

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION INTO THE FEASIBILITY)	
OF MERGING KENTON COUNTY WATER DISTRICT)	
#1, CAMPBELL COUNTY KENTUCKY WATER)	CASE NO. 90-020
DISTRICT, AND BOONE COUNTY WATER AND)	
SEWER DISTRICT)	

O R D E R

Before the Commission are several motions on procedural matters brought by Campbell County Kentucky Water District and Kenton County Water District No. 1 ("Water Districts") and by the City of Newport ("Newport"). The Water Districts have moved that this case be held in abeyance and that the Commission's Order of March 26, 1990 which granted Newport leave to intervene in this case be vacated. Newport has moved for leave to participate at all stages of any audit exploring the feasibility and advisability of water district merger. For reasons stated herein, we deny these motions.

The Commission begins with the Water Districts' motion to hold this case in abeyance pending the outcome of their appeals of

the Commission's Orders in Case Nos. 89-014, 89-029 and 89-179.¹ In support of their motion, the Water Districts contend that, as the record in these cases forms the basis for the establishment of this investigation and as "the record" is being appealed, this proceeding would overlap the judicial review process provided by KRS 278.410. They further argue that should the Commission's Orders in those cases be overturned, "then a feasibility study pertaining to the present circumstances would become obsolete and moot under the entirely new operating arrangement between Kenton and Campbell."²

The Commission is unpersuaded by these arguments. Only the Commission's Orders in Case Nos. 89-014, 89-029, and 89-179 have been appealed, not the records in those cases. Furthermore, the Water Districts sponsored most of the evidence suggesting the need for a merger study.³ The Water Districts have presented no

¹ Case No. 89-014, City of Newport v. Campbell County Kentucky Water District and Kenton County Water District No. 1 and Charles Atkins and Steven J. Franzen v. Campbell County Kentucky Water District; Case No. 89-029, Application and Notice of Campbell County Kentucky Water District (A) To Issue Revenue Bonds in the Approximate Principal Amount of \$5,535,000 (B) To Construct Additional Plant Facilities of Approximately \$4,523,000 (C) Notice of Adjustment of Rates Effective May 1, 1989 (D) Submission of Long Term Water Supply Contract; and Case No. 89-179, The Application of Kenton County Water District No. 1 (A) To Issue Revenue Bonds in the Approximate Principal Amount of \$2,335,000 (B) To Construct Additional Plant Facilities of Approximately \$2,032,000 (C) Submission of Contract to Supply Additional Water (Entire Demand) to Campbell County Kentucky Water District.

² Motion to Hold Subject Case In Abeyance, at 3.

³ See, e.g., Case No. 89-014, Transcript, Campbell District Exhibit 8.

evidence to repudiate their prior testimony or exhibits. Finally, the cases on appeal and this case are unrelated. The previous cases concerned the need for certain proposed facilities, the reasonableness of existing and proposed rates for water service, and the prudence of certain management decisions. They did not address the benefits and costs, the advantages and disadvantages, nor the theoretical and practical consequences of merging the water districts of Northern Kentucky. The outcome of the appeals will not substantially affect the merger feasibility study nor will it increase the cost or complexity of the study. The existence of the appeals will be one factor, among many, to be reviewed and considered by the merger feasibility study.

The Water Districts' have also moved to vacate the Commission's Order of March 26, 1990 contending that the Commission erred in permitting Newport's intervention in this case. They assert that Newport has no special interest in this proceeding since it is not a customer of either water district and, therefore, has no interest in their rates or service. As Newport is a municipal utility and not subject to the Commission's regulatory jurisdiction, the Water Districts argue that Newport will not be directly affected by any Order issued in this case. Furthermore, the Water Districts argue that Newport is not a person under KRS 278.010(2). Finally, the Water Districts argue that KRS 74.361 limits the procedures which the Commission may employ to investigate the feasibility and advisability of water district merger. KRS 74.361, they insist, does not provide for

the intervention of municipal water systems in the investigatory phase of this proceeding.

