

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WESTERN LEWIS)
RECTORVILLE WATER AND GAS DISTRICT) CASE NO.
FOR RATE ADJUSTMENT FOR SMALL) 2017-00074
UTILITIES PURSUANT TO 807 KAR 5:076)

ORDER

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION TO WESTERN
LEWIS-RECTORVILLE WATER AND GAS DISTRICT

Western Lewis-Rectorville Water and Gas District ("Western Lewis"), 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 on or before May 12, 2017. 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.

Western Lewis 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 Western Lewis fails or refuses to furnish all or part of the requested information, Western Lewis 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. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Western Lewis 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 response to Commission Staff's First Request for information filed on April 17, 2017 ("Staff's First Request"), Item 1. Confirm that 39,017 Mcf is the most accurate number to represent gas that was used by customers from January 1, 2015, through December 31, 2015.

2. Refer to the response to Staff's First Request, Item 2.a.

- a. Confirm that \$384,661 is the most accurate number to represent actual operating revenues from sales of gas to customers.

b. Confirm that the operating revenues shown in Item 2.a. do not include \$6,484 that was recorded on Western Lewis's billing registers for the year ended December 31, 2015, for its tariffed customer charge.

c. Confirm that the operating revenues shown in Item 2.a. do not include \$2,306 of budget adjustments that were recorded on Western Lewis's billing registers for the year ended December 31, 2015.

3. Refer to the response to Staff's First Request, Item 2.b. and Item 2.c. Provide the amount of late charges which are included in test-year revenue.

4. Refer to the response to Staff's First Request, Item 4. The response to Item 4.a. states that the original revenue table was incorrect regarding the upper three tiers. However, with the exception of the minimum bill calculation, the revenues from present rates from the other tiers were all correct in the original application, and the total revenue from present rates should be \$189,813.52. Based on this, provide the amount of the increase that Western Lewis is seeking.

5. Confirm that Western Lewis's request is to maintain a rate design including both a customer charge and a minimum bill. If that is the case, explain whether it would be willing to change to a rate design consisting of a monthly customer charge, and one volumetric rate for all Mcf sold.

6. Refer to Attachment 13 in Western Lewis's response to Staff's First Request. Additionally, refer to the Water Operating Revenue page of Western Lewis's Annual Report filed with the Commission for the year ended December 31, 2015, with regard to water¹ and the Statement of Income for the Year of Western Lewis's Annual

¹ *Annual Report of Western Lewis-Rectorville Water and Gas District to the Public Service Commission for the Calendar Year Ended December 31, 2015 ("Water Annual Report")* at 53.

Report for the year ended December 31, 2015, with regard to gas² (collectively, "2015 Annual Reports").

a. Confirm that in preparation of the 2015 Annual Reports, the trial balance provided in Attachment 13 was used to generate the amounts stated in the Water Operating Revenue and Statement of Income for the Year pages.

b. Confirm that in preparation of the 2015 Annual Reports, regarding all sources of Water and Gas revenues, the preparer allocated 35 percent to the Gas Annual Report, and 65 percent to the Water Annual Report. Additionally, confirm that the preparer allocated all sources of Miscellaneous Service Revenues with 35 percent going to the Gas Annual Report, and 65 percent to the Water Annual Report. If either of these are confirmed, explain why this is a more appropriate method of reporting revenues to each division rather than using actual billed revenues for 2015 for Gas, Water, and Miscellaneous Service Revenues for each division.

c. Provide the actual billed revenues that were generated by each division for the test year ended December 31, 2015, separated by Sales of Water, Sales of Gas, Other Operating Revenue (Water), and Miscellaneous Service Revenues (Gas).

7. Refer to Attachment 13 provided in Western Lewis's response to Staff's First Request. Additionally, refer to the Water Annual Report Comparative Operating Statement³ and the Gas Annual Report Statement of Income.⁴ The sum of Utility

² *Annual Report of Western Lewis-Rectorville Water and Gas District to the Public Service Commission for the Calendar Year Ended December 31, 2015 ("Gas Annual Report")* at 26.

