

Case No. 2019-00260
City of Central City Rate Case
Responses to Commission Staff's First Request For Information

1. Refer to Central City's motion to file a tariff containing a surcharge for rate case expenses incurred in this matter in which it proposes an additional rate increase in the amount of \$1,250 per month for a period of 36 months.
 - a. Provide an itemized schedule of all costs and expenses incurred in this case.
 - b. Provide all invoices, bills, receipts, and other similar documents received for all costs and expenses incurred in this case,
 - c. Provide an itemized estimate of Central City's total costs and expenses to be incurred in this case.
 - d. Provide a detailed explanation of how Central City's estimate of the total costs and expenses to be incurred in this case was determined, and provide all supporting workpapers and calculations.
 - e. Provide an explanation of how Central City calculated the surcharge based on its estimated costs and expenses.

Response:

- a. Please see Central City's response to Item 30 of the Commission's Initial Request for Information. Pursuant to the Commission's request, Central City will file a monthly update.
- b. Please see Central City's response to Item 30 of the Commission's Initial Request for Information. Pursuant to the Commission's request, Central City will file a monthly update.
- c. Please see Central City's response to Item 30(b) of the Commission's Initial Request for

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Information. Pursuant to the Commission's request, Central City will file a monthly update.

- d. Please see Central City's response to Item 30(c) of the Commission's Initial Request for Information. Pursuant to the Commission's request, Central City will file a monthly update.
- e. With the estimated rate case expense of \$90,000 and the Commission's consistent approval of 36-month period of recovery for rate case expense, Central City calculated a monthly surcharge of \$2,500 for 36 months. Because there are two wholesale customers involved in this rate case, each would be responsible for half that amount, which totals \$1,250 per month per wholesale customer for 36 months.

WITNESS: David Rhoades; Legal

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2. Refer to Central City's responses to the Commission's July 30, 2019 Order, Item 9, Depreciation Schedule, and to the National Association of Regulatory Commissioners (NARUC) Depreciation Practices for Small Water Utilities, August 15, 1979, Figure 1, Typical Service Lives, Salvage Rates, and Depreciation Rates, Small Water Utilities attached hereto as Schedule 19.

a. Provide a schedule in Excel spreadsheet format that compares the depreciation lives in Central City's schedule for the water division's assets and the shared water and sewer assets to the average service life ranges in the NARUC survey,

b. Using the mid-point depreciation life of the average service life ranges in the NARUC survey; recalculate Central City's pro forma depreciation expense for the water division's assets and the shared water and sewer assets. Provide the recalculation of pro forma depreciation expense in an Excel spreadsheet format with all formulas unprotected and with all rows and columns accessible.

c. Provide any analysis or study that was prepared by Central City's Auditors or hired consultant showing that Central City's Capitalization Policy and depreciation lives are reasonable.

Response: a. and b. – Please see the attached Excel file.

c. Central City has not conducted an analysis or study on its capitalization policy or depreciation lives.

WITNESS: David Rhoades

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3. Refer to Central City's responses to the Commission's July 30, 2019 Order, Item 22, Cost Analysis, and to Item 4, Audit for Fiscal Year ending (FYE) June 30, 2018.

a. Central City completed an additional financial analysis that is based on actual expenses incurred in Fiscal Year 2019. As support of this analysis, provide the independent auditor's report for Central City for the FYE June 30, 2019.

b. Provide a revised cost analysis using the water division's revenue and expense accounts, as shown in Schedule I, pages 18-20 of the FYE 2018 Audit.

c. Administrative Regulation 807 KAR 5:001, Section 16(1), provides that all applications for a general rate adjustment supported by a twelve (12) month historical test period may include adjustments for known and measurable changes. Administrative Regulation, Section (4)(a), requires the applicant to provide a complete description and quantified explanation for all proposed adjustments with *proper support for any proposed changes* in price or activity levels, and any other factors which may affect the adjustment. For each adjustment contained in the column entitled "Project Only," provide the information as required by the Administrative Regulation.

d. For each adjustment contained in the column entitled "Project Only," explain how it relates to the construction project being funded with the proposed United States Department of Agriculture's Rural Development (RD) grant of \$150,000 and loan of \$850,000.

e. Provide a detailed description of the construction project being funded with the proposed RD grant of \$150,000 and loan of \$850,000.

f. Explain how the proposed construction project will improve or impact Central City's ability to provide wholesale water service to Muhlenberg County Water District and Muhlenberg County Water District #3.

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Response:

- a. The FY2019 has not been completed yet.
- b. Please see the attached Excel file.
- c. Central City notes that 807 KAR 5:001 does not apply to this municipal rate adjustment.

