

Case No. 2019-00080
City of Pikeville Wholesale Water Service Rates
Responses to Commission Staff's Third Request For Information

1. Refer to Pikeville's response to Mountain Water District's (Mountain District) First Request for Information (Mountain District's First Request), Item 9. Explain the numerical entries in the sixth column of the Master Water Readings, second row under the amount column, "Don't Bill" cell.

Response: The amount under the "Don't Bill" is an internal submeter reading for purposes of leak detection.

WITNESS: Grondall Potter

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2. Refer to Pikeville's response to Mountain District's First Request, Item 69. The response does not appear to be the appropriate response to this request. The request was for invoices of Utility Management Group (UMG); however, the response contains the Master Water Readings previously supplied in response to Item 9. Provide the appropriate information requested in Mountain District's original request for Item 69.

Response: The wrong attachment was originally provided in response to Item 69 of MWD's request for information. Pikeville supplemented the record with the requested information on July 31, 2019, after the date on which this request was made. Please see that supplemental response.

WITNESS: Tonya Taylor

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3. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 2, Audited Financial Statements for the Year Ended June 30, 2017, page 43, and to Pikeville's responses to Commission Staff's Second Request for Information (Staff's Second Request), Item 16.c, Revised Cost of Service Study (Revised COSS), Tab I-WT-Debt. The table below compares the water division's annual debt service payments as reported in the 2017 Financial Audit to the annual payments used in the Revised COSS. Provide a detailed explanation for each difference noted.

	Fiscal Year 2017 Audit, Page 43			COS Tab I-Wt-Debt	Difference
	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Debt Service</u>	
2017		\$	\$		
	\$ 130,000	75,651	205,651	\$ 205,351	\$ 301
2018	173,800	72,614	246,414	252,508	(6,094)
2019	179,600	69,032	248,632	314,757	(66,125)
	<u>\$ 483,400</u>	<u>\$ 217,297</u>	<u>\$ 700,697</u>	<u>\$ 722,616</u>	<u>\$ (71,919)</u>

Response: The differences are due to the following:

1. The rate study includes debt service for debt (2018 loan) that was done after Fiscal Year 2017 audit. It is not included in the audit numbers.
2. For 2017, 2012C interest amount of \$18,363 included \$9,031.25 instead of \$8,031.25 for one of the interest payments for the year.
3. Timing each year of the 07/01 interest payment for Series 2012C was included in the current fiscal years for the audit and previous fiscal years for the rate study. Difference of \$1,300 2017, \$1,350 2018 and \$1,400 2019.

WITNESS: Tonya Taylor

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4. In its response to Item 5.c of the Commission's June 10, 2019 Order, Pikeville explained that its General Obligation 2012C "was a refinancing of existing debt to lower debt service requirements and interest." Pikeville submitted a copy of its Bond Ordinance 0-2012-11 in its responses to the Commission's June 10, 2019 Order, Item 5.a. For each outstanding debt listed on pages 1-2 of the Bond Ordinance 0-2012-11 that was refinanced with the General Obligation 2012C, provide a detailed explanation of the project(s) each debt originally financed and a detailed explanation as to how each capital project improved or impacted Pikeville's ability to provide wholesale water service to Mountain District.

Response: The only debt that was refinanced with the General Obligation 2012C relates to the water treatment plant and waterworks improvements. General Obligation 2012C refinanced a debt incurred in 2004 that refinanced debt from 1985. The following descriptions were provided in the 1985 ordinances: "Whereas the portion of the system constituting the present water treatment plant facilities and appurtenances is inadequate to service the present and future needs"; "in order to aid in financing the construction and installation of major improvements and additions to such water treatment plant facilities and appurtenances"; and "proceeds thereof to be applied to the construction and installation of certain waterworks improvements and additions (the 'Project')." Pikeville has not been able to locate additional information on these specific projects.

WITNESS: Tonya Taylor

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5. In its response to Item 5.c of the Commission's June 10, 2019, Order, Pikeville explained that its United States Department of Agriculture (USDA) Series 2016A Bonds were used to construct water and sewer services. According to Bond Ordinance 0- 2015-16 at page 2, the total principal amount of the USDA Series 2016A Bonds was \$3,166,000.

a. Provide a breakdown of the USDA 2016A bonds between the amounts used to fund the sewer capital projects and the water capital projects.

b. Provide an amortization schedule for the debt used to fund the water capital project(s), if different from the amortization schedule that was provided in response to Item 5.b. of the Commission's June 10, 2019 Order.

c. Provide a detailed explanation of how the annual debt service payments are allocated between the water and sewer divisions.

d. Provide a detailed explanation of how the construction of the water service to the Kentucky Enterprise Industrial Park improved or impacted Pikeville's ability to provide wholesale water service to Mountain District.

Response:

a. See chart below.

