

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED ADJUSTMENT OF)	CASE NO.
THE WHOLESALE WATER SERVICE RATES OF)	2019-00444
PRINCETON WATER AND WASTEWATER)	

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
TO PRINCETON WATER AND WASTEWATER

The Princeton Water and Wastewater (Princeton), 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 is due on or before February 21, 2020. 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 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.

Princeton 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 Princeton

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, Princeton 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 Princeton's responses to the Commission's January 10, 2020 Order, Item 4 and Item 5.

a. Provide a pro forma income statement for the test year, 2019 fiscal year ending June 30, 2019, using the table below. The income statement should use the revenue and expense subaccounts listed in the trial balance.

	2019 Fiscal Year <u>Operations</u>	Pro Forma <u>Adjustments</u>	Pro Forma <u>Operations</u>
Operating Revenues			
Operating Expenses			
Net Utility Income			
Nonutility Income			
Income available for Debt Service			

b. Provide copies of all workpapers, calculations, and assumptions used to develop Princeton's pro forma adjustments. Include any documentation that shows that the pro forma adjustments are known and measurable.

c. Provide responses to Items 1.a and 1.b in Excel spreadsheet format with formulas unprotected and all rows and columns fully accessible.

2. Calculate Princeton's revenue requirement using the table below:

	<u>Amounts</u>
Pro Forma Operation & Maintenance Expenses	\$ -
Pro Forma Depreciation	<u>0</u>
Pro Forma Operating Expenses	0
Plus: Average Annual Debt Principal and Interest Payments	0
Debt Coverage Requirement	<u>0</u>
Total Revenue Requirement	0
Less: Other Operating Revenue	0
Non-operating Income	0
Interest Income	<u>0</u>
Revenue Required from Rates	0
Less: Normalized Revenues from Water Sales	<u>0</u>
Required Revenue Increase/(Decrease)	<u>\$ -</u>
Percentage Increase	<u>0.00%</u>

3. 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).

(6) For each category, the schedule should include the date of each transaction, the check number or other document references, the vendor, the hours worked, the rates per hour, the 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 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.

4. Refer to Princeton’s responses to the Commission’s January 10, 2020 Order, Item 1, the Direct Testimony of Tracy B. Musgove (Musgove Testimony), page 3. Among the factors that have prompted Princeton to request an increase in the wholesale water rate are “the mandated increases in the state retirement system, accounting changes mandated by General Accounting Standards Board (GASB) Pronouncement No. 68, GASB Pronouncement No. 74 and GASB Pronouncement No. 75 regarding the recognition of future pension costs and other postemployment benefits (OPEB).”

a. The Kentucky General Assembly establishes the CERS employer contribution rate that will become effective on July 1 of each calendar year. Provide the total amount Princeton actually contributed to the CERS in fiscal years 2015 through 2019

and the amount of each contribution that was allocated to its water division. Explain how Princeton's CERS contribution was allocated to the water division.

b. Provide the CERS employer contribution rate that became effective on July 1 in fiscal years 2015 through 2019.

c. Provide a schedule that compares Princeton's reported CERS pension expense and conforms to the requirements of GASB Pronouncement No. 68 in fiscal years 2015 through 2019.

5. At page 4 of her testimony, Ms. Musgove states "A review of the past year's billing information was then completed and it became apparent that the smaller users were subsidizing the larger users (a hallmark of a declining block rate structure)." Provide a copy of any analysis, study, or documentation that supports Ms. Musgove's statement.

6. At page 4 of her testimony, Ms. Musgove explains that:

In lieu of performing an expensive cost of service study, Princeton accepted the free services of Stephen Lapp and Tom Roberts of the University of North Carolina Environmental Finance Center. Prior to delving into rate structures, Mr. Lapp and Mr. Roberts analyzed Princeton's audits to determine strengths and weaknesses of Princeton's finances and then performed an affordability study to see the effects a rate increase might have on Princeton's population.

a. Given that Princeton relied on an Affordability Study that was prepared by Mr. Lapp and Mr. Roberts, explain why Mr. Lapp and Mr. Roberts did not provide prefiled testimony to support the study they prepared.

b. Explain whether Ms. Musgove is able to respond to any questions regarding the mechanics of the Affordability Study.

c. Explain in detail how the Affordability Study was used in the development of Princeton's proposed wholesale rate.

d. Cite any other jurisdictions that have accepted an Affordability Study in lieu of a Cost-of-Service Study (COSS) or an across-the-board increase in rates.

7. In its response to Item 6.c of the Commission's January 10, 2019 Order, Princeton provided a locked copy of its Affordability Study. Provide an unlocked copy of the Affordability Study with all inputs and outputs fully accessible.

