

March 9, 2012

Executive Director  
Kentucky Public Service Commission  
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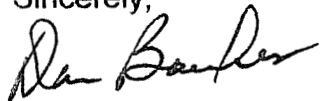
PUBLIC SERVICE  
COMMISSION

Re: Cunningham Water District Rate Case No. 2011-00455

Dear Sirs:

Attached is our response to the PSC Staff's data request in the above-referenced case.

Sincerely,



Dan Bowles, Chairman  
Cunningham Water District

## Cunningham WD Response to PSC Data Request

*Question 1. Refer to Cunningham's Application, Revenue Requirements Calculation, Adjustment B, Materials and Supplies Expense. Cunningham proposes to reduce its materials and supplies expense by 50% to reflect a normal ongoing expense level. A. Provide invoices and other billing documents to support Cunningham's proposed 50% reduction.*

**Answer:** Cunningham understands the PSC's need for documentation of proposed adjustments, but is confused by the requirement to provide invoices and other billing documents to prove that its expense level will go down. We simply believe we will purchase fewer materials and supplies than we did in the 2010 test year, and we are therefore unable to provide invoices for nonexistent purchases.

*B. Explain how the proposed adjustment meets the ratemaking criteria of being known and measurable.*

**Answer:** The 2010 test year expense for Materials and Supplies was \$13,225, an amount that Cunningham believes is much too high. Therefore, Cunningham proposed in its application to reduce this amount by 50% to \$6,613, an expense level which Cunningham feels is appropriate to meet its ongoing maintenance and repair needs. Materials and Supplies expenses tend to fluctuate from one year to the next depending upon line loss and other factors, and Cunningham's water system is aging. It is therefore important that this expense not be set too low, especially because Cunningham would prefer not to file rate cases too frequently. This year, Materials and Supplies Expense will be impacted by our plans to replace 55 meters at a cost of \$45 each (a total of \$2,475); to buy 6 yokes or meter setters at a cost of \$105 each (a total of \$630); to buy 150 feet of line at \$6 per foot to replace old lines (a total of \$900); and to replace the light on the water tank (cost unknown).

*C. Provide a schedule listing each amount included in this expense account, including: date paid; check number; vendor, description; and amount.*

**Answer:** By way of explanation, Cunningham's 2010 PSC Annual Report listed \$13,225 in Materials and Supplies Expense and \$675 in Chemicals Expense, and the total of these two accounts is \$13,900. To trace these amounts, the general ledger Profit & Loss statement provided with the 2010 General Ledger (in the Supplemental Exhibit Index of the ARF application) includes Accounts #65040 (Supplies) of \$3,650.29 and #65095 (Maintenance) of \$10,249.58, resulting in the same total of \$13,900. These two accounts are broken down as follows:

Date	Check #	Payee	Amount	Description
		<b>Maintenance</b>		
6/9	3233	Mott's Electric	\$115.00	Repair tower light
7/7	3244	CSS Pipe and Meter	\$675.00	Master Meter
8/16	3263	CSS Pipe and Meter	\$5,474.00	Waterline project-NRC
9/13	3271	Mott's Electric	\$661.21	Well pump relays
9/22	3282	CSS Pipe and Meter	\$2,480.00	200 ft. of 8" pipe
9/22	3283	CSS Pipe and Meter	\$468.00	12 meters
9/22	3289	CSS Pipe and Meter	\$376.37	80 ft. of pipe & fittings
			<b>\$10,249.58</b>	
		<b>Supplies - Chemicals</b>		
1/13	3173	Cont. Hydrodyne	\$81.11	Chemicals
10/21	3299	"	\$44.55	"
11/24	3313	"	\$170.19	"
			\$295.85	
1/6	3171	ADC	\$74.50	Chemicals
3/10	3203	"	\$130.00	"
6/14	3235	"	\$97.50	



**Answer:** We have no records to indicate exactly when Mr. Young was hired as the operator, but believe it was sometime between 2003 and 2006.

*C. State the date the \$800 monthly operator fee was initially established.*

**Answer:** The PSC Staff Report in Case No. 2007-00203 at Attachment A indicates that the monthly operator fee was increased to \$800 per month effective June 2006.

*D. Explain why a 25% increase in the operator fee is reasonable.*

**Answer:** The most recent increase to \$800 per month was effective June 2006, or almost 6 years ago. Since then, gasoline prices alone have increased substantially. Mr. Young lives many miles away from the Cunningham community, reads the meters and carries water test samples to Paducah, among his other duties. The Board feels it is unfair to continue to hold Mr. Young to his 2006 fees when his costs have increased substantially. In addition, Mr. Young has provided good contract services and stability in operations for at least the past six years, and his years of experience also warrant some increase.

