

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY	)	
WATER DISTRICT FOR AN ADJUSTMENT	)	CASE NO. 2012-00072
OF RATES, ISSUANCE OF BONDS, AND	)	
FINANCING	)	

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION  
TO NORTHERN KENTUCKY WATER DISTRICT

Pursuant to 807 KAR 5:001 and the Commission's Order of July 20, 2012, Northern Kentucky Water District ("Northern District") is to file with the Commission no later than August 14, 2012 the original, one paper copy, and one electronic copy of the following information. Responses to requests for information 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.

Northern District 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 Northern District fails or refuses to furnish all or part of the requested information,

Northern District 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 its legibility. 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.

1. Refer to Northern District's Petition, Exhibit K, "Statement of Income-Proforma Year Ended December 31, 2011," and Exhibit N, "Summary of Revenue Requirements Test Year 2011." In its pro forma income statement, Northern District reports operation and maintenance expenses of \$23,456,708, but pro forma operating expenses in its revenue requirement calculation total \$23,410,193.<sup>1</sup> Provide a detailed reconciliation for the differing amounts.

2. Refer to Northern District's Petition, Exhibit N, "Summary of Revenue Requirements Test Year 2011," and Schedule K. Northern District has determined its "Net Revenue Requirement" as \$51,897,003 and in its Petition requests an increase in revenues of \$3,400,000.

a. State, for each phase of the phase-in period, the amount of the requested rate increase.

b. Northern District reports on Schedule K Billing Analysis Revenues from Present Rates of \$48,650,077.<sup>2</sup> Subtracting this amount from the Net Revenue Requirement of \$51,897,003 results in an increase of \$3,246,926, which is \$153,074

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<sup>1</sup> See Exhibit N. \$22,779,395 (Operation and Maintenance Expense) + \$630,798 (Taxes Other Than Income) = \$23,410,193.

<sup>2</sup> \$48,576,082 (Total Sales of Water) + \$73,995 (Bulk Water Sales) = \$48,650,077.

less than the requested revenue. Provide a detailed explanation of the differing amounts.

c. Northern District reports Other Operating Revenues of \$3,692,515 on Schedule K, but only \$3,331,763 of Other Operating Revenues in its Revenue Requirement calculation. Reconcile the differing amounts.

3. Refer to Northern District's Petition, Exhibits N and C. In its revenue requirement calculation, Northern District reports Other Operating Revenues of \$3,331,763. Provide a schedule that lists each revenue included in this total and reconcile any difference between these amounts to those listed in Exhibit C at page 27.

4. Refer to Northern District's Petition, Exhibit N, "Summary of Revenue Requirements Test Year 2011." In calculating its revenue requirement, Northern District uses an annual debt service of \$18,965,960. Provide a detailed schedule showing how Northern District calculated this amount.

5. Refer to Northern District's Petition, Exhibit C, page 28; Northern District's Response to Commission Staff's First Request for Information, Item 9.

a. In its 2011 Annual Report, Northern District reports total salaries and wages expense of \$7,850,529<sup>3</sup> but determined that in 2011 its salaries and wages was \$7,688,194, a difference of \$162,335. Provide a detailed explanation for the differing amounts.

b. Northern District proposes to increase its 2011 salaries and wages expense by \$158,618 to reflect pro forma level of \$7,846,812. Given that its 2011

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<sup>3</sup> \$7,814,529 (Salaries and Wages – Employees) + \$36,000 (Salaries and Wages – Officers) = \$7,850,529.

operating expenses includes salaries and wages of \$7,850,529, explain why operating expenses would not be decreased by \$3,717.

c. In its 2011 Annual Report, Northern District reports employee pension and benefits expense of \$3,702,231 but determined that in 2011 its pension and benefits expense was \$3,466,708, a difference of \$235,523. Provide a detailed explanation for the differing amounts.

d. Northern District proposes to increase its 2011 employee pension and benefits expense by \$295,045 to reflect the pro forma level of \$3,761,753. Given that its 2011 operating expenses include employee pension and benefits of \$3,702,231, explain why operating expenses would not be increased by \$59,522.

e. Using the 2012 pro forma salaries and wages expense totaling \$7,846,812, calculate Northern District's pro forma payroll tax expense and compare this amount to the payroll tax expense reported in the 2011 Annual Report of \$564,872.

f. The Kentucky Retirement Systems Board of Trustees increased the employer retirement contribution rate to 19.55 percent on July 1, 2012. Calculate the effect of the July 1, 2012 retirement rate on Northern District's pro forma employee pension and benefits expense. This response should include all workpapers and state all assumptions used in the calculation.

