COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO EXCESSIVE WATER LOSS BY KENTUCKY’S JURISDICTIONAL WATER UTILITIES

CASE NO. 2019-00041

NOTICE OF FILING

Notice is given to all parties that the transcript of the July 9, 2019 Morgan County Water District hearing prepared by Todd & Associates Reporting, Inc. has been filed into the record of this proceeding.

Gwen R. Pinson
Executive Director
Public Service Commission
P.O. Box 615
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DATED OCT 07, 2019

cc: Parties of Record
Transcript of the Testimony of PSC Hearing

Date: July 9, 2019

Case: In Re: Morgan County Water District
COMMONWEALTH OF KENTUCKY
KENTUCKY PUBLIC SERVICE COMMISSION

CASE NO. 2019-00041

IN RE:

MORGAN COUNTY WATER DISTRICT

* * * * * * *

HEARING HELD ON:
JULY 9, 2019

FRANKFORT, KENTUCKY
APPEARANCES:

PUBLIC SERVICE COMMISSION:

Chairman Michael J. Schmitt
Vice Chairman Robert Cicero
Commissioner Dr. Talina Mathews

ON BEHALF OF THE COMMISSION STAFF:

John Park, Esq.
Sam Reed, Financial Analyst

ON BEHALF OF THE ATTORNEY GENERAL:

Justin McNeil, Esq.

ON BEHALF OF THE MORGAN COUNTY WATER DISTRICT:

Earl Rogers, Esq.
Erica Stacey-Stegman, Esq.
<table>
<thead>
<tr>
<th>INDEX</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 OPENING DISCUSSIONS</td>
<td>4-10</td>
</tr>
<tr>
<td>8 TESTIMONY OF SHANNON ELAM</td>
<td>11-129</td>
</tr>
<tr>
<td>10 TESTIMONY OF PAUL NESBITT</td>
<td>130-168</td>
</tr>
<tr>
<td>12 TESTIMONY OF STEVE PELFREY</td>
<td>169-216</td>
</tr>
<tr>
<td>14 TESTIMONY OF CHERNELL HOLBROOK</td>
<td>217-229</td>
</tr>
<tr>
<td>16 REPORTER'S CERTIFICATE</td>
<td>232</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXHIBITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>21 AG EX 1 RATES AND CHARGES</td>
</tr>
<tr>
<td>22 MORGAN CO. EX 1 MONTHLY REPORT, MAY 2019</td>
</tr>
<tr>
<td>23 MORGAN CO. EX 2 MONTHLY REPORT, JUNE 2019</td>
</tr>
<tr>
<td>25</td>
</tr>
</tbody>
</table>

Todd & Associates Reporting, Inc.
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COMMISSIONER SCHMITT: This is the hearing for the PSC on July 9, 2019 at 9:00 a.m. Morgan County Water District.

Please be seated. Everybody ready?

MS. STEGMAN: Erica Stegman for Morgan County Water District. I wanted to let the Commission know upfront that the third request for documents that was in the July 1st order, we have those here today, we're happy to e-file those after the hearing. We just got that together, but we have copies for everyone.

COMMISSIONER SCHMITT: Well, that would be fine. That would be fine. I guess we need to go on the record. We're not on the record yet.

Somebody is controlling the record.

Oh, okay, Brenda.

Well, we have a new system here, and it's not like the old system that we used to control up here.

So all right, let's go on the record.

We're now on the record. This is the Kentucky Public Service Commission. My name is Michael Schmitt. I'm Chairman of the
Commission. Seated to my right is Vice Chairman Robert Cicero, and to my left Dr. Talina Mathews. We are here this morning on Case No. 2019-00041, Investigation Into the Excessive Water Loss By Kentucky's Jurisdictional Water Utilities.

And in this case, which was filed on March the 12th, 2019, there were 11 utilities who at that time, based on information we had, were sustaining more or less consistent water loss or non-revenue water loss above 35 percent, and those were Morgan County Water District, Caywood Water District, North Manchester Water Association, Estill County Water District, Farmdale Water District, West Carroll Water District, Southern Water District, Hyden-Leslie Water District, Rattlesnake Ridge Water District, Big Sandy Water District and Milburn Water District.

There are two more water districts, which are a part of this case, except they're not in it because we already have cases pending, and one is Cannonsburg Water
District and the other is Martin County Water District.

The purpose of the hearing this morning is to conduct an examination of witnesses on the Morgan County Water District.

The purpose of these hearings, as indicated in a prior on-the-record conference with counsel for the parties, is to determine the current status of the water districts, the cause of the problems, and what options may be available insofar as they're concerned to fix the problem.

At present we have determined to try to take care of these 11 cases by having two hearings a day. And this hearing will start, or is starting at 9:00 a.m., and we have Cawood Water District hearing beginning at 1:00 p.m. It is highly likely that we will not be finished with this hearing at the time the Cawood hearing will start. So at 1:00 -- this case will adjourn for lunch at 12:00 noon. If we are not finished at 1:00, I will go back into the Hearing Room 2 and commence the Cawood hearing, and Vice
Chairman Cicero will conduct the conclusion of the present hearing.

As you know, or believed, and we did until this morning, this hearing was to be broadcast live over the internet. As of last night the system was working, but as we understand this morning, while we're videoing this proceeding and it will appear on our website, something has happened and the broadcast will not be live over the internet.

Hearings that are going to be conducted in the second or smaller hearing room are not -- are going to be available on the website, but they will not be broadcast over the internet, because that hearing room does not have that capability. This is a new system and we suspect in a year or two we'll have all the bugs worked out of it.

Also, so everyone will know, our hearings usually have Brenda Warfield, who's our paralegal here, who is not -- has left temporarily, doing a log so that the essence -- the essential elements of testimony can be looked at against the
record, the video record that one receives. But in these cases we've determined to hire an official court reporter, and the official record will be the video and the transcript from the court reporter. And when the transcript is typed up, a transcript obviously will be available for you if you -- if you choose to have it.

I think that's basically all of the preliminaries, other than we probably ought to have counsel of record identify themselves, their clients and, insofar as Morgan County is concerned, the witnesses that Morgan County has with it today.

Sir, will you please --

MR. ROGERS: Yes, sir. My name is Earl Rogers, attorney for Morgan County Water District, and I'll be sitting second chair today. Erica will be conducting the hearing.

COMMISSIONER SCHMITT: Okay, thank you.

MS. STEGMAN: Erica Stegman for Morgan County Water District. And as far as witnesses go, we have Mr. Paul Nesbitt, our engineer; Shannon Elam, who is our board
PSC Hearing
In Re: Morgan County Water District

1 chairman; Chernel Holbrook, who was not on
2 the Commission's list, but she's the
3 business manager and we thought she might
4 be an important witness; and Steve Pelfrey,
5 who is the general manager.

6 COMMISSIONER SCHMITT: Thank you. And the
7 only intervener in the case is the Office
8 of the Kentucky Attorney General. Would KY
9 Attorney General's designee please identify
10 himself for the record?
11 MR. McNEIL: Yes, sir. Justin McNeil,
12 Attorney General's office.
13 COMMISSIONER SCHMITT: And for PSC staff?
14 MR. PARK: Yes, sir, good morning. My name
15 is John Park. I'm a staff attorney with
16 the Public Service Commission. Here with
17 me at counsel table is Sam Reed, financial
18 analysis with the Commission.
19 COMMISSIONER SCHMITT: Okay, thank you.
20 Because of the nature of this proceeding,
21 our procedures will be a little different
22 this morning. As indicated in the formal
23 conference, examination will be started by
24 staff counsel Mr. Park. The Commissioners
25 will then have an opportunity to ask
questions. And one of the reasons is, is I like to ask some questions generally, and I may not be here after noon.

And then Mr. McNeil will have an opportunity to ask, and then counsel for Morgan County Water District, you'll have an opportunity to ask your -- any witness any questions you might want to to clear something up, but you don't feel compelled to do that because it's more in the nature of an investigation or a discovery deposition or something that, you know, you might be familiar with in civil practice.

So if we're ready to begin, Mr. Park, we'll let you -- if not designate a witness, ask who you would like to have on the stand, and then Ms. Stegman can call the witness, ask the witness the initial questions on name, office, or whatever relationship with the Morgan County Water District, and then turn it over to Mr. Park for some questioning.

MS. STEGMAN: Yes.

MR. PARK: Yes, staff would like to hear from Shannon Elam.
COMMISSIONER SCHMITT: Okay. Mr. Elam, would you please raise your right hand.

* * * * * *

The witness, SHANNON ELAM, after first being duly sworn, was examined and testified as follows:

COMMISSIONER SCHMITT: Please be seated.
Ms. Stegman, you may ask.

EXAMINATION

BY MS. STEGMAN:

Q         Could you state your full name for the record, please?

A         My name is Shannon Wyatt Elam.

Q         And what is your position with Morgan County Water District?

A         As of March of this year I'm the board chairman.

Q         And how long have you been board chairman?

A         Since March.

Q         Now, you submitted some Direct Testimony in this matter on May 31st, 2019; is that correct?

A         Yes, ma'am.

Q         And I'm going to provide Mr. Elam
a copy. These are the documents he might have to reference.

And there's a copy of your Direct Testimony in there. Is there anything that you feel like is -- is that correct, to your knowledge, everything in that testimony?

A Yes.

Q Okay. And is there anything you would like to add at this time?

A No.

MS. STEGMAN: Turn it over to Mr. Park.

COMMISSIONER SCHMITT: Okay, Mr. Park, questions?

EXAMINATION

BY MR. PARK:

Q Yes, thank you.

Mr. Elam, good morning. I believe you indicated you became chairman of the Morgan County Water District board earlier this year?

A Yes, sir.

Q And looking at the minutes that were -- are to be filed today from the beginning of the year, it looks like nobody was really jumping into that position.

A No, sir.
Q: It took a while to convince you to --

A: Several months.

Q: And prior to being chairman, you were on the board of the district?

A: Yes, sir.

Q: And when did you first join the board?

A: I believe it was August or September of '16.

Q: And Ms. Stegman referenced the Direct Testimony that was prefiled in this matter. In that testimony you identified the district's main problem is aging infrastructure that has led to water loss, that in turn has led to deep financial problems for the district.

Describe the current financial condition of the district in general terms and how it's changed since you have been on the board.

A: We realized -- since I've been on the board, I think there's been a culture of, you know, the water -- the water district has been in trouble, and it's kind of been the culture of, you know, it's in trouble but nothing is -- you know, we worked on a couple of different things, and I
think the biggest thing -- before I became chairman, one of the big things that we were able to do, we sold some of our old vehicles that we entered into a lease agreement with I think Enterprise, and that was able to help us out as far as, you know, updating our trucks and stuff.

But as far as addressing water loss, I feel like -- like I say, we would -- we would come to the board meeting, we would identify -- we would look at the water loss report, and then we would basically, you know, talk about, well, have we been out looking for leaks, have we spotted leaks. And, you know, it's typically reported back that, yeah, we found this leak, we found that leak, and it's been fixed or it's been addressed.

When I became board chair, you know, at that time I think we had already realized that we were going to be coming down here for that, and I took it upon myself -- my background, I've been operations and manufacturing most of my employment history. So I bring -- I was able to bring that to the table.

Now, I've never worked in water at all in my career, so it's been a learning curve for me. But I took, just on myself, and then we had board turnover. Since March we've hired a new -- went
into the process of hiring a new engineer. You know, we kind of feel like before, the engineer before, not bashing or anything like that, but I feel like probably wasn't meeting our needs. So we, I would say, aggressively went after a new engineering firm.

The one that would partner with us, that -- with the board being -- with the board turnover they had, someone that could come in and advise us and maybe even mentor us in the water, because all the board members right now on the board, there's been no prior water experience. So we -- you know, we have -- we have a business owner, we have someone that works for the state, he's a state engineer, we have someone that's worked in local government, and we have a banker and then myself on that board. So no prior water.

So for me it was important to find someone that would, like I say, partner with us, work with us, bring that experience to the table as we started digging in and addressing our needs. So one of the things that we done was meet with Mr. Hoffman, or Hoff, Doug. I think we had -- I had a meeting with Chernell and myself, and I think Steve was in some of that, just to go over our current financial
situation. At that time we were struggling to meet our bond payment at the 1st of July -- it was around $47,000 -- and he addressed concerns about that. So I went out and basically put a plan together that I felt like -- actually, I put two plans together to bring in front of the board, and I believe it was -- I want to say either the April, May board meeting -- I believe it was the April meeting, or maybe the May, but I brought those plans in front of the board, and Plan B was accepted as far as how we're going to get our bond payments and to -- to get back on track with those payments.

At that time as well we were struggling to pay our two water distributors. So that March -- as of March I've had meetings with Mr. Hoffman, I've had staff meetings, I have talked to one of our water distributors, and basically put forth a plan of how we're going to do this.

And so as of July 1st -- we had our board meeting last night. For the first time since I've been on the board, we were able -- one, we was able to make our July bond payment, $47,000. We have a plan in place now of -- our bond payment is $12,000 a month, and then we have $8,300 bond payment as well. That one we've been able to keep up because
it's automatic draft out of our bank account. But the $12,000 one we kind of always struggled with since I've been on the board, and this month we were able -- part of the Plan B was we was going to put in the extra $4,000 a month to make up for if we have a 97,000-dollar payment due at the end of the year. So we was going to be able to make that 97,000-dollar payment by having the additional $4,000 added in there.

So as of our meeting last night we did have the funds to make that 16,000-dollar payment. We was also able to make both of our water payments. We still owe the city of West Liberty some back water, which we have worked out kind of an agreement that, you know, we're working with that. But the agreement that we kind of came up with is starting July 1st we was going to make our bond payments, and we're going to make our water payments, first thing every month. Without question, without anything, those payments are going to be made first every month, and then it will trickle down through payroll, through -- through our equipment and through everything else that -- utilities, everything else would come out of that.

So I feel as of March 1st, since I took
over, I've tried to engage the board. They kind of laughed last night. You know, I told them last night, this is not the Shannon Elam show at the board meeting. You know, I expect the board to offer their input, to offer their experience, bring that to the table, because I think we have a good, diverse board right now that can bring their expertise in on all the different angles of operating a business.

And, you know, I've challenged them to take it seriously, to -- to come to the table each month, and we make the best decisions that we can make as a board for our county and for our citizens, you know, to provide the best water and to be -- you know, to be -- my goal is, is as we get into this -- and as I'm learning from Paul here, our engineer, this is not going to be an overnight fix. As much as I want it to be, it's not going to be an overnight fix. But working with Paul, we have some plans in place, some goals in place that over the next several years, you know, one of the things that we're looking at is replacing the meters and then looking at some of the aging water lines that's been in the ground. And the -- the project that we're working with Paul right now is going to be addressing that.
And then we're not going to stop there. We're going to continue to work on it throughout the upcoming years and stuff.

Q Regarding your board membership, who is the treasurer?

A Zach Engle is the treasurer. He is a banker with First National Bank there in West Liberty.

Q And how long has he been treasurer?

A I want to think he was treasurer when I came on. I think Zach came on in 2015, and I think at that time he was already the treasurer.

Q And if you could describe more specifically how excessive water loss affects the district financially.

A Well, you know, where -- I think where -- we don't make our own water, and I've learned this over the last couple of years. We don't make our own water. I don't know how many districts are actually like that. I don't know if we're, you know, one of the -- in the smaller percentage of that or not, but we have to buy our water from two different places.

And I've quickly realized over these last
few months that we have to aggressively report and meet and talk about when -- with our water loss, because that to me is -- we talked about it last night, you know, that's -- that's just money going back into the ground. That's our -- that's, you know, the district's money and our citizens' money going back in the ground.

So I think over the last couple of years, when we were having, you know, 50, 60 percent water loss, and we're -- we're paying for that water, like I say, and we can't account for it, it's getting lost through leakage or whatever, it's just made a strain over -- I think over the course of the last few years. Not just recently, but I think it's been -- it's been a gradual thing over the years. And I think our resources have been exhausted.

I think at one time we had some money in our depreciation account. I think that's kind of got -- that's got down to -- I think there's $500 in that account right now. Looking back on it, again, I'm not -- I don't want to talk bad about the previous board members, but I feel like at that -- if that money could have maybe been used for water loss as far as the -- on prevention or being proactive instead of using it more as a crutch -- to get us
through our financial difficulties, you know, maybe that would help where we're at today.

Q  What were those funds used for?

A  It was before my time. I'm unsure, but it's my understanding in years past that it was used to maybe help meet bond payments and just things like that. And when I came on the board I think there might have been $20,000 in there.

At that meeting with Mr. Hoff he allowed us to go in and take that 20,000 out to help make that 40 -- the payment in July. So at that time there was 20 -- I think 20,500 in that depreciation account.

Q  Including the debts to the water distributors in the city, do you know what the current amount of past due bills approximately is?

A  We looked at that last night. Right now I think we made our -- we have one -- one -- part of our plan was we was looking at just improving our cash flow, overall cash flow, so we made a board decision that we was going to approve everything coming through except payroll, except for utilities.

So last night I would say we have 28-- --
22,000 for pay run. I think we paid a 28,000 last night and a 48,000, I think. So we have 22,000 that is due in June, so it's just now becoming after 30 days. And then probably adding up the others, we probably have another 20,000 with all those other invoices.

Q Any disputes as far as amount, or is that a recognized --

A No. Yeah, I don't know off the top of my head what -- I'm just -- a ballpark, I'm just trying to remember -- I know there's -- we also have, I think, 42,000 that is owed to the city of West Liberty that we -- yeah, so we kind of worked out an agreement with them that we're going to try to pay them a thousand or $2,000 a month.

We're going to keep our current -- as of July 1st, we're keeping our current bill paid. We paid them $48,000 last night, and we owe I think around 42. We're going to try to chip away at that 42, but continue to make our regular month payment.

Q And you spoke to the culture of the board in previous years. Was it also a situation where the board was not being kept informed or apprised of the financial situation, or just a gradual worsening?
A: You know, like I say, I've only been on the board since '16, and that's just my opinion, you know, of things. I think -- I think there's nothing being withheld. I think the office out there has not withheld anything, to my knowledge. I don't believe that.

But I think it was the kind of thing of, well, this is the way the business is. This is the way the water -- the water business is like this, you know, that's -- that's kind of the feel I got. This is life of owning a small rural water district, being in charge of it is you -- that you have these issues, and that's just part of it.

COMMISSIONER SCHMITT: It's just destined to go broke, is that what you're saying?

THE WITNESS: I wouldn't say destined to go broke, because I think we've been operating 20 plus years, but I think it's -- I believe that there's struggles there that maybe should have been addressed that should have got a hold on quicker than what we have.

And I think it might have been the part of wishing it away, or maybe not looking at it, you know, kind of hoping that
it's going to improve or that we're going to find the miracle water leak that's going to solve all of our problems; instead of looking at it as -- I look at it as systematic, so that's one of the things -- we brought in maps of our water lines. I wanted the board to understand where our water lines are, so we have maps in our boardroom now where we meet.

And I'm looking at it as -- again, it's not going to be an overnight thing, but we have to address each section, or what's the most effective way to address and get as much gain as we can in the short term, but also address our long-term needs. And I think maybe that's kind of what -- the way I look at it is, is that -- that it wasn't addressed, yeah.

BY MR. PARK:

Q As commissioner, were you made aware of when the Public Service Commission would conduct standard inspections of the water system?

A Say it again?

Q Sure. Was the board aware of and kept informed when staff from the Kentucky Public
Service Commission would do an annual or a standard inspection --

A Yes.

Q -- of the water system?

A Yes, sir. Now, I don't know if any of the board members were actually there. I think that was handled by the offset, but that was reported at the board meetings, yes, sir.

Q Were you aware in 2017 that PSC staff cited the district for excessive water loss?

A I don't recall that. Off the top of my head, I don't.

Q Okay. In response to that deficiency, the district submitted a water loss control program that outlined steps the district intended to take. Are you aware of that?

A Not off the top of my head, but I know -- it might have been a meeting that I -- I don't want to -- I don't want to say that -- that it didn't happen, but I -- off the top of my head right now, I don't.

MR. CICERO: So you're not aware of any water loss program that's officially been submitted back to the Public Service Commission?
THE WITNESS: If it has, I don't remember.
I don't. And that was in 2017?

MR. CICERO: Yes.

BY MR. PARK:

Q         Yes.
A         So I would have came on in '16, and that's almost two years ago, and I'm just being honest, I -- if there's one in place, I don't remember it, or I don't -- yeah, I don't.

Q         So it's safe to say the board was not tracking the district's progress in meeting that?
A         To be honest, I would say not -- no.

Q         The district's last rate case was an ARF case, Case Number 2016-00068. Were you on the board at the time of that ARF case, that rate case in 2016?
A         I came on late. It was already kind of in process, and I think -- like I say, I think it took effect in '17, but I came on, like I say, in the fall of '16, and everything kind of -- it was more at that time that it was recorded at the board meeting, and that, you know, it was approved and it was going to be coming into effect.
In that case the district requested increase in rates of 15 percent. After analysis the Public Service staff considered, or concluded that an increase of 26.6 percent was justified.

In response, the district said, no, we only want 15 percent, and that was a letter from then chair Ray Collett. Do you think the district's finances in 2016, '17 justify not taking the full amount of that increase?

A I don't.

Do you know why that decision was made?

Again, it was before me, but just looking at where I think the board was at that time, I think it was more of maybe trying to protect the citizens from a rate increase, you know. Morgan County, we're a poor county, we have -- a lot of our customers are on fixed incomes, and I think they were looking at it more on that side of things of if we can't -- if we don't have to raise it that high and we think we can get by with it, then, you know -- I think they were looking at it more as trying to help our citizens instead of maybe looking at it as a
COMMISSIONER SCHMITT: May I ask?

THE WITNESS: Sure.

COMMISSIONER SCHMITT: Does that make sense to you as a businessman?

THE WITNESS: At this time, no, no, it doesn't. Because I think if we go through that process and we're asking, you know -- it's my -- I've not been through the one --

the whole process of how it goes through and gets asked, but I know we have to submit things to you guys, and you-all give -- I think if you-all give us a recommendation after your analysis of everything, I would think that we would -- should follow that recommendation of what -- if you-all thought it was, you know, for our best interest as a functioning operational business that 26 percent was the right thing, then -- you know, that's one of those hard decisions that you have to make, but I believe that that was not a right decision.

COMMISSIONER SCHMITT: One of your commissioners is Mr. Wells. What's his
THE WITNESS: Brian Wells.

