

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE CITY OF) CASE NO.
PIKEVILLE TO MOUNTAIN WATER DISTRICT) 2019-00080

COMMISSION STAFF'S SECOND REQUEST FOR
INFORMATION TO THE CITY OF PIKEVILLE

The city of Pikeville (Pikeville), pursuant to 807 KAR 5:001, is to file with the Commission the original and six copies in paper medium of its responses to the following information, with a copy to all parties of record. The information requested is due on or before July 15, 2019. Responses to requests for information in paper medium shall be appropriately bound, tabbed and indexed

Each response shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Pikeville shall make timely amendment to any prior response if it obtains information that indicates that the response was incorrect when made or, though correct

when made, is now incorrect in any material respect. For any request to which Pikeville fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Pikeville shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Direct Testimony of Philip Elswick (Elswick Testimony), page 2 line 22. Mr. Elswick states that the city retained RateStudies, LLC (RateStudies), to prepare a cost-of-service study (COSS) because the wholesale rate for Mountain Water District (Mountain District) had not changed for several years.

a. Explain why the COSS was completed to set a rate for Mountain District and not Southern Water District.

b. Explain whether the COSS was used to set Pikeville's retail rates.

2. Refer to the Elswick Testimony, page 3 line 4.

a. Explain whether Pikeville is changing the rate design to Mountain District in this filing.

b. Explain whether a new contract between Mountain District and Pikeville must be signed if Pikeville is changing rate design.

c. If not, provide the rate schedule that will pertain to Mountain District.

3. Refer to the Elswick Testimony, page 3 line 7. Mr. Elswick states that Pikeville is seeking to recover reasonable rate case expenses.

a. Explain the estimated charge of \$2,500 per month for 36 months stated in this response.

b. Explain whether this amount is for both COSSs that have been completed.

4. Refer to the Elswick Testimony, page 4, line 12. Mr. Elswick states that Pikeville provided the initial COSS to Mountain District.

a. Explain how the initial COSS was presented to Mountain District.

b. Provide all materials and information concerning the initial COSS that was provided to Mountain District.

c. Explain if the COSS consultant, RateStudies, met with Mountain District in the presentation of the initial COSS presentation.

d. If RateStudies met with Mountain District, provide a summary of the meeting and all materials provided to Mountain District.

5. Refer to the Elswick Testimony, page 4, line 17. Mr. Elswick states that Pikeville requested that RateStudies produce a second COSS based upon the Debt Service Coverage similar to the methodology used by Commission Staff.

a. Explain how the second COSS was presented to Mountain District.

b. Provide all materials and information concerning the second COSS that was provided to Mountain District.

c. Explain whether the COSS consultant, RateStudies, met with Mountain District in this presentation of the second COSS presentation.

d. If RateStudies met with Mountain District, provide a summary of the meeting and all materials provided to Mountain District.

6. Refer to the Elswick Testimony, page 4, line 21. Mr. Elswick states that Pikeville offered to settle on a rate less than what was identified in the second COSS and without the rate case expense surcharge. Provide the rate offered to Mountain District in this attempt to settle the matter.

7. Refer to the Elswick Testimony, page 5, line 10. Mr. Elswick states that Pikeville's rate for wholesale water is less than several other water providers in the area; however, you do not state how these rates were set.

a. Provide the information on each of these wholesale provider rates referred to in your testimony that details the methodology on the setting of these rates.

b. Provide any information on each of these wholesale provider rates that detail the amount of water sold.

(1) Provide any information on if these wholesale providers produce their water or purchase their water.

(2) Provide any information concerning the financing of these wholesale providers method of financing their system.

8. Refer to the Elswick Testimony, page 7 line 5. Mr. Elswick states that Pikeville continued to negotiate with Mountain District. Provide all emails, minutes of meetings, letters or other documents related to these negotiations with Mountain District.

9. Refer to the Direct Testimony of Samuel R. Petty (Petty Testimony), page 2 line 14. Mr. Petty states that the COSS he prepared was the basis of the proposed wholesale rate to Mountain District was set. Explain if you also provided a COSS that set Pikeville's retail rates.

10. Refer to the Petty Testimony, page 2, line 22. Mr. Petty states that when Pikeville presented his COSS to Mountain District, Mountain District suggested that the Commission would not accept the methodology used in the initial COSS.

a. Provide all emails, minutes of meetings, letters or other documents related to this suggestion by Mountain District.

b. Explain in detail how the methodology in the American Water Works Manual M54 (Manual M54), Developing Rates for Small Systems, sets rates.

c. Explain how the methodology of the Manual M54 of your initial COSS is different from the Debt Service Coverage methodology used in your second COSS.

