

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HARDIN COUNTY WATER )  
DISTRICT NO. 1 FOR (1) ISSUANCE OF )  
CERTIFICATE OF PUBLIC CONVENIENCE AND )  
NECESSITY; (2) AUTHORIZATION TO BORROW ) CASE NO. 2001-211  
FUNDS AND TO ISSUE ITS EVIDENCE OF )  
INDEBTEDNESS THEREFOR; (3) AUTHORITY TO )  
ADJUST RATES; AND (4) APPROVAL TO REVISE )  
AND ADJUST TARIFF )

COMMISSION STAFF'S SECOND SET OF INTERROGATORIES  
AND REQUESTS FOR PRODUCTION OF DOCUMENTS  
TO HARDIN COUNTY WATER DISTRICT NO. 1

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Hardin County Water District No. 1 ("Hardin District") shall file the original and 8 copies of the following information with the Commission no later than January 4, 2002, with a copy to all parties of record. Each copy of the information requested 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. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention shall 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 request.

1. Provide all agreements between Hardin District and Black & Veatch regarding preparation or review of a cost-of-service study.
2. Provide all correspondence between Hardin District and Black & Veatch regarding the preparation or review of a cost-of-service study.
3.
  - a. Describe how Hardin District verifies that a member of its board of commissioners has completed the required training to be eligible for an annual salary in excess of \$3,600.
  - b. What records does Hardin District maintain to demonstrate that payment of an annual salary exceeding \$3,600 to a member of its Board of Commissioners is lawful? If no records are maintained, explain why not.
4. Refer to Hardin District's Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents ("First Set of Interrogatories"), Item 21. Why is insurance coverage for Commissioner Straney provided by Anthem instead of Humana?
5. Explain why Commissioners Straney and Gossett are authorized a greater level of insurance coverage than all other Hardin District employees except Mr. Bruce.
6. Explain why it is reasonable for Hardin District to provide insurance coverage or the Flex 100 coverage to the members of its Board of Commissioners.
7. Provide all legal services agreements between Hardin District and the law firm of Skeeters, Bennett & Wilson that are currently in effect.
8. Refer to Hardin District's Response to the First Set of Interrogatories, Item 23. Provide the Request for Proposal to which Hardin District refers in its response and all responses to the Request for Proposal.

9. Refer to Hardin District's Response to the First Set of Interrogatories, Item 11(a) and Hardin District's Application, Exhibit A-20, Table 20-E, "Proposed Pro-forma Adjustments to Operating Income."

a. In Table 20-E, Hardin District proposes to decrease test-period Operating Expenses of \$1,739,510 by \$4,477 to a pro forma level of \$1,735,033. In its response to Item 11(a), Hardin District revises its adjustment to a decrease of \$86,555 for a revised pro forma level of operating expenses of \$1,652,955. Provide a detailed reconciliation between the operating expense reduction in Table 20-E and Item 11(a). Identify the correct operating expense adjustment.

b. In Table 20-E, Hardin District does not include any Gains/(Losses) from Disposition of Utility Property in its pro forma operations. In its response to Item 11(a), Hardin District reports pro forma operations that reflect a loss of \$28,467 attributable to the scrapping of the 1882 booster station in November 2002. Provide a detailed reconciliation between Table 20-E and Item 11(a).

c. Hardin District proposes to adjust forfeited discounts by \$20,209 to reflect an assumed forfeit rate of 5.7 percent, the same as 2000. Provide a schedule that lists and compares Hardin District's forfeit rates for 1995 through 2001.

d. Hardin District proposes to increase rents from water property by \$8,462, an increase of 35.3 percent. Explain why Hardin District expects that water property rents will increase by 35.3 percent.

e. Hardin District proposes to increase miscellaneous service revenues by \$371. Explain why Hardin District expects that miscellaneous service revenues will increase by \$371.

f. Hardin District proposes to increase other water revenues by \$97,165, an increase of 70.3 percent. Explain why Hardin District expects that other water revenues will increase by 70.3 percent.