COMMISSIONER SCHMITT: And is he part of The Wells Group?

THE WITNESS: Yes, he is.

COMMISSIONER SCHMITT: Is he related to Scott Wells?

THE WITNESS: Yes, brother.

COMMISSIONER SCHMITT: Brother. Now, in Mr. Wells' business if I asked him, or you asked him, what -- as an owner of a business, what's my first duty to the business I run, what would you think that would be?

THE WITNESS: I think the sustainability of the business.

COMMISSIONER SCHMITT: That's right. Don't you think that's also true of a public official who's operating a water district?

THE WITNESS: Yes, sir.

COMMISSIONER SCHMITT: I mean, you're there to serve the public; isn't that correct?

THE WITNESS: Yes, sir.

COMMISSIONER SCHMITT: And how is the public served if over time the system is
allowed to deteriorate to the point where it won't -- it can't deliver a reliable supply of clean water?
THE WITNESS: I agree.
COMMISSIONER SCHMITT: And would you also agree that over time, if the system is allowed to deteriorate and infrastructure isn't gradually replaced and rates aren't gradually increased, that the cost over time to your citizens, to the consumers, is a lot more than if you basically kept the system up to date over time? Would you --
THE WITNESS: Yes, sir.
COMMISSIONER SCHMITT: -- agree with that?

BY MR. PARK:
Q Prior to the 2016 case, do you know when the last time the district sought a rate adjustment, other than the --
A The pass-throughs?
Q Yeah, other than the pass-throughs.
A To my knowledge, my understanding, so, you know, I don't want to be, you know, quoted or -- but it's my knowledge that
there's -- that we -- there was never a rate
increase. I think -- I think the water district
has been there since '92, and there's never been a
water rate increase, except for the pass-throughs.

MR. CICERO: This is where having a
26 percent increase because you requested
it only once instead of periodically having
rate increases, which would --

THE WITNESS: Yeah.

MR. CICERO: -- mitigate the financial
impact on your poor customers -- if they
were receiving 5 percent to 7 percent over
five years or six years instead of
26 percent after -- I guess that would be
15 years or whatever it is, it would be
much less of an impact.

THE WITNESS: Sure, yeah.

MR. CICERO: That's the problem that you
run into when the actual financial costs
aren't passed through on a timely basis,
and then you run into -- I think you said
there's $500 in the depreciation account?

THE WITNESS: Yes.

MR. CICERO: That's not going to repair any
water lines --
THE WITNESS: No, sir.

MR. CICERO: -- in the future, as far as I can tell.

THE WITNESS: No. And with my limited time being on the board, I realized essentially these last three months as I got more involved with the -- with trying to learn the operation -- you know, I work full-time. I've been going up some on my lunch from my other -- from my full-time job, and meeting with Chernell and just trying to understand the operations. It's my goal later on maybe this fall, when kind of things slow down, is to maybe take a couple of vacation days and go out in the field, because I've not been out in the field at all, and try to get a better understanding of just the operation.

Because, you know, my main -- my management background, what I'm a true believer in, in order to be able to manage something effectively, you got to have an understanding of the operation. And that's where I'm kind of at right now.

And like I say, I've been doing this
for three months, so I'm trying to get my head wrapped around water operation. Like I say, since -- prior to 2016 I had no experience in water whatsoever. My background has mainly been in manufacturing and that type of business, so that is -- our goal, as I'm getting more and more involved in this, is to get a much better understanding of how the operation works.

BY MR. PARK:

Q Prior to the initiation of this case -- well, strike that.

At some point the district reached out to the Commission and asked whether the district could, in fact, go ahead and take that full 26 percent. That was after the case had closed. Do you know when that was?

A I do remember that. I do remember the discussion as far as -- it might have been in '18, 2018, or maybe late 2017. I think, you know -- again, I think with the new board member, when I come on, and then -- I want to say we had some turnover in '18, I think we had a new board member come in, and then as we started kind of digging in and looking at the -- every month
come in and looking at the finances and seeing how we're struggling, then it was, like, you know what, we probably should have tooken, or taken the 26 just to help -- help to alleviate some of the financial difficulties that we've had.

Q The minutes provided of the board's February 11, 2019 meeting states that the county judge executive attended the meeting and, I'm sorry, I don't have his name here.

A John Stacy.

Q John Stacy. Thank you.

A John Will Stacy.

Q And it indicates that he advised that -- he advised the board it was a bad time to seek a rate increase because of the district's water losses were so high; is that correct?

A Yes, sir.

Q Are you aware that certain districts have been awarded, in fact, a surcharge specifically to address water loss?

MR. CICERO: You are or you aren't?

A Yeah, I was. Yes, sir. I'm sorry.

BY MR. PARK:

Q Do you know the value of the
water loss by the district in 2018? Have you-all put a number on that, as far as the amount in excess of that 15 percent?

A I don't know off the top of my head. I mean, we get a report every month, but knowing the total at the end of the year, I don't know off the top of my head.

Q Since this case was initiated, the district has hired Nesbitt Engineering, as you mentioned. What specifically was Nesbitt hired to do? What is the scope of his contract?

A When we looked at the new project we were looking at replacing aging water lines that's been in the ground, and we were looking at meters to be able to identify water loss faster, so we could address the problem faster.

Q Zone meters or just customer meters?

A No. The -- I don't -- the meter --

Q The master meters?

A Yeah. It's a meter at I guess a certain point on a line where you can read how fast the water is coming through. That's not technical, I know.
Describe the process the board went through to hire Nesbitt Engineering.

I know I have that in here, but, you know, once we decided we were going to do that, we got -- I think Gateway came and helped us through that process, and we advertised it out, I think. Off the top of my head, I'm trying to think, I think there was 16 or so engineering firms. We had a score card. She helped us develop a score card on how we could score each engineering firm, and we narrowed that down to -- I want to say six, I think around there, that we actually brought in to interview. And we used that score card as a scoring process.

And who was that that helped with the process?

It was -- she was with Gateway.

Gateway?

Gateway Community Action, I think. Is that -- is it Gateway?

MR. PELFREY: Gateway ADD.

Gateway ADD.

Did the board make the decision to hire Nesbitt Engineering to look -- to solicit
proposals after this case was initiated, or was
that something that the board had undertaken prior
to this case opening?

A No. We had talked about doing
the change in engineering since the last project
that we -- that we completed.

Q The request for bids was sent out
after this case was initiated; is that correct?

A Now, that -- let me look.

So it looks like here I have the water
district -- Nesbitt Engineering was hired April of
'15, so we would have done those initial interviews
probably early April, so the bids probably would
have went out in March.

Q Okay. And the county -- what
sort of relationship does the district have with
the county and county judge executive? How
involved is he in the board's operations?

A Well, I can speak -- as of 2016
our county judge before was not involved.

Q And who was that, I'm sorry?

A Stanley Franklin was the prior
judge executive. He came to meetings and was
basically swearing people in for new board
positions and stuff. But he -- he left the --
everything up to the board.

I mean, since John Will came on in January, he's been to several meetings and he has taken more of a foothold with the -- you know, as far as he sees that there's an issue or problem with it and, you know, he's kind of directed us to make sure -- to fix it, to put it bluntly.

Q    Would the prior judge executive, Judge Franklin, rather, have had any role in the district's decision to reject the full amount of the rate increase in the 2016 case?

A    No, sir, not to my knowledge.

COMMISSIONER SCHMITT:  Well, let me ask a question. So Judge Stacy's -- apparently has advised the water commissioners not to seek a rate increase until the excessive water loss problem can be solved. What -- what do you think about that advice?

THE WITNESS:  I mean, I know where John Will is talking about. He's, you know -- I think he's looking at it more on the lines of, you know, you're punishing your citizens because of your neglect of the water loss, but...

COMMISSIONER SCHMITT:  How do you solve the
problem if you don't have any money? I mean, somebody ultimately has got to pay for it.

THE WITNESS: Right.

COMMISSIONER SCHMITT: Either you or you go out and get a handout from a grant or something.

THE WITNESS: Right, right. I think, you know, he came on, and I think he came, like I said, early -- he might have been in office a month or so and, you know, he made that comment of that. We took it under advisement, but, again, we're tasked with the operation of the business. And, you know, we're working on this new project and things.

But there -- there's going to have to be a rate increase. I mean, there's just -- to -- my opinion is there's not -- we're in a hole and we're going to have to dig ourselves out again. It's not going to happen overnight. It's going to take time to dig into it, but, I mean, I think a rate increase.

And I think if we go back and show
John Will our improvements in our plan -- I think maybe it's more of he didn't know what our plans were or -- of how we're going to address the water loss. So I think if we could go back, and even if we had, you know, a citizen come into one of our board meetings and -- we say, well, you know, this is the plan, we have improved our water loss some over the last couple of months, but in order to stay operational, you know, this is going to have to happen.

COMMISSIONER SCHMITT: Are you aware that this Public Service Commission has adopted a policy or a position of trying to assist local water districts by granting surcharges for limited periods of time for leak detection and buying new meters and replacing lines; and when that's done, that basically the surcharge will drop off of the bill?

THE WITNESS: That has been discussed at a couple of meetings, but -- yeah. So we do, and I think that's something we're definitely going to have to look at.

I don't know the process of how we go
about doing that, I'll be honest with you on this. I don't know, is it something that does it take six months to get that surcharge on there, or is it something kind of emergent to where --

COMMISSIONER SCHMITT: Well, you got to ask for it.


COMMISSIONER SCHMITT: Let me ask you, and then I'll go back to Mr. Park. But while we're on the subject, what do you understand the duty of a water district commissioner to be toward the county judge or the county fiscal court?

THE WITNESS: It's my understanding that the fiscal court and the county judge appoint the commissioners. I think they have to be approved through the fiscal court, but then the water district operates as its own separate entity.

COMMISSIONER SCHMITT: That's right, you owe no duty. One of the problems that we have seen over the years we have been here is that most water districts get in trouble because local politicians pressure the
board members not to keep the rates up, or
to -- or to basically give service to some
people free of charge, a lot of people free
of charge.

Do you know if you -- if you --
basically, if all of your customers are
actually metered?
THE WITNESS: Yes, sir, it's my
understanding that all customers are
metered. And I can speak from prior
experience, you know, the board -- there's
no one that gets free water, that -- you
know, now they might get -- we've had, you
know, problems with theft, you know, things
like that, but to my knowledge and to my
understanding there is no one that has a
meter sitting out there and doesn't receive
a water bill.

COMMISSIONER SCHMITT: Thank you.

MR. CICERO: Do you prosecute those that
steal water?

THE WITNESS: We turn it over to the county
attorney, yes, sir.

BY MR. PARK:

Q How significant a problem is
water theft?

A There's been -- there's been a few cases of -- maybe over my couple of years, maybe three or four that I can remember off the top of my head that's been brought to the board.

I think the -- the staff, they'll go out and they put a lock on it, and then they'll go back and check it. And I think they have even -- if it had been reoccurring issue, I think they go out and they pull the whole meter out of the ground, you know, to where they -- they can't do it.

So I don't think it -- I'm sure it's an issue with other counties, and I'm sure it's an issue with us, and we might not recognize as many, but at this time I don't -- it's not our -- it's not a huge -- or the main concern for us right now.

Q What about water usage by fire departments? I know in some of the minutes there's a discussion about fire departments not providing timely and accurate reports.

A Yeah, and we've had -- I know probably in 2017, the summer, I do remember us calling in all the county fire departments in and -- you know, just to reiterate with them on keeping your records, keeping everything coming in
on a timely manner, and to report any usage that
you're using and stuff.

Q Under the district's tariff, a
fire department that does not submit timely reports
is subject to certain fees and can be charged a fee
for water usage. Do you know if the district has
ever held a fire department responsible under -- or
charged the rates that are authorized by the tariff
for fire departments?

A Not since I've been on the board, no, sir.

Q And back to water theft, has the
board ever sought to recover the cost of that
stolen water?

A I think it goes on to their
account, or we have that account. Well, I know we
turn it over to the county attorney and -- but
that's -- that's about where I know it's gone to.

MR. CICERO: You ever got a conviction?

THE WITNESS: Not that I know of.

MR. CICERO: So does the county attorney or
county prosecutor, they try the case or
they don't try the case?

THE WITNESS: I can't speak -- I -- I don't
know.
MR. CICERO: So what status does that put the account? If you know that there's somebody stealing the water, what's the process that you go through for that customer to say, he can't receive water anymore until his bill is paid, or -- I mean, what status goes into his account that says you recognize he was stealing water?

THE WITNESS: I'm going to be honest with you, I have not dug that deep yet. Maybe the staff members might be able to answer that, but I'm speaking honestly, I have not got that deep into it.

MR. CICERO: I'm sorry, your name was -- who's the office manager?

THE WITNESS: Chernell.

MR. CICERO: All right. So maybe that's a better question to find out.

THE WITNESS: Yes, sir. Yeah. I'm sure there is, but I'm being honest, I have not got that deep into it.

MR. CICERO: Okay.

BY MR. PARK:

Q   Back to the contract with Nesbitt
Engineering, what is Nesbitt Engineering's compensation under the contract and how is the district going to pay that?

A I don't know if I can answer off the top of my head. Let me look.

I can't answer that off the top of my head, sir.

Q Either question --

COMMISSIONER SCHMITT: Ms. Stegman and Mr. Nesbitt would both agree that a good lawyer and a good engineer are worth every penny.

BY MR. PARK:

Q So your question (verbatim) is you don't know the compensation. Do you know how the district is going to pay for it?

A To be honest with you, it's my understanding -- and I've only been on one project where we had an engineering firm on that project -- it's my understanding that it's paid through the project.

Q Project financing?

A That's my understanding.

Q Who will be responsible at the district for interfacing with Nesbitt Engineering,
providing requested data, making sure you-all are on track with what needs to be done?

A         It will be the office staff.

Q         Office staff?

A         Yeah. And then Paul has been coming to our board meetings. He's attended every board meeting since he came on board, to give us an update on the project that he's currently working on.

Q         And in your prefiled Direct Testimony you state that at the May 13 board meeting, the board adopted a written statement of water loss program goals. These program goals include short-term goals, median-term goals and long-term goals. A copy of that statement is attached to your Direct Testimony.

A         Uh-huh (affirmative).

Q         Describe what actions the district plans to take to address each of these levels of goals.

A         With the short-term goals, I think it was -- one, is that it was to improve our cash flow. So we looked at the cash flow first to try to at least be able to get to where -- to stop the bleeding, with being able to pay our bond
payments and to be able to pay our water
distribution companies on time, first and foremost,
because at that time that wasn't -- that wasn't
going.

So then we also brought in -- short term we
brought in Kentucky Rural Water. We brought in a
listening device, I think maybe last month, and
then -- or in May, and they spent some time with the
field staff, and they went out and they actually
identified some leaks with that sonar, or the sound
where they can listen to the water. They -- so they
done that, and I think they are coming back.

And then we are looking at getting one of
our field staff members trained in that, and then
we're also looking at buying that piece of equipment
for ourselves, so we'll be able to go out and just
make that part of our routine maintenance of the
water lines as to be able -- to be able to do that.

So I know we've done that in the short term.
We have identified and fixed several significant
leaks over the last couple of months, and from our
last two board meetings our cash flow has improved
to where we are able -- like I say, and the goal was
July 1st to be able to pay our water distributions
for the -- for that month, and to also make our --
be able to make our bond payment.

In the long term, looking out, we have the project with Paul that we're looking at, and, again, that's going in and replacing aging infrastructure, be able to put those water loss meters in there to where we can be able to identify water loss faster, and also look at replacing some of the customer meters as well.

And we feel confident that we will be able to reduce our water loss from these -- from these measures.

And then it's just going to be the responsibility of the board. You know, water loss now -- you can ask the board members or our staff -- water loss is a key element of our board meeting. You know, we spend time on the water loss, we look at those reports more quickly, and then we -- as a board we're asking more questions of the staff on how we're addressing those water losses. And like I said, that -- that will continue on as we -- as we go forward.

MR. CICERO: So let me understand. You have a plan, some of it requires money. You have talked about --

THE WITNESS: Uh-huh (affirmative).
MR. CICERO: -- infrastructure replacement.

THE WITNESS: Yes, sir.

MR. CICERO: You got $500 in a depreciation account; you're talking about what your plan is in order to meet past due payments on some purchased water.

THE WITNESS: Uh-huh (affirmative).

MR. CICERO: How do you reconcile the fact that you're having difficulty with current regular accounts payable, a depreciation account with only $500 in it, and trying to purchase new meters and replace infrastructure?

THE WITNESS: With the -- with bringing Paul on, we -- he is looking at securing a grant. And then we have also went back to Mr. Hoff, and we're working getting a $400,000 bond with him to -- so I think we have -- I think it ended up being 1.2 or 3 million-dollar project that we're looking at; hopefully, I think from the board meeting last night, to have those funds secured maybe by the end of the year and to be able to start addressing those issues.

MR. CICERO: So then you're going to have a
plan that says here's how I intend to spend
the money for these different projects to
be completed by some date. Will you have a
timeline schedule?

THE WITNESS: Yes, sir. Yes, there will
be.

MR. CICERO: And so this will increase your
requirement for amortization payments for
the bond, and I guess if you get a grant
you're all set on that. But at any rate,
you're still going to have a --

THE WITNESS: 400,000.

MR. CICERO: -- financial obligation to
meet and, again, you're behind on whatever
it is that you're trying to do as far as
revenues, because you didn't take the full
26 percent --

THE WITNESS: Yes, sir.

MR. CICERO: -- and you're struggling.

THE WITNESS: That is -- you know, looking
forward, I think that's why it's going to
be important for us to make that
16,000-dollar payment every month, because
at the end of this year we'll have that
97,000-dollar payment, and then we'll be
able to drop that back down to the 12,000
that we're supposed to put in every month,
12 months of the year to meet that 144 --
both of those payments add up to 144,000.

So what I -- what I'm hoping to be
able to look at is that $4,000 we're going
to gain in cash flow at the end of this year
will hopefully offset, be able to make that
additional bond payment. Does that make
sense?

MR. CICERO: It does, except you used
"hopefully" too much.

THE WITNESS: I -- I know, sir. You know,
we are -- you know, we're trying to steer a
sinking ship right now, and I just put it
as bluntly as that. But I feel confident,
we have a good engineering firm, he
seems -- what I've got to know Paul, he's
very dedicated, he's here to help us, he's
got the experience to be able to do it. I
feel we have a plan in place. I feel we
are taking the water loss seriously as a
board and as a staff. I will -- I look to
continue to meet with the staff.

And the other part of that is that I'm
going to look at -- we've not been able to
do it yet, but also to educate our citizens,
either through -- on our bill, through maybe
Facebook, or through some other social media
or through radio, TV, or something to that
effect that's not going to be so much on
cost, on helping us identify those leaks.
So, you know, if you are a citizen and
you're out in the county and you see a leak,
report it. Help us, report -- you know,
help that water loss. So I think some type
of customer awareness campaign to that
effect.

I don't know if you-all -- you know, I
might be -- but I don't know if you-all
might have something along those lines that
is kind of we can run on the radio or
something like that, but that's something in
the future that I want to look at, is trying
to get our citizens involved in, you know,
helping identify water loss, getting our
staff involved in identifying the water loss
and, you know.

But I think with that, and then also
just continued education with -- with our
staff. You know, when I do the -- come to those staff meetings and stuff, you know, I always want to try to educate. I brought to one of those staff meetings the -- and I think that's how we got the rural water sound. I found an article that another water district had done -- I think it was out in California. I went out and started -- when I took this position, I -- you know, not knowing -- I started going out and looking at other water districts and the issues and problems that they have as far as water loss, and that's an article that I had found was on the -- using the sonar for leak detection, so I printed that out and brought it to that staff meeting. And it was shortly after, you know, it was brought up, hey, you know, we probably can get that, and that's -- I think that's how that came about, so...

But like I say, just the -- not to be rattling, but to sum it up, we do have a plan and I know the board is dedicated. You know, everyone that's stuck around now after -- after these last few months is
dedicated to the board. I think the staff is dedicated to solving the issue and problem, and I think right now we're going to be in the middle of that culture change. It's that culture change of -- to aggressively pursue what we can to keep the operation financially sound.

MR. CICERO: I think you're making progress, but I think the thing that concerns me the most is looking at the response that Morgan County sent in September of 2017 that talked about what their water loss plan was, and you not being aware that it was submitted; and it talks about changing out all the meters, their modern -- the SCADA system and master meters. They divided to the subsection of the system to prioritize leak detection. It goes through a whole slew. It's almost three pages long.

But that's '17. You were on the board in '16, and I know you have become the chairman of the board, but it sounds like the board wasn't even aware that this was submitted to the Public Service Commission.
THE WITNESS: I don't want to say that.
I'm sure it was. I'm just saying off the
top of my head, I don't recall it, and I'm
just being honest. I can sit here and say
that I do, but I don't.
MR. CICERO: But that tells me that no
attention --
THE WITNESS: I know what you're --
MR. CICERO: -- being given to this
program.
THE WITNESS: Right, I know what you're
saying. And, you know, all I can say is
that -- that we'll do -- we'll do better.
You know, to hold the board members
accountable I think is going to be a big
part of my job.
All I can say is that -- I don't --
that that plan wasn't followed through, I
guess would be a way of saying it. That's
all I can say on that.
MR. CICERO: I guess -- I came on the
Commission in 2016, and one of the
priorities since I have been here with the
current Commissioners has been water loss.
And I'm certain that when a purchased water
adjustment comes through, you notice in the language that it talks about you're exceeding the 15 percent limit, therefore you're losing X number of dollars of water. The Commission is looking more closely at utilities that don't pay attention to their excess water loss, and inaction by the utility may result in action by the Public Service Commission, which I think is where we are right now, is the fact that you seem to have good intentions, which I think that's a great first step, because I know over the next 11 hearings that we have, or ten hearings, we may not be so fortunate to see that.

But if there's not a plan that goes forward that everybody is tuned into and is on board with, it can be the same thing over and over again, it's a false start, you make so much progress, the culture changes again. And we're just trying to make certain that progress is made and people are trained and aware of what their responsibilities are, and that hopefully they go forward and their system becomes viable, because right now
nobody can sustain a 40 to 70 percent water loss forever and expect to financially survive.

