



Ernie Fletcher  
Governor

Mark David Goss  
Chairman

Teresa J. Hill, Secretary  
Environmental and Public  
Protection 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

John W. Clay  
Commissioner

Christopher L. Lilly  
Commissioner  
Department of Public Protection

December 6, 2006

Gene Flaughner  
Mayor  
City of Falmouth  
230 Main Street  
Falmouth, KY 41040

RE: Case No. 2006-00403

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell  
Executive Director

BOD/jc  
Enclosure



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William T. Jones  
Manager  
Pendleton County Water District  
P. O. Box 232  
Falmouth, KY 41040

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December 6, 2006

Wayne Lonaker  
Manager  
East Pendleton Water District  
600 Woodson Road  
P.O. Box 29  
Falmouth, KY 41040

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE )  
WATER SERVICE RATES OF THE CITY OF ) CASE NO. 2006-00403  
FALMOUTH )

ORDER

The city of Falmouth, Kentucky ("Falmouth") proposes to adjust its existing rate for wholesale water service to Pendleton County Water District ("Pendleton District") and East Pendleton County Water District ("East Pendleton District"). The Commission suspended the proposed adjustment of rates and entered a procedural schedule as set forth in Appendix A attached to the Order of September 22, 2006, in order to review the proposed adjustment.

The Commission now finds that there is good cause to extend the procedural schedule in order to further review the proposed adjustment.

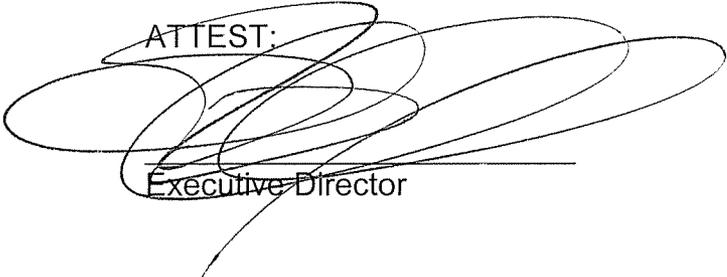
IT IS THEREFORE ORDERED that:

1. The modified procedural schedule set forth in Appendix A to this Order shall be followed.
2. Falmouth shall respond to the information request contained in Appendix B by January 5, 2007.
3. All other requirements for filing documents and indexing contained in the Commission's Order of September 22, 2006 shall remain in effect.
4. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this 6th day of December, 2006.

By the Commission

ATTEST:



Executive Director

Case No. 2006-00403

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2006-00403 DATED December 6, 2006.

Intervenors and Commission Staff shall serve their first set of interrogatories and requests for production of documents upon Falmouth no later than.....12/07/2006

Falmouth shall file with the Commission and serve upon all parties of record and Commission Staff its responses to the first set of interrogatories and requests for production of documents no later than ..... 1/05/2007

Intervenors and Commission Staff shall serve their second set of interrogatories and requests for production of documents upon Falmouth no later than.....01/26/2007

Falmouth shall file with the Commission and serve upon all parties of record and Commission Staff its responses to the second set of interrogatories and requests for production of documents no later than .....02/16/2007

Intervenor testimony, if any, shall be filed with the Commission and served upon all parties of record in verified prepared form no later than.....03/02/2007

Parties and Commission Staff shall serve interrogatories and requests for production of documents upon Intervenors no later than .....03/16/2007

Intervenors shall file with the Commission and serve upon all other parties of record and Commission Staff their responses to interrogatories and requests for production of documents no later than.....03/30/2007

Public Hearing, beginning at 9:30 a.m., Eastern Standard Time, at the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses ..... To Be Announced

## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2006-00403 DATED December 6, 2006.

1. State whether Falmouth charges a fee or penalty to water customers in return for providing any of the following services. If Falmouth assesses any penalties or charges for miscellaneous services other than those listed here, state such penalties or charges.

