



Supplemental Environmental Project Semi-Annual Report Volume 14

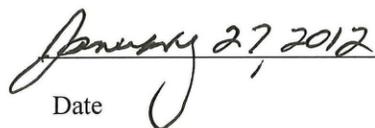
**Fourteenth Semi-Annual Report
July 1, 2011 – December 31, 2011**

Submitted to EPA on January 27, 2012

I certify under penalty of law that this document and all attachments were prepared under my direction or supervision in accordance with a system designed to assure that qualified personnel properly gather and evaluate the information submitted. Based on my inquiry of the person or persons who manage the system, or those persons directly responsible for gathering such information, the information submitted is, to the best of my knowledge and belief, true, accurate and complete. I am aware that there are significant penalties for submitting false information, including the possibility of fine and imprisonment for knowing violations.



D. Wayne Loveday



Date

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**Supplemental Environmental Project
Fourteenth Semi-Annual Report
July 1, 2011, through December 31, 2011**

1. Introduction

KUB is required to perform and complete a Supplemental Environmental Project (SEP) as set forth in Section VIII. Supplemental Environmental Project and Appendix B Supplemental Environmental Project of the Consent Decree (CD). *This project was undertaken in connection with the settlement of a civil enforcement action taken by the United States for violations of the Clean Water Act.* This Semi-Annual Report covers events from July 1, 2011, through December 31, 2011.

In addition to the required SEP funding, KUB has also voluntarily established a low-income, no-interest loan program. This program serves customers earning a predetermined percentage of median income that is above the level that would qualify for SEP funding. The cost of the lateral repair or replacement is added to the customers' KUB bill over a period of 48 months. No customers were approved for the no-interest loan during this reporting period.

2. Deposit of Funds to the SEP Escrow by KUB

KUB made the final deposit of \$150,000 to the SEP Escrow Account on August 11, 2011.

3. Disbursement of Funds From the SEP Escrow by Escrow Agent to the Third Party Administrator to Pay Plumbers for Services Completed

A total of \$264,902.25 was disbursed from the SEP Escrow Account to the Third Party Administrator during this reporting period. The disbursements are shown in the table below.

| Date of Invoice | Amount Invoiced | Number of Laterals Repaired/Replaced | Amount Disbursed |
|------------------------|------------------------|---|-------------------------|
| 7/1/2011 | \$110,562.50 | 43 | \$110,652.50 |
| 8/1/2011 | \$51,009.00 | 21 | \$51,009.00 |
| 9/1/2011 | \$66,253.75 | 29 | \$66,253.75 |
| 10/1/2011 | \$22,743.00 | 8 | \$22,743.00 |
| 11/1/2011 | \$5,777.00 | 2 | \$5,777.00 |
| 12/1/2011 | \$8,557.00 | 3 | \$8557.00 |
| Totals | \$264,902.25 | 106 | \$264,902.25 |

4. Balance of Funds in the SEP Escrow

The balance in the SEP Escrow Account, as of December 31, 2011, is \$105,963.39. The disbursements from the escrow account and the accrued interest for this reporting period are shown in the table below.

| Date | Deposit | Disbursement | Accrued Interest | Balance |
|-----------|--------------|--------------|------------------|--------------|
| 7/1/2011 | | \$110,562.50 | \$4.03 | \$110,289.97 |
| 8/1/2011 | \$150,000.00 | \$51,009.00 | \$2.87 | \$209,283.84 |
| 9/1/2011 | | \$66,253.75 | \$3.15 | \$143,033.24 |
| 10/1/2011 | | \$22,743.00 | \$3.04 | \$120,293.28 |
| 11/1/2011 | | \$5,777.00 | \$2.18 | \$114,518.46 |
| 12/1/2011 | | \$8,557.00 | \$1.93 | \$105,963.39 |

5. Payment of Funds by Third Party Administrator to Plumbers

In this reporting period, the Third Party Administrator made the following payments to plumbers for services completed at the properties listed below.