11. Refer to the Petty Testimony, page 4, line 1. Mr. Petty states that Mountain District utilizes 95 percent of the water mains inside the city.

a. Explain how Mountain District utilizes mains used within the city center.

b. Explain how effective this utilization is to providing water to Mountain District.

12. Refer to the Petty Testimony, page 4, line 17. Mr. Petty states that the revenue requirement would change slightly if the inch miles method was used. Provide the wholesale rate if this method had been used to set Mountain District's rate.

13. Refer to the COSS, page 4, Figure 3.

- a. Explain the entry "Public Water Works" in this figure.
- b. Explain why a portion of this amount is allocated to the wholesale customers.
- c. Explain the entry "Repairs and Maint."
- d. Explain why none of these costs are allocated to the Administration category.
- e. Explain why none of the Electric costs are allocated to Administration category.

14. Refer to the COSS, page 9, Figure 8.

- a. Explain the allocation percentage for Booster Stations of 50 percent.
- b. Provide the total number of Booster Stations and the number of Booster Stations used to provide Mountain District service.
- c. Explain the allocation of Line Maintenance.
- d. Explain why this allocation percentage is 48 percent.
- e. Explain Leak Detection and why these costs are allocated to the wholesale customer.
- f. Explain how the allocation percentage was determined to be 48 percent.
- g. Explain the allocation percentage of 48 percent for the Depreciation Lines.

15. Refer to the COSS, page 10, Figure 9.

- a. Explain the MWD Percent Variable.
- b. Provide how the MWD Percent Variable was determined.

16. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 10, Inside Water Adjusted Trial Balance for Fiscal Years Ending (FYE) June 30, 2017, and June 30, 2018, Item 22, Pikeville-Mountain Water District COSS Spreadsheets.

a. Confirm that the expenses in the schedule in Pikeville's COSS entitled "Inside Water Operating & Maintenance Expense – 2017" are actually the FYE June 30, 2018 Trial Balance unaudited operations and maintenance expenses.

b. Confirm that the total inside revenue – 2017 and the other income reported in Pikeville's COSS are the amounts reported in the Trial Balance for FYE June 30, 2017.

c. Provide a revised copy of the COSS using the FYE June 30, 2017, audited operation and maintenance expenses in an Excel spreadsheet format with all rows and columns unprotected and accessible.

d. Provide a schedule that lists the individual revenue subaccounts in the FYE June 30, 2017 Trial Balance that was combined to arrive at the total inside revenue for 2017 of \$2,256,339 as reported in the COSS.

e. Provide a schedule that lists the individual revenue subaccounts in the FYE June 30, 2017 Trial Balance that was combined to arrive at the total other income of \$252,335 as reported in the COSS.

17. In its Trial Balance for FYE June 30, 2017, Pikeville reports tap-on fee collections of \$24,510.

a. Provide the number of meters Pikeville installed in FYE June 30, 2017.

b. Identify the meter and labor costs that Pikeville removed from test-

year expenses and capitalized. Also, identify in the depreciation schedule the amount of depreciation included to recover the capital costs of the meter installations.

18. In its Trial Balance for FYE June 30, 2017, Pikeville reports water special revenue of \$150,303. Provide an itemized list of what is reported in this total amount.

19. Refer to Pikeville's responses to the Commission's June 10, 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 format that compares the depreciation lives in Pikeville's schedule 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 Pikeville's pro forma depreciation expense. Provide the recalculation of pro forma depreciation expense in an Excel spreadsheet Format with all formulas unprotected and with all rows and columns accessible.

20. Confirm that Utility Management Group LLC (UMG) is providing operational, maintenance, and management services to Pikeville for its water and wastewater divisions. Provide the date(s) UMG began providing these services to Pikeville.

a. Provide a copy of the original agreement between Pikeville and UMG and each subsequent agreement.

b. Provide a schedule comparing the UMG contract costs broken down by major functions for the FYE June 30, 2017 and 2018.

21. Provide all internal memoranda, correspondence, electronic mail messages

and other documents in which Pikeville officials analyzed, reviewed, or discussed the contract negotiations with UMG.

22. Explain if the Management Agreement with UMG has a provision that allows Pikeville to inspect or request copies of documents concerning the operation of its utility operations. If no, explain why not.

