

RECEIVED

MARTIN COUNTY WATER DISTRICT

MAR 12 2002

HC 69 - BOX 875
INEZ, KENTUCKY 41224

PUBLIC SERVICE
COMMISSION

JANUARY 10th, 2002

SPECIAL MEETING OF THE WATER DISTRICT

THE MEETING WAS CALLED TO ORDER BY HERMAN FLETCHER, ACTING CHAIRMAN FOR THE WATER DISTRICT. OTHER MEMBERS IN ATTENDANCE WERE NOLA JEAN ANTLE AND BRUMLEY MARCUM. VISITORS IN ATTENDANCE WERE DILLARD GRIFFIN AND TIM COY FROM KY/AMERICAN WATER, WHO DID A PRESENTATION OF THEIR FIRM AND THE SERVICES THEY OFFER. ANOTHER VISITOR WAS TOM STERN, WHO WAS REPRESENTING THE KENTUCKY DIVISION OF WATER.

AFTER DISCUSSING THE NEEDS OF THE WATER DISTRICT WITH KY/AMERICAN WATER THE WATER DISTRICT COMMISSIONERS DECIDED TO SIGN A CONTRACT WITH KY/AMERICAN TO MANAGE ALL OPERATIONS OF THE DISTRICT. HERMAN FLETCHER MADE A MOTION TO SIGN A TEMPORARY CONTRACT WHILE A PERMANENT CONTRACT IS BEING DONE. BRUMLEY MARCUM SECONDED THE MOTION. IT WAS A UNANIMOUS VOTE.

HERMAN FLETCHER MADE A MOTION TO ADJOURN THE MEETING, NOLA JEAN ANTLE SECONDED THE MOTION.

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INTERIM OPERATIONS AGREEMENT

PUBLIC SERVICE
COMMISSION

This Interim Operations Agreement (Agreement) dated as of this 25th day of January 2002, between Kentucky-American Water Company (KAWC), a Kentucky corporation, and the Martin County Water District (Martin County).

WITNESSETH:

WHEREAS, KAWC and Martin County are interested in negotiating the long term agreement for the operation, maintenance and management of the water treatment and distribution facilities of Martin County ("System") under a definitive agreement to be negotiated and executed between Martin County and KAWC;

WHEREAS, KAWC and Martin County anticipate that a significant period of time will elapse during the due diligence necessary to investigate and finalize the definitive agreement related to such long-term operation, maintenance and management of the System;

WHEREAS, Martin County has concerns about the continued ability of Martin County to render quality water service in accordance with state regulations to its customers during such due diligence period;

WHEREAS, Martin County desires that KAWC, on an interim basis and pending the negotiation and execution of a possible long-term, definitive agreement, provide to Martin County certified water treatment plant operator(s) as may be necessary to operate the System in accordance with state regulations with regard to staffing;

WHEREAS, pending execution of such a definitive agreement or a decision by either KAWC or Martin County that such a long term agreement is not feasible, KAWC and Martin County desire that KAWC provide to Martin County certified water treatment plant operator(s) as may be necessary to operate the System in accordance with state regulations with regard to staffing;

WHEREAS, Martin County and KAWC acknowledge the emergency nature of the current Martin County situation regarding the availability of certified water treatment plant operators.

NOW, THEREFORE, for and in consideration of the covenants and agreements herein contained and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree that:

1. Subject to the right to terminate the interim Agreement as provided below, Martin County hereby contracts with KAWC to provide certified water treatment plant operator(s) as may be necessary to operate the System in accordance with state regulations regarding staffing, with the understanding that said operator(s) provided by KAWC shall operate the System for the benefit of Martin County.

2. KAWC shall provide certified water treatment plant operator(s) with the operating skills and expertise necessary to operate the Martin County water treatment plant on the following terms and conditions:

a. KAWC shall assume the responsibility to provide certified water treatment plant operator(s) for the

System as necessary and in accordance with state regulations regarding staffing.

- b. KAWC shall invoice Martin County monthly for the actual cost of expenses associated with those services which it renders for Martin County, such costs and expenses to be based on receipts for expenditures or, where such services are provided directly by KAWC, upon the fully distributed cost of such services. Said invoices shall be fully paid within twenty (20) days of receipt.
- c. KAWC shall retroactively invoice Martin County to the date certified water treatment plant operator services were first provided to Martin County by KAWC.
- d. Martin County and KAWC shall agree on the hours of operation of the Martin County water treatment facilities for which KAWC is to provide certified water treatment plant operator(s). Martin County shall not deviate from such schedule of operations for the term of this Agreement except by prior agreement with KAWC.

3. The provision of certified water treatment plant operator(s) by KAWC during this Agreement shall be for the purpose of assisting Martin County to furnish water service to its customers. Martin County shall be entitled to all revenues resulting from the operation of the System under this Agreement, less any payment to KAWC for the actual or distributed costs incurred and invoiced by KAWC as described in Section 2(b) above.

4. Martin County understands and agrees that in carrying out its obligations under this Agreement, KAWC is not assuming and shall not be liable for any Martin County debt by virtue of this Agreement. Martin County will indemnify and hold KAWC (and its directors, officers, employees, and agents) harmless from any liabilities or damages, including regulatory actions,

arising from its performance under this Agreement, except for the gross negligence or willful misconduct of KAWC.

5. In addition to reimbursing KAWC for its costs and expenses during such interim operations under this Agreement, Martin County further agrees that Martin County shall continue to be responsible for, and shall pay, all other costs and expenses incident to the operation of the System during the period of this Agreement.

6. During the effectiveness of this Agreement, all employees of Martin County shall continue to be employees of Martin County on the terms and conditions of their employment, and Martin County specifically understands and agrees that KAWC is not the employer of any employees of the Martin County System, other than the certified water treatment plant operator(s) that KAWC provides.

7. KAWC and Martin County agree that during the Agreement, certified water treatment plant operator(s) provided by KAWC shall use reasonable efforts to respond to any operating problems of Martin County, but that Martin County shall remain liable for any operating losses of the System and shall be responsible for any and all operational costs and capital improvements necessary to the System.

8. It is understood and agreed by the parties that the relationship of KAWC to Martin County is that of independent contractor. The services provided for under this Agreement are of a professional nature, and shall be performed in accordance with good and accepted industry practices for professional contract operators similarly situated in the Commonwealth of Kentucky, and at the same time.

9. It is understood and agreed by the parties that each shall obtain and maintain levels in insurance coverage described herein and each party shall provide the other with satisfactory proof of insurance. KAWC shall maintain (a) statutory worker's compensation insurance coverage for all of KAWC's employees at the System as required by the Commonwealth of Kentucky, and (b) comprehensive general liability insurance, insuring KAWC's negligence, in an amount not less than one million dollars (\$1,000,000) combined single limits for bodily injury and/or property damage. Martin County shall maintain (a) statutory worker's compensation insurance coverage for all of Martin County's employees associated with the System as required by the Commonwealth of Kentucky, (b) property damage insurance for all property, including vehicles owned by Martin County and operated by KAWC under this Agreement, and (c) automobile liability insurance for collision, comprehensive, and bodily injury on all motor vehicles owned by Martin County and used in furtherance of the System, as required by the Commonwealth of Kentucky. Any property, including vehicles, not properly or fully insured shall be the financial responsibility of Martin County.

10. This Agreement shall be interpreted under the laws of the Commonwealth of Kentucky and any action arising under this agreement or as a result of performance hereunder shall be in the venue of the appropriate court in Fayette County, Kentucky.

11. This Agreement shall terminate upon mutual agreement of the parties or upon twenty-four hours written notice to either party by the other party without cost or liability to either party, except for reimbursement by Martin County of all costs as provided in Section 2(b) above. Notice of termination shall be valid if delivered by electronic transmission or facsimile transmission to:

KAWC:

Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502
Fax Number: (859) 268-6327
E-mail Address: rwmundy@kawc.com

Martin County:

Martin County Water District
Post Office Box 875
Inez, KY 41224
Fax Number: (606) 298-4913

IN WITNESS WHEREOF, the parties have executed this Agreement

as of the date first written above.

KENTUCKY-AMERICAN WATER COMPANY

By

Its

MARTIN COUNTY WATER DISTRICT

By

Its



"Bill and/or Kathy
Bunch"
<bkbunch@meginc.co
m>

To: <rwmundy@kawc.com>, <nrowe@kawc.com>, <hmillier@kawc.com>
cc: <lhelton@kawc.com>, "Jim Hamilton" <jhamilto@wvawater.com>
Subject: Update on Martin County

01/26/2002 07:05 AM

We have a signed Interim Agreement with Martin County. Roy - I will get the agreement to you for your signature. Martin County is very interested in proceeding with discussions on a management contract. I left copies of our draft agreement with them for their review. They are, as expected, concerned about cost.

Chairman Triplett sent copies of both the Interim and the Draft O&M to the water board's counsel, EE "Bud" Adams, yesterday. (Adams is an old law school buddy of Triplett and apparently does most of his work for the water board free gratis as friend of Triplett) Triplett, who is quite the political figure in this mix, is concerned that the water board cannot contract for a term beyond the current sitting fiscal court's term in office. I have run into this argument before and believe that it cannot possibly be valid as most construction, financing and service contracts of local governments do in fact extend beyond the term of its sitting legislative body. However, the argument is one of many arguments in Don Wiggins current lawsuit against Winchester. Herb - you may want to brush up on the law related to this issue as I am confident we will be questioned on it.

Time does appear to be of the essence in getting an O&M deal signed. The water board is ready - even Triplett is ready if you read between all the political jargon - and the political situation seems right. We need to get a team of our folks on an assessment ASAP. Hopefully, we can do this next week. We should coordinate our visit with Harold as it will be beneficial for all if we work together on the assessment. Nick - we will need your go-ahead to get resources allocated for a KAWC assessment team. Although time is of the essence, we need to make sure that we tie down the full cost on this deal.

In addition to looking at the overall system, our engineering folks will need to look at the 3-4 current contracts (ongoing or under warranty) with regard to facilities that are not yet working properly. These we may be able to force the engineer or contractor to fix without additional cost. They have had no one to watch over projects in the past and have been eaten alive with failed projects and change orders. PDR has done them no favors, in my opinion. They are currently in compliance with regard to water quality. Tim Coy has done wonders while there in getting things working properly. He and Harold have a good understanding of what needs to be done with regard to treatment. The ability of the existing plant to meet future regulations is of question. Need also to look at their 50% loss ratio to get a feel for where the losses are coming from. They do not have a meter change-out program nor a meter testing program. Many of their meters are old. Staff suspect that there are numerous cases of unmetered taps, bypasses, etc. The finance and administration side also bears some investigation. Likewise, they have no leak detection program. The fix only those leaks that make it to the surface. They have a high percentage of uncollected bills and their collection procedures appear very loose. I spoke with three customers while there. Each indicated significant frustration with billing, collection and current management of the utility.

With regard to O&M cost, staff and board are concerned. In addition to the actual cost, they will also want a feel for where we think rates will go over the contract period. While they heavily favor a contract that can be accomplished with current rates, I emphasized with them the potential for additional cost due to the fact that things have been let go for so long. Stability of rates is important to them. Their largest developer, Jim Booth, described to me as the "richest man in Martin County", is not concerned as much with what the rate is as the rate trend. He is very much on our side and is hopeful that, after building community confidence with the water system, that we will also be invited to operate the sewer system as well. He also believes that a successful management contract will lead to acquisition. I will be meeting with him next week - want to cultivate this relationship.

The distance of Martin County from Lexington is an issue that we will need to consider. It takes about 2.5 hours to get there. It is good road, but still a distance. Jim has suggested that we might consider an inter-company agreement with West Virginia for certain engineering and management services so that it could be serviced from Huntington, which is only an hour away. Food for thought.

In summary, my initial impression of the system is that it is a reasonably good system that we could turn around in short order. I am hopeful that we can get the loss ratio and collection problems under control very quickly to generate additional funds for O&M rather than having to seek increased rates. The current staff are very supportive of us coming in as are the board members and certain influential community leaders. Harold and Tim have impressed everyone there and have established very positive relationships for the Company. Cost, of course, is the big question.



2300 Richmond Road - Lexington, Kentucky 40502 - (859) 269-2386 - Fax (859) 268-6327

Bill Bunch
Business Development
(859) 268-6318
(859) 335-3314 Fax

MEMORANDUM

TO: Jim Hamilton

DATE: March 28, 2002

SUBJECT: Potential O&M Agreement with Martin County Water District

At the request of the Kentucky Division of Water, KAWC was contacted by the Martin County Water District (MCWD) in early January 2002 for technical assistance. At the time, the MCWD was in violation of state regulations regarding water quality and water treatment operations. They had only one licensed water treatment plant operator at the time, we operating the plant without licensed supervision, and were not consistently meeting water quality standards.

At the invitation of the MCWD Board, KAWC attended a special called meeting of the Board on January 10, 2002 at which time the needs of the District were discussed. KAWC associates Dillard Griffin and Tim Coy presented information about American, KAWC and the services that we offer. As a result of these discussions, the MCWD Board approved motions to (1) enter into a contract with KAWC to manage all operations of the District and (2) enter into a temporary contract while a permanent agreement is being prepared. KAWC began providing MCWD with a licensed water treatment plant operator effective January 11.

An Interim Operations Agreement was signed on January 25, 2002 which provides for KAWC to supply water treatment plant operator(s) to MCWD as necessary to operate their water treatment plant in compliance with state regulations while necessary due diligence for a long-term agreement is being performed. That agreement remains in effect and KAWC continues to supply MCWD with one licensed water treatment plant operator.

A KAWC assessment team has produced a lengthy list of operations, maintenance and capital improvement items that must be addressed in order to bring the operation into compliance with all state and federal regulations, ensure appropriate water quality, and correct existing administrative problems. Cost estimates have been generated for each of these items and are reflected in the evaluation model.

KAWC proposes to enter into a long-term operations and maintenance (O&M) agreement with MCWD to operate and manage their entire operation. The term of the proposed agreement is 15 years. KAWC further proposes that MCWD fund all necessary improvements as are currently identified by KAWC, or as may be identified in the future, from customer rates, grants, or loans. KAWC does not propose to invest any internal capital into the MCWD system. KAWC understands that there may be significant state and federal grant and subsidized low-interest loan funds available to MCWD for these purposes.

The attached model (MCWD Contract Analysis 1) projects the results of MCWD operations over the proposed fifteen-year contract period. The model assumes that MCWD will increase rates at the outset of the agreement as necessary to fund all O&M and capital improvements as identified by KAWC to bring operations into compliance although rate increases may not be necessary due to the availability of grant funds. In other words, this is a “worst case scenario” for MCWD in terms of rate impact.

The model assumes a KAWC management fee of ten percent (10%) of gross revenue. Management fee revenue over the life of the agreement is projected at \$2.5 million. In addition, KAWC will provide its leak detection, laboratory analysis and sampling, finance, administration, and other services for which MCWD is currently paying other outside parties. These additional potential revenue sources result in an average potential total annual return on the agreement of 14.1% over the fifteen-year period (14.9% in year 1).

MCWD currently serves approximately 3,200 households and averages 1.2-1.4 MGD water treatment per day. Martin County borders West Virginia along the Tug River in Southeast Kentucky and serves the majority of the county with potable water service. Neighboring water systems include the cities of Paintsville, Prestonsburg, and Pikeville and the Mountain Water District. KAWC currently operates the Pineville Water and Sewer System, also in Southeast Kentucky, under O&M agreement. KAWC is currently pursuing potential business partnerships with the city of Jackson, also in the Southeast Kentucky region.

Public perception of the MCWD is quite poor. Persistent reports of poor water quality, discolored water, interruptions in service, alleged mismanagement, and alleged misappropriation of funds are all current issues that get regular play in the local newspaper. The local media, community leaders, utility board, and staff all seem to be very supportive of a long-term agreement with KAWC.

KAWC is now ready to draft a long-term O&M agreement for presentation to the MCWD Board for consideration. To that end, I need your direction as to approval of this course of action and whether this agreement would be under AWS or KAWC.

Please contact me if you have any questions or concerns.

