

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF)
THE FRANKFORT ELECTRIC AND WATER) CASE NO. 96-595
PLANT BOARD)

O R D E R

IT IS ORDERED that the Frankfort Electric and Water Plant Board ("Water Plant Board") shall file the original and 12 copies of the following information with the Commission no later than February 28, 1997 with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. Where information requested herein has been provided in this proceeding, in the format requested herein, reference may be made to the specific location of that information in responding to this Order. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Provide the total company adjusted trial balance as of June 30, 1996. This trial balance should correspond directly to the amounts shown in the Independent

Auditor's Report for the same period (Water Plant Board's Application at Exhibit 2). If the amounts do not correspond, provide a reconciliation by account title.

2. Provide the total company general ledger for the fiscal year end June 30, 1996. This ledger should correspond directly to the amounts shown in the trial balance that Item 1 requests.

3. Provide all journals that the Water Plant Board maintains which support or supplement the general ledger that Item 2 requests. This includes, but is not limited to, the cash receipts and disbursements journal, fixed asset journal, payroll journal, and accounts payable journal.

4. Refer to Water Plant Board's Application, Exhibit 2, pages 17 through 19 (the comparative operating expense statements).

a. Identify those expenses that are shared costs. For each identified expense, provide the allocation percentages used for its allocation between the Water Plant Board's divisions.

b. Show the calculations for each allocation percentage.

c. Explain in detail and reconcile any differences of the allocation percentages used in the Independent Auditor's Report and those used in Exhibit 3 to the Water Plant Board's Application.

5. a. Prepare a schedule that groups and compares each expense account on the Water Plant Board's Application, Exhibit 2, page 18 with the appropriate test year account titles and amounts as shown on Exhibit 3. (For example, Exhibit 2, page 18 lists engineering expenses of \$76,477 while Exhibit 3, page 6 states water

engineering expenses at \$5,000. What other items in Exhibit 3 need to be considered to make an appropriate comparison of the audited expense (Exhibit 2) and the amounts included in the financial exhibit (Exhibit 3)?

b. Explain the differences in each expense account shown on the schedule prepared in Item 5(a). Quantify each explanation. If the difference results only from the use of the June 30, 1997 fiscal year end budget, then explain, in detail, how the Water Plant Board calculated the budgeted amount.

6. List total company employees. For each employee, provide:

- a. Name.
- b. Title.
- c. Years of service.
- d. Responsibilities and duties.
- e. Method of compensation (hourly or salary).
- f. Regular hours worked in fiscal year ending June 30, 1996.
- g. Overtime hours worked in fiscal year ending June 30, 1996.
- h. Rate of compensation during fiscal year ending June 30, 1996.
- i. Current rate of compensation.
- j. Department or division in which employed (water, electric, cable, or "general").
- k. Number of hours worked for each department during fiscal year ending June 30, 1996.

l. Current premium paid for employee insurance and premium amounts paid during fiscal year ending June 30, 1996. Include all types of insurance (life, health, dental, etc.). State the amount of the premium paid by the Water Plant Board.

m. Percentage of compensation that was capitalized during fiscal year ending June 30, 1996. Show all calculations used to obtain this percentage.

n. Expense account to which payroll was charged as reported by Independent Audit.

7. Refer to the Water Plant Board's Application, Exhibit 3, pages 5 through 15. Why do the amounts in the column labeled "Water Dept Test Year" differ from those in the column labeled "Water Dept Cost of Service"? (Pay particular attention to page 11, to the line labelled "Travel and Training Expenses" where the difference is \$11,256 or 21 percent.)

8. Refer to the Water Plant Board's Application, Exhibit 2, pages 17 through 19. Are the amounts recorded as "in-lieu of tax-city" and "in-lieu of tax county" for the year ending June 30, 1996 actual cash expenses paid to the city and county? Provide supporting documentation for these amounts.

9 Provide a detailed analysis of the "Cash Contributions to City" and "Clubhouse Expense" accounts. The totals of these accounts per audit were \$25,002 and \$4,002, respectively. Any response should include a complete description and explanation of all transactions recorded in these accounts.

