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ADMITTED IN KY AND WV

June 3, 2019

Public Service Commission
P.O. Box 615
Frankfort, KY 40602

RE: Martin County Water District
PSC Case No. 2018-00017

To Whom It May Concern:

Enclosed please find Martin County Water District's Notice of Filing of its detailed evaluation regarding Alliance Water Resources' response to the District's Request for Proposals.

Thank you for your attention to this matter.

Very truly yours,

BRIAN CUMBO

BC/ld

Enclosure

cc: Martin County Water District
Hon. Mary Varson Cromer
Hon. M. Todd Osterloh
Hon. James Wilson Garner

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE)
MARTIN COUNTY WATER DISTRICT)
FOR ALTERNATIVE RATE ADJUSTMENT)
)

CASE NO. 2018-00017

NOTICE OF FILING

Comes the Martin County Water District (hereinafter District), by counsel, and hereby gives Notice of filing of the attached detailed evaluation regarding Alliance Water Resources' response to the District's Request for Proposals, pursuant to the Public Service Commission's Orders dated November 5, 2018, December 20, 2018 and February 21, 2019.



BRIAN CUMBO
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WATER DISTRICT
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CERTIFICATE OF SERVICE

This will certify that a true and correct copy of the foregoing was emailed & mailed, postage pre-paid, on this the 3 day of June, 2019, to the following:

Public Service Commission
ATTN: Brittany Koenig
P.O. Box 615
Frankfort, KY 40602

Hon. Mary Varson Cromer
Appalachian Citizens' Law Center, Inc.
317 Main Street
Whitesburg, KY 41858
mary@appalachianlawcenter.org

Hon. M. Todd Osterloh
Hon. James Wilson Gardner
Sturgill, Turner, Barker & Moloney, PLLC
333 West Vine Street, Ste. 1400
Lexington, KY 40507
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BRIAN CUMBO

EXHIBIT #1

PRP EVALUATION OF PROPOSALS

Evaluation of Proposals for Management, Operations and Maintenance of Martin County Water and Sanitation District

Report Date: 5/31/19
 Evaluation Date: 5/21/19 and 5/30/19
 Proposal Review Panel (PRP): Jayd Crum, Bill Davis, Jimmy Kerr, Nina McCoy, Jarrod Slone
 Guest: Mary Cromer
 Facilitators: Greg Heltzman and Eric Ratliff
 Document Prepared by Greg Heitzman
 Consensus Scoring Process Used by PRP

The Proposal Review Panel (PRP) will review and evaluate all responses to this RFP based on a set of weighted criteria outlined below. Each element
 9-10 = Excellent or Exceptional
 7-8 = Good
 5-6 = Average or Meets Expectations
 3-4 = Fair
 1-2 = Poor Unacceptable

