



## **EXHIBIT A – FINAL SCOPE OF SERVICES**

### **1. General**

LFUCG desires a qualified team to conduct a review of the franchise fees received from Kentucky Utilities Company, Inc. ("KU", Columbia Natural Gas of Kentucky, Inc. ("Columbia") and Blue Grass Energy Cooperative ("Blue Grass"). The primary issues to be addressed by the study include:

- Accuracy of the computation of franchise fee payments based on the provisions in the franchise agreements;
- Accuracy of the annual reporting by the utility to the LFUCG;
- Specific identification and computation of revenues or other receipts on which franchise fees have not be paid, but are required to be by the franchise agreement language;
- Specific identification of the manner in which franchise fees are collected from customers and a reconciliation thereof;
- Identification of any specific additional sources of receipts by the utilities which future franchise fee computations could include; and
- Prepare written report of activities, findings, and resolutions, including additional franchise fees obtained, to be submitted to the LFUCG.

J. Stowe & Co. ("Stowe") understands that the LFUCG is operating under short term franchises which expire in January 2012 and therefore recognizes the need for the LFUCG to identify current compliance as well as possible clarification and expansion of the franchise language included in a renewal of these agreements. In addition, with the purchase of Kentucky Utilities Company by PPL Corporation, the LFUCG needs updated information on any reporting and/or accounting changes that may have occurred as a result of that acquisition in order to effectively negotiate future franchise provisions.

### **2. Scope of Services**

The scope of services includes a detailed review of franchise fee payments from KU, Columbia and Blue Grass (collectively referred to as the "utilities") for the three-year period ending on September 30, 2011. The below hours are estimates and may be reallocated as necessary to perform the work.

#### **Task 1 – Initial Requests for Information (5 hours)**

Stowe requires information from both the LFUCG and the utilities. Therefore, after receiving notice to proceed, the Project Team will assemble an initial request for information ("RFI") for review by LFUCG.

#### **Subtask 1.1 – Develop RFI Related to LFUCG Records (2 hours)**

This request will include, but not be limited to:

- Copies of each of the franchise agreements with the electric and gas services providers;<sup>1</sup>

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<sup>1</sup> We have reviewed some the agreements posted on the Kentucky Public Service Commission website. However, not all are available.



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- Copies of any correspondence with the service providers concerning payment of franchise fees;
- Copies of franchise fee receipts including any documentation submitted by the utility with the payment;
- Copies of annual gross receipts reports;
- Copies of any budgetary information related to the administration of franchise agreements and/or costs of having utilities located in public rights-of-way; and
- Copies of any proposed language for franchise renewal to the extent applicable and authorized for review under this study.

**Subtask 1.2 – Develop RFI for Service Providers (3 hours)**

Based on an initial review of the franchise agreements, Stowe will develop an initial RFI to be submitted to each of the utilities that will be included in the study. The information will include, but not be limited to:

- Copies of all workpapers related to computation of franchise fees;
- Explanation of the process by which franchise fee payments are prepared, reviewed and approved for remittance, including titles of utility employees involved in the process;
- Copies of all correspondence with LFUCG concerning franchise fees;
- Copies of all correspondence with Kentucky Public Service Commission concerning franchise fees paid to LFUCG;
- Access to original books and records;
- Monthly receipts broken down by customer charges, commodity sales revenue by customer class, miscellaneous service charges, taxes, and fees;
- Reconciliation of franchise fees remitted to those collected from customers, recognizing the lag in franchise fee rider development;
- Monthly commodity sales by customer class to be used as a check to revenues reported;
- Utility treatment of bad debt in the computation of franchise fee;
- Utility treatment of contributions-in-aid-of-construction in computation of franchise fees;
- Utility treatment of franchise fees collected in computation of franchise fees to be paid;
- Utility treatment of late fees and any collection charges to customers;
- Utility treatment of any revenue allocated from parent company;
- Procedures for recording new customers for purposes of payment of franchise fees; and,
- Electronic listing of all street addresses for customers recorded as inside the city limits of LFUCG (as well as GIS overlay if available).

