

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE CITY OF) CASE NO. 2011-00104
MANCHESTER)

ORDER

On February 28, 2011, the City of Manchester, Kentucky ("Manchester") notified the Commission of its intent to increase its wholesale water rate for service provided to North Manchester Water Association ("North Manchester") from \$1.50 per 1,000 gallons to \$2.50 per 1,000 gallons on March 29, 2011. Because Manchester failed to provide 30 days' notice to the Commission as KRS 278.180(1) requires, Manchester cannot implement its proposed rate until the Commission approves the proposed rate or it becomes effective by operation of law.

On March 14, 2011, North Manchester filed an objection to Manchester's proposed rates. Based upon the foregoing and being otherwise sufficiently advised, the Commission finds it appropriate to open this proceeding to investigate the reasonableness of Manchester's proposed wholesale water service rate to North Manchester.

IT IS THEREFORE ORDERED that:

1. Manchester's proposed wholesale water service rate to North Manchester shall be suspended until it has been approved by the Commission or it becomes effective by operation of law.

2. North Manchester's motion for leave to intervene in this matter is granted.
3. The procedural schedule set forth in Appendix A to this Order shall be followed.
4.
 - a. Responses to requests for information shall be appropriately bound, tabbed, and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided, with copies to all parties of record and ten copies to the Commission.
 - b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.
 - c. A party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.
 - d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.
5. At any hearing in this matter, neither opening statements nor summarization of direct testimony shall be permitted.
6. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

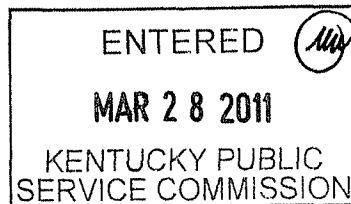
7. All documents that this Order requires to be filed with the Commission shall be served upon all other parties.

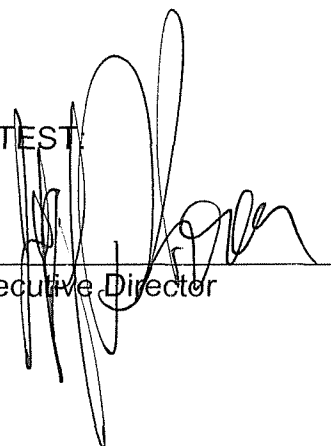
8. Service of any document or pleading shall be made in accordance with 807 KAR 5:001, Section 3(7).

9. Manchester shall file with the Commission, no later than April 15, 2011, the original and ten copies of the information listed in Appendix B to this Order, with a copy to all parties of record. Each copy of the requested information shall 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. Manchester's response shall conform to the requirements set forth in ordering paragraph 4 of this Order.

10. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission



ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00104 DATED **MAR 28 2011**

- Manchester shall file its response to the Commission's Request
for information no later than..... 04/15/2011
- Intervenors and Commission Staff shall serve their first set of requests
for information upon Manchester no later than 04/29/2011
- Manchester shall file with the Commission and serve upon all parties
of record and Commission Staff its responses to the first sets of
requests for information no later than 05/13/2011
- Intervenors and Commission Staff shall serve their second
set of requests for information upon Manchester no later than..... 05/26/2011
- Manchester shall file with the Commission and serve upon all parties
of record and Commission Staff its responses to the second set of
requests for information no later than 06/10/2011
- Telephone Conference Call with all parties, beginning at 10:00 a.m.,
Eastern Daylight Time, for the purpose of discussing the status of the
proceeding..... 06/15/2011
- Public Hearing, beginning at 10:00 a.m., Eastern Standard Time,
at the Commission's offices at 211 Sower Boulevard, Frankfort,
Kentucky, for the purpose of cross-examination of witnesses To Be Announced

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2011-00104 DATED MAR 28 2011

1. Provide in written verified form the direct testimony of each witness that Manchester intends to call at the scheduled hearing in this matter.

2. Provide the independent auditor's reports that are available for Manchester's water operations for the fiscal years ending in 2008, 2009, and 2010.

3. a. State the 12-month test period upon which Manchester bases its proposed rate adjustment.

b. Explain why this test period was chosen.

4. Provide the general ledgers for Manchester's water operations for the proposed test period and the most recently concluded fiscal year. These general ledgers shall include all check registers and spreadsheets used to record and track financial transactions.

5. For each outstanding revenue bond issuance related to Manchester's water operations, provide the amount assigned to each city division (e.g., water, sewer, police department, public works) during the fiscal year, the amounts allocated per division, and the basis for the allocation. If Manchester's records do not permit the allocation of revenue bonds among city divisions, provide an estimate for each bond and explain how Manchester derived the estimate.

6. a. The bond ordinance or resolution authorizing the issuance of revenue bonds.

b. An amortization schedule.

- c. A detailed explanation of why the debt was incurred.
- d. A calculation of the annual debt service payment, including all required payments to debt service reserve accounts or funds, for each of the next three years.

7. List all persons on Manchester's payroll during the proposed test period. For each employee, state his or her job duties, total wages paid during the fiscal year, current salary or wage rate, and the percentage of work hours spent performing duties for each city division (e.g., water, sewer, police department, public works) during the fiscal year. If Manchester's records do not permit the allocation of an employee's work hours among city divisions, provide an estimate for each employee and explain how Manchester derived the estimate.

8. For each employee listed in Item 7, describe how Manchester allocated his or her payroll and payroll overhead charges to each city division for the proposed test period. This response shall include a detailed explanation of all allocation procedures. Payroll overhead charges include payroll taxes, health insurance premiums, pension costs, and any other employee benefit cost.