| Property Address | Plumber | Amount |
|------------------|---------------------|---------|
| [REDACTED] | Lyon Plumbing | \$2,510 |
| [REDACTED] | Lyon Plumbing | \$3,065 |
| [REDACTED] | Paul Hayes Plumbing | \$1,874 |
| [REDACTED] | RD Plumbing | \$3,130 |
| [REDACTED] | RD Plumbing | \$1,654 |
| [REDACTED] | RD Plumbing | \$2,763 |
| [REDACTED] | | |
| [REDACTED] | Paul Hayes Plumbing | \$2,040 |
| [REDACTED] | Paul Hayes Plumbing | \$1,690 |
| [REDACTED] | Paul Hayes Plumbing | \$2,414 |
| [REDACTED] | Paul Hayes Plumbing | \$1,864 |
| [REDACTED] | East TN Rooter | \$2,657 |
| [REDACTED] | FM Plumbing | \$2,702 |
| [REDACTED] | FM Plumbing | \$2,339 |
| [REDACTED] | FM Plumbing | \$2,394 |
| [REDACTED] | FM Plumbing | \$2,820 |
| [REDACTED] | FM Plumbing | \$2,233 |
| [REDACTED] | East TN Rooter | \$2,237 |
| [REDACTED] | East TN Rooter | \$3,087 |
| [REDACTED] | FM Plumbing | \$3,201 |
| [REDACTED] | Paul Hayes Plumbing | \$2,630 |
| [REDACTED] | Paul Hayes Plumbing | \$1,705 |
| [REDACTED] | Lyon Plumbing | \$2,200 |
| [REDACTED] | Lyon Plumbing | \$2,020 |
| [REDACTED] | Lyon Plumbing | \$1,700 |
| [REDACTED] | Paul Hayes Plumbing | \$2,629 |
| [REDACTED] | Paul Hayes Plumbing | \$2,319 |
| [REDACTED] | RD Plumbing | \$2,415 |
| [REDACTED] | RD Plumbing | \$1,725 |
| [REDACTED] | Paul Hayes Plumbing | \$2,454 |

| | | |
|------------|---------------------|----------|
| [REDACTED] | Paul Hayes Plumbing | \$1,674 |
| [REDACTED] | Paul Hayes Plumbing | \$2,479 |
| [REDACTED] | Paul Hayes Plumbing | \$2,079 |
| [REDACTED] | Paul Hayes Plumbing | \$1,614 |
| [REDACTED] | RD Plumbing | \$3,000 |
| [REDACTED] | FM Plumbing | \$843.75 |
| [REDACTED] | FM Plumbing | \$2,698 |
| [REDACTED] | FM Plumbing | \$3,042 |
| [REDACTED] | Lyon Plumbing | \$1,660 |
| [REDACTED] | Lyon Plumbing | \$2,875 |
| [REDACTED] | East TN Rooter | \$1,467 |
| [REDACTED] | East TN Rooter | \$3,477 |
| [REDACTED] | East TN Rooter | \$3,477 |
| [REDACTED] | Paul Hayes Plumbing | \$2,719 |
| [REDACTED] | RD Plumbing | \$904 |
| [REDACTED] | RD Plumbing | \$1,920 |
| [REDACTED] | Lyon Plumbing | \$2,775 |
| [REDACTED] | Lyon Plumbing | \$1,800 |
| [REDACTED] | Lyon Plumbing | \$2,605 |
| [REDACTED] | RD Plumbing | \$3,183 |
| [REDACTED] | RD Plumbing | \$3,500 |
| [REDACTED] | Lyon Plumbing | \$2,060 |
| [REDACTED] | FM Plumbing | \$4,310 |
| [REDACTED] | FM Plumbing | \$2,812 |
| [REDACTED] | FM Plumbing | \$2,825 |
| [REDACTED] | FM Plumbing | \$2,174 |
| [REDACTED] | Lyon Plumbing | \$2,772 |
| [REDACTED] | Lyon Plumbing | \$3,600 |
| [REDACTED] | Lyon Plumbing | \$2,190 |
| [REDACTED] | RD Plumbing | \$2,844 |
| [REDACTED] | FM Plumbing | \$2,933 |
| [REDACTED] | Lyon Plumbing | \$3,220 |
| [REDACTED] | Lyon Plumbing | \$3,228 |
| [REDACTED] | Paul Hayes Plumbing | \$2,109 |
| [REDACTED] | Paul Hayes Plumbing | \$3,128 |
| [REDACTED] | Paul Hayes Plumbing | \$1,529 |
| [REDACTED] | RD Plumbing | \$1,549 |
| [REDACTED] | East TN Rooter | \$1,888 |
| [REDACTED] | Lyon Plumbing | \$1,800 |
| [REDACTED] | Lyon Plumbing | \$2,155 |
| [REDACTED] | Lyon Plumbing | \$2,895 |
| [REDACTED] | Paul Hayes Plumbing | \$2,474 |
| [REDACTED] | Paul Hayes Plumbing | \$1,768 |
| [REDACTED] | Paul Hayes Plumbing | \$1,784 |
| [REDACTED] | Paul Hayes Plumbing | \$2,204 |
| [REDACTED] | Paul Hayes Plumbing | \$2,374 |

