, some -- you know, the master meters, so  
7 we can get data in quicker to look. They can get a  
8 digital correlator, but we have one available  
9 through our company. But that's an expense for  
10 later down the road and we'll have to see. They're  
11 very expensive usually, a correlator is. And we'll  
12 have to see if it warrants to recommend that  
13 purchase to the board. But at the time, they have  
14 the basics they need to do leak detection.

15          Q           In terms of the master meters for  
16 zones, do you have in the back of your mind a  
17 timeline for getting that?

18          A           Well, of course, like we all  
19 said, it all depends on funding --

20          Q           Yes.

21          A           -- if we do get some money. I  
22 have got quotes on various size meters. We've  
23 identified what locations, depending on the main  
24 line size, what meters we can utilize to get a good  
25 viable flow on it. And I've got quotes.

1           But I think after -- after we get the  
2 funding, it shouldn't take more than -- I want to do  
3 about seven or eight initially. That gives us the  
4 most bang for our buck. But we should be able to  
5 put all those in and get them up and going, I'm  
6 hoping within three to four months after we get the  
7 money, because it will be -- it will be involving,  
8 you know, doing a tap on the main line, getting the  
9 vault, doing -- doing some construction work at each  
10 site.

11           Q           Thank you.

12           In one of the data requests -- and perhaps  
13 this is for Mr. Compton, but I'm going to ask you,  
14 also --

15           A           Okay.

16           Q           -- just to cover bases.

17           Staff had asked for a leak adjustment  
18 worksheet, if one existed, and at the time the  
19 response was UMG was developing one. I just wanted  
20 to see if the leak adjustment worksheet had been  
21 developed. And if you don't know, that's okay.

22           A           Yeah, I think might have to ask  
23 Don on that one. I'm not sure if you're talking  
24 about the customer leak adjustment --

25           Q           Yes.

1 A -- worksheet.

2 Q Yes.

3 A I know we looked at what their  
4 tariff said and we were trying to -- I think we had  
5 done a little bit. We may have some more on that.  
6 And Duane actually helped the girls on that a  
7 little bit, too. But I do think we have a rule of  
8 thumb or a worksheet. I don't have it, but I do  
9 believe there may be something developed.

10 Q Okay. I'll follow up with  
11 Mr. Compton.

12 I just want to verify with you that to the  
13 best of your knowledge before UMG came in, Southern  
14 did not have a written preventative maintenance  
15 plan; is that correct?

16 A Not that I'm aware of. I'll put  
17 it that way. But just like finding the leak  
18 detection manual or procedures, we're finding  
19 things as we clean up areas. And there may be one,  
20 but I'm not exactly aware of one.

21 Q So from what you're saying, it  
22 sounds like the organization of important papers  
23 was not necessarily organized well?

24 A It was rather haphazard, I'll put  
25 it that way.

1 Q Fair statement.

2 I want to ask about the water treatment  
3 plant meter. In a response to a data request, there  
4 was a reference that this was installed  
5 approximately two to three years ago, as best UMG  
6 could tell; correct?

7 A Yes.

8 Q And that there was no record that  
9 you could find that it had been tested?

10 A Calibrated, yes.

11 Q Calibrated.

12 A Yes, I --

13 Q Calibrated.

14 A We could not locate a calibration  
15 record, yes.

16 Q And that UMG attempted to  
17 calibrate the meter?

18 A Yes. And Don was actually  
19 present on site or with them, so it may be better  
20 to defer it to Don.

21 Q I will do that. Thank you.

22 I do have a couple of questions from --  
23 Commission Staff's Exhibit No. 11, it should be in  
24 the binder in front of you. Let me know when you're  
25 at it.

1           A           I believe I am.

2           Q           Okay.

3           A           Is this the periodic compliance?

4           Q           Yes, the February -- the

5           inspection was February 21st, 2019.

6           A           Yes, ma'am.

7           Q           And this was before UMG was

8           hired. In here on Page 16, if I can have you turn

9           to that.

10          A           Yes. Yes.

11          Q           In the section that reads

12          Additional Inspector Comments, it's the --

13          actually, it's the second comment from the bottom

14          about the Mink Branch Tank. Mink -- that the --

15          and I can read it into the record.

16          A           Oh, yes, I see it. Right above

17          the water plant updates?

18          Q           Just above it, yes.

19          A           Yes, ma'am.

20          Q           That the "Mink Branch Tank is in

21          disrepair and in need of replacing. Mr. Hall

22          stated he thought that ARC was going to commit

23          \$500,000 to the project and the rest would come

24          from the KIA," which is the Kentucky Infrastructure

25          Authority.

1           Can you give us any kind of an update on  
2           that project?

3           A           I can to the extent that I know.  
4           I think Kentucky Engineering Group is the engineers  
5           on it, and I think the funding is in place. And we  
6           should be moving forward with that this fall.

7           Q           Okay.

8           A           And that tank does have issues,  
9           and there is part of their water loss. It is  
10          actually leaking, to the best Duane and I could  
11          determine, around 20 gallon a minute or so. It --  
12          it has issues.

13          Q           And, again, if this is better for  
14          Mr. Compton to answer, let me know.

15          A           Yes. I'm --

16          Q           At the very bottom --

17          A           -- throw you under the bus.

18          Q           -- of it under the Water  
19          Treatment Plant updates, No. 1 says -- and I'll  
20          read this into the record --

21          A           Yes.

22          Q           -- "Chris Francis (Water Plant  
23          Operator) stated that they can shut the plant down  
24          5-7 hours every other day due to water loss going  
25          down."

1           A           Yes.

2           Q           Is that still the case?

3           A           I'm not sure.

4           Q           Okay.

5           A           That's better for Don.

6           MS. VINSEL: I will follow up with

7           Mr. Compton.

8                     I think that's probably everything.

9           Everything else I have is for Mr. Compton,

10          so...

11          MR. COMPTON: Thank you very much.

12          MS. VINSEL: So staff has nothing further.

13          COMMISSIONER SCHMITT: Vice Chairman

14          Cicero?

15          MR. CICERO: I only have one question

16          and --

17          THE WITNESS: Yes.

18          MR. CICERO: -- I probably should have

19          asked it before. But has grant money been

20          sought for any of the projects or

21          improvements or in general?

22          THE WITNESS: Unfortunately, a lot of the

23          deadlines or timelines were actually passed

24          before we developed good needs and how much

25          we would need. Although, we -- UMG is

1 currently looking at some other avenues for  
2 grant money as we speak. Mr. May has  
3 actually been looking to those items.

4 MR. CICERO: If you have a project that  
5 starts before grant money is awarded,  
6 does -- I'm asking a question.

7 THE WITNESS: Yeah, you can do interim  
8 financing, if someone would do that. And  
9 there are avenues that -- and that's one we  
10 have talked about going through. Kentucky  
11 Rural Water, they have an interim finance  
12 program. And there are other entities you  
13 can use. But they have to be fairly  
14 certain that you will get the funding or  
15 there is a revenue stream that could be  
16 accessed to pay them back.

17 MR. CICERO: Well, I guess my question is,  
18 has any attempt been made to apply for a  
19 grant or fill out paper -- the necessary  
20 paperwork, qualification?

21 THE WITNESS: Could I defer that to  
22 Mr. May? I'm unsure. I'm unsure.

23 MR. CICERO: That's -- that's fine. I  
24 should have asked when he was up there and  
25 I --

1 COMMISSIONER SCHMITT: Well, he's still  
2 under oath. You may -- if you want to  
3 ask --  
4 THE WITNESS: I -- I give him the quotes  
5 and the --  
6 COMMISSIONER SCHMITT: -- put it on the  
7 record.  
8 THE WITNESS: -- infrastructure need and  
9 then...  
10 MR. PRATER: The Mink Branch Tank project  
11 has been approved 100 percent funding from  
12 ARC. The bids on that will go out --  
13 perhaps Don could tell you -- within a  
14 month or so. We expect that tank to be  
15 complete -- completely replaced by the end  
16 of this year, late fall. There's a  
17 2 million-dollar grant applied for through  
18 the -- I think it's ARC. I don't remember  
19 without looking --  
20 MR. MAY: It is ARC.  
21 MR. PRATER: -- back at the paper. A  
22 2 million-dollar grant applied for for  
23 meter replacements, and that is ongoing.  
24 MR. CICERO: Thank you.  
25 COMMISSIONER SCHMITT: That was Mr. Prater.

