

Prestonsburg City's Utilities Commission

Water, Waste Water and Natural Gas System

(Municipally Owned)

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COMMISSION

July 12, 2018

Gwen R. Pinson
Executive Director
Kentucky Public Service Commission
P.O. Box 615
Frankfort, KY 40602

Re: Southern Water Case No. 2018-00230

Dear Ms. Pinson,

Regarding the above referenced case I am compelled to take exception to certain wording utilized in the filing. Both sections I will reference pertain to the transfer of water customers from Southern to Prestonsburg last year via PSC Case Number 2017-00044. In the "REASONS FOR APPLICATION" section Southern first stated that "The District lost 1,160 customers to the City of Prestonsburg in July 2017." In the same paragraph, it was stated that "The loss of the 1,160 customers has severely harmed the District's financial situation." Similar language was submitted in the "References" section of Attachment No. 4.

The language utilized in the aforementioned sections of the filing by Southern infers somewhat of a "hostile" takeover of water customers by Prestonsburg, an inference that could not be further from the facts involved. With this letter, I am submitting as a clarification to the record the attached in-depth history of the transfer of water (and wastewater) customers from Southern Water to Prestonsburg.

If you have any questions or a need for further information please do not hesitate to contact me.

Respectfully,



Turner E. Campbell
Superintendent/CEO

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Prestonsburg City Utilities Commission
Asset and Customer Transfer from Southern Water & Sewer District

Brief History of Southern and Wastewater Collection/Treatment Services

At the Floyd County Fiscal Court's prompting Southern first began to provide wastewater services to some of its water customers by constructing a collection system and wastewater treatment facility in the Wayland Community in the early 2000's and a short time later began to provide wastewater services to a small area of water customers in the Eastern area just off KY Route 80 by constructing similar wastewater infrastructure. By this time Southern was collecting and treating wastewater for approximately 180 customers in the Wayland and Eastern communities. In early 2007 Southern had acquired the Floyd County portion of the dissolved Sandy Valley Water District resulting in the acquisition of approximately 1,100 water customers and that district's aging water infrastructure in the Betsy Layne/Harold area of US 23 (a large portion of the US 23 Corridor). (Naturally, the District "took on" this group of customers due to the Fiscal Court decision even though operationally the area strained Southern due to the area being across the Big Sandy River from the existing Southern service area, basically at the extreme eastern boundary of the Southern area.) By 2014 funding sources had provided Southern the financial means to construct a small wastewater treatment plant in Betsy Layne and a first phase of collection lines and mains hence providing wastewater services to approximately another 180 or so of their water customers in that area. Through no true fault of Southern's management the providing of wastewater collection and treatment services became somewhat of a nightmare for the District culminating in Kentucky Division of Water enforcement actions commencing in late 2015/early 2016. It had become the general consensus by that time that although the Fiscal Court had very good intentions, their attempt to involve the Southern Water District in the providing of wastewater collection and treatment was simply not working. Any utility professional will quickly admit that the collection and treatment of wastewater is the most difficult public utility service to provide. Without highly experienced personnel and solid financial means, the providing of wastewater collection and treatment services to the public will quickly become a managerial and financial disaster for a utility entity. In my opinion Southern Water was placed in a no-win situation.

Talks Regarding a Solution Began

Over two years ago talks began between Floyd County Judge/Executive Ben Hale and I (then CFO at Prestonsburg City Utilities now its Superintendent/CEO) as to the struggles Southern Water continued to experience trying to provide cost efficient/service effective wastewater services to its customers. Judge/Executive Hale asked me if it would be possible for Prestonsburg to simply "takeover" the wastewater operations of Southern Water & Sewer District. I responded that to do so Prestonsburg would need to acquire the water customers in the wastewater areas as well in order to efficiently bill the customers for the utility services. I told him that it was just not practical to attempt to provide and bill for only wastewater services for any group of customers. He stated that he understood but what could I propose in order to "help remedy" the situation with Southern and its struggles with wastewater utility services. I explained that for Prestonsburg to get involved we would need to acquire the water customers in the three areas where Southern was providing wastewater services. Yet I explained that

due to Prestonsburg and Southern not being contiguous in the Wayland and Eastern areas it would not be feasible for these water customers to become Prestonsburg customers. With the wastewater customer count being quite low in the Wayland and Eastern areas Prestonsburg would entertain acquiring these two wastewater service areas without acquiring the water customers. However, Prestonsburg and Southern are contiguous and interconnected on US23 at Betsy Layne/Harold therefore the water customers in that area (the old Sandy Valley Water District) could be feasibly transferred to Prestonsburg. In addition, Prestonsburg was already serving the customers there via a wholesale agreement with Southern. At first the Judge/Executive was very hesitant to agree with the transfer of any of Southern's water customers to Prestonsburg. I informed him that for Prestonsburg to acquire the wastewater operations with which Southern continued to struggle the water customers in the Betsy Layne/Harold area would have to be part of the transaction. (Prestonsburg also acquired another group of water customers that the District struggled at times to serve, the 125 or so just outside of Prestonsburg at Pyramid on KY Route 850.) The Judge/Executive then tentatively agreed saying that ***"we desperately need to get Southern out of the sewer business and you all (Prestonsburg) are the only solution."*** I told him that I was not "happy" that we (Prestonsburg) would be acquiring two areas (Wayland and Eastern) in which we would have no water customers but I would consider these two small areas in order to make the overall deal work.

Turner E. Campbell
Superintendent/CEO
Prestonsburg City's Utilities Commission