6. Refer to Northern District's Petition, Exhibit O.

a. For each project listed, provide the anticipated completion date and the project's estimated effect on depreciation expense. Provide all workpapers and state all assumptions used to derive the response.

b. State whether Northern District proposes to adjust its 2011 depreciation expense to reflect the inclusion of the depreciation from the capital projects listed in its response to Item 6(a). Explain.

7. Refer to Northern District's Petition, Exhibit G, and to Appendix B of the Commission's Order of November 21, 2007 in Case No. 2006-00398.<sup>4</sup>

a. (1) State whether Northern District is currently depreciating the Asset Group 309-0001-000, Assets 27-30, 32, and 31358, over a 49-year life.

(2) State whether the Commission established a depreciable life of 62.5 years for these assets in Case No. 2006-00398.

(3) If the current depreciable life that Northern District is using for these assets differs from that established in Case No. 2006-00398, state the reasons for the difference.

b. In Groups 310-0001-000 and 310-0003-000, there are three backup generators listed with depreciable lives of 15, 20, and 25 years. Explain why the generators have differing depreciable lives.

c. (1) State whether Northern District is currently depreciating most of the assets in Groups 330-0001-000 and 330-0003-000 over a 29-year life.

(2) State whether the Commission established a depreciable life of 45 years for these assets in Case No. 2006-00398.

(3) If the current depreciable life that Northern District is using for these assets differs from that established in Case No. 2006-00398, state the reasons for the difference.

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<sup>4</sup> Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21, 2007).

8. Refer to Northern District's Petition, Exhibit J, page 29. The 1985 General Bond Resolution (as amended November 17, 1987) requires Northern District's "net annual income and revenues, as adjusted, be equal to at least one and twenty hundredths (1.20) times the maximum debt service."

a. Using the guidelines of the 1985 General Bond Resolution as amended, calculate Northern District's debt service coverage in Year One and Year Two if Northern District is not granted its requested increases. Provide all workpapers and state all assumptions used in the calculation.

b. Provide a detailed calculation showing that, in Year One of Northern District's phase-in approach, its requested revenue requirement is in compliance with the 1985 General Bond Resolution as amended. Provide all workpapers and state all assumptions used in the calculation.

c. Provide a detailed calculation showing that, in Year Two of Northern District's phase-in approach, its requested revenue requirement is in compliance with the 1985 General Bond Resolution as amended. Provide all workpapers and state all assumptions used in the calculation.

9. Refer to Northern District's Petition, Exhibit N, "Summary of Revenue Requirements Test Year 2011," and Case No. 2010-00094,<sup>5</sup> Northern District's Response to Commission Staff's Second Information Request, Item 5.

a. State whether the Operating Expenses used to calculate the Coverage Ratios in Item 5 include Depreciation Expense.

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<sup>5</sup> Case No. 2010-00094, *Application of Northern Kentucky Water District for an Adjustment of Rates, Issuance of Bonds, and Tariff Changes* (Ky. PSC submitted June 4, 2010).

b. Debt Service Coverage ("DSC") included in the Revenue Requirement shown on Exhibit N is equal to 20 percent of the Debt Service Requirements. State whether Northern District is required to maintain a DSC of 20 percent. If yes, identify and provide a copy of the source of this requirement.

c. Table 1 compares Northern District's calculation of its Total Revenue Requirement as shown in Exhibit N and the same calculation after removing the DSC component. Also shown below is the calculation of the DSC ratios after removing Depreciation Expense. This method follows the approach that Northern District used in its Response to Item 5. A DSC ratio of 149 percent occurs when the DSC component is removed from the revenue requirement. This ratio exceeds the 120 percent requirement of Northern District's bond agreements. Explain why it is reasonable for Northern District to include DSC in the calculation of its revenue requirement. This explanation should also provide justification for the resulting 169 percent DSC ratio.

**TABLE 1**

	Column A	Column B
Operation and Maintenance Expense	\$ 22,779,395	\$ 22,779,395
Debt Service Requirements	18,965,960	18,965,960
DSC	3,793,192	
Depreciation Expense	9,296,885	9,296,885
Amortization of Acquisition Adjustment	201,120	201,120
Taxes Other Than Income	630,798	630,798
<b>Total Revenue Requirement</b>	<b>55,667,350</b>	<b>51,874,158</b>
Less: Expenses	(32,908,198)	(32,908,198)
Add Back: Depreciation	9,296,885	9,296,885
<b>Net Revenues for Debt Service Coverage Calculation</b>	<b>32,056,037</b>	<b>28,262,845</b>
Divided by: Debt Service Requirement	\$ 18,965,960	\$ 18,965,960
<b>DSC ratio</b>	<b>169%</b>	<b>149%</b>

10. Refer to Northern District’s Response to Commission Staff’s First Request for Information, Item 11.

a. For those positions that are listed as vacant, state the reason(s) why the position is vacant and whether Northern District intends to fill the position.

b. State the current status of Northern District’s efforts to fill the vacant positions.

c. State whether any of the costs associated with the former employees are included in the pro forma operating expenses. Explain.

