

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

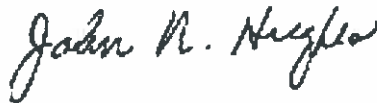
In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE CITY OF PIKEVILLE) Case No. 2019-00080
MOUNTAIN WATER DISTRICT)

**RESPONSE OF MOUNTAIN WATER DISTRICT
TO COMMISSION'S FIRST DATA REQUEST**

Mountain Water District, (MWD) by counsel, submits its responses to
the Commission's first Data request.

SUBMITTED BY:



John N. Hughes
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and

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Attorneys for Mountain Water District

I certify that a copy of this response was served by email and first class mail on the 15th day of July, 2019 on counsel for Pikeville:

STURGILL, TURNER, BARKER & MOLONEY, PLLC
M. Todd Osterloh
James W. Gardner
333 W. Vine Street, Suite 1500
Lexington, Kentucky 40507

John R. Hays

CASE : City of Pikeville
CASE NO : 2019-00080
RE : Public Service Commission
Initial Data Request to MWD

Q 1. Refer to the Direct Testimony of Philip Elswick, (Elswick Testimony) page 4, line 12. Mr. Elswick stated that the City of Pikeville (Pikeville) provided the initial Cost of Service Study (COSS) to Mountain District.

- a. Explain how the initial COSS was presented to Mountain District.
- b. Provide all material and information concerning the initial COSS that was provided to Mountain District.
- c. Explain whether the COSS consultant, RateStudies, met with Mountain District in the presentation of the initial COSS presentation.
- d. If RateStudies met with Mountain District, provide a summary of the meeting and all materials provided to Mountain District.

WITNESS : ROY SAWYERS

RESPONSE Q1:

- a. Phillip Elswick ("Elswick"), Pikeville City Manager, sent a letter dated October 16, 2018, to the District's general counsel, Daniel Stratton ("Stratton"), enclosing a "draft" copy of the COSS that RateStudies prepared.
- b. See attached the following:
 - 1) August 30, 2018, letter from Stratton to Elswick, requesting information on which the City based its need for an increase in wholesale water rates;
 - 2) October 16, 2018, letter from Elswick to Stratton, forwarding a copy of the "draft" rate study; and
 - 3) Undated "draft" rate study.

- c. Yes, Buddy Petty of RateStudies attended a meeting with representatives from the City of Pikeville and Mountain Water District on December 10, 2018, at which time the "draft" COSS was discussed.
- d. See attached the following:
 - 1. Memorandum dated December 11, 2018, from Stratton to Roy Sawyers ("Sawyers"), MWD Administrator, memorializing what occurred at that meeting.
 - 2. Appalachian News Express November 17, 2018, Ad for revising the City's 2018-19 budget, which was also reviewed at the meeting, as referenced in the Memo.

RESPONSE TO QUESTION 1b

EXHIBIT "1"

STRATTON LAW FIRM, P.S.C.

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(1874-1953)

HENRY D. STRATTON
(1925-1989)

August 30, 2018

Phillip Elswick, *Manager*
City of Pikeville, Kentucky
243 Main Street
Pikeville, Kentucky 41501
Certified Mail: 7010 3090 0001 9558 1520
Via email: philip.elswick@pikevilleky.gov

**RE: MWD / CITY OF PIKEVILLE
WHOLESALE WATER PURCHASE CONTRACT**

Dear Phillip:

Following the District's Board meeting this morning, Mike Blackburn, Roy Sawyers and I met to discuss your request for a meeting with Roy sometime next week. While we are more than happy to meet with you at any time concerning this matter, we simply do not believe that any meeting can be productive unless and until, we have had an opportunity to review the information we requested from you in my letter of July 26, 2018.

In my above referenced letter, we requested any and all information that you have, upon which you base the need for an increase of fees. We also asked whether or not any other wholesale purchase contracts had been increased, and whether or not there is a proposed rate increase for retail customers.

After we've had time to review the requested information, we will be in position to have a much more meaningful discussion. Also, please be advised that we have some ideas that maybe beneficial to both entities, that we would like to discuss when we meet.

Once we have the information, we will be happy to schedule a meeting with you to begin negotiations.

If you have any questions, please do not hesitate to call.

Sincerely,
STRATTON LAW FIRM, PSC

Daniel P. Stratton

Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm

cc: MWD Board of Commissioners
Roy Sawyers

RESPONSE TO QUESTION 1b

EXHIBIT "2"



James A. Carter
Mayor

CITY OF PIKEVILLE
243 Main Street
Pikeville, Kentucky 41501
(606) 437-5100
Fax Number (606) 437-5106

Philip R. Elswick, P.E.
City Manager

October 16, 2018

Daniel P. Stratton
Stratton Law Firm, P.S.C.
PO Box 1530
Pikeville, KY 41502

RE: Rate Increase

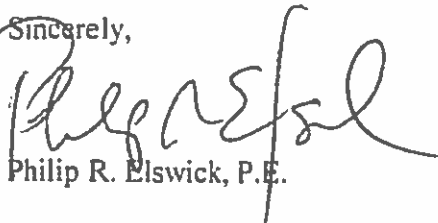
Dear Dan:

I have received your letter dated August 30, 2018, in which you request information on which the City based its need for increased wholesale water rates. I am attaching a draft copy of the cost of service study that a rate analyst prepared. As you can see, the cost-of-service study recommends an increase to a one-tier rate of \$2.25 per 1,000 gallons. This rate, however, does not include certain expenses that the Public Service Commission would typically permit to be recovered in rates, such as rate case expense.

Southern Water and Sewer District has recently accepted the proposed increase to \$2.25 per 1,000 gallons, and the Public Service Commission has accepted that rate. (See attached tariff page.) If Mountain Water District is willing to agree to accept that same rate for all usage and thereby forego additional expenses in litigating a rate case, the City will agree to set the rate at \$2.25 per 1,000 gallons to Mountain Water District.

I look forward to hearing from you and the District. If you have any questions, please contact me at (606) 437-5100 or via e-mail at philip.elswick@pikevilleky.gov.

Sincerely,



Philip R. Elswick, P.E.

FOR Service to PSC Regulated Utilities
Community, Town or City

P.S.C. KY. NO. 1

3rd Revised SHEET NO. 1

CANCELLING P.S.C. KY. NO.

 SHEET NO.

City of Pikeville
(Name of Utility or City)

CONTENTS

RATES

Monthly Wholesale Water Rate

Mountain Water District:

First 28,000,000 gallons	\$47,040*
All over 28,000,000 gallons	\$1.30 per 1,000 gallons

Southern Water and Sewer District

All usage	\$2.25 per 1,000 gallons	(1)
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* Minimum Bill for Mountain Water District: 28 million gallons at \$1.68 per 1,000 gallons.

DATE OF ISSUE	<u>September 13, 2018</u> Month / Date / Year
DATE EFFECTIVE	<u>October 16, 2018</u> Month / Date / Year
ISSUED BY	<u>Philip Elswick</u> (Signature of Officer)
TITLE	<u>City Manager</u>
BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION	
IN CASE NO.	DATED

KENTUCKY PUBLIC SERVICE COMMISSION
<u>Philip Elswick</u> Gwen R. Pinson Executive Director
<u>Gwen R. Pinson</u>
EFFECTIVE 10/16/2018 PURSUANT TO 807 KAR 5 011 SECTION 9 (1)

RESPONSE TO QUESTION 1b

EXHIBIT "3"



Draft

Pikeville, Kentucky

Cost of Service Analysis for Wholesale Customers

Prepared By:



Water | Wastewater

Table of Contents

Executive Summary	Page 1-2
Customer Growth and Revenue Projections	Page 3
Figure 1 – Wholesale Revenue Projections	Page 4
Debt Service	Page 5
Figure 2 – Inside Water Debt Service	Page 5
General Expenses	Page 6
Figure 3 – Inside Water Expense Projections	Page 7
Cost of Service Analysis	Page 8-10
Figure 4 – Distributing Inside Water Costs – 2017	Page 11
Figure 5 – Revenue Requirement - 2012	Page 12
Figure 6 – Cost Allocation - 2017	Page 13
Figure 7 – Cost Distribution - 2017	Page 14
Cash Analysis	Page 15
Figure 8 – Wholesale Water Cash Analysis – No Rate Increases	Page 16
Rate Increase	Page 17
Figure 9 – Wholesale Water Cash Analysis - with Rate Increases	Page 18
Figure 10 – Wholesale Cash Analysis Charts	Page 19
Recommendations	Page 20

City of Pikeville, Kentucky

Wholesale Water Cost of Service Analysis

Executive Summary

Purpose

The purpose of this report is to present a Wholesale Water Cost of Service Analysis for the City of Pikeville, Kentucky to determine fair rates for its wholesale water customers. Currently the wholesale customers include two water utility systems: Mountain Water (Mountain Wt.) and Southern Water (Southern Wt.), and they have different rates. This report will determine a common wholesale rate for both.

Methodology

The methodology used by RateStudies is based on the *American Water Works Association (AWWA) M1 Manual - Principles of Water Rates, Fees and Charges*, a *Manual of Water Supply Practices*. Although rate studies are not an exact science, the financial models used in this report can be a valuable tool for making financial decisions and setting water rates. Considerations are also made to make the rate analysis simple and understandable to city and utility officials, managers, staff and customers.

Included in this report is a historical view of past financial records, a reasonable projection of revenue and expenses, and recommendations for operational financing over the next five years. Staff from the City of Pikeville and Utility Management Group (UMG) assisted in the collection of historical data, growth projections, revenue and expense projections, and the final recommendations of this report.

The data presented was taken from the last five years of annual financial reports provided by the City. The information from the past five years was used in making financial projections for the next five years.

To develop a framework for setting new rates, this study utilized a Cost of Service Analysis and a Cash Analysis. The target year for the Cost of Service Analysis was chosen to be fiscal year (FY) 2017 to take advantage of the most recent financial reports provided by the City. The Cash Analysis included the previous five years (2013 -- 2017) and the next five years (2018 -- 2022). Both analyses were prepared using Excel spreadsheets. Graphs and charts are provided to give a visual presentation of the key analyses in this report.

Values from the 2017 Wholesale Water Cost of Service Analysis were used to examine the five previous years of the Cash Analysis and in making projections for the next five years. The Wholesale Water Cash Analysis shows the amount of gain or loss each year by subtracting the wholesale expenses from the wholesale revenue.

Current Circumstances

The City of Pikeville provides water to the Mountain Water and Southern Water systems at two different rates. The basic rate for the Mountain Water system is \$1.58 per 1,000 gallons, and for Southern it is \$1.72 per 1,000 gallons. Although they are charged differently, the City provides the same level of service to each. Together, the two utilities bought 67% of all water sold to inside water customers in FY 2017 yet provided only 44% of the revenue. The City has separate accounting for outside water customers, but the financial accounting for Mountain Wt. and Southern Wt. are included with the inside water customers.

Wholesale revenue minus wholesale expenses for FY 2017 was a negative \$75,471.

Recommendations

It is recommended that the City create a wholesale class of customers that would include Mountain Wt. and Southern Wt. The City has separate financial accounting for inside city water customers and outside city water customers. Mountain Wt. and Southern Wt. revenue and expenses are currently included with the inside water accounting and it is recommended that the wholesale financial accounting remain with the inside water accounting.

Maintain a cash surplus of at least \$20,000 each year. To do so the following rate changes are recommended:

Mountain Wt. – The current rate for Mountain Wt. is \$1.58 per 1,000 gallons. Based on the Cost of Service Analysis, the rate should be adjusted to \$2.05 per 1,000 gallons for FY 2017. The Cash Analysis indicates that an additional 13% increase is needed to produce a surplus through FY 2022; therefore, a rate increase of 43% is needed for FY 2019 and would increase the cost per 1,000 gallons rate to \$2.25.

Southern Wt. – The current rate for Southern Wt. is \$1.72 per 1,000 gallons. Based on the Cost of Service Analysis, the rate should be adjusted to \$2.05 per 1,000 gallons for FY 2017. The Cash Analysis indicates that an additional 13% increase is needed to produce a surplus through FY 2022; therefore, a rate increase of 32% is needed for FY 2019 and would increase the cost per 1,000 gallons rate to \$2.25.

Other Considerations

Although the proposed rate increases are designed to improve the utility's finances through FY2022, it is also recommended to monitor and update this report at least every two years to verify projections presented in this report, to react to unforeseen financial changes, and to make corrections as necessary.

Revenue Projections

Overview

The City of Pikeville depends on revenue collected from its customers to pay for all the water department needs, including operating costs, maintenance, debt and capital expenses. Projecting revenue is critical for determining the sufficiency of current rates and the need for rate increases. A review and analysis of the previous five years' records for fiscal years (FY) 2012 - 2017 provides a reasonable basis for making projections over the next five years (FY 2018 - 2022) concerning customer growth and revenue.

Revenue Projections

Wholesale revenue for both Mountain Wt. and Southern Wt. has declined over the past five years. In FY 2013 the combined wholesale revenue was \$1,086,822 and for FY 2017 it was \$998,074.

Over the next five years, wholesale water usage is projected to increase, primarily due to new industries having a positive impact on the economy in the Pikeville region. Although there was about an 8% loss in revenue over the last five years, an increase in revenue of 3% is projected over the next five years.

Figure 1 shows the wholesale usage and revenue projections for FY 2013 - 2022.

Other considerations

Water usage and associated revenue will vary according to weather. Customers generally use less water in years that have greater than average amounts of rainfall and more water usage in years when the amount of rainfall is less than average. This report assumes that rainfall will remain at average levels over the next five years.

Many water customers are becoming more conscious of water conservation and are installing water conservation devices to help reduce water usage. Any reduction in water usage will result in a reduction of water revenue.

Wholesale Revenue Projections

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Mountain Water										
Mountain Usage (MGY)	478	490	509	482	463	465	468	470	475	480
Percent Change		3%	4%	-5%	-4%	0.5%	0.5%	0.5%	1.0%	1.0%
Rev. per 1,000 Gal.	\$1.57	\$1.56	\$1.55	\$1.56	\$1.58	\$1.58	\$1.58	\$1.58	\$1.58	\$1.58
Avg Rev Per Mo.	\$62,421	\$63,734	\$65,834	\$62,897	\$60,815	\$61,120	\$61,425	\$61,732	\$62,350	\$62,973
Revenue	\$749,054	\$764,806	\$790,009	\$754,765	\$729,785	\$733,434	\$737,101	\$740,787	\$748,195	\$755,677
Percent Change		2.1%	3.3%	-4.5%	-3.3%	0.5%	0.5%	0.5%	1.0%	1.0%
Southern Water										
Southern Usage (MGY)	196	183	159	144	156	157	158	159	160	162
Percent Change		-7%	-13%	-10%	9%	0.5%	0.5%	0.5%	1%	1%
Rev. per 1,000 Gal.	\$1.72	\$1.72	\$1.72	\$1.72	\$1.72	\$1.72	\$1.72	\$1.72	\$1.72	\$1.72
Avg Rev Per Mo.	\$28,147	\$26,284	\$22,799	\$20,584	\$22,357	\$22,357	\$22,357	\$22,357	\$22,357	\$22,357
Revenue	\$337,768	\$315,403	\$273,585	\$247,011	\$268,289	\$269,630	\$270,979	\$272,334	\$275,057	\$277,807
Percent Change		-6.6%	-13.3%	-9.7%	8.6%	0.5%	0.5%	0.5%	1.0%	1.0%
Combined										
Usage (MGY)	674	673	669	626	619	622	626	629	635	641
Percent Change		0%	-1%	-6%	-1%	0.5%	0.5%	0.5%	1%	1%
Revenue	\$1,086,822	\$1,080,209	\$1,063,594	\$1,001,776	\$998,074	\$1,003,065	\$1,008,080	\$1,013,121	\$1,023,252	\$1,033,484
Percent Change		-0.6%	-1.5%	-5.8%	-0.4%	0.5%	0.5%	0.5%	1.0%	1.0%

Figure 1

Debt Service

Figure 2 below is the Debt Service schedule for inside water system.

