

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WEST MCCRACKEN)
COUNTY WATER DISTRICT FOR (1) GENERAL) CASE NO. 95-588
RATE DECREASE (2) REFUND TO CUSTOMERS)

O R D E R

IT IS ORDERED that West McCracken County Water District ("West McCracken" or "District") shall file the original and 6 copies of the following information with the Commission, with a copy to all parties of record, no later than 30 days from the date of this Order. West McCracken shall furnish with each response the name of the witness who will be available at the public hearing to respond to questions concerning each item of information requested.

1. Provide copies of minutes of the District's Board of Commissioners' meetings from October 1994 through the present.
2. Provide copies of all contracts and agreements now in effect between West McCracken and any other party, such as purchased water contracts, lease or rental agreements, etc.
3. Provide information disclosing any possible contingencies that could be assessed against the utility.
4. Provide copies of all correspondence distributed by West McCracken to its entire customer list from October 1994 through the present.
5. Provide copies of West McCracken's general ledger, cash receipts journal, and cash disbursements journal for the months of July 1994 through December 1995.

6. Identify any test year revenues or expenses which are nonrecurring or extraordinary in nature.

7. Refer to Exhibit A, Introduction, of the Application.

a. Describe in detail the errors in the monthly cash flow reports utilized by the District which allegedly caused the PSC staff to apply capital expenses to operation and maintenance costs in its Staff Report dated April 17, 1995, in Case No. 94-450.¹

b. Provide a detailed schedule, including vendor, date and amount of invoice, date and amount paid, and description of expense, for each capital expense that was allegedly incorrectly included in operation and maintenance costs as calculated by PSC staff.

8. Refer to Exhibit A of the Application, Refund.

a. Assuming West McCracken is charging the rates authorized in its approved rate schedule, explain the justification for a rate refund as requested by West McCracken and explain why the Commission's ordering such a refund would not constitute retroactive rate-making.

b. Explain how West McCracken determined that the appropriate refund amount would be an amount equal to the difference between its existing and proposed monthly minimum

¹ Case No. 94-450, The Application of West McCracken County Water District for (1) General Rate Increase, (2) Revision of Tariffs, (3) Approval of Surcharge, and (4) Request for Approval of Variance on Financial Data.

charge.

c. Provide a schedule of West McCracken's refund account showing monthly deposits, disbursements, and interest earned.

d. Explain how West McCracken determined the appropriate amount to deposit to this refund account each month.

e. Describe the procedures being followed to account for potential liability to customers who leave the District before the Commission decides the refund issue.

For Questions 9 - 18, refer to Exhibit B of the Application, Table 1.

9. Provide a schedule of interest income. Include type of account or investment, amount of interest earned during the test year, and the current interest rate. Also state whether the interest is restricted or available to offset expenses of the District.

10. Provide a schedule to describe the source and amount of each component of "other" income of \$5,428, reported during the test year.

11. Provide a schedule to support test year insurance expense of \$6,656. Include vendor, premiums paid during the test year, type of coverage, and effective dates of coverage.

12. Provide a schedule of employees including job title, job duties, length of employment, and current salary. For each employee who is paid according to hours worked, include the average

number of hours worked per week. Identify the account(s) in which the salary for each employee is included for the test year. If salaries are allocated among various accounts, provide documentation and calculations to support the allocations.

13. Provide a schedule of employee benefits. Include contribution rate or monthly cost to the District.

14. How many commissioners does West McCracken have? How much are they paid? Which test year account includes commissioner fees?

15. Provide invoices to support the actual test year purchased water expense of \$126,110.

16. Provide invoices to support test year accounting and legal & engineering expenses of \$2,450 and \$5,145, respectively.

17. State whether West McCracken has incurred or expects to incur rate case expenses as a result of this proceeding. If yes, provide itemized invoices, as they become available, to support rate case expense.

18. Provide a schedule of miscellaneous expense. Identify the types of expenditures and amounts which make up the test year total of \$4,084 and provide any available supporting documentation for these expenses.

19. Refer to Table 1 of Exhibit B of the Application, Notes.

a. Note 4. Provide invoices to support test year purchased power expense of \$3,616. State the date as of which the District no longer expects to incur this expense.

b. Note 5. Provide a schedule of the accounts to which the note refers. For each account identify the portion of test year expense attributable to salaries, maintenance parts, contract labor, and repairs. Explain how these allocations are determined and documented.

c. Note 6. Provide documentation and calculations to support the proposed 3.5 percent increase to Billing Supplies and Office Supplies & Expense.

d. Note 7. Provide calculations to support the proposed 5 percent increase in salaries.

e. Note 7. Provide calculations to support the proposed 5 percent increase to taxes and employee benefits.

f. Note 8. Provide calculations to support the proposed increase in workers' compensation insurance.

g. Note 9. The proposed increase in depreciation of \$3,750 appears to be the depreciation expense for the Cunningham Palestine School Road and Woodville Road Projects. ($\$150,000 \div 40$ years = \$3,750.) Explain why a depreciation adjustment was not included for the Red Elm Estates, Kingsway, and Bethel Heights Projects. If depreciation adjustments for these projects were omitted as a result of error, provide a corrected, amended Table 1 and Table 3I.

