



Matthew G. Bevin  
Governor

Charles G. Snaveley  
Secretary  
Energy and Environment Cabinet

Commonwealth of Kentucky  
**Public Service Commission**  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40602-0615  
Telephone: (502) 564-3940  
Fax: (502) 564-3460  
psc.ky.gov

Michael J. Schmitt  
Chairman

Robert Cicero  
Vice Chairman

Talina R. Mathews  
Commissioner

June 26, 2019

**TRANSMITTED VIA E-MAIL**


**PARTIES OF RECORD**

Re: Case No. 2019-00104

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter.

If you have any questions, please contact Brittany Koenig, Commission Staff Attorney, at 502-782-2591.

Sincerely,

  
for Gwen R. Pinson  
Executive Director

BHK/bhk

**INTRA-AGENCY MEMORANDUM**  
**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Case File No. 2019-00104

**FROM:** Brittany H. Koenig, Staff Attorney

**DATE:** June 25, 2019

**RE:** Informal Conference of May 15, 2019

Pursuant to Commission Staff's Notice of Informal Conference issued on May 14, 2019, an informal conference was held in this matter on May 15, 2019. Representatives of Bluegrass Water Utility Operating Company, LLC (Bluegrass Water), including counsel for Bluegrass Water, counsel for several wastewater treatment facilities requesting transfer of assets, and representatives of the Attorney General's Office of Rate Intervention (Attorney General) participated in the informal conference with Commission Staff (Staff). A copy of the attendance roster is attached.

Commission Attorney Richard Raff began the conference by acknowledging the informal conference was requested by Bluegrass Water to more efficiently respond to questions from Commission Staff and the Attorney General.

Counsel for Bluegrass Water began by explaining that Bluegrass Water is wholly owned by Central States Water Resources (CSWR). She explained that they are backed by private investors in New York. She explained that the objective is to transfer assets of the wastewater treatment facilities named and Bluegrass Water would become the owner and operator of those facilities.

Josiah Cox, President of CSWR, explained that Bluegrass Water plans to make investments into the systems they purchase and Bluegrass Water has no intention to acquire the assets and then abandon. Staff specifically asked if in the case of Airview, Bluegrass Water could offer the customers more than what Elizabethtown could. Counsel for Airview, Brocklyn, Lake Columbia, and Fox Run, Rob Moore, stated that Elizabethtown does not want to take over Airview and noted that Airview has an ongoing abandonment case at the Commission, Case No. 2016-00207. Mr. Cox indicated that Bluegrass Water could offer the customers service by entities that have the money to serve. Mr. Cox explained that the plan is to offer the customers better service by purchasing a large number of wastewater treatment facilities, using regionalization of services to provide better economies of scale, and eventually charging a unified rate to all customers.

Staff asked about requirements that a regional connection be made if there is one within a certain distance and asked about an engineering alternative analysis to rebuilding

the existing package treatment plants. Mr. Cox indicated that alternatives, such as connecting to a regional wastewater system would be considered and the utility would then continue in existence as a collection system, Staff also asked about how the owners would be absolved of obligations to the Department of Water and the Commission. Staff asked about the debt to equity ratio and the valuation of each. Staff also asked about the Missouri project CSWR had a few years ago where debt was issued at an interest rate of 14 percent. Mr. Cox indicated that CSWR now had new financial backers and the needed financing would be at reasonable rates.

Finally, Staff explained that data requests were to go out that Friday.

Attendees were advised that Staff would prepare and enter into the record a memorandum regarding the conference. The parties will have five days after the memorandum is entered into the record to file comments on the memorandum.

There being no further business, the informal conference adjourned.