Refinancing 2012C			2016 Loan			2018 Loan			Total				
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2013	135,000	26,600	161,600				2013			2013	135,000	26,600	161,600
2014	125,000	23,138	148,138				2014			2014	125,000	23,138	148,138
2015	125,000	21,888	146,888				2015			2015	125,000	21,888	146,888
2016	130,000	19,963	149,963		11,085	11,085	2016			2016	130,000	31,048	161,048
2017	130,000	18,363	148,363		56,988	56,988	2017			2017	130,000	75,351	205,351
2018	135,000	14,713	149,713	38,800	56,551	95,351	2018	7,444	7,444	2018	173,800	78,708	252,508
2019	140,000	11,963	151,963	39,600	55,670	95,270	2019	51,800	15,725	2019	231,400	83,357	314,757
2020	140,000	9,163	149,163	40,800	54,765	95,565	2020	55,500	14,652	2020	236,300	78,580	314,880
2021	145,000	6,131	151,131	42,000	53,834	95,834	2021	55,500	13,542	2021	242,500	73,507	316,007
2022	145,000	3,169	148,169	43,200	52,875	96,075	2022	55,500	12,155	2022	243,700	68,198	311,898

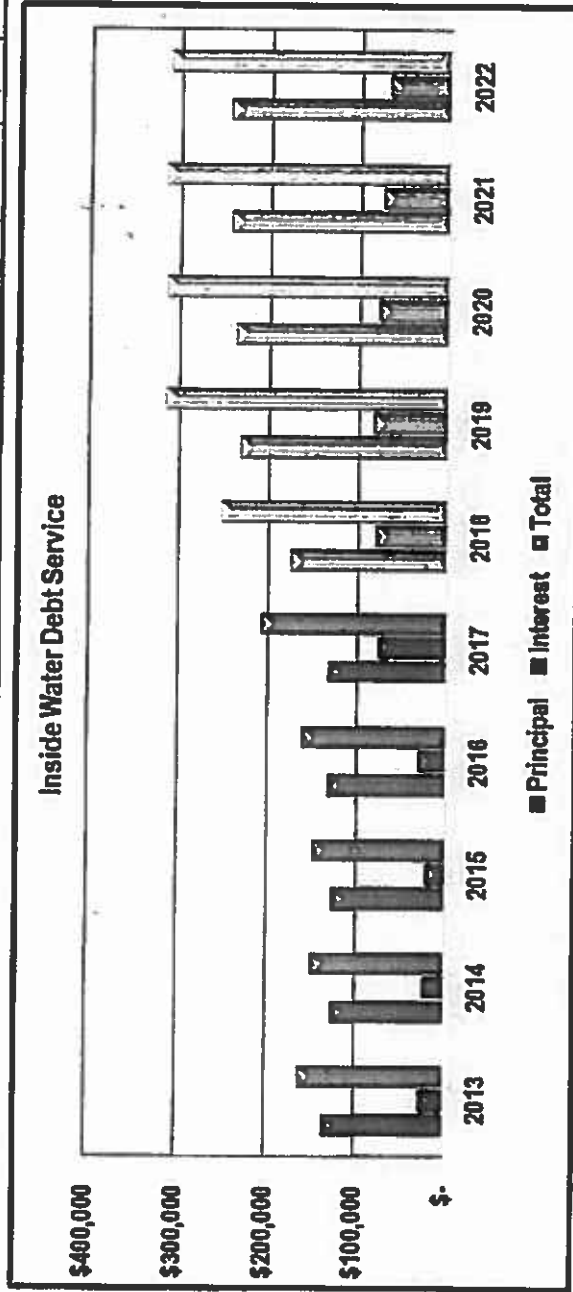


Figure 2

General Expenses

Overview

The City of Pikeville maintains a comprehensive budget with over 30 expense items. Included are items such as insurance, office supplies, repair and maintenance, salaries and benefits, UMG services, electric cost, and other expenses.

Methodology

Spreadsheets were developed containing each expense item for the past five years (2013 - 2017). Work sessions were conducted with City staff and UMG staff knowledgeable of the water system to make revenue and expense projections for the next five years (2018 - 2022). Making projections for expenses requires a knowledge base of what happened in the past, current events, and a reasonable expectation of what will happen over the next five years. Some expenses are more predictable than others such as UMG services and salaries and benefits, but items like repair and maintenance will vary because of the unpredictability of what is going to break next, when is the next large electric rate change, or what is the price of gasoline going to do. All projections, however, are generally made on the conservative side.

Inside Water General Expenses

A significant increase (13%) in expenses is projected for FY 2018, primarily due to expected increases in repairs and maintenance, gasoline, and electricity. Increases of 4% - 5% are projected for FY 2019 - 2022.

Figure 3 is a listing of all inside water system expenses and what each expense is projected to be through FY 2022.

Other considerations

General expenses can vary from year to year. A large repair and maintenance item or needing to buy large quantities of materials and supplies, can make a big difference and could impact cash reserves.

Ins de Water Expense Projection										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Gasoline..	270,042	240,243	195,274	136,445	144,174	200,000	206,000	212,180	218,545	225,102
		-11%	-19%	-30%	6%	39%	3%	3%	3%	3%
Bank Charges-Water Rev	0	0	0	2,848	3,890	3,500	3,570	3,641	3,714	3,789
					37%	-10%	2%	2%	2%	2%
Provision For Bad Debt..	677	(341)	(1,727)	(494)	868	1,000	1,000	1,000	1,000	1,000
		-150%	406%	-71%	-276%	15%	0%	0%	0%	0%
Dues..	700	700	775	775	850	1,000	1,030	1,061	1,093	1,126
		0%	11%	0%	10%	18%	3%	3%	3%	3%
Freight/Postage..	2,399	5,008	2,333	4,000	1,349	4,500	4,635	4,774	4,917	5,065
		109%	-53%	71%	-66%	233%	3%	3%	3%	3%
Ins Vehicle..	1,785	1,889	2,043	2,276	2,443	3,000	3,210	3,435	3,675	3,932
		6%	8%	11%	7%	23%	7%	7%	7%	7%
Ins General Liability..	20,329	22,377	21,044	23,651	26,436	30,000	33,600	37,632	42,148	47,206
		10%	-6%	12%	12%	13%	12%	12%	12%	12%
Ins Other..	255	255	0	509	255	255	260	265	270	275
		0%	-100%		-50%	0%	2%	2%	2%	2%
Office Supplies..	73	2,542	1,307	3,994	2,489	3,800	3,952	4,110	4,274	4,445
		3374%	-49%	205%	-38%	53%	4%	4%	4%	4%
Public Works Water..	1,080,336	1,101,942	1,114,063	1,138,440	1,162,040	1,221,176	1,257,811	1,295,546	1,334,412	1,374,444
		2%	1%	2%	2%	5%	3%	3%	3%	3%
Engineering..	0	11,745	0	0	0	0	0	0	0	0
Prof Service Other..	35	2,992	59	295	777	13,200	1,000	1,030	1,061	1,093
		8449%	-98%	401%	163%	1600%	3%	3%	3%	3%
Ut Monthly Billing	6,781	4,788	4,903	4,858	3,803	2,600	2,578	2,758	2,841	2,926
		-29%	2%	-1%	-22%	-32%	3%	3%	3%	3%
Umg...Services	108,943	151,896	172,752	162,176	141,565	130,000	160,000	165,000	170,000	175,000
		49%	7%	-6%	-13%	-8%	23%	3%	3%	3%
Rent-Easements..	376	376	376	376	376	376	376	376	376	376
		0%	0%	0%	0%	0%	0%	0%	0%	0%
Rent-Equipment						500	500	500	500	500
Purchase Software..	1,732	1,842	1,872	1,937	1,845	4,000	4,000	4,000	4,000	4,000
		6%	2%	3%	-5%	117%	0%	0%	0%	0%
Repairs/Maintenance..	73,380	54,884	162,039	54,905	139,077	180,900	184,518	188,209	191,973	195,812
		-25%	195%	-65%	153%	30%	2%	2%	2%	2%
Maint.-Copy Machine..	0	0	103	0	0	0	0	0	0	0
Repairs And Maint.Plant	0	13,864	7,972	30,320	30,632	65,197	68,457	71,880	75,474	79,247
			-42%	280%	1%	113%	5%	5%	5%	5%
Telephone/Public Works	6,567	7,972	6,550	7,817	8,206	9,500	9,785	10,079	10,381	10,692
		21%	-18%	15%	5%	16%	3%	3%	3%	3%
Electric..	217,268	257,947	257,753	269,177	299,596	341,540	365,448	380,066	406,670	435,137
		23%	-4%	4%	11%	7%	7%	4%	7%	7%
City Utilities..	5,564	5,443	4,981	3,958	4,445	6,000	6,000	6,000	6,240	6,490
		-2%	-9%	-21%	12%	35%	0%	0%	4%	4%
Int On Customer Deposit	0	0	0	2,805	0	3,000	3,000	3,000	3,000	3,000
Miscellaneous..	0	0	0	4,000	0	0	0	0	0	0
Small Equip. Purchase	0	13,885	0	188	0	0	0	0	0	0
Workers Comp..	103	66	107	111	296	300	306	312	318	325
		-36%	62%	4%	157%	5%	2%	2%	2%	2%
Salaries & Wages..	32,295	29,600	26,716	27,621	21,294	28,000	28,560	29,131	29,714	30,308
		-8%	-10%	3%	-23%	31%	2%	2%	2%	2%
Payroll Tax..	2,279	2,108	1,917	1,987	1,629	2,500	2,550	2,601	2,653	2,706
		-8%	-9%	4%	-18%	53%	2%	2%	2%	2%
Employee Benefit Ins.	7,910	6,431	6,813	7,195	7,567	10,000	10,200	10,404	10,612	10,824
		-19%	6%	6%	5%	32%	2%	2%	2%	2%
Pension Matching..	5,851	5,352	6,945	4,615	3,633	5,000	5,600	6,272	7,025	7,868
		-9%	30%	-34%	-21%	38%	12%	12%	12%	12%
Unemployment Tax	152	49	12	164	127	250	255	260	265	271
		-68%	-74%	1212%	-23%	97%	2%	2%	2%	2%
Total	1,845,832	1,965,854	1,996,982	1,896,950	2,009,651	2,271,093	2,368,301	2,445,521	2,537,152	2,632,959
Percent Change		7%	2%	-5%	6%	13%	4%	3%	4%	4%

Figure 3

Cost of Service Analysis

Overview

A Cost of Service Analysis is a method used to fairly distribute cost to classes of customers based on the services provided to each class. The City of Pikeville does not distinguish between classes of customers such as residential, commercial, or industrial. However, the City provides water service to two other water systems, Mountain Wt. and Southern Wt. Each of these water systems are charged different rates although they are provided the same level of service. The purpose of the Cost of Service Analysis is to determine a common fair water rate for both water systems.

Methodology

The American Water Works Association published a book titled "Manual of Water Supply Practices – M54 – Developing Rates for Small Systems" that describes the rate-making process as follows: (1) *determination of revenue requirements*; (2) *identification of customer classes*; (3) *allocation of costs to the functional components of the Cost of Service*; (4) *distribution of the functional Cost of Service to customer classes*; and (5) *development and design of a schedule of rates and charges to recover the revenue requirements*. The Cost of Service Analysis prepared for the City's wholesale customers follows this pattern.

Revenue Requirement

The revenue requirement is the total amount of cash needed for the inside water system to operate for a specific year. The year selected for this report is FY 2017 because of the available City financial reports. The "Cash-Basis" method as described by AWWA is used to determine the revenue requirement. Each line item listed in the City's financial report is distributed to three main categories: Administration, Water Treatment Plant, and Distribution. Figure 4 shows how the total cost of each category was determined.

There are two components of the City's water rate structure: a fixed cost and a variable cost. Fixed costs are those costs unrelated to the treatment and distribution of water, and variable costs are those associated directly or indirectly with the treatment and distribution of water. The fixed costs are generally used to determine a base amount to be used in the calculation of a minimum bill, while the variable cost is used to determine a unit rate, or cost per 1,000 gallons. It is this variable rate for the wholesale customers that is to be determined by the Cost of Service Analysis. Some line items of the water treatment plant and distribution system contain both fixed and variable costs.

Figure 5 shows a summary of the FY 2017 operating costs in terms of administration, water treatment plant, and distribution system. Also included is the cost of debt, which is divided evenly between the fixed and variable cost. This is done because all the infrastructure paid for by debt is not used to its fullest capacity. In addition, there may be some infrastructure not directly related to the production and distribution of water such as building, labs, and offices at the water plant that were paid by debt. A detailed analysis of the unused capacity was not performed, nor was there available a detailed list of everything that was paid by the loans and bond issues. Given these limitations, a 50-50 split in the fixed and variable components was assumed for the cost of debt.

Included in the cost components is an item called "Other Income". This is a combination of fees and penalties collected by the City that primarily impacts the fixed costs and not the variable costs. Generally, these fees are not directly related to the production and distribution of water.

The "Excess for Capital Funds" is the excess cash (revenue less expenses) realized in FY 2017 for the inside water system that can be used for capital expenses or cash reserve purposes. A healthy cash reserve is important because emergencies do happen. It is not a question of if it will happen, but rather when, and how much it will cost the City.

The result of this part of the Cost of Service Analysis shows that the revenue requirement for \$2,146,055 of total cost is to be recovered through the variable rate.

Figure 5 also contains a FY 2017 inside water usage analysis revealing that Mountain Wt. and Southern Wt. combined to purchase 67% of all water sold to the City's inside customers. There is also an analysis showing that Mountain Wt. and Southern Wt. combined to contribute only 44% of the revenue collected from all inside customers.

Customer Classes

It is recommended that the City create a wholesale class of water customers to include Mountain Wt. and Southern Wt. Although the City serves several types of water customers, for simplicity it is recommended that the City not create additional classes of customers.

Cost Allocation

The allocation of variable operating costs is shown in Figure 6. The cost of the distribution system is allocated to eight services. Allocation of these costs are determined by applying percentages as determined by general knowledge of the City's staff and UMG staff of how the services are being provided to the inside water customers, including Mountain Wt. and Southern Wt. The percentages are then multiplied by the total cost of the distribution system to determine the amount allocated to each service item.

Cost Distribution

The Cost Distribution is shown in Figure 7. The variable operating cost of each water service, as well as the cost of debt and capital funds, is presented along with an estimated percentage of distribution to Mountain Wt. and Southern Wt. For most of the services, the percentages used to distribute costs to these two customers (50% and 17%, respectively) are the percentage of usage shown in Figure 5. The cost of each service item is multiplied by the corresponding percentage for the wholesale customers. The result is a fair amount that each wholesale customer should pay for each item of service. These costs then totaled together to determine the amount of revenue required from each. For service calls and testing, however, Mountain Wt. and Southern Wt. does not pay anything for these services because the City does not provide service call to their customers and the City does not do water testing in within their systems. Finally, the revenue required is divided by the annual amount of water bought to determine the variable rate.

Wholesale Cost Summary

The 2017 Wholesale Cost Summary in Figure 7 gives the percentage that the wholesale customers should pay based on the cost allocation and distribution methodology. Below is a summary of the results.

Total Operating Costs	50%
Debt Service	33%
Other Income	0%
<u>Surplus for Capital Funds</u>	<u>67%</u>
Total Revenue Requirement	56%

The 50% of total operating expenses (administration, water treatment plant, and distribution system costs) will be used in the Cash Analysis to examine the previous five years of expenses and make projections for the next five years.

The 33% of debt service will also be used in the Cash Analysis to examine the previous five years of debt service and make projection for the next five years.

For the wholesale customers, paying 56% of the revenue is less than the 67% of water purchased, but it is more than the 44% of the revenue they have been paying.

Required Rate Determination

As shown in Figure 7, the result of the Cost of Service Analysis concludes that Mountain Wt. and Southern Wt. each paid less than their fair share of the total variable costs of water service for 2017. Mountain Wt. needs a 30% increase to adjust for their fair share of water service provided in FY2017 and Southern Wt. needs a 19% increase. These adjusted rates are used as the base for the recommended FY 2019 wholesale water rate increase.

The following is a summary for the required rate for the wholesale customer class.

<u>Customer Class</u>	<u>Revenue Required</u>	<u>Usage</u>	<u>Rate per 1,000 gallons</u>
Wholesale	\$1,267,604	619 MGY	\$2.05

Other Considerations

Establishing a wholesale class of customers would give the City flexibility to include other large water users and allow them to take advantage of a reduced water rate.

