VOLUME 1 OF 1
Response to Peaks Mill/Elkhorn
Request 9/5/08

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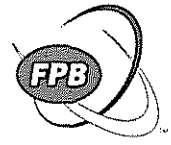

Frankfort Plant Board

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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 FRANKFORT ELECTRIC AND WATER PLANT BOARD	))))	CASE NO. 2008-00250

RESPONSE TO PEAKS MILL AND ELKHORN WATER DISTRICT'S FIRST SET OF INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS

1. Please describe where in the study or documents filed with the Public Service Commission is the information or description(s) regarding the allocations used to determine the wholesale rate to be charged to the water districts?

   Witness(es): Paul Herbert, Connie Heppenstall

   Response: Attached

2. Please explain how the maximum day of 1825 was determined for the wholesale customers.

   Witness(es): Paul Herbert, Connie Heppenstall

   Response: Attached

3. Please explain how the maximum day extra capacity factors were determined?

   Witness(es): Paul Herbert, Connie Heppenstall

   Response: Attached

4. Are the master meters read daily for the wholesale customers? If not, how was the average daily consumption determined?

   Witness(es): Paul Herbert, Connie Heppenstall, Herbbie Bannister

   Response: Attached

5. How was the weighted factor of .1516 determined for average day?

Witness(es): Paul Herbert, Connie Heppenstall

Response: Attached

6. How was the weighted factor of .4125 determined for average day?

Witness(es): Paul Herbert, Connie Heppenstall

Response: Attached

7. Provide details and calculations as to how the average hourly consumption and the maximum hour were determined.

Witness(es): *Paul Herbert, Connie Heppenstall, David Billings*

Response: Attached

8. In determining average hour consumption for wholesale customers, did you recognize that districts have their own water storage facilities? Please explain how district ownership of storage facilities was considered. If not considered, please explain.

Witness(es): Paul Herbert, Connie Heppenstall, David Billings

Response: Attached

9. How was potential demand for wholesale customers determined and calculated?

Witness(es): Paul Herbert, Connie Heppenstall, David Billings

Response: Attached

10. Explain how the average hour of 24.8 was determined.

Witness(es): Paul Herbert, Connie Heppenstall

Response: Attached

11. Why and how were fire expenses allocated to the wholesale customers?

Witness(es): Paul Herbert, Connie Heppenstall

Response: Attached

12. Were lines under 10 inches in diameter included in the allocation of costs to the districts? If so, how many miles of line less than 10 inches in diameter transmit water to wholesale customers?

    Witness(es): *Paul Herbert, Connie Heppenstall, David Billings*

    Response: Attached

13. How many miles of line 10 inches in diameter or larger are used to transmit water to wholesale customers? If water to the city of Georgetown is included in the calculation, advise as to how many miles are attributed to or the result of the service to Georgetown.

    Witness(es): Paul Herbert, Connie Heppenstall, David Billings

    Response: Attached

14. How was the relative meter cost or meters per size determined?

    Witness(es): Paul Herbert, Connie Heppenstall, David Billings

    Response: Attached

15. How many meters and size of meters are used in providing service to the wholesale customers? Are the master meters located at the point of delivery?

    Witness(es): Paul Herbert, Connie Heppenstall, David Billings

    Response: Attached

16. How was the factor of .0585 determined as the factor for allocating water production, operation and maintenance to wholesale? How was the .1301 determined as the factor for the non production category?

    Witness(es): Paul Herbert, Connie Heppenstall

    Response: Attached

17. Provide a detailed breakdown of expenses, including labor, related to water production and non-production.

    Witness(es): Paul Herbert, Connie Heppenstall, Shannon Taylor

    Response: Attached

18. How were regulatory commission expense and assessments allocated? Provide a breakdown of these expenses. If previously provided, please indicate where located.

    Witness(es): Paul Herbert, Connie Heppenstall, Shannon Taylor

    Response: Attached

19. In regards to water plant in service, please provide an explanation as to how each item benefits the wholesale customers. For example why was $52,661 in office expense allocated to resale? Is there another category to which it could have been allocated or included?

    Witness(es): Paul Herbert, Connie Heppenstall

    Response: Attached

20. How was fire protection allocated to the wholesale customers?

    Witness(es): Paul Herbert, Connie Heppenstall

    Response: Attached

21. Please provide an explanation as to why fire protection expense is allocated to the districts?

    Witness(es): Paul Herbert, Connie Heppenstall

    Response: Attached

22. If expense for the Plant Board's clubhouse has been allocated to the districts, please explain why this is a district expense.

    Witness(es): Paul Herbert, Connie Heppenstall

    Response: Attached

23. If any portion of debt service on bonds is allocated to the districts, please explain why and specify the expense or improvement that is paid for by bond proceeds.

    Witness(es): Paul Herbert, Connie Heppenstall

    Response: Attached

24. If the districts provide their own water pressure from the point at which the districts take delivery of water by the applicant, Frankfort Plant Board, does the applicant believe that a fire protection related expense should be allocated to the districts?

