

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED)	
ADJUSTMENT OF THE WHOLESALE)	
WATER SERVICE RATES OF)	CASE NO. 2017-00199
CENTRAL CITY MUNICIPAL WATER)	
& SEWER)	

**SECOND REQUEST FOR INFORMATION TO CENTRAL CITY FILED
BY MUHLENBERG COUNTY WATER DISTRICT AND
MUHLENBERG COUNTY WATER DISTRICT NO. 3**

Pursuant to the Public Service Commission’s (“Commission”) Order of June 22, 2017, Muhlenberg County Water District (“MCWD”) and Muhlenberg County Water District No. 3 (“MCWD3”) respectfully submit the following requests for information to the City of Central City, Kentucky (“Central City”), to be answered no later than August 23, 2017.

Instructions

1. As used herein, “Documents” include all correspondence, memoranda, notes, email, maps, drawings, surveys or other written or recorded materials, whether external or internal, of every kind or description in the possession of, or accessible to, Central City, its witnesses, or its counsel.
2. Please identify by name, title, position, and responsibility the person or persons answering each of these data requests.

3. These requests shall be deemed continuing so as to require further and supplemental responses if Central City receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted herein.

4. To the extent that the specific document, work paper, or information as requested does not exist, but a similar document, work paper, or information does exist, provide the similar document, work paper, or information.

5. To the extent that any request may be answered by a computer printout, spreadsheet, or other form of electronic media, please identify each variable contained in the document or file that would not be self-evident to a person not familiar with the document or file.

6. If Central City objects to any request on the ground that the requested information is proprietary in nature, or for any other reason, please notify the undersigned counsel as soon as possible.

7. For any document withheld on the ground of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown or explained; and the nature and legal basis for the privilege asserted.

8. In the event any document requested has been destroyed or transferred beyond the control of Central City, its counsel, or its witnesses, state: the identity

of the person by whom it was destroyed or transferred and the person authorizing the destruction or transfer; the time, place and method of destruction or transfer; and the reason(s) for its destruction or transfer. If such a document was destroyed or transferred by reason of a document retention policy, describe in detail the document retention policy.

9. If a document responsive to a request is a matter of public record, please produce a copy of the document rather than a reference to the record where the document is located.

Requests for Information

1. Provide a copy of each cost-of-service study that Central City has performed or commissioned since 2000 to determine the cost of providing wholesale water service to MCWD and/or MCWD3. For each study, identify the preparer and provide his or her curriculum vitae.

2. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 5. State whether it is Mr. McGhee's position that his "Rate Analysis" calculates the actual cost that Central City incurs to provide service to MCWD and MCWD3 or merely calculates the percentage that Central City's existing wholesale and retail rates must be increased to produce sufficient revenues to meet operating expenses, depreciation, and debt service requirements for the Fiscal Year ending ("FYE") June 30, 2016. Explain.

3. List each case in which Mr. McGhee has presented testimony to the Commission in either written or oral format.

4. List each Commission proceeding in which Mr. McGhee has sponsored a cost-of-service study. For each listed proceeding, provide a copy of the sponsored study.

5. Using Central City's cost data for the FYE June 30, 2016, state Central City's cost to provide water service to MCWD. Show all calculations and state all assumptions used to derive this cost.

6. Using Central City's cost data for the FYE June 30, 2016, state Central City's cost to provide water service to MCWD3. Show all calculations and state all assumptions used to derive this cost.

7. Refer to Central City's Response to Commission Staff's First Request for Information, Item 16. Paragraph 11 of each water purchase contract provides that changes in the wholesale rate to each water district shall be "based upon the Seller's actual cost of providing water service." Explain how Mr. McGhee's "Rate Analysis" satisfies this contractual requirement.

8. Please confirm that in the most recent sanitary survey of Central City's water system, which was completed on April 27, 2017, the Kentucky Division of Water found that Central City does not calculate its cost to produce water.

9. Refer to Central City’s Response to Commission Staff’s First Request for Information, Item 33, Minutes of April 10, 2017 Meeting. These meeting minutes indicate that Daniel Pate, City Auditor, calculated the 21 percent rate increase after the results of the annual water audit.

