

Commonwealth of Kentucky  
Before the Public Service Commission

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PUBLIC SERVICE  
COMMISSION

In the Matter of:

Proposed Adjustment of the Wholesale )  
Water Service Rates of Hopkinsville )  
Water Environment Authority )

Case No. 2005-00174

**CHRISTIAN COUNTY WATER DISTRICT FIRST DATA REQUEST**

Christian County Water District, by counsel, submits the following questions to the city of Hopkinsville pursuant to the Commission's order of June 15, 2005.

1. The letter of July 7, 2005 to Beth O'Donnell from L.F. Hale in paragraph 3 refers to a "1996 Rate Amendment approved by the PSC". Provide a copy of the amendment and the approval of that amendment issued by the PSC.
2. Refer to Item 8 of the July 7, 2005 Responses. Shared expenses are described as being divided equally between water and wastewater departments.
  - a. Are expenses accounted for separately for water and wastewater or are they allocated?
  - b. If accounted separately, why are not actual amounts used?
  - c. If allocated, what is basis for allocation?
  - d. Are the expenses for water and sewer in the HWEA 2004 Annual Audit, schedule 2, actual or allocated amounts?
3. Refer to Item 13 of the July 7, 2005 Responses. Reconcile the statement that most of HWEA's mains are loped and essential to serving CCWD and the statement

in the Black & Veatch Report on page 25 that the District does not use smaller water distribution mains.

4. Refer to Item 14 of the July 7, 2005 Responses. Explain how the raw water supply is the most limiting factor in supplying treated water to CCWD.

5. Is the city currently capable of providing CCWD with its 2 MGD or 49 MG/Month contract volumes? If not, explain.

6. What is the increase in water purchases by CCWD that the city is projecting over the next five, 10, 15 and 20 years?

7. What is the Residential Enterprise Zone program and does the HWEA make any financial contributions to that program?

a. If yes, explain the nature of the contributions, the amounts and the relationship of the contributions to utility services.

b. If yes, are these contributions included in the calculation of the rate for CCWD?

c. If yes, how are these contributions related to service to CCWD?

8. Does the HWEA have a system development fee or a comparable type of fee that is imposed on its customers? If yes, is any of that fee included in the rate calculation for CCWD?

9. What is the current capacity of HWEA's raw water line?

a. What will be the capacity of the proposed raw water line?

b. When will it be completed?

c. Will there be any expansion of the existing treatment facilities or their capacities as a result of the new raw water line? If yes, describe.

d. Is the city currently capable of providing CCWD its contract water supply?

10. When will the bonds for the raw water line be issued?

11. Is the existing raw water line being replaced or is an additional line being installed?

12. Refer to the Black & Veatch study, page 2. Explain how the rate for wholesale customers was developed “in accord with allocated costs of service”.

13. Refer to the Black & Veatch study, page 2. Explain what “local policy considerations” were used in developing the rate for CCWD and how those considerations were factored into the development of the rate.

14. Refer to the Black & Veatch study, page 3. Paragraph 3 states that the test year is 2006. The financial information provided seems to be for 2003-2004. What is the test year and what financial information was used to develop the proposed rates?

15. Refer to the Black & Veatch study, page 3. Paragraph 3 states retail rates have been developed based on a detailed cost of service study and rates for CCWD have been developed. Explain how the rates for CCWD were developed if not by a detailed cost of service.

16. Refer to the Black & Veatch study, page 4. The proposed rates for CCWD differ from the rates approved by the Hopkinsville city council in the ordinance of May 6, 2005. Explain the discrepancy.

17. Are the wholesale rates shown on page 4 of the Black and Veatch study cost based rates or are they the retail rates times a factor of 1.3?

a. If the wholesale rates are a multiple of 1.3, how was the fourth block determined and why? Provide all calculations and assumptions used to develop the \$1.93 rate for CCWD.

18. Are any of the wholesale rates on page 4 of the Black & Veatch study calculated in accord with the same AWWA ratemaking principles used to develop the retail rates? If no, explain the differences in the calculation of the wholesale rate.

19. Is the Black & Veatch study based on budget projections or actual historical data?

a. If based on budget, what is the budget year? Provide all assumptions used to develop all expenses and revenues for the budget.

b. If based on budget, provide a comparison of actual and budget revenues and expenses for the water system for the last five years.

20. Refer to Black & Veatch study, page 12. Provide a schedule of the five year capital program showing each project by description, year of expected completion and estimated cost.

a. Explain the source of the information from “staff” and how the estimates were determined.

b. What steps has the HWEA taken to begin implementing these estimated improvements?

c. How are these estimates consistent with the ratemaking principle of known and measurable?

21. Refer to Table 6 of the Black & Veatch study. Under projected O&M expenses, there is not an increase until 2007. Explain why rates need to be increased now to recover expenses that have not yet been incurred.

