

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PROPOSED ADJUSTMENT OF THE	)	
SHELBYVILLE WATER AND SEWER COMMISSION S	)	CASE NO. 99-265
WHOLESALE WATER SERVICE RATE TO WEST	)	
SHELBY WATER DISTRICT	)	

ORDER

IT IS ORDERED that the Shelbyville Water and Sewer Commission ("Shelbyville") shall file the original and 8 copies of the following information with the Commission no later than October 22, 1999, with a copy to all parties of record. Each copy of the information requested should 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. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. 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 Order. When applicable, the requested information should be provided for total company operations and jurisdictional operations, separately.

1. a. Provide in the same format as Format 1a the following information about each Shelbyville employee:

(1) Position title;

- (2) Department assigned;
- (3) Regular hours worked in 1998;
- (4) Overtime hours worked in 1998;
- (5) His wage rate effective January 1, 1997;
- (6) His wage rate effective January 1, 1998; and,
- (7) His wage rate effective January 1, 1999.

b. For each employee provide in the same format as Format 1b an allocation by account of the 1998 regular and overtime hours.

c. Calculate Shelbyville's pro forma salaries in the same format as Format 1c using:

- (1) The actual regular hours for 1998;
- (2) The actual overtime hours for 1998; and,
- (3) The January 1, 1999 wage rates.

2. Explain why Shelbyville used a two-year average percentage increase rather than apply the wages effective January 1, 1999 to the actual hours worked in 1998 to arrive at its pro forma salaries.

3. a. Refer to Water Utility Cost of Service Study, Exhibit 1. For each account, provide a detailed analysis by division in the same format as Format 3a:

- (1) Laboratory Expense \$ 33,048
- (2) Supplies Plant \$ 121,244
- (3) Maint Materials Plant Equipment \$ 73,353

b. For each item listed above that is greater than \$1,000, provide the supporting invoice.

4. Provide the invoices for the following insurance policies for 1998 and 1999:

- a. Workers Compensation.
- b. Property & Liability.
- c. Employee Health Insurance (invoices for December 1998 and September 1999).
- d. Employee Dental Insurance (invoices for December 1998 and September 1999).
- e. Other Insurance Coverage.

5. Refer to Water Utility Cost of Service Study, Exhibit 1 at 2. Shelbyville allocated utilities, janitorial, cleaning supplies, and maintenance expenses evenly between its water and sewer divisions, but allocated office salaries and office supplies and expenses based on the number of customers. Explain why Shelbyville used two different allocation methods for its office expenses.

6. Refer to Water Utility Cost of Service Study, Exhibit 1 at 2-3. For each operating expense listed below, explain and provide documentary evidence to support the use of Method 2, Number of Customers Percentage, to allocate the expense:

- a. Office Salaries.
- b. Managerial Salaries.
- c. Office Supplies and Expenses.
- d. Interest - Customer Deposits.

7. Refer to Water Utility Cost of Service Study, Exhibit 1 at 3. For each plant investment listed below, explain and provide documentary evidence to support the use of Method 2, Number of Customers Percentage, to allocate the plant investment:

- a. Distribution Facilities.
- b. Office & Administrative Building.
- c. Equipment.

8. Refer to Water Utility Cost of Service Study, Exhibit 1 at 3. Explain why Shelbyville allocates its distribution facilities between its water and sewer divisions rather than directly book the assets to the appropriate division.

9. Refer to Water Utility Cost of Service Study, Exhibit 2.

a. Provide individual amortization schedules (with separate columns for principal and interest payments) for:

- (1) 1991 Kentucky League of Cities (KLC) bond issuance.
- (2) 1996 KLC bond issuance.
- (3) 1998a KLC refinancing bond issue.

b. Provide an amortization schedule (with separate columns for principal and interest payments) for the 1996 KLC bonds after the 1998 refinancing.

10. Refer to Water Utility Cost of Service Study, Exhibit 4. For each of the depreciation expenses listed below, explain and provide documentary evidence to support the use of Method 2, Number of Customers Percentage, to allocate the depreciation expense:

- a. Office Building.
- b. Shop Building.

- c. Miscellaneous Structures.
- d. Safety Equipment.
- e. Transportation Equipment.
- f. Shop Equipment.