Based on our review of the Water Districts' motion, the Commission hereby finds that Newport satisfies the requisites for intervention. Commission Regulation 807 KAR 5:001, Section 3(8), specifies that a person shall be granted full intervention in any proceeding in which he has a special interest if that interest is not otherwise adequately protected or that person is likely to present issues or develop facts which will assist the Commission in fully considering the matter. Newport is currently Campbell District's principal water supplier. As such, the Commission believes it has a special interest in any reconfiguration or reorganization of the existing water production and distribution systems in Northern Kentucky. Furthermore, as Campbell District's supplier Newport is likely to present issues and facts which will assist us in determining the feasibility and advisability of merger. Newport, as a municipal corporation, clearly meets the statutory definition of a "person."⁴

⁴ KRS 278.010(2) defines a person as including "natural persons, partnerships, corporations, and two or more persons having a joint or common interest (emphasis added)." In City of Georgetown v. Pub. Serv. Comm'n, 516 S.W.2d 842 (Ky. 1974) the Kentucky Supreme Court held that the term "person" as it appears in KRS 278.020(1) did not include cities. This interpretation has never been extended to the rest of KRS Chapter 278. Were the Commission to now adopt such an interpretation it would prohibit any city, including those which are customers of public utilities, from intervening in Commission proceedings. Such a result would conflict with the clear purpose and intent of KRS Chapter 278.

KRS 74.361, furthermore, does not preclude Newport's intervention in this proceeding. KRS 74.361 is silent on the subject of intervention. It proscribes no procedure concerning intervention into proceedings of this type nor does it expressly exclude anyone from intervening. KRS 74.361 merely authorizes the Commission to conduct investigations and hearings where appropriate. The Commission's own regulations would govern the issue of intervention in formal proceedings. KRS 278.310.

We now turn to Newport's motion. Newport requests that the intervenors be allowed to fully participate in the preparation of any feasibility report so that their concerns can be addressed therein. It further requests that all intervenors be "apprised of and afforded the opportunity to attend meetings or conferences to which all other parties are invited, and to comment upon all documents, such as draft reports, when other parties are allowed to do so." Newport contends that such participation will not only ensure more complete information upon which to base a final report, but also lessen the need of intervenors to aggressively pursue discovery should a hearing be held. Finally, Newport asserts that the participation of the intervenors at all levels of this proceeding is required "to have a full and fair investigation."

Newport's motion ignores the procedural safeguards contained in KRS 74.361. The statute requires that a "feasibility report and study" be prepared as a prerequisite to any merger order. This study is not binding on the Commission. Before any merger can be effected, a public hearing must be held and all parties

will be afforded their due process rights to present evidence, cross-examine all witnesses, and submit memoranda, written evidence and briefs. Only after this hearing may the Commission enter a final Order. Clearly such procedures afford adequate protection to Newport's interests and ensure a complete and full record upon which the Commission can make its decision.

The Commission is aware of no statute which requires any interested parties' participation in the preparation of the feasibility report and study. KRS 74.361 does not require it. In previous cases where the Commission has caused a feasibility report to be prepared, we have not sought the parties' participation in the actual preparation of such reports, nor have we sought their comments prior to a report's completion and issuance. This is normal practice for all reports prepared by Commission Staff. Newport has failed to persuade us to depart from that practice in the present case.

Due to the size of the water districts involved in this case and the need for a complete and independent feasibility report, the Commission finds that, pursuant to KRS 278.255, an independent auditing firm should be retained to perform an operations audit of these Water Districts to determine the feasibility of merger. KRS 278.255 provides that each utility being investigated shall have "the opportunity to comment at various stages of the audit, including an opportunity to comment on the initial work plan and an opportunity to review and comment on preliminary audit drafts prior to the issuance of a final document." KRS 278.255(4). The decision to perform an operations audit will require us to depart

from normal Commission practice and allow the three water districts to review and comment on drafts of the audit report.

