

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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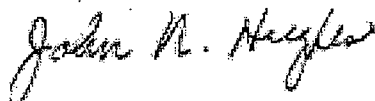
In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESAL )  
WATER SERVICE RATES OF THE CITY OF PIKEVILLE ) Case No. 2019-00080  
MOUNTAIN WATER DISTRICT )

**MOUNTAIN WATER DISTRICT INITIAL DATA REQUESTS TO PIKEVILLE**

Mountain Water District, (MWD) by counsel, submits its initial data requests to the city of Pikeville pursuant to the Commission's order of June 10, 2019.

SUBMITTED BY:



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I certify that a copy of this pleading was served by email and first class mail on the 1st  
day of July, 2019 and by email on counsel for Pikeville:

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*John M. Hedges*

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Q 1. Provide a list of all regulatory cases, in any state, for which the principal rate analyst has submitted testimony, verbally or written, and provide a copy of such testimony with the name of the regulatory authority, represented utility, case or docket number, and date of testimony.

Q 2. The contract between Rate Studies and Pikeville requires a cost of service study (COSS) based on Kentucky PSC methodology. How does the COSS prepared by Rate Studies in this case conform to that requirement? Provide reference to any KY PSC order recognizing this methodology as acceptable.

Q 3. Considering Pikeville only has one water treatment plant and operates only one transmission/distribution system, why is there different accounting for inside city versus outside city operations?

a. Explain the in/outside city accounting reference in the COSS and explain why MWD is included in in-city customers.

b. Explain why Pikeville does not have a wholesale rate.

Q 4. What is the cost to produce 1000 gallons of water at Pikeville's water treatment plant, that is, water production only, not distribution or transmission costs.

Q 5. Provide total FY 2017 average daily water sold to all customers, retail customers (inside city separate from outside city) and to each wholesale customer, separately.

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Q 6. Does the City have any agreements with any entity to supply water at a rate below the published rates? If so, provide the name of the customer and the date of the most recent agreement or contract.

Q 7. Provide the test year (Fiscal Year 2017) water usage for the top 25 customers (as volume purchased) and the names of each customer and associated test year revenue.

Q 8. Provide the total gallons sold through water loading stations or any other specials sales (eg., filling of pools, non-routine washdowns, etc.)

Q 9. Confirm the actual master meter readings from which Pikeville charged water rates and fees during Fiscal Year 2017.

Q 10. Please identify the staff from the City of Pikeville and the staff from Utility Management Group that collected the data, and allocated the costs into the categories of administration, WTP and distribution, and identify who did what work.

Q 11. Provide copies of any and all invoices submitted for this matter by all experts, counsel or consultants that will be included in the calculation of the surcharge for rate case expenses. Update periodically including the final billing summary.

Q 12. Please provide a detailed list and total amounts spent on all other miscellaneous expenses or costs related to the petition for a wholesale rate increase.

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Q 13. Please provide a copy of any analysis performed by, or on behalf of, the City of Pikeville, upon which the City relied in making its decision to increase retail rates to its inside residential and business customers, and to its outside residential and business retail customers.

Q 14. Provide a working, electronic file of Pikeville's hydraulic model. The file should contain all tanks and booster pumping stations and the associated pipes sufficient to mimic the daily operation of the municipal water high service pumps and water distribution system. If any tank or pumping station is not included or operationally modeled, provide the following:

- a. For a tank: overflow elevation; capacity; fill and drain piping configuration to included altitude valve settings; and, latitude and longitude.
- b. For a pumping station: elevation of pump; suction head; total dynamic head (or pump curve); presence or absence of check valves; and, latitude and longitude.

Q 15. Provide electric power costs per booster station.

Q 16. Provide chlorine boosting costs per booster station.

Q 17. Provide a map of the various pressure zones within the Pikeville system and for each pressure zone indicate the extent of the service area for that zone. Assign the appropriate tank(s) and booster pumping station(s) for each zone.

Q 18. Provide maintenance records to support the percentage of costs for line maintenance.

Q 19. Provide maintenance and materials costs on transmission lines separate from distribution lines.

