

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BOWLING GREEN)
MUNICIPAL UTILITIES FOR AN INCREASE IN) CASE NO.
WATER AND SEWER RATES TO WARREN COUNTY) 95-044
WATER DISTRICT)

O R D E R

IT IS HEREBY ORDERED that Bowling Green Municipal Utilities ("BGMU") shall file the original and 12 copies of the following information with the Commission, with a copy to all parties of record, no later than June 6, 1995. Where such information has previously been provided in the original application in the format requested herein, reference may be made to the specific location of this information in responding to this Order. BGMU shall furnish with each response the name of the witness who will be available at the public hearing to respond to questions concerning each item of information requested.

1. a. When did BGMU last adjust the rates which it charges Warren County Water District ("Warren District")?

b. What rates were adjusted at that time?

c. Describe each adjustment.

2. Refer to BGMU's Response to the Commission's Order of April 7, 1995, at 4-5.

a. Prior to BGMU's last general rate adjustment, were all customer classes paying rates which cover the full cost of service to that customer class?

b. If no, identify which classes were paying rates which exceeded the cost of their service. Identify the class or classes of customers whose service was subsidized.

3. a. How long have BGMU's retail customers been subsidizing Warren District?

b. When did BGMU discover that such subsidization was occurring?

c. Why did BGMU wait until January 1995 to correct this alleged subsidization?

4. a. Provide an amortization schedule showing the annual principal and interest requirements for each component of BGMU's outstanding long-term debt. Indicate the percentage of annual payments to be allocated to the water and sewer divisions of BGMU.

b. What is the debt service requirement for each outstanding long-term debt instrument?

5. Provide the "Assets" portion of BGMU's June 30, 1994 audited financial statements.

6. a. Has BGMU been notified of any changes, effective after June 30, 1994, in the employer contribution rate to the County Employee Retirement System?

b. If yes, what is the current rate?

7. Refer to BGMU's Response to the Commission's Order of April 7, 1995, Appendix 6 at 25-26. Provide a summary depreciation schedule to support the water depreciation expense of \$627,498 and the sewer depreciation expense of \$854,655 for the year ended June 30, 1994.

8. Refer to BGMU's Response to the Commission's Order of April 7, 1995, Appendix 6 at 25-26. Provide the amount of interest income for the year ended June 30, 1994, that is not restricted and is available to meet BGMU's operating expense. Show separate amounts for water and sewer.

9. Provide a trial balance as of the last day of the test year (all income statement accounts should show activity for 12 months) showing account number, account title, and amount. Show the balance in each control and all underlying subaccounts per BGMU's books.

10. Provide the general ledger and supporting ledgers to support the monthly water and sewer utility revenues and expenses for the months of July 1993 through December 1994.

11. Provide the year-end adjusting journal entries prepared by BGMU's auditor and all workpapers showing the reconciliation of BGMU's books to its audited financial statements for the year ended June 30, 1994.

12. Provide all information, as soon as available, concerning transactions which would have a material effect on net income which occurred after the test year and which were not incorporated in BGMU's filed testimony and exhibits.

13. Provide a schedule of rate case expenses incurred as a result of this proceeding. This schedule shall include a breakdown of actual or estimated expenses by category (e.g., Accounting, Legal, Engineering, etc.), state the number of hours worked and hourly rates, and describe the services provided.

14. Refer to BGMU's Application, Item F at 1.

a. What is the status of Warren District's request for additional sewer entry points?

b. If additional sewer entry points are granted to Warren District, what impact, if any, would this addition have on BGMU's cost of serving Warren District?

15. Refer to BGMU's Application, Item F at 4.

a. Was the budgeted salary increase of 4 percent for all BGMU employees?

b. If not, what employees received this salary increase?

16. Refer to BGMU's Application, Item F, Table 3. Provide supporting calculations for the proposed total increase to Payroll Tax, Employee Benefits, and Workers' Compensation Insurance for the water and sewer divisions. Include a detailed breakdown of employee benefits.

17. Refer to BGMU's Application, Item F, Table 10. Reconcile the total O&M Expenses and Total Insurance expense for both divisions to the appropriate accounts as reflected in BGMU's audit of financial statements (BGMU's Response to the Commission's Order of April 7, 1995, Appendix 6 at 27-28).

18. Refer to BGMU's Application, Item F, Table 13. Reconcile the total depreciation expense for both water and sewer divisions to the depreciation expense for the year ended June 30, 1994, reflected in BGMU's audit of financial statements (BGMU's Response to the Commission's Order of April 7, 1995, Appendix 6 at 25-26).

