

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED ADJUSTMENT OF)	CASE NO.
THE WHOLESALE WATER SERVICE RATES OF)	2019-00260
CENTRAL CITY MUNICIPAL WATER & SEWER)	

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
TO CENTRAL CITY MUNICIPAL WATER & SEWER

Central City Municipal Water & Sewer (Central City), pursuant to 807 KAR 5:001, is to file with the Commission the original and an electronic version of the following information. The information requested herein is due on October 7, 2019. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable and shall be appropriately bookmarked.

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 the 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.

Central City shall make timely amendment to any prior response if it obtains information which 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 Central City fails or refuses to furnish all or part of the requested information, Central City shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that 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, Central City 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 March 23, 2018, Letter of Conditions (Letter) sent by Rural Development (RD) to Mayor Barry Shaver in which RD states that if the conditions in the Letter are not met within 210 days, RD reserves the right to discontinue processing the application.

a. State whether RD proposed rates to Central City as a condition of receiving the RD loan and grant at issue that were different from those rates contained in the Letter at any time prior to March 23, 2018, and if so, provide the rates that RD proposed and state when RD proposed those rates.

b. Confirm that Central City did not satisfy the conditions discussed in the Letter within 210 days from the date of the Letter, and if Central City is not able to confirm, explain why it is not able to confirm.

c. State whether RD provided Central City an extension to satisfy the conditions in the Letter, and if so, identify the date on which RD provided Central City an extension, and identify the conditions for which Central City was granted an extension and the dates by which Central City must satisfy the conditions with any extension.

d. State whether RD amended the conditions included in the Letter after it sent the Letter, and if so, identify each condition that was amended or removed; identify the date on which the conditions were amended; and describe the circumstances under which the conditions were amended (i.e., did Central City request to amend the conditions, did RD demand it, and why).

e. If RD did not grant Central City an extension of time to satisfy any condition imposing rates on Muhlenberg County Water District (Muhlenberg District) and Muhlenberg County Water District No. 3 (Muhlenberg District No. 3) (collectively, the Muhlenberg Districts), explain why Central City did not file a tariff with new wholesale rates until July 2019.

2. Refer to “Ordinance Bill #2019-10” provided in response to the Commission’s July 30, 2019 Order, Item 25, and “Ordinance Bill #2019-10” provided in response to the Muhlenberg Districts’ First Request for Information (Districts’ First Requests), Item 43.

a. Explain why Central City has two ordinances, both identified as Ordinance Bill #2019-10, that are adopting different rates for both “In-town users” and

“Retail Users of water outside the city limits with or without sewer service,” and explain what prompted the change in rates between the two ordinances.

b. Identify which Ordinance Bill #2019-10 received a first reading, if any, and if so, state when it received a first reading. If the first reading date does not match the first reading date indicated on the document provided, explain the discrepancy.

c. Identify which Ordinance Bill #2019-10, if any, was adopted by Central City, and if so, state when it was adopted.

d. If one of the ordinances did not receive a first reading or was not adopted, explain why it was provided in response to a request for information.

e. Provide and explain every reason why the rates in Ordinance Bill #2019-10 attached to Central City’s response to the Commission’s July 30, 2019 Order, Item 25, and the rates in the Letter do not match.

f. Provide and explain every reason why the rates in Ordinance Bill #2019-10 filed in response to the Districts’ First Request, Item 43, and the rates in the Letter do not match.

g. Identify all rates for all customer classes that Central City contends RD currently requires it to implement, including rates for the Muhlenberg Districts and rates for customers served directly by Central City.

h. Identify and provide every ordinance, if any, adopting the rates Central City contends RD is requires it to implement, including rates for Muhlenberg District and Muhlenberg District #3 and rates for customers served directly by Central City.