22. Refer to the Black & Veatch study, page 18. What is a reasonable margin of coverage in excess of anticipated minimum bond coverage requirements?

a. Why is any margin over bond coverage requirements needed?

b. Is a municipality allowed to accumulate such a surplus of revenue?

c. On page 20 of the study it is stated that such margin is needed to allow for fluctuations in climate or system operations. Rather than including this margin, is it not better ratemaking to adjust rates in the future if those fluctuations occur, rather than over-billing customers now for expenses that may never materialize?

d. How are these fluctuations consistent with the ratemaking principle of known and measurable?

23. Refer to the Black & Veatch study, page 19. Line 17 lists payments to CCWD. These payments end in 2006. Given that the study seems to cover a period through 2009, why should this expense be included, when it will not be incurred after 2006?

24. Refer to the Black & Veatch study page 23. How were function costs allocated to CCWD?

a. Were these costs allocated to CCWD in the same manner as to the retail customers? If not, explain why not.

25. How were the maximum day and maximum hour demand factors determined for the retail and wholesale customers?

- a. If estimated, explain the method and assumptions used.

26. Refer to the Black & Veatch study page 25. What size mains were allocated to CCWD?

- a. Explain why those mains were used.
- b. If the rate for CCWD is based on the retail rate times 1.3, are not all distribution mains allocated to the District to the extent they are included in the retail rate?

- c. If yes, is not the proposed rate for CCWD inconsistent with the cost of service principles discussed on page 23 – 25?

27. Refer to the Black & Veatch study page 26. The study says that CCWD is allocated 20 percent of investment related to supply, large distribution mains, pumping, storage, and treatment plant. If the rate for CCWD is based on a retail rate times 1.3, is not the allocation of these investments greater than 20 percent? Explain.

- a. Are operating expenses allocated at 20 percent? If not, what is the percentage allocation?

28. Refer to Table 14 of the Black & Veatch study. What is “all other” on line 9?

29. If the rate to CCWD were calculated based on the cost of service principles described in the Black & Veatch study and not on local policy and a 1.3 times factor over retail rates, what would the wholesale rate be? Provide all assumptions and calculations.

30. Refer to the testimony of Len Hale, page 3, line 17. If the Lake Barkley Line has not been installed, why is it necessary to raise rates now to cover increased operation and maintenance costs of that Line?

31. Refer to the testimony of Jennings Rowe McKinley II, page 6, line 17. What is the additional refunding bond and how is it related to service to CCWD?

32. Refer to page 6 of Mr. McKinley's testimony, line 20. Explain the combined coverage test. How can the actual coverage for the water system be determined if it is based on the combined net income of both?

a. Is it possible to determine the debt service coverage for the water system only?

b. If yes, what is it?

c. If no, how did you determine that the coverage is not being skewed by the sewer operations?

33. Refer to page 6 of Mr. McKinley's testimony, line 22. If 2006 is the test year, are you proposing rates based on historical data, or a future test year? Explain.

34. Refer to page 8 of Mr. McKinley's testimony, line 2. Are the amounts on Table 12 actual or allocated between water and sewer?

a. If allocated, how were they allocated and who made the allocations?

35. Refer to page 9 of Mr. McKinley's testimony, line 20. How were maximum day and maximum hour demands determined?

36. Refer to page 10 of Mr. McKinley's testimony, line 10. If costs associated with meters, services and hydrants are "specifically excluded" from CCWD's rate, how are they excluded if that rate is a multiplier of the retail rate by 1.3?

a. Are not those items included in the calculation of the retail rate and as such included in the wholesale rate, which is merely 1.3 times that retail rate?

37. Refer to page 10 of Mr. McKinley's testimony, line 19. Will CCWD's contractual 2.0 mgd increase as a result of the installation of the new raw water main?

38. Refer to page 11 of Mr. McKinley's testimony, line 14. What are the proposed capital improvements expected to be in service by the end of the test period?

a. Is the test period referred to 2006?

39. Refer to page 12 of Mr. McKinley's testimony, line 5. What is the source for the allocation factors for base and maximum day?

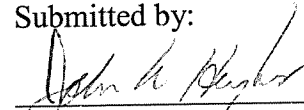
40. Refer to page 13 of Mr. McKinley's testimony, line 8. Table 2 of his Report shows no increase in water sales to CCWD from 2005 through 2009. Reconcile that projection with Mr. Hale's statement on page 4 of his testimony that the raw water main is needed to meet the future water needs of CCWD.

41. Refer to page 16 of Mr. McKinley's testimony, line 8. Is a declining block rate structure typical for wholes customers?

a. Is the fourth rate block calculated on the cost of service principles previously discussed in your testimony, or is it calculated to merely recover remaining revenue not recovered through the first three blocks?



Submitted by:



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John N. Hughes  
Attorney for Christian County  
Water District

**Certificate:**

I certify that a copy of this data request was served on Holland N. McTyeire, V, 3500 National City Tower, 101 South Fifth St, Louisville, KY 40202-3197 and Andrew Self, Box 1065, Hopkinsville, KY 42241-1065 by first class mail the 9<sup>th</sup> day of September, 2005.