- a. Tapping on a new customer.
- b. Disconnecting and reconnecting a customer.
- c. Meter test.
- d. Meter change out.
- e. Returned check charge.
- f. Late payment penalty.
- g. Customer deposits.
- h. Field collection charge.
- i. Meter relocation.
- j. Service call.

2. For each service or penalty listed in Item 1 for which Falmouth assesses a fee state:

- a. The amount of the fee.
- b. The number of fees charged during the test year for each service.
- c. Total revenue from each charge reported in test-year operations.

d. State the account title to which these revenues were recorded in the audit report as shown at page 90 of 94 in response to the Commission's Order dated September 22, 2006, Appendix B, Item 2.

3. State the number of customers served at the beginning and end of the test period by Falmouth's Water and Sewer Divisions separately. For each division show separately the number of customers per classification (i.e., residential, commercial, etc.).

4. Refer to Falmouth's response to Item 2 of Appendix B to the Commission's Order dated September 22, 2006, page 90 of 94.

a. Interest income is stated at \$7,508. State the amount of interest that was accrued on funds held by or generated by the Water Division. Show in detail how the amount attributable to the Water Division was determined.

b. Late fees and penalties are stated at \$35,739. Of this amount state the amount derived from water operations. Show in detail how the amount attributable to the Water Division was determined.

c. Other revenues are stated at \$5,777. Of this amount state the amount derived from water operations and state the services provided by the Water Division to produce such revenues.

5. Table I below details the adjustments to test-year operations proposed by Falmouth. For each adjustment provide in detail the basis for the adjustment and explain how each adjustment meets the known and measurable requirement of administrative regulation 807 KAR 5:001, Section 10(7). Provide all workpapers

supporting the calculation of the pro forma expenses and state all assumptions used in their development.

Table I

	Test Year, See Item 2 of Response to Commission Order of 9/22/06 Page 90 of 94, "Water System" Column	Imputed Adjustments	Pro forma, See Item 25 of Response to Commission Order of 9/22/06 Page 15 of 26, "2- Year Projection" Column
Salaries and Wages	\$ 272,629	\$ (43,827)	\$ 228,802
Employee Benefits	47,316	(7,608)	39,708
Bank Fees	1,363	527	1,890
Chemicals	53,212	21,788	75,000
Consulting and analysis	16,389	3,664	20,053
Advertising	1,884	(432)	1,452
Printing	309	(59)	250
Legal and Accounting	4,221	(461)	3,760
Insurance	71,827	(33,766)	38,061
Repairs and Maintenance	4,755	61,152	65,907
Travel	1,781	(581)	1,200
Education and Training	899	(216)	683
Postage	1,046	149	1,195
Utilities - Heat and Gas	748	152	900
Electricity		23,868	23,868
Telephone	4,762	106	4,868
Supplies	18,109	18,509	36,618
Uniforms	4,594	858	5,452
Gasoline	(697)	4,927	4,230
Vehicles		12,600	12,600
Dues and Subscriptions	634	14	648
Equipment Expense	904	(382)	522
Miscellaneous	51	(33)	18
Bad Debts	2,400	(2,400)	-
Capital Outlay		753	753
Payroll Taxes and Worker's Comp.	38,262	(3,417)	34,845
Depreciation Expense	81,529	82,471	164,000
Interest Expense	10,105	(10,105)	-
Amortization of Loan Fees	5,667	(5,667)	-
Total	<u>\$ 644,699</u>	<u>\$ 122,584</u>	<u>\$ 767,283</u>

6. Item 4 of Appendix B to the Commission's Order dated September 22, 2006 requested that Falmouth "[p]rovide separate general ledgers for Falmouth's water and sewer divisions for the proposed test period and the most recently concluded fiscal year. The accounts in these ledgers shall show detail of each individual entry to the account that includes: (1) date of payment, (2) check number or reference to a particular journal or audit entry, (3) vendor, (4) amount charged, and (5) a description of the entry." Falmouth provided a general ledger that shows year end account balances only and does not included the detail requested. Also, the account balances of the provided ledger do not trace to the audited balances of the test year which are shown in Table I above in the column labeled "Test Year." Provide a general ledger that includes the detail requested and that traces to the test-year audited financial statements.

