

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF COOLBROOK)	
SANITATION DIVISION OF AQUASOURCE)	
UTILITY, INC. FOR AN ADJUSTMENT OF)	CASE NO.
RATES PURSUANT TO THE ALTERNATIVE)	2002-00281
RATE FILING PROCEDURE FOR SMALL)	
UTILITIES)	

DATA REQUEST OF COMMISSION STAFF TO
COOLBROOK SANITATION DIVISION

Coolbrook Sanitation Division of AquaSource Utility, Inc. (Coolbrook) is requested, pursuant to Administrative Regulation 807 KAR 5:001, to file with the Commission the original and 5 copies of the following information, with a copy to all parties of record. The information requested herein is due on or before November 22, 2002. Each copy of the data 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 that it is legible.

1. Refer to Exhibit J of AquaSource Utility, Inc.'s (AquaSource) original petition to transfer the assets of Coolbrook from 4-Way Enterprises, Inc. (4-Way) in Case No. 2000-00131.

a. Provide statements detailing the projected operating expenses for years three and four using the account titles shown in page 2 of the rate application filed in this case.

b. Compare each account balance from the statements prepared in Item 1(a) above for years three and four to the account balances included in the rate application filed in this case for the test year and adjusted test year, respectively. Provide full and detailed explanations for all variances. All explanations shall be quantified. Include all workpapers with the response.

2. In persuading this Commission to allow transfer of control of Coolbrook's assets in Case No. 2000-00131, AquaSource stated that savings in operating expenses through economies of scale and operating efficiencies would be realized and passed onto Coolbrook's customers. Specifically, at Exhibit J of the application in Case No. 2000-00131, AquaSource projected Coolbrook's operating expenses for 2001 and 2002 if under its control to be \$93,013 and \$88,415, respectively. AquaSource purported the resulting savings of \$21,829 and \$22,348 when compared to the projected annual operating expenses of \$114,842 and \$110,763 if control remained with 4-Way. AquaSource has now submitted a rate application stating actual 2001 operating expenses at \$156,022 and pro forma expenses at \$179,676. These amounts are significantly higher than projected in Case No. 2000-00131.

a. State all efforts of AquaSource to control the cost of Coolbrook's operations.

b. Have AquaSource's attempts to control costs for Coolbrook been successful? If yes, explain the budgeting variances of the operating expenses as stated

in the applications of Case Nos. 2000-00131 and 2002-00281 and noted in Item 2 above.

c. Without improving operating efficiencies that are reflected in lower rates to consumers, explain how the transfer of control of Coolbrook's assets to AquaSource was in the public's interest. If the response refers to improved services, provide all evidence supporting the improvements and their necessity. Further, quantify their benefits to the consumer.

3. When reviewing the budget variations summarized in Item 2 of this request, it is apparent that the cost saving measures AquaSource referred to in its application in Case No. 2000-00131 have failed the customers of Coolbrook.

a. State all reasons that this Commission should not hold AquaSource to its operating projections presented in Case No. 2000-00131 when establishing rates in this proceeding.

b. The Commission relied upon AquaSource's projected operating statements when approving the transfer of control in Case No. 2000-00131. Why should the customers of Coolbrook bear the burden of AquaSource's failed attempt to meet those operating budgets?

4. At page 7 of the application filed in Case No. 2000-00131, AquaSource stated that, [T]he initial investment plus the cost of restoring the facilities to required standards will not adversely impact the overall costs and rates of the existing and new customers. Why then is AquaSource seeking to increase Coolbrook's flat monthly rate from \$22.22 to \$40.11?

5. The annual reports filed with the Commission by AquaSource on Coolbrook's behalf do not reflect the required journal entry as detailed in the final Order of Case No. 2000-00121. Explain in full detail. Specific attention should be given to the amounts that were to be reported as Acquisition Adjustment and Contribution in Aid of Construction.

6. Provide justification, workpapers, and journal entries in full detail supporting the Accounts Payable to Associated Companies balance of \$417,916 as reported in the 2001 annual report.

7. The application in this proceeding refers to capital improvements in the total amount of \$127,062 for which recovery is sought.

a. Provide detailed invoices, contracts and proof of payment for all amounts included in the \$127,062. The information provided shall give a clear and complete description for each capital improvement. The response shall sum \$127,062. An explanation shall be given for any variances.

b. Provide all contractor bids that were received in connection with these improvements. Explain in full detail why each was rejected.

c. State the case number in which this Commission granted AquaSource a Certificate of Convenience and Necessity to construct these improvements.