3. In its response to Items 3 and 4 of the Commission's July 30, 2019 Order, Central City explained that "to the extent that it is necessary to identify a test year for the reasonableness of rates, FY 2019 (July 2018-June 2019) should be used." However, Central City did not identify if it is proposing to use either a historical test year or a forecasted test year in this proceeding. Identify which form of test year Central City is proposing to use and explain how each adjustment made to the fiscal year ending June 30, 2019, in its updated Cost-of-Service Study (COSS)¹ complies with the type of test year selected.

4. In its response to Item 5 of the Commission's July 30, 2019 Order, Central City supplied a Bond Ordinance for the Water and Sewer Revenue Bonds, Series 2012 A (Series 2012 A Bonds) of \$8,000,000 and the Water and Sewer Revenue Bonds, Series 2012 B (Series 2012 B Bonds) of \$6,450,000.

a. The purpose for the bond issuance was to fund "the construction of extensions, additions and improvements to the existing combined and consolidated water and sewer system of said city." Provide a detailed description of the water and sewer projects that were funded by Series 2012 A Bonds and the Series 2012 B Bonds.

b. Provide a breakdown of the Series 2012 A Bonds and the Series 2012 B Bonds between the amounts used to fund the sewer and the water capital projects.

c. Provide a separate amortization schedule for the Series 2012 A Bonds and the Series 2012 B Bonds that were used to fund the water capital project(s). The amortization schedules should include annual interest and principal payments.

¹ Central City's responses to the Commission's July 30, 2019 Order, Item 22.

d. Provide a detailed explanation as to how the annual debt service payments for the Series 2012 A Bonds and the Series 2012 B Bonds are allocated between the water and sewer divisions.

e. Provide a detailed explanation as to how the construction projects funded with for the Series 2012 A Bonds and the Series 2012 B Bonds improved or impacted Central City's ability to provide wholesale water service to Muhlenberg County Water District (Muhlenberg District) and Muhlenberg County Water District No. 3 (Muhlenberg District No. 3).

5. In its response to Item 5 of the Commission's July 30, 2019 Order, Central City supplied a Bond Ordinance for the Water System Revenue Bonds, Series 2014 (Series 2014 Bonds) of \$1,950,000.

a. The purpose for the bond issuance was to fund "the construction of extensions, additions and improvements to the water system." Provide a detailed description of the projects that were funded by Series 2014 Bonds.

b. An amortization schedule for the Series 2014 Bonds is not attached to the Ordinance. Provide the requested amortization schedule for the Series 2014 Bonds.

c. Provide a detailed explanation as to how the construction projects funded with the Series 2014 Bonds improved or impacted Central City's ability to provide wholesale water service to Muhlenberg District and Muhlenberg District No. 3.

6. In its response to Item 5 of the Commission's July 30, 2019 Order, Central City supplied a Resolution for the 2013 Kentucky Rural Water Finance Corporation (KRWFC) loan for \$970,000.

a. The purpose in the resolution for the 2013 KRWFC loan was “to refinance and currently refund its outstanding City of Central City Water and Sewer System Revenue Bonds, Series 1989 (Series 1989 Bonds), dated October 25, 1990.” Provide a detailed explanation of the project(s) that was originally financed by the Series 1989 Bonds.

b. Provide a detailed explanation as to how each capital project originally funded with the Series 1989 Bonds improved or impacted Pikeville’s ability to provide wholesale water service to Muhlenberg District and Muhlenberg District No. 3.

7. In its response to Item 5 of the Commission’s July 30, 2019 Order, Central City supplied a Bond Ordinance for the Water and Sewer Revenue Bonds, Series 2019 A (Series 2019 A Bonds) of \$10,400,000 and the Water and Sewer Revenue Bonds, Series 2012 B (Series 2019 B Bonds) of \$4,020,000.

a. The purpose for the bond issuance was to fund “the construction of extensions, additions and improvements to the existing combined and consolidated water and sewer system of said city.” Provide a detailed description of the water and sewer projects that were funded by Series 2019 A Bonds and the Series 2019 B Bonds.

b. Provide a breakdown of the Series 2019 A Bonds and the Series 2019 B Bonds between the amounts used to fund the sewer and the water capital projects.

c. Provide a separate amortization schedule for the Series 2019 A Bonds and the Series 2019 B Bonds that were used to fund the water capital project(s). The amortization schedules should include annual interest and principal payments.

d. Provide a detailed explanation as to how the annual debt service payments for the Series 2019 A Bonds and the Series 2019 B Bonds are allocated between the water and sewer divisions.

