

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF SANDY)	
VALLEY WATER DISTRICT, SOUTHERN)	
WATER AND SEWER DISTRICT AND THE)	
CITY OF PIKEVILLE FOR APPROVAL OF)	CASE NO.
THE TRANSFER OF FACILITIES AND FOR)	2006-00327
THE ASSUMPTION OF DEBT BY)	
SOUTHERN WATER AND SEWER)	
DISTRICT)	

COMMISSION STAFF'S INITIAL DATA REQUEST

Pursuant to 807 KAR 5:001, Commission Staff requests that Sandy Valley Water District ("Sandy Valley"), Southern Water and Sewer District ("Southern District"), and the city of Pikeville ("Pikeville") (collectively "Applicants") file the original and 8 copies of the following information with the Commission. The information requested herein is due on or before October 20, 2006, with a copy to all parties of record. 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 information request. When applicable, the requested information should be provided for total company operations and jurisdictional operations, separately.

1. Sandy Valley's balance sheet dated July 31, 2006 shows a customer deposit liability balance of \$55,055.

a. Identify the amount of the customer deposit liability that will be transferred to Southern District. Include all workpapers, calculations, and assumptions used to calculate the allocation of the customer deposit liability to Southern District.

b. Identify the amount of the customer deposit liability that will be transferred to Pikeville. Include all workpapers, calculations, and assumptions used to calculate the allocation of the customer deposit liability to Pikeville.

c. If the customer deposit liabilities will not be transferred to either Sandy District or Pikeville, state whether these deposits will be refunded to customers prior to the proposed transfer.

2. Commission regulations require that interest be paid on customer deposits annually. Sandy Valley's annual report to the Kentucky Public Service Commission for the Calendar Year Ending December 31, 2004 indicates that it owed interest on deposits to its customers of \$5,085. Provide an updated amount of how much accrued interest on customer deposits Sandy Valley owes. Identify the entity that will be responsible for this liability and state when it will be paid to the customers.

3. Refer to Exhibit 5 of the Application. How did the Applicants arrive at the percentages of Sandy Valley's debt to be assigned to Pikeville and Southern District? Provide any workpapers, calculations, and assumptions showing how the percentages were derived.

4. Provide the proposed journal entry that Southern District will use to record the transfer.

5. Provide the proposed journal entry that Sandy Valley will use to record the transfer to Southern District and Pikeville. If all of the accounts reported on Sandy Valley's balance sheet will not be transferred to either Southern District or Pikeville, explain how they will be disposed of.

6. Explain why Sandy Valley has not filed its annual report for the calendar year ending December 31, 2005.

7. Refer to Exhibit 7 of the Applicants August 25, 2006 filing. For the year ending December 31, 2005, Southern District had Solid Waste Accounts Receivable in the amount of \$132,632 and Solid Waste Accounts Payable in the amount of \$489,514. The Notes to the Financial Statements state that Southern District remits the amount received from Solid Waste payments to the Floyd County Fiscal Court on a monthly basis. If this is the case, why is there such a large discrepancy between the Solid Waste Accounts Receivable and Accounts Payable?

8. Provide a breakdown of the number of Sandy Valley customers that reside in Floyd and Pike County.

9. Provide a copy of the most recent audit report for the city of Pikeville.

10. As stated in the Interlocal Cooperation Agreement, has Pikeville assumed responsibility for the daily operations of Sandy Valley's facilities?

11. Provide a copy of the current contract between Pikeville and Veolia Water North American Operating Services, LLC ("Veolia Water").

12. Identify and state the qualifications of the Veolia Water employees who currently manage and operate Pikeville's water system.

13. Identify and state the qualifications of the Southern District employees who currently manage and operate their water system.

