

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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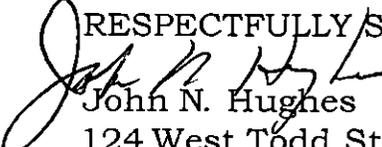
In the Matter of:

PETITION OF MOUNTAIN WATER DISTRICT)
FOR MODIFICATION OF ORDER OF) CASE NO. **2016-00062**
CASE 2014-00324)

THIRD RESPONSE TO PSC ORDER DATED APRIL 8, 2016

Mountain Water District ("MWD"), by counsel, for its third response to the PSC Order dated April 8, 2016, and to supplement its report dated July 1, 2016, submits to the Commission the Minutes of MWD's Board of Commissioners Special Meeting dated June 24, 2016, which were approved at MWD's Board Meeting on July 27, 2016.

RESPECTFULLY SUBMITTED:



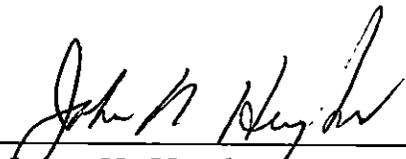
John N. Hughes
124 West Todd Street
Frankfort, Kentucky 40601
Telephone (502) 227-7270
jnhughes@johnnhughespsc.com

and

Daniel P. Stratton
STRATTON LAW FIRM, P.S.C.
Post Office Box 1530
Pikeville, Kentucky 41502
Telephone: (606) 437-7800
Facsimile: (606) 437-7569
dan@strattonlaw.net
Attorneys for Mountain Water District

CERTIFICATE:

I certify that a copy of this document was served on the Attorney General, 1024 Capital Center Drive, Frankfort, Kentucky 40601, and filed with the Public Service Commission on the 29 day of July, 2016.



John N. Hughes

MOUNTAIN WATER DISTRICT
CERTIFICATE OF SECRETARY

I, Ancie Casey, hereby certify that I am the qualified and acting Secretary of the Mountain Water District and that the foregoing is a true and correct copy of said Commission duly held on the date set out below, that the agreements referred to therein have been duly recorded in the proceedings of this Corporation.

MOUNTAIN WATER DISTRICT

Dated this the 27th day of July, 2016.



Ancie Casey, Secretary

MOUNTAIN WATER DISTRICT BOARD OF COMMISSIONERS SPECIAL MEETING

**June 24th, 2016
10:00 AM**

ATTENDEES

Julia Roberts, Appalachian News Express
Greg Heitzman, Blue Water Kentucky
Jody Hunt, Summit Engineering, Inc.
Tom Jones, Bell Engineering
Jamie Noe, Vaughn & Melton
Tim Campoy, EDC, Inc.
Dan Stratton, Stratton Law Firm
Mike Spears, Spears Management
Roy Sawyers, Mountain Water District Administrator
Grondall Potter, Manager
David Taylor, Operations Manager
Kevin Lowe, Office/Finance Manager, UMG
Tammy Olson, Office/Compliance Manager, UMG
Carrie Hatfield, Financial Administrator, MWD
Tammy Fields, MWD HR Consultant

CALL TO ORDER AGENDA ITEM I

The Mountain Water District Board of Commissioners' Special Meeting was held on Friday, June 24th, 2016 at 10:00 a.m.

Commissioners present for the meeting were as follows:

Mike Blackburn, Chairman
Eddie Hurley, Vice Chairman
Ancie Casey, Secretary
Kelsey Friend, III, Treasurer
Johnny Tackett, Commissioner

VISITORS AGENDA ITEM II

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

APPROVAL OF MINUTES AGENDA ITEM III

Chairman Blackburn requested a motion to approve the minutes of the last meeting on May 25th as presented in the Commissioner Packet. Ms. Olson stated that she did not print copies of those but can bring them down in a few minutes. Chairman Blackburn stated that they can move this approval to later in the meeting.

FINANCIAL REPORT – MIKE SPEARS, CPA AGENDA ITEM IV

Mr. Spears gave the financial status report for May. We have some additional expenses due to the RFP and so forth but other than that everything has been fairly stable as far as our expenditures. Cash in bank was \$513,224. Accounts receivable was \$1,283,092. Plant in service is \$140,964,500. That is a decrease from last month. Last year during the audit, we had some old obsolete equipment that were either junked or scrapped or something along the way and the decrease is primarily things we wrote off that were still on the books but were fully depreciated. It didn't really change our financials at all; it just got it off and cleaned it up. Accounts Payable is \$2,027,170. Equity position is \$79,356,538. Accounts Payable was \$800,000 with UMG on the old R & M overages last month. Commissioner Hurley inquired how much we owe them now. Mr. Spears stated that Mrs. Hatfield would have to get those numbers for them. Mrs.

Hatfield stated that it changes; she pays us and we pay them a small payment. On the Income Statement for the month of May, revenues for the month were \$867,524. That is down a little from last month but is still up from a year ago. Year to date is \$4,491,785. Utility Operating Expenses were \$965,143 and for the year is \$4,732,948. Loss for the month was \$130,080 and year to date is \$436,385. In the loss is also depreciation of \$271,779 for the month and \$1,358,897 for the year. There was a negative operating income for the month in the amount of \$97,629. Cash flow increased for the month in the amount of \$252,629. The current operating account balance is \$379,927 as of May 31st. Our reserve balances are a total of about \$1,730,000. In May or June we will pay off one of those and will start taking the \$11,000 one and put \$2500 into the O & M account now, rather than an R & M account. In May or June one will be fully funded and he thinks we actually have an account an open just haven't contributed to it. We will be transferring to the sinking fund our normal \$55,000 per month to ensure we pay our bond payments and we have bond payments that are due July 1st. Mr. Spears stated that was all he has for the financial report unless the Board had any questions. We should be getting into our high water usage months also.

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

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

Upon Commissioner voting, the motion was carried and passed.
Resolution 16-06-001

Mr. Spears stated that we have RD Bond Payments due July 1st and a resolution is needed to approve to pay those out of the sinking fund. The money is already set aside to pay them. Chairman Blackburn requested a motion to approve to pay the RD Bond Payments as presented. Commissioner Hurley made the motion. Commissioner Friend seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution 16-06-002

PAYMENT OF BILLS

AGENDA ITEM V

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

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-003

CUSTOMER ADJUSTMENTS AGENDA ITEM VI

Mr. Potter stated that we are back into the normal range and usually starting this time you will get people filling swimming pools and they will want an adjustment on their sewer if they are on water and sewer. Along the lines, they'll say they have a leak and will get an adjustment later in the summer after the summer months. Chairman Blackburn stated that they had had some discussion about changing the policy and what he understands now is that once we make the adjustment, the remainder of the water...is it paid for at cost? Is that correct? Mr. Lowe stated that is correct. The adjustment rate covers all overhead; the cost of the water, your overhead. Chairman Blackburn stated that the window that is adjusted is still that first period and the balance of that water in the adjustment is paid for at cost. Mr. Lowe confirmed that as correct. Chairman Blackburn stated that we don't write off that total amount. Mr. Potter stated that they don't write off the total amount of the monies but the water, accounting back into the formula for water loss calculations. Mr. Stratton stated that to for in context, you asked us to look at whether we may need to change our tariff to shorten the time period and Mr. Lowe and he has talked and he has some new information. Mr. Lowe stated that his recommendation would be to leave the policy as it is. He handed the board a copy of the 2008 resolution setting the current policy and a sample adjustment.) Mr. Lowe stated that on the sample adjustment, basically what we do it is that we take the amount of the customer's bill, in this example, he used 10,000 gallons as the amount they were billed assuming they had a leak, and we figure their average for the 3 months prior to the leak was 5,000 gallons. So they have to pay the full amount of the 5,000 gallons at our normal rates, but the 5,000 that was over their average, they get a reduced rate of \$3.60 per 1,000 and that covers the cost of the water and overhead. So in this example they would end up...their original bill would have been \$101.74 and they end up paying \$73.42 so they get an adjustment of \$28.32. Chairman Blackburn stated that based on this information and the understanding that we do get paid for the cost of the water he sees no reason to change the policy at this time. After further review of customer adjustments, Chairman Blackburn requested a motion to approve Customer Adjustments in the amount of four thousand, eight hundred and eleven dollars and twenty-one cents (\$4,811.21) as presented. Commissioner Tackett made the motion to approve the customer adjustments as presented. Commissioner Hurley seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-004

CONSTRUCTION REPORT AGENDA ITEM VII

Update by Jamie Noe, Vaughn & Melton.

1. Millard Curve Line Relocation –DOT Project

Ms. Noe stated that she spoke to the inspector this morning and he said they are moving faster than they had expected to because they are working two shifts now and they hope to have to have our water contractor there by mid-August so that will be much sooner than we anticipated. She is tentatively scheduled to come up and meet with them the first or second week in July to go over some things there on sight. Also, they have been pushing dirt back onto the water line and Mr. Sawyers has talked with them about that already. They are aware of that and that they will be responsible if they do any damage and need to have something ready to go to temporary it. Mr. Sawyers stated that when they first discussed the project they talked about just moving the material out and leaving the barrier. Instead they are just pushing everything over the barrier and stacking it up on top of the ditch, water line and roads. There are times when our water lines have probably got about 20' of material over it. And I just called and informed Dave Skeens at the Highway Department that if there becomes an issue he better be aware of it and financially ready to approve it immediately because we would have to run a temporary line because there is no way we would be able to dig it up and fix it.

2. Majestic Alternative Sewer Project

Ms. Noe stated that Mr. Sawyers has been in contact with KIA regarding transferring these funds and they have requested additional information that he working with them on.

Update by Tim Campoy, Environmental Design Consultants

1. Cabin Knoll/Scott Fork DOT Relocation Project -

Mr. Campoy stated that the Highway Department suggests to us that we inform you that they cannot get that waiver of liens from the contractor and they are at odds over that one item, and that we should close that project out. We are trying to get that from them in writing right now, too. When we get that we will inform Mr. Sawyers that we have it.