11. Refer to Water Utility Cost of Service Study, Exhibit 5 at 3-4.

a. Shelbyville used Method 1, Direct Labor Percentage, to allocate workers compensation premium, employee health insurance premium, and employee dental insurance premium between its water and sewer divisions. These premiums, however, are related to both direct labor and office labor. Explain why Shelbyville used only one allocation method for these insurance premiums.

b. Recalculate the allocation of workers compensation premium, employee health insurance premium, and employee dental insurance premium by (1) separating the premiums between direct labor and office/managerial labor and (2) using the appropriate allocation factor. Provide all workpapers, state all assumptions, and show all calculations used to make these recalculations.

c. Provide all workpapers, state all assumptions, and show all calculations used to calculate the combined debt service for the water division of \$619,379.

d. Shelbyville adjusted its depreciation expense by \$164,330 to reflect the improvements (i.e., water plant expansion, water main, and elevated storage tank) initiated in 1998. For each improvement, state:

- (1) The date construction began.
- (2) The estimated completion date.

- (3) The estimated cost of construction.
- (4) The construction cost incurred through September 30, 1999.
- (5) The estimated percentage of construction completed by September 30, 1999.

12. Refer to Water Utility Cost of Service Study, Exhibit 8.

a. Reconcile the \$12,384,330 of Water Plant as of June 30, 1998 with the \$11,259,218 of Water Plant In Service from page 1 of the Audit Report dated June 30, 1998.

b. Provide the detailed workpapers, calculations, and assumptions used to arrive at the June 30, 1998 Utility Plant In Service of \$12,384,330.

13. Refer to Water Utility Cost of Service Study, Exhibit 8. Provide the detailed workpapers, calculations, and assumptions used to allocate the June 30, 1998 accumulated depreciation to the water division.

14. Refer to Water Utility Cost of Service Study, Exhibit 8.

a. Reconcile the \$4,660,000 in Construction Work In Progress (CWIP) with the \$4,929,915 of system improvements in Adjustment F, Depreciation Expense, Exhibit 5 Test Year Revenue Requirements and Adjustments.

b. Explain why Shelbyville should be allowed to earn a return on investment in plant improvements that were not used and useful at the end of the test period.

c. In Case No. 10481,¹ the Commission stated that adjustments for post test-period additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions.

(1) Has Shelbyville updated its revenues, expenses, rate base, and capital to the same period as its system improvements?

(2) If yes, identify those items that have been updated to reflect the same period.

d. In the prior cases, the Commission has allowed the inclusion of CWIP in rate base, but has included in operating revenues the associated Allowance for Funds Used During Construction (AFUDC).

(1) Does Shelbyville's pro forma operating revenue include AFUDC?

(2) (a) If yes, identify the amount included in pro forma operating revenue.

(b) If no, explain why AFUDC was not included in Shelbyville's pro forma operating revenue.

15. The general rule for Contributions In Aid of Construction (CIAC) is [t]hat any such contributions should be excluded from the rate base, since the related plant investment has not been financed by the utility, and customers should not therefore be

¹ Case No. 10481, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989 (August 22, 1989) at 5.

required to pay a return on the plant.² Explain why, in light of this general rule, Shelbyville did not propose to reduce its rate base by the applicable CIAC and grants.

16. In its Balance Sheet of June 30, 1998, Shelbyville reported CIAC of \$2,641,954, Municipal Contributions of \$155,962, and Grants of \$5,664,960. How should each of these amounts be allocated between the water and sewer division? Provide all workpapers, state all assumptions, and show all calculations used to make these allocations.

17. Refer to Water Utility Cost of Service Study, Exhibit 9. The Balance Sheet for June 30, 1998, shows retained earnings of \$4,656,350. Of this amount, Shelbyville allocated \$4,238,313 or 91 percent of these earnings to its water division. Provide a detailed explanation for this allocation.

18. Explain why the overall capital structure for the combined water and sewer divisions should not be used in calculating the water division's return on rate base.

19. Provide in the same format as Format 19, the weighted rate of return for the combined Shelbyville water and sewer divisions using (1) the June 30, 1998, Balance Sheet; (2) the average interest rate; and (3) the requested return on equity of 11 percent. Include all workpapers, state all assumptions, and show the calculations used to derive each capital component.

20. a. Provide the amount of System Development Charges (SDC) that Shelbyville's water division has collected. Identify the account in which Shelbyville reports SDCs.

² Robert L. Hahne and Gregory E. Aliff, Accounting for Public Utilities § 4.04 (1991).

