

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HARDIN COUNTY WATER)
DISTRICT NO. 1 TO ADJUST ITS RATES FOR) CASE NO. 2013-00050
SEWER SERVICE)

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
TO HARDIN COUNTY WATER DISTRICT NO. 1

Hardin County Water District No. 1 ("Hardin District") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and eight copies of the following information, with a copy to all parties of record, no later than August 27, 2013. Responses to requests for information shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

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.

Hardin District 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. For any request to which Hardin District fails or refuses to furnish all or part of the requested information, Hardin

District shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

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 shall be separately provided for total utility operations and jurisdictional operations.

1. Refer to the Application, Page 1. Hardin District owns and operates five divisions: (1) a Water Division serving Hardin, Meade, and Breckinridge counties, Kentucky; (2) the Fort Knox Water Division; (3) the Fort Knox Wastewater Division; (4) the Fort Knox Storm Water Division; and (5) the Radcliff Wastewater Division.

a. Provide an organizational chart that shows separately all of Hardin District's operating divisions, units, or groups.

b. For each division, unit, or group shown on the organizational chart, provide a list of employees, and vacant positions, that perform work only for that division, unit, or group and whose wages and wage overhead charges (i.e., health insurance benefits, retirement benefits, payroll taxes, etc.) are reported only by that division, unit, or group.

c. For each employee listed in response to item b., provide the test-year pay rate, current pay rate, regular and overtime hours worked during the test year, test-year wages expensed, test-year wages capitalized, test-year wage overheads expensed, and test-year wage overheads capitalized. Show each wage overhead account separately. Provide budgeted wages and wage overheads for all vacant positions and the anticipated fill date for each position.

d. Provide a copy of the written accounting policies and internal controls that have been adopted by Hardin District to ensure that wages and wage overhead charges for the employees provided in response to item c. are charged to the proper division, unit, or group.

e. Explain and describe how the accounting policies and internal controls identified in item d. are applied during daily operations to ensure that wages and wage overheads are properly accounted for by the appropriate division, unit, or group.

f. Provide a list of employees and vacant positions for each division, unit, or group that performs work for Hardin District's multiple divisions, units, or groups and whose wages and wage overhead charges are either directly assigned or allocated to multiple entities, divisions, or groups.

g. For each employee listed in response to item f., provide the test-year pay rate, current pay rate, regular and overtime hours worked during the test year, test year wages expensed, test year wages capitalized, test year wage overheads expensed, and test year wage overheads capitalized. Show each wage overhead account separately. Provide budgeted wages and wage overheads for all vacant positions and the anticipated fill date for each position.

h. Provide a chart showing the allocation of all test year wage and wage overhead charges listed in response to item g. to each division, unit, or group. State the method used to allocate each amount. Provide calculations of all allocation factors.

i. Provide a copy of the written accounting policies and internal controls adopted by Hardin District to allocate each employee's wages and wage overheads provided in response to item g. to the proper division, unit, or group.

j. Explain and describe how the accounting policies and internal controls identified in item i. are applied to daily operations to ensure that wages and wage overheads are properly accounted for by the appropriate division, unit, or group.

2. Refer to the Pre-Filed Testimony – Application Addendum Document, Page 82 through Page 86 and the Application Page 455 through Page 459.

a. The table below demonstrates differences in expenses reported by the Radcliff Sewer Fund as they appear on the Schedule of Revenues and Expenses shown on page 85 and on the Detail Comparative Income Statements shown on Page 458. Reconcile and explain the differences in the reported amounts.

	Page 85	Page 458	Difference
Operating Expenses	\$ 2,675,005	\$ 2,601,032	\$ 73,973
Depreciation and Amortization Expense	912,281	981,121	(68,840)
Interest Expense	81,652	86,791	(5,139)
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Total	\$ 3,668,938	\$ 3,668,944	\$ (6)

b. There are also differences in the amounts reported by the Water Fund, Fort Knox Sewer Fund, Fort Knox Storm Water Fund, and Fort Knox Water Fund on these financial statements. Reconcile the differences in the amounts reported on these financial statements by each fund.

c. Provide "Detailed Comparative Income Statements" for the years ended 2007, 2008, 2009, 2010, and 2011 for the County Water Fund, the Fort Knox

Water Fund, the Fort Knox Sewer Fund, the Radcliff Sewer Fund, and the Storm Water Fund.

