



Ernie Fletcher  
Governor

Mark David Goss  
Chairman

LaJuana S. Wilcher, Secretary  
Environmental and Public  
Protection Cabinet

Commonwealth of Kentucky  
**Public Service Commission**  
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Teresa J. Hill  
Vice Chairman

Christopher L. Lilly  
Commissioner  
Department of Public Protection

September 22, 2006

Gene Flaughter  
Mayor  
City of Falmouth  
230 Main Street  
Falmouth, KY 41040

RE: Case No. 2006-00403

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell  
Executive Director

BOD/jc  
Enclosure



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Manager  
Pendleton County Water District  
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Wayne Lonaker  
Manager  
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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE )  
WATER SERVICE RATES OF THE CITY OF ) CASE NO. 2006-00403  
FALMOUTH )

ORDER

The city of Falmouth, Kentucky ("Falmouth") proposes to adjust its existing rate for wholesale water service to Pendleton County Water District ("Pendleton District") and East Pendleton County Water District ("East Pendleton District") effective for service on and after September 1, 2005.<sup>1</sup> Pendleton District and East Pendleton District object to the proposed adjustment and request an investigation of the proposed adjustment.

Having considered the proposed rate revision and being otherwise sufficiently advised, the Commission finds that, pursuant to KRS 278.190, further proceedings are necessary to determine the reasonableness of the proposed rate revision. The Commission further finds that the intervention of Pendleton District and East Pendleton are likely to present issues or to develop facts that will assist the Commission in fully considering the matter without unduly complicating or disrupting this proceeding.

IT IS THEREFORE ORDERED that:

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<sup>1</sup> On August 24, 2006, Falmouth provided notice to the Commission of its proposed adjustment in its wholesale rates to Pendleton District and East Pendleton District. KRS 278.180(1) provides that "no change shall be made by any utility in any rate except upon thirty (30) days' notice to the commission, stating plainly the changes proposed to be made and the time when the changed rates will go into effect." As Falmouth proposed an effective date of September 1, 2006, it failed to comply with KRS 278.180(1). Falmouth may not place the proposed rates into effect until it complies with KRS 278.180.

1. Falmouth shall not place its proposed rates into effect until it has complied with KRS 278.180(1) or the Commission approves the proposed rates.

2. Pendleton District and East Pendleton are granted full intervention status in this proceeding.

3. The procedural schedule set forth in Appendix A to this Order shall be followed.

4. a. All interrogatories and requests for production of documents shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to the questions related to the information provided, with copies to all parties of record and 6 copies to the Commission.

b. Each response shall be under oath or 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.

c. A party shall make timely amendment to any prior response if it obtains information upon the basis of which it knows that the response was incorrect when made, or though correct when made is now incorrect in any material respect.

d. For any request to which a party refuses to furnish the requested information, that party shall provide a written explanation of the specific grounds for its failure to furnish.

5. At any hearing in this matter, neither opening statements nor summarization of direct testimony shall be permitted.

6. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

7. All documents that this Order requires to be filed with the Commission shall be served upon all other parties.

8. To be timely filed with the Commission, a document must be received by the Commission within the specified time for filing except that any document shall be deemed timely filed if it has been transmitted by United States express mail, or by other recognized mail carriers, with the date the transmitting agency received said document from the sender noted by the transmitting agency on the outside of the container used for transmitting, within the time allowed for filing.

9. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.

10. Falmouth shall, no later than November 15, 2006, file with the Commission the original and 6 copies of the information listed in Appendix B, with a copy to all parties of record. Each copy of the requested information shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Falmouth's response shall conform to the requirements set forth in Paragraph 4 of this Order.

11. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky, this 22nd day of September, 2006.

By the Commission

ATTEST

  
Executive Director

Case No. 2006-00403

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2006-00403 DATED September 22, 2006.

Falmouth shall file its response to the Commission's request  
for information no later than..... 11/15/2006

Intervenors and Commission Staff shall serve their first set of inter-  
rogatories and requests for production of documents upon Falmouth  
no later than..... 12/01/2006

Falmouth shall file with the Commission and serve upon all parties  
of record and Commission Staff its responses to the first set of  
interrogatories and requests for production of documents no later than ..... 12/22/2006

Intervenors and Commission Staff shall serve their second set of inter-  
rogatories and requests for production of documents upon Falmouth  
no later than..... 01/12/2007

Falmouth shall file with the Commission and serve upon all parties  
of record and Commission Staff its responses to the second set of  
interrogatories and requests for production of documents no later than ..... 02/02/2007

Intervenor testimony, if any, shall be filed with the Commission  
and served upon all parties of record in verified prepared form  
no later than..... 02/16/2007

Parties and Commission Staff shall serve interrogatories and  
requests for production of documents upon Intervenors no later than..... 03/02/2007

Intervenors shall file with the Commission and serve upon all other parties  
of record and Commission Staff their responses to interrogatories and  
requests for production of documents no later than..... 03/16/2007

Public Hearing, beginning at 9:30 a.m., Eastern Standard Time,  
at the Commission's offices at 211 Sower Boulevard, Frankfort,  
Kentucky, for the purpose of cross-examination of witnesses ..... To Be Announced



## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2006-00403 DATED September 22, 2006.

1. Provide in written verified form the direct testimony of each witness that Falmouth intends to call at the scheduled hearing in this matter.
2. Provide the independent auditor's reports for Falmouth's water operations and sewer operations, shown separately, for the fiscal years ending June 30, 2004, June 30, 2005, and June 30, 2006.
  3. a. State the 12-month test period upon which Falmouth bases its proposed rate adjustment.
    - b. Explain why this test period was chosen.
4. Provide separate general ledgers for Falmouth's water and sewer divisions for the proposed test period and the most recently concluded fiscal year. The accounts in these ledgers shall show detail of each individual entry to the account that includes: (1) date of payment, (2) check number or reference to a particular journal or audit entry, (3) vendor, (4) amount charged, and (5) a description of each entry.
5. Provide for the test period and the most recently concluded fiscal year the general journal that includes all journal entries made in the general ledgers requested in Item 4.
6. Provide a list of all audit entries made to the general ledgers for the test period and most recently concluded fiscal year.
7. Provide a check register or cash disbursements register for each cash fund of Falmouth's water and sewer divisions.

8. For each outstanding revenue bond issuance related to Falmouth's water and sewer operations, provide:

a. The bond ordinance or resolution authorizing the issuance of revenue bonds.

b. An amortization schedule.

c. A detailed explanation of 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 3 years.

9. List all persons on Falmouth's payroll during the proposed test period. For each employee, state his or her job duties, total wages paid during the fiscal year, current salary or wage rate, and the percentage of work hours spent performing duties for each city division (e.g., water, sewer, police department, public works) during the fiscal year. If Falmouth's records do not permit the allocation of an employee's work hours among city divisions, provide an estimate for each employee and explain how Falmouth derived the estimate.

10. For each employee listed in Item 9, describe how Falmouth allocated his or her payroll and payroll overhead charges to each city division for the proposed test period. This response shall include a detailed explanation of all allocation procedures. Payroll overhead charges include payroll taxes, health insurance premiums, pension costs, and any other employee benefit costs.

11. a. List all joint or shared costs that Falmouth incurred during the proposed test period. For each cost list the vendor, total expense amount, amounts allocated per division, and the basis for allocation.

b. Describe the procedures to allocate joint and shared costs among Falmouth's divisions for the proposed test period.

c. Provide all internal memorandums, policy statements, correspondence and documents related to the allocation of joint and shared costs.

12. Provide detailed depreciation schedules for the water and sewer divisions. A separate schedule shall be provided for each division.

13. Provide an adjusted trial balance that includes the audit adjustments for the proposed test period and the most recently completed fiscal year. The trial balance shall be traced and referenced directly to the general ledgers requested in Item 4.

14. Provide the "Enterprise Funds Uniform Financial Information Report" that Falmouth submitted to the Kentucky Department of Local Government for the fiscal years ending June 30, 2004, June 30, 2005, and June 30, 2006.