*E. Provide the minutes of the Board of Commissioners' meeting in which the increased contract fee was approved.*

**Answer:** There are no minutes because the Board has not yet approved the increase for Mr. Young, but will do so if rates are sufficient to pay for it. For instance, if the PSC Staff recommends approval of the proposed increase in its Staff Report, the Board will then vote on the increase and provide documentation in response to the Staff Report.

*F. Explain how Cunningham's proposed adjustment meets the ratemaking criteria of being known and measurable.*

**Answer:** The proposed adjustment meets the ratemaking criteria of being known and measurable because the Board intends to approve it if new water rates are sufficient to pay for it, and will provide evidence of its approval if the PSC Staff Report agrees with us.

**Witness: Dan Bowles**

*Question 3. Refer to the Application, Revenue Requirements Calculation, Adjustment D, Insurance Expense. List each insurance premium reflected in the pro forma level of \$2,335. Include the provider, the premium period, coverage type, and the amount of the premium.*

**Answer:** Attached are recent bills from Cunningham's insurance carriers showing a commercial package totaling \$1,702 from Grange Insurance; a Kentucky Association of Counties All Lines Fund Policy totaling \$387.21; and two policies with CAN/Western Surety - each totaling \$203.60. This represents an updated total of \$2,496.41.

**Witness: Dan Bowles**

*Question 4. Refer to the Application, Revenue Requirements Calculation, Adjustment E, Miscellaneous Expense. Cunningham proposes to increase the fee paid to its bookkeeper from \$100 to \$200 per month. A. Explain why a 100% increase in this fee is reasonable and appropriate.*

**Answer:** The bookkeeper pays Cunningham's bills and also does treasury reports. In some months, the paper, envelopes and stamps would almost be this amount. The bookkeeper works a lot of hours for us and has never refused work, but I know the bookkeeper is not receiving a fair, just and reasonable salary. For instance, at a normal fee of \$25 per hour, we would be charged a lot more than \$200 because these duties require more than 8 hours per month.

*B. Provide the minutes of the Board of Commissioners' meeting in which Cunningham authorized an increase in its bookkeeper's fee.*

**Answer:** There are no minutes because the Board has not yet approved the \$100 per month increase, but will do so if rates are sufficient to pay for it. For instance, if the PSC Staff recommends approval of the proposed increase in its Staff Report, the Board will then vote on the increase and provide documentation in response to the Staff Report.

*C. Explain how the proposed adjustment meets the ratemaking criteria of being known and measurable.*

**Answer:** The proposed adjustment meets the ratemaking criteria of being known and measurable because the Board intends to approve it if new water rates are sufficient to pay for it, and will provide evidence of its approval if the PSC Staff Report agrees with us.

**Witness: Dan Bowles**

*Question 5. Refer to the Application, Revenue Requirements Calculation, Adjustment F, Depreciation Expense. Cunningham refers to a waterline replacement that costs approximately \$159,985. Describe how Cunningham funded the line replacement.*

**Answer:** The line replacement was funded by a grant from the Kentucky Infrastructure Authority which was handled by the Purchase Area Development District.

**Witness: Dan Bowles**

*Question 6. Refer to the Application...Cunningham paid \$1,700 to Kentucky Small Utility Consulting, LLC to prepare its rate case application. Given that 807 KAR 5:076 was modified to simplify the AFR process and that Cunningham relied upon Commission Staff assistance in preparing its two previous rate applications, explain why Cunningham sought the services of a consultant to prepare its application.*

**Answer:** Quite simply, Cunningham hired Kentucky Small Utility Consulting based on a firm belief that it would be more responsive to Cunningham's needs than would a government bureaucracy. Cunningham's two previous rate applications were prepared by a PSC staff member (Jack Kaninberg) who retired from the PSC at the end of 2008 and started Kentucky Small Utility Consulting, LLC, a sole-owner business, to specialize in providing rate case assistance and other services to small water and sewer utilities. In both cases, Denver Hammonds was the Treasurer of Cunningham Water District and worked closely with Mr. Kaninberg throughout the rate case assistance and approval process. Mr. Hammonds has since retired from Cunningham, but his knowledge of the process led him to recommend that Mr. Kaninberg be hired in this case.

