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DAMON R. TALLEY

ATTORNEY AT LAW

April 16, 2010

Mr. Jeff Derouen
Executive Director
Public Service Commission
PO Box 615
Frankfort, KY 40602

RECEIVED

APR 19 2010

**PUBLIC SERVICE
COMMISSION**

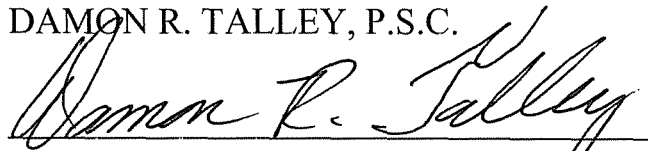
RE: Case No. 2009-00373
Hopkinsville Water Environment Authority

Dear Mr. Derouen:

Enclosed for filing are the original and six (6) copies of Hopkinsville Water Environment Authority's Responses to the Public Service Commission's Second Information Request.

Yours truly,

DAMON R. TALLEY, P.S.C.



DAMON R. TALLEY, Counsel For
Hopkinsville Water Environment Authority

DRT:ms

Enclosures

cc: Hon Jack Hughes, Attorney for CCWD
James Owen, General Manager, CCWD
Hopkinsville Water Environment Authority

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APR 19 2010

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

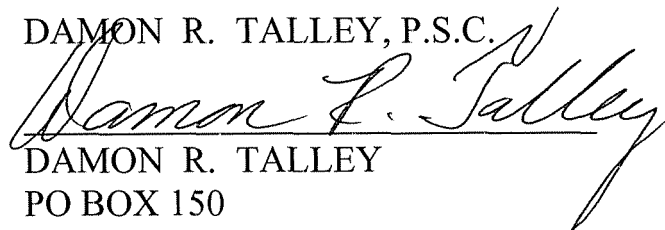
In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE SERVICE RATES OF) CASE NO.
HOPKINSVILLE WATER ENVIRONMENT) 2009-00373
AUTHORITY)

**RESPONSES OF HOPKINSVILLE WATER
ENVIRONMENT AUTHORITY TO
COMMISSION'S SECOND INFORMATION REQUEST**

Comes the Hopkinsville Water Environment Authority ("HWEA"),
for its Responses to the Public Service Commission's Second Information
Request, and states as shown on the following pages.

DAMON R. TALLEY, P.S.C.



DAMON R. TALLEY
PO BOX 150
HODGENVILLE, KY 42748
COUNSEL FOR HWEA

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

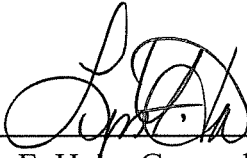
In the Matter of:

PROPOSED ADJUSTMENT OF THE)
WHOLESALE SERVICE RATES OF) CASE NO.
HOPKINSVILLE WATER ENVIRONMENT) 2009-00373
AUTHORITY)

**CERTIFICATION OF RESPONSES TO COMMISSION'S
SECOND INFORMATION REQUEST**

This is to certify that I have supervised the preparation of the
Hopkinsville Water Environment Authority's Responses to the Public
Service Commission's Second Information Request. The responses are true
and accurate to the best of my knowledge, information and belief formed
after reasonable inquiry.

Date: April 16, 2010



Len F. Hale, General Manager
Hopkinsville Water Environment Authority

CERTIFICATE OF SERVICE

This is to certify that a true copy of the attached pleading was served by first class U.S. Mail, postage prepaid, this 19th day of April, 2010, to the following:

Hon. Jack N. Hughes
124 W. Todd St.
Frankfort, KY 40601

Mr. James Owen, Gen. Mgr.
Christian Co. Water District
PO Box 7
Hopkinsville, KY 42241-0007

Mr. Len F. Hale, Gen. Mgr.
HWEA
PO Box 628
Hopkinsville, KY 42241-0628

DAMON R. TALLEY, P.S.C.

BY: Damon R. Talley

DAMON R. TALLEY

1. For each expense listed below, state whether any portion of the expense was allocated to the wholesale customer. If a portion of the expense was allocated to the wholesale customer, explain why the allocation was made. If no allocation was made to the wholesale customer, describe how the expense was removed from the wholesale revenue requirement determination.

- a. Transmission and Distribution - Repairs to meters - \$287 (Page E11).
- b. Transmission and Distribution - Removing and Re-setting Meters - \$49,457 (Page E11).
- c. Transmission and Distribution - Removing and Re-setting Meters - Repairs to Fire Hydrants - \$1,614 (Page E11).
- d. Water Administrative and General - Meter Reading and Collecting Salaries - \$41,084 (Page E12).

RESPONSE: None of the costs for items a. through d. were allocated to the wholesale customer. This can be demonstrated by reviewing Pages E11 and E12 of the Cost of Service Study (“Study”). On Pages E11 and E12 each expense was classified by function as follows:

- a. Repairs to Meters - \$287 (or 100% of the expense) to Customer Costs;
- b. Removing and Re-setting Meters - \$49,457 (or 100% of the expense) to Customer Costs;
- c. Repairs to Fire Hydrants - \$1,614 (or 100% of the expense) to Fire Service; and
- d. Meter Reading and Collecting Salaries - \$41,084 (or 100% of the expense) to Customer Costs.

The functional costs were then allocated to either the Retail, Wholesale or Fire Protection customer class. The Study allocated 100% of all Customer Costs function expenses to the Retail customer class (see allocation detail B4 on Page E6). Likewise, 100% of all Fire Service function expenses were allocated to the Fire Service customer class (see allocation detail B5 on Page E7). No portion was allocated to the wholesale customer. This allocation is detailed in Schedule B (Pages E2 through E4) of the Study.

