

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) CASE NO.
FRANKFORT ELECTRIC AND WATER PLANT) 2014-00254
BOARD)

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO
FRANKFORT ELECTRIC AND WATER PLANT BOARD

Frankfort Electric and Water Plant Board ("Frankfort Plant Board"), pursuant to 807 KAR 5:001, is to file with the Commission the original and six copies of the following information, with a copy to all parties of record. The information requested herein is due on or before September 2, 2014. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Frankfort Plant Board shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or,

though correct when made, is now incorrect in any material respect. For any request to which Frankfort Plant Board fails or refuses to furnish all or part of the requested information, Frankfort Plant Board shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to Frankfort Plant Board's responses to: (1) the July 23, 2014 Order, Item 2, Exhibit 1, Financial Statements [Fiscal] Years Ended June 30, 2013 and 2012 at 27; and (2) Item 22, Cost of Service Allocation Study, Schedule G, Summary of Revenue Under Present Rates and Pro Forma Revenue Under Present Rates for the Twelve Months Ended June 30, 2013 at 37.

a. In the Financial Statement for the fiscal year ending June 30, 2013, Frankfort Plant Board reported revenues from water user fees of \$8,341,199, but the Billing Analysis Revenues, 2012/2013 Rates lists revenues from water sales of \$8,317,061, which is a difference of \$24,138. Provide a detailed explanation for this difference.

b. Provide a breakdown of the \$8,341,199 in revenues from water user fees using the customer classifications listed in the billing analysis.

c. Confirm that the \$70,362 of unbilled revenue as of June 30, 2013, is included in the revenues from water user fees of \$8,341,199.

d. If yes to c., provide the journal entry that was recorded to accrue all expenses that were incurred to generate the unbilled revenue.

e. In the Financial Statement for the fiscal year ending June 30, 2013, Frankfort Plant Board reported non-operating revenues of \$157,245,¹ but the Billing Analysis Revenues, 2012/2013 Rates, lists other operating revenues of \$194,865, which is a difference of \$37,620. Provide a detailed explanation for this difference.

f. Provide a breakdown of the \$194,865 in other revenues using the customer revenue classifications listed in the Financial Statement for the fiscal year ending June 30, 2013.

2. Refer to Frankfort Plant Board's responses to: (1) the July 23, 2014 Order, Item 2, Exhibit 1, Financial Statements [Fiscal] Years Ended June 30, 2013 and 2012; and (2) Item 4, Exhibit 1, Test-Year General Ledger (July 1, 2012 – June 30, 2013).

a. Frankfort Plant Board lists the following divisions in its Financial Statements: Cable (Telecommunications); Electric; and Water. Provide a trial balance for each division that supports the amounts shown in the Financial Statements. Each trial balance should show the account numbers, account titles, and account balances as they appear on the general ledger provided in Frankfort Plant Board's responses to the July 23, 2014 Order, Item 4.

b. For each of Frankfort Plant Board's divisions, provide a five-year comparative trial balance schedule for the fiscal years 2009-2010 through 2012-2013.

¹ \$993 (Net Merchandise Sales) + \$4,215 (Rental Revenues) + \$28,902 (Interest Revenues) + \$125,192 (Other Non-Operating Revenues) + (\$9,418) (Retirement Plan Net Loss) + \$7,361 (Gain on Sales of Fixed Assets) = \$157,245.

Each trial balance comparison should show the account numbers, account titles, and account balances as they appear on the general ledger provided in Frankfort Plant Board's responses to the July 23, 2014 Order, Item 4.

c. For each cash account used by Frankfort Plant Board during the test year, provide a cash disbursements ledger that lists the division, all checks in chronological order, and that details the date paid, check number, vendor, and amount.

3. Refer to the trial balance that Frankfort Plant Board provided for the Water Division in its response to Item 2(a) above.

a. Identify each account that includes entries made to record transactions that benefitted only the water division and were therefore directly assigned only to the water division for reporting purposes.

b. For each account provided in response to item a, explain and describe the internal controls that are in place to ensure that directly assigned transactions are properly identified and charged to the proper division.

c. Identify each account that includes entries made to record the allocation of transactions that benefit more than one division.

d. For each account provided in response to item c., explain and describe the internal controls that are applied to shared transactions to ensure that: (1) appropriate factors are used to allocate costs among the divisions; (2) allocation factors are calculated correctly and properly applied to shared transactions; and (3) the allocated amounts are charged to the appropriate division.

4. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 2, Exhibit 1, Financial Statements Fiscal Years Ended June 30, 2013 and 2012 at 27, Statement of Revenues and Expenses.

a. Confirm that Frankfort Plant Board provides billing and collection services for sewer utilities. If the response is affirmative, identify the sewer utilities that receive this billing service, the billing and collection revenues Frankfort Plant Board received in the test year, and identify the account where this revenue is recorded.

b. Does Frankfort Plant Board receive any form of payment for the use of the Water Division's assets, or other water resources, such as employees, that are not reported on the Statement of Revenues and Expenses? If so, identify those payments and explain why they are not reported.

5. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 2, Exhibit 1, Financial Statements Fiscal Years Ended June 30, 2013 and 2012 at 13 and 32, and Item 22, Cost of Service Allocation Study, Schedule B, Cost of Service for the Twelve Months Ended June 30, 2013, Allocated to Customer Classifications at 1-4.

a. The account titles and amounts used in the Cost of Service Allocation Study do not correspond to the account titles and amounts listed in the Financial Statement for the Fiscal Year Ended June 30, 2013 for the Water Division. Reconcile the accounts and the amounts listed in the cost-of-service study to the 2013 Financial Statements.

b. Provide a pro forma income statement for the water division showing the revenue normalization adjustment and the requested pro forma expense adjustments.

c. Provide a pro forma income statement for the wholesale water customers showing the revenue normalization adjustment and the requested pro forma expense adjustments.

d. Using the format in Table I below, provide Frankfort Plant Board's requested revenue requirement for the water division and the wholesale customers.

<u>Table I: Revenue Requirement Water Division and Wholesale</u>		
	<u>Total</u>	<u>Wholesale</u>
Pro Forma Operating Expenses		
Plus: Debt Service Payments		
Debt Coverage Requirements		
Total Revenue Requirement		
Less: Other Operating Revenue		
Non-Operating Revenues		
Interest Income		
Revenue Required from Water Rates		
Less: Normalized Revenues – Water Rates		
Requested Revenue Increase		
Percentage Revenue Increase		

6. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 22, Cost of Service Allocation Study, Schedule B, Cost of Service for the Twelve Months Ended June 30, 2013, Allocated to Customer Classifications at 1-4, and Items 31(a) and 31(b).

a. In its Cost of Service Allocation Study, Frankfort Plant Board uses an annual debt service for the Electric and Water Revenue Bonds, Series 2009, of \$1,216,398 and allocates \$275,392 of this amount to the wholesale customers. Provide

a detailed schedule showing how Frankfort Plant Board calculated its annual debt service for the 2009 bonds and its proposed allocation to the wholesale customers.

b. In its Cost of Service Allocation Study, Frankfort Plant Board uses an annual debt service for the Electric and Water Revenue Bonds, Series 2013, of \$1,216,398, and it allocates \$275,392 of this amount to the wholesale customers. Provide a detailed schedule showing how Frankfort Plant Board calculated its annual debt service for the 2013 bonds and its proposed allocation to the wholesale customers.

c. In Item 31, Exhibit 31, Calculation of Debt Service for Cost of Service Allocation Study, Frankfort Plant Board uses an annual debt service on its Kentucky Infrastructure Authority (“KIA”) Loan #F08-04 of \$386,792.

(1) Confirm that the referenced KIA Loan #F08-04 is the Electric and Water System Revenue Bond Anticipation Note (“BAN”), Series 2010, that is referenced by Frankfort Plant Board in its response to Item 6(a). If not, provide a copy of the KIA Loan agreement.

(2) Provide a detailed schedule showing how Frankfort Plant Board calculated its annual debt service for the KIA Loan #F08-04 and its proposed allocation to the wholesale customers.

d. In Item 31, Exhibit 31, Calculation of Debt Service for Cost of Service Allocation Study, Frankfort Plant Board uses an annual debt service on its KIA Loan – Generator of \$176,897.

(1) Confirm that the referenced KIA Loan - Generator is the Electric and Water System Revenue BAN, Series 2012 that is referenced by Frankfort

Plant Board in its response to Item 6(a). If not, provide a copy of the KIA Loan agreement.