Specifically, Mr. Hammonds in Cunningham's last rate case (Case No. 2008-00505) noted that Mr. Kaninberg provided rate case assistance in a very timely and responsive manner shortly before his retirement from the PSC on December 31, 2008. Cunningham filed its rate case on December 8, 2008, less than 30 days before Mr. Kaninberg retired from the PSC. Then, for reasons unknown, the PSC Staff Report was not issued until almost 6 months later on June 3, 2009 – and that Staff Report adopted in its entirety the contents of the application filed on 12/8/08. The Final Order approving new rates was not issued until July 6, 2009 – approximately 7 months after the filing of the case prepared by the PSC Staff.

For small utilities with limited cash reserves and cash flow, any failure to provide rate relief in a timely manner results in a real and quantifiable cost to the utility. The new rates approved in Case No. 2008-00505 resulted in an annual revenue increase of \$7,561 per year – or an additional \$630 per month. If the last rate increase had been approved within the Commission's stated goal of 90 days, Cunningham would have realized approximately four months of additional revenue at \$630 per month, so the four-month delay cost Cunningham approximately \$2,520 in lost revenues. This is more than the \$1,700 fee charged by Kentucky Small Utility Consulting in the current case.

In addition, small utilities often get varying results – both in terms of timeliness and results - from the PSC Staff depending upon the staff member assigned to the case, and this is true for both rate cases and rate case assistance projects. For instance, in this case Commission Staff has issued a data request and has not yet issued a Staff Report. In a recent PSC rate case prepared by Kentucky Small Utility Consulting and filed by a neighboring water utility less than four weeks before Cunningham's filing, the Commission has already approved new rates without the need for a data request. For small utilities unaccustomed to dealing with government bureaucracy, greater certainty in the rate case process in terms of both timeliness and results is a tremendous relief to them, and with currently existing regulatory variations and uncertainty, Cunningham believes the hiring of a knowledgeable outside consultant rather than Commission Staff helps ensure better and more timely results and better representation of Cunningham's interests.

Finally, the question implies that Cunningham should not have hired a consultant because 807 KAR 5:076 was changed to simplify the rate filing process. If so, it is unclear to Cunningham why its current case has been made more complicated than its neighboring utility's case with this data request and the necessary responses, which were not required of its neighbor. The fact that Cunningham's case has been made more complicated suggests that either the regulation's modification may not be working as intended, or that staff assignments and inconsistent ways of processing cases often dictate whether a rate case is more or less complicated.

**Witness: Dan Bowles**

*Question 7. Listed in Table 1 are payments recorded in the contractual services expense account that lack supporting invoices. For each item listed, provide a detailed description of the services that were provided to Cunningham.*

**Answer:** Table 1 shows one payment to Jessie Jones for \$375 and 8 payments totaling \$520 to Kevin Garrett. Jessie Jones grinded away three stumps from a right-of-way to allow a contractor to install a line, and Mr. Jones's service was not part of the contract. Kevin Garrett mows the grass at the water tower every two weeks.

**Witness: Dan Bowles**

*Question 8. Cunningham recorded in its contractual services expense account payments of \$1,200 to its Chairman, Dan Bowles. A. Describe the services that Mr. Bowles provided to Cunningham for the monthly payments of \$100.*

**Answer:** The services provided by Mr. Bowles were as follows:

- Pick up all deposits from the bank.
- Take all phone calls.
- Do turn-ons and turn-offs.
- Collect late payments.
- Collect and process all mail
- Take care of all leaks by notifying someone to fix them and ordering all parts.
- See to all other day-to-day operations.

*8B. State whether the Fiscal Court or the Board of Commissioners authorized the payments. If yes, provide the minutes of the Fiscal Court meeting or meeting of Cunningham's Board of Commissioners in which authorization was granted.*

**Answer:** Attached are the minutes of the Board of Commissioners' meeting from March 9, 2009 approving the payment of \$100 per month in expense money to Mr. Bowles.

**Witness: Dan Bowles**

*Question 9. Refer to Table 2, a representation of the Billing Analysis filed in the Application, and Table 3, the Billing Analysis created by Commission Staff using the Detail Report information provided by Cunningham in the Application. A. Explain the difference in the number of bills in Table 2 and in Table 3.*

**Answer:** The difference between the bills in Table 2 (1,811 bills) and Table 3 (1,822 bills) is 11 bills, which is slightly less than but approximately equaling one bill per month. Cunningham notes that the total revenue difference between Table 2 and Table 3 is immaterial ( $\$37,403.33 - \$37,198.101 = \$205.32$ , or less than 1%. Cunningham therefore defers to the billing analysis results achieved by PSC Staff.

