

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED ADJUSTMENT OF THE	)	
WHOLESALE WATER SERVICE RATES OF THE	)	CASE NO.
CITY OF PIKEVILLE TO MOUNTAIN WATER	)	2019-00080
DISTRICT	)	

COMMISSION STAFF'S THIRD REQUEST FOR  
INFORMATION TO THE CITY OF PIKEVILLE

The city of Pikeville (Pikeville), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested is due on or before August 13, 2019. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

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.

Pikeville shall make timely amendment to any prior response if it obtains information that 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 Pikeville 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 should be given to copied material to ensure 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, Pikeville 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 Pikeville's response to Mountain Water District's (Mountain District) First Request for Information (Mountain District's First Request), Item 9. Explain the numerical entries in the sixth column of the Master Water Readings, second row under the amount column, "Don't Bill" cell.

2. Refer to Pikeville's response to Mountain District's First Request, Item 69. The response does not appear to be the appropriate response to this request. The request was for invoices of Utility Management Group (UMG); however, the response contains the Master Water Readings previously supplied in response to Item 9. Provide the appropriate information requested in Mountain District's original request for Item 69.

3. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 2, Audited Financial Statements for the Year Ended June 30, 2017, page 43, and to Pikeville's responses to Commission Staff's Second Request for Information (Staff's Second Request), Item 16.c, Revised Cost of Service Study (Revised COSS), Tab I-WT-

Debt. The table below compares the water division’s annual debt service payments as reported in the 2017 Financial Audit to the annual payments used in the Revised COSS.

Provide a detailed explanation for each difference noted.

	Fiscal Year 2017 Audit, Page 43			COS	Difference
	Principal	Interest	Debt Service	Tab I-Wt-Debt Debt Service	
2017	\$ 130,000	\$ 75,651	\$ 205,651	\$ 205,351	\$ 301
2018	173,800	72,614	246,414	252,508	(6,094)
2019	179,600	69,032	248,632	314,757	(66,125)
	<u>\$ 483,400</u>	<u>\$ 217,297</u>	<u>\$ 700,697</u>	<u>\$ 772,616</u>	<u>\$ (71,919)</u>

4. In its response to Item 5.c of the Commission’s June 10, 2019 Order, Pikeville explained that its General Obligation 2012C “was a refinancing of existing debt to lower debt service requirements and interest.” Pikeville submitted a copy of its Bond Ordinance 0-2012-11 in its responses to the Commission’s June 10, 2019 Order, Item 5.a. For each outstanding debt listed on pages 1–2 of the Bond Ordinance 0-2012-11 that was refinanced with the General Obligation 2012C, provide a detailed explanation of the project(s) each debt originally financed and a detailed explanation as to how each capital project improved or impacted Pikeville’s ability to provide wholesale water service to Mountain District.

5. In its response to Item 5.c of the Commission’s June 10, 2019, Order, Pikeville explained that its United States Department of Agriculture (USDA) Series 2016A Bonds were used to construct water and sewer services. According to Bond Ordinance 0-2015-16 at page 2, the total principal amount of the USDA Series 2016A Bonds was \$3,166,000.

a. Provide a breakdown of the USDA 2016A bonds between the amounts used to fund the sewer capital projects and the water capital projects.

b. Provide an amortization schedule for the debt used to fund the water capital project(s), if different from the amortization schedule that was provided in response to Item 5.b. of the Commission's June 10, 2019 Order.

c. Provide a detailed explanation of how the annual debt service payments are allocated between the water and sewer divisions.

d. Provide a detailed explanation of how the construction of the water service to the Kentucky Enterprise Industrial Park improved or impacted Pikeville's ability to provide wholesale water service to Mountain District.

6. In its response to Item 5.c of the Commission's June 10, 2019 Order, Pikeville explained that its General Obligation Series 2017 Bonds were used to purchase and install radio-read meters throughout Pikeville's system; to fund improvements at the athletic field; and to fund a wastewater treatment upgrade. According to Bond Ordinance 0-2017-31 on page 2, the total principal amount of the General Obligation Series 2017 Bonds was \$3,770,000.

a. Provide a breakdown of the Series 2017 Bonds between the amounts used to fund the radio-read meter project, the project to improve service at the athletic field, and the amount used for the wastewater treatment upgrade.

b. Provide a separate amortization schedule for the debt used to fund the radio-read meter project and the project to improve the service at the athletic field.

c. Provide a detailed explanation of how Pikeville allocated the annual debt service payments between the water and sewer divisions. Also, explain how the water debt service is allocated to the two water division capital projects.

d. Provide the number of radio-read meters installed in the inside water system and the outside water system.

e. Provide a detailed explanation as to how the installation of the radio-read meters and the improvements at the athletic field would improve or impact Pikeville's ability to provide wholesale water service to Mountain District.

7. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 4.a, Pikeville's Fiscal Year 2017 general ledger for the inside-city water, Account No. 210.10.630.00, Repairs/Maintenance.

a. Provide a detailed description for each of the expenditures listed in the following table.

Vendor and Description	Amount
Micro-Comm, Inc. - Telemetry Repairs at Toler Tank	11,006.17
Eastern Tank & Utility Services, Inc. - Bob Amos Water Storage Tank Rehabilitation	76,950.00
Eastern Tank & Utility Services, Inc. - Bob Amos Water Storage Tank Rehabilitation	11,550.00

b. In its responses to the Staff's Second Request, Item 17.a, Pikeville states that the reported tap-on fees of \$24,510.00 were for the installation of 12 new meter services. However, according to the following entries, it appears that Pikeville purchased approximately 75 5/8 x 3/4 Inch meters in the test year. Provide the actual number of 5/8 x 3/4 Inch meters purchased in fiscal year 2017, the cost of the meters, and include an explanation of the purpose for any meters purchased above the 12 new services.

Vendor and Description	Amount
Rg-5 Company, Lp - 75- Pd07gbt 5/8 X 3/4 R/R Water Meters 5- Pd10gbt 1" R/R Water Meters Capital Li - 75- Pd07gbt 5/8 X 3/4 R/R Water Meters 5- Pd10gbt 1" R/R Water Meters Capital Line Item# 26	11,400.00
Rg-5 Company, Lp - 75- Pd07gbt 5/8 X 3/4 R/R Water Meters 5- Pd10gbt 1" R/R Water Meters Capital Li - 75- Pd07gbt 5/8 X 3/4 R/R Water Meters 5- Pd10gbt 1" R/R Water Meters Capital Line Item# 26	1,100.00

c. Provide a detailed explanation of how the expenditures listed in the below table improve or impact Pikeville's ability to provide wholesale water service to Mountain District.

Vendor and Description	Amount
C I Thornburg Co, Inc - Water Meter Testing	2,614.91
Northside Plumbing Supply Of Pikeville, Inc. - Water Tap Golden Corral 2"X20' Copper Pipe,	4,145.90

8. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 4.a, Pikeville's Fiscal Year 2017 general ledger for the inside-city water, Account No. 210.10.630.09, Repairs/Maintenance Plant. Provide a detailed description of the expenditure listed in the following table.

Vendor and Description	Amount
Boggs Municipal Services, Inc - High Service Repair Pull Repair and Reinstall	24,264.33

9. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 9, Depreciation Schedule. Provide any analysis or study that was prepared by Pikeville's Auditors showing that Pikeville's Capitalization Policy and depreciation lives are reasonable.

10. Pikeville currently has two water divisions: inside-city-limits customers and outside-city-limits customers. Provide the date Pikeville separated its system into the two divisions and include a detailed explanation as to why Pikeville decided to divide its water system into two divisions.

11. In its response to Item 29.e of Mountain District's First Request, Pikeville explained that most of its inside water system infrastructure is used to serve Mountain District because Mountain District's ten master meters surround Pikeville. Given that the

outside-city-limits customers also surround the inside water system infrastructure, explain why Mountain District and the outside-city-limits customer water rates are calculated differently.

12. Calculate Mountain District's wholesale water rate assuming that the division of Pikeville into two separate systems (inside city and outside city) is eliminated. Provide this response in an Excel format with all rows and columns accessible and formulas unhidden.

13. In its response to Item 29.j, Pikeville explains that electricity used at its water treatment plant is allocated between the inside and outside customers based upon water consumption, and that all other electricity cost is classified as inside water.

a. Confirm that all of Pikeville's pump stations and tanks are located within the inside-city system.

b. If the response to Item 13.a is not confirmed, provide the number of pump stations or tanks that are located outside of the city limits.

c. If the response to Item 13.a is confirmed, explain whether Pikeville would be able to provide adequate service to its outside-city customers if it did not have the pump stations or tanks in the inside water system.

14. Provide the number of customers served by each utility division (Inside City Water, Outside City Water, Gas, and Garbage Collection) as of the fiscal year ending June 30, 2017.

15. Refer to Pikeville's responses to Staff's Second Request, Item 29.

a. Pikeville uses the percentage of revenues billed by each division to allocate salaries and wages, payroll taxes, employees' Insurance benefits, and pension

matching to each utility division (Inside City Water, Outside City Water, Gas, and Garbage Collection). Provide a detailed explanation of why a change to a utility division rate should impact the cost allocations between the divisions.

b. Explain why an allocation factor using the number of customers served by each utility division would not be a more accurate cost allocation factor.

c. Using the utility division customers provided by Pikeville in its response to Item 15.a, reallocate the following costs to each utility division. Provide this response in an Excel format with all rows and columns accessible and formulas unhidden.

- (1) Salaries and wages;
- (2) Payroll taxes;
- (3) Employees' insurance benefits;
- (4) Pension matching; and
- (5) Unemployment taxes.