Distributing Inside Water Expenses - 2017

2017	Total		Administration		Water Treatment Plant		Distribution					
	Cost	Admin	WTP	Disb.	Cost	Fixed	Variable	Cost	Fixed	Variable		
Gasoline..	144,174	0%	100%	90%	\$ -	\$ -	\$ -	\$ 129,756	20%	80%	\$ 25,951	\$ 103,805
Bank Charges-Water Rev.	3,890	100%	100%	0%	\$ 3,890	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Provision For Bad Debt..	868	100%	0%	0%	\$ 868	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Dues..	850	100%	0%	0%	\$ 850	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Freight/Postage..	1,349	100%	0%	0%	\$ 1,349	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Ins Vehicle..	2,443	0%	90%	100%	\$ -	\$ -	\$ -	\$ 2,199	100%	0%	\$ -	\$ -
Ins General Liability..	26,436	10%	30%	60%	\$ 2,644	\$ 2,444	\$ -	\$ 15,862	100%	0%	\$ 2,199	\$ -
Ins Other..	255	10%	30%	60%	\$ 25	\$ 25	\$ -	\$ 153	100%	0%	\$ 153	\$ -
Office Supplies	2,489	100%	0%	0%	\$ 2,489	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Public Works Water..	1,162,040	5%	40%	55%	\$ 58,102	\$ 58,102	\$ -	\$ 639,122	5%	95%	\$ 31,956	\$ 607,166
Prof Service Other..	777	100%	0%	0%	\$ 777	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
UT Monthly Billing	3,803	100%	0%	0%	\$ 3,803	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
UMG.. Services	141,565	0%	40%	60%	\$ -	\$ -	\$ -	\$ 84,939	5%	95%	\$ 4,247	\$ 80,692
Rent-Easements..	376	100%	0%	0%	\$ 376	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Purchase Software..	1,845	100%	0%	0%	\$ 1,845	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Repairs/Maintenance..	139,077	0%	0%	100%	\$ -	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Repairs And Maint. Plant	30,632	0%	100%	0%	\$ -	\$ -	\$ -	\$ 139,077	5%	95%	\$ 6,954	\$ 132,123
Telephone/Public Works..	8,206	100%	0%	0%	\$ 8,206	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Electric..	299,596	0%	85%	100%	\$ -	\$ -	\$ -	\$ 104,859	0%	100%	\$ -	\$ -
City Utilities..	4,445	0%	100%	0%	\$ -	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Workers Comp..	286	100%	0%	0%	\$ 286	\$ 206	\$ -	\$ -	0%	100%	\$ -	\$ -
Salaries & Wages..	21,294	100%	0%	0%	\$ 21,294	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Payroll Tax..	1,629	100%	0%	0%	\$ 1,629	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Employee Benefit Ins.	7,567	100%	0%	0%	\$ 7,567	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Pension Marching..	3,633	100%	0%	0%	\$ 3,633	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Unemployment Tax	127	100%	0%	0%	\$ 127	\$ -	\$ -	\$ -	0%	100%	\$ -	\$ -
Total	2,009,651				\$ 119,758	\$ 119,758	\$ -	\$ 773,926			\$ 45,978	\$ 727,948
											\$ 87,321	\$ 1,028,645

Figure 4

Revenue Requirement - 2017					
	Cost	Fixed	Variable		
Administration	\$119,758	100%	\$119,758	0%	\$0
Water Treatment Plant	\$773,926	6%	\$45,978	94%	\$727,948
Distribution System	\$1,115,966	8%	\$87,321	92%	\$1,028,645
Total Operating Cost	\$2,009,651		\$253,057		\$1,756,593
Debt Service	\$205,351	50%	\$102,676	50%	\$102,676
Other Income	(\$252,335)	100%	(\$252,335)	0%	\$0
Surplus for Capital Funds	\$293,672	0%	\$0	100%	\$293,672
Revenue Requirement	\$2,256,339		\$103,398		\$2,152,941

Inside Water Revenue - 2017		
	Revenue	% of Total
Mountain Water	\$729,785	32%
Southern Water	\$268,289	12%
Total Wholesale	\$998,074	44%
Other Inside Customers	\$1,258,264	56%
Total Inside Revenue	\$2,256,339	100%

Inside Water Usage Analysis - 2017			
Total Inside Usage	Water Usage	Water Usage	Percent
	MGY	MGY	Usage
930		Mountain Wt.	50%
		Southern Wt.	17%
		Total Wholesale	67%

Figure 5

Percentages of Cost Allocation - 2017 for Variable Operating Costs											
	Water Treatment	Booster Stations	Line Maint.	Tanks	Service Calls	Meters	Leak Detection	Testing	Total		
Water Treatment Plant	100%	0%	0%	0%	0%	0%	0%	0%	100%		
Distribution System	0%	20%	40%	5%	15%	5%	10%	5%	100%		
Cost Allocation - 2017 for Variable Operating Costs											
	Water Treatment	Booster Stations	Line Maint.	Tanks	Service Calls	Meters	Leak Detection	Testing	Total	Percent	
Water Treatment Plant	\$ 727,948	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 727,948	41.44%	
Distribution System	\$ -	\$ 205,729	\$ 411,458	\$ 51,432	\$ 154,297	\$ 51,432	\$ 102,864	\$ 51,432	\$ 1,028,645	58.56%	
Total	\$ 727,948	\$ 205,729	\$ 411,458	\$ 51,432	\$ 154,297	\$ 51,432	\$ 102,864	\$ 51,432	\$ 1,756,593	100.00%	

Figure 6 .

Cost Distribution 2017 for Variable Costs

Cost of Services for Variable Costs												
	Water Treatment	Booster Stations	Line Main.	Tanks	Service Calls	Meters	Leak Detection	Testing	Total Expenses	Debt Service	Capital Funds	Total
Annual Cost	\$727,948	\$205,720	\$411,458	\$51,432	\$154,297	\$51,432	\$102,864	\$51,432	\$1,756,593	\$102,676	\$293,672	\$2,152,941
Percent Distribution for Variable Costs												
	Water Treatment	Booster Stations	Line Main.	Tanks	Service Calls	Meters	Leak Detection	Testing	Total Expenses	Debt Service	Capital Funds	Total
Wholesale Account	50%	50%	50%	50%	0%	7%	50%	0%		50%	50%	
Mountain Wt.	17%	17%	17%	17%	0%	3%	17%	0%		17%	17%	
Southern Wt.												
Cost Distribution for Variable Costs												
	Water Treatment	Booster Stations	Line Main.	Tanks	Service Calls	Meters	Leak Detection	Testing	Total Expenses	Debt Service	Capital Funds	Total
Wholesale Account	\$382,722	\$102,511	\$205,021	\$25,628	\$0	\$3,844	\$51,432	\$0	\$751,157	\$51,338	\$146,836	\$949,331
Mountain Wt.	\$121,716	\$34,399	\$68,798	\$8,600	\$0	\$1,290	\$17,199	\$0	\$252,001	\$17,168	\$49,103	\$318,272
Southern Wt.	\$484,438	\$136,909	\$273,819	\$34,227	\$0	\$5,134	\$68,632	\$0	\$1,003,159	\$68,506	\$195,939	\$1,267,604
% of Total	67%	67%	67%	67%	0%	10%	67%	0%	57%	67%	67%	59%

Wholesale Cost Summary

	Total - Fixed & Variable	Wholesale Variable	Percent Variable
Administration	\$119,758	\$0	0%
Water Treatment Plant	\$773,926	\$484,438	63%
Distribution System	\$1,115,966	\$518,721	46%
Total Operating Cost	\$2,009,651	\$1,003,159	50%
Debt Service	\$205,351	\$68,506	33%
Other Income	(\$252,335)	\$0	0%
Surplus for Capital Funds	\$293,672	\$195,939	67%
Total Revenue Requirement	\$2,256,339	\$1,267,604	56%

Rate Determination for Variable Costs

Wholesale Account	Revenue Paid	Current Rate 1,000 Gal.	Revenue Required	Required Rate 1,000 Gal.	Revenue Deficient	Rate Increase Needed
Mountain Wt.	\$729,785	1.58	\$949,331	\$2.05	\$197,078	30%
Southern Wt.	\$268,289	1.72	\$318,272	\$2.05	\$72,451	19%
Total Wholesale	\$998,074		\$1,267,604	\$2.05	\$269,529	27%

Figure 7
Page 14

Cash Analysis

Overview

It is important for the City of Pikeville to know the amount of cash it has on hand and if its cash reserves are growing or being depleted. Cash is necessary to pay for the utility's operational and maintenance needs as well as debt and capital expenses to preserve its infrastructure, retain its staff, deliver services to customers, preserve restricted accounts, and maintain a healthy cash reserve. Therefore, it is important to predict its anticipated expenditures and how much cash the utility expects to receive from its customers. Such an examination is called a Cash Analysis. If the projected revenue is less than the projected expenses, or less than a minimal amount of cash, under normal circumstances a rate increase is needed.

Methodology

The Cash Analysis is configured like a simplified cash budget showing the amount of wholesale revenue and the amount of expenses determined by using projections and information from the Cost of Service Analysis. Revenue minus expenses provides the amount of cash available for capital funds and reserves. A negative amount indicates the need for a rate increase.

Wholesale Water

Figure 8 shows the Cash Analysis for the inside water system. The average increase in revenue over the next five years is projected to be between .5% and 1%, and the average expenses over the next five years is projected to be about 3.7%. The debt service is projected to increase to about \$105,000 in 2019 and then remain level. Information from the Cost of Service Analysis is used to examine the previous five years of wholesale expenses and debt service, and to project wholesale expenses and debt service over the next five years.

The Cash Analysis shows a deficit in FY 2014 primarily due to a large, one-time, debt payment. In FY 2017 the deficit was \$70,471 and the deficit through FY 2022 exceeds \$380,000.

Wholesale Water Cash Analysis - No Rate Increases										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Wholesale Revenue										
Mountain Water	749,054	764,806	790,009	754,765	729,785	733,434	737,101	740,787	748,195	755,677
Rate Increase										
Southern Water	337,768	315,403	273,585	247,011	268,289	269,630	270,979	272,334	275,057	277,807
Rate Increase										
Total Wholesale Revenue	1,086,822	1,080,209	1,063,594	1,001,776	998,074	1,003,065	1,008,080	1,013,121	1,023,252	1,033,484
Wholesale Expenses										
Total Operating Expenses	1,845,832	1,965,854	1,996,982	1,896,950	2,009,651	2,271,093	2,368,301	2,445,521	2,537,152	2,632,959
Wholesale % of Exp.	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Wholesale Expenses	921,385	981,297	996,835	946,902	1,003,159	1,133,664	1,182,186	1,220,732	1,266,472	1,314,296
Total Debt	331,463	1,489,796	146,887	20,833	205,351	252,508	314,757	314,880	316,007	311,898
Wholesale % of Debt	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%
Wholesale Debt	110,577	496,999	49,002	6,950	68,505	84,237	105,004	105,044	105,421	104,050
Total Wholesale Expenses	1,031,962	1,478,296	1,045,837	953,852	1,071,664	1,217,901	1,287,190	1,325,777	1,371,893	1,418,346
Surplus (Deficit)	54,860	(398,087)	17,757	47,924	(73,590)	(214,836)	(279,110)	(312,656)	(348,641)	(384,862)

Total Wholesale Revenue	1,086,822	1,080,209	1,063,594	1,001,776	998,074	1,003,065	1,008,080	1,013,121	1,023,252	1,033,484
Percent Change		-0.6%	-1.5%	-5.8%	-0.4%	0.5%	0.5%	0.5%	1.0%	1.0%

Wholesale Exp w/ Debt	1,031,962	1,478,296	1,045,837	953,852	1,071,664	1,217,901	1,287,190	1,325,777	1,371,893	1,418,346
Percent Change		43.3%	-29.3%	-8.8%	12.4%	13.6%	5.7%	3.0%	3.5%	3.4%

Figure 8

Rate Increase

Overview

The determination of the amount of rate increase needed is based on the Cost of Service Analysis and Cash Analysis. It is critically important that each wholesale account provide enough revenue to cover all wholesale expenses and debt. In addition, an excess amount of cash is needed for emergency repairs, capital improvements and replacement of equipment, vehicles and other capital items needed for the purposes of producing and delivering water to the wholesale customers. The minimum excess amount of cash generated each year should not be less \$20,000 projected through FY 2022.

Wholesale Water

It is recommended to adjust the Mountain Wt. and Southern Wt. rates to the required rates determined in the Cost of Service Analysis. As shown in Figure 7, this would mean a rate increase of 30% for Mountain Wt. and 19% for Southern Wt. However, to provide an excess amount of cash of at least \$20,000 each year through FY 2022, an additional increase of 13% will be needed. Therefore, a total increase of 43% is need for Mountain Wt. in FY 2019 and an increase of 32% is needed for Southern Wt. in FY 2019. Figure 9 is a spreadsheet like the Cash Analysis in Figure 8 but includes the recommended rate increases. This rate increase provides adequate cash flow to create a positive income (revenue less expenses) and maintain over \$20,000 in cash at the end of each year through 2022. Figure 10 is a graphical representation of the Cash Analysis without the Rate Increase and the Cash Analysis with the Recommended Rate Increases.

Other considerations

The recommended rate increase is based on projections of revenue, expenses, and debt service. The City should review annually the impacts of making these increases and adjust as needed.

Wholesale Water Cash Analysis - With Rate Increases										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Wholesale Revenue										
Mountain Water	749,054	764,806	790,009	754,765	729,785	733,434	1,050,370	1,055,621	1,066,178	1,076,839
Rate Increase							43%			
Southern Water	337,768	315,403	273,585	247,011	268,289	269,630	354,711	356,485	360,049	363,650
Rate Increase							31%			
Total Wholesale Revenue	1,086,822	1,080,209	1,063,594	1,001,776	998,074	1,003,065	1,405,081	1,412,106	1,426,227	1,440,489
Wholesale Expenses										
Total Operating Expenses	1,845,832	1,965,854	1,996,982	1,896,950	2,009,651	2,271,093	2,368,301	2,445,521	2,537,152	2,632,959
Wholesale % of Exp.	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Wholesale Expenses	921,385	981,297	996,835	946,902	1,003,159	1,133,664	1,182,186	1,220,732	1,266,472	1,314,296
Total Debt	331,463	1,489,796	146,887	20,833	205,351	252,508	314,757	314,880	316,007	311,898
Wholesale % of Debt	33%	33%	33%	33%	33%	33%	33%	33%	33%	33%
Wholesale Debt	110,577	496,999	49,002	6,950	68,505	84,237	105,004	105,044	105,421	104,050
Total Wholesale Expenses	1,031,962	1,478,296	1,045,837	953,852	1,071,664	1,217,901	1,287,190	1,325,777	1,371,893	1,418,346
Surplus (Deficit)	54,860	(398,087)	17,757	47,924	(73,590)	(214,836)	117,891	86,329	54,335	22,143

Total Wholesale Revenue	1,086,822	1,080,209	1,063,594	1,001,776	998,074	1,003,065	1,405,081	1,412,106	1,426,227	1,440,489
Percent Change		-0.6%	-1.5%	-5.8%	-0.4%	0.5%	40.1%	0.5%	1.0%	1.0%

Wholesale Exp w/ Debt	1,031,962	1,478,296	1,045,837	953,852	1,071,664	1,217,901	1,287,190	1,325,777	1,371,893	1,418,346
Percent Change		43.3%	-29.3%	-8.8%	12.4%	13.6%	5.7%	3.0%	3.5%	3.4%

Figure 9

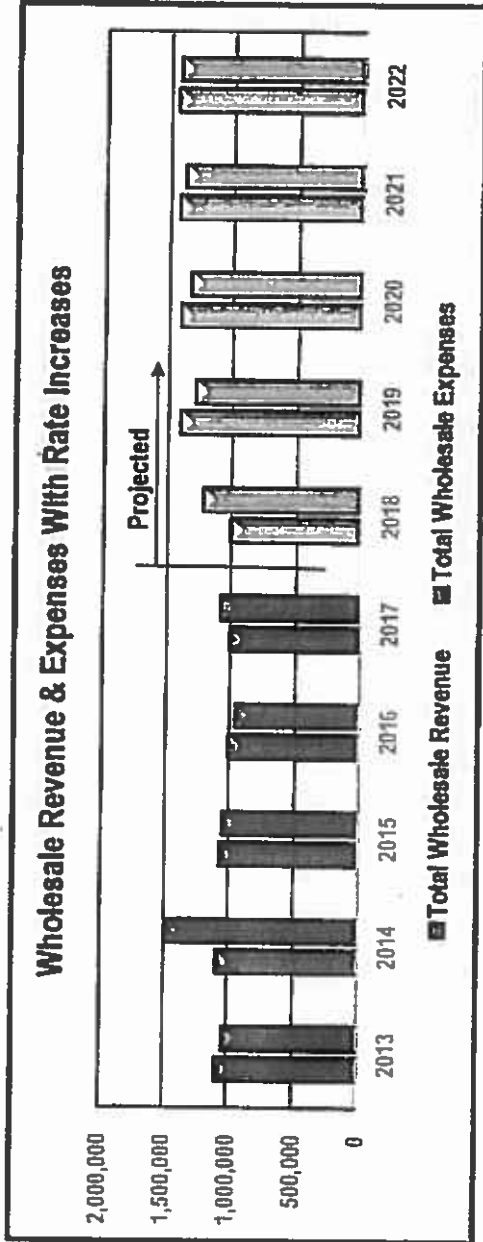
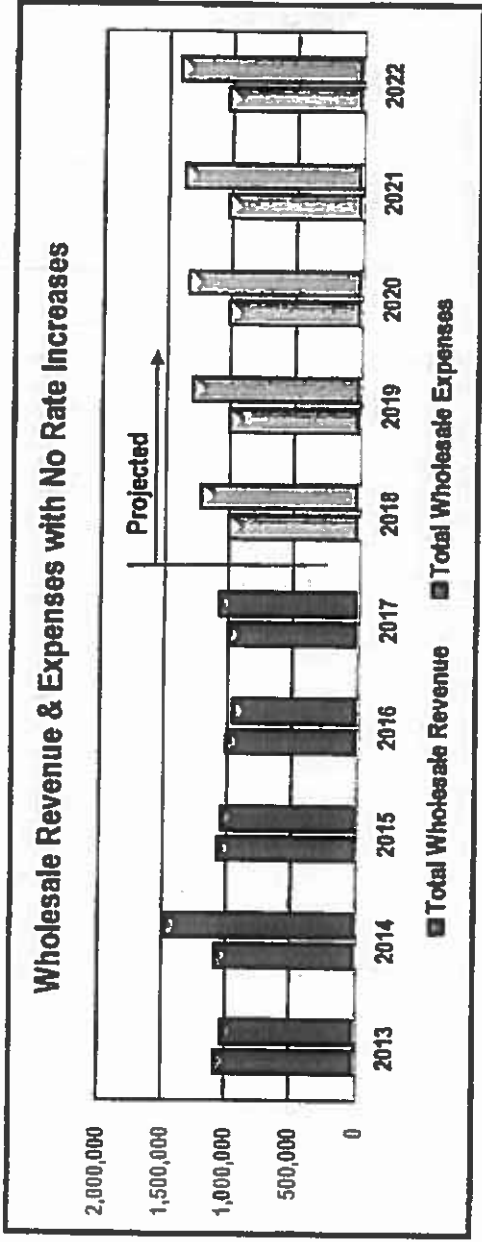


Figure 10

Recommendations

It is recommended that the City of Pikeville implement the following for its Inside Water System:

1. Create a wholesale class of customers that includes Mountain Wt. and Southern Wt.
2. Maintain at least \$20,000 in excess cash from the wholesale customers.
3. Adjust Mountain Wt. rates to reflect an increase of 43% which would increase their cost per 1,000 gallons from \$1.58 to \$2.25.
4. Adjust Southern Wt. rates to reflect an increase of 32% which would increase their cost per 1,000 gallons from \$1.72 to \$2.25.