Attachments

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED ACQUISITION BY )  
BLUEGRASS WATER UTILITY OPERATING )  
COMPANY, LLC AND THE TRANSFER OF ) CASE NO.  
OWNERSHIP AND CONTROL OF ASSETS ) 2019-00104  
BY P.R. WASTEWATER MANAGEMENT, )  
INC, MARSHALL COUNTY )  
ENVIRONMENTAL SERVICES, LLC, LH )  
TREATMENT COMPANY, LLC, KINGSWOOD )  
DEVELOPMENT, INC., AIRVIEW UTILITIES, )  
LLC, BROCKLYN )

SIGN IN

May 15, 2019

PERSON

REPRESENTING

Kent Chandler  
Rob Moore  
RICHARD RAFF  
John Lyons  
Josiah Cox  
Katie Tucker  
Mike Duncan  
Kathryn Eckert  
Jim Stevens

KYOA 6  
AIRVIEW, BROCKLYN, LAKE COMMUNITY,  
PSC Fox Rd  
PSC  
CSWR  
McBrayer  
for Applicants  
CSWR  
McBrayer for Applicants  
PSC





# HILLCREST, MISSOURI: ENSURING CLEAN AND SAFE WATER FOR A SUSTAINABLE FUTURE

After a Quarter-Century of Neglect

Prior to 2014, the water and sewer systems of the Hillcrest community in Missouri were in a complete state of disrepair, rife with state health and safety violations as well as potentially life-threatening pathogens. After 40 years of neglect and mismanagement, Central States Water Resources (CSWR) sought to acquire Hillcrest's water and wastewater facilities — and even prior to finalizing the acquisition — began an extensive six-month, \$1.2 million overhaul of Hillcrest's drinking water and waste management system. The effort ultimately improved the health and safety standards for Hillcrest's residents, elevated property values, and drove new investment into the subdivision, with 15 new lots developed since the acquisition.

## SITUATION ANALYSIS

In 2014, residents of the Hillcrest Subdivision (which is located two miles outside of Cape Girardeau, Missouri) were issued an eight-week continuous water boil order from the Missouri Department of Natural Resources (MoDNR) after the presence of bacteria such as E. coli and high turbidity levels were found in the community's drinking water. These contaminants were escalating health issues among residents.

A general enforcement action from the Missouri attorney general against Hillcrest's wastewater treatment plant also stopped national mortgage lenders Fannie Mae and Freddie Mac from loaning against homes in Hillcrest. This, along with other factors, effectively made it next to impossible for residents to sell their homes.

Hillcrest's drinking water plant and wastewater lagoon treatment plant — which were previously managed by Brandco Investments — had not been upgraded since the subdivision was first developed in 1973. And, as a result of that neglect, MoDNR formally cited numerous regulatory violations against Brandco for hazards including:

- Located in a known earthquake zone, the unsecured fresh water tank at the front of a subdivision was seated on top of a concrete slab and dangerously attached only by cables tied to a series of stakes. The tank's roof had unsealed openings, allowing bird feces and other pathogens to directly contaminate the community's drinking water, which tested positive for E. coli.
- The well house vent screen was rusted and dilapidated, allowing outside contamination into the water treatment area.
- The wellhead casing was unsealed, which allowed pathogens to come into direct contact with drinking water and the actual well supplying the drinking water.
- The water system only had six hours worth of backup drinking water (compared to the MoDNR-required 24-hour amount), and this caused frequent service disruptions.



## UPON ACQUISITION

- Numerous state safety and health violations.
- Residents unable to sell homes.
- Quarter-century without investment in systems.
- Community-wide boil order.
- Waste discharging in nearby creek.

## ACHIEVEMENTS

- Boil order lifted.
- Brought systems into full MoDNR compliance.
- E. coli removed from drinking water.
- Homeowners able to sell properties.
- New development begun.



- The wastewater lagoons' earthen berms were failing and in danger of collapsing, which short-circuited the sides of the system and discharged untreated waste with human pathogens into a nearby stream.
- The wastewater treatment lagoons' aeration equipment failed, which prevented the lagoon from providing basic treatment.
- The lagoons were not designed to remove wastewater nutrients and instead released harmful pollutants into the nearby stream.
- The sanitary sewer collection and distribution system had serious infiltration and inflow issues, causing untreated waste to discharge into the receiving stream during rain events.