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- Q 20. Provide maintenance records and costs for each tank, separately.
- Q 21. Provide total storage volume per tank, the overflow elevations (msl), and the operating range.
- Q 22. Provide operational records to justify the percentage of costs allocated for service calls.
- Q 23. Provide meter inventory by size and by type of all customers, direct and wholesale, city and outside city. Include all meters in operation except those used in production at the water treatment plant.
- Q 24. Provide the number of hydrants within the Pikeville water system.
- Q 25. Provide the hydrant flow test records for the test year.
- Q 26. Provide the number of responses to house or building fires in the test year.
- Q 27. Provide the estimated volume of water used in firefighting in the test year.
- Q 28. Provide the latest ISO Report for the Pikeville Fire Department.

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Q 29. For this question refer to the following three sources of information regarding the total miles of line in the Pikeville water transmission and distribution system: Kentucky PSC Case No. 2002-00022, Table II; Kentucky Infrastructure Authority – Water Resource Inventory System (<https://kia.ky.gov/WRIS/Pages/WRIS-Portal.aspx>); and, Kentucky PSC Case No. 2019-00080 Pikeville’s Response to Commission’s First Information Request, Question 13, requesting total miles of line.

The inch-mile totals from the three sources are summarized and compared in the table below (the WRIS inventory also included 208 feet of 9-inch line, not included herein):

Table 1

line diameter (inches)	PSC 2002-00022		KIA WRIS (est. 2018)		PSC 2019-00080	
	miles	inch-miles	miles	inch-miles	Miles	inch-miles
unknown			1.04	2.09		
2	2.73	5.46	8.00	16.01	1.7	3
3	2.42	7.26	1.02	3.06		
4	3.18	12.72	1.27	5.10	2.4	10
6	23.03	138.18	37.67	226.00	19.4	116
8	24.02	192.16	26.31	210.48	16.8	134
10	6.29	62.90	8.94	89.42	11.6	116
12	4.39	52.68	14.84	178.12	17.9	215
16	2.06	32.96	2.47	39.51	1.6	26
		504.32		769.79		620

- a. Why has the number of miles of 2, 3, 4, 6, 8, and 16-inch line decreased from 2002 to 2019?
- b. In the 2002 inventory, PSC identifies 221.61 jointly-used (Pikeville and MWD) inch-miles and 49.46 inch-miles of MWD line used by Pikeville, for a total jointly-used inch-miles of 172.15. Are the 221.61 jointly-used inch miles and the 49.46 inch-miles of MWD line used by Pikeville still valid numbers? If not, explain the differences.
- c. Explain why, in 2019, Pikeville’s rate analyst did not use the inch-mile methodology established by PSC in 2002.
- d. Explain why the rate analyst did not use the Distribution Main Analysis as presented in AWWA’s Financial Management: Cost of Service Rate Making class.
- e. Explain why conjectures were used to estimate the percentage of Pikeville water utility lines used by MWD, rather than PSC-established and AWWA sponsored calculations.

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Q 30. Regarding the outstanding bond information supplied by Pikeville in response to Question 5 from KY PSC:

- a. The description on pages 1-2 of Ordinance No. 0-2012-011 indicate that only items (i), (vi), and (vii) could possibly be relevant to the calculation of water rates for MWD. The outstanding principal amount of those three items at the time of the Ordinance constitute 70.5% of the total principal amount to be refinanced. Why does the rate analyst subject MWD to the full principal and interest amounts of the City's GO Bonds, Series 2012C?
- b. The description on pages 1-2 of Ordinance No. 0-2015-16 indicate the KIA loan and the Series 2010S-1 and 2010S-2 Bonds were all related to the refinancing of sewer bonds. Why does the rate analyst subject MWD to the principal and interest amounts of the Water and Sewer Revenue Bonds Series 2016A?
- c. The description on page 1 of Ordinance No. 0-2017-[ ] indicate the purpose of GO Bonds, Series 2017 are to pay costs of the City's Hambley Athletic Complex, acquisition and installation of an electronic wireless metering system, and improvements to the City's sewer treatment facilities. Is any of the principal and interest amounts of the GO Bonds Series 2017 included in the COSS? If so, why?

Q 31. Provide excerpts of all relevant bond covenants to identify the coverage ratio required by the issuer.