8. There are numerous entries in the Transaction Report to accounts 60106 - IC Allocated Labor, 60108 - Allocated Nonbill Labor, and 60306 IC Allocated Fringe Benefits that sum \$10,767.98, \$3,145.38 and \$2,907.38, respectively.

a. During informal discovery and in AquaSource's response to the Attorney General's request for information of August 5, 2002, at Item 1, it was communicated that these entries relate to payroll allocations of operation and maintenance employees working out of Jeffersonville, Indiana. If this is correct, explain why these allocations are appropriate when Coolbrook has already been charged for actual services of these employees in account 60820, Intercompany Expense, through AquaSource's invoice and workorder process.

b. Explain, in full detail, what these amounts represent if they are not related to payroll allocations as referred to in Item 8(a). Also, explain why the allocations are appropriate.

c. The monthly charges to these accounts steadily decline from January to September with nothing charged in the months thereafter. Explain in full detail.

d. Provide the supporting documentation for each entry to these accounts.

9. a. Provide invoices for each charge to account 60820 Intercompany Expense. Each invoice shall show itemized charges for labor and materials and give clear reference to all workorders used to compile the invoice. If the amounts shown on the invoices are not easily matched to those of the workorders, provide a reconciliation. The invoices shall describe specifically the work performed and materials used.

b. Provide an explanation and support for each credit entry made to account 60820 Intercompany Expense.

10. Water purchases from Farmdale Water District (Farmdale) during March, April, May, June, September and October 2001 were excessive relative to the remaining months of the year. Explain in full detail.

11. List and describe the plant facilities located at each of the following service addresses as taken from the Blue Grass Energy invoices:

- a. Quail Run Ct.
- b. 955 Green Wilson Rd.
- c. Evergreen Rd.
- d. Coolbrook 4

12. Jones Chemical invoiced AquaSource \$5,866 on March 27, 2001. The invoice reflects shipment to Location #3, Charlestown, Indiana. Explain why Coolbrook was allocated \$162 of this amount. Show all calculations and state why the allocation factor(s) used are reasonable.

13. There are several invoices charged to Coolbrook for chlorine where shipment was made to Jeffersonville, Indiana. Explain the process used by AquaSource for purchasing, receiving, allocating and delivering chlorine and other chemicals. The response should include explanation of how allocation procedures were determined and why they are reasonable. The response should also include references to safeguards in place to ensure that Coolbrook is allocated only chemical costs that it actually incurs.

14. The application reports bad debt expense at \$2,594.

a. Provide workpapers detailing this amount. The workpapers shall include but not be limited to:

- (1) List of accounts written off.
- (2) Aged schedule of accounts receivable.
- (3) Description of Coolbrook's write-off policy.

b. Describe efforts taken by Coolbrook to collect delinquent accounts.

c. The amount charged represents 2.25 percent of test-year service revenues. Describe efforts taken by Coolbrook to control and reduce this amount.

15. Test-year expenses include an allocation of \$30,728 representing Coolbrook's portion of Central Region and AquaSource Corporate costs. If Coolbrook were still under the control of 4-Way, such costs would be limited by the Commission to a \$3,600 owner manager fee as done in Case No. 1998-00284, Coolbrook's most recent rate proceeding. Considering this, how is AquaSource's allocation of test-year and pro forma corporate overhead consistent with its application in Case No. 2000-00131 where it states that the transfer of control will result in operational economies and savings?

16. Refer to the spreadsheets entitled Corporate Overhead Allocation at enclosure 3 of Coolbrook's response to the Attorney General's request for information dated August 5, 2002.

a. Provide a complete list of all services performed by AquaSource on behalf of Coolbrook in return for the allocated charges as shown on page 2. These services shall be listed and grouped according to the categories shown under Company 10 as follows: (1) General Allocation; (2) Insurance; (3) Rates Department; and (4) Human Resources.

b. At page 3, \$4,275,428 of AquaSource's Corporate expenses are allocated to various operating units.

(1) Provide a statement of expenses detailing the account titles and balances included in the \$4,275,428. The schedule shall list the individual expense accounts by cost center (e.g. President's Office, VP's Office's, etc.). All amounts included in these accounts that represent allocation of related company expenses shall be so identified. For each allocated expense, provide an explanation as to its appropriateness and workpapers detailing its calculation. The workpapers shall include detailed calculation of all allocation factors.