Witness(es): Paul Herbert, Connie Heppenstall

Response: Attached

CERTIFICATION

I, Hance Price, certify that I am the attorney supervising the preparation of these Responses on behalf of the Frankfort Electric and Water Plant Board and that the Responses and attachments thereto are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

Hance Price

Submitted By:

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317 West Second Street
Frankfort, Kentucky 40601

Attorneys for Frankfort Electric and
Water Plant Board

This the 19th day of September, 2008.

CERTIFICATE OF SERVICE

I, Hance Price, certify that on the 19th day of September 2008 a copy of this Response to Peaks Mill and Elkhorn Water District's First Set of Interrogatories and Requests for Production of Documents was served by mail to Honorable Thomas A. Marshall, Attorney at Law, 212 Washington Street, P.O. Box 223, Frankfort, KY 40602, and by mail to Honorable Donald T. Prather, Mathis, Riggs & Prather, P.S.C. Attorneys at Law, 500 Main Street, Suite 5, Shelbyville, KY 40065 and by hand delivery of an original and six copies to Stephanie Stumbo, Executive Director, Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, KY 40602-0615.

Hance Price

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 1

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 1: Please describe where in the study or documents filed with the Public Service Commission is the information or description(s) regarding the allocations used to determine the wholesale rate to be charged to the water districts?

Response: The bases of the allocation factors are presented in Schedule C of the cost of study. (Item 21 of FPB's Responses filed August 4, 2008). Item 1, Ex. 2, pages 4-10 of Paul Herbert's testimony filed August 4, 2008 describes the cost allocation methodology.

The purpose of the Cost of Service Study is to present the allocations used to determine the cost to serve each classification including the wholesale customers. Refer to Schedule A on page 6 of the study which shows the cost to serve each class in column 2 of the Schedule. The proposed revenues in column 6 of Schedule A show that the proposed wholesale rates set forth in part III of the study, generate revenues that approximate the total cost to serve the wholesale class.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 2

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 2: Please explain how the maximum day of .1825 was determined for the wholesale customers.

Response: The formulas demonstrating how the maximum day of .1825 was determined are noted in the electronic copy of the cost of service study provided in Item 1 of FPB's response to the PSC's Order dated September 5, 2008. These formulas are derived in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

Please refer to page 13 of the Cost of Service Study, Schedule C, page 2 for a calculation of the maximum day extra capacity ratio. The allocation factor of .1825 is developed for Sales for Resale Water Producers by dividing the estimated max day extra capacity of 1,188 thousand gallons per day by the total maximum day extra capacity of 6,511 thousand gallons per day.

The maximum day extra capacity allocation factor for the Sales for Resale – Non-Water Producers (which includes Peaks Mill and Elkhorn Water Districts) of 0.2491 was calculated using the estimated max day extra capacity of 1,622 thousand gallons per day.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 3

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 3: Please explain how the maximum day extra capacity factors were determined?

Response: The maximum day extra capacity factors were determined based on judgment after a review of monthly usage by the customer classes, experience with other water systems and in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 4

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 4: Are the master meters read daily for the wholesale customers? If not, how was the average daily consumption determined?

Response: No. Average daily consumption is determined in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

The average daily consumption was calculated using the annual consumption for the class divided by 365 days.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 5

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 5: How was the weighted factor of .1651 determined for average day?

Response: The weighted factor of .1651 was determined in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

The weighted factor of .1651 for Sales for Resale Non-Water Producers in Factor 2 was based on Factor 1 of 0.2971 multiplied by .5556, which is the average day weight, as referenced on page 13 of the Cost of Service Study.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 6

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 6: How was the weighted factor of .4125 determined for average day?

Response: The weighted factor of .4125 was determined in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

Please see the cost of service report, page 15, Schedule C, page 4 of 20. The maximum day extra capacity factor of 41.25% is based on the estimated extra capacity for the peak day compared to the total peak day flow including fire demand.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 7

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 7: Provide details and calculations as to how the average hourly consumption and the maximum hour were determined.

Response: These factors were determined in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

Average hourly consumption is the average daily consumption divided by 24 hours. Maximum hour consumption is estimated on page 17 of the Cost of Service Study, Schedule C, page 6, based on a ratio of 2.5 times the average hour. This is consistent with systems that experience peak day ratios of 1.8, or approximately 1.4 times the peak day ratio.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 8

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 8: In determining average hour consumption for wholesale customers, did you recognize that districts have their own water storage facilities? Please explain how district ownership of storage facilities was considered. If not considered, please explain.

Response: District ownership of storage facilities was considered in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

For the calculation of average hourly consumption, see response to Peaks Mill and Elkhorn Water District's interrogatory 7. The calculation of average hour consumption is based on the actual average daily usage for the wholesale customers divided by 24. The calculation does not consider the existence of storage facilities.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 9

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 9: How was potential demand for wholesale customers determined and calculated?

Response: FPB does not understand what is meant by the term potential demand. However, the demand for wholesale customers was determined using the monthly consumption related to bills issued during the test year.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 10

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 10: Explain how the average hour of 24.8 was determined.

