

WEST CARROLL WATER DISTRICT
P O BOX 45
CARROLLTON, KENTUCKY 41008

PHONE: (502) 732-7055
FAX: (502) 732-7058

15 September 2017

S. Morgan Faulkner
Assistant Attorney General
700 Capital Ave., Suite 20
Frankfort, KY 40601

Subject: Case No 2017-00244
Initial Data Request

Dear Ms. Faulkner

Please find attached responses to the ten questions in your initial data request along with the accompanying documentation. As chair of the West Carroll Water District Board I will be available upon request to answer questions you may have. With notice I will request any of the staff of Carrollton Utilities to also answer questions including

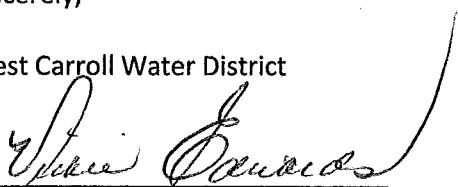
Bill Osborne	General Manager
Chas Robbins	Finance Officer
Chris Rose	Superintendent

All questions are answered accurately and truthfully to the extent of my knowledge, information and belief after reasonable inquiry.

Sincerely,

West Carroll Water District

By



Vickie Edwards
Chair

1. Refer to Attachment to Application "Schedule of Adjusted Operations." The category "Salaries and Wages – Employees" shows an expense of \$9,000. Confirm that \$9,000 reflects the total cost of the Commissioner's salaries.

Response

The category "Salaries and Wages – Employees" reflects the total cost of the Commissioner's salaries of \$9,000. Each of the five commissioners receive \$150 per month.

2. Refer to Attachment to Application "Schedule of Adjusted Operations" and the category titled "Contractual Services."
 - a. Provide a breakdown of the contracts and amounts included in this category.
 - b. Provide the following information for each contract included in this category:
 - i. Did the District engage in competitive bidding before awarding the contract?
 - ii. If the District engaged in competitive bidding, provide all documentation pertaining to the competitive bidding process, including but not limited to any and all internal emails, memoranda, and correspondence. If any RFPs were issued, provide any and all documents with such, and identify all parties to whom any RFPs were forwarded.
 - iii. If the District did not engage in competitive bidding, explain in detail why not. Explain in detail what process the District used to evaluate and negotiate each contract in the absence of competitive bidding.

Response

- a. Contractual Services = \$264,378.00

Contractual Services – Accounting/Annual Audit = \$5,970.00	Raisor, Zapp & Woods
Contractual Services – Management Services = \$258,320.00	Carrollton Utilities
Contractual Services – Legal Fees = \$88.00	Crawford & Baxter

- b. The District procured Raisor, Zapp and Woods to perform Accounting/Annual Audit Services in December 1998 and Carrollton Utilities to perform Management Services in December 1997. Attached are minutes, Exhibit A, from the Board meeting referencing these actions. Given the timeframe of nearly 20 years, other detailed documentation referenced in the *Request* is not available.

3. Confirm that Carrollton Utilities manages and maintains the District's system pursuant to an Operational Agreement; provide a complete copy of that agreement and any subsequent addendums.

Response

Carrollton Utilities manages and maintains the District's system pursuant to an Operational Agreement which is attached as Exhibit B.

4. Refer to the Amended Supplemental Agreement entered into on December 15, 2016 between the District and Carrollton Utilities.
 - a. Confirm that the amount of Annual Compensation was lowered from \$263,178.45 to \$248,178.45.
 - b. Does the District's Application reflect the lowered compensation agreement in its pro forma expenses?
 - c. Provide a complete breakdown of the cost categories included in the \$248,178.45 Annual Compensation.

Response

- a. For the period of July 2016-June 2017 the Annual Compensation to Carrollton Utilities per the amended Operational Agreement was lowered from \$263,178.45 to \$248,178.45, effective January 1, 2017.

This reduced annual compensation amount of \$248,178.45 continues to be in effect for the period July 2017-June 2018.