(2) Provide a detailed schedule showing how Frankfort Plant Board calculated its annual debt service for the KIA Loan – Generator and its proposed allocation to the wholesale customers.

(3) Frankfort Plant Board states that the generator capital project began at the end of fiscal year 2013-2014. In regards to this capital project, provide: the actual date construction began; the date the generator will be placed in service; the purpose of the treatment plant generator; and the estimated cost of the treatment plant generator.

(4) Confirm that Frankfort Plant Board has not included depreciation for the treatment plant generator in its pro forma depreciation expense. If depreciation for the treatment plant generator is included, identify the amount and provide the estimated useful life of the generator.

(5) Provide a detailed explanation for why the cost to finance a capital project that was began 12 months after the test-year-end should be included in Frankfort Plant Board's pro forma operations.

e. In its Cost of Service Allocation Study, Frankfort Plant Board uses debt service coverage for the 2009 bonds of \$243,280 and allocates \$55,078 of this amount to the wholesale customers. Provide a detailed schedule showing how Frankfort Plant Board calculated its requested debt-service coverage and its proposed allocation to the wholesale customers.

f. In its Cost of Service Allocation Study, Frankfort Plant Board uses a debt-service coverage for the 2013 bonds of \$91,378 and allocates \$24,992 of this amount to the wholesale customers. Provide a detailed schedule showing how Frankfort Plant Board calculated its requested debt-service coverage and its proposed allocation to the wholesale customers.

7. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Items 31(a) and 31(b).

a. Frankfort Plant Board explains that its proposed increase of \$28,157 to test-year chemical expense is "to account for the anticipated increase in chemical cost at time cost of service study was performed." Provide a detailed explanation of how Frankfort Plant Board calculated the estimated chemical costs on the schedule "Adjustments to Cost of Service."

b. In a prior decision, the Commission made the following finding regarding budgetary adjustments. Provide the information listed in the Commission's finding to support the estimated chemical cost adjustment.

Where an applicant bases its application upon a historical test period, it must provide a "complete description and quantified explanation for all proposed adjustments **with proper support for any proposed changes** in price or activity levels, and any other factors which may affect the adjustment." That support should, at a minimum, include some documentary evidence to demonstrate the certainty of some expected change or event.²

c. Frankfort Plant Board is proposing to increase operating expenses by \$45,000 to reflect the estimated cost of this rate case.

² Case No. 2001-00211, The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity, (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness therefor, (3) Authority to Adjust Rates and (4) Approval to Revise and Adjust Tariff (Ky. PSC Mar. 1, 2002), Order at 7. Emphasis in original.

(1) Provide a schedule that details all test-period expenditures related to the current proceeding, along with a copy of vendor invoices. The schedule should state the nature and amounts of all charges. The invoices should contain detailed descriptions of the services, the amount of time billed for each service, and the hourly billing rate. Identify the account number and title to which each amount was charged.

(2) Provide the anticipated total cost of the case upon completion. The projected amount should be detailed by type of service and vendor, with supporting documentation for each.

(3) Provide a monthly update of the schedule requested in Item 7(c)(1) showing all of the costs incurred as of that date. Include the supporting detailed vendor invoices as requested in Item 7(c)(1).

8. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 5, Exhibit 2, Bond Authorizing Resolution, Frankfort Plant Board's Electric and Water Revenue Bonds, Series 2013. The Bond Resolution was a two-sided copy and Frankfort Plant Board provided only the even page numbers. Provide a complete copy of the bond resolution for Frankfort Plant Board's Electric and Water Revenue Bonds, Series 2013.

9. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 5, Exhibit 1, Bond-Authorizing Resolution, Frankfort Plant Board's Electric and Water Revenue Bonds, Series 2009 at 25.

a. There is a requirement that net revenues should be at least 120 percent of the maximum annual debt-service requirement for any year ending

December 1. Explain whether Frankfort Plant Board followed this requirement in calculating its requested debt-service coverage.

b. The Bond Ordinance requires that depreciation and amortization be excluded from the debt-service calculation. Given this requirement, explain why Frankfort Plant Board has included depreciation expense in its Cost of Service Allocation Study.

10. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 6, Exhibit 1.

a. Provide a list of all water division employees employed during fiscal year ending June 30, 2013. For each employee listed, provide the following:

- (1) Name;
- (2) Title;
- (3) Length of employment with Frankfort Plant Board;
- (4) Test-period pay rate and current pay rate;
- (5) Test-period regular time worked and overtime worked;
- (6) Percentage of test-period payroll capitalized;
- (7) Total test period payroll expensed and capitalized; and
- (8) Type of employee benefits (i.e., health insurance, dental

insurance, vision insurance, pension, etc.) and amounts paid for each by Frankfort Plant Board.

b. Provide a list of those employees whose salaries are allocated to the water division and are classified as either: Administration; Information Technology;

Human Resources; or Support Services. For each employee listed, provide the following:

- (1) Name;
- (2) Title;
- (3) Length of employment with Frankfort Plant Board;
- (4) Test-period pay rate and current pay rate;
- (5) Test-period regular time worked and overtime worked;
- (6) Percentage of test-period payroll capitalized;
- (7) Percentage of test-period payroll allocated to the water division;
- (8) Total test period payroll expensed, capitalized, and allocated to the water division; and
- (9) Type of employee benefits (i.e., health insurance, dental insurance, vision insurance, pension, etc.) and amounts paid for each by Frankfort Plant Board.

c. Identify any employees listed in the response to 10(a) for the fiscal year ending June 30, 2013, that are no longer employed by Frankfort Plant Board. State whether the vacant position has been filled, and if so, provide the date the position was filled. If the position has not been filled, state when you expect to hire a new employee, or whether the position will remain vacant.

d. Provide the information requested in 10(a) for any new water division employee identified in the response to 10(c).

e. Identify any employees listed in the response to 10(b) for the fiscal year ending June 30, 2013, who are no longer employed by Frankfort Plant Board. State whether the vacant position has been filled, and if so, provide the date the position was filled. If the position has not been filled, state when you expect to hire a new employee, or state whether the position will remain vacant.

f. Provide the information requested in 10(b) for any new employee identified in the response to 10(e).

g. Provide a copy of the employee information requested in Items 10(a) – 10(f), on a CD-ROM in Excel format.

h. Provide the employer retirement contribution rate(s) that were effective during calendar years 2011, 2012, and 2013, including the date the rate became effective.

i. If the employer retirement contribution rate has been changed in calendar year 2014, provide the rate and the date it became effective.

11. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 7, Divisional Budget Detail Fiscal Year 2012-2013. Provide a revised schedule substituting the Fiscal Year 2012-2013 actual revenues and expenses for the budget numbers.

12. Refer to Frankfort Plant Board's responses to: (1) the July 23, 2014 Order, Item 9, Water Treatment Depreciation Schedule; (2) Item 2, Exhibit 1, Financial Statements Fiscal Years Ended June 30, 2013 and 2012 at 32; and (3) Item 22, Cost of Service Allocation Study, Schedule B, Cost of Service for the Twelve Months Ended June 30, 2013, Allocated to Customer Classifications at 3.

a. In the Fiscal Year 2012-2013, Frankfort Plant Board lists test-year depreciation expense of \$1,467,012, but in the Cost of Service Allocation Study, depreciation expense is \$1,178,750. Provide a reconciliation explaining the difference in reported depreciation expense.

b. Provide a detailed depreciation schedule to support test-year depreciation expense of \$1,178,750 and includes the following information by Account:

- (1) Original Plant Investment;
- (2) Accumulated Depreciation;
- (3) Depreciation Service Life; and
- (4) Depreciation Expense.

c. Identify the methodology (straight-line or an accelerated method) used by Frankfort Plant Board to calculate depreciation expense.

d. On its depreciation schedule, Frankfort Plant Board identifies donated asset depreciation expense for fiscal year 2012-2013 of \$144,131. Provide a schedule showing how depreciation for donated/contributed depreciation expense was calculated using the same detail as requested in 12(b).

e. Frankfort Plant Board lists donated assets in its response to Item 9. Confirm that depreciation expense associated with the contributed/donated assets is not included in test-year depreciation expense of \$1,178,750.

f. If depreciation on donated/contributed assets is included in test-year depreciation, identify the amount of contributed/donated depreciation that is included and explain why Frankfort Plant Board should be allowed to recover this depreciation from its wholesale customers.

13. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 4, Exhibit 1, Test-Year General Ledger (July 1, 2012 – June 30, 2013). For each cost recorded/allocated to the water division accounts listed in Table II, provide a schedule listing each cost or allocation, a detailed description for each item, and a copy of all invoices related to the cost or allocation.

Table II			
Account Number		Account Title	
Account	Sub Account	Account	Sub Account
633000	20-24	Pumping Maintenance	Water Distribution
652000	20-24	Water Treatment Maintenance	Water - Treatment
678000	01-21	Water Distribution Expenses	Water - Balance Sheet
678000	20-20	Water Distribution Expenses	Water - Overall Water
678000	20-21	Water Distribution Expenses	Water - Distribution
678000	20-22	Water Distribution Expenses	Water - Engineering
678000	20-23	Water Distribution Expenses	Water - Fire Hydrants
920060	20-21	Dues and Subscriptions	Water - Distribution
920060	20-22	Dues and Subscriptions	Water - Engineering
920060	20-24	Dues and Subscriptions	Water - Treatment
920060	20-50	Dues and Subscriptions	Water - Overall Admin & Gen
920060	20-51	Dues and Subscriptions	Water - Administration
920060	20-54	Dues and Subscriptions	Water - Finance
920060	20-56	Dues and Subscriptions	Water - Human Resources
920060	20-57	Dues and Subscriptions	Water - Info Technology
920060	20-59	Dues and Subscriptions	Water - Safety
923400	20-21	Other Consulting - Fees	Water - Distribution
923400	20-22	Other Consulting - Fees	Water - Engineering
923400	20-54	Other Consulting - Fees	Water - Finance
923400	20-56	Other Consulting - Fees	Water - Human Resources
923500	20-24	Other Legal and Accounting	Water - Treatment
923500	20-54	Other Legal and Accounting	Water - Finance
923700	20-21	Other Services	Water - Distribution

14. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 22, Cost of Service Allocation Study. Provide an electronic copy of the Cost of Service Allocation Study and billing analysis in Excel format. Make sure that all

formulas and calculations are included in the spreadsheet so as to verify how each number and dollar amount are calculated and allocated.

15. Explain why there is a need for a large increase in the wholesale rate since Frankfort Plant Board's last rate increase four years ago. What specific changes to the system have occurred to warrant such a large increase?

16. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 22, Cost of Service Allocation Study, Schedule C at 9.

a. Confirm that Frankfort Plant Board is allocating distribution mains 10-inch or smaller to the wholesale customers.

b. In prior rate case proceedings, the Commission has expressed concerns regarding expenses associated with distribution mains 10-inch or smaller being allocated to the wholesale customers. Explain why Frankfort Plant Board is proposing to allocate a portion of the costs of its distribution mains that are 10-inch or smaller to wholesale customers.

c. Provide a hydraulic analysis of Frankfort Plant Board's distribution system that supports allocating a portion of the cost of the distribution mains that are 10-inch or smaller to wholesale customers.

17. Frankfort calculated a proposed increase of \$633,054 in revenues from non-water producers' wholesale customers, or an increase of 44.8 percent over current revenues. Explain how this amount of an increase was calculated.

18. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 4. Provide the June 30, 2014 general ledger.

19. Refer to Frankfort Plant Board's responses to the July 23, 2014 Order, Item 20.

- a. Identify the use for the three unmetered hydrants.
- b. Does use of the unmetered water increase the cost to the wholesale customer?

20. Provide a comparison of the water statistics for the fiscal years 2009-2010 through 2013-2014 using Table III.

	Table III				
	Water Statistics for Fiscal Years				
	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Water Produced and Purchased:					
Water Produced					
Water Purchased					
Total Water Produced and Purchased					
Water Sales:					
Residential					
Commercial					
Industrial					
Bulk Loading Stations					
Resale Customers					
Other					
Total Water Sales					
Other Water Used:					
Utility/Water Treatment Plant					
Wastewater Plant					
System Flushing					
Fire Department					
Other Water Used:					
Total Other Water Used					
Water Loss:					
Tank Overflows					
Line Breaks					
Line Leaks					
Other					
Total Water Loss					
Percentage Water Loss					



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DATED AUG 19 2014

cc: Parties of Record