9. a. List all joint or shared costs that Manchester incurred during the proposed test period. For each cost, list the vendor, total expense amount, amounts allocated per division, and the basis for allocation.

b. Describe the procedures used to allocate joint and shared costs among Manchester's divisions for the proposed test period.

c. Provide all internal memoranda, policy statements, correspondence, and documents related to the allocation of joint and shared costs.

10. Provide a detailed depreciation schedule for the water division.
11. Provide an adjusted trial balance and audit adjustments for the proposed test period and the most recently completed fiscal year. The trial balance shall be traced and referenced directly to the general ledgers requested in Item 4.
12. Provide the "Enterprise Funds Uniform Financial Information Report" that Manchester submitted to the Kentucky Department of Local Government for the fiscal years ending June 30, 2009 and June 30, 2010.
13.
 - a. Identify all persons or entities to which Manchester provides wholesale water service.
 - b. For each customer listed above, provide its monthly water usage and the amount that Manchester charged it for service for each of the previous 24 months.
14. For all water mains in Manchester's system, complete the table below.
Add larger main sizes if necessary.

Water Main Size	Total Miles Of Line	Miles Of Lines Used By Manchester To Serve Its Wholesale Customers
16"		
14"		
12"		
10"		
8"		
6"		
4"		
2"		

15. Identify the person or entity who paid for the water main(s) that Manchester uses to deliver water to Manchester's wholesale customer(s).

16.
 - a. State the maximum capacity of Manchester's water treatment plant.
 - b. For each of the customers listed in response to Item 13(a), state:
 - (1) The amount of Manchester's total water treatment plant capacity currently reserved for that customer.
 - (2) The minimum and maximum quantity of water (in gallons) that the customer may purchase in a month under the terms of its present water purchase contract with Manchester.
 - c. Describe the changes, if any, that Manchester expects within the next three years in the level of water treatment capacity reserved for each of the customers listed in Item 13(a) and state the reason(s) for Manchester's expectations.
17.
 - a. Identify the owner of the master meter(s) through which Manchester provides water to the customers listed in Item 13(a).
 - b. For each customer listed in Item 13(a), state the number of master meters that Manchester uses to provide water service to that customer.
 - c. Identify the party who is responsible for maintaining these master meters.
18. Provide a system map showing all Manchester's facilities that are used to serve the customers listed in Item 13(a). This map shall, at a minimum, show all master meters, pumping stations, storage tanks, water transmission mains, and water distribution mains used to serve the customers listed in Item 13(a). The size of all mains shall be clearly indicated on this map.
19. State the portion, if any, of Manchester's water main(s) that serve the customers listed in Item 13(a) that are gravity-fed.

20. a. List Manchester's water sales (in gallons) for each month of the previous 36 months for each of its wholesale customers and for its retail customers.

b. List the total amount billed by Manchester for water service for each month of the previous 36 months to each of its wholesale customers and to its retail customers.

21. Provide Manchester's current rate schedule for its retail customers and for each of its wholesale customers.

22. Complete the table below:

Manchester	Gallons for Test Period	Gallons for Fiscal Year Ending June 30, 2010
Plant Use		
Line Loss (Unaccounted for)		
Sales to Retail		
Sales to Each Wholesale Customer (Listed separately)		
Total Produced and Purchased		
Total Sold		

23. a. State whether Manchester provides unmetered water service to any entities (e.g., municipal buildings, fire departments, fire protection service).

b. If unmetered service is provided, estimate the percentage of the total unmetered amount for each entity or type of service.

24. If one was prepared, provide a copy of the cost-of-service study upon which the proposed rate is based.

25. a. Identify the person who prepared the cost-of-service study upon which the proposed rate is based.

- b. Provide the preparer's *curriculum vitae*.
- c. List all cases before the Commission in which the preparer has submitted a cost-of-service study.
- d. List all utilities (municipal or public) for which the preparer has prepared a cost-of-service study. For each utility, identify the type of utility service (e.g., water or sewer) for which the report was prepared.

26. If the proposed rate is not based upon a cost-of-service study, describe how Manchester determined the proposed wholesale rate and state who participated in the determination.

27. a. State whether the proposed rate increase includes an adjustment for rate case expenses incurred in this proceeding.

b. If the rate increase does not include an adjustment for rate case expenses, state whether Manchester will seek an adjustment to recover expenses incurred in litigating this proceeding.

c. If Manchester will seek an adjustment to recover expenses incurred in litigating this proceeding, provide all actual and estimated rate case expenses.

28. Provide the minutes of each meeting of Manchester since January 1, 2009 in which a proposed rate adjustment to Manchester's wholesale customers was discussed.

29. Provide a copy of all correspondence, electronic mail messages, or other written communications between Manchester and its wholesale customers since January 1, 2010 regarding revisions to Manchester's wholesale rate.

30. Provide all contracts for water service between Manchester and the entities listed in Item 13(a) that have not been filed with the Commission, including the contract with North Manchester Water Association dated August 15, 1994.

31. a. State the annual effect of the proposed rate adjustment on Manchester's revenues from wholesale water service to each of its wholesale water service customers.

b. Show all calculations made and state all assumptions used to derive the response to Item 31(a).

32. a. Identify and explain pro forma adjustments to water operations.

b. Provide the calculations for all pro forma adjustments to water operations.

33. a. Identify and explain pro forma adjustments to shared expenses that include the water operations.

b. Provide the calculations for all pro forma adjustments to shared expenses that include the water operations.

Wes Hacker
City Superintendent
City of Manchester
123 Town Square
Manchester, KY 40962

Jimmy Mathis
Vice President
North Manchester Water Association, Inc.
7362 N. Highway 421
Manchester, KY 40962