

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENTS OF THE WHOLESALE)
WATER SERVICE RATES OF THE CITY OF) CASE NO. 2000-540
PIKEVILLE, KENTUCKY)

COMMISSION STAFF'S INTERROGATORIES AND
REQUESTS FOR PRODUCTION OF DOCUMENTS
TO THE CITY OF PIKEVILLE, KENTUCKY

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that the city of Pikeville, Kentucky ("Pikeville") file the original and 8 copies of the following information with the Commission no later than February 19, 2001, 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. 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. When applicable, the requested information should be provided for total company operations and jurisdictional operations, separately.

1. a. List the names of each employee or member of The Prime Group LLC ("Prime Group") who prepared or assisted in the preparation of the "Cost of Service

Study for the Test Year Ended June 30, 1997.” For each person listed, identify the portion of the study for which he or she is responsible.

b. For each person listed above, other than Randall J. Walker, provide curriculum vitae.

2. a. When did Pikeville last establish rates for water service to retail customers inside the corporate city limits?

b. Describe how those rates were determined.

c. Provide a summary of the revenue requirement determination performed when Pikeville’s rates for water service to retail customers inside the corporate city limits were established.

3. a. When determining the proposed rates for service to its wholesale customers, did Pikeville calculate a revenue requirement using the “Cash Basis Approach”?

b. If yes, provide all calculations and workpapers related to this calculation.

c. If no, explain why Pikeville chose to use the utility approach instead of the cash approach to determine the proposed rate.

4. Refer to Pikeville’s Response to the Commission’s Order of December 19, 2000, Item 20 at 13. When determining Pikeville’s wholesale rates, H.J. Umbaugh and Associates calculated Pikeville’s revenue requirements using a “Cash Basis Approach.” Why did Pikeville change its method of calculating revenue requirements from the “Cash Basis Approach” to the “Utility Basis Approach”?

5. What utility services does Pikeville provide?

6. Under what statutory authority does Pikeville provide water service?
7. Explain why Pikeville provides water service to persons outside its corporate limits.
8.
 - a. Describe the services that U.S. Filter (formerly Professional Group Services) provides to Pikeville.
 - b. State the date when U.S. Filter began providing these services to Pikeville.
 - c. Provide the current operating contract between U.S. Filter and Pikeville.
 - d. Provide the operating contract between U.S. Filter and Pikeville that was in effect for the fiscal year ending June 30, 1997.
9. Refer to "Cost of Service Study for the Test Year Ended June 30, 1997," Exhibit 3, line 4. Provide an analysis for bad debt expense of \$30,540.
10. Refer to "Cost of Service Study for the Test Year Ended June 30, 1997," Exhibit 3, page 3, line 6.
 - a. List each item included in total insurance expense of \$17,406. Describe how each item contained in this expense was allocated between water and sewer operations. This description should identify each factor used to make the allocations and describe how each factor was derived.
 - b. Exhibit 3, page 3, line 6 indicates an insurance expense of \$8,345. Pikeville's Expenditure Ledger (Pikeville's Response to the Commission's Order of December 19, 2000, Item 4 at 26) shows total insurance expense as \$11,869.81. Explain the discrepancy.

11. Describe how Pikeville allocated water and sewer office supplies expenses of \$1,151 and \$879, respectively, between the two divisions.

12. Refer to “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 3, page 3, line 9.

- a. Provide “page 2a” to which reference is made at line 9.
- b. What is the nature of the expense labeled “operational”?
- c. How was operational expense allocated between the water and sewer divisions?

13. Refer to “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 3, page 3, line 16.

- a. Describe the nature of the expenses labeled “Repairs/Maintenance.”
- b. Explain how this expense was allocated between the water and sewer divisions.
- c. Explain the difference between the expenses recorded at line 16 and those recorded at line 15.

14. Refer to “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 3, page 3. For each of the expenses listed at lines 9 and 15,

- a. Identify where this expense appears in ledgers that Pikeville provided in its response to the Commission’s Order of December 19, 2000, Item 4.
- b. If the expense does not appear within Pikeville’s Response to Item 4, explain why.

15. Provide a copy of all invoices from U.S. Filter for the fiscal year ending June 30, 1997. These invoices should be accompanied by a lead schedule showing monthly invoice totals along with amounts allocated to each city division and a description of the method by which each invoiced amount was allocated.

