

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN WATER)
DISTRICT FOR AN ADJUSTMENT OF WATER) CASE NO.
AND SEWER RATES) 2014-00342

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION
TO MOUNTAIN WATER DISTRICT

Mountain Water District ("Mountain District"), pursuant to 807 KAR 5:001, shall 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 on or before March 20, 2015. 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 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 District fails or refuses to furnish all or part of the requested information,

Mountain 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 filing a paper containing personal information, Mountain District shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Mountain District's response to the Commission Staff's Second Request for Information ("Staff's Second Request"), Item 1. In calendar years 2010 through 2012, Utility Management Group LLC ("UMG") reported "Allocable Corporate Expenses: MWD Project-ADM,"¹ but in calendar years 2013 and 2014, UMG reported a "Corporate Fee: MWD Project-ADM" of \$300,000.

a. Provide a detailed explanation as to why UMG changed from allocating corporate expenses to charging a flat fee of \$300,000 to Mountain District.

b. Provide an itemized list of the costs UMG included in "Allocable Corporate Expenses: MWD Project-ADM."

2. Refer to Mountain District's response to the Staff's Second Request, Item 2.

a. Provide a detailed explanation as to how UMG calculated the amounts reported for the 12 months from July 1, 2013 to June 30, 2014.

¹ Allocable Corporate Expenses: MWD Project-ADM: Calendar Year 2010 - \$77,161; Calendar Year 2011 - \$250,843; and Calendar Year 2012 - \$223,535.

b. Provide a "Summary Revenue and Expense Report (All departments combined)" for the 12-month period ending June 30, 2014.

3. Refer to Mountain District's response to Staff's Second Request, Item 2, "Non-allocated Department (Shared costs)" schedule for July 1, 2013 to June 30, 2014.

a. UMG reports a combined test-year contract revenue of \$7,027,672, but Mountain District reported paying \$7,036,834² to UMG for this same period. Identify the correct UMG test-year Management fee and provide a detailed reconciliation and explanation for the \$9,162 discrepancy.

b. Provide a detailed description of the revenues reported by UMG in the test-year miscellaneous income of \$3,375.

c. UMG reports electric expense of \$1,162,650 as direct operations in the test-year unallocated expenses.

(1) If electric expense is a directly charged expense, explain why UMG reported this expense on the unallocated schedule.

(2) Provide a breakdown of the test-year electric expense of \$1,162,650 between Mountain District's water and sewer divisions.

d. Provide a detailed description of the items reported by UMG in the test-year miscellaneous expense credit of \$(4,369).

4. The expenses listed below were taken from the "Administrative Department (Shared Costs)" schedule for July 1, 2013 to June 30, 2014, which Mountain District provided in its response to Staff's Second Request, Item 2. Provide

² Application, Exhibit F, Statement of Income – Pro Forma (Combined) at 4. \$5,812,426 (Contract Services – UMG Management Water) + \$1,224,408 (Contract Services UMG Management Sewer) = \$7,036,834.

detailed work papers showing the calculation of each expense amount. These work papers³ should list and describe all expenses separately that are included in each account, the calculation of the factors used to make allocations to Mountain District, and a statement of why the allocation factors are appropriate.

a.	Corporate Overhead	\$	467,927
b.	Corporate Fee	\$	300,000
c.	Depreciation Expense	\$	29,033
d.	Amortization Expense	\$	117,636

5. Refer to Mountain District's response to Staff's Second Request, Item 6. Using the format attached to this request for information as Schedule 1, provide the UMG employee information as originally requested.

6. a. Provide all studies and analysis that UMG has conducted or commissioned on prevailing wages in the Prestonsburg region, or in the state of Kentucky, that shows UMG's employee wages are reasonable and appropriate.

b. If no studies or analysis have been conducted or commissioned, provide documentation showing that UMG's employee wages are reasonable and appropriate.

7. Refer to Mountain District's response to Staff's Second Request, Item 10.c.

a. In this response, UMG explains that "[t]he amount of overhead costs allocated to each division is based on the ratio of each division's contract amount in relation to the sum of all utility contracts." Provide a detailed description of the

³ The work papers should be a prepared schedule and not a copy of the accounts in UMG's general ledger.

relationship of the contract fees paid to UMG to the overhead costs incurred by UMG. Include documentation to show that this ratio results in a reasonable allocation method for these costs.

b. Provide the number of customers each utility system listed below served as of June 30, 2014:

- (1) Mountain District;
- (2) City of Pikeville, Kentucky; and
- (3) Dickerson County, Virginia Sewer Treatment Plant.

c. State whether UMG has executed a contract or entered into an agreement-in-principle with a utility system or systems other than the three listed in Item 7.b. above. If yes, identify each system and provide, by system, the date of the contract or agreement-in-principle and the number of customers as of the date of the contract or agreement-in-principle.

