

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED ADJUSTMENT)
OF THE WHOLESALE WATER RATES OF) CASE NO. 2017-00133
MADISONVILLE WATER DISTRIBUTION)

COMMISSION STAFF'S FIRST REQUEST FOR
INFORMATION TO CITY OF MADISONVILLE

The city of Madisonville ("Madisonville"), pursuant to 807 KAR 5:001, is to file with the Commission the original with six copies in paper medium and an electronic version of the following information. The information requested herein is due on or before June 23, 2017. Responses to requests for information in paper medium 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.

Madisonville 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 Madisonville 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 applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Madisonville shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. a. Provide the independent auditor's report for the fiscal year ended June 30, 2016. If the independent auditor's report for the fiscal year ended June 30, 2016, is not available, state the anticipated date when it will be available.

b. Provide the two most recent independent auditor's reports prior to the test year that are available for Madisonville's water operations.

2. Provide the general ledger for Madisonville's water operations for the proposed test period. If Madisonville's general ledger is not separated from its other operations, provide the general ledger in such a way that the general ledger accounts dedicated to water operations, either allocated or directly assigned, are easily identifiable, and the totals for each account can be traced to the audited financial statements provided in the independent auditor's report in Item 1.a.

3. For any outstanding debt issuance related to Madisonville's water operations provide the following:

a. Loan documents or resolutions authorizing the issuance of the debt;

b. An amortization schedule;

c. A detailed explanation as to why the debt was incurred;

d. A calculation of the annual debt service payment, including all required payments to debt service reserve accounts or funds, for each of the next five years; and

e. A statement of whether and, if applicable, how Madisonville recovers costs associated with its debt service through its wholesale rates.

4. a. Provide a list of all persons on Madisonville's payroll during the proposed test year who performed duties on behalf of Madisonville's water operations.

b. For each employee listed in Item 4.a., state his or her job duties, total wages paid during the proposed test year, current salary or wage rate, and amount of his or her wages that were allocated and/or directly assigned in performance of duties for the water operations during the test year. This response shall include a detailed explanation of all allocation procedures utilized by Madisonville.

c. For each employee listed in Item 4.a., state the amount of payroll overhead charges for the employee during the test year. Payroll overhead charges include payroll taxes, health insurance premiums, pension costs, and any other employee benefit costs. Provide the amount of each overhead charge that was allocated and/or directly assigned to Madisonville's water operations.

5. List all joint or shared costs that Madisonville incurred between its water operations and other operations during the test period. For each cost, list the vendor, total expense amount, amounts allocated per division, and the basis for allocation.

6. Refer to the schedule provided in Madisonville's May 23, 2017 filing labeled "City of Madisonville Water and Sewer Fund WTR Trial Balance" ("Trial Balance").

a. Confirm that the Trial Balance included in the filing is the adjusted trial balance for the test year and includes the audit adjustments prepared by Madisonville's independent auditor. If this cannot be confirmed, provide the adjusted trial balance and audit adjustments for the proposed test period prepared by Madisonville's independent auditor.

b. Confirm that the Trial Balance can be traced and referenced directly to the general ledger that was requested in Item 2. If this cannot be confirmed, provide a detailed explanation as to why these amounts cannot be traced to the general ledger.

7. a. State whether the rate case expenses associated with this proceeding are recovered through the proposed rates. If so, state the amount of the expenses and indicate how the amount is incorporated in the proposed rates.

b. If the rate case expenses are not included for recovery through the proposed rates, state whether Madisonville will seek recovery of rate case expenses through an amendment of its proposed rates or through a separate surcharge.

c. If Madisonville will seek recovery of rate case expenses through an amendment of its proposed rates or through a separate surcharge, provide all actual

and estimated rate case expenses and state whether Madisonville will seek recovery of rate case expenses from each of the three wholesale purchasers.

8. Refer to Madisonville's May 23, 2017 filing. The letter from Madisonville's CPA indicates that there was a significant increase in the Maintenance of Water Treatment Equipment Account due to the need to replace portions of Madisonville's water filtration membranes.

a. Explain why the amounts in this account attributable to the replacement of water filtration membranes were expensed rather than capitalized.

b. For the water filtration membranes that were replaced during the fiscal year ended June 30, 2016, indicate when the membranes were initially installed.

c. For the five fiscal years prior to the one ending on June 30, 2016, provide the schedule titled "Comparative Schedules of Operating Expenses" and indicate the amounts on those schedules attributable to the replacement of water filtration membranes.

d. Explain why the costs associated with the replacement of water filter membranes are not being recovered through the use of the 2 percent capital cost recovery factor.

9. Refer to the Water Purchase Contract between Madisonville and South Hopkins Water District ("South Hopkins") dated March 29, 1994.

a. The variable rate schedule that is present in Madisonville's contracts with Nebo Water District ("Nebo") and North Hopkins Water District ("North Hopkins") does not appear to be referenced or included in the contract with South Hopkins Water District. Explain why it is appropriate for Madisonville to calculate the

rate to South Hopkins under the variable rate schedule when it is not included in the contract.

b. Section C.5. (Modification of Contract) states, “Any increase or decrease in rates shall be based on a demonstrable increase or decrease in the costs of performance hereunder, but such costs shall not include increased capitalization of the Seller’s system.” Explain how including capital costs in the calculation of the South Hopkins rate is consistent with the contract.

10. Provide a copy of the special study conducted by HJ Umbaugh & Associates in which the rate formula was developed.

11. Refer to the supporting documentation supplied by Madisonville in its January 31, 2017 filing. For each of the three January 19, 2017 letters from Charles A. Kington, CPA, to Cory Alexander supplied as supporting documentation for the proposed rate increases, Mr. Kington stated his “understanding that the new rate will be charged from March 31, 2017 to March 31, 2018.” In the three letters from Charles A. Kington, CPA, to Cory Alexander supplied as supporting documentation in February 2016 filings concerning the rates currently in effect for South Hopkins, North Hopkins, and Nebo,¹ Mr. Kington stated his “understanding that the new rate will be charged from March 15, 2016 to December 31, 2016.” State the reason for the difference in the expected effective period of the rates in the current filing and the 2016 filing.

12. Refer to Mr. Kington’s May 23, 2017 verified statement to the Public Service Commission. Mr. Kington stated his understanding that Madisonville’s agreements with North Hopkins and South Hopkins are identical to Madisonville’s

¹ TFS2016-00044 (filed Feb. 2, 2016) South Hopkins; TFS2016-00043 (filed Feb. 2, 2016) North Hopkins; and TFS2016-00042 (filed Feb. 2, 2016) Nebo.

agreement with Nebo. State whether this statement is accurate and, if applicable, describe all differences between the North Hopkins and South Hopkins agreements in comparison to the Nebo agreement.

13. Explain whether Madisonville's agreements with North Hopkins, South Hopkins, and Nebo contain any provision or factor designed to prevent the purchaser from being allocated costs incurred by Madisonville resulting from tank overflows, line breaks, or other water losses in Madisonville's retail transmission and distribution facilities. If there is not a provision or factor to prevent such allocation of costs, explain why it is reasonable to allocate Madisonville's retail water loss costs to wholesale purchasers.


Talina R. Mathews
Executive Director
Public Service Commission
P.O. Box 615
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DATED JUN 07 2017

cc: Parties of Record

Case No. 2017-00133

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