Kentucky-American Water Company
Evaluation of Martin County Water District
Income Statement - Pay-As-You-Go

Base Year	KAWC Projection														
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue															
Water	1,100,000	1,386,000	1,538,460	1,553,845	1,569,383	1,585,077	1,600,928	1,616,937	1,633,106	1,649,437	1,665,932	1,682,591	1,699,417	1,819,396	1,837,590
Sewer	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Customer Growth	11,000	13,860	15,385	15,538	15,684	15,851	16,009	16,169	16,331	16,494	16,659	16,826	16,994	18,014	18,194
Rate Increase	275,000	138,600	0	0	0	0	0	0	0	0	0	0	0	84,971	0
Total	1,386,000	1,538,460	1,553,845	1,569,383	1,585,077	1,600,928	1,616,937	1,633,106	1,649,437	1,665,932	1,682,591	1,699,417	1,819,396	1,837,590	
Rate Increase %	25.0%	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	0.0%	0.0%
Customer Growth %	1.0%	1.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Cash Surplus/(Deficit)	18,388	164,119	158,895	220,432	228,171	213,007	186,576	184,546	173,489	153,915	133,582	113,480	185,941	144,874	155,987
Net Income (Loss)	(260,268)	(105,875)	(108,807)	(43,449)	(32,124)	(45,030)	(68,632)	(72,960)	(86,243)	(104,569)	(121,678)	(139,603)	(81,948)	(100,765)	(120,523)
Expenses															
Purchased Water	10,761	11,104	11,437	11,780	12,133	12,497	12,872	13,258	13,656	14,066	14,488	14,923	15,371	15,832	16,307
Salaries and Wages	253,080	260,670	268,491	276,548	284,847	293,393	302,198	311,264	320,602	330,218	340,123	350,326	360,837	371,660	382,809
Payroll Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Employee Benefits	86,047	88,628	91,287	94,028	96,848	99,754	102,747	105,830	109,005	112,274	115,642	119,111	122,665	126,364	130,155
Electric Power for Pumping	134,524	138,560	142,717	146,999	151,409	155,951	160,630	165,449	170,412	175,524	180,790	186,214	191,800	197,554	203,481
Contract Services-Accg & Legal	18,940	19,508	20,093	20,696	21,317	21,957	22,616	23,294	23,993	24,713	25,454	26,218	27,005	27,815	28,649
Utilities	5,500	5,665	5,835	6,010	6,190	6,376	6,567	6,764	6,967	7,176	7,391	7,613	7,841	8,076	8,318
Outside Services	13,288	13,666	14,076	14,498	14,933	15,381	15,842	16,317	16,807	17,311	17,830	18,365	18,916	19,483	20,067
Office Expenses	8,951	9,220	9,497	9,782	10,075	10,377	10,688	11,009	11,339	11,679	12,029	12,390	12,762	13,145	13,539
Insurance	85,070	87,622	90,251	92,959	95,748	98,620	101,578	104,626	107,765	110,998	114,328	117,758	121,291	124,930	128,678
Utilities	12,523	12,899	13,286	13,685	14,096	14,519	14,955	15,404	15,866	16,342	16,832	17,337	17,857	18,393	18,945
Rental Equipment	7,535	7,761	7,984	8,234	8,481	8,735	8,997	9,267	9,545	9,831	10,126	10,430	10,743	11,065	11,397
Chemicals	60,876	62,702	64,583	66,520	68,518	70,571	72,688	74,869	77,115	79,428	81,811	84,265	86,793	89,397	92,079
Supplies	61,158	62,993	64,883	66,829	68,834	70,898	73,026	75,217	77,474	79,798	82,192	84,658	87,198	89,814	92,508
Repairs	20,726	21,348	21,988	22,648	23,327	24,027	24,748	25,490	26,255	27,043	27,854	28,690	29,551	30,438	31,351
Pump Repairs	18,961	19,530	20,116	20,719	21,341	21,981	22,640	23,319	24,019	24,740	25,482	26,246	27,033	27,844	28,679
Bad Debts	3,312	3,415	3,513	3,618	3,727	3,838	3,954	4,073	4,195	4,321	4,451	4,585	4,723	4,865	5,011
Analysis and Sampling	11,801	12,155	12,520	12,898	13,283	13,681	14,091	14,514	14,949	15,397	15,859	16,335	16,825	17,330	17,850
Board Member Compensation	2,550	2,627	2,706	2,787	2,871	2,957	3,046	3,137	3,231	3,328	3,428	3,531	3,637	3,746	3,858
Transportation Expense	10,530	10,846	11,171	11,506	11,851	12,207	12,573	12,950	13,339	13,739	14,151	14,576	15,013	15,463	15,927
Taxes and Licenses	1,968	2,027	2,088	2,151	2,216	2,282	2,350	2,421	2,494	2,569	2,646	2,725	2,807	2,891	2,978
Advertising	4,000	4,120	4,244	4,371	4,502	4,637	4,776	4,919	5,067	5,219	5,376	5,537	5,703	5,874	6,050
Postage	12,000	12,360	12,731	13,113	13,506	13,911	14,328	14,758	15,201	15,657	16,127	16,611	17,109	17,622	18,151
Travel Expense	3,086	3,179	3,274	3,372	3,473	3,577	3,684	3,795	3,909	4,026	4,147	4,271	4,399	4,531	4,667
Professional Development	1,200	1,236	1,273	1,311	1,350	1,391	1,433	1,476	1,520	1,566	1,613	1,661	1,711	1,762	1,815
Dues and Subscriptions	1,000	1,030	1,061	1,093	1,126	1,160	1,195	1,231	1,268	1,306	1,345	1,385	1,427	1,470	1,514
Miscellaneous	1,600	1,648	1,697	1,748	1,800	1,854	1,910	1,967	2,026	2,087	2,150	2,215	2,281	2,349	2,419
KAWC Repairs/Replacements-Production	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
KAWC Additional O&M-Production	36,000	37,080	38,192	39,338	40,518	41,734	42,986	44,276	45,604	46,972	48,381	49,832	51,327	52,867	54,453
KAWC Leak Detection (prnt to KAWC)	23,888	20,330	16,752	12,942	8,866	9,152	9,426	9,708	10,000	10,300	10,610	10,928	11,256	11,594	11,942
KAWC Meter Replacement Program-Initial EI	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
KAWC Meter Replacement Program-Ongoing	0	0	0	4,500	4,635	4,774	4,917	5,065	5,217	5,374	5,535	5,701	5,872	6,048	6,229
KAWC System Mapping/GPS	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
KAWC Safety Issues	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
KAWC Upgrade Water Loading Station	2,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
KAWC Telemetry System (seeking grant func	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
KAWC Tank Inspections	32,000	16,000	12,000	0	0	0	0	0	0	0	0	0	0	0	0
KAWC Office Improvements	5,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
KAWC Management Fee	138,600	153,846	155,384	156,938	158,508	160,093	161,694	163,311	164,944	166,593	168,259	169,942	180,138	181,940	183,759
KAWC Synergies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	1,188,275	1,188,771	1,210,140	1,168,617	1,170,347	1,202,287	1,235,156	1,266,978	1,303,784	1,339,595	1,376,450	1,414,379	1,461,911	1,502,162	1,543,585



Kentucky-American Water Company

2300 Richmond Road - Lexington, Kentucky 40502 - (859) 269-2386 - Fax (859) 268-6327

Bill Bunch
Business Development
(859) 268-6318
(859) 335-3314 Fax

MEMORANDUM

TO: Roy Mundy

DATE: April 10, 2002

SUBJECT: Current Status of KAWC Involvement with Martin County Water District

At the request of the Kentucky Division of Water, KAWC was contacted by the Martin County Water District (MCWD) in early January 2002 for technical assistance. At the time, the MCWD was in violation of state regulations regarding water quality and water treatment operations. They had only one licensed water treatment plant operator at the time, were operating the plant without licensed supervision, and were not consistently meeting water quality standards.

At the invitation of the MCWD Board, KAWC attended a special called meeting of the Board on January 10, 2002 at which time the needs of the District were discussed. KAWC associates Dillard Griffin and Tim Coy presented information about American, KAWC and the services that we offer. As a result of these discussions, the MCWD Board approved motions to (1) enter into a contract with KAWC to manage all operations of the District and (2) enter into a temporary contract while a permanent agreement is being prepared. KAWC began providing MCWD with a licensed water treatment plant operator effective January 11.

An Interim Operations Agreement was signed on January 25, 2002 which provides for KAWC to supply water treatment plant operator(s) to MCWD as necessary to operate their water treatment plant in compliance with state regulations while necessary due diligence for a long-term agreement is being performed. That agreement remains in effect and KAWC continues to supply MCWD with one licensed water treatment plant operator.

A KAWC assessment team has produced a lengthy list of operations, maintenance and capital improvement items that must be addressed in order to bring the operation into compliance with all state and federal regulations, ensure appropriate water quality, and correct existing administrative problems. Cost estimates have been generated for each of these items.

KAWC proposes to enter into a long-term operations and maintenance (O&M) agreement with MCWD to operate and manage their entire operation. KAWC further proposes that MCWD fund all necessary improvements as are currently identified by KAWC, or as may be identified in the future, from customer rates, grants, or loans. KAWC does not propose to invest any internal capital into the MCWD system. KAWC understands that there may be significant state and federal grant and subsidized low-interest loan

funds available to MCWD for these purposes and that an infusion of American capital will not be required.

MCWD currently serves approximately 3,200 households and averages 1.4 MGD water treatment per day. Martin County borders West Virginia along the Tug River in Southeast Kentucky. MCWD serves the majority of the county with potable water service. Neighboring water systems include the cities of Paintsville, Prestonsburg, and Pikeville and the Mountain Water District.

Public perception of MCWD is quite poor. Persistent reports of poor water quality, discolored water, interruptions in service, alleged mismanagement, and alleged misappropriation of funds are all current issues that get regular play in the local newspaper. The local media, community leaders, utility board, and staff all seem to be very supportive of a long-term agreement with KAWC.

As a result of numerous customer complaints to the Kentucky Public Service Commission (PSC) regarding service and water quality issues, both the PSC and Kentucky Division of Water (DOW) have become actively involved.

On Thursday, April 4, PSC staff performed an inspection of the MCWD water treatment plant. On Friday, April 5, the PSC opened a docket to fully investigate the MCWD situation (Case No. 2002-00116). The initial PSC order included the PSC staff inspection report, provided a procedural schedule, and required certain remedial actions by MCWD.

Pursuant to the initial order in PSC Case 2002-00116, an informal hearing was held on Tuesday, April 9. The hearing was attended by numerous PSC and DOW staff, Roger Recktenwald of the Kentucky Infrastructure Authority, E.E. Adams, attorney for the MCWD, and Bill Bunch, representing KAWC. KAWC representation at the hearing was requested by MCWD. Current status of management and operation of the MCWD was discussed as were PSC and DOW concerns. MCWD reported that they had made no progress since receipt of the initial PSC order regarding the hiring of additional certified water treatment plant operators or the procurement of certain parts and supplies for the treatment plant.

KAWC stated its interest in helping, wherever feasible, systems across the state including the MCWD. KAWC stated that it had been providing one certified water treatment plant operator to MCWD since mid-January under terms of a limited operations agreement but that it had not been involved in management or other operations of the utility. KAWC reported that it is currently in the assessment phase of an evaluation which will likely lead to a proposal for a long-term management and operations agreement for consideration by the MCWD board. KAWC further indicated that it was evaluating the merits of a proposal for interim management and operations, pending completion of a long-term agreement, but that it was not yet ready to make such proposal due to internal staffing and other resource concerns. KAWC stated that it projects, based on preliminary estimates, that an initial emergency rate increase of approximately twenty-five percent (25%) would be required to cover needed operations and maintenance expenses, excluding funding of debt service and depreciation reserves. It stated that a commitment for such necessary additional revenues by MCWD and PSC would be necessary to successfully conclude an interim or long-term agreement. MCWD stated that an agreement with KAWC was its only alternative at this time and that they had no fall-back plan.

At the conclusion of the informal hearing, PSC requested that MCWD file with the PSC on Wednesday, April 10, its identification and sources of parts and services necessary to ensure redundancy in high-service pumping. MCWD requested and KAWC agreed to provide input to MCWD in this identification. A formal hearing is scheduled for April 25.

These issues, including discussion of any proposal for interim or long-term management contract that by be forthcoming from KAWC, will be discussed at the MCWD regular board meeting on Tuesday, April 16. PSC and DOW representatives plan to be in attendance at that meeting.

DOW began a complete sanitary survey of the MCWD treatment plant on Monday, April 8, which was to conclude on April 9 with a staff report to be issued immediately thereafter. MCWD will have forty-five (45) days in which to respond the items raised in this report, absent any emergency action that may be taken by DOW.

4AM



JAMES E. BICKFORD
SECRETARY

PAUL E. PATTON
GOVERNOR

COMMONWEALTH OF KENTUCKY
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
OFFICE OF THE SECRETARY
FRANKFORT KENTUCKY 40601
TELEPHONE: (502) 564-3350

April 15, 2002

Mr. Roy Mundy, Jr.
Kentucky-American Water Company
2300 Richmond Road
Lexington, Kentucky 40502

Re: Martin County Water District

Dear Mr. Mundy:


The Natural Resources and Environmental Protection Cabinet, Division of Water (DOW), and the Kentucky Public Service Commission (PSC) have become increasingly concerned about the ability of Martin County Water District (MCWD) to meet drinking water regulations and to provide continued, uninterrupted service to its customers.

DOW and PSC are pleased that MCWD has expressed interest in assistance from Kentucky-American Water Company (KAWC) toward resolving its current operations, management, services, and equipment issues. We are further pleased that KAWC has been able to provide MCWD with a certified water treatment plant operator since mid-January 2002 and that KAWC has expressed a willingness to provide additional immediate assistance to MCWD during the present emergency situation.

It is our understanding that KAWC is willing to provide advisory assistance to MCWD in implementing an emergency action plan to solve current issues as identified in DOW Notice of Violation dated 4-10-02 and PSC Case No. 2002-00116, Order dated 04-05-02. We understand that KAWC plans to identify necessary actions, prioritize appropriate responses, advise MCWD as to estimates of cost, assist MCWD in identifying potential funding sources, and assist MCWD in implementing identified actions.

KAWC's willingness to assist MCWD during this time of need is much appreciated.

Sincerely,


James E. Bickford
Secretary

JEB/lid



AN EQUAL OPPORTUNITY EMPLOYER M/F/D

(w/enc.) c: Roy Mundy, Bill Bunch, Linda Bridwell, Dillard Griffin, Lindsey W. Ingram, Jr.



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (859) 269-2386 • Fax (859) 268-6327

Herbert A. Miller, Jr.
Vice President and
Corporate Counsel
(859) 268-6339

May 2, 2002

Mr. Tom Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

Re: Kentucky-American Water Company and Martin County
Water District Emergency Professional Service and
Advisory Agreement

Dear Mr. Dorman:

Enclosed is a copy of the Emergency Professional Service and Advisory Agreement dated April 16, 2002, among the above-referenced parties.

Under this agreement, Kentucky-American will provide certain services to the Martin County Water District.

I would be grateful if you would stamp a copy as filed and return it to me in the enclosed envelope.

Very truly yours,

Herbert A. Miller, Jr.

HAM/jd

Enclosures

4/16/02

**EMERGENCY PROFESSIONAL SERVICE
AND ADVISORY AGREEMENT**

This Emergency Professional Service and Advisory Agreement ("Agreement") dated as of this 16th day of April 2002, between Kentucky-American Water Company ("KAWC"), a Kentucky corporation, and the Martin County Water District ("MCWD"), created pursuant to Kentucky statute.

WITNESSETH:

WHEREAS, MCWD operates combined water treatment, transmission, storage, distribution and related facilities serving customers in Martin County, Kentucky ("System");

WHEREAS, the Commonwealth of Kentucky, Natural Resources and Environmental Protection Cabinet, Department for Environmental Protection, Division of Water ("DOW"), issued a Notice of Violation ("NOV") to MCWD dated April 10, 2002 (Appendix 1);

WHEREAS, the Commonwealth of Kentucky, Public Service Commission ("PSC"), opened an Investigation of the Operating Capacity of Martin County Water District Pursuant to KRS 278.280, Case No. 2002-00116, on April 5, 2002 ("Order") (Appendix 2);

WHEREAS, the MCWD water treatment plant experienced certain equipment failures of a critical nature on April 10-11, 2002, and the parties recognize that the staffing

and facilities of MCWD are insufficient under current circumstances to provide adequate water service to MCWD's customers, and that such facilities are in need of repair;

WHEREAS, MCWD Chairman J. R. Triplett declared a state of emergency on April 10, 2002 with regard to certain equipment failures at the MCWD treatment plant for the purpose of expediting emergency repairs and replacement to said equipment;

WHEREAS, MCWD Chairman J. R. Triplett on April 10, 2002 requested the emergency advisory assistance of KAWC in resolving certain equipment failure issues at the MCWD water treatment plant;

WHEREAS, MCWD desires the advisory assistance of KAWC in formulating appropriate responses to issues raised in the DOW NOV and the PSC Order;

WHEREAS, KAWC and MCWD are interested in working together to assist MCWD in providing adequate water services to its customers during this emergency situation;

WHEREAS, DOW and PSC have indicated appreciation and support for a cooperative effort between KAWC and MCWD in resolving current emergency issues of MCWD;

WHEREAS, either MCWD personnel are not available to perform the functions herein or it would not be feasible to utilize MCWD personnel to perform such functions, and KAWC is available and qualified to perform such functions;

WHEREAS, MCWD desires that KAWC, on a short-term and limited basis, act in an advisory capacity to MCWD regarding certain operation, maintenance, and management decisions that must be considered and implemented to resolve current emergency issues of the System;

NOW, THEREFORE, for and in consideration of the covenants and agreements herein contained and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree that:

1. Subject to the right to terminate the Agreement as provided below, MCWD hereby requests and KAWC agrees to provide emergency advisory assistance to MCWD for the purpose of (1) addressing certain emergency equipment failures, (2) assisting MCWD in making appropriate regulatory responses, and (3) providing advisory services regarding other operation, maintenance, or management issues that may arise during the term of this Agreement.

2. MCWD shall retain its full statutory authority and responsibility to operate, maintain, and manage the MCWD.

3. KAWC shall act in an advisory capacity to MCWD and shall not act or otherwise obligate MCWD without specific advance authority from MCWD or within reasonable bounds of authority as may be extended by MCWD to KAWC.

4. KAWC shall provide the advisory services to MCWD on the following terms and conditions:

a. KAWC shall provide operations, maintenance, and management personnel as may be deemed necessary

by KAWC to formulate appropriate responses to the DOW NOV and PSC Order, including, but not limited to, identification of necessary actions, prioritization of appropriate responses, providing estimates of cost, identification of potential funding sources, providing assistance in securing of appropriate outside contractors, and implementation of appropriate actions as may be desired and authorized by MCWD.

- b. The KAWC will invoice MCWD monthly during the term of this Agreement, and at the termination of the Agreement, for the actual cost or expenses associated with those services which it renders for MCWD plus ten percent (10%), such costs and expenses to be based on receipts for expenditures or upon the fully distributed cost of such services, whichever is greater. MCWD agrees, without offset for any reason, to pay KAWC for such services and expenditures within ten (10) days of the date of the invoice.

5. MCWD understands and agrees that in carrying out its obligations under this Agreement, KAWC is not assuming management responsibility for MCWD and shall not be liable for any of MCWD's debt or other liabilities by virtue of this Agreement.

6. In addition to reimbursing KAWC for its costs and expenses during such interim operations under this Agreement as described in Section 4(b) above, MCWD also agrees that MCWD shall continue to be responsible for, and shall pay, all other costs and expenses incident to the operation of the System during the period of this Agreement.

7. During the term of this Agreement, all employees of the System shall continue to be employees of MCWD on the usual terms and conditions of their employment, and MCWD specifically understands and agrees that KAWC is not the employer of any employees of the System.

8. KAWC and MCWD agree that during the Agreement, KAWC shall use reasonable efforts to advise MCWD of any operating problems that it observes, but that MCWD shall remain liable for any operating losses of the System and shall be responsible for any and all capital improvements necessary to the System.

9. It is understood and agreed by the Parties that the relationship of KAWC to MCWD is that of independent contractor. The services provided for under this Agreement are of a professional nature and MCWD shall indemnify and hold KAWC (and its officers, directors, employees and agents) harmless from and against any claim, damages or liabilities whatsoever, direct or indirect, including regulatory actions and attorneys fees, arising out of or in connection with the performance of this Agreement, unless caused by the sole intentional misconduct or gross negligence of KAWC. Notwithstanding any other provision of this Agreement, KAWC shall not be responsible or liable for the quality of the potable water, costs incurred in the production and distribution of the potable water or fines or penalties regarding such water. Further, MCWD shall maintain in force all of its existing insurance coverage, including fire, casualty, liability, general liability, workers compensation, vehicle, and other coverage. KAWC shall be entitled to at least ten (10) days prior notice of any intent to cancel said coverage.

10. If any litigation is necessary to enforce the terms of this Agreement, the action, unless waived by KAWC in writing, shall be brought and maintained in the appropriate state or federal court in Fayette County, Kentucky, and the prevailing Party shall be entitled to interest at the statutory rate, reasonable attorney's fees, which are directly attributed to such litigation, in addition to any other relief to which it may be entitled.

11. MCWD represents that it has the authority to enter into this Agreement, and represents that it has complied with all governmental action necessary to bind it to the terms hereof.

12. MCWD shall be liable for those fines or civil penalties, or other penalties or relief or remedy, imposed by any regulatory or enforcement agencies on MCWD which are directly related to its ownership or operation of the System, including those which may arise from the DOW NOV and PSC Order, or future actions, and shall indemnify and hold KAWC harmless from the payment of any such fines and/or penalties.

13. Indemnity obligations provided for in this Agreement shall survive the termination of the Agreement.

14. If required by PSC or DOW, KAWC shall submit the Agreement for review and approval by PSC and/or DOW. If, for any reason, PSC and/or DOW fail to approve the Agreement, the Agreement shall be immediately terminated.

15. This Agreement is in addition to the Interim Operations Agreement dated January 25, 2002 by and between KAWC and MCWD which provides, among other things, that KAWC shall provide certified water treatment plant operator(s) to MCWD.

16. Either Party may terminate this Agreement prior to its expiration by reason of material breach of the Agreement by the other Party, but only after giving written notice of breach and allowing the Party in default five (5) days to cure same or commence taking reasonable steps to cure the breach. Otherwise, this Agreement will terminate (a) May 21, 2002; (b) upon mutual agreement of the parties, or (c) upon twenty-four hours written notice to either party by the other party, without cost or liability to either party, except for payment of any accrued cost incurred as

provided in Section 4(b) above. Notice of termination shall be valid if delivered by electronic transmission or facsimile transmission to:

To KAWC

Kentucky-American Water Company Inc.
2,300 Richmond Road
Lexington, Kentucky 40502
Fax Number: 859-268-6827
E-mail Address: rwmundy@kawc.com

To MCWD:

J. R. Triplett, Chairman
Martin County Water District
Main Street
Inez, Kentucky 41224
Fax Number: 606-298-7127
E-mail Address: jtriplett@setel.com

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

KENTUCKY-AMERICAN WATER COMPANY

By

Its

MARTIN COUNTY WATER DISTRICT

By

Its

Appendix 1

ID: APR 12 '02 8:50 AM 001 P.02

JAMES E. BICKFORD
SECRETARY



PAUL F. PATTON
GOVERNOR

COMMONWEALTH OF KENTUCKY
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
DEPARTMENT FOR ENVIRONMENTAL PROTECTION
HAZARD REGIONAL OFFICE
233 BIRCH ST STE 1 & 2
HAZARD KY 41701-2179

April 10, 2002

Mr. John R. Triplett, Chairman
Martin County Water District
H.C. 69, Box 875
Inez, Kentucky 41224

Dear Mr. Triplett,

Enclosed please find a Notice of Violation (NOV) relating to Martin County Water District's failure to comply with Kentucky Public Water Supply Regulations and Division of Waste Management solid waste permitting requirements. Specifically, the Martin County Water District has failed to operate and maintain the physical infrastructure of the water system in a manner suitable to assure potable water to the system's users. They have failed to retain a water distribution system operator as required by the regulation, and has failed to register a special waste facility. These are violations of KRS Chapter 224, and may subject the District to fines of up to \$25,000 per day per violation. The enclosed NOV contains specific remedies the system shall take to avoid further action.

If you have any questions about these requirements, please contact Tom Gabbard or Vicki Ray of the Kentucky Division of Water, at (502) 564-3410 and Bob Bickner, Division of Waste Management at (502) 564-6716. Thank you for your attention to this matter.

Sincerely,

Damon White
Environmental Inspector III
Division of Water

- Cc: The Honorable Lon E. Lafferty, County Judge Executive
 The Honorable Eldred "Bud" Adams
 Lewis Porter
 Brumley Marcum
 Nola Antle
 Herman Fletcher
 Payena Crisp



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ID:

APR 12 '02

8:50 No. 001 P. 03

COMMONWEALTH OF KENTUCKY
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET
DEPARTMENT FOR ENVIRONMENTAL PROTECTION
DIVISION OF WATER

NOTICE OF VIOLATION

TO:
MARTIN COUNTY WATER DISTRICT
HC 89 BOX 875
INEZ KY 41224
Attn: MR. JOHN R. TRIPLETT

SITE:
MARTIN CO WATER DIST #1
RT 808
INEZ KY 41224

Site ID #: 0800273

Date(s) Violation(s) Observed: 04/08/2002

County: Martin

Notifications/Complaints System #:

OIG Case #:

NOV Tracking #: 3588

OLS Case #:

This is to advise that you are in violation of the provisions cited below:

Statute/Regulation(No. 1): KRS 224 401 KAR 8:020 2(6)

A description of the violation:

FAILURE TO PROVIDE PROPER OPERATION AND MAINTENANCE

The required remedial measure(s), and date(s) to be completed by; are as follows:

1. REPLACE OR REPAIR BOTH HIGH SERVICE PUMPS.
2. REPLACE OR REPAIR FLOCCULATOR EQUIPMENT IN TREATMENT UNIT #2.
3. PROVIDE REDUNDANCY IN SYSTEM EQUIPMENT.
4. PROVIDE ADEQUATE STAFFING OF PROPERLY CERTIFIED OPERATORS AT THE PLANT. To be completed by: 04/11/2002

Statute/Regulation(No. 2): KRS 224 401 KAR 8:030 1(2)

A description of the violation:

FAILURE TO PROVIDE A PROPERLY CERTIFIED DISTRIBUTION SYSTEM OPERATOR

The required remedial measure(s), and date(s) to be completed by; are as follows:

OBTAIN AT LEAST A CLASS IID OR GREATER OPERATOR To be completed by: 04/11/2002

Statute/Regulation(No. 3): KRS 224 50-760

A description of the violation:

FAILURE TO REGISTER A SPECIAL WASTE FACILITY.

The required remedial measure(s), and date(s) to be completed by; are as follows:

IMMEDIATELY APPLY FOR A SPECIAL WASTE LANDFARMING PERMIT. To be completed by: 06/10/2002

Statute/Regulation(No. 4): KRS 224 401 KAR 45:030 (2) (6)

A description of the violation:

OPERATION OF A SPECIAL WASTE SITE WITHOUT A PERMIT AND DISPOSAL OF A SPECIAL WASTE WITHOUT A PERMIT.

The required remedial measure(s), and date(s) to be completed by; are as follows:

IMMEDIATELY STOP DISPOSING OF ALL SPECIAL WASTES UNTIL THE PROPER PERMIT AND PLANS HAVE BEEN OBTAINED. To be completed by: 04/11/2002

Statute/Regulation(No. 5): KRS 224 401 KAR 45:140

+

DLP 4025

ID:

APR 12 '02

8:51 No.001 P.04

MR. JOHN R. TRIPLETT -- Page 2

A description of the violation:

FAILURE TO OPERATE SITE/FACILITY IN ACCORDANCE WITH AN APPROVED PLAN.

The required remedial measure(s), and date(s) to be completed by; are as follows:

IMMEDIATELY TAKE STEPS TO OBTAIN AN APPROVED PLAN FOR THIS SITE/FACILITY. To be completed by: 05/10/2002

To be completed by: 05/10/2002

Statute/Regulation(No. 6): KRS 224.401 KAR 45:100

A description of the violation:

**FAILURE TO MAINTAIN PROPER RECORDS AND TO COMPLY WITH REPORTING REQUIREMENTS.
FAILURE TO COMPLY WITH OPERATION, MAINTENANCE, AND PERFORMANCE REQUIREMENTS.**

The required remedial measure(s), and date(s) to be completed by; are as follows:

IMMEDIATELY TAKE PROPER STEPS TO COMPLY WITH CORRECT REPORTING, OPERATION, MAINTENANCE AND PERFORMANCE REQUIREMENTS. To be completed by: 05/10/2002

Violations of the above cited statute(s) and/or regulation(s) are subject to a civil penalty per day per violation. Violations carry civil penalties of up to \$25,000 per day per violation depending on the statutes/regulations violated. In addition, violations may be concurrently enjoined. Compliance with remedial measures and their deadlines does not provide exemption from liability for violations during the period of remediation, nor prevent additional remedial measures from being required.

If you have questions or need further information, write or call the undersigned:

Division Of Water
Hazard Regional Office
233 Birch Street
Hazard, Ky 41701

606-435-6025 (8:00 AM-4:30PM)

Damon White, ENVIRONMENTAL INSPECTOR III

Issued By:

Damon White
Jerry D. Short

Date: 04/10/2002

Issued By:

Damon White ENVIRONMENTAL INSPECTOR III
Ferris Sexton
Ferris Sexton Environmental Control Supervisor

Date: 04/10/2002

How Delivered:

Certified/registered # (if applicable)

cc: Copies to

+

+

Appendix 2

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION OF THE OPERATING)	
CAPACITY OF MARTIN COUNTY WATER)	CASE NO.
DISTRICT PURSUANT TO KRS 278.280)	2002-00116

O R D E R

On April 5, 2002, Commission Staff filed a report ("Staff Report"), attached hereto as Appendix 1, indicating that serious operating deficiencies threaten the ability of Martin County Water District ("Martin District") to continue to provide adequate service to its customers. Pursuant to KRS 278.250 and 278.260, we open this docket to investigate the situation fully and to specify immediate action that must be taken by Martin District to avoid potential enforcement action pursuant to KRS 278.990.

According to the Staff Report, Martin District 's equipment is in serious disrepair. Redundancies required by any water system are lacking. Necessary equipment is either inoperable or is damaged. Insufficient personnel are available to ensure continued operation of the system. In short, there is a very real, and entirely unacceptable, possibility that the hundreds of homes and businesses served by Martin District could lose water service.

Accordingly, in this Order, we establish a procedural schedule to deal with both the emergency situation we have before us and the long-term issues concerning the operation of Martin District; to specify actions that must immediately be taken by Martin

District; and to ensure that the deficiencies noted in the Staff Report are corrected without delay.

IT IS THEREFORE ORDERED that:

1. Martin District shall, no later than close of business Monday, April 8, 2002, place orders for all replacement parts necessary to restore operating sufficiency and necessary system redundancy.
2. Martin District shall appear at an informal conference with Commission Staff at the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky at 1:00 p.m., Eastern Daylight Time, on Tuesday, April 9, 2002, for the purpose of providing to the Commission copies of the orders placed as prescribed in Ordering Paragraph 1, and for the purpose of discussing the actions necessary to cure the operating deficiencies of Martin District. Such actions shall include provisions for securing additional certified water treatment plant operators and for requesting, if necessary, emergency rate relief to cover expenses for the actions required by this Order.
3. A formal hearing, at which the Commissioners of Martin District shall appear, is scheduled for 1:00 p.m., Eastern Daylight Time, April 25, 2002 in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky for the purpose of receiving evidence concerning operating issues described in the Staff Report.
4. The Executive Director shall serve, by United States Mail and by facsimile, a copy of this Order upon the Natural Resources and Environmental Protection Cabinet, Division of Water; the County Judge/Executive of Martin County, Kentucky; each

member of Martin District's Board of Commissioners; and the Superintendent of Martin District.

Done at Frankfort, Kentucky, this 5th day of April, 2002.

By the Commission

ATTEST:

Deputy W. H. Fowler
Executive Director

APPENDIX TO AN ORDER OF THE
KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NO. 2002-00116
DATED APRIL 5, 2002

Martin County Water District
Water Plant Inspection
4/5/2002

On April 4, 2002 PSC personnel, Robert Amato, James Rice, and Virginia Smith inspected the Martin County Water Plant located on Lick Branch Road in Martin county, KY. Water plant personnel assisted on the inspection.

MCWD personnel "walked us through" the operation of the plant. The following observations were made of the water plant equipment and operation.

- Plant Operators – There is one certified plant operator employed by the water district and a contract with Kentucky American Water Company to provide one certified operator for 8 hours per day, 5 days per week. The MCWD operator is working 16 hour shifts on weekdays and 24 hours per day on the weekends.
- High Service Pumps – There are two 1400 gpm pumps that pump water from the treatment plant to the majority of the distribution system. One pump is out of service and valved off. It has reportedly been out of service for several years. There is only one starter for both pumps. The working pump reportedly has not been serviced in several years.
The pump has to be hand operated. The plant operator must watch the clearwell level and turn the pump on when the clearwell is nearly full and turn it off when the water in the clearwell lowers. The pump trips a breaker when starting about 25 percent of the time. The breaker must be manually reset and the pump started again. We observed a pump start. Three tries were necessary to start the pump. There are no replacement parts on site.
- Telemetry – The telemetry system from the storage tanks to the plant does not work. The operators must rely on distribution personnel to visually observe the tanks and radio in to the plant the water level or, if it is overflowing. Often citizens call the plant to tell them that a tank is overflowing or that they are out of water. Several of the tanks overflow daily. (One tank was overflowing when we arrived at the plant for this inspection. Personnel did not know immediately how to stop the overflow without putting customers out of water. They later discovered an isolation valve at the tank site.)
- Filter Valves – several of the valves that control the flow into and out of the filters do not work properly. The operators must monitor the level of water in the filters and adjust certain valves to keep the water at the appropriate level.
- Electric Panels – Most electrical panels in the pump room are exposed.
- Booster Pumps – According to MCWD personnel most of the booster pump stations are operating with only one pump (they are set up for two pumps).
- The chemical feed lines do not work properly.

Discussion

The MCWD water plant is in a general state of disrepair. The plant has lost most of the redundancy that was designed into it due to equipment failure. If a critical piece of

equipment, such as the high service pump starter, were to fail now, the plant would be unable to supply water to the distribution system. It could take from 1 to 7 days to get replacement parts and personnel in to repair the problem.

The lack of telemetry, automatic controls, and operators makes efficient operation of the system very difficult.

Recommendations

MCWD should take immediate action to obtain replacement parts for critical equipment that does not have a working back up and ensure that personnel or contractors are available to install and repair the critical equipment. The critical equipment includes starters and controls for the high service pumps.

Action should be taken to provide an adequate number of certified water plant operators to operate the water plant 24 hours per day with no employee regularly scheduled to work more than 40 hours per week.

Action should also be taken to restore redundancy to the pumping and treatment facilities. This may require repair or replacement of several pumps, electrical controls and valves.

The telemetry system should be repaired or replaced to allow monitoring of the system from the water plant and/or office.

Submitted,



Robert A. Amato, PE
Director, Engineering Division

278.250 Investigation of condition of utility.

Whenever it is necessary in the performance of its duties, the commission may investigate and examine the condition of any utility subject to its jurisdiction. In conducting such investigation, the commission may proceed with or without a hearing as it deems best, but shall make no order without giving a hearing to the parties affected thereby.

Effective: July 15, 1982

History: Amended 1982 Ky. Acts ch. 82, sec. 30, effective July 15, 1982. -- Amended 1978 Ky. Acts ch. 379, sec. 32, effective April 1, 1979. -- Recodified 1942 Ky. Acts ch. 208, sec. 1, effective October 1, 1942, from Ky. Stat. sec. 3952-21.

