

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO EXCESSIVE)	CASE NO.
WATER LOSS BY KENTUCKY'S JURISDICTIONAL)	2019-00041
WATER UTILITES)	

DIRECT TESTIMONY

OF

**SHANNON ELAM
CHAIRMAN OF THE BOARD
MORGAN COUNTY WATER DISTRICT**

ON BEHALF OF

MORGAN COUNTY WATER DISTRICT

FILED: MAY 31, 2019

DIRECT TESTIMONY
OF
SHANNON ELAM

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**DIRECT TESTIMONY
OF
SHANNON ELAM**

I. INTRODUCTION:

Q. Please state your name, business address, and position.

A. My name is Shannon Elam. I work for Appalachian Regional Healthcare, 476 Liberty Rd, West Liberty, KY 41472 as a Clinic Administrator.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of Morgan County Water District.

Q. Are you on Morgan County Water District's Board of Commissioners?

A. Yes, I am the chairman of the board.

Q. How long have you been a member of the Board of Commissioners?

A. Since approximately August 2016.

Q. Who are the other board members, approximately how long have they served on the board, where are they currently employed?

A. Zach Engle, First National Bank, Loan Officer, appointed approximately October 2015.
Linda Bradley, Office of the Morgan Co. Judge Executive, Project Coordinator, appointed April 2019.

Brian Wells, Wells Group, Business Owner, appointed March 2019.

Steve Gunnell, Kentucky Department of Transportation, Civil Engineer, appointed approximately October 2017.

Q. What is your highest level of education?

A. I have a Masters in Health Administration.

Q. Have you ever testified before the Kentucky Public Service Commission (“Commission”)?

A. No.

II. PURPOSE OF TESTIMONY:

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the water loss issues of Morgan Co. Water District to the best of my ability and describe the efforts that are being made to correct the water loss problems.

Q. Are you sponsoring any exhibits?

A. Yes. I have prepared the following exhibits to support my testimony:

1. Water Loss Program Goals
2. Board minutes regarding special meeting with Rural Development
3. Board minutes regarding hiring of new engineer

Q. What problems have led to Morgan County Water District’s high water loss?

A. The primary culprit is aging infrastructure. The water loss problem has been a longstanding problem. Upon my appointment as a Commissioner, I did not understand the gravity of the problem. I don’t think the previous Commissioners and General Manager understood the significance of the water loss problem, or maybe they just felt that it would resolve itself. Nonetheless the problem was not addressed. The water loss has now snowballed, getting worse each year and resulting in deep financial problems.

Rather than using our depreciation fund to locate and fix the water loss, the money was used to cover our financial losses caused by lost water. Now we are unable to meet our monthly bills, and have no reserves to investigate and fix the problem.

Q. What is the current financial state of the Morgan Co. Water District?

A. The District is struggling financially. The Commission adopted a financial plan on May 28th, 2019 get us through 2019 and make our Bond payments. However, this is not a long term plan. We are currently working with our engineer to apply for loan and grant money to study and fix water loss, and will have to incorporate a rate increase into that process.

Q. Are the Morgan Co. Water District's financial difficulties and high water loss interconnected problems?

A. Yes they are. The Water District does not treat its own water. Water is purchased from the city of West Liberty and Cave Run Water Commission. Morgan Co. Water District is currently losing a high percentage of the treated water that it is purchasing. Because Morgan Co. Water District is paying for exorbitant amounts of lost water it cannot afford to repair lines on the scale necessary or to purchase leak detection equipment, and now can't afford its monthly expenses.

Q. What has the Morgan Co. Water District done to attempt to address water loss in the short term?

A. Morgan County Water District has contacted the Kentucky Rural Water Association (KRWA) for assistance. On May 9, 2019 and May 10, 2019 a representative of KRWA was onsite training staff on leak detection. Additionally, KRWA will be returning in June 2019 with a circuit rider and leak detection equipment to assist the District in locating leaks.

Q. Has the Morgan Co. Water District located and repaired any leaks in the past 12 months?

A. Yes, leaks have been located and repaired.

Q. What is the Morgan Co. Water District's medium to long term plan to reduce water loss?

A. On May 13th, the Board adopted Water Loss Program Goals which provides in the short term (0-6 months) the Board will with the assistance of Rural Water attempt to locate and fix as many leaks as possible. In the medium (0-18 months) the Board will obtain funding to conduct water loss study, and replace infrastructure. The Board is currently working with Nesbitt Engineering to develop the details of the project and to obtain funding. The project will likely include the placement of system meters that will allow for quicker identification of leaks. Thereafter, the Board will identify necessary long term projects and plan to fund them.