(2) Provide a detailed calculation of the allocation factors used to spread this amount to the various operating units.

(3) State why the allocation factor selected is an appropriate method for allocating each expense identified in Item 16(b)(1).

(4) State what other allocation factors were considered and why they were not chosen.

(5) Provide evidence that Commissions of other jurisdictions have approved this allocation method.

(6) State the benefit derived by Coolbrook's customers from each expense identified in Item 16(b)(1).

c. At page 3, Insurance Costs totaling \$867,356 were allocated to various operating units.

(1) Provide a detailed summary of these insurance costs. The summary shall include, but not be limited to, premium amounts, description of

coverages, the name of the insurance carrier and holder, and the individual amounts included in the \$867,356. The total of this schedule shall sum \$867,356. All amounts included in this summary that represent allocation of related-company expenses shall be so identified. For each allocated amount, provide an explanation as to its appropriateness and workpapers detailing its calculation. The workpapers shall include detailed calculation of all allocation factors.

(2) For each policy allocated, state the benefit derived by Coolbrook's customers.

(3) Provide the calculation of the net plant allocation factors.

(4) Explain why the allocation factor is appropriate for each policy.

(5) Were other allocation factors considered? If so, identify and explain why they were not used.

d. At page 3, \$195,707 of Rate Department expenses were allocated. Provide a detailed statement of these expenses. All amounts included in this statement that represent allocation of related-company expenses shall be so identified. For each allocated expense, provide an explanation as to its appropriateness and workpapers detailing its calculation. The workpapers shall include detailed calculation of all allocation factors.

(1) Name all individuals and their operating unit that assisted in the preparation of the application filed in this case. Specifically state each employee's involvement.

(2) Provide a list of employees in the rate department.

(3) Describe the benefits Coolbrook's customers are receiving in return for the allocated rate department expenses.

(4) Provide the calculations of the allocation factors.

(5) Explain why this allocation factor is appropriate.

(6) Were other allocation factors considered? If so, identify and explain why they were not used.

e. At page 3, \$826,474 of Human Resources expenses were allocated based on corporate salaries. Provide a detailed statement of these expenses. All amounts included in these expense accounts that represent allocation of related-company expenses shall be so identified. For each allocated expense, provide an explanation as to its appropriateness and workpapers detailing its calculation. The workpapers shall include detailed calculation of all allocation factors.

(1) Were any human resource expenses directly charged to specific operating units? If no, explain why not.

(2) Would direct assignment be more appropriate than the proposed allocation?

(3) Describe the benefit Coolbrook's customers are receiving in return for this allocated expense.

(4) Provide the calculations of the allocation factors.

(5) Explain why this allocation factor is appropriate.

(6) Were other allocation factors considered? If so, identify and explain why they were not used.

f. Refer to page 1 and 2 where corporate overhead is allocated to the regional operating units. Provide an entire set of workpapers and calculations used to determine all the allocation factors shown on these pages.

17. Refer to the spreadsheet entitled Central Region Overhead Allocation at enclosure 3 of Coolbrook's response to the Attorney General's request for information dated August 5, 2002.

a. List all services performed by AquaSource on behalf of Coolbrook in return for these allocated charges. The services shall be listed by the management region, either midwest or central, providing the stated service.

b. Provide a detailed statement of expenses for Midwest Management and Central Management that sum \$34,525 and \$324,845, respectively. All amounts included in these accounts that represent allocation of related-company expenses shall be so identified. For each allocated expense, provide an explanation as to its appropriateness and workpapers detailing its calculation. The workpapers shall include detailed calculation of all allocation factors.

c. Provide a full and detailed set of workpapers that show the calculation of the allocation factors.

d. For each expense account listed in Item 17(b), explain why the salaries allocation factor is an appropriate method of allocation.

e. Was consideration given to using other allocation factors? If so, identify each and explain why it was not chosen.

18. The worksheets submitted by Coolbrook as enclosure 3 in response to the Attorney General's request for information dated August 5, 2002 support the pro forma

corporate and regional overhead allocation in the amount of \$20,728 as shown in the application.

a. Provide worksheets in the same format supporting the test-year amount of \$30,728.

b. Explain why the allocation factors were changed as noted at Item 5 on page 3 of the application.

c. Respond to each and every request for information as stated in Items 16 and 17 of this request as they apply to the test-year worksheets requested at Item 18(a).