Newport argues that the intervenors should be given the same right of participation. It emphasizes that this case, unlike most instances where KRS 278.255 has been invoked, is an adversarial proceeding. As such, their participation is required.

The Commission finds no merit in this argument. Participation of the intervenors may unduly complicate and delay the preparation of the audit report. While the three water districts have a statutory right to review and comment, they have no right to control the drafting of the audit report. Their comments and the auditor's responses will be fully documented. If any intervenor believes that undue or improper influence has been exercised over the independent auditor, that issue can be raised at any hearing on the report. All intervenors will also have the right to cross-examine the auditors and to conduct discovery. The Commission finds that these steps will afford the intervenors their due process rights. We note that independent auditors have previously been used in adversarial proceedings before us without infringement of intervenors' rights.⁵

While the intervenors' participation should not be permitted in the preparation of the audit report, the Commission finds that the intervenors should be allowed an opportunity to comment on the draft Request for Proposals ("RFP"), a copy of which is attached

⁵ See, e.g., Case No. 9631, An Investigation into the Fuel Procurement Practices of Kentucky Utilities Company.

hereto as Appendix A. Such an opportunity comports with the Commission practice established in Case No. 9631 and will allow all parties a voice in the initial direction of the audit.

IT IS THEREFORE ORDERED that:

1. The Water Districts' motions to hold this case in abeyance and to vacate the Commission's Order of March 26, 1990 are denied.

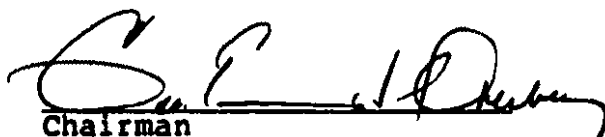
2. Newport's motion for leave to participate in any audit exploring the feasibility and advisability of water district merger is denied.

3. Pursuant to KRS 278.255(3), a competent, qualified, and independent firm shall be retained to audit the operations of Boone County Water and Sewer District, Campbell County Kentucky Water District, and Kenton County Water District No. 1 and prepare a written audit report on the feasibility and advisability of merging two or more of these water districts.

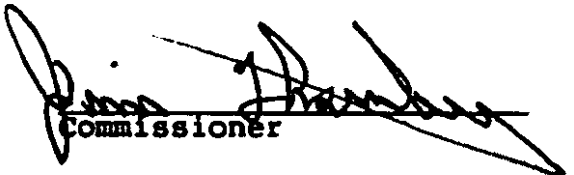
4. All parties shall have until April 24, 1990 to submit written comments to the Commission on the draft RFP.

Done at Frankfort, Kentucky, this 12th day of April, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

DRAFT

**PUBLIC SERVICE COMMISSION
REQUEST FOR PROPOSAL**

1. Invitation to Propose

The Public Service Commission of Kentucky ("Commission") is seeking proposals for all consulting services required for the completion of a focused management and operations audit to investigate the advisability and feasibility of merger between Kenton County Water District No. 1 ("Kenton District"), Campbell County Kentucky Water District ("Campbell District"), and Boone County Water and Sewer District ("Boone District"). The main office locations of these districts are in the northern Kentucky cities of Edgewood, Cold Spring and Burlington, respectively. Each district is organized under the provisions of the Kentucky Revised Statutes ("KRS") 74.

This investigation was ordered by the Commission in Case No. 90-020 pursuant to KRS 74.361 which states the legislative finding that reduction in the number of operating water districts in the Commonwealth will be in the public interest and that mergers of such districts will tend to eliminate wasteful duplication of facilities and efforts resulting in a sounder and more businesslike degree of management, and ultimately result in greater economies, less cost, and a higher degree of service to the general public, and that public policy favors the merger of water districts wherever feasible.