Criteria	Description	Weighting	Alliance Water	Comments
1. Contractor and Key Personnel Experience	Demonstrated qualifications and experience of the Contractor in providing similar water and wastewater management, operations and maintenance services will be evaluated under this criterion. The qualifications of an on-site General Manager is a critical requirement of the Proposal. The success of the Contractor's experience and Key Personnel will be scored on a 1-10 scale.	15%	6	Alliance provided documentation in their proposal that they have the technical, managerial and operating experience and competency to provide water and wastewater services for Martin County. The Committee assigned a 6 for Contractor and Key Personnel Experience. The score was lowered by the committee since a General Manager was not specifically identified. In follow up questions, Alliance has confirmed they will provide an experienced interim General Manager from their existing staff and will hire an on-site General Manager after an initial transition period.
			Score ==> 9.0	
2. References	Each Contractor will be asked to provide three references for contract water and wastewater services from similar sized water and/or wastewater utilities. These references will be contacted by a representative of the Proposal Review Panel and the results scored accordingly. References Capability will be scored on a 1-10 scale.	10%	8	Three references were provided by Alliance and were contacted by phone. All provided excellent reviews of Alliance performance. The Committee lowered the score for References from a 9 to an 8 due to references not provided for water/wastewater work in Kentucky. Alliance has recently been awarded a operating contract for Hickman, Kentucky, but a reference check was not available as of May 30, 2019. Reference summaries are provided under separate cover.
			Score ==> 8.0	
3. Financial Capability	Each Contractor must submit financial records, including income statement and balance sheets for the years 2016, 2017 and 2018 (if available), to demonstrate their financial strength and ability to maintain their business through the life of the contract period. The financial records provided will be reviewed and scored. Financial Capability will be scored on a 1-10 scale.	10%	7	A review of the Dunn and Bradstreet financial summary provided indicates Alliance has the financial capability to manage and operate the Martin County water and wastewater system. The financial information provided was limited and it was noted that in FY 2018 Current Assets increased and Profit increased from FY 2017. Income from Operations declined from \$... to \$... Prior to awarding any contract, a more thorough review of Alliance's financial condition is needed, including a review of audited financials. The PRP concluded Alliance has adequate financial resources to manage the Martin County systems and assigned a score of 7 for Financial Capability, due to limited financial information.
			Score ==> 7.0	
4. Operations and Maintenance Plan	The approach to system management, operations and maintenance will be evaluated and scored. Consideration will be given to the management approach to operations, maintenance, customer service as well as the methods and best practices employed. Operations and Maintenance Plan will be scored on a 1-10 scale.	30%	8	Alliance provide a good summary of their approach to operations, including transition, daily operations, preventive maintenance, standard procedures, customer service, communications, equipment/software/training, budgeting and rate studies. Several topics, however were not adequately detailed. Specifically, the PRP was looking for detail on the approach to reduce water loss from the current 70 percent level to 15 percent, more detail and examples on performance metrics and detail on the developing the Management and Infrastructure Plan. The PRP assigned a score of 6 for Operations and Maintenance Plan.
			Score ==> 24.0	
5. Innovation	Contractors are encouraged to include innovative approaches and cost saving measures to operations and maintenance while ensuring compliance with all regulatory requirements throughout the life of the contract. Innovation will be scored on a 1-10 scale.	10%	6	Alliance provided a summary of innovative practices in areas of optimization of treated vs purchased water, fleet management, value engineering of projects, and technological innovations for GIS mapping and SCADA. The PRP was also looking for innovative approaches to reduce water loss and improve efficiency in distribution operations, customer service and reliable delivery of water. The PRP assigned a score of 6 for Innovation.
			Score ==> 6.0	
Subtotal ==>		75%	54	
6. Price Competitiveness	The cost to provide the requested services will be provided by each Contractor for the three years of the initial contract period. The Price proposals must be divided into two cost components, one for water and one for wastewater. The lowest priced proposal will receive the maximum points, with the higher bids scored proportionately lower.	25%	18.2	Alliance submitted a cost of \$... its cost does not include the total cost of operations and Alliance took exception to some items requested in the RFP... Impact analysis was prepared and indicates a total revenue requirement of... needed (combining Alliance Costs with costs that Martin County will retain (power, insurance, vehicles, audit, legal, etc.). This estimated... total revenue required exceeds the PSC approved revenue requirement of \$... I would require a significant rate increase for contract management and operations. The... the score from 25 points by 7.7% to 18.2 points... the cost premium and considering Alliance... the only proposal and more cost effective alternatives may be available. The PRP recognizes that negotiations may further reduce (or increase) the final cost of the contract services and a rate increase adjustment will likely be required to pay the contract management and operations premium.
			Score ==> 18.2	
Total Score ==>		100%	72.2%	
Maximum Points ==>		100	72.2/100 points	
RANK ==>			1	Note: Alliance water submitted the only proposal. Veolia and the City of Paintsville attended the February 5-6, 2019 Open House Facility Tour but did not submit a proposal. Several firms identified by the KY PSC were invited to submit proposals.

Note: Items 1-5 will be evaluated prior to opening the Price Proposals and MCOB reserves the right to shortlist the Contractor's after the review process of items 1 to 5 above and not open the price proposals of any Contractor deemed unqualified to perform the services requested or any non-responsive or incomplete Proposals.

EXHIBIT #2

MCUB REFERENCE
Q&A – CITY OF ST.
JAMES

Martin County Water District
Request for Proposal Evaluation
Reference Questionnaire

Mr. Lyle Thomas
573-265-7013
City of St. James, MO

1. How long has Alliance Water in providing services to your utility? (Water, waste water, or both).

The PWSP has been in contract for Operation and Maintenance since February 2018.

2. What is your current contract term, and how many years do you have remaining on your contract?

Their current contract is for 5 years with 4 remaining.

3. Do you anticipate renewing your contract?

Yes, at this time.

4. Have you experienced any unanticipated expenses that were not included in the annual contract fee? If so can you provide examples?

None.

5. During the contract term have you experienced any difficulty in resolving contract issues with alliance water?

No.

6. Have you had to mediate or litigate any issues with Alliance Water?

No

7. As Alliance Water complied with water quality, safety, employment, and other regulations?

Yes

8. Does your utility provide vehicles and/or equipment, or does Alliance Water provide vehicles and equipment in their contract fee?

Took ownership of existing fleet. New purchase will be by Alliance.

9. Does Alliance Water provide timely and complete reports to your governing board and regulating authorities?

Yes.

10. Did Alliance Water retain your workers into their contract operations?

Yes, retained the one employee that was left on staff.

11. Did Alliance Water provide a general manager to run their operations of your utility?

Yes.

12. Do you have a contract manager/administrator to assure compliance with contract obligations or does your governing board administer the contract?

Yes.

13. Does your utility retain any expense applications, such as power, water purchases, utilities, etc.?

Yes.

14. What areas of operations could Alliance Water improve with your operations?

None at this time.