19. Refer to BGMU's Application, Item F, Appendix D.

a. For the test year ended June 30, 1994, reconcile Actual Administrative & General-Water Expense and Actual Administrative & General-Sewer Expense in the amounts of \$919,274 and \$642,583, respectively, with total administrative and general expenses of \$1,571,761, reflected in BGMU's audit of financial statements (BGMU's Response to the Commission's Order of April 7, 1995, Appendix 6 at 28).

b. For the test year ended June 30, 1994, reconcile Actual Customer Accounting-Water Expense and Actual Customer Accounting-Sewer Expense in the amounts of \$308,977 and \$313,613, respectively, with total customer accounting and collection expense of \$583,470 (BGMU's Response to the Commission's Order of April 7, 1995, Appendix 6 at 27).

20. Refer to BGMU's Response to the Commission's Order of April 7, 1995, Appendix 9. The following year-to-date actual account balances increased in March 1994 by an amount greater than that reflected in the monthly actual column. Reconcile and explain these differences.

	2/28/94 Year-to-Date <u>Actual</u>	3/31/94 Monthly <u>Actual</u>	3/31/94 Year-to-Date <u>Actual</u>
Revenue & Expense - Water			
Interdepartmental Rent			
Rev. - Water	No Balance	\$ 989.09	\$ 10,087.36
Revenue & Expense - Sewer			
Interdepartmental Rent			
Rev. - Sewer	No Balance	\$ 989.09	\$ 10,087.36
Collector System			
Maintenane	\$104,124.41	7,932.97	114,626.07
Interceptor System			
Maintenance	59,049.86	12,759.94	74,378.49

21. Refer to BGMU's Response to the Commission's Order of April 7, 1995, Appendix 9.

a. Provide supporting documentation for "Gain of Disposition of Assets" reflected on the November 1993 and June 1994 Revenue and Expense-Water statements.

b. Why is this gain not shown on the audited financial statements?

22. Describe BGMU's policy and procedure for the capitalization of expenditures on items such as meters.

23. Refer to the Written Testimony of Ron Gastineau, Question 12.

a. List the cases before this Commission in which Mr. Gastineau has submitted a cost-of-service study.

b. List all utilities (municipal or public) for which Mr. Gastineau 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.

c. If Mr. Gastineau has not previously submitted a cost-of-service study to the Commission, provide a representative sample of the studies which he has performed for municipal and public utilities for water and sewer service.

24. Why is no reference made to the Morgantown Road Water District in the cost-of-service study?

25. a. How was the water rate for the Morgantown Road Water District determined?

b. Provide all workpapers and show all calculations used to determine this rate.

26. What rate for sewer service does BGMU propose to charge to the Morgantown Road Water District?

27. Refer to the Written Testimony of Ron Gastineau, Question 14. What specific modifications were made to the cash needs cost-of-service study?

28. a. Why is the cash needs approach the appropriate cost-of-service methodology in this instance?

b. Provide all studies, analyses, and publications which support the use of the cash needs approach in cases similar to this case.

c. Has the American Water Works Association recognized the cash needs approach as a proper cost-of-service methodology?

d. Which organizations, if any, recognize the cash needs approach as a proper cost-of-service methodology?

29. a. While preparing his cost-of-service study, did Mr. Gastineau consider revising the methodology set out in the Joint Memorandum Report to include capital improvements and depreciation?

b. If no, why not?

30. a. What other methods of allocating costs besides the cash needs approach, if any, were considered?

b. For each method considered and rejected, state why it was rejected.

c. If no other method was considered, explain why not.

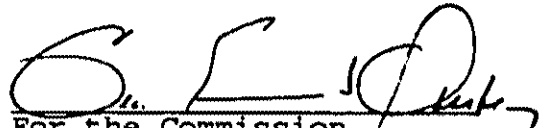
31. Refer to BGMU's Application, Item F, Tables 1, 3, 4, 6, 8, and 9. Explain in detail how each allocation factor was determined for the water and sewer systems. Show all calculations.

32. Refer to the Written Testimony of Ron Gastineau, Exhibit A. How was each service ratio factor determined?

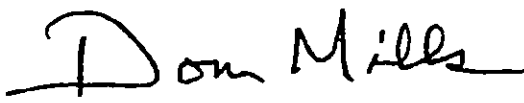
33. Refer to BGMU's Application, Item F, Appendix B. With regard to the treatment plant use factor table, explain the meaning of numbers 2, 3, 4, 5, and 6 under the line labelled "line losses."

Done at Frankfort, Kentucky, this 23rd day of May, 1995.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director