19. The following entries were made to account 62000 Materials in Coolbrook s Transaction Report.

11/17/00	117.12
1/31/01	23.21
1/31/01	262.36
1/31/01	467.29
1/31/01	176.03
1/31/01	4.48
2/1/01	84.86
2/21/01	81.90
2/27/01	159.23
3/3/01	82.23
3/3/01	11.03
3/3/01	53.30
3/27/01	12.68
5/8/01	13.11
7/27/01	61.95
12/14/01	21.90

a. For each entry provide a vendor invoice and a detailed explanation as to the nature of the expense and why it is appropriate to charge the amount to Coolbrook. If the entry amount was the result of an allocation, describe how the

allocation was determined, provide all workpapers used to calculate the allocation factor(s), and explain the reasonableness of the method.

b. Provide evidence that each invoiced item was used in the direct operation of Coolbrook.

c. Describe and explain all safeguards in place to ensure that Coolbrook is not charged for materials and supplies that are purchased and used by related companies.

20. a. What services are performed by BFI in return for the \$45 monthly fee charged to account 63109 Environmental?

b. If it is for normal garbage pick-up, is there a more economical package available from BFI to Coolbrook?

c. Provide a detailed explanation for all BFI charges on the invoice totaling \$641.67 as entered into account 63109 Environmental of the transaction report on August 6, 2002.

d. In its application Coolbrook eliminated test-year charges in account 63109 Environmental in the amount of \$594.

(1) Provide invoices totaling \$594 with a full explanation of the amounts and state why they were charged to Coolbrook during the test year but eliminated to determine pro forma operations.

(2) If the amounts charged to Coolbrook were the result of an allocation, provide workpapers detailing the allocation and explain why it was appropriate.

21. Refer to the invoice from USA Blue Book in the amount of \$190, of which \$13.40 was charged to Coolbrook s account 63404 Operations on May 15, 2001.

- a. Why was Coolbrook allocated a portion of this invoice?
- b. Explain how the allocated amount was determined? Provide all workpapers.
- c. Explain why this expense is not covered in the test-year allocation of central region expenses? Explain in full detail.

22. Provide vendor invoices for each of the following items taken from Coolbrook s Transaction Report. Along with each invoice provide a full description of the items purchased. Respond to the following requests for each invoice:

- a. Why was Coolbrook allocated a portion of this invoice?
- b. Explain how the allocated amount was determined. Provide all workpapers including detailed calculation of allocation factors.
- c. Explain, in full detail, why the expense was not covered in the allocation of corporate and region overhead.

Date Charged	Account Number	Amount Charged
3/26/01	63409	\$35.14
1/1/01	64101	137.28
1/3/01	64101	86.00
1/18/01	64101	86.00
2/28/01	64101	62.79
3/26/01	64101	86.00
3/26/01	64101	6.38
4/17/01	64101	86.00
5/15/01	64101	86.00
7/3/01	64101	90.30
8/1/01	64101	90.30
8/8/01	64101	8.33
8/24/01	64101	90.09

9/26/01	64101	8.64
9/24/01	64101	90.30
10/31/01	64101	90.30
11/7/01	64101	90.30
11/29/01	64101	86.20
10/26/01	64104	35.56
1/1/01	64109	25.00
1/9/01	64110	20.00
2/27/01	65005	3.00
12/14/01	60460	34.62

23. On November 23, 2001, a \$250 assessment from the Franklin County Health Department was charged to account 64103 Licenses of the Transaction Report. Explain the nature of the assessment and state whether it is an annual charge.

24. Coolbrook was allocated \$51.60, \$83.64, and \$103.20 from RVS Software invoices. The amounts were recorded in account 64104 Office Expense. The RVS invoice s show the charges as water bills.

- a. State the nature of these invoices.
- b. Why it is appropriate to allocate a portion to Coolbrook s operations?
- c. Explain how the amount allocable to Coolbrook was determined.

Provide all workpapers.

d. Explain why these charges are not covered by the corporate and regional overhead allocation.

25. Through account 64104 Office Expense, Coolbrook was allocated \$35.52 of an RVS Software invoice that totaled \$320. The invoice stated the charges were for Extended Software Maintenance.

- a. State the exact nature of the software maintenance.
- b. Explain why the invoice is allocable to Coolbrook.

- c. Explain how the amount allocated to Coolbrook was determined.