Additionally, Brandco's owner (a retired manufacturing employee who had been certified as a water systems owner) attempted to disinfect the water with a makeshift chlorinator that included store-bought bleach, which exacerbated the hazard and endangered the community.

## CSWR ACQUISITION AND REVITALIZATION

CSWR applied to acquire Hillcrest's Brandco-managed wastewater treatment plant in 2014, but began remediation efforts before the acquisition closed to ensure the health and safety of Hillcrest residents.

CSWR partnered with MoDNR to install a temporary mobile disinfecting system in order to get the community off the boil order, repaired and sealed the fresh water tank so that bird feces and other contaminants could no longer impact the water purity, and conducted regular tests to prevent further contamination from fecal matter and other pathogens — improvements initiated before CSWR's acquisition was even complete.

MoDNR lauded CSWR's efforts before they owned the property.

"I would like to commend you for your efforts and attention to the water system in providing safe, potable water for the public to drink," said MoDNR environmental engineer Michael Wyatt. "I would also like to thank Mr. Josiah Cox, Mr. Ben Kuenzel, Mr. Brian Strickland and Mr. Terry Brady for their time and assistance during the inspection."

After receiving approval from the Missouri Public Service Commission, CSWR continued its \$1.2 million overhaul of Hillcrest's water systems, investing \$400,000 in clean drinking water systems and \$600,000 to wastewater facilities. CSWR's upgrades to the subdivision included:

- the construction of a new, 58,000-gallon bolted steel water tank that meets the Cape Girardeau area's seismic requirements;
- meeting the 24-hour emergency water storage requirement;
- refurbishing the hydropneumatic tank to meet MoDNR and OSHA (Occupational Safety and Health Administration) regulations;
- the revitalization of yard piping and the wellhead to ensure structural integrity;
- rebuilding the drinking water wellhead to ensure a safe supply;
- rebuilding the entire well house (including a complete roof replacement and the addition of a new, separate clean room for disinfection equipment);



- repairing the sewer collection system to remove sources of infiltration and inflow, which helps to prevent rainfall from causing any untreated waste discharge events.
- completely rebuilding the lagoon berms to stop short-circuiting and prevent structural collapse; and,
- building a new moving bed bio-reactor (MBBR), making Hillcrest the first area in the United States to have this cutting-edge technology to treat lagoon waste for nutrient removal.

Within six months, CSWR salvaged and dramatically revitalized Hillcrest's water and wastewater facilities, which had previously endured a quarter-century of neglect.



## RESULTS

Following CSWR's acquisition and revitalization of Hillcrest's water treatment systems, the community saw tangible benefits including:

- fifteen new residential lots added to the community (which was a huge improvement, as prior to 2014, Hillcrest could not expand, and residents could not sell their homes because of fines and sanctions imposed by MoDNR as a result of these issues);
- sewer bills that were lower than the neighboring city of Gordonville, which relied on public grant funding to improve its water treatment systems; and,
- the restoration of safe and reliable water by removing pathogens from the drinking water and from the adjoining community waterways.

"The drinking water supply has shown great improvement and appears to be very well operated and maintained," said MoDNR environmental engineer Michael Wyatt. "All personnel involved are to be commended for their efforts."



## ELM HILLS: RESTORING A SAFE, SUSTAINABLE WATER INFRASTRUCTURE FOR NEARLY 1,000 MISSOURIANS

### SYNOPSIS

For more than a decade, water and wastewater systems serving nearly 1,000 central-Missouri residents in the State Park Village and the Shriners Golf Course residential communities (formerly operated by Missouri Utilities Company) were in an utter state of disrepair. The dangerous conditions saddled residents with countless public health hazards, as confirmed by the fines and sanctions imposed by the State of Missouri. In 2018, Central States Water Resources (CSWR) purchased the systems – forming the Elm Hills Utility Operating Company – and after collaborating with the Missouri Department of Natural Resources (MDNR) and key stakeholders, initiated an overhaul of the systems. The effort restored the community's water infrastructure to MDNR standards, fostered new investment into the communities, and most importantly, ensured the health and safety of the residents by providing fundamentally essential safe and reliable water resources.