2. KY 610 – Virgie Bridge DOT Relocation Project –

Mr. Campoy stated that we had a pre-construction conference on the 10th and began work on the water line on the 14th. It has now been wet tapped on either end, and they set the pressure test and sampling up for Monday. Once all that is done and all is good, then they can cap the existing line on either end and get it out of service. They will then be ready to start the sewer line with a 4" bore and creek crossing and at that point they can work up to the place where the change order #1 is supposed to take over and split the line into two. The Highway Department is still telling them that they are waiting on approval from Frankfort and are looking at mid-July and everything is backed up right now in Frankfort, even though they have the money appropriated for it, it is still backed up in the system.

3. Lower Big Creek Waterline Relocation –

Mr. Campoy stated that the final walk out was done by a representative of EDC, Mr. Sawyers and the contractor. There were a couple of water line markers and valve can collars to put on that should be done by the end of the month. We will follow up and make sure that gets done. Chairman Blackburn inquired who the contractor was on this project. Mr. Campoy stated that the contractor was US Rentals and Construction and they subbed it out to Water Dogs.

Mr. Sawyers stated that before they move on and just to refresh his memory, was the water line going to be bid to the road project on Millard Curve and has it been bid yet. Jamie Noe stated that it was done and she can't remember who it was but she will look it up and get back with him. Mr. Sawyers inquired if they were going to have a pre-construction meeting prior to. She stated that they were.

Update by Stephen Caudill, Bell Engineering

In the absence of Stephen Caudill, Tom Jones was in attendance to give the update.

1. Marshall's Branch DOT Relocation Project -

Mr. Jones stated that they have completed contract documents and are awaiting KTC to set a bid date.

2. Deskins Curve Line Relocation

Mr. Jones stated that the tap is complete, the telemetry is complete and they are waiting on AEP to get the power up to the tank and should have a schedule from them early next week on getting the power pole set. There was a little confusion on who owns the property to get the right of way to get the power up there, but that's resolved. The contractor has completed the water line in the priority area and the line up to the new tank. All of that has been pressure tested and passed. He has about 700' of water line left to lay and has completed the temporary bypass and is laying a permanent water line where that bypass was right now.

3. Raccoon Creek DOT Line Relocation Project -

Mr. Jones stated that they have completed the preliminary water line alignment and probable cost. They had a meeting with MWD and KTC on May 26th and based on comments at that meeting, they are revising the contract. KTC has agreed that we can bid that project outside the highway relocation project.

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

1. Awarded Projects:

- Douglas WWTP Upgrade Project – Mr. Hunt stated that bids were opened on this project on June 22nd. The bids were very high and out of budget. We have contacted each of the bidders and Ovivo and have requested that the contractors give them some breakdown of the costs on the bids submitted, that way we can evaluate and see where there might be some items that might need some more clarification that the contractor was scared about in submitting the bid, or if there can be adjustments made to bring that thing back into budget. At this time, we don't know if we need to reject them all, but that may be the case. He requested that the Board give him permission, if Mr. Sawyers is in agreement, that once we have this and come to this conclusion before the next meeting, that way we can go ahead and reject them all in the event we decide that is necessary. The bids were 25%-30% over budget. There were 3 that bid. We have about 4 or 5 plan holders but only received 3 bids. Mr. Stratton stated that all 3 bids are right on top of each other. Commissioner Hurley inquired who the bidders were. Mr. Hunt stated that Craft Builders, Smith and Howard. Commissioner Casey clarified that he is asking the Board to give them the leeway to set down with the bidders and reject the bids if nothing can be done to bring it back within budget. Mr. Hunt confirmed that as correct. Commissioner Casey made the motion to that effect. Commissioner Friend seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-005

- Belfry/Pond Sewer Project Update – Mr. Hunt stated that they are working with Ovivo on this project also and will use the knowledge gained from their meeting to gear the Belfry

one. They have drilled the site and have received back the preliminary geotechnical report. They are evaluating that and coordinating with the structural engineer.

- FEMA BPS Mitigation Project – Mr. Hunt stated that they are still waiting on power for the pump stations but the project is under construction. Commissioner Hurley inquired how long we have been waiting on power now. Mr. Hunt stated several months. Chairman Blackburn inquired where these locations were. Mr. Hunt stated that they are located at the Meta Intersection and near Sunshine Lane. He was told this week by the contractor that they are supposed to start doing the power drops today. He called AEP about a month and a half in, and was told that they had plenty of residential cans, but none of the big cans or transformers and they had to order those and wait for them to come in and they had to wait on delivery of those before they could do power drops. This should happen in the very near future.

With the replacement Phelps 1 and 2 pump stations, they are the same type of pump stations we are proposing for the additional FEMA monies. FEMA has almost completed their review of the additional pump stations and have requested some requirements that we want to put into the pump stations, so he took the specifications and modified them and sent them to them as what we are going to require in the project. Hopefully that answered all of their questions there.

- Upper Pompey Water Line Extension – Mr. Hunt stated that they have issued the Notice of Award to H2O Construction. That project was well within budget. They have a pre-construction meeting today at 1:00 here at the District with Elwood Howe with ARC and an AML representative is anticipated to be in attendance. At 2:00 pm at Bethel Community Church we are having a ground breaking ceremony for this project. We would like the Board to attend if possible. There will be a photo opportunity and there may be some delegates in attendance there also.

Mr. Sawyers stated that Mr. Hunt may want to inform the Board of the issue they are having at the Meta BPS with regards to the easement. Mr. Hunt stated that at the Meta BPS, we originally were working with the property owner there to get an easement. He met with Gene Layne prior to his passing and he informed us that there was a 90' right of way there where we wanted to put the pump station and told us an easement was not needed because the highway department has it. So they drew the plans up for the pump station to be on highway department right of way. The pump station is on highway right of way and it was recently surveyed because a property owner said we were on their property. We investigated, sent the survey crew out there, and the survey crew went out and surveyed it and brought it back and when we drew it up on the computer, it appears that the fencing roughly approximately 2' on one corner and 4 ½' on the other corner. So the contractor placed the fencing over on the property owner outside of the right of way. He is coordinating and we have to go back out there and stake the site and flag it and be able to say "Okay Mr. Property Owner, here is where it is at; do you want to work with us or do you want us to move the fence or whatever?" So the contractor is going to do that.

Chairman Blackburn requested a motion to approve the construction reports as presented. Commissioner Tackett made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-006

Ms. Olson distributed copies of the minutes of the last meeting dated May 25th, 2016. Chairman Blackburn requested a motion to approve the minutes as presented. Commissioner Friend made the motion. Commissioner Casey seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-007

PROJECT DRAWS:

Mr. Campoy stated that there is a correction that needs to be made. The first project, instead of Bell Engineering is should state Jones Contracting. Just a type-o there. Chairman Blackburn requested a motion to pay the draws as corrected contingent upon funding agency approval. Commissioner Tackett made the motion. Commissioner Casey seconded the motion.

VIRGIE BRIDGE DOT RELOCATION PROJECT

Bell Engineering Jones Contracting	DOT Funds	\$ 18,630.00
\$18,630.00	Engineering Services Contract Construction	

DOUGLAS WWTP UPGRADES PROJECT

Summit Engineering	Coal Severance Funds	\$ 3,188.44
\$3,188.44	Engineering Services	

BELFRY POND CREEK SEWER PROJECT

Summit Engineering	Coal Severance Funds	\$ 14,880.00
\$14,880	Engineering Services	

Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-008

MANAGER / ADMINISTRATOR REPORT

Mr. Sawyers stated that the first thing he wanted to point out to the Board is the Board's annual training. You have 3 locations to get your training in for this year. One will be in September at Jenny Wiley; one will be in December at the PSC in Frankfort; and one will be in August at the Annual KRWA Conference.

He requested that they let him know as soon as possible which one they will be attending. The Annual Conference is at the Galt House in Louisville about the 3rd week of August. Mr. Potter stated that he thinks they open up in July to get the room reservations and early-bird rate. It books quick down there and there are over flow hotels but if you want to stay where the conference is, you need to go ahead and get it booked quick. Mr. Sawyers stated that the Jenny Wiley one is September 13th and 14th. The one at the PSC is December 6th and 7th. He requested that the Board members let him know after the meeting or in the next few days what they want to do.