These increases are based on providing a cash surplus of at least \$20,000 each year through FY 2022. The cash reserves are needed for:

1. Emergencies such as major water line repairs and replacements that are unplanned, pump failures, replacing electrical components etc. that are beyond the scope of budgeted repair and maintenance items.
2. Lending agencies require varying amounts of cash to be held in reserve.
3. Self-funding capital improvement instead of selling bonds or borrowing from state and federal agencies which place regulations on how the money is spent.
4. Interest earnings which can be used as income to supplement revenue and pay expenses.

The recommendations for rate increases are based on projections and estimates of revenue, general expenses, capital expenses, and capital improvements to be made over the next five years. The City should review annually the impacts of making these increases and adjust as necessary.

RESPONSE TO QUESTION 1d

EXHIBIT "1"

Memo

TO : Roy Sawyers
FROM : Daniel P. Stratton, Esq. *DS*
DATE : December 11, 2018
REGARDING : Memo of Meeting with City of Pikeville

MEETING WITH CITY OF PIKEVILLE ON DECEMBER 10, 2018

Mike Blackburn, Kevin Varney, Roy Sawyers, Mike Spears and myself meet with Phillip Elswick, Rust Davis, Todd Osterloh of Sturgill and Turner, and Buddy Petty of Rate Study, to review the City's rate study used to support their proposed rate increase to Mountain Water District.

After introductions, we ask a series of questions based on the outline previously provided to us by Jack Hughes.

The first question was to clarify what their request was. The original request was \$2.50 per thousand for the first 28 million and a \$1.95 thereafter. Their second proposal was \$2.25 per thousand, but they did not state a minimum and they did not have a two tier pricing structure. Phillip Elswick confirmed it was one rate for all purchased, but incorrectly noted that we did not purchased over 28 million units. (After the meeting, Mike Spears confirmed that estimated increase with the one tier pricing would be approximately \$295,000 dollars based on our current usage of about 36 million a month. Therefore, the drop from \$2.50 to \$2.25 is a negligible loss to them as the original estimated cost to us was about \$300,000 dollars. Roy is going to ask Carrie to confirm the actual numbers).

Next, we reviewed the budgeted revenue that was published in the paper, and they said that the increased revenue was tied to a loan and that the expenditures were also tied to a one time expense associated with the loan. They said that the reported increase of expenditures is not tied to the rate increase.

Buddy Petty, noted that the rate study was based on 2017 a test year, and that this was a qualifying study done under the methods approved by the PSC. They noted there was a forecast provided for five (5) years and the projections there called for the rate to be \$2.25. Todd Osterloh stated the projections could be used based on 807 KAR 5:001. When asked how the projections were made, Buddy Petty noted that projections and allocations were made based on discussions with officials with the City of Pikeville and UMG. The impression was that it was their best judgments, as opposed to any type of scientific calculations on behalf of the City. Mr. Petty noted he had not done a PSC rate study before. He had been in business about five (5) years and this was his first Kentucky study.

We asked the difference between the inside and outside customers, and they noted that residents of the City of Pikeville, Mountain Water District and Southern Water Company are deemed to be inside customers and customers served outside the City limits are considered outside customers.

When asked about justification for allowing for a surplus, they noted that PSC accounting allowed them to do so, and that the surplus was essentially the equivalent of depreciation. They noted depreciation expenses of \$414,000 dollars, and that the alleged surplus was smaller than that, and therefore had a smaller impact on the rate increase. This made up part of the difference between the \$2.05 and \$2.25 prices.

When asked if analysis was based on audited or budgeted numbers, they said it was based on the City's financial statement, which are not audited numbers. The City made the comment that they will update their numbers based on actual 2018 audited numbers if necessary.

When asked about the allocation of cost between wholesale and retail, they again asserted it was based on general conversations with City and UMG officials. No scientific method was utilized.

In regard to how much it cost to produce a thousand gallons of water, Mr. Petty did a rough calculation and said it was under a dollar, but he didn't run that exact number. He did agree to provide it. We asked them what the cost of distribution to our locations was, and they could not do that. They have allocated fifty percent (50%) of the distribution costs to inside customers. They noted that in regard to distribution they allocated forty-six percent (46%) of that cost to us, and noted that we're buying sixty-seven percent (67%) of the inside water, but we're only producing forty-six percent (46%) of the revenue. They noted that the charges for distribution to inside customers was cheaper than the outside customers. The 67% of the inside water allocated to wholesale purchases, we're buying 50% and Southern Water is buying 17%.

Towards the end of the meeting we tried to draw some conclusions. The first was, that if we have a dispute it appears to be over the allocation of distribution costs to us and the underlying cost of production generally. (We agreed prior to the meeting amongst Mountain Water officials not to get into the UMG contract costs and we did not.)

We raised the issue of penalty for quality issues as their TTHM levels were obviously causing us troubles too. They were very emphatic that they would not pay a penalty for quality of water because it was not their fault. The source of the problem is a mine in Virginia that is causing the problem. Rusty Davis noted that they are going to be fined by the EPA or the Division of Water and they are trying to work out an agreement with them. The projected fine right now is going to be \$5,000 for each violation; but, they did not feel it was right to be penalized twice for failure to produce the water for us. They indicated that an Agreed Order with the State would come down sometime early in 2019. We agreed to hold that issue in abeyance.

The second issue raised was that our contract runs to 2034 and we wanted an option out, subject to appropriate notice. They raised the issue of whether or not we were going to build another plant and we said that is an option we've been asked to look at. They were not inclined to provide an option out and asked if it would be reciprocal, to which I replied, no. We explained to them that the cost of increase we're paying them would easily amortize the debt of a new plant.

Their attorney pointed out the cost of litigation PSC would be expensive for both parties and that they could recoup their expenses at the PSC and we would be forced to pay that.

We further discussed and authorized Jack to call Todd to discuss their differences in regard to the City's ability to capture future expenses and/or surplus funds in a rate study and they agreed to do that.

I then asked whether or not the \$2.25 was negotiable because we clearly have some differences of opinion and I wanted to know whether or not they felt that there was a range for negotiation, and I threw out the number of \$2.05 for discussion purposes. Phillip Elswick said, "No, there was no room for negotiations." Rusty Davis softened that position just a little and said they would have to look at what we presented, but he did not believe the \$2.05 would be agreeable.

At some point in time during the conversation they acknowledged they have not yet set a rate for the City of Pikeville's customers and that they are waiting to set that rate based upon what price we end up paying. Accordingly, they are going

to end up seeing what they can get out of their wholesale sales and then make up the difference with the residents of the City of Pikeville. We explained to them that we did not believe that was fair, and we had problems with that concept.

At the end of the meeting we told them that we would get back with them after Jack and Todd talked and decide how to move forward from there. Overall, it was a fairly cordial meeting, but clearly two different perspectives on the same issue.

Following the meeting we called Jack Hughes and gave him a brief update on the meeting. He said he would be happy to talk to Todd; but, he didn't think that was going to change anybody's opinion. He wasn't specifically aware of the KAR provision that Todd had cited, but that he said in the grand scheme of things that is not something the PSC generally does. We kind of got the impression that the City was trying to go through a very small loop hole.

We also asked John to recommend who could do a rate study for us, and he is going to send us some names of people who have done accepted rate studies for the PSC. He noted the cost of that rate study would probably be \$20,000 to \$25,000.

In conclusion we agreed to proceed with our own rate study to determine the validity of the City's study. If it is determined that the City's study is valid then we will negotiate the best option that we can from there. If that fails, or if it is determined the City's study is invalid, then we have our own rate study to present to the PSC.

RESPONSE TO QUESTION 1d

EXHIBIT "2"

ANZ
11-17-18

ORDINANCE AMENDING THE FISCAL BUDGET FOR THE 2018-2019 FISCAL YEAR

ORDINANCE NO. O-2018-24

WHEREAS, certain additional information has come to the attention of the Finance Department which necessitates the amendment of the 2018-2019 fiscal year budget to reflect certain increases and decreases to revenues and expenditures.

NOW, THEREFORE be it ordained by the City of Pikeville that the fiscal budget for the 2018-2019 fiscal year is hereby amended to reflect an increase and or decrease of revenues and /or expenditures as reflected in the attached exhibit entitled "Budget Amendments".

The above ordinance was give first reading on Oct. 22, 2018.

The ordinance was given second reading on Nov. 13, 2018. The ordinance shall be in full force and effect immediately after it is passed and published as required by law.

Passed, this 13th day of November, 2018.

Commissioner Hartsock moved the adoption of the foregoing ordinance. Commissioner McNamee seconded the motion.

Upon roll call, the votes were as follows:

	<u>YES</u>	<u>NO</u>
JAMES A. CARTER MAYOR	<u>X</u>	<u>—</u>
BOB SHURTLEFF, COMMISSIONER	<u>X</u>	<u>—</u>
KIMBERLY MAY-DOWNEY, COMMISSIONER	<u>X</u>	<u>—</u>
STEVE HARTSOCK, COMMISSIONER	<u>X</u>	<u>—</u>
PAT MCNAMEE, COMMISSIONER	<u>X</u>	<u>—</u>

The Mayor declared the within Ordinance adopted.

THE WAYNE COUNTY BOARD OF SUPERVISORS
 JAMES A. CARTER, Mayor

ATTEST
 Christy Bilitier
 CHRISTY BILITIER, CITY CLERK

2018-2019
 All Appropriated Funds and Service Fund Information

Fund	Current Budget			Budget Amendments		
	Revenues	Fund Balance	Excess of Revenue over Expenditures	Revenues	Fund Balance	Excess of Revenue over Expenditures
General Fund	\$ 17,379,981	\$ 2,844,342	\$ 528	\$ 17,291,491	\$ 3,632,721	\$ 529
Tourism Commission	\$ 2,006,993	\$ 10,000	\$ 4,236	\$ 2,006,993	\$ 10,000	\$ 4,236
Coal Severance	\$ 236,000	\$ 320,000	\$ 466	\$ 236,000	\$ 770,000	\$ 466
Series 2012 GO Bond Jenny Wiley	\$ 193,189	\$ -	\$ 310	\$ 193,189	\$ -	\$ 310
Series 2018	\$ 42,442	\$ -	\$ -	\$ 42,442	\$ -	\$ -
Projects	\$ 27,765,044	\$ 925,582	\$ -	\$ 27,765,044	\$ 925,582	\$ -
Meter Deposit	\$ -	\$ -	\$ -	\$ -	\$ 52,000	\$ -
Police Case Federal	\$ 120	\$ 10,000	\$ 120	\$ 120	\$ 10,000	\$ 120
Police Case State	\$ 50	\$ 12,000	\$ 50	\$ 50	\$ 12,000	\$ 50
Gas Fund	\$ 1,575,900	\$ 362,000	\$ 228	\$ 1,575,900	\$ 362,000	\$ 228
Water Fund	\$ 2,316,897	\$ 978,000	\$ 179	\$ 2,698,057	\$ 978,000	\$ 179
Series 2012 GO Bonds Refinance	\$ 222,880	\$ -	\$ 60	\$ 222,880	\$ -	\$ 60
Marion Branch Bond	\$ 64,666	\$ -	\$ 6,340	\$ 64,666	\$ -	\$ 6,340
Garbage Fund	\$ 1,448,600	\$ 205,600	\$ 260	\$ 1,448,600	\$ 205,600	\$ 260
Sewer Fund	\$ 15,113,196	\$ 2,532,742	\$ 100	\$ 15,339,940	\$ 2,532,742	\$ 100
Sandy Valley Water	\$ 670,900	\$ 180,000	\$ 204	\$ 670,900	\$ 180,000	\$ 204
Mossy Bottom Sewer	\$ 723,005	\$ 178,000	\$ 544	\$ 760,490	\$ 178,000	\$ 544
Combined W/S Bond	\$ 67,510	\$ -	\$ 307	\$ 67,510	\$ -	\$ 307
Marion's Branch Water Sewer Bond	\$ 83,410	\$ -	\$ 7,070	\$ 83,410	\$ -	\$ 7,070
Series 2017	\$ 133,304	\$ -	\$ 13,620	\$ 133,304	\$ -	\$ 13,620
Sewer Plant	\$ 250,420	\$ -	\$ -	\$ 250,420	\$ -	\$ -
Total Excess of Revenues	\$ 70,294,287	\$ 8,668,246	\$ 35,223	\$ 71,078,212	\$ 9,848,625	\$ 119,773

12

CASE : City of Pikeville
CASE NO : 2019-00080
RE : Public Service Commission
Initial Data Request to MWD

Q 2. Refer to the Elswick Testimony, page 4, line 17. Mr. Elswick states that Pikeville requested that RateStudies produce a second COSS based upon the Debt Service Coverage methodology similar to that used by Commission Staff.

- a. Explain how this second COSS was presented to Mountain District.
- b. Provide all material and information concerning this second COSS that was provided to Mountain District.
- c. Explain whether the COSS consultant, RateStudies, met with Mountain District in the presentation of the second COSS presentation.
- d. If RateStudies met with Mountain District, provide a summary of the meeting and all materials provided to Mountain District.

WITNESS : ROY SAWYERS

RESPONSE Q2:

- a. The second COSS was sent to the District by letter from Todd Osterloh ("Osterloh") dated February 5, 2019.
- b. See attached Osterloh letter and second COSS provided to the District.
- c. There was no meeting concerning the second COSS.
- d. Not applicable.

EXHIBIT

RESPONSE TO QUESTION 2b

STURGILL
TURNER

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M. Todd Osterloh
Member
tosterloh@sturgillturner.com

February 5, 2019

Daniel P. Stratton
Stratton Law Firm, P.S.C.
PO Box 1530
Pikeville, KY 41502

RE: Pikeville's Wholesale Rate Increase to Mountain Water District

Dear Dan:

Please find the attached Cost of Service Analysis prepared by RateStudies on behalf of the City of Pikeville. This study incorporates the debt-service-coverage methodology for calculating revenue requirement that the Public Service Commission routinely approves. As you can see, the cost-of-service study recommends an increase to a one-tier rate of \$2.30 per 1,000 gallons. In contrast, the previous cost-of-service analysis that was based on the American Water Works Association's M54 Manual recommended an increase to \$2.25 per 1,000 gallons.

In the interests of settlement and good faith negotiations, the City of Pikeville will continue to offer Mountain Water District a proposed rate of \$2.25 per 1,000 gallons, regardless of the fact that the new cost analysis that is supported by a methodology approved by the Public Service Commission recommends a higher rate. If Mountain Water District objects to this rate and Pikeville must present a case before the Public Service Commission, Pikeville will request the full amount to which it is entitled, including rate case expenses that are not included in the calculations of the rates identified above.

As I am sure you saw, the City has increased water rates to its retail customers, and it must increase its wholesale rates to Mountain Water District to ensure that it is recovering its costs to provide service. We respectfully request a response to this letter no later than February 20, 2019, so that the City knows how to proceed.

We look forward to hearing from you and the District. If you have any questions, please contact me or City Attorney Rusty Davis.