Provide all workpapers.

- d. Explain how this expense is different from those allocated as corporate or regional overhead.

26. Coolbrook charged \$2.95 to account 64104 Office Expense as an allocation of a sign-designs invoice totaling \$26.50.

- a. What did the stamp say?
- b. Explain why the invoice was allocated to Coolbrook.
- c. Explain how the amount allocated to Coolbrook was determined.

Provide all workpapers.

- d. Explain how this expense is different from those allocated as corporate or regional overhead.

27. Account 64112 Software was charged with an invoice from CnT Micro-Systems totaling \$147.83

- a. Describe the item on this invoice and the nature of its use.
- b. The amount of the invoice was fully charged to Coolbrook. Why was it not allocated amongst other operating divisions?

- c. Provide evidence that the item was used for operating Coolbrook.
- d. Explain how this expense differs from those allocated as corporate and regional overhead.

28. Account 67001 Cell Phone reflects the monthly payment of \$45 per month for three cellular services.

- a. List all users and uses of these services.

- b. Explain why Coolbrook requires three cellular services?
- c. Why were these amounts not allocated to any other operating divisions?

29. Account 60502 Property Taxes totaled \$1,418.28. Provide detailed evidence supporting this amount. The response shall include all tax assessments with a clear indication of the nature of the tax, how the amount of the tax was determined, and the tax assessor. Also include an explanation and workpapers detailing all allocations included in the test-year amount.

30. Account 60501 State Taxes Other includes \$221 as Coolbrook's portion of the annual Public Service Commission Assessment. Provide workpapers detailing the calculation of the allocated amounts.

31. Provide a depreciation schedule for the test year that details individual plant assets, their in-service dates, original costs, accumulated depreciation, depreciable lives and depreciation expense charged during the test year. Also include on this schedule plant items reflected in the pro forma adjustment to test year depreciation.

32. In Case No. 1998-00284, the Commission disallowed Coolbrook depreciation on contributed property in the amount of \$10,273. Why has Coolbrook again requested recovery of this depreciation?

33. The application states that lab fees will increase by \$1,465 over the test-year amount of \$7,695. Provide all evidence supporting this adjustment along with all calculations and workpapers.

34. a. State the name of Coolbrook's current certified operator and his/her employer.

b. Provide the current contract. The contract shall clearly state all services provided and related fees.

c. Refer to page 4 of AquaSource's application in Case No. 2000-00131 where it states that replacement of the third-party operator with a part-time employee will be made to reduce expenses. Explain why the replacement has not been made and why Coolbrook now requests that the test-year contracted fee be increased.

35. a. Test-year expenses included grounds keeping fees in account 63005 in the amount of \$44.38. What services were rendered to Coolbrook in return for this charge?

b. AquaSource also did some mowing and weed trimming on behalf of Coolbrook during the test year (See Workorder 26355). Why was the combination of these services and those referred to in Item 35(a) adequate during the test year, yet Coolbrook seeks \$2,200 in the pro forma?

c. Provide an itemized statement of the amounts and services included in the \$2,200 pro forma amount.

d. Provide three bids from contractor's local to Coolbrook's facilities for the services listed in Item 35(c).

e. If this Commission approved rates that included a provision for grounds keeping expenses greater than those of the test year, what assurance can AquaSource provide that the funds would be dedicated to such services?

36. Coolbrook proposed to include \$17,158 in operating expenses for amounts paid to Farmdale in return for billing and collection services.

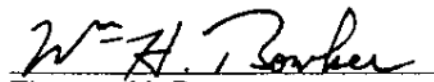
- a. Does AquaSource or any of its affiliates provide billing services?
- b. Could billing services be provided to Coolbrook by AquaSource or an affiliate at a cost less than that paid to Farmdale?
- c. Provide contracted third-party billing rates charged by AquaSource and any of its affiliates providing such service.

37. Provide a list of all capital improvement projects performed by Coolbrook since control was transferred from 4-Way to AquaSource. For each project listed, provide the following:

- a. Start and completion dates.
- b. The case number where this Commission granted authority to perform the improvements as required by KRS 278.020.
- c. A general description of the improvement and its necessity.
- d. A summary of the total cost of the improvement.
- e. Vendor invoices from the contractor(s) that performed the improvement.
- f. Bids from vendors that were not accepted with an explanation of why the bid was rejected.

Dated: November 8, 2002

cc: Parties of Record

for 
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