15. Overall how would you rate the performance of Alliance Water (excellent, very good, good, fair, poor)?

Excellent.

Comments: The City had a \$ reserve account for repairs; at the end of the year, Alliance returned \$ to the City. The City retained ownership of the natural gas and electric utilities. The City will loan the use of heavy equipment to Alliance to make repairs. The City retained the billing and collection services; Alliance is in charge of the O&M of the water and wastewater system. Alliance reduced the City' overtime costs. The previous manager was using staff from the electric and gas departments to make repairs.

EXHIBIT #3

MCUB Q&A
FRANKLIN COUNTY
PWSP3

Martin County Water District
Request for Proposal Evaluation
Reference Questionnaire

Ms. Gail Bader
636-742-5200
Franklin County PWSP#3
Labadie, MO

1. How long has Alliance Water in providing services to your utility? (Water, waste water, or both).

The PWSP has been in contract for Operation and Maintenance since 1994.

2. What is your current contract term, and how many years do you have remaining on your contract?

Their current contract was renewed in 2018 for an additional 10 years.

3. Do you anticipate renewing your contract? N/A

4. Have you experienced any unanticipated expenses that were not included in the annual contract fee? If so can you provide examples?

None.

5. During the contract term have you experienced any difficulty in resolving contract issues with alliance water?

No.

6. Have you had to mediate or litigate any issues with Alliance Water?

No

7. As Alliance Water complied with water quality, safety, employment, and other regulations?

Yes

8. Does your utility provide vehicles and/or equipment, or does Alliance Water provide vehicles and equipment in their contract fee?

Alliance.

9. Does Alliance Water provide timely and complete reports to your governing board and regulating authorities?

Yes.

10. Did Alliance Water retain your workers into their contract operations?

Yes.

11. Did Alliance Water provide a general manager to run their operations of your utility?

Yes.

12. Do you have a contract manager/administrator to assure compliance with contract obligations or does your governing board administer the contract?

The Board and Alliance assure compliance with Contract Obligations.

13. Does your utility retain any expense applications, such as power, water purchases, utilities, etc.?

Yes.

14. What areas of operations could Alliance Water improve with your operations?

None at this time.

15. Overall how would you rate the performance of Alliance Water (excellent, very good, good, fair, poor)?

Excellent.

Comments: *None*

EXHIBIT #4

MCUB Q&A
LINCOLN COUNTY

Martin County Water District
Request for Proposal Evaluation
Reference Questionnaire

Mr. Dale McDonald
636-262-7782
Lincoln Co PWSD #1
Troy, MO

1. How long has Alliance Water in providing services to your utility? (Water, waste water, or both).

The PWSP has been in contract for Operation and Maintenance since 2011.

2. What is your current contract term, and how many years do you have remaining on your contract?

The contract is renewed annually.

3. Do you anticipate renewing your contract?

Yes

4. Have you experienced any unanticipated expenses that were not included in the annual contract fee? If so can you provide examples?

None.

5. During the contract term have you experienced any difficulty in resolving contract issues with alliance water?

No.

6. Have you had to mediate or litigate any issues with Alliance Water?

No

7. As Alliance Water complied with water quality, safety, employment, and other regulations?

Yes

8. Does your utility provide vehicles and/or equipment, or does Alliance Water provide vehicles and equipment in their contract fee?

Took ownership of existing fleet. New purchases will be by Alliance.

9. Does Alliance Water provide timely and complete reports to your governing board and regulating authorities?

Yes.

10. Did Alliance Water retain your workers into their contract operations?

No, the Water Board terminated all the employees before Alliance started.

11. Did Alliance Water provide a general manager to run their operations of your utility?

Yes.

12. Do you have a contract manager/administrator to assure compliance with contract obligations or does your governing board administer the contract?

The Board and Alliance assure compliance with Contract Obligations

13. Does your utility retain any expense applications, such as power, water purchases, utilities, etc.?

Yes.

14. What areas of operations could Alliance Water improve with your operations?

None at this time.

15. Overall how would you rate the performance of Alliance Water (excellent, very good, good, fair, poor) ?

Excellent.

Comments: Mr. McDonald stated that the Board could not have turned the system around without Alliance. Alliance promote internally. The District Manager and Area Manager attend monthly meetings.

EXHIBIT #5

ALLIANCE
RESPONSE
TO PROPOSAL
QUESTIONS



May 28, 2019

Martin County Utility District Board
c/o Mr. Greg Heitzman
via email

Re: Martin County RFP Proposal Q&A

Dear Greg:

Attached are the questions you proposed to Alliance about our proposal to manage, operate and maintain the Martin County Utility District along with Alliance's responses.

Please let us know if you need further clarification.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Geraghty".

