

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED)
ADJUSTMENT OF THE WHOLESALE) CASE NO. 2017-00417
WATER SERVICE RATES OF)
LEBANON WATER WORKS)

RESPONSE OF
LEBANON WATER WORKS COMPANY
TO
MARION COUNTY WATER DISTRICT'S
SUPPLEMENTAL REQUESTS FOR INFORMATION
DATED APRIL 23, 2018

FILED: May 3, 2018

COMMONWEALTH OF KENTUCKY

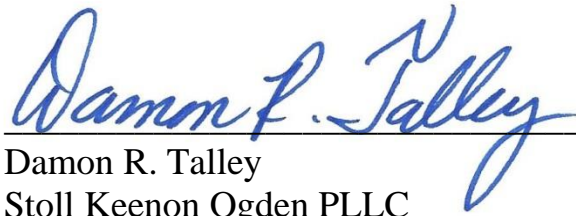
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**RESPONSE OF LEBANON WATER WORKS COMPANY TO
MARION COUNTY WATER DISTRICT'S
SUPPLEMENTAL REQUESTS FOR INFORMATION**

Comes the Lebanon Water Works Company, for its Response to the Marion County Water District's Supplemental Requests for Information, and states as shown on the following pages.



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BEFORE THE PUBLIC SERVICE COMMISSION

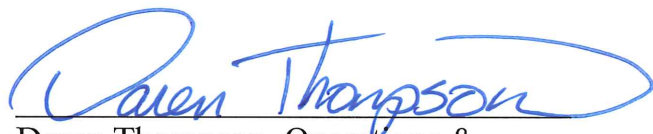
In the Matter of:

ELECTRONIC PROPOSED)
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CERTIFICATION OF RESPONSE TO
MARION COUNTY WATER DISTRICT'S
SUPPLEMENTAL REQUESTS FOR INFORMATION

This is to certify that I have supervised the preparation of Lebanon Water Works Company's Response to the Marion County Water District's Supplemental Requests for Information. The response submitted on behalf of Lebanon Water Works Company is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Date: 5/3/2018


Daren Thompson, Operations &
Management Superintendent
Lebanon Water Works Company

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Supplemental Request for Information

Question No. 1

Responding Witness: Tyler Fallin

- Q-1. Please refer to the Company's Response No. 7 to Marion District's First Set of Information Requests. Please identify the accounting standards which apply to the Company's accounting and ratemaking records.
- A-1. The Company's financial statements are presented in accordance with the provisions of the Governmental Accounting Standards Board ("GASB"). The Company reports on the accrual basis of accounting.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Supplemental Request for Information

Question No. 2

Responding Witness: Daren Thompson

- Q-2. Please refer to the Company's Response No. 9 to Marion District's First Set of Information Requests. Please provide a copy of the Company's current Capitalization Policy.
- A-2. The Company's current Capitalization Policy is attached as **Exhibit 2-1**. A copy was also provided by the Company in its March 7, 2018 response to Question No. 2B of the Commission Staff's First Request for Information and attached as **Exhibit 30-2** in its April 12, 2018 response to Question No. 30 of Marion District's Request for Information.

EXHIBIT 2-1

Capitalization Policy

The policy of the Lebanon Water Works Company, Inc. is to capitalize assets when the useful life is greater than one year and the acquisition cost is at least \$2,000.

Purchased or constructed capital assets and infrastructure are reported at acquisition or construction cost when placed in service.

Contributed assets, such as Developer Contributions or other system components contributed by a developer, are to be recorded at the fair market value at the date when placed in service.

Capital assets are capitalized and depreciated on the straight-line basis over their estimated useful lives as indicated below.

Asset	Useful Life (expressed in years)
Land	No depr
Land - Improvements (fencing, blacktop, sidewalks)	20
Buildings	40
Buildings - Improvements	20
Distribution - mains	40
Distribution - hydrants, tanks	40
Distribution - meters	15
WTP Equipment (lab, other)	7
Grounds Equipment (mowers, tractors, attachments)	7
Vehicles	5
Heavy Construction Equipment	7
Furniture, Office Equipment	10
Computer Hardware/Software	5
Communications Equipment (radio/telephone)	7

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Supplemental Request for Information

Question No. 3

Responding Witness: Daren Thompson

Q-3. Please state the Company's variable cost of production of water at the following quantities:

- A. 1,700,000 Gallons Per Day ("GPD");
- B. 2,000,000 GPD;
- C. 2,300,000 GPD;
- D. 2,600,000 GPD; and
- E. 2,900,000 GPD.

A-3. The Company's only variable costs of water production are chemicals and electricity. At the quantities of water production shown above, these costs are linear. Within these ranges of production, the approximate variable cost (marginal cost of producing the next 1,000 gallons above the quantity stated) is \$0.27 per 1,000 gallons.