1. **Water Loss Committee Update** – Mr. Sawyers stated that the meeting for this morning was cancelled due to conflict of scheduling. Mr. Potter has informed him that the percentage is up for the month of May to about 35%. Chairman Blackburn inquired what the prior month was. Mr. Sawyers stated that he believes it was about 25%. Mr. Potter stated that it is vacation time and we have had people off and also there has been some weather issues that affect it and those kinds of things. Mr. Sawyers stated that for example, Bones Branch has washed out twice in the last few days. Chairman Blackburn stated that they also found a hydrant that the fire department had been on that the valve was open and you could hear it from 20 feet away. There is no telling how long it had ran, but we need to communicate to our fire departments that if they are going to turn valves on these hydrants, we need to make sure they get them shut off; and also that they need to report. He saw two fire departments filling up tanker trucks this past month and what they are doing is that they are either filling up swimming pools or something. He requested if any of the fire departments have called and reported they have filled up any swimming pools. Ms. Olson and Mr. Lowe responded that they are not. Chairman Blackburn stated that we need to get a handle on that. Commissioner Casey stated that a lot of that can be attributed to that big spike in the month. Mr. Sawyers stated that his intent is to set down with Doug Tackett and try to see when each fire department has their monthly meeting and discuss it with them. Mr. Potter stated that Pike County has a fire fighter's association meeting and over the years he has attended those several times and has attempted to try to get control of that situation. It is not a new issue. We have sent letters over the years and asked them to report water loss and usage...you only have one or two that will routinely report. Ms. Olson stated that this year it has been lower than that. The majority of the months this year we have not had any fire departments report. The PSC does allow us, when we do our water loss report, to write off .003% of our monthly gallons sold to account for the non-reporting fire departments. Chairman Blackburn stated that we need to get a letter out and communicate with them. He directed Mr. Sawyers to send an email to Doug Tackett that we are continuing to have this under-reporting and non-reporting from the departments and we need their cooperation. It wouldn't be a bad idea if it is not an emergency, that they notify us that they are going to open a hydrant, and that way somebody can go by and close it. All that will take is for the fire department to call here and say "hey, we are going to be drawing some water out of the Hardy hydrant 3 days this week." And then someone can go by and check it and make sure it is closed. Commissioner Hurley stated that he would just send them a letter saying that they are forbidden to take any water out of a hydrant unless it is for emergency fire or fire protection without our permission. Chairman Blackburn stated that he doesn't know the origin of the use. If there is flushing that kind of covers you on flushing, but you have to know that they are doing it. You may come behind them and flush the same line that they pulled water out of. Mr. Sawyers stated that we may look at something that we have to have someone present for them to take water.
2. **KPDES Permit Renewals** – This item was tabled.
3. **Vehicle Purchase Update** - Mr. Sawyers stated that we have already received our bids and the Board approved last month to let us go ahead and take low bidder on the trucks. That is to replace the one that UMG owns for the leak technicians. We have awarded the truck to Bruce Walters.
4. **AEP Cost Savings Analysis Presentation** - David Taylor handed out an informational sheet on his presentation. While he was doing that Mr. Sawyers stated that the conference in August is on August 22nd through August 24th. Mr. Taylor stated that what they are looking at is a simple print out to make it fast to look at. The first page is how the program actually works. It is an AEP program. The spirit of the program is to reduce kilowatt hours. It is a classic case of paying to

save money. There is a pre-approval application; they approve it; they reserve the funding, and once they go back and check that there is a reduction in kilowatt hours, then they will pay the incentive. The payout is 50% of the hardware that gets put in. In our case it is VFDs and pumps. Basically, a light switch (like a dimmer) lowers the voltage, reduces kilowatt usage and makes a cost savings on how much the bill is. VFDs do the same thing with the pumps and motors. If you lower your amperage then you are going to get reduced horsepower, and kilowatt hours is the calculation that we are trying to reduce. If we put up to \$40,000 in one pump station in hardware, AEP will pay \$20,000 of that. There are a couple of examples on the third page. These are just random pump stations, but Indian Creek for instance...there are 40HP motors in there right now and we can reduce that 20HP, make an investment of a little short of \$11,000 and Ky Power will pay about \$5,500 of that. They will pay ½ of the hardware cost. That is not counting our labor and installation and all of the stuff we have to do but just the hardware itself. And then, as it gets reduced, then you are going to be saving the power that you would run, as opposed to running a 40HP motor. Chairman Blackburn inquired if we keep the 40HP motor that is being replaced. Mr. Taylor stated that that is another big benefit of it too. All of the hardware that is currently in the pump stations, we can take the motors, we can take the starters, we can take all of the components and we store them and can still use them in the system that are applicable to that size. That will also save on R & M because we can still keep using those on the ones that are not on this program. This is also covering facilities, like the Water Plant, Douglas, Freeburn...there is a simple graph on the energy efficient lighting and everyone knows that LEDs lower voltage and they also pay half of those incentives. On the main back page, there is a basic summary based on 14 of our highest BPS power users and our average bill runs between \$95,000 and \$105,000 per month. So what we are looking at doing is, on the top line is total kilowatts of what these pump stations use (kilowatt hours) and what we pay a month. That is \$27,000 just for these 14 stations. In 5 years we would have paid \$1.6M if the rates don't change and we all know they will. If we invest \$250,000 - \$300,000, the rebate for Kentucky Power known right now is only the \$84,000 but what if we lateral some pumps and motors over, they are willing to do a 3 month history and if we show a reduction in trend, then they will back up and honor the cost of the motors and pay half. So our rebate could go even higher than that. Besides all of that, even once these are in (even if we had to pay for them ourselves) you are still going to get the projected savings on the bottom is a rough estimate; there is no way to tell you exactly what kind of savings we are going to get with the VFDs, but I know it is going to be lower. If you low ball it at 15% which is any pump manufacturer in the world of VFDs will tell you you are at least going to get that much...it will pay for itself in less than 5 years. Commissioner Tackett clarified that Kentucky Power is going to rebate \$84,000 regardless. Mr. Taylor stated that that is on the 14 pumping stations that we are ready to submit. It could be a lot more than that and what he has suggested is that we could get a revolving credit loan and we could use this pot of money to keep recirculating some of these pumping stations and just keep going through the county until we get some of these replaced. Chairman Blackburn inquired if he is talking about the 14 or beyond the 14. Mr. Taylor stated that we could go beyond the 14 and keep going. Mr. Sawyers stated that we are anticipating this program for 3 years and beyond that, he doesn't know if it is going to last that long. Chairman Blackburn inquired when the program started. Mr. Taylor stated that we have been going to the meetings since October of last year. Chairman Blackburn stated that it makes and clarified with Mike Spears that he had looked at the numbers. Mr. Spears stated that Mr. Taylor has gone over all of the savings and there is no way to say whether we are going to save 15%. 20% or 25% or what the range will be. He stated that he can tell the Board from other clients he has that just from lighting, it has been a significant savings. He has one particular client that has several stores and they changed all of their lighting under this program and they said the savings are substantial. Mr. Sawyers stated that as Mr. Taylor pointed out that the worst case scenario is 15% over 5 years. Once it has paid for itself you are still saving money beyond that point. Chairman Blackburn stated that there is no reason to think that these kilowatt hour rates are not going to go up. Mr. Spears stated that they will go up and you may just be offsetting but either way you are saving money. Mr. Taylor stated that a lot of the pumps and motors we have in right now were not put in for energy efficiency in mind, similar to a house that was built in the 40's. Now, most of your pump and motor manufacturers and VFD's are going toward energy efficiency, just like water conservation, is huge. Anything new we get is going to be energy efficient. Chairman Blackburn inquired what the next step is. Mr. Taylor stated that the applications are ready to go. AEP is going to work with him on the admin part of it. We have already got a pump supplier that is ready to go. Chairman Blackburn clarified that the money from AEP comes after the install. Mr. Taylor confirmed that and stated that this is an investment. We need to put out some sort of loan or line of credit to get this done. Mr. Spears

stated that small projects have come a long way. We can do like a \$200,000 to \$220,000 line of credit and after these rebates come in, just pay that back to it. Chairman Blackburn stated that then we take the savings and pay down the balance. Mr. Spears stated that once we are done with it we can convert it to term and hope our savings will offset our payment. Mr. Taylor stated that unfortunately out of the \$225,000 or whatever line of credit that we are allotted, we won't be able to do all of the physical labor to switch all of this stuff out. We are going to have to contract some help because we are low on personnel anyway, but when you talk about a big project of two VFDs and two motors and some of the plumbing has to be worked on...some of these...we will do all that we can do ourselves, but some of this will have to be contracted out so some of the money will go to that. Commissioner Tackett inquired if the money is allotted in this amount or about what you are asking for. Mr. Sawyers stated that contracting it out will come out of that amount. Chairman Blackburn stated that they should probably allow them to continue to work toward doing this. We may need one more look at it before we approve it, but you have to apply. He suggested that they go ahead and get the application in and if it is approved, then they can look at funding it, maybe at the next meeting. Mr. Taylor stated that we are already pre-approved for the reservation of the funds. AEP has already reviewed it and reserved the funds for us. Chairman Blackburn clarified that what they are telling the Board is that we are ready to move on it. Mr. Taylor stated that he needs money to go with so he can go ahead and pursue stations at a time. As far as bids go, we have already put out three cost analysis bids to three different companies for the components and two of them...Chairman Blackburn requested that Mike Spears work with David Taylor and do a real quick AFE to look at the cost of the motors...if you've got the bids out, you'll know when. Mr. Potter stated that they have the cost estimates already in hand. Mr. Taylor stated that all of the leg work has been done and he is to the point now where he just needs approval of the money to move forward on it. Chairman Blackburn stated that he thinks before they approve it they need to see total cost. Get the labor cost in...Commissioner Tackett stated that the total cost they asked for is \$250,000 to \$300,000. Chairman Blackburn inquired if that includes the labor. Mr. Sawyers stated that it does not include anything as far as bidding anything out as far as contractors. Chairman Blackburn stated that they said that need to bring some more labor in to set these pumps...Mr. Taylor stated that it would be compensation...there are a lot of these we can go ahead and do on our own. Chairman Blackburn clarified that there were some that he thinks we will have to contract out, so as far as labor are you thinking about \$20,000. Mr. Taylor stated that "no, it wouldn't be anywhere near that". He stated that if they are worried about procurement issues, he has already had a couple of representatives with KRWA look at it. Mr. Taylor stated that he has done this for a couple of months on the leg work getting everything ready to this point to where we can get approval for money to go ahead and take the next step. Mr. Sawyers stated that they could just authorize for them to proceed and if we have to bid something out that is over a certain amount then they can just come back to the Board. Mr. Stratton stated that he thinks the authorization they are looking for is authorization to negotiate a line of credit up to \$250,000. Mr. Spears stated that to keep in mind with regard to procurement, is that we are buying any two items that the cost goes over \$20,000, those will have to be bid out. If you anticipate in a 12 month period to spend over \$20,000 on any item, you have to bid it out. Commissioner Tackett made the motion. Commissioner Casey seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-009