(a) Provide Mr. Pate’s calculations, including all workpapers, that served as a basis for the 21 percent rate increase.

(b) Identify all persons who assisted Mr. Pate in making these calculations.

(c) Describe Mr. McGhee’s role in the preparation of Mr. Pate’s calculations.

10. Refer to Central City’s Response to Commission Staff’s First Request for Information, Item 33. The Minutes of the April 10, 2017 meeting state: “The districts requested that the water commissioners adopt the rate increase.”

(a) Identify the person who made the request on behalf of MCWD and MCWD3.

(b) Explain the basis for this statement in light of the request of MCWD and MCWD3 for Commission review of the proposed rate adjustment.

11. Using Central City’s electric power consumption for the FYE June 30, 2016, state the monetary effect of the recent adjustment in the electric rates of

Kentucky Utilities Company upon Central City's purchased power costs. Show the calculations and state all assumptions used to derive the response.

12. At page 4, lines 20-22, Mr. McGhee states in his testimony: "Central City has noticed declining consumption trends over the past several years since upgrading the water treatment plant. Both water districts reported reduced quantities of water purchases from in their 2015 annual reports, as compared to 2012."

(a) State whether Mr. McGhee agrees that in 2012 Western Kentucky experienced a severe drought.

(b) State whether Mr. McGhee agrees that, in the event of a severe drought, a water system is likely to experience much greater water usage than under normal weather conditions. If not, explain why not.

(c) Explain why, in light of the drought conditions existing in 2012, Mr. McGhee chose 2012 usage to support his claim of declining water purchases by MCWD and MCWD3.

(d) State whether Mr. McGhee considered the effects of weather when developing his comments regarding the consumption trends of MCWD and MCWD3.

13. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 8.

(a) Confirm that the 60/40 allocation factor is an estimation of cost allocation and is not based on empirical or documentary evidence.

(b) In its Response to Item 8, Central City states: “We have estimated that City employees that jointly work on water and sewer operations spend approximately 60 percent of their time on water operations.”

(i) Identify the persons who made this estimate and their positions with Central City.

(ii) Describe how the estimate was derived. List all factors considered.

(c) Explain why allocating joint sewer/water costs based upon revenues is appropriate.

(d) Explain why allocating joint sewer/water costs based upon expenses is appropriate.

(e) Of Central City’s total water and sewer customers, 53 percent (2,058) are water customers and 47 percent (1,819) are sewer customers. Explain why general and administrative expenses should not be allocated based upon each operation’s number of customers. Explain why Central City elected not to use a 53/47 allocation factor.

14. Explain why, if an employee is expressly assigned to only one division and performs no work for the other division, the actual cost of payroll

taxes and employee benefits, such as health and dental insurance, is not allocated to the employee's assigned division rather than being allocated on a 60/40 basis between the divisions.

15. Refer to Central City's Response to Commission Staff's First Request for Information, Item 8. Central City states that the Water and Sewer office manager "ensures that appropriate expenses are recorded in the appropriate Water and Sewer accounts." Describe the procedures and methods that Central City has in place to ensure expenses are recorded in appropriate accounts.

16. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 34.

(a) Describe the basis for Mr. Rhoades' estimate that Water and Sewer Commission employees who work jointly on water and sewer operations spend approximately 60 percent of their time on water operations.

(b) Describe the recordkeeping systems that Central City uses to record work orders and the amount of time that an employee spends on a particular project. Explain why these systems are not used to allocate labor costs between water and sewer operations and an estimate is used instead.

(c) State whether the recordkeeping systems described in Item 16(b) are used to directly allocate any employee time to water or sewer operations. Explain.

(d) State whether Central City allocates the time of an employee performing work for both water and sewer operations on a 60/40 basis regardless of the employee's actual work time, the nature of the work, or the operation benefitting from the work.

(e) For all employees identified in Attachment WD34 whose positions are allocated partially to water operations, provide the actual amount of monthly time spent working on water and sewer operations for FYE 2014, FYE 2015, and FYE 2016.