14. Refer to the Applicants' response to the Commission's Order of July 31, 2006, Item 7 at 18.

a. Explain in detail why the management agreement between Southern District and Veolia Water was terminated.

b. Describe the impact the termination of the management agreement will have on the operations of Southern District.

c. Using the income statement for the water division contained in Item 5 of Applicants' response to Commission's Order of July 31, 2006 show the impact the termination of the management agreement will have on the revenues and expenses of Southern District.

15. Refer to the Applicants' response to the Commission's Order of July 31, 2006, Item 5 at 19.

a. Southern District's Water Division annual report shows a net loss for the year ending December 31, 2005 of \$945,467. Southern District has consistently shown large net losses on its annual reports filed with the Commission. Explain in detail why it would be in the public's interest, given these consistently large net losses, to transfer Sandy Valley's Floyd County facilities to Southern District.

b. Also, please explain the steps Southern District is taking, if any, to improve its financial condition.

c. Is Southern District currently in compliance with the debt service requirements of its bond holders? If Southern District is in compliance, provide a

detailed analysis including all workpapers, calculations, and assumptions showing that they are in compliance. If Southern District is not in compliance, provide the steps that Southern District will take to come into compliance.

16. In Item 2 of Applicants' response to the Commission's Order of July 31, 2006, is an income statement for the 6 months period ending June 30, 2006 for the Southern District's water division; however, in Item 3 of that same response is the income statement for the 7 month period ending July 31, 2006 for Sandy Valley. Provide an income statement for Southern District's water division for the same 7 month period ending July 31, 2006.

17. Refer to Applicants' response to the Commission's Order of July 31, 2006, Item 3, Sandy Valley's income statement for the 7 month period ending July 31, 2006.

a. Provide a breakdown of the items that are included in revenues of \$580,405. In the breakdown, separately identify customer deposits, tap-on fees, and garbage collections.

b. Given that Sandy Valley is only a collection agency for the "garbage billing," explain in detail why the amounts collected and remitted would be recorded as operating revenues and expenses of the District.

18. In its explanation of the Southern Transaction at (d), Applicants state that, "[T]he transfer is in the public interest in that Southern will be able to provide combined water and wastewater services to a large number of customers, which should provide economies of scale and offset potential rate increases." Provide an analysis and/or study that will support the above statement.

19. In its explanation of the Southern Transaction at (e), Applicants state that, “[T]he financing will not impair the operations of Southern as the additional revenue from Sandy Valley customers will offset the cost of additional debt service.”

a. Provide a detailed income statement showing the combined operations of Southern District and Sandy Valley. Include all workpapers, calculations, and assumptions used to combine the operations.

b. Using Applicants’ response to Item 19(a), show if the combined operations will be in compliance with the bond requirements. Exclude garbage collections and remittance, tap-on fees, and customer deposits in the calculations. Include all workpapers, calculations and assumptions used in the response.

c. Provide an analysis and/or study that will support the above statement.

20. Refer to Exhibit 1 of the Application, the Interlocal Cooperation Agreement at 1. Applicants state, “[t]o further assure that the Project has the lowest possible customer rates to provide for appropriate management control of the wastewater system, it is reasonable to have a single utility own and operate both water and wastewater services.”

a. Provide an analysis, study or explanation that will support the above statement.

b. Explain why single control of the wastewater and water systems result in lowest possible rates to the consumer.

21. a. Describe the internal standards and policies of Pikeville regarding service reliability and quality of its water utility operations.


b. Provide all written standards or policies related to service quality and reliability of water utility operations.

22. a. Describe the internal standards and policies of Southern District regarding service reliability and quality of its water utility operations.

b. Provide all written standards or policies related to service quality and reliability of water utility operations.

23. Provide in table format an analysis of the number and type of consumer complaints that Pikeville received during the period from 2000 to 2005 and of how such complaints were resolved.

24. Provide in table format an analysis of the number and type of consumer complaints that Southern District received during the period from 2000 to 2005 and of how such complaints were resolved.


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

Dated: October 6, 2006

cc: Parties of Record