In making the electricity cost component of these calculations, it was assumed that the Company's electric demand charges remain constant. Only the charge per kwh was included.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Supplemental Request for Information

Question No. 4

Responding Witness: Daren Thompson

- Q-4. Please refer to the Company's Response No. 15 to Marion District's First Request for Information. Each bill provided from the City of Campbellsville includes a penalty amount. Why is there a penalty being charged to the Company?
- A-4. A penalty was not charged to the Company. Like most water bills, the bills provided from the City of Campbellsville to the Company include a calculated penalty amount if the bill is not paid by a certain date. The Company has timely paid its bills and has never incurred a penalty expense from the City of Campbellsville.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Supplemental Request for Information

Question No. 5

Responding Witness: Daren Thompson

Q-5. Please refer to the Company's Responses 18 and 19 to Marion District's First Request for Information:

- A. Please state if the 2003 IH 4200 truck listed in Response 18 is the same 2003 IH 4200 truck listed in Response 19.
- B. If the response to (a) is yes, please explain how the truck depreciated \$17,000 in three years.
- C. If the response to (a) is no, please explain why the Company would need a 2003 IH 4200 truck and the 1993 IH dump truck transferred to the Company by the City.

A-5.

- A. Yes, the 2003 IH 4200 truck listed in Response 18 is the same 2003 IH 4200 truck listed in Response 19.
- B. The 2003 IH 4200 truck became unreliable when hauling sludge from the Water Treatment Plant to the Wastewater Treatment Plant. It needed a new engine and other substantial repairs. Although the Company had previously made several repairs to the truck, it determined that it was not cost effective to replace the engine and

complete other repairs, so the Company sold the truck as surplus property.

C. Not applicable.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Supplemental Request for Information

Question No. 6

Responding Witness: Daren Thompson

Q-6. Please refer to the Company's Response No. 30 to Marion District's First Request for Information. Please provide a list of each of the Company's policies.

A-6. A list of the Company's policies is attached as **Exhibit 6-1**.

EXHIBIT 6-1

Lebanon Water Works Company Policies

Backflow Prevention @ Homeowners/New Construction

Backflow Prevention Testing @ WTP

Best Management Practice Plan for Plant Process Wastewater @ WTP

Capitalization Policy

Cross-Connection Control

Disconnect Policy

Emergency Response Plan

Employee Policies and Benefits

Fire Hydrant Ordinance

Floodplain Restrictions

Groundwater Protection Plan

Identity Theft Prevention Program

Irrigation Meter Policy

Leak Adjustment Policy

Lockout/Tagout Program (Electrical Safety)

Meter Cover Policy

Mobile Home Courts

Non-Discrimination Statement

Operation and Maintenance Manual - Dist

Operation and Maintenance Manual - WTP

Operations and Management Plan

Vulnerability Assessment Plan

Water Shortage Ordinance

Watermain Extension Policy

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Supplemental Request for Information

Question No. 7

Responding Witness: Daren Thompson

Q-7. Please refer to the Company's Response No. 38 to Marion District's First Request for Information. Please identify how many bids were received for the Water Treatment Plant Filter Rehab Project.

A-7. Five firms obtained plans and specifications for the Water Treatment Plant

Filter Rehab Project. Two firms submitted bids:

- S4 Water Sales & Service LLC: \$61,968.44
- Tech Coat, Inc.: \$85,629.00

The Company awarded the contract for the Project to the low bidder, S4 Water Sales & Service LLC.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Supplemental Request for Information

Question No. 8

Responding Witness: Daren Thompson

Q-8. Please state whether the Company provides any water free of charge to the City.

A-8. The Company provided approximately 3,700,000 cubic feet of free water to the City of Lebanon during the test year. In exchange, the City of Lebanon treated the sludge from the Water Treatment Plant free of charge. Further, the City of Lebanon allows the Company to borrow City equipment whenever needed, which the Company frequently does.

In addition, the City of Lebanon has issued tax exempt bonds, which were purchased by Rural Development (or its predecessors), for the benefit of the Company. It has refinanced these bonds at lower interest rates to benefit the Company and its customers. The City of Lebanon has also obtained three (3) low-interest loans from the Kentucky Infrastructure Authority ("KIA") for the benefit of the Company. All of these bond proceeds and loan funds were used by the Company to construct infrastructure improvement projects which benefited all the Company's customers, including Marion District.

Recently, the City of Lebanon obtained a Conditional Commitment Letter from KIA for a \$2,641,000 low-interest loan (of which \$1,000,000 will be forgiven). These proceeds will be used by the Company to replace aging infrastructure.

The Company is ineligible to issue tax exempt bonds or to obtain low-interest loans from KIA on its own behalf. It is vital that the Company maintain a close working relationship with the City to ensure that the City will continue to serve as a financing conduit for the Company. The benefits the Company has received and will continue to receive from the City far outweigh the Company's cost of providing free water to the City.

LEBANON WATER WORKS COMPANY

CASE NO. 2017-00417

Response to Marion District's Supplemental Request for Information

Question No. 9

Responding Witnesses: Daren Thompson

Q-9. Please provide the Company's water loss percentage for each of the past five years.

A-9. The Company's water loss percentage for the past five years is shown in the following chart:

Fiscal Year	Unaccounted for Water Loss	Non-Revenue Water ("NRW")
2013	7.0%	12.7%
2014	11.6%	16.5%
2015	9.3%	15.6%
2016	6.2%	12.6%
2017	12.3%	17.4%

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that Lebanon Water Works Company's May 3, 2018 electronic filing of this Response 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 May 3, 2018; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original and one copy in paper medium of this Response will be delivered to the Commission on or before May 7, 2018.


Damon R. Talley