### PART I: THE SHRINERS GOLF COURSE COMMUNITY SITUATION ANALYSIS

Home to some 400 residents, the Shriners Golf Course residential community is situated just south of Sedalia, Missouri. In 2006, after being abandoned by its original owner, the neighborhood's water utility infrastructure was cited for "chronic violations" and health hazards, and it was placed into state-appointed receivership. Among other issues:

- As per MDNR regulations, the system was not removing environmentally harmful pathogens (BOD5, TSS, NH3, and fecal coliform), all of which were being discharged into public waters without a valid permit for more than five years;
- The Shriners Golf Course dammed a creek to create a water feature, but because of the unprocessed wastewater upstream, the new feature became a sewage pond;
- Rainwater collected in the sewage system, causing residents' basements to flood with untreated sewage;
- Raw sewage, including human waste, continually spilled onto the Shriners Golf Course; and
- Excessive sludge build-up reduced the wastewater treatment capacity by more than 50 percent.

In addition to wastewater malfunction, the community's drinking water had reached an acute health risk state:

- It was serviced by a single groundwater well (which is a violation, as communities of this size are required to have two sources of water) that pumped directly into a 1929-era rail tanker car that, through neglect, had accumulated four inches of rust sludge in the base;
- A lack of adequate mapping and domestic water meters prevented the community from locating damaged water mains;
- Water softeners were malfunctioning, causing residents' pipes to rust; and
- An exposed wellhead was cited as potentially enabling toxic chemicals to penetrate the community's water supply.



### CSWR ACQUISITION AND REVITALIZATION

After receiving approval from the Missouri Public Service Commission and MDNR, CSWR immediately initiated a \$1 million overhaul of the community's water and sewerage systems, with upgrades including:

- Renovating the lagoons to capture the full capacity of the system and prevent overflows;
- Installing a new bioreactor to process ammonia in wastewater;
- Using ultraviolet sanitation technology to remove *E. coli* from the wastewater that is then discharged into public waters;
- Running a water main to bordering Sedalia to serve as an emergency water supply;
- Sealing the exposed wellhead to prevent toxic chemical exposure; and
- Completely refurbishing the tanked car and coating it to prevent rusting, which allows it to continue to serve the community with water storage.



## PART II: STATE PARK VILLAGE

### SITUATION ANALYSIS

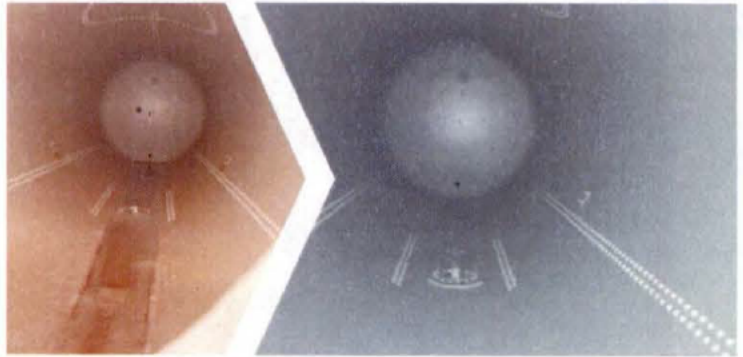
In 2018, some 180 families relied upon the wastewater treatment system in State Park Village (SPV) — a community bordering Knob Noster State Park near Warrensburg — despite the system being equipped to serve fewer than 100 residences. SPV's wastewater was treated by a small, poured-in-place, modified, extended aeration plant that used a floating, unapproved lagoon aerator to add oxygen to the plant, had a bar screen in the headworks, and used a chlorination system on the outfall for disinfection. SPV had been cited by MDNR and the Missouri Department of Conservation due to four primary public safety violations:

