

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE BEECH GROVE WATER)	
SYSTEM, INC. FOR A CERTIFICATE OF PUBLIC)	CASE NO.
CONVENIENCE AND NECESSITY TO)	2015-00139
CONSTRUCT AND FINANCE A WATER)	
IMPROVEMENTS PROJECT PURSUANT TO)	
KRS 278.020 AND 278.300)	

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO BEECH GROVE WATER SYSTEM, INC.

Beech Grove Water System, Inc. ("Beech Grove"), pursuant to 807 KAR 5:001, is to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due within 14 days of the date of this request. 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 the 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.

Beech Grove 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 Beech Grove fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. 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 filing a document containing personal information, Beech Grove shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the document so that personal information cannot be read.

1. Refer to Exhibit B of the application (“Qualified Provider Agreement”).
 - a. Provide a copy of the letter of warranty identified at page 11, Section 4.6(a).
 - b. Identify each manufacturer warranty that applies to equipment provided as part of the project as per Exhibit 1-A, page 32, Section A.1.19, and provide a copy of each manufacturer’s warranty which shall be assigned to Beech Grove pursuant to Section 4.6(a).
 - c. Provide a copy of the letter of warranty identified at page 11, Section 4.6(b).
 - d. With respect to Section 4.7(b) at pages 11 and 12, explain why 30 days is a reasonable amount of time for Beech Grove, upon discovery of a claimed defect, to make a written claim to the Provider pursuant to the limited warranty provision of the Qualified Provider Agreement.

e. With respect to Section 4.8 at page 12, identify “all other warranties, statutory, express, or implied” that the Qualified Provider Agreement purports to exclude. For each excluded warranty, including the warranty of merchantability or fitness for a particular purpose, explain the reason for the exclusion.

2. Refer to the Qualified Provider Agreement, Article 5, at pages 13 and 14.

a. Provide a narrative that explains the Provider’s responsibilities, including its financial obligation to Beech Grove, in the event that the Guaranteed Savings generated over the Guarantee Term are less than the Total Guaranteed Savings per the Performance Assurance Agreement. Include in the narrative a description of what happens in a scenario in which savings generated over the term are 50 percent of the Total Guaranteed Savings per the Performance Assurance Agreement.

b. With regard to “Stipulated Savings,” per the Glossary at page 7, are Stipulated Savings a part of the Total Guaranteed Savings for the Performance Assurance Agreement? With the response, fully explain how Beech Grove determined the appropriate amount to stipulate as savings by agreement with the Provider. Identify the individuals who made the analysis on behalf of Beech Grove and supply the supporting documentation concerning the level of savings to stipulate.

3. Refer to the Qualified Provider Agreement, pages 30 through 34.

a. For the Advanced Meter Infrastructure (“AMI”) project being proposed through this application, confirm that all the items necessary for the AMI system to be fully functional for Beech Grove are being provided through the Qualified Provider Agreement. If Beech Grove cannot confirm this fact, then identify the

additional items necessary for the AMI to be fully functional for Beech Grove. Identify the cost of the other necessary components of the AMI system and state whether the other components have been purchased. If there are items that are necessary for a fully functional AMI system that have not been purchased, state when the items will be purchased and provide the estimated costs for the necessary items.

b. State the estimated cost to Beech Grove to recycle and/or dispose of the 372 existing water meters that will be removed as discussed in the Qualified Provider Agreement, Section A.1.3, pages 30 and 31. State whether this cost has been included as part of this application.

c. State whether the installation of the 6-inch ultrasonic AMI water meter and the 4-inch ultrasonic AMI water meter identified and discussed in Sections A.1.8 and A.1.9 on page 32 of the Qualified Provide Agreement requires approval by the Kentucky Division of Water. If so, state whether approval has been or will be obtained.

4. Refer to the Qualified Provider Agreement, Exhibit 1-B, at pages 35 through 39.

a. With regard to Table A appearing on pages 35 and 36, confirm that there are no Guaranteed Measured and Verified Savings through the agreement. Otherwise, state the amount of Guaranteed Measured and Verified Savings by period.

b. With regard to Table A appearing on pages 35 and 36, confirm that all of the savings for the project are Stipulated Savings.

c. Explain how, during the construction period, Beech Grove will experience: Annual Energy Savings in the amount of \$3,000; Annual Water Meter

Accuracy Savings in the amount of \$7,000; and Annualized Cost Avoidance Savings in the amount of \$1,000. Provide all supporting documentation.

d. Did Beech Grove estimate a net present value amount for the Total Guaranteed Savings? If so, provide the estimate and supporting documentation. If not, explain why not.

e. Section 1.2.1 states: "CLIENT and PROVIDER stipulate and agree that all of the Annual Energy and Annual Water Meter Accuracy Savings identified above in Table A shall be considered fully satisfied upon CLIENT's final acceptance of the Project. The annual water meter accuracy savings will not be measure in accordance with any of the options listed below as part of this exhibit." Does this section mean that no efforts will be made to determine whether actual energy or water meter accuracy savings result from the project? Explain why the projections should be relied upon.

f. Section 1.2.2 states: "CLIENT and PROVIDER stipulate and agree that all of the Annual Operational Savings and Annualized Cost Avoidance Savings identified in Table A shall be considered fully satisfied upon CLIENT's final acceptance of the Project." Does this section mean that no efforts will be made to determine whether actual operational or cost avoidance savings result from the project? Explain why the projections should be relied upon.

g. State whether Section 1.3 appearing pages 36 and 37 has any applicability to the agreement between Provider and Beech Grove in that Table A contains no amount for measured and verified savings. If so, explain how the provisions of Section 1.3 apply and describe how there can be a shortfall for this project.