Sincerely,
STURGILL, TURNER, BARKER & MOLONEY, PLLC


M. Todd Osterloh



Pikeville, Kentucky

February 5, 2019

Cost of Service Analysis for Mountain Water District

Prepared By:



Table of Contents

Purpose	Page 1
Current Circumstances	Page 1
Figure 1 – MWD Master Meters	Page 1
Figure 2 – Water System Map	Page 2
Cost of Service Analysis	Page 3
Revenue Requirement	Page 3
(a) Operation and Maintenance	Page 3
Figure 3 – Operation and Maintenance	Page 4
(b) Debt Service	Page 5
Figure 4 – Debt Service	Page 5
(c) Debt Service Coverage	Page 6
(d) Depreciation	Page 6
(e) Other Income	Page 6
Fixed and Variable Costs	Page 6
Figure 5 – Revenue Requirement	Page 7
Cost Allocation	Page 7
Figure 6 – Cost Allocation	Page 8
Cost Distribution	Page 8
Figure 7 – Percent of Water Sold & Revenue	Page 8
Figure 8 – Cost Distribution	Page 9
Recommended Rate	Page 10
Figure 9 – MWD Cost Summary	Page 10
Figure 10 – Rate Determination	Page 10

City of Pikeville, Kentucky

2017 – Mountain Water District – Cost of Service Analysis

Purpose

The purpose of this report is to present a Cost of Service Analysis for the City of Pikeville, Kentucky (City) to determine a fair water rate for the Mountain Water District (MWD).

Current Circumstances

The City provides water to the MWD from the City's water treatment plant and through its extensive water distribution system. In fiscal year (FY) 2017 MWD bought 50% of all water sold to inside customers and provided only 32% of the revenue. Although the City has outside water customers, financial accounting for WMD is included with the inside customers. The City has separate financial accounting for outside customers as well as separate financial accounting for inside sewer customers and outside sewer customers.

It has been eleven years since the water rates for MWD has been increased.

MWD has ten master meters, identified in Figure 1 and surrounds the City as shown in Figure 2. There is one master meter North of the City, two East of the City, two West of the City and five South of the City. The highlighted water lines in green are used by the City to provide adequate service to the MWD master meters.

MWD Master Meters		
ID Number	Name	Meter Size
#1	Cowpen	6 Inch
#2	Town Mountain	8 Inch
#3	Hurricane Creek (Cedar Gap)	4 Inch
#4	Chloe Road	4 Inch
#5	Hoopwood Hollow	2 Inch
#6	Island Creek Mobile Home Park	2 Inch
#7	Coon Branch	2 Inch
#8	Island Creek	4 Inch
#9	South Mayo Trail (Indian Hills)	4 Inch
#10	Smiley Fork	4 inch

Figure 1

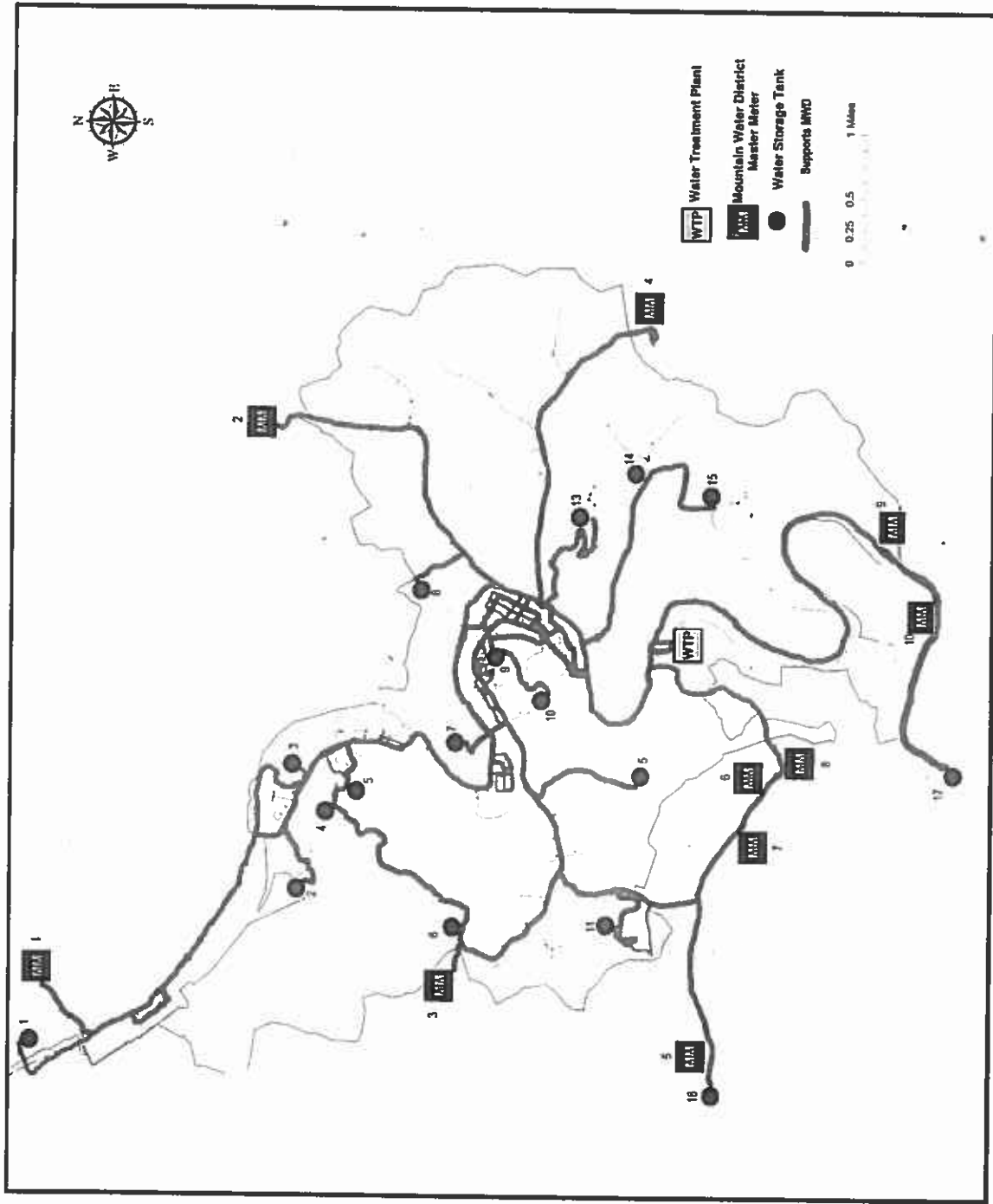


Figure 2

Cost of Service Analysis

A Cost of Service Analysis is a method used to fairly distribute cost based on the level of service provided. The City does not distinguish between classes of customers such as residential, commercial or industrial. All these customers pay the same rate for water service. MWD, however, pays a different rate. This analysis will determine an updated water rate for MWD.

Methodology

The methodology for the Cost of Service Analysis is as follows: (1) determination of revenue requirements; (2) allocation of cost to the functional components of the Cost of Service; (3) distribution of the functional Cost of Service; and (4) calculation of a rate to recover revenue requirements.

This analysis for the City does not include peak day or peak hour demands. The City does not have adequate data for such determination. A "return on equity" or a "risk premium" is also not included in this analysis.

(1) Revenue Requirement

The revenue requirement is the total amount of cash needed for the inside water system to operate for a specific year. The year selected for this report is FY 2017 because of the available City financial reports. The "Debt Service Coverage" method is used in determining the revenue requirements. Components of the revenue requirement include:

- (a) Operation and Maintenance
- (b) Debt Service
- (c) Debt Service Coverage
- (d) Depreciation
- (e) Other Income

(a) Operation and Maintenance

The City maintains comprehensive annual financial records that include revenue, other income, and expenses. There is a total of twenty-six expense items, but none are allocated to the functional cost of service. For the purpose of this report, the expenses are allocated to three main categories: Administration, Water Treatment Plant, and Distribution. Staff from the City and Utility Management Group (UMG) assisted in the collection of data, and the allocation of cost to the categories of administration, water treatment plant and distribution. A percentage of cost for each line item was determined and allocated to each category, then for each category, a percentage of the cost was determined to be either fixed for a variable. Figure 3 shows how the total cost of each category was determined.

2017	Inside Water Operating & Maintenance Expense - 2017													
	Total			Administration			Water Treatment Plant			Distribution				
	Cost	Admin	WTP	Dist.	Cost	Fixed	Variable	Fixed	Variable	Cost	Fixed	Variable	Fixed	Variable
Gasoline..	176,401	0%	10%	90%	100%	0	0	0	0	158,761	20%	80%	31,752	0
Bank Charges	5,209	100%	0%	0%	100%	5,209	0	0	0	0	0%	100%	0	0
Prov. For Bad Debt	8,962	100%	0%	0%	100%	8,962	0	0	0	0	0%	100%	0	0
Dues..	850	100%	0%	0%	100%	850	0	0	0	0	0%	100%	0	0
Freight/Postage..	3,076	100%	0%	0%	100%	3,076	0	0	0	0	0%	100%	0	0
Ins Vehicle..	2,547	0%	10%	90%	100%	0	0	255	0	2,292	100%	0%	2,292	0
Ins General Liability	31,359	10%	30%	60%	100%	3,136	0	9,408	0	18,815	100%	0%	18,815	0
Ins Other..	0	10%	30%	60%	100%	0	0	0	0	0	100%	0%	0	0
Office Supplies..	711	100%	0%	0%	100%	711	0	0	0	0	0%	100%	0	0
Public Works Water	1,221,201	5%	40%	55%	100%	61,060	0	24,424	0	671,661	5%	95%	33,563	638,078
Prof Service Other	777	100%	0%	0%	100%	777	0	0	0	0	50%	50%	0	0
UT Monthly Billing	2,526	100%	0%	0%	100%	2,526	0	0	0	0	0%	100%	0	0
UMG...Services	184,254	0%	40%	60%	100%	0	0	3,685	0	110,553	5%	95%	5,528	105,025
Rent-Easements..	376	100%	0%	0%	100%	376	0	0	0	0	0%	100%	0	0
Purchase Software..	211	100%	0%	0%	100%	211	0	0	0	0	0%	100%	0	0
Repairs & Maint	43,155	0%	0%	100%	100%	0	0	0	0	43,155	5%	95%	2,158	40,997
Repair & Maint Plant	2,984	0%	100%	0%	100%	0	0	0	0	0	0%	100%	0	0
Tele/Public Works	7,769	100%	0%	0%	100%	7,769	0	0	0	0	0%	100%	0	0
Electric..	300,992	0%	65%	35%	100%	0	0	0	0	105,347	0%	100%	0	105,347
City Utilities..	5,300	0%	100%	0%	100%	5,300	0	5,300	0	0	0%	100%	0	0
Workers Comp..	178	100%	0%	0%	100%	178	0	0	0	0	0%	100%	0	0
Salaries & Wages..	26,009	100%	0%	0%	100%	26,009	0	0	0	0	0%	100%	0	0
Payroll Tax..	1,990	100%	0%	0%	100%	1,990	0	0	0	0	0%	100%	0	0
Employee Benefit Ins	8,413	100%	0%	0%	100%	8,413	0	0	0	0	0%	100%	0	0
Pension Matching..	0	100%	0%	0%	100%	0	0	0	0	0	0%	100%	0	0
Unemployment Tax	31	100%	0%	0%	100%	31	0	0	0	0	0%	100%	0	0
Total	2,035,282					131,285	131,285	0	0	793,414	51,892	741,522	94,128	1,016,455

Figure 3

(b) Debt Service

Figure 4 is the inside water system debt service schedule.

Inside Water Debt Service									
Refinancing: 2012C			2016 Loan			2018 Loan			
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2015	125,000	21,888	146,888						
2016	130,000	19,963	149,963		11,085	11,085			
2017	130,000	18,363	148,363		56,988	56,988			
2018	135,000	14,713	149,713	38,800	56,551	95,351			
2019	140,000	11,963	151,963	39,600	55,670	95,270	51,800	15,725	67,525

Total			
	Principal	Interest	Total
2015	125,000	21,888	146,888
2016	130,000	31,048	161,048
2017	130,000	75,351	205,351
2018	173,800	78,708	252,508
2019	231,400	83,357	314,757

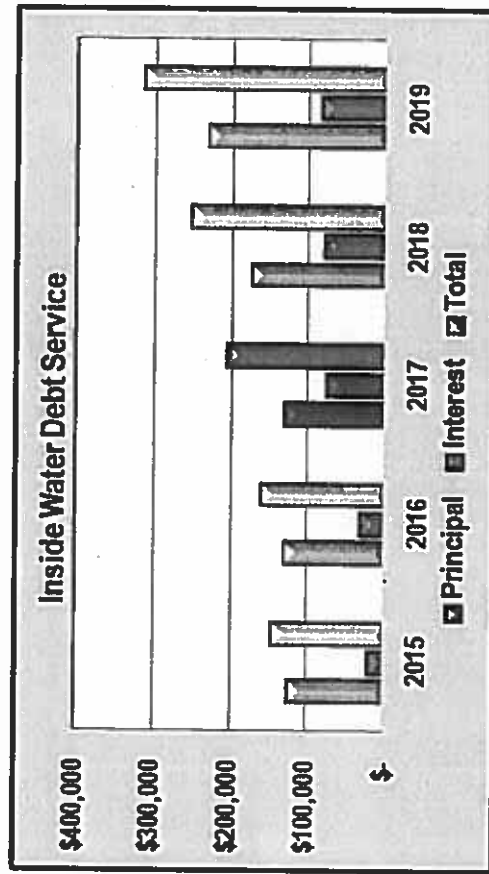


Figure 4

(c) Debt Service Coverage

The Debt Service Coverage, or DSC, is a measure of the cash flow available to pay current debt obligations. The coverage is the net operation income as a multiple of debt obligations due within one year, including interest and principal payments. A debt service coverage ratio is the ratio of the amount of cash available (income minus expenses) and the amount of combined interest and principal for the outstanding bonds. The DSC provides a useful indicator of financial strength. A low DSC could have a negative impact on the City's bond rating. The City's bond covenants state that the rates and charges shall be adequate to produce net revenues equal to at least 120% of the maximum annual debt service required for any fiscal year. The 120% is generally stated as a ratio of 1.20.

(d) Depreciation

Depreciation is defined as a reduction in the value of an asset with the passage of time, due to wear and tear. Although depreciation is listed as an expense, it is not paid out to anyone. Funding depreciation allows the City to accumulate cash for financing the replacement of depreciated assets. The City's inside water system depreciation is separated into four functionalities of operation; water treatment plant, water lines, booster stations, and water storage tanks.

(e) Other Income

Other income is a combination of fees, such as tap fees, penalties and other miscellaneous fees collected by the City. Generally, these fees are not directly related to the production and distribution of water.

Fixed and Variable Costs

There are two components of the City's water rate structure: a fixed cost and a variable cost. Fixed costs are those cost unrelated to the treatment and distribution of water. Variable costs are those associated directly or indirectly with the treatment and distribution of water. The fixed costs are generally used to determine a base amount to be used in the calculation of a minimum bill. The variable costs are used to determine a unit rate or a cost per 1,000 gallons. It is the variable rate for MWD that is to be determined by the Cost of Service Analysis.

Figure 5 shows the inside water revenue requirement.

Inside Water Revenue Requirement - 2017					
	Cost	Fixed		Variable	
<u>Operation & Maintenance</u>					
Administration	\$131,285	100%	\$131,285	0%	\$0
Water Treatment Plant	\$793,414	7%	\$51,892	93%	\$741,522
Distribution System	\$1,110,583	8%	\$94,128	92%	\$1,016,455
Total Operation & Maintenance	\$2,035,282		\$277,305		\$1,757,978
Debt Service	\$205,351	0%	\$0	100%	\$205,351
Debt Service Coverage (20%)	\$41,070	0%	\$0	100%	\$41,070
<u>Depreciation</u>					
Water Treatment Plant	\$209,561	0%	\$0	100%	\$209,561
Water Lines	\$155,849	0%	\$0	100%	\$155,849
Booster Stations	\$11,839	0%	\$0	100%	\$11,839
Tanks	\$36,975	0%	\$0	100%	\$36,975
Total Depreciation	\$414,224				\$414,224
Other Income	(\$252,335)	100%	(\$252,335)	0%	\$0
Revenue Requirement	\$2,443,592		\$24,970		\$2,418,622

Figure 5

(2) Cost Allocation

The allocation of the variable operating cost is shown in Figure 6. The distribution system is broken down into seven areas of service. Allocation of these costs is calculated by applying percentages as determined by the City's staff and UMG staff. The percentages were then multiplied by the total cost to determine the amount allocated to each service.

Percentages of Cost Allocation - 2017 for Variable Operating Costs													
	Water Treatment	Booster Stations	Line Maint.	Tanks	Service Calls	Meters	Leak Detection	Testing	Total				
Water Treatment Plant	100%	0%	0%	0%	0%	0%	0%	0%	100%				
Distribution System	0%	20%	40%	5%	15%	5%	10%	5%	100%				
Cost Allocation - 2017 for Variable Operating Costs													
	Water Treatment	Booster Stations	Line Maint.	Tanks	Service Calls	Meters	Leak Detection	Testing	Total	Percent			
Water Treatment Plant	\$ 727,948	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 727,948	41%			
Distribution System	\$ -	\$ 205,729	\$ 411,458	\$ 51,432	\$ 154,297	\$ 51,432	\$ 102,864	\$ 51,432	\$ 1,028,645	59%			
Total	\$ 727,948	\$ 205,729	\$ 411,458	\$ 51,432	\$ 154,297	\$ 51,432	\$ 102,864	\$ 51,432	\$ 1,756,593	100%			

Figure 6

(3) Cost Distribution

MWD relies on the City's water treatment plant and City's complex distribution system for water service. The distribution of cost to MWD is generally based on the percentage of usage or demand by MWD. Figure 7 shows the percentage of water sold to MWD and the percentage of revenue collected from MWD.