MARION'S BRANCH WATER SEWER INITIAL CONTRACT AMOUNT			ROUNDED
WATER CONTRACTS AMOUNT	3,813,633.00	80.40%	80.00%
SEWER CONTRACT AMOUNT	929,862.69	19.60%	20.00%
TOTAL	4,743,495.69		

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- b. See attached amortization schedule.
- c. Annual debt service is split 80% water and 20% sewer based upon initial contract amounts for construction. Refer to Item 5a above.
- d. Mountain Water District's demands on the southern section of Pikeville's distribution system were taken into account during the design and construction of the project. The project provided for a master meter vault, regulator station, pump station, and storage tank to supplement MWD's water requirements in the Shelby Valley area in Pike County. The system was utilized (on 08/07/18 through 08/15/18, approximately 1,687,900 gallons), to assist Mountain Water District in keeping their customers in service when MWD had a river crossing go out of service in the Indian Hills area.

WITNESS: Tonya Taylor; Grondall Potter

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PSC 3-5b

Amortization Schedule

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Project Name	Marion's Branch Water Sewer								
Funding Source	Fund 335 80% 210-Water, 20% 310-Sewer								
Date of Bond	04/21/16								
Original Principal	3,166,000								
Reserve Account	\$135,600 \$13,560/year,								
Short Lived Asset Reserve	\$46,200 (3,850/month)								
					Principal			Interest	
Payment Amount	Interest	Principal	Principal Balance	Due Date	Sewer	Water		Sewer	Water
13,856.67	13,856.67	0.00	3,166,000.00	7/1/2016	2,771.33	11,085.34		0.00	0.00
35,617.50	35,617.50	0.00	3,166,000.00	1/1/2017	7,123.50	28,494.00		0.00	0.00
35,617.50	35,617.50	0.00	3,166,000.00	7/1/2017	7,123.50	28,494.00		0.00	0.00
84,117.50	35,617.50	48,500.00	3,117,500.00	1/1/2018	7,123.50	28,494.00		9,700.00	38,800.00
35,071.88	35,071.88	0.00	3,117,500.00	7/1/2018	7,014.38	28,057.50		0.00	0.00
84,571.88	35,071.88	49,500.00	3,068,000.00	1/1/2019	7,014.38	28,057.50		9,900.00	39,600.00
34,515.00	34,515.00	0.00	3,068,000.00	7/1/2019	6,903.00	27,612.00		0.00	0.00
85,515.00	34,515.00	51,000.00	3,017,000.00	1/1/2020	6,903.00	27,612.00		10,200.00	40,800.00
33,941.25	33,941.25	0.00	3,017,000.00	7/1/2020	6,788.25	27,153.00		0.00	0.00
86,441.25	33,941.25	52,500.00	2,964,500.00	1/1/2021	6,788.25	27,153.00		10,500.00	42,000.00
33,350.63	33,350.63	0.00	2,964,500.00	7/1/2021	6,670.13	26,680.50		0.00	0.00
87,350.63	33,350.63	54,000.00	2,910,500.00	1/1/2022	6,670.13	26,680.50		10,800.00	43,200.00
32,743.13	32,743.13	0.00	2,910,500.00	7/1/2022	6,548.63	26,194.50		0.00	0.00
88,243.13	32,743.13	55,500.00	2,855,000.00	1/1/2023	6,548.63	26,194.50		11,100.00	44,400.00
32,118.75	32,118.75	0.00	2,855,000.00	7/1/2023	6,423.75	25,695.00		0.00	0.00
89,118.75	32,118.75	57,000.00	2,798,000.00	1/1/2024	6,423.75	25,695.00		11,400.00	45,600.00
31,477.50	31,477.50	0.00	2,798,000.00	7/1/2024	6,295.50	25,182.00		0.00	0.00
89,977.50	31,477.50	58,500.00	2,739,500.00	1/1/2025	6,295.50	25,182.00		11,700.00	46,800.00
30,819.38	30,819.38	0.00	2,739,500.00	7/1/2025	6,163.88	24,655.50		0.00	0.00
90,819.38	30,819.38	60,000.00	2,679,500.00	1/1/2026	6,163.88	24,655.50		12,000.00	48,000.00
30,144.38	30,144.38	0.00	2,679,500.00	7/1/2026	6,028.88	24,115.50		0.00	0.00
91,644.38	30,144.38	61,500.00	2,618,000.00	1/1/2027	6,028.88	24,115.50		12,300.00	49,200.00
29,452.50	29,452.50	0.00	2,618,000.00	7/1/2027	5,890.50	23,562.00		0.00	0.00
92,952.50	29,452.50	63,500.00	2,554,500.00	1/1/2028	5,890.50	23,562.00		12,700.00	50,800.00
28,738.13	28,738.13	0.00	2,554,500.00	7/1/2028	5,747.63	22,990.50		0.00	0.00
93,738.13	28,738.13	65,000.00	2,489,500.00	1/1/2029	5,747.63	22,990.50		13,000.00	52,000.00
28,006.88	28,006.88	0.00	2,489,500.00	7/1/2029	5,601.38	22,405.50		0.00	0.00