3. Refer to the Application, Page 472. Two Commissioners appear to be receiving annual health benefits in the amount of \$9,447.

a. Explain why two Commissioners are receiving this benefit while the other three are not.

b. Identify any differences between annual health benefits provided to Hardin District employees and annual health benefits provided to Commissioners.

4. Refer to the Application, Page 473.

a. Describe the employee benefit labeled as "Flex_140."

b. Explain why two Commissioners are receiving this benefit while the other three Commissioners are not.

c. Hardin District pays Social Security and Medicare taxes for its Commissioners. Explain why Hardin District has not prepared and submitted Section 218 Agreements with the Division of Social Security requesting to exempt the Commissioner's pay from these taxes.

d. Each Commissioner is receiving a pension benefit and workers compensation benefit. Cite the Kentucky Revised Statute or Administrative Regulation that allows the Commissioner to receive this benefit and provide the approval of this benefit by fiscal courts and county judge/executives from the counties in which Hardin District provides service.

5. Refer to the Application, Page 474.

a. An attorney is included in the calculation of Hardin District's Salary and Benefit Summary. State whether the attorney is considered a full-time employee of Hardin District.

b. Provide a list of part-time employees who are currently employed by Hardin District and a list of those who were employed at the end of the test year. State each employee's wage rate and the amount of each benefit provided to the employee.

c. Provide a copy of Hardin District's written compensation packages for full-time and part-time employees that have been adopted by its Board of Commissioners.

6. Refer to the Application Page 470 and Page 474.

a. The wage and wage overhead costs of the customer service representatives, customer service manager, a Distribution Operator – III, and two of the Distribution Operators – I or II were allocated between the County Water Fund and the Radcliff Sewer Fund based on the revenues reported by those funds.

(1) Explain why none of the wage and wage overhead costs for these employees were allocated to the Fort Knox Sewer Fund, the Fort Knox Water Fund, or the Fort Knox Storm Water Fund.

(2) Explain why is it appropriate to allocate the wage and wage overhead costs of these employees based on reported revenues of the funds receiving the allocation.

(3) Provide the current number of customers served by the County Water Fund, the Radcliff Sewer Fund, the Fort Knox Sewer Fund, the Fort Knox

Water Fund, and the Fort Knox Storm Water Fund and the number of customers served by each fund as of December 31, 2012.

(4) Explain why an allocation factor based upon the number of customers would not be a more appropriate method of allocation for the wage and wage overhead costs of these employees rather than the revenues of the funds receiving an allocation.

b. The wage and wage overheads for the Accountant, Executive Assistant, Accounting Specialist, Project Coordinator, General Manager, Finance and Accounting Manager, Engineering Manager, Utility Billing Specialist, Distribution System GIS/Planning Specialist, Distribution Operator – I, Heavy Equipment Operator – IVD, three of the Distribution Operators – I or II, Operations Manager, Distribution Supervisor, TEMP Summer Help, Maint. & Controls Specialist, Plant Supervisor, and WQ / Measurement Specialist appear to have been allocated between Hardin District's County Water Fund, the Radcliff Sewer Fund, the Fort Knox Water Fund, the Fort Knox Sewer Fund and the Fort Knox Storm Water Fund based on their estimated time dedicated to each fund.

(1) State the job duties of each of these employees. Explain and describe the process through which their time dedicated to each fund was estimated.

(2) Explain why it is not appropriate to allocate the wage and wage overhead costs of these employees to each fund based on the number of customers served by each fund.

c. Explain why it is not appropriate to allocate the wage and wage overhead costs of the Commissioners and the Attorney to each fund based on the number of customers served by each fund.