**278.260 Jurisdiction over complaints as to rates or service -- Investigations --
Hearing.**

- (1) The commission shall have original jurisdiction over complaints as to rates or service of any utility, and upon a complaint in writing made against any utility by any person that any rate in which the complainant is directly interested is unreasonable or unjustly discriminatory, or that any regulation, measurement, practice or act affecting or relating to the service of the utility or any service in connection therewith is unreasonable, unsafe, insufficient or unjustly discriminatory, or that any service is inadequate or cannot be obtained, the commission shall proceed, with or without notice, to make such investigation as it deems necessary or convenient. The commission may also make such an investigation on its own motion. No order affecting the rates or service complained of shall be entered by the commission without a formal public hearing.
- (2) The commission shall fix the time and place for each hearing held by it, and shall serve notice thereof upon the utility and the complainant not less than twenty (20) days before the time set for the hearing. The commission may dismiss any complaint without a hearing if, in its opinion, a hearing is not necessary in the public interest or for the protection of substantial rights.
- (3) The complainant and the person complained of shall be entitled to be heard in person or by an attorney and to introduce evidence.

Effective: July 15, 1982

History: Amended 1982 Ky. Acts ch. 242, sec. 3, effective July 15, 1982. -- Amended 1978 Ky. Acts ch. 379, sec. 33, effective April 1, 1979. -- Recodified 1942 Ky. Acts ch. 208, sec. 1, effective October 1, 1942, from Ky. Stat. sec. 3952-33.

278.280 Orders by commission as to service -- Extension of service.

- (1) Whenever the commission, upon its own motion or upon complaint as provided in KRS 278.260, and after a hearing had upon reasonable notice, finds that the rules, regulations, practices, equipment, appliances, facilities or service of any utility subject to its jurisdiction, or the method of manufacture, distribution, transmission, storage or supply employed by such utility, are unjust, unreasonable, unsafe, improper, inadequate or insufficient, the commission shall determine the just, reasonable, safe, proper, adequate or sufficient rules, regulations, practices, equipment, appliances, facilities, service or methods to be observed, furnished, constructed, enforced or employed, and shall fix the same by its order, rule or regulation.
- (2) The commission shall prescribe rules for the performance of any service or the furnishing of any commodity of the character furnished or supplied by the utility, and, on proper demand and tender of rates, the utility shall furnish the commodity or render the service within the time and upon the conditions provided in the rules.
- (3) Any person or group of persons may come before the commission and by petition ask that any utility subject to its jurisdiction be compelled to make any reasonable extension. The commission shall hear and determine the reasonableness of the extension, and sustain or deny the petition in whole or in part.

Effective: July 15, 1982

History: Amended 1982 Ky. Acts ch. 82, sec. 32, effective July 15, 1982. -- Amended 1978 Ky. Acts ch. 379, sec. 35, effective April 1, 1979. -- Recodified 1942 Ky. Acts ch. 208, sec. 1, effective October 1, 1942, from Ky. Stat. secs. 3952-18, 3952-25.

278.990 Penalties.

- (1) Any officer, agent, or employee of a utility, as defined in KRS 278.010, and any other person who willfully violates any of the provisions of this chapter or any regulation promulgated pursuant to this chapter, or fails to obey any order of the commission from which all rights of appeal have been exhausted, or who procures, aids, or abets a violation by any utility, shall be subject to either a civil penalty to be assessed by the commission not to exceed two thousand five hundred dollars (\$2,500) for each offense or a criminal penalty of imprisonment for not more than six (6) months, or both. If any utility willfully violates any of the provisions of this chapter or any regulation promulgated pursuant to this chapter, or does any act therein prohibited, or fails to perform any duty imposed upon it under those sections for which no penalty has been provided by law, or fails to obey any order of the commission from which all rights of appeal have been exhausted, the utility shall be subject to a civil penalty to be assessed by the commission for each offense not less than twenty-five dollars (\$25) nor more than two thousand five hundred dollars (\$2,500). Each act, omission, or failure by an officer, agent, or other person acting for or employed by a utility and acting within the scope of his employment shall be deemed to be the act, omission, or failure of the utility.
- (2) Actions to recover the principal amount due and penalties under this chapter shall be brought in the name of the Commonwealth in the Franklin Circuit Court. Whenever any utility is subject to a penalty under this chapter, the commission shall certify the facts to its counsel, who shall bring an action for recovery of the principal amount due and the penalty. The commission may compromise and dismiss the action on terms approved by the court. The principal amount due shall be paid into the State Treasury and credited to the account of the commission, and all penalties recovered in such actions shall be paid into the State Treasury and credited to the general fund.
- (3) Any utility that fails to pay an assessment as provided for by KRS 278.130 to 278.150 shall forfeit and pay to the state one thousand dollars (\$1,000), and twenty-five dollars (\$25) for each day it fails to pay the assessment, and shall not be released thereby from its liability for the assessment.
- (4) Any utility that issues any securities or evidences of indebtedness, or assumes any obligation or liability in respect to the securities or evidences of indebtedness of any other person, or makes any sale or other disposition of securities or evidences of indebtedness, or the proceeds thereof, for purposes other than the purposes specified in the order of the commission made with respect thereto under KRS 278.300, shall be fined not more than ten thousand dollars (\$10,000).
- (5) Any utility that violates any of the provisions of KRS 278.460 shall be fined not less than one hundred dollars (\$100) for each offense.
- (6) Any company that willfully fails to receive, transport, and deliver oil or gas as required by KRS 278.490 shall, in addition to being liable in damages to the injured person, be fined not less than one hundred dollars (\$100) nor more than five hundred dollars (\$500), and each day of willful failure shall constitute a separate offense.

- (7) Any telephone company that refuses to make a connection with the exchange or lines of another company for a period of thirty (30) days after being ordered to do so by the commission under subsection (2) of KRS 278.530 shall be fined not less than one thousand dollars (\$1,000) nor more than five thousand dollars (\$5,000), to be recovered by indictment in the Franklin Circuit Court or in the Circuit Court of the county where the company requesting the connection resides or has its chief office in this state. If the company desiring the connection proceeds to make the connection, as permitted by subsection (2) of KRS 278.530, and the company so connected with refuses to receive and transmit the toll messages offered to it by the company making the connection, or refuses to deliver messages from its own lines or exchanges to the lines or exchanges of the company making the connection, the company so refusing shall be fined one hundred dollars (\$100) for each day it refuses, to be recovered by indictment in the courts mentioned in the first sentence of this subsection; if it continues so to refuse for a period of six (6) months it shall forfeit its right to do business in this state, and any of its officers, agents, or employees who does or attempts to do any business in this state for it after the expiration of the six (6) months' period shall be fined fifty dollars (\$50) for each day he does or attempts to do such business.

Effective: July 13, 1990

History: Amended 1990 Ky. Acts ch. 354, sec. 1, effective July 13, 1990. -- Amended 1986 Ky. Acts ch. 300, sec. 4, effective July 15, 1986. -- Amended 1982 Ky. Acts ch. 82, sec. 50, effective July 15, 1982. -- Amended 1978 Ky. Acts ch. 379, sec. 54, effective April 1, 1979. -- Amended 1974 Ky. Acts ch. 308, sec. 47. -- Recodified 1942 Ky. Acts ch. 208, sec. 1, effective October 1, 1942, from Ky. Stat. secs. 786, 842b-2, 2223-2, 3766b-1e, 3952-24, 3952-59, 3952-61, 4679f-2, 4679f-4.

Bill Bunch
08/13/2004 02:12 PM

To: Coleman Bush/KAWC/AWWSC@AWW
cc:
Subject: Fw: Proposal for Martin County CCR

Bill Bunch
Business Development
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502
Phone (859) 268-6318
Fax (859) 335-3314

KAWC Contract Manager
Pineville Utilities Commission
PO Box 277
Pineville, KY 40977
Phone (606) 337-6611
Fax (606) 337-6846
Cell (606) 269-1428

----- Forwarded by Bill Bunch/KAWC/AWWSC on 08/13/2004 02:13 PM -----

Bill Bunch
05/06/2002 10:21 AM

To: Dillard Griffin/KAWC/AWWSC@AWW, Jan
Routt/KAWC/AWWSC@AWW, Roy Mundy/KAWC/AWWSC@AWW,
Jim R Hamilton/WVAWC/AWWSC@AWW
cc: Lisa Helton/KAWC/AWWSC@AWW, (bcc: Bill Bunch/KAWC/AWWSC)
Subject: Proposal for Martin County CCR

Attached are files related to our proposal to do the CCR for Martin County. Thanks to all who have provided input to this process.

The first file is the spreadsheet costing out our services. The estimates obtained from the outside contractor were based on 3000 customers. They had 3253 at the end of 2000 and with 3% annual growth I estimate that may have nearly 3400 now. My estimate is based on 3500 customers so that extra copies of the CCR can be made available in the office for new customers and other interested parties. This fully distributed cost analysis includes provisions for general overhead and profit. The result is a proposal for a fee of \$3225 which I believe to be conservative, ensuring profit to KAWC.



CCR Proposal Analysis.:

The second file is our letter of recommendation and proposal which would be presented to MCWD. The letter briefly describes what a CCR is, that they received an NOV related to their CCR last year, and recommends that they begin immediately to ensure completion by the regulatory deadline of June 30. It further offers KAWC assistance in getting this done for a fee of \$3225, payable in advance.



050602 CCR Proposal Letter.d

Please provide your comments ASAP. I need to get the final version to Dillard for presentation to MCWD so we can get started, should they elect to have us do the work. Thanks.

Jan - are you aware of what others would charge for this same service?? i.e. KRWA

**KENTUCKY-AMERICAN WATER COMPANY
ANALYSIS OF COSTS ASSOCIATED WITH MARTIN COUNTY CCR ADMINISTRATION**

Martin County Number of Customers (2000)	3,253
Estimated Growth Factor	3.0%
Estimated Number of Customers 6/30/02	3,399
Cost Estimated Based on this Number	3,500
KAWC Labor	
per Jan Routt	1,000.00
KAWC Benefits	
Benefits Rate	0.4133
Benefits Cost	413.30
Production Costs	
Printing (\$230 for 3000)	268.33
Graphics (\$35 for 3000)	40.83
Mail Handling (\$50/1000)	175.00
Total	484.16
Postage	
Bulk Postage Rate per Piece	0.20
Number of Mailed Pieces	3,399
Postage	679.80
Total Identified Direct Costs	2,577.26
Overhead Adder	15.0%
Total Overhead	386.59
Profit Adder	10.0%
Total Profit	257.73
Total Proposal Amount	3,221.58
Proposal	3,225.00



Kentucky-American Water Company

2300 Richmond Road - Lexington, Kentucky 40502 - (859) 268-6318 - Fax: (859) 335-3428

Bill Bunch
Business Development

May 6, 2002

J. R. Triplett, Chairman
Martin County Water District
Kirk Insurance Building
Main Street
Inez, KY 41224

Re: Proposal for Assistance With Consumer Confidence Report

Dear Mr. Triplett:

State and Federal drinking water regulations require that the Martin County Water District (MCWD) provide to its customers annually a Consumer Confidence Report (CCR), sometimes referred to as a water quality report. MCWD received a Notice of Violation for failure to comply with these regulations with regard to its 2001 report. Under these regulations, MCWD must issue its CCR directly to each of its individual customers no later than June 30.

The CCR is a report which presents important information about MCWD drinking water quality. Information contained in the CCR is stipulated by state and federal regulation and is based on data obtained from routine monitoring and testing performed by the utility throughout the year. KAWC recommends that MCWD begin immediately on its 2002 CCR to ensure delivery to customers by June 30.

Kentucky-American Water Company (KAWC) is well familiar with the CCR requirements and offers to assist MCWD in preparing and distributing its 2002 CCR. KAWC will perform this work for MCWD for \$3,225, payable in advance. Included in the services to be provided by KAWC for this fee are analysis of data, preparation of the report, graphic design, printing, and mailing to MCWD's entire customer base. A total of 3,500 copies will be produced which will allow for mailing to every current customer and for copies to be kept on-hand at the office to be given to new customers and other interested parties.

Please let me know if MCWD is interested in the services of KAWC for this very important project.

Sincerely,

Bill Bunch

Bill Bunch

08/13/2004 02:14 PM

To: Coleman Bush/KAWC/AWWSC@AWW
cc:
Subject: Fw: Proposal for Martin County Leak Detection

This work was never officially proposed, as I recall. We did no leak detection work for Martin County that I am aware of.

Bill Bunch
Business Development
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502
Phone (859) 268-6318
Fax (859) 335-3314

KAWC Contract Manager
Pineville Utilities Commission
PO Box 277
Pineville, KY 40977
Phone (606) 337-6611
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Cell (606) 269-1428

----- Forwarded by Bill Bunch/KAWC/AWWSC on 08/13/2004 02:14 PM -----

Bill Bunch

05/06/2002 11:10 AM

To: Dillard Griffin/KAWC/AWWSC@AWW, Roy
Mundy/KAWC/AWWSC@AWW, Jim R
Hamilton/WVAWC/AWWSC@AWW
cc: Lisa Helton/KAWC/AWWSC@AWW, (bcc: Bill Bunch/KAWC/AWWSC)
Subject: Proposal for Martin County Leak Detection

Per Triplett's request, the attached file is a letter of proposal for KAWC to provide leak detection services to MCWD. I did not develop new rates for this service choosing not to have multiple rates for the same service out in the public domain. Rates proposed are the same as we currently charge under contract with KRA for the same services. Please provide your thoughts.



050602 Leak Detection Proposal Letter.



2300 Richmond Road - Lexington, Kentucky 40502 - (859) 268-6318 - Fax: (859) 335-3428

Bill Bunch
Business Development

May 6, 2002

J. R. Triplett, Chairman
Martin County Water District
Kirk Insurance Building
Main Street
Inez, KY 41224

Re: Proposal for Leak Detection Services

Dear Mr. Triplett:

Per your request, Kentucky-American Water Company (KAWC) is pleased to provide this proposal for leak detection services.

KAWC has demonstrated leadership in the area of leak detection in providing good stewardship of available water resources and the lowest possible rates to its customers. The Company has state-of-the-art leak detection equipment and highly trained personnel which are available to you for this purpose.

In addition to providing leak detection services within its own service area, KAWC also provides leak detection services to various communities in the Kentucky River Basin under contract with the Kentucky River Authority.

In providing these services, KAWC staff will work with Martin County Water District (MCWD) staff to assist in locating and identifying leaks in the distribution system. These services must be scheduled in advance and will be based on the following rate schedule. You will be invoiced monthly with payment due within fifteen (15) days of the date of invoice. The rates stated provide for one person and related equipment.

First Day (based on 8-hour day)	\$ 760
Regular-Time Hourly Rate Thereafter	84

Please let me know if MCWD is interested in KAWC leak detection services.

Sincerely,



Bill Bunch

Darrell Argy
5/31/02

May 9, 2002

Hon. John R. Triplett
Kirk Insurance Building
Inez, Kentucky 41225

Dear Mr. Triplett:

So many issues have arisen which we have discussed but we feel it is very important everyone has a clear understanding of the issues and what is being done in regards to the various issues. Hopefully in this manner we each may maintain an exact plan of what each is doing and what is expected.

At the current time there is a large list of items that require action. However we need direction from the Martin County Water District of what, and to what extent you wish Kentucky-American to proceed. Previous written and verbal reports have discussed the majority, if not all, of the issues. We need to be sure that each of us are on the same track and know where the other stands on the issues. Kentucky-American is awaiting your direction to start action on some of the items. I have prepared a list of items and I need to know if you want Kentucky-American Water Company staff to be taking action on these items. If they are being handled otherwise, then that is fine. We must be sure that both the Martin County Water District and Kentucky-American Water Company knows where the other party stands on the required actions. If you do want action from Kentucky- American Water Company on the items then we need to know the extent and what a part you wish for us handle on the issue.

This list of action items results from either Division of Water Notice of Violations, Division of Water sanitary surveys, the Public Service Commission report, and from personal observations by Kentucky-American personnel. Either by written correspondence or by verbal conversations we have addressed all of the issues but we need to know for sure what action if any you desire from us. In order to identify the exact status of what action is to be taken on these items, would you please review the listing and check the appropriate box. In this fashion we will know if you are anticipating action from us. Further, a note of explanation on the items that you do wish KAWC input will be required. In this way we will know what and to what degree we need to be taking on the individual items or if you are handling it otherwise.

There is much to do and we need to be moving aggressively forward on the areas where you want our direction/input. Please return your response to me no later than Monday May 13, 2002.

**Compliance Evaluation Inspection, Natural Resources and Environmental Protection
Cabinet, Division of Water, dated April 17, 2002**

1. There is no groundwater protection plan on file for your facility. A plan must be developed. Do you want KAWC to coordinate the development of the plan?

Yes No

2. There are no DMR's on file for eight (8) of the last twelve (12) months. We have discussed this with the operational staff about the need for correct sample collection and reporting. However a written plan and investigation needs to be done on this situation. Do you want KAWC to be working on development of a plan and review of this issue?

Yes No

3. There are no flow records on file as required. Do you want KAWC to be investigating and developing a solution for this issue?

Yes No

4. Analytical data is not as complete as needed. Do you want KAWC to work on development of a plan for this issue?

Yes No

A notice of violation dated April 11, 2001 lists a violation for failure to provide proper operation and maintenance.

5. Replace or repair both high service pumps. (also, included in PSC order dated 4/5/02) A breaker and starter are on order. There is repair work that needs to be done on the pump and motor prior to the installation of the starter and breaker. Do you want KAWC staff to be coordinating for the repair of the pumping units and motors, further for the installation of the equipment when it is received?