8. Provide a detailed explanation as to how the construction projects funded with for the Series 2019 A Bonds and the Series 2019 B Bonds improved or impacted Central City's ability to provide wholesale water service to Muhlenberg District and Muhlenberg District No. 3.

9. Refer to Central City's response to the District's First Request, Items 29 and 30, in which Central City indicates that the proceeds from the Series 2019 A Bonds and the Series 2019 B Bonds were used to refinance prior existing debt and that the debt service for those bonds was not used in determining the proposed rates.

a. Provide the annual interest expense in the most recent fiscal year before the debt was refinanced for the debt that was refinanced by the 2019 bonds and the expected annual interest expense for the 2019 bonds in the first year after the bonds were issued.

b. Explain any other expected increases or decreases in the expected debt service between the debt that was refinanced by the 2019 bonds and the 2019 bonds.

10. Refer to Central City's responses to the Commission's July 30, 2019 Order, Item 9, Depreciation Schedule and to Central City's responses to Commission Staff's First Request for Information (Staff's First Request), Item 2.a, a schedule comparing of the Central City's depreciation lives to the average service life ranges in the National Association of Regulatory Utility Commissions (NARUC) survey.

a. Both depreciation schedules are titled "Tax Asset Detail 7/01/17 - 6/30/18." Provide Central City's depreciation schedule for the fiscal year ending June 30, 2019. Include a copy of the fiscal year ending June 30, 2019 depreciation schedule in an Excel spreadsheet format.

b. Confirm that the depreciation schedule provided by Central City is the schedule used by the Auditor to calculate depreciation expense for the 2018 Audit.

c. If the response to 7.b is no, provide the depreciation schedule used by the Central City's Auditor to prepare the fiscal years ending June 30, 2018, and June 30, 2018.

d. Explain why Central City only has Transmission and Distribution mains of \$297,726 recorded in its fiscal year ending June 30, 2018 depreciation schedule, as shown in the schedule below.

NEW WATER LINE ON HIGHWAY 70-3/30/79	8,443
NEW WATER LINE-NEW PLANT-3/15/72	5,715
NEW WATER LINE (RESERVOIR TO 4-WAY STOP)-11/7	273,568
8" Valve Installation	<u>10,000</u>
Total Transmission & Distribution Mains	<u><u>297,726</u></u>

11. Refer to Central City's responses to the Commission's July 30, 2019 Order, Item 22, COSS.

a. Provide itemized calculations of the following principal and interest payments Central City included in its 2019 updated COSS.

Description	Amount
a. Current RD Debt - Principal FYE 6/30/2019	210,500
b. Current RD Debt - Interest FYE 6/30/2019	340,975
c. Current RD Debt - Principal FYE 6/30/2019 + Project	227,500
d. Current RD Debt - Interest FYE2019 + Project	335,713
e. New RD Debt - Principal FYE2019 + Project	12,975
f. New RD Debt - Interest FYE2019 + Project	23,375

b. Provide an itemized calculation of the debt service reserve of \$80,075, and the short-lived asset reserve of \$50,020 that Central City reported in the column FYE 2019 + Project.

c. Note 5 of the 2019 updated COSS states, “60% of total depreciation for water and sewer system per FYE2019 Financial Statement Estimates.” However, 60 percent of the 2019 total depreciation for the water and sewer system of \$1,040,924² is \$624,554, not the reported amount of \$604,180. Provide a detailed explanation for the difference of \$20,374 and include in Central City’s response an itemized calculation to support the depreciation reported in column FYE 06/30/2019 Financial Report.

d. Provide a separate schedule calculating the depreciation expense for the proposed construction project and explain if the depreciation expense for the proposed project is included in the depreciation expense of \$764,723 column FYE 2019 + Project.

e. Explain whether RD included depreciation expense in the calculation of Central City’s revenue requirement and/or the \$3.31 wholesale water rate.