6. Location of Private Residential Properties Where Services Have Been Performed Under the SEP Program

Private service laterals have been repaired or replaced under the SEP program at the following locations during this reporting period.

| Owner | Property Address | Work Complete Date |
|------------|------------------|--------------------|
| [REDACTED] | [REDACTED] | 7/1/2011 |
| [REDACTED] | [REDACTED] | 7/6/2011 |
| [REDACTED] | [REDACTED] | 7/7/2011 |
| [REDACTED] | [REDACTED] | 7/12/2011 |
| [REDACTED] | [REDACTED] | 7/12/2011 |
| [REDACTED] | [REDACTED] | 7/13/2011 |
| [REDACTED] | [REDACTED] | 7/14/2011 |
| [REDACTED] | [REDACTED] | 7/14/2011 |
| [REDACTED] | [REDACTED] | 7/15/2011 |
| [REDACTED] | [REDACTED] | 7/18/2011 |
| [REDACTED] | [REDACTED] | 7/18/2011 |
| [REDACTED] | [REDACTED] | 7/19/2011 |
| [REDACTED] | [REDACTED] | 7/20/2011 |
| [REDACTED] | [REDACTED] | 7/20/2011 |
| [REDACTED] | [REDACTED] | 7/21/2011 |
| [REDACTED] | [REDACTED] | 7/26/2011 |
| [REDACTED] | [REDACTED] | 7/27/2011 |
| [REDACTED] | [REDACTED] | 8/1/2011 |
| [REDACTED] | [REDACTED] | 8/2/2011 |
| [REDACTED] | [REDACTED] | 8/3/2011 |
| [REDACTED] | [REDACTED] | 8/4/2011 |
| [REDACTED] | [REDACTED] | 8/5/2011 |
| [REDACTED] | [REDACTED] | 8/9/2011 |
| [REDACTED] | [REDACTED] | 8/9/2011 |
| [REDACTED] | [REDACTED] | 8/10/2011 |
| [REDACTED] | [REDACTED] | 8/17/2011 |
| [REDACTED] | [REDACTED] | 8/24/2011 |
| [REDACTED] | [REDACTED] | 8/24/2011 |
| [REDACTED] | [REDACTED] | 10/13/2011 |
| [REDACTED] | [REDACTED] | 10/14/2011 |
| [REDACTED] | [REDACTED] | 10/25/2011 |
| [REDACTED] | [REDACTED] | 10/26/2011 |
| [REDACTED] | [REDACTED] | 10/31/2011 |
| [REDACTED] | [REDACTED] | 11/7/2011 |
| [REDACTED] | [REDACTED] | 11/11/2011 |
| [REDACTED] | [REDACTED] | 11/28/2011 |
| [REDACTED] | [REDACTED] | 11/29/2011 |
| [REDACTED] | [REDACTED] | 11/30/2011 |
| [REDACTED] | [REDACTED] | 12/1/2011 |
| [REDACTED] | [REDACTED] | 12/1/2011 |
| [REDACTED] | [REDACTED] | 12/1/2011 |

| | | |
|--|--|------------|
| | | 12/2/2011 |
| | | 12/2/2011 |
| | | 12/5/2011 |
| | | 12/5/2011 |
| | | 12/8/2011 |
| | | 12/14/2011 |