10. Refer to Hardin District's Response to the First Set of Interrogatories, Items 11(a) and (b).

a. Hardin District's response was not responsive. Provide all assumptions and show all calculations that Mr. Bruce used to derive each pro forma adjustment proposed in Items 11(a) and (b).

b. Describe in detail the process that Hardin District used to develop its proposed pro forma adjustments.

c. Provide a copy of Hardin District's depreciation schedule for the calendar year 2000 to support depreciation expense of \$503,637.

d. Hardin District estimates that its proposed construction project will increase utility plant in service by approximately \$2,200,000 and will result in a corresponding increase in depreciation expense of \$186,873. Provide a detailed analysis showing how Hardin District calculated its proposed depreciation expense adjustment.

11. Refer to Hardin District's Response to the First Set of Interrogatories, Item 12.

a. For the period from 1998 through 2000, only six instances of an employee working 2,080 regular hours in a calendar year occurred. For each Hardin District employee employed in this period, explain why variance in the number of annual hours worked from the normal 2,080 regular hours exists.

b. For the 11-month period ending November 30, 2001, several Hardin District employees have already worked in excess of the normal 2,080 regular hours. For each employee that has worked in excess of the 2,080 regular hours, provide a detailed explanation.

12. Refer to Hardin District's Response to the First Set of Interrogatories, Item 13. Commission Staff requested that Hardin District provide the pay rates by employee for the period of 1998 through 2001. Hardin District in its response provided each employee's annual wages, not the requested hourly, weekly, or monthly pay rates. Provide an analysis by employee of Hardin District's pay rates (e.g., hourly, weekly, monthly) for the period of 1998 through 2001, as shown in Format 1.

13. Refer to Hardin District's Response to the First Set of Interrogatories, Item 11(a). Hardin District proposes to increase Salaries & Wages – Employees of \$697,951 by \$33,092 to a pro forma level of \$731,043. Provide a schedule by employee showing the pay rates (e.g., hourly, weekly, monthly), regular hours, overtime hours, and annual salary that reconciles with the pro forma Salaries & Wages – Employees of \$697,951.

14. Refer to Hardin District's Response to the First Set of Interrogatories, Item 11(a). Hardin District proposes a pro forma level of Salaries & Wages – Employees of \$731,043. In its Application, Exhibit A-20, Table 20-B ("Detailed Personnel & Cost Basis for Test Year"), however, Hardin District reports a test-period payroll of \$739,626. Reconcile and explain the apparent discrepancy between the amounts on Table B with the balance from Item 11(a).

15. Refer to Hardin District's Application, Exhibit A-20, Table 20-B ("Detailed Personnel & Cost Basis for Test Year") ("Table 20-B").

a. In its response to the First Set of Interrogatories, Item 11(a), Hardin District proposes to increase Account 604, Employee Pension & Benefits of \$108,406 by \$102,708 to a pro forma level of \$211,114. In its response to the First Set of Interrogatories, Item 16, Hardin District states that Account 604 would only include pension contribution amounts prescribed by the Kentucky County Employees Retirement System. However, pro forma pension expense is reported to be \$46,438 in Table 20-B. Reconcile and explain the apparent discrepancy between the identified responses.

b. Identify the employee benefits from Table 20-B that when combined will produce the pro forma level of Account 604 of \$211,114.

16. a. State whether Hardin District takes the position that the salary restrictions set forth in KRS 74.020(6) apply to such elements of compensations as health insurance and employer contributions to flexible spending accounts or 401K plans. Explain Hardin District's position.

b. Upon what legal authority does Hardin District rely for the proposition that the members of its Board of Commissioners may authorize additional compensation for themselves that is not expressly set forth in KRS Chapter 74?

17. Refer to Hardin District's Response to the First Set of Interrogatories, Item 20.

a. Has Hardin District provided Mr. Bruce with full family health insurance coverage since he was originally retained as manager? If no, state when Hardin District first began providing Mr. Bruce with such coverage.

b. Provide a copy of the minutes of Hardin District's Board of Commissioners meetings in which the health insurance component of Mr. Bruce's compensation package has been discussed.