- b. The District's Application did not reflect the lowered compensation amount in its pro forma expenses. Instead the original compensation as listed on the Annual Report to the PSC was reflected in the pro forma expense. The annual compensation is typically increased each year to cover cost of living adjustments.

- c. The breakdown of the cost categories included in the \$248,178.45 annual compensation include:

Payroll, etc.	\$169,647.25
Vehicle(s) Expense	\$8,000.00
Equipment	\$9,000.00
Insurance (Employee health)	\$39,752.99
Retirement	\$20,049.07
Training	\$1,229.14
Supplies	\$500.00
Proposed Contract Amount	\$248,178.45

5. Refer to the Operation Agreement between the District and Carrollton Utilities (the "Operation Agreement"), Terms and Conditions, Section 6A.
 - a. Confirm that the current Agreement dictates that Carrollton Utilities will provide personnel responsible for general operation of the system while the District will cover personnel salaries for regular time or overtime, and all employee benefits.
 - b. Provide a breakdown of the benefits provided under this agreement. Include a description of the types of health, dental, vision, disability, life insurance plans, and all other benefits provided to employees and/or employee family members, and the total dollar amount that the District pays in premiums per month for employee plans. Provide a detailed breakdown that accounts for the dollar amount that employees must pay versus what the District must pay for each of the above referenced plans per month.
 - c. Provide the number of employees who are compensated under this agreement. Explain generally what job duties each employee performs for the District pursuant to the Operation Agreement. Indicate if the number of employees compensated under this agreement has changed since it was first entered into by the parties.
 - d. Do any employees compensated by the District also perform work for Carrollton Utilities? If so, describe what methods the District uses to determine how much of each employee's time is spent performing work for the District and how much time is spent performing work for Carrollton Utilities.
 - e. If employees do perform work for both the District and Carrollton Utilities, confirm that time worked for each entity is compensated for separately. Provide copies of any written policies or communications regarding such a split in salary and benefits.

Response

- a. Carrollton Utilities provides personnel necessary to operate the district on a day to day basis including situations that require overtime. The amount of overtime is estimated at the time of fee negotiation, usually in April preceding the fiscal year. The District pays the prearranged fee regardless of the fluctuations in overtime over the course of the year.
- b. The District doesn't pay any direct employee benefit costs except to the extent that some personnel cost are included in the maintenance fee. The employee costs that are assigned to the District as part of the maintenance fee are listed in Request Response #4c. Carrollton Utilities provides the same employee benefits to all employees whether they perform occasional services to the District or routine service to the District. Although a majority of the employees of CU perform services for the District over the course of a typical month as demonstrated in section c below, a limited amount of the employee benefit expenses are included in the maintenance cost fee structure. The two employees assigned to the District on full time basis have 100% of their benefits included in the maintenance fee agreement. The accounting and collection staff consisting of five people each have 10 percent of their employee benefits included in the maintenance fee. The District has 982 customers which represents 12 percent of the 8,134 total customer accounts served by Carrollton Utilities staff.
- c.

	CU Pays	Employee Pays
Employee Medical Insurance	82% -100%	0% - 18%
Dental	0%	100%
Vision	0%	100%
Disability	0%	100%
\$25,000 Life Insurance	100%	0%
Vacation	3.33 to 14 hours per month depending on tenure	
Holiday	11 days per year	
Sick Leave	1 day per month	
CERS-NR Retirement	All employees	

- d. The list below shows the Carrollton Utilities personnel that provide services to the District over the course of each month and the salary percentage that is included in the maintenance fee. The number of people required to maintain the District has increased over last 10 years. In the past, two service men were able to perform the day to day maintenance and read meters each month. However, the district water loss has become a much more difficult maintenance issue and a part time meter reader was added in 2013.

<u>Job Description</u>	<u>Number of People</u>	<u>% Paid by District</u>
Service man	2	100
Meter Reader	1	50
Collection	4	10%
Accounting	1	10%
Engineering	2	0
General Manager	1	0
On Duty Person (1)	Time is tracked on employee timesheets and actual costs are used for budgeting purpose each year.	
Emergency Response (varies)	Time is tracked on employee timesheets and actual costs are used for budgeting purpose each year.	
Superintendent	Time is tracked on employee timesheets and actual costs are used for budgeting purpose each year.	

d./e. Any employee of CU could be asked to perform work for the District or for CU. The District is assured that the maintenance fee doesn't include employee cost that should be allocated to CU based on the following cost allocation procedures.