Tim Geraghty, P.E.
President

cc: Terry Merritt, Director of Business Development
Tony Sneed, PE, Director of Operations

1. *Can Alliance elaborate on your proposal for providing a general manager on an interim basis and your plan to provide a permanent general manager?*

Tony Sneed, Alliance's Director of Operations, will serve as Alliance's General Manager on a full-time basis until a permanent General Manager is hired. Our expectations for the permanent General Manager will be significant operations and management experience and an educational background in public works, public administration, engineering or a related field. This person will be hired from outside the District's current organization. The General Manager will focus on the District's big picture programs, office operation, finances, budgeting and planning. Alliance will also add an experienced Operations Manager who will report to the General Manager and oversee the District's day-to-day field operations. After the new General Manager is hired, Tony will continue to be involved in the District's management and operation through ongoing reports and discussions with the General Manager along with regular site visits. Tony and the local management team will be further supported by our corporate Director of HR & Compliance as well as Alliance's accountants and engineers.

2. *Does Alliance Water have any current contracts with Kentucky water or waste water utilities, and if so, can Alliance provide a reference for a Kentucky utility?*

Hickman, Kentucky, is a current Alliance client community. In Hickman, Alliance serves as the water and wastewater operators and performs other general maintenance. The contract has been in place for a few months. In separate correspondence, we have provided contact information for Hickman's Acting City Administrator.

3. *Does the Alliance proposal include the cost of all vehicles and equipment, including fuel, maintenance, insurance? Will Alliance provide all vehicles and equipment needed to operate the utility?*

As a cost savings measure, Alliance has proposed to operate and maintain the District's vehicles and equipment. Fuel and maintenance, however, are included in our fee. Also included, to supplement the current fleet, are a few smaller vehicles, primarily for use by the management team. This item could be negotiated to use a different approach, but changes would likely impact our proposed fee.

4. *The Alliance proposal does not include a line item cost for a Management and Infrastructure plan as required by the Kentucky Public Service Commission. Can Alliance provide a cost estimate to develop the management and infrastructure*

plan as specified in the RFP in Section 3.4.1 of the Addendum? (Note this is required in order to secure the surcharge fee authorized by Kentucky PSC).

Alliance's proposal includes the cost of developing the plan. The plan completion date is dependent upon the contract start date.

5. *Can Alliance provide a commitment to reduce water loss from 70% to 15% (or less) within the first three years of the contract, and is the operating cost to reduce water loss included in your proposal?*

Alliance is committed to the goal of reducing water loss from 70% to 15% within three years but cannot guarantee meeting this goal as we would not have the authority to commit to funding recommended infrastructure improvements. Furthermore, Alliance will need to review more data for finding and reducing water loss. Alliance plans an aggressive leak detection program, meter changeout program and testing program along with other best management practices aimed at reducing water loss. The operational costs of the water loss program are included in our proposed fee. (Water loss is addressed on Page 34 of our proposal.)

6. *Does the Alliance proposal include monthly operations reporting to the Martin County utility board, including year to date expenses as compared to budget?*

Yes. Alliance's detailed monthly written report to the District will include financial records, operations updates, and water sales and loss details. Alliance's monthly reports are fully customizable so that the District receives the information it believes it needs to make informed decisions every month.

7. *Does Alliance require a commitment to operating both water and wastewater, or will Alliance consider entering into a drinking water contract first, with an option to operate waste water at a later date? If so, does your contract price for drinking water change?*

Alliance would be willing to partner with both utilities or just one. Because of some lost economies of scale, the price to manage and operate the water utility on its own would need to be reviewed and likely adjusted.

8. *It appears that Alliance proposed operating costs will require additional revenue through a rate increase. Do Alliance understand this will require approval by the Kentucky public service commission prior to entering into a contract?*

Yes.

9. *How flexible is Alliance on contract provisions, and is Alliance willing to negotiate contract language, such as provisions for:*
- a. *change order approvals*
 - b. *applicable law in Kentucky (section 15)*
 - c. *procedures and approvals for determining capital expenditures versus O&M expenditures*
 - d. *Costs for operations of the SCADA system, including power and communications*
 - e. *Costs for work management, meter reading, and safety compliance*
 - f. *Costs for any office rentals*

Alliance is flexible on many contract terms and would be willing to negotiate.

10. *Does Alliance recommend the District retain a contract administrator, to administer the contract, manage power and utilities, manage consultants, manage the capital program, administration of construction program, contractors, etc. if not, does your proposal included managing these items?*

Alliance has included these management functions in its proposal. We do not believe the District should hire any of the outside managers listed in this question. To further clarify, however, Alliance's expectation is that the District will continue to hire outside engineering consultants for project permitting, design and construction inspection.

11. *Does Alliance cost proposal include costs associated with submittals and testimony/travel to the Kentucky Public Service Commission?*

Yes.

12. *Will Alliance provide indemnification to utility, similar to Indemnification provided by utility to Alliance (section 8.1)*

Alliance is flexible on many contract terms and would be willing to negotiate.

13. *Will Alliance provide termination for convenience to utility, similar to termination for convenience provided to Alliance, in section 9.6.*

Alliance is flexible on many contract terms and would be willing to negotiate.

EXHIBIT #6

ALLIANCE
RESPONSES
TO SUPPLEMENTAL
QUESTIONS

Martin County RFP
Supplemental Questions for Cost Proposal Evaluation
5/29/19
Alliance's Responses in Red/Bold Text 5/29/2019

1. Are payroll taxes included in Line 2 of your cost proposal for Labor Related Overhead? If not, will the utility be required to pay payroll taxes and workers compensation for Alliance employees?
Yes, Line 2 of Alliance's proposal includes payment of payroll taxes and workers compensation insurance.

2. Line 15 on the water proposal includes \$ _____ or overhead and line 15 on the wastewater proposal includes \$ _____ overhead. Can you explain what is included in this cost that is not included in Line 2, labor Related overhead of \$ _____ or water and _____ for wastewater?
Labor Related Overhead costs included in Line 2 include payroll taxes, employee benefits such as health insurance and retirement plan funding, workers compensation insurance and social security; all for field and office employees assigned directly to the local utilities.

Overhead costs included in Line 15 include labor, benefits and expenses for Alliance's corporate staff, services and programs such as human resources, accounting/finance, safety programs, and information technology (IT). Most notably, the proposed General Manager will be funded from this Line 15 overhead expense.

3. Section 5.9e in the contract states that utility expenses for electric, gas, telephone, water and sewer, SCADA, circuit communications and alarms expenses are not included and must be paid by the utility. Section 5.9l excludes expenses for office and field service building, including rent and utilities that must be paid by the utility. Your line item cost proposal includes \$ _____ or utilities, rentals, leases. Can you explain what is included in your Cost Proposal for this expense category, and what the expense the utility will be responsible for?
"Utilities, Rental, Leases" in Line 9 are our estimated costs for staff cell phones. The utilities are responsible for all other utility expenses. Note that the utilities are also responsible for any cell phone expenses related to SCADA communication.

4. Your cost proposal includes a Chemical Limit of \$ _____ and a Maintenance and Repair Limit of \$ _____ Equipment of \$ _____, and a Materials & Supplies of \$ _____ for a total of _____. The MCWD actual expenses in 2016 for these items was \$ _____ ('_____ higher). The proposed contract also includes a limit of \$ _____ for un-budgeted individual repairs and extraordinary costs (Section 5.4). From your experience, should the utility include a contingency budget for these items and if so, what percent of Chemical, Repair and Materials/Supplies Budget would you recommend for an annual for the first three years of the contract?
Alliance's goal is to spend below the expense limits and most often with new clients, it does so. However, because of high variability between utilities and our lack of familiarity with your utilities, we cap our costs with these specific expense items. We would be willing to negotiate the cap amounts or the individual repair amount, if desired. In any case, the utilities should use its judgment to determine if (and if so, how much) it should budget for (1) repair expenses above the proposed Maintenance & Repair Limit, (2) chemical costs above the Chemical Limit,

(3) individual repair expense items over \$ _____ and (4) other extraordinary expenses. Just as importantly, note that the Repair Limit works both ways – if we underspend, the utility gets refunded the difference.

The budgets for materials and supplies (e.g., small tools, lab supplies, paper, routine computer & copier expenses, pump lubricants and uniforms) and non-capitalized equipment are not capped and are Alliance's responsibility.

5. Does the operations and maintenance contract include labor, material and equipment costs for replacement of broken, failed, or inaccurate meters? Or are the expenses considered capital costs paid by the utility?

Our proposed contract includes labor, material and equipment costs for replacement of broken, failed, or inaccurate meters subject to the Repair Limit. Meters for additional (new) customers and meters that are part of an overall meter replacement program are capitalized and the responsibility of the utility.

6. Are maintenance of wastewater grinder pumps and septic tanks located on private property included in the cost for operations and maintenance (as referenced in Section 3.1 of contract). Alliance would provide maintenance of septic tanks and would provide maintenance and replacement of utility-purchased grinder pumps (similar to water meter replacements). Section 3.2 is included so that it is clear Alliance's ability to perform the work is subject to the utility having rights of entry onto the customers' private properties.

7. Can you identify what is included in your Miscellaneous Contract cost of \$ _____ and is this expense item adequate to cover water testing and other miscellaneous contract costs? Is a limit set for this cost item?

Yes, Miscellaneous Contract Services (Line 11) includes lab and other outside services. The costs are Alliance's responsibility and are not capped/limited.

8. Will the utility be responsible for payment of insurance, licensing, maintenance and repair of utility owned vehicles and equipment?

Alliance is responsible for maintaining and repairing utility-owned vehicles and equipment subject to the limits described in Question 4. The utility is responsible for insuring and licensing its owned vehicles.