95,006.88	28,006.88	67,000.00	2,422,500.00	1/1/2030	5,601.38	22,405.50		13,400.00	53,600.00
27,253.13	27,253.13	0.00	2,422,500.00	7/1/2030	5,450.63	21,802.50		0.00	0.00
95,753.13	27,253.13	68,500.00	2,354,000.00	1/1/2031	5,450.63	21,802.50		13,700.00	54,800.00
26,482.50	26,482.50	0.00	2,354,000.00	7/1/2031	5,296.50	21,186.00		0.00	0.00
96,982.50	26,482.50	70,500.00	2,283,500.00	1/1/2032	5,296.50	21,186.00		14,100.00	56,400.00
25,689.38	25,689.38	0.00	2,283,500.00	7/1/2032	5,137.88	20,551.50		0.00	0.00
98,189.38	25,689.38	72,500.00	2,211,000.00	1/1/2033	5,137.88	20,551.50		14,500.00	58,000.00
24,873.75	24,873.75	0.00	2,211,000.00	7/1/2033	4,974.75	19,899.00		0.00	0.00
99,373.75	24,873.75	74,500.00	2,136,500.00	1/1/2034	4,974.75	19,899.00		14,900.00	59,600.00
24,035.63	24,035.63	0.00	2,136,500.00	7/1/2034	4,807.13	19,228.50		0.00	0.00
100,535.63	24,035.63	76,500.00	2,060,000.00	1/1/2035	4,807.13	19,228.50		15,300.00	61,200.00
23,175.00	23,175.00	0.00	2,060,000.00	7/1/2035	4,635.00	18,540.00		0.00	0.00
101,675.00	23,175.00	78,500.00	1,981,500.00	1/1/2036	4,635.00	18,540.00		15,700.00	62,800.00
22,291.88	22,291.88	0.00	1,981,500.00	7/1/2036	4,458.38	17,833.50		0.00	0.00
103,291.88	22,291.88	81,000.00	1,900,500.00	1/1/2037	4,458.38	17,833.50		16,200.00	64,800.00
21,380.63	21,380.63	0.00	1,900,500.00	7/1/2037	4,276.13	17,104.50		0.00	0.00
104,380.63	21,380.63	83,000.00	1,817,500.00	1/1/2038	4,276.13	17,104.50		16,600.00	66,400.00
20,446.88	20,446.88	0.00	1,817,500.00	7/1/2038	4,089.38	16,357.50		0.00	0.00
105,946.88	20,446.88	85,500.00	1,732,000.00	1/1/2039	4,089.38	16,357.50		17,100.00	68,400.00
19,485.00	19,485.00	0.00	1,732,000.00	7/1/2039	3,897.00	15,588.00		0.00	0.00
106,985.00	19,485.00	87,500.00	1,644,500.00	1/1/2040	3,897.00	15,588.00		17,500.00	70,000.00
18,500.63	18,500.63	0.00	1,644,500.00	7/1/2040	3,700.13	14,800.50		0.00	0.00
108,500.63	18,500.63	90,000.00	1,554,500.00	1/1/2041	3,700.13	14,800.50		18,000.00	72,000.00
17,488.13	17,488.13	0.00	1,554,500.00	7/1/2041	3,497.63	13,990.50		0.00	0.00
109,988.13	17,488.13	92,500.00	1,462,000.00	1/1/2042	3,497.63	13,990.50		18,500.00	74,000.00
16,447.50	16,447.50	0.00	1,462,000.00	7/1/2042	3,289.50	13,158.00		0.00	0.00
111,447.50	16,447.50	95,000.00	1,367,000.00	1/1/2043	3,289.50	13,158.00		19,000.00	76,000.00
15,378.75	15,378.75	0.00	1,367,000.00	7/1/2043	3,075.75	12,303.00		0.00	0.00
113,378.75	15,378.75	98,000.00	1,269,000.00	1/1/2044	3,075.75	12,303.00		19,600.00	78,400.00
14,276.25	14,276.25	0.00	1,269,000.00	7/1/2044	2,855.25	11,421.00		0.00	0.00
114,776.25	14,276.25	100,500.00	1,168,500.00	1/1/2045	2,855.25	11,421.00		20,100.00	80,400.00
13,145.63	13,145.63	0.00	1,168,500.00	7/1/2045	2,629.13	10,516.50		0.00	0.00
116,145.63	13,145.63	103,000.00	1,065,500.00	1/1/2046	2,629.13	10,516.50		20,600.00	82,400.00
11,986.88	11,986.88	0.00	1,065,500.00	7/1/2046	2,397.38	9,589.50		0.00	0.00
117,986.88	11,986.88	106,000.00	959,500.00	1/1/2047	2,397.38	9,589.50		21,200.00	84,800.00
10,794.38	10,794.38	0.00	959,500.00	7/1/2047	2,158.88	8,635.50		0.00	0.00
119,794.38	10,794.38	109,000.00	850,500.00	1/1/2048	2,158.88	8,635.50		21,800.00	87,200.00
9,568.13	9,568.13	0.00	850,500.00	7/1/2048	1,913.63	7,654.50		0.00	0.00
121,568.13	9,568.13	112,000.00	738,500.00	1/1/2049	1,913.63	7,654.50		22,400.00	89,600.00
8,308.13	8,308.13	0.00	738,500.00	7/1/2049	1,661.63	6,646.50		0.00	0.00
123,308.13	8,308.13	115,000.00	623,500.00	1/1/2050	1,661.63	6,646.50		23,000.00	92,000.00
7,014.38	7,014.38	0.00	623,500.00	7/1/2050	1,402.88	5,611.50		0.00	0.00
125,014.38	7,014.38	118,000.00	505,500.00	1/1/2051	1,402.88	5,611.50		23,600.00	94,400.00
5,686.88	5,686.88	0.00	505,500.00	7/1/2051	1,137.38	4,549.50		0.00	0.00
127,186.88	5,686.88	121,500.00	384,000.00	1/1/2052	1,137.38	4,549.50		24,300.00	97,200.00