16. Refer to "Cost of Service Study for the Test Year Ended June 30, 1997," Exhibit 3, page 4, fourth and fifth columns labeled "Water Distribution" and "Water Treatment."

a. List each employee who is included in salaries of \$221,041 and \$173,928 and provide a description of his or her job duties, wage rates, and a description of how his or her wages were allocated between city divisions. Show the calculations used to determine the salary allocations.

b. Describe how "401 K Expense" and "Pension" expenses were determined and allocated between city divisions. Show all calculations made to determine each allocation.

c. Describe the health, dental, and life insurance plans provided to the U.S. Filter employees. Show all calculations and state all assumptions used to allocate this expense between city divisions.

d. Describe the nature and need for the amounts included in the following accounts:

- (1) Chemicals;
- (2) Utilities;
- (3) General Maintenance;
- (4) Vehicles;

- (5) Outside Services; and
- (6) Office Supplies.

The response should break each account down into sub-accounts with a description of how each item relates to the city's operations and should describe the allocation methods used to distribute each item to the various city operations.

- e. Provide a detailed analysis of the following accounts:
 - (1) Food and Travel;
 - (2) Other Expenses;
 - (3) Project Support; and
 - (4) Overheads and Fees.

17. Refer to Pikeville's Response to the Commission's Order of December 19, 2000, Item 4, at 28 – 38. Describe the nature and need for amounts included in the following accounts:

| | | |
|----|-----------------------------|----------|
| a. | Professional Services | \$ 4,679 |
| b. | Engineering | 17,002 |
| c. | Rent | 889 |
| d. | Repairs/Maintenance | 70,256 |
| e. | Maintenance--Copy Machine | 874 |
| f. | Retirees | 12,000 |
| g. | Telephone/PSG | 6,471 |
| h. | City Utilities | 12,111 |
| i. | Returned Checks/Redeposited | 1,442 |
| j. | Equip. Pur-Equipment | 12,322 |

k. Rehab. Lift Stations 5,711

18. Refer to “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 3, page 3, and Pikeville’s Response to the Commission’s Order of December 19, 2000, Item 4, at 41 - 47. Why are the amounts shown in the “Sewer” expense column in Exhibit 3 included in the Water Revenue Expenditure Ledger?

19. How does Pikeville bill its customers for sewer service (e.g., a flat rate, rate based on water usage)?

20. Provide a schedule that shows the rates that Pikeville charges for water service to all customers (including retail customers).

21. Refer to “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 3, page 4. Show the calculations used to determine the average annual cost of meter reading per meter of \$8.

22. Refer to “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 3.

a. Reconcile the \$1,412,454 shown for water operations in the calculation of allocation factor 1 at page 5 with the \$1,420,807 total operation and maintenance expenses for water as shown at page 1.

b. For each account title listed on page 5,

(1) Provide a detailed description of the expenses included in the account.

(2) Explain why such expenses are necessary for the provision of water service.

(3) Explain why a portion of each expense should be allocated to Pikeville's water operations.

(4) Explain why it is reasonable to use a percentage of other expenses as the allocation factor to assign the expense.

c. What differentiates "assignable" General Government expenses from General Government expenses that are not assignable?

d. At page 5, the statement "Assignable Portion (see page 39 of Annual Report)" appears. Provide a complete copy of the report referred to in this statement.

e. Provide a listing, in general ledger format, that contains all general government expenses. This listing should total \$1,224,561. Indicate on this listing each expense that is considered "assignable." "Assignable" expenses should total \$600,784.

f. Provide workpapers detailing the \$92,565 determined to be personnel expenses related to billing and other customer-related costs.

23. Refer to Pikeville's Response to the Commission's Order of December 19, 2000, Item 7. This response includes payroll information and allocations to Pikeville's water operations based on percentage of time.

a. Indicate where these allocated payroll costs appear on "Cost of Service Study for the Test Year Ended June 30, 1997," Exhibit 3, page 1.

b. The allocations are presented as percentages of time. Describe how these percentages were determined. Provide all workpapers related to the development and calculation of these allocations.

c. Why are payroll costs included in “Cost of Service Study for the Test Year Ended June 30, 1997” not allocated based on these time percentages instead of the expense ratios used?