1 MR. PRATER: Yes. And, also, KIA, Southern  
2 has had a request for funding for meter  
3 replacement since at least 2018. And I  
4 think even before then, they'd applied in  
5 '17, but I don't think they were awarded.  
6 I couldn't say that for sure, but it has  
7 been submitted.

8 MR. CICERO: All right. I'm just looking  
9 at all the avenues.

10 THE WITNESS: I understand.

11 MR. CICERO: I don't have anything.

12 COMMISSIONER SCHMITT: I have no questions.

13 Mr. McNeil?

14 MR. McNEIL: Just one.

15 EXAMINATION

16 BY MR. McNEIL:

17 Q Mr. Potter --

18 A Yes.

19 Q -- Mr. May mentioned that the  
20 meters are causing a substantial amount of water  
21 loss on the system. Through your leak detection  
22 efforts, can you tell me how long it took you to  
23 figure out how -- you know, how substantial that  
24 loss from the meters was?

25 A It was sort of ongoing. As I was

1 doing -- Duane and I, my other leak detection  
2 person, as we were going meter to meter doing  
3 Aqua-Scope and trying to identify locations where  
4 we thought we had excessive tank droppage or usage,  
5 I was starting to notice -- even though I could  
6 hear water going through the meter using acoustics,  
7 and then I think this is a leak. Then what you do  
8 is you have somebody -- you cut the meter off. The  
9 meter wasn't -- show -- registering water usage,  
10 but when you turned it off, it was quiet. So water  
11 was getting through the meter without being  
12 registered. And we started to see it was pretty  
13 prevalent.

14 So I want to say within the -- I don't  
15 remember exactly when we were down for our first  
16 hearing. But after that time, I really started  
17 seeing what -- I think I told you about 15 to  
18 18 percent. And that's why I'm saying now we got --  
19 maybe more than that. It will be 20 plus, maybe  
20 even up in to 30, so after -- at some point after  
21 the first hearing.

22 Q Sure.

23 A But that's from physically being  
24 in the system and -- and verifying.

25 Q So you said that the flat rate

1 has sort of hampered your efforts on finding leaks  
2 right now. Would you say that before the flat rate  
3 went into effect that even -- even by then you were  
4 sort of -- you were seeing less leaks from tanks or  
5 overflows, or you were -- you were seeing that  
6 trend of meters; is that -- is that correct?

7 A Yeah, I believe we're starting to  
8 see it's more in meters. And -- and one of the  
9 good things about doing leak detection and audits,  
10 which we have been doing of the meters, we have  
11 found service line leaks, small, you know,  
12 residential customer leaks. So I think, in my  
13 opinion, most of the line loss that -- or water  
14 loss that was occurring at Southern is either  
15 through the meters or smaller lines. It's -- it's  
16 easy to walk out and find a 300-gallon-a-minute  
17 leak on a 4-inch line. Or I won't say it's easy,  
18 but it's easier.

19 Q Sure.

20 A But when you have 200 service  
21 lines leaking a quarter of a gallon a minute,  
22 that's a lot more difficult to find.

23 MR. McNEIL: Understood.

24 COMMISSIONER SCHMITT: Mr. Bailey?

25 MR. McNEIL: No more questions.

1 MR. BAILEY: No, Your Honor.

2 COMMISSIONER SCHMITT: Anything else?

3 MS. VINSEL: I'd like to follow up on what  
4 Mr. McNeil just asked about.

5 EXAMINATION

6 BY MS. VINSEL:

7 Q At this point would it be better  
8 for you to be reading meters or can you use the  
9 personnel in other ways, in your opinion?

10 A Well, right -- in my opinion --  
11 and this may not be anyone else's -- I think we're  
12 utilizing the personnel for setting up for our  
13 meter replacement program as the funding comes.  
14 They're actually still doing meter audits. We're  
15 looking at each base, because I'm going to have to  
16 identify -- Don and the people will, we're going to  
17 have to identify -- have to be modifications to  
18 bases. Some of these are really old. So we need  
19 to get an idea of what -- what the meter  
20 installation companies are going to be getting  
21 into. Plus, we have found a significant number --  
22 and I'm not sure we -- we have evidence of it at  
23 the office, of theft of service, jumpers, hot  
24 sticks, whatever you want to call them. And that's  
25 been a -- hey, putting your eyes on each one of

1       them is good. And it's not at a reading cycle, so  
2       people know -- you know, they put them in. If it's  
3       a reading cycle, it's not there. The guys come  
4       read them, no base here. But we come back out of  
5       time that's normally read and we find things. So I  
6       think we're actually doing pretty good. But if we  
7       can get the meters soon, in the next three months,  
8       and have them in six months or so after that, I  
9       think we got plenty of work for the guys to do in  
10      the system at this point. This is my  
11      recommendation -- or this is where I would like to  
12      see it go.

13               And after Mr. May -- and we looked at and we  
14      got the commercials, and I know PSC said you would  
15      entertain that. It may be that -- and I'm going to  
16      recommend this to Mr. Prater, that along with that  
17      they ask the Commission to reduce the 58.82 flat and  
18      take that other money, whatever the reduction will  
19      be, and put it into a meter surcharge so we have a  
20      dedicated revenue stream. And if it does get  
21      difficult to get financing, at least companies will  
22      feel comfortable knowing that that money has been  
23      set aside for that infrastructure only. I would ask  
24      you to entertain that. And I'm going to recommend  
25      that from our perspective also.

1 COMMISSIONER SCHMITT: Yeah, somebody needs  
2 to formally present that --

3 THE WITNESS: Okay.

4 COMMISSIONER SCHMITT: -- when you get the  
5 amount of money that you need.

6 THE WITNESS: Yes.

7 MS. VINSEL: I have no further questions.

8 COMMISSIONER SCHMITT: Mr. Cicero? May  
9 Mr. Potter be excused?

10 MS. VINSEL: Yes.

11 COMMISSIONER SCHMITT: You may step down.  
12 You may be excused.

13 THE WITNESS: Thank you.

14 COMMISSIONER SCHMITT: Next witness.

15 MS. VINSEL: We call Mr. Compton.

16 COMMISSIONER SCHMITT: Mr. Compton, please  
17 raise your right hand.

18 \* \* \* \* \*

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

22 COMMISSIONER SCHMITT: Please be seated.

23 Mr. Bailey?

24 MR. BAILEY: Thank you.

25 EXAMINATION

1 BY MR. BAILEY:

2 Q Will you please state your full  
3 name for the record?

4 A Donald Compton.

5 Q All right. Can you state your  
6 previous employer?

7 A Previous employment was  
8 Prestonsburg City Utilities for 33 years and I  
9 retired from there.

10 Q When did you retire?

11 A August of 2018.

12 Q And what's your current  
13 employment?

14 A Current employment is -- one is  
15 the -- I'm the current Chairman of the KWWOA, the  
16 State's operators association, and I'm a project  
17 manager for UMG.

18 Q And what's your association with  
19 Southern Water?

20 A I'm there on a day-to-day basis  
21 as project manager.

22 Q Is that where your office is  
23 located, right now at least?

24 A Yes.

25 MR. BAILEY: I tender this witness.

1 COMMISSIONER SCHMITT: Okay.

2 MS. VINSEL: Thank you.

3 EXAMINATION

4 BY MS. VINSEL:

5 Q Good afternoon, Mr. Compton.

6 A Good afternoon.

7 Q Would you say that your services  
8 would be more typical of what a general manager  
9 might provide and perhaps something more?

10 A Yes, it appears that way.

11 Q Fair enough.

12 Let me have you start with the Staff --  
13 Commission Staff's Exhibit No. 11 that we were just  
14 looking at. It may be open in front of you.

15 A Yes.

16 Q Turning to Page 16.

17 A Yes.

18 Q This is that line at the bottom  
19 that I read into the record. That at that time the  
20 plant -- the water treatment plant could shut down  
21 five to seven hours every other day with the water  
22 loss going down. Is that still the case?

23 A Yes. It's probably gotten to the  
24 point where they can be shut down three to four  
25 hours every day.

1 Q Okay.

2 A Not every other day now. That's  
3 one of the reasons I think that -- I don't know if  
4 you're going to ask the question or not, but that's  
5 the reason I think there's at least 30 percent  
6 water loss in the meters, is because of the plant  
7 reduction, no catastrophic leaks, you know, no  
8 major tank overflows. We're just not -- we're not  
9 seeing it. The guys are not chasing leaks. You  
10 know, we're not getting calls of customers out of  
11 water. And I just think that's the reason water  
12 loss is down. It's under 50 percent now based on  
13 June's readings. And I think that's -- it's just a  
14 lot in the meters.