THE WITNESS: I will say this, I think coming today -- I have never been in a courtroom, I have never testified. I've never been a witness in my 47 years. With these -- with this coming up and stuff, it's forced, I think, us to really dive into it and to prepare and to understand that we're going to be held accountable. Maybe in years past maybe -- you know, I'm just -- maybe it wasn't, but I can assure you now, being down here today and speaking in front of everyone in this room, that it's taken very seriously, it will be taken seriously, and that the plan that we come up with working with Paul will be followed. And hopefully, you know, a year from now or two years from now, you know, we can -- you can look at the Morgan County Water District and use that as a success story for these hearings of, you know, you brought us down to hold us accountable to -- to what we signed up to do, and -- and just
look at the Morgan County Water District, you know, this is a success from these -- from these hearings today that we can speak of.

MR. CICERO: That would be a success story, I agree.

COMMISSIONER SCHMITT: Let me just make one comment. Of course, we're actually here, contrary to what some water districts believe, to help you. We want to see -- I tell people all the time, you know, I don't care about you as a -- I care about the customer --

THE WITNESS: Yes.

COMMISSIONER SCHMITT: -- and the long-term interest of the customer of having good, reliable service. And you can't have economic development -- nobody is going someplace where you can't produce water at a reasonable price.

But go back to your question, or your statement about your application for this $400,000 loan. Is that a Rural Development loan? Is that the --

THE WITNESS: Yes.
COMMISSIONER SCHMITT: Okay. Now, do you know on Rural Development loans they will go through and make a calculation of a rate increase that will go on your bill that will pay the loan and, in theory, give you money to operate on. But all I can tell you is this, is that since we've been here we have had several instances where those Rural Development calculations will see that their loan is paid back, but if you rely on that to keep your system functioning, you may be making a mistake.

Last week I went back through all -- tried to find all of your rate increases and everything financial that Morgan County had done, and there was a -- the only rate increase prior to 2016, that we saw one in the year 2000, a 15 percent rate increase. But since then, everything were just purchase water adjustments, which were pass-throughs, and several Rural Development loans.

And the Rural Development loan that occurred prior to the one that immediately preceded the 2016 rate case, our -- one of
our financial analysts on her own went through the calculations in the Rural Development loan, because we get copies of those things --

THE WITNESS: Okay.

COMMISSIONER SCHMITT: -- and basically you weren't given enough money to survive.

And so I'm -- you know, I know in one of the data requests, or Interrogatories that was sent, the question was asked, does Morgan County Water District intend to obtain another rate increase; and the answer was, yes, in conjunction with our Rural Development loan.

So the question I have is, is what you're saying is that your rate increase is going to be limited to what you get in the Rural Development loan to pay your money back? Is that what you're saying?

THE WITNESS: Yes, sir, that's my understanding.

COMMISSIONER SCHMITT: All right.

THE WITNESS: But I see what you're saying.

COMMISSIONER SCHMITT: Well, I'm saying that if you don't get periodic rate
increases through here over time -- I mean, you hadn't had a rate increase in 16 years.

Now, if I asked you, or any reasonable person would say, have costs gone up in 16 years?

THE WITNESS: Absolutely, sir.

COMMISSIONER SCHMITT: Wage rates have gone up, the cost of everything we buy has gone up. The dollar is worth less; right?

THE WITNESS: That's right.

COMMISSIONER SCHMITT: And if you don't keep it going, you can't keep your company going.

THE WITNESS: Right.

COMMISSIONER SCHMITT: I mean, simple as that.

THE WITNESS: Yeah.

COMMISSIONER SCHMITT: Nothing further.

Thank you.

THE WITNESS: Thank you.

BY MR. PARK:

Q I think it's demonstrated by the 2017 water loss program, the written one submitted to Commission staff, demonstrates it's one thing to have a plan. So you-all have adopted goals now.
How is the district -- how is the board going to track your performance compared to those goals?

A One of the things that I'm looking at is just going back and taking data, and just basically taking the data and putting it into an Excel spreadsheet, and just be able to compare and look -- what I want to be able to do is -- I have not got -- dug into it, but what I want to be able to do is be able to put the data into a spreadsheet, be able to look at it, and then look for trends, you know.

So that way we're going to be able to prepare -- you know, in the wintertime, it seems like we have more water loss due to line and freezing of the ground and breaks. We've had two significant over the last two Decembers. So what I want to be able to do is be able to put the data into place to where we'll be able to look ahead and say, well, you know what, we know in December and January that we have more water loss due to the cold weather and line breaks, and then we're -- but to be able to budget our year.

And that's the other part of it I want to be able to dive deeper in, is to be able to look at our budget and be able to get more in tuned and more
accurate yearly budget, operational budget.

Q    Regarding the $400,000 loan you reference, how was that amount arrived at?

A    How was that arrived at.

Q    How was it determined how much the district would apply to borrow?

A    We -- I guess we looked at -- we went up -- and Paul might be able to answer this better, but I think we just went out and we looked at, you know, what our ideas were and, you know, we kind of looked at it as these are different phases that we're looking at, so we looked at initially looking at doing like a $1.3 million loan through the R&D, and then when Paul came on, you know, he said, well, you know, let me check and see what's out there.

And then I think it kind of came back, you know, that there's a possibility of this grant money out here. But I think the $1.2 or $3 million that we were looking at, I think that was just an estimated of our first initial when we looked at meters, when we looked at the -- the meters on the main lines, and then looking at just some of the aging structure.

MR. CICERO: Did your engineer come up with
that amount or --

THE WITNESS: I know it was discussed early on. You know, the R&D, when we had that meeting in April, he just threw different numbers at us, and I think we kind of looked at it as -- you know, he talked about having all this money out there, you know. I think I kind of looked at it more along the line of, well, we don't want to take on a 5 or -- 4 or 5 million-dollar bond at this time, because, one, you know, how are we going to make it.

So I think we looked at it more of, you know, let's do a lower bond or money to come in, and let's look at it as phases.

So how did we come up with 1.3 or 4? I think it was just a number, you know, that kind of started with -- as I say, we started looking at the different phases as we go down the years past, or you know, as we go forward.

MR. CICERO: So therein lies the problem. You're going to have $1.3 million, and right now, if I understand correctly, there's no specific plan that says, I'm
allocating this much money for this project, this much money for this project. And it's kind of like winning the lottery. You fall into this large amount of money, and then people start saying we can do this, this and this, without really a road map that says this is really what we got the 1.3 for.

THE WITNESS: And I think to be fair to Paul, when he came on -- he's been coming out and I think he's had a couple of his -- they're still in that process of analyzing our overall system. And the way I think we're looking at it as a board is, like, okay, we have this money, where can we make the biggest impact the quickest. And I think that's where we're kind of looking.

So as far as breaking it down, I can probably say -- unless Paul -- we don't naturally have it broke down exactly, because I think we're looking at it more as where can we make the biggest impact right now. And the items that have been brought up is the meters, being able to detect it quicker and faster, so we can get it turned
off; and then looking at the -- where we have the number of breaks in those certain areas, looking at replacing that first. I don't think we got to that point, as far as the breakdown.

MR. CICERO: So if I said -- your new meters are going to cost how much?

THE WITNESS: I think last night we talked about that. I think they're $110 a meter, does that sound right? No? $160.

MR. CICERO: The reason I'm saying is -- I mean, that's a fairly simple calculation, and if that's part of the spending, then you would know that that much money is being allocated for meters.

They could say so much is being allocated for service lines, so much is being allocated for tank repair, so much is being allocated for main line replacement.

I don't know, maybe Mr. Nesbitt will be able to answer some of that. But without a plan, a budget, I'm not sure how you get there.

THE WITNESS: Right, I gotcha. I gotcha.

BY MR. PARK:

Q You mentioned something about
someone throwing numbers out there. Was that
Mr. Hoff?

A I think he -- what he had stated
was that, you know, there's different amounts
available. There's different amounts available
that's out there at this time.

Q As far as loan levels?

A Yes. Yeah.

Q And what is the status of the
applications for the loan and for the grant?

A We talked about it a little bit
last night. I think everything is proceeding as
planned. I think Paul will probably speak more on
that. We are looking at, I think, all the
paperwork being finalized and turned in and
everything kind of broken down by the end of this
year, yes, sir.

Q Does the district hope to also
submit its application for rate increase by the end
of the year?

A Yes, sir. Yeah. I think I
can -- I can say that. It will go back in front of
the board and everything, but everyone on the board
realizes that it's going to have to happen, yes,
sir.
Q       You mentioned trying to select
the projects that would make the biggest impact
most quickly. Who is -- who is prioritizing --
who's doing the cost-benefit analysis to make sure
you proceed with the projects that will have the
biggest bang for the buck?
A       I think that's where we have
Paul. That's why I think it's not fair really
probably for him where he's only been on for the
last few months. I think they're still in their
process of discovery, learning our system. Driving
down, I know we talked about engineers being out a
couple of times. He's been out, and I think he's
just trying to get an idea of, you know, of our
system right now.
Q       In addition to Rural Development
and Appalachian Regional Commission, what other
sources of financing has the district considered or
pursued?
A       I know we have the bond payments.
I think that's all we have.
Oh, we did -- we done a -- Bank of
Mountains, we do have a small loan, note, with them
right now. That's the only one that comes to mind
that I can think of.
Q: And what is the amount of that?
A: 30,000.
Q: 30?
A: It's on a one-year note.
Q: All right. And when is it due?
A: It's due in May of next year, I think.

Q: In the district's responses to some of the discovery requests in this matter, the district identified three main problems to addressing the excessive water loss problem. The first is financial, which we've been talking a lot about. The second is staffing, if you could speak to that a little bit. What are the district's staffing issues and how does it plan to address them?

A: I think right now we're probably still -- with the field staff I think we're in better shape than we have been. I know we've had some turnover since I've been on the board, several turnover. Recently -- we lost one of our office staff last month, probably last -- yeah, she left last month.

So right now we only have two in our office. And, you know, right now that's -- we talked about
it last night at our board meeting. That's kind of putting a strain on our office staff with collection at first of the month. They're keeping them pretty busy. So, you know, Chernell brought up last night at our board meeting about the possibility of bringing on that other office person again like we had before.

Q  Does the district plan to hire an employee whose time would be dedicated to leak detection?

A  That is our ultimate goal with the training of one of our field technicians. He's getting trained in that right now. And I think that's definitely one of our goals, is to have a full-time person to be able to do that.

Another thing that we're looking at, too, maybe down -- first of the year or even sooner, is the -- Steve is retiring at the -- in November, and we're going to be able to do some -- I think some internal promotion to -- we're looking at probably doing a field manager. We had this model a while back, before our other general manager left, to have an office manager and a field manager, and then have a general manager.

And we've talked about with the general
manager bringing them on, definitely look for someone with operations and business experience to be able to work with Chernell, with -- being able to look at the data, to be able to -- be able to look at the reports and be able to do -- help take some of the load off of her right now as far as day-to-day operations and the financial part of it.

Q When is Mr. Pelfrey retiring? Is it November?

A It's going to be in November.

Q And how does the district plan to transition to his retirement?

A We have someone that we have been working with. His name is Andy Legg. He has his Class 1 license right now, and then I think he's studying and I think he's going to take his Class 2s in the first of November. And that is something that we have talked about as a board, of possibly coming back to the Kentucky Rural Water if Andy doesn't pass, or if there's some issue there with the lapse, of maybe Kentucky Rural Water being able to help us in emergent situation with the Class 2, maybe help bring someone along.

So we do have that plan in place. And we talked to -- had Andy come to the board meeting last
night, and I told him last night to start coming to the board meetings as he's starting -- he's starting to work with Steve more out in the field. And so we have several months to get him up to speed to kind of what Steve is doing as far as the field work and stuff.

Q The third area that the district identified as being a major obstacle is leak detection equipment. What leak detection equipment does the district currently own?

A Currently own, Steve will probably be able to answer that.

MR. PELFREY: None.

A None? So it will be we have none.

MR. CICERO: That's easy.

A Yeah, that's easy.

But we are -- that's what I -- I stated earlier, we are -- the Kentucky Rural Water coming out with that sonar listening device, I think we -- we're getting Andy trained in that, and then we -- we're looking at purchasing that later on in the year. And then we're also -- with the project that we have coming up, we're looking at adding those meters. They will be able to pick up the water
leaks quicker.

Q Would the leak detection equipment, would the purchase of that be something outside of this project that's being -- the funding of this project, or is that something the district would need to wait?

A The -- I think it's part of that breakdown. I know that's the two things that we -- that we have recognized as probably essential. I know the meters we talked about. But since we had the leak detection with the sonar, I think that -- we were able to spot some leaks pretty quick with that. And so I think that was recognized as a needed item. So I think that's probably discussions later on with Paul as far as adding that into, yes, sir.

Q You referred to the district's response to the staff's discovery requests dated May 3rd, and specifically the response to Question 23, which concerns the district's leak adjustment policy. Right here.

A May 3rd?

Q Yes, the second --

A Page 23?

Q Response to Request No. 23.
A: Okay, hold on a second. Okay.

Q: Are you familiar with the district's policy on leak adjustment where there's a leak on the customer's side of the meter?

A: Am I familiar with it?

Q: Uh-huh (affirmative).

A: No, sir. I mean, I'm sure it's been explained to me, but off the top of my head I'm not -- I couldn't tell you what it is or explain the process.

Q: According to the tariff, for all water used in excess of that customer's average monthly usage, the district doesn't charge the full rate; it allows the customer -- customer to pay basically the wholesale rate. And would you agree that that leak adjustment rate does not take account of non-revenue water?

A: I'm sorry, I'm reading through it. Hold on, just give me a second.

Okay, so ask your question again. I'm sorry.

Q: Well, for example, Morgan County Water District's water loss report for April 2019, water loss is 53.4 percent; water used, non-revenue water used is 8.7 percent. So combined it's over
60 percent non-revenue water.

For every 1,000 gallons that the district sells, it must purchase approximately 1,600 gallons. So if you're only charging the customer the wholesale rate for all the usage above the average, you're not covering all the cost of providing that water to the customer water; is that accurate?

A         That's accurate, yes, sir.
Q         Would the district be willing to revise that leak adjustment policy?
A         If you-all make a recommendation.
Q         Are you aware that this leak adjustment policy can be changed by the district outside of a rate case just by a tariff filing?
A         I didn't.
Q         How often does the board meet?
A         Monthly, and then we also have special meetings.
Q         How often -- it looks like there's been a number of special meetings this year.
A         Since I started -- took over in March, I've had several special meetings, yes, sir.
Q         What sort of water commissioner training do board members receive?
A Everyone is the -- there's one
that is required, I think within 12 months of being
a commissioner. I have attended that. We had two
new board members that came on that I think are
looking at doing it by the end of this year, that
training. And then Steve had called me -- I'm not
going to be able to attend there.

There is a seminar training available in
August, I think a two or three-day, I'm not going to
be able to attend that, but it's going to be my goal
as I move forward, to be able to attend those and
try to get more training as far as being a board
member and being a board chair. That's something as
far as my personal goals of being the board chair.

Q Do you know in the past whether
funds for training has been in the budget?
A Yes, sir.

Q Does the district anticipate that
its customer base will get larger or smaller over
the next five to ten years?
A We -- Morgan County went through
the tornado in 2012, and I worked there at the
local hospital with the clinics, and it's my
understanding that we probably lost 1,000, 1,500,
2,000 people out of our population there.
I think our countywide census is around 14,000, and I want to say the last time I looked at it it was probably around 12,000. So I think, if anything, we'll maintain. I don't know if we'll necessarily decrease or increase, but I think we're kind of -- we'll be stagnant.

Q: The district is adjacent to several other water systems, the city of West Liberty, Magoffin County Water District, also I believe the city of Frenchburg and Campton Water System; is that accurate?

A: Yes, sir.

Q: Since you have been on the board, has there been any discussion about consolidation with one or more adjoining water systems?

A: Not at -- no, not at one of our board meetings. I know we had sold water to, I think, Campton at one time. Before I was on the board, we had sold water to them, and I think we had talked about maybe doing something with Magoffin County, but I don't know if that ever was pursued or not as far as selling water back to them.

Q: Would you see any benefit to consolidation where the systems would have -- would
be operated together and have combined resources?

A You know, one of the things that I asked early on as a new board member was, how can you be a water district and not have your own water, you know, the -- your own -- that we buy water. You know, I think -- you know, I've only been doing this for two years, but to me, you know, one of the obvious things would be to -- you could help your costs by having your own water distribution.

Being a rural county in Eastern Kentucky, one of the things we always talk about is being able to pool our resources and try to work together in the community, and -- because our, you know, resources can be limited for us there in Eastern Kentucky.

So, you know, I think one of the things that maybe down the road -- and, you know, this -- like I said, this has not been mentioned, but, you know, maybe some kind of partnership with the city of West Liberty down the road. I mean, that might be something that -- that might be looked at because they do have the water treatment plant there on 519, and to pool those resources. Again, that's -- that's just my opinion.
Q What is the status of -- you mentioned earlier some of the maps. What is the status of the district's mapping of the system?

A I think we are -- I think everything's pretty well up to date and mapped out. We have a map out in the lobby, the county map, and then in our boardroom we have the county map, and we also have it broken out by sections. I would feel that it's up to date.

Q Pretty good shape?

A Yeah, I do.

MR. PARK: I have no further questions.

COMMISSIONER SCHMITT: Mr. Cicero, questions?

EXAMINATION

BY MR. CICERO:

Q What is your total debt payment for all your loans, your amortization of your debt, on a monthly basis?

A Of our bonds you're talking?

Q Whatever outstanding debt that you're trying to pay off.

A Right now --

Q What are the total monthly payments?
A: With the -- with the bonds we have --
Q: I'll write them down. You give me the numbers.
A: Okay. With our bonds it's -- we're kind of in a special place where we're trying to catch up. So normally it's 12,000, around $12,000 a month for our bond payments. We have a $8300 payment with Regions that we refinanced that's deducted out. Our water company -- you want to go through all of them or just --
Q: Whatever your monthly amortization payments are.
A: I think that's the only two.
Q: 12 and 8.3, you're paying $20,000 a month. You don't have any other revenue, bonds you're paying, or any other type of loans that you're paying?
A: Not off the top of my head.
Q: Okay.
A: I know we're supposed to put that depreciation money in there.
Q: That's okay. I was just interested in whatever debt payments.
A: Okay, okay.
So your 2017 water loss percent was 38 percent, or slightly above that. And 2019, I think Mr. Park indicated it was at 53 percent. So it's gone up 15 percent despite whatever water loss reduction efforts have been made, which is a pretty substantial increase.

The value of the water lost above 15 percent, not looking at the 15 percent, which the Commission doesn't -- says that's a pretty standard number -- but $114,000 a year. In 2019 you increase by another 15 percentage points above the 38, which -- do a rough calculation, maybe 40 percent. But if you throw that on top of the 114,000 that you were losing, you're losing probably close to $150,000 a year just in water loss above 15 percent.

So you got $20,000 in loan amortization. You could take care of all of that debt, all of the Rural Water whatever debt that you're talking about there, and have money in depreciation if you could bring your water loss down to 15 percent.

A I agree.

MR. CICERO: I think the goal here is to make sure that if you're going to spend money, it's spent for a useful cause, not to water the garden or whatever else the
1 water going into the ground is doing, but
2 it's certainly not helping your customers
3 whatsoever.
4
5 I have already asked all my other
6 questions. I don't have anything else,
7 Mr. Chairman.
8
9 COMMISSIONER SCHMITT: Commissioner
10 Mathews, questions?
11 DR. MATHEWS: I don't have any.
12
13 COMMISSIONER SCHMITT: All right. I have a
14 few. Why don't we take a ten-minute break
15 until like 10:45 and then we'll come back.
16 MR. PARK: Thank you-all. Appreciate it.
17
18 COMMISSIONER SCHMITT: Be in recess until
19 10:45.
20
21 (THEREUPON, A BREAK WAS TAKEN.)
22 COMMISSIONER SCHMITT: Okay. We're back on
23 the record.
24
25 Mr. Elam, can you retake the stand? I have a few questions.
26
27 THE WITNESS: Yes.
28
29 EXAMINATION
30 BY COMMISSIONER SCHMITT:
31
32 Q Mr. Elam, I think you mentioned
33 earlier that your background or, I guess, career
background had been in, what, manufacturing?

A Yes, sir.

Q What has your history --

employment history been?

A I started in '91 with a company called Whitey Manufacturing. It was an apparel manufacturer there in Wolfe County. I was the plant foreman on second shift for a number of years.

And then I moved down to Central Kentucky, met my wife here, and then worked for different companies. I worked for staffing agencies, so I put employees out at Toyota, Louisville Forge, Johnson Controls there in Georgetown. And then I came back and then I worked for a company American National Rubber as a -- made rubber gaskets and stuff for automotive industry.

Before I moved into the healthcare field, I worked for a company called Boneal. They were a government contractor. We had a manufacturing plant there in West Liberty. We did vacuum kits for the postal service as a government contract.

So I would say I have about 20 years of manufacturing HR experience, and then the last almost five years I've been in the healthcare field.
Q: I think I saw in your -- maybe in your prefied testimony or in a data response, or something, you're employed by Appalachian Regional Healthcare?

A: Yes, sir.

Q: And what do you do for them?

A: I'm the clinic administrator. I have three clinics that I manage on a day-to-day basis. I have a couple supervisors under me. I have seven providers that I work with.

Q: And are those all in -- what?

A: Morgan County.

Q: Morgan and Wolfe?

A: Morgan.

Q: You're not the hospital administrator?

A: No, sir.

Q: Okay. The only reason I ask is that ARH was an old client of mine, years and years.

A: Okay.

Q: So in terms of formal education, how much formal education do you have?

A: I have a master's degree in healthcare administration, and I got a bachelor's
from Morehead State.

Q So essentially you know something -- you've had experience in running a business --

A Yes, sir.

Q -- and operating a business --

A Yes, sir.

Q -- and managing employees.

And let me just ask your opinion. Is that experience useful to you, valuable to you now that you're the chairman of the -- of the water district?

A I believe so, yes, sir. I believe so.

Q I know you've just become chairman, but you have some background in administration, in operating an enterprise of some size, of managing employees. That must be valuable going forward in terms of dealing with people and trying to see that the water district can pay its bills and operate successfully?

A I agree, yes, sir. And I think that's one of the first things that I done as the board chair was get a grasp on our cash flow. I think at that time in March we were struggling with cash flow, we were trying to figure out how to --
you know, how we was going to be able to make our July payment.

And we had several special meetings in April, once I started getting in there a little bit and looking. And I feel like with the experience that I have had, you know, I quickly realized that now that I'm the chair, that ultimately this responsibility is going to fall on my shoulders, and, you know, I've taken a much more vested -- interest is not the right word, but much more involved with the -- with the water district than I was previously.