The Kenton District was organized in 1926. As of December 31, 1988 Kenton District had net utility plant of \$33,391,154 and long-term debt of \$30,389,562. In 1988, Kenton District's revenues from sales of water were \$8,774,669 derived from sales of approximately 7.4 billion gallons of water to 31,828 residential, commercial and industrial consumers, and 10 resale customers. The Campbell District and Boone District are two of Kenton District's resale customers. Kenton District had a residential customer base of 28,906 consumers at the end of 1988. Kenton District produces its own water using the Licking River and Ohio River as its basic sources. In 1988, Kenton District produced approximately 8.9 billion gallons of water and had a line loss of 13.8 percent.

The Campbell District was organized in 1955. As of December 31, 1988, Campbell District had \$14,812,966 in net utility plant and long-term debt of \$6,710,797. In 1988, Campbell District's revenues from sales of water were \$3,957,537 derived from sales of approximately 1.7 billion gallons of water to 15,762 residential, commercial and industrial customers, 278 public authority customers, 3 resale customers, and fire protection customers. Campbell District had a residential customer base of 15,041 consumers at the end of 1988. Campbell District purchases all of its water from two sources: the Kenton District and the city of Newport. In 1988, Campbell District purchased approximately 2.0 billion gallons of water and had a line loss of 14.5 percent.

In 1973, the Mentor Water District and Campbell County Water District No. 3 were merged with Campbell County Water District No. 1. Additionally, in 1975, Campbell County Water District No. 2 was merged with Campbell County Water District No. 1 to form the present Campbell District.

The Boone District was formed in 1952. As of December 31, 1988, Boone District had net water utility plant of \$5,757,585 and long-term debt of \$1,645,000. In 1988, Boone District's revenues from sales of water were \$1,488,591 derived from sale of approximately 627 million gallons of water to 5,126 residential and 373 commercial customers. Boone District purchases all of its water from the Kenton District. In 1988, Boone District purchased approximately 730 million gallons of water and had a line loss of 14.1 percent.

The purpose of the focused audit will be to determine the advisability of merger of all or any of the three districts. The Commission in its order in Case No. 90-020 recognized the legislative finding in KRS 74.361 and additionally found that sufficient evidence existed in the records of Case Nos. 89-014, 89-029 and 89-172 to indicate that a regionalized water district in northern Kentucky may be advisable and, therefore, initiated this study. This focused audit will provide information to assist the Commission in its determination regarding whether merger will provide, both on a short-term and long-term basis, greater economies, better operating efficiencies and a higher quality of service than would be attainable under the present conditions.

The Commission believes that such audits are an essential tool of a regulatory agency seeking to protect the interests of utility consumers. The Kentucky General Assembly passed legislation KRS 278.255 providing for management and operations audits of any utility under Commission jurisdiction.

If your firm is interested in submitting a proposal to conduct the audit, you should submit twenty bound copies and one unbound, reproduction-ready copy of your proposal no later than close of business on June 26, 1990. Any proposal received after this deadline will not be considered. Your response should be addressed to:

Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, Kentucky 40602

Attention: Russ Bauer
Management Audit Branch

After receipt of proposals, the Commission may request certain firms bidding on the project to appear before the Commission and Staff to present a proposal briefing and to respond to questions. It is anticipated that the project will take 6 months and begin September 10, 1990. Because it will be necessary for the consultant to provide testimony in an upcoming formal proceeding, it is essential that the audit be completed successfully by May 13, 1991.

2. Objectives and Scope of the Study

The objectives of this study include the determination of the effect of merger on the management and operation of the three districts, on the quality of service provided to the customers, and on the rates charged to the customers. The ultimate purpose is to determine if merger of any or all of the three districts is in the interest of the customers.

