COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

EXAMINATION OF THE OPERATION AND REASONABLENESS OF THE OFFSETTING IMPROVEMENT CHARGE OF HENRY COUNTY WATER DISTRICT NO. 2	))))	CASE NO. 2006-00191

COMMISSION STAFF'S FIRST SET OF INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO HENRY COUNTY WATER DISTRICT NO. 2

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Henry County Water District No. 2 ("Henry District") file the original and 8 copies of the following information with the Commission within 20 days of this request, with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. 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. When applicable, the requested information should be provided for total company operations and jurisdictional operations, separately.

1. Refer to Henry District's Response to the Commission's Order of May 22, 2006 at Appendix C. For each project listed,

a. Describe the need for project.

b. Identify the system deficiencies or problems that require the construction of the proