

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

SPECIAL CONTRACT BETWEEN MOUNTAIN )  
WATER DISTRICT AND ELKHORN CITY FOR ) CASE NO. 2011-00186  
THE PROVISION OF WHOLESAL WATER )  
SERVICE )

COMMISSION STAFF'S REQUEST FOR INFORMATION  
TO MOUNTAIN WATER DISTRICT

Pursuant to 807 KAR 5:001, Mountain Water District shall file with the Commission no later than 14 days from the date of this request the original and seven copies of the following information, with a copy to all parties of record. 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.

Mountain Water 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 Mountain Water District fails or refuses to furnish all or part of the requested information, Mountain Water 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 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.

1. Refer to Affidavit of Grondall Potter of June 10, 2011, Exhibit A. For each month of calendar 2010 and 2011:

a. State the total volume of water produced.

b. State the total cost of producing water.

c. Provide a breakdown of total cost into the individual components of the total cost listed in response to Item 1(b). This breakdown should use the water expense accounts that are set forth in the Uniform System of Accounts.

d. State the total volume of water sold from Mountain Water District's water treatment plant.

e. State the volume sold from Mountain Water District's water treatment plant to Elkhorn.

2. Refer to Affidavit of Grondall Potter of June 10, 2011, Exhibit A.

a. State whether the "Cost to Produce Water/1,000 Gal" column reflects only the cost of producing water at Mountain Water District's water treatment plant.

b. State whether the "Cost to Produce Water/1,000 Gal" column contains any costs related to the transportation or transmission of water from Mountain Water District's water treatment plant to the delivery point for any end-user. If yes, explain how these costs were determined.

3. Refer to Affidavit of Grondall Potter of June 10, 2011, Exhibit A. Assume that the Commission uses the calendar year ending December 31, 2010 as the test period to establish the wholesale rate. The average annual cost of water declined 12.3 percent during the test period. Explain why an increase is reasonable when water production costs declined.

4. Refer to Minutes of Mountain Water District's Board of Commissioners Meeting of September 29, 2010 at 18. Mr. Potter advised the Board of Commissioners that an adjustment of the wholesale rate to Elkhorn City was necessary to reflect the increase in power costs.

a. Provide all studies, analyses, and calculations in which Mr. Potter or other representatives of Utility Management Group ("UMG") calculated the effect of any adjustment in electric power rates on the cost of providing water service to Elkhorn City.

b. Provide all studies, reports, and calculations that Mr. Potter provided to Mountain Water District's Board of Commissioners to support the wholesale rate increase for Elkhorn City.

5. Identify the electric consuming facilities that Mountain Water District owns and that are directly used to provide water service to Elkhorn City.

6. For each facility identified in Mountain Water District's Response to Item 4, provide the billing invoices for electric power provided to that facility for the year ending December 31, 2010.

7. For each facility identified in Mountain Water District's Response to Item 4, state the rate schedule under which Mountain Water District receives power from American Electric Power.

8. In prior rate proceedings, the Commission has not distinguished between the sources of water in determining the rates for Mountain Water District's wholesale and retail customers. Explain why the Commission should depart from that practice in this instance.

9. Provide all studies, analyses, reports, and written calculations that Mountain Water District considered to establish its existing wholesale water rate to Elkhorn City.

10. Refer to Table 1, which summarizes the Operation and Maintenance Expense reported in Mountain Water District's annual reports to the Commission for the years from 2005 to 2010.

Year	Water Division		Sewer Division		
	Contractual Services – Management Fees	All Other O&M Accts	Owner Manager Fee	Collection System	Various O&M Accts
2005	\$2,536,663	\$3,008,283			\$181,835
2006	6,377,567	212,154			
2007	6,718,223	192,289			
2008	6,437,592	228,498	\$929,111		
2009	5,887,967	301,093	631,849		
2010	6,524,901	468,408		\$83,865	

a. Confirm that the amounts reported by the Water Division and Sewer Division as shown in Table 1 as Contractual Services – Management Fees and Owner/Manager Fees, respectively, represent all expenses related to Mountain Water District's management contract with UMG and represent no other type of expense.

b. UMG first operated Mountain Water District's water and sewer systems during 2005. If the \$2,536,663 as shown in Table 1 represents all UMG contract expenses that Mountain Water District report for 2005, explain why Mountain Water District did not assign or allocate any the UMG contract expenses to its sewer division.

c. As shown in Table 1, Mountain Water District's 2005 Annual Report for its sewer division includes amounts reported to various operation and maintenance expense accounts that total \$181,135. The individual accounts are shown in Table 2.

Other Labor, Materials and Expenses	\$ 66,372
Fuel and Power Purchased for Pumping and Treatment	23,012
Chemicals	4,860
Miscellaneous Supplies Expense, Pumping System	5,850
Miscellaneous Supplies Expense, Treatment and Disposal	70,927
Maintenance of Treatment and Disposal Plant	(17,600)
Office Supplies and Other Expenses	7,185
Insurance Expense	9,951
Employee Pensions and Benefits	<u>11,278</u>
TOTAL	<u>\$181,835</u>

(1) For each expense account listed in Table 2:

(a) State whether the amount represents expenses incurred for the sole purpose of operating of the sewer system that were directly assigned to the sewer division.

(b) State whether the amount represent expenses

common to the water and sewer divisions that Mountain Water District reported for the Sewer Division as the result of an allocation.

(c) If an expense resulted from an allocation, provide all workpapers showing how the allocation was determined.

(2) Explain why Mountain Water District made no allocation or direct assignment of these operation and maintenance expenses to its sewer division for the years from 2006 through 2010.

(3) Explain how the Mountain Water District did not overstate the expenses for its water division for the years 2006 through 2010 if no allocation or assignment of the various operation and maintenance expenses was made to its sewer division.

d. (1) State why Mountain Water District did not report for its sewer division operation and maintenance expenses in 2006 or 2007 as shown in Table 1.

(2) Explain how the expenses for Mountain Water District's water division for these years are not overstated in the absence of any allocation or assignment of any expenses to the sewer division.

e. In 2008 and 2009 the Sewer Division reported an Owner/Manager Fee expense in the amount of \$929,111 and \$631,849, respectively.

(1) Provide all workpapers and show all calculations used to determine these amounts.

(2) Explain why the water division's expenses that Mountain Water District reported for the calendar years 2005, 2006, 2007 and 2010 are not

overstated in the absence of any allocation of the Owner/Manager fee to Mountain Water District's sewer division.

f. As shown in Table 1, Mountain Water District reported Collection System expenses in the amount of \$83,865 during 2010 for its sewer division.


(1) State what the \$83,865 represents.

(2) State why Mountain Water District did not assign or allocate any UMG contractual fees to the sewer division for the calendar year 2010.

(3) State why Mountain Water District did not allocate Collection System Expenses to its sewer division in the calendar years 2005 through 2009.

(4) Explain why the reported water division's expenses for the years 2005 through 2009 are not overstated in the absence of an assignment or allocation of Collection System Expenses to the sewer division.

11. Refer to Affidavit of Grondall Potter of June 10, 2011, Exhibit A. Explain how Mountain Water District's failure to consistently allocate expenses between its water and sewer divisions was taken into consideration when calculating the monthly cost of water production as shown in Exhibit A.



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Jeff Derouen  
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DATED: JAN 12 2012

cc: Parties of Record



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