7. SEP Implementation and Ongoing Tasks

KUB implemented the Private Lateral Program (PLP) in 2005 to address defective laterals and improper connections within its collection system. Prior to program implementation, KUB performed an initial analysis to determine the approximate number of defective laterals in KUB's wastewater system and smoke testing was chosen as the primary tool for determining defects and prohibited connections requiring enforcement action. Also, during the development of this program, homeowner income information from all areas of the KUB wastewater service area was obtained to establish hardship eligibility guidelines for funding assistance provided under the SEP for private lateral rehabilitation. KUB conducted a careful examination of expected lateral failure rates, and looked at 2000 Census homeowner income information to determine how to best establish income limits for financial assistance and extend this support to as many customers as possible. The income limits selected were those from the Housing and Urban Development (HUD) guidelines for very low income households, where very low income is defined as less than 50% of the median income based on family size. HUD guidelines are widely used in many homeowner assistance programs and include limits for homeowner incomes defined at very low, low, and moderate levels relative to median income for service area. In the first two years of the PLP, the very low Income limits updated annually for earning growth by HUD were used in determining a property owner's eligibility for funding under the SEP Grant⁽¹⁾ program.

During this time, KUB gained information about the number of defective laterals in its system, the best tools for evaluating the collection system problems, and the income qualification rate for financial assistance where defective laterals are identified. In addition to smoke testing, closed circuit camera televising (CCTV) was evaluated for use in determining defects in 2006. CCTV of private laterals after mainline rehabilitation quickly became the most preferred means of accurately determining defects to avoid unnecessary repairs, and it continues to be the primary tool for determining the need for lateral rehabilitation. All private laterals are subject to inspection as prescribed in the CSSAP, and this specific tool has been very effective in resolving any questions related to required corrective action and enforcement. In many cases CCTV has confirmed the need for only a point repair and as many as one third of all defective laterals have required only repairs rather than extensive replacement. Although the defective lateral rate varies with the

specific area of the system, KUB has observed an average lateral failure rate of 37 percent.

In the first two years of the program implementation, KUB also determined from the PLP data that areas with the highest failure rate also had a large number of tenant occupants. By the end of 2007, the average tenant occupancy rate of properties requiring lateral repair was at least 40%. These situations greatly reduced the expected number of property owners eligible to apply for assistance.

An analysis of upcoming projects associated with the CAP/ER based on historical failure rates and Grant approvals indicated that 50% of the median income was too low for many homeowners to qualify. Thus, an adjustment was made to the income guideline limits for Grant qualification to permit more property owners to qualify for funding assistance over the remaining five years of the program. On January 1, 2008, KUB moved the income guidelines for Grant⁽¹⁾ program qualification from 50% of median income (very low income) to 80% of median income (low income). This adjustment was communicated in the Sixth SEP Semi-Annual Report.

The SEP states that very low, low and moderate income levels are eligible to receive funding assistance. Beginning January 1, 2010, KUB increased the income guidelines for Grant⁽¹⁾ program qualification from 80% of median income (low income) to 95% of income (moderate income). The 95% level is defined as moderate income by the US Department of Housing and Urban Development (HUD). The increase follows research of homeowner incomes in the Knox County area based on 2000 Census data obtained from the Knoxville/Knox County Metropolitan Planning Commission. KUB continues to use these income qualifications, resulting in an increase in the number of approved applications in 2010 and 2011. The expectation is that this trend will continue, ensuring support for customers who need assistance the most during the remainder of the SEP period. KUB will continue to analyze information related to defect rates and income qualification as necessary to satisfactorily complete the SEP in accordance with the Consent Decree.

Effect of Previous Income Qualification Limits:

During this reporting period, six property owners qualified for Grants due to the increase in the income guidelines effective January 1, 2010.

8. Tasks Scheduled for the Next Six Months

The following tasks are scheduled for the next six months:

- Continue to identify properties with defective laterals or prohibited connections.
- Continue private lateral enforcement notifications.
- Make payments from the Escrow account for work completed under the SEP.