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6. In its response to Item 5.c of the Commission's June 10, 2019 Order, Pikeville explained that its General Obligation Series 2017 Bonds were used to purchase and install radio-read meters throughout Pikeville's system; to fund improvements at the athletic field; and to fund a wastewater treatment upgrade. According to Bond Ordinance 0-2017-31 on page 2, the total principal amount of the General Obligation Series 2017 Bonds was \$3,770,000.

a. Provide a breakdown of the Series 2017 Bonds between the amounts used to fund the radio-read meter project, the project to improve service at the athletic field, and the amount used for the wastewater treatment upgrade.

b. Provide a separate amortization schedule for the debt used to fund the radio-read meter project and the project to improve the service at the athletic field.

c. Provide a detailed explanation of how Pikeville allocated the annual debt service payments between the water and sewer divisions. Also, explain how the water debt service is allocated to the two water division capital projects.

d. Provide the number of radio-read meters installed in the inside water system and the outside water system.

e. Provide a detailed explanation as to how the installation of the radio-read meters and the improvements at the athletic field would improve or impact Pikeville's ability to provide wholesale water service to Mountain District.

Response:

a. Please see attached documentation.

b. Please see attached documentation.

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- c. When the bonds were sold, the amounts were allocated based upon the amounts bonded for each project. General, Sewer, and Water had specific amounts for the projects. The division between inside water and outside water was based upon the number of meters to be purchased.
- d. With the bond funding referenced in this Item, Pikeville purchased 3,499 meters for inside City customers and 1,201 for outside City customers.
- e. Installation of radio read meters will enable the water personnel to be utilized for other activities other than manual or touch reading of meters. This will benefit all customers, including MWD, by making the water department more efficient in their duties. The Athletic Field improvements are not part of the water department cost.

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PSC 3-6a

PSC 3-6b

Project Name
Funding Source
Date of Bond
Original Principal

Series 2017 GO Bond, Turf, Water Meters, and Sewer Plant
100-General, 210- Water 74%, 310-Sewer, 320-SV 26%
12/27/17
3,730,000

Water Inside
Water Outside

74.00%
26.00%

WATER
SV
SEWER
GENERAL

Meters Inside
Meters Outside
Sewer
Turf

589,800.00
200,200.00
2,475,000.00
485,000.00

15.28%
5.37%
66.35%
13.00%

3,730,000.00
100.00%

Payment Amount	Interest	Principal	Principal Balance	Due Date	Principal			Interest				
					General	Sewer	Water-Inside	Water-Outside	General	Sewer	Water-Inside	Water-Outside
38,661.74	38,661.74	0.00	3,730,000.00	5/1/2018	40,000.00	20,000.00	48,100.00	16,900.00	5,011.67	25,693.40	5,887.94	2,068.73
181,121.88	56,121.88	125,000.00	3,605,000.00	11/1/2018					7,275.00	37,296.88	8,547.00	3,003.00
54,246.88	54,246.88	0.00	3,605,000.00	5/1/2019	45,000.00	25,000.00	51,800.00	18,200.00	6,675.00	36,996.88	7,825.50	2,749.50
194,246.88	54,246.88	140,000.00	3,465,000.00	11/1/2019					6,675.00	36,996.88	7,825.50	2,749.50
52,146.88	52,146.88	0.00	3,465,000.00	5/1/2020	45,000.00	20,000.00	51,800.00	18,200.00	6,000.00	36,621.88	7,048.50	2,476.50
187,146.88	52,146.88	135,000.00	3,330,000.00	11/1/2020					6,000.00	36,621.88	7,048.50	2,476.50
50,121.88	50,121.88	0.00	3,330,000.00	5/1/2021	45,000.00	55,000.00	55,500.00	19,500.00	5,325.00	36,321.88	6,271.50	2,203.50
225,121.88	50,121.88	175,000.00	3,155,000.00	11/1/2021					5,325.00	36,321.88	6,271.50	2,203.50
47,496.88	47,496.88	0.00	3,155,000.00	5/1/2022	50,000.00	185,000.00	55,500.00	19,500.00	4,650.00	35,496.88	5,439.00	1,911.00
357,496.88	47,496.88	310,000.00	2,845,000.00	11/1/2022					4,650.00	35,496.88	5,439.00	1,911.00
42,846.88	42,846.88	0.00	2,845,000.00	5/1/2023	50,000.00	245,000.00	59,200.00	20,800.00	3,900.00	32,721.88	4,606.50	1,618.50
417,846.88	42,846.88	375,000.00	2,470,000.00	11/1/2023					3,900.00	32,721.88	4,606.50	1,618.50
37,221.88	37,221.88	0.00	2,470,000.00	5/1/2024	50,000.00	250,000.00	59,200.00	20,800.00	3,150.00	29,046.88	3,718.50	1,306.50
417,221.88	37,221.88	380,000.00	2,090,000.00	11/1/2024					3,150.00	29,046.88	3,718.50	1,306.50
31,521.88	31,521.88	0.00	2,090,000.00	5/1/2025	50,000.00	265,000.00	59,200.00	20,800.00	2,400.00	25,296.88	2,830.50	994.50
426,521.88	31,521.88	395,000.00	1,695,000.00	11/1/2025					2,400.00	25,296.88	2,830.50	994.50
25,596.88	25,596.88	0.00	1,695,000.00	5/1/2026	55,000.00	270,000.00	62,900.00	22,100.00	1,650.00	21,321.88	1,942.50	682.50
435,596.88	25,596.88	410,000.00	1,285,000.00	11/1/2026					1,650.00	21,321.88	1,942.50	682.50
19,446.88	19,446.88	0.00	1,285,000.00	5/1/2027	55,000.00	275,000.00	66,600.00	23,400.00	825.00	17,271.88	999.00	351.00
439,446.88	19,446.88	420,000.00	865,000.00	11/1/2027					825.00	17,271.88	999.00	351.00
13,146.88	13,146.88	0.00	865,000.00	5/1/2028								
93,146.88	13,146.88	80,000.00	785,000.00	11/1/2028								
11,946.88	11,946.88	0.00	785,000.00	5/1/2029								
96,946.88	11,946.88	85,000.00	700,000.00	11/1/2029								
10,671.88	10,671.88	0.00	700,000.00	5/1/2030								
90,671.88	10,671.88	80,000.00	620,000.00	11/1/2030								
9,471.88	9,471.88	0.00	620,000.00	5/1/2031								
94,471.88	9,471.88	85,000.00	535,000.00	11/1/2031								
8,196.88	8,196.88	0.00	535,000.00	5/1/2032								
93,196.88	8,196.88	85,000.00	450,000.00	11/1/2032								
6,921.88	6,921.88	0.00	450,000.00	5/1/2033								
91,921.88	6,921.88	85,000.00	365,000.00	11/1/2033								
5,646.88	5,646.88	0.00	365,000.00	5/1/2034								
95,646.88	5,646.88	90,000.00	275,000.00	11/1/2034								
4,296.88	4,296.88	0.00	275,000.00	5/1/2035								
89,296.88	4,296.88	85,000.00	190,000.00	11/1/2035								
2,968.75	2,968.75	0.00	190,000.00	5/1/2036								
92,968.75	2,968.75	90,000.00	100,000.00	11/1/2036								
1,562.50	1,562.50	0.00	100,000.00	5/1/2037								
101,562.50	1,562.50	100,000.00	0.00	11/1/2037								
Total	965,740.04	3,730,000.00			485,000.00	2,475,000.00	569,800.00	200,200.00	81,436.67	754,846.70	95,797.94	33,658.73