8. Refer to Mountain District's response to the Staff's Second Request, Item 12.a. Mountain District was requested to provide a billing summary sheet for each electric supply service for Mountain District's water division for the test year (July 1, 2013 – June 30, 2014). Mountain District provided an "AEP Billing Analysis" for each month of the test year. Provide a summary sheet for each electric supply service as originally requested. Each sheet should include the physical address of the meter/billing location, a brief description of the facilities located at the address, and the electrical usage and billing for each month of the test year.

9. Refer to Mountain District's response to the Staff's Second Request, Item 12.b.

a. Confirm that the city of Pikeville, Kentucky, and the city of Williamson, West Virginia, are the only wholesale water providers for Mountain District's water division.

b. Provide the total test-year (July 1, 2013 – June 30, 2014) water purchases in gallons and billing for each wholesale water supplier for Mountain District's water division.

10. Refer to the application, Exhibit B-2, Schedule W-B at 1, Pro Forma Adjustments to Historic Test Year; to Mountain District's response to the Commission Staff's First Request for Information ("Staff's First Request"), Item 17.b.; Bond Ordinance(s) of Loan Agreements for the water division's outstanding long-term debt; and to Mountain District's response to Staff's Second Request, Item 14.

a. Mountain District was asked in Staff's Second Request, Item 14.a., to provide a detailed schedule showing how it calculated the water division's annual debt service of \$958,552 (\$583,315 Pro Forma Debt Service–Principal + \$375,237 Pro Forma Debt Service Interest). However, the schedule provided showed how the \$682,544 historical debt service–principal was calculated. Provide a detailed schedule showing how the pro forma debt service of \$958,552 was calculated.

b. Listed on the schedule provided in Mountain District's response to Staff's Second Request, Item 14.a., is a loan of \$47,427 entitled "CTB WTP LOC." Provide a description of the loan, the effective interest rate, and the loan term.

c. Listed on the schedule provided in Mountain District's response to Staff's Second Request, Item 14.a., is a loan of \$45,750 entitled "CTB LOC NEW." Provide a description of the loan, the effective interest rate, and the loan term.

d. Section 11(c) of the August 29, 2012 Assistance Agreement between the Kentucky Rural Water Finance Corporation (“KRWFC”) and Mountain District states that “the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued.” Explain why Mountain District included on the schedule provided in its response to Staff’s Second Request, Item 14.a., approximately \$63,455 of principal payments for short-term vehicle loans in its debt-service calculation.

e. Section 11(c) of the August 29, 2012 Assistance Agreement between the KRWFC and Mountain District requirement of a 1.20 percent debt-service coverage pertains to the issuance of parity bonds. Explain how this coverage requirement would be applicable to the outstanding United States Department of Agriculture, Rural Development bonds and to the Kentucky Infrastructure Authority long-term debt.

11. The Commission’s past practice has been to use a three-year average of the principal and interest payments (debt service) for long-term debt in calculating the revenue requirement for water districts and associations.

a. Using the amortization schedules for Mountain District’s outstanding long-term debt provided in its response to Item 17.c. of Staff’s First Request, calculate the water division’s three-year average debt service using the principal and interest payments for calendar years 2015, 2016, and 2017.

b. Indicate the effect the three-year average debt service calculated in Mountain District's response to Item 11.a. will have on the water division's requested revenue requirement.

c. Provide copies of all calculations, work papers, and assumptions used by Mountain District in responding to Items 11.a. and 11.b.

12. a. Using the amortization schedules for Mountain District's outstanding long-term debt provided in its response to Staff's First Request, Item 19.c., calculate the sewer division's three-year average debt service using the principal and interest payments for calendar years 2015, 2016, and 2017.

b. Indicate the effect the three-year average debt service calculated in Mountain District's response to Item 12.a. above will have on the sewer division's requested revenue requirement.

c. Provide copies of all calculations, work papers, and assumptions used by Mountain District in responding to Items 12.a. and 12.b. above.

13. Refer to Mountain District's response to Staff's Second Request, Item 20.a. Kentucky Power Company submitted its application⁴ for a base rate increase on December 23, 2014, with an effective date of January 23, 2015. The Commission issued an Order on January 13, 2015 suspending Kentucky Power Company's proposed rates for five months, up to and including June 22, 2015. Provide documentation to support Mountain District's statement that Kentucky Power received a general rate increase on January 1, 2015.

⁴ Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting all Other Required Approvals and Relief* (filed Dec. 23, 2014).

14. In its response to Staff's Second Request, Item 21.c., Mountain District provided the monthly system accounted/unaccounted-for water loss reports for the calendar years 2012 through 2014.

a. Provide the water loss information for the calendar year 2013, the test year (July 1, 2013 – June 30, 2014), and the calendar year 2014 using the format attached to this request for information as Schedule 2.

b. Provide detailed explanations as to how Mountain District calculates/estimates the gallons reported in the following categories:

- (1) Hydrant Flushing;
- (2) Water Treatment Plant Use; and
- (3) Fire Department Use.

c. Provide a detailed description for any gallons of water that Mountain District reports in the category "Other" listed under "Other Water Used" on Schedule 2 of this request for information. Include in Mountain District's response an explanation as to how the gallons reported were calculated/estimated.