23. Provide all records, invoices, and documents concerning the operation of Pikeville's water treatment and distribution operations during the test period that are maintained by UMG.

24. Provide a profit and loss statement that includes all revenue and expense accounts of UMG attributable to work performed for Pikeville. All entries to these accounts to record allocation of UMG common costs shall be clearly marked and explained. All accounts should be referenced to the books of original entry referred to above.

25. Provide a schedule that lists all employees that were on UMG's payroll that were involved in the operation, maintenance, and management of Pikeville during the FYE June 30, 2017. For each employee listed provide:

- a. A form of employee identification;
- b. Employee position title;
- c. A brief description of each employees duties;
- d. The length of employment with UMG;
- e. The FYE June 30, 2017 salary or wage rate;
- f. The FYE June 30, 2017 regular hours and overtime hours worked;
- g. The percentage of the FYE June 30, 2017 salary that was reported

in a capital project;

- h. The FYE June 30, 2018 salary or wage rate; and
- i. The total employee salary paid in FYE June 30, 2017.

26. State whether UMG employees use direct time reporting to separate the actual hours worked between Pikeville's water division and sewer division.

a. If direct time reporting is used, separate for each employee the regular and overtime hours reported in the response to Item 25(f) between the two divisions.

b. If direct time reporting is not used, provide an estimate for the division between the two divisions the regular and overtime hours reported in the response to Item 25(f) for each employee and explain how UMG derived the estimate(s).

27. For each UMG employee listed in Item 25 provide the following employee benefit information. Provide the requested tables in an Excel spreadsheet format with all columns and rows unprotected and accessible:

- a. Health Benefit cost for each employee:
 - (1) Amount paid by UMG;
 - (2) Amount paid by each individual employee.
- b. Dental Benefits cost for each employee:
 - (1) Amount paid by UMG;
 - (2) Amount paid by each individual employee.
- c. Vision Benefits cost for each employee:
 - (1) Amount paid by UMG;
 - (2) Amount paid by each individual employee.

- d. Life Insurance cost for each employee:
 - (1) Amount paid by UMG;
 - (2) Amount paid by each individual employee.
- e. Accidental Death and Disability Benefits for each employee:
 - (1) Amount paid by UMG;
 - (2) Amount paid by each individual employee.
- f. 401(K) Plan cost for each employee:
 - (1) Amount paid by UMG;
 - (2) Amount paid by each individual employee.
- g. Defined Benefit Retirement cost for each employee:
 - (1) Amount paid by UMG;
 - (2) Amount paid by each individual employee.
- h. Cost of any other benefit available to an employee (specify).

28. Provide the information requested in Items 25 and 27 for the two Pikeville employees.

29. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 10, Inside Water Adjusted Trial Balance for Fiscal Years Ending (FYE) June 30, 2017, and June 30, 2018. For each expense listed below, explain how Pikeville allocated the expense between the separate utility division (Water, Sewer, Gas, and Garbage Collection).

a.	Gasoline	\$ 144,173.71
b.	Bank Charges-Water Revenue	\$ 3,889.81
c.	Dues	\$ 850.00
d.	Freight/Postage	\$ 1,349.44
e.	Office Supplies	\$ 2,488.80
f.	Purchase Software	\$ 1,844.52
g.	Repairs/Maintenance	\$ 139,076.81
h.	Repairs and Maintenance Plant	\$ 30,632.00
i.	Telephone/Public Works	\$ 8,205.92
j.	Electric	\$ 299,596.48
k.	City Utilities	\$ 4,445.42
l.	Workers Comp	\$ 285.75
m.	Salaries & Wages	\$ 21,293.81
n.	Payroll Tax	\$ 1,628.99
o.	Employee Benefit Insurance	\$ 7,566.81
p.	Pension Matching	\$ 8,718.74
q.	Unemployment Tax	\$ 126.98

30. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 10, Inside Water Adjusted Trial Balance for Fiscal Years Ending (FYE) June 30, 2017, and June 30, 2018. For each insurance expense account listed below, list each item included in the account total. Describe how each item contained in this expense was allocated between the separate utility division (Water, Sewer, Gas, and Garbage Collection). This description should identify each factor used to make the allocations and an explanation of how each factor was derived.

a.	Insurance Vehicle	\$ 2,443.03
b.	Insurance General Liability	\$ 26,436.47
c.	Insurance Other	\$ 254.50

31. Refer to Pikeville's responses to the Commission's June 10, 2019 Order, Item 10, Inside Water Adjusted Trial Balance for Fiscal Years Ending (FYE) June 30, 2017 and June 30, 2018.