Mr. Taylor stated that he has already gotten three quotes. Mr. Sawyers stated that continuously if buy a \$10,000 pump and then buy another \$10,000 pump that is the same item, you have to bid it. Mr. Taylor stated that it is system improvements and they are individual improvements so of the three bidders that we had, only one bid the leg work. And we are talking a lot of leg work; I mean it took a month and a half just to get the prices for these pumps. No one else did that, so it is almost sole source to the point of...we are doing system improvements...we are replacing existing pumps and motors...so they did not fall in the

lines of procurement laws. Commissioner Hurley stated that he doesn't see how it does either. If you have a pump station over here, and another one over there....Mr. Spears stated that under the law right now, if you anticipate buying \$20,000 of tires for vehicles, you have to bid them. They don't care if it's for one vehicle or many. He stated that what Mr. Taylor is saying, he is not aware of. That is a Dan Stratton question. Commissioner Hurley inquired how long that goes for. Mr. Spears stated that it is for a rolling twelve month period. Commissioner Hurley clarified that if we take these vehicles and we go out and bid the tires, they furnish them for a year, right? Mr. Spears stated that is one way of doing it. Commissioner Hurley stated, no, is that the way we are doing it? Mr. Potter stated that we take quotes individually for each set of different tires as they come in. We get three quotes and we go with the cheapest one. That is how we do it. Commissioner Hurley clarified that is for each set of tires. Mr. Potter stated that yes; we call around and get the best price. Commissioner Hurley stated that he understands what he is saying but that is not a written bid on that set of tires. Mr. Potter stated that a lot of them turn in a quote sheet and we actually call to make sure they are still within the quote. That is the same thing we do with all of our parts and chemicals right now. Randy Burnett compiles a list of items that we purchase. Commissioner Hurley stated that if you have all of these valves to go bad and over a period of a year you put over \$20,000 worth of valves on, then you have breached this law. Mr. Spears stated that you haven't because you didn't anticipate doing it, it is just something that happened, then you could get by with that. Let's say we spent \$19,000, we didn't anticipate changing anymore valves, and all of a sudden we had a wash out and we had to buy more...we are covered under that. That is a gray area. Mr. Stratton stated to let him review the procurement law. There is some gray area in that, but he will check on that and confirm what Mr. Spears is saying and get back to the Board on that. Greg Heitzman stated that he is very familiar with the procurement code with his previous employer. If you follow the law with the procurement code, with this particular case, it is a commodity and not a special service and you have a \$20,000 threshold and Mr. Spears is right, there is either an annual basis or a 12 month basis. If you have a failure you can declare an emergency and that bypasses the process. Otherwise you have to be very careful to say "okay we are going to have multiple valves and they are all coming from the same contractor or vender" even though it may be 10 different valves at 10 different locations. Someone may interpret that and argue that it was a potential violation of the procurement law even though it was 10 different locations. So you have to be careful with documenting your purpose and once you hit that \$20,000 amount, you essentially have to call a time out unless you have an emergency. Chairman Blackburn stated that essentially you need to bid about anything that you are going to use, buy, or consume in the business because you want to get the best price that you can. Mr. Heitzman stated that what others have done on these repetitive things, not your capital projects, but essentially these things that are preventative maintenance...you could put out an annual procurement contract, solicit bids for time and material and that satisfies the requirement of the bidding and you can say you are doing annual contracts over a period of time. What will happen is that when an event like this comes up, you can actually spread the work around if you chose to do so. That would satisfy the advertisement requirement and then if it does go over \$20,000, those are some of the methods and get some advice from Kentucky Rural Water to make sure and at the end of the day, Mr. Stratton will check the actual procurement law and make sure that you are following the law. Mr. Sawyers stated that they have discussed doing annual procurement. Mr. Heitzman stated that gives you a lot of flexibility on your maintenance items that come up routinely that you don't feel comfortable with declaring them an emergency because you knew it was in bad shape. Chairman Blackburn stated that there is a motion on the floor that was made by Commissioner Tackett and seconded by Commissioner Casey to pursue the line of credit. He asked for a vote. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-009

Mr. Potter stated that in the packet you can see how many taps was done, the meter report, gallons treated, customer counts and other information. We did have some special samples due to line breaks and all of our routine samples which came back good. Chairman Blackburn requested a motion to approve the Manager's Operating Report as presented. Commissioner Tackett made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-010

NEW BUSINESS

1. **Award Insurance Broker/Agent Services Contract** – Chairman Blackburn stated that they have touched on part of this and need to award the insurance services contracts. Through the process, we had formed a committee to look at this and worked with Greg Heitzman to score the original applicants that we had. Mr. Heitzman stated that what we did is that we recognize that we are going through a transition period and we may be bringing the operations in house so we need to be prepared in that event. What we did initially was to issue an RFP asking for insurance quotes. Because of the complexity of the current insurance contracts on everything from health, dental, life, workers comp, property casualty expirations...we backed up and actually and pulled that RFP off the street and decided that our best interest is to actually solicit an agent/broker. In some cases brokers are agents and vice versa so it gives us some flexibility. We put out a second RFP and got proposals from eight (8) different firms: BB & T (Lexington), Elite (Franklin), Hall and Clark (Prestonsburg), Kentucky Insurance Group (Lexington), Neace Lukens (Lexington), Peoples (Pikeville), Roeding (Lexington), The Benefits Firm (Pikeville). We did an evaluation and formed a team of Chairman Blackburn, Mr. Sawyers, and himself. We had a weighted evaluation. The interesting thing with this is that they are not providing costs at this point. It is just their qualifications and how responsive will they be to us. So it's their history, their experience with other water districts and other clients, etc. and also making sure that they have the appropriate insurance documentation and titles to operate in Kentucky. So that was the first round. We ranked them on a weighted scale, 100 point scale, and came to the conclusion that there were four (4) firms out of the eight (8) that deserved to go to the second round. Those four (4) were BB&T, Hall and Clark, Peoples and Roeding. the second round required a bit more detail and they had a deadline to respond to questions via email from us and then we reviewed those questions and from that process we went from four down to two. The two that we felt provided the best overall value to the District, not pricing at this point but value to the District in responsiveness, expertise, the work they have done...essentially was BB&T group out of Lexington and the Peoples Insurance Group that has an office here in Pikeville. We wrote this RFP that all the work could go to one entity or we could actually split it up into multiple entities. Some of the respondents didn't cover the entire field of insurance so we had this four that had the maximum flexibility to do...and the final decision is the Board's. So essentially our committee, after looking at what was done, are recommending that BB & T handle the "employee benefits" side, so essentially that is the health insurance, dental, vision, life...essentially the benefits package that would be for the employees. One of the reasons is that they gave us a very good response that they could get this in place essentially with a transition should the Board approve moving from external to in-house operation on health insurance. We wanted to make sure we absolutely had all of the employees covered. They made some contacts with the existing insurance provider which is Humana and they have a good relationship and he was asking for a 95% confidence level and they did the homework and said they had 100% confidence. So that persuaded the committee to say that these guys have done their homework ahead of time and have 100% confidence that we could get the employee health insurance covered. Shifting over on the property/casualty, we felt that the best proposal was provided by Peoples Bank. They have a wealth of resources and are qualified. Peoples was in the best position to give us the best proposal related to property and casualty, and also the liability insurances, coverage for directors and officers, professional liability insurance, corporate business related insurances. We felt they gave us the best proposal for that. Now there is one little glitch that is a real challenge. That is workers comp and unemployment insurance. Currently the District has 2 employees. That contract for workers comp and unemployment expires July 1st. This is a timing issue here that we

are going to need some flexibility on. So talking to BB&T, they said it would be a challenge but they think they could get it, but they need loss runs, etc. We can get that for our own employees but essentially for the employees of UMG, as they would be brought in, what we've got is a little bit more time to get that. But they are prepared to activate if we make a decision today. He also talked to Peoples and they are prepared as well. Some of them have already started getting quotes in. The third factor is that there is an existing contract that the District has for unemployment and workers comp is through the Roeding Group out of Lexington. They were in the top 4 but didn't make the final 2. The advantage they have is that they are the approved authorized agent to get access to get insurance through KACO (the Kentucky Association of Counties). KACO goes out and bids for benefits and many of the small water districts and wastewater utilities use KACO. There is an advantage to having KACO as an option. We don't know if KACO is going to be the lowest cost but it is good to have them as an option. In initially talking, the Roeding Group has advised them, that KACO would only do the unemployment if they get the entire property and casualty suite. But we feel that People's has the best proposal and one of the big advantages is that they are right here in town and can be responsive to us. With that, what he thinks is in the District's best interest is this and his recommendation as a consultant to the Board on behalf of the committee is this: That we would award the employment suite of services to BB&T who would act as our agent but do not have the authority to enter into the contract. So they can go out and get quotes from multiple firms and then the Board will make the decision based on cost or other supplemental values...So the agent will work all of those out and he expects that we would get at least 3 proposals and the Board makes that decision. And secondly, the same thing on the property and casualty; Peoples will go out and get all of these various quotes on property and casualty. He confirmed yesterday and again this morning that both Peoples and BB & T are willing to work with the Roeding Group, because the Roeding Group would essentially be a broker through one of those two groups to get access to KACO to get a price through KACO. Then you have the best of both worlds. The free market out there to want to get the business, the existing provider of insurance, and we would get a lot of competition on the table, but it keeps that door open for KACO. So his recommendation is that the employee piece to BB&T, the business related insurances to Peoples representing you as the agent, and then authorize Peoples to work with a representative that we currently have a contract with at Roeding to see if there is a way to actually get access to the KACO insurance for renewal. The backup to this is essentially, if we have to, is to renew a short term contract with KACO and essentially cancel the contract if we get others. He would rather not do that, but if we can get a win win where the existing provider which is Roeding can get us access and they provide the best value through the Peoples Group that would work out. But we need a little bit of flexibility there because we only have one week that we have to get these two in place, actually we have to get in one week coverage for the two employees, and then by 18th if the transition occurs we have to get those others covered. That would be our recommendation. Another thing he just thought of is that they are going to get prices back on Monday or Tuesday and they are going to be over \$20,000 so we probably also, after we make a decision of the agents of record, we probably would need authorization to either delegate that authority to either the transition committee or to the Board or Mr. Sawyers, to execute the contract unless you want to have another special meeting. Commissioner Hurley stated that any insurance he gets, they have to give him one month's notice on what it is going to cost for the following year. Everybody wants to wait until the day before and he would put that in there that they have to provide that. Mr. Heitzman stated that will be the case. The challenge here is our time schedule and the fact that right now we have to get insurance...what will happen eventually...a year from now everything will be lined up with a consistent renewal date. We'll have a month in advance, but we have this transition period where we need a little bit of flexibility. Mr. Heitzman inquired if there were any other questions related to the insurance. He assured the Board that this gives you the maximum flexibility so essentially what he recommends is three decisions here with a motion; one decision would be for BB&T to represent the District as the agent of record for the employee suite of insurances, the second would be for the suite of business services to go to People's with the understanding that we would engage the Roeding Group to get access to KACO as an option, and after we get those we will come back and recommend the authority for entering into a contract once we get pricing back. Chairman Blackburn stated that it was a pretty arduous process. They had stacks of reading material that they had to go through. They have eight responses from these companies and narrowed it down through several calls and a real nice scoring process. Commissioner Hurley inquired if these needed to be individual motions or can be lumped into one. Commissioner Casey said he thought they could be lumped into one. Ms. Olson stated that she