The audit will be a focused review of the management, operation and facilities of each district. Although the scope of this review is focused, it will require that the inquiry be broad enough but in sufficient depth to determine if cost efficiencies and improved service will accrue to the customers as a result of merger. Both the short-term and long-term consequences of any action must be examined. Quantification of cost efficiencies and service improvements must be provided to support the recommendations of the consultant's report. To the extent possible, recommendations concerning the structure of any proposed merger should be supported with specific findings.

Scope

It is expected the scope of this review will encompass the following subjects:

- I. Examine past and present cases before the Commission.
- II. Examine reports and other information including each district's annual reports, past safety inspections, water purchase agreements, complaint history, and reports filed with the Division of Water.
- III. Examine the operations of each district in sufficient depth to determine: the extent to which each district is in compliance with 807 KAR 5:066; an estimate of the amount of renovation or replacement required to bring the plant into compliance; the adequacy and reliability of service provided; and, the sufficiency and reliability of supply.

- IV. Verify the location of district offices, service territory, general location of each system, and specific location of plant facilities and service connection. Determine adequacy of facilities for individual water districts and merged water districts. Estimate net present value of costs/savings that may result from increase/reduction in facility requirements of merged districts.
- V. Determine responsibilities and duties of field personnel. Review each district's meter test program, safety program, and daily operating log, specifically noting response time to emergencies and service outages. Determine if savings and/or improved services may result from merger.
- VI. Review debt structure of each water district. Examine each bond issue and other debt instruments to determine to what extent debt can be refinanced in case of merger. Review financing requirements over next 10 years to determine if any economies in financing may result from merger. Identify any financial impediments to merger.
- VII. Determine current number of employees and services provided by each water district. Given current services estimate number of employees required. Review employee skills. Estimate potential costs/savings that may result from reduction of duplicative services.

Review all consulting and legal expenses incurred over the past five years. Determine if under a merged water district there would be any savings from joint contracting or providing the current services internally.
- VIII. Review source of water supply. Review each water contract, note the supplies, cost of water and terms and conditions for contracts. Determine if there are any savings that may result from changes in contracting needs, contract costs, and terms and conditions of contracts.
- IX. Review regional water requirement projections and any plans developed to meet these projections of Northern Kentucky ADD. Review each water requirement projections and plans for meeting these projections. Determine if merger is consistent with Northern Kentucky ADD's water requirement projections and plans. Determine if merger will result in an overall reduction in projected expenditures for meeting future demand requirements. Review system planning process at each water district. Determine if current system planning at each district is adequate and if there are economies that may result from merger.
- X. Review management practice, procedures and operation at each of the water districts. Determine if there are any economies that may result from merged districts. Quantify all savings and costs.

XI. Review customer services at each of the individual water districts. Included in this review should be safety inspections, complaint histories and water quality reports.

XII. Review system engineering and support services at each water district. Determine if system engineering and support at each is adequate. Determine if there are any economies from merger.

3. Role of Commission and Staff

The consultant should realize that the Commission is the principal client. Therefore, it is necessary that the Commission maintain control of this engagement. The Commission has established a Management Audit Branch. Mr. Russ Bauer, of the Management Audit Branch, will be the Staff Project Officer designated by the Commission to insure satisfactory and timely performance of the proposed work. Mr. Bauer will be the sole contact for the consultant in any discussions with the Commission.

The consultant will be responsible for including the members of the Management Audit Branch and other Commission personnel in the planning and organization meetings in all stages of the audit as directed by the Staff Project Officer. Individual Commission staff members participating in the audit will not function in an advisory capacity to the Commission in any merger investigation arising from recommendations in this report.

The Commission will rely upon the Staff Project Officer to answer questions about the project and the management and operations of the subject utility. It will be necessary, therefore, that the Staff Project Officer, Management Audit Branch and Commission personnel be involved in the work of the management consultants. This will include attending selected interviews,

reviewing analytical procedures, and monitoring the study's progress as to scope, budget, work plans, time, etc. In any event, it is expected that the consultant will frequently discuss the project's progress informally and directly with the Staff Project Officer. The consultant's willingness to work with the Staff Project Officer in the described manner should be stated in the proposal.