Again, I feel like -- this morning, with the question, I'm still learning, I'm still learning the operations side of it, I'm still learning the -- kind of the government side of it. I've not dived down into exactly how the tariffs work or anything like that. I think that's just going to come with time.

But I'm -- I feel like I'm up for the challenge. That's always kind of -- I look at things of -- you know, we had board members step off at the beginning of the year. Maybe they saw the writing in the wind or, you know, whatever, but I kind of looked at it as, you know, I'm going to stay
with this sinking ship no matter what happens. I'm
dedicated to it. I want to see it succeed, not only
for the district but for our county. Like I say,
you know, we're -- Morgan County is a poor rural
county in Eastern Kentucky and we -- I feel like now
we have a board, like I say, that is across the
board, that we're well vested in many areas.

We have Linda Bradley, who's been involved
in local government for many, many, many years, I
think she's worked for the city and county
government. Zach Engle, being with the bank, so
he's really keen on making sure that we're getting,
you know, the right interest rates when we start
looking at things like that.

We mentioned Brian Wells earlier. I mean,
he's part of a multi-million dollar business, and
Brian has been I think a great asset of coming in
and asking those hard questions as well, because he
realized early on, once he started diving into it a
little bit -- now, he's only been on the board since
February, I think -- but, you know, we're in
trouble. I think he recognized pretty quick that we
were in trouble. So I think he's going to be a
great asset.

And then having Steve Gunnell, who works
for -- I think he works for the Transportation Cabinet Department as an engineer, so he has the -- him and Brian both have that engineering background and stuff to be -- I'm not an engineer. I'm not technical, I'm not mechanical, so, you know, I struggle with some of those questions, you know, earlier because I'm just -- that's just not my expertise.

Q       Well, I mean, you seem to have sort of a blue ribbon panel of commissioners, and oftentimes you don't -- you don't see that, or people get into trouble because they don't know how to make a budget or stick with it or how to, you know, read financial documents.

A       Uh-huh (affirmative).

Q       The previous chairman, what was his -- what was his background?

A       The previous chairman was Kyle Risner. He was only the chair only a few months.

Q       And then before him there was --

A       It was Roy Collett. Roy -- he stepped off the board. He ran into health issues. I'm not sure how long he was on board. I think he was on the board quite a while, a number of years. His background was in banking. He had a banking
background. He was a loan officer there at one of
the local banks.

But I think, you know, just talking about
the board that we have now, what I've looked at, and
I've had this conversation with the board is, the
board now that we have, there's no personal agendas.
No, there's -- no one comes to the table with a
personal agenda of, you know, I'm trying to get this
pushed or that pushed through. Everyone right now
is coming -- when they come to the board meeting
it's what's in the best interest of our -- our
customers, you know.

And that's -- and that's what I kind of
explained to them when I took over. You know, I
made the statement of, you know, we're not going to
bring our personal agendas to this. And every
decision from March on, every decision that this
board makes, it's going to be, ask the question of
how does this affect our customers, how does this
improve our customers, how does this improve our
water loss.

So every decision I feel like that we're now
making as a board, that ultimate question is asked,
okay, how does this affect our customers, how does
this affect our water loss, how does this affect us
long term. And I think right now we -- I think we
do have the right board to turn this thing around.
I think the board is committed, and like I say, a
year or two from now I think Morgan County Water
District will be a success.

Q On your -- has anyone from
Kentucky Rural Water done any testing, or has
anyone done any testing on your meters? I know
apparently you have a number of meters that are
over ten years old. I didn't know if you regularly
tested, or tested samplings of meters; and; if so,
what you have learned from that.

A I think Steve could probably
answer that better. We actually talked about that
last night at the board meeting. We did -- Steve
and Andy did pull some meters out. And I think we
work with another firm that they send the meters
off to, and that's actually one of the things we
kind of talked about last night, was looking at
being able to do that testing at our facility,
because it's -- what we kind of talked about last
night, it's up to three months those meters are
gone, and right now we don't have a backlog of
meters, so -- but it was brought up last night in
our board meeting that the meters, it's been ten
years.

Q Well, the reason that I ask is because we've had some other water districts who basically have had a number of old meters, and when tested found that they -- they all seem to run slow. So they were maybe 11, 12 percent water loss, so customers were getting -- you know, they were underbilling at least by 11 or 12 percent. Others weren't reading anything other than the minimum. I mean, Southern Water District claimed it had 700 to 750 residential water meters that wouldn't register any -- that weren't even working. I didn't know if you -- I know you've got AMR readers, so somebody drives by.

A Yes, sir. Yeah, we have the radio. But that is one of the things we talked about last night, is something that we're definitely going to have to look at.

I think when we first started talking about it seriously back, you know, in the first of the year, we were really looking at the infrastructure of the -- of the lines, but over the last couple of months I think we've taken a harder look at the meters, and then realizing that it's been ten years. And so I think that's part of Paul's plan that we
talked about a little bit last night, is try to incorporate some of the -- where I talked about earlier about phases, is start a phase now, and we're getting these meters at least checked and verified.

Q People say, well, I can't afford new meters. You can't afford not to have them. They actually will pay for themselves, and then some, over time.

All of your board members, are all of your -- all of the commissioners paid?

A No, sir.

Q None of you take --

A No, sir.

Q -- any kind of -- any kind of payment as permitted by statute?

A No, sir. No. The board members receive no benefit. The only benefit that I am aware of for board members is the helicopter insurance, that -- through the local air evac hos-- -- the helicopter insurance is the only thing that's offered to the board members, and I think it's 30 or 40 bucks a year, something to that effect. That's the only -- that's the only benefit that the board members get right now.
You know, I keep joking a little bit about, you know, if we ever get things cleared up we might try to have dinner at our board meetings. Right now we don't even provide a meal for our board members. But like I say, the board members, you know, taking that on, you know, looking at myself, I think that speaks of our board of doing this as a volunteer. I mean, they're all busy, they all run -- we all have full-time jobs and, you know, we -- sometimes we spend -- at those board meetings it will last three hours.

And then like the last couple of months where we have been having all these special meetings, you know, there's -- I think in April we might have had three or four special meetings, those were a couple hours.

So, you know, our board members -- especially our new board members that came on in February, they -- we -- we have put in some significant time over the last few months.

Q         I take it that -- I guess this is true. I think I got this from maybe a data request. Morgan County Water District doesn't have a preventive maintenance program or a capital improvement program, where you replace
infrastructure, or basically try to work on your
equipment to keep it from failing?

A I think the one -- what we did do
is -- and it was more with our trucks and our
backhoe. We looked at -- so what I was looking at
when I first come on the board, we were spending
significant amount of money each month on auto
repairs. Just our truck fleet was just aging. We
owned them, and then like I said, we worked out an
agreement with Enterprise where now we have new
vehicles.

We ended up trading -- or selling, I'm
sorry -- selling our -- we sold our -- we had a full
size backhoe. We ended up selling that to the
county, and we was able to purchase a mini
excavator, which is -- actually worked better for us
getting into tighter spots and things like that.

But as far as -- I think with the water
lines and infra- -- the water infrastructure itself,
I'm not aware of any, but I think it's been more
of -- and I think this is ultimately that's led to
where we are at today, it's been more reactive. You
know, we get a water leak or someone calls in, or we
are out and we see one, and we're going to fix it,
instead of, like you were saying, have the
preventive maintenance side.

I think that's what we're looking at, getting this leak detection, getting in these new meters, and then also being able to purchase the equipment where we can pull the meters out ourselves and do the testing ourselves to kind of get ahead of that, because I think we paid that other company to test our meters a significant amount of money when we -- when we do do that.

I think one of the things that Paul talked about last night was, you know, we might be able to go out there and replace 200 meters, and bring those 200 meters in, put new meters in, pull those 200 meters in, test them ourselves, and that gives us kind of a backlog to then go back out, and when we go out and test other meters we got that backlog of meters in place that we can put one in while we're testing another meter.

Q Have your commissioners ever considered or discussed at this point any type of -- if not merger, I know you haven't discussed that, but any type of regional sharing of expenses with other water districts, such as maybe West Liberty would be -- it seemed to me to be a good partner in terms of cooperation in terms of buying
equipment, of loaning each other -- using each
other's equipment, so as to basically, you know,
utilize economies of scale in terms of purchases --
A Uh-huh (affirmative).
Q -- even in terms of employees.
A Uh-huh (affirmative).
Q I don't know if you've thought
about that or whether you would consider it.
A I haven't, but I think that's a
good point to bring up. I think I will make me a
note to bring it up, and maybe start those
discussions and just see, you know, how the board
feels about it and -- I think anything we can do at
this point, like you said, to pool our resources.
We were able to do our lease agreement
through the county, through our fleet, where -- I
guess we work a lot with the county, I know in
the -- I'm sure we work with the city of West
Liberty, too, but I know we do work with the county
hand in hand.
Q Sure. I'm sure that they --
yeah, that would be a natural --
A Uh-huh (affirmative).
Q -- because it's a county water
district.
A    Yeah.

Q    And sometimes for some reasons that are just -- I don't know, maybe examples of nativism or something, people in the county don't like the city, and the city don't like the county. And it's kind of silly as far as I'm concerned, but apparently it isn't silly.

But there ought to be -- for instance, years ago I was on the Paintsville Utility Commission.

A    Uh-huh (affirmative).

Q    And we had an agreement, not formally written, with Prestonsburg. And they'd provide equipment for us, we'd provide things for them, share personnel from time to time, and it saved everybody some money.

And I looked at a -- at a management audit for a certain water district in Eastern Kentucky years ago, and basically one of the things they suggested was that you consolidate purchases, that water districts -- small water districts couldn't afford a full-time engineer, but that you might share an engineer, or the salaries with a couple or three other districts. Paintsville, where I lived, we had an engineer on staff, but we had -- were maybe three and a half times larger than --
A Morgan.

Q -- other counties, because we go into other counties.

But that might give you not only some additional buying power and help you maintain inventory, but it might allow you through cooperation to ultimately get to the position where you could share management. Maybe even you have three members on a board and they have three members on a board --

A Uh-huh (affirmative).

Q -- or something, where you could ultimately expand the customer base and expand the size of the utility to the benefit of everybody.

A Absolutely.

Q Are you a native of Morgan County?

A I am, yes, sir.

Q You know, you talk about Eastern Kentucky, we need to share and basically cooperate, but a lack of desire to cooperate has often been Eastern Kentucky's biggest problem, hasn't it?

A Absolutely.

Q I'd rather see somebody else get it or nobody; if I didn't get it, I wouldn't want
you to have it.

A        Yeah.

Q        Isn't that what --

A        Absolutely.

Q        Unfortunately we're guilty of

that, aren't we?

A        Uh-huh (affirmative). Yes, sir.

Q        Your manager, Mr. Pelfrey --

A        Uh-huh (affirmative).

Q        -- is going to retire, and I

think one of the questions that we asked, and we

asked all of the water districts as part of this

proceeding, how much you pay your general manager,
or your manager. And I know you had an office

manager and a field manager. Mr. Pelfrey, now,

what is his title exactly?

A        He's general manager.

Q        He's the general manager.

A        Uh-huh (affirmative).

Q        Okay. And I think it was said

that he makes something like $20.00 per hour? Does

he make more than that or --

A        When we were reviewing it last

night I saw something that I think it was 47,000 a

year. And then Chernell is around 27 or 5,
somewhere around there.

Q    All right. Now, when Mr. Pelfrey
retires, how do you intend on -- how does the water
district commission intend on filling that vacancy?

A    We have an employee, his name is
Andy Legg, he's been with us probably a couple
years now. He's already went and passed his Class
1. I had him come to the board meeting last night,
and basically we talked to him a little bit about,
you know, our expectations.

He's wanting to move into that role, the
field manager role. He's already been working with
Steve on that. We have told him that, you know, as
he starts taking this long -- that we were looking
at doing a salary increase for him, and then once he
passes his Class 2 to bump him up a little bit more,
and then let him slowly kind of move up with
increment merit raises over the next few years.

I think Steve has been with the water
district 20 years, probably close to 20 years. How
many?

MR. PELFREY: Seventeen (17).

A    Seventeen (17) years. So that's
where he's kind of at. So, you know, we're going
to be losing a lot of experience there, but I feel
good about Andy coming on. He's -- he has that
willingness to learn. He seems to be passionate
about learning. He's eager, I think, to learn, and
then he has the -- I feel like he probably has some
of that take ownership of it.

COMMISSIONER SCHMITT: Commissioner Mathews
would like to ask you a question.

THE WITNESS: Sure.

EXAMINATION

BY DR. MATHEWS:

Q So you're thinking of this
gentleman for the field manager?

A Field manager.

Q And then still filling a general
manager position at some point in the future?

A Yes, ma'am. That was the model
we had before. Before we went through all the
turnover in the last six or nine months, we had a
general manager and then we had a office manager
and a field manager, field technician manager.

Q So what are you going to be
looking for with regards to the general manager?

A I think with the general manager,
my thoughts are -- we've really not got into it a
whole lot as far as a board. We just been more
working on, you know, the pressing issues. But as we start getting things in line, I think the field manager or the general manager, you know, I think probably a college degree, something with business, finance, something with operations. I think it would be a plus to have someone with water experience, but with, you know, having the field.

I think looking for a general manager, the one that kind of helps take some of the pressure off Chernell, because I think Chernell probably has more that's been placed on her over the last few months than probably what should be. But she's -- she has stepped up and done a great job with everything that we have asked her to do over the last six or nine months.

Q That's a pretty lengthy request.
You're going to have to --
A Well --

Q -- cast a wide net and pay a --
A Well, one of the things that actually that I'm looking at, or that I thought of -- again, this has not been discussed with the board, but my own personal thoughts or opinion on it is, is maybe we go after someone young, maybe someone -- you think of Eastern Kentucky, there's
not a lot of job opportunities out there unless you do something with the -- there in Morgan County we have basically one manufacturer, we have Wells, we have a hospital, we have telephone company, we have the electric company, we have the prison. And other than that, you know, it's more of minimum wage type jobs.

Q  Okay.

A  So my -- I'm kind of looking at it as maybe we go after someone, a recent college grad that is -- you know, that is kind of hungry, that's wanting to learn, and then we bring them in and we learn -- let them learn the business from kind of the ground up. Maybe start them out out in the field, and like I said earlier, you know, in my management experience, whenever I go in somewhere to manage I want to learn everything from the ground up, because to me you can't effectively manage unless you know the operations. And that's where I'm -- I'm in that process now as the board chair.

But that's kind of my inkling, though, is to bring someone in young that has the opportunity. You know, what we kind of say there is we're not going to be able to pay you as well as other places,
but you're at least going to be home and you won't have to drive.

In my career I've had to drive from Morgan County to Georgetown to Lexington to Louisa, Pikeville. And it means a lot when you're five minutes from home. You can be at your hospital -- you know, right now I'm five minutes from the hospital. I live just outside of town. But, you know, I can -- I was kind of thinking about this morning on the drive down of, you know, leaving for work two hours early to, you know, get through the traffic and stuff, and then you got your two-hour drive back home.

So that's -- I think that's -- in my opinion or my thoughts, that's what -- that's what I'm kind of looking at. But again --

Q Mostly wanted to clarify --
A Sure.

Q -- that you have the existing person that you are going to -- that's on a track to likely become your field manager, but you're still going to look for a general manager?
A Yeah, exactly. That's kind of what we've done with Andy, the one we're talking about replacing Steve as the field manager. You
know, we brought him in as a general field laborer. He left the prison in Elliott County to come, and he left -- he took a pay cut, and I think it was a pretty significant pay cut, but I think he had had some water experience with the city of West Liberty before, so he had some water experience.

And, you know, we basically brought him in, and once we got him in, said, look, you know, here's -- this is your opportunity. Steve's looking to retire in a few years and, you know, if you're willing to put the work in and go get your Class 1, Class 2 license, you know, this job could be yours. And we've been very fortunate that he's done that. And like I talked to him last night, he's pretty gung-ho about being able to complete his Class 2 and be able to move in that role.

DR. MATHEWS: Thank you.

EXAMINATION

BY COMMISSIONER SCHMITT:

Q Insofar as your general manager position is concerned, are there specific job duties, written job duties, responsibilities for the general manager?

A I do believe there is a -- I have not reviewed it. I'm being honest, I have not
reviewed it, but I think there is a job
description. But I think as we start looking at
that, that would be something that we would have
pulled before the board, and then I think the
board, with the experience we have there on the
board, they would be able to go through it and
maybe have more defined, clear roles of what we're
looking for in that general manager.

Because I think before, with Kyle being a
general manager and Steve being a general manager,
they have that water experience. They both had --
they knew the water side of it. So I think this
time around, I think the -- to have that day-to-day
operations, and like I said, to help Chernell, is to
have that -- more of the office side of it.

And then you have that field manager with
the technical knowledge and, you know, that person
is basically just --

Q    Who develops the budget? Do you
have a budget every year?

A    We do.

Q    Do you do a budget?

A    Our treasurer sits down, and then
we normally sit down -- I attended that one last
year. It was me, Zach, who's our treasurer, he
kind of led that, and then our general manager at
that time. So there was three of us that sat down
and formed out the budget.

Q And does the -- does the general
manager have authority to spend outside the budget?
You got an item budgeted to a certain --
A Uh-huh (affirmative).
Q -- whatever, equipment, X
dollars, but do you need more between a meeting?
Does the general manager have the authority to buy?
A I would say -- I would say right
now not at this time. Because since I took over in
March, right now we -- what we as a board decided,
we give Chernell guidance on you can pay the
utilities and you can pay the payroll and the
retirement and all those taxes and the benefits and
everything to keep everything operational, but the
board, when we come to our board meeting, we will
decide, you know, how fast things get paid and what
gets paid.

Q And does the general manager have
the authority to hire and fire?
A The board typically does the
hiring. When we done hiring in the past, we'll put
the job opening out in the local paper, run that
ad; and then the applications, the general manager will typically go through and weed out, the weed-out process, and then they -- the general manager will then normally present four or five qualified applicants to the board, and then that board will do the interview process with the general manager there.

Q And who authorizes overtime, if there is overtime?

A Typically that's fallen on the general manager. Right now, you know, the -- we're keeping a close eye on the overtime, but typically I think we -- we give leeway to the general manager, essentially of leaks, and there's times that they're called out in the evening. We do have -- I think each of the field technicians take a turn about on weekend call, excuse me, so I think there is some call pay in that. But --

Q Well, somebody has to authorize that or approve the time; correct?

A Yes, sir.

Q Is that the general manager?

A Yes, sir. Yeah, the board does not approve the -- we don't approve the time sheets.
Are you familiar with the Kentucky Rural Water Association's management training program?

I'm not.

The courses they have?

That was actually going to be one of my questions.

For less than $1,000.

Okay.

And they give you two years to go through it, but probably ought to go through it quicker than that. But they have maps -- courses for general managers to take.

Okay.

And at the end of the course there's a certification that goes with it. Would you be willing -- and basically it talks about, you know, how to manage an office.

Uh-huh (affirmative).

And how to basically do what's necessary to run a business and do the -- provide the reporting to the commissioners, et cetera, and community outreach, customer service. Would your -- would your water district consider sending your new general manager for that kind of training?
Absolutely, I think we'd definitely consider it. I think -- you know, I think that's -- if there's one thing that our board -- you know, I'm glad we have our board, but we're all new to it, and we don't -- you know, that's the thing, we -- I think as the board we're trying to learn these opportunities.

So, absolutely, yeah. Any -- I think we'll definitely take a look at that, absolutely.

COMMISSIONER SCHMITT: I have no further questions. Mr. McNeil?

MR. McNEIL: I just have a few, Your Honor.

Yeah, thank you.

EXAMINATION

BY MR. McNEIL:

Mr. Elam, good morning.

Good morning.

So I'll jump a couple of topics, but not much to go over here with you.

Sure.

So you had mentioned theft of water, maybe not having as much of a problem as some other water districts. In the record you-all had submitted summons or other paperwork, or some you had referred to the county prosecutor?
A        Uh-huh (affirmative).
Q        Looks like four so far in 2019, about two in 2018. To your knowledge is that about the rate historically that you see them?
A        Since I've been on the board, I think so. I couldn't speak from years past, but since I've been on the board, I think so.
Q        And you said you don't remember any convictions, though?
A        I don't.
Q        Okay. Do you-all have a process for following up on that with the county prosecutor?
A        No.
Q        After you refer it you don't --
A        There might be. I'm not aware at this time.
Q        Okay. So is looking for cheater bars, is that part of the process, everyday process in leak detection, or just everyday duties of field techs?
A        To be honest with you, probably the staff here would be more of the day-to-day --
Q        Sure.
A        -- of exact -- the process.
Q      Okay. A couple questions that
staff had asked before on data requests. Asked to
refer to specific policies or procedures, missed
customer billing, time it takes to fix a line,
meter testing, and you answered you either did not
have those policies or they were not written down.

Have you-all made any sort of effort to, you
know, formalize -- formalize more written policies
and procedures going forward with this water loss
plan?

A      I think that's something we've
talked about in the past of having more clearly
outlined policies and procedures on different
things, yes, sir, because, you know -- I think one
of the things we talked about is employee handbooks
and things to that nature. I know -- it kind of
goes with the -- with our staff being part of the
county employee, but we're separate, but I think
still with the water district that would be
something that I would want to look at, is some
type of -- right away is to have some type of
employee handbook.

And then, you know, being in manufacturing,
you have work standards and policies and procedures
for everything. And, you know, when you start
looking at it you start -- well, what's our policy
say. And, you know, that's kind of -- that's kind
of what you go back to.

So that's absolutely something we will
definitely be looking at.

Q         Okay. As far as putting the
water loss plan together with everything going on,
makes sense I think to sort of address some of
those.

A         Uh-huh (affirmative).

Absolutely.

Q         You spoke about the return to the
general manager and the field manager, operations
manager model. Is there a timeline on filling the
general manager slot? Is that by or before
November?

A         My personal goal -- again, this
has not been brought to the board as -- to be put
in the minutes or anything like that, and I don't
want to -- I don't necessarily want to speak for
them. But as the chairman, I would like to see a
general manager placed by the first of the year.

That way -- because at that time you're
going to have Andy. Steve is going to be gone. You
will have Andy, who's a brand-new field manager, and
then you -- I feel Andy will probably be leaning on Chernell even more at that time for different things. So I think it's important for, I think, Chernell's sanity that we as a board recognize that and try to have someone in there.

