

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**THE JOINT APPLICATION OF)
SOUTHERN WATER AND SEWER)
DISTRICT; PRESTONSBURG CITY'S)
UTILITIES COMMISSION; AND THE)
CITY OF PRESTONSBURG, KENTUCKY)
FOR AN ORDER APPROVING THE) **CASE NO. 2017-00044**
TRANSFER OF OWNERSHIP OF THE)
WASTEWATER SYSTEM AND CERTAIN)
PORTIONS OF THE WATER SYSTEM OF)
SOUTHERN WATER AND SEWER)
DISTRICT)**

RESPONSE OF

JOINT APPLICANTS

TO

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

DATED MARCH 6, 2017

FILED: March 13, 2017

COMMONWEALTH OF KENTUCKY

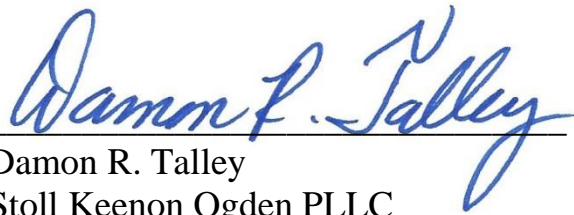
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**RESPONSE OF JOINT APPLICANTS TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Come the Joint Applicants, Southern Water and Sewer District, Prestonsburg City's Utilities Commission, and the City of Prestonsburg, Kentucky, for their Response to the Commission Staff's First Request for Information, and state as shown on the following pages.



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Counsel for the Joint Applicants

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CERTIFICATION OF RESPONSE OF JOINT APPLICANTS TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

This is to certify that I have supervised the preparation of the Joint Applicants' Response to the Commission Staff's First Request for Information. The responses submitted on behalf of the Joint Applicants are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Date: 3/20/17

TE Campbell
 Turner E. Campbell, Superintendent & CEO
 Prestonsburg City's Utilities Commission

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Date: 3-10-17



Dean M. Hall, Manager
Southern Water and Sewer District

JOINT APPLICANTS

CASE NO. 2017-00044

Response to Commission Staff's First Request for Information

Question No. 1

Responding Witness: Turner E. Campbell, Superintendent & CEO of PCUC, and Dean M. Hall, Manager of Southern District

Q-1. Paragraph 19 of the Joint Application states that the agreed-upon purchase price for the assets proposed to be transferred (“Assets”) “represents the fair market value of the Assets.” Provide support for this statement. If Joint Applicants obtained an appraisal of the Assets, provide a copy of such appraisal.

A-1. The Joint Applicants determined the purchase price of the Assets and the other terms and conditions contained in the Asset Purchase Agreement following many months of negotiations. The proposed transaction is an “arm’s length” transaction between knowledgeable and willing parties of equal negotiating strength. Southern District is a knowledgeable and willing seller, which is not being compelled to sell the Assets. The City and PCUC are knowledge and willing buyers, which are not being compelled to purchase the Assets.

As explained in Paragraph 13 of the Asset Purchase Agreement, Southern District is facing potential administrative sanctions from the Division of Enforcement of the Kentucky Energy and Environment Cabinet (“DOE”) for alleged violations of Kentucky water quality laws. PCUC has

already expended significant resources managing, operating, repairing, and maintaining Southern District's wastewater system to mitigate or eliminate the civil penalties that might be imposed by the DOE against Southern District. When determining the Assets' value, the Parties considered the liabilities encumbering the Assets, the substantial capital expenditures that Southern District will avoid by transferring the Assets, and the expensive rehabilitations, repairs, and improvements that PCUC must incur.

The Joint Applicants did not obtain an appraisal of the Assets because they felt such expense was unnecessary given that they had agreed upon the purchase price for the Assets. No appraisal is required by law. Neither KRS Chapter 74 nor Chapter 106 requires an appraisal for the transfer of water or wastewater system assets by a water district. The parties' main goal in the proposed transfer is the improvement of water and wastewater service for the public in and around Floyd County, Kentucky. Transfer of the facilities will result in greater economies of scale and improve service reliability while maintaining public ownership and control of the facilities. An appraisal is unnecessary and would needlessly increase the costs associated with the proposed transfer.