The consultant shall include in the proposal an estimate of the amount of time to be spent on-site during the audit. A spreadsheet should be included in the proposal to identify on-site hours for each task area. The Commission expects that a majority of the total hours by the consultant will be spent on-site to allow the Management Audit Branch to effectively maintain control of the engagement. The Commission expects that the consulting firm will have a Project Manager on-site for the majority of this project.

In order to be kept apprised of the study's progress, periodic oral and written reports will be necessary in addition to the informal contact between the consulting staff and the Staff Project Officer. These reports are described below.

Weekly Informal Reports: By the first of each week, the consultant will provide written notice of the proposed interviews and site visits scheduled for the following week to the Staff Project Officer for review and approval.

Monthly Written Status Reports: Based on the task plan submitted with the proposal, the monthly reports should consist of two parts:

1. General narrative briefly describing progress to date and outlining reasons for any discrepancies between the task plan schedule and progress to date. This narrative should also contain a statement indicating the status of the study in relation to time--ahead, behind, or on schedule.
2. Status sheet indicating actual hours logged by category (i.e., project manager, senior analyst or auditor, junior analyst or auditor, etc.), in each functional area or special interest area by consultant, material and supplies cost, and other costs, showing percentage of each in relation to proposal costs.

Monthly reports (in triplicate) should be in the hands of the Staff Project Officer by the tenth working day following the end of the month and shall be submitted for each month worked.

Interview Summaries: By the fifth working day after each interview, formal summaries of each interview, including conclusions/observations, data requests generated and follow-up required, shall be forwarded to the Staff Project Officer. These summaries shall become part of the working papers of this audit.

Interim Written Status Reports: The consultant shall include in the proposal provision for other interim written status reports consistent with the overall project design.

4. Contractual Arrangement

The contract for this engagement will be between the Commission and the consultant. Payments to the consultant on a contract entered into as a result of this RFP will be based upon hours actually expended on this engagement at rates quoted in the proposal. Total payments under this contract will not exceed the

total authorized reimbursable cost quoted in the proposal. Total authorized reimbursable cost includes itemized cost of supplies and materials, cost of transportation and per diem expenses, and subcontract cost. The final fifteen percent (15%) of the total authorized reimbursable cost of the audit will be withheld until delivery of a copy of the final report to the Commission. Work under this contract is not to be subcontracted without the prior written consent of the Commission. Neither the rights nor duties of the consultant under this contract are to be assigned without the written consent of the Commission. Neither the Commission nor the Kenton District, Campbell District or Boone District are liable for any costs incurred prior to the issuance of the contract, including such costs incurred by the successful bidder.

The Commission expects that this study will be completed in a timely manner. While it is expected that this study will be completed within 6 months, the study shall be completed no later than 8 months from the start date unless mutually agreed upon by the Commission and the consultant. If the study's completion is delayed beyond 8 months without mutual agreement by the Commission and the consultant, the consultant shall forfeit 10 percent of the total cost of the project.

All invoices shall be presented by the 10th working day of the month for services provided in the previous month. The Staff Project Officer shall review and approve all invoices. The invoices will then be forwarded for payment to the consultant, such payment to be made within 10 working days of receipt of same.

In case of termination for reason other than fault of the consultant, the consultant shall be paid all monies due for services rendered up to the termination date, as well as all monies due for commitments which cannot be terminated at such termination date or be otherwise mitigated. If the termination is due to the fault of the consultant or his failure to comply with terms of this contract, he shall be entitled to compensation only for such work that has been completed to date and is accepted by the Commission.