Q 32. The depreciation schedules provided by Pikeville in response to PSC first request include service lives of 40 year or less for all lines. The resultant FY2017 annual depreciation for lines is \$117,756. Using the NARUC mid-point, 67.5, yields an annual depreciation of \$77,754 for lines associated with inside city service. Explain why Pikeville uses 40 years, and below, for useful life for waterlines.

Q 33. The depreciation schedules provided by Pikeville indicate outside city customers are not allocated any depreciation for the water treatment plant, pumping stations, or water storage tanks.



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Explain why inside city customers, and therefore MWD, are subsidizing the annual depreciation of Pikeville's retail, outside city customers.

Q 34. The rate analyst uses a ratio of water purchased by MWD to total water sold throughout the COSS. He establishes that ratio, or percentage at 50 percent. The water purchased by MWD (463,158,000 gallons) and total water sold (973,385,317 gallons) provided by Pikeville in response to Question 20 in PSC's initial request results in a percentage of 47.6 percent. Why does the analyst use 50 percent for his assignment of costs to MWD when the actual percentage is 47.6 percent?

Q 35. Provide detailed descriptions and breakdown of all sources of the income that makes up \$252,335 associated with "Other Income".

Q 36. The rate analyst describes "other income" as a "combination of fees, such as tap fees, penalties and other miscellaneous fees collected by the City." The 2017 Audit identifies \$1,351,470 in interest-bearing water accounts including certificates of deposit, restricted debt service reserves and other reserves. Why were the interest earnings not included by the analyst as "other income" and allocated equitably among customers from whom contributing revenue was received?

Q 37. Figure 6 of the filed COSS includes an unsubstantiated amount of \$51,432 for costs associated with meters yet the General Ledger provided by Pikeville includes, at a minimum, \$69,414.94 in costs associated with meters and services. Why were "ballpark" estimates used to functionalize meters when evidence existed in the General Ledger to calculate a more accurate cost? Provide justification for the percentage of cost allocated for meters.

Q 38. The General Ledger provided by Pikeville includes no apparent costs associated with "leak detection". Provide records to support the percentage of cost allocated for leak detection.

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Q 39. The rate analyst includes, in Figure 8 and the text immediately preceding the figure, a \$3,799 cost to be paid by MWD for "servicing meters". The water purchase agreement dated 14 November 2011 established in Section 3 that "the Seller shall furnish, install, operate and maintain at its own expense at the points of entry...the necessary metering equipment..." Why is MWD assessed a \$3,799 charge for a service Pikeville agreed to perform "at its own expense"?

Q 40. The "accounts payable" section (210.00.210) of the General Ledger provided by Pikeville includes \$69,414.94 of costs associated with retail customer service such as copper tubing, meters, boxes, lids, cutters, grass seed, and fittings of such a size or price to reasonably assume they are to be used on small, retail services. Provide evidence to show how these expenses relate to costs to serve MWD or the adjustment to exclude them from the Cost of Service Study (COSS).

Q 41. The "accounts payable" section (210.00.210) of the General Ledger provided by Pikeville includes \$2,700.00 of costs referred to as "Consolidated Pipe and Supply – hydrant, gate valve and adapters". Provide evidence to show how these expenses relate to O&M costs to service to MWD.

Q 42. The "accounts payable" section (210.00.210) of the General Ledger provided by Pikeville includes \$1,136.06 and \$88,772.50 of costs associated with maintenance on the Harold's Branch and Bob Amos tanks. Provide supporting evidence that the Harold's Branch tank and the Bob Amos tank are used to supply MWD and the applicability of these expenses to service to MWD.

Q 43. The "accounts payable" section (210.00.210) of the General Ledger provided by Pikeville includes \$1,333.29 of costs associated with "Hillbilly Days", the "Welcome to Pikeville" sign, and "kitchen supplies" for City Hall. Provide evidence to show the applicability of these expenses to serve MWD.

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Q 44. The "accounts payable" section (210.00.210) of the General Ledger provided by Pikeville includes \$1,053.33 of costs associated with repair of the touchread wand and Sensus autoread software. Provide evidence to show the applicability of these expenses to serve MWD.

Q 45. The "accounts payable" section (210.00.210) of the General Ledger provided by Pikeville includes \$2,320.58 of costs associated with a precast concrete meter vault on 2<sup>nd</sup> Street. Explain how this meter vault relates to service to MWD. Provide evidence to show the exclusion of those costs in the O&M costs charged, in whole or in part, to MWD.