JOINT APPLICANTS

CASE NO. 2017-00044

Response to Commission Staff's First Request for Information

Question No. 2

Responding Witness: Turner E. Campbell

- Q-2. State whether PCUC and the City intend to continue to operate the Harold Wastewater Treatment Plant ("WWTP"), the Eastern WWTP, and the Wayland WWTP upon the transfer of the Assets.
- a. If with respect to any of the WWTP's the response is no, state the manner in which PCUC and the City intend to treat the effluent currently treated by the WWTP.
 - b. If with respect to any of the WWTP's the response is no, state the manner in which PCUC and the City intend to decommission the WWTP, and provide an estimate for when this work will be completed.
- A-2. PCUC and the City intend to continue to operate the Harold WWTP, the Eastern WWTP, and the Wayland WWTP upon the transfer of the Assets.

JOINT APPLICANTS

CASE NO. 2017-00044

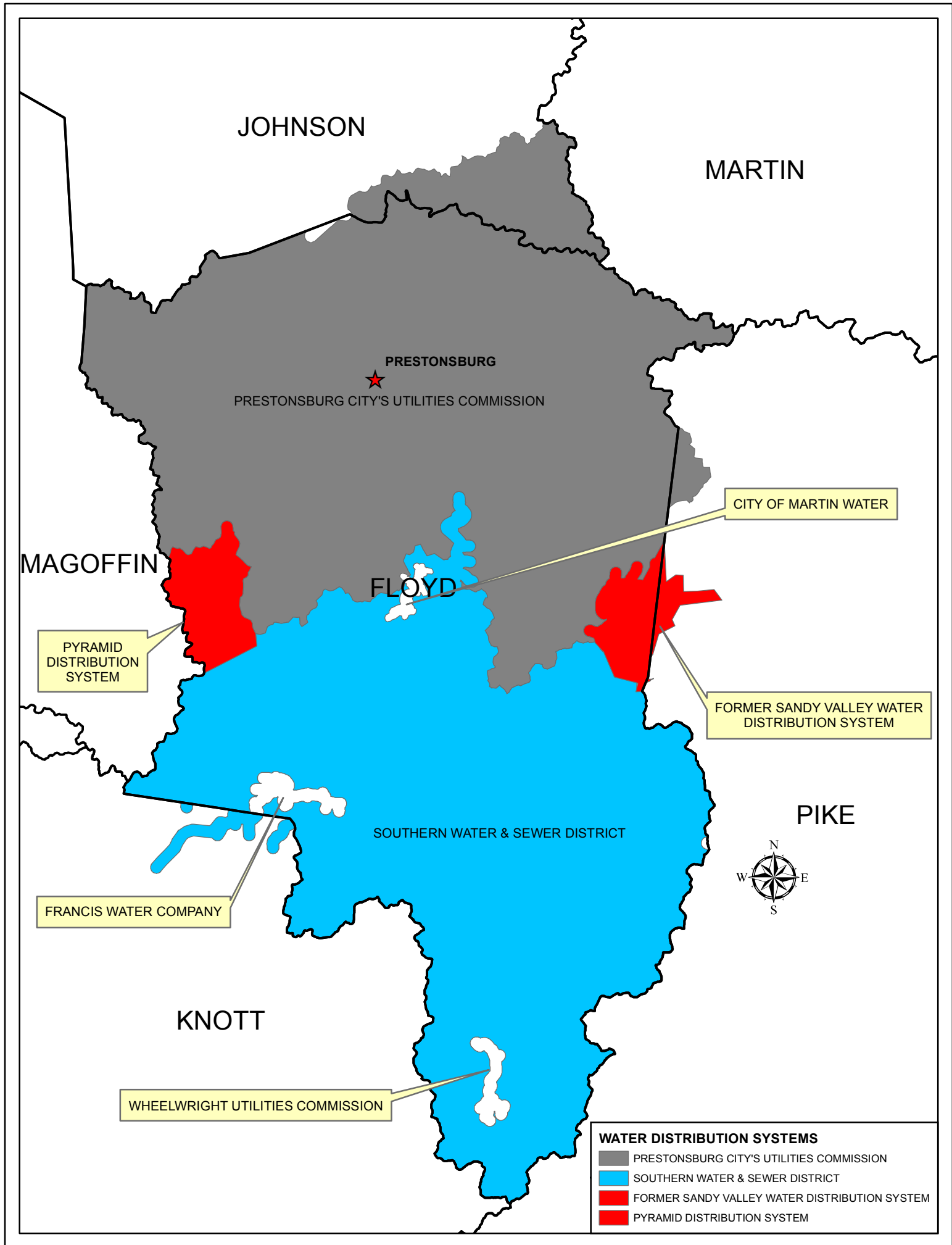
Response to Commission Staff's First Request for Information