**Task 2 – On-Site Review (152 Hours)**

After receiving notification that the requested information is available, members of the Project Team will coordinate with the LFUCG's staff to review the documents at either the LFUCG premises or the locally based offices of each of the utilities included in the study. This review will take place on a timely basis upon receipt of the above information, which will be requested to be returned within twenty-one (21) days of receipt by the utility. Stowe will also hold an initial meeting with the appropriate LFUCG



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staff to discuss the information and any nuances of which the Project Team should be aware before beginning the analyses. In the event that all documentation can be provided electronically at our Richardson, Texas office, and in an effort to minimize out-of-pocket expenses and overall fees associated with the conduct of the study, we would propose that a conference call be conducted with LFUCG staff instead.

**Subtask 2.1 – Detailed Review of the Franchise Fee Payments (120 Hours)**

The primary components of the detailed review include, but are not limited to:

- Develop schedule of payment computations to check calculation of franchise fees for each of the revenue components included by the utility such as:
  - Commodity sales
  - Customer charges
  - Minimum billing, where applicable
  - Fuel, gas and purchased power costs
  - Taxes and Fees, where applicable
  - Other revenue items included
- Determine timing of payments to ensure compliance with franchise agreement remittance schedules;
- Determine treatment of amounts related to:
  - Miscellaneous charges such as:
    - Connect, disconnects, reconnects
    - NSF checks charges
    - Meter reads
    - Third party collection charges
    - Service extensions amortized in amounts less than paid
  - Franchise fee receipts from customers
  - Contributions-in-Aid-of-Construction
  - Any Most Favored Nations adjustments, if applicable
  - Bad debt
  - Other revenue items not included in the computation
- Determine treatment of any allocations of revenue among affiliated operations, where applicable;
- Determine if there have been any changes in accounting policies related to the recording of revenue, particularly given that at least one of the utilities was recently acquired;



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- Determine if there have been any changes in accounting policies related to the computation of franchise fees, particularly given that at least one of the utilities was recently acquired;
- Compare sampling of energy usages for the review period with reported revenue
  - Request explanation for any significant changes in energy usage, where noted
  - Note any impacts of changes in revenue due to recent rate increases/decreases
  - Understand utility billing cycles and treatment for unbilled revenue;
- Accumulate noted discrepancies for any and all franchise fee payments where issues were identified; and
- Re-compute appropriate billings for noted discrepancies, including interest and penalties where applicable.

**Subtask 2.2 – Analysis of Customers Locations (16 hours)**

It has been Stowe's experience that utilities are able to provide an electronic listing of all addresses that are included in the computation of franchise fees paid to a particular governmental entity. As provided above, this information will be part of the request of information from each of the utilities and provide such data to the appropriate department within LFUCG to make a comparison to its information. LFUCG staff will then conduct an analysis to compare the utilities' and LFUCG's address databases to identify discrepancies. To the extent that addresses are missing in the matching of data,<sup>3</sup> Stowe will follow-up with the utility to identify and request explanation of the discrepancies.

To the extent both the LFUCG and the utility have compatible GIS data, Stowe will request that the information be provided in a GIS format. Otherwise, Stowe will request that the appropriate LFUCG department assist in the analysis of the utility provided electronic listing of addresses in determining if the listing includes all of the appropriate addresses located within the LFUCG's database.

**Subtask 2.3 – Identification of Potential Future Franchise Requirements (16 hours)**

Based on Stowe's experience in conducting franchise fees compliance reviews as well as assisting in the negotiations of franchise agreements, it will provide samples of franchise language for review by the LFUCG for consideration in its renewal of franchise agreements. The language will be fashioned on several recent electric and gas franchise fee reviews and subsequent assistance during the renewal of franchise agreements in which we have participated.

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<sup>3</sup> In prior engagements, Stowe has found both the exclusion of newly developed areas along city limit boundaries, and the inclusion of areas that are not actually in the city limits, but just outside of the boundaries. These issues were identified by matching the city data with the utility provided data.