So I -- you know, I think it will be a fairly -- well, I say this not knowing, but a process of advertising it out through the local newspaper exactly what we're looking for, and then being able to do some stuff around, and then hopefully have someone around the first of the year, is kind of what I'm looking at. Again, I have bring it to the board --

Q Sure.

A -- for approval, but that's kind of, in my mind, what -- what we're looking at.

Q You're confident in sort of the transitional period if you can't find someone by the first of the year?

A Well, I tell you, to be honest with you, what -- I feel like part of my responsibility -- part of my responsibility will be that I will probably need to be there more when we go through this transition, because I do have that experience, you know. Chernell and Steve both have
my cell phone and they know they can call me any
time with questions.

But I kind of see myself up there. Maybe
more on my lunches I can run up to do some things
and maybe after -- and maybe even in the evenings to
try to address this up.

And then typically with my -- in the
hospital business, we shut down, or my clinics
are -- they mandate us a week of mandatory PTL time
during the Christmas holidays. So I was kind of
looking at that time, too, as a time to go up during
that week and spend time there at the water board as
we're going through that transitional time.

I'm -- I've already kind of started looking
at that as far as -- I plan my stuff out about six
months out, so I'm already starting to look at, you
know, the first-of-the-year-stuff things. So that's
something that I'll probably be looking at just to
help us get through the transition.

Q    Okay. And you also mentioned one
person recently left the office staff. Would you
also look to fill that before that period?

A    Yeah.

Q    Okay.

A    Like I said, Chernell brought it
up last night, and that's something that we will
look at this fall as well, is being able to fill
that, absolutely. Because like I said, she's got
more on her, and she gets pulled away to help with
when we have our customers come in and stuff, and
that's -- that's actually something that we looked
at last night.

The first few days of the month, of course,
that's when all of our customers come. We have a
night deposit box that -- I think it was Brian that
brought it up last night -- of automatic payments,
and we do have that in place, but we talked about
doing some more education, maybe putting it on our
bill, to where we get more of our customers paying
online just to help with the -- with the office time
of collecting payments.

MR. McNEIL: Okay. Thank you.

I have just one more thing. I have a
document submitted into the record. I can
pass out for convenience. Approach
Chairman? This is a -- it was the tariff
that was submitted March 18th.

COMMISSIONER SCHMITT: Would you like that
marked?

MR. McNEIL: No. It's part -- I mean, it's
part of the record. I just have a question.

COURT REPORTER: If you have an extra one.

MR. McNEIL: Yeah, yeah.

COMMISSIONER SCHMITT: We could mark it for identification.

MR. McNEIL: Sure, that will be fine.

COMMISSIONER SCHMITT: Have it with the transcript.

(Attorney General's Exhibit No. 1 was marked.)

BY MR. McNEIL:

Q Does this look like the tariff that's been filed with the PSC?

A Uh-huh (affirmative). Yes.

Q So I have a question. On the Minimum Bill line, there's a notation. I can't tell if it's plus UT 76 cents, and it increases the minimum bill by that. I apologize if I didn't see it in the record, but I did not see an explanation for that notation. Do you know what that refers to?

A I'm just trying to remember back.

Q And I didn't think it was on -- it's not on the currently filed one that I saw with
EXAMINATION

BY MS. STEGMAN:

Q Mr. Elam, you mentioned that the board is fairly new. When did the various members come on the board?

A Zach Engle, our treasurer, came on I believe in the fall of 2015. I came on in 2016, the fall. Steve Gunnell came on in '17, and then Brian Wells and Linda Bradley came on in February, March of this year, I believe.

Q Okay. And you kind of previously mentioned this culture of these are just kind of the issues you deal with with the water district and not being as proactive as you think that they thought to be. Do you think that this rollover in
the board has helped that culture?

A Absolutely, yeah. You know, when

I came on the board there were several board
members that had been there for a number of years, and I come on the board -- I was asked to get on the -- get on the board -- Dr. Holbrook, the veterinarian there, he had fallen ill and needed to be replaced, so that's how I got onto there.

But I feel when I came on, you know, I was relying mainly on everyone else that had been there that number of years. They knew -- they kind of knew what was going on. You know, you had Roy Collett and Kyle Risner, and Roy had been the chairman for a number of years. So, you know, I was kind of the new guy, not knowing anything about the water. So, you know, that first year, year and a half, I was just basically coming and asking really dumb questions trying to understand the overall process of things.

And then really the -- you know, the water loss really -- we talked about it. I can remember talking about it, but it seemed like in my mind it really became evident over the last two years around December of when we had these really bad cold spells, and we had main line breaks and things like
that, and -- and that's where -- I think that that's where our problems really started snowballing, was with those two lines. And, you know, we was always talking about trying to get caught up from those breaks in the winter, and we would go through winter, and then you hit summer, and summer things would be better, and we would kind of get maybe close to back to even, and then we would be back in the winter. We was just in this vicious cycle.

So with the new board members coming on, I feel like now the board is more engaged on day-to-day and they have a better understanding of the importance of how the water loss affects really everything. It affects our revenue, it affects our income, and it affects our ability to -- to be able to keep the premaintenance of our -- our infrastructure without having to go out every so many years.

When I was looking at this last night at home, I was just noticing how we done these bonds. Every couple of years there's a bond, there's a bond, there's a bond to fix things. And then, you know, I'm like, to me that's -- that's a Band-Aid, you know, of -- that's the only way we're able to
Improve, and I'm sure some of that -- I wasn't around at the board, but just seeing that, maybe that was new water lines going out to different customers and things like that.

But I think you made the point while ago of if we can get our water loss around 15, we'll save $150,000. You know, kind of my goal, if -- to the best of my knowledge, right now we have around $3.5 million in bonds that things are out there and they're selling these 40 years. But, you know, my long-term goal in the next 10, 15 years would be to have those -- to have this money, to get our water loss under control, and then to be able to have that paid off. I mean, that's -- again, that's long range, but that's kind of my goal.

Q With the business background of some of the new board members, do you think that the new board is more willing than the previous board to consider needed rate increases?

A I think so, yeah. I think especially with Brian coming on board, again, he's -- it's a family-owned business with Wells Group. They are in three states, multi-million dollar business, and he -- I feel like he's been a huge asset in just the three or four months there.
Because I even noticed him last night, the first thing he'll get into is he'll look at the profit and loss statement, and then he'll look at the water loss, and then he'll start circling, and then, you know, he'll -- when we get into the meeting and stuff, he's asking questions and getting engaged and figuring out pretty quick, you know, that we're -- we're going to have to do something, you know.

So I feel like with the addition of Ryan and Linda, I think -- I think we're going to be able to turn it around. I do.

Q    And I want to be conscious of the Commission's time here, but I wanted to follow up briefly.

You briefly mentioned the tornado at West Liberty. What year was that?

A    2012.

Q    And did the tornado have any impact on the water district that you believe could have impacted the water loss issue?

A    You know, at that time -- again, this is years before I got on the board, but that was one of my questions, is because at that time the water district, we had our own building in West
Liberty, and it was in the old Kennedy Library there beside the old high school. We owned that to my knowledge.

The tornado came through in 2012. It totally destroyed that building, and then we were moved to a county building that was purchased months after the tornado. And, again, I wasn't there, I'm just -- kind of from the best of my memory, we were -- the county water district was moved there.

And then at some point there was a lease agreement made with the county, and at that time there was -- I think the insurance money that we got for our building was around $460,000, give or take, ballpark. That money was turned over to the county, and a lease agreement was set up for the building we're in now for I think 99 years.

You know, that was one of my first questions when I came on the board, is, you know, what happened with all this -- you know, why are we now in this building. We're not -- and, you know, that money was used for -- went back to the county. You know, why didn't we rebuild, why didn't -- and, you know, it was kind of like the -- I think the judge executive at that time just came in and got the money.
So that -- again, I wasn't there. I know this is going to be recorded and stuff and, you know, I'm not trying to bash anyone --

COMMISSIONER SCHMITT: We've seen that before.

THE WITNESS: Huh?

COMMISSIONER SCHMITT: We've seen that before.

THE WITNESS: Okay. So I think -- I think, you know, I look back on it as that was $460,000, give or take and, you know, I got asked some pretty hard questions when we met with Mr. Hoff on -- I guess that building was tied into a bond and, you know, he -- he implied to me that, you know, he had a lien on that property and that building, that, if anything, he should have got that money to help pay that off. So I had to answer some pretty hard questions at that time about that.

And, again, you know, that's in the past. It is -- it is what it is. We're -- as a board, you know, this is the hand we've been dealt with, and we're going to make every effort to make this work. I feel --
again, I'm repeating myself, but, again, I feel very confident in our staff. I feel confident in the board we have now. I feel very confident in the engineering firm we're partnering with, and I feel like we're moving in the right direction.

MS. STEGMAN: No further questions.

COMMISSIONER SCHMITT: Anything else, Mr. Park?

MR. PARK: I have one follow-up question.

EXAMINATION

BY MR. PARK:

Q And I previously asked you if you knew what the value of the lost water was in 2018, and didn't realize that that information is contained in material that's going to be filed later today by the district.

A Okay.

Q Would it surprise you that for 2018 -- and this is the cost of lost water above that 15 percent threshold. We're not counting other water used, but this is just the lost water above 15 percent. Using the average cost of the two wholesalers, the district came up with about $214,000 in lost water expense for 2018 above that
MR. PARK: I have no further questions.

COMMISSIONER SCHMITT: Commissioner Cicero?

MR. CICERO: And your amortization payments are $240,000 a year, so I guess those numbers --

THE WITNESS: You know, looking at all this and -- it can be done. You know, the -- the pieces are there. It's just getting in there, kind of roll- -- the old saying of rolling up your sleeves and getting in there. And as a board we're going to have to do that, and -- but it can be done.

It's there.

MR. CICERO: Well, I don't know what your timeline is. I'm going to be asking Mr. Nesbitt what his thoughts are on how long it's going to take, I'm going to be asking Mr. Pelfrey what his thoughts are, but, obviously, the sooner you reach that target, the more money the district saves from putting water into the ground that doesn't return any value.

So it's important that your plan is
something that's workable and that there's a
timeline that provides for success with the
sooner the better results.

I don't have anything else.

COMMISSIONER SCHMITT: Dr. Mathews?

DR. MATHEWS: I don't have anything. Thank
you.

COMMISSIONER SCHMITT: I applaud your
enthusiasm for moving forward and trying to
fix it.

The only thing that discourages me,
and it's not just Morgan County, but a lot
of water districts, and unfortunately most
of them appear to be in Eastern Kentucky
where I'm from, like you, is that these
problems should never have happened in the
first place. If someone had managed
properly, that should never have occurred.
But like you said, it is what it is, and you
are just stuck with it.

THE WITNESS: Yeah. That's the hand we got
dealt, absolutely, sir.

COMMISSIONER SCHMITT: Mr. McNeil?

MR. McNEIL: I have nothing further.

COMMISSIONER SCHMITT: Ms. Stegman?
MS. STEGMAN: No questions.

COMMISSIONER SCHMITT: May this witness be excused?

MR. PARK: Yes, Your Honor.

COMMISSIONER SCHMITT: Thank you. You may step down.

THE WITNESS: If this wouldn't be out of order, could I ask one question?

COMMISSIONER SCHMITT: You may.

THE WITNESS: I don't know how these proceedings work and stuff, but you-all -- I have not had a chance to write it down, but you-all mentioned recommendations. Would it be possible after this that you-all send -- after you-all have reviewed everything to send recommendations back to us?

COMMISSIONER SCHMITT: We'll give you an order and do some things -- we'll have something written up later. It may be a little more than 30 days after we're finished.

THE WITNESS: Sure.

COMMISSIONER SCHMITT: Because we'll try to do it in coordination with the other ten.
THE WITNESS: Uh-huh (affirmative).

You-all did bring up a lot of great points --

COMMISSIONER SCHMITT: We'll have something.

THE WITNESS: -- things for us to look at. You know, I didn't have a chance to write them down, but I want to make sure that --

DR. MATHEWS: The video will be up this evening.

THE WITNESS: Okay. I might be getting some phone calls this afternoon.

DR. MATHEWS: If you want to revisit.

COMMISSIONER SCHMITT: We'll get an order and then there will be a written transcript that your counsel will have access to as well.

THE WITNESS: I appreciate you-all. Thank you.

COMMISSIONER SCHMITT: You may step down.

THE WITNESS: Thank you.

COMMISSIONER SCHMITT: Do you want to call another one? You got 20 minutes or so.

MR. PARK: Be glad to. I believe counsel for the district indicated that Mr. Nesbitt
perhaps had some -- not travel plans, but
since he's a private party here and at the
district's expense, it might make sense to
proceed with him.

COMMISSIONER SCHMITT: Mr. Nesbitt, would
you like to take the stand?

THE WITNESS: Thank you.

* * * * * * *

The witness, PAUL NESBITT, after first
being duly sworn, was examined and testified as
follows:

COMMISSIONER SCHMITT: Please be seated.

Ms. Stegman, you may ask.

MS. STEGMAN: Thank you.

EXAMINATION

BY MS. STEGMAN:

Q Would you please state your full
name for the record?

A My name is Paul Nesbitt.

Q Where are you employed?

A At a firm called Nesbitt

Engineering, Incorporated.

Q Okay. And are you the engineer

for Morgan County Water District?

A Yes, I am.
Q: And you submitted Direct Testimony on this matter on May 31st, 2019; is that correct?
A: That's correct.
Q: And to the best of your knowledge, is that testimony true and correct?
A: Yes, it is.
Q: And is there anything you'd like to add to that testimony at this time?
A: Not at this time.

MS. STEGMAN: No further questions.
COMMISSIONER SCHMITT: Mr. Park?

EXAMINATION

BY MR. PARK:
Q: Yes, good morning, Mr. Nesbitt. Would you please state your business occupation and business address for the record, please?
A: I'm an engineer, and business address is 227 North Upper Street, Lexington, Kentucky 40507.
Q: What is your understanding as to why your firm was hired by Morgan County Water District?
A: From what I -- the discussions we had with them when the request for proposal came
out, we're always looking to understand the needs
of the community, and the real issue was the lost
water issue.

Q And as part of the scope of the
services, will Nesbitt Engineering assist the
district in financing plans in terms of grants and
applications?

A Yes, we will, and we already have
been working on that.

Q Okay. You have heard reference
to a potential loan in the amount of $400,000 from
R&D?

A Yes.

Q And is that something -- that
application, is that being prepared?

A Yes, it is. The ADD district is
actually writing -- it's in conjunction with the
800,000-dollar ARC grant. When we were employed,
we went to Frankfort and talked to the Department
for Local Government. I know at one point there
was some discussion of a million-dollar RD
grant/loan combination. Of course, RD will only
give you 30 percent grant, 70 percent loan.

And we approached the Department for Local
Government with the issue, and they agreed to put
$800,000 in, and then -- so we then went to a $400,000 RD, of which it would be -- $280,000 of it would be loan and $120,000 of it would be grant.

Q   The $800,000 grant we've heard reference to, that would be from the Department of Local Government, is that --

A   Yes. It would be Appalachian Regional Commission grant administered by Department for Local Government.

Q   When do you anticipate these applications will be completed?

A   The application should be completed very soon. The ADD district, Gateway Area Development District, is working on the applications in conjunction with us. We have -- we have talked to all the agencies. We anticipate the ARC, Appalachian Regional Commission, to be approved by the end of September, the end of the federal fiscal year.

And we will have the applications for Rural Development in, and we anticipate that being also approved by the end of September, or at least reach some level of approval so the funds can be committed, because that's the end of the federal fiscal year for them also.
With Rural Development it will take some time. They have numerous steps and documentation, but we have already started working on them, including you earlier referenced the financial analysis, which they call the summary addendum, we already prepared most of that. We prepared the preliminary engineering report, other things that would come up.

And our goal is to have everything in place and have all the grants approved and have the funds ready and be ready to bid by the end of the year. It's a very enthusiastic goal, but you have to have one and go after it.

Q Will the applications for the grant and the RD loan identify the specific purposes for which each of those financing applications is being filed?

A Yes, they will.

Q And have those measures been identified at this point?

A We have preliminary. I mean, they are always subject to revision as we go forward, but yes, we have identified lots of the aspects that we're addressing in this initial application as part of the plan to improve the
infrastructure for Morgan County Water District.

Q      So I assume there would have to
be some level of cost estimates that --
A      Yes.
Q      -- go into that?
Do you know how it was determined how much
money to seek in financing?
A      I'm sorry, would you repeat the
question?
Q      Certainly. I think at this stage
we're talking about a $800,000 grant and a $400,000
loan, for 1.2 million in project financing. Do you
know how it was determined how much financing to
seek at this stage?
A      How much -- well, actually, the
RD will give a 30 percent grant. So of the
400,000, only 280,000 of it will be loan.
Q      As far as the 1.2 million total,
though --
A      Yes.
Q      Instead of borrowing 2 million,
how was the decision made to borrow 1.2? Did
you-all add up the number -- the cost of the
projects or?
A      Well, there's two ways to
approach projects as an engineer. You give me 5 million, I can spend it on water loss. The question is, what can we get.

And in looking at this, the problem is defining the scope of the nature of the issues that need to be handled. And in this initial project, is -- part of it will be a discovery process where other projects will be developed in subsequent phases. So it's a multi-year, multi-project approach.

But the first one is almost a discovery phase. And when you look at -- when we looked at it, we -- you know, there was talk of a one million-dollar project, and they were looking at taking all of it out with RD. And I felt like I could obtain better terms by approaching other agencies, and we were successful.

And the 1.2 gives these -- as part of it we're looking at replacing some water lines where we know there's water lines that need to be replaced. We're replacing master meters, or placing master meters within the system with SCADA that will report back to the office so that office personnel can look at the normal operating changes of flows in the system, and when those are breached then that will
certainly be an alert that there's some issue going on in that section of the distribution system.

Replacement of meters, they have no meters in inventory now. We're looking at replacing 200 meters, and then giving them the necessary -- not giving them. As part of the grant, purchasing the necessary equipment to do the meter testing, such as a bench test, and then we take the 200 meters that were taken out, bring them to the office, then they can test the meters and put them back into service if they are accurate? If not, they can rebuild them and put them into service.

Part of the grant will be the leak detection equipment, as well as training for it. The manufacturer of the equipment will be required to come in and spend a certain amount of time training the personnel for the water district on how to use it.

As part of this program we anticipated developing additional projects for funding next year. That program has been accelerated. We're dealing with -- perhaps we say rumors, but we understand that there's a possibility of an infrastructure bill coming out of DC; and if those projects are not developed, they could not receive
the funds. So in the next 60 days, rather than in
the next six to nine months, we will be developing
two other -- at least two other projects to put into
the system, because in order to receive grant monies
you have to have the profiles of the system and have
to have the problems defined.

Now, if we have to take those projects into
the next year funding cycle, those could be revised
as we move forward. We will be able to get
another -- at least one other project funded next
year, I'm very confident.

Q As far as prioritizing projects,
I think you mentioned the first step is identifying
where your problem is. And as far as spending,
who's going to decide what goes first? Are you
going to start a number of different measures at
one time? Is that your advice?

A This one is -- it's almost an
exploratory type project. In other words, we have
identified some areas where there is some high
degree of leakage, breaks, and so there's a certain
amount of line replacement. But in terms of
spending the total amount of money to replace lines
in the system, the problem is I don't know where
the hardest -- where the issues are at this point.
And part of this project will be identifying those issues as we go forward to make sure that future funds, as they come forward, can be put to use in the best place possible.

Q As part of that process will a cost-benefit analysis of any sort be performed on each of the proposed measures or purchases or investments?

A Yes.

Q You mentioned the benefit of exploring other financing sources, which you did. What other sources of potential financing are there out there that you considered?

A Well, the Community Development Block Grant program is available. The problem is that the water district is not eligible for that. We would have to have the county sponsor that, and the medium household income for the county as a whole does not meet the CDBG program. But if we could identify certain pockets of the county where something could be used, that program would be used also.

Kentucky Infrastructure Authority has a program, and, again, the fact is that they're not eligible for loan forgiveness because of the medium
income in the county, but that's -- but we would put those into the -- the next time there's a call for projects in Kentucky Infrastructure, which unless there's special infrastructure money coming down this fall, would be next spring, we would certainly put those in.

And we would pursue some additional Appalachian Regional Commission grants. There's been quite a bit of money from congress being placed in the Appalachian region, especially in distressed counties, which Morgan County is classified as a distressed county under ARC. So we would anticipate pursuing funds from there.

Funding, I always say, is like working a jigsaw puzzle, with the exception that the -- the size and shapes of the pieces change every day. So it's just a matter of going after it.

Q         There were water loss program goals attached to your prefilled Direct Testimony. Did you prepare these goals for the district?
A         Yes, I did.
Q         You think these goals are reasonable and attainable by the district --
A         Yes --
Q         -- based on what you know?
A         Yes, I do.
Q         Do you have any information regarding the status in meeting the short-term goal at this point? Is this something that you're following as well?
A         Well, the first meeting I went to, you know, short term and -- you know, short term usually is, you know, a year. It became very apparent after the first meeting, after they procured us as an engineering firm, that they were very serious and they were also struggling with almost immediate goals rather than short term. And that's not something -- the types of water loss programs we typically get involved in takes some time to develop.

So in talking to them we recommended bringing Kentucky Rural Water in to deal with the short-short-term, or almost immediate term goals. And in talking to them, it became very apparent they were extremely serious and very dedicated to getting this done. And so we came up with a three-step process, that being the first one trying to identify as many measures to save water and to conserve, to fix leaks.

And after that program started looking at
the lost water reports and looking at the water purchased, they have had some success with that already; not to the degree that obviously everyone would like, but there has been steps moving forward that is positive.

And then the medium range goals, which, again, typically, medium range would be longer out, would be at the end of this year, to have all the grant for the first one in process; and the longer range goals would be to start funding capital improvement projects, with at least one project next year. And I could see a total of six or eight projects being planned out in the future as part of this program.

Q: And you mentioned your firm's work on other water loss projects. What have you done in this area before for water districts, water utilities?

A: It became very apparent to me -- most of my practice is in Eastern Kentucky. My first job out of college, I was city engineer for the city of Hazard for five years. So I became very aware of mountains and the types of infrastructure issues that are there.

It became apparent to me in my career about
15 years ago that it's not that -- for the most part, I'm not saying this is a -- true of all, that we don't need a whole lot more water plants. We need to fix the water lines that we have in the ground.