18. Refer to Hardin District's Response to the First Set of Interrogatories, Item 25.

a. Calculate Hardin District's employee pension contribution using the pro forma salaries and the July 2001 through June 2002 contribution rate of 6.41 percent.

b. Provide the workpapers that show how Hardin District calculated the employee pension contribution as requested in Item 17(a).

19. Refer to Hardin District's Response to the First Set of Interrogatories, Item 26. Commission Staff requested that Hardin District provide an analysis of several test-period expense accounts using Format 22. Hardin District's response contained an analysis of the items in each account that exceeded \$500. Provide an analysis, using Format 22, that shows every item included in the expense accounts listed below. The totals for each analysis should be reconciled to the balances reported in the "Annual Report to the Public Service Commission for the Year Ending December 31, 2000."

a.	Account No. 620, Materials and Supplies	\$131,694
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b.	Account No. 632, Contractual Services – Accounting	\$ 22,836
c.	Account No. 635 Contractual Services – Other	\$124,666
d.	Account No. 650, Transportation	\$ 26,643
e.	Account No. 675, Miscellaneous	\$ 90,379

20. Refer to Hardin District's Response to the First Set of Interrogatories, Item 28.

a. Provide the Workers' Compensation rates for the following employee classifications

- (1) waterworks;
- (2) salespersons; and,
- (3) clerical.

b. Provide all adjustments that are made to the annual premium.

c. Calculate Workers' Compensation expense using the current effective rates and pro forma Salaries & Wages – Employees. Include copies of the workpapers used in calculating Workers' Compensation insurance.

21. Refer to Hardin District's Response to the First Set of Interrogatories, Item 33. Provide a schedule showing the amounts of water purchased by Hardin County Water District No. 2 by month for the period from 1995 through 2001. This schedule should include the gallons and dollar amount of the monthly purchases.

22. Provide Mr. Bruce's curriculum vitae.

23. a. Describe Mr. Bruce's experience in preparing cost-of-service studies for water utilities.



b. Has Mr. Bruce submitted any cost-of-service studies to a state utility regulatory commission for review? If yes, identify the state utility regulatory commission, the proceeding in which the study was submitted, and the name of the utility on whose behalf the study was submitted.

24. In its response to the First Set of Interrogatories, Item 2, Hardin District states that it chose to use a methodology to calculate a system overall maximum hour to average day factor that differs from that recommended by its rate consultant.

a. Explain why Hardin District rejected the recommendations of its consultant.

b. Explain why Hardin District's methodology is more equitable than the methodology recommended by its consultant.

25. Refer to Hardin District's Response to the First Set of Interrogatories, Item 2 at 9. Explain why, given the "Typical Demand Factors" set forth on this page, Hardin District did not use a lower maximum day and maximum hour factor for its wholesale customer class.

26. Has it been Hardin District's experience that wholesale customers generally place a lower demand on the system than retail customers? Explain.

27. a. Do the city of Vine Grove and Meade County Water District have their own storage tanks?

b. If yes,

(1) State the number and capacity of these tanks.

(2) Explain why the existence and use would not allow these customers to place a lesser demand on Hardin District's system than Hardin District's retail customers.

28. Describe Hardin District's efforts to determine the time of day when Meade County Water District and Vine Grove's water storage tanks fill.

29. Does Meade County Water District or Vine Grove have any large commercial or industrial customers? If yes, identify these customers.

30. Refer to Hardin District's Response to the First Set of Interrogatories, Items 5 and 6. Provide the calculations made and the assumptions used to determine that wholesale customers should be assigned 10.7 percent of the portion of the 920 Project to be funded by Hardin District's existing customer base.

31. Refer to Hardin District's Response to the First Set of Interrogatories, Item 8. Should purchased power expenses and pumping expenses related to transmission of water be attributed to wholesale customers served through gravity fed water mains rather than pressurized water mains? Explain.

32. Refer to Hardin District's Response to the First Set of Interrogatories, Item 9.

a. Does Hardin District agree that most leaks occur at pipe joints or around the circumference of the joints?

b. If yes,

(1) Should the amount of line loss allocated to the wholesale customers recognize this proposition? Explain.