15 Q That's very helpful. Thank you.  
16 And I don't know what your counsel will say. I'm  
17 not your counsel, but I will tell you it is very  
18 helpful for us for this process, if you think of  
19 something relevant to say, please do go ahead and  
20 say it if I haven't asked the question.

21 A Okay.

22 Q Because you're the subject matter  
23 expert here and your information is very helpful.

24 A Okay.

25 Q Let me -- let me ask you a quick

1 question. I think this was deferred back to you.

2 The invoice that UMG submitted, the hourly  
3 rates for -- I believe for you and Mr. Potter were  
4 lower than what was in the contractual rate.

5 A I think so.

6 Q Was that just an inadvertent  
7 error or was there an intent to give a discount?

8 A I think a little bit of both.  
9 During the March 25th board meeting where UMG was  
10 awarded the Emergency Agreement Contract, there was  
11 a mention -- I think Mr. May had given the board  
12 that rate sheet and said that he was going to  
13 discount some of it, if memory serves me correct.  
14 So it's probably a little bit of both.

15 Q Okay, thank you.

16 So the leak adjustment worksheet got  
17 deferred to you. Have you created a new leak  
18 adjustment worksheet or is it in progress?

19 A Basically, on customer leak  
20 adjustments we use what the -- what the tariff is.

21 Q So based on cost of production?

22 A Yes.

23 Q And I tried to --

24 MR. POTTER: Yeah. And -- and you're  
25 right. And I do remember now. We used the

1           tariff. And Duane actually took a sheet  
2           and walked examples through and posted it  
3           on the wall at each station, so they  
4           understood how it worked.

5           MS. VINSEL: Okay.

6           COMMISSIONER SCHMITT: Okay. That's  
7           Mr. Potter answering.

8           MR. POTTER: Sorry.

9           COMMISSIONER SCHMITT: No. That's okay as  
10          long as the court reporter -- she has to --  
11          she's going to have to put who it is that's  
12          speaking.

13          MR. POTTER: Yes. Sorry.

14          BY MS. VINSEL:

15                 Q           The water treatment plant meter  
16          and the calibration, I know that you weren't  
17          successful initially. What -- can you tell me  
18          what's going on with that now?

19                 A           I'd say relatively new meter. As  
20          far as any meter that Southern is involved, it's  
21          pretty new. And we had a company come in to try  
22          and calibrate that meter, along with a couple of  
23          the other master meters that are in the system.  
24          And they informed me that there was not enough room  
25          in the vault to do the calibration. You have to

1 get your test ports set up. And they told me the  
2 best way to do it would be to purchase a new head  
3 for the meter that's already calibrated, put it in  
4 place, send the other one off for calibration.  
5 That way we can keep them in rotation.

6 Q Ah, I see.

7 A Yeah, they just -- they said  
8 there was not enough room to perform the  
9 calibration.

10 Q Thank you. Can I go back to --  
11 well, this is your testimony in the pending rate  
12 case. You talked about when you went in that you  
13 had the -- the women in the office run a zero-read  
14 meter report. And I may not be using the correct  
15 language, but the minimum bill or zero-read meter  
16 report.

17 A Zero usage, yes.

18 Q Zero usage?

19 A Yes.

20 Q Thank you. Zero usage report.

21 Is that a type of report that you would have  
22 expected a general manager to typically run? And  
23 I'm not speaking about you. I'm just speaking in  
24 theory that this would be a report that would  
25 typically be run.

1           A           I would have requested it to be  
2     ran.

3           Q           Okay. And it would be run on a  
4     regular basis?

5           A           Should be, yes.

6           Q           Thank you.

7                     The written leak adjustment detection plan.  
8     So I understand that you did find a written leak  
9     detection plan from the previous board; is that  
10    correct, or previous manager?

11          A           Yes. We found a manual created  
12    by Kentucky Rural Water for the -- for the  
13    district.

14          Q           Thank you.

15                     And as I understand correctly now, you're --  
16    you're tweaking it, improving it?

17          A           We're reviewing it to see what we  
18    need to do to it.

19          Q           And, really, the last question is  
20    about Frasure Electric. I think the investigation  
21    kind of got punted back down to you. Has there  
22    been any effort to get to the bottom of this  
23    discrepancy in 2018?

24          A           Not -- the only meeting we had  
25    was the one that Mr. May referenced he and I had

1 with Mr. Frasure at Southern's office. We were  
2 there for about two hours. And I can't tell you  
3 what the issue is. I really don't think  
4 Mr. Frasure has done anything wrong other than  
5 trying to help the district. You know, I can go  
6 back -- I would rather not go back to anything  
7 previous to us being there, but if we need to we  
8 will, and see if I can find anything. I can get  
9 with the office manager and see if we can, you  
10 know, pull checks or invoices that haven't already  
11 been produced.

12 Q That's what I wondered, if you or  
13 if you working with Mr. Reed, or someone in the  
14 office, could go back and -- and review what --  
15 what's been happening with this pattern of payment,  
16 because it does appear that Southern overpaid about  
17 \$30,000, and rightly should -- that's the  
18 ratepayers' money, so it should go back to them if  
19 there was an overpayment.

20 A Yes, I can --

21 Q So we would like -- it would be  
22 important to get to the bottom of understanding.

23 A I can review -- I can review  
24 that.

25 MS. VINSEL: Thank you.

1 COMMISSIONER SCHMITT: Mr. May, did you  
2 have some comment?

3 MR. MAY: Thank you, Mr. Chairman. I would  
4 like to say in the two-hour meeting with  
5 Don and I, that we went over some of those  
6 invoices and it's just -- the way the  
7 business was conducted with no itemized  
8 bills or anything, I agree with Don, I  
9 don't see no ill attempt with Mr. Frasure.  
10 But what I seen, just a business practice,  
11 the way it was conducted, is just very  
12 clear and very questionable. So, yeah, we  
13 can -- we can revisit some of that. We  
14 went over a lot of it. But just the way  
15 the business arrangement was, it's pretty  
16 hard to determine.

17 THE WITNESS: He is supposed to have quite  
18 a bit of inventory that belongs to Southern  
19 in his shop just because the Southern  
20 warehouse does not have room to store it.  
21 We asked him for that list of items and he  
22 provided that within a day and a half or  
23 two days. It was pretty quick. So I  
24 just -- I don't think -- again, there's no  
25 ill intent on his behalf. I just -- if

1           there's a mixup somewhere, then we can try  
2           to find the bottom of it.

3       BY MS. VINSEL:

4           Q           And I want to be clear. The  
5       Commission staff is not trying to imply any bad  
6       faith on behalf of Mr. Frasure --

7           A           Well, we still --

8           Q           -- looking at the --

9           A           -- the district is still  
10       utilizing Mr. Frasure. There is not a certified  
11       electrician on staff, so -- and matter of fact, as  
12       I was leaving last night, he was coming back from  
13       Ashland to help the District. We had a power  
14       outage that needed checked and he -- he, you know,  
15       came on board for that.

16          Q           And when -- is Mr. Frasure being  
17       paid strictly by invoice? There's -- there's no  
18       contractual relationship with him?

19          A           None to my knowledge. It's just  
20       per invoice. And we have -- with our discussion  
21       with Mr. Frasure, we -- we told him that we wanted  
22       to see a work order for every job. If he goes to a  
23       pump station, that's a work order. Even if he goes  
24       to another pump station the same day, if it's a  
25       different pump station, that's a different work

1 order. That way, you know, we know what we're  
2 paying for. And he's to itemize his invoice parts  
3 and labor.

4 MS. VINSEL: Commission staff has no  
5 further questions.

6 COMMISSIONER SCHMITT: Commissioner Cicero?

7 EXAMINATION

8 BY MR. CICERO:

9 Q You indicated that he had  
10 inventory at his facility because Southern has no  
11 warehouse space; correct?

12 A Yeah, I may have misspoke about a  
13 lot. I mean, there's -- it's one page of -- of  
14 items.

15 Q Valued at?

16 A I don't know that number right  
17 now.

18 Q But on the -- it's listed  
19 somewhere on an asset ledger; right?

20 A I would hope so.

21 Q You said that you didn't think  
22 there was any ill attempt, and there's probably  
23 not. But he provided you with a list. And,  
24 obviously, here's another fallacy with the -- the  
25 audit that's being done and good intent or ill

1 intent or mismanagement, there is product that's  
2 sitting in somebody's warehouse that you, as the  
3 new management entity, is requesting a list of what  
4 they have because there's -- Southern doesn't know  
5 what exists over there; is that correct?