Perhaps, the interconnection of Schedule C (Pages E10-E13) and Schedule B (Pages E2-E4) of the Study is best explained by using some examples.

As shown on Page E11 of the Study, the sum of the TRANSMISSION AND DISTRIBUTION expenses classified as “Customer Costs” is \$62,197. This includes Repairs to Meters (\$287), Removing and Re-setting Meters (\$49,457) and Repairs to Services (\$12,453). The \$62,197 amount is then carried forward to Schedule B (see Page E2) and is shown on the Customer Costs line under TRANSMISSION & DISTRIBUTION. The entire amount is then allocated to the Retail customer class.

Similarly, all TRANSMISSION & DISTRIBUTION expenses classified as “Fire Service” are itemized on Page E11 of the Study. These Fire Service expenses include Repairs to Fire Hydrants (\$1,614) and numerous other expenses which total \$40,712. This amount is carried forward to Schedule B (see Page E2) and is shown on the Fire Service line

under TRANSMISSION & DISTRIBUTION. The entire amount is then allocated to the Fire Protection customer class.

Finally, the expense category “Meter Reading and Collecting Salaries” (\$41,084) is one category of the WATER ADMINISTRATIVE AND GENERAL expenses shown on Page E12 of the Study. The entire amount of Meter Reading and Collecting Salaries is classified as “Customer Costs”. The total of all Customer Costs under the ADMINISTRATIVE & GENERAL category is \$825,846. This sum is carried forward to Schedule B (see Page E3) and is shown on the Customer Costs line under ADMINISTRATIVE & GENERAL. The entire amount is then allocated to the Retail customer class. No portion is allocated to the Wholesale customer class.

- e. **Water Administrative and General -- Employee Benefits - \$528,203 (Page E12).**

RESPONSE: Only \$73,247 of the \$528,203 in Employee Benefits incurred by HWEA for water employees was allocated to the Wholesale customer, CCWD.

It should be noted that the “Employee Benefits” expense is the account for all expenses related to benefits for **all** HWEA water employees. This includes employees from all categories including Source of Supply, Water Treatment, Transmission & Distribution, Water Technical Services and Water Administrative & General. Therefore, a percentage of this expense is attributable to the Wholesale customer class due to the inclusion

of benefits associated with salaries for employees from the first four (4) expense categories.

The allocation of Employee Benefits is detailed on Page E16 of the Study. From a macro perspective, the total of the allocated salaries for each of the five (5) individual expense categories (Source of Supply, Water Treatment, etc.) will serve as the basis for allocation of the “Employee Benefits” cost to its functional components.

For example, the Water Treatment salaries (from HWEA Trial Balance and Audit) totaled \$292,907 as shown on Page E16. The allocation of this expense across base/extra capacity functions was performed in Schedule C (Page E10). This information was collected for Water Treatment, as well as the other four (4) expense categories and summarized on Page E16. Therefore, Page E16 provides a composite distribution of all HWEA salaries by function. The composite information is found, by percentage, in Column (8) on the right hand side of Page E16. A summary of this information is provided below in **TABLE 1**:

TABLE 1

Functional Classification	Associated % of Total Salaries	Employee Benefits
Base	44.10%	\$232,943
Extra Capacity / Max Day	16.39%	\$86,588
Extra Capacity / Max Hr	0.77%	\$4,051
Customer Costs	35.80%	\$189,091
Fire Service	2.94%	\$15,529
TOTALS	100.00%	\$528,203

As detailed above in the explanation for Items a. through d., the Customer Costs and Fire Service costs are not allocated to the Wholesale customer. Therefore, approximately 38.74% (35.80% + 2.94%) of the Employee Benefits are removed prior to allocation between customer classes.

The 61.26% (or \$323,582) of Employee Benefits that remain will be allocated in accordance with the methods prescribed for their functional classification (i.e. base, maximum day, etc.) in a manner similar to any other expense. Using these methods, the Employee Benefit cost expense (\$528,203) is allocated by customer class as follows:

TABLE 2
Customer Class Allocation of Fringe Benefits
(See Schedule B, Pages E5-E7,
for Allocation Factors)

Functional Expense	Total	Retail	Wholesale	Fire
Base	\$232,943	\$178,948 76.82%	\$53,996 23.18%	\$0 0%
Extra Cap/ Max Day	\$86,588	\$68,309 78.89%	\$18,279 21.11%	\$0 0%
Extra Cap/ Max Hour	\$4,051	\$3,079 76.00%	\$972 24.00%	\$0 0%
Customer Costs	\$189,091	\$189,091 100%	\$0 0%	\$0 0%
Fire Service	\$15,529	\$0 0%	\$0 0%	\$15,529 100%
Totals	\$528,203	\$439,427 83.19%	\$73,247 13.87%	\$15,529 2.94%

Thus, only **\$73,247** of the \$528,203 Employee Benefits incurred by HWEA for water employees was allocated to the Wholesale customer.

WITNESS: Brent A. Tippey, P.E.

2. Provide a copy of the cost of service study in Microsoft Excel format. Allow access to all formulas and calculations that were used in calculating the rates and usage factors.

RESPONSE: An electronic copy was transmitted to the PSC and to the attorney for CCWD on April 14, 2010. Access to all formulas and calculations was allowed.

The original Study was filed with the Commission on March 15, 2010. Therefore, the Study is already in the official case file, has been scanned and is available to the public on the PSC website.

WITNESS: Brent A. Tippey, P.E.