7. Confirm that Falmouth no longer has any long-term debt obligations associated with its Water Division.

8. Item 9 of Appendix B to the Commission's Order dated September 22, 2006 requested that Falmouth provide a list of all persons on Falmouth's payroll during the test year and, among other things, state the test-year wages per employee. The total payroll included in Falmouth's response was \$393,841.51 while total payroll shown in the audit report in response to Item 2 at page 90 of 94 is stated at \$595,322. Reconcile the difference in these amounts.

9. Provide a list of all test year and current employees of Falmouth. For each employee listed provide:

- a. Name.
- b. Job title.

- c. Test-year regular hours worked.
- d. Test-year over-time hours worked.
- e. Test-year pay rate.
- f. Current pay rate.
- g. Description of job duties.
- h. Date employment began and ended.
- i. Estimated percentage of time worked in each of Falmouth's

Divisions during the test year if the actual time is not available.

j. For any employee allocating time to the Water Division, state separately the amount of time allocated to the water division that was for meter reading, installing new water services, and constructing new water facilities.

- k. Annual uniform expense.

10. a. State the amount of payroll costs capitalized by Falmouth during the test year.

- b. Provide the basis for test-year payroll cost capitalization.

11. Provide a copy of the vendor invoice from Falmouth's health care provider for the first and last months of the test year and the most recent received. Each invoice should be itemized by employee, type of coverage, and cost per employee.

12. a. State and provide supporting documentation for the test-year retirement contribution rate made by Falmouth on behalf of its employees.

b. State and document the current retirement contribution rate made by Falmouth on behalf of its employees.

c. State and document the future retirement contribution rate to be made by Falmouth on behalf of its employees if known.

13. a. Provide supporting documentation for test-year bank charges in the amount of \$1,363 as reported by the Water Division in the audit report.

b. Are these bank charges assessed to Falmouth for processing payroll checks only? If no, separate and state the amounts of the bank charges by type of service provided in return for the charges.

14. a. Provide copies of vendor invoices supporting the test-year chemicals expense of \$53,212 as stated in the audit report. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

b. Does Falmouth operate a public swimming pool.

c. Describe the internal controls in place at Falmouth that protect against chemicals being charged to the Water Division that are actually used for other purposes such as wastewater treatment or a public swimming pool.

15. Provide the vendor invoices supporting test-year consulting and analysis expense of \$16,389. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

16. a. Provide copies of the vendor invoices supporting test-year advertising expense of \$1,884. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

b. For each charge to the advertising account provide a copy of the advertisement.

17. Provide the basis for the test-year charge of \$309 for printing expense.
18. Provide copies of the vendor invoices supporting test-year legal and accounting expenses of \$4,221. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.
  19. a. Provide copies of the vendor invoices supporting test-year legal and accounting expenses of \$71,827. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.
    - b. Provide the basis of allocating insurance premiums to each city division for coverage common to more than one city division.
  20. a. Provide copies of the vendor invoices supporting test-year repairs and maintenance expenses of \$4,755. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.
    - b. Provide copies of the vendor invoices supporting test-year water division expenditures that were capitalized.
    - c. State the number of new customer services connected to Falmouth's water system during the test year.
21. Provide copies of the vendor invoices supporting test-year travel expense in the amount of \$1,781. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.
22. Provide copies of the vendor invoices supporting test-year education and training expense of \$899. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

23. Provide supporting documentation for test-year postage expense of \$1,046.

24. a. Provide copies of the vendor invoices supporting test-year utilities -- heat and gas expense of \$748. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

b. For each utility account number included in the invoices provided in response to Item (a) above, provide the service address, the facilities located at each address, and type of utility service.

c. Where facilities are shared between the city's divisions state the basis for allocating utility costs of the shared facility's to each city division.