7. Refer to the Pre-Filed Testimony – Application Addendum Document, Page 133, and to the Application, Page 474. Refer to the Application, Page 474.

a. On Page 474, the Radcliff Sewer Fund's Total Salary and Benefits is stated as \$395,621 but its Staff Salary and Benefits is stated as \$373,664. Explain the difference in these amounts.

b. On Page 474, the Radcliff Sewer Fund's capitalization percentage is stated as 16.9 percent. State whether the Total Salary and Benefits of \$395,621 is stated gross of the capitalization rate or net of the capitalization rate.

c. On page 133, the Radcliff Sewer Fund's pro forma labor costs are stated as \$364,729 (\$94,204 + \$155,371 + \$115,154). Reconcile this amount to the amounts shown on page 474.

8. Refer to the Application, Page 81. Provide all work papers used to calculate the Amortization of Acquisition Expense in the amount of \$9,100.

9. Refer to the Application, Page 476 and Page 477.

a. State the purpose and use of each asset listed.

b. Explain which of Hardin District's operating fund is represented by the Column Heading "Water %."

c. Explain why there are no columns for the Fort Knox Water Fund nor the Fort Knox Storm Water Fund.

d. State which Hardin District Fund has the asset reported on their depreciation schedule.

e. State where, in the Application, depreciation on the assets listed on these pages is calculated and allocated to the Radcliff Sewer Fund for inclusion in its pro forma depreciation expense.

10. Refer to the Application, Page 478.

a. Provide a list of each asset included in each "Class."

b. State the purpose and use of each asset listed in response to item

a.

c. State which Hardin District Fund has the asset reported on their depreciation schedule.

d. Explain why only three funds are represented on this page instead of five.

e. Explain how the allocation percentages were determined for each fund.

11. Refer to the Application, Page 480.

a. State the purpose and use of each asset listed.

b. State which Hardin District Fund has the asset reported on their depreciation schedule.

12. Refer to the Pre-Filed Testimony – Application Addendum Document, Page 8, Question 25.

a. Provide a copy of Hardin District's written accounting policies and internal controls that have been adopted to ensure that Veolia's "cross utilization" practices do not result in inappropriate charges to the Radcliff Sewer Fund.

b. Explain and describe how the accounting policies and internal controls identified in item a. are applied during daily operations.

13. Refer to the Pre-Filed Testimony – Application Addendum Document, Page 9, Question 27.

a. State the amount of the Base O&M Fee, Repair and Maintenance Limit, Electrical Limit, and Odor Control Limit included in each annual adjustment to the original 2008 Contract.

b. State the annual amount of Base O&M Fee, Repair and Maintenance Limit, Electrical Limit, and Odor Control Limit paid to Veolia for each year since the inception of the contract.

14. Refer to the Pre-Filed Testimony – Application Addendum Document, Page 292.

a. Provide copies of the city's financial statements that were provided to Hardin District pursuant to the Memorandum of Understanding.

b. Provide copies of all of the city's financial information that was reviewed by Hardin District when contemplating purchasing the assets of the Radcliff Sewer Fund.

15. Refer to the Pre-Filed Testimony – Application Addendum Document, Page 8.

a. Provide a list of city employees who were retained by Veolia and their wage rates paid by the City just before Hardin District took over operations of the Radcliff Sewer System.

b. Provide a list of Veolia's current employees who provide service to the Radcliff Sewer Fund and state each employee's wage rate.

16. Refer to Commission Staff's First Request for Information, Item 19.a.

a. For all entries to the revenue and expense accounts shown on the general ledger, indicate which entries were made to report transactions that affected only the Radcliff Sewer Fund and were, therefore, directly assigned only to that fund. Additionally, indicate which entries shown in the ledger were made to record transactions that were shared between the Radcliff Sewer Fund and Hardin District's other divisions, units, or groups.

b. For all shared transactions identified in item a., provide the allocation factors used to determine the amount charged to each division, unit, or group and provide the calculation of each allocation factor.

c. Provide a copy of the written accounting policies and internal controls that have been adopted by Hardin District to ensure that directly assigned and allocated revenues and expenses are properly charged to the appropriate division, unit, or group.

d. Explain and describe how the accounting policies and internal controls identified in item c. are applied during daily operations to ensure that revenues and expenses are properly charged to the appropriate division, unit, or group.