Yes No

- Breaker received 5/1, Starter received 5/28, contract for pump/motor repair signed 5/29, pump repairs to begin 6/4 or 6/5. P.O. sent for replacement of starter & repair of starter 5/31.

6. Replace or repair flocculator equipment. Do you want the KAWC staff to be coordinating an effort to have these units repaired?

- Repair Parts on order 5/31/02.

Yes No

7. Provide Redundancies in System Equipment. This project will be quite large, and requires a full investigation of what the equipment needs are. Do you want KAWC staff to be preparing a plan for this redundancy of equipment?

Yes No

8. Provide adequate staffing of a certified distribution operator. (Also included in PSC order dated 4/5/02) Previous suggestions from KAWC have included updating of the employee handbook, starting a training program for a current distribution employee, adjusting pay scale to

the prevailing area wage rate. Hiring of additional personnel, different work schedules. Please, be advised that some of the current operators must receive 24 hours of DOW approved training prior to 6/30/02. If they do not receive this training they will not be eligible to renew their certification. Do you desire any additional input from KAWC staff on this project?

Yes No

9. Failure to register a special waste facility. This has been assigned by Martin County Water District to J&M monitoring. Do you want any assistance from KAWC on this project?

Yes No

10. Operation of a Special Waste Site without a permit and disposal of a special waste without a permit. Do you want KAWC staff to be taking any action on this violation?

Yes No

11. Failure to operate site/facility in accordance with an approved plan. A proper site plan needs to be prepared and submitted to the state agency. Do you want KAWC staff to be taking any action on development of the site plan?

Yes No

12. Failure to maintain proper records and to comply with reporting requirements, failure to comply with operation, maintenance, and performance requirements. Training of the staff needs to be coordinated to ensure correct reporting procedures, and performance of the operational requirements. Also an operation and maintenance plan must be developed. Do you want KAWC staff to be taking any action on development of this training, plan, and establishing a monitoring plan?

Yes No

The inspection dated 4/5/02 from the Public Service Commission lists several items

13. Telemetry for the storage tanks to the plant: An engineering plan first needs to be developed to determine what is needed, what is the correct installation for the facility and to develop an estimated cost. Do you want or need assistance from KAWC on this issue?

- Prices being acquired for "Clearwell Tank" transmitter & recorder Yes No

14. Filter Valves: Several filter valves do not work properly. A real evaluation needs to be conducted to determine exactly what is needed. We know that some valves are defective. But we do not know if they can be repaired or need replacement. Do you want KAWC staff to be evaluating this area and developing a plan?

Yes No

15. Electrical panels: Most of the electrical panels in the pump room are exposed. There is a large amount of electrical work beyond the requirement in reference to the electrical panels which needs to be performed throughout the plant. There are numerous open conduits, wires exposed, lights that don't work, etc. These are referred to as the normal lighting/electrical system. However some of the open conduits and exposed wires could result in OSHA violations. A total system should be evaluated and a plan developed. However, much of the in house

electrical work should be handled immediately by a qualified contractor on a time and material basis. Do you want a contractor to be contacted for estimates and plans for the completion of this work?

- Contractor met with @ MCWD on 5/29, should have price 6/4 or 6/5. Yes No

16. Booster pumps: According to MCWD personnel most of the booster pump stations are operating with only one pump (they are set up for two pumps). Do you want KAWC engineering to evaluate to have a contractor in for a quote and plan for the repair and installation of additional pumping units as required?

Yes No

17. Chemical feed lines do not work properly: Do you want KAWC engineering to evaluate and to have a contractor in for a quote and plan for the repair and installation of additional chemical feed lines as is required?

Yes No

Additional items that have been referenced in DOW reports, in PSC reports, and verbally. These are items that need attention beyond the specific NOV issues.

18. The Consumer Confidence Report is due to the customer by 6/30/02. The Martin County Water District received a notice of violation in 2001 for improper handling of the CCR. Do you want assistance from KAWC in the preparation of this report? In order for proper completion this project must be started by 5/30/02.

Yes No

19. The flocculation equipment in one of the two treatment units is broken and must be repaired. Do you want assistance in getting information and contract pricing on the correction of this problem?

Yes No

- Same comment as #6

Some additional issues that need to be addressed

20. Boil Water Notices continue to be an operational and customer service problem. A training program needs to be held for all of the staff, and guidelines established of who is required to do what. This program must be so that it allows for weekend coverage and response. Do you want assistance from KAWC on this issue?

Yes No

21. A proper chain of command should be established and adhered to. There continues to be a large operations/communications problem between the office and the plant and distribution staff. Do you want assistance from KAWC on this issue?

Yes No

22. Vehicles are in serious need of repairs; at least one truck is parked due to the bad tires and a regular vehicle maintenance program needs to be implemented.

Do you want assistance from KAWC on this issue?

Yes

No

23. According to information from the operators there is no stock control. A stock inventory procedure needs to be established and then materials properly charged from stock. Do you want assistance from KAWC on this issue?

Yes

No

24. The petroleum tanks that are out of service need to be removed from the facility. They are not in use but are a potential large liability to the district. We were informed that a process would be set up for purchase of the petroleum from a local vendor.

Do you want assistance from KAWC on this issue?

Yes

No

25. The drums of cleaning solvents and waste petroleum products should be removed from the facility. These are not useable and are only a liability. They are stored outside unprotected with no containment. Deterioration of the drums or vandals can easily damage these. This would result in a great financial burden to the district. Do you want assistance from KAWC on this issue?

Yes

No

26. A full time superintendent should be hired and placed in charge of the facilities. Currently there is an ongoing problem from the existing staff. Great employee morale and damage to the reputation of the system is taking place. There is no day-to-day supervision of the distribution staff. Do you want assistance from KAWC on this issue?

Yes

No

27. A correct bacteriological site plan must be prepared and the staff trained to use it. If this plan is not developed and submitted to DOW additional NOV's will be forthcoming.

Do you want assistance from KAWC on this issue?

Yes

No

28. There is a high water loss within the system – greater than 50 %. There is a dire need for a leak detection program. Do you want assistance or input from KAWC to assist on this program or to help in locating others who can supply this service?

Yes

No

29. Management of the financial and management reporting is another area that is of concern. There appears to be the computer software systems available in the office, but the current staff is not trained on the usage. This includes the billing system. Do you want any assistance from KAWC for training and development in this area of financial and management reporting?

Yes

No

Martin County Water District
Page 6

30. There has been mention of the issue of hazardous waste buried on site – asbestos pipe. A complete environmental audit needs to be performed of the site. Do you want and direction from KAWC on this project. Yes No

I look forward to your responses and direction on these matters. Also, please feel free to call me at 859-268-6340 if you have additional items or questions.

Sincerely,

Kentucky-American Water Company

Dillard Griffin
Operations Superintendent

DG/pb

C: Hon. Eldred E. Adams
Roy W. Mundy
Bill Bunch
Harold Garrison

Martin County Water District
Page 7

bc: Bob Amato, PSC
Roger Recktenwald, KIA
Maxine Goble, DOW
Tom Gabbard, DOW

** TX STATUS REPORT **

AS OF MAY 13 2002 15:03 PAGE.01

KAWC

DATE	TIME	TO/FROM	MODE	MIN/SEC	PGS	JOB#	STATUS
05/13	15:00	RRS	EC--S	02'24"	006	073	OK

05/13/02 02:42 FAX 0062987127
MAY 09 2002 16:28 FR KAWC

859 268 6327 TO 916062987127-000 P.01/07



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502
859/269-2386

TELECOPY TRANSMITTAL SHEET

FAX No. 859/268-6327

We have a Panasonic Panafax UF-755 Facsimile

502-573

0157

DATE: 5-9-02

COMPANY: _____

From ~~HAND TO:~~ Hon. John Triplett

To ~~FROM:~~ Dillard Griffin

Number of pages, including cover: 7

If you have any problems with receiving, please call:

Phone: 859-268-6340 Ask for: Dillard Griffin

Hard copy mailed: Yes _____ No

PLEASE DELIVER TO THE ABOVE NAMED PERSON IMMEDIATELY

The information contained in this transmission is privileged, confidential and intended only for the use of the individual or entity named above. If you receive this communication in error, please notify Kentucky-American Water Company immediately by telephone, collect and return the original message to us at the address shown via the U.S. Postal Service. You will be reimbursed for the required postage. Thank you.

Message: 5-13-02

Mr. Griffin: see attached.



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502
859/269-2386

502-573
0157

TELECOPY TRANSMITTAL SHEET

FAX No. 859/268-6327

We have a Panasonic Panafax UP-755 Facsimile

DATE: 5-9-02

COMPANY: _____

From
~~HAND TO:~~ Hon. John Triplett

To
~~FROM:~~ Dillard Griffin

Number of pages, including cover: 7

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Message: 5-13-02
Mr. Griffin: see attached.

Martin County Water District
Page 2

**Compliance Evaluation Inspection, Natural Resources and Environmental Protection
Cabinet, Division of Water, dated April 17, 2002**

1. There is no groundwater protection plan on file for your facility. A plan must be developed. Do you want KAWC to coordinate the development of the plan?

Jan Eng

Yes

No

2. There are no DMR's on file for eight (8) of the last twelve (12) months. We have discussed this with the operational staff about the need for correct sample collection and reporting. However a written plan and investigation needs to be done on this situation. Do you want KAWC to be working on development of a plan and review of this issue?

Jan

Yes

No

3. There are no flow records on file as required. Do you want KAWC to be investigating and developing a solution for this issue?

Daniel Willard

Yes

No

4. Analytical data is not as complete as needed. Do you want KAWC to work on development of a plan for this issue?

Jan

Yes

No

A notice of violation dated April 11, 2001 lists a violation for failure to provide proper operation and maintenance.

5. Replace or repair both high service pumps. (also, included in PSC order dated 4/5/02) A breaker and starter are on order. There is repair work that needs to be done on the pump and motor prior to the installation of the starter and breaker. Do you want KAWC staff to be coordinating for the repair of the pumping units and motors, further for the installation of the equipment when it is received?

Daniel

Yes

No

6. Replace or repair flocculator equipment. Do you want the KAWC staff to be coordinating an effort to have these units repaired?

Daniel

Yes

No

7. Provide Redundancies in System Equipment. This project will be quite large, and requires a full investigation of what the equipment needs are. Do you want KAWC staff to be preparing a plan for this redundancy of equipment?

Daniel Perbeck

Yes

No

8. Provide adequate staffing of a certified distribution operator. (Also included in PSC order dated 4/5/02) Previous suggestions from KAWC have included updating of the employee handbook, starting a training program for a current distribution employee, adjusting pay scale to the prevailing area wage rate. Hiring of additional personnel, different work schedules. Please, be advised that some of the current operators must receive 24 hours of DOW approved training

Willard

Martin County Water District
Page 3

prior to 6/30/02. If they do not receive this training they will not be eligible to renew their certification. Do you desire any additional input from KAWC staff on this project?

Yes No

9. Failure to register a special waste facility. This has been assigned by Martin County Water District to J&M monitoring. Do you want any assistance from KAWC on this project?

Yes No

Jan

10. Operation of a Special Waste Site without a permit and disposal of a special waste without a permit. Do you want KAWC staff to be taking any action on this violation?

Yes No

Jan

11. Failure to operate site/facility in accordance with an approved plan. A proper site plan needs to be prepared and submitted to the state agency. Do you want KAWC staff to be taking any action on development of the site plan?

Yes No

Jan

12. Failure to maintain proper records and to comply with reporting requirements, failure to comply with operation, maintenance, and performance requirements. Training of the staff needs to be coordinated to ensure correct reporting procedures, and performance of the operational requirements. Also an operation and maintenance plan must be developed. Do you want KAWC staff to be taking any action on development of this training, plan, and establishing a monitoring plan?

Yes No

Jan

The inspection dated 4/5/02 from the Public Service Commission lists several items

13. Telemetry for the storage tanks to the plant: An engineering plan first needs to be developed to determine what is needed, what is the correct installation for the facility and to develop an estimated cost. Do you want or need assistance from KAWC on this issue?

Yes No

Darrell

14. Filter Valves: Several filter valves do not work properly. A real evaluation needs to be conducted to determine exactly what is needed. We know that some valves are defective. But we do not know if they can be repaired or need replacement. Do you want KAWC staff to be evaluating this area and developing a plan?

Yes No

Darrell

15. Electrical panels: Most of the electrical panels in the pump room are exposed. There is a large amount of electrical work beyond the requirement in reference to the electrical panels which needs to be performed throughout the plant. There are numerous open conduits, wires exposed, lights that don't work, etc. These are referred to as the normal lighting/electrical system. However some of the open conduits and exposed wires could result in OSHA violations. A total system should be evaluated and a plan developed. However, much of the in house electrical work should be handled immediately by a qualified contractor on a time and material

Darrell

Martin County Water District
Page 4

basis. Do you want a contractor to be contacted for estimates and plans for the completion of this work?

Yes No

16. Booster pumps: According to MCWD personnel most of the booster pump stations are operating with only one pump (they are set up for two pumps). Do you want KAWC engineering to evaluate to have a contractor in for a quote and plan for the repair and installation of additional pumping units as required?

David

Yes No

17. Chemical feed lines do not work properly: Do you want KAWC engineering to evaluate and to have a contractor in for a quote and plan for the repair and installation of additional chemical feed lines as is required?

David

Yes No

Additional items that have been referenced in DOW reports, in PSC reports, and verbally. These are items that need attention beyond the specific NOV issues.

18. The Consumer Confidence Report is due to the customer by 6/30/02. The Martin County Water District received a notice of violation in 2001 for improper handling of the CCR. Do want assistance from KAWC in the preparation of this report? In order for proper completion this project must be started by 5/30/02.

7

Yes No

19. The flocculation equipment in one of the two treatment units is broken and must be repaired. Do you want assistance in getting information and contract pricing on the correction of this problem?

David

Yes No

Some additional issues that need to be addressed

20. Boil Water Notices continue to be an operational and customer service problem. A training program needs to be held for all of the staff, and guidelines established of who is required to do what. This program must be so that it allows for weekend coverage and response. Do you want assistance from KAWC on this issue?

Alan

→
→

Yes No

21. A proper chain of command should be established and adhered to. There continues to be a large operations/communications problem between the office and the plant and distribution staff. Do you want assistance from KAWC on this issue?

David

Yes No

Martin County Water District
Page 5

22. Vehicles are in serious need of repairs; at least one truck is parked due to the bad tires and a regular vehicle maintenance program needs to be implemented.

Do you want assistance from KAWC on this issue?

Ollard

Yes

No

23. According to information from the operators there is no stock control. A stock inventory procedure needs to be established and then materials properly charged from stock. Do you want assistance from KAWC on this issue?

Ollard

Yes

No

24. The petroleum tanks that are out of service need to be removed from the facility. They are not in use but are a potential large liability to the district. We were informed that a process would be set up for purchase of the petroleum from a local vendor.

Do you want assistance from KAWC on this issue?

Ollard

Yes

No

25. The drums of cleaning solvents and waste petroleum products should be removed from the facility. These are not useable and are only a liability. They are stored outside unprotected with no containment. Deterioration of the drums or vandals can easily damage these. This would result in a great financial burden to the district. Do you want assistance from KAWC on this issue?

Ollard

Yes

No

26. A full time superintendent should be hired and placed in charge of the facilities. Currently there is an ongoing problem from the existing staff. Great employee morale and damage to the reputation of the system is taking place. There is no day-to-day supervision of the distribution staff. Do you want assistance from KAWC on this issue?

Wise

Yes

No

27. A correct bacteriological site plan must be prepared and the staff trained to use it. If this plan is not developed and submitted to DOW additional NOV's will be forthcoming. Do you want assistance from KAWC on this issue?

W. Q. Jam

Yes

No

28. There is a high water loss within the system - greater than 50 %. There is a dire need for a leak detection program. Do you want assistance or input from KAWC to assist on this program or to help in locating others who can supply this service?

Stan W. va Bill B.

Yes

No

29. Management of the financial and management reporting is another area that is of concern. There appears to be the computer software systems available in the office, but the current staff is not trained on the usage. This includes the billing system. Do you want any assistance from KAWC for training and development in this area of financial and management reporting?

Bill B.

Yes

No

Martin County Water District
Page 6

Dillard

30. There has been mention of the issue of hazardous waste buried on site – asbestos pipe. A complete environmental audit needs to be performed of the site. Do you want and direction from KAWC on this project. Yes No

I look forward to your responses and direction on these matters. Also, please feel free to call me at 859-268-6340 if you have additional items or questions.

Sincerely,

Kentucky-American Water Company

Dillard Griffin
Operations Superintendent

DC/pb

- C: Hon. Eldred E. Adams
- Roy W. Mundy
- Bill Bunch
- Harold Garrison

H:\patt\MartinCo>Action\Items.6.02

** TOTAL PAGE.07 **

FAX

Date: May 21, 2002

To: J.R. Triplett, Chairman
E.E. Adams, Counsel
Martin County Water District

606-298-7127
606-638-4890 0313

From: Bill Bunch *wtb*
Kentucky-American Water Company

Total number of pages, including this cover sheet: 9

Re: Extension of Contract for Advisory Services

Following for your review is an agreement that will continue our current relationship as advisors to you. On this copy, I have highlighted new items in the agreement and used strike-through to indicate items that were omitted. Essentially, this is the same agreement that is current in effect with changes to (1) insert new expiration date of June 18, your regular meeting date in June, (2) to reference the current agreement, and to (3) recognize additional NOV's and Orders that may have been issued since the date of the original agreement and which we are currently working together on. I hope that you will find this version acceptable.