Maintenance Workers – all maintenance worker salary costs are tracked daily via employee time sheets. Actual time allocation on those timesheets are used during the budgeting process to set the maintenance fee.

Collection – it isn't feasible for collection staff to keep a time sheet for District versus CU. Therefore, the maintenance agreement cost structure is set at 10 percent of the five collection and accounting staff people. Carrollton Utilities has 8,134 customer accounts between water, sewer, natural gas and District accounts. West Carroll has 982 accounts or 12% of the total.

All other staff – none of the other personnel performing work for the District charge any time to the District.

6. Refer to the District's Application, Attachment, Reasons for Application. The District lists higher personnel costs as the source of increased operating costs under the Operation Agreement with Carrollton Utilities, particularly in relation to "increased health insurance costs and high cost of pension plan." What steps has the District taken to control these expenses?

Response

The following steps have been taken to control personnel expenses:

- Maintaining correct balance of system maintenance and manpower
- Assigning entry level maintenance workers with a lower salary to the extent possible
- Transitioning to reference based health insurance model to reduce provider cost
- Implementing an employee wellness program

The General Assembly is expected to pass pension reform. However, the cost associated with those changes are unknown at this time. The District has no control over pension costs.

7. Refer to the District's Annual Report for selected test year 2016, page 56, where the District reported a Water Loss Percentage of approximately 32.3%, and the District's Supplemental Agreement to the Operation Agreement with Carrollton Utilities which was entered into on April 18, 2013.
 - a. Did the District remove any and all expenses associated with water loss above the allowed 15% limit from its pro forma test year expenses in its Application?
 - b. Confirm that the District set water loss targets to occur throughout 2013 and 2014 which would lower the District's water loss from over 35% to 15%.
 - c. Confirm that the April 18, 2013 Supplemental Agreement provided the District with the option to terminate the agreement if water loss targets were not achieved.
 - d. Explain in detail what steps were taken to meet the water loss targets and why current water loss remains at almost 35%.
 - e. Did the District consider terminating the Operation Agreement with Carrollton Utilities when those targets were not met? Explain fully the reasoning behind this decision.
 - f. Does a similar termination provision exist in the current Operation Agreement between the District and Carrollton Utilities?

Response

- a. The District did not remove the costs associated with water loss above 15% from its pro forma test year expenses.

Total purchased water 2016 -	\$123,517
Water loss for 2016 -	32.3%
Cost for water above 15%-	$0.173 \times \$123,517 = \$21,368.44$

Electric costs for 2016 -	\$11,500
Cost of electric above -	$0.173 \times \$11,500 = \$1,989.50$

Proposed excluded amount = \$23,357.94

- b. The District set goals in 2013/2014 to achieve water loss of 15% by the end of the year. The District has consistently maintained a water loss target of 15 percent.
- c. The April 18, 2013 Supplemental agreement contained provisions to terminate the agreement if the target 15% water loss was not achieved.
- d. The District has focused on the following sources of water loss:

Meter Errors – The District reads water meters monthly by manual read. Manual reading helps identify leaks by putting personnel on the ground as they travel the District. Poor meter maintenance can also lead to high water loss. The District has followed PSC guidelines on meter testing for the past 20 years. All meters are removed from service and tested, repaired or replaced at a frequency based on meter size as specified by the PSC.

Operation Improvement – over past five years the District has installed SCADA systems on all booster pump stations and water storage tanks to prevent overflow of tanks and to maintain a more constant system pressure. In 2016, the District purchased ‘soft start’ devices for all booster pumps to reduce surges in the distribution system.

