



CITY OF GREENSBURG

"Bridging the Past and the Future!"

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JUL 08 2010

**PUBLIC SERVICE
COMMISSION**

July 7, 2010

Kentucky Public Service Commission
P.O. Box 615
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

**Re: Proposed Adjustment of Wholesale Water Service Rates
City of Greensburg
Case No. 2009-00428**

To Whom It May Concern:

Enclosed are ten (10) copies of Greensburg's response to the PSC request for information dated 6/30/2010 and the city's response to questions submitted by representatives of Green-Taylor Water District of approximately the same date. We have attempted to use some detail in our response but not to the point that we are resubmitting the Wholesale Rate Study and subsequent response to questions.

Sincerely,

George C. Cheatham, II
Mayor

Enclosures

c: John D. Henderson, P.S.C. w/enclosures
Green Taylor Water District w/enclosures
Carryn Lee w/enclosures

Mayor George C. "Lisle" Cheatham, II

**RESPONSE TO PSC INFORMATION REQUEST – DATED 6/30/2010
PROPOSED ADJUSTMENT OF WHOLESALE WATER SERVICE RATES
CITY OF GREENSBURG, KENTUCKY**

CASE NO. 2009-00428

Respondent: Willis Jackson, Bell Engineering, Lexington, Kentucky

The following is a general description of the procedure used to obtain data, make computations and assemble the wholesale rate study used in this case with emphasis on work performed by Nancy Stearman, CPA.

Bell Engineering contracted with Greensburg to use data assembled by the City to perform a wholesale water rate study. From the contract it was apparent that much or even most of the work would lie with City personnel or other consultants. The City indicated that we should submit our data requests and coordinate our efforts with Nancy Stearman, a CPA consultant for the City.

A meeting took place in Greensburg on January 15, 2010 between Nancy Stearman and me, Willis Jackson, to discuss how to proceed with the tasks needed to complete the study. During that meeting the structure of the study was laid out, what data would be needed and how it could be obtained. It became apparent that Ms. Stearman had a very in depth knowledge of the Greensburg accounting system and in every case knew where to obtain relevant data. As the work commenced, in some instances Ms. Stearman was able to run a computer report from the City records. In other instances, when it was necessary to look at individual invoices, she requested City staff go through their files. Nancy was also able to provide water volume data regarding production, use, and loss.

Operating expense data also had to be allocated between Intake/Treatment, Transmission/Distribution and Customer Costs. Some expense items could be identified as belonging to either treatment, transmission or customer costs. Others line items required an allocation procedure. Bell Engineering has performed this function in other rate cases but it was the opinion of all concerned that the most cost effective means in this Case was to have Nancy Stearman make operating cost allocations. She was obviously qualified, understood what had to be done and was local so that interviews with personnel were convenient and less expensive. The results of interviews and methods of allocation are provided in Appendix A of the Wholesale Rate Study. Bell Engineering was in a position of review and consultation for these items.

Ms. Stearman completed the first response to PSC data request prior to initiation of the Wholesale Rate Study. As a result of the rate study, there were other data requests both from the PSC and representatives of Green-Taylor Water District. A review of the

response to these requests makes it obvious that Nancy Stearman, a respondent to many questions, was instrumental in supplying much of the information for the report. Responding to these data requests were generally time-consuming, required additional data assembly, re-computation, and sometimes correction of prior submittals.

It is the opinion of the Bell Engineering that Greensburg was fortunate to have someone of her caliber to help shoulder a heavy data request on short notice and short deadline. In her absence, Bell Engineering would have had to handle more of the work with a net result of no savings in cost to the City.

Item 1

Respondent: Nancy J. Stearman, CPA

Question:

Provide a more detailed description of the services performed by Ms. Stearman for the work invoiced on March 2, 2010 and generally described as "Preparation of water rate study for submission to Public Service Commission, in consultation with Bell Engineering (122 hours)."

Response:

The City of Greensburg's decision to request a rate increase in August, 2009 was based on an evaluation done by Bell Engineering. After GTWD filed its rate protest with the Public Service Commission (PSC), the City became responsible for complying with the PSC's process and requirements. When it became clear that the City would have to go to the expense of a formal rate study, Bell Engineering was given the responsibility to produce the detailed water rate study.