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7. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 4.a, Pikeville's Fiscal Year 2017 general ledger for the inside-city water, Account No. 210.10.630.00, Repairs/Maintenance.

a. Provide a detailed description for each of the expenditures listed in the following table.

<u>Vendor and Description</u>	<u>Amount</u>
Micro-Comm, Inc.-Telemetry Repairs at Toler Tank	11,006.17
Eastern Tank& Utility Services, Inc. - Bob Amos Water Storage Tank Rehabilitation	76,950.00
Eastern Tank& Utility Services, Inc. - Bob Amos Water Storage Tank Rehabilitation	11,550.00

b. In its responses to the Staff's Second Request, Item 17.a, Pikeville states that the reported tap-on fees of \$24,510.00 were for the installation of 12 new meter services. However, according to the following entries, it appears that Pikeville purchased approximately 75 5/8 x 3/4 Inch meters in the test year. Provide the actual number of 5/8 x 3/4 Inch meters purchased in fiscal year 2017, the cost of the meters, and include an explanation of the purpose for any meters purchased above the 12 new services.

<u>Vendor and Description</u>	<u>Amount</u>
Rg-5 Company, Lp - 75- Pd07gbt 5/8 X 3/4 R/R Water Meters 5- Pd10gbt 1" R/R	
Water Meters Capital Li - 75-Pd07gbt 5/8 X 3/4 R/R Water Meters 5-Pd10gbt 1" R/R	11,400.00
Water Meters Capital Line Item# 26	
 Rg-5 Company, Lp - 75- Pd07gbt 5/8 X 3/4 R/R Water Meters 5- Pd1 Ogbt 1" R/R	
Water Meters Capital Li - 75- Pd07gbt 5/8 X 3/4 R/R Water Meters 5- Pdl Ogbt 1" R/R	1,100.00
Water Meters Capital Line Item# 26	

c. Provide a detailed explanation of how the expenditures listed in the below table improve or impact Pikeville's ability to provide wholesale water service to Mountain

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District.

<u>Vendor and Description</u>	<u>Amount</u>
CI Thornburg Co, Inc - Water Meter Testing	2,614.91
Northside Plumbing Supply Of Pikeville, Inc. - Water Tap Golden Corral 2"X20' Copper Pipe,	4,145.90

Response:

- a. The expenses associated with Eastern Tank & Utility Services were for coating and repairing the inside and outside of the tank. The expenses associated with Micro-Com, Inc. were for repairing the telemetry to ensure continued communications between the tank and pump station and relay to water plant.
- b. Pikeville purchased 75 radio-read 5/8x3/4-inch meters in FY 2017 at a cost of \$11,400. It also purchased five 1-inch meters at a cost of \$1,100. More than 12 meters were purchased in order to test the radio-read functionality.
- c. The expenses identified in this subpart do not directly relate to the provision of service to MWD.

