

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE	)	
WHOLESALE WATER SERVICE RATES OF	)	CASE NO. 2005-00174
HOPKINSVILLE WATER ENVIRONMENT	)	
AUTHORITY	)	

COMMISSION STAFF'S FIRST INFORMATION REQUEST  
TO HOPKINSVILLE WATER ENVIRONMENT AUTHORITY

Hopkinsville Water Environment Authority ("HWEA") is requested, pursuant to 807 KAR 5:001, to file with the Commission no later than September 23, 2005, the original and 8 copies of the following information, with a copy to all parties of record. 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. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. a. Provide the 1996 Agreement that Mr. Hale refers to at page 7 of his direct testimony
- b. State whether HWEA has submitted the 1996 Agreement to the Public Service Commission for its approval. If yes, state when HWEA submitted this

Agreement, identify the proceeding in which the Agreement was presented, and provide the Commission Order in which the Commission approved the Agreement.

2. Provide the following financial information for the fiscal year ending June 30, 2005 ("Fiscal Year 2005"):

- a. General Ledger.
- b. Trial Balance.
- c. The auditors adjusting journal entries.
- d. Financial Report

3. At page 3 in his Direct Testimony, Jennings Rowe McKinley III, states that HWEA used the 5 years of historical data and the operating budget for the fiscal year ending June 30, 2005 to project revenues and expenses for the 5-year period of fiscal years 2005 through 2009.

a. Provide all workpapers, show all calculations, and state all assumptions that HWEA used to develop its forecasted test-period financial information.

b. Provide all materials, to include all budget instructions, assumptions, directives, manuals, policies and procedures, timelines, and descriptions of budget procedures that HWEA used in the development of its 2005 Fiscal Year Budget.

c. Provide a comparison of HWEA's monthly operating budgets to the actual results, by account, for fiscal years 2004, and 2005. Include, for each yearly account variance that exceeds 5 percent, a detailed explanation for the variance.

4. For each outstanding revenue bond issuance related to HWEA's water and sewer divisions, provide the reason(s) for the issuance, the method for allocating the debt between the two divisions, and all supporting documentation for the allocation.

5. At page 7 in his Direct Testimony, Mr. McKinley, states: “The parity bond test requires HWEA must have debt service coverage of at least 130 percent on the maximum annual debt service for existing bonds and the proposed bonds in 12 consecutive months of the 18 months immediately preceding the issuance of the proposed bonds.”

a. Provide a complete copy of the bond ordinance(s) requiring HWEA to maintain a 1.3x debt service coverage for existing and new bonds. Highlight the section(s) of the bond ordinance(s) that require the 1.3x coverage.

b. State whether these bond ordinance(s) require HWEA to adjust operating revenues and/or expenses (e.g., eliminate depreciation expense) when calculating HWEA’s actual debt service coverage. List all adjustments required by the bond ordinances and provide references to the sections that require those adjustments.

c. Refer to “Report on Revenue Requirements, Costs of Service and Rates for Water Service” (“Cost-of-Service Study”) at 18. HWEA states that the water division is responsible for two existing Kentucky Infrastructure Authority loans. State whether the debt service payments for the KIA loans are included in the 1.3x parity coverage calculation required by the bond ordinances. If yes, identify the requirement in the bond ordinance that requires the inclusion of the KIA loan payments.

d. State debt service coverage requirements that the KIA loan agreements specify.

e. Provide for fiscal years 2003, 2004, and 2005, HWEA’s calculations showing that it is in compliance with 1.3x debt service requirement of the bond ordinances.

6. At page 7 of his Direct Testimony, Mr. McKinley refers to a “companion covenant” which requires a debt service coverage of 1.15 percent on a combined water and sewer utility basis.

a. Provide a complete copy of the bond ordinance(s) requiring HWEA to maintain a combined 1.15x debt service coverage for its water and sewer divisions. Highlight the section of the bond ordinance requiring the 1.15x coverage.

b. State whether these bond ordinance(s) require HWEA to adjust operating revenues and/or expenses (e.g., eliminate depreciation expense) when calculating HWEA’s actual debt service coverage. List all adjustments required by the bond ordinances and provide references to the sections that require those adjustments.

c. Provide for fiscal years 2003, 2004, and 2005, HWEA’s calculations showing that it is in compliance with the 1.15x debt service requirement of the bond ordinances.