*b. Explain the difference in the revenue calculated in Table 2 and the revenue stated in the Billing Analysis submitted in the Application.*

**Answer:** Cunningham is confused by the question, which calls Table 2 “a representation of the Billing Analysis filed in the Application” and yet asks for an explanation of the difference between it and “the Billing Analysis submitted in the Application.” Both Table 2 and the Billing Analysis result in \$37,403.33 in revenue, which is the normalized revenue figure used in the Application. In any event, Cunningham provided a billing analysis in conformance with the PSC’s alternative rate filing requirements, but defers to the PSC Staff for any corrections or adjustments to it – especially if the difference appears immaterial, as is strongly suggested by a comparison of Table 2 and Table 3.

**Witness: Dan Bowles**

*Question 10. Refer to the Billing Analysis filed in Cunningham’s Application. Below it is a table titled “2010 Billing Records Summary by Month.” A. Explain why Cunningham provided this information.*

**Answer:** Cunningham is aware that the PSC Staff either performs a billing analysis or verifies the billing analysis provided by the utility in every rate case, and that this process is often very time consuming. Cunningham therefore provided as much information as possible to attempt to save time and reduce the regulatory lag typically associated with getting new rates approved.

*b. Explain the Rate Revenue stated in this table in comparison to the rate stated in the Billing Analysis provided in Tables 2 and 3 above.*

**Answer:** The Rate Revenue stated in the Summary by Month totals \$37,512.64. The revenue from the Billing Analysis provided in the application is \$37,403.33, an immaterial difference of only \$109.31. Cunningham’s consultant is generally aware that PSC Staff billing analyses often produce results which differ substantially from reported revenues, and the reasons for those differences are often unclear. In this instance, the results of Cunningham’s billing analysis closely match the results reported in the Summary by Month, so the two results tend to support each other.

**Witness: Dan Bowles**

*Question 11. In the Detail Report, there is a column labeled “Previous Balance.” This column calculates to a total for the year of \$8,262.50. a. Explain this column in this report.*

**Answer:** The “Previous Balance” column indicates unpaid amounts owed from prior months. Most of Cunningham’s customers pay their bills in full and on time, and a review of the Detail Report shows that only a very few customers had past-due balances over \$100. Therefore, the \$8,262 figure is somewhat misleading and does not indicate that Cunningham has any significant collections problems.

*b. State whether Cunningham assessed a penalty for customer late payment. If no, explain why not.*

**Answer:** Cunningham does not assess a late fee. We’ve tried to charge it in the past, but the bank collects for Cunningham and could not enforce the late fees. And if a customer did not pay it and Cunningham put it on the next bill, it resulted in a bookkeeping mess that was not worth it.

**Witness: Dan Bowles**

*Question 12. Refer to the Statement of Adjusted Operations table filed in the Application. Explain the adjustment of \$2,400 to Water Sales of \$39,803.*

**Answer:** Simply put, the \$2,400 adjustment to Water Sales represents the difference between the reported sales of \$39,803 in the 2010 PSC Annual Report vs. the normalized sales resulting from the billing analysis which was submitted with the rate application. Presently, Cunningham lacks the specific information used to arrive at the 2010 PSC Annual Report revenues, but believes that the detailed billing information provided with the rate application constitutes the most reliable set of numbers upon which to establish new water rates.

**Witness: Dan Bowles**

*Question 13. At page 21 of its 2010 Annual Report, Cunningham states that Total metered Water Sales was \$39,803. Describe how this amount was calculated. Explain why the Billing Analysis in Cunningham's Application, as well as Tables 2 and 3, state total metered sales amounts that differ from this amount.*

**Answer:** Presently, Cunningham lacks the specific information used to arrive at the 2010 PSC Annual Report revenues, but believes that the detailed billing information provided with the rate application - and the PSC Staff's Billing Analysis - constitutes the most reliable set of numbers upon which to establish new water rates.

**Witness: Dan Bowles**

*Question 14. At page 23 of its 2010 Annual Report, Cunningham states that total water sold to customers was 7,946,000 gallons. Explain the difference between this amount and the amount in Billing Analysis Table 3 above.*

**Answer:** The difference between the Table 3 amount of 7,776,831 gallons and the 7,946,000 gallons is 169,169 gallons – a 2.1% difference. Presently, Cunningham lacks the specific information used to arrive at the 2010 PSC Annual Report statistics, but believes that the above-mentioned difference is immaterial and that the detailed billing information provided with the rate application constitutes the most reliable set of numbers upon which to establish new water rates.

**Witness: Dan Bowles**