WITNESS: Grondall Potter; Tonya Taylor

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8. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 4.a, Pikeville's Fiscal Year 2017 general ledger for the inside-city water, Account No. 210.10.630.09, Repairs/Maintenance Plant. Provide a detailed description of the expenditure listed in the following table.

<u>Vendor and Description</u>	<u>Amount</u>
Boggs Municipal Services, Inc - High Service Repair Pull Repair and Reinstall	24,264.33

Response: This was for repairs to one of the raw water intake pumps. Boggs Municipal Services had to pull the pump with crane and take to shop, repair, and reinstall.

WITNESS: Grondall Potter

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9. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 9, Depreciation Schedule. Provide any analysis or study that was prepared by Pikeville's Auditors showing that Pikeville's Capitalization Policy and depreciation lives are reasonable.

Response: There is no specific analysis or study showing Pikeville's Capitalization policy or service lives. According to Pikeville's auditors, they review annual capitalization and depreciation to complete the audit, but there is no specific analysis or study.

WITNESS: Tonya Taylor

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10. Pikeville currently has two water divisions: inside-city-limits customers and outside-city-limits customers. Provide the date Pikeville separated its system into the two divisions and include a detailed explanation as to why Pikeville decided to divide its water system into two divisions.

Response: On information and belief, Pikeville wanted separate inside city and outside city rates starting in approximately 2006 when Pikeville acquired the Sandy Valley Water District, whose customers would have been considered outside City customers. In order to determine appropriate rates, Pikeville tracked expenses and revenues separately.

WITNESS: Tonya Taylor

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11. In its response to Item 29.e of Mountain District's First Request, Pikeville explained that most of its inside water system infrastructure is used to serve Mountain District because Mountain District's ten master meters surround Pikeville. Given that the outside-city-limits customers also surround the inside water system infrastructure, explain why Mountain District and the outside-city-limits customer water rates are calculated differently.

Response: Outside rates are calculated differently because the City has separate financial accounting for the outside customers and water rates for outside customers are calculated based on the City's financial accounting for the outside customers.

Pikeville also notes that outside-city customers do not surround the inside water system infrastructure. Geographically, the outside-city customers are located in the north and northwestern sections of the City limits, while MWD's master meters surround the periphery of Pikeville City limits.

WITNESS: Samuel Petty; Grondall Potter

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12. Calculate Mountain District's wholesale water rate assuming that the division of Pikeville into two separate systems (inside city and outside city) is eliminated. Provide this response in an Excel format with all rows and columns accessible and formulas unhidden.

Response: The proposed rate to MWD would not change because of the City keeps a separate financial accounting for the outside customers. The calculation of a wholesale water rate for Mountain Water District based on an assumption that the division between inside city and outside city systems was eliminated would go through the same process that has already been accomplished. If inside city and outside city accounts were initially combined, those expenses would then have to be separated (or reallocated in the analysis) to determine the appropriate cost to serve each of the systems. Pikeville has already accomplished that by separating expenses by recording expenses in two separate financial systems.

WITNESS: Samuel Petty

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13. In its response to Item 29.j, Pikeville explains that electricity used at its water treatment plant is allocated between the inside and outside customers based upon water consumption, and that all other electricity cost is classified as inside water.

a. Confirm that all of Pikeville's pump stations and tanks are located within the inside-city system.

b. If the response to Item 13.a is not confirmed, provide the number of pump stations or tanks that are located outside of the city limits.

c. If the response to Item 13.a is confirmed, explain whether Pikeville would be able to provide adequate service to its outside-city customers if it did not have the pump stations or tanks in the inside water system.

Response: Part of the premise of the question where it states that "all other electricity cost is classified as inside water" is not accurate. Electricity is coded to inside and outside accounts. Plant is allocated based upon consumption. Other electric cost is coded based upon location. Outside has its own electric costs, and inside has its own electric costs.

a. No, not all of Pikeville's pump stations and tanks are located within the inside-city system.

b. There are 4 tanks and 4 pump stations are physically located outside city limits.

c. Not applicable.

WITNESS: Tonya Taylor; Grondall Potter

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14. Provide the number of customers served by each utility division (Inside City Water, Outside City Water, Gas, and Garbage Collection) as of the fiscal year ending June 30, 2017.

Response:

Gas	972
Garbage	3034
Sewer Inside	3132
Sewer Outside	1172
Water Inside	3318
Water Outside	1653

WITNESS: Tonya Taylor

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15. Refer to Pikeville's responses to Staff's Second Request, Item 29.

a. Pikeville uses the percentage of revenues billed by each division to allocate salaries and wages, payroll taxes, employees' Insurance benefits, and pension matching to each utility division (Inside City Water, Outside City Water, Gas, and Garbage Collection). Provide a detailed explanation of why a change to a utility division rate should impact the cost allocations between the divisions.

b. Explain why an allocation factor using the number of customers served by each utility division would not be a more accurate cost allocation factor.

c. Using the utility division customers provided by Pikeville in its response to Item 15.a, reallocate the following costs to each utility division. Provide this response in an Excel format with all rows and columns accessible and formulas unhidden.