- SPV's overloaded wastewater treatment system was discharging waste into a receiving stream that created a 2,000-foot "sludge blanket" containing bloodworms all the way into a Knob Noster State Park recreational waterway;
- The plant was dramatically undersized and incapable of treating peak and even daily usage for wastewater contaminants;
- The system had exposed sewer conveyance lines, one of which was latched to an aging guardrail hanging cantilevered over a road that had been washed out by a lake failure; and
- An improperly designed disinfecting system allowed streams of pathogen-laden discharged waste into public waters.

### CSWR ACQUISITION AND REVITALIZATION

With public health and legal ramifications at stake, CSWR developed a comprehensive strategy to quickly and efficiently restore SPV's wastewater system. It included:

- Building a flow equalization tank, allowing for the moderation of wastewater flow;
- Gutting and replacing the wastewater plant tankage;
- Installing a fixed-film system and ultraviolet treatment to process ammonia and E. coli in wastewater;
- Eliminating the "sludge blanket" in the public waterway;
- Rerouting the sewer piping system to circumvent the dam; and
- Adding a filter screen between the water tank and wastewater plant.



### ELM HILLS RESULTS

The transition to the newly created Elm Hills Utility Operating Company was not just a nominal change; it was a tangible one for both the Shriners Golf Course and State Park Village communities. Upon completion of CSWR's improvement efforts, the communities witnessed a dramatic transformation in the quality and integrity of their water and wastewater systems. The 11-month undertaking not only liberated the communities' water and wastewater systems from their regulatory and legal troubles, it also — more importantly — ensured the health and safety of the communities.

Elm Hills has since been approached by two real estate developers seeking to build a property line adjacent to Knob Noster Park, a development that would have been previously impossible, and the repairs made to the water and wastewater systems brought the communities up to compliance with all MDNR and Missouri Department of Conservation public safety standards.

\*Kingswood Development, Inc.  
9201 Lena Lane  
Louisville, KY 40299-5400

\*Rebecca W Goodman  
Assistant Attorney General  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*Marshall County Environmental Services, LLC  
522 US Hwy 68 West  
Benton, KY 42025

\*Justin M. McNeil  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*Bluegrass Water Utility Operation Company, LLC  
500 Northwest Plaza Dr., Ste. 500  
, MONTANA 63074

\*LH Treatment Company, LLC  
134 Prater Drive  
Georgetown, KY 40324

\*Kathryn A Eckert  
McBrayer PLLC  
201 East Main Street  
Suite 900  
Lexington, KENTUCKY 40507

\*R Mitten  
Bluegrass Water Utility Operation Company, LLC  
500 Northwest Plaza Dr., Ste. 500  
, MONTANA 63074

\*Kent Chandler  
Assistant Attorney General  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*Lake Columbia Utilities, Inc.  
1007 Doric Circle  
Louisville, KY 40205

\*Katherine Yunker  
McBrayer PLLC  
201 East Main Street  
Suite 900  
Lexington, KENTUCKY 40507

\*Airview Utilities, LLC  
1706 Bardstown Road  
Louisville, KY 40205

\*P. R. Wastewater Management, Inc.  
72 Persimmon Ridge Drive  
Louisville, KY 40245

\*Fox Run Utilities, LLC  
1706 Bardstown Road  
Louisville, KY 40205

\*Larry Cook  
Assistant Attorney General  
Office of the Attorney General Office of Rate  
700 Capitol Avenue  
Suite 20  
Frankfort, KENTUCKY 40601-8204

\*Brocklyn Utilities, LLC  
1706 Bardstown Road  
P. O. Box 91588  
Louisville, KY 40205