² Refer to Central City’s responses to the Commission’s July 30, 2019 Order, Item 9, Depreciation Schedule, Column Tax End Depreciation.

f. Provide a schedule for each operating expense category listed below that lists each individual item that is included in the category. The schedule should include the date of the transaction, the vendor name, a description of each item, and the amount.

a. Water Plant Operation	\$	854,338
b. Water Distribution & Transmission	\$	383,790

12. Refer to the spreadsheet Central City provided in response to Staff's First Request, Item 3.

a. Explain generally what Central City is attempting to represent in the "Project Only" columns of the "Update 2019 with 18audit" tab, the "Update 2019 with 19FS" tab, and the "Per 2017" tab.

b. Provide an itemized calculation of the increase in operating income from "City," "MCWD" and "MCWD#3" shown in the "Project Only" columns of the "Update 2019 with 18audit" tab, the "Update 2019 with 19FS" tab, and the "Per 2017" tab, i.e., showing the rates, volumes, number of customers, customer charges, etc. used to calculate the increased revenue.

c. Provide each document referred to in the notes as a basis for the adjustments made in the "Project Only" columns of the "Update 2019 with 18audit" tab, the "Update 2019 with 19FS" tab, and the "Per 2017" tab.

13. Refer to Central City's response to Muhlenberg Districts' First Request, Item 33, in which Central City provided an explanation of David Rhoades duties as City Administrator.

a. State the amount of time David Rhoades spends on average completing his duties as City Administrator each month, and explain how Central City

determined or estimated the amount of time David Rhoades spends completing his duties as City Administrator each month.

b. State the amount of time David Rhoades spends on average completing his duties for Central City Municipal Water and Sewer, and explain how Central City determined or estimated the amount of time David Rhoades spends completing his duties for Central City Municipal Water and Sewer each month.

c. State what, if any, portion of the expense for David Rhoades's salary and benefits that Central City contends should be allocated to something other than Central City Municipal Water and Sewer, and explain all bases for Central's City's response.

14. Refer to the attachment to Central City's response to the Commission's July 30, 2019 Order, Item 6, in which Central City provides a list of employees and allocates their compensation between water and sewer.

a. Identify each employee listed in the attachment who performs work for any city division other than Central City Municipal Water and Sewer, describe the job duties each such employee performs for other city divisions, and identify the amount of time each such employee spends on his or her job duties for other city divisions as compared to the time he or she spends on work for Central City.

b. For each employee listed on the attachment who performs work for divisions other than Central City, state what, if any, portion of the expense for their salary and benefits Central City contends should be allocated to those other divisions, and explain all bases for Central's City's responses.

15. Refer to Central City's response to the Commission's July 30, 2019 Order, Item 8, in which Central City stated that the 60/40 methodology for allocating expenses between water and sewer operations appears to be appropriate "for a variety of reasons" and may be "under allocating expenses to the water operations based on certain factors."

a. State when Central City first adopted the 60/40 methodology, and explain its reasons for doing so.

b. Describe any material changes in the size and cost of Central City's water operations relative to its sewer operations from the time it adopted the 60/40 methodology.

c. Identify and describe every basis for Central City's contention that the 60/40 methodology may be under allocating expenses to the water operations.

d. If the 60/40 methodology is under allocating expenses to the water operations, describe what methodology Central City contends would more accurately allocate expenses, and explain Central City's bases for that contention.