24. Refer to “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 1. Upon what documents or other records did Pikeville or the Prime Group rely to determine the amounts listed in this exhibit?

25. Does Pikeville maintain a plant ledger of its water and sewer operations? If yes, provide a copy of this ledger.

26. Refer to “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 3 at 3a. Provide all workpapers, show all calculations, and state all assumptions used to derive depreciation expense for sewer and common assets of \$282,269 and \$19,325, respectively.

27. Refer to “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 1 at 1. Provide a detailed analysis of construction work in progress of \$231,030.

28. Refer to Pikeville’s Response to the Commission’s Order of December 19, 2000, Item 9 at 2. List all users and uses of the equipment listed that was not fully depreciated as of July 1, 1996.

29. Refer to Pikeville’s Response to the Commission’s Order of December 19, 2000, Item 9 at 6. List all users and uses of the “1994 Ford F350” and the “Ford F250 W/Util Bed.”

30. Refer to Pikeville’s Response to the Commission’s Order of December 19, 2000, Item 9. Depreciation for the common use items listed on pages 2 and 6 was allocated to water and sewer operations based on a percentage of directly assignable

assets. Explain why this approach is more appropriate than using actual usage ratios of the common items.

31. Provide detailed plant ledgers that include City Hall office equipment and buildings, the public works building, storage building, and gas tanks and pumps. These ledgers should include annual depreciation expense as shown at “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 3, page 6.

32. a. Explain in detail why 75 percent of City Hall’s equipment was assignable to proprietary funds while 100 percent of the other assignable assets were allocable.

b. At page 8 of his testimony, Randall J. Walker states: “[I]t was determined that a portion of the investment related to certain general government buildings, office equipment, land and vehicles classified as General Plant were assignable to water based on discussion with Pikeville.” Provide all notes, records, and transcripts of these conversations and any subsequent correspondence or memoranda memorializing these conversations.

33. Why were City Hall office equipment and buildings, the public works building, storage building, and gas tanks and pumps allocated based on percentages of directly assignable assets instead of actual usage factors or square footage factors?

34. Provide a schedule that shows how each of the assets listed at Exhibit 1, page 1 of the “Cost of Service Study for the Test Year Ended June 30, 1997” was funded (e.g., bond issuances, notes, grants, etc.).

35. Refer to “Cost of Service Study for the Test Year Ended June 30, 1997,” Exhibit 4. Each component of Debt refers to a “following page.” Provide the “following page.”

36. Provide a calculation of the weighted cost of debt of 4.96 percent.

37. Refer to Pikeville’s Response to the Commission Order of December 19, 2000, Item 5 at 49. Why was the definition of “net revenues” as defined in Pikeville Ordinance No. O-98-013 not used to determine the water operation’s revenue requirements?

38. List and describe each model or method used to estimate the proposed return on equity (“ROE”) of 10 percent.

39. Provide all workpapers, by model or method if possible, relating to the Prime Group’s determination of the appropriate ROE for Pikeville.

40. At pages 9 and 10 of the “Cost of Service Study for the Test Year Ended June 30, 1997,” the Prime Group states: “Most regulatory Commissions have been authorizing ROEs in the 10 to 12 percent range for water, gas, and electric utilities. In order to provide a conservative estimate of revenue requirement, an ROE of 10 percent was used to calculate wholesale cost of service.” List all state utility regulatory commission decisions upon which the Prime Group relied to make this statement. Also list the date of each decision and the type of utility (e.g., water, gas, electric) involved.

41. Does Mr. Walker agree that the risk factors for municipally owned utilities in different industries will vary according to specific economic, regulatory, and environmental factors facing each specific industry and to the particular circumstances of each utility at a fixed point in time? If no, explain why not.

42. Provide all state utility regulatory commission decisions within the last 48 months that the Prime Group is aware of in which a state utility regulatory commission authorized ROEs for municipal water utilities that are roughly comparable to Pikeville in terms of size, revenue, number of customers, or any other criteria.

43. Provide all state utility regulatory commission decisions within the last 48 months that the Prime Group is aware of in which a state utility regulatory commission authorized for a municipal utility a capital structure that is roughly comparable to the 50 percent debt and 50 percent equity split used in Pikeville's filing.