Inside Water Sold - 2017		
	Million Gallons	% of Total
MWD	463	50%
Other Inside City	467	50%
Total Inside Sold	930	100%

Figure 7

Inside Water Revenue - 2017		
	Revenue	% of Total
MWD	\$729,785	32%
Other Inside City	\$1,526,553	68%
Total Inside Revenue	\$2,256,339	100%

Figure 8 shows all the variable components of revenue requirement including water treatment, various distribution services, depreciation, debt, and DSC. A percentage of use is applied to each one of these to determine a cost for each component along with a unit cost per 1,000 gallons.

The water treatment plant, booster stations, and tanks are assigned a 50% usage by MWD because all the treatment plant, booster stations, and tanks are used to provide adequate service to MWD. All the City's water lines are not needed to serve MWD, however, most of it is as shown in Figure 2. The City's largest water demand is in the central part of the city which is relatively close to the water treatment plant. MWD's highest demands are much farther away from the water treatment plant and use a higher percentage of large diameter water lines such as 10-inch, 12-inch, and 16-inch. Based on Figure 2, it is estimated that 95% of City's water lines are used MWD. With MWD using 50% of the water sold to all inside customer, their percentage of cost for all services involving water lines would be 95% times 50%, or 48%. MWD should not pay for service calls or water quality testing, therefore the percentage of these services is 0%. The percentage of the cost of servicing meters is 7% based on the size of MWD's meters compared to all inside water meters.

Cost Distribution 2017 for Variable Costs															
	Water Treatment	Booster Stations	Line Main.	Tanks	Service Calls	Meters	Leak Detection	Testing	Deprec. WTP	Deprec. Lines	Deprec. Pump Sta	Deprec. Tanks	Debt	DSC	Total
Annual Cost	\$741,522	\$203,291	\$406,582	\$50,823	\$152,468	\$50,823	\$101,646	\$50,823	\$209,561	\$155,849	\$11,839	\$36,975	\$205,351	\$41,070	\$2,418,622
Percent Distribution for Variable Costs															
Account	Water Treatment	Booster Stations	Line Main.	Tanks	Service Calls	Meters	Leak Detection	Testing	WTP	Lines	Pump Sta	Tanks	Debt	DSC	
MWD	50%	50%	48%	50%	0%	7%	48%	0%	50%	48%	50%	50%	50%	50%	50%
Cost Distribution for Variable Costs															
Account	Water Treatment	Booster Stations	Line Main.	Tanks	Service Calls	Meters	Leak Detection	Testing	WTP	Lines	Pump Sta	Tanks	Debt	DSC	Total
MWD	\$369,485	\$101,296	\$193,127	\$25,324	\$0	\$3,799	\$48,282	\$0	\$104,420	\$74,808	\$5,919	\$18,487	\$102,322	\$20,464	\$1,067,733
Unit Cost Per 1,000 Gallons															
MWD	\$0.80	\$0.22	\$0.42	\$0.05	\$0.00	\$0.01	\$0.10	\$0.00	\$0.23	\$0.16	\$0.01	\$0.04	\$0.22	\$0.04	\$2.30

Figure 8

(4) Recommended Rate

Figure 9 is a summary of the MWD fair share of the revenue requirement and Figure 10 shows an increase of \$0.72 per 1,000 gallons is needed. It is recommended to raise the current rate of \$1.58 per 1,000 gallons to \$2.30 per 1,000 gallons.

MWD Cost Summary				
	Total Variable	MWD Variable	MWD Percent Variable	MWD Cost per 1,000 Gallons
Administration	\$0	\$0	0%	\$0.00
Water Treatment Plant	\$741,522	\$369,485	50%	\$0.80
Distribution System	\$1,016,455	\$371,827	37%	\$0.80
Depreciation	\$414,224	\$203,634	49%	\$0.44
Debt	\$205,351	\$102,322	50%	\$0.22
Debt Service Coverage (20%)	\$41,070	\$20,464	50%	\$0.04
Other Income	\$0	\$0	0%	\$0.00
Total Revenue Requirement	\$2,418,622	\$1,067,733	44%	\$2.30

Figure 9

Rate Determination for Variable Costs						
Account	Revenue Paid	Current Rate Per 1,000 Gal.	Revenue Required	Required Rate Per 1,000 Gal.	Revenue Deficient	Increase Needed Per 1,000 Gal.
MWD	\$729,785	1.58	\$1,067,733	\$2.30	\$337,947	\$0.72

Figure 10

CASE : City of Pikeville
CASE NO : 2019-00080
RE : Public Service Commission
Initial Data Request to MWD

Q 3. Refer to the Elswick Testimony, page 4, line 21. Mr. Elswick states that Pikeville offered to settle on a rate less than that identified in the second COSS and without the rate case expense surcharge. Explain why Mountain District did not accept this offer from Pikeville.

WITNESS : ROY SAWYERS

RESPONSE Q3:

On December 10, 2018, at the only meeting with the City, they offered to settle for a rate of \$2.25, a reduction of 5¢ from the \$2.30 price, per their COSS. At that time, they also noted that if we could settle, there would be no additional case expense surcharge, if approved by the PSC. The District did not accept this offer, because there was no meaningful difference in this and their original offer. Further, this created a one rate structure, instead of a two tier structure, which had not been accepted by the District. Elswick made it very clear, that there was no room to negotiate this number. Russell Davis, ("Davis"), the City's attorney, indicated that there might be some room, but it would be very little. See response to Question 1(d) Exhibit "1", Memo of December 11, 2018. Lastly, we believe their COSS was seriously flawed, and did not support the price increase requested.

CASE : City of Pikeville
CASE NO : 2019-00080
RE : Public Service Commission
Initial Data Request to MWD

Q 4. Refer to the Elswick Testimony, page 7, line 5. Mr. Elswick states that Pikeville continued to negotiate with Mountain District. Provide all emails, minutes of meetings, letters or other documents related to these negotiations.

WITNESS : ROY SAWYERS

RESPONSE Q4:

1. June 25, 2018 City of Pikeville to MWD (notice of increase)
2. July 26, 2018 Stratton to Elswick
3. August 30, 2018 Stratton to Elswick (*see Exhibit 1b "1"*)
4. October 16, 2018 Elswick to Stratton (attaching draft COSS) (*see Exhibit 1b "2"*)
5. October 17, 2018 Stratton to Elswick
6. November 1, 2018 Stratton to Elswick
7. December 11, 2018 Stratton to Davis
8. December 11, 2018 Davis to Stratton (email)
9. December 11, 2018 Stratton to Sawyers (Memo) (*see Exhibit 1d "1"*)
10. February 5, 2019 Osterloh to Stratton (attaching COSS) (*see Exhibit 2b*)
11. February 13, 2019 Stratton to Osterloh
12. February 19, 2019 Osterloh to Stratton
13. February 20, 2019 Osterloh to Sawyers
14. February 27, 2019 Stratton to Osterloh
15. March 4, 2019 Stratton to Davis
16. April 2, 2019 Stratton to Davis
17. April 18, 2019 Stratton to Davis & Davis reply (email)
18. April 18, 2019 Davis to Stratton
19. April 19, 2019 Stratton to Davis
20. April 22, 2019 Davis to Stratton
21. April 26, 2019 Stratton to Davis
22. May 2, 2019 Stratton to Davis & Davis reply (email)
23. May 7, 2019 Stratton to Davis & Davis reply (email)
24. May 15, 2019 Davis to Stratton
25. May 17, 2019 Stratton to Davis

RESPONSE TO QUESTION 4

EXHIBIT "1"



James A. Carter
Mayor

CITY OF PIKEVILLE

243 Main Street
Pikeville, Kentucky 41501
(606) 437-5100
Fax Number (606) 437-5106

Philip R. Elswick, P.E.
City Manager

June 25, 2018

Mr. Roy Sawyer
Mountain Water District
P.O. Box 3157
Pikeville, KY 41502

RE: Rate Increase

Dear Roy:

The purpose of this letter is to notify the Mountain Water District Board of Directors that the City of Pikeville will be increasing its wholesale rate at the next renewal of the Wholesale Water Purchase Contract.

Revised rates will be as follows:

\$2.52 per one thousand gallons of water for the first 28 million gallons per month

\$1.95 per one thousand gallons of water in excess of 28 million gallons per month

If you have any questions, you may contact Philip Elswick at (606) 437-5100 or via e-mail at philip.elswick@pikevilleky.gov, and we can meet with you to discuss the increase.

Sincerely,

James A. Carter
Mayor

RESPONSE TO QUESTION 4

EXHIBIT "2"

STRATTON LAW FIRM, P.S.C.

POST OFFICE BOX 1530
PIKEVILLE, KENTUCKY 41502
TELEPHONE: (606) 437-7800
FACSIMILE: (606) 437-7569
www.strattonlaw.net

DAVID C. STRATTON
david@strattonlaw.net

DANIEL P. STRATTON
dan@strattonlaw.net

P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

July 26, 2018

Phillip Elswick, *Manager*
City of Pikeville, Kentucky
243 Main Street
Pikeville, Kentucky 41501
Certified Mail: 7010 3090 0001 9558 3159
Via email: philip.elswick@pikevilleky.gov

**RE: MWD / CITY OF PIKEVILLE
WHOLESALE WATER PURCHASE CONTRACT**

Dear Phillip:

On behalf of the Mountain Water District, please be advised that I have been directed by the board to notify you that the District respectfully rejects to your proposed fifty percent (50%) rate increase, and pursuant to our agreement dated November 14, 2011, the District is electing to pursue "good faith negotiations for a new rate schedule".

In order to effectively began negotiations, the District would request that you send us any and all information you have, upon which you base the increase. Further, we would like to know whether or not any other wholesale purchase contracts have been increased, and whether or not there is a proposed rate increase for retail customers.

If we can have that information a couple weeks in advance of any meetings, I think it will help make for a more informed discussion of the issues.

Once we have the information, we will be happy to schedule a meeting with you to begin negotiations.

If you have any questions, please do not hesitate to call.

Sincerely,
STRATTON LAW FIRM, PSC



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/rgl

cc: MWD Board of Commissioners
Roy Sawyers

RESPONSE TO QUESTION 4

EXHIBIT "5"

STRATTON LAW FIRM, P.S.C.

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PIKEVILLE, KENTUCKY 41502
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DAVID C. STRATTON
david@strattonlaw.net

DANIEL P. STRATTON
dan@strattonlaw.net

P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

October 17, 2018

Phillip Elswick, *Manager*
City of Pikeville, Kentucky
243 Main Street
Pikeville, Kentucky 41501

Via email: philip.elswick@pikevilleky.gov

**RE: MWD / CITY OF PIKEVILLE
WHOLESALE WATER PURCHASE CONTRACT**

Dear Phillip:

Thank you for your letter of October 16, 2018, purposing a rate increase of \$2.25 per thousand based on the attached cost of service study.

Please be advised that the District will carefully consider the same. The District's next board meeting is scheduled for October 31, 2018, and we will present your study to the board at that time and we will follow-up with you according to their direction.

Sincerely,
STRATTON LAW FIRM, PSC



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/rgl
cc: Roy Sawyers
Mike Blackburn

RESPONSE TO QUESTION 4

EXHIBIT "6"

STRATTON LAW FIRM, P.S.C.

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PIKEVILLE, KENTUCKY 41502
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david@strattonlaw.net

DANIEL P. STRATTON
dan@strattonlaw.net

P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

November 1, 2018

Phillip Elswick, *Manager*
City of Pikeville, Kentucky
243 Main Street
Pikeville, Kentucky 41501
Via email: philip.elswick@pikevilleky.gov

**RE: MWD / CITY OF PIKEVILLE
PROPOSED MOUNTAIN WATER DISTRICT RATE INCREASE**

Dear Phillip:

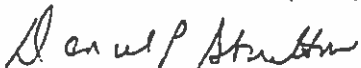
Please be advised that at the District's board meeting yesterday, the board appointed a committee to negotiate a rate increase with the City of Pikeville. Our committee members will be, Mike Blackburn, Chairman; Kevin Varney, Roy Sawyers, Mike Spears and myself. Johnny Tackett, will be an alternate board member, who will attend if one of the other board members can't.

We would request dates that you have available to meet. With this many people involved it's always difficult to find available times, but sometime in the first two weeks in December, may be a good place to start. Secondly, because Commissioners often times find it difficult to schedule time away from work, we would be happy to consider some options in the evening, as that may make some more time available.

We are also amenable to meeting at your office or mine, whichever location works best for you.

As soon as we here from you on available dates, we will circulate them among our committee members and get back with you as soon as possible. If you have any questions, please feel free to call.

Sincerely,
STRATTON LAW FIRM, PSC


Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/rgl

cc: Roy Sawyers
Mike Blackburn
Kevin Varney
Johnny Tackett
Mike Spears

RESPONSE TO QUESTION 4

EXHIBIT "7"

STRATTON LAW FIRM, P.S.C.

POST OFFICE BOX 1530
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TELEPHONE: (606) 437-7800
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DANIEL P. STRATTON
dan@strattonlaw.net

P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

December 11, 2018

Russell H. Davis, Esq.
BAIRD & BAIRD P.S.C.
Post Office BOX 351
Pikeville, Kentucky 41502
via email: rdavis@bairdandbaird.com

**RE: MOUNTAIN WATER DISTRICT / CITY OF PIKEVILLE
WHOLESALE WATER CONTRACT EXTENSION**

Dear Rusty:

To follow up on our conversation this morning, please see below summary of MWD's purchases from the City of Pikeville, as reflected on Mountain Water District's accounts. As we stated, by going to a one-tier pricing system, as opposed to a two-tier pricing system, the \$2.25 equals almost as much money as the two-tier system at \$2.52, and \$1.95 for that amount over 28 million per month.

CITY OF PIKEVILLE	2017	2018 YTD (JAN - SEPT)
Annual Purchased Amount	413,035,000	326,959,000
Monthly Average	34,419,583	36,328,777
Daily Average	1,147,319	1,210,959

In that our Board meeting is on the 21st, I would anticipate getting back with you shortly after the first of the year.

If your numbers are materially different than ours, please advise.

Sincerely,
STRATTON LAW FIRM, P.S.C.


Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm
cc: Roy Sawyers

RESPONSE TO QUESTION 4

EXHIBIT "8"

Dan Stratton

From: Russell Davis <rdavis@bairdandbaird.com>
Sent: Tuesday, December 11, 2018 1:34 PM
To: Donna S. Mullins; Tracie Robinson
Cc: Dan Stratton Esq.; Roy Sawyers
Subject: RE: MWD / City of Pikeville / Wholesale Water Rates

I will check on these numbers and let you know.

From: Donna S. Mullins [mailto:dsmullins@strattonlaw.net]
Sent: Tuesday, December 11, 2018 1:12 PM
To: Russell Davis; Tracie Robinson
Cc: Dan Stratton Esq.; Roy Sawyers
Subject: MWD / City of Pikeville / Wholesale Water Rates

Pursuant to Dan's instructions, please find attached correspondence concerning the above referenced matter. If you have any problems opening and/or viewing the same, please advise.

For our records, we ask that all recipients confirm receipt of this email.

Sincerely,

Donna S. Mullins

*Legal Administrative Assistant
to Daniel P. Stratton, Esq.*

STRATTON LAW FIRM, P.S.C.

111 Pike Street

Post Office Box 1530

Pikeville, Kentucky 41502

Telephone: (606)437-7800

Facsimile: (606)437-7569

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RESPONSE TO QUESTION 4

EXHIBIT "11"

STRATTON LAW FIRM, P.S.C.

POST OFFICE BOX 1530
PIKEVILLE, KENTUCKY 41502
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david@strattonlaw.net

DANIEL P. STRATTON
dan@strattonlaw.net

P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

February 13, 2019

M. Todd Osterloh, Esq.
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street, Suite 1500
Lexington, Kentucky 40507
Via email: tosterloh@sturgillturner.com

**RE: MWD / CITY OF PIKEVILLE
WHOLESALE WATER RATE INCREASE**

Dear Mr. Osterloah:

Thank you for your letter of February 5, 2019, and I have reviewed the same with Roy Sawyers, MWD's Administrator. It will not be possible for us to respond on or before February 20, 2019, because our next Board meeting is scheduled February 27, 2019.