20. Provide schedules of all short and long-term debt instruments, including amortization schedules.

21. Refer to the Depreciation Schedule included in Exhibit B, Table 3I, of the Application. In Case No. 94-450, West McCracken proposed an adjustment to include depreciation expense on lines that were placed in service but not reflected on the auditor's 1994 depreciation schedule. In the final Order in that case, an increase was included for the following projects: Forrestdale, Bethel Church Road, Chickasaw, Wedel, Timberland, and Bethel Heights.

a. Explain where these extensions are included on the 1995 depreciation schedule.

b. If the extensions are not reflected on the depreciation schedule, explain why an adjustment was not proposed to include the related depreciation expense in this filing.

c. If depreciation adjustments for these projects were omitted as a result of error, provide a corrected, amended Table 1 and Table 3I.

22. In Case No. 94-450, a provision was included for the depreciation of a truck West McCracken proposed to purchase. State whether or not West McCracken has purchased a new truck. If yes, provide a copy of the invoice and terms of payment. If no, explain why the truck has not been purchased.

23. In the final Order issued in Case No. 94-450, the Commission approved a 5-year surcharge of \$0.47 per 1,000 gallons of water sold to be used to finance the construction of various

projects with a total estimated cost of \$1,535,000.² Based on West McCracken's number of customers at that time, 1,010, Staff estimated that the surcharge would produce annual revenues of approximately \$39,217. Over a period of 5 years the surcharge would produce total revenues of \$196,084. West McCracken indicated that depreciation reserves would also be used to finance these projects.

a. Provide the first semi-annual surcharge statement, due January 30, 1996, as required by Ordering Paragraph 8 in the Commission's Order of July 27, 1995 in Case No. 94-450.

b. Provide the current level of depreciation reserves. Identify the portion of depreciation reserves available to help finance the proposed construction projects. State the level which must be maintained in the depreciation reserve account to comply with West McCracken's bond ordinance, if applicable.

c. During the field review performed in conjunction with Case No. 94-450, Staff was advised that additional financing would be available as a result of the customer growth realized from these projects. The December 21, 1995 customer notice distributed by West McCracken attributes the anticipated revenues from these new customers as the reason for requesting a rate decrease. Explain why these additional revenues from new customers are no longer needed to finance those various construction projects.

² Response to Staff Report by West McCracken County Water District, Case No. 94-450, Item D. Surcharge.

d. Explain how the additional cost of construction of \$1,338,916³ will be financed.

e. Provide the final loan documents from Peoples First National Bank and Trust Company related to the \$150,000 line of credit established for the construction of water line extensions and described in Case No. 95-355.⁴

24. Provide a copy of West McCracken's depreciation schedule for 1994.

25. Provide a copy of the December 31, 1994 financial audit of West McCracken.

26. Provide a copy of the accountant's adjusting journal entries (including explanations) made in preparation of the December 31, 1994 audit report.

27. Provide a copy of the accountant's adjusting journal entries (including explanations) made in preparation of the September 30, 1995 audit report.

28. Refer to Exhibit C of the Application.

a. Explain why West McCracken declined to present a statement of cash flows for the year ended September 30, 1995.

b. In the Notes to Financial Statements, Note E, it is stated that the District was not able to meet fully its bond

³ \$1,535,000 - \$196,084 = \$1,338,916

⁴ Case No. 95-355, West McCracken County Water District Application for Certificate of Public Convenience and Necessity.

obligations of October 1, 1994. State whether the District met its bond obligations of October 1, 1995.

29. Refer to Exhibit D of the Application, West McCracken's customer notice dated December 21, 1995. Have estimates been obtained for the installation of a drive-up window and night depository at West McCracken's office? If yes, provide copies. Explain how West McCracken intends to finance these projects.

For Questions 30 - 36, refer to Exhibit B of the Application.

30. Refer to Table 2H.

a. Was this customer included in the billing analysis in Case No. 94-450?

b. How were the rate increments determined for this customer?

c. What size meter does this customer use?

31. Refer to Table 2I.

a. Was this customer included in the billing analysis in Case No. 94-450?

b. How were the rate increments determined for this customer?

c. What size meter does this customer use?

32. Refer to Table 2N. Does this table include usage for Cablec?

33. Refer to Tables 2O and 3F. Explain how the minimum bill or customer charge of \$42.65 was determined.

34. Refer to Tables 2P and 3G. Explain how the minimum bill or customer charge of \$51.18 was determined.

35. Refer to Table 3.

a. Explain where the adjustment is shown for the temporary 2" meter used by a construction company as stated in Note 1.

b. Explain where the adjustment is shown for customers with 2" meters installed in September and October of 1995.

c. Explain where the adjustment is shown for 34 additional customers to be added to the system when the extensions are completed.

36. Refer to Table 3E.

a. For which month of the test period is usage by Cablec shown in this table and how many gallons were used?

b. Provide a breakdown of monthly usage for each customer separated by meter size. Include customer name or account number and total usage for the test period. Provide this information on a computer disk in a spreadsheet format compatible with Lotus 123.

Done at Frankfort, Kentucky, this 20th day of February, 1996.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director