Q 46. The "accounts payable" section (210.00.210) of the General Ledger provided by Pikeville includes \$35,586.76 of costs with the general description of "supplies needed for stock". Provide detailed descriptions of these entries sufficient to determine the appropriateness of their inclusion or exclusion in the O&M costs charged, in whole or in part, to MWD.

- a. Explain the purpose of supplies for stock.
- b. Explain the contractual obligation of UMG to supply items for stock.

Q 47. In an 17 January 2019 article in the News-Express, City Manager Philip Elswick is credited with highlighting an increase in industrial consumption (of water) and that "The system has to be prepared to operate for all customers, whether that is a residence that is using the minimum amount of water or industries using hundreds of thousands of gallons." Elswick is also quoted as saying, "The upgrades...critical to our economic development." The new 10-inch line in the Marion's Branch Industrial Park runs approximately 12,000 feet to a new 1,000,000-gallon potable water storage tank constructed, according to funding documents, for the future customers at the industrial park. Given the city manager's acknowledgement that industrial customers and residential customers put different demands on the water system, and, acknowledging capital facilities are in place specifically for industrial customers, why does Pikeville not have an industrial customer class to enable the assignment of costs caused by industrial customers?

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Q 48. The rate analyst has acknowledged the City does not have adequate data for a determination of peak hour or peak hour demands. Confirm that residential, commercial and industrial customers have different peak hour demands.

Q 49. Provide the UMG contract for provision of water service for the three most recent years with all the amendments, memoranda of agreement, or any other correspondence related to the implementation or interpretation of the contract.

Q 50. What services or activities do city employees provide for water service to MWD? Why are these services or activities not included in the UMG contract?

- a. How are those expenses allocated to MWD?
- b. How does the City reconcile city-incurred expenses and UMG-incurred expenses to avoid "double-billing"?

Q 51. Provide the annual budget amount included in the UMG contract for water service to Pikeville for each of the last three years.

- a. Provide the annual payment owed by Pikeville to UMG for water service as required by the terms of the contract for each of the last three years.
- b. Provide the actual payments by Pikeville to UMG for the last three years for water service. If the actual payments differ from the contract or budget amount, provide a line item reconciliation of the differences for each year.

Q 52. Provide UMG's financial statements (audited or not) for the last three years.

Q 53. What is UMG's profit margin on its contract with the City of Pikeville, being defined as the difference between the total annual fee paid by the City, and the direct costs incurred for operations?

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- a. If any indirect costs are incurred, please define and set those out by itemized areas, and the reason that you believe they are justified costs in support of their fee structure.
- b. Provide all calculations in the determination of UMG's profit margin.

Q 54. Pikeville was "placed on notice" in 2002 that in future rate case proceedings, PSC would more closely scrutinize contractor (then, PSG) direct expenses and would expect supporting documentation of all PSG costs. UMG is Pikeville's current contract operations company, operating much like PSG was in 2002. Explain why line items "Public Works Water" and "UMG...Services", (which, alone, make up 69 percent of the total city water expenses) continue to be used.

- a. Explain the type of expenses included in these categories.
- b. Explain how expenses are determined to be included in these categories.
- c. Provide an itemization of the expenses included in each of these categories.
- d. Who determines the expenses to be included in these categories?

Q 55. Explain the procedures for determining purchases related to service to MWD by the city and those purchased by UMG.

Q 56. Please provide the rate analyst's working definition of "fixed" versus "variable" costs as used in the COSS.

Q 57. Provide the evidence and documentation used as the basis for the 7% fixed versus 93% variable split for costs related to the water treatment system.

Q 58. Provide the evidence and documentation used as the basis for the 8% fixed vs 92% variable split in costs for the distribution system.

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Q 59. Referring to Figure 3 in the COSS, does "repairs and maint" and "repair and maint plant" include all Pikeville distribution/transmission system or just that portion directly related to serving MWD? Explain the difference in the two categories. Breakdown what is included in each.

Q 60. Please explain in detail the difference, if any, of operation and maintenance expenses between inside city, outside city and wholesale customers.