really wouldn't because the companies may want copies of the resolution that pertain to each company individually.

Chairman Blackburn requested a motion to award the employee suite of insurance to BB&T. Commissioner Tackett made the motion. Commissioner Hurley seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-011

Chairman Blackburn requested a motion to award the business suite of insurances which is auto, fire, theft, loss and liability, etc. to People's. Commissioner Hurley made the motion. Commissioner Casey seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-012

Mr. Heitzman stated that for the record in the minutes is with the understanding that we are going to engage People's to work with Roeding to see if there is way that Roeding can act as a partner or sub to get access for the KACO coverage with their carrier as one of the alternatives that we have. The agents of record essentially will be BB&T and Peoples.

The third piece is that we are expecting to have prices next week for workers comp and unemployment insurance. We have to have that in place by July 1st at a minimum for the current employees, and then we will have a transition should the other employees come on board. So that is the tricky part and we will have to work with the carriers on that. For the full insurance, it is going to be more than \$20,000. In fact from the estimate point of view, I think we are going to be in the \$40,000 - \$50,000 range for that suite of services for unemployment and workers comp. So what he is recommending to the Board, so you won't have to have another meeting, is to authorize Mr. Sawyers to get the quotes in from the agent and then give him the authority to execute the contract of what would be the best value. We can share with the Board before that final decision is made but that way you are delegating that authority. If you are accustomed to say "up to an amount" or just the best value that is up to you. Commissioner Tackett made the motion to give Roy Sawyers that authorization to execute the contract for insurance upon receipt of pricing. Commissioner Tackett made the motion. Commissioner Casey seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-013

2. Alpha Natural Resources – Plan of Reorganization

Mr. Stratton stated that we are a very small unsecured creditor under the Alpha Natural Resources Chapter 11 plan. We received a ballot to either approve or reject the plan and is the Board's decision. It is counsel's recommendation, they owe such a small amount, that the District vote to approve the plan. Chairman Blackburn stated that he would abstain from voting. Commissioner Friend made the motion to approve the Alpha Natural Resources Chapter 11 plan as presented. Commissioner Casey seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-014

3. Customer Adjustment Policy

Chairman Blackburn stated that this item was addressed earlier in the meeting and resolved.

4. FEMA – Contract Renewal

Mr. Sawyers stated that FEMA has sent a contract renewal to continue to receive any FEMA funding that needs signature as well as the appointment of an applicant's agent. Ms. Olson stated that currently we have Commissioner Casey as the Applicant's Agent. This is basically a renewal for whatever contracts we have right now that are getting ready to expire. If you want to appoint a different Applicant's Agent, that is fine. Commissioner Casey made the motion to authorize the Board to execute the renewal FEMA contract and to appoint Roy Sawyers as the Applicant's Agent. Commissioner Tackett seconded the motion. Commissioner voting as follows:

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-015

5. Review of RFP for Contract Management and Consultant's Recommendations

Mr. Stratton stated that to give the Board a very brief history and context of what we are looking at here, in the PSC Case 2016-0062, they directed us to bid out the Contract Management Services through an RFP. They directed us to hire an independent consultant to draft the RFP and to evaluate the bids. We retain the services of Ed Wetzel, a consulting engineer in Tennessee who developed the RFP and published it. We received three (3) responses. We had an on-site inspection and received two bids; one from UMG and one from a company called ESG. We subsequently filed our report to the PSC as required outlining the bid process and the bids that were received. As part of the evaluation process, Mr. Wetzel thought it would be good if there were more than one set of eyes to evaluate it, so we agreed to have Greg Heitzman and Gary Larrimore, with Kentucky Rural Water Association, form a committee. The three (3) of them did an evaluation and Greg will go through that when he gets to that point, and they have a recommendation for your consideration. The PSC has further directed us to evaluate these bids, and Greg is going to lead us through that, and then we will file a report with the PSC on the decision that the Board makes today. So, that is the history and the process. Mr. Stratton asked Chairman Blackburn to turn the floor over to Mr. Heitzman.

6. Analysis of Contract vs. Independent Management

Mr. Heitzman stated that the RFP went out to be advertised and we did receive the two (2) proposals; one from UMG and one from ESG. Our committee looked at a ranking system, very similar to the insurance ranking and evaluations system. The difference between this one and the insurance is that this did include cost. Cost was not a sole factor but was one of the factors in the insurance RFP. Mr. Stratton stated that the Board has been given all of the written materials including the proposals from ESG and UMG, the committee's recommendations and financial projections for self-management, that were ran independently. He apologized for the interruption but stated that he wanted that on the record that they were provided than earlier in the week. Mr. Heitzman stated that since you have that information in there, he doesn't think he needs to go through it line item by line item, but essentially there were two (2) very qualified firms that submitted proposals and when they went through the evaluation, he wanted to tackle the cost thing first, because all of that is a major driver for all practical purposes...the costs were essentially the same. They were within less than 1% between them. It was very, very close on the cost so the cost of the service provided by those two is very much the same. This particular evaluation, often cost drives a solution, but in this particular case essentially the quality of the proposals is driving the decision process more than the cost. Before I go into the proposal pieces, we also checked out all of the references that were provided. Among the committee, we split up and we called folks in Florida, Virginia, Kentucky and Georgia, and we got very good reports from all of the references. We didn't have any negative reports or concerns, so that is good. So you take the reference piece and the cost piece and they are kind of equal essentially, for all practical purposes. Let me go into the actual content of the proposal of what was provided and essentially the thoroughness and new ideas, innovations, and those sorts of things; and the evaluation team when we did the scoring concluded that ESG provided the better proposal and it is a sizable difference in the final scores. The reason essentially, is that there was a significant amount of effort on their part to write a pretty extensive operating plan that was put together and subsequent to the process we went through, I think Roy looked at it as well, on this operating plan that was included in your packet...they did a very good job of putting together an operating plan and how they would manage the system. And like UMG, what they do is they do contract operations on a number of communities throughout the southeast. So the score here essentially...both firms are capable and competent to be able to do this work and we essentially had two good proposals; the cost is about the same based upon the proposal that was on the qualifications component, and specifically the operating plan, the team felt that the better proposal was provided by ESG. So that is that piece of the equation. Obviously we don't have a bid, per se, for actual cost if we were to operate this internally. So what we do is that we have put together a proposal, or cost estimate I should say, that previous you have been briefed on as a board; that has been updated by Mike Spears and if there are any questions on the process for the contract operations part before we go to Mike, now is the time to ask. Are there any questions about the details or anything that you saw in the packet, so if a decision is only between those two options, the committee would then recommend to the Board that we would go with ESG based upon the total value package that was provided in the submittals. Later we will talk about the pros and cons but what we want to do first is get 'what are all the options of record' on the table for you as a Board to make a decision. Are there any questions on the RFP side? There were none.

Mr. Heitzman continued and stated that Ed Wetzel was retained to be independent in this process and I am independent as well. Mike Spears put together previously and updated the proposal, or actual cost I should say, that would be an estimate of what it would cost to operate this internally. It has a series of assumptions in that so he turned the floor over to Mike Spears to go through those assumptions.