17. Refer to the Pre-Filed Testimony – Application Addendum Document, Page 1, Question 5.

a. Provide a copy of the standard monthly journal entries that are made to record all transactions that are associated with the franchise fee. Provide an explanation for each entry.

b. State whether Hardin District rolled the franchise fee into base rates in this case.

c. If yes to b., state the amount of the franchise fee included in pro forma operating expenses and the title of the account where the amount was reported.

d. If no to a., state whether Hardin District intends to continue collection of the franchise fee as a separate line item on its customer's bill that is added to the base rate charge.

18. a. State whether Hardin District collects school taxes on Radcliff sewer fees.

b. If school taxes are collected, provide a copy of the standard, monthly journal entries that are made to record all transactions that are associated with the school tax. Provide an explanation for each entry.

19. a. State whether Hardin District collects sales taxes on Radcliff sewer fees.

b. If sales taxes are collected, provide a copy of the standard, monthly journal entries that are made to record all transactions that are associated with the sales tax. Provide an explanation for each entry.

20. Refer to the Pre-Filed Testimony – Application Addendum, Page 96 and Page 161. Total Test-Year Other Operating Revenues are reported at \$184,225 on

Page 96.¹ On Page 161 they are reported at \$87,352. Reconcile the difference in these amounts.

21. Refer to the Pre-Filed Testimony – Application Addendum, Page 96.

Provide work papers that show the calculation of the:

- a. \$88,329 allocation of General and Administrative Expenses to FK Water;
- b. \$24,123 reported for interest income; and
- c. \$99,903 loss on the asset retirement. Also, provide the journal entries that were made to record the loss.

22. Refer to the Application, Appendix D.

a. The depreciation method for the assets listed below is indicated as “REMVI.” Show the calculation of the “Current YTD Depreciation” for these assets.

	In Service Date	Acquired Value	Estimated Life	Current Year Depreciation
Sewer Plant & Lift Stations	1/1/1962	\$1,939,928	57.00	\$37,742
Workstation Desk - Manager	1/1/2001	4,500	13.09	465
Ultra SV14 Desktop Notebook	1/1/2003	2,799	8.10	0
John Deere Gator Utility Vehicle	1/1/2000	6,142	12.08	427
Ford F350 Truck	6/1/2002	25,423	10.11	3,223
Ford F150 Truck	1/1/2002	14,366	10.04	542
Ford F250 Truck	1/1/2003	20,444	10.00	2,804
Portable Cam Inspection System	1/1/2000	64,056	15.04	6,249

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High Strength Surcharge	\$	747
Discharge Permit Fees		858
Bad Debt Recovered		7,415
Penalties, Service Fees, and Reimbursements		<u>175,235</u>
Total Other Operating Revenue	\$	<u>184,255</u>

b. The information shown below was taken from page 4 and indicates that the annual depreciation accrual on the pump 1 improvement would be \$918 (\$13,768/15 years). Explain why the "Current YTD Depreciation" is \$1,530.

	In Service Date	Acquired Value	Estimated Life	Current Year Depreciation
Refurbished RAS Flygt Pump #1	12/31/2011	\$13,768	15.00	\$1,530

c. The information shown below was taken from page 9. Explain why the Office Building and Holding Tanks will not be fully depreciated as of December 31, 2013 and December 31, 2014, respectively. Based on their "In Service Date" and "Estimated Life," it would appear that these assets would be fully depreciated in those years.

	In Service Date	Acquired Value	Estimated Life	Current Year Depreciation	Current Accumulated Depreciation
Construction Crew Office Building	1/1/1974	\$64,070	40.00	\$1,602	50,184
Sludge Holding Tanks Building	1/1/1975	85,930	40.00	2,148	64,738



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DATED: AUG 13 2013

cc: Parties of Record

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