(2) Does Hardin District agree that a water utility's failure to identify or allocate line loss or plant use will result in the allocation of water costs associated with main flushing and system use to wholesale customers for activities that provide no benefit to the wholesale customers? Explain.

33. Refer to Hardin District's Response to the First Set of Interrogatories, Item 10. Hardin District states that all expenses are allocated 86.1 percent to retail and 13.9 percent to wholesale as set forth at Table 24-F of Hardin District's Amended Application. Explain how these allocation factors relate to the allocation of expenses shown at Table 24-G of Hardin District's Amended Application.

34. Refer to Hardin District's Amended Application, Table 24-G. Provide a breakdown of all expenses included in the \$20,889 of administration costs allocated to wholesale customers.

35. Does the proposed private fire protection rate of \$21.64 apply to fire sprinklers?

36. Refer to Hardin District's Application, Exhibit 7 and Exhibit 11 at 5.

a. State whether the purpose of the proposed County Expansion Surcharge is to recover the portion of the capital costs necessary to serve county residents.

b. Explain why meter reading costs should be reflected in the proposed County Expansion Surcharge rather than in base rates exclusively.

c. Explain why depreciation on the proposed projects should not be exclusively allocated to base rates.

d. Explain why new account revenues should be considered when calculating the proposed County Expansion Surcharge.

e. Explain why, since connection fees are intended only to recover the costs of installing a new customer service, "Increased Connect Fee Sales" should be considered when calculating the proposed County Expansion Surcharge.

f. Provide the hydraulic calculations that show the benefits that existing customers will derive from the proposed water main extension projects.

g. State whether, since the proposed water main extension projects will be financed through variable rate revenue bonds, the actual capital and debt service cost of the project will not be known until those variable rate bonds are retired.

37. State whether Hardin District has any objections to filing annual reports with the Commission on the proposed County Extension Surcharge which include, inter alia, the total amount billed and collected through the County Extension Surcharge, the total number of customers presently served, and the total debt service cost to date.

38. Refer to Hardin District's Application, Exhibit 14.

a. Is Sheet 8 of Hardin District's proposed tariff an erroneous duplicate of Sheet 7?

b. Should Section (v) on Sheet 10 read: "The surcharge shall remain in effect for all customers who qualify until \$3,893,000 has been collected."?

c. Sheet 11, Section (d) provides that "late charge[s] shall apply to all charges, fees or prior penalties included in the outstanding balance on the due date." Explain how this provision is consistent with Administrative Regulation 807 KAR 5:006, Section 8(3)(h).

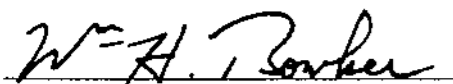
39. Refer to Hardin District's Application, Exhibit 14, Sheets 9 – 10.

a. Under what circumstances does Hardin District require the installation of metering equipment for private fire services?

b. Sheet 10 provides for monthly charges for private fire hydrants that are served through lines smaller than 6-inches in diameter. Explain how such service is consistent with Administrative Regulation 807 KAR 5:066, Section 10(2)(b).

c. Does Hardin District provide free or reduced rate water service to fire departments for fire protection service? If yes, state why no provision is set forth in Hardin District's proposed tariff as required by KRS 278.170(3).

40. Refer to Hardin District's Response to the First Set of Interrogatories, Item 36. In its Response, Hardin District provided a reduced scale version of the node maps. Provide two copies of the maps in their original size and scale. These maps should show all hydraulic junction nodes reflected in the KY PIPE run included in Hardin District's Application.

*for*   
Thomas M. Dorman  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602

DATED: December 17, 2001

cc: Parties of Record

Hardin County Water District No. 1

Case No. 2001-211

Analysis of Pay Rates  
For the Periods as Shown

Actual Pay Rates						
Employee Last Name (a)	Position Title (b)	Full-Time/ Part-Time (c)	Hourly/ Salary (d)	1998 (e)	1999 (f)	2000 (g)

<sup>1</sup> [Column (h) - Column (g)] ÷  
Column(g)