Mr. Spears distributed copies of the cost estimate packet to the Board. Mr. Spears began his presentation by stating that as you all are aware, during the PSC case in 2014 for the rate, we were asked to do an analysis to run it independently. What I have done is taken those into a little more detail; taken that analysis and expanded it with what things that we know now that we didn't know then. There was some stuff in the data room that was different from...and what I used during that proposal was the direct cost that UMG provided the PSC from the District; no overhead and no profit. Just the direct cost of operations. But

there are some items in the data room that were different...utilities, chemicals, water purchased, vehicle expense...that were different from those numbers. So what I did was, the information in the data room, I used the 2015 fiscal year numbers and updated information from the cost previously. Mr. Heitzman stated that the data room is the internet location base so all of the provided external bidders could get access to the same basic set of information, so it ensures a level playing field in preparing the estimates or bids. Mr. Spears stated that in your sheets you'll see that...the front sheet is what we asked bidders to provide and so I put it in the same format basically as what we asked them to do. The second column is source and that tells you where the data came from. Work sheet is what we are going to go over in the following pages. The data room is obviously the data room. The one exception to that is repair and maintenance which we gave the prospective bidders what we needed in those three (3) years and he used those numbers for them to be comparative. Keep in mind, this is not a budget. As a budget, what that would entail, we would have interest expense, and Roy and Carrie's expense is not in here...Commissioner salaries are not in here...those are items that we would have whether we used a contractor or if we don't so don't construe this as a budget and say "Hmmm, you said \$7.3M and our budget is \$9M or whatever." I just want to make that clear. First category is raw salaries. If you look on page 2 you'll see UMG direct expenditures that they proposed previously or that they had in 2014 fiscal year ended June 30. Those are the items...regular pay, overtime pay, etc. show a total salaries and wages of \$1,857,479, which will correspond to year 1 under raw salary on page 1. This is just the detail of the numbers on page 1. The direct labor, overhead, is \$924,450. That includes payroll taxes, health insurance, life insurance expense...those are the employee benefits basically....power, lodging, miles...things that are employee related but are not direct pay...\$924,450. The next item is utilities that came out of the data room that was 2015 expenditures for utilities...\$1.1M. The following item is chemicals that again was in the data room and updated numbers...\$254,751. The equipment, we have a little bit of extra in that to give us some room for error. You will see at the bottom I've got a contingency. When we did this for the PSC we had note payments on current vehicles of \$69,000 but the note payments for the five (5) additional vehicles...\$69,000 was what UMG was paying payments on our behalf. The note payments for the five (5) additional vehicles of \$30,000... we have decided since then to buy a couple of vehicles and pay mileage, I think so...The next item is materials and supplies...\$45,750. This is uniforms, safety supplies, laboratory supplies...I understand we may have some savings on our uniforms, probably a little bit high there but it is a manageable number and I don't think it will change the equation. Outside services is \$2,400. Same item. Repair and maintenance, we require \$960,000 from the prospective bidders. We have had about \$780,000 in the past but if you recall we approved the buying of some new pumps in addition to what we have done in the past, and that is how we came up to that number. In fact that number should be reflected on bids as that is what we asked them to use. Insurance and bonds...you have the work sheet number, \$200,196, I have adjusted that up to \$250,000 just to give us....not knowing if we can...their numbers may have had some...where they may have been part of a group or something for awhile, maybe they were discounted some, so I just arbitrarily took 25% of that and added it to it. Water purchases came from the data room for the 2015 year. Sewage fees...there was one line item...what we paid during that test period. Vehicle expenses came from the data room. Those have been somewhat less than what we had the previous estimate of the previous year but fuel costs are down and it was a driving force in that. It wasn't \$30,000 or \$40,000. Postage came from the work sheet data in the PSC file, \$111,210. Other office costs, you can see the detail on that on the third page...office storage rental, office equipment lease, supplies, janitorial, telephone, and security service, \$88,318. We have a solid waste line item and during that period was \$6,805. Laboratory testing was a line item on page three (3) as well, \$37,171. And then hand tools I just rounded to \$14,000. For a total estimate for the first year without the contingency of \$7,203,811. I've added a 3% contingency for non-labor items to try to be conservative with this for a \$132,656. Total is \$7,336,467 the first year. Year 2 and Year 3 I put a 1% increase for the employee raises and adjusted the other items about 1% up as well for a total for the 3 years of \$22,424,560. You have some footnotes on assumptions on page 1 and on the 4th page, so if you have any questions, they may answer those questions. Also, there are no professional fees listed. They had on theirs professional fees on their direct cost, but really our doesn't change drastically, so I reduced those out. This doesn't include any capital asset plan or anything of that nature, this is strictly what I have estimated for your daily operations. If you read footnote 1, it kind of gives you a little bit of what I said before. It says "this estimate is only for the cost

of daily operations of the district and is not to be construed as a complete budget. No costs outside the contract were considered as those are borne by the district in either scenario (ie. Commissioner salary, legal and accounting, interest expense, etc.) Otherwise those cost would need to be added to the bids to make them comparative to our analysis." We would have to add those to it and I don't think they would have added it so I left those items out. That is all I have.

Mr. Stratton stated that just to clarify, the purpose of this cost structure was to get an 'apples to apples' comparison with the two proposed bids. So, he factored in all of the things that they would have factored in for their costs without factoring in the things that is not their costs but would be our costs anyway.

Mr. Heitzman stated that essentially we have three (3) options on the table; an option for UMG, an option for ESG, and an option for in-house management. The in-house independent estimate is less than the external contract operations estimate and so what we wanted to do at this point, the decision that you make as a Board is more than just a cost decision. You all are business folks and you know you have the current cost of operations and you have the long term cost of operation, but you also have the ownership perspective versus contract work. Anytime you contract work, essentially you are allocating risk. So next what we would like to go through, and it is in your packet, is that there is a discussion topics that we are going to facilitate here. It is exhibit 7. Ed Wetzel and I put these together because, obviously it is a very important decision as to which way we are going to go and ultimately at the end of the day, our accountability is essentially to our rate payers and so that is why we have to put all of this in the context of who we are accountable to, and that is essentially the people paying their water and sewer bill. I have broken this into 8 categories and what I would like to do is kind of go through here each category, we've prompted some questions for discussion, so we would like to have a little dialog here. If anybody has any concerns, or pros and cons to each scenario, there is no perfect answer here but at the end of the day what we have to do is make a decision based upon the cost aspect but also aspects beyond cost.

1) Cost Efficiency – the annual cost and efficiency for operating and maintaining the District – That is the analysis we have done and Mike Spears has done a very good job to point out that is not the total cost of the enterprise...these are the day to day operations costs typically on a monthly and annual basis.

a) Will in-house operations be more or less expensive than contract operations? Based upon the data that we have presented to you today, we believe that the in-house operations would be more affordable. Essentially would be a lower cost on the best 'apples to apples' comparison we had, but I want to make it clear that it is never perfect. You never have an exact 'apples and apples' because there are different perspective and different risks. But based upon the data, there is a slight benefit to bringing in-house from the estimate that Mike Spears put together. Mr. Stratton stated that just for clarification, we asked for a 3 year bid. The cost of in-house based on Mike Spears' numbers is \$1.3M less over three years than the lowest bid. ESG and UMG's bids were \$42,000 apart. And so, \$1.3M savings is going over a three year period with going to self management. Mr. Heitzman stated that is very important, especially when you look at this over a long term and the very nature of the utility is that we have to think long term, more than just the current. Very good point. So cost wise, essentially we have documented a record that essentially is a \$1.3M savings over this three year period with the in-house operations. So a) is pretty clear cut.

b) Are there costs associated with in-house operations that are not being properly considered? The question we always have is "what have we not discovered. What might be included by ESG that we haven't accounted for or vice versa." That is one of the reasons why Mike put in a contingency because there are some elements in there...we are going to run into something that we haven't discovered and in a contract environment if there is something discovered, and it is not covered in the contract language, essentially the contractor has to absorb that through their profit essentially. So that is the risk allocation piece. Whereas in this particular case, if it is in-house operation, and there is something that is

unexpected, then obviously the District is going to bear that. So this is essentially a risk allocation process to a large degree. So going through that, we believe, after I have looked at Mike's estimate and what Ed Wetzel and I have looked at...we think, and our professional judgement essentially is that we have done a very job...you have done...the folks you have selected in-house and by contract have done a very good job to identify all of the costs of the operation, so that is my perspective, but I do want...and many of you run businesses, if you have anything that you think we should consider, put it on the table or we need to clarify if it is or is not included, now would be a good time to essentially bring that up. I don't know if anything comes to mind....Chairman Blackburn stated that he thinks that the contingency that Mike has of 3% would cover anything that may pop up like incidentals...Mr. Heitzman stated that by the way, let's say that we are going at this as a first pass, you might use a 15% contingency. But the reality is that we have a lot of data, so a smaller contingency is justified because we have a lot of data on the table and this is not the first time we have been through this exercise.

c) Are there additional costs that the District may incur that are not included in the contract? What happens is every contract has a box surrounded with contract language and there are certain things that are beyond the control of the contractor, and in this particular case ESC put some qualifications in their contract, and every contractor would, that if you are outside that box, and so there are certain caps. What would happen is, if that is something that is not covered in the contract by either UMG or ESG, then the District has to pay for it. The same thing on this side. So I generally look at that as kind of a balance. The only difference is you may have a profit and mark up on one versus an in-house operation. Mr. Stratton stated that under the current UMG contract, they pay for all chemicals, costs of water and sewage costs. Under the ESG contract, they asked for 34 contract amendments, I think it came out to be. Now, the three critical ones in terms of cost management were that they wanted to put a budget on the chemicals, water and sewer costs. And the idea was that if we were under budget, we would get a rebate, and if we were over budget, then it would be on us to pay it. The problem with that is that it passes the risk of an overage onto us. Which if we operate independently we are going to have that anyway, but under their contract, we have to eat it on top of whatever the cost of the contract is. So that is a risk of cost adjustments that we would not...if that was negotiated in the contract we would have to look at a resolution.

d) Who bears the risk of unknown costs? The reality is that at the end of the day it is the District and the Board.

So the conclusion here, where we want to have the dialog, is that from a cost perspective, we do see an advantage to bringing the operations in house based upon everything that we see today and that is just one aspect but that is where we are today from a cost perspective. It may be a little bit more challenging if there were different costs, higher premium, and value pieces, which are the next sets...but essentially from a cost point of view everything done indicates that there could be some significant savings to the rate payers by bringing the work in house.

Before we go to the next one are there any questions or comments from any of the Board members related to the cost aspect of the operation? There were none.