³ Water Annual Report at 24.

⁴ Gas Annual Report at 26.

Operating Expenses in the amount of \$834,753 and Total Gas Operating Expenses of \$407,360 totals to \$1,242,113.

a. The trial balance provided in Attachment 13 by account number for all expense accounts excluding interest expense and gain/loss on Asset Disposal total to \$1,255,641 as shown in the following table:

Account Number	Account Title	Balance as of Dec. 31, 2015
601	Advertising	\$ 501
602	Automobile Expense	1,744
603	Bank Service Charges	600
604	Bond Certificate	3,385
605	Chemicals	2,470
606	Continued Educations	2,313
607	credit refund	250
608	Depreciation Expense	316,777
609	deposit interest	189
610	Dues and Subscriptions	218
611	Independent Contractor	30,847
612	Insurance	382
613	Insurance: Insurance - Health, Vision, Etc.	36,747
614	Insurance: Liability Insurance	51,128
618	Maintenance: Maintenance Fuel	13,971
619	Maintenance: Maintenance Water	56,262
620	Materials and Supplies	7,833
621	Materials and Supplies: Gas	(845)
622	Materials and Supplies: Water	14,228
623	Mileage	2,164
624	Miscellaneous	(3)
625	Office Expense	4,418
626	Office Supplies	2,900
627	Payroll Expenses	257,990
628	Payroll Expenses: Commissioner's Salaries	20,000
629	Payroll Tax Expense	23,775
630	Postage and Delivery	10,435
631	Postage and Delivery: Postage Gas	482
632	Professional Fees: Accounting	10,300
633	Professional Fees: Consulting	15,601
634	Program Expense	12,473
637	Rent	1,775
638	Repairs	852
639	Repairs: Computer Repairs	1,780
640	Repairs: Equipment Repairs	90
641	Repairs: Gas Meters	253
642	Retirement Expense	31,407
657	Telephone	4,779
658	Trash Pickup	227
659	Utilities: Electric (Water)	53,120
660	Utilities: Gas	174,037
661	Utilities: Water	78,639
662	Water Testing	7,213
663	Repairs: Building Repairs	1,934
		<u>\$ 1,255,641</u>

What is reported for Operating Expenses on the 2015 Annual Reports appears to be understated by \$13,528. Reconcile the difference between what is reported on the 2015 Annual Reports and what is reported on the trial balance provided in Attachment 13.

b. For each account listed in Item 2.a., state whether each item was allocated, directly assigned, or whether some other method was used to generate the amounts listed in the 2015 Annual Reports for Operating Expenses. If the item is allocated, provide the percentage allocation that was used. For example:

Account Number 601, Advertising: Directly Assigned to Water

Account Number 629, Payroll Tax Expense: Allocated: 35 percent to Gas, 65 Percent to Water

c. For each Account in Item 2.b. that is allocated, explain why this was an appropriate method to separate the expense between the divisions, and provide the criteria used to determine the percentage allocation.

8. Refer to the general ledger for the year ended December 31, 2015, provided as part of Attachment 13 in response to Staff's First Request. With regard to meter taps, provide the following:

a. Confirm that the revenue collected for meter taps for both water and sewer were removed from test-year revenues and included on the retained earnings statement on Western Lewis's 2015 Annual Reports.

b. Separately state the number of gas taps and water taps that were made during the year ended December 31, 2015.

c. Separately state the amount that was collected for gas taps and water taps during the year ended December 31, 2015.

d. Confirm that expenses related to gas taps and water taps have been removed from test-year expenses and have been capitalized on Western Lewis's depreciation schedule. If this is confirmed, provide the dollar amount and general ledger account names for which these expenses were removed for both gas taps and water taps separately.