25. a. State the name(s) of Falmouth's water division's electric power supplier.

b. For each supplier provide a copy of each test-year invoice. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

c. For each account number represented by the invoices provided state the service address and description of the facilities receiving electric service at each address.

d. State the expense account(s) to which these payments were charged in the audit report.

26. a. Provide copies of the vendor invoices supporting test-year telephone expenses of \$4,762. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

b. For each account number represented by the invoices provided give a description of the service and explain the procedures used to allocate the expense to each city division that uses the service.

27. Provide copies of the vendor invoices supporting test-year supplies expense of \$18,109. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

28. a. Provide copies of the vendor invoices supporting test-year uniforms expense of \$4,594. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

b. State the procedures used to allocate uniform expenses to the city divisions.

29. a. Gasoline expense for the water division is stated at (\$697). Explain this negative balance.

b. State the procedures used by the city to allocate and record fuel purchases to its divisions.

30. Provide copies of the vendor invoices supporting test-year dues and subscriptions expense of \$634. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

31. Provide copies of the vendor invoices supporting test-year equipment expense of \$904. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

32. Provide copies of the vendor invoices supporting test-year miscellaneous expense of \$51. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

33. a. Provide all workpapers used to determine the bad debt expense of \$2,400.

b. Describe the city's shut off policy for nonpayment of utility services.

34. a. Provide copies of the vendor invoices and payroll tax returns supporting test-year payroll taxes and Worker's Compensation of \$38,262. If the number of the check used to pay each invoice is not stated on the invoice, also provide a copy of the check voucher.

b. Describe the procedures used to allocate payroll taxes and Worker's Compensation expenses to each city division.

35. Provide detailed depreciation schedules for the water and sewer divisions separately. Each schedule shall state each asset of the division, along with each asset's in-service date, original cost, depreciable live, depreciation method, accumulated balance as of the end of the test year, and the current charge to depreciation expense. The current charge to depreciation expense shown on this schedule for the water division should total the reported test-year expense of \$81,529 as stated in the audit report.

36. Refer to Falmouth's response to the Commission's Order of September 22, 2006, Item 25, page 15 of 26, Baffle Clearwells.

a. State in full detail the necessity and need for this project.

b. State the anticipated start and end dates for construction.

- c. Provide all bids received for this project.
- d. If bids were not received, explain how the price of \$30,000 was established.
- e. Provide the engineering specifications for this construction.
- f. State the estimated useful live of this improvement.
- g. Is this replacement of original plant or a replacement of plant previously replaced?
- h. State the in-service date and original cost of the plant to be replaced by this improvement.

37. Refer to Falmouth's response to the Commission's Order of September 22, 2006, Item 25, page 15 of 26, Paint Clearwell.

- a. State in full detail the necessity and need for this painting.
- b. State the anticipated start and end dates for painting the clearwell.
- c. Provide all bids received for this painting.
- d. If bids were not received, explain how the price of \$10,000 was established.
- e. Provide the engineering specifications for this painting.
- f. State how the estimated 10-year useful live of this improvement was determined.
- g. State the date and cost of the last clearwell painting.

38. Refer to Falmouth's response to the Commission's Order of September 22, 2006, Item 25, page 15 of 26, Replace Raw Water Totalizer.

- a. State in full detail the necessity and need for this project.

- b. State the anticipated start and end dates for construction.
- c. Provide all bids received for this project.
- d. If bids were not received, explain how the price of \$4,000 was established.
- e. Provide the engineering specifications for this construction.
- f. State the estimated useful live of this improvement.
- g. Is this replacement of original plant or a replacement of plant previously replaced?
- h. State the in-service date and original cost of the plant to be replaced by this improvement.

39. Refer to Falmouth's response to the Commission's Order of September 22, 2006, Item 25, page 15 of 26, Valve Replacement.

