

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DOE VALLEY)
ASSOCIATION, INC. FOR A CERTIFICATE)
OF CONVENIENCE AND NECESSITY FOR) CASE NO. 2002-00353
CONSTRUCTION AND FINANCING AN)
UPGRADE TO WATER TREATMENT FACILITIES)

O R D E R

The Commission, on its own motion, HEREBY ORDERS that:

1. The procedural schedule listed in Appendix A, which is attached hereto and incorporated herein, shall be followed in this case.

2. Doe Valley Association, Inc. (Doe Valley) shall respond to the data request, attached hereto as Appendix B, on or before March 3, 2003.

Done at Frankfort, Kentucky, this 18th day of February, 2003.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2002-00353 DATED February 18, 2003

Doe Valley s responses to Staff s request
for information shall be filed no later than..... 03/03/03

All supplemental requests for information and
intervenors requests for information to Doe Valley
shall be filed no later than 03/14/03

Doe Valley shall file responses to supplemental and
intervenors requests for information no later than 03/21/03

All requests for information to intervenors
shall be filed no later than 03/21/03

Intervenors shall file responses to requests for
information no later than..... 04/04/03

Last day for Doe Valley to publish notice
of public hearingTo be scheduled

Public HearingTo be scheduled

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00353 DATED February 18, 2003

1. Doe Valley stated that the financing of the project is summarized in Appendix D of its application. Appendix D states that the Doe Valley Property Owners Association (Association) is financing the water expansion project and has levied a special assessment upon all property owners to pay back the loan.

a. Provide organizational charts that include the entire corporate structures of Doe Valley and the Association. Also, list the names of all stockholders, board members, and members of each organization included on the charts.

b. Provide a copy of the special assessment levied by the Association to finance the water expansion project.

c. Provide a copy of any loan agreement entered into by any entity to finance the water expansion project.

2. Provide a copy of all agreements between the Association and Doe Valley concerning the water expansion project and securing the transfer of the contributed funds. Doe Valley should also include:

a. The amount of contributions the Association has made and intends to make to Doe Valley to fund the proposed project.

b. The dates on which each amount was or is expected to be contributed.

3. Why was it decided that the Association should finance the proposed construction instead of Doe Valley?

4. In its application Doe Valley refers to a four-pronged project (application at page 2), but in Appendix B of the application, Water Distribution System Preliminary Engineering Report dated May 2002, at page 2, reference is made to three phases of the project. Describe in detail the scope and phases of this project.

5. a. Has Doe Valley discussed transferring its operations to Meade County Water District (Meade District) or any other retail water supplier?

b. Provide a copy of all correspondence between Doe Valley (or its related entities) and any other water supplier with regard to providing wholesale water service to Doe Valley or taking over Doe Valley s operations.

c. Provide a copy of all internal correspondence or studies concerning the purchase of wholesale water or transfer of water operations to another entity.

d. If Doe Valley or any of its affiliates has not explored the possibility of transferring operations, explain why.

6. Does Doe Valley understand that any wholesale rate charged by either Meade District or the city of Brandenburg would be subject to this Commission s approval?

7. a. Meade District s current tariff on file with this Commission does not include a provision for a wholesale rate. Provide all documentation to Doe Valley from Meade District setting its wholesale rate at \$2.33 as stated in Table VI-14 of Appendix B of the application. This response should include a cost-of-service study establishing cost-based rates for all classes of customers served by the Meade District.

b. Does Meade District possess the capacity, capability, and willingness to serve Doe Valley?

c. Considering Doe Valley could receive service from Meade District through the construction of 1,000 linear feet of 8-inch water main with construction costs estimated to be \$192,075, explain how the construction of the proposed treatment facility at a cost estimated to be \$1,544,325 is reasonable, in the public's interest, is not a duplication of service, and is consistent with the state's goal of establishing regional water suppliers.

d. What wholesale price would Doe Valley require from Meade District to consider wholesale water the most feasible solution to its supply situation?

e. Was the amount referred to above presented to Meade District for consideration?

8. After reviewing information on file with the Commission, it is apparent that Meade District purchases all its water from the city of Brandenburg at a rate of \$1.15 per thousand gallons. Why then would it be necessary for Meade District to charge Doe Valley \$2.33 per thousand gallons?

9. Refer to the application, Appendix B, Tables VI-1, VI-4, VI-7, VI-10, and VI-13.

a. Explain why Doe Valley has selected the option with the second highest present worth of \$2,725,406.

b. Provide all workpapers and calculations used to determine the stated water production costs included on each table.

c. In its 2001 annual report Doe Valley recorded expenses in the following accounts: Salaries and Wages, Employee Benefits, Purchased Water, Purchased Power, Chemicals, Materials and Supplies, Contractual Services, Rents,

Transportation Expenses, Insurance, Bad Debt Expense, Miscellaneous Expense, Depreciation, and Taxes Other Than Income. Were each of these accounts reviewed and analyzed to determine the effects of each option noted on the tables? If yes, provide all workpapers, calculations and results of the analysis. If no, for each expense account, provide a summary of the entries to the account and explain how the amounts would be affected by the selection of each option listed in the tables.

d. Explain why the present worth calculations do not include interest costs for financing the construction of each project.

10. In its 2001 annual report, Doe Valley reported Bad Debt Expense of \$22,188. This represents 15.84 percent of stated revenues.

a. Provide support for the reported amount.

b. This amount appears to be excessive. Explain the collection policy, procedures, and internal controls employed by Doe Valley to ensure that customer accounts are properly charged, recorded, and collected.

c. Explain how these controls are adequate when it appears that 16 percent of revenues were written off during 2001.

11. What portion of the existing plant will be taken out of service once proposed construction is complete?

12. Provide the request for proposal issued by the utility.

a. Provide a copy of all proposals received and the cost for their services.

b. Provide minutes of all board meetings that concerned the proposals and the reasons for choosing the current design/build team.

13. Provide documents and a highlighted set of plans showing the components of original Derrick Engineering plans that the utility will utilize.
14. Resubmit page 14 of the GRW preliminary engineering report.
15. Provide plans and specifications on the proposed west pump house.
16. Provide plans and specifications on the proposed intake structure.
17. Provide all hydraulic calculations including, but not limited to:
 - a. Field measurements, if any.
 - b. Hydraulic profile through plant.
 - c. Contact time.
 - d. Pump curves.
 - e. Flow calculations.
 - f. Demand projections.
18.
 - a. Explain the difference between the pilot plant and the proposed new plant.
 - b. Give examples of possible test results and the changes they will have on the final design of the membrane system.
19. What involvement, if any, will Derrick Engineering have in this project?
20. Provide a copy of the recent Kentucky Department of Water approval stamp on the Derrick Engineering plans.
21. Under Section 9(2)(a) of your application, you state that Doe Valley's board decided that membrane filtration, if found to be cost effective, should be the alternative of choice for the utility. Provide documentation from the board on its findings that the membrane filtration was cost effective.

22. Provide current calculations showing the cost associated with the operation and maintenance of the membrane filtration plant.