If the utilities prefer that Alliance provide primary insurance on the utility-owned vehicles, Alliance could provide it at an additional cost. In our experience, our vehicle insurance costs per vehicle are often less than that obtainable by our clients. This is an item that can be explored now or at any point in the future.

9. Section 7.4 of the contract requires the utility issue a Letter of Credit of \$ _____. Will Alliance consider an alternative security for this requirement, such as a payment bond or insurance?
Yes.

10. The Proposal included developing a rate study, referenced on page 35 in Section IV. Is the cost to develop the rate study included in the cost proposal, or is that considered an extraordinary cost?

The cost for a rate study is included in our cost proposal.

11. The Proposal includes discussion of Technological Innovations on page 37 of Section V. Are these items (GIS mapping, business software, and SCADA software) included in the cost proposal, or are they extraordinary operating or capital costs?

The costs of software and its setup are considered extraordinary and/or capital costs and are the responsibility of the utilities. Alliance's price includes the cost of evaluating alternatives, price negotiating, supervising implementation, operating and managing the software.

12. Are new main extensions and service/meter connections for new customers considered a capital cost and not included in the cost proposal?

New main extensions and service/meter connections for new customers are considered a capital cost and are not included in the cost proposal.

EXHIBIT #7

COST & RATE IMPACT ANALYSIS

Martin County Water District Cost Proposal Evaluation
Cost and Rate Impact Analysis

5/31/19 Final
 Prepared by Alan Vilines (KY Rural Water) and Greg Heitzman (BlueWater Kentucky)

2018 FINAL PSC ORDER 11/2018		ALLIANCE PROPOSAL 5/17/19		Comments/Description
2016 Revenue		2016 Revenue		
Unmetered Water Sales	\$	Unmetered Water Sales	\$	
Metered Water Sales	\$	Metered Water Sales	\$	
Sales for Resale	\$	Sales for Resale	\$	
Total Sales of Water	\$	Total Sales of Water	\$	
Misc. Service Revenues	\$	Misc. Service Revenues	\$	
Other Revenues	\$	Other Revenues	\$	
Interest Income	\$	Interest Income	\$	
Total Other Water Revenues:	\$	Total Other Water Revenues:	\$	
New Revenue		New Revenue		
2018 General Rate Increase	\$	2018 General Rate Increase	\$	
Total Operating Revenue After 2018 Case	\$	Total Operating Revenue After 2018 Case	\$	
Expenses Included in Final PSC Order		Alliance Proposed Expenses		
Salaries and Wages - Employees	\$	Labor Costs	\$	
Employee Pension and Benefits	\$	Labor Related Overhead	\$	
Taxes Other Than Income (Payroll)	\$	Taxes Other Than Income (Payroll)	N/A	Payroll taxes included in LRO, School and property taxes paid by utility and added below
Purchased Water		Purchased Water	N/A	See adjustments below
Power		Power	N/A	See adjustments below
Chemicals	\$	Chemicals	\$	2016 Chemical expenses = \$
Contractual Services - Other	\$	Maintenance & Repair	\$	maintenance and repair costs than 2016 actual
Rental of Equipment	\$	Equipment	\$	than 2016 actual
Materials and Supplies	\$	Materials & Supplies	\$	over Materials and Supplies costs than 2016 actual.
Rental of Bldg./Real Property	\$	Utilities, Rental, Leases	\$	SCADA and internet expenses not included in Proposal in section 5.9e of Contract
Professional Contract Services	\$	Professional Contract Services	\$	Alliance confirmed M&I Plan; inc. M&I Plan Costs, will self perform M&I Plan, estimated at \$
Contractual Services - Water Testing	\$	Misc. Contract Services	\$	Water testing is included in Misc. Contract Services
Insurance - Vehicle & Liability	\$		Not Included	See adjustments below
Insurance - Worker's Compensation	\$		Included	Included in Labor Related Overhead
Insurance - Other	\$	Insurance and Bonds	\$	Does not include insurance for vehicles, property, liability
Miscellaneous Expenses	\$	Postage	\$	
Transportation Expenses	\$	Fuel & Travel Expense	\$	
Other	\$	Misc. Dues, Advertising	\$	
Subtotal	\$	Subtotal O&M	\$	
		Alliance Expenses for Overhead and Profit		
Overhead	N/A	Overhead	\$	
Profit	N/A	Profit	\$	
		Subtotal Overhead and Profit	\$	
Total Cost approved by PSC for Comparison to Alliance Proposal =>	\$	Total Alliance Proposal Costs =>	\$	Total Cost Submitted by Alliance