- (1) Salaries and wages;
- (2) Payroll taxes;
- (3) Employees' insurance benefits;
- (4) Pension matching; and
- (5) Unemployment taxes.

Response:

a. The presumption is that Pikeville employees typically spend more time on services that have higher charges than services that have lower charges. Similarly, employees typically have an increase in work for a particular service when charges for that service increase (e.g., employees receive more

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questions from customers on why charges have increased and the accuracy of bills in the period immediately after an increase in charges). Pikeville believes that this is a reasonable method for allocating employee expenses. An allocation based on the number of customers may also be a reasonable method for allocating employee expenses.

- b. See response to Item 15(a) above.
- c. An Excel file is filed contemporaneously herewith.

WITNESS: Tonya Taylor

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16. Refer to Pikeville's responses to Staffs Second Request, Items 25, and 26. In Case No. 2002-00022, the Commission placed Pikeville on notice that in future rate proceedings the Commission would more closely scrutinize the management companies' direct expenses and would expect Pikeville to provide independent supporting documentation of all UMG costs. Provide the information as requested on an aggregate basis not by the individual employee.

Response: Pikeville has communicated with UMG regarding this request. UMG has not provided the requested information to Pikeville, and therefore, Pikeville cannot provide the requested information. Pikeville maintains that its operational expenses, including the amount of expense from the UMG contract that it allocates to the water system, are reasonable. The reasonableness of the expenses related to the UMG contract is demonstrated by the analysis provided in Pikeville's Response to Item 17 below.

WITNESS: Philip Elswick

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17. The burden is on Pikeville to show that UMG's contract fee as it relates to the water division is reasonable. Provide copies of any study or analysis that Pikeville has that supports the proposition that the UMG contract fee for managing and operating the water division is reasonable.

Response: Management decisions are presumed to be reasonable. *West Ohio Gas Co. v. Ohio Pub. Util. Comm'n*, 294 U.S. 63 (1935); *Pa. Publ. Util. Comm'n v. Phila. Elec. Co.*, 561 A.2d 1224 (Pa. 1989). Pikeville's contract with UMG was executed by independent parties in an arm's length transaction. The fees associated with UMG's contract are therefore reasonable unless proven otherwise.

Additional data demonstrates that the expenses on which Pikeville seek recovery in rates for UMG's contract fee is reasonable. The attached Excel file provides a comparative analysis on other water utilities to show that UMG's contract fee is reasonable.

The first sheet in this file entitled 'Comparison by Consumption' compares Pikeville's cost per 1,000 gallons of water sold (inside city accounts) with 20 water utilities in Kentucky. The sample group of PSC-jurisdictional utilities was selected by focusing on (1) utilities that produced most of their water and are located in eastern Kentucky and, (2) utilities farther away from Pikeville that utilities that produced their water and had similar number of customers. Pikeville did not use utilities that purchase the majority of their water supply for distribution because it is impossible to make an apples-to-apples comparison on expenses

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for those utilities.

The consumption comparative analysis (Line 39) has three measuring points. The first is based on management and wage expenses. For this comparison, Pikeville totaled its inside-city 2017 UMG expense with the City's costs for Worker's Comp, Wages, Payroll Taxes, Insurance, Pension, and Unemployment, and compared it to the following expenses identified in each utilities' Annual Report on file with the Commission: Salaries and wages – employees, Employee Pensions and Benefits, chemicals, Contractual Services – Eng., Contractual Services – Management Fees, Water Testing, Contractual Services – Other, and Insurance Worker's Compensation. The City added costs for Worker's Comp, Wages, Payroll Taxes, Insurance, Pension, and Unemployment to ensure that these expenses were not underreported in comparison to the information from the utilities' Annual Reports.

The second consumption comparative (Line 42) is based on the same categories as the first comparative, but it includes insurance expenses (both for the City and the utilities' reported expenses for Vehicle, General Liability, and Other).

The third consumption comparative (Line 45) is based on total expenses excluding depreciation.

In an attempt to make the comparison as close to "apples-to-apples" as possible, Pikeville used expenses and consumption for its 2017 calendar year. This ensures that there is a match for the time period over which expenses are

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compared.

The results of this analysis clearly show that Pikeville's cost for UMG's services per 1,000 gallons of water sold is reasonable. The first two comparatives attempt to measure the same expenses that these PSC-jurisdictional utilities incur in relation to the City's costs for the UMG contract. The third comparative shows what the total cost per 1,000 gallons sold. Of this analysis, 19 out of 20 utilities have higher expenses per 1,000 gallons of water sold as compared to the City of Pikeville. Only Oldham County Water District had a lower cost to provide water when analyzing these factors. And Oldham District's cost was only 3%-10% lower than Pikeville's cost, whereas the highest cost based on consumption was approximately 500% more than Pikeville's cost.

Pikeville also compared the same three sets of information on a per-customer basis with utilities that produced all or nearly all of their water (90% or more) and had a significant percentage (40% or more) of its water sales to wholesale purchasers. When considering costs per customer, it is appropriate to compare only utilities that produce nearly all of their water and those that have significant wholesale sales. Without these criteria, the results would be skewed. For example, Pikeville has 2 wholesale customers (MWD and Southern). Although those customers only account for 2 of the inside-city customers, Pikeville is incurring expenses (including those paid to UMG) to help provide potable water to thousands of customers of MWD and Southern. Thus, when considering per-customer costs, it is appropriate to compare it to other utilities

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that produce water and have significant wholesale sales.