Theft - The District has over 200 inactive meters/services which pose a water loss risk from a leak perspective as well as theft of service. Last year the District located each of the inactive services/meter, assured that the meter was locked off, and captured a physical location via GPS and incorporated the location into GIS so that the meter can be located more quickly in the future. The District found two cases of theft during the project.

Third Party Damage – The District is a member of 811 and spends considerable manpower each year marking the location of underground utilities to help reduce incidences of third party damage.

Flushing – The District maintains a log of all flushing activity.

Fire Department Use – The District corresponds with local volunteer fire departments to encourage reporting of fire hydrant usage.

Leaks – Leaks are an enormous maintenance challenge for the District. The District has several characteristics that pose an even higher challenge for West Carroll than some other public water system. Some of the challenges are unavoidable, like the number of miles of mains (88.7 miles) compared to the number of customers served (982). Some have very expensive solutions, like problem main replacement. Below is a summary of the steps taken to reduce water loss associated with leaks:

The system is rural with lines crossing creeks, hills, pastures and other areas that are extremely difficult to survey/inspect by any means, even walking. The District has installed a number of isolation valves to help identify leaks under creeks/rivers. The District has also relocated sections of mains that lie adjacent to streams.

Much of the system is nearly 50 years old and was constructed with inferior materials and techniques/bedding. The District has tracked the leak locations geographically and the cause of the leak to identify the worst locations and replaced long sections of main. The Gilgal water main was replaced in 2013 at a cost of \$128,793 for the sole purpose of reducing frequent leaks. The cost of was \$115,000/mile which demonstrates the challenge for a small rural water system with almost 90 miles of main and only 982 customers to cover the debt service associated with wholesale main replacement.

Many times the rocky soil will absorb the leak or allow it to move underground a significant distant making it much harder to find. There are many cases where a leak can only be found by exposing the main in several locations and then simply digging up long sections of main until the actual location is discovered. The District found and repaired 44 leaks in 2016. The typical leak is about 14 gallons per minute. The average unaccountable for water loss for 2016 was 30 gallons per minute. Based on these statistics the District is finding and repairing a leak every week that is large enough to effectively reduce the water loss to acceptable levels. The problem, of course, is that leaks are occurring as fast as they are

being fixed. Doubling the manpower assigned to the District would allow the leaks to be found quicker but would be much more expensive than the cost of the water loss.

The District has requested and received assistance from Kentucky Rural Water Association personnel on numerous occasions. KRWA has provided training on leak detections equipment and techniques that have been beneficial.

The District has invested in the installation of leak detection meters, data logging meters, ultrasonic flow meters and sonic water loss detection devices to assist with leak detection and location.

- e. The District is of the opinion that given the challenges listed above, Carrollton Utilities is meeting the expectations of the District. The District feels that CU continues to take every step necessary to meet the water loss target. For every major break that is repaired we have another, or we have catastrophic wash out from flash flooding, floods or landslides. The infrastructure is 43 years old has many creek crossing and rocky terrain. CU has been aggressively looking for leaks and has been successful in finding some very large leaks that have gone undetected for an undetermined amount of time due to the location of the breaks. A more labor intensive approach will be costly and the District must weigh the likely benefits of that approach against the cost of the water loss.
- f. There is not a termination clause in the current Operation Agreement based on water loss goals.

8. Refer to the Operation Agreement, Terms and Conditions, Section 6A(8). Provide all relevant documentation related to Distribution Integrity and Carrollton's obligations under this section, including, but not limited to, leak surveys, compliance with meter change-out requirements, and valve maintenance.

Response

Please see Response 7 and the 2016 Annual Inspection Report from the Public Service Commission, Exhibit C attached.

9. Provide the Minutes from the District's Board Meetings for calendar years 2016 and 2017.

Response

The minutes from the District's Board Meeting for calendar years 2016 and 2017 are attached as Exhibit D.

10. Confirm that the District had an Audit performed for the test year 2016. Provide the Auditor's Report and any documentation relating to that Audit. If no audit was performed for the test year, provide the Auditor's Report and any documentation relating to the last audit performed for the District.

Response

A copy of the 2016 audit is attached as Exhibit E.