Q. Has the Board of Commissioners recently employed an engineer?

A. Yes, on April 15, 2019 the Board hired Nesbitt Engineering, Inc., 227 North Upper Street, Lexington, KY 40507.

Q. How was the new engineering firm selected?

A. The Board advertised for an engineer, considered a number of applicants, utilized a uniform scoring sheet to score the applicants, conducted interviews, and a final decision was made.

Q. Will the engineer be utilized to address water loss?

A. Yes, the primary purpose of hiring a new engineer was to assist the Board in developing and seeking funding for a water loss project.

Q. Has the Board started the process of seeking funding for a water loss project?

A. Yes.

Q. What sources of funding has the Board explored?

A. With the assistance of our engineer, the Board has explored the following funding sources: Rural Development, Kentucky Infrastructure Authority, Kentucky Department of Local Government, and Appalachian Regional Commission. The Board is considering both low cost loans as well as grant money that may be available.

Q. Has the Board met with a representative from Rural Development regarding funding for a water loss project?

A. Yes, the Board met with Douglas Hoff from Rural Development on April 12, 2019 regarding funding for a water loss project; the minutes from that meeting have been attached and incorporated.

Q. Has the Board considered a rate increase to assist with the funding of a water loss project?

A. Yes, the Board has discussed a rate increase as well as other ways of potentially increasing the Water District's income, including but not limited to surcharges and increased hookup fees. It is anticipated the District will seek a rate increase in 2019 along with approval of a USDA Rural Development loan.

Q. You mentioned that the previous Commissioners and General Manger did not understand the gravity of the situation. What is the District's understanding of this water loss problem now?

A. As I stated the previous Commissioners and General Manager were not alarmed by our water loss. They seemed to believe that leaks would be found in the course of business and the situation would be remedied.

That mentality has changed. I personally have met with our water suppliers, and Rural Development. I have personally met with staff. The Board is conducting 1-2 special meetings per month, in addition to regular meetings, to work on the problem.

I am the second longest serving Commissioner, having been appointed in 2016. Other current Commissioners were appointed in 2015 2016, 2017, and two in 2019. Our General Manager retired May 7th, 2018.

We have a new Board of Commissioners, all of whom understand the direction of the District must be reversed, and are qualified, intelligent and motivated to tackle this problem and to fix the District both in terms of water loss and its finances.

Verification

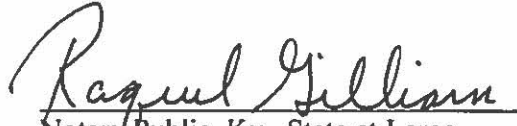
I, Shannon Elam, Board Chairman of Morgan Co. Water District, hereby state and affirm that the foregoing testimony and attached exhibits were prepared by me or under my supervision, and all statements contained therein are true and correct to the best of my knowledge and belief, on this the 31 day of May, 2019.


Shannon Elam

COMMONWEALTH OF KENTUCKY)

COUNTY OF Morgan)

The foregoing verification statement was SUBSCRIBED AND SWORN to before me by Shannon Elam, Board Chairman of Morgan Co. Water District, on this the 31 day of May, 2019.


Notary Public, Ky., State at Large
My commission expires: 9/28/2022



Water Loss Program Goals

Morgan County Water District

May 13, 2019

The project approach to reducing the water loss for Morgan County Water District (MCWD) involves three distinct phases. There are broken down as follows:

1. **Short Term Goals (0-6 months)**- With the assistance of Kentucky Rural Water, an aggressive program to locate and fix leaks will be implemented. In addition, the procedures in filling out the water loss report for filing with the Kentucky Public Service Commission will be reviewed to ensure that the data reported as in alignment with the PSC guidelines. The results of the effort will give a consistent reporting number that can accurately track the results of the Program as it continues forward. The goals of this effort are:
 - a. *Reduction of lost water by 5%*
 - b. *Reduction of purchased water of 5 %, leading to a savings of over \$35,000 per year.*

2. **Medium Range Goals (0-18 months)**- A project has been developed for a 1-million-dollar project. The project profile is in the system and engineering procurement has been completed. Funding efforts of this is underway. When this is completed, master meters will be installed to assist in the location of leaks, as well as portions of the distribution system being replaced. The goals of the program are:
 - a. *An understanding of which sections of the distribution system are most in need of replacement*
 - b. *Placement of system meters allowing quicker identification of leaks*
 - c. *Additional reduction of water loss of 5%,*
 - d. *Additional reduction of purchased water of 5 %, leading to a savings of over \$35,000 per year*

3. **Long Range Goals (0-60 months)**- With the information that has been gathered in the Short Term and Medium range programs, additional capital improvement projects will be developed.

**Morgan County Water District
Special Board Meeting
Friday, April 12, 2019**

The special meeting of the Morgan County Water District was held on Friday, February 12, 2019 beginning at 9:00 a.m. at the office. The following were in attendance: Board Members: Shannon Elam, Zach Engle and Linda Bradley; and MCWD Staff: Steve Pelfrey and Chernell Holbrook. Special guest: Erica Stacy-Stegman of Campbell & Rogers, PLLC and Douglas Hoff of Kentucky Rural Development.