15. In each of the calendar years 2010 through 2013, Mountain District's reported line loss has exceeded 30 percent. 807 KAR 5:066, Section 6(3), states:

Except for purchased water rate adjustments for water districts and water associations, and rate adjustments pursuant to KRS 278.023(4), for rate making purposes a utility's unaccounted-for water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water used by a utility in its own operations. Upon application by a utility in a rate case filing or by separate filing, or upon motion by the commission, an alternative level of reasonable unaccounted-for water loss may be established by the commission. A utility proposing an alternative level shall have the burden of demonstrating that the alternative level is more reasonable than the level prescribed in this section.

a. Provide a detailed explanation as to why UMG's contract fee should not be adjusted to reflect the elimination of water costs that are in excess of the allowable 15-percent limitation.

b. Given that the burden of proof is on Mountain District to show that an alternate level of unaccounted-for water loss is more reasonable, provide a proposal for an alternate level, and provide evidence to support Mountain District's proposal.

16. Refer to Mountain District's response to Staff's Second Request, Item 21.e. for the water division's Field Maintenance Cost Summary Reports for the calendar years 2013 and 2014. Provide a brief description of each project and identify if the individual projects were expensed or capitalized.

17. Refer to Mountain District's response to Staff's Second Request, Item 21.f., for the sewer division's Field Maintenance Work Order Summary Reports for the calendar years 2013 and 2014. Identify if the individual projects were expensed or capitalized.

18. Refer to Mountain District's responses to Staff's Second Request, Items 22 and 23. The burden is on Mountain District to show that UMG's contract fee is reasonable. Provide copies of any study or analysis that Mountain District has that supports its position that the UMG contract fee is reasonable.

19. Refer to Mountain District's response to Staff's First Request, Item 11, and to Mountain District's response to Staff's Second Request, Item 23.a.

a. Explain why Mountain District would need the following employee positions if it did not have a contract operation agreement with UMG:

(1) District Administrator; and

(2) Financial Administrator.

b. Explain why the services being performed by the Financial Administrator are not duplicating the administrative services being provided by UMG.

20. Refer to the Application, Exhibit J, Mountain District's Depreciation Schedules for the water and sewer divisions.

a. Using the Utility Plant in Service and Accumulated Depreciation balances as of June 30, 2014, create and provide an excel spreadsheet that calculates an annual depreciation expense for the water division.

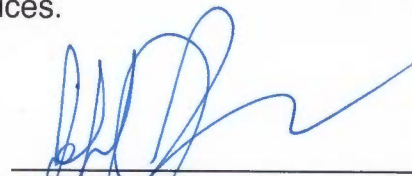
b. Using the Utility Plant in Service and Accumulated Depreciation balances as of June 30, 2014, create and provide an excel spreadsheet schedule that calculates an annual depreciation expense for the sewer division.

c. Mountain District uses a 40-year depreciation life for the majority of its transmission and distribution mains. The National Association of Regulatory Utility Commissioners Study of Depreciation Practices for Small Water Utilities ("NARUC Study"), dated August 15, 1979, has a depreciation life range of 50 to 75 years for transmission and distribution mains with a mid-point life of 62.5 years. Using the mid-point depreciation life of 62.5 years, recalculate the depreciation expense for Mountain District's transmission and distribution mains and provide the results.

21. Refer to the Application, Exhibit J, Sewer Assets.

a. Identify the difference between the "New Hookups – Services" listed under 1033-17 Services and the "New Hookups – Meters & Ins" listed under 1034-17 Meters & Installs Sewer.

b. Identify the material (plastic, cast iron, clay, or cement) of the "Services-Sewer" listed under to 1033-17 Services.



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DATED FEB 27 2015

cc: Parties of Record

SCHEDULE 1

Mountain Water District
Case No. 2014-00342
UMG Employee Information

<u>Employee Number</u>	<u>Position Title</u>	<u>Years of Employment with UMG</u>	<u>Salary Wage Rates</u>		<u>Hours Worked</u>		<u>Total 2014 Salary</u>
			<u>2014</u>	<u>2015</u>	<u>Regular</u>	<u>Overtime</u>	

SCHEDULE 2

Mountain Water District
Case No. 2014-00342
Water Loss Comparison

	Calendar Year 2013	Test Year 07/01/2013 - 06/30/2014	Calendar Year 2014
Water Produced			
Water Purchased			
Total Water Produced and Purchased			
Water Sales:			
Residential			
Commercial			
Industrial			
Multi-User			
Public Authority			
Bulk Loading Stations			
Resale			
Other			
Total Water Sales			
Other Water Used:			
Utility/Water Treatment Plant			
Wastewater Plant			
System Flushing			
Fire Department			
Other:			
Total Other Water Used			
Water Loss:			
Tank Overflows			
Line Breaks			
Line Leaks			
Other			
Total Water Loss			
% Water Loss			

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