I have with me a clean copy that can be signed. Hopefully, this can be done today as the current agreement expires on May 21.

Please let me know of your comments and direction. I am working on office issues at the MCWD office today and can be reached there.

5/21/02

**EMERGENCY PROFESSIONAL SERVICE
AND ADVISORY AGREEMENT**

This Emergency Professional Service and Advisory Agreement (“Agreement”) dated as of this 21st day of May 2002, between Kentucky-American Water Company (“KAWC”), a Kentucky corporation, and the Martin County Water District (“MCWD”), created pursuant to Kentucky statute.

WITNESSETH:

WHEREAS, MCWD executed an Emergency Professional Service and Advisory Agreement with KAWC on April 16, 2002 which terminates on May 21, 2002;

WHEREAS, MCWD desires to continue its relationship with KAWC as stipulated under its Emergency Professional Service and Advisory Agreement with KAWC dated April 16, 2002;

WHEREAS, KAWC desires to continue to provide services to MCWD as stipulated under its Emergency Professional Service and Advisory Agreement with MCWD dated April 16, 2002;

WHEREAS, MCWD operates combined water treatment, transmission, storage, distribution and related facilities serving customers in Martin County, Kentucky (“System”);

WHEREAS, the Commonwealth of Kentucky, Natural Resources and Environmental Protection Cabinet, Department for Environmental Protection, Division of

Water (“DOW”), issued a Notice of Violation (“NOV”) to MCWD dated April 10, 2002 (Appendix 1), and subsequent NOVs;

WHEREAS, the Commonwealth of Kentucky, Public Service Commission (“PSC”), opened an Investigation of the Operating Capacity of Martin County Water District Pursuant to KRS 278.280, Case No. 2002-00116, on April 5, 2002 (“Order”) (Appendix 2), and subsequent Orders;

WHEREAS, the MCWD water treatment plant experienced certain equipment failures of a critical nature on April 10-11, 2002, and the parties recognize that the staffing and facilities of MCWD are insufficient under current circumstances to provide adequate water service to MCWD’s customers, and that such facilities are in need of repair;

WHEREAS, MCWD Chairman J. R. Triplett declared a state of emergency on April 10, 2002 with regard to certain equipment failures at the MCWD treatment plant for the purpose of expediting emergency repairs and replacement to said equipment;

WHEREAS, MCWD Chairman J. R. Triplett on April 10, 2002 requested the emergency advisory assistance of KAWC in resolving certain equipment failure issues at the MCWD water treatment plant;

WHEREAS, MCWD desires the advisory assistance of KAWC in formulating appropriate responses to issues raised in the DOW NOV and the PSC Order;

WHEREAS, KAWC and MCWD are interested in working together to assist MCWD in providing adequate water services to its customers during this emergency situation;

WHEREAS, DOW and PSC have indicated appreciation and support for a cooperative effort between KAWC and MCWD in resolving current emergency issues of MCWD;

WHEREAS, either MCWD personnel are not available to perform the functions herein or it would not be feasible to utilize MCWD personnel to perform such functions, and KAWC is available and qualified to perform such functions;

WHEREAS, MCWD desires that KAWC, on a short-term and limited basis, act in an advisory capacity to MCWD regarding certain operation, maintenance, and management decisions that must be considered and implemented to resolve current emergency issues of the System;

NOW, THEREFORE, for and in consideration of the covenants and agreements herein contained and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree that:

1. Subject to the right to terminate the Agreement as provided below, MCWD hereby requests and KAWC agrees to provide emergency advisory assistance to MCWD for the purpose of (1) addressing certain emergency equipment failures, (2) assisting MCWD in making

appropriate regulatory responses, and (3) providing advisory services regarding other operation, maintenance, or management issues that may arise during the term of this Agreement.

2. MCWD shall retain its full statutory authority and responsibility to operate, maintain, and manage the MCWD.

3. KAWC shall act in an advisory capacity to MCWD and shall not act or otherwise obligate MCWD without specific advance authority from MCWD or within reasonable bounds of authority as may be extended by MCWD to KAWC.

4. KAWC shall provide the advisory services to MCWD on the following terms and conditions:

- a. KAWC shall provide operations, maintenance, and management personnel as may be deemed necessary by KAWC to formulate appropriate responses to the DOW NOV and PSC Order, and subsequent NOVs and Orders, including, but not limited to, identification of necessary actions, prioritization of appropriate responses, providing estimates of cost, identification of potential funding sources, providing assistance in securing of appropriate outside contractors, and implementation of appropriate actions as may be desired and authorized by MCWD.
- b. The KAWC will invoice MCWD monthly during the term of this Agreement, and at the termination of the Agreement, for the actual cost or expenses associated with those services which it renders for MCWD plus ten percent (10%), such costs and expenses to be based on receipts for expenditures or upon the fully distributed cost of such services, whichever is greater. MCWD agrees, without offset for any reason, to pay KAWC for such services and expenditures within ten (10) days of the date of the invoice.

5. MCWD understands and agrees that in carrying out its obligations under this Agreement, KAWC is not assuming management responsibility for MCWD and shall not be liable for any of MCWD's debt or other liabilities by virtue of this Agreement.

6. In addition to reimbursing KAWC for its costs and expenses during such interim operations under this Agreement as described in Section 4(b) above, MCWD also agrees that MCWD shall continue to be responsible for, and shall pay, all other costs and expenses incident to the operation of the System during the period of this Agreement.

7. During the term of this Agreement, all employees of the System shall continue to be employees of MCWD on the usual terms and conditions of their employment, and MCWD specifically understands and agrees that KAWC is not the employer of any employees of the System.

8. KAWC and MCWD agree that during the Agreement, KAWC shall use reasonable efforts to advise MCWD of any operating problems that it observes, but that MCWD shall remain liable for any operating losses of the System and shall be responsible for any and all capital improvements necessary to the System.

9. It is understood and agreed by the Parties that the relationship of KAWC to MCWD is that of independent contractor. The services provided for under this Agreement are of a professional nature and MCWD shall indemnify and hold KAWC (and its officers, directors, employees and agents) harmless from and against any claim, damages or liabilities whatsoever, direct or indirect, including regulatory actions and attorneys fees, arising out of or in connection with the performance of this Agreement, unless caused by the sole intentional misconduct or gross negligence of KAWC. Notwithstanding any other provision of this Agreement, KAWC shall not be

responsible or liable for the quality of the potable water, costs incurred in the production and distribution of the potable water or fines or penalties regarding such water. Further, MCWD shall maintain in force all of its existing insurance coverage, including fire, casualty, liability, general liability, workers compensation, vehicle, and other coverage. KAWC shall be entitled to at least ten (10) days prior notice of any intent to cancel said coverage.

10. If any litigation is necessary to enforce the terms of this Agreement, the action, unless waived by KAWC in writing, shall be brought and maintained in the appropriate state or federal court in Fayette County, Kentucky, and the prevailing Party shall be entitled to interest at the statutory rate, reasonable attorney's fees, which are directly attributed to such litigation, in addition to any other relief to which it may be entitled.

11. MCWD represents that it has the authority to enter into this Agreement, and represents that it has complied with all governmental action necessary to bind it to the terms hereof.

12. MCWD shall be liable for those fines or civil penalties, or other penalties or relief or remedy, imposed by any regulatory or enforcement agencies on MCWD which are directly related to its ownership or operation of the System, including those which may arise from the DOW NOV and PSC Order, or future actions, and shall indemnify and hold KAWC harmless from the payment of any such fines and/or penalties.

13. Indemnity obligations provided for in this Agreement shall survive the termination of the Agreement.

14. If required by PSC or DOW, KAWC shall submit the Agreement for review and approval by PSC and/or DOW. If, for any reason, PSC and/or DOW fail to approve the Agreement, the Agreement shall be immediately terminated.

15. This Agreement is in addition to the Interim Operations Agreement dated January 25, 2002 by and between KAWC and MCWD which provides, among other things, that KAWC shall provide certified water treatment plant operator(s) to MCWD.

16. Either Party may terminate this Agreement prior to its expiration by reason of material breach of the Agreement by the other Party, but only after giving written notice of breach and allowing the Party in default five (5) days to cure same or commence taking reasonable steps to cure the breach. Otherwise, this Agreement will terminate (a) June 18, 2002; (b) upon mutual agreement of the parties, or (c) upon twenty-four hours written notice to either party by the other party, without cost or liability to either party, except for payment of any accrued cost incurred as provided in Section 4(b) above. Notice of termination shall be valid if delivered by electronic transmission or facsimile transmission to:

To KAWC

Kentucky-American Water Company Inc.
2,300 Richmond Road
Lexington, Kentucky 40502
Fax Number: 859-268-6827
E-mail Address: rwmundy@kawc.com

To MCWD:

J. R. Triplett, Chairman
Martin County Water District
Main Street
Inez, Kentucky 41224
Fax Number: 606-298-7127
E-mail Address: jtriplett@setel.com

IN WITNESS WHEREOF, the parties have executed this Agreement as of the
date first written above.

KENTUCKY-AMERICAN WATER COMPANY

By

Its

MARTIN COUNTY WATER DISTRICT

By

Its

Bill Bunch

05/30/2002 08:12 PM

To: Dillard Griffin/KAWC/AWWSC@AWW, Harold Garrison/KAWC/AWWSC@AWW, Darrell Ary/KAWC/AWWSC@AWW, Jan Routt/KAWC/AWWSC@AWW
cc: Lisa Helton/KAWC/AWWSC@AWW, Roy Mundy/KAWC/AWWSC@AWW, (bcc: Bill Bunch/KAWC/AWWSC)
Subject: MCWD Board Meeting 5/29

The MCWD Board met on May 29. At the meeting were two new board members recently appointed by the fiscal court: Everett Horn and Mike Cain. Pertinent action taken regarding our current relationship is as follows:

Ratified the new Advisory services contract effective May 21 thru June 18. Acknowledged that a proposal for a long-term agreement is expected soon. Jim H. told them that he expected to have something to them by next week, hopefully prior to the June 6 PSC hearing.

Ratified Bud Adams as Board attorney. This had been raised by the county attorney as an issue at a previous PSC informal conference. They now have their ducks in a row on this issue.

Personnel - approved a combination of medical and vacation leave for Fayette Crisp from the date of her initial sick leave last week to July 31, the date that she becomes eligible for state retirement. They did this without knowing how much leave she actually had. For us, this means that Fayette will not be back and her position needs to be filled by a new operator.

High Service Pumps - approved work by RPM (pumps) and Square D (motor starter) as presented. Approved purchase of parts from Applied Industrial Technologies (floculator) and Ross Valve (valve parts and solenoid valves) as presented. I have the signed RPM agreement.

Did not take any formal action on other prior e-mail requests. I suppose we need to send him a reminder on those, particularly the CCR which Jan needs authority to move on by Friday, May 31. For our internal team, we will need to update our status report so that we will have a single, comprehensive document showing where we are on all items prior to our June 5 meeting with Adams and following PSC hearing on June 6.

Board was highly complimentary of KAWC assistance and looking forward to entering a long-term agreement. New board members also.

Approved payment of \$900 to J&M Monitoring for "sludge giveaway permit" which is speculate means a beneficial reuse permit.

Referenced our recommendation regarding plant security and media access. Asked that we provide recommendation regarding security and any necessary fencing, cameras, paving, locks, etc. Also, asked that we provide input on media contact policy. I thought we had settled this one some time ago, but apparently not. On this, I think we should provide a bullet point list - keep it simple and direct.

Checks to KAWC for payment in full of March operator, April operator, and April advisory services invoices were authorized along with other bills. Our total in excess of \$29,000. This will bring them current with us as of Aril. One signer at meeting; Porter not present and will need to be located for the co-sign on all checks, including ours.

Approved purchase of 2 loads of gravel. They were out and needing gravel for service repairs.

Discussion on NOVs and PSC status but nothing new to report beyond what we already know. Also discussed several customer service issues.

At close of meeting, JR opened the floor for nominations for Board offices and then proceeded to nominate new members Horn for Chairman and Cain for secretary. Board approved unanimously will all to be effective last night and for the remainder of the calendar year. For our purposes, JR will continue to

be the point on contact. He accepts responsibility to copy Horn on all matters and to seek his counsel. Hopefully, this will work but may result in an extra layer of nonresponsive communication.

Board adjourned to executive session to discuss potential litigation - two PDR matters. Was not invited to stay for this and did not wait around to after this portion of the meeting. I trust that we will hear of anything pertinent to us that may have been discussed.

Nothing more to report.

Bill Bunch
Business Development
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502
(859) 268-6318
fax (859) 335-3314

Dillard Griffin
06/04/2002 03:28 PM

To: eeadams@lycomonline.com, jtriplett@setel.com
cc: Harold Garrison/KAWC/AWWSC@AWW, Bill
Bunch/KAWC/AWWSC@AWW
Subject: MCWD Office Training

Mr. Triplett, below is a proposal in reference to some training that is badly needed for the MCWD office personnel. Please advise if you wish us to take any action on this matter.

Dillard Griffin
Kentucky American Water Company
2300 Richmond Road
Lexington, KY 40502
859 268 6340 (office)
859 339 6823 (cell)
859 268 8395 (fax)

--- Forwarded by Dillard Griffin/KAWC/AWWSC on 06/04/2002 03:21 PM ---

Bill Bunch
05/31/2002 06:08 AM

To: Dillard Griffin/KAWC/AWWSC@AWW
cc: Harold Garrison/KAWC/AWWSC@AWW
Subject: MCWD Office Training

I have worked out an arrangement with Candy Crumm, the office lady at Inez Sewer, to provide training to MCWD office personnel on the billing/customer information system. Inez Sewer uses the same system as does MCWD. Candy will do the training on a contract basis at MCWD offices at a rate of \$10 per hour. She estimates about 10 hours of training will be necessary. Training will be scheduled at the mutual convenience of MCWD office staff and Ms. Crumm, all to be done after normal office hours. Therefore, some additional payroll, possibly overtime, will be incurred by MCWD as well. In addition to being of benefit to MCWD, this training will also be of community benefit as Inez Sewer relies on readings from MCWD for their billing and any increase in communication and understanding between the two entities on this issue will benefit both.

I see two alternatives to this training option, both of which are unacceptable. First, we could continue to learn by trail and error. This has proven itself not to work. For example, we have not in three months been able to figure out how to properly add new customers. We also have no confidence that what has been figured out is being done properly to ensure proper posting to customer accounts, revenue journals, etc. The second alternative is to bring someone in from the software company for a couple of days training. They are located in Tyler, Texas. This alternative would be very expensive.

I recommend that training by Ms. Crumm be authorized immediately so that she can assist with end-of month billing as part of the training process. JR has previously acknowledged the need for training on several occasions. Please advise and I will communicate with Ms. Crumm and the office staff.

Bill Bunch
Business Development
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502
(859) 268-8318
fax (859) 335-3314



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (859) 269-2386 • Fax (859) 268-6327

Herbert A. Miller, Jr.
Vice President and
Corporate Counsel
(859) 268-6339

June 17, 2002

Hon. Tom Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Martin County Water District; Case No. 2002-00116

Dear Mr. Dorman:

At its hearing on June 6, 2002, the Commission requested Kentucky-American Water Company to submit any other recommendations it had made to the Martin County Water District, *other than* the list of 30 items in a list dated May 6, 2002 and previously submitted.

Enclosed herewith are copies of such recommendations. In summary, they are:

1. Producing and issuing a timely Consumer Confidence Report;
2. Work on the high service pumps;
3. Security recommendations;
4. Continuing education recommendations for plant operators;
5. The need to install chart recorders on individual turbidimeters, including the adoption of procedures to assure recordation every 15 minutes of filter operation and record retention of same; and
6. The need for additional phone and e-mail lines to the plant.

In addition to these items, Kentucky-American Water Company has had several conversations with Martin County representatives on general matters, but has not put them into the format of formal recommendations. These subjects include:

1. Monthly Operating Reports (MOR) must be accurately completed, appropriately signed, timely submitted and properly retained in accordance with law;
2. Staff salary inconsistencies need to be addressed;
3. Software training for personnel is crucial;
4. A distribution certified operator is needed as soon as possible;

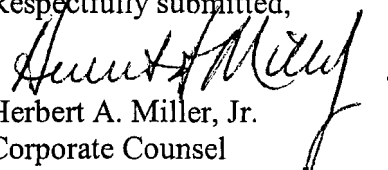
Hon. Tom Dorman
June 17, 2002
Page 2

5. Overall training for management, staff and operators is very important and must be addressed.

Finally, concern has been expressed to District officials regarding the immediate need to remove residuals from the holding tank and the proper disposal thereof. MCWD has engaged J&M Monitoring to perform this work and is coordinating with state regulatory agencies for approval and permitting.

Please advise if we can be of further assistance or if additional information is required.