It is the intent of the Commission to assure that any consulting firm, or any of the employees of such a firm who are in a position to directly affect the outcome of the report or services rendered under this contract, shall during the course of the contract, be in strict compliance with the following provisions concerning conflict of interest:

A. Solicitation or Acceptance of Gifts or Favors:

No firm or employee (as referred to above) shall solicit or accept anything of value to the recipient, including a gift, loan, reward, meal, promise of future employment, favor, or service from employees or representatives of the business entity (or any of its affiliates) which is the subject of this contract.

B. Conflicting Employment or Contractual Relationship:

No firm or employee (as referred to above) shall have or acquire any employment or contractual relationship with the business entity (or any of its affiliates) which is the subject of this contract. It is further required that any such relationship (held or acquired during the course of this contract) with any other business entity, which is subject to the regulation of this Commission, shall be discussed with this Commission as to the timing and subject of such relationships. The consulting firm selected shall certify that it will not perform subsequent work for this company (or any of its affiliates) for a period of two years following the completion of the study without submitting prior notification to the Commission for its approval.

C. Disclosure or Use of Certain Information:

No firm or employee (as referred to above) shall disclose or use any proprietary information concerning operations of the business entity being studied, which has been gained by reason of its/his official position as a representative of this Commission and which is not available to the general public, for corporate or personal gain or benefit, or for the gain or benefit of any other business entity or person, without the necessary written approval.

D. Disclosure of Specified Interests:

If any firm or employee (as referred to above) holds any interest (other than paragraph B above) or owns or acquires a material financial position in the net worth of the business entity under study, a statement shall be filed disclosing such facts prior to signing any contract with this Commission, or immediately upon the establishment of such an interest, if such takes place during the course of a contractual obligation to this Commission.

E. Corporate Conflict of Interest Policy:

All consulting firms desiring to do business with this Commission must submit, as part of their proposal or potential contract, a copy of their Corporate Conflict of Interest Policy, particularly in regard to stock ownership and/or financial relationships with clients. In the case of non-incorporated consultants or where no corporate policy exists, a statement of intention to comply with the preceding provisions must be submitted.

5. Contents of Proposal

Consultant's proposals should include the following:

A. STATEMENT OF THE PROJECT

State in succinct terms your understanding of the project presented in this RFP.

B. MANAGEMENT SUMMARY

Include a narrative description of the proposed effort and a list of the end products that will be delivered.

C. WORK PLAN

Task descriptions are to be the guide in describing your technical plan for accomplishing the work. The task descriptions should be in sufficient depth to afford the Commission and Staff a thorough understanding of your work plan. The description should include an estimate of the number of hours each primary member of the auditing team will devote to each task, functional area, and special interest area. Consultants are cautioned that their proposals may be rejected if their work plan does not specifically detail how each of the task descriptions is to be accomplished.

D. PRIOR EXPERIENCE

Submit a statement of similar management audits conducted in the previous 5 years. Provide a copy of the most recently completed audit report. This would also apply to a subcontractor if appropriate. Indicate specifically any management audits of utilities and provide copies of such audit reports. Experience shown should be work done by your company rather than by individuals. Studies or projects referred to should be identified and the name of the client shown, including the name, address and phone number of the responsible official of the client company or agency who may be contacted.

E. PERSONNEL

Include the names of all personnel--executive, professional, management analysts, systems analysts, auditors, staff consultants, etc.--who will be engaged in the work. Their education and experience in auditing and management evaluations, especially for utilities, must be included.

F. STATEMENT ON POTENTIAL CONFLICTS OF INTERESTS

The consultant shall identify any relationships between itself and/or any of its affiliated companies (including prior relationships of individual personnel to be performing the work) and the utility to be audited. This would include any work done during the last five years for the utility, its subsidiaries, parent corporations, subsidiaries of the parent corporation, or other organizations associated with the utility industry. If there have been no such relationships, a statement to that effect is to be included in the proposal. If, during the audit, it is determined that an undisclosed conflict has or had existed between the consultant and the utility, the Commission reserves the right to terminate the contract.