6 A That was correct, yes.

7 Q So there was -- there were assets  
8 that if you didn't know they were there, could have  
9 been become the property of somebody else just by  
10 default?

11 A Sure.

12 Q Good intent or bad intent, that's  
13 just the way it works out because records weren't  
14 kept?

15 A Yes.

16 Q So now is inventory being  
17 maintained there?

18 A Yes.

19 Q And there's a record of what goes  
20 there and comes back or what's --

21 A The inventory has not made it to  
22 Southern yet.

23 Q Okay. Are you bringing it back  
24 to Southern or are you going to keep it there?

25 A We're going to try -- we're

1 looking at modifying the warehouse to where we can  
2 store it.

3 Q When you receive an invoice from  
4 Frasure Manufacturing or Rick Frasure or Frasure  
5 Electric, does it now have enough detail on it that  
6 you know what you're paying for? Because I'm  
7 presuming with the answer you provided to  
8 Ms. Vinsel's question, that there was a lack of  
9 detail to necessarily pair up this payment versus  
10 invoice rendered, and that's why there's a  
11 discrepancy?

12 A There's not been -- I think one  
13 or two since the last hearing.

14 Q One or two invoices?

15 A Yeah. And they're broken down  
16 into parts and labor, and they match up with the  
17 work order that was issued, so, yes, it's easier.

18 Q In the old invoices, was there  
19 enough detail on it or was it electric work  
20 performed \$6,000 or \$500?

21 A Best of my knowledge, it was just  
22 a lot of detail on where he was at, what location.

23 Q So when I -- I requested earlier  
24 from Mr. Jeff Prater to read -- read into the  
25 minutes or have approved in the minutes of the

1 board that the board request UMG to go back and try  
2 to find out what these discrepancies are, and I  
3 heard your comment that you prefer not to dig into  
4 things that existed before you arrived.

5 But as I indicated to him, this is an -- the  
6 problem has already been identified, and it should  
7 be a matter of the office staff being able to match  
8 invoices to payments. And if that's what's been  
9 done already -- which there's already a listing that  
10 I have seen from staff that shows a listing of  
11 invoices and a listing of payments. If Mr. Frasure  
12 can't come up with the support of the difference in  
13 payments, then he should be cutting a check. And if  
14 you can't provide detail that shows that whatever  
15 the shortfall was in the next year, there has to be  
16 a way to reconcile this. It can't be -- it's  
17 accounting. I mean, it's got to reconcile out at  
18 the end.

19 A I agree.

20 Q So, I mean, you're going to make  
21 an attempt to -- of the deficiencies identified, to  
22 try to find out what those are?

23 A Yes.

24 Q One last question, and it has to  
25 do with the monthly UMG invoice. And I questioned

1 Mr. May about how much detail is provided, and I  
2 think he kind of punted to -- to you guys, and  
3 whether there was like a mileage. Is there a  
4 detail provided that shows mileage is all a 4x4  
5 rate, 4x2 rate with -- I mean, is there --

6 A He -- Mr. Potter was --  
7 Mr. Potter was --

8 Q So I missed. Okay. I hit the  
9 wrong UMG representative. Sorry.

10 MR. POTTER: Those records are kept. Each  
11 individual has a time sheet --

12 MR. CICERO: Right.

13 MR. POTTER: -- which vehicle was drove,  
14 what the project was, whether it was leak  
15 detection, at the office, then routes.  
16 Yeah, we -- we have those detailed records  
17 and the board has been told they can be  
18 provided at their request.

19 MR. CICERO: Okay. So you --

20 MR. POTTER: But we just summarize --

21 MR. CICERO: -- have it. The board knows  
22 that they can get it?

23 MR. POTTER: Yes. We summarize it for the  
24 monthly, but I retain those records from  
25 each employee, Greg's, mine, Don's.

1 MR. CICERO: Just for the benefit of the  
2 Commission, can we have one month worth of  
3 your invoicing to validate back to what's  
4 been invoiced to Southern, just so that we  
5 can see the support as you provide?

6 MR. POTTER: Yes. Yes.

7 MR. CICERO: We can do that as a  
8 post-hearing data request.

9 MR. POTTER: Yes.

10 MR. CICERO: Thank you. I have no further  
11 questions.

12 COMMISSIONER SCHMITT: Mr. May, did you  
13 have a comment about --

14 MR. MAY: No. I think Don answered it.

15 I just wanted to say, Mr. Cicero, that  
16 we have been trying to get to the bottom of  
17 Frasure Electric. We're just very careful  
18 in what we want to say until we get that,  
19 so...

20 MR. CICERO: I don't have a problem with  
21 that. I just need you to say that you're  
22 going to look at it.

23 MR. MAY: We have been looking at it.

24 MR. CICERO: Okay. That's -- that's all I  
25 need.

1 MR. COMPTON: We will -- we will continue  
2 to look at it.

3 MR. CICERO: Thank you.

4 COMMISSIONER SCHMITT: Mr. McNeil?

5 MR. McNEIL: Thank you, Chairman.

6 EXAMINATION

7 BY MR. McNEIL:

8 Q Mr. Compton, in response to the  
9 district's -- the district's response to staff's  
10 second set of questions, you mentioned that there  
11 was a -- there's an amnesty program for water theft  
12 that you ran until about May 15th?

13 A Yes.

14 Q Can you just tell me how many --  
15 what kind of response did you get from that  
16 program?

17 A Probably five to ten, maybe, at  
18 the most.

19 Q Okay. So not -- about what you  
20 expected or...

21 A Yes, probably a little more.  
22 It's not easy for somebody to come in, I guess, and  
23 own up to stealing water for years.

24 Q Right. As Mr. Potter explained  
25 with sort of the random meter audits, now you're

1 seeing -- are you seeing -- finding those cheater  
2 bars more often than when it's on a regular  
3 schedule?

4 A Well, since we don't read meters  
5 per the order -- that order came down June the 6th  
6 or the 7th, and that's right in the middle of  
7 Southern's reading. It usually takes about two  
8 weeks. So we already had one week in. And we were  
9 doing kind of a meter audit, going around. Instead  
10 of one guy going and reading each book, we had two  
11 guys going to each location, veri- -- you know,  
12 trying to match up address, account number, meter  
13 number, make sure everything went together and kind  
14 of get ready, hopefully, for the new meters. And  
15 then the order came down and, of course, the guys  
16 that next morning, they said, you know, what do we  
17 do? And I said, well, we're going to continue to  
18 read, check for illegals, get everything read.  
19 That way I can have -- at least June's water loss  
20 report will be pretty accurate.

21 But now that the reading is over, you know,  
22 the meter guys are working on work orders and  
23 they're just doing random checks on known illegal  
24 sites. And that's what Mr. Potter was talking  
25 about. You know, when it's not in a reading cycle,

1 everybody's pretty comfortable with having a  
2 straight pipe in there. But now we just randomly  
3 show up and -- and the guys have collected probably  
4 six -- six to eight new -- new straight pipes this  
5 month.

6 Q Okay. What about, like,  
7 contractors who open a hydrant or anything, do you  
8 have issues with someone taking a large amount of  
9 water?

10 A Not -- not to my knowledge.  
11 There's some, you know, clingers up there that I'm  
12 sure that, you know, are filling their trucks up,  
13 but not to the point where, you know, we get calls  
14 that people are running water for an extended  
15 period of time.

16 You know, we got -- there's a lot of highway  
17 work going on right now on Route 80, and Mountain  
18 Enterprises is -- is using water for their trucks,  
19 but we've got it accounted for. And I talked to  
20 Mr. Gerald with Mountain Enterprises. He'll -- he's  
21 expecting an invoice for that water. So other than  
22 that, that's...