Respectfully submitted,



Herbert A. Miller, Jr.
Corporate Counsel

cc (w/encl):

Hon. Brenda Lowe
Natural Resources and Environmental
Protection Cabinet
Capital Plaza Tower
Frankfort, KY 40601

Hon. Eldred E. Adams, Jr.
110 Main Street
P.O. Box 606
Louisa, KY 41230

Hon. J.R. Triplett
P.O. Box 2128
Inez, KY 41224

Martin County Water District
HC69, Box 875
Inez, KY 41224

R.W. Mundy II, Kentucky-American Water Company
✓ Dillard Griffin, KAWC
Jan Routt, KAWC
Bill Bunch, KAWC
Jim Hamilton, WVAWC



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • 859.269.2386

Dillard Griffin
Operations Superintendent

May 20, 2002

J. R. Triplett, Chairman
Martin County Water District
Kirk Insurance Building
Main Street
Inez, KY 41224

Re: *Proposal for Assistance With Consumer Confidence Report*

Dear Mr. Triplett:

State and Federal drinking water regulations require that the Martin County Water District (MCWD) provide to its customers annually a Consumer Confidence Report (CCR), sometimes referred to as a water quality report. MCWD received a Notice of Violation for failure to comply with these regulations with regard to its 2001 report. Under these regulations, MCWD must issue its CCR directly to each of its individual customers no later than June 30.

The CCR is a report which presents important information about MCWD drinking water quality. Information contained in the CCR is stipulated by state and federal regulation and is based on data obtained from routine monitoring and testing performed by the utility throughout the year. KAWC recommends that MCWD begin immediately on its 2002 CCR to ensure delivery to customers by June 30.

Kentucky-American Water Company (KAWC) is well familiar with the CCR requirements and offers to assist MCWD in preparing and distributing its 2002 CCR. KAWC will perform this work for MCWD for \$3,225. Included in the services to be provided by KAWC for this fee are analysis of data, preparation of the report, graphic design, printing, and mailing to MCWD's entire customer base. A total of 3,500 copies will be produced which will allow for mailing to every current customer and for copies to be kept on-hand at the office to be given to new customers and other interested parties.

If you desire for Kentucky American Water Co. to proceed with the total handling of the MCWD Consumer Confidence Report, please acknowledge by signing and returning the acknowledgment to KAWC. Please be advised that in order to meet the regulatory date

for the distribution of the CCR report we will need you acknowledgement as soon as possible and definitely no later than May 30, 2002.

John R. Triplett, chairman of the board MCWD

Sincerely,

Dillard Griffin

C: E.E. Adams
Harold Garrison
Bill Bunch

Dillard Griffin
Production Superintendent

MEMORANDUM

TO: J. R. Adams, Chairman 606 298 7127
E.E. Adams, Counsel 606 638 0313
Martin County Water District

FROM: Dillard Griffin

DATE: Friday, June 07, 2002

SUBJECT: High Service Pumps at MCWD, Item 5 on the checklist dated 5/9/02, and PSC order dated April 5, 2002, DOW NOV dated 4/8/02.

The MCWD has two pumping units for distribution of water from the Water Treatment Plant clear well to the MCWD distribution system. Pumping units used for the distribution of the WTP water to the distribution system are commonly referred to as "high service units". These pumps are labeled as pump 1 (one) and Pump 2 (two). The complete pump units consisting of, the pump the electric motor and electrical starter and associated electrical control equipment. The reliable operation and maintenance of these two pumping units has been of great interest and concern by all parties.

Pump unit 2 is currently in service and serves as the single source for the plant high service pumping. Pumping unit 1 (one) is out of service and has been out of service for some reportedly 4 to 7 years. The Division of Water Notice of Violation dated 4/8/02 states replace or repair both high service pumps. An electrical motor starter and electrical breaker have been ordered to correct the electrical control system of these two pumping units. The electrical breaker was received at the MCWD WTP this week; the shipping date for the electrical starter is approximately 5/31/02. We have contacted Square D Company for them to provide a quote for the installation of this equipment.

However, and in reference to the actual pumping units. Installation of this control equipment does not fix the actual pump and electrical motor. When we have inspected the out of service unit 1 (one), it shows that there needs to be work performed on the pumping unit. Operational conditions show that there should also be an overhaul and servicing of the unit 2. This has been discussed in previous correspondence, and we have had two qualified contractors visit the MCWD WTP to view the installation and the equipment. We have obtained from these contractors quotations for a complete servicing of these two

units. The quotations are for removal of the pump motor, take the motors to their machine shop and completely clean and service the electrical motors, simultaneously they would remove the pumping unit and transport it to the machine shop and clean realign the pumps install new bearing etc. In previous correspondence I have recommended that this work be performed on both pumping units, and that it be performed prior to the installation of the new starter and breaker. Upon inspection it took two men with a three-foot pipe wrench to turn the shaft of the out of service unit. We do not believe that this pumping unit will be operational without the overhaul that is being recommended. Therefore, we are recommending that authorization be given to the contractor to begin work on the unit 1 (one), once it has been rebuilt, reinstalled and the new electrical starter and breaker installed, then the unit 2 (two) would be removed from service and it completely serviced. The best price quote that we have been able to obtain is from the RPM Company located in Cannonsburg, Ky. Their quote for the two units is \$22,030. If it is determined that the electrical motors are damaged and needs rewind there would be an additional cost of \$2,300 per motor, and the other possibility is if the impellers in the pump had to be replaced then this would be a change order cost. However, this cannot be diagnosed for certainty until the unit is actually on the test bench in a machine shop. RPM is a company that is very reliable, a company that has done a great deal of work for Kentucky American Water Company and one that we would recommend that you contract for this work.

Darrell Ary, Operations Superintendent of maintenance, for Kentucky American Water Company has coordinated the procurement of the bidding and would be available to work with the contractor on this proposed work.

This work needs to be started now, in order to timely facilitate this work and coordinate it along with the installation of the new electrical equipment.

Please respond to me in writing as to how and what you would want KAWC to do in order to complete this work.

John R. Triplett

Dillard Griffin
Production Superintendent

MEMORANDUM

TO:

FROM: Dillard Griffin

DATE: Friday, June 07, 2002

SUBJECT:

Mr. Triplett, when I have been at the MCWD office and WTP, I have become very concerned about the security of the facility. On Tuesday evening 5/21 I was at the plant until around 10:45 PM. I observed several automobiles come into the parking. Some stopped and looked around and some just turned and left. No problems, from these but I did not like it. I took the liberty of positing a policy note to the WTP staff advising them to keep the entrance gate closed and locked during all hours that the MCWD office is closed. I hope this meets with your approval.

However today an additional security breach came up. While at the plant Harold Garrison found a local reporter along with an out of town photographer in the MC WTP high service room taking photographs. He took them to the office and explained that this was not acceptable, that due to many reasons, safety concerns, liability, need to know, etc. Further that there is a sign on the front stating "Authorized Personnel only"; and that they could not just come and go as they pleased inside of that water plant. I am therefore

Increasing my suggestion for security.

1. That a policy be issued that mandates that the WTP front door stay locked at all times, a battery powered door bell can be installed, for less than \$50.
2. That a sign be placed on the front door stating that all visitors must register at the office.
3. Place a visitors log book in the office requiring visitors to log in and out.

Without elaboration I believe that you can easily see the logic for my concern and suggestion. If you desire you can set this program up and issue the policy statements, or if you desire or I can have these procedures put into place. In either case I strongly suggest that these actions be taken. The liability concerns to MCWD is to great to allow unauthorized personnel free and unauthorized access to the facilities.

Please advise me of your direction, if you want me to handle this; just sign and return. Further if you disagree with the policy of keeping the gate locked please advise.

John R. Triplett

Dillard Griffin
Production Superintendent

MEMORANDUM

TO: J. R., Triplett

FROM: Dillard Griffin

DATE: Friday, June 07, 2002

SUBJECT: Tom Alley, WTP Operator

By state regulation a water treatment plant operator and a water distribution system operator must have 24 hours of continuing education each 2 years in order to be eligible to renew their certification. I have been advised that Tom Alley has not gotten any of his required continuing education during the past two years. The current period expires on June 30, 2002. In order for Tom to renew his certification he must get 24 hours of DOW approved CEU's prior to 6/30/02. In order to meet this late deadline he will have to leave the area and perhaps spend some overnights at training centers. In June there is some training scheduled at the Anderson Technical center in Lawrenceburg, the Kentucky Rural Water has a one day program for applied math at Natural Bridge. I believe that totally we can find enough sessions to get him his required 24 hours training. But, we need to be getting on this one immediately. Further, there may be some training available at the area schools but I am not aware of them.

If you desire me to schedule and find some training for Tom, please advise.

J. R. Triplett



"Eldred E. Adams, Jr."
<eeadams@lycomonlin
e.com>

06/10/2002 11:48 AM

To: "BUNCH BILL" <bbunch@kawc.com>, "GARRISON HAROLD"
<hgarriso@kawc.com>, "GRIFFIN DILLARD" <dgriffin@kawc.com>,
"JOHN R" <jtriplett@setel.com>, "MIKE CAIN"
<gmccain2@hotmail.com>
cc:
Subject: MARTIN COUNTY WATER DISTRICT

GENTLEMEN:

THIS MORNING I TALKED TO JOHN R AND JR HORN AND THEY ARE GOING TO CONTACT TOM ALLEY AND MAKE ARRANGEMENTS FOR HIM TO GET HIS ADDITIONAL TRAINING BEFORE JUNE 30. WE ALSO DISCUSSED THE POSSIBILITY OF JR AND NILES INSPECTING THE VARIOUS STORAGE TANKS TO GET A TRUE PICTURE OF THAT SITUATION. WHILE WE DEFINITELY HAVE A PROBLEM AT ONE TANK, I SUSPECT A LOT OF WHAT THE PSC WAS COMPLAINING ABOUT WAS BASED ON HEARSAY AND ASSUMPTIONS RATHER THAN AN ACTUAL INSPECTION.

I CONTACTED BRENDA LOWE, THE ATTORNEY FOR THE DIVISION OF WATER, THIS MORNING .

I LAID THE GROUNDWORK FOR THE DISCUSSION BY POINTING OUT THAT DIVISION OF WATER PERSONNEL AND LEGAL COUNSEL WERE PRESENT AT THE INFORMAL CONFERENCES WITH THE PSC AND THE FORMAL HEARINGS AS WELL. CLEARLY, THE DIVISION OF WATER KNEW EVERYTHING THAT WAS GOING ON WITH THE MARTIN COUNTY WATER DISTRICT.

I THEN RELATED THE INCIDENT OF THURSDAY JUNE 6 WHERE THE DIVISION OF WATER PERSONNEL WANTED A RESPONSE TO THEIR APRIL LETTER OF COMPLAINTS. I TOLD HER THAT MR GRIFFIN HAD PREPARED A HANDWRITTEN RESPONSE, JR SIGNED IT , AND IT WAS ACCEPTED. I TOLD HER THAT NEXT DAY THAT WE HAD GOTTEN A CALL THAT IT WAS NOT SATISFACTORY BECAUSE IT WAS NOT ON MCWD LETTERHEAD AND THAT ANOTHER VIOLATION WAS GOING TO BE ISSUED.

I ASKED HER TO FIND OUT WHAT IT WOULD TAKE TO SATISFY HER PEOPLE. THOUGH WE COULD FILE A PROTEST, IT WAS GOING TO BE A WASTE OF EVERYBODY'S TIME. SHE TOLD ME THAT SHE HAD JUST GOTTEN BACK FROM VACATION AND HAD TO LOOK INTO IT AND IT MIGHT BE A DAY OR TWO BEFORE SHE COULD RETURN MY CALL. I TOLD HER THAT WAS FINE AND THAT I WOULD APPRECIATE HER HELP ON THE MATTER.

BUD
TEL. 606-638-4890
FAX 606-638-0313

Dillard Griffin
06/03/2002 04:32 PM

To: eeadams@lycomonline.com, jtriplett@setel.com
cc: Harold Garrison/KAWC/AWWSC@AWW, Bill
Bunch/KAWC/AWWSC@AWW

Subject:

Mr. Triplett

We have been advised today by Melanie that she must get the payroll inputted today in order to get the payroll processed. We have a couple of issues that must be addressed immediately in order to be able to input the payroll.

The office has never been given an actual pay rate for Kathy. Must have some pay rate to input. Kathy states that she was asked to come over to the water district office and work but was not given a salary rate. Further, that she cannot work for \$6.50 as Melanie is making. They need to know her rate in order to process the payroll. Further, it is my understanding that you had plans to make some changes in the office staff. I believe that you had quoted some suggested rates and an arrangement that you had in mind. I do not disagree; actually do agree with the plan that you had discussed and think it would be a good decision. But, at what pay rate should they be advised to input Kathy's pay?

We also must have a final salary for Melanie, I am advised that she is currently making \$6.50 per hour, but she has stated that she will not continue to work for this rate. But, if the \$ 6.50 is what you want to continue to pay her, this is fine, we just need to know if that is the rate to tell her to input. If she doesn't want to work for that rate and it is your decision to pay that rate, then she just have to make her own decision.


Regarding Tom Alley; Harold Garrison has told me that a few weeks past you had said to Harold that you were going to advise the accountant to raise Tom's pay rate to the equivalent of what Fayette was being paid. Once again the office never got word of this so his pay rate remains what it previously was. We will advise them to input his rate at the \$13.26 but this needs to be confirmed in writing by you.

Mr. Triplett these are all decisions for you and I am not trying to rush you, but we must know specifically what rates you want inputted in order to get the payroll out. Regarding the proposed staffing arrangement for the office that you had discussed. I believe that you have a good plan, but that it will result in the loss of the staff, but if we don't get this payroll/staffing issue settled we are going to lose all of the staff. At the current time we are working with the staff to train them not only the administrative duties of the office but the duties as required by various regulations. All of this training is going to be for nothing if we have to start off with a new staff. If there is going to be a new staff, then it may as well be now as later. Let the ones quit who want to and we start over, training those who will be there. So the quicker that you can give us these pay rates the better.

Dillard Griffin
Kentucky American Water Company
2300 Richmond Road
Lexington, KY 40502
859 268 6340 (office)
859 339 6823 (cell)
859 268 6395 (fax)

Jan Rutt

06/13/2002 11:54 AM

To: Herb Miller/KAWC/AWWSC@AWW
cc:
Subject: Re: Martin County: PSC Filing 

Install chart recorders on individual turbidimeters...cost estimate \$4,000...

Need and additional phone line to the the plant and email communication with operators.

This is all I have that is new since the last list.

Jan

859/335-3662 office
859/263-3137 fax
jrutt@kawc.com
Herb Miller

Herb Miller

06/12/02 03:13 PM

To: Dillard Griffin/KAWC/AWWSC@AWW
cc: Jan Rutt/KAWC/AWWSC@AWW, Roy
Mundy/KAWC/AWWSC@AWW
Subject: Martin County: PSC Filing

We have to file all our recommendations fro Martin County with the PSC no later than Monday.
These are in addition to the 30-point letter. Can you list these for me ASAP? Thanks.

6/18/02

**EMERGENCY PROFESSIONAL SERVICE
AND ADVISORY AGREEMENT**

This Emergency Professional Service and Advisory Agreement (“Agreement”) dated as of this 18th day of June 2002, between Kentucky-American Water Company (“KAWC”), a Kentucky corporation, and the Martin County Water District (“MCWD”), created pursuant to Kentucky statute.

WITNESSETH:

WHEREAS, MCWD executed an Emergency Professional Service and Advisory Agreement with KAWC on April 16, 2002, and a subsequent Advisory Agreement with KAWC on May 21, 2002 which terminates on June 18, 2002;

WHEREAS, MCWD desires to continue its relationship with KAWC as stipulated under its Emergency Professional Service and Advisory Agreements with KAWC dated April 16, 2002 and May 21, 2002;

WHEREAS, KAWC desires to continue to provide services to MCWD as stipulated under its Emergency Professional Service and Advisory Agreements with MCWD dated April 16, 2002 and May 21, 2002;

WHEREAS, MCWD operates combined water treatment, transmission, storage, distribution and related facilities serving customers in Martin County, Kentucky (“System”);

WHEREAS, the Commonwealth of Kentucky, Natural Resources and Environmental Protection Cabinet, Department for Environmental Protection, Division of Water ("DOW"), issued a Notice of Violation ("NOV") to MCWD dated April 10, 2002 (Appendix 1), and subsequent NOVs;

WHEREAS, the Commonwealth of Kentucky, Public Service Commission ("PSC"), opened an Investigation of the Operating Capacity of Martin County Water District Pursuant to KRS 278.280, Case No. 2002-00116, on April 5, 2002 ("Order") (Appendix 2), and subsequent Orders;

WHEREAS, the MCWD water treatment plant experienced certain equipment failures of a critical nature on April 10-11, 2002, and the parties recognize that the staffing and facilities of MCWD are insufficient under current circumstances to provide adequate water service to MCWD's customers, and that such facilities are in need of repair;

WHEREAS, MCWD Chairman J. R. Triplett declared a state of emergency on April 10, 2002 with regard to certain equipment failures at the MCWD treatment plant for the purpose of expediting emergency repairs and replacement to said equipment;

WHEREAS, MCWD Chairman J. R. Triplett on April 10, 2002 requested the emergency advisory assistance of KAWC in resolving certain equipment failure issues at the MCWD water treatment plant;

WHEREAS, MCWD desires the advisory assistance of KAWC in formulating appropriate responses to issues raised in the DOW NOV and the PSC Order;

WHEREAS, KAWC and MCWD are interested in working together to assist MCWD in providing adequate water services to its customers during this emergency situation;

WHEREAS, DOW and PSC have indicated appreciation and support for a cooperative effort between KAWC and MCWD in resolving current emergency issues of MCWD;

WHEREAS, either MCWD personnel are not available to perform the functions herein or it would not be feasible to utilize MCWD personnel to perform such functions, and KAWC is available and qualified to perform such functions;

WHEREAS, MCWD desires that KAWC, on a short-term and limited basis, act in an advisory capacity to MCWD regarding certain operation, maintenance, and management decisions that must be considered and implemented to resolve current emergency issues of the System;

NOW, THEREFORE, for and in consideration of the covenants and agreements herein contained and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree that:

1. Subject to the right to terminate the Agreement as provided below, MCWD hereby requests and KAWC agrees to provide emergency advisory assistance to MCWD for the purpose of (1) addressing certain emergency equipment failures, (2) assisting MCWD in making appropriate regulatory responses, and (3) providing advisory services regarding other operation, maintenance, or management issues that may arise during the term of this Agreement.