We were the city engineer for the city of Jenkins. The city of Jenkins is not regulated by the Public Service Commission, but at that point they had 80 percent water loss, and the mayor turned to me in the council meeting one night and said, What are you going to do? And I said, Well, the only thing we can do is give you a brand-new water system.

I'm here to tell you that 12 years later they were at 12 percent. We have one more project, they will have a total new water system. We have master meters in the system, we've replaced meters everywhere. And the mayor mentioned to me two years ago -- they have a lake as a source, if you have ever been to Jenkins. He said they had a drought, and if they had not replaced water meters or went through the infrastructure that they had to do, that they would have had to start cutting people off during the drought.

To me that is the poster child of a city, a
community that grabbed the projects by the boot straps and did it well, and I'm very proud to have been involved in that.

Q: Have you done similar work for any water districts?

A: Well, Morgan County Water District?

Q: Or other --

A: Any water districts? We probably work more for cities than we do water districts, but we also do work for Breathitt County Water District as well. They're a fairly new system. They just started building lines about 12 years ago, so they do not have the water loss issues that you see in some of the other parts of Eastern Kentucky.

We do work for some cities that have water lines throughout the county, though, but we don't work as much for people in -- regulated by Public Service Commission as other engineers might.

MR. PARK: I have nothing further.

COMMISSIONER SCHMITT: Mr. Cicero?

*** ***
EXAMINATION

BY MR. CICERO:

Q So do you have a formal contract with the Morgan County Water District?

A We were procured. We don't have a formal contract yet, and there is a reason for that. It depends on which funding agency puts the money in, because each contract is worded differently, and I was waiting to make sure that we got the -- the Rural Development contract would be the standard EJC, and we will get that -- present that to them in the near future.

Q So how do you bill now?

A We -- our money is being -- will be paid out of the -- the project.

Q At what established rate?

A The -- what is called the RD curve. Are you -- I don't know --

Q I'm not.

A -- if you're familiar. The RD, Rural Development, years ago published a table, which we refer to it as the curve, which we have digitized and made a curve out of it; which means that when you bid a project, the amount of money that you get is based on the size of the project.
Now, they have later modified that to make them lump sum payments, but the lump sums are based on the curve, so essentially it's based on the curve.

Q       So is your compensation right now totally dependent on what happens with this grant and this loan?
A       Absolutely.
Q       So you're not receiving any compensation directly from Morgan County Water District for the services thus far?
A       No, sir. No, sir, not yet. I mean, there may be things that are identified in the future that says what I can -- you know, what we can do, and we might say, well, here's a project in -- we can't -- this is not going to be part of the grant, but we'll do that. But most of our compensation for almost everybody we work for comes out of the program itself.
Q       So do you have an established goal or timeline for reducing water to 15 percent, water loss 15 percent?
A       This first project, if we get it, would be constructed next year, and it would reduce water loss -- our goal was 5 percent. I thought I
was conservative in that because I prefer to beat the goal. Then the next project after that would probably reduce it some more. I -- there's no quick fix to these issues. We've discovered that in working on water loss programs. And I think you can see in three, four, five years down the road the district could be in really good shape, but there's no quick fix.

Q  So three, four, five years down the road, good shape means 20 percent, 25 percent?

A  I'm sorry, I can't hear what you said.

Q  I said five years down the road, four years down the road, and the district being in good shape means 20 percent water loss, 25 percent water loss?

A  Well --

Q  I'm trying to get an idea. Because right now somewhere between 38 and 53 percent depending on what year we talk about.

A  I know -- the philosophy of water loss, I probably differ from Public Service Commission on that.

Q  You wouldn't be the only one.

A  I probably don't want to get into
a discussion of water loss. Mountain rural water
districts are at an extreme disadvantage, because
if you look at the anticipated water loss that can
be done even in a well-operated system, and you
take the parameters as defined by AWWA, or in all
the textbooks on water loss, which we have them
all, there's -- one of the operating parameters is
you multi-- you put in a bunch of parameters and
you multiply it times the pressure. Well, that's
great if you're in an area where you don't have
uneven terrain.

Morgan County, for example, might be
carrying a higher pressure in their main lines so
that they can carry the water up to the tops of the
areas to where they can serve people. The
alternative to that would be to have a lower
pressure in your line and have a pump to pump it up,
but then you have to pay the electric cost and the
maintenance cost of the pump.

So if you're multiplying times the pressure
to achieve water loss, if the pressure is double,
which it probably is in the mountains, then you're
going to have double the anticipated water loss.

So there's -- there's established formulas
for that. And Jenkins, for example, I gave -- I
give talks on water loss quite often at these conferences. I use Jenkins as a poster child. Recently I did a case study in northern Kentucky, and I said, well, we got them down to 12 percent, and somebody in the audience asked the question, So they have a brand new system?

Yes, they do.

With all the bells and whistles?

Yes, they do.

And you only received 12 percent?

That's right.

And that's probably as good as you're going to be able to get with the type of terrain and the customers per mile and the pressures they have to operate in their system.

Q        That's why you do a hydrostatic study to determine what type of load or pressure that you're going to have in certain parts of the system, right, is that --

A        Yes. And one of the things we're going to look at for Morgan County, we're not -- I'm not certain that there are certain areas of the county that we can't lower the operating pressure in the system, don't know that, but that's something we're going to be looking at.
This first phase we'll be doing a hydraulic model for the entire county to look and see, say, well, what could we do, could we lower the pressures in certain areas, could we create different pressure zones that would allow us to do that. So the question is, what could we get them to, can we get them to 15 percent? Maybe, but I can't guarantee that because of the very inherent nature of infrastructure in the mountains.

Q I'll accept your answer with the caveat that when spending 1.2 million, or 5 million is the other example you use, usually there's some kind of targets that each phase of that spending represents.

A I understand.

Q And that's usually how the project --

A I can guarantee --

Q -- is justified.

A I can guarantee you we will make a difference.

Q We're not shooting for 35 percent.

A I know, but you're asking for a specific number. Can you get to 15 percent? I
would certainly hope so, but my dialogue was to emphasize the fact that there's a reason why the majority of the 12 districts that you have in here are mountain counties.

Q: I know, and our goal is to try to make certain that we can emphasize the reduction of non-revenue water, or however you want to identify it, but to make certain that if there is going to be money spent, that there are results from the money spent and there's some kind of timeline that says it's not a 20-year project, it's a much shorter timeline.

A: I -- I agree. One of the things we have found in our experience with water loss programs is that -- I have even done where the first project we did in a community had almost no impact whatsoever on water loss. Now, there's a reason for that, is because when you tie up that and you no longer have water leaking out of your system, the rest of your system is operating at a higher pressure; albeit a smaller one, but still two, three, four pounds per square inch higher because the water is not leaking out, and it's being pushed to that system.

Therefore, if you have a weak area in that
system, what you find is you get more leakage in the old system than you will in the new system that you put in. So it terms of -- this is based on my professional experience, and we have done this before.

Q I would agree with everything you have said so far.

A And so sometimes it takes two, three projects to really make an impact, and sometimes that's what you have to do.

Now, can we make an impact? Yes. Will the initial program do it? Yeah, because, you know, when we put in new meters, the chairman has already testified -- or mentioned, I'm sorry, he's not testified -- the fact that the meter program will make a difference. We will make a difference by replacing the meters.

The master meters, by putting them in the system -- for example, now they have master meters around the perimeter of the county. They don't have anything in the interior of the county. So if there's a leak, where do you look? Well, by putting some meters into the system around the county, we will be able to identify an area if there's a major leak. Say, well, the major leak is coming from this
region. In today's world, having text messages from SCADA systems that says that your flow is abnormal in this region, is really easy to do. It's a lot different than it was when I started my career. There's a lot of things that you can do now that are really neat.

Q  We already know from prior water districts that we dealt with that it all depends on the philosophy that you take when you do the repairs or when you do replacement, and we know that there's some districts that were being the Band-Aid approach, that every time there was a leak there was a repair to the pipe; found out if they just replaced sections of pipe it was a much better fix, and that when the pressure increased you just didn't pop another hole. That section of the line became functional and more -- the structural integrity was there so that you could continue to make improvements and reduce the water loss.

So it's just a matter of how you take your approach on what types of repairs and replacement you're going to do. So, yes, I understand there can be a level of fluctuation between whether you reach 30 percent in one project or whether it takes three projects. We understand that.
A In defining, you know, the previous question by Mr. Park, I believe is his name, you know, is there a cost-benefit, yes. We look at that, where can we spend money. We're not just spending money to spend money. Where can you spend money that will lower the cost structure to where -- if you look at the last three audits of Morgan County, 2018, '17 and '16, their purchased water went from 630,000 to 730,000 to 787,000, but yet their sales are consistent. We will impact that.

Q I hope so.

Talking about cost-benefit, you said that there's 200 meters you wanted to start with with replacement, and then you were going to look at those and do a refurbishment of those, and then put them back in the system?

A Yes.

Q And I also heard $160 for a replacement meter, brand new. Has there been a study done that says only do 200, or should you be looking at replacing all of the meters? I'm curious whether 200 came up, then why going back -- it would seem that it would cost more to take out, test, rebuild and replace a meter, an old meter,
than it would be to just buy a new meter with an extended depreciation life.

A It's not just buying a new meter in the first phase, because my experience, again, is the staff of a city or a water district is so -- they have leaks, they have issues they have to deal with, they have to read meters. There's lots of issues with a limited number of men, personnel.

I would recommend, and they have accepted this recommendation, that the contractor that's hired actually replaces the meters, so that you get it done quickly, get it in the ground. It's not just enough. $160 you're talking about is the purchase price of a meter.

Q Well, I --
A So --
Q -- I know that depending on what type of meters you obtain --
A Yes.
Q -- makes a big difference on what the cost of the meter is and what is included as part of that service --
A Right.
Q -- whether it's installed, not installed; everything impacts that. Is there a
value of what it costs to pull the meter by the
cOMPANY, test it, repair it and put it back?
Because that's the true comparison that you need to
make, isn't it?
A            Yes, it is.
Q            Okay.
A            So what we would do is start out
in a section of the county, and could we borrow
more money from Rural Development, another million
dollars, and do the entire county of meters? Sure.
But I'd like to get a better grip on where we are
in this first project before we do that.
But by doing the 200 meters, which is the
number we arrived at -- and it's a budgetary
constraint -- then we pull those meters back in the
shop, they want to buy the -- the bench testing
equipment so that they can test the meters theirself
rather than sending it off to a third party to test,
and then we can start a meter program so that they
can then replace the meters on their own.
It very well could be -- we'll decide in the
next few months -- that one of the next projects we
do next year will be maybe replace everything else
in the system. I don't know the answer to that now.
Q            And that's an honest answer, and
I appreciate that, and my only comment would be that as long as the county is going to take a look at the benefit and the cost between the two options, because if you got meters that are basically depreciated out, as you know, it doesn't make a lot of sense to spend a lot of money to put them back into the ground when their useful life is almost expired. So it's -- and I don't know what the age of their meters are.

A You can rebuild -- you can rebuild them to where the useful life is ten years again.

Q You can, but the technology advances, and you have already talked about SCADA and --

A Well --

Q -- remote read and those kinds of things. Older mechanical meters aren't as adaptable to do that as newer technology.

A That's a good point.

MR. CICERO: I don't have anything else.

COMMISSIONER SCHMITT: Commission Matthews?

DR. MATHEWS: I don't have anything. Thank you.

* * * * * * *

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EXAMINATION

BY COMMISSIONER SCHMITT:

Q         Mr. Nesbitt, are you familiar

with the depreciation schedule that the -- I guess

the water district has used in its most recent rate

case? I say that about the pipes, you know. There

are books available which -- and other studies,

which place a useful life of a polyethylene pipe at

a certain age, 50, 60, 75 years; iron pipe at a 100

years.

The reason I say that is because, I mean,

Morgan County Water District apparently was only

formed in 1992, and somewhere in this case there

were some charts that basically showed most of

their -- their older mains were less than 30 years

old.

A         That's true.

Q         But it's -- do you believe that

the problems, and if there are problems, and I

assume there are, that basically they're the result

of either excessive pressure or perhaps poor

construction, or poor location on, you know, edges

of slopes and so forth that resulted in leakage

that perhaps otherwise wouldn't have occurred on

flat land.
A I think all of the above, but back to your point is -- of course, I'll make the editorial comment, I always say it depends upon the age of the pipe as to depends where you're talking for. A PVC pipe supplier or a cast iron pipe supplier, they will tell you if the other was different. But my experience is that in a 50-year period, pipes need to be replaced, and these pipes are -- are fairly young in terms of the age.

I also know that during that time period there was a lot of PVC pipe that was put in the ground that was not quite as good as the PVC pipe that we're getting today.

They also -- in my professional experience, I found that when we lay a line out to a region, a lot of times -- years ago we used to do some very sophisticated analysis to see what the pressure rating of the pipe should be, so we could save the water district 50 cents a foot, because the pipe might be -- use a thinner wall pipe.

What I found is that later on we're extending that line, and what we find is we're running excessive pressure in the pipe that is not rated for that pressure. So it's been my philosophy for several years now, we put a high pressure pipe
rating in regardless of where it is, because, you
know, it helps in leakage and so on.

But one of the issues there might be that
some of the -- because of the higher pressure as
they extended the lines on out, that they have got a
lower pressure rated pipe in the ground. And we
hope to determine all that as we go forward. And
the only way to solve that is to either lower the
pressure or replace the pipe.

Q You noted, I guess, a few moments
ago that the water district had no meters currently
in inventory; is that correct?

A Yes, sir.

Q Have you had -- and I assume you
have had an opportunity to look at its inventory
overall. I assume that its inventory of parts,
equipment, meters is probably less than what you
would recommend.

A Absolutely.

Q Can you comment on that? Because
I know we have had other districts where we had
issues, and they said, well, we didn't have a pump,
you know. We couldn't do this and we couldn't do
that, and essentially they had no inventory at all.
But it -- it would be helpful to know what you have
seen about Morgan County's, because contrary to
what a lot of people believe, we actually usually
want to give more money than the water district
wants to take.

But can you tell us about the importance of
inventory and what their inventory looks like?

A Well, the inventory in Morgan
County, as they replace parts and used pipes and so
on, because of the lack of cash, they're not
replacing inventory as they go forward. They're
basically cannibalizing their inventory to keep the
system going, which later on turns into
inefficiencies, because if you have a break then
you've got to go somewhere. In the meantime you've
got issues that you have to deal with.

So those -- it's a very good point, and that
is that the inventory needs to be -- restocked is
the word I'm looking for, but the only way to do
that is to have the cash to be able to restock it.
And I think they're making moves towards making that
happen.

Q And to do that you have to have
rates at a sufficient level to be able to buy what
you need; correct?

A Absolutely.
Q        One last thing -- I don't know if
you have checked or whether it's available --
funding from abandoned mine lands up at the Energy
and Environment Cabinet, have you checked on that?
A        Funds for that?
Q        Yes.
A        Most of the AML areas that are
eligible for funding have been funded. There's not
a lot of AML funds available right now. They're
way down in their funding cycle. There's another
bill before Congress called the Reclaim Act, which
can change that entirely. But at this point it's
stalled in committee.

But the AML funds cannot be used for
maintenance and cannot be used to replace water
lines that are leaking, at least at this point they
haven't said that; only to construct new ones. And
we have been successful.

Q        Because that's the problem where
you -- most of the people are served by water,

isn't it?
A        Yes, it is. One of the things
we've been successful at, though, if there is a new
AML project, we have been able to convince the
powers over in that section that in order to get
the water out to the new line, they have got to
replace the water line all through the system to
the new water line, and we have been very
successful with that program.

In fact, part of the Jenkins money we got
was because they were replacing water lines from the
water plant out to the area, so we were able to
replace a water line -- a lot of water lines with
that.

But in terms of going to AML and saying we
have a problem, we have mines in this region, these
are -- these are citizens that would be eligible for
AML funding, but they're already on water supply,
they won't do anything with that.

COMMISSIONER SCHMITT: I have nothing
further. Mr. McNeil?

MR. McNEIL: I don't have any questions,
Your Honor.

COMMISSIONER SCHMITT: Ms. Stegman?

MS. STEGMAN: Just a couple quick
questions.

EXAMINATION

BY MS. STEGMAN:

Q       Will you be helping the district,

Mr. Nesbitt, in determining what level of water
rate increase they will need? I'm sorry, rate
increase?

A         Has anybody -- I'm sorry?
Q         Will you be helping the water
district in determining what level of rate increase
they will need?

A         Yes.
Q         Okay. And have you been in
communication with Morgan County's current judge
executive regarding the work you're doing with the
district and the current water loss?

A         Yes. In January I met with Judge
Stacey. He's an old friend of mine from a long
time ago. When he became elected judge, I went and
met with him and we talked about the water
district, we talked about other things that the
county needs.

And at that point he said the water
district, you know, he felt like because of the lost
water issue that, you know, he didn't feel like we
needed a rate increase.

I've had subsequent conversations with him
probably a couple months ago, where I told him that
given the current situation it's kind of a Catch-22.
Yes, you've got a lot of lost water, but you can't
deal with it unless you get a rate increase so that you can deal with it. And he -- he concurred with that and said that he felt like the water district needed a rate increase.

MS. STEGMAN: Okay. No further questions.

COMMISSIONER SCHMITT: Okay. Thank you.

Anything further, Mr. Park?

MR. PARK: Just one follow-up question.

EXAMINATION

BY MR. PARK:

Q       You referred to two projects that you hope to get in the pipeline for potential federal money that may come online next year?

A       Yes.

Q       On the KIA website under Water Resource Information System, there are two projects that are currently listed; one is for scattered water line replacement, pump station rehab, and that's -- that project is listed as pending, not funded.

There's another project for countywide water line extension that's approved but not funded, and that's for 1.23 million. The scattered line replacement was pending and not funded for one million dollar.
Are these different projects?

A The scattered water line replacement was -- is the one that we're working on currently, and that was the language that was used. When you start the process, you put some language in the project description, the project profile, and revise it as you go forward, because as the project gets fleshed out and defined, that will be changed again.

The other one I think you mentioned, if I remember, is an extension of the water lines into some unserved areas, and at this point I think the focus of the board is to deal with water loss rather than extending out into some other areas.

And that's the reason why I say there has to be additional profiles put in. Once we define what needs to be done in this first project as we move forward -- I've been working with them now three or four months, and there's a lot to be learned. And as we go forward, we will define some additional projects that will make an impact, whether it's meter replacement, line replacement, more master meters, whatever it may be, and put those in the system so they can be eligible for funding.

Without something in the system, I mean,
Q. So you anticipate two more projects to be put into the system?
A. I would like to have at least two more, yes, and have it available -- I'd like to have it available -- this fall I'd like to have it in the system. And the reason is, again, if infrastructure money comes down, the first thing you're going to do is go to those project profiles and fund. If you don't have a project profile in, it's too late. So we want to be ready.

And now, it may not happen, it would be next year, but by the next year I would like to have -- in addition to those two, to have another four or five stacked up behind it in terms of as we define it, that would be your long range goals of having systems, having projects stacked in sequence so that you get one funded every -- if not every year, every couple of years, anyway.

MR. PARK: No further questions.
COMMISSIONER SCHMITT: Commissioner Mathews? Commissioner Cicero? Anyone else, questions? May this witness be excused?

MR. PARK: Yes, Your Honor.
COMMISSIONER SCHMITT: We thank you, Mr. Nesbitt.

THE WITNESS: Thank you.

COMMISSIONER SCHMITT: You may be excused. Let's go into recess for lunch until 1:30, how's that.

(THEREUPON, A LUNCH BREAK WAS TAKEN.)

MR. CICERO: You're kind of stuck with me for the rest of this. I'm sure we'll make it through with no problem.

Okay, we're now back on the record.

Mr. Park, do you have an additional witness you'd like to call?

MR. PARK: Yes, we do, Your Honor. Steve Pelfrey.

MR. CICERO: Mr. Pelfrey, will you take the stand, please.

* * * * * * *

The witness, STEVE PELFREY, after first being duly sworn, was examined and testified as follows:

COMMISSIONER SCHMITT: Please be seated.

Ms. Stegman, would you like to do the initial?

MS. STEGMAN: I would.
EXAMINATION

BY MS. STEGMAN:

Q  State your full name for the record, please.
A  Steven Pelfrey.

Q  Where are you employed?
A  Morgan County Water District.

Q  What's your current position with the water district?
A  Right now, general manager.

Q  How long have you been general manager?
A  One year.

Q  One year. And prior to June of last year, what position did you hold with the water district?
A  Field manager.

Q  Okay. And how many years total have you been employed by the water district?
A  Sixteen (16) and a half.

MS. STEGMAN: Okay.

COMMISSIONER SCHMITT: Okay, Mr. Park.

MR. PARK: Yes, thank you.
EXAMINATION

BY MR. PARK:

Q Before being general manager, you were in field operations. Was your title field operations manager, or did you have a title?

A Yes, I was the field -- what they call field manager, and before that I worked for the city of West Liberty in water and waste water for 21 years. I've done this for 42 years.

Q In staff's report of its standard inspection conducted in 2016, you were identified as field operations, and do you recall staff's inspection of 2016?

A By Jason Pennell, probably?

Q Yes.

A I know it was before that other lady. Yes, I remember that.

Q One of the areas of concern that he noted in his staff report was that there were no test records for the master meters for sales to Campton or Frenchburg, or for purchases from Cave Run Water Commission. And, of course, that doesn't give you a lot of confidence that you know how much water you were selling to these two systems or how much water you were purchasing. Has that problem
We've not sold to the city of Campton for a long time. The one for Cave Run Water, Cave Run owns it. What we purchase water from Cave Run, Cave Run owns that meter there, and their latest -- or earliest test date was, like, 2016. I had my master meters all tested once a year. Don't matter what size they are.

Q Is Cave Run supposed to check in at least once a year in the contract?

A I never did see their contract. I seen the city of West Liberty's contract, but I've never seen the Cave Run contract. I know the city of West Liberty, according to our contract, says that we can ask them no -- at least once a year, not no earlier, you know, like six months or something, but we can ask them, I mean, the city of West Liberty, but we own all those meters now.

Q You own the meter at the purchase point?

A Yes. But not the one on Cave Run's site.

Q Not the one on Cave Run, okay. And that was last -- last test records you've seen were from inspection in 2016?
A         Yes, sir.

Q         Following the 2017 inspection, Public Service Commission staff cited the district for having excess water loss in excess of the 15 percent. In response, the district provided a written water loss control program dated December 28, 2016. Are you familiar with that?