2) Organization and Leadership – Here is where we are going to get into some elements of risk. Essentially UMG has been operating the management and operations. They have been doing that for the past 10 years, so they have a system set up, they have some economies of scale because they provide and serve others and so that is what we need to focus in on, is making sure the Board is aware that we are taking some risks from external and essentially we are bringing them in house.

a) Does the Board have confidence in the current management to lead the District? So we need to be thinking that we are going to need more management inside of the District to be able to manage this operations realistically and prepare for the future. Some of that management resource may not be in a specific person, per se, but when you look at the overhead, you all run businesses whether it is in accounting or finance or HR, you get bits and pieces of resources from a larger organization. Essentially that is going to need to come in house or in some cases, as we discover some things, we may need to go out of house, and we have included some of that, to bring in some of that expertise when it is needed. So that is this whole section around the leadership. So you as a Board that are accountable for this, have to think of the management team that will be assembled with this process. Our proposal is to bring employees over from UMG. My perspective is that the employees that are coming over know the day to day operations, I'm not concerned about that. This is all about the management and the leadership of the District.

b) Is the leadership team adequately prepared to manage the various back office functions, including HR, IT, Finance/Accounting, Public Relocations/Customer Service? I mentioned this earlier that we need to begin to think prospectively...this is a large District and essentially you have about 50 employees. That is kind of one of those sweet spots that if you get much more than that you have to start thinking that we need full financing, or full time accounting, etc. We are not quite there yet but we need to begin to think of that. How do we manage that? So we may have to have a business administrator... through the HR side is going to be a much more significant challenge, because right now we have 2 employees versus 55 to 60 employees.

c) Do the additional resources (management and technical) proposed by the company contract operator strengthen the organization and provide stronger leadership than the MWD team? You currently have contracts with a number of engineering firms. We just earlier approved contracts for insurance, etc. so essentially the competence that is out there in the market, so from observation you have a good understanding and knowledge of how you would use expertise in the market place, whether it is legal, engineering, etc. to be able to manage through. So the question here is, as we go through, there is a risk shifting on the management side from the contract operator to the in-house and the focus is related to what I call the "back office functions". You as the Board, have the accountability essentially to hire the management team that essentially will manage the organization.

Let's pause there. Are there any questions, because some of the things and duties of any contract operator will be shifting over on that management side. Any questions or thoughts? Chairman Blackburn stated that with the exception of Grondall Potter, which Grondall will not be coming over from UMG, but we have got a good group of folks and as you said, they know their jobs. They know how to run the District, so we have confidence in them. And Roy and David, the folks that are already here...David is coming over...we feel comfortable that we should have a seamless transition from UMG management. And I will say this about UMG, they have done a great job...the employees with UMG, of serving the folks of Pike County and managing this District. We do have an environment of shrinking revenues and I think we will have a lot more flexibility as an independent unit to deal with the shrinking customer base without having to wrangle through a contract. So there is some things that we could serve better with in house accounting. Mr. Heitzman stated that he agrees. On this particular here, you will be able to respond with your resources at the direction of the Board and policies, procedures and approval more directly to meet the challenges that will present themselves. The pro of a contract operation is that you shed that risk and put that risk on the contractor and essentially you have that risk around a box or what is defined. But if there is something that arises that is not defined, then you are still accountable for that risk. But you have a competent management team and the many of these employees are coming over. I would have a much different concern if it was 'we need to hire 50 employees'...it would be a completely different scenario. But essentially the employees are competent to run the day to day, so my view is that the risk here is the

incremental risk of how will you manage the utility. So that is really all of #2 here. Any questions or comments from any other Board members? There were none.

By the way, doing this is all a part of our appropriate due diligence process to make a decision.

3) Human Resource Management – this is really a subset of #2, it is just a little bit more focused. I had mentioned previously on my previous trip down here, what would be your biggest challenge...the human resource side. I believe that the human resource side will be one of our biggest challenges. Why is that? Because the operations is being done day in and day out. We are not starting something from scratch.

a) Is the Board prepared to take on this responsibility? That is now directly the hiring and firing, recruiting, etc. and managing that. Managing two employees is different than managing 55 or 60 employees and in today's world... 35 years ago the human resource was not that complicated. It was essentially to get folks in and get them to retirement. Today, as everyone is aware, it much more complex; everything from health insurance to liability, etc. and that responsibility will shift over and it's appropriate for the Board to establish through its leadership and management structure how that human resource piece will be managed. And there is a plan to have resources, essentially an HR Administrator, to manage it. So that is the key there. I believe 30 years ago, an organization like this could probably manage that externally, but in today's environment you are going to need someone to manage the day to day human resource piece. That is the training, organization of data, all of the documents that have to be filed, etc. with just the suite of insurance services we talked about earlier. So that is the real key here, so think about the Board is responsible.

b) Is management in place to oversee this function? And we have a plan in place that has been laid out.

c) If not, what is the plan to meet this need? That is not the case. That was an original question we had.

d) Are there any advantages/disadvantages to contract management as it relates to HR? Here is the view that can go both ways. If you are a contract and there is an employee issue with the contract operator, it is really not an employee issue for the District. It essentially doesn't penetrate that wall, so if someone adheres a claim, or there is a disability or discrimination, etc. that is contained within the contract operator. And also I'll mention I understand that we as a District, essentially are subject to open records and we have one set of rules to follow. It is slightly different in the private sector. Both employees would be employees 'at will' on both sides but essentially the rules of engagement are different and that will require Dan Stratton to be able to help us manage through that. But many times you contract high risk operations or expertise in order to be able to manage that in many cases that is human resource risk in the administration. So that responsibility for your employees will move in house if you bring it in. Mr. Stratton stated that as you all know we have contracted out a person to assist in the HR function right now and that is in place. The second thing is that, as you all know, everybody is going to get pressure about "hire my cousin Billy" or you know "my cousin John needs a job" and you all will just have to withstand the pressure to not do that unless there is a viable certified position that has been opened and approved by the Board that has been talked about as a possible method or mechanism. Commissioner Hurley stated that would be the process if we even take it over. Mr. Stratton confirmed that would be the process you would have to follow in that case. Mr. Heitzman stated that the key is establishing policies of the Board with respect to

how we recruit, hire and retain qualified employees. And that will be an important step if we need to bring in a number of people. We have already been working on that process. So that would definitely be very important. Are there any questions on the human resource side? Of all of these on here, that is probably the most immediate need. Some of these others from here on out are essentially longer term challenges that you've had all along, but the reality is that the human resource is going to continue in this transition to be the most important, because of the employees being involved.

4) Asset Management – This is an industry term we are using more and more to be stewards of our assets because these facilities have to last 20,30,40 years and in some cases we are replacing some of our aging assets. So what we tend to have is larger firms, larger water utility, wastewater, or larger type operators often have available to them software, management principles, processes available to be able to manage the big picture long term, as opposed to looking day to day. In other words, what are we doing long term strategically to be good stewards of our assets?

a) Will in-house operations do a better or worse job at long-term asset management and system growth than contract operations? The tendency is that contract operations focus on the day to day operations and sometimes decisions are made with cost constraints or time constraints that may not be in the best interest long term, but you have to deal with it right away. Generally what you'll have is, if you are able to bring that in-house, at the direction of the Board and if the Board provides the resources, you can look at the long term viability of whether you are making a capital investment or whether you are making an operating expenditure. The key to understanding is that it will be the responsibility of the Board to look at that longer term picture. The reason I bring this up is that the regulating agencies and the EPA are all focused for the past 5 to 10 years on "what are we doing to make sure our utilities are sustainable and viable for the long term?" because many were only reacting to a situation instead of doing more to be proactive with preventative maintenance programs, proactive programs, proactive capital programs.

b) Who is best prepared to address the non-revenue water issue and PSC requirement to reduce water loss from 30% to 15%? I put that on there because essentially that is a major issue that has been on the PSC report. My recommendation to you as a Board is that we need to develop a defined plan because we have got to show progress in the coming years, related to how we are going tackle this. We discussed this earlier with the fire departments, etc. We need a holistic approach. That is something that I think may in the District's interests to bring in some expertise once we assess the resource we have today. You have resource today, but you pull them off to do the proactive thing, going out and looking, then you are pulling off your day to day operations. So many times what a utility will do is bring in expertise that have done this before and that is their specialty, to be able to go in and find where these challenges are; to be able to start trimming back your non-revenue water or your water loss.

c) Does MWD currently have an asset management framework to include condition assessment, preventative maintenance, scheduled asset replacements and the like? This is looking forward. In future budget cycles you may want to think about that. I have not done an assessment on what you currently have. I suspect what you have right now is dependent upon what UMG has right now with respect to asset management. That can be a future assessment to begin looking long term.

d) Does MWD possess adequate engineering/technical resources to address this area or do resources need to be hired or outsourced? From everything I have seen you use the professional

engineering community. You get proposals in, and have capable and competent engineers doing your engineering. If we get into some specific scenarios or expertise we can always go out and bring that to the table. At some point, the larger you get, you may want to have an engineering resource in house on staff. That might complement and they can work in multiple different areas because of this asset management challenge.

So the asset management, think 5, 10, 15, 40 years out versus operations maintenance which is day to day. Are there any questions or concerns about the asset management component? There were none.

5) Capital Improvements – This could be a sub set of Asset Management – These are the capital improvements are essentially the capital improvements that you are authorizing; placing a pump station, replacing a pipe, extending the system out to meet new development in the area, replacing aging infrastructure.

a) Which management structure creates the best incentive to plan and execute long term capital improvements? Again, there is pros and cons on each side but if you are focused on an operations and maintenance contract that is going to be your primary focus. Whereas, capital, that is a different variable to show depreciation over a period of time with your capital investments, and those are longer term, and what has happened in the past is, under the current arrangement, essentially the capital improvements are the responsibility of the District to be able to manage. So essentially you have that system in place, you would have to do a different contract approach with operations if you wanted the contract operator to manage your capital program as well. So essentially understand those balances, pluses and minuses.

b) Which management structure provides the best system to do so?

c) Who will be responsible to develop the justification/business case for regulatory approval for rate increases to fund capital improvements and future increases in operating costs? So if you do a major investment, you are going to have to submit that to the Public Service Commission as you are aware, and in the past, some of that information would come from your contract operator, the operation piece. Your engineer assembles what the capital cost is going to be and then ultimately how it gets into the rate base or drives the percentage of rate increase. So that responsibility is going to shift from part of it coming from the contract operator to you as the District, under the leadership of the District Manager. So that is an extension of the asset management. The asset management is the long term, the capital is the annual, and operations is the day to day.