Shannon called roll, then called the meeting to order and welcomed all present.


Mr. Hoff introduced himself and told us about his experience in finance. He told us that he had been with Kentucky Rural Development for several years. He also told the Board that he had been watching us for the past few years. He told the Board about the importance of funding both the Reserve and Sinking Fund accounts. He said that his payment should be in the account by the 20th of the month. Chernell had told Mr. Hoff that we make another loan payment out of the Sinking Fund account; he asked that we separate them and get the Region loan their own account. Mr. Hoff also told Chernell to write a letter requesting a transfer of funds from the Reserve account to the Sinking Fund account, so that we may make our July loan payment. He said he would approve the transfer, but to leave a balance of \$500.00 in the Reserve account.

The Board told Mr. Hoff about our growing water loss problem and that we had recently gotten the attention of the Public Service Commission. He said that he

would like to help us with our water loss. He said that Rural Development could loan us the money for a water loss project. We told Mr. Hoff that we were in the process of hiring a new Engineer. We are planning a project that would replace our aging meters and infrastructure. We would like to refurbish some of our oldest pump stations, tanks and water lines in hopes that this will help us with our water loss. The Board told Mr. Hoff that when we hired an Engineer we would let him know. Mr. Hoff gave us some suggestions on how to work on our water loss. He suggested that we talk to the Kentucky Department of Local Government regarding possible grant money and to check with Kentucky Rural Water Association in regards to assisting us with locating leaks. He also suggested that we renegotiate our water purchase agreements with the City of West Liberty and Cave Run Water Commission. He lastly suggested that the building we are in be made handicap accessible. This would include the parking lot, counter height, bathroom hand rails and possibly a drive-thru.

With there being no further business to come before the board, a motion was made by Zach and seconded by Linda to adjourn the meeting. Motion Carried.

IN TESTIMONY WHEREOF WITNESS MY SIGNATURE this 13th day
of MAY, 2019.


Zachary Engle, Sec/Treas.

**Morgan County Water District
Special Board Meeting
Thursday, April 4, 2019**

The special meeting of the Morgan County Water District was held on Thursday, February 4, 2019 beginning at 4:30 p.m. at the office. The following were in attendance: Board Members: Shannon Elam, Brian Wells and Steve Gunnell; and MCWD Staff: Steve Pelfrey and Chernell Holbrook.

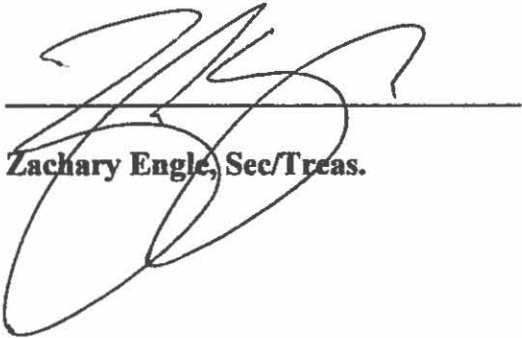
Before the meeting starts, someone is picked to lead the meeting. Steve G nominated Shannon and this was seconded by Brian. Motion carried. Shannon called roll. All in attendance, except for Zach Engle.

First item on the agenda was to look over the Engineer packets. There were 13 packets in total. Five of the packets were marked by Jocelyn Gross as unresponsive to the requirements of the advertisement. (See the attached letter.)

The Board decided to review all the packets presented. The Engineers are as follows: Howerton Engineering & Surveying, PLLC, Kentucky Engineering Group, Eclipse Engineers, PLLC, Bluegrass Engineering, PLLC, HMB Professional Engineers, Cann Tech, LLC, Kenvirons, Inc., Palmer Engineering, Nesbitt Engineering, Inc., Summit Engineering, Element Design, MSE of Kentucky, Inc., Vaughn & Melton Engineering. A score sheet was made for the five Engineers not previously listed. After going over the packets the Board chose six Engineers. The Engineers are as follows: Nesbitt Engineering, Kentucky Engineering, HMB Engineering, Element Design, Vaughn & Melton and MSE of Kentucky. The Board decided to further review these Engineers at the next meeting. No further discussion.

With there being no further business to come before the board, a motion was made by Shannon and seconded by Brian to adjourn the meeting. Motion Carried.

IN TESTIMONY WHEREOF WITNESS MY SIGNATURE this 13th day of May, 2019.



A handwritten signature in black ink, appearing to read 'Zachary Engle', is written over a horizontal line. The signature is stylized and cursive.

Zachary Engle, Sec/Treas.