Q 61. What are the allocation factors used in the COSS that reflect the AWWA ratemaking process? What data did Mr. Petty use to develop his allocation factors?

Q 62. Please explain why the City of Pikeville did not use the General Ledger to allocate expenses into functional costs categories consistent with NARUC and AWWA guidelines. (AWWA M-1, 6<sup>th</sup> Edition, page 342).

Q 63. In the COSS there are 26 expense items in Figure 3 that are not "allocated to functional cost of service". Explain the lack of functionalization and, given the resultant inability to identify costs based on their operational function, explain the basis and support for allocating those expenses across the three groups, WTP, distribution and administrative.

Q 64. Why was depreciation allocated 100 percent to "variable" and not functionalized into cost categories to ensure depreciation derived from capital associated with customer costs or fire protection was not allocated to wholesale customers?

Q 65. In the COSS, \$1,016,455 in distribution system variable costs in Figure 3 becomes \$1,028,645 in Figure 6. Additionally, \$741,522 in water treatment plant variable costs becomes \$727,948 in Figure 6. Why are the variable costs inconsistent?

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Q 66. Figure 6 of the COS study by Rate Studies shows a functionalization of costs that the analyst says have been previously "allocated" to the three main categories of administration, water treatment and distribution (pg 3). The analyst uses "percentages as determined by the City's staff and UMG staff" to sort the "allocated" costs back into functional cost categories.

- a. Provide the spreadsheets, work products and basis for the functionalization percentages in Figure 6 (pg 8).
- b. Confirm the analyst functionalized allocated costs rather than allocated functionalized costs as generally accepted by AWWA.

Q 67. If the purpose of the COSS was to "...determine a fair water rate for the Mountain Water District...", why is the rate proposed for MWD different from the rate proposed for Southern Water District? Explain all differences in allocations of costs and facilities to determine the different rates. Provide the COSS used to set the rate for Southern Water District.

Q 68. Please provide a breakdown of the total costs for "repairs and maint" and "repair and maint plant" expense for 2017, as set forth in Figure 3 on page 4 of the COSS. In addition, also provide any other sub-categories, such as outside water operating maintenance expenses, or other categories in which you break down the cost of operations, so all sub-categories can be reconciled to your total operating and maintenance expenses.

Q 69. Include detailed monthly invoices for the entire test year for payments made to UMG Services as it related to the complete municipal water utility, regardless of the divisions, "Water" and "Outside Water".

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Q 70. Provide sufficient functionalization of "Public Works Water" and "UMG...Services" to ensure salary and benefits to the AWWA functional categories, or, at the very least, the three groups, WTP, distribution and administrative.

Q 71. If the Debt Service Coverage Ratio method is to be used for calculating revenue requirements, provide details of "Public Works Water" and "UMG...Services" sufficient to determine total recurring operation and maintenance expense, as per AWWA M-1, 6<sup>th</sup> Edition, pg 340.

Q 72. Please indicate whether the expenses listed in Figure 3 of the COSS are test year expenses as audited or if they include any pro forma changes. If pro forma changes are included, provide two lists of expenses, test year and pro forma as well as description for any included adjustment made to the test year numbers.

Q 73. The rate analyst states on page 6 of the COSS that "Fixed costs are those cost[s] unrelated to the treatment and distribution of water." Is there infrastructure included in the fixed costs that is not directly related to production and distribution of water? Is debt associated with such infrastructure included in wholesale allocation? Additionally, please identify the items of rate base that are unrelated to the treatment and distribution of water and identify the annual depreciation associated with those items of rate base.

Q 74. If any of the mechanisms upon which the income was earned or realized were reserves or interest-bearing certificates of deposit funded in whole or in part by revenues from MWD, provide details on those reserves sufficient to determine the portion of the income that is relevant to MWD rate calculation.

Q 75. If any of the mechanisms upon which the income was earned or realized were from rentals or leases on property or equipment paid for in whole or in part by revenues from MWD, provide details on those assets sufficient to determine the portion of income that is relevant to MWD rate calculation.



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Q 76. If any of the mechanisms upon which the income was earned or realized were from rentals or leases, for or related to, antenna placement on tanks paid for in whole or in part by revenues from MWD, provide details on those assets sufficient to determine the portion of income that is relevant to MWD rate calculation.