7. a. At page 7 of his Direct Testimony, Mr. McKinley states that HWEA’s target coverage for the combined water and sewer divisions is 1.25x. State the basis for HWEA’s 1.25x coverage target.

b. At page 21 of the Cost-of-Service study there is a reference to a debt service coverage target of 1.35x. Provide an explanation for the apparent discrepancy between the target coverage in the direct testimony with the target coverage from the Cost-of-Service study.

8. According to a statement at page 21 of the Cost-of-Service Study, Mr. McKinley projects that HWEA will not meet its targeted debt service coverage of 1.25x until fiscal year 2007. Describe the effect, if any, of this failure on HWEA’s 2005 bond issuance of approximately \$27.18 million.

9. At page 18 of the Cost-of-Service study, Mr. McKinley states that the debt service on the proposed bonds is based on an average interest rate of 4 percent and a 20-year maturity schedule. At page 6 of his Direct Testimony, Mr. McKinley states that the bond issue was originally projected to \$25.75 million, but the amount of actual bonds issued for the construction projects was \$25.635 million plus an additional \$1.545 million for bond refunding.

a. Provide the actual annual interest rate and bond term of the bond issue.

b. Provide a comparison of the projected and the actual amortization schedules for the proposed bonds.

c. Identify the bonds that were refunded.

d. Calculate the effect that the actual debt service and the bond refunding will have on the Cost-of-Service study and HWEA's proposed increase in the rates charged to Christian County Water District ("CCWD"). State all assumptions, show all calculations, and provide all workpapers used to make this calculation.

10. Provide a revised Cost-of-Service study using the financial information for the fiscal year ending June 30, 2005 with adjustments for known and measurable changes. State all assumptions, show all calculations, and provide all workpapers used to prepare this revised cost-of-service study.

11. Provide all schedules in the revised Cost-of-Service study and all supporting schedules on a computer diskette in Microsoft Excel 97 format.

12. Refer to the Cost-of-Service Study, Table 14.

a. Provide a detailed breakdown of the \$351,600 expenses categorized as Distribution (All Other) shown at Line 9.

b. Provide a detailed breakdown of the \$98,700 expenses categorized as Technical Services and shown at Line 10.

c. Provide a detailed breakdown of the \$1,011,500 expenses categorized as Admin. & General (All Other) and shown at Line 13.

d. Provide a detailed explanation of the \$80,200 categorized as Payments to CCWD and shown at Line 15.

13. At page 25, the Cost-of-Service Study states that “[a] ratio of maximum hour to annual average day water use of 2.0 is used, based on demands experienced by the system.”

a. Describe how Mr. McKinley determined maximum hour water use. Show all calculations and state any assumptions that Mr. McKinley used.

b. Provide the measurements or data upon which Mr. McKinley relied to determine maximum hour water use.

c. Describe how Mr. McKinley determined annual average day water use. Show all calculations and state any assumptions that Mr. McKinley used.

d. Provide the measurements or data upon which Mr. McKinley relied to determine annual average day water use.

14. Refer to Cost-of-Service Study at 26 “Allocation of Operating Expenses.”

a. List the water line sizes that Mr. McKinley considers to be “small mains.”

b. List the water line sizes that Mr. McKinley considers to be “large mains.”

15. Refer to Cost-of-Service Study at 37, Table 19. The proposed wholesale rates decline with usage until more 90 cubic feet of water is used. Explain why CCWD’s

usage of more than 90 cubic feet of water will result in increasing, rather than declining costs to HWEA's system. Identify all portions of the AWWA Manual M1 that support this proposed rate design.

16. Describe how the methodology that HWEA used to establish the proposed wholesale rates is consistent with the methodology set forth in the AWWA Manual M1.

17. Refer to the Direct Testimony of Mr. McKinley at 12.

a. Describe the analysis that Mr. McKinley performed on the historical demands of HWEA system.

b. List the similar systems that Mr. McKinley relied upon to determine the allocation factors.

c. Describe in detail the method that Mr. McKinley used to determine the allocation factors.

18. Provide all demand studies of its system that HWEA has performed or commissioned. If no demand studies of HWEA's system have been performed, explained why not.

19. Provide all written testimony and presentations that Mr. McKinley has submitted to other utility regulatory commissions or rate-making bodies since January 1, 1990 in proceedings regarding the adjustment of water utility rates.



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Beth O'Donnell  
Executive Director  
Public Service Commission  
P. O. Box 615  
Frankfort, KY 40602

DATED: September 9, 2005

cc: Parties of Record

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