8. In its response to Item 6.c of the Commission's January 10, 2019, Order, Princeton explained that the proceeds of the United States Department of Agriculture (USDA) Series 2019 Bond were used to construct a new 16-inch transmission line to feed the Industrial Park Tank; to fund a major rehab of the Skyline Tank; and to fund the switch-over of service on the Sandlick Road around the UK Experiment Station to the high-level system, improving the water quality and water pressure in the area.

a. Explain in detail how the water construction project funded with the USDA Series 2019 Bond improved or impacted Princeton's ability to provide wholesale water service to either Lyon County Water District or to Caldwell County Water District.

b. Provide a copy of the engineering report or any other documentation that has a breakdown of the construction project costs funded with the proceeds of the USDA Series 2019 Bonds into its separate components and includes construction overheads.

9. Refer to Princeton's Responses to the Commission's January 10, 2019 Order, Items 10 and 11. Princeton is currently is paying 100 percent of each employees health insurance coverage. Explain whether Princeton, through an outside consultant or otherwise, performed a study or survey to compare its wages, salaries, benefits, and other compensation to other local or regional enterprises.

a. If comparisons were made, provide and discuss the results of such comparisons. Include the results of the study or survey with your response, including all workpapers.

b. If comparisons were not made, explain why such comparisons were not performed.

c. Explain whether Princeton's policy of paying 100 percent of the health insurance benefits for its employees is consistent with the policies of the other companies in Princeton's service territory.

10. Refer to Princeton's responses to the Commission's January 10, 2019 Order, Item 32.b. Princeton currently allocates the salaries and benefits paid to its Superintendent and Director of Finance evenly between its water and wastewater divisions. Provide a copy of any time study or analysis that Princeton has had completed to support its 50/50 allocation.

11. Refer to Princeton's Responses to the Commission's January 10, 2019 Order, Item 32.d. Princeton explains that the maintenance department expenses are randomly allocated with 45 percent going to water and 55 percent going to wastewater.

a. Provide a schedule that lists each item included in the total maintenance department costs and include the following for each item: the purchase or service date; the vendor; the check number; a detailed description of the item; and the amount. Include invoices to support each item contained in the schedule.

b. Provide a copy of any time study or analysis that Princeton has had completed to support its 45/55 allocation.

c. Explain how an expense allocation defined as “random” or an allocation based on an employee’s opinion would meet the ratemaking criteria of being known and measurable.

d. In its response, Princeton states that the 45/55 allocation was the allocation prior to the last GASB & OPEB audit adjustment, which posted after these worksheets were completed. Provide detailed calculations to show how GASB and OPEB audit adjustments would impact the allocation of maintenance expense between the two divisions.

12. Provide the number of customers served by Princeton’s water and wastewater divisions as of the end of fiscal years 2015 through 2019.

13. Refer to Princeton’s responses to the Commission’s January 10, 2020 Order, Item 14, 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 (NARUC Survey). A copy is hereby attached.

a. Provide a schedule in Excel spreadsheet format that compares the depreciation lives in Princeton’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 Princeton’s pro forma depreciation expense. Provide the recalculation of pro forma depreciation expense in Excel spreadsheet format with formulas unprotected and all rows and columns fully accessible.

14. Refer to Princeton's responses to the Commission's June 10, 2019 Order, Item 14, Depreciation Schedule. Provide any analysis or study prepared by Princeton or its auditors showing that Princeton's Capitalization Policy and depreciation lives are reasonable.

15. Refer to the Musgove Testimony, page 4. The testimony states that Princeton decided to take steps to replace the old, declining block-tiered method and move to a uniform rate structure that would be a more fair and equitable system for its customer base after researching water rates and trends in the industry.

a. Explain how Princeton's research into the trends in the industry assisted Princeton in setting its retail customer rates, and how this assisted Princeton in setting its wholesale customers rates.

b. Explain how Princeton was able to determine trends in the industry were an integral part of its attempt to move toward a uniform rate structure.

c. Explain whether Princeton's research included any COSS filed in rate cases with this Commission.

d. Explain whether Princeton's research included any COSS performed by Commission Staff that was filed in a rate case with this Commission.

e. Provide any bid request by Princeton from any COSS expert or ratemaking expert

f. Provide any research that Princeton performed in the industry and the trends in water service rates.

g. Additionally, provide the name of any industry expert that Princeton sought assistance from in its research of the industry and the trends in water service rates.

16. Refer to the Musgove Testimony, page 4. The testimony states that, prior to this increase, city retail customers at the lowest residential customer tier were paying \$5.73 per 100 cubic feet. The largest users, including wholesale customers, paid only \$2.29 per 100 cubic feet.

a. Explain how the rates were calculated to arrive at these steps.

b. Explain the differences in the demand placed upon the system by residential customers, larger customers, and wholesale customers.

c. Explain how the demand on the system was taken into consideration in the development of the rate of \$2.97 per 100 cubic feet.