A         No, sir.

Q         But you wouldn't know who prepared it or whether the board considered it?

A         I think I know who prepared it, but I didn't have nothing to do with it, if it was done in that time frame, was the --

Q         Who would have prepared it, do you think?

A         Probably Kyle Risner.

Q         Kyle Risner?

A         That used to be --

Q         He was the general manager at that time?

A         Yes, uh-huh (affirmative).

Q         The plan says that the district had changed out all of its meters, but that's not the case, is it?

A         Yes, in -- probably ten years ago
we was going to go with radio reads. Radio read, we had the old meters, you know, you get out, look in the box. We changed out every meter we had at that time.

Q When was that?
A Right at ten years ago.

Q From that -- ten years ago from today, or 2019?
A 2019, I guess, sometime in that -- I think it was in the fall of that year.

Q Fall of 2009, approximately?
A Uh-huh (affirmative).

Q Because we had understood there are at least 107 meters that were older than ten years.
A What happened, they run out of money on that project, and we had so many meters they changed the register out, but they didn't change the actual working mechanisms in the meter. We changed the register, though, I remember him doing that. But they didn't change -- and I guess they did -- yeah, they didn't. They just changed the register, changed the data to radio read. They didn't change the brass part of the meter, mechanical.
MR. CICERO: So just so I understand, because there's been some discussion about the meters. The meters themselves have been changed out or have not been changed out either ten years ago or recently or whatever; are the meters that are in place, how old are they? Whether they're --

THE WITNESS: 99 percent of them is probably right now becoming ten years.

MR. CICERO: So 99 percent of the meters are only ten years old?


MR. CICERO: Well, I'm just looking at their --

THE WITNESS: I bought them after that also.

MR. CICERO: Just the residential meters?

THE WITNESS: Yes.

MR. CICERO: What's the useful life of the meters?

THE WITNESS: Well, I always thought a meter ought to be good for 15 to 20 years, and our water loss -- I'm beginning to think a lot of our water loss is in our
meters right now, are they picking up low
flows, because we kindly went and random
tested a few last week, and out of ten that
I tested three of them was plumb dead.
Another boy tested 11, found three dead.
    I guess out of 20, 25 meters, we
probably found seven to eight meters that
are just not registering at all.
MR. CICERO: So initial testimony was given
by Mr. Elam, he indicated that he didn't
think there was much of a problem for that
type of water loss. But seven out of
25 meters is a little over 25 percent.
That seems to be pretty significant for
meters that are only ten years old.
THE WITNESS: I agree. The board didn't
know anything about this until last night
at the meeting, I was talking about it.
MR. CICERO: Is there a CPCM filed with the
Commission when they did the --
THE WITNESS: I couldn't hear.
MR. CICERO: Was there a CPCM filed with
the Commission when they did the
replacement of the meters ten years ago?
THE WITNESS: I'm sure there probably was.
I really don't know.

MR. CICERO: Do we know that, John?

MR. PARK: There was a construction case in 2005. Not that I'm aware of. I'm not sure what that refers to. We can look into that. But not that we're aware of.

MR. CICERO: We need to find out what the deal is on the meters.

I'm sorry. Please continue your questioning.

MR. PARK: All right.

Q Staff, again, cited the district for excess water loss after a 2018 inspection. In response the district stated that lots of road projects involving line relocates and blacktopping led to water loss. District states that it had a problem with getting accurate water use reports from contractors and fire departments.

How do these road projects use water? Is it just breaking lines or are they using it as part --

A Stealing it out of the water hydrants to water the roads down.

Q The contractors are stealing the water?

A The blacktopping crews, most of
the time, and the contractors will, too. You have
to watch them like a hawk.

And the fire departments, been aiming to
have a meeting with them the last few months, but I
was going to wait probably another week. Like you
said earlier, we will go by our tariff if they don't
start reporting. Every month Ms. Holbrook has to
call them and beg them, what did you use? You know,
we give them these reports, but they don't want to
cooperate with us.

So my suggestion is use our tariff, fine
them $50.

MR. CICERO: I was going to say, the
quickest way to have somebody respond is
just to issue them an invoice.
THE WITNESS: Yeah. I mean, you can just
be good to so -- people so long.

MR. CICERO: By statute you're required to
start collecting from them if they don't
pay. Your tariff says you are going to
charge them if they don't provide you with
an estimate. Well, if they're not going to
provide an estimate --

THE WITNESS: Yeah.

MR. CICERO: -- then you're obligated to
give them an invoice. It's not -- you
don't have a choice of being lenient or
whatever.

THE WITNESS: Yeah.

MR. CICERO: You need to provide the
invoice.

THE WITNESS: And we've also had problems
with some blacktop companies, had to shut
one plumb off back last fall. We caught
them -- I give them a meter that hooks on
the fire hydrant, it was on a road job, and
caught them filling their water trucks up
without using that meter, so I just cut
them plumb off.

MR. CICERO: Really just have a situation
where you issue a minimum invoice
regardless, since they don't attach the
meter, that says since you haven't done
what you're supposed to do, here's the
minimum billing?

THE WITNESS: We just more or less have to
take their word for it, how much they
actually get.

MR. CICERO: Well, but you provided a meter
and they didn't use it.
THE WITNESS: Yeah. That's whenever I cut them off and told them if we caught them again, we would prosecute them.

MR. CICERO: Well, you should.


MR. CICERO: That is theft.

THE WITNESS: And it wasn't only just one company. It's been two companies that I have trouble with every year.

MR. CICERO: Well, the same companies every year?

THE WITNESS: Uh-huh (affirmative). That's the only two in our area that does blacktopping.

MR. CICERO: And they violated more than once?

THE WITNESS: Yes, sir.

MR. CICERO: And you haven't prosecuted them?

THE WITNESS: It wasn't left up to me at that time.

MR. CICERO: Okay. Well, I guess that's one of those issues that going forward the new board will --

THE WITNESS: Yes. They will back me 100
MR. CICERO: Sorry.

BY MR. PARK:

Q Did the district try to recover the cost of that stolen water from the two road --

A The last time I caught one of them, a blacktop company, they went ahead and made it right. They come up with an estimate which I think was more than fair. I think they may have even paid us a couple hundred dollars more than what they actually got, because they wanted to go ahead and get water again.

Q That was my next question, is how do you determine water usage when somebody just pulls their water truck up?

A It's about impossible, unless you know what size tank they got and how much they are actually hauling.

Q Right. Are you aware that under the tariff the district can -- if a fire department doesn't submit timely usage reports, you can not only impose a 50-dollar fee, but you can charge for the cost of the water?

A No, I didn't know that. I read their tariff, but I didn't see that in it. I read
the 50-dollar fine, but I didn't read the...

Q   I've got -- yes, any city, county, urban county fire protection district that
withdraws water from the utility's system, if the fire protection fails to submit the required report
on water usage in a timely manner, shall be assessed the cost of this water. Shall be, so...

A   You know, you're dealing with rural fire departments, which I'm a member of two of them, or used to be. You know, we -- we just ask them to fill the form out. We don't charge them for fighting fires, for training or anything like that, but it all goes back to the political stuff. You hate to do anything to a fire department. You know, they're all volunteers. But then, again, you know, a thousand gallon of water is a thousand gallon of water. It don't matter if it's a customer stealing it or a fire department or a contractor stealing it, it's still -- nobody's reporting it.

MR. CICERO: I think all that you're requiring them to do is provide an estimate and the water --

THE WITNESS: It is.

MR. CICERO: -- is free. That's not a --
that shouldn't be an undue burden --

THE WITNESS: No.

MR. CICERO: -- to provide the estimate.

THE WITNESS: And we shouldn't have to call
them every month begging for them to fill a
form out or tell us. But it's went on for
years, though. I mean ever since I've been
there, it's always been like that.

MR. CICERO: That's what change is all
about.

THE WITNESS: Yes.

BY MR. PARK:

Q From your experience in
operations, what do you think the primary source of
the district's leaks are, the distribution main,
service lines, meter sits?

A Like I was saying a while ago, I
thought we had a whole lot of leaks. Rural Water
come down last month and helped us do one whole
west end of the county where we purchase water from
Cave Run Water Commission. We found one small
leak. We've got another 8-inch line, he found a
little something in it, but whatever it is it's not
coming to the top of the ground. And that's part
of the profile that Paul's working on, that we may
I never heard nothing to have anything to do. I didn't know what water loss was until 12 years ago, because at one time we sold to the city of Campton and sold Frenchburg a little water. Well, after they quit buying, we said, water losses, we don't know what you're talking about. And then as time went on, I learned what it was about.

But I think it's a number of different things. It could be service lines, like you was saying. I have found a few where the saddle, the tapping saddle had loosened up and was spraying out. But I think a lot of it's now possibly in our meters.

Q Your current role as general manager, is it your responsibility to supervise the employees of the district?

A Yes, sir.

Q Both field and office?

A Yeah.

Q And how many total employees do you currently have?

A Five.

Q Five?

A Six counting me.
MS. HOLBROOK: Five, yeah.

BY MR. PARK:

Q       Six counting you?
A       Yeah. We've had a hard time keeping employees.
Q       And why is that?
A       The pay, for one thing. And then in a year's time I lost four employees for drug testing.

I have a good group of employees right now that I trust, I trust with my life, I'll put it that way. But it's to the point these small companies like Morgan Water, and probably some of the others here, they just can't afford to pay what Morehead or Mt. Sterling or somebody like that can pay.

Q       So is there a --
A       And it's hard to keep --
Q       -- problem retaining them?
A       Pardon?
Q       A problem keeping them with the district once you've trained them?
A       Yeah. My oldest employee outside, he's been there a year and a half. I've been here 16 and a half years, Chernell has been here 16, or somewhere around there. And then
another office lady, she has been there 12 or 13.
But we're the oldest ones there.

Q And there's one office vacancy currently?

A Yes, sir.

Q Any vacancies in the field that the district is looking to fill right now?

A I need another one, but we just can't afford one right now, which -- whenever I retire I think they will be hiring another one plus a manager.

Q And if an additional field personnel is hired, additional person in the field, do you think it would be appropriate to sign that person to leak detection, leak fixing, or do you want to get a handle on the meter issue first?

A I'd like to see what's going on with the meters first, but also in that same project we're -- we're planning on -- and I know you-all do this, I think you-all have a lot to do with it, we was talking about getting a bench, meter testing bench. You-all certify people in those, don't you? Don't they have to go through you-all to get certified?

MR. CICERO: I don't think that's the case
BY MR. PARK:

Q I don't believe that's the case anymore.

A Oh, I thought that's how it was; okay.

MR. CICERO: It was at one time, but...

THE WITNESS: Okay.

MR. CICERO: The Public Service Commission, just like a lot of the state and local governments, has had employee reductions, and some departments --

THE WITNESS: Yeah.

MR. CICERO: -- have been eliminated, and I believe that was one of the ones that is not funded anymore.

THE WITNESS: Oh, okay.

BY MR. PARK:

Q There's a self-certification process.

A We're hoping -- I got that one gentleman they kept talking about earlier that's probably going to take over the outside. He will be doing a whole lot of the -- the testing, the -- looking for leaks, you know, and get him certified.
And I was telling them, you know, if we do get somebody certified and we get a test bench, we could test for other -- other towns, you know. Probably do it cheaper than what a bigger company can do it.

Q Do you feel like you have sufficient staff currently for daily operations of the district?

A No.

Q You need one office person and you feel like you need one additional in the field?

A Yes.

Q And the district currently uses a status system to monitor the master meters. What sort of shape is that system in?

A It's in pretty fair shape.

There's times I lose a -- loss of signal on some of my pump stations and stuff, but depends on the -- if it's cloudy or if it's raining or time of the year.

Q And the current process is just to monitor the master meters for any anomalies, and then send out your crew to look for the problem?

A I can -- which I was there whenever it was put in. Say, for instance, Sunday
morning, I got up, I can see my SCADA on my cell phone. I looked at it and I knew there was something going on. I had used, compared to other mornings, probably 40,000 gallon more water, purchased 40,000 more than what I needed to. And the gentleman we was talking about, Mr. Legg, I knewed he was at church, so I thought I'll wait until he gets out of church and we go start looking.

Well, before he got out of church this guy called me. We had set a new setting last month, but didn't have the meter in the base yet. The guy hadn't hooked his line up. He called and said, I have water running across the road. I said, How long? He said, Probably a day or so.

And went out there and it had blowed out of the back of the meter, the service line had, for some reason or another. I don't know why.

But I can -- that's what I keep telling Mr. Legg. I said, You keep an eye on the SCADA system, you will know what your system is doing. You know if you're using too much water or if something's tore up. If you pay attention to it, it will learn you a whole lot.

Q         Does the district have a policy
PSC Hearing
In Re: Morgan County Water District

for how frequently it tests its meters?

A No. I know my master meters --

like I said, I've got 3-inch and 4-inch. I have
them tested every year. I know -- I don't have to,
but I do. But as far as our other meters, we do
whatever -- try to do whatever the PSC recommends,
every ten years.

Q How do you track the age of the
meters and when you need to have your testing done
by?

A It's like I said, right now all
these was put in at the same time.

Q So they will all have to be
tested within ten years of that time, which should
be coming up pretty soon?

A Uh-huh (affirmative).

Q Refer to Morgan County Water
District's response to the discovery request dated
May 3. Do you have those with you?

A Probably. If I can find where it
would be in the book. 5th and the 3rd?

Q It would be the second data
request.

MS. STEGMAN: May I approach the witness to
help him?
MR. CICERO: Uh-huh (affirmative).

MS. STEGMAN: You said the May 3rd?

MR. PARK: Yes.

MS. STEGMAN: Yes, okay. He has that here.

THE WITNESS: Yeah, that's what I was looking at.

MS. STEGMAN: Yeah.

THE WITNESS: Okay.

BY MR. PARK:

Q If you could refer to the district's response to Question No. 19, and that's regarding master zone meters.

A Yeah, I know what you're talking about. I can't find it in here, but I know what you're talking about, though.

Q I'll ask a question if you need to refer --

A Go ahead.

Q How many zones is the district currently divided into?

A On our meter reading book we have 19 routes, but that's way too many. I think we could narrow it down to like four to five zones.

Q Four to five zones?

A (Witness nods head.)
But meters out in the certain sections of those zones; not just your master meters, but test bypass -- not bypass meters, but something like, you know, zone meters --

Q Zone meters?
A -- is what I'm trying to say.
Q How many additional zone meters do you think the district needs?
A Five to six, just guessing.
Q How is it determined how many additional bypass meters will be needed? Who will make that determination and how will they make that?
A It will be left up to me, or, you know, I keep the board involved in it. And I work with Mr. Nesbitt and also talk to Tim Blaine with Rural Water, and he was helping us with it, trying to narrow it down by the number of customers, so many miles of line.
Q Design your zones based upon that --
A Yes.
Q -- that information?
And we've heard discussion of the financing project. Outside of that testimony is there any
plan to purchase these master meters, or you just assume it's going to be part of this project?

A It should be part of this project.

Q Is it a short-term goal, long-term goal? How soon do you-all hope to get the system zoned the way you want it?

A I'd say it will be next year, because they don't expect to get anything done on this project until late winter.

Q And if you now refer to Question 21, which concerns the 811 call before you dig --

A Yes.

Q -- it states the district does not participate in the 811 call program.

A No.

Q And why is that?

A I called them about five years ago, and best I could get out of them, they charge you so much to be -- to be a member of that, and we just never -- never did sign up for it.

I hear that the Public Service Commission, they were working to possibly take over the 811. Is that the truth, or can you comment on it?

MR. CICERO: The 811 law was passed in
Kentucky by the legislature requiring the Public Service Commission to start regulating it, which we did in July of last year.

THE WITNESS: Yeah.

MR. CICERO: And we now monitor through relocates and calls and determine who is at fault in the case of a hit gas line, and then assess penalties per the statute that are required. As far as taking over the -- I know there's an 811 organization --

THE WITNESS: Yeah.

MR. CICERO: -- that's separate from the Commission, that we do some work with them, John, but we're -- I mean, we're not part of that. I don't know if that's part of the question you are asking him or not. From a regulatory perspective, we're just enforcing the legislation that was passed last year.

THE WITNESS: Oh, okay.

MR. CICERO: We're the ones that collect the fines, and we're doing some advertising and things like that to make people aware of the fact that they're supposed to call
before they dig, but other than that...

THE WITNESS: Yes.

BY MR. PARK:

Q         How do you-all handle excavators? Do you-all advertise to call you-all before you dig, or do you have a problem to deal with excavation?

A         Our county's kind of small -- well, it's small and it's not small. I've not had a -- say somebody gets out here in the middle of a field to dig and -- I've not had nobody cut a line in quite a while. Most of the time somebody lives around there will say, yeah, there's a water line there, you better call, you know, or if we see someone digging.

But 95 percent of the time people will call us and say, look, I'm wanting to do some digging or going to drill, something like that. I've had a few people call and say, I called 811 but you're not part of it. I said no. But they always find out who they need to call, though, seems like.

Q         So how many dig-ins do you think you would have in an average year where a pipeline or water line is damaged?

A         I might go two years and maybe
PSC Hearing  
In Re: Morgan County Water District

have one.

Q       All right. And is your current mapping system accurate enough for you to locate those lines?

A       Yes. Which I was there whenever a lot of the lines was laid, and I -- I know by just memory where -- I could probably take you to 95, 96 percent of our lines.

Q       As far as the maps that will be here after you retire, are they accurate enough to enable your successor to go out there and locate them?

A       Yeah. We still have plans from the previous projects, except we lost a lot of our old ones during tornado, but Joselyn -- I can't think of her last name. She works for Gateway ADD District. After, like, three years she found them in the archives division of water. And they're not the best ones in the world, but at least you can -- you can see them and tell what size line it is and stuff like that.

And Gateway ADD brings us a new map every year. It's not always accurate, and that's what I'm working with Nesbitt Engineering with, telling them, because just the other day they showed a line as a
4-inch, but really it's 8-inch. So I'm working with them on that to get an up-to-date set of maps before I leave.

Q Refer to the response to question 21B in the same set of discovery. That's concerning mapping. And the question is, "Provide an approximate date for completion of a mapping of the entire distribution system for service line and connections." And the response is, "About five years." Are you familiar with that?

A Yes.

Q And what is the basis --

A I was the one probably answered that.

Q Okay. What's involved in doing that?

A Time. And like I said, it's going to be hard to tell where a lot of the service lines is. Just because a meter is right here, that don't mean straight across the road is where they tapped it. It may be 20 foot here and they have had to run it up a ditch line. But just having the time and the manpower to do it.

Q So this is not actually something that's planned --
PSC Hearing
In Re: Morgan County Water District

1 A No.

2 Q -- it's just best-case scenario you can do it in five years?

3 A Yeah.

5 Q We previously heard testimony about water thefts. I'm going to ask you a few follow-ups. Have you ever dealt with the county attorney on these water thefts?

9 A I'm the only manager we've had that actually took people to court. I know I probably caught like six, and I think two that's actually possibly went to court.

13 Q You think two were taken to court?

15 A I'm pretty sure they settled. I don't think -- I don't know if they actually went to court. The lawyer got warrants on them, I do know that, and they did arrest one guy. He come and he paid for all the water, and he even hooked back up to our water.

And the other one, I'm pretty sure he went to court, but we never heard nothing from him. I don't know what the court decided to do. But now, some of the rest of them, like the information we sent to you-all on the ones we took to court, some
of them don't look like they was ever picked up by
the sheriff's department or whoever.

Q         Does the district typically send
a bill for that stolen water or pursue recovery?
It sounds like the one person paid you for the cost
of the water they stole.

A         Yes.

Q         But the other folks that have
been suspected of stealing, do you-all try to bill
for that or --

A         Yeah. Most of them just moves
off, don't know where they -- where they went.

Q         I'm going to refer to the
district's response to Question No. 24, and that is
the question about flushing equipment.

A         Yes.

Q         Several districts have reported
they had problems with their automatic flushing
equipment. Is that an issue that Morgan County has
experienced?

A         I've got one right now that's --
the controller is messed up. I've got a new one
ordered. I did have one one winter that it
actually stuck wide open and run for like a month
before we ever found it.
And they're supposed to put out 200 gallon a minute. I don't know if they actually will put out that much, but we knewed something was going on. We was looking for a leak. That's whenever I was field manager. Me and the manager and another guy that works with us was out looking for a leak, and just happened to run up on this automatic flusher stuck wide open.

Q Is that something the SCADA system would have alerted you-all to?
A No, sir. I mean, yes, I could have told -- that's the reason I was going out looking for a leak. I could tell I was using more water from the Cave Run side than what I normally did.

But, yes, every now and then you have faults with them, battery run down or something like that. I think I'm running six, seven right now, six or seven.

Q Does the -- previously we heard testimony that the district has some informal policies and procedures, maybe some written procedures. Does the district have an operation and maintenance manual that would cover the day-to-day operations of the district? For
example, set forth how you track the inspections in
your meters, the intervals at which you inspect
your meters, just various protocols for operations?
A          No, sir.
Q          Do you think that would be
helpful?
A          Yes. I think our new board will
have that done. I'll help them all I can while I'm
still there.
And, you know, like Mr. Elam was talking,
all of our board members is new, they got good
background, good business sense to them. I've
worked with different board members, but I think --
I'm thinking -- Mr. Elam thinks it may take three or
four years, but the way they're going now and the
way they're trying, should be able to tell a big
difference in Morgan County Water District within
another 12 months.
Q          Do you feel like you're getting
the support you need from this board?
A          Yes, sir. And the new judge, he
don't bother us unless we need him. If we call
him, he's there for us.
MR. PARK: I have no further questions.
   * * * * * * *
EXAMINATION

BY MR. CICERO:

Q Mr. Pelfrey, you seem like you have a lot of legacy knowledge and a lot of experience.

A That's about all I've ever done.

Q But when you talk about support from the board and you think there will be a lot of major changes, what's your estimate on --

A Pardon?

Q -- progress that you could see on water loss towards the 15 percent?

A I have always argued years ago that if somebody said they had 15 percent or lower, what they report, that they was lying.

Q Probably.

A I don't know if we'll ever see 15 percent or not, myself. If I can get it in the low 20s, I'll be tickled.

Q Okay.

A The last couple of months on the West Liberty side has been, like, 26 percent for the last two months. Before that it run 62 percent. I found a leak that I'd been looking for for possibly a year, and whenever I did find
it, it was under backwater, and it was in a road bore, a 4-inch line. Never had but two customers on it.

