

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE )  
WHOLESALE WATER SERVICE RATES ) CASE NO. 2003-00413  
OF THE CITY OF WILLIAMSBURG )

ORDER

Upon joint motion of the parties and by order dated March 2, 2004, the Commission suspended the procedural Order issued in this proceeding on February 6, 2004, for 90 days pending the city of Williamsburg's ("Williamsburg") completion of a cost-of-service study and time for review by Cumberland Falls Highway Water District, Whitley County Water District #1, and Commission Staff. The Order provided for each of the parties to submit status reports at the end of each 30 days during the 90-day period. Williamsburg's status report dated March 30, 2004 stated that initial stages of a cost-of-service study are complete, and that the study will be completed by April 28, 2004.

While the March 2, 2004 Order provided that the cost-of-service study would be given to the parties, it did not establish a specific date on which the study should be submitted to the Commission and provided to the parties. By this Order, the Commission places Williamsburg and the other parties on notice of certain dates essential to a timely completion of this case.

First, given that Williamsburg states that the cost-of-service study will be completed by April 28, 2004, copies of the cost of service study should be provided to the parties and the Commission on or before April 30, 2004. Status reports that are to

be filed by all parties by May 7, 2004 should specify that the study has been delivered and received by the respective parties.

Second, on or before June 1, 2004, all parties should file status reports containing specific information with regard to any settlement agreement that has been reached during the 30-day review period and/or the status of negotiation by the parties on the appropriate wholesale rate to be charged by Williamsburg. In the event an agreement has not been reached, the parties should state the reasons therefore, and state whether constructive negotiations are continuing. Parties should also provide a date certain for completion of the negotiation process. If a settlement agreement cannot be reached by the end of the 90-day period, the procedural schedule will commence and the response to the data request of February 18, 2004 will be due on or before June 9, 2004. Further Orders will be issued by the Commission establishing an expedited procedural schedule that will provide for completion of the processing of the case within the 10-month statutory suspension period.

If no agreement is reached, the information that is to be filed by Williamsburg on or before June 9, 2004 is included in Appendix A hereto.

IT IS THEREFORE ORDERED that:

1. Williamsburg shall provide a copy of the cost-of-service study to the Commission and all parties to this proceeding by no later than close of business on April 30, 2004.

2. All parties shall have until May 7, 2004 to file the 30-day status report including a statement of the delivery or receipt of the cost-of-service study, and the status of negotiations.

3. On or before June 1, 2004, all parties shall file the third progress report stating the results of negotiations, whether constructive negotiations are ongoing, and a date certain for completion of the negotiation process and/or submission of a settlement agreement on the wholesale rate of Williamsburg.

4. Absent the submission of an agreement of the parties on the wholesale rate by June 1, 2004, Williamsburg shall file with the Commission an original and 8 copies with a copy to all parties, on or before June 9, 2004, its response to the data request contained in Appendix A hereto.

Done at Frankfort, Kentucky, this 28<sup>th</sup> day of April, 2004.

By the Commission

ATTEST:

*Wm H. I. Barber*  
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Deputy Executive Director

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2003-00413 DATED April 28, 2004

1. List the names of each employee or member of Quest Engineers, Inc. ("Quest") who prepared or assisted in the preparation of the "Water Production Cost Evaluation, Williamsburg, Kentucky" dated September 29, 2003 ("Water Cost Evaluation"). For each person listed, identify the portion of the study for which he or she is responsible.

2. a. Williamsburg's response to Item 6 of the December 19, 2003 data request indicates that the Water Cost Evaluation was provided to Williamsburg via letter dated September 29, 2003, which was after the August 13, 2003 letters from Williamsburg to the water districts advising of the new rate of \$3.30 per thousand gallons. Explain how Williamsburg determined the proposed rates for wholesale water service to Whitley County Water District ("Whitley County") and Cumberland Falls Highway Water District ("Cumberland Falls").

b. Provide any supporting documentation for the determination of the rates for the retail customers of Williamsburg.

3. Provide reference to the statutory authority under which Williamsburg provides water service.

4. a. Does Williamsburg provide water service to persons outside its corporate limits? If yes, are the rates to the customers outside the corporate limits the same as the rates inside the corporate limits?

b. Provide the rates for the customers inside the corporate limits and, if different rates apply, provide any other rate charged to other customers.