Of the 20 utilities in the sample group, 4 utilities met these two criteria. In comparison to the other four utilities, Pikeville had lower total expenses not including depreciation. In comparing expenses that are most closely associated with the services UMG provides, Pikeville's expenses were squarely in the middle—two utilities were higher and two utilities were lower per customer. This further demonstrates that Pikeville's expenses that it seeks to recover in rates related to the UMG are reasonable.

WITNESS: Legal; Tonya Taylor

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18. Refer to the response to Staff's First Request, Item 13(a).

a. Explain if the information included in this table includes the Out-of-City Customers.

Water Main Size - inches	Miles used		Total Inch-Miles	Inch-Miles	
	Total Miles	to serve MWD		to serve MWD	% of Total
16	1.6	1.6	26	26	100%
12	17.9	17.9	215	215	100%
10	11.6	11.3	116	113	97%
8	16.8	15.8	134	126	94%
6	19.4	15.1	116	90	78%
4	2.4		10	0	0%
2	1.7		3	0	0%
Total	71.4	61.6	620	570	92%

b. If not, provide the information requested in the table for the Out-of-City Customers.

Response:

- a. The information in this table does not include out-of-city customers.
- b. Pikeville is attempting to locate appropriate records to provide the information that is requested. Based on Pikeville's current records, this is a labor intensive project and requires reviewing system maps and related infrastructure plans to determine length of certain sized mains. Pikeville will produce this information when available.

WITNESS: Philip Elswick

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19. Refer to the response to Staffs First Request, Item 20.

a. Explain whether the Sales for Retail include the retail sales for the Out-of-City Customers. If the Out-of-City customers' sales are not included, provide this information.

	Gallons for the Test Year	Gallons for
	Fiscal Year Ending	Fiscal Year Ending
Pikeville	June 30,2017	June 30, 2018
Plant Use**	0	0
Line Loss (Unaccounted for)	17	184,6
Accounted for*	4,339,440	4,9
Sales to Retail	35	361,4
Sales to Mountain District	46	412,1
Sales to Southern Water District	15	124,4
Sales to Other Wholesale Customers	0	700
Total Produced and Purchased	1,15	1,087,5
Total Sold	97	898,0
*flushing, vac truck usage, leaks		
** billed to City of Pikeville included in retail #		

b. Explain whether the Line Loss (Unaccounted for) amount listed in the table above includes the Out-of-City Customers. If not, provide the Line Loss (Unaccounted for) amount for the Out-of-City Customers.

c. Explain whether the Accounted for amount listed includes the Out-of- City Customers. If not, provide the Accounted for amount for the Out-of-City Customers.

d. Explain whether the Total Produced and Purchased amount listed includes the Out-of-City Customers. If not, provide the Total Produced and Purchased amount for the Out-of-City Customers.

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e. Explain whether the Total Sold amount listed includes the Out-of-City Customers. If not, provide the Total Sold amount for the Out-of-City Customers.

Response:

- a. Retail sales includes outside consumption. Pikeville notes that the table included with the Commission Staff's request for information is different than the one provided by Pikeville in response to Item 20 of the Commission's initial request. All responses refer back to Item 20.
- b. Line loss includes outside consumption.
- c. Accounted for includes outside consumption.
- d. Total produced and purchased includes out consumption.
- e. Total sold includes outside consumption.

WITNESS: Tonya Taylor

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20. Refer to the Commission's Order in Case No. 2002-00022, Appendix B, Table II. The Commission established the Pikeville Lines used jointly by Pikeville and Mountain District to be 172.15 inch-miles of main (adjusted in Table II) out of 504.32 inch- miles of main for the whole system. Explain in the current case how Pikeville calculated the jointly inch-miles to be 558.2 inch-miles of main out of 594.6 inch-miles of main as reported.

Response: Pikeville does not know what information the Commission used in Case No. 2002-00022 to calculate jointly used mains. In the present case, Pikeville calculated the percentage of inside-city lines that were serving MWD based on an inch-mile methodology. The calculation was based on a review of documentation, including system maps and related infrastructure plans, that show inside-city system infrastructure.

WITNESS: Samuel Petty; Grondall Potter

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

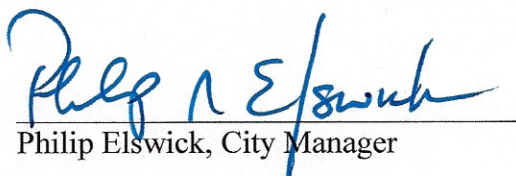
Proposed Adjustment of the Wholesale)	
Water Service Rates of the City of Pikeville)	Case No. 2019-00080
To Mountain Water District)	

CERTIFICATION OF RESPONSES TO INFORMATION REQUESTS

This is to certify that I have supervised the preparation of the City of Pikeville's responses to the Commission Staff's third request for information and that the responses are true and accurate to the best of my knowledge, information, and belief after reasonable inquiry.

Date: _____

8/12/19


Philip Elswick, City Manager