5. Refer to Exhibit 1-B, Article 2, Section 2.3.1, page 39. State the water costs used to determine the value of the annual energy savings.

6. Provide a narrative that identifies all changes to Beech Grove's meter reading and billing procedures and functions that will take place if the AMI system is installed. For each change, indicate whether it will result in an increase or decrease in Beech Grove's operation and maintenance expense. Provide with the identification of changes an estimate of any cost increase or cost savings for each change.

7. Refer to Exhibit 1-B, Article 3, pages 40 through 43. State whether Article 3 has any applicability to the agreement between Provider and Beech Grove in that Table A of the agreement contains no amount for measured and verified savings. If so, explain how the provisions of Article 3 apply.

8. Refer to the application, Attachment C. Explain why Beech Grove, in its legal notice, characterized the project as a "Guaranteed Savings Contract" rather than as an "Advanced Meter Infrastructure Contract" or a "Residential and Commercial Water Meter Replacement Project," or another description that contains the word "meter." Include in the explanation an identification and discussion of each factor relied upon by Beech Grove that the notice (which does not include the term "meter" or the phrase "meter replacement project") provides reasonable notice to the public and potential bidders of the nature of the project for which proposals are requested. Include in the response the identity of the person who wrote the legal notice and made the decision to describe the project as a "Guaranteed Savings Contract."

9. Refer to the application, Attachment C. In the absence of language in the legal notice which identifies and describes the project as a meter-replacement project or

an advanced meter infrastructure project, state all evidence that the proposal received represents the lowest-cost alternative for the project. Provide all supporting documentation, along with any written correspondence or communications, including electronic mail messages, with consultants, vendors, or contractors other than EMCOR Construction Services or Shambaugh & Son, LP concerning the acquisition and installation of AMI.

10. Refer to the application, Attachment C. Indicate whether Beech Grove had any discussions with EMCOR Construction Services or Shambaugh & Son, LP or their agents concerning this project prior to publication of the legal notice. If so, summarize the discussions and supply any written correspondence or communications, including electronic mail messages, in the possession of Beech Grove or its agents.

11. Provide a copy of the Request for Proposal provided by Beech Grove to EMCOR Construction Services or Shambaugh & Son, LP.

12. State whether the proposal submitted by EMCOR Construction Services was the only proposal received. If there were other proposals, provide a copy of each proposal received and all documentation used in reviewing and scoring the proposals.

13. Explain the effect upon Beech Grove if the "Stipulated Savings" identified in the Qualified Provider Agreement are not realized. Indicate whether Beech Grove will have any right of recourse or remedy if the Stipulated Savings are not realized.

14. State whether Beech Grove plans to test the new meters before placing them into service. If not, state whether Beech Grove will be relying on the meter manufacturer's testing data. Provide the meter manufacturer's testing data.

15. If Beech Grove will be relying on the meter manufacturer's testing data, state whether it will employ any sampling plan to verify the meters' accuracy before placing them into service.

16. Provide a detailed explanation of the cost-effectiveness and the efficiency of the project. Include a detailed description and the condition of the 372 existing meters in the system which will be disconnected and removed as part of this project. Provide their installation dates.

17. Refer to the Annual Reports of Beech Grove Water Association to the Public Service Commission for the Calendar Years Ended December 31, 2013¹ and December 31, 2014.² Based on the operating revenues and expenses reported in Beech Grove's respective Annual Reports, the estimated debt-service payments would have resulted in a cash deficit \$33,552 in calendar year 2013 and \$25,650 cash deficit in calendar year 2014. Provide a detailed explanation as to how Beech Grove intends to pay the cash deficit that will be created by the proposed financing.

	2014	2013
Total Water Operating Revenues	\$ 351,145	\$ 316,440
Less: Operating and Maintenance Expense	<u>(323,043)</u>	<u>(296,240)</u>
Net Revenues	28,102	20,200
Less: Average Annual Debt Payments	<u>(53,752)</u>	<u>(53,752)</u>
Cash Deficit	<u>\$ (25,650)</u>	<u>\$ (33,552)</u>

¹ Annual Report of Beech Grove Water Association, Inc., to the Public Service Commission for the Calendar Year Ended December 31, 2013 ("2013 Annual Report").

² Annual Report of Beech Grove Water Association, Inc., to the Public Service Commission for the Calendar Year Ended December 31, 2014 ("2014 Annual Report").

18. Beech Grove states in the application at page 3, paragraph 12(e), that the construction costs will be funded from the proceeds of a loan obtained with the assistance of D.A. Davidson & Co., Public Finance/Financial Advisors. Explain in detail the steps, if any, that were taken by Beech Grove to obtain alternative financing (i.e., Kentucky Rural Water Financing Corporation, Kentucky Infrastructure Authority, and United States Department of Agriculture Rural Development) to fund the proposed project.

19. Refer to the application, Exhibit F. The interest rate on the attached debt service schedule is listed as 6.25 percent per annum over a loan period of 15 years. Explain the steps, if any, that were taken by Beech Grove to obtain a lower interest rate, or finance the debt over a period longer than 15 years.



Jeff Derouen
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

DATED **JUN 03 2015**

cc: Parties of Record

*Beech Grove Water System, Inc.
445 State Route 56 North
Calhoun, KY 42327

*Honorable W. Randall Jones
Attorney at Law
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, KENTUCKY 40202