As you well know, the Board cannot make an uninformed decision about accepting these rates, and therefore, we will be required to do our due diligence in examining the correctness of your study. To do that, we believe we have to hire a professional consultant to evaluate this on our behalf. Anticipating a new study, we had previously sent out RFPs, and have received proposals back for our review and consideration. We plan to ask the Board to select one of the RFPs submitted on the 27th.

We are assuming it will take at least thirty (30) days for them to submit the report back to us, and to advise the Board as to what they should do. Therefore, I think the soonest we can make a decision, would be March 27, 2019. I would hope that I can have an official answer back to you no later than March 29, 2019.

STRATTON LAW FIRM, P.S.C.

February 13, 2019

Page 2

While I know this has been going on for some time, as you know, there has been no delay on behalf of the District in dealing with this issue. For all intent and purposes, you have just submitted a new rate study, so I think we should have sufficient time to do our due diligence, and allow our Board to make an informed decision on how to respond. However, if you believe you need to move forward to the PSC, we understand.

Please advise as to who you would like to proceed.

Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm

cc: Roy Sawyers

RESPONSE TO QUESTION 4

EXHIBIT "12"

STURGILL
TURNER

Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street, Suite 1500
Lexington, KY 40507
p: 859.255.8581 f: 859.231.0851
www.sturgillturner.com

M. Todd Osterloh
Member
tosterloh@sturgillturner.com

February 19, 2019

Daniel P. Stratton
Stratton Law Firm, P.S.C.
PO Box 1530
Pikeville, KY 41502

VIA MAIL & EMAIL
dan@strattonlaw.net

RE: Pikeville's Wholesale Rate Increase to Mountain Water District

Dear Dan:

Thank you for your letter dated February 13, 2019. I understand the Mountain Water District Board's need to review the Cost of Service Analysis prepared by RateStudies on behalf of the City of Pikeville. I believe that it will find that the analysis addresses several concerns that you had previously raised.

We both acknowledge that rate negotiations have endured a lengthy process. Unfortunately, Pikeville suffers from reduced revenues as this process drags on. Although the next regular meeting of the Board is not scheduled until next week, a special meeting could have been called to expedite this process.

Pikeville wants to continue its strong relationship with the Water District and is willing to work with the Water District on its proposed schedule. In your letter, you indicated that the Water District would have a response regarding our proposed rate no later than March 29, 2019. In light of this, Pikeville will submit on February 21, 2019, the City's proposed rate of \$2.30 per 1,000 gallons with the Public Service Commission to be effective on April 5, 2019. The proposal may also include an increase for reasonable rate case expenses. If, however, the Water District agrees to a rate of \$2.25 per 1,000 gallons before that date and no rate case has been established, Pikeville will submit to the Commission an amended rate of \$2.25 per 1,000 gallons for service to Mountain Water District.

Because the effective date will not be until April 5, the Water District will have an opportunity to review Pikeville's Cost of Service Analysis and confirm the reasonableness of its recommendation. This process also serves to protect Pikeville's interest in safeguarding that the process does not continue indefinitely.

Ultimately, we are confident that the Board will find that Pikeville's proposal is reasonable. The information provided by Pikeville supports the proposed rate. Moreover, it would be disappointing for both parties to spend more than \$100,000 in litigation fees, which are

STURGILL
TURNER

February 19, 2019
Page 2

ultimately paid for by the water district customers, for rates that Pikeville has demonstrated to be reasonable. (Recent cases involving Lebanon, Marion County Water District, Augusta, and Bracken County Water District have exceeded that total.)

We look forward to hearing from you and the District. If you have any questions, please contact me.

Sincerely,
STURGILL, TURNER, BARKER & MOLONEY, PLLC



M. Todd Osterloh

MTO/mlm

cc: Russell Davis, City Attorney (via email: rdavis@bairdandbaird.com)
Philip Elswick, City Manager (via email: philip.elswick@pikevilleky.gov)

x:\wdox\clients\65902\0001\com\01080593.docx

RESPONSE TO QUESTION 4

EXHIBIT "13"

STURGILL
TURNER

Sturgill, Turner, Barker & Moloney, PLLC

533 West Vine Street, Suite 1500
Lexington, KY 40507
a 859.256.8581 f 859.251.0291
www.sturnillturner.com

M. Todd Osterloh

Member
tosterloh@sturgillturner.com

February 20, 2019

Roy Sawyers, District Administrator
Mountain Water District
P. O. Box 3157
Pikeville, KY 41502

VIA CERTIFIED MAIL & EMAIL
rsawyers@mtwater.org

RE: City of Pikeville Wholesale Water Rates

Dear Mr. Sawyers:

On behalf of the City of Pikeville, I am enclosing the attached documents related to the City of Pikeville's proposed rate increase for wholesale water service to Mountain Water District. You will find a customer notice and tariff sheet. Pikeville plans on filing these documents with the Public Service Commission on or about February 21, 2019.

Sincerely,
STURGILL, TURNER, BARKER & MOLONEY, PLLC


M. Todd Osterloh

MTO/mlm
Enclosures

cc: Daniel Stratton, District Attorney (via email: dan@strattonlaw.net)
Philip Elswick, City Manager (via email: philip.elswick@pikevilleky.gov)

FOR Service to PSC Regulated Utilities
Community, Town or City

P.S.C. KY. NO. 1

4th Revised SHEET NO. 1

CANCELLING P.S.C. KY. NO.

 SHEET NO.

City of Pikeville
(Name of Utility or City)

CONTENTS

RATES

Monthly Wholesale Water Rate

Mountain Water District:

First 28,000,000 gallons	\$64,400*	(I)
All over 28,000,000 gallons	\$2.30 per 1,000 gallons	(I)
Rate Case Expense Surcharge**	\$2,500 per month	(I)

** Pikeville proposes a surcharge to recover all expenses it may incur to participate in and defend its proposed rates in any Public Service Commission proceeding that is initiated to investigate the reasonableness of those rates. Pikeville proposes to recover the total amount of expenses associated with the increase in rates over a 36-month period. If no proceeding is established, Pikeville will not seek to recover any amount for Rate Case Expense Surcharge.

Southern Water and Sewer District

All usage \$2.25 per 1,000 gallons

* Minimum Bill for Mountain Water District: 28 million gallons at \$2.30 per 1,000 gallons.

DATE OF ISSUE February 21, 2019
Month / Date / Year

DATE EFFECTIVE April 5, 2019
Month / Date / Year

ISSUED BY Phillip Elswick

TITLE City Manager

BY AUTHORITY OF ORDER OF THE PUBLIC SERVICE COMMISSION

IN CASE NO. DATED

NOTICE

Notice is hereby given that the City of Pikeville proposes to increase its rate for wholesale water service to Mountain Water District effective April 5, 2019. On or about February 21, 2019, documentation will be filed with the Kentucky Public Service Commission to increase rates as follows:

<u>Current Rate</u>	<u>\$ Change</u>	<u>% Change</u>
	<u>Ave. Month</u>	<u>Ave. Rate</u>
First 28,000,000 gal. = \$47,040		
All over 28,000,000 gal. = \$1.30 per 1,000 gallons		

New Rate

All usage with 28,000,000 gallon minimum	\$2.30/1,000gal.	\$27,943.34*	45.96%
36-month Rate Case Expense Surcharge	\$3,200 per month	\$2,500**	N/A

* Based on an average of 463,000,000 gallons per year

** Pikeville proposes a surcharge to recover all expenses it may incur to participate in and defend its proposed rates in any Public Service Commission proceeding that is initiated to investigate the reasonableness of those rates. Pikeville proposes to recover the total amount of expenses associated with the increase in rates over a 36-month period. If no proceeding is established, Pikeville will not seek to recover any amount for Rate Case Expense Surcharge.

The proposed effective date is April 5, 2019. Water flowing through the meter(s) before the effective date will be charged at the current rate while water flowing through the meter(s) on and after the effective date will be charged at the proposed new rate.

The rates contained in this notice are the rates proposed by the City of Pikeville but the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice.

Any person may examine this filing at the offices the Pikeville City Hall, City Clerk's Office, located at 243 Main Street in Pikeville, Kentucky; telephone (606) 437-5100.

This filing may also be examined at the offices of the Public Service Commission located at 211 Sower Boulevard in Frankfort, Kentucky, Monday through Friday from 8:00am to 4:30pm or through the PSC website at <http://psc.ky.gov>.

Comments regarding the filing may be submitted to the PSC through its website or by mail to Public Service Commission, Post Office Box 615, Frankfort, KY 40602.

(cont)

A timely written request for intervention that establishes grounds for the request may also be submitted to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602. If the PSC does not receive a written request for intervention within thirty (30) days of the date notice was initially provided, the PSC may take final action on the filing.

RESPONSE TO QUESTION 4

EXHIBIT "14"

STRATTON LAW FIRM, P.S.C.

POST OFFICE BOX 1530
PIKEVILLE, KENTUCKY 41502
TELEPHONE: (606) 437-7800
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DANIEL P. STRATTON
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P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

February 27, 2019

M. Todd Osterloh, Esq.
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street, Suite 1500
Lexington, Kentucky 40507
Via email: tosterloh@sturgillturner.com

**RE: MWD / CITY OF PIKEVILLE
WHOLESALE WATER RATE INCREASE**

Dear Todd:

Please be advised that the MWD District Board of Commissioners, at it's meeting today, authorized the filing of a protest of the City of Pikeville's proposed rates before the Public Service Commission. We have engaged the services of Jack Hughes, Esq., of Frankfort, Kentucky as our lead counsel on this matter, and have also retained Connie Allen, with Salt River Engineering, as our expert.

Please direct all future communications to Jack, with a copy to me. Otherwise, all discussions should be directed to Jack.

I'm sorry we couldn't otherwise get this resolved.

Sincerely,
STRATTON LAW FIRM, P.S.C.


Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm

cc: Roy Sawyers
Rusty Davis
Jack Hughes
Connie Allen

RESPONSE TO QUESTION 4

EXHIBIT "15"

STRATTON LAW FIRM, P.S.C.

POST OFFICE BOX 1530
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TELEPHONE: (606) 437-7800
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www.strattonlaw.net

DAVID C. STRATTON
david@strattonlaw.net

DANIEL P. STRATTON
dan@strattonlaw.net

P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

March 4, 2019

Russell H. Davis, Esq.
BAIRD & BAIRD P.S.C.
Post Office BOX 351
Pikeville, Kentucky 41502
via email: rdavis@bairdandbaird.com

**RE: MOUNTAIN WATER DISTRICT / CITY OF PIKEVILLE
WHOLESALE WATER CONTRACT EXTENSION**

Dear Rusty:

Please find enclosed a copy of the protest letter that filed in regard to the City of Pikeville's proposed wholesale rate increase, filed this morning. Jack Hughes sent a copy to Todd Osterloh, and I am forwarding this copy to you for your records.

Pursuant to our prior agreement, you're accepting service on behalf of the City of Pikeville in regard to this matter.

If you have any questions, please feel free to call.

Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/rgl
Encl.

cc: Roy Sawyers
Jack Hughes

JOHN N. HUGHES
Attorney at Law
Professional Service Corporation
124 West Todd Street
Frankfort, Kentucky 40601

Telephone: (502) 227-7270

Email: jnhughes@johnnhughespsc.com
PUBLIC SERVICE
COMMISSION

RECEIVED

MAR 04 2019

March 4, 2019

Gwen Pinson
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: TFS 2019-00098: Proposed Wholesale Water
Rate of the City of Pikeville, KY

Dear Ms. Pinson:

On February 21, 2019, the City of Pikeville filed a proposed tariff with the Public Service Commission with an adjustment of its rate for wholesale water service to Mountain Water District to \$2.30 per 1,000 gallons. The proposed adjustment is to become effective on April 5, 2019.

Based upon the information contained in Pikeville's tariff and supporting documents, Mountain Water District is unable to determine if the allocated expenses are properly verified and functionalized and if the proposed adjustment is reasonable and consistent with the terms of service contained in the contract for water service among the parties. Mountain Water District and Pikeville have engaged in negotiations to resolve the issues related to the proposed rate increase as required by the contract for wholesale water purchases but have been unable to reach an agreement as to the amount, if any, of an increase to the wholesale water rate.

Pursuant to KRS 278.200 and the Kentucky Supreme Court's holding in *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460 (Ky. 1994), a rate contained in a contract among a city and a regulated utility may not be changed until the Commission reviews the proposed rate for reasonableness and provides an opportunity for a hearing on the proposed change.

Mountain Water District protests the requested wholesale rate increase and requests that the Commission initiate a formal proceeding to investigate the reasonableness of the proposed rate, establish a procedural schedule that allows for discovery and issue any orders necessary to ensure that the proposed rate is not placed into effect or otherwise assessed before the matter is investigated and a hearing held.

A copy of this letter has been delivered to representatives of the City of Pikeville.

SUBMITTED BY:

John N. Hughes

John N. Hughes

and

Daniel P. Stratton
Stratton Law Firm PSC
Post Office Box 1530
Pikeville, Kentucky 41502
Telephone: (606) 437-7800
Facsimile: (606) 437-7569
dan@strattonlaw.net

Attorneys for Mountain
Water District

RESPONSE TO QUESTION 4

EXHIBIT "16"

The April 2, 2019, letter to Russell Davis, Esq., is unsigned, as we could not find a signed copy. We believe it was sent, as Davis responded on April 18, 2019.

If the letter was not sent, then a verbal request was made to Davis by Stratton.

STRATTON LAW FIRM, P.S.C.

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(1874-1953)

HENRY D. STRATTON
(1925-1989)

April 2, 2019

Russell H. Davis, Esq.
BAIRD & BAIRD P.S.C.
Post Office BOX 351
Pikeville, Kentucky 41502
via email: rdavis@bairdandbaird.com

**RE: MOUNTAIN WATER DISTRICT / CITY OF PIKEVILLE
WHOLESALE WATER CONTRACT EXTENSION**

Dear Rusty:

Mountain Water District is in the process of applying for a USDA loan to replace the batteries in its Radio Read Meter system. Because this is a forty (40) year loan, the USDA has requested that we show water supply for the same period of time. In that our current contract does not last that long, and because of our current dispute before the Public Service Commission, we are asking that the City please sign the attached letter in support of our loan.

If you have any questions, please advise.

Sincerely,
STRATTON LAW FIRM, P.S.C.

Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/rgl
Encl.
cc: Roy Sawyers

Mr. Douglas Hoff
USDA Rural Development
220 W. First Street
Morehead, Kentucky 40351
via email: douglas.hoff@ky.usda.gov

Re: City of Pikeville/Mountain Water District Contract

Dear Mr. Hoff:

On behalf of the City of Pikeville, please be advised it is our understanding that the Mountain Water District has applied for a USDA loan and you have requested that their water supply contract with Pikeville provide for a forty (40) year supply of water. We are currently before the Public Service Commission with the District concerning their wholesale price and that process will not be completed in time for the completion of their application.

However, please understand that the District is an important customer to the City of Pikeville, as they represent a large portion of our sales and that after the price has been determined by agreement, or by the P.S.C., then we would have no objections to extending the contract to cover the forty (40) year life of the loan, and we would request your favorable consideration of their application if it otherwise meets your qualifications for the same.

Sincerely,

THE CITY OF PIKEVILLE

City Manager

RESPONSE TO QUESTION 4

EXHIBIT "17"

Dan Stratton

From: Dan Stratton <dan@strattonlaw.net>
Sent: Thursday, April 18, 2019 4:07 PM
To: 'Donna S. Mullins'
Subject: FW: MWD
Attachments: Ltr - Contract Extension.pdf

From: Russell Davis [mailto:rdavis@bairdandbaird.com]
Sent: Thursday, April 18, 2019 3:39 PM
To: Dan Stratton <dan@strattonlaw.net>
Cc: 'Roy Sawyers' <rsawyers@mtwater.org>
Subject: RE: MWD

Dan,
Find attached the City's response

From: Dan Stratton [mailto:dan@strattonlaw.net]
Sent: Thursday, April 18, 2019 2:26 PM
To: Russell Davis
: 'Dan Stratton'; 'Roy Sawyers'
Subject: MWD

Rusty,
Do you have news concerning our request for a contract extension? Our board is meeting on the 24th and we would like to know something prior to then. If you have any questions, or if there are any issues please advise.

Dan

RESPONSE TO QUESTION 4

EXHIBIT "18"



CITY OF PIKEVILLE

Office of City Attorney
P.O. Box 351
Pikeville, Kentucky 41502-0351

Phone (606) 437-6276
Fax (606) 433-2109

Russell H. Davis, Jr.

April 18, 2019

Dan Stratton
Stratton Law Office
P.O.Box 1530
Pikeville, KY 41501

Re: November 14, 2011 Wholesale Water Contract Extension

Dear Dan,

I have discussed with my Commission Mountain Water District's request for a contract extension which would provide MWD with a water purchase contract with the City of Pikeville for 40 years. That is a substantial contract term extension.