16. Refer to Pikeville's responses to Staff's Second Request, Items 25, and 26. In Case No. 2002-00022,<sup>1</sup> the Commission placed Pikeville on notice that in future rate proceedings the Commission would more closely scrutinize the management companies'<sup>2</sup> direct expenses and would expect Pikeville to provide independent supporting documentation of all UMG costs. Provide the information as requested on an aggregate basis not by the individual employee.

17. The burden is on Pikeville to show that UMG's contract fee as it relates to

---

<sup>1</sup> Case No. 2002-00022, *Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville, Kentucky* (Ky. PSC Oct. 18, 2002) at 12–13.

<sup>2</sup> In Case No. 2002-00022 the management company was Professional Services Group. In this proceeding Pikeville is being managed by UMG.

the water division is reasonable. Provide copies of any study or analysis that Pikeville has that supports the proposition that the UMG contract fee for managing and operating the water division is reasonable.

18. Refer to the response to Staff’s First Request, Item 13(a).

a. Explain if the information included in this table includes the Out-of-City Customers.

Water Main Size - inches	Miles used		Total Inch-Miles	Inch-Miles to serve MWD	% of Total
	Total Miles	to serve MWD			
16	1.6	1.6	26	26	100%
12	17.9	17.9	215	215	100%
10	11.6	11.3	116	113	97%
8	16.8	15.8	134	126	94%
6	19.4	15.1	116	90	78%
4	2.4		10	0	0%
2	1.7		3	0	0%
Total	71.4	61.6	620	570	92%

b. If not, provide the information requested in the table for the Out-of-City Customers.

19. Refer to the response to Staff’s First Request, Item 20.

a. Explain whether the Sales for Retail include the retail sales for the Out-of-City Customers. If the Out-of-City customers’ sales are not included, provide this information.

	Gallons for the Test Year	Gallons for
	Fiscal Year Ending	Fiscal Year Ending
Pikeville	June 30, 2017	June 30, 2018
Plant Use**	0	0
Line Loss (Unaccounted for)	17	184,6
Accounted for*	4,339,440	4,9
Sales to Retail	35	361,4
Sales to Mountain District	46	412,1
Sales to Southern Water District	15	124,4
Sales to Other Wholesale Customers	0	700
Total Produced and Purchased	1,15	1,087,5
Total Sold	97	898,0
*flushing, vac truck usage, leaks		
** billed to City of Pikeville included in retail #		

b. Explain whether the Line Loss (Unaccounted for) amount listed in the table above includes the Out-of-City Customers. If not, provide the Line Loss (Unaccounted for) amount for the Out-of-City Customers.

c. Explain whether the Accounted for amount listed includes the Out-of-City Customers. If not, provide the Accounted for amount for the Out-of-City Customers

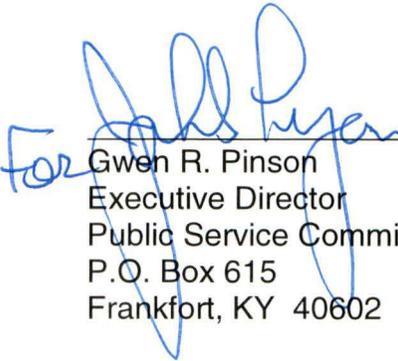
d. Explain whether the Total Produced and Purchased amount listed includes the Out-of-City Customers. If not, provide the Total Produced and Purchased amount for the Out-of-City Customers.

e. Explain whether the Total Sold amount listed includes the Out-of-City Customers. If not, provide the Total Sold amount for the Out-of-City Customers.

20. Refer to the Commission's Order in Case No. 2002-00022,<sup>3</sup> Appendix B, Table II. The Commission established the Pikeville Lines used jointly by Pikeville and

<sup>3</sup> Case No. 2002-00022, *Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville, Kentucky* (Ky. PSC Oct. 18, 2002).

Mountain District to be 172.15 inch-miles of main (adjusted in Table II) out of 504.32 inch-miles of main for the whole system. Explain in the current case how Pikeville calculated the jointly inch-miles to be 558.2 inch-miles of main out of 594.6 inch-miles of main as reported.

  
Gwen R. Pinson  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED     **JUL 26 2019**    

cc: Parties of Record

\*Daniel P Stratton  
Stratton Law Firm PSC  
P.O. Box 1530  
Pikeville, KENTUCKY 41502

\*City of Pikeville  
118 College Street  
Pikeville, KY 41501

\*Honorable John N Hughes  
Attorney at Law  
124 West Todd Street  
Frankfort, KENTUCKY 40601

\*Mountain Water District  
6332 Zebulon Highway  
P. O. Box 3157  
Pikeville, KY 41502-3157

\*M. Todd Osterloh  
Sturgill, Turner, Barker & Moloney, PLLC  
333 West Vine Street  
Suite 1400  
Lexington, KENTUCKY 40507