5. The Commission received a letter from Walter B. Estes, Chairman of Whitley County, dated September 25, 2003, which indicated that Williamsburg did not provide information requested by Whitley County related to the basis for the wholesale rate increase. Has Williamsburg provided any of the information requested by Whitley County to date? If so, submit a copy of the information provided.

6. The memo to the case file summarizing the discussions at the January 21, 2004 informal conference in this case reflects that it was the understanding of Mr. Lewis that the accounting system maintained by Williamsburg is consistent with the Kentucky Uniform System of Accounts (“KUSoA”) required by the Kentucky Infrastructure Authority. Explain how the financial statements for December 31, 2003 are in accordance with the KUSoA. If the accounts used in the financial statements are not those contained in the KUSoA, provide a copy of the account descriptions for the accounts used by Williamsburg.

7. According to Williamsburg’s response to the Commission’s data request of December 19, 2003, Item 2, a recent completion and start-up of a new wastewater treatment plant necessitated some adjustments in staffing and expenditures within the water and sewer departments. Williamsburg’s response also indicated that because fiscal year 2003 audited expenses would not reflect those adjustments, the fiscal year 2004 budget for the water department was used in the Water Cost Evaluation. Provide the following information to further explain Williamsburg’s position relative to these issues:

a. Based upon the above response, is Williamsburg proposing to establish water rates based upon the fiscal year ended June 30, 2004?

b. If Williamsburg is proposing to establish rates based upon the fiscal year ended June 30, 2004, provide detailed income statements for that period showing separately all revenue and expense accounts for the water department, the sewer department, and the combined water and sewer departments.

8. The operating expense account classifications shown in the audit report for the year ended June 30, 2003 are not comparable to the operating expense account classifications shown in the 2003-2004 budget. For example, the audit report lists Operating Supplies and Expenses of \$70,618 for water, whereas the budget appears to separate these expenses among several accounts. Therefore, reconcile and explain any differences between the two sets of accounts so as to enable the Commission to compare the historical statements to the budgeted statements.

9. Provide a schedule showing, separately for each employee, each employee's salary, wages, benefits and other related costs for the water department, the sewer department, and the combined water and sewer departments for the fiscal year ended June 30, 2004.

10. Relative to the fiscal year 2004 adjustments in staffing and expenditures within and between the water and sewer departments, Williamsburg's response to the December 19, 2003 data request suggests that these adjustments increased water department wages from \$258,449 in fiscal year 2003 to \$410,000 in budgeted fiscal year 2004. Water department employee benefits experienced a similar increase. Provide a detailed explanation as to why the water department was required to bear the

increased wages of \$151,551 (a 58.6 percent increase), as well as increased benefits costs.

11. Provide a breakdown showing, for each water and sewer employee for fiscal years 2003 and 2004, their job functions, their wages and benefits allocated to water or sewer in fiscal year 2003, and their wages and benefits allocated to water or sewer in 2004.

12. a. Explain why the depreciation expense shown for the year ended June 30, 2003 is the same amount (i.e., \$102,015) for both the water and the sewer departments.

b. Has Williamsburg maintained plant accounts and depreciation schedules for its water department separate from those for its sewer department?

13. Based upon the financial results for the year ended June 30, 2003, the sewer department appears to be highly profitable, even when the nonrecurring grant proceeds of \$3,656,891 are excluded. Given these results, has Williamsburg performed any studies to assure itself that sewer operations are bearing an appropriate share of the total expenses incurred by combined water and sewer operations?

14. Do water and sewer operations share any employees, physical facilities, management, billing systems, or other items? If so, provide a list of all shared items and how expenses associated with those items are allocated to water or sewer operations.

15. Explain why the Commission should include the budgeted General Fund Reimbursement of \$150,000 in water department expenses for rate-making purposes, and list the amount of these reimbursements for each of the past 5 years.

16. Provide the latest available historic and budgeted financial statements for all operations of Williamsburg.

17. In addition to water and sewer service, what other services are provided by Williamsburg and reflected within the financial statements?

18. Do any of the water expenses in either the budgeted fiscal year 2004 or the historical year ended June 30, 2003 include allocations from the General Fund or other city operations? If so, provide the basis and/or supporting calculations for any and all such allocations.

19. Relative to the budgeted expenditure for Water Plant Renovation of \$3 million, explain the present status of this project, including starting dates, completion dates, plant items to be renovated, and whether any funds have been received or applied for to construct the project.