23 Q Okay. Are you getting now  
24 consistent estimates from fire department, their  
25 usage?

1           A           I wouldn't say consistent, but  
2           we're getting a few.

3           Q           Okay.

4           A           Yeah.

5           Q           Have you talked to them? They  
6           know there's a new procedure, there's a new...

7           A           Yeah. They've all -- they've all  
8           got the form and they've all got the e-mail address  
9           and the physical address to send it to. They got  
10          the fax number. And, like I said, you know, even a  
11          few is more than what we were getting. I was  
12          trying to account for it per those reports and  
13          really activity through -- throughout the county.

14          Q           And then in response to  
15          Appendix C of the Commissions' original order,  
16          those questions, you had a response. And I think  
17          it's talking about top five projects you wanted to  
18          undertake. Number 5, as to water treatment plant  
19          improvements, one of the things listed is Grit King  
20          resolved?

21          A           Yes.

22          Q           Can you just tell me quickly what  
23          that's about?

24          A           That is the project that was  
25          referenced earlier about the equipment being

1 installed was not working properly when we arrived.  
2 We made some changes to the piping, to the  
3 equipment. Got the rep, the company rep back in  
4 and the engineering group back in, and started to  
5 gear it up. And right now it's working properly on  
6 a temporary basis. I mean, the line needs to be  
7 reburied and need to make a determination on a --  
8 on the grit box for the material, but...

9 Q So is there a plan for the  
10 long-term fix?

11 A Yeah. Mr. May had sent the  
12 engineering group an e-mail. We have not heard  
13 back from them. We had four or five questions  
14 about the -- about the project, you know, trying to  
15 get it closed out and how we were going to approach  
16 it from this point on, and we have not heard back.

17 Q Did you say that was Kentucky  
18 Engineering Group?

19 A Kentucky Engineering Group. They  
20 are the -- also the engineering firm that has the  
21 Mink Branch Tank.

22 Q Other than those two projects,  
23 are there any other projects that group has at the  
24 district?

25 A Not to my knowledge. I don't

1 know of any.

2 MR. McNEIL: Okay. No further questions,  
3 Chairman.

4 COMMISSIONER SCHMITT: Mr. Bailey?

5 MR. BAILEY: None, Your Honor.

6 COMMISSIONER SCHMITT: Anything further?

7 MS. VINSEL: I'd just like to follow up  
8 very briefly.

9 EXAMINATION

10 BY MS. VINSEL:

11 Q When Mr. McNeil spoke about the  
12 fire departments, is it true that UMG sent  
13 personnel out to a meeting of local fire  
14 departments to discuss this?

15 A Mr. May.

16 Q Mr. May?

17 A Yeah.

18 MR. MAY: Grondall and I.

19 MS. VINSEL: Okay.

20 MR. MAY: -- the fire association. We met  
21 with them all, handed them out the form,  
22 told them who to call, we'll work with them  
23 in any way. So that's just an ongoing.

24 MS. VINSEL: Thank you, Mr. May.

25 And this is one for the Vice Chair.

1 We do have copies of invoices from Frasure  
2 Electric from 2016 through 2018, and  
3 although there is detail in here, it tends  
4 to be lump sums. Example, for labor, it's  
5 just a total amount. It tells us where it  
6 was. It may mention a part.

7 MR. CICERO: And that's okay. What you  
8 have done is identified that there is a  
9 problem. And what I'm asking them to do is  
10 to now go into the details of records that  
11 they have of their office staff and to  
12 prove out or disprove the summary that you  
13 have done.

14 MS. VINSEL: Thank you. Nothing further.

15 MR. CICERO: One last question.

16 You worked at Prestonsburg until  
17 August of last year?

18 THE WITNESS: Yes.

19 MR. CICERO: Going from Prestonsburg to  
20 Southern, did you see any glaring  
21 management issues in how the office was run  
22 compared to Prestonsburg?

23 THE WITNESS: A few.

24 MR. CICERO: So you have an idea when you  
25 came in of deficiencies that needed to be

1 addressed right off the bat?

2 THE WITNESS: I had an idea of how I wanted  
3 it to run.

4 MR. CICERO: We'll let it go at that.

5 THE WITNESS: Thank you.

6 COMMISSIONER SCHMITT: Nothing further.  
7 Anything else?

8 MR. McNEIL: I don't have anything.

9 COMMISSIONER SCHMITT: May this witness be  
10 excused?

11 MS. VINSEL: Yes, he may.

12 COMMISSIONER SCHMITT: You may be excused,  
13 sir. Thank you.

14 Ms. Vinsel, one to go; is that right?

15 MS. VINSEL: We're down to the last one,  
16 yes. Mr. -- we'll call Mr. Reed to the  
17 stand, please.

18 COMMISSIONER SCHMITT: Call Mr. Reed.  
19 Please raise your right hand.

20 \* \* \* \* \*

21 The witness, JEFF REED, after first  
22 being duly sworn, was examined and testified as  
23 follows:

24 COMMISSIONER SCHMITT: Please be seated.

25 Mr. Bailey?

1 MR. BAILEY: Thank you.

2 EXAMINATION

3 BY MR. BAILEY:

4 Q State your name for the record.

5 A Jeff Reed.

6 Q And what do you do as your  
7 profession?

8 A I'm an accountant.

9 Q Okay. What's your association  
10 with Southern Water?

11 A We -- I work for the accounting  
12 firm Michael Spears CPA and we are their  
13 accountants. We do monthly bookkeeping and prepare  
14 the annual reporting --

15 Q Do you come to --

16 A -- payroll.

17 Q -- Southern's regular meetings?

18 A Yes.

19 Q And you provide a summary of  
20 their financials?

21 A Yes.

22 MR. BAILEY: I tender the witness.

23 COMMISSIONER SCHMITT: Ms. Vinsel?

24 MS. VINSEL: Thank you.

25 \* \* \* \* \*

1 EXAMINATION

2 BY MS. VINSEL:

3 Q Good afternoon, Mr. Reed.

4 A Hello.

5 Q I'd like to follow up with some  
6 questions about Frasure Electric.

7 A Okay.

8 Q As has been noted, in 2016, 2017,  
9 2018, payments were made to -- well, Frasure  
10 Manufacturing, I believe, was just in 2016?

11 A Okay.

12 Q 2016, 2017 and '18, it was  
13 Frasure Electric or to Rick Frasure, but all of the  
14 invoices that had been provided are from Frasure  
15 Electric.

16 A Okay.

17 Q Can you help clear up that  
18 dis- -- confusion or discrepancy?

19 A Well, I would assume that, you  
20 know, just when they wrote the check -- I mean, I  
21 don't know who actually wrote the check, whether it  
22 be Ms. Burke or the previous office manager.  
23 Instead of writing it, you know, to Frasure  
24 Electric, they just said Rick Frasure. You know,  
25 that -- if you look at the actual check and --

1 realizing that he had been there for a long time,  
2 you know, they would have known -- I guess it would  
3 have been okay and they didn't -- that's my thought  
4 on it.

5 MR. CICERO: So how many office personnel  
6 are there?

7 THE WITNESS: Last -- right now, I think  
8 there's four.

9 MR. CICERO: So there's three different  
10 identifying markers for -- there's Rick  
11 Frasure, Frasure Manufacturing and Frasure  
12 Electric. Are you saying that it depends  
13 on which one of those four processes an  
14 invoice would determine whether or not it  
15 would be the check will say one of those  
16 three?

17 THE WITNESS: No. I'm saying that the  
18 office manager usually processes the  
19 invoice, but she may inadvertently -- I  
20 wouldn't know -- write the check to Rick  
21 Frasure instead Frasure Electric, you know.

22 MR. CICERO: It's not because of the way  
23 the invoice is presented?

24 THE WITNESS: Not to my knowledge. You  
25 know, I'm not there when she -- when they

1 present the invoice and write the check.

2 BY MS. VINSEL:

3 Q You see the invoices, though,  
4 don't you?

5 A No, not on a regular basis.

6 Q So when you do the bookkeeping,  
7 what kind of information is forwarded?

8 A I get the bank statements and any  
9 checks, you know, that -- a listing of the checks.  
10 I don't actually, you know, go look at invoices.

11 Q When Ms. Burke was here in the  
12 pending rate case --

13 A Yeah.

14 Q -- and she testified that  
15 typically what would happen would be that Mr. Hall  
16 would tell her, you need to write a check to Rick  
17 Frasure --

18 A Yeah.

19 Q -- Frasure Electric --

20 A Yeah.

21 Q -- whatever?

22 A Yeah.

23 Q Do you know when Ms. Burke  
24 started at Southern?

25 A Not exactly, but when she first

1 started, she was not the office manager. She  
2 was -- she waited on customers. And then when the  
3 previous say office manager passed away -- I'm  
4 thinking '16, if I'm not mistaken, then they moved  
5 her up to office manager.