We just growed too big too quick back in the mid 2000s, from like 2003 on up. It was one project after another. Someone was playing politics with it. We run lines that shouldn't have been run, not at that time.

Q Politics are always involved.
A Yeah.
Q No doubt about it.
A And I know how it is. I mean, that's -- it's not only Eastern Kentucky, it's everywhere. Politics is everywhere.
Q So you were asked a question about policies and procedures, and you said that you would help as much as possible to develop those.
A Yes.
Q Has there been any discussion from the board regarding about what priority that has become within the organization, or is that something on the back burner that is not being concerned right now just because of other issues?
A It's kindly on the back burner, I
guess. I mean, that's a question Mr. Elam could probably answer better than me. But I'm sure if I asked the board, they would jump on it right now. And I'll probably -- if they still want me after I retire, I'll probably work for them a couple days out of the week.

Q Well, given your retirement plans, I'm sure that if you're going to help it will have to be sooner than later.

A Well, with the state retirement you know you got to sit out 90 days, or something like that, which I don't like cold weather no way. I'm froze to death in here, too.

MR. CICERO: Understood. At any rate, that's for the field policies and procedures. I'll ask Ms. Chernell when she comes up about the office policies and procedures.

Mr. McNeil, any questions?

MR. McNEIL: Just a few follow-up. Thank you.

EXAMINATION

BY MR. McNEIL:

Q Mr. Pelfrey, do you think water theft is a serious issue as to the district's water
PSC Hearing
In Re: Morgan County Water District

1. loss in total?
2. A  No, no.
3. Q  No?
4. A  It's a part of it, but it's a very small part.
5. Now, are we talking theft as of contractors or residential?
6. Q  Either, or both. I mean, which --
7. A  Residential more than the contractors.
8. Q  Residential is a bigger problem?
9. A  Yes.
10. Q  So how do you -- how do you-all go about finding, you know, cheater bars or stolen water? How do you do that?
11. A  If the meter has been tampered with, whenever we go read them it will throw a red flag out to us with our radio read. And a lot of times neighbors will tell on people if they see them out digging.
12. What we do, we lock them down, and about every week or so we go check it. Sometimes they took the lock off of it. We pull the whole meter, and then put a -- probably a padlock on it the next
And then used to, the previous board -- not the board we have now -- they decided to give the people -- you know, didn't want to step on nobody's toes -- we give you one chance; don't do this no more. Well, the new board give me the authority -- I don't even give them a chance anymore. They do it to us one time, I take them to court. I catch them stealing and I take them -- go get a warrant on them.

Q So, yeah, used to be there's an answer that you would lock the meter, you would send a letter, then maybe you might go back and pull --

A That's the way it used to be.

Q So now you're saying you find it, you might pull the meter, lock it, and pull it right away --

A Yeah.

Q -- refer it to the prosecutor?

A Yeah.

Q Okay.

A And I've had great response from our board for letting me do that, you know, because you know, it's costing everybody whenever they
steal it. It's...

Q       And then as far as the blacktop
1. contractors, are you confident that going forward
2. you can -- the district can take --
3. A       I don't know -- I don't know if
4. you can ever stop it or not.
5. Q       Yeah.
6. A       Just like a road contractor. If
7. they're out there and they see a fire hydrant out
8. in the middle of nowhere, they don't think they
9. will get caught on a country road or somewhere,
10. somebody is always going to hook to it. I'm sure
11. it happens everywhere.
12. Q       Is that something where if you
13. look at the SCADA, you can maybe figure it out, or
14. is it not enough?
15. A       No, not really, because if
16. they're just filling up a 500 or 1,000 gallon tank,
17. you're not going to be able to tell that right
18. off -- right off the bat.
19. Q       What about when you get -- if you
20. get master meters zoned right -- the right way,
21. will you be able --
22. A       Pardon?
23. Q       When you get master meters
zoned --

A  Yes.

Q  -- the right way, could you see it through that?

A  I would doubt it. It would be such a small amount.

Q  Okay.

A  I think it would have to be something that's carrying on for three or four hours. I don't think just -- I don't think you'd be able to tell, really.

Q  So I saw some of the -- in the materials submitted I saw some work orders there were reported leaks, and then it was written down didn't find the leak. How often is that the case, do you think?

A  During this wet weather we've had quite a bit of it, in the last couple years especially. And it don't bother me because at least somebody has seen some water in a ditch line or something. It's -- of a wintertime it's a whole lot easier to find one because we use a chlorine test kit; it shows chlorine, you know it's coming from somewhere. But now of a summer, whenever it's real hot, sunlight kills that chlorine pretty --
and the heat kills that chlorine fast.

Q       So you think when you get the
master meters zoned and you have the kind of
reporting, people reporting leaks that you have
now, could see a much better rate, finding those
leaks and fixing them?

A       It would be hard to tell. I
think it would help. There's no doubt it will
help. It will just tell me in that one certain
zone, you know.

Q       Right.

A       Yeah, I think it will help.

Q       So if it's in the zone, how do
you go about finding it?

A       If it's in the zone, what I would
probably do is drive from that master meter, if
it's three or four miles -- we have close to
400 miles of line, and we just drive the road or
walk. Sometimes our lines is way off the edge of
the road and sometimes you got to walk.

Q       So it could take a while?

A       Yes, sir.

Q       Okay.

A       But the main thing probably what
I'd do first, I pass that master meter, if it's a
big enough leak I'd shut a valve off the first one
I come to, and then try to -- try to find where
it's coming up through the ground.

Q         Right. So there was some talk of
Kentucky Rural Water having a sonar --
A         Yes, sir.
Q         -- listening device, and that's
something you might be getting through this
project?
A         Hope so.
Q         Is there anything besides that,
anything else that would help you-all in leak
detection that you're looking at?
A         We're putting in for a listening
device, too. I have an old one we've had for
years. Sometimes it works, sometimes it don't.
It's got like headphones you put on and a magnet.
You can put it down on a meter and you can hear if
there's water going -- you know, least small amount
of water you can hear going through a pipe or a
valve, either one.

It won't tell you -- the sonar thing will
tell you how much water is going through that pipe
at a certain speed and everything, but it -- you
can't hear it through it, I don't think, the one we
was using. You could look at a graph and tell, but...

Q Okay. The listening device is totally separate from the sonar equipment?
A Yes.

MR. McNEIL: Okay. That's all I have right now.

MR. CICERO: Ms. Stegman, do you have any questions?

MS. STEGMAN: Just a couple.

EXAMINATION

BY MS. STEGMAN:

Q Has there been some recent improvement in the water loss?
A Yes, in the last two months.

Q Can you tell us kind of from -- starting, say, in January of this year kind of how your water loss has trended on your water loss reports?
A How it's went down?

Q Yeah. What kind of -- what kind of difference are you seeing?
A Okay. Cave Run side, it'd been running up in the 64 to 65 percent. Right now it's 44 percent or 34. It was --
MS. HOLBROOK: I don't remember. Last night...

A       It was last night whenever we turned it in.

MS. STEGMAN: May I approach?

MR. CICERO: Yes, you may.

BY MS. STEGMAN:

Q       Do you recognize these two documents?

A       Yes.

Q       What are those?

A       This is the water loss report for June.

Q       And is May there as well?

A       Yes.

Q       Okay. And can you tell the Commission what the water loss was total from both Cave Run and West Liberty for May and June?

A       I was looking for Cave Run's. This is...

Q       These are the combined reports, so it will just be a total number at the bottom.

A       Oh, okay.

Q       Yeah.

A       Combined in May?
Q      Yes.
A      If I'm looking at this one right, 48.6 percent. Or down at the very bottom?
Q      Down at the very bottom.
A      Okay. In May is 27.5 percent and in June 26.8.

MS. STEGMAN:  Okay. And if I can approach, I'd like to --
MR. CICERO:  Yes, you may.
MS. STEGMAN:  No further questions.
MR. CICERO:  Mr. Park?
MR. PARK:  Real quick.

EXAMINATION

BY MR. PARK:
Q      Regarding the loss that counsel was just -- or the decline in the loss that counsel has just referred to, what do you attribute that to?
A      I fixed a few small service line leaks, and like I said, on the West Liberty side I fixed that one 4-inch line that was leaking in the casing, that the -- on the Cave Run side Rural Water helped us find one. And the ones that I did find over in the west end of the county, which -- where we buy it from Cave Run, they was all small
service line leaks, not just one big leak. We
found a service line leak that I know was putting
out probably 100,000 gallon a day through a
3/4-inch line.

MR. PARK: I have no further questions.

EXAMINATION

BY MR. CICERO:

Q  So looking at the two monthly
water loss reports, system flushing was responsible
for a very large portion of your water consumption
that's not considered water loss.

A  Probably, what was that, 3
million gallon or so?

Q  Actually, 4.7 on both of them.

A  Okay.

Q  Is that considered typical,
4.7 million gallons for system flushing?

A  Well, where I got like six or
seven of them running right now, then if we have
a -- have a major line leak, a transmission line,
we do a lot of flushing trying to get the air and
the chlorine.

Q  So this is probably high because
of identified leaks; is that an accurate statement?

A  Leaks and auto flushers together.
Q  What would be a typical flushing month?
A  February -- February or March.
Q  About how many --
A  Where I don't have them on -- there's two of them I run year-round.
Q  Okay. And so what would be the gallons associated with that flushing?
A  Depends on how many hours or minutes a day I have them set for.
Q  That's what I'm asking. What's a typical month? Just -- I'm not looking for a specific number, just an estimate.
A  This would be a guess, just a guess.
Q  Just a guess.
A  Maybe a million and a half, two million.
Q  So there's a lot of system flushing going on right now?
A  Yes, sir.
Q  Okay.
A  And some of it's for -- to keep the chlorine up and then water quality, too, for my THMs and HAAs.
MR. CICERO: Do you want to introduce this, or is this just for your information?

MS. STEGMAN: However you would like to do it, Commissioner, because we will be filing this electronically after the hearing. So if you'd like to introduce it, we can do that, or if you want it to just be filed after the fact, that's fine, too.

MR. CICERO: Why don't we just introduce it and call it Morgan County -- this is the first one you handed out?

MS. STEGMAN: Yes.

MR. CICERO: Morgan County Exhibit 1. Did you have a copy?

MR. McNEIL: I got a copy, yes.

MR. CICERO: I guess we're all set on that. You don't have anything else?

MS. STEGMAN: Nothing else.

MR. CICERO: May the witness be excused?

MR. PARK: Yes, your Honor.

MR. CICERO: You may step down. Thank you for your --

THE WITNESS: Okay. I'm just now getting in a talking mood. Thank you-all.

MR. CICERO: We have some hearings that go
on a lot later than what this one's going
to go.

Do you have another witness?

MR. PARK: I do not.

MR. CICERO: Would you like to call your
office manager?

MS. STEGMAN: Not unless the Commission has
questions.

MR. CICERO: I'd like to ask her a few
questions.

MS. STEGMAN: Sure.

* * * * * * *

The witness, CHERNELL HOLBROOK, after first
being duly sworn, was examined and testified as
follows:

EXAMINATION

BY MS. STEGMAN:

Q State your full name for the
record.

A Chernell Holbrook.

Q And where are you employed?

A Morgan County Water.

Q What's your current position at
the water district?

A Office manager.
Q         And how long have you been the
office manager?

A         One year.

Q         Okay. And prior to that what
position did you hold?

A         Utility clerk.

Q         And how many years total have you
been with the district?

A         Nearing 16.

MS. STEGMAN:  Okay.

MR. CICERO:  Do you have any questions?

MR. PARK:   I got a few that Mr. Reed has
provided to me.

EXAMINATION

BY MR. PARK:

Q         Does the district have any
problems with the accuracy of the AMR meters?

A         AMR?

Q         The radio read?

A         Well, if the radio is reading, it
will read correctly, if the meter is not dead.

Q         Do you have problems --

A         If we have problems -- we know
they're active in the system. We send the men out
manually to read them until we can fix the problem.
Q: Does the district experience many billing errors, or are billing errors an issue that you-all have to deal with, either over or underbilling?

A: That would all depend on the meter, if we got a defective meter, and then if we go out and find that it's got some crazy read, we correct it and rebill.

Q: Is that -- how often is that? Is that --

A: Rarely.

Q: -- a rare problem?

A: Do you know the status of the county attorney's prosecution, or looking at prosecuting water theft?

A: He does do that for us. We had one for sure, and we've had several others that's paid for their water, come clean and paid for the water.

And beyond that, we've also -- the only thing us girls can do in the office to help is we started printing this list off that one of the software people told us how to do, and that prints off the list of the non-active meters. They are read every month, even though they're not active,
and we printed off a list and we've slowly been
going through them and finding the customers who
have turned off -- turned on meters that should be
off.

MR. CICERO: So when you say non-active it
would be somebody that moved and they --

THE WITNESS: Supposed to be locked down,
yeah.

MR. CICERO: Okay. So they have had a
prior violation of theft or --

THE WITNESS: Not necessarily. They could
just, you know, moved out and somebody else
moved in.

MR. CICERO: And didn't --

THE WITNESS: Popped the lock and, you
know, never come in and activated it. And
we found -- so far we found two, I believe,
and both of them has come in and paid, and
one of them is upwards $1,500.

BY MR. PARK:

Q Does the district have much of a
problem with delinquent accounts?

A We've got quite a large bill of
delinquent accounts, but I'd say about 90 percent
of people pay their bill when it's due. Another 10
percent will pay past due, and maybe 3 percent
we'll cut off.

Q The ones that are cut off, do you
pursue collection efforts or turn those over to a
collection agency?

A Generally they will eventually
come in. We've got some that they'll move off or
they'll come in and put it in their spouse's name,
and that's a big pet peeve for us. And we know it.
We know it, but, you know, can't deny them water.

Q Are you responsible for
submitting the quarterly meters reports --

A Yes.

Q -- to the Commission? Okay.

I've been informed that we appear to be
missing the first and third quarterly meter reports
for 2018. Is that something you-all can provide?

MS. STEGMAN: The first and third --
MR. PARK: First and third quarterly meter
reports for 2018.

MS. STEGMAN: Okay.

MR. CICERO: He will provide you a written
request as a post hearing data request.

MS. STEGMAN: Okay.

MR. CICERO: If you don't get it from us in
writing, you don't have to respond. Same thing with the AG, if he has any requests he will put them in writing.

MR. PARK: That's all I have.

EXAMINATION

BY MR. CICERO:

Q So you are the office manager and you were previously employed there in other positions. And did the prior office manager decide to leave, or what happened that they are no longer there?

A They created my job, my position.

Q They created your job?

A Yeah. The other general manager left. When he left he just said, I want to give you this position because I know you're going to get more work thrown on you.

Q So have you had any experience with developing policies and procedures, purchasing, procurement, accounting, anything along those lines?

A No, sir.

Q There are places to find package-type, you know, boilerplate policies which you can go online and have. And it would be a good
start in order to put in place some procedures in order to make things run on a consistent basis so people -- I mean, it's just like you found the software. You were advised on the software that this program exists that could print out this list of customers that was supposed to be inactive and then you started to find out that there -- some of them were showing activity, and that's a good way to determine that somebody has either inadvertently decided to turn their water back on or forgot to come to you, or they're just out stealing. I'm not going to throw any stones.

A   Stealing.
Q   Probably. I try to give them as much benefit of the doubt as I can.

A   Yeah.
Q   At any rate, those types -- even like purchasing, I don't know how you -- do you own trucks, do you lease trucks?

A   Lease.
Q   Okay, you lease trucks. And they're assigned to employees?

A   Uh-huh (affirmative).
Q   When they fill up for gas, how do you determine that the purchase for that truck is
gas actually going into the truck and not --
A They put their mileage in.
Q So do they call and ask for approval or do they just turn in a receipt?
A Turn -- I gather all the receipts and put it with the bills.
Q There's no way to actually check and see whether the gas going in -- you're looking for reasonableness, I guess, but there's no firm that says if you're going to buy gas, you're supposed to use a piece of paper that says I'm going to match this up at the end of the month or whenever the credit card bills comes in. Does anybody reconcile gas receipts? I presume it's by credit card?
A Well, through Fleet -- through Fleet.
Q So it's a Fleet credit card --
A Yes.
Q -- that's part of --
A And the men bring in the receipts and I put the receipts with the statements every month.
Q Okay. So you are reconciling --
I don't know what you call that -- Fleet credit
card or whatever it is. It's just an example of
what I'm referring to in terms of other purchasing.
I don't know what is permitted by Morgan County of
their employees, whether they buy --

A We've got a purchase order book.
If they want to go get tools or anything of that
nature, they have to -- they have to have a PO for
it.

Q So who issues the PO? Do you?
A Steve or I.
Q One of the two of you?
A Uh-huh (affirmative).
Q So if a PO is issued and they
have called in and said, I need a PO because I have
to go to the hardware store and I need a new set of
sockets, and one of the two of you says, okay, that
sounds good, I give you -- I'm giving you a PO, you
issue it to the hardware store, the hardware store
says, here's your tools, and they send a bill
directly to Morgan County?
A Yes.
Q And then those are matched up,
and anything like that is done all by you or by
your clerical people or your staff?
A Myself.
Q Do you have a -- kind of like a book list of instructions that says in case you're not there this is how it's supposed to work?
Because, obviously, Mr. Retirement is going to be gone over there and that leaves you about one-half of the equation here that --
A Yeah.
Q I don't believe you're going to be there every day, so I'm just --
A I haven't had a vacation in three years.
Q Okay. There you go.
So I guess my point is, if nothing is ever memorialized in a set of real procedures, then things tend to get skewed. They get off track because there's no real roadmap to follow. People have a general idea what goes on, but the people that put in place those and make sure they work, if they're not there, then the people that remain have an idea what's going on, but they can't really follow the tracks on how it's supposed to work. So I'm going to -- I would strongly recommend that --
A Put it in writing?
Q Not just for the office, but for --
MR. ELAM: I'm taking note.

BY MR. CICERO:

Q It will probably be mentioned in whatever comes out in terms of -- especially the final order. I'm sure we're going to put something like that in for everybody because it's just good business practice to know what you're doing in terms of how you function on a day-to-day basis with the people you have.

People -- you know, your operations should be able to continue to run if, God forbid, somebody got hit by a bus, but things don't grind to a halt, or they don't become chaotic as you're working through it. So, I mean, that's the whole purpose of it.

So I guess I won't ask any questions on the theft and the other because there's no real procedure in place. It's just you're kind of --

A Find them and prosecute them.

Q Find them and prosecute them.

But even if you turn it over to the prosecutor, it sounds like in some cases if you don't hear back from the prosecutor, you don't know what happens to that customer; if they have stolen water, whether they have actually been prosecuted. I mean, I
don't know what you do on your side of the equation, whether you say --

A We need better -- better follow-up, sounds like.

Q You need better follow-up, plus you tag them and cut them off, or if they've stolen water -- I mean, you got these meters, and that's one of the meters that may continue to -- I mean, do you go out and make sure it's locked off as soon as you find out they're stealing, or what -- what happens?

A If they're stealing, we go ahead and pull the meter, if we don't trust them. If they've unlocked it once on us, we pull the meter.

Q Okay. All right. Well, I guess it would be good if you had some way to follow from beginning to end once you decided that somebody is worthy of being turned over to a prosecutor, that they have either been found not guilty, or got prosecuted and fined, if there is a judgment entered against them and the district qualifies for a payment. I mean, all those things would be pertinent, I would think, to long-term knowing whether you're due funds, not due funds or what the outcome was, at least, of any prosecution they
A    Yes.

Q    I would encourage invoices to be issued to the fire department if they are not going to provide an estimate of the water. And I understand how volunteer fire departments work. I applaud them for their work. But providing an estimate is not that big of a deal, I don't think. And I think the way to encourage them to comply with your tariff, which you have a tariff that says they are going to pay if they don't provide an estimate, is to go ahead and bill. And first I'd call up and say what the heck are you doing, but after a while they realize their responsibility and hopefully you'll receive the estimate so that you can have a better accounting.

A    Yeah, I just ask for them by the 5th, and that's not unreasonable.

MR. CICERO: I don't think asking for one anytime is unreasonable, but that's my opinion.

I guess that's all I have.

Do you have questions, Mr. McNeil?

MR. McNEIL: I don't have any questions.

MS. STEGMAN: No questions.
MR. CICERO: May this witness be excused?

MR. PARK: (Witness nods head.)

MR. CICERO: Thank you very much. I appreciate you coming up, even though you weren't requested.

Is there any other witnesses that you --

MR. PARK: No, Your Honor.

MR. CICERO: Ms. Stegman, anything else?

MS. STEGMAN: Nothing further.

MR. McNEIL: I would just move to admit my exhibit.

MR. CICERO: Certainly.

MR. PARK: No objection.

MR. CICERO: Pleased to admit AG Exhibit 1 and Morgan County Exhibit 1. I guess that will be 1 and 2; right?

MS. STEGMAN: Yes.

MR. CICERO: Morgan County Exhibit 1 and 2.

Is there any other business?

MR. PARK: Nothing else.

MR. CICERO: Okay. So that being the case, you will have your request for any post hearing data information out by -- let's see, today's Tuesday -- today's Tuesday the
9th. The 16th?

MR. PARK: Certainly. There's not much else going on.

MR. CICERO: I know. That's why I'm not trying to push it this week, because I know what's going on. But there's not that many requests to be made anyway. I don't think you had any.

MR. McNEIL: I had none.

MR. PARK: That's not a problem.

MR. CICERO: You may have two or three, I mean, at the most. So it will certainly be by that time or before.

MS. STEGMAN: Okay.

MR. CICERO: And then a response back by the 23rd. You're not going to have that much that you're going to have to supply.

MS. STEGMAN: Okay.

MR. CICERO: That being the case, the meeting is adjourned. Thank you.

* * * * * *

THEREUPON, the Hearing was concluded at 2:43 p.m.

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STATE OF KENTUCKY       
COUNTY OF FAYETTE       

I, JOLINDA S. TODD, Registered Professional Reporter and Notary Public in and for the State of Kentucky at Large, certify that the facts stated in the caption hereto are true; that at the time and place stated in said caption the witnesses named personally appeared before me, and that, after being duly sworn, were examined by counsel for the parties; that said Hearing was taken in stenotype by me and later reduced to computer-aided transcription and the foregoing is a true record of the testimony given by said witnesses.

My commission expires: August 24, 2019.

IN TESTIMONY WHEREOF, I have hereunto set my hand and seal of office on this the 10th day of August 2019.

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