17. Refer to the Musgove Testimony, page 7. The testimony states that the proposed rates are less than what the COSS would justify based on revenue and expenses as verified by a current Independent Auditor's Report and as adjusted by known and measurable expenses.

a. Explain how Ms. Musgove came to this conclusion since Princeton failed to do a COSS or any other type of analysis.

b. Explain how Ms. Musgove concludes that having revenue and expenses stated in an Independent Auditor's Report justifies the wholesale rate determined by Princeton is being a fair, just, and reasonable rate.

c. Explain how the Affordability Analysis set the wholesale rate.

18. Refer to the Musgove Testimony, page 8. The testimony states that Princeton will amortize the total rate case expense over a 36-month period and split the amount equally between each of the water districts.

a. Provide support for the 36-month amortization.

b. Explain why Princeton proposes a 36-month amortization period given that there has been more than since the last increase to Caldwell District and Lyon District.

19. Refer to Staff's First Request for Information (Staff's First Request), Item 18(c).

a. Explain whether Princeton charges any meter or customer charge to Lyon District for the seven master meters.

b. Explain whether Princeton charges any meter or customer charge to Caldwell District given that Caldwell District owns the master meters.

20. Refer to the Staff's First Request, Item 23.

a. Provide support for the 30.392 percent of water that is produced and used for Plant Use, Other Internal Use, Flushing, and Fire Protection¹.

1	Plant Use of	12,815,940
	Other Internal Use of	5,769,077
	Flushing and Fire Protection of	<u>33,527,254</u>
	Total	52,112,271
	divided by Total Produced	502,417,000
	Equals	30.392%

b. Explain whether Princeton is aware that their Line Loss (Unaccounted for) is 17.833 percent,² and that for ratemaking purposes, the Commission is limited by regulation to allowing only 15 percent of line loss.³

(1) If Princeton is aware of this information, explain whether Princeton has a plan to reduce its line loss to 15 percent or lower.

(2) If Princeton is not aware of this information, provide whether Princeton's Commission will address this information in the future.

21. Refer to the Staff's First Request, Item 26. Here, Princeton discusses the sharing of information with other departments and the Water and Wastewater Commission, and with this information, the cost to produce and distribute water is calculated to be \$3.36 per 100 cubic feet.

a. Provide all data Princeton used support the \$3.36 per cubic feet estimate.

b. Provide all calculations and workpapers in Excel spreadsheet format with formulas unprotected and all rows and columns fully accessible.

22. Provide all workpapers that were used to analyze and calculate the proposed wholesale rate in Excel spreadsheet format with formulas unprotected and all rows and columns fully accessible.

23. Refer to the Musgove Testimony, page 3. Provide a detailed explanation for the increase in flushing for fiscal year 2014 to fiscal year 2019.

2 Line Loss (Unaccounted for)
divided by Total Produced
Equals

89,596,902
502,417,000
17.833%

3 807 KAR 5:066, Section 6(3).

24. Refer to the Musgove Testimony, page 7.

a. Explain why the cost to produce water is the same across all customer classifications.

b. Provide support for the assumption that a customer being served by a 5/8-Inch meter with usage of 4,000 gallons a month places the same demand and is served with the same facilities as a customer with a 4-Inch meter with usage of 100,000 gallons a month.

25. If a COSS, using industry accepted methods, has ever been performed for Princeton's water operations, provide a copy of the study, state when the study was performed, and provide the author of the study.

26. Princeton proposes to increase the monthly customer service charge for each meter serving the wholesale customers from \$4.00 to \$6.00. Provide the cost justification for this 50 percent increase.

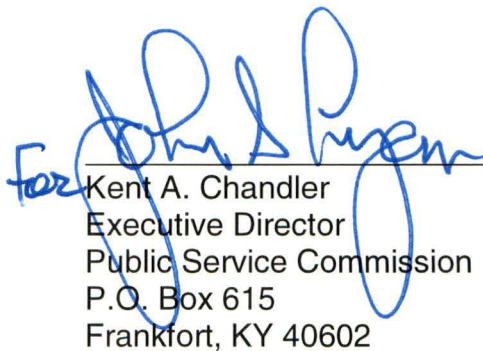
a. Provide all calculations and workpapers in Excel spreadsheet format with formulas unprotected and all rows and columns fully accessible.

b. State and support all assumptions relied upon in determining this increase.

27. Refer to Princeton response to Staff's First Request, Item 18.c. Clarify the status of the two master meters abandoned by Caldwell District. Who is responsible for the maintenance and testing of these master meters?

28. Provide the information in the chart below for each of the master meters serving Princeton's wholesale customers.

<u>Wholesale Customer</u>	<u>Meter Size</u>	<u>Date Installed</u>	<u>Date last Tested</u>	<u>Location</u>
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DATED FEB 07 2020

cc: Parties of Record

ATTACHMENT

ATTACHMENT TO A REQUEST FOR INFORMATION OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO. 2019-00444 FEB 07 2020

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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