9. Refer to the Application, ARF Form 1 – Attachment SAO-G, Schedule of Adjusted Operations – Gas Utility. In its Application, Western Lewis requested recovery of \$17,020 of depreciation expense in its pro forma operations. Refer to Western Lewis's Gas Annual Report at page 26. Depreciation Expense is stated at \$7,900. Additionally, Western Lewis provided in its Application a depreciation schedule for its Gas Division that states depreciation expense for the year ended December 31, 2015, to be \$7,853.

a. Reconcile the difference between what is reported on Western Lewis's Gas Annual Report, what is included in pro forma operations in its Application, and the depreciation schedule that was included in its Application.

b. Provide a revised depreciation schedule that clearly states for the test year each asset, asset account group, useful life, original cost, and current depreciation that is being requested to be recovered by Western Lewis for its Gas Division.

10. Refer to the responses to Staff's First Request, Item 17.a. and 17.b. Western Lewis states that it had expenses related to large repairs that were completed in 2016. With regard to these expenses, answer the following:

a. Confirm that these expenditures are one-time expenses that are not expected to be repeated in the future.

(1) If this cannot be confirmed, explain why these are yearly expenditures, considering that similar types of expenses did not occur during the test year.

(2) Explain why a line extension should be expensed rather than capitalized and depreciated over the main's useful life.

(3) Explain why the installation of a regulator station should be expensed rather than capitalized and depreciated over the regulator station's useful life.

b. Attachment 11, in response to Staff's First Request, shows invoices that were generated with regard to the new regulator station that was installed in 2016 and line extensions that occurred in 2016. The invoices total \$31,164. Reconcile the difference between the \$60,000 requested in its Application to be recovered in pro forma expenses and the \$31,164 provided as evidence of expenditures during 2016.

11. Refer to Attachment 13 provided in response to Staff's First Request, Item 18.a. and 18.b. Account 633 of the trial balance refers to Professional Fees: Consulting in the amount of \$15,601. With regard to Account 633, answer the following:

a. Confirm that the amounts charged to this account are for expenses related to the Gas Consultant that is referenced in response to Staff's First Request, Item 17.d.

(1) If this is confirmed, provide invoices that, as a whole, total to the amount that appears in Account 633.

(2) If this is not confirmed, provide the account number and dollar amount that is related to the Gas Consultant hired on April 14, 2015, that was expensed during the test year.

b. Explain why, if the Gas Consultant was hired during 2015, and payments were made to the gas consultant during 2015, Western Lewis should recover the entire cost in the amount of \$18,300 as a pro forma adjustment to its test-year operations, rather than an annualized amount.

12. Provide Western Lewis's current number of water customers, average number of water customers in 2016, and the number of water customers at December 31, 2016.

13. Refer to Western Lewis's response to Staff's First Request, Item 11.c. In its response, Western Lewis provided all health insurance invoices from 2013 to present. Provide a schedule that breaks out each invoice with an employee number, arranged so that the invoices can be compared by employee month to month, and the position the employee held for each of the amounts shown on the invoice.

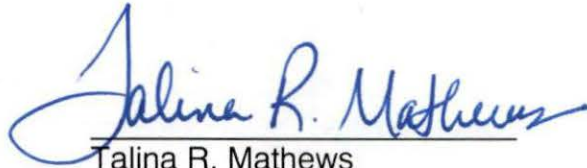
14. Refer to Western Lewis's response to Staff's First Request, Item 16.a.

a. Confirm that Chad Clark is the contract operator for the Buffalo Trail Water Association ("Buffalo Trail"). If this is confirmed, provide the hourly or contract rate he is being paid by Buffalo Trail and the number of hours per week he spends performing the operational service for Buffalo Trail.

b. Identify any other utility or company for which Mr. Clark performs contract services. Include a description of the contract services Mr. Clark provides to each utility or company, the hourly or contract rates paid to Mr. Clark, and the number of hours Mr. Clark spends at each utility or company.

15. In its response to Item 15.c. of Staff's First Request, Western Lewis states that Mr. Clark works on average 32 hours per week. Provide documentation to support the weekly hours worked by Mr. Clark.

16. Refer to Western Lewis's response to Staff's First Request, Item 11.b. Explain in detail why Western Lewis does not require its employees to pay part of the cost of the single health insurance premium.



Talina R. Mathews
Executive Director
Public Service Commission
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DATED APR 28 2017

cc: Parties of Record

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