- a. State in full detail the necessity and need for this project.
- b. State the anticipated start and end dates for total valve replacement throughout the entire system.
- c. State the total number of valves to be replaced.
- d. Provide all bids received for this project.
- e. If bids were not received, explain how the price of \$20,000 per year was established.
- f. Provide the engineering specifications for these replacements.
- g. State the estimated useful live of this type of valve.
- h. Is this replacement of original plant or a replacement of plant previously replaced?

i. State the in-service date and original cost of the plant to be replaced by this improvement.

40. Refer to Falmouth's response to the Commission's Order of September 22, 2006, Item 25, page 15 of 26, Paint Elevated Tank Exterior.

a. State in full detail the necessity and need for this project.

b. State the anticipated start and end dates for this painting.

c. Provide all bids received for this project.

d. If bids were not received, explain how the price of \$10,000 per year was established.

e. Provide the engineering specifications for this painting.

f. State the estimated useful live of this painting.

g. State the date and cost of the last painting of this tank.

41. Refer to Falmouth's response to the Commission's Order of September 22, 2006, Item 25, page 15 of 26, Hydrant Replacement.

a. State in full detail the necessity and need for this project.

b. State the anticipated start and end dates for total hydrant replacement throughout the entire system.

c. State the number of hydrants to be replaced.

d. Provide all bids received for this project.

e. If bids were not received, explain how the price of \$10,000 per year was established.

f. Provide the engineering specifications for these replacements.

g. State the estimated useful live of a hydrant.

h. Is this replacement of original plant or a replacement of plant previously replaced?

i. State the in-service date and original cost of the plant to be replaced by this improvement.

42. Refer to Falmouth's response to the Commission's Order of September 22, 2006, Item 25, page 15 of 26, Meter Replacement.

a. State in full detail the necessity and need for this project.

b. State the anticipated start and end dates for total meter replacement throughout the entire system.

c. State the number of meters to be replaced.

d. Provide all bids received for this project.

e. If bids were not received, explain how the price of \$10,000 per year was established.

f. Provide the engineering specifications for these replacements.

g. State the estimated useful live of a meter in Falmouth's distribution system.

h. Is this replacement of original plant or a replacement of plant previously replaced?

i. State the in-service date and original cost of the plant to be replaced by this improvement.

43. Refer to Falmouth's response to the Commission's Order of September 22, 2006, Item 25, page 15 of 26, Main Replacement.

a. State in full detail the necessity and need for this project.

b. Provide a detailed description of Falmouth's main replacement program. This description shall include, but not be limited to, a map of Falmouth's transmission and distribution system that includes main sizes, Falmouth's criteria for selecting mains for replacement, anticipated replacements for the next 10 years and estimated costs, and an inventory list of Falmouth's mains that includes in-service dates, original cost, main diameter and length.

c. State the length of main replaced by Falmouth and its cost of replacement for each fiscal year prior to the test year, during the test year, and subsequent to the test period.

d. Provide all bids that have been received for main replacement projects.

e. If bids were not received, explain how the price of \$30 per foot (\$15,000 annual recover / 500 feet of main to be replaced annually) was determined.

f. Provide the engineering specifications for these replacements.

44. Refer to Falmouth's response to the Commission's Order of September 22, 2006, Item 25, page 15 of 26, Main Cleaning.

a. State in full detail the necessity and need for this project.

b. Provide a detailed description of Falmouth's main cleaning program. This description shall include, but not be limited to, the miles of main Falmouth anticipates cleaning annually, the annual cost of cleaning, total duration of the cleaning program, engineering specifications and type of cleaning to be performed.

c. Provide the miles of main cleaned and cost of cleaning for each fiscal year prior to the test year, the test year, and subsequent period.

d. Provide all bids received for main cleaning.

e. If bids were not received, explain how the annual cost of \$5,000 was determined.

f. Who performs the main cleaning?

45. Refer to response to Item 25 of Appendix B to the Commission's Order dated September 22, 2006. Provide the schedules included in the Cost-of-Service Study saved to a disc or CD in Microsoft Excel or Lotus 1-2-3 format.

46. Explain, in detail, the reasoning for having two separate and differing rates for the two Water Districts that are requesting service.