Any questions about that component? There were none.

6) Customer Service – Essentially customer service operation is handled here at this location. I don't see major concerns with that because essentially it is the same people, but what we have is will there be, and as a Board I would recommend you thinking, will there be a different set of perceptions from your customers operating in-house versus contract operations.

a) How do the customers perceive their level of service under contract management? Right now if your customers have a high regard of your current contract operator, UMG, and there is a shift, there may be a perception associated with it, being better or worse. An example would be is if this operation shifts in house, and let's say there is a major event 6 months from now. How are we going to manage and mitigate that risk from a customer communication, elected officials, to the regulators, as well as to the public? The questions here are to get us to think that now we are accountable and are the face and brand in front, if we bring the operations in house.

b) Can independent management influence and improve service levels? There is an existing service level there whether we measure it or not, and we need to begin to think about establishing what is that base line, and looking at how we measure to make sure we are doing better this year than last year. We need to be thinking about that and that is the accountability to assure the PSC that we are doing a good job of providing service levels. No longer is it just about the cost. It can include service levels. It can be a great cost but if nobody has water if it isn't working, then we have an issue from the service level perspective.

c) Is MWD prepared to manage the monthly and annual reporting requirements? There is going to be some things right now that the contract operator be the responsibility... if we contract operate the role of reports, they could get submitted in, whether it is to the Board or whether it is to regulatory officials. So essentially those will roll through the process and will be the accountability and the signatures on the bottom for accounting purposes, auditing purposes, etc.

That is the area of customer service. Again day to day I am not concerned about. It would be the management piece of this and what will this message be to the community and I would recommend if there is a change, even if there is a change in contract operators, there is a message that needs to go out to the community once the decision is made. Are there any questions on the customer service aspect? There were none.

7) Technology and Innovation – We all recognize that technology is moving very quickly and as we mentioned earlier our entire water industry, we are all selling less water per capita, whether it is because of the economy, low flow fixtures, America is moving from a manufacturing base economy, in this case with the coal industry, you may have some scenarios that they are higher water users and we are moving to a service based economy that uses less water. And every low flow fixture that goes in or every shower head, etc. all the per capita consumption is going down all across the Eastern US and we have not seen the end to that. We are tracking this industry and we haven't seen the bottom of it yet. So what that means is we have fixed costs of operation, and what we have is the debt. That fixed cost of operation, it doesn't matter how many gallons we sell. We still have to pay, if we have debt, or if we have a contract operator, we still

have to pay essentially a fixed cost. When you are growing and your revenue is growing, fixed costs are great. But essentially the industry is being de-leveraged and that is an issue all across the Eastern United States, whether it is a small system or its Cincinnati or Louisville. We need to be thinking, how do we manage that more efficiently. The first thing you do is look inside your operations and technology. You are a business folks, you are bringing in new technology. Technology will be able to leverage the technology to be able to do things more efficiently. So that saves us costs with internal operations. Many times contract operators, because they are operating on a much larger scale, they will invest in technology across multiple platforms because they can make that investment because they are providing that service to multiple communities, so they can justify a larger piece of technology, whether it is GPS tracking, Automated meter reading or AMI, or whether it is tracking fuel systems, asset management, etc. That is the type of technology. The smaller a utility is, you don't tend to have the economy of scale that a larger utility may have. The solution for that, is that if you bring it in house, you recognize that and you see 'where can I invest some technology'. There are a lot of partners, and Kentucky Rural Water Association does a good job of saying "we've got this group of utilities, could we form a co-op, or could we all get together to be able to make an investment in a similar software technology so we can do what a larger entity can do, but do it cost effectively." So a couple of things; so have to keep your eyes open for technology, and another is that you need to be prepared as a Board to invest in the technology that may be a given with a contract operator that you may not have here. That may be the actual widget, but it also may be the training and the people.

a) Does MWD have adequate resources and expertise to manage the technology necessary to operate the system?

b) Does contract management bring better options? In some cases, that could be the case. A larger entity could have access to existing programs, procedures, data systems, etc. that you may not currently have. So we need to do that assessment. If it is brought in house, we have got to mitigate that risk which could be an investment. Those tend to be capital investments because they will have a life of more than 5 years, as an example. So you need to be thinking about how we leverage this enterprise because of declining revenues, because of declining consumption, how we essentially save money and become more efficient on a per unit basis in house.

Any questions on technology? There were none.

8) Risk Management – I think we have already covered that.

a) What are the pros and cons of in-house management vs. contract operations concerning overall risk management? We have already discussed contract operations. Any contract you have is essentially risk management. It is allocating that risk to another party. In this case you have more responsibility. What that means in a public setting is that you and your management team will be accountable for those decisions, as opposed to "I've got a contract operator and those decisions fall on them".

So those are the issues that we identified. What we should do is get some perspective from each of the Board members on this. You have heard the pricing pieces, the pros and cons of soft side, the reality...because of the timing, I believe today it is the desire of the Chairman and others to make a decision of record here today that needs to be documented.

7. Decision on Independent or Contractual Management

Mr. Heitzman stated that he will answer any questions but Mr. Tackett, maybe we can start with you, do you have a perspective after hearing all of this one way or another, because there is pushes and pulls and pros and cons with each one. Commissioner Tackett stated that there is risk either way you go with it, but in looking at that, we are sitting right now on over a million debt that we are in debt to the contractor, UMG, right now. Am I correct on that? Chairman Blackburn confirmed that as correct. Commissioner Tackett continued by saying that Mike Spears has given to us, he is showing somewhat of a saving there, and I think that the Board is capable. I think the employees are capable and it is good to be able to bring those employees in with us, if we decide to go independent. And whatever cost, that money that we spend, we are passing on to our customers right now, and our customer base is declining. We have some bad infrastructure out there that is going to have to be replaced, with a current contractor that we are in debt to for a million dollars. Where is this going to go and how is it going to fall? I don't know and I don't have an answer for that right now other than the fact that we are in debt to this company. I think we are capable and if we go into a contract with another contractor we are looking at a 3 year contract on it, and that is regardless. They don't care how much our customer base goes down, they won't give us any break on that. We will owe them X amount of money. Mr. Stratton stated that it is a fixed price that escalates slightly each year, so we would have a fixed cost for 3 years with an option to extend it if we wanted to. Commissioner Tackett stated that for 3 years we are in a lock with that. That is another concern with me, with businesses and customer base. That is my opinion.

Commissioner Hurley stated that he didn't have a problem with it. I think we are all capable of managing this. We all have...any business can have problems and you just have to solve them. I think we are all willing to do it, if it comes to that.

Commissioner Casey stated that he feels that same way as Mr. Hurley and Mr. Tackett do. I think every one of us is very capable of doing and making right decisions on behalf of all of our customers in Pike County. I think the explanation that you gave on all of the pros and all of the cons...and I tried to listen to it carefully, and I enjoyed the presentation and I think that this Board is very prepared to do the right thing.

Commissioner Friend stated that he agrees also on pretty much the way it was coming across. I think everybody is capable of the transition. I am ready for it.

Chairman Blackburn stated I think everybody here on this Board is comfortable with the management team and the skill level of the employees. And we are all well aware of the economics of our region and the fact that we may be sitting here in 2 years, with who knows what the number is. But we have watched it for the past 18 months steadily decline. We tracked it for well over a year and we feel that that in itself gives us pause before entering into another contract, shifting the responsibility of managing the system to a contractor and be locked into an escalating 3 year deal with a diminishing base.

We are confident that we'll come to the right decision and with that I'd like to put it to a vote if we could get a motion. Mr. Stratton stated that it would be a motion to opt to go to independent management or to award one of the firms a contract. Commissioner Tackett made a motion that we go to independent in-house management. Commissioner Hurley seconded the motion. Commissioner voting as follows:

Ancie Casey	Aye
Kelsey Friend	Aye
Michael Blackburn	Aye
Eddie Hurley	Aye
Johnny Tackett	Aye

Upon Commissioner voting, the motion was carried and passed.

Resolution No. 16-06-016

Mr. Heitzman stated that an observation is and he is obviously new to the District but he wanted to say that this has been a very lengthy and very thorough process and it is very defensible. We will follow up with the communications to the appropriate regulators, etc. but he wants to thank Roy Sawyers because he has been the vehicle for him to get access to a lot of information. He knows Mr. Sawyers has been juggling a lot of things over the past several months so he wants to recognize him for the information. Having done this from a utilities side for many, many years, this was done very professionally, where you used a very defined process; you have thoroughly done your due diligence in evaluating all of the various options and I truly believe from my perspective, that you are doing what is the best option for the rate payers and at the end of the day, that is who we are accountable for. He commended the Board for their decision. The Board expressed their thanks to him as well.

8. Legal Issues

- Executive Session to discuss litigation and potential litigation
 - PSC Case No. 2016-0062
 - MWD Transition

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

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

Upon Commissioner voting, the motion was carried and passed.

Resolution No. 16-06-017

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

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

Upon Commissioner voting, the motion was carried and passed.

Resolution No. 16-06-018

Commissioner Eddie Hurley had to leave during the Executive Session and was not present for this section of the meeting.

Mr. Stratton stated that in regards to the PSC Case No. 2016-00062, counsel updated the Board that the report to the PSC will be sent next week regarding their actions taken today and hopefully that will complete the requirements of that order issued by the PSC.

Mr. Stratton stated that with regard to the transition issues, we reviewed personnel issues and looked at personnel positions going forward.

COMMISSIONER COMMENTS

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

ADJOURN MEETING

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

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

Upon Commissioner voting, the motion was carried and passed.
Resolution No. 16-06-019