11. At page 5 of his Prefiled Testimony, Jack Bragg states that Northern District has “[r]educed operating costs from those approved in the District’s 2010 rate case.” List each cost that has been reduced and describe the cost saving measure that Northern District implemented to achieve that cost savings.

12. On page 8 of his Direct Testimony, Richard Harrison provides a breakdown of the construction projects from the five year construction program that was provided in Case No. 2010-00094. Using the categories that Mr. Harrison provided in his testimony, categorize each project listed in Exhibit O as “Mandated and Unfunded EPA Regulations,” “Aging Infrastructure,” or “Distribution System Deficiencies.”

13. Refer to Northern District’s Petition, Exhibit C, page 28. Northern District reports in Account 631, Contractual Services–Engineering, a balance of \$120,906. List each expenditure included in this expense account and provide a detailed description of that expenditure and all invoices related to that expenditure.

14. Refer to Northern District’s Response to Commission Staff’s First Request for Information, Item 6. For each item listed in Table 2, provide a schedule listing the expenditure, a detailed description of the expenditure, and the account in which the expenditure is recorded. Provide all invoices related to the expenditure.

15. List each fringe benefit provided to Northern District’s president and vice-presidents and state the cost of that benefit.

16. Provide all correspondence, electronic mail messages, and all other documents exchanged between Northern District and Gannett Fleming Inc. that discuss the performance and preparation of the cost-of-service study that Northern District submitted in this proceeding.

17. In his Direct Testimony in response to Question 26, Paul Herbert states: “The step 1 rates were designed to be approximately half-way between the present rates and the proposed step 2 rates.” Explain why the step 1 rates were designed to be halfway between the present rates and the proposed step 2 rates.

**TABLE 2**

	Trans. Date	Journal No.	Vendor	Amount
a.	12/1/2011	245,656	Hemmer Pangburn DeFrank PLLC	\$ 1,377.50
b.	12/1/2011	245,657	Hemmer Pangburn DeFrank PLLC	427.50
c.	12/1/2011	245,660	Hemmer Pangburn DeFrank PLLC	332.50
d.	12/1/2011	245,653	Hemmer Pangburn DeFrank PLLC	2,864.50
e.	12/1/2011	245,654	Hemmer Pangburn DeFrank PLLC	99.92
f.	12/1/2011	245,656	Hemmer Pangburn DeFrank PLLC	1,385.81
g.	12/1/2011	245,657	Hemmer Pangburn DeFrank PLLC	586.09
h.	12/1/2011	245,658	Hemmer Pangburn DeFrank PLLC	1,554.32
i.	12/1/2011	245,659	Hemmer Pangburn DeFrank PLLC	1,089.37
j.	12/1/2011	245,660	Hemmer Pangburn DeFrank PLLC	1,027.45
k.	12/1/2011	245,661	Hemmer Pangburn DeFrank PLLC	276.76
l.	12/1/2011	245,662	Hemmer Pangburn DeFrank PLLC	891.25
m.	12/1/2011	245,663	Hemmer Pangburn DeFrank PLLC	898.25
n.	12/1/2011	245,664	Hemmer Pangburn DeFrank PLLC	1,363.86
o.	12/1/2011	245,657	Hemmer Pangburn DeFrank PLLC	190.00
p.	12/1/2011	245,658	Hemmer Pangburn DeFrank PLLC	190.00
q.	12/1/2011	245,659	Hemmer Pangburn DeFrank PLLC	285.00
r.	12/1/2011	245,660	Hemmer Pangburn DeFrank PLLC	522.50
s.	12/1/2011	245,662	Hemmer Pangburn DeFrank PLLC	608.00
t.	12/1/2011	245,653	Hemmer Pangburn DeFrank PLLC	807.50
u.	12/1/2011	245,655	Hemmer Pangburn DeFrank PLLC	285.00
v.	12/1/2011	245,657	Hemmer Pangburn DeFrank PLLC	522.50
w.	12/1/2011	245,659	Hemmer Pangburn DeFrank PLLC	570.00
x.	12/1/2011	245,660	Hemmer Pangburn DeFrank PLLC	665.00
y.	12/1/2011	245,661	Hemmer Pangburn DeFrank PLLC	598.50
z.	12/1/2011	245,663	Hemmer Pangburn DeFrank PLLC	237.50
aa.	4/5/2011	234,564	Hughes, PSC., John N.	4,173.00
ab.	5/10/2011	236,924	Hughes, PSC., John N.	10,056.50
ac.	7/5/2011	238,763	Hughes, PSC., John N.	2,676.00
ad.	8/10/2011	240,433	Hughes, PSC., John N.	1,194.00
ae.	9/20/2011	241,905	Frost Brown Todd LLC	509.55
af.	10/7/2011	242,596	Hughes, PSC., John N.	675.00
ag.	10/20/2011	243,639	Frost Brown Todd LLC	1,932.50
ah.	12/1/2011	245,653	Hemmer Pangburn DeFrank PLLC	4,092.75
ai.	12/1/2011	245,654	Hemmer Pangburn DeFrank PLLC	5,647.00
aj.	12/1/2011	245,655	Hemmer Pangburn DeFrank PLLC	7,437.50
ak.	12/1/2011	245,656	Hemmer Pangburn DeFrank PLLC	4,225.00
al.	12/1/2011	245,657	Hemmer Pangburn DeFrank PLLC	5,600.00
am.	12/1/2011	245,658	Hemmer Pangburn DeFrank PLLC	9,285.25
an.	12/1/2011	245,659	Hemmer Pangburn DeFrank PLLC	6,336.77
ao.	12/1/2011	245,660	Hemmer Pangburn DeFrank PLLC	5,874.75
ap.	12/1/2011	245,661	Hemmer Pangburn DeFrank PLLC	7,800.00
aq.	12/1/2011	245,662	Hemmer Pangburn DeFrank PLLC	5,271.75
ar.	12/1/2011	245,663	Hemmer Pangburn DeFrank PLLC	4,091.41
as.	12/1/2011	245,664	Hemmer Pangburn DeFrank PLLC	3,668.50

18. In his Direct Testimony in response to Question 22, Mr. Herbert states: “The guidelines established were: (1) maintain the existing rate structure applicable to all classifications excluding wholesale, which includes a service charge by meter size and a three-block volumetric charge; (2) increase customer charges and volumetric charges to produce revenues among the classes in conformity with or toward the indicated cost of service and to generate sufficient revenues to recover the total cost of service; and (3) design the proposed rate structure to be implemented over a 2 step phase-in plan which reflects the District’s effort toward a gradual adjustment of its rates.” Describe how these guidelines were established. Identify and discuss the theory or policy rationale for the guidelines.

19. Refer to Mr. Herbert’s Response to Question 16 in his Direct Testimony.

a. State whether the estimated demands used in the current cost-of-service study are the same as those used in the cost-of-service study submitted in Case No. 2010-00094.

b. If the estimated demands are not the same, explain why. Describe all changes in the methodology used to determine estimated demands in the current study from those used in the previous study and why these changes were implemented.

20. Refer to Mr. Herbert’s Response to Question 24 in his Direct Testimony.

a. Explain the service charges established by the cost-of-service study are not fully implemented.

b. Provide all correspondence, electronic mail messages, and memorandum between Mr. Herbert and Northern District relating to the development of the service charges.

c. Describe how the service charge increase of \$1.20 or 9.23% was determined.

21. Refer to the Petition, Exhibit C, page 30.

a. Refer to Line 28. Explain why the total line loss does not equal Line 4 when added with Line 13 and Line 21. Provide a corrected version for this response if necessary.

b. Based on the information provided, explain why the water loss increased approximately four percent from the previous year.

c. Provide Northern District's current policies, programs, and procedures to reduce non-revenue water loss in its system.

d. Describe "Other Sales" (Line 12) and "Other-Other Water Used" (Lines 20).

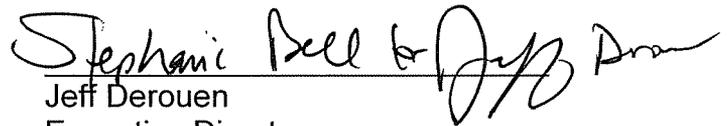
e. Describe how each item in this report was derived. Provide all documents and workpapers used to derive each item, state all assumptions used, and show all calculations.

f. Explain any difference of five percent or more from the previous year's water statistics figures.

22. Refer to the Petition, Exhibit C, page 30; Annual Report of Northern Kentucky Water District for the Calendar Year Ended December 31, 2010, page 30. In its 2010 Annual Report, Northern District reported "Other-Water Loss" (Line 27) of 924,799,000 gallons. In its 2011 Annual Report, Northern District reported no "Other-Water Loss." Explain the differing amounts and describe how Northern District achieved this reduction.

23. Provide Northern District's current written policies, programs, and procedures to reduce Northern District's consumption of electricity if different than that provided in Northern District's Response to Commission Staff's Second Information Request in Case No. 2010-00094.

24. Describe how Northern District establishes the level of compensation for its president and senior management. This description should address the role of Northern District's Board of Commissioners in the process. Compensation includes salary and all fringe benefits.



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DATED JUL 31 2012

cc: Parties of Record

Case No. 2012-00072

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