20. For each water operating expense included in the 2004 budget, compare the amount budgeted in 2004 to the expense included in the audit for the year ended June 30, 2003, and provide a detailed explanation and any supporting calculations for any increase or decrease in each expense.

21. Has the 2003-2004 budget been revised during the course of the year, or has it remained the same since when it was originally adopted?

22. Does Williamsburg perform periodic analyses to compare budgeted water expenses to year-to-date water expenses, and to analyze the reasons for any variances between the two? If so, provide the latest such analysis, and explain the reasons for any variances of 10 percent or more.



23. Explain whether the Commission should include depreciation expense for water-related plant in expenses for rate-making purposes. If so, provide a depreciation schedule listing all water plant currently in service, its original cost, its in-service date, its useful life, its annual depreciation, and accumulated depreciation.

24. Provide a breakdown of the \$30,000 amount budgeted in 2003-2004 for professional services, and explain whether each of those professional services recurs on an annual basis.

25. Provide a breakdown of the \$25,000 budgeted for required testing, and explain whether each of those tests recurs on an annual basis.

26. In its response to the Commission's data request of December 19, 2003, Williamsburg submitted a Statement of Income for the 6 months ended December 31, 2003. This statement indicates that insurance expense for water was \$32,994, and insurance expense for sewer was the same amount. By contrast, the actual insurance expense for water for the fiscal year ended June 30, 2003 was \$38,415, much higher than the actual insurance expense for sewer of \$12,926. Furthermore, budgeted insurance expense for water for 2003-2004 is \$25,000, much lower than the expense already incurred by December 31, 2003. Therefore, explain why there appear to be significant variances between actual and budgeted insurance expense, as well as significant variances in the percentages allocated between water and sewer from one period to the next.

27. a. Refer to the Water Cost Evaluation provided in Williamsburg's response to the Staff Notice of Informal Conference and Request for Information dated

December 19, 2003. Provide all source documents related to the “City of Williamsburg Budget 2003-2004, Water” attached to the Water Cost Evaluation.

b. The budget appears to be page 11 of a larger document. Provide the remainder of the document associated with this budget.

c. Provide any available documents that compare the budget information to the actual information for the current period and year to date December 31, 2003 included in the same response.

d. Provide any other pages related to the “Schedule of Revenues and Expenses by Department, Water and Sewer Fund, June 30, 2003” that relate in any way to the cost of operations and financial statements of the water operations of Williamsburg.

28. With regard to the response to Item 5 of the December 19, 2003 data request, what is Williamsburg's plan for filing applications with the appropriate authorities to obtain the loan and grant funds required for the water system improvements?

29. Provide a detailed study that separates all costs of the water department into costs related to service to wholesale customers and costs related to service to retail customers, and determines the appropriate rate for wholesale customers based on the wholesale cost of service.

30. For the cost-of-service study provided in response to the previous question, provide all workpapers supporting the study. At a minimum the workpapers should include the total revenue requirements of Williamsburg on an account-by-

account basis and details of all costs assigned to the wholesale and retail operations of Williamsburg shown separately.

31. At the informal conference on January 21, 2004, there was discussion about the need for a cost-of-service study to determine the appropriate rate for wholesale service to the water districts. Does Williamsburg plan to prepare, or cause to be prepared, a cost-of-service study to support the rates requested in this case?

32. If Williamsburg plans to prepare a cost-of-service study, provide the following:

- a. The name of the firm and/or individuals that will prepare the study.
- b. The approximate cost of the study.
- c. The anticipated date that the study will be complete.
- d. A copy of the study as soon as it becomes available.
- e. An explanation of why Williamsburg chose to conduct the study on

its own rather than having the study performed jointly with the water districts.

33. Provide a detailed billing analysis for the test period used to determine the cost of service for all water service provided by Williamsburg. The analysis should be in such detail that the revenues from the present and proposed rates can be readily determined for each customer class.

34. If Williamsburg had any amounts charged or allocated to it by an affiliate or other department of the municipal government, or paid any monies to an affiliate or other department of the municipal government during the test period or during the previous calendar year, provide the following:

a. A detailed description of the method and amounts allocated or charged to Williamsburg by the affiliate or other department of the municipal government for each charge, allocation, or payment.

b. An explanation of how the allocator for the test period was determined.

c. All facts relied upon to demonstrate that each amount charged, allocated or paid during the test period was reasonable.