6 Q So, you know, we've talked at  
7 some --

8 A Yeah.

9 Q -- time about with Frasure  
10 Electric, trying to get to the bottom of the  
11 discrepancy --

12 A Right.

13 Q -- in the invoices. So is there  
14 anything from your office that could be provided to  
15 assist UMG?

16 A Possibly go back, you know, in  
17 prior years and just -- we may have copies of the  
18 bank statements and the cancelled checks where we  
19 can trace -- you know, help them trace to actual  
20 invoices and stuff, if they don't have them. I  
21 mean, I don't know what they've got or...

22 Q What about the general ledger?

23 A Yeah, I can provide that.

24 Q How far back can you go with the  
25 general ledger?

1           A           Possibly 2016. It's probably in  
2 storage. But, you know, as far as my computer  
3 program, '17 and '18.

4           Q           I can tell you that we have -- in  
5 the case record of the rate case --

6           A           Yeah.

7           Q           -- we have the general ledger for  
8 2016, 2017 and 2018.

9           A           Okay.

10          Q           We don't have anything for  
11 earlier.

12          A           Yeah, I mean, it would be -- you  
13 know, I may be able to get '15. I would have to go  
14 back through volumes of files just to see if we  
15 have them.

16          Q           I would -- I would -- at this  
17 point, I would ask that you work with Mr. --  
18 Mr. Compton with the Southern board to help --

19          A           Yeah, I will.

20          Q           -- that -- rather than -- so this  
21 is not a post-hearing data request.

22          A           I understand. Okay.

23          Q           This is a request for you to help  
24 with them.

25          A           I will.

1 Q In regards to the employee who  
2 was reimbursing the \$35,000 --

3 A Yes.

4 Q -- if you look at Exhibit 3 -- I  
5 believe it's Commission Staff Exhibit 3. Excuse  
6 me, it's not. Oh, I'm sorry, it is. I keep  
7 turning to the wrong page. It is the last page of  
8 that exhibit where we have schedule of payment.

9 A Okay.

10 Q And based upon the documents that  
11 were provided to Commission staff in the data  
12 requests, it appears there's still \$500 due and  
13 owing to Southern. Two of the checks in December  
14 of 2017 and then January 2018 --

15 A Right.

16 Q -- were only for \$250 rather than  
17 the 500.

18 A Okay.

19 Q Do you know, was there anyone  
20 keeping track of this repayment at Southern?

21 A As far as I know, the -- the  
22 office manager previously, and current one, were --  
23 when she came in and paid it, they would give her a  
24 receipt and, you know, keep -- you know, keep track  
25 of it that way. I mean, I don't know that they

1 started at 35,000 then kept subtracting it, kept a  
2 running balance of that. I don't know. I'm  
3 assuming they did.

4 Q Okay. Just -- I recognize you  
5 see a lot of invoices, but do you have any  
6 knowledge as to whether or not there was a payment  
7 in 2019?

8 A Not that I know of. I don't  
9 recall any. I don't recall -- finished in 2018.

10 Q And as a post-hearing data  
11 request --

12 A Yeah.

13 Q -- we're going to ask that  
14 Southern go back and document that all of the  
15 payments were -- were made.

16 A Okay.

17 Q Can I have you turn to  
18 Exhibit 10, Commission Staff's Exhibit 10.

19 A Okay.

20 Q And let me know when you're  
21 there.

22 A I'm there.

23 Q At the top of it, it says  
24 Exhibit 1, but --

25 A All right.

1 Q -- this is Exhibit 10. This --  
2 these are invoices from Mr. Green --

3 A Okay.

4 Q -- that were provided in response  
5 to a data request.

6 To the best of your knowledge, did you ever  
7 see any documentation that would indicate what legal  
8 services were provided?

9 A No, I -- not to my knowledge, I  
10 haven't.

11 Q Can you recall Mr. Green  
12 attending any of the Southern board meetings?

13 A Yes.

14 Q And when -- how often would you  
15 attend?

16 A I usually attended practically  
17 every one, unless I had an emergency or something.

18 Q But Mr. Green, let me ask --

19 A Mr. Green, now him, seen --  
20 really wouldn't know, I mean, exactly how many he  
21 was there. But the majority of them, he would be  
22 there.

23 Q Well, I asked because in looking  
24 at the minutes, his name is not listed on the list  
25 of attendees.

1 A Okay.

2 Q And I wanted to understand --

3 A Yeah.

4 Q -- you know, was he actually not  
5 there or was he there?

6 A No -- you know, yeah, he was  
7 there quite a bit.

8 Q But you don't know how many  
9 times?

10 A No, I wouldn't know how many.

11 MS. VINSEL: Commission staff has no  
12 further questions.

13 COMMISSIONER SCHMITT: Commissioner Cicero?

14 EXAMINATION

15 BY MR. CICERO:

16 Q So who provides direction to --  
17 you're basically doing the journal entries and  
18 the -- the actual accounting entries. Do you take  
19 direction from UMG, the board, or who gives you  
20 direction?

21 A As far as preparing them, I -- if  
22 I have a question, I contact the office up there.  
23 There's a -- you know, when I'm reviewing the  
24 general ledger for the month, if there's a question  
25 that -- of an expense or something, you know, that

1 I don't know what it is, I will call them and ask  
2 them what it is so I can put it to where it needs  
3 to be.

4 Q So let me ask it a different way.

5 A Okay.

6 Q Right now you charge a fee of  
7 approximately \$80 an hour for accounting services?

8 A Yeah.

9 Q And you have a business associate  
10 that charges between 120 and \$150 an hour for  
11 providing services.

12 A Yeah.

13 Q So where do you receive direction  
14 from to do your daily activity of -- you know, I  
15 know you know how to do your entries.

16 A Right.

17 Q But somebody should be giving you  
18 direction. You're being --

19 A Well, Mike and I consult, Michael  
20 Spears. I mean, yeah, you know.

21 Q Well, that's your boss; right?

22 A Yes.

23 Q Who does he receive direction  
24 from?

25 A I mean, you'd have to ask him. I

1 mean, as far as a monthly -- a daily thing? A  
2 daily -- I don't get -- I mean...

3 Q So staff was asking you questions  
4 about --

5 A Yeah.

6 Q -- different activities of the  
7 Tyler Green invoices --

8 A Right.

9 Q -- the Rick Frasure invoices --

10 A Right.

11 Q -- because they're presuming that  
12 somehow you're involved in the accounting  
13 activities at Southern. And I'm trying to  
14 determine whether you're actually involved in those  
15 or whether you just make standard journal entries  
16 every month.

17 A Well, each month we just make  
18 journal entries. We don't go up there as those  
19 procedures are being performed.

20 Q So you receive data from the  
21 office and just --

22 A Yes.

23 Q -- put the journal vouchers in?

24 A Yeah, and verify that all the  
25 transactions are accounted for for the month during

1 the -- with the bank statements and -- I mean...

2 Q Okay. So two questions. First  
3 question is, when you were here last time we talked  
4 about the lack of description on general vouchers.  
5 Do you remember that?

6 A Yeah.

7 Q They were pretty standard,  
8 generic types of descriptions, so you couldn't  
9 really tell what they were for.

10 A Right.

11 Q And you indicated that you were  
12 going to change that.

13 A Yes.

14 Q Has that occurred?

15 A Yes.

16 Q Okay. Second of all, do you  
17 think that the activities you perform could be done  
18 by Southern if they had a regular bookkeeper?  
19 Because it doesn't sound like it's a CPA type  
20 function. It sounds like it's just you're doing  
21 bookkeeping entries.

22 A Well, they're doing -- they could  
23 be, but they would have to hire an accountant, I  
24 would think, to do so. I mean, do -- I prepare the  
25 annual report also, you know.