Question No. 3

Responding Witness: Turner E. Campbell and Dean M. Hall

- Q-3. The *Annual Report of Southern Water and Sewer District, to the Public Service Commission for the Year Ended December 31, 2015, Water*, (“2015 Water Annual Report”) at page 12, indicates that Southern District provides water service in Floyd and Knott Counties, Kentucky. Provide a map, similar in form to the map attached as Exhibit 3 to the Joint Application, showing any water system assets proposed to be transferred, and the location of any water system assets that are not being transferred and that will continue to be owned and operated by Southern District.
- A-3. See the attached map. The area shown in blue is the service area that Southern District will retain upon transfer. The red areas of the map show the water system assets proposed to be transferred. Pursuant to Paragraph 3 of the Asset Purchase Agreement, the Southern District water system assets to be transferred are the Pyramid Distribution System, including Hippo Hill Tank, and the Former Sandy Valley Water Distribution System, including Eagle Trace Tank, Mare Creek Road Booster Station, Pike-Floyd Hollow Road Booster Station, and Stanville Tank. The location of these water system assets are shown on the map attached as Exhibit 3 to the Joint Application.

All the water system assets depicted on the map (Exhibit 3) will be transferred to the City. Southern District will still retain ownership of all remaining water system assets. These remaining assets include approximately 25 water storage tanks and 16 booster pump stations.



JOHNSON

MARTIN

PRESTONSBURG

PRESTONSBURG CITY'S UTILITIES COMMISSION

CITY OF MARTIN WATER

MAGOFFIN

FLOYD

PYRAMID DISTRIBUTION SYSTEM

FORMER SANDY VALLEY WATER DISTRIBUTION SYSTEM

FRANCIS WATER COMPANY

SOUTHERN WATER & SEWER DISTRICT

PIKE



KNOTT

WHEELWRIGHT UTILITIES COMMISSION

WATER DISTRIBUTION SYSTEMS

- PRESTONSBURG CITY'S UTILITIES COMMISSION
- SOUTHERN WATER & SEWER DISTRICT
- FORMER SANDY VALLEY WATER DISTRIBUTION SYSTEM
- PYRAMID DISTRIBUTION SYSTEM

JOINT APPLICANTS

CASE NO. 2017-00044

Response to Commission Staff's First Request for Information

Question No. 4

Responding Witness: Dean M. Hall

- Q-4. The *Annual Report of Southern Water and Sewer District, to the Public Service Commission for the Year Ended December 31, 2015, Sewer*, at page 25, indicates that Southern District currently has 306 sewer connections. State how many of these connections are to become part of the PCUC system upon completion of the transfer.
- A-4. Because Southern District plans to transfer all three (3) of its wastewater collection and treatment systems, all sewer connections will become part of the PCUC system upon completion of the transfer.

JOINT APPLICANTS

CASE NO. 2017-00044

Response to Commission Staff's First Request for Information

Question No. 5

Responding Witness: Dean M. Hall

- Q-5. The *2015 Water Annual Report*, at page 53, indicates Southern District has 6,724 water connections. State how many of these connections are to become part of the PCUC system upon completion of the transfer.
- A-5. Approximately 1,160 of the water connections are to become part of the PCUC system upon completion of the transfer.

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that the Joint Applicants' electronic filing of this Response is a true and accurate copy of the same document being filed in paper medium; that the electronic filing was transmitted to the Public Service Commission on March 13, 2017; that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding; and that an original paper medium of this Response will be delivered to the Public Service Commission on or before March 15, 2017.


Damon R. Talley