As you know the Commission made a request of MWD's for a rate increase after a number of years. Along with that request we provided MWD with a bona fide rate study supporting our rate request. When MWD's question the methodology of our study we re-did our study in accordance with MWD's preferred methodology the results of which supported an even higher rate increase. Yet MWD continues to reject our proposed rate increase without a sound basis for its refusal. MWD has protested our rate increase with the PSC forcing the City to incur additional expenses for a hearing before the PSC.

The City of Pikeville and MWD need to come up with a better way to address future rate increases under our contract. Therefore, the Commission would like to negotiate a contract term extension along with our current rate request and a long-term solution for future rate increases. As you know, the City cannot continue selling



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water to MWD at yesterday's prices. Simply refusing price increases and delaying our requests therefore is not beneficial to the Citizen of Pikeville. We cannot enter into long-term contracts for water sales if MWD is not going to be reasonable with our request for rate increases. Our citizens should not be required to subsidize water sales to MWD.

Please advise when you would like to have these discussions.

Sincerely



Russell H. Davis

cc Philip Elswick



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RESPONSE TO QUESTION 4

EXHIBIT "19"

STRATTON LAW FIRM, P.S.C.

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david@strattonlaw.net

DANIEL P. STRATTON
dan@strattonlaw.net

P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

April 19, 2019

Russell H. Davis, Esq.
City of Pikeville
Office of City Attorney
Post Office BOX 351
Pikeville, Kentucky 41502
via email: rdavis@bairdandbaird.com

**RE: MOUNTAIN WATER DISTRICT / CITY OF PIKEVILLE
WHOLESALE WATER CONTRACT EXTENSION**

Dear Rusty:

In response to your letter of April 18, 2019, it is very disappointing to learn that the City wishes to leverage the District's current need for a contract extension to secure a USDA loan, with the current price dispute before the Public Service Commission. Historically, the City and the District have worked well together on numerous issues for the benefit of the greater Pike County community. The only differences that we've had of any substance, to my knowledge, are the various prices disputes that have arisen from time to time, which is certainly understandable from both parties perspective.

Your letter stated that you wish to negotiate the current price issue; but, the City made it very clear in our meetings, that you would not come below the \$2.25 per thousand gallon price. You made it clear that if the District was not willing to pay that amount, we had to let the P.S.C. resolve the issue. Until you're prepared to come off that price, substantially, there would not appear to be any room to negotiate.

As you know, we pointed out to you at our first meeting, on this issue, that your rate study did not comply with AWWA standards, and it did not present a complete picture of your operating costs. Your PSC attorney confirmed that after meeting with our PSC attorney, and you agreed to have the study amended to address those issues. Unfortunately, while there were some tweaks to the report, it did not address those fundamental issues. This position has been confirmed by our consultant on this issue.

STRATTON LAW FIRM, P.S.C.

April 19, 2019

Page 2

This is disconcerting to the District, because you clearly stated at the time of our negotiations that you were not going to set the rates for retail customer until such time as you determined what the wholesale purchasers were going to pay. While you have subsequently set those rates, it was clearly your intent to maximize the return from the wholesale customers before you determined what the retail customers would pay.

Once the contract is extended, we would be happy to sit down and look at any adjustments to the contract that you wish to discuss, including a better mechanism to negotiate prices in the future. However, it would not be a level playing field to negotiate those issues at this time.

Accordingly, we would ask that you reconsider your decision and grant the extension to avoid the loss of a \$3,150,000 loan and \$350,000 grant with the USDA for necessary improvements to Pike County's water system, which would severely impact the rate payers of Pike County. The extension is also to your benefit as we've previously discussed.

We would request a response prior to our Board meeting on the 24th of April. Please advise.

Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm

cc: Roy Sawyers
Mike Blackburn

RESPONSE TO QUESTION 4

EXHIBIT "20"



CITY OF PIKEVILLE

Russell H. Davis, Jr.

Office of City Attorney
P.O. Box 351
Pikeville, Kentucky 41502-0351

Phone (606) 437-6276
Fax (606) 433-2109

April 22, 2019

Dan Stratton
Stratton Office
P.O.Box 1530
Pikeville, KY 41501

Re: November 14, 2011 Wholesale Water Contract Extension

Dear Dan,

I'm in receipt of your April 19, 2019 letter in response to my April 18, 2019 letter. And I would also have to say that I'm disappointed in Mountain Water District's accusation that the City "wishes to leverage the District". These types of unsubstantiated accusations certainly don't help with the ultimate resolution of the underlying dispute.

The City appreciates the fact that it has been able to work well with the District in the past to benefit the Pike County community. The City strives to continue that relationship, which is why the City at a substantial cost has commissioned two different cost-of-service studies related to the wholesale rate provided to MWD. The first study was based on the AWWA's M54 Manual. When MWD expressed concern about the AWWA M54's methodology, the City had another cost-of-service study prepared based on the AWWA M1 Manual and the Public Service Commission's debt-service coverage methodology. These two studies demonstrated that the City's wholesale rate to MWD should be \$2.25 and \$2.30 per 1,000 gallons, respectively. Your characterization of this additional work as "tweaks to the report" is simply not the case and an indicate of your fundamental



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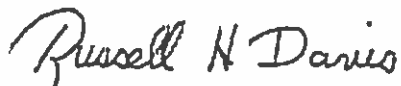
misunderstanding of our rate study and the sound methodology used to support the report. If you honestly feel that this additional work is nothing more than "tweaks to the report," we would be happy to make the author of our reports available to you for more in-depth explanation.

You also mentioned in your letter that you discussed with me how the extension benefits the City of Pikeville. However, a contract extension that doesn't allow the City of Pikeville to recover a fair and reasonable right for that water is hardly any benefit to the City or its taxpayers.

Although you demand a response to your letter prior to your Boards April 24 meeting, I'm not quite sure what response you expected to your letter in light of the fact that you state, "once the contract is extended, we will be happy to sit down and look at any adjustments to the contract." Your statement appears to suggest that MWD is not in position to negotiate a contract amendment which was requested by the City.

As demonstrated by these two cost-of-service studies, the City is not currently receiving fair, just, and reasonable rates from MWD, which is not a benefit to the Pike County community. Accordingly, we would ask that the District agree to the City's proposed rate and contract extension, such that both entities can move past this juncture.

Sincerely



Russell H. Davis

cc Philip Elswick



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RESPONSE TO QUESTION 4

EXHIBIT "21"

STRATTON LAW FIRM, P.S.C.

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DANIEL P. STRATTON
dan@strattonlaw.net

P. B. STRATTON
(1874-1953)

HENRY D. STRATTON
(1925-1989)

April 26, 2019

Russell H. Davis, Esq.
City of Pikeville
Office of City Attorney
Post Office BOX 351
Pikeville, Kentucky 41502
via email: rdavis@bairdandbaird.com

**RE: MOUNTAIN WATER DISTRICT / CITY OF PIKEVILLE
WHOLESALE WATER CONTRACT EXTENSION REQUEST**

Dear Rusty:

I have reviewed with the Board, our correspondence concerning this issue, and the case currently pending before the Public Service Commission. After reviewing various options, the Board has directed me to make one last final effort to get this resolved. In addition to having to get an extension from the City of Pikeville on its water supply contract, we also had to get an extension with the City of Williamson. The City of Williamson's contract is up for renewal, and was scheduled to be renegotiated later this year. Williamson has agreed to a rate of \$1.83 per thousand gallons and extended their contract for forty years.

In that we have now completed our negotiations with the City of Williamson, we are willing to offer the City of Pikeville the same deal for the requested contract extension, provided we can drop the minimum purchase requirement, which isn't needed with the single price for all purchases.

In addition, we are prepared to add a provision that allows you to reopen price discussions after two years, and then every five years thereafter, pursuant to the original agreement. That way, if you want to renegotiate something at that point in time, you would have that option.

If this is acceptable, please advise. If not, we're prepared to proceed with the PSC case, as our position concerning your rate study, with all due respect, has not changed.

Please advise.

Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/dsm
cc: Roy Sawyers

RESPONSE TO QUESTION 4

EXHIBIT "22"

Dan Stratton

From: Russell Davis <rdavis@bairdandbaird.com>
Sent: Thursday, May 02, 2019 1:15 PM
To: Dan Stratton
Cc: Donna S. Mullins; Roy Sawyers
Subject: Re: MWD contract

Dan

My commission meets next on May 13. I will advise and discuss your offer with them at that time.
Rusty.

RUSSELL H. DAVIS

Baird & Baird P.S.C.

P.O. Box 351

Pikeville, KY 41502

606 437-6276

www.bairdandbaird.com



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On May 2, 2019, at 12:46 PM, Dan Stratton <dan@strattonlaw.net> wrote:

Rusty,

Wanted to follow up on my last email to you concerning our counteroffer to extend the District's contact with the City, as we need to move forward on the project. Please advise as to how you wish to proceed. Thanks.

Dan

RESPONSE TO QUESTION 4

EXHIBIT "23"

Dan Stratton

From: Russell Davis <rdavis@bairdandbaird.com>
Sent: Tuesday, May 07, 2019 8:59 PM
To: Dan Stratton
Subject: Re: MWD/City of Pikeville

I saw Jeff Vanderbeck tonight at EXPO board meeting and shared your email. Jeff said they did not make a mistake. So I don't know.

Why don't you send a copy of your Williamson contract to me. That should settle it. Consider it an open records request.

RUSSELL H. DAVIS

Baird & Baird P.S.C.
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Pikeville, KY 41502
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www.bairdandbaird.com



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On May 7, 2019, at 5:06 PM, Dan Stratton <dan@strattonlaw.net> wrote:

Rusty,

Just wanted to follow up on the message I left your assistant earlier. When MWD extended its contract with Williamson for 40 years we agreed to a \$.15 raise which went from \$1.68 to \$1.83. The total annual increase was about \$38,000 based on last year's purchases. We don't know where the newspaper got it wrong, but the numbers reported today were not correct. As the City contemplates

the current offer before them, we didn't want you to be misled by this error. Please advise if you have any questions.

Dan

RESPONSE TO QUESTION 4

EXHIBIT "24"



CITY OF PIKEVILLE

Russell H. Davis, Jr.

Office of City Attorney
P.O. Box 351
Pikeville, Kentucky 41502-0351

Phone (606) 437-6276
Fax (606) 433-2109

May 15, 2019

Dan Stratton
Via email: dan@strattonlaw.net
Stratton Law Office
P.O.Box 1530
Pikeville, KY 41501

Re: Mountain Water District Contract Amendment

Dan

I discussed your offer Monday night with the City of \$1.83 per thousand gallons purchased on behalf of the MWD to resolve the City's water rate increase to MWD to \$2.25 per thousand gallons. This rate, according to you offer, is based upon MWD recent rate increase agreement with the City of Williamson.

As you know, any rate agreement that might be agreed upon by the parties must be approved by the PSC. A rate increase agreement can not be based upon arbitrary facts. It must be founded upon a well reasoned rate study. Give this fact and the fact that you have advised me that MWD has employed a well recognized attorney, regularly practicing before the PSC, my Commission is curious why MWD would make an offer based upon MWD water purchase rate agreement with Williamson which in no way represents the facts and circumstances surrounding Pikeville rate increase.

However, if we are wrong and there are extrinsic or similar facts and circumstances between the Williamson purchase rate and the Pikeville purchase rate that we are not aware of that might support consideration of the



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Williamson rate, the City is willing to evaluate any information you may have with our team despite the fact that it is substantial less than our rate increase request that is based upon a valid rate study.

Another fact that The City is curious about is the fact that we were told months ago that MWD had engaged a rate expert to examine the City's proposed rate increase. It would appear to us that MWD would want to share the results of that evaluation with the City in coordination with a real response to our rate increase request.

Other than to delay disclosure of your PSC expert's report until the last moment, we don't really understand your delay especially in light of your expressed need to have a "quick" resolution to your request for a contract amendment. The City likewise is also in need of a "quick" resolution to both parties' requests for contract amendments. Unfortunately a hearing before the PSC is not going to be quick or cheap for either party. Only seriously negotiations supported by appropriate and relevant data will speed the negotiation process.

So for now the City will look forward to seeing any additional information you can provide us which might support your \$1.83 response to the City's \$2.25 rate request other than it is a contract rate that MWD has with another water producer.

Very truly yours,



Russell H. Davis



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RESPONSE TO QUESTION 4

EXHIBIT "25"

STRATTON LAW FIRM, P.S.C.

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DANIEL P. STRATTON
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(1874-1953)

HENRY D. STRATTON
(1925-1989)

May 17, 2019

Russell H. Davis, Esq.
City of Pikeville
Office of City Attorney
Post Office BOX 351
Pikeville, Kentucky 41502
via email: rdavis@bairdandbaird.com

**RE: MOUNTAIN WATER DISTRICT / CITY OF PIKEVILLE
WHOLESALE WATER CONTRACT EXTENSION**

Dear Rusty:

Thank you for getting back to me in regard to our April 26, 2019, counteroffer to the City of Pikeville.

We have never said that the City of Pikeville was not entitled to some increase. Our negotiations broke down when the City represented to us that they would not drop below their demand of \$2.25 per thousand. Mr. Elswick specifically stated in our last meeting that he would not take anything less than that. At that point, further negotiations seemed fruitless.

As to the evidentiary issues you raised in your letter, as you know the City of Pikeville has the burden of proof. Mountain Water District does not have to prove anything, or even present any direct evidence in opposition to your rate study. Respectfully, our experts believe it may be possible to prevail with no rebuttal at all. Further, the flaws in your study as we've discussed, center around the lack of information therein. This information will be requested in discovery before the P.S.C. Our expert was not retained to prepare a competing cost of study report, but was retained to review the City's to determine its validity. It is our position that your report has insufficient information to support the rate requested. Until we are able to complete discovery and identify the information that we believe is missing from your study, it is not possible for anyone to determine the full extent of any rate increase to which the City may be entitled.

STRATTON LAW FIRM, P.S.C.

May 17, 2019
Page 2

If we proceed to the P.S.C., then either you will get the full amount of \$2.25 requested or you may get nothing at all. As an experienced litigator, you can appreciate the fact that fact finders usually decide between the extremes. The purpose of our counteroffer was to give you something now, with the opportunity to reopen price negotiations in two (2) years. As Judge Ray S. Jones, II., has recently stated in the paper; he is going to replace all the members of our board. In two years, he will have replaced three of the five members. A new board at that time may take a different view of the matter than this board. That would appear to be a big opportunity for the City. Please advise if our counteroffer is acceptable or not.

Sincerely,
STRATTON LAW FIRM, P.S.C.



Daniel P. Stratton, Esq.
email: dan@strattonlaw.net

DPS/rgl

cc: Roy Sawyers
Mike Blackburn

CASE : City of Pikeville
CASE NO : 2019-00080
RE : Public Service Commission
Initial Data Request to MWD

Q 5. Refer to the Direct Testimony of Samuel R. Petty, page 2, line 22. Mr. Petty states that when Pikeville presented the initial COSS to Mountain District, Mountain District suggested that the Commission would not accept the methodology used in this initial COSS.

- a. Provide all emails, minutes of meetings, letters or other documents related to this suggestion.
- b. Explain why Mountain District felt the Commission would not accept the initial COSS.

WITNESS : ROY SAWYERS

RESPONSE Q5:

- a. See attached the following correspondence in which the District expressed concerns over the methodology used in the initial COSS.
 - 1) December 11, 2018 Stratton to Sawyers (Memo) (*see Exhibit 1d "1"*)
 - 2) April 18, 2019 Davis to Stratton (*see Exhibit 4 "18"*)
 - 3) April 19, 2019 Stratton to Davis (*see Exhibit 4 "19"*)
 - 4) April 22, 2019 Davis to Stratton (*see Exhibit 4 "20"*)
 - 5) April 26, 2019 Stratton to Davis (*see Exhibit 4 "21"*)
 - 6) May 15, 2019 Davis to Stratton (*see Exhibit 4 "24"*)
 - 7) May 17, 2019 Stratton to Davis (*see Exhibit 4 "25"*)

- b. Based on our review of the "draft" COSS sent on October 16, 2018, it did not appear that the rate study met the criteria required by the Commission, as we understood it. This included the fact that their COSS did not appear to comply with multiple AWWA standards. The "draft" study utilized five (5) year projections. The cost allocations were based on general discussions with the City, UMG and not hard math. Lastly, the allocation of distribution cost was based on a percentage of sales, versus actual cost. Our experts subsequently found a number of other specific issues.

AFFIDAVIT

COMMONWEALTH OF KENTUCKY

COUNTY OF PIKE

Affiant, Roy Sawyers, appearing personally before me a notary public for and of the Commonwealth of Kentucky and after being first sworn, deposes, states, acknowledges, affirms and declares that he is District Administrator, that he is authorized to submit this Response on behalf of Mountain Water District, and that the information contained in the Response is true and accurate to the best of his knowledge, information and belief, after a reasonable inquiry, and as to those matters that are based on information provided to him, he believes to be true and correct.



Roy Sawyers

This instrument was produced, signed, acknowledged and declared by Roy Sawyers to be his act and deed the 10 day of July, 2019.



Notary Public
Registration Number: 585903

My Commission expires: 8/29/21