The City maintains its financial data in compliance with governmental accounting standards and not in a form that complies with the PSC's need for a detailed rate study. Therefore, Bell Engineering requested that I extract and compile the City's data to produce the information they would need to prepare the detailed water rate study.

Mr. Willis Jackson of Bell Engineering determined the specific information that would be needed. I gathered both financial and non-financial data from the City's records and compiled it in a manner that produced the information he had requested.

The procedures I performed included, but were not limited to, the following:

- Analyzed the source documents (invoices, bank statements, check registers, etc.) for the disbursements expensed in the selected accounts.
- Reviewed City's water contract with GTWD.
- Extracted data from the audited FYE 06/30/09 trial balance, general ledger and audit report.
- Prepared attachments to describe each disbursement, identify the payee and describe how the expense was allocated.

- Obtained data related to gallons of water produced and :
 1. Sold to residential, commercial and wholesale customers
 2. Used in water plant processes
 3. Line loss
- Extracted statistics from water utility reports
- Summarized monthly data related to water production, water usage and water loss
- Gathered data to allocate personnel costs between treatment, distribution and customer care functions
- Interviewed City personnel to determine vehicle and equipment usage, sludge processing issues, job duties, work flow, pending construction projects, etc.
- Extracted data from personnel records and payroll records
- Extracted data from personnel job descriptions
- Allocated personnel wage and benefit costs by job function
- Allocated number of employees by job function
- Allocated utility, telephone, supply costs by job function
- Analyzed and summarized vehicle usage
- Extracted water expenses from audited FYE 06/30/09 general ledger
- Summarized allocation of general ledger water expenses among treatment, distribution and customer care functions
- Determined service address and location of utility meters for the purpose of allocating utility costs by function
- Summarized utility expenses by service address/meter location among treatment, distribution and customer care functions
- Determined location of telephone numbers for the purpose of allocating utility costs by function
- Summarized telephone expenses by location to treatment, distribution and customer care functions
- Analyzed current and prior year depreciation records by asset funding source to determine assets acquired with grant funds
- Analyzed and allocated depreciation expenses by treatment, distribution and customer care functions
- Analyzed debt service amortization records
- Summarized and allocated debt service expenses by function
- Extracted data from water revenue bond documents, ordinances, resolutions and note payable documents
- Reviewed and analyzed water bills for wholesale customer related to water purchased
- Extracted data from twelve monthly "Transaction Rate Summary" reports for water service type
- Extracted data from "Consumption Analysis" reports for water service type

- Interviewed Waste Connection personnel regarding sludge tonnage for test period
- Gathered sludge expenses:
 1. Determined location of utility meters for the purpose of identifying pump stations related to sludge handling
 2. Extracted selected utility costs from audited FYE 06/30/09 general ledger
 3. Summarized utility expenses related to sludge handling
- Analyzed current vs. prior year general ledger expenses (and related invoices) to determine cost increases
- Prepared P&L report allocation costs between water operations and sewer operations for test period
- Prepared report detailing vendor and amount of each allocated cost

Item 2

Respondent: Nancy J. Stearman, CPA

Question:

Provide a more detailed description of the services performed by Ms. Stearman for the work invoiced on June 11, 2010 and generally described as "Preparation response to the following (42 hours): 2nd data request of Public Service Commission, in consultation with Bell Engineering; Questions from Carryn Lee, representing Green Taylor Water District."

Response:

I gathered both financial and non-financial data from the City's records and compiled it in a manner that produced the information required to respond to the various data requests.

The procedures I performed included, but were not limited to, the following:

- Analyzed the source documents for each of the disbursements referred to in the data requests. Summarized the payee, amount, and nature of each selected disbursement to explain how the expenses were handled in the water rate study.
 1. Advertising
 2. Bank Service Charges
 3. Dues/Subscriptions
 4. Fees
 5. Extinguishment Loss
 6. Other- Miscellaneous
 7. Rent
 8. Training and Travel
 9. Website Hosting Fee
 10. Contractual Services
 11. Equipment Rental
 12. Repairs and Maintenance
 13. Computer and Software expense
- Gathered source documents for various general ledger expenses to explain cost increases
- Summarized calculations for selected general ledger expenses to explain cost increases
- Analyzed the source documents for the vendors referred to in the data requests. Summarized the payee, amount and nature of each disbursement to explain how the vendor expenses were all handled in the water rate study.