17. Explain why the commissioners' salaries should not be allocated equally between the two operations.

18. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 14.

(a) Explain how Central City produced 957,624,516 gallons of water in FYE 2015, but sold 1,056,737,000 gallons in the same year.

(b) Explain how Central City produced 906,100,676 gallons of water in FYE 2016, but sold 1,013,748,400 gallons in the same year.

19. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Items 14 and 20. Explain why the amount of water purchases for MCWD3 that are set forth in these responses are not at the same levels as reported in MCWD3's annual reports for the same periods.

20. In its Response to MCWD and MCWD3's First Request for Information, Item 20, Central City reports an annual level of non-revenue water for the period from 2014 – 2016 that does not exceed three percent. At Item 4C of Central City's Response to MCWD and MCWD3's First Request for Information, at Page S/A 3, Central City reported its annual water loss at 28 percent as of April 2012. The Kentucky Water Resource Information System currently reports an estimated annual water loss of six percent for Central City. Explain the inconsistencies.

21. Please confirm that in the most recent sanitary survey of Central City's water system, which was completed on April 27, 2017, the Kentucky Division of Water found that Central City does not track water loss on a monthly basis nor maintain a log of water main breaks.

22. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 15. The attachment estimates that Central City provides 758,000 gallons annually of unmetered water service to municipal buildings, fire protection services, swimming pools, and water parks.

(a) Describe how the estimates were derived.

(b) State whether the Water and Sewer Commission assesses a charge to the other city departments for this unmetered water usage.

(c) If a charge is assessed for this usage,

- (i) State the rate at which the usage is assessed;
- (ii) State the total amount of revenue that the Water and Sewer Commission received from this usage for the FYE June 30, 2016; and
- (iii) If Central City does charge city departments for their unmetered water usage, explain Central City's Response to Commission Staff's First Request for Information, Item 7, which provides that no transactions were entered into Central City's General Ledger to record transactions with any municipal departments. If Central City does not charge city departments for their unmetered water usage, explain whether Central City considers the unmetered water as non-revenue water and included it in the Central City's Response to MCWD and MCWD3's First Request for Information, Item 20. If Central City does not consider the unmetered water as non-revenue water, explain why not.
- (d) State whether this usage is reflected in Central City's retail sales that are reported in Central City's Response to MCWD and MCWD3's First Request for Information, Items 14 and 20.

23. How often does Central City flush its lines? State the volume of water used each time Central City flushes its lines.

24. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 17.

(a) Provide the square footage of the office space used by the water and sewer system.

(b) For each City department or entity that rents space in the public works building or City Hall, state the square footage of the rented space and the monthly rental payment for the space.

25. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 20.

(a) Refer to Attachment WD20. Explain why many of the monthly non-revenue percentages are negative.

(b) Central City states that it "will attempt to review additional information in order to confirm the information provided." Explain why Central City believes this information requires confirmation.

26. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Items 14 and 20.

(a) Reconcile the total monthly production gallons identified in Attachment WD20 with the monthly gallons of treated water identified in Central City's Response to MCWD and MCWD3's First Request for Information, Item 14, Attachment WD14d.

(b) Explain why the responses use a different number of monthly gallons of water produced.

(c) Identify any other calculations that may have discrepancies because of the different water production volumes used.

27. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 19.

(a) Describe how Central City measures finished water as it leaves its water treatment plant.

(b) What size meter does Central City use to measure finished water as it leaves its water treatment plant?

(c) Identify the last three dates Central City calibrated the meter referenced in Item 27(b).

28. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 27. Explain why Central City has not performed a depreciation study.

29. Describe how Central City determined a service life of 50 years for its water distribution and transmission mains. Provide all studies, reports, and analyses upon which Central City relied for its determination.

30. Explain why, when calculating Central City's revenue requirement, depreciation expense should be included for facilities or portions of facilities that were financed through federal or state grant funds. Identify the federal or state

statutes or court decisions that require the consideration of such expense when establishing Central City's revenue requirement.

31. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 28. Provide all studies, reports, and analyses upon which Central City relied in determining depreciation rates.

32. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 30. Identify the depreciable assets of Central City that are not allocated to MCWD and MCWD3.

33. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 43. Identify for which assets MCWD and MCWD3 are allocated both a portion of the depreciation and debt service.

34. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 33. Explain how 2-inch water mains are being used to serve MCWD and MCWD3.

35. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Item 33. Explain how 4-inch water mains are being used to serve MCWD and MCWD3.

36. Refer to Central City's Response to MCWD and MCWD3's First Request for Information, Items 12 and 13. The 2017 Ordinance eliminates the "Minimum Bill" Charge and establishes a "Monthly User Charge." Unlike the

Minimum Bill, which included the use of 1,000 gallons for “Inside City” customers and 2,000 gallons for “Outside City” customers, the Monthly User Charge does not provide for any water usage. Explain why the City is instituting this rate design change.

37. If the rate increase is necessary, explain why Central City has not yet implemented a rate increase to retail customers.

38. How often does Central City test and change out retail meters?

39. Refer to Testimony of Michael W. McGhee, Table A. Describe how Debt Repayment of \$781,513 was derived. Show all calculations and state all assumptions used.

40. Refer to Central City’s Response to MCWD and MCWD3’s First Request for Information, Item 38(d).

(a) Confirm that the proceeds of the 2013 Kentucky Rural Water Finance Corporation loan were used to refund and refinance outstanding City of Central City Water and Sewer System Revenue Bonds, Series 1989.

(b) Confirm that the proceeds of the City of Central City Water and Sewer System Revenue Bonds, Series 1989, were used by Central City “to make improvements and extensions to the City’s sewer system.”

(c) State whether Central City agrees that, given the proceeds of the Central City Water and Sewer System Revenue Bonds, Series 1989, were used

for its sewer operations, debt service requirements related to the 2013 Kentucky Rural Water Finance Corporation loan should not be allocated to water operations.

If no, explain why not.

41. Refer to the Testimony of Michael W. McGhee, Table A. For each expense category listed for the adjusted test period, allocate the expense to the following functional components: pumping and treatment, transmission and distribution, and customer costs.

42. Refer to Audited Financial Statements and Supplemental Schedules For Year-Ended June 30, 2016 and Independent Auditor's Report at page 19.

a. Of the \$142,601 of employer contributions to the County Employees' Retirement System that Central City made in FYE June 30, 2016, state that amount that was allocated to water operations and describe how the allocation was made.

b. Explain why the amount allocated to water operations should not be used to determine Central City's revenue requirement rather than \$139,001.

43. Provide a copy of all invoices for municipal insurance and workers compensation insurance coverage for FYE June 30, 2016.

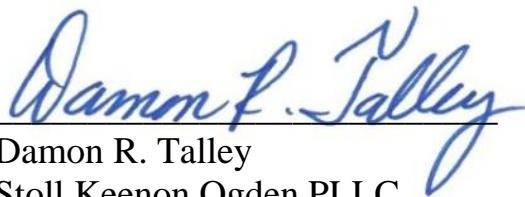
44. Identify the number of electric bills that Kentucky Utilities Company issues monthly to Central City for its water and sewer operations. For each

location that is metered, state the location, the operation (water or sewer) that is served, and the date and amount of each bill paid in the FYE June 30, 2016.

45. Refer to Testimony of Michael W. McGhee, Tables A and B. Describe the term “Short-Lived Asset Replacement.”

Dated: August 11, 2017

Respectfully submitted,



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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct electronic copy of the foregoing Second Request for Information is a true and accurate copy of the same document being filed in paper medium; that the electronic filing has been transmitted to the Commission on August 11, 2017; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original paper medium of the Second Request for Information will be delivered to the Commission on or before August 15, 2017.

A handwritten signature in blue ink that reads "Damon P. Talley". The signature is written in a cursive style with a horizontal line underneath it.

*Counsel for Muhlenberg County Water
District and Muhlenberg County Water
District No. 3*