44. Does Mr. Walker agree that the risk factor for a municipal utility is lower than for an investor-owned utility? If no, explain why not.

45. Refer to "Cost of Service Study for the Test Year Ended June 30, 1997" at 18.

a. State the basis for the assumption "that the load factor for outside city wholesale customers is the same, on an aggregated basis, as the load factor for Pikeville's outside city retail customers."

b. When preparing the cost-of-service study, did the Prime Group consider the number of tanks in Mountain Water District's ("Mountain District") system and the time of day that these tanks fill?

c. How many water storage tanks operate within Mountain District's system?

d. What is Mountain District's consumption pattern? Does Mountain District draw water from Pikeville on a 24-hour-per-day basis? Does Mountain District's demand increase during certain periods of the day?

e. What review, if any, did the Prime Group undertake of Mountain District customers' usage patterns and customer types (e.g., residential, commercial, and industrial) to determine if Mountain District's customers have the same usage patterns as Pikeville's outside-city customers? If none, explain the basis for the Prime Group's assumption that "the load factor for Outside City wholesale customers is the same, on an aggregated basis, as the load factor for Pikeville's Outside City retail customers."

f. Provide all studies that were performed to determine Mountain District's demand on Pikeville's system.

46. Refer to the "Cost of Service Study for the Test Year Ended June 30, 1997," Exhibit 1.

a. For several assignments of plant in service, the Prime Group allocated remaining amounts "between water and sewer based on the overall directly assigned plant." For each assignment of this nature, provide the calculations for the assignment and explain how this method produces an accurate result.

b. Is it fairer to allocate Vehicles based on the number of customers served by each operation? Explain.

c. Why was Construction Work in Progress not assigned based on the purpose of the construction?

47. Refer to the "Cost of Service Study for the Test Year Ended June 30, 1997," Exhibit 2.

a. Provide the amount and source of non-operating revenues.

b. Provide the amount and source of operating transfers-in.

- c. Provide a breakdown of miscellaneous revenues.
- d. Provide an explanation for "adjustment for write off." Explain why no adjustment was made to other utility services for this expense.
- e. In "Reconciliation of Water Districts Sales Data" at page 4, revenue for Mountain District is shown as \$640,776 and \$789,101. How was the \$789,101 determined?

48. Refer to the "Cost of Service Study for the Test Year Ended June 30, 1997," Exhibit 5 at 3.

- a. For each expense listed, describe how the Prime Group determined its allocation factor and explain why the use of that allocation factor is reasonable.
- b. Provide a breakdown of miscellaneous expense.
- c. Why is no bad debt expense allocated to customer?
- d. Why is no vehicle expense allocated to customer?
- e. Why is no office expense allocated to customer?
- f. Why is no freight/postage expense allocated to customer?
- g. Provide a breakdown of banking expenses.
- h. How were administrative and general expenses allocated? Why are no administrative and general expenses allocated to customer?

49. Refer to Refer to the "Cost of Service Study for the Test Year Ended June 30, 1997," Exhibit 6.

- a. Show all calculations and state all assumptions used to derive factors DEM01 and DEM02.

b. Provide a breakdown of other operating revenues and an explanation for the allocation factor REVUC.

50. Refer to Pikeville's Response to the Commission's Order of December 19, 2000, Item 12.

a. Is it Pikeville's position that Mountain District receives water through all the lines that are listed as 8-inches or larger?

b. If no, provide the size and feet of line that is jointly used by Pikeville and Mountain District.

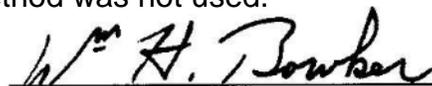
c. In its response, Pikeville states: "There are some main investments made by Mountain in connection with providing service to that customer. However, those investments are not included in the determination of the proposed rates."

(1) To what main investments is Pikeville referring? What is the level of these investments?

(2) Why are these investments not included in the determination of the proposed rates?

51. Since actual demand for the wholesale customers is unknown, did the Prime Group consider allocating production expenses based on the amount of jointly used lines instead of on assumed demand? If no, why not?

52. List all methods that Prime Group considered in allocating expenses. For each method listed, state the reasons why that method was not used.



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DATED: February 5, 2001
cc: Parties of Record