1 Q Well, that -- that could be done  
2 on a fee basis. I'm just --

3 A Yeah.

4 Q -- curious if we look at and we  
5 see CPA behind your name and we think that there's  
6 management guidance and that's not being -- it  
7 doesn't sound to me like that's happening. This  
8 sounds more like it's, here's my standard journal  
9 entries that I perform at the end of the month. If  
10 I have anything unusual for a journal entry, I call  
11 up the staff, they tell me what it's all about. I  
12 make that preparation, put that journal voucher in.  
13 I make my yearend entries and then I do an annual  
14 report. Does that sound --

15 A Yes. And we do payroll also.

16 Q And you do payroll, which is --

17 A Yes.

18 Q -- okay, that's another --

19 A Yeah.

20 Q -- key that you're doing.

21 A Yes.

22 Q What do you look for when you're  
23 doing payroll? Do you --

24 A If there's excessive overtime, I  
25 call the manager -- or district manager, or

1       whoever, and make sure that the payroll was sent to  
2       me correctly. They send me a listing of...

3               Q               Are you receiving the time cards?

4               A               No, no. They prepare the time  
5       cards and prepare me a list by employee, regular  
6       hours, overtime hours, any sick time.

7               Q               So you have a list of employees.  
8       And the list of employees shows the hours, the  
9       overtime?

10              A               Vacation or sick, yeah.

11              Q               Vacation or sick, depending on  
12       how it's coded?

13              A               Yeah.

14              Q               Do you use a software package  
15       that you have at your office or is it some --

16              A               At the office, to prepare the  
17       payroll, yes.

18              Q               Okay. So you just plug the  
19       numbers in --

20              A               Yes.

21              Q               -- and it pops it out?

22              A               Yeah.

23              Q               I guess you're going to have to  
24       establish somewhere, I mean, between UMG and -- and  
25       the board. I understand you're taking direction

1 from your boss.

2 A Yes.

3 Q That's understandable. But the  
4 contract exists between Southern and, I guess, it's  
5 Spears --

6 A Yeah.

7 Q -- Accounting or CPA?

8 A Michael Spears CPA, yes.

9 Q It would be, I guess, nice to  
10 know if all of your activities are specified in the  
11 agreement.

12 Do we have a copy? (Directed to  
13 Ms. Vinsel.)

14 MS. VINSEL: We do have a copy in the case  
15 record. I can get it for you.

16 MR. CICERO: It shows duties?

17 MS. VINSEL: It's a little more generic  
18 than that. Let me find it here.

19 COMMISSIONER SCHMITT: One thing I -- this  
20 is from memory, Mr. Reed.

21 THE WITNESS: Yeah.

22 COMMISSIONER SCHMITT: I think your-all's  
23 agreement with Southern -- and it's the  
24 same thing for this gentleman,  
25 Mr. Paulmann, who is the auditor. They

1 have an agreement and I think it says that  
2 you don't have any obligation, legal  
3 obligation to point out any shortfalls or  
4 deficiencies with respect to internal  
5 controls.

6 THE WITNESS: We don't have any obligation,  
7 but if we find them, we --

8 COMMISSIONER SCHMITT: Well, I mean, but  
9 you -- if you didn't, you wouldn't have  
10 any -- you don't have any -- there's no --  
11 you know, there's no foul; right? There's  
12 not --

13 THE WITNESS: Right.

14 COMMISSIONER SCHMITT: If you see one --  
15 see deficiencies in internal controls, it  
16 seems to me that as a professional, even  
17 though you're --

18 THE WITNESS: No.

19 COMMISSIONER SCHMITT: -- not  
20 necessarily -- I went over this last  
21 time -- performing a role as an  
22 accountant --

23 THE WITNESS: Right.

24 COMMISSIONER SCHMITT: -- like if I'm  
25 performing a role as an attorney, I have

1 certain fiduciary duties --

2 THE WITNESS: Right.

3 COMMISSIONER SCHMITT: -- but I can work  
4 for somebody and not be an attorney.

5 THE WITNESS: Right.

6 COMMISSIONER SCHMITT: But somehow still,  
7 deficiencies and internal controls ought to  
8 be pointed out. And an auditor,  
9 especially, should never be able, in my  
10 opinion, to basically disclaim any  
11 responsibility for reporting on a lack of  
12 internal control. But anyway, that's --  
13 that's the way it was I think.

14 MS. VINSEL: I -- I found the engagement  
15 letter. It is in the record in the rate  
16 case and I can read to you what it says.  
17 "In addition to the financial statements,  
18 that we prepare the following: The annual  
19 PSC report, the bi-weekly payroll after  
20 accumulated payroll -- general employee  
21 hours, monthly accounts payable listing and  
22 bills to be paid, monthly, quarterly and  
23 annual payroll filing, monthly sales tax  
24 report, annual budgets, and will write the  
25 report for the annual audit."

1 MR. CICERO: What's the annual budget that  
2 you're --

3 THE WITNESS: It's the budget that we  
4 provide to the Department of Local  
5 Government every year. We have -- we're  
6 required to provide them one.

7 MR. CICERO: So you prepare an annual  
8 budget?

9 THE WITNESS: Yes. And it goes to the  
10 board to be approved.

11 MR. CICERO: Fiscal year July 1 through  
12 June 30?

13 THE WITNESS: No. They're December 31st  
14 year.

15 MR. CICERO: So it's calendar year?

16 THE WITNESS: Yes.

17 MR. CICERO: And that's the one that's  
18 utilized by the board in operating  
19 throughout the year?

20 THE WITNESS: Yeah.

21 MR. CICERO: Do you do any type of  
22 comparison between actuals and budget?

23 THE WITNESS: Yeah. On that budget, yes.

24 MR. CICERO: Do you do variance?

25 THE WITNESS: Yes, we do.

1 MR. CICERO: Do you do any variance  
2 analysis?  
3 THE WITNESS: As we're -- during the year  
4 you have to -- on the DLG website you have  
5 to put the actuals in and compare them and,  
6 yes, we look at them.  
7 MR. CICERO: Do you suggest line item  
8 changes when they have to --  
9 THE WITNESS: Yeah.  
10 MR. CICERO: -- to cover a budget?  
11 THE WITNESS: Yeah.  
12 MR. CICERO: And do you present it to the  
13 board?  
14 THE WITNESS: Yeah, if we -- like, you  
15 know, if anything comes up --  
16 MS. VINSEL: Could I -- could I interrupt  
17 you for a moment?  
18 THE WITNESS: Yes.  
19 MS. VINSEL: Could I ask you to speak up a  
20 little bit?  
21 THE WITNESS: Oh, I'm sorry.  
22 MS. VINSEL: We're having a problem hearing  
23 you over here.  
24 THE WITNESS: Oh, okay. I'm sorry.  
25 MR. CICERO: You do present at a monthly --

1 on a monthly basis, the --

2 THE WITNESS: Not on a monthly, no. If  
3 something extraordinary comes up during the  
4 year, like, say, they get a grant of  
5 2 million dollars, then we can...

6 MR. CICERO: Well -- but you said you do a  
7 comparison of budget --

8 THE WITNESS: As we're preparing --

9 MR. CICERO: -- to actual?

10 THE WITNESS: Yeah, yeah, because we have  
11 to do that on the DLG website.

12 MR. CICERO: All right. So how does that  
13 get to the board?

14 THE WITNESS: When I prepare the budget,  
15 I -- so the prior -- the actual prior  
16 year's budget, and when I -- like when I  
17 prepare a 2020 budget, we will go over the  
18 2019 budget and the -- look at the 2019  
19 actual and see.