15. a. Identify all persons or entities to which Falmouth provides wholesale water service.

b. For each customer listed above, provide for each of the previous 24 months its monthly water usage and the amount that Falmouth charged it for service.

16. a. Complete the table below:

Water Main Size	Total Miles Of Line	Miles Of Lines Used By Falmouth To Serve Its Wholesale Customers
16"		
14"		
12"		
10"		
8"		
6"		
4"		
2"		

b. Who paid for the water main(s) that Falmouth uses to deliver water to Falmouth's wholesale customer(s)?

17. a. What is the maximum capacity of Falmouth's water treatment plant?

b. For each of the customers listed in response to Item 15(a), state:

(1) The amount of Falmouth's total water treatment plant capacity currently reserved for that customer.

(2) The minimum and maximum quantity of water (in gallons) that the customer may purchase in a month under the terms of its present water purchase contract with Falmouth.

c. Describe the changes, if any, that Falmouth expects within the next 3 years in the level of water treatment capacity reserved for each of the customers listed in Item 15(a) and state the reason(s) for Falmouth's expectations.

18. a. Who owns the master meter(s) through which Falmouth provides water to the customers listed in Item 15(a)?

b. Through how many master meters does Falmouth provide water service to each of the customers listed in Item 15(a)?

c. Who is responsible for maintaining these master meters?

19. Provide a system map showing all Falmouth facilities that are used to serve the customers listed in Item 15(a). This map shall, at a minimum, show all master meters, pumping stations, storage tanks, water transmission mains and water distribution mains used to serve the customers listed in Item 15(a). The size of all mains shall be clearly indicated on this map.

20. What portion, if any, of Falmouth's water main(s) that serve the customers listed in Item 15(a) are gravity fed?

21. a. List Falmouth's water sales (in gallons) for each month of the previous 36 months for each of its wholesale customers and for its retail customers.

b. List the total amount billed by Falmouth for water service for each month of the previous 36 months to each of its wholesale customers and to its retail customers.

22. Provide Falmouth's current rate schedule for its retail customers and for each of its wholesale customers.

23. Complete the table below:

<b>Falmouth</b>	<b>Gallons for Test Period</b>	<b>Gallons for Fiscal Year Ending June 30, 2005</b>
Plant Use		
Line Loss (Unaccounted for)		
Sales to Retail		
Sales to Pendleton District		
Sales to East Pendleton District		
Sales to Other Wholesale Customers		
Total Produced and Purchased		
Total Sold		

24. a. State whether Falmouth provides unmetered water service to any entities (e.g., service to municipal buildings, fire departments or protection services).

b. If unmetered service is provided, then for each type of service, estimate the percentage of the total unmetered amount.

25. Provide a copy of the cost-of-service study upon which the proposed rate is based.

26. a. Identify the person who prepared the cost-of-service study upon which the proposed rate is based.

b. Provide the preparer's curriculum vitae.

c. List all cases before the Commission in which the preparer has submitted a cost-of-service study.

d. List all utilities (municipal or public) for which the preparer has prepared a cost-of-service study. For each utility, identify the type of utility service (water or sewer) for which the report was prepared.

27. If the proposed rate is not based upon a cost-of-service study, describe how Falmouth determined the proposed wholesale rate and state who participated in the determination.

28. Provide the ordinance or resolution of the Falmouth City Council in which the proposed rate adjustment was approved.

29. Provide the minutes of each meeting of the Falmouth City Council since January 1, 2002 in which a proposed rate adjustment to Falmouth's wholesale customers was discussed.

30. Provide a copy of all correspondence, electronic mail messages, or other written communications between Falmouth and its wholesale customers since January 1, 2000 regarding revisions to Falmouth's wholesale rate.

31. Provide all contracts for water service between Falmouth and Pendleton District and/or East Pendleton District that have not been filed with the Commission.

32. a. State the annual effect of the proposed rate adjustment on Falmouth's revenues from wholesale water service to each of its wholesale water service customers.

b. Show all calculations made and state all assumptions used to derive the response to Item 32(a).

33. Provide water loss reports for the test period and most recently concluded fiscal year.