Notwithstanding this objection, Central City provides the following information for each adjustment:

- The increase in anticipated revenue from customers is based on the projected increase that Rural Development would require based on commonly adopted methodology utilized by Rural Development. See notes 6 and 7 of the FY2019 update.
- Operating expenses have been increased for the US Department of Labor inflation rate of 1.7% for a three-year period, which is the commonly accepted methodology of Rural Development. See note 8 of the FY2019 update.
- The New RD Debt (Principle and Interest) that would be incurred for Central City's project is based on Rural Development's 2019 third quarter intermediate rate of 2.75%. See note 9 of the FY2019 update.
- The debt service reserve is based on 10% of the total annual principal and interest payment. See note 10 of the FY2019 update.
- The short-lived asset reserve is based on the USDA's guidance. See note 11 of the FY2019 update.
- The debt service coverage is calculated with a 10% factor to cover the additional

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amount for Central City's project. See note 4 of the FY2019 update.

- The amount of \$160,543 is an adjustment to the depreciation expense of \$678,293 that was identified on the audit report. Mr. McGhee recognized that the depreciation expense for the water operations of \$678,293 that was identified on the audit report was understated based on the 60/40 allocation. Mr. McGhee completed his own analysis to determine an approximate depreciation expense for water operations of \$838,836, which is \$160,543 more than \$678,293. His calculation of that depreciation expense is attached to Central City's Response to Item 44 of the Water District's Initial Request for Information. Even Mr. McGhee's calculation was conservative, based on Central City's Response to Item 11 of the Commission's Initial Request for Information that indicated depreciation expense for the water system should be at least \$865,441.
- d. An explanation as to how adjustments to the construction project being funded with the proposed United States Department of Agriculture's Rural Development (RD) grant of \$150,000 and loan of \$850,000 is contained in Response to subpart (c) above.
- e. Please see Central City's Response to Item 35 of the Commission's Initial Request for Information.
- f. Please see Central City's Response to Item 35 of the Commission's Initial Request for Information.

WITNESS: Michael McGhee

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4. Refer to Central City's responses to the Commission's July 30, 2019 Order, Item 4.
- a. Provide a detailed description of the water or sewer projects funded by each debt issuance as originally requested.
 - b. Provide a detailed explanation of how the annual debt service payments for each long-term debt issuance is allocated between Central City's water and sewer divisions.

Response:

- a. Bond Ordinances 2011-11 and 2014-5 were for projects involving the expansion of the Water Treatment Plant from 4 to 7 MGD, construction of a 1-million gallon elevated water storage tank in the southern part of the Central City distribution system, adjacent to the Western KY Parkway, construction of transmission main along the southern edge of the Central City system to access the new tank and provide improved service to MCWD, construction of transmission line to improve service to MCWD#3, renovation of one of the Reservoir Hill water storage tanks, improvements to the Wells Community water system, and construction of a distribution SCADA system to monitor tank levels in the CC system and to monitor flow rates from the CC system to the Districts.

Bond Ordinances 2013-03 and 2019-03 were for projects involving the expansion of the Central City Wastewater Treatment Plant from 1.2 to 1.8 MGD, replacement of 8 lift stations, extension of sanitary sewer service to Bremen, and rehabilitation and replacement of sanitary sewers in the Central City collection system.

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- b. There is no allocation of debt service between water and sewer. The principal portion of the payments hit the balance sheet only and the interest expense is listed as a non-operating expense below the section that splits G&A expenses 60/40.

WITNESS: Michael McGhee; David Rhoades

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5. Provide Central City's revenue requirement calculation using the table below.

Pro Forma Operating Expenses	\$
Plus: Average Annual Debt Principal and Interest Payments	
Debt Coverage Requirement	
Total Revenue Requirement	
Less: Interest Income	
Non-operating Income	
Nonutility Income	
Revenue Required from Rates	
Less: Normalized Revenues from Water Sales	
Required Revenue Increase/(Decrease)	\$
Percentage Increase	%

Response: See the chart below. Please note that the Pro Forma Operating Expenses are derived from the Preliminary Engineering Report for the proposed project showing Operation and Maintenance Expense of \$1,924,480 and Depreciation Expense of \$838,836. If actual Operation and Maintenance expense for FY2018 or FY2019 as shown in the Excel file produced in Response to Item 3 above, the Pro Forma Operating Expense, Total Revenue Requirement, and Percentage Increase would increase.

Pro Forma Operating Expenses	\$	2,781,316
Average Annual Debt Principal and Interest Payments	\$	660,138
Debt Coverage Requirement (20%)	\$	132,028
Total Revenue Requirement	\$	3,573,482
Interest Income	\$	(4,043)
Non-Operating Income	\$	(4,851)
Non-Utility Income	\$	-
Revenue Required From Rates	\$	3,564,588
Normalized Revenues from Water Sales	\$	2,671,559
Required Revenue Increase (Decrease)	\$	893,029
Percentage Increase		33.4%

WITNESS: Michael McGhee