10. Describe the coverage for each insurance policy charged to the insurance expense account listed in Independent Audit for the fiscal year ending June 30, 1996.

List the premium paid each policy. Provide the most recent premium amount paid for each type of insurance.

11. Provide audit workpapers supporting the bad debt expense of \$43,906 as reported in the audit report. Discuss the theories and methods use to determine the level of bad debts.

12. Provide audit workpapers supporting the following expense amounts as reported in the Independent Auditor's Report:

a.	Pension Expense	\$ 397,948
b.	Vacation Benefits	244,645
c.	Sick Benefits	94,203
d.	Employees Welfare	723,971

13. Provide audit workpapers documenting the calculation of depreciation expense of \$593,291 for the water department and \$1,851,141 for the total company.

14. Provide a detailed amortization schedule for all outstanding indebtedness as of June 30, 1996.

15. Provide an analysis of the vehicles owned and leased by the Water Plant Board as of Fiscal Year ending June 30, 1996. This analysis shall show total vehicle costs broken down by department. If generally owned and operated vehicles are allocated to other departments, show the allocation methods and calculations used. This schedule shall correspond directly to the depreciation schedule which Item 14 requests.

16. List all functions performed by the in-house computer system.

17. How do Water Plant Board employees document their time worked for each department? Provide a sample of such documentation.

18. Explain the difference between total water division expense of \$4,453,975 shown at Water Plant Board's Application, Exhibit 3, page 4 and the amount of \$3,922,543 shown at Water Plant Board's Application, Exhibit 2, pages 13 and 15.

19. Refer to the Water Plant Board's Application, Exhibit 3, page 4. How was the required margin of \$500,640 determined? Show all calculations and state all assumptions used to make this determination.

20. Refer to Water Plant Board's Application, Exhibit 1, page 3-2. Why were the components base capacity, extra capacity and customer used in the Water Plant Board's "Water Rate Study" instead of base, maximum day, maximum hour, customer and fire protection which are the actual components of the base-extra capacity method of designing rates?

21. Explain why the components set out in the base-extra capacity method were not used in the Water Plant Board's "Water Rate Study."

22. Provide the average day, maximum day and maximum hour demands for each customer classification.

23. Refer to Water Plant Board's Application, Exhibit 1, Schedules I through IX. Provide a detailed breakdown of how each allocation factor used in these schedules was developed. For each factor, explain why its use is appropriate in allocating costs.

24. Water Plant Board's Application, Exhibit 3 provides a detailed breakdown of expenses while Water Plant Board's Application, Exhibit 1 shows combined expenses

for the different categories. Provide a study showing the allocation of each expense that was allocated to the water department in Exhibit 3, along with a summary of each allocation factor.

25. Since the Water Plant Board proposes to finance capital projects from rates (i.e., using the cash method of meeting revenue requirements), why is depreciation expense included in the cost-of-service study?

26. When Mr. Thornton allocated fire service costs in the "Water Rate Study," what assumptions did he use for the maximum fire flow per minute and the duration of the flow?

27. What are the fire protection storage requirements for the Water Plant Board?

28. Small mains (12 inches in diameter or smaller) do not generally provide a benefit to wholesale customers. What adjustment to the base cost component, if any, was made in the "Water Rate Study" to reflect the impact of small mains on rate base? If none, why not?

29. Provide a summary of the revenue requirement determined for each customer classification along with the calculation of the proposed rates for the customer.

30. Provide Mr. Thornton's curriculum vitae.

31. a. List all utilities (municipal or public) for which Mr. Thornton has prepared a cost-of-service study.

b. For each utility, identify the type of utility service (water or sewer) for which the report was prepared.

c. Identify the water utilities for which Mr. Thornton prepared a cost-of-service study using the base extra capacity method. Provide two representative samples from these studies.

32. a. Did anyone assist Mr. Thornton in the preparation of the "Water Rate Study"?

b. If yes, identify those persons and their position.

33. Provide all engineering and hydraulic reports and studies on which Mr. Thornton relied to prepare the "Water Rate Study."

34. What test year does the Water Plant Board propose that the Commission use to review its application for rate adjustment?

Done at Frankfort, Kentucky, this 14th day of February, 1997.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director