2. MCWD shall retain its full statutory authority and responsibility to operate, maintain, and manage the MCWD.

3. KAWC shall act in an advisory capacity to MCWD and shall not act or otherwise obligate MCWD without specific advance authority from MCWD or within reasonable bounds of authority as may be extended by MCWD to KAWC.

4. KAWC shall provide the advisory services to MCWD on the following terms and conditions:

- a. KAWC shall provide operations, maintenance, and management personnel as may be deemed necessary by KAWC to formulate appropriate responses to the DOW NOV and PSC Order, and subsequent NOVs and Orders, including, but not limited to, identification of necessary actions, prioritization of appropriate responses, providing estimates of cost, identification of potential funding sources, providing assistance in securing of appropriate outside contractors, and implementation of appropriate actions as may be desired and authorized by MCWD.
- b. The KAWC will invoice MCWD monthly during the term of this Agreement, and at the termination of the Agreement, for the actual cost or expenses associated with those services which it renders for MCWD plus ten percent (10%), such costs and expenses to be based on receipts for expenditures or upon the fully distributed cost of such services, whichever is greater. MCWD agrees, without offset for any reason, to pay KAWC for such services and expenditures within ten (10) days of the date of the invoice.

5. MCWD understands and agrees that in carrying out its obligations under this Agreement, KAWC is not assuming management responsibility for MCWD and shall not be liable for any of MCWD's debt or other liabilities by virtue of this Agreement.

6. In addition to reimbursing KAWC for its costs and expenses during such interim operations under this Agreement as described in Section 4(b) above, MCWD also agrees that MCWD shall continue to be responsible for, and shall pay, all other costs and expenses incident to the operation of the System during the period of this Agreement.

7. During the term of this Agreement, all employees of the System shall continue to be employees of MCWD on the usual terms and conditions of their employment, and MCWD specifically understands and agrees that KAWC is not the employer of any employees of the System.

8. KAWC and MCWD agree that during the Agreement, KAWC shall use reasonable efforts to advise MCWD of any operating problems that it observes, but that MCWD shall remain liable for any operating losses of the System and shall be responsible for any and all capital improvements necessary to the System.

9. It is understood and agreed by the Parties that the relationship of KAWC to MCWD is that of independent contractor. The services provided for under this Agreement are of a professional nature and MCWD shall indemnify and hold KAWC (and its officers, directors, employees and agents) harmless from and against any claim, damages or liabilities whatsoever, direct or indirect, including regulatory actions and attorneys fees, arising out of or in connection with the performance of this Agreement, unless caused by the sole intentional misconduct or gross negligence of KAWC. Notwithstanding any other provision of this Agreement, KAWC shall not be responsible

or liable for the quality of the potable water, costs incurred in the production and distribution of the potable water or fines or penalties regarding such water. Further, MCWD shall maintain in force all of its existing insurance coverage, including fire, casualty, liability, general liability, workers compensation, vehicle, and other coverage. KAWC shall be entitled to at least ten (10) days prior notice of any intent to cancel said coverage.

10. If any litigation is necessary to enforce the terms of this Agreement, the action, unless waived by KAWC in writing, shall be brought and maintained in the appropriate state or federal court in Fayette County, Kentucky, and the prevailing Party shall be entitled to interest at the statutory rate, reasonable attorney's fees, which are directly attributed to such litigation, in addition to any other relief to which it may be entitled.

11. MCWD represents that it has the authority to enter into this Agreement, and represents that it has complied with all governmental action necessary to bind it to the terms hereof.

12. MCWD shall be liable for those fines or civil penalties, or other penalties or relief or remedy, imposed by any regulatory or enforcement agencies on MCWD which are directly related to its ownership or operation of the System, including those which may arise from the DOW NOV and PSC Order, or future actions, and shall indemnify and hold KAWC harmless from the payment of any such fines and/or penalties.

13. Indemnity obligations provided for in this Agreement shall survive the termination of the Agreement.

14. If required by PSC or DOW, KAWC shall submit the Agreement for review and approval by PSC and/or DOW. If, for any reason, PSC and/or DOW fail to approve the Agreement, the Agreement shall be immediately terminated.

15. This Agreement is in addition to the Interim Operations Agreement dated January 25, 2002 by and between KAWC and MCWD which provides, among other things, that KAWC shall provide certified water treatment plant operator(s) to MCWD.

16. Either Party may terminate this Agreement prior to its expiration by reason of material breach of the Agreement by the other Party, but only after giving written notice of breach and allowing the Party in default five (5) days to cure same or commence taking reasonable steps to cure the breach. Otherwise, this Agreement will terminate (a) July 16, 2002; (b) upon mutual agreement of the parties, or (c) upon twenty-four hours written notice to either party by the other party, without cost or liability to either party, except for payment of any accrued cost incurred as provided in Section 4(b) above. Notice of termination shall be valid if delivered by electronic transmission or facsimile transmission to:

To KAWC

Kentucky-American Water Company Inc.
2,300 Richmond Road
Lexington, Kentucky 40502
Fax Number: 859-268-6827
E-mail Address: rwmundy@kawc.com

To MCWD:

EVERETT HORN, JR.
~~J. R. Triplett~~, Chairman
Martin County Water District
Main Street
Inez, Kentucky 41224
Fax Number: 606-298-7127
E-mail Address: jtriplett@setel.com

IN WITNESS WHEREOF, the parties have executed this Agreement as of the
date first written above.

KENTUCKY-AMERICAN WATER COMPANY

By

Its

MARTIN COUNTY WATER DISTRICT

By

Its



"John R. Triplett"
<jtriplett@setel.com>
06/24/2002 01:25 PM

To: <dgriffin@kawc.com>
cc:
Subject: Re: HS discharge valves

You are authorized to go ahead with the work on this project as stated in your e-mail of June 21, 2002.

> From: dgriffin@kawc.com
> To: eeadams@lycomonline.com; jtriplett@setel.com
> Cc: hgarrison@kawc.com; dary@kawc.com; bbunch@kawc.com; rwmundy@kawc.com; jhamilto@wvawater.com
> Subject: HS discharge valves
> Date: Friday, June 21, 2002 1:37 PM
>
> On Monday 6/24 technicians from Square D company will be at the MCWD water
> treatment plant to begin installing the new electrical equipment.
Darrell
> Any Operations superintendent/maintenance of KAWC will be there to
> oversee
> and inspect the work. It is hoped that all of the work will be completed
> prior to week end. Further, the discharge valves on the two high service
> valves need to be repaired, in the original order you approved the
> ordering
> the parts to overhaul these valves. The overhaul should take place while
> the electrical and pump work is being conducted. The repair parts have
> been received. We have now gotten a quote from the C.I Thornburg company
> out of Huntington, W VA. to send two technicians to the MCWD plant and
> perform this work. The quote is for one day of labor for two technicians
> at \$920. Need for you to approve this work, and then we will notify C.I.
> Thornburg and they will repair the discharge valve on the High Service
pump
> Number one next week. Once the overhaul begins on High service pump
number
> two the technicians will have to return to the district plant to repair
> the discharge valve on pump number two. Please advise me of you approval
> for this expenditure of \$920 during the week of 6/24, and then an
> additional expenditure service call during the overhaul of high service
> pump number two. Total expenditure to C.I Thornburg will amount then to
> \$1840. I need your authorization as quickly as possible in order to
notify
> them to proceed with the work next week.
>
> Dillard Griffin
> Kentucky American Water Company
> 2300 Richmond Road
> Lexington, KY 40502
> 859 268 6340 (office)
> 859 339 6823 (cell)
> 859 268 6395 (fax)
>

8/8/02

**EMERGENCY PROFESSIONAL SERVICE
AND ADVISORY AGREEMENT**

This Emergency Professional Service and Advisory Agreement (“Agreement”) dated as of this 8th day of August 2002, between Kentucky-American Water Company (“KAWC”), a Kentucky corporation, and the Martin County Water District (“MCWD”), created pursuant to Kentucky statute.

W I T N E S S E T H:

WHEREAS, MCWD executed an Emergency Professional Service and Advisory Agreement with KAWC on April 16, 2002, a subsequent Advisory Agreement with KAWC on May 21, 2002, and a subsequent Advisory Agreement with KAWC on June 18, 2002, and a subsequent Advisory Agreement with KAWC on July 16, 2002 which terminates on August 20, 2002;

WHEREAS, MCWD desires to continue its relationship with KAWC as stipulated under its Emergency Professional Service and Advisory Agreements with KAWC dated April 16, 2002, May 21, 2002, June 18, 2002, and July 16, 2002;

WHEREAS, KAWC desires to continue to provide services to MCWD as stipulated under its Emergency Professional Service and Advisory Agreements with MCWD dated April 16, 2002, May 21, 2002, June 18, 2002, and July 16, 2002;

WHEREAS, MCWD operates combined water treatment, transmission, storage, distribution and related facilities serving customers in Martin County, Kentucky (“System”);

WHEREAS, the Commonwealth of Kentucky, Natural Resources and Environmental Protection Cabinet, Department for Environmental Protection, Division of Water (“DOW”), issued a Notice of Violation (“NOV”) to MCWD dated April 10, 2002 (Appendix 1), and subsequent NOV’s;

WHEREAS, the Commonwealth of Kentucky, Public Service Commission (“PSC”), opened an Investigation of the Operating Capacity of Martin County Water District Pursuant to KRS 278.280, Case No. 2002-00116, on April 5, 2002 (“Order”) (Appendix 2), and subsequent Orders;

WHEREAS, the MCWD water treatment plant experienced certain equipment failures of a critical nature on April 10-11, 2002, and the parties recognize that the staffing and facilities of MCWD are insufficient under current circumstances to provide adequate water service to MCWD’s customers, and that such facilities are in need of repair;

WHEREAS, MCWD Chairman J. R. Triplett declared a state of emergency on April 10, 2002 with regard to certain equipment failures at the MCWD treatment plant for the purpose of expediting emergency repairs and replacement to said equipment;

WHEREAS, MCWD Chairman J. R. Triplett on April 10, 2002 requested the emergency advisory assistance of KAWC in resolving certain equipment failure issues at the MCWD water treatment plant;

WHEREAS, MCWD desires the advisory assistance of KAWC in formulating appropriate responses to issues raised in the DOW NOV and the PSC Order;

WHEREAS, KAWC and MCWD are interested in working together to assist MCWD in providing adequate water services to its customers during this emergency situation;

WHEREAS, DOW and PSC have indicated appreciation and support for a cooperative effort between KAWC and MCWD in resolving current emergency issues of MCWD;

WHEREAS, either MCWD personnel are not available to perform the functions herein or it would not be feasible to utilize MCWD personnel to perform such functions, and KAWC is available and qualified to perform such functions;

WHEREAS, MCWD desires that KAWC, on a short-term and limited basis, act in an advisory capacity to MCWD regarding certain operation, maintenance, and management decisions that must be considered and implemented to resolve current emergency issues of the System;

NOW, THEREFORE, for and in consideration of the covenants and agreements herein contained and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree that:

1. Subject to the right to terminate the Agreement as provided below, MCWD hereby requests and KAWC agrees to provide emergency advisory assistance to MCWD for the purpose of (1) addressing certain emergency equipment failures, (2) assisting MCWD in making appropriate regulatory responses, and (3) providing advisory services regarding other operation, maintenance, or management issues that may arise during the term of this Agreement.

2. MCWD shall retain its full statutory authority and responsibility to operate, maintain, and manage the MCWD.

3. KAWC shall act in an advisory capacity to MCWD and shall not act or otherwise obligate MCWD without specific advance authority from MCWD or within reasonable bounds of authority as may be extended by MCWD to KAWC.

4. KAWC shall provide the advisory services to MCWD on the following terms and conditions:

- a. KAWC shall provide operations, maintenance, and management personnel as may be deemed necessary by KAWC to formulate appropriate responses to the DOW NOV and PSC Order, and subsequent NOVs and Orders, including, but not limited to, identification of necessary actions, prioritization of appropriate responses, providing estimates of cost, identification of potential funding sources, providing assistance in securing of appropriate outside contractors, and implementation of appropriate actions as may be desired and authorized by MCWD.

b. The KAWC will invoice MCWD monthly during the term of this Agreement, and at the termination of the Agreement, for the actual cost or expenses associated with those services which it renders for MCWD plus ten percent (10%), such costs and expenses to be based on receipts for expenditures or upon the fully distributed cost of such services, whichever is greater. MCWD agrees, without offset for any reason, to pay KAWC for such services and expenditures within ten (10) days of the date of the invoice.

5. MCWD understands and agrees that in carrying out its obligations under this Agreement, KAWC is not assuming management responsibility for MCWD and shall not be liable for any of MCWD's debt or other liabilities by virtue of this Agreement.

6. In addition to reimbursing KAWC for its costs and expenses during such interim operations under this Agreement as described in Section 4(b) above, MCWD also agrees that MCWD shall continue to be responsible for, and shall pay, all other costs and expenses incident to the operation of the System during the period of this Agreement.

7. During the term of this Agreement, all employees of the System shall continue to be employees of MCWD on the usual terms and conditions of their employment, and MCWD specifically understands and agrees that KAWC is not the employer of any employees of the System.

8. KAWC and MCWD agree that during the Agreement, KAWC shall use reasonable efforts to advise MCWD of any operating problems that it observes, but that MCWD shall remain liable for any operating losses of the System and shall be responsible for any and all capital improvements necessary to the System.

9. It is understood and agreed by the Parties that the relationship of KAWC to MCWD is that of independent contractor. The services provided for under this Agreement are of a professional nature and MCWD shall indemnify and hold KAWC (and its officers, directors, employees and agents) harmless from and against any claim, damages or liabilities whatsoever, direct or indirect, including regulatory actions and attorneys fees, arising out of or in connection with the performance of this Agreement, unless caused by the sole intentional misconduct or gross negligence of KAWC. Notwithstanding any other provision of this Agreement, KAWC shall not be responsible or liable for the quality of the potable water, costs incurred in the production and distribution of the potable water or fines or penalties regarding such water. Further, MCWD shall maintain in force all of its existing insurance coverage, including fire, casualty, liability, general liability, workers compensation, vehicle, and other coverage. KAWC shall be entitled to at least ten (10) days prior notice of any intent to cancel said coverage.

10. If any litigation is necessary to enforce the terms of this Agreement, the action, unless waived by KAWC in writing, shall be brought and maintained in the appropriate state or federal court in Fayette County, Kentucky, and the prevailing Party shall be entitled to interest at the statutory rate, reasonable attorney's fees, which are directly attributed to such litigation, in addition to any other relief to which it may be entitled.

11. MCWD represents that it has the authority to enter into this Agreement, and represents that it has complied with all governmental action necessary to bind it to the terms hereof.

12. MCWD shall be liable for those fines or civil penalties, or other penalties or relief or remedy, imposed by any regulatory or enforcement agencies on MCWD which are directly

related to its ownership or operation of the System, including those which may arise from the DOW NOV and PSC Order, or future actions, and shall indemnify and hold KAWC harmless from the payment of any such fines and/or penalties.

13. Indemnity obligations provided for in this Agreement shall survive the termination of the Agreement.

14. If required by PSC or DOW, KAWC shall submit the Agreement for review and approval by PSC and/or DOW. If, for any reason, PSC and/or DOW fail to approve the Agreement, the Agreement shall be immediately terminated.

15. This Agreement is in addition to the Interim Operations Agreement dated January 25, 2002 by and between KAWC and MCWD which provides, among other things, that KAWC shall provide certified water treatment plant operator(s) to MCWD.

16. Either Party may terminate this Agreement prior to its expiration by reason of material breach of the Agreement by the other Party, but only after giving written notice of breach and allowing the Party in default five (5) days to cure same or commence taking reasonable steps to cure the breach. Otherwise, this Agreement will terminate (a) September 30, 2002; (b) upon mutual agreement of the parties, or (c) upon twenty-four hours written notice to either party by the other party, without cost or liability to either party, except for payment of any accrued cost incurred as provided in Section 4(b) above. Notice of termination shall be valid if delivered by electronic transmission or facsimile transmission to:

To KAWC

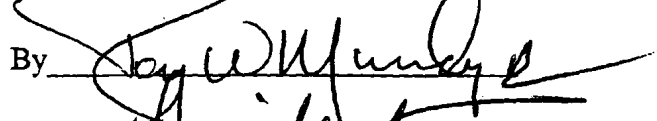
Kentucky-American Water Company Inc.
2,300 Richmond Road
Lexington, Kentucky 40502
Fax Number: 859-268-6827
E-mail Address: rwmundy@kawc.com

To MCWD:


Mike Cain, Chairman
Martin County Water District
P O Box 596
Paintsville, Kentucky 41240
Phone Number: 606-789-2566
Fax Number: 606-789-3643
E-mail Address: gmccain2@hotmail.com

IN WITNESS WHEREOF, the parties have executed this Agreement as of the
date first written above.

KENTUCKY-AMERICAN WATER COMPANY

By 
Its President

MARTIN COUNTY WATER DISTRICT

By 
Its Chairman