(1) *This project was undertaken in connection with the settlement of a civil enforcement action taken by the United States for violations of the Clean Water Act.*

Appendix A

Grant and Loan Income Guidelines

**GRANT AND LOAN PROGRAM
INCOME GUIDELINES
(Effective May 31, 2011)**

| Family Size | Grant Program 95% of Median Income | Loan Program 100% of Median Income |
|--------------------|---|---|
| 1 | \$40,850 | \$43,000 |
| 2 | \$46,645 | \$49,100 |
| 3 | \$52,554 | \$55,320 |
| 4 | \$58,235 | \$61,300 |
| 5 | \$62,985 | \$66,300 |
| 6 | \$67,640 | \$71,200 |
| 7 | \$72,295 | \$76,100 |
| 8 | \$76,950 | \$81,000 |

Appendix B

Escrow Deposit Documentation



Knoxville Utilities Board

RECORD COPY: DO NOT ALTER OR DESTROY

September 9, 2011

VIA CERTIFIED MAIL

Denisse D. Diaz
Chief, Clean Water Enforcement Branch
Water Protection Division
U.S. Environmental Protection Agency, Region 4
Atlanta Federal Center
61 Forsyth Street, SW
Atlanta, GA 30303

Re: Payment of \$150,000 Supplemental Environmental Project (SEP) payment: U.S., et al. v. Knoxville Utilities Board (KUB): Case Nos. 3:04-CV-568 and 3:03-CV-497; DOJ Case No. 90-5-1-1-08186

Dear Ms. Diaz:

On August 11, 2011, KUB paid the tenth, and final, SEP payment in the amount of \$150,000 to the SEP escrow account identified in the executed Escrow Agreement, as required by Appendix B.D.1 of the Consent Decree (CD). KUB is required to make this ninth payment no later than seventy-eight (78) months after the Date of Entry of the CD, which was entered in the United States District Court for the Eastern District of Tennessee, Northern Division, Knoxville, Tennessee, on February 11, 2005.

Appendix B.D.1. also requires KUB to provide documentation of the deposit to the SEP Escrow within thirty (30) days of each such deposit. A wire confirmation of the transfer is enclosed as proof of payment.

If you have any questions, please call Mark Walker, Vice President, at (865) 594-7418.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bill R. Elmore', is written over a horizontal line.

Bill R. Elmore
Executive Vice President and Chief Operating Officer

Ms. Diaz
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September 9, 2011

c: Chief, Environmental Enforcement Section
Environment and Natural Resources Division, DOJ
E. Joseph Sanders, General Counsel, TDEC
Renee Victoria Hoyos, Executive Director, TCWN
Daniel Brown, Mayor, City of Knoxville
Hiram G. Tipton, Hodges, Doughty & Carson, PLLC
Phil Simmons, TDEC
Susan H. Richardson, Kilpatrick, Townsend & Stockton, LLP
John West, TDEC
Wayne Loveday, Vice President, KUB

Enclosure

08/11/2011 10:24AM

First Horizon National Corporation PAGE 1 OF 1

REPORT DATE:08/11/11 09:35:03 WIRE TRANSFER ADVICE NOTIFICATION PAGE 1

ACCOUNT : KNOXVILLE UTILITIES BOARD

.N :110811010474 DEBIT REPEAT: SEPESCW STATUS :COMPLETED

AMOUNT :\$ 150,000.00 COMPLETION TIME :2011-08-11:0929

AUTHORIZER :AUDRA RICHARDS CONFIRMER :

WIRE TYPE :FEDWTF REFERENCE #

DEBIT ACCOUNT (KNOXVILLE UTILITIES BOARD)

ORDERING BANK :

ORDERING CUST :

BENE CUSTOMER :N WEALTH MANAGEMENT OPERATIONS

SENDING BANK :

RECEIVING BANK:

DEST BANK :I [REDACTED] REGIONS BK

OBI :FFC REGIONS INTERNAL ACCOUNT [REDACTED] KUB

BBI :ATTN REGIONS BANK ABA [REDACTED]