Response: The average hour was determined in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

See response to Peaks Mill and Elkhorn Water Districts Interrogatory 7. 24.8 thousand gallons is the actual average hour usage for Sales for Resale Water Producers. Peaks Mill and Elkhorn Water Districts are customers in the Sales for Resale – Non Water Producers classification.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 11

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 11: Why and how were fire expenses allocated to the wholesale customers?

Response: Fire expenses were allocated in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

Fire expenses are allocated to Public and Private Fire Rate Classes, not to wholesale customers.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 12

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 12: Were lines under 10 inches in diameter included in the allocation of costs to the districts? If so, how many miles of line less than 10 inches in diameter transmit water to wholesale customers?

Response: Please see Items 12, 15 (system map) and Item 21 (cost of service study) included in FPB's Responses filed August 4, 2008 and FPB's response to question 1 raised at the informal conference filed August 27, 2008.

Distribution mains under 10-inch were allocated to wholesale customers because distribution mains are required to provide service to the wholesale customers, many who are directly connected to mains less than 10-inches in diameter. A study of the length of mains serving the wholesale class or any other class of customers was not performed or was necessary since proper cost allocation methods and procedures do not recognize specific location of customers served by the water system.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 13

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 13: How many miles of line 10 inches in diameter or larger are used to transmit water to wholesale customers? If water to the city of Georgetown is included in the calculation, advise as to how many miles are attributed to or the result of the service to Georgetown.

Response: Please see the Response to Item 12.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 14

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 14: How was the relative meter cost or meters per size determined?

Response: The relative weights for meters were based on relative flow capacity of meters for each size. The size of the various meters is provided with Item 15.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 15

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 15: How many meters and size of meters are used in providing service to the wholesale customers? Are the master meters located at the point of delivery?

Response: Please see the Cost of Service Study page 22, columns 9 and 11 for the number of meters and size of meters used in providing service to the wholesale customers. The master meters are located at the point of delivery to the wholesale customers.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 16

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 16: How was the factor of .0585 determined as the factor for allocating water production, operation and maintenance to wholesale? How was the .1301 determined as the factor for the non production category?

Response: Factors for allocating water production, operation and maintenance and factors for the non-production category were determined in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

These allocation factors reference Factor 14 of the Cost of Service Study. This factor is used to allocate administrative and general expenses shown on pages 9 and 10 of the Cost of Service Study, Schedule B. The factors were based on the allocation of all other operating and maintenance expenses excluding power and chemicals.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 17

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 17: Provide a detailed breakdown of expenses, including labor, related to water production and non-production.

Response: Please see the Cost of Service Study, Schedule B.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 18

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 18: How were regulatory commission expense and assessments allocated? Provide a breakdown of these expenses. If previously provided, please indicate where located.

Response: Rate case expense is allocated directly to the Sales for Resale – Non Water Producers customer class. There are no other regulatory commission expenses or assessments.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 19

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 19: In regards to water plant in service, please provide an explanation as to how each item benefits the wholesale customers. For example why was $52,661 in office expense allocated to resale? Is there another category to which it could have been allocated or included?

Response: Allocations were made in accordance with the base extra capacity method for allocating costs to customer classifications described in the 2000 and prior editions of the Water Rates Manual published by the American Water Works Association.

The investment in water plant in service is required to provide sufficient and reliable water service to all customer classifications including the wholesale customers. Each item is allocated to all classes based on the average and maximum daily and hourly demands, fire demands, and the number and size of the customers receiving service.

Investment in the general office provides support for the entire water utility operations. Therefore, it is appropriate to allocate such costs based on Factor 14, which reflects the allocation of all other water operating costs. (See response to Question No. 16)

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 20

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 20: How was fire protection allocated to the wholesale customers?

Response: Costs associated with fire protection were not allocated to wholesale customers. Please see response to Peaks Mill and Elkhorn Water Districts Question No. 11.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 21

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 21: Please provide an explanation as to why fire protection expense is allocated to the districts?

Response: Fire protection expense is not allocated to the districts. Please see response to Peaks Mill and Elkhorn Water Districts Items 11 and 20.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 22

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 22: If expense for the Plant Board's clubhouse has been allocated to the districts, please explain why this is a district expense.

Response: The Plant Board's clubhouse expense as well as the offsetting revenue has been allocated to the districts. The revenue received from the clubhouse, included in Other Water Revenue more than offset the expense.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 23

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 23: If any portion of debt service on bonds is allocated to the districts, please explain why and specify the expense or improvement that is paid for by bond proceeds.

Response: Debt service on the bonds is allocated to the districts based on the District's allocation of rate base. See Factor 17, page 29 of the Cost of Service Study.

RESPONSE TO ELKHORN & PEAKS MILL

PSC CASE NO. 2008-00250

ITEM 24

Frankfort Electric and Water Plant Board
Response to Elkhorn & Peaks Mill
Case No. 2008-00250

ITEM 24: If the districts provide their own water pressure from the point at which the districts take delivery of water by the applicant, Frankfort Plant Board, does the applicant believe that a fire protection related expense should be allocated to the districts?

Response: Fire protection expenses are not allocated to the Sales for Resale customers.