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**Task 3 – Cursory Review of LFUCG Costs (24 hours)**

As a separate component of the study and conducted only at the explicit direction of the LFUCG, Stowe may assist the LFUCG in understanding the types of costs it incurs by having the utilities located in the public rights-of-way. This proposal would be limited to assisting the LFUCG in collecting internal data that will provide insight into the actual out-of-pocket costs the LFUCG incurs and would include providing the LFUCG with a questionnaire that Stowe has used in several more detailed analyses of right-of-way management costs and provide an explanation of the types of analysis that can be performed with the data. The questionnaire will provide the LFUCG with a means for recording time requirements by LFUCG staff in negotiating and administering the various franchise agreements, as well as recording costs related to the presence of utilities in the public rights-way. To the extent the LFUCG is interested in a more detailed analysis of costs, a separate proposal may be negotiated.

Alternatively, and again only at the explicit request from the LFUCG, Stowe will provide a comparison of readily available franchise fee provisions from franchise arrangements negotiated in other areas of the country for jurisdictions of similar size. Such comparison will be primarily focused on the percentage of gross receipts included as the basis for payment from the utility to the franchising authority.

**Task 4 – Written Communications with the LFUCG (12 hours)**

Stowe understands that regular communication and discussion of issues with the LFUCG is critical to the success of this project; therefore, it commits to provide the LFUCG staff (as designated by LFUCG) with a written update every two weeks after it begins Task 2. This report will include a summary of any noted errors along with a project status update in terms of franchise fee payments reviewed and those remaining to be reviewed. Stowe will also conduct a brief weekly telephone update of the project to identify any issues with respect to data requirements and cooperation from the utility service providers, where required.

**Task 5 – Project Final Report (24 hours)**

Based on the project activities, findings, and recommendations, Stowe will prepare a written report that details the overall conduct of the study. The report will include the following:

- Activities conducted concerning each utility;
- Detailed description of findings based on franchise provisions;
- Computation of underpayment errors noted by provider by specific issue; and,
- Explanation and computation of any penalties and interest through a certain date to be updated upon final resolution with utilities.

**Task 6 – Assist in Negotiating Resolution with Utilities (up to 40 Hours)**

Stowe will provide the LFUCG with up to forty (40) hours of assistance in negotiating the resolution of any underpayment of franchise fees noted in the final report. A not to exceed time limitation along with



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a not to exceed project cost has been provided. To the extent that less time is required, Stowe's billings will reflect the lower time requirements.

### **3. Project Staffing**

The Project Team is comprised of three persons – Connie Cannady, Chris Ekrut and a subcontractor, Marie Kelley Brehm PC.

## **PROJECT SCHEDULE AND COST**

### **1. Proposed Schedule**

The schedule shows the elapsed time for each task from start to finish. As shown, and assuming contract award by October 28, 2011, Stowe will have the Final Report presented to the LFUCG within one hundred twenty (120) days subject to any resolution of any issues with the utilities.

### **2. Project Cost**

The total project cost will be based upon actual time expended with a not to exceed amount as provided below.

#### **A. Total Estimated Professional Fees**

Connie Cannady (64 Hours)	\$ 12,480
Chris Ekrut (152 Hours)	25,080
Marie Brehm (42 Hours)	<u>4,200</u>
Subtotal Professional Fees	\$ 41,760

#### **Estimated Out-of-Pocket Expenses:<sup>6</sup>**

Air fare	\$ 2,000
Car Rental	600
Hotel	1,000
Meals	300
Parking, Supplies, Copies Misc.	<u>100</u>
Subtotal Estimated Out-of-Pocket Expenses	\$ 4,000

**Total Estimated Project Costs** **\$ 45,760**

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<sup>6</sup> To the extent that data can be provided electronically to Stowe's Richardson, Texas offices, the out-of-pocket expense will be greatly reduced as they include airfare, hotel and car rental for on-site review of the data.



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For any agreed to extra work, the hourly billing rates of the Project Team Members are as follows:

- Ms. Cannady - \$195/hour
- Mr. Ekrut - \$165/hour
- Ms. Brehm - \$100/hour

J. Stowe & Co. bills its clients monthly based on actual hours worked, plus out-of-pocket expenses. In the event that the actual hours spent in conducting the enumerated activities are less than those used in the development of the not-to-exceed proposed costs, the LFUCG will be billed only for the actual hours. However, if the actual hours exceed the estimate, the LFUCG will only be billed up to the not-to-exceed costs.