- b. Are SDCs a form of cost free capital similar to CIAC and grants?

Explain.

- 21. Refer to Water Utility Cost of Service Study, Exhibit 1.

- a. How are Shelbyville's rates for sewer service based (e.g., a flat sewer rate, a rate based on water usage)?

- b. If Shelbyville's rates for sewer service are based on water usage, explain why a portion of the meter reading should not be allocated to the sewer operation.

- 22. Refer to Water Utility Cost of Service Study, Exhibit 1 at 3. Explain how Shelbyville allocated direct labor. Provide all workpapers, state all assumptions, and show all calculations used to make this allocation.

- 23. Refer to Water Utility Cost of Service Study, Exhibit 1 at 3 and Exhibit 7. Why should \$6,106 of \$73,713 that Shelbyville transferred to the city be allocated to the cost of providing water service to West Shelby Water District (West Shelby District)?

- 24. Refer to Water Utility Cost of Service Study, Exhibit 6. Provide a breakdown of expenses that may be allocated as customer costs, such as meter reading.

- 25. Are the notes referring to the allocation basis in Exhibit 6 of Water Utility Cost of Service Study referring to the notes found in Exhibit 1, page 3 of Water Utility Cost of Service Study ?

- 26. Refer to Water Utility Cost of Service Study, Exhibit 7. Total pro forma expenses to serve West Shelby District are shown as \$218,776. Provide for each expense category a detailed explanation of how the expense level was determined.

Provide all workpapers, state all assumptions, and show all calculations used to make this determination.

27. a. What is the total inch miles of line in Shelbyville's system?

b. Of the total inch miles, how many are used jointly by Shelbyville and each of its wholesale customers?

28. a. How many water storage tanks does Shelbyville have in its water system?

b. Of this number, how many storage tanks are used to provide service to each of the wholesale customers?

29. a. How many booster pumps does Shelbyville have in its water system?

b. Of this number, how many booster pumps are used to provide service to each of the wholesale customers?

30. What portion, if any, of Shelbyville's water line(s) that serve the wholesale customers are gravity fed?

31. Complete the table below.

	Test Year Gallons
Plant Use	
Sales for Resale to North Shelby	
Sales for Resale to West Shelby	
Unmetered Water	
Free Water	
Total Produced and Purchased	
Total Sold	

Done at Frankfort, Kentucky, this 12th day of October, 1999.

By the Commission

ATTEST:

Executive Director

Shelbyville Municipal Water and Sewer Commission
CASE NO. 99-265
Salaries and Wages

Shelbyville Municipal Water and Sewer Commission
CASE NO. 99-265
Salaries and Wages

Shelbyville Municipal Water and Sewer Commission
CASE NO. 99-265
Salaries and Wages

Employee Name	Position Title	Hours Worked		Wages			
		Regular	Overtime	Effective 1/1/97	Effective 1/1/98	% Increase	Effective 1/1/99

Shelbyville Municipal Water and Sewer Commission CASE NO. 99-265 Test-Period Hours Worked
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CASE NO. 99-265

Test-Period Hours Worked	
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Employee Name	Position Title	Account Title		Account Title		Account Title		REVENUE
		Regular Hours	Overtime Hours	Regular Hours	Overtime Hours	Regular Hours	Overtime Hours	

Shelbyville Municipal Water and Sewer Commission

CASE NO. 99-265

Pro Forma Salaries

		Account Title		Account Title		Account Title		Total
Employee Name	Position Title	Regular Pay	Overtime Pay	Regular Pay	Overtime Pay	Regular Pay	Overtime Pay	Regular Pay

Shelbyville Municipal Water and Sewer Commission

CASE NO. 99-265

Expense Analysis

Account No. & Title

Invoice
Date

Vendor

Description

No.

Invoice
Amount

Shelbyville Municipal Water and Sewer Commission CASE NO. 99-265 Capital Structure & Weighted Cost of Capital				
<u>Component of Capitalization</u>	<u>Capitalization Per Books Jun 30, 1998</u>	<u>Capitalization Ratios</u>	<u>Requested Returns</u>	<u>Weighted Cost of Capital</u>
Common Equity				
Long-Term Debt				
Short-Term Debt	<u> </u>	<u> </u>		<u> </u>
Total Capitalization	<u> </u>	<u> </u>		<u> </u>