Other Required Expenses		Other Required Expenses		
Purchased Water	\$	Purchased Water	\$	By Contract based Water rate
Purchased Power for Pumping	\$	Purchased Power for Pumping	\$	Rate
Contractual Services - Acct. & Legal	\$	Contractual Services - Acct. & Legal	\$	016 Power Loss
Bad Debt Expense	\$	Bad Debt Expense	\$	
Depreciation Expense	\$	Depreciation Expense	\$	
		Operational Reserve for Repairs	\$	Operational Reserve for costs exceeding repair limit line item proposal for non-repair equipment. Difference in proposal to 2016 actual
		State Utility and Board Fees	\$	Rate for Rep
		Office Rental	\$	Rate
		Water/Sewer Service	\$	State Utility and Board Fees
		Trash disposal	\$	Office Rental for 2016
		Website Hosting	\$	Water/Sewer Service for
		Phone and Internet Service	\$	Trash disposal for 2016
		SCADA/Telemetry Communications	\$	Website Hosting cost for 2016
		Property, Crime, Marine, Auto, Liability Insurance	\$	Phone and internet service for 2016
		School on Property Taxes	\$	SCADA/Telemetry Communications not included in Alliance proposal, cost unknown at time of evaluation.
		Contract Administrator Services	\$	Insurance Cost not covered by Alliance for 2016
		Premium for Water Contract Gely	\$	Rate collected on water bills and paid if increase in 2015 with higher water rates approved November 2015
		Annual contract increases after Year 1	\$	Contract Administrator at 8 hours per week, contract compliance, coordination of professional services, capital projects, etc.
		Letter of Credit Requirement	\$	Estimate 2.5% of Labor and LRD total c
Subtotal	\$	Subtotal	\$	Total increase over 5 year for Year 2 Cost increase using rate study/rate administrative rate
Total Operating Expenses	\$	Total Operating Expenses	40.5% \$	from Bank (does not include any withdrawal from LOC); alternatively, obtain a Payment Bond for value of the contract.
Debt Service		Debt Service		0.5% Premium Over PSC approved Operating Expenses
Avg. Annual Principal and Interest Payments	\$	Avg. Annual Principal and Interest Payments	\$	
Additional Working Capital	\$	Additional Working Capital	\$	
Total Debt Service	\$	Total Debt Service	\$	
Total Revenue Requirement	\$	Total Revenue Requirement	30.8% \$	6.6% increase over PSC approved Revenue Requirement
Net Margin	\$ 0	Net Margin	\$	
		Additional Revenue Requirements Through Additional Surcharge of Rate Increase		
		Additional Revenue Requirement	\$	
		No. of Bills in 2016		
		Additional Surcharge / Bill	\$	M&I Surcharge needed to fund premium for contract management, operations and maintenance. PSC approved a \$3.16 M&I Surcharge pending submittal of M&I Plan
		Optional Rate Increase Needed	\$	average Operational Rate Increase Needed in lieu of Surcharge
		Current PSC Approved Monthly Bill for 4,000 gallons	\$	from bill
		PSC Approved Debt Service Surcharge	\$	for 4,000 gallons per month
		Current Average Monthly Bill with Debt Service Surcharge	\$	Debt Service Surcharge approved by PSC, per customer, per month.
		Pending Management and Infrastructure Surcharge	\$	average monthly bill, including Debt Service Surcharges gallons
		Management and Infrastructure Surcharge	\$	M&I Surcharge pending final PSC approval after submittal of M&I Plan by October 2019
		Estimated Average Monthly Bill with Contract Operations	\$	Projected M&I Surcharge needed to fund premium for contract management, operations and maintenance.
		Percent Increase over Current Approved Rates for Average Monthly Bill of 4,000 gallons		Projected average monthly bill for 4,000 gallons using new M&I Surcharge.
		Actual 2016 Expenses Not Allowed by PSC (due to high water loss, exceeding 15%)		
		Purchased Water	\$	
		Power	\$	
		Chemicals	\$	
		Subtotal not included in Rates	\$	5/31/10 Final

EXHIBIT #8

PROPOSAL REVIEW PANEL RECOMMENDATIONS

MEMO

TO: MARTIN COUNTY UTILITIES BOARD (MCUB)
MARTIN COUNTY WATER DISTRICT (MCWD)
MARTIN COUNTY SANITATION DISTRICT (MCSD)

FROM: PROPOSAL REVIEW PANEL (PRP)

SUBJECT: RESULTS AND RECOMMENDATION FOR CONTRACT
MANAGEMENT, OPERATIONS AND MAINTENANCE

DATE: 5/31/19

CC: GREG HEITZMAN, BLUEWATER KENTUCKY
ERIC RATLIFF, BIG SANDY ADD

A single proposal for Contract Management, Operations and Maintenance was received from Alliance Water Resources (Alliance Water), of Columbia, Missouri on May 17, 2019. The Proposal Review Panel (PRP) consists of five members: Bill Davis (Martin County Judge Executive); Jimmy Kerr (Chair MCWD); Jaryd Crum (MCWD), Nina McCoy (Chair, Martin County Concerned Citizens), and Jarrod Slone (Martin County Resident).