20 MR. CICERO: Okay. So that's how you  
21 prepare the budget?

22 THE WITNESS: Yeah, right.

23 MR. CICERO: And then as you go through the  
24 year, you've got --

25 THE WITNESS: The --

1 MR. CICERO: -- the 2020 budget?  
2 THE WITNESS: Yeah.  
3 MR. CICERO: And as you go through, you  
4 will have actuals and you'll --  
5 THE WITNESS: Yeah.  
6 MR. CICERO: -- compare those --  
7 THE WITNESS: Yeah.  
8 MR. CICERO: -- to your budget?  
9 THE WITNESS: Well, the budget is on an  
10 annual basis, not on a monthly basis.  
11 MR. CICERO: That's right. But by  
12 government standards or government  
13 accounting, you can't exceed on a line item  
14 what's in the budget --  
15 THE WITNESS: Budget, right.  
16 MR. CICERO: -- so there has to be line  
17 item adjustments to move money around.  
18 THE WITNESS: Yes.  
19 MR. CICERO: And it has to be approved  
20 by --  
21 THE WITNESS: By the Board.  
22 MR. CICERO: -- or it should be approved by  
23 the -- the board --  
24 THE WITNESS: Yes.  
25 MR. CICERO: -- or the commission? So are

1           you providing them on a monthly basis, any  
2           of this comparison or --  
3           THE WITNESS: No.  
4           MR. CICERO: -- do you wait 'til --  
5           THE WITNESS: Wait 'til the end of the year  
6           and then we, I mean...  
7           MR. CICERO: So probably the contract that  
8           exists is a bit generic. I mean, if you  
9           were -- you're charging professional  
10          auditors fees and --  
11          THE WITNESS: No, not auditors fee,  
12          accounting fees.  
13          MR. CICERO: CPA fees? I'm sorry.  
14          THE WITNESS: Okay.  
15          MR. CICERO: You're charging professional  
16          CPA fees, Certified Public Accountants.  
17          THE WITNESS: Yes.  
18          MR. CICERO: Which can do accounting work  
19          or auditing work, they're normally CPAs?  
20          THE WITNESS: Right.  
21          MR. CICERO: Okay. And I'm just trying to  
22          make sure Southern receives the benefit to  
23          pay for that type of professional service.  
24          THE WITNESS: I understand.  
25          MR. CICERO: And maybe it's nobody's fault,

1 but I'm not sure all the duties have been  
2 delineated.

3 THE WITNESS: Okay.

4 MR. CICERO: You know, maybe that contract  
5 needs to be firmed up somewhat in order to  
6 make sure that they do. And if the board  
7 is more aware of -- the board should be  
8 receiving a monthly financial report --

9 THE WITNESS: They are.

10 MR. CICERO: -- with the budgets and the  
11 actual --

12 THE WITNESS: Well, they will be, yeah.

13 MR. CICERO: It doesn't do any good if you  
14 don't know how you compare as you're going  
15 through the year. You can even take a  
16 budget and divide it by 12 and have an  
17 idea --

18 THE WITNESS: We can do that.

19 MR. CICERO: -- going on a month-to-month  
20 basis whether you're over or under, and  
21 account for periods of -- how you know when  
22 revenue collections might be different in  
23 the summer versus winter or those kind of  
24 things --

25 THE WITNESS: Right.

1 MR. CICERO: -- but at least you have an  
2 idea of what it is. That's all I'm saying.

3 THE WITNESS: Okay.

4 MR. CICERO: I don't have anything else,  
5 Chairman.

6 I do have one last question. Were you  
7 involved in the decision of utilizing  
8 Mr. Paulmann as the district's auditor?

9 THE WITNESS: No. We don't make any  
10 decision.

11 MR. CICERO: But, I mean, they didn't  
12 consult you and say who do you recommend?

13 THE WITNESS: No. They --

14 MR. CICERO: I'm just curious.

15 THE WITNESS: -- they didn't.

16 MR. CICERO: All right. That's all I have.

17 COMMISSIONER SCHMITT: You -- I don't know  
18 if you saw the -- in the group of exhibits  
19 that Ms. Vinsel filed earlier, there was a  
20 document which is the recommendations of  
21 the -- of the Kentucky Auditor's Office  
22 with respect to hiring an auditor and what  
23 an auditor ought to be doing. And -- and I  
24 think we talked about this before. The  
25 auditor, I think, says that periodically

1           auditors -- the Kentucky Auditor says  
2           that --

3           THE WITNESS:   Yeah.

4           COMMISSIONER SCHMITT:  -- public bodies  
5           should change auditors on a periodic basis.

6           THE WITNESS:   Yeah.

7           COMMISSIONER SCHMITT:  And, basically, that  
8           was good business procedure to do so.  
9           Apparently, Southern has not done that.  
10          And all I can say is, is that at least  
11          during times when I represented the 18, 19  
12          years of the Floyd County Board of  
13          Education, that basically auditing services  
14          were bid out at least every three years,  
15          and nobody was permitted to continue, you  
16          know --

17          THE WITNESS:  (Inaudible.)

18          COMMISSIONER SCHMITT:  -- to go ahead,  
19          because --

20          THE WITNESS:  Right, right.

21          COMMISSIONER SCHMITT:  -- somebody might  
22          mistakes or not see something, and that  
23          fresh eyes might see.

24          THE WITNESS:  I agree with that.

25          COMMISSIONER SCHMITT:  That's all.  But I

1 mean, it --  
2 THE WITNESS: Yeah.  
3 COMMISSIONER SCHMITT: -- that would be --  
4 you wouldn't be against that practice --  
5 THE WITNESS: No.  
6 COMMISSIONER SCHMITT: -- in terms of an  
7 auditor? And I know you don't do the  
8 audits.  
9 THE WITNESS: Right. But, no, no, I  
10 wouldn't. I mean...  
11 COMMISSIONER SCHMITT: No further questions  
12 were.  
13 Mr. McNeil?  
14 MR. McNEIL: I don't have any questions,  
15 Chairman.  
16 MR. BAILEY: None, Your Honor.  
17 COMMISSIONER SCHMITT: Ms. Vinsel?  
18 MS. VINSEL: Nothing further.  
19 COMMISSIONER SCHMITT: Anything else?  
20 MR. CICERO: Nothing further.  
21 COMMISSIONER SCHMITT: May Mr. Reed be  
22 excused?  
23 MS. VINSEL: Yes, he may.  
24 COMMISSIONER SCHMITT: You may step down,  
25 Mr. Reed.

1                   Other than -- than talking about data  
2                   requests, is there another witness or  
3                   anything else, Ms. Vinsel, that you need to  
4                   bring up?

5                   MS. VINSEL: No, no further witnesses.

6                   COMMISSIONER SCHMITT: Mr. Bailey, do you  
7                   have anything, any other thing?

8                   MR. BAILEY: No, Your Honor.

9                   COMMISSIONER SCHMITT: Or Mr. McNeil?

10                  MR. McNEIL: No.

11                  COMMISSIONER SCHMITT: Now, there have  
12                  been, I guess, probably a number of -- of  
13                  data requests and --

14                  MS. VINSEL: Seven.

15                  COMMISSIONER SCHMITT: -- I know everybody  
16                  is busy doing a lot of other things. Now  
17                  this is, what, Tuesday -- or Wednesday?

18                  MS. VINSEL: It's -- it's Tuesday.

19                  COMMISSIONER SCHMITT: It's Tuesday.

20                  MS. VINSEL: I have it ready to go out. It  
21                  can go out tomorrow.

22                  COMMISSIONER SCHMITT: Okay. I was going  
23                  to say until Friday, but whatever, if it  
24                  will go out tomorrow.

25                  What about -- I mean, you know, we're

1 in all these other hearings, Mr. Bailey,  
2 with your client. You might want to talk to  
3 them or see what they say, but if you had  
4 until the 31st, assuming that would give  
5 you, you know, a pretty good -- pretty good  
6 length of time.

7 MR. BAILEY: I will try my hardest, Your  
8 Honor. If I'm not able to, I will provide  
9 notice.

10 COMMISSIONER SCHMITT: Well, yeah, that  
11 will give you 15 -- 15 days. Okay. So  
12 we'll go ahead and get an order out to that  
13 effect. And if there's some problem,  
14 you'll file a motion or something, let us  
15 know.

16 Is there anything else anyone would  
17 like to bring to the attention of the -- of  
18 the Commission at this point? If not, then  
19 this hearing is adjourned, and thank you  
20 very much for being here.

21 \* \* \* \* \*

22 THEREUPON, the Hearing was concluded at  
23 2:40 p.m.

24 \* \* \* \* \*

25

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3 STATE OF KENTUCKY )

4 COUNTY OF FAYETTE )

5

6

I, JOLINDA S. TODD, Registered

7

Professional Reporter and Notary Public in and for

8

the State of Kentucky at Large, certify that the

9

facts stated in the caption hereto are true; that

10

at the time and place stated in said caption the

11

witnesses named personally appeared before me, and

12

that, after being duly sworn, were examined by

13

counsel for the parties; that said Hearing was

14

taken in stenotype by me and later reduced to

15

computer-aided transcription and the foregoing is a

16

true record of the testimony given by said

17

witnesses.

18

My commission expires: August 24, 2019.

19

IN TESTIMONY WHEREOF, I have hereunto set

20

my hand and seal of office on this the 16th day of

21

August 2019.

22

23

JOLINDA S. TODD, RPR, CCR(KY)  
NOTARY PUBLIC, STATE AT LARGE  
ID# 449787

24

25

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