G. BUDGET ESTIMATES

For each task described in C above, a cost estimate shall be provided. The cost estimate for each task shall include manpower costs, costs of supplies and materials, subcontractor costs, transportation costs and total cost. The manpower costs should be broken down to identify the category of personnel, estimated hours, rate per hour and total cost. A firm maximum cost for the proposal shall also be provided.

H. TIME ESTIMATES

For each task described in C above, an estimate of the elapsed time required for completion shall be provided. Include a display of the complete schedule of the project showing each event. An estimate of the percentage of time spent on-site shall be provided.

I. INITIAL REQUEST FOR DOCUMENTS

The consultant shall submit an initial information request of pertinent documents as a part of the proposal. Upon final selection of the consultant by the Commission, the audited utility shall initiate responses to the initial information request thus enabling the consultant to have access to the requested information during the early stages of the audit.

J. WORK SPACE

Requirements for working/office space at the utility's headquarters should be specified in the proposal.

K. SIGNATURES

All proposals must be signed by an official authorized to bind the consultant to its provisions. The successful bidder's proposal and the proposal contents will become contractual obligations of the consultant. All proposals submitted shall become the property of the Commission.

6. Selection Criteria

All proposals received shall be evaluated by the Commission and the Management Audit Branch. To select the proposal which most closely meets the requirements of this request for proposal, consideration will be given to several factors. One factor will

be the consultant's understanding of the Commission's objectives and a proposed approach that satisfies these needs. Another important factor will be the experience and ability of the staff assigned to the project and their capability to perform the proposed work. Also attention will be given to the proposal's description of tasks in the work plan to determine if the consultant possesses the knowledge and understanding of the technical functions to be examined in the study. Another important factor is the consultant's willingness to include the Management Audit Branch and Commission personnel in the various stages of the audit. Cost will be given significant consideration, although it will not necessarily be the deciding factor. Finally, demonstrated ability to meet stated deadlines will also be a consideration.

7. Testimony

The selected consulting firm must be willing to stand behind its conclusions and recommendations by testifying in a proceeding before the Commission at its standard compensation rates. The consultant should designate its witness or witnesses and state its hourly compensation rate with the proposal. This rate should be firm through December, 1991. Payments to the consultants will be based upon the hours expended at rates quoted in the proposal. Total payments under this section of the contract will be for actual expenses incurred and approved by the Staff Project Officer.

8. Draft/Final Report

It is expected that the final report will evolve from a draft report due at least 30 days prior to the submission of the final report. The draft report should be comprised of the task reports and recommendations. In addition, all draft reports shall be footnoted. Each utility, the Management Audit Branch and the consultant will review the findings of each task report at a 5-party roundtable meeting prior to the issuance of each task report. Task reports shall be submitted early enough in the project to allow for additional in-depth analyses and subsequent revisions. Upon review of the task reports, the Management Audit Branch and each utility will provide written comments to the consultant so that the consultant can make any changes of fact before completing the final report. The consultant must address each of the utility's comments to the draft report at a final review meeting.

The Commission requires the final report to be in a narrative form with footnotes and include the following, written in terminology that will be meaningful to the Commission, each district and intervenors that are generally familiar with the subject areas:

- A. General Statement and Executive Summary
- B. Recommendations regarding merger and/or evaluation of Items I-XII on pages 5,6 and 7.

It will be necessary that recommendations be justified and accompanied by adequate supporting information.

The consultant shall provide the Commission with 50 copies and one unbound, reproduction-ready copy, and each water district with five (5) copies of the final report. All copies of the final report shall be footnoted. The final report is due 6 months from the beginning of the audit.

9. Work Papers

It is expected that all formal work papers utilized by the consultant during the course of the study will be available to the Commission during the audit and turned over to the Commission before the end of the audit. At a minimum, the working papers should include interview summaries, data request responses, draft chapters, and any special analyses prepared by the consultant.