1. Bertram, Cox and Miller
 2. Mattingly Mediation
 3. H&R Jetting and Camera
 4. Hunt Tractor
 5. KLCIS
 6. Central Framers Supply
 7. Tommie Mills
- Summarized job duties for Laborers, City Clerk, Deputy City Clerk, Water & Sewer Clerk by treatment, distribution and customer care functions
 - Summarized and explained allocation of vehicle and equipment costs.
 - Extracted data from water revenue bond documents, ordinances, resolutions
 - Summarized "Fees" for each employee by job title
 - Summarized "Travel and Training" for each employee by job title
 - Prepared attachments and drafted my responses to various data requests from PSC and Ms. Carryn Lee

Commonwealth of Kentucky
Before the Public Service Commission
Case No. 2009-00428

In the matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE
WATER SERVICE RATES OF THE CITY OF
GREENSBURG, KENTUCKY

RESPONSE TO GTWD INTERROGATORIES AND REQUEST FOR ADMISSION DATED JUNE 29, 2010

INTERROGATORY NO. 1 –

Mayor George C. Cheatham, II
Greensburg City Hall
110 W. Court St.
Greensburg, KY 42743

Nancy J. Stearman, CPA
104 W. Court St.
P.O. Box 198
Greensburg, KY 42743

Willis D. Jackson
Bell Engineering
354 Waller Ave.
Lexington, KY 40504

Judy Weatherholt
110 W. Court St.
Greensburg, KY 42743

INTERROGATORY NO. 2 –

YES

INTERROGATORY NO. 3 –

- a) At the time of the rate increase in August of 2009, the City based its decision on an evaluation of the O&M financial situation by Bell Engineering. Therefore the information was not compiled in a manner that either complied with the City's original contract that called for audited financial data or the Public Service Commission's need for a detailed rate study.

Since GTWD immediately filed a rate protest with the Public Service Commission, complying with the Public Service Commission's process and requirements took precedence. That meant waiting on both the completion of the City's 2009 Financial Audit by the City's independent auditor, Mr. Bob Ryan, and then the detailed rate study produced by Bell Engineering and Ms. Stearman.

- b) Not in the form requested. Nor was the City's 2009 financial audit available or the data compiled in a manner required by the Public Service Commission.
- c) The City was required to produce the full rate study material in a manner compliant with the Kentucky Public Service Commission process and procedure.

REQUEST FOR ADMISSION NO. 1 –

At the time of the last rate increase request (approximately 2005), the city provided the data requested to GTWD and entered into negotiations with GTWD. At the request of GTWD, the Rural Water Association was asked to join the discussions to help with the process. Once negotiations broke down and GTWD filed their formal protest with the Public Service Commission, it became clear that the City would have to go to the expense of a formal rate study. At this time the decision was made to

withdraw the rate increase request since, by that point in time, we would be dealing with numbers that would have already been as much as eighteen months old.

REQUEST FOR ADMISSION NO. 2 –

The City did not request any reimbursement for cost associated with its last proposed wholesale water rate increase to GTWD (approximately 2005). As stated above, due to the length of negotiations with GTWD prior to the Public Service Commission involvement, the City chose to withdraw its 2005 rate increase proposal. This was primarily due to the age of the financial data by that point and the quoted cost of conducting a full blown rate study that would have been required to continue the PSC process.



CITY OF GREENSBURG

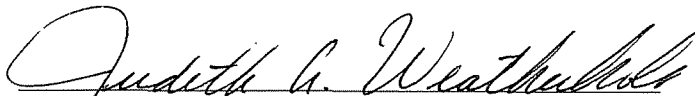
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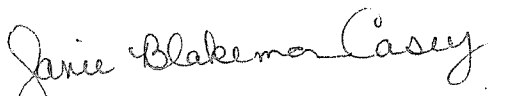
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July 7, 2010

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As Community and Economic Development Director, I gathered the responses from Willis Jackson, Bell Engineering; Nancy Stearman, CPA; and George C. Cheatham, II – Mayor of Greensburg to prepare the response packet to the Public Service Commission, John Henderson, Carryn Lee, and Green Taylor Water District and certify that the responses are true and accurate to the best of my knowledge, information and belief.


Judith A. Weatherholt
Community and Economic Development Director


my Commission expires
April 26, 2012

Mayor George C. "Lisle" Cheatham, II