- a. Describe the nature of the expenses labeled "Repairs/Maintenance."

b. Describe the nature of the expenses labeled “Repairs and Maintenance Plant.”

c. Explain how the two maintenance expense accounts were allocated between the separate utility division (Water, Sewer, Gas, and Garbage Collection). This description should identify each factor used to make the allocations and an explanation of how each factor was derived.

d. Explain the difference between the two maintenance expense accounts.

32. Refer to Pikeville’s responses to the Commission’s June 10, 2019 Order, Item 10, Inside Water Adjusted Trial Balance for Fiscal Years Ending (FYE) June 30, 2017 and June 30, 2018. Provide an analysis for bad debt expense of \$1,158.

33. Refer to Pikeville’s responses to the Commission’s June 10, 2019 Order, Item 1, FY 2017 Audit, page 50, Note J – Retirement Plan. Pikeville’s employees are participants of the County Employee Retirement System (CERS). Provide the total amount Pikeville actually contributed to the CERS in FYE June 30, 2017, and the amount of the contribution that was allocated to its water division. Explain how Pikeville’s CERS contribution was allocated to the water division.

34. Provide the following information concerning the costs for the preparation of this case:

a. A detailed schedule of expenses incurred to date for the following categories:

(1) Accounting;

- (2) Engineering;
- (3) Legal;
- (4) Consultants; and
- (5) Other Expenses (Identify separately).

For each category, the schedule should include the date of each transaction, check number or other document references, the vendor, the hours worked, the rates per hour, amount, a description of the services performed, and the account number in which the expenditure was recorded. Provide copies of contracts or other documentation that support charges incurred in the preparation of this case. Identify any costs incurred for this case that occurred during the base period.

b. An itemized estimate of the total cost to be incurred for this case. Expenses should be broken down into the same categories as identified in (a) above, with an estimate of the hours to be worked and the rates per hour. Include a detailed explanation of how the estimate was determined, along with all supporting workpapers and calculations.

c. Provide monthly updates of the actual costs incurred in conjunction with this rate case, reported in the manner requested in (a) above.



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P.O. Box 615
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DATED JUL 01 2019

cc: Parties of Record

NARUC Depreciation Practices for Small Water Utilities, Depreciation Service Lives

NARUC Account Number	Class of Plant	Average Service Life Range		Mid-Point Service Life
<u>Source of Supply & Pumping Plant</u>				
311.0	Structures and Improvements	35.0	40.0	37.5
312.0	Collecting & Impounding Res.	50.0	75.0	62.5
313.0	Lake, River and Other Intakes	35.0	45.0	40.0
314.0	Wells and Springs	25.0	35.0	30.0
315.0	Galleries and Tunnels	25.0	50.0	37.5
316.0	Supply Mains	50.0	75.0	62.5
317.0	Other Source of Water Supply Plant	30.0	40.0	35.0
<u>Pumping Plant</u>				
321.0	Structures and Improvements	35.0	40.0	37.5
324.7	Pumping Equipment	20.0	20.0	20.0
328.0	Other Pumping Plant	25.0	25.0	25.0
<u>Water Treatment Plant</u>				
	Structures and Improvements	35.0	40.0	37.5
	Water Treatment Equipment	20.0	35.0	27.5
<u>Transmission & Dist. Plant</u>				
341.0	Structures and Improvements	35.0	40.0	37.5
342.0	Reservoirs & Tanks	30.0	60.0	45.0
343.0	Transmission & Distribution Mains	50.0	75.0	62.5
344.0	Fire Mains	50.0	75.0	62.5
345.0	Services	30.0	50.0	40.0
346.0	Meters	35.0	45.0	40.0
347.0	Meter Installations	40.0	50.0	45.0
348.0	Hydrants	40.0	60.0	50.0
<u>General Plant</u>				
390.0	Structures and Improvements-General	35.0	40.0	37.5
391.0	Office Furniture & Equipment	20.0	25.0	22.5
392.0	Transportation Equipment	7.0	7.0	7.0
393.0	Stores Equipment	20.0	20.0	20.0
394.0	Tools, Shop and Garage Equip.	15.0	20.0	17.5
395.0	Laboratory Equipment	15.0	20.0	17.5
396.0	Power Equipment	10.0	15.0	12.5
397.0	Communication Equipment	10.0	10.0	10.0

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