16. Refer to Central City's response to the Commission's July 30, 2019 Order, Items 22, 23, and 24, in which Central City provided and referenced a "rate analysis" prepared by Michael McGhee that appears to show McGhee's calculation of Central City's overall revenue requirement but which does not demonstrate how that revenue requirement should be allocated to wholesale customers, "In-town users" or "Retail Users of water outside the city limits with or without sewer service."

a. Explain how McGhee allocated costs between wholesale customers, "In-town users" and "Retail Users of water outside the city limits with or without sewer service" to "calculate that the wholesale rate should be \$3.34 per 1,000 gallons" as stated

in response to the Commission's July 30, 2019 Order, Item 22, and explain each basis for McGhee allocating the revenue requirement in that manner.

b. State whether Central City ever proposed any allocation of its revenue requirement between wholesale customers, "In-town users" and "Retail Users of water outside the city limits with or without sewer service" to RD, and if so, provide the allocation Central City proposed to RD, and explain how and why it proposed allocating Central City's revenue requirement between wholesale customers, "In-town users" and "Retail Users of water outside the city limits with or without sewer service" in that manner.

17. Refer to Central City's response to the District's First Request, Item 42 in which it states that the "City's engineer provided financial data to Rural Development that proposed an approximate 26% increase to volumetric rates."

a. Provide the "financial data" Central City's engineer provided to RD, and if it has already been provided, identify it as the information provided to RD.

b. Identify Central City's "engineer" as used in that response.

c. State whether Central City's engineer proposed a 26% increase in volumetric rates across the board, i.e., a 26% increase in the volumetric rates for wholesale customers, "In-town users" and "Retail Users of water outside the city limits with or without sewer service," and if not, identify the customers to which Central City's engineer proposed applying the 26% increase and explain why the engineer proposed that allocation.

d. If Central City's engineer proposed a 26% increase in volumetric rates across the board, explain each of his bases allocating the increase in the revenue requirement in that manner.

18. Provide the total gallons of water sold to Muhlenberg District, Muhlenberg District #3, and all other customers collectively in FY 2016, FY, 2017, FY 2018, and FY 2019.

19. State whether Central City invested in any plant to provide capacity to satisfy any expected demand of Muhlenberg District or Muhlenberg District #3 that is no longer fully used due to an unexpected decrease in demand from Muhlenberg District or Muhlenberg District #3, and explain the basis for Central City's response.

20. Assuming that Central City failed to provide notice to or otherwise failed to consult with Muhlenberg District or Muhlenberg District #3 in violation of the relevant contracts as alleged by the districts, state Central City's contention as to whether such contract violations should prevent Central City from recovering all or a portion of its rate case expenses even if the Commission otherwise finds Central City's rates are justified. Explain each basis for Central City's response.

21. a. State whether Muhlenberg District or Muhlenberg District #3 requested in the last three years that Central City contract with them in writing to commit a portion of Central City's storage capacity to Muhlenberg District or Muhlenberg District #3.

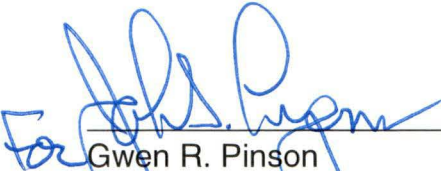
b. State whether Central City agreed to contract with Muhlenberg District or Muhlenberg District #3 as requested by either Muhlenberg District or Muhlenberg District #3.

c. If either Muhlenberg District or Muhlenberg District #3 requested that Central City contract with them in writing to commit a portion of Central City's storage capacity to Muhlenberg District or Muhlenberg District #3 and Central City did not agree

to contract to do so, explain why any portion of the costs and expenses associated with Central City's storage facilities should be allocated to Muhlenberg District or Muhlenberg District #3.

22. Provide all letters, emails, facsimiles, and other written communications between Central City or representatives of Central City and RD since March 23, 2018.

23. Provide all letters, emails, facsimiles, and other written communications sent prior to March 23, 2018, between Central City or representatives of Central City and RD regarding or related to the RD loan or grant referenced in the Letter.



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DATED SEP 27 2019

cc: Parties of Record

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