**Morgan County Water District
Regular Board Meeting
Monday, April 8, 2019**

The regular monthly meeting of the Morgan County Water District was held on Monday, April 8, 2019 beginning at 4:30 p.m. at the office. The following were in attendance: Board Members: Zach Engle, Shannon Elam, Steve Gunnell and Brian Wells; MCWD Staff: Steve Pelfrey and Chernell Holbrook. Prayer.

First order of business was appointing someone to lead the meeting. Zach made a motion for Shannon to lead and seconded by Brian. Motion carried.

Shannon called roll, then called the meeting to order and welcomed all present. Shannon called for a motion to approve the minutes from March 11 and the 28th. Brian made a motion and seconded by Zach. Motion carried.

First item discussed on the agenda was the Engineers. The Board further narrowed the interviews to the following four Engineers: Vaughn & Melton, Kentucky Engineering Group, MSE of Kentucky and Nesbitt Engineering. The interviews will be held on April 15th, beginning at 4:30. Each Engineer will have 15 to 20 minutes to speak. No further discussion.

Second on the agenda was the loan payment. The Board decided that they needed to meet with Mr. Hoff of the Kentucky Rural Development. They ask Chernell to set up a meeting with him during the work day. No further discussion.

Third on the agenda was the water loss on Hwy 460E. Steve P. told the Board that if the readings hold the percentage of loss will go down. Steve P. also told the Board that he and the men had been using the valves to look for leaks. They also have been driving the roads and walking some of the lines. The Board

asked that when we get a call on a leak, to make it a priority. They will take a section of the county at a time, until it is leak free. Steve told the Board that he would like to do some testing after hours, because it was the best time to use the valves to check for leaks.

Fourth item on the agenda was the tap on fees and deposits. Steve P. told the Board the he had refigured the cost of the taps and that we were losing \$110.00 per tap on. Steve P. provided the Board with a cost sheet. Steve P. also explained that the PSC would not allow us to factor in the cost of employees and equipment. Brian suggested that the tap on fee be raised to \$1000.00. We will carry this item over until the next meeting when we have an Engineer. No further discussion.

OLD BUSINESS:

Update on water loss: Steve P. told the Board that the usage on Hwy 191 had increased, but the usage on Hwy 460E was still down. No further discussion.

Profit and Loss: The Board noted the amount of water purchased.

Invoices: The Board questioned the Piercy Mullins, Hach and Morgan Gun and Pawn invoices. The invoices were explained. Shannon called for a motion to accept the invoices. Steve G. made a motion and seconded by Zach. Motion carried.

Handouts which were given to the board for their review included a list of savings accounts, checking accounts, cut off list, and new meter setting list. Also, for the boards review was a copy of the billing register's total page. The number of customers for the month was 2799.

OTHER:

Brian asked what type of project we should start with. Steve P. told the Board that he would like to redo some old lines and do some maintenance on the pump stations. The Board decided that the project would be directed toward water loss prevention. No further discussion.

BACK TO THE AGENDA:

The Board will vote in a new Chairperson. Steve G. made a motion to appoint Shannon Elam as the new chairperson. The motion was seconded by Brian. Motion carried.

Customer count is 2799.

The board agreed on the next monthly meeting to be on May 13, 2019.

With there being no further business to come before the board, a motion was made by Steve G. and seconded by Zach, to adjourn the meeting. Motion Carried.

IN TESTIMONY WHEREOF WITNESS MY SIGNATURE this 13th day
of May, 2019.



Zachary Engle, Sec/Treas.

**Morgan County Water District
Special Board Meeting
Monday, April 15, 2019**

The special meeting of the Morgan County Water District was held on Monday, February 15, 2019 beginning at 4:30 p.m. at the office. The following were in attendance: Board Members: Shannon Elam, Zach Engle, Linda Bradley, Brian Wells and Steve Gunnell; and MCWD Staff: Steve Pelfrey.

Shannon called roll, then called the meeting to order and welcomed all present.

The first Engineering group to interview was Vaughn & Melton, represented by Thomas R. Bradley. Interview time was 4:43 to 5:17. Seconded group interviewed was Kentucky Engineer Group, represented by Jim Thompson. Interview time was 5:21 to 5:38. The third group being interviewed was MSE of Kentucky, presented by Glenn Ross. Interview time was 5:42 to 6:09. The last group interviewed was Nesbitt Engineering, represented by Paul Nesbitt. Interview time was 6:13 to 7:04.

After the interviews were over the Board discussed the four groups. The Board all agreed that Nesbitt Engineering would be our next Engineer. Shannon called for a motion to hire Nesbitt Engineering. Brian made a motion and seconded by Zach. Motion carried.

With there being no further business to come before the board, a motion was made by Steve G. and seconded by Linda to adjourn the meeting. Motion Carried.

IN TESTIMONY WHEREOF WITNESS MY SIGNATURE this 13th day of

May, 2019.


Zachary Engle, Sec/Treas.