The PRP met on May 21, 2019 to open and review the sole submittal from Alliance Water. The PRP reviewed the qualifications of Alliance Water's submittal, including contractor experience, references, financial capacity, operations and management plan and innovation requests set forth in the Request for Proposals.

After completion and scoring of the qualifications on May 21, the PRP opened the cost proposals and directed Alan Vilines (Kentucky Rural Water) and Greg Heitzman (BlueWater Kentucky) to conduct an analysis of the cost proposal to determine the impact of contract management, operations and maintenance on the available revenues and water rates of the MCWD.

On May 30, the PRP met to complete the review of references, answers to questions submitted to Alliance Water, and the cost and rate impact analysis. The PRP completed the evaluation and scoring of Alliance Water's submittal. The PRP evaluation, including the proposal, qualifications, references, scoring and responses to questions are included with this memo. From the review of the qualifications, the PRP has determined that Alliance has the experience and qualifications to effectively manage, operate and maintain the MCWD water system. The overall score, including the cost analysis, is

72.2/100 or 72.2 percent, equivalent to an overall "Good" rating (7-8) using the rating scale included in the RFP.

Mr. Heitzman presented the cost and rate impact analysis to the PRP on May 30, 2019. The analysis included costs submitted by Alliance Water and costs that will be managed and retained by the MCWD, such as power, purchased water, insurance, administrative, financial audits and other various items. One major item of note, is that Alliance will require the MCWD secure a \$ _____ Letter-of-Credit, and MCWD's current financial condition and credit rating may preclude MCWD from obtaining a LOC. Alliance Water has indicated they are willing to consider another form of security, such as a payment bond.

The cost and rate analysis indicates a significant cost premium of _____ percent above current revenues and the Kentucky PSC will need to approve a rate increase or a higher surcharge in order to provide sufficient revenues to enter into an operating contract with Alliance Water. This cost premium may be mitigated through the negotiation phase (June 19 to July 19, 2019) prescribed by the Kentucky PSC. Further, some of the costs included in the analysis may not be allowed by the Kentucky PSC to be included in the rate base. Never-the-less, it is concluded from the cost and rate analysis that the \$ _____ Management and Infrastructure Surcharge, approved by the Kentucky PSC on November 5, 2018, will not be adequate to cover the cost of contract operations by Alliance Water and a significant rate increase or additional surcharge will be required for contract management and operations. The cost and rate impact analysis is enclosed with this memo.

Although the KY Public Service Commission, in its order dated November 5, 2018, has directed the MCWD to hire a contract manager to operate and maintain the Martin County water system, there may be a cost effective alternative to consider. The alternative would be for the MCWD Board to request the Kentucky PSC approve the \$3.16 surcharge and provide the revenue to hire a full time, qualified General Manager to operate and maintain the water system. The \$3.16 surcharge generates approximately \$132,676 annually. This surcharge funding is sufficient to hire a General Manager (including overhead) and prepare a Management and Infrastructure Plan to reduce water loss as required under the KY PSC Order. This alternative would keep rates at the currently approved levels and not further financially burden the citizens and businesses of Martin County.

Over the past year, the MCWD board and management have made significant improvements in management and operations of the water system, including:

- securing federal and state grants for capital improvements (approximately \$ million approved or pending)
- selecting a new engineering firm (Bell Engineering) for capital projects
- bringing accounts payable process in-house; timely payment of creditors
- reducing the debt service creditor obligations
- improving main/service repairs and water loss
- improving billing practices and reducing delinquent accounts and water theft
- continued compliance with drinking water regulations

- improvement in customer service and transparency.

Still, much more work needs to be done to reduce water loss to below 15 percent, improve water quality, improve system reliability and efficiently manage and operate the water system to industry standards and customer expectations. A significant capital investment will need to be made to the water system to replace failing and under-performing infrastructure (treatment, pumping, storage, pipes, services, meters, etc.). The additional revenue required for a contract operator can more effectively be used to invest in renewing the water system infrastructure and continue to leverage grants and low interest loans for Martin County's water system.

In conclusion, the PRP agrees that Alliance Water Resources is qualified to perform contract management, operations and maintenance of the Martin County water system, however a significant cost premium above current revenues will likely be required, resulting in a significant rate increase to customers located in an economically distressed community. As an alternative to contract management and operations, the Martin County Utility Board should consider asking the Kentucky PSC permission to authorize the hiring of a General Manager using funding from the Management and Infrastructure Surcharge, approved by the Kentucky PSC in their order of November 5, 2018.

Note: the schedule ordered by the Kentucky PSC, did not allow time for the PRP to review the cost proposal for contract management and operations of the Martin County Sanitation District wastewater system. This review will be conducted at a later date, pending outcome of the decision regarding management of the MCWD.

Attachments:

1. Alliance Water Proposal
2. Reference Summaries
3. Alliance Responses to Questions and Answers
4. Proposal Scoring Sheet
5. Cost and Rate Impact Analysis