

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE WATER SERVICE RATES OF) CASE NO.
CITY OF DANVILLE) 2014-00392

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO THE CITY OF DANVILLE WATER DEPARTMENT

The city of Danville Water Department ("Danville"), 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 February 5, 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.

Danville 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 Danville fails or refuses to furnish all or part of the requested information, Danville 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, Danville 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 the Commission's June 10, 2011 Order in Case No. 2011-00171.¹ In that Order, the Commission granted a Certificate of Public Convenience and Necessity to North Mercer Water District to, among other things, construct or install a connection to Danville's water system.

a. Has Danville entered into an agreement to provide the North Mercer Water District with wholesale water service? If so, provide a copy of the current contract.

b. Has Danville constructed or upgraded any facilities for the purpose of interconnecting with the North Mercer Water District? If so, state and identify the facilities that have been constructed, including the cost of the facilities. If Danville has not yet entered into an agreement to provide the North Mercer Water District with wholesale water service, state whether Danville is or has been in negotiations to supply North Mercer Water District with wholesale water service. Provide a summary of the negotiations, including the current status of the negotiations.

¹ Case No. 2011-00171, *Application of North Mercer Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023 Phase 2* (Ky. PSC June 10, 2011).

c. Does Danville anticipate construction or upgrading of any facilities for the purpose of serving North Mercer Water District with wholesale water service? If so, state and identify the facilities to be constructed, including the estimated cost of the facilities.

d. Does Danville purchase or plan to purchase water from the North Mercer Water District? If so, explain and provide a copy of the contract.

2. Refer to Danville's proposed wholesale rates. Identify and explain the steps, if any, that Danville has taken to incorporate revenues and costs for a wholesale water service agreement with North Mercer Water District in determining its cost of service and in designing rates. If no steps have been taken, explain why not.

3. At page 5 of his direct testimony, Earl Coffey explains that the wholesale rates are based upon the actual cost to provide service to the individual wholesale customer and states that is why the rate proposed for the Parksville Water District ("Parksville") is higher than the rate to Garrard County Water Association ("Garrard County") and Lake Village Water Association ("Lake Village"). Provide a hydraulic analysis (including a map of the system) and a demand study that supports Danville's assertion.

4. Provide justification of allocation factors of water facilities jointly used in both retail and whole systems' cost-of-service study. Include all assumptions and work papers.

5. At page 3 of his direct testimony, Mr. Coffey refers to the requirement in Danville's Water System Master Plan that its treatment plant be renovated and the treatment plant capacity be increased to 12 million gallons per day.

a. Provide a copy of Danville's Water System Master Plan ("Master Plan") completed by Bell Engineering in 2009. Include citations in the Master Plan that discuss the treatment plant renovations. If the Master Plan is available in Microsoft Word format, copies of the Master Plan can be provided electronically rather than by paper.

b. Provide a detailed description of the renovation and expansion of Danville's water treatment plant. Include the date construction was completed and the date it was placed into service.

6. In its response to Item 5(a) of Appendix B to the Commission's Order dated November 14, 2014, Danville provided a copy of the July 14, 2014 Kentucky Infrastructure Authority ("KIA") Conditional Commitment Letter (F13-011 (Increase #2)).

a. On page 1 of the letter is the following statement: "The total cost of the project shall not exceed \$28,608,171 of which the Authority loan shall provide \$12,467,849 of the funding." However, in the commitment section at the bottom of page 1 of the letter, paragraph 1 states, "The Authority project loan shall not exceed \$4,000,000." Provide an explanation for the apparent discrepancy between the two statements.

b. Paragraph 2 on page 2 of the letter states that the loan shall contain principal forgiveness in the amount of \$400,000 and that the actual loan amortization and forgiveness amounts will be based upon the "actual project costs drawn from the Authority." Provide a copy of the final KIA amortization schedule that includes the principal forgiveness.

c. Confirm that the KIA loan will bear an interest rate of 1.75 percent per annum as listed in KIA loan, paragraph 3. If the actual KIA interest rate is different, provide written documentation from KIA of the actual interest rate.

d. In Attachment A there are two schedules, Project Budget and Project Funding. Provide updated schedules to reflect the actual cost and funding of the treatment plant renovation and expansion project.

7. Provide a copy of the Bond Ordinance for Danville's 2014 United States Department of Agriculture, Rural Development ("USDA-RD") bonds.

8. In its response to Item 5(d) of Appendix B of the Commission's November 14, 2014 Order, Danville provided a November 24, 2014 electronic correspondence from Denise Pitts to Michele Gosser stating that the estimated annual debt service will be \$747,912. Confirm that the actual KIA debt service is \$747,912. If that figure cannot be confirmed, provide the actual KIA debt service.

9. In its response to Item 5(d) of Appendix B of the Commission's November 14, 2014 Order, Danville provided two bond amortization schedules from USDA-RD totaling \$13.6 million in principal. Confirm that these are the actual USDA-RD bond amortization schedules and not estimates. If they are not the actual schedule, provide copies of the actual USDA-RD amortization schedules.

10. In its response to Item 8 of Appendix B of the Commission's November 14, 2014 Order, Danville identified all shared costs and how these costs are allocated to the "utility fund."

a. Provide Danville's definition of the term "utility fund."

b. Danville states that it has used the following formula to allocate overhead, rental, indirect, and miscellaneous expenses to the utility fund: 20.85% of Legislative and Executive expenses + 35.24% of Finance and Administrative expenses + 5% of Utility Operational Revenue.

(1) Provide the analysis, study, or documentation to support the above allocation formula used by Danville.

(2) Identify the amount of the costs allocated to the utility fund by this formula that are allocated to Danville’s water division. Provide the analysis, study, or documentation to support the above allocation of the formula costs to Danville’s water division.

c. Danville identifies several shared employees and the estimated time each spends for the utility system. For the shared employees listed in the table below, identify the amount of time/salary that is allocated to Danville’s water division. Provide the analysis, study, or documentation to support the allocation estimates to the utility system and to the water division.

	Employee Position	Utility System Allocation
1)	City Manager	50%
2)	City Engineer	80%
3)	Admin. Assistant to City Engineer	80%
4)	City Clerk	40%
5)	City Secretary	30%
6)	City Financial Officer	50%
7)	Finance Officer	50%
8)	Accounts Payable/Payroll Clerk	50%
9)	Accounts Receiving/Billing Clerk	85%
10)	Full-time Finance Clerks	85%
11)	Part-time Finance Clerks	80%

11. Refer to the spreadsheet "Establishment of Rate-Funded Capital" filed January 5, 2015, by Danville.

a. Danville states that the American Water Works Association M-1 Manual "uses an equation of 2% of the prior year's gross plant investment to establish a funding level for the rate-funded capital improvement program." Is Danville referring to page 35 of the M-1 Manual, where a 2 percent assumption is used in an example?

b. Explain how a 2 percent assumption used in an example in the M-1 Manual documents or supports Danville's proposed rate-funded capital of \$580,000.

c. Provide a schedule listing Danville's capital investment for fiscal years 2009 through 2014 and identify the amount of capital investment that was funded by current revenues and the amount funded by debt. Exclude the treatment plant renovation and expansion from the schedule.

d. Identify the capital projects that the Danville water division has included in the budgets for fiscal years 2014 and 2015.

12. Provide any case citations in which this Commission has used "Rate-Funded Capital" in establishing a wholesale rate for a city water utility.

13. Provide a revised cost-of-service study substituting depreciation expense for the "Rate-Funded Capital." Provide an electronic copy of the requested cost-of-service study in Microsoft Excel format.

14. Refer to the "Pro Forma Adjustments to Test-Year Expenses" filed January 5, 2015 by Danville.

a. For the following pro forma adjustments provide supporting work papers, calculations, and assumptions:

(1)	Operation Labor	\$	104,841
(2)	Chemicals	\$	62,610
(3)	Operating Supply & Expense	\$	31,955
(4)	Power Cost	\$	78,611

b. Provide the dates the Class 4 and the uncertified employees were hired.

c. Provide the dates the "COLA" pay raises were granted in fiscal year 2014 and will be granted in fiscal year 2015.

d. Provide the referenced PAC bid and include a comparison of the old chemical costs to the new costs.

e. There are adjustments to chemical expense for "additional polymer for sludge" and for "KMno4 for intake." Provide documentation to support both of the proposed adjustments.

f. Provide documentation to support Danville's assumption concerning the relationship between cost and horsepower.

g. Provide documentation to show the historic relationship between horsepower at Danville's treatment plant and its electric consumption.

h. For each expense listed below, provide a schedule listing each expenditure recorded in this account, a detailed description of each expenditure, and a copy of the supporting invoices:

(1)	Maint. of Distribution Mains	\$ 76,868
(2)	Maint. of Meters	\$ 27,321
(3)	Maint. of Hydrants	\$ 26,206
(4)	Outside Services	\$ 74,373
(5)	Property Insurance	\$ 83,591

i. Provide a complete and detailed description of \$62,382 sales tax portion of the interfund and the 55/45 split.

15. Refer to the Direct Testimony of Connie Allen regarding the peaking factors beginning on page 5.

a. Provide a copy of the information reviewed in determining the appropriate factors used.

b. In her testimony on Page 5, line 16, Ms. Allen states, "2.00 – Used for Parksville (wholesale customer) and is calculated based on the pumping capacity of the station that is used to obtain water from the Danville system. The typical diurnal curve is not applicable in Perryville's case, the pumps are either on or off and, when pumping at capacity (450 gpm), constitute the potential peak daily demand. The average daily demand for Parksville (333,000 gallons) was calculated based on test year sales."

(1) Explain these statements.

(2) For the pumping station that is used to obtain water from the

Danville System:

i. Describe the pump station.

ii. Identify who operates and maintains the pump station that Parksville uses to get water from the Danville System.

iii. Explain in detail how this impacts Danville's system.

16. Refer to the Direct Testimony of Connie Allen, regarding the rate design at page 9. Provide all correspondence, internal memoranda, electronic mail messages, and notes in which the rate design is discussed between Danville and Salt River Engineering.

17. Refer to the cost-of-service study Danville provided in response to Item 21 of Appendix B of the Commission's Order dated November 14, 2014. This cost-of-service study identifies a Tower Hill Water Tank that is stated to serve Parksville Water District.

a. Provide the date when this Tower Hill Water Tank was built.

b. Provide the capacity of the Tower Hill Water Tank.

c. Provide all Board Meeting Minutes where the Tower Hill Water Tank was discussed and approved.

18. Refer to Danville's response to Item 21 of Appendix B of the Commission's Order dated November 14, 2014, specifically, the Distribution Section of the narrative of the cost-of-service study. In the discussion, it is stated that in this context the 'customer component' of the calculation refers to the commodity component." Are there distribution main costs allocated to the wholesale customers?

a. If so, provide a detailed explanation as to why distribution main costs should be allocated to the wholesale customers.

b. If there are distribution costs allocated to the wholesale customer, indicate whether Danville is aware that in previous rate case proceedings, the Commission has expressed concerns regarding expenses associated with distribution mains 10-inch or smaller being allocated to the wholesale customers.


19. Refer to the January 6, 2015 electronic correspondence from Todd Osterloh to Ann Ramser containing the Microsoft Excel spreadsheet titled, "explanations." The tab "Rate Base Explanations" has a note #2 "Direct assignments for the distribution reservoirs include an amount associated with P&JC (see calculation in box, above) and an allocation of the Tower Hill Water Tank to Parksville, Hustonville and the industrial customers. The total original cost of Tower Hill Water Tank was 1,743,263.27, of which 65% is allocated to direct assignments (per EC). Of the 65% (1,133,121), Parksville is allocated 35%, Hustonville 38% and industrial customers 26% (EC). Therefore, Parksville is allocated \$396,592, Hustonville \$430,586, and industrial customers \$305,943."

a. Explain in detail how these allocations were derived. Provide all work papers, state all assumptions, and show all calculations used to derive the response.

b. The note states that the Tower Hill Water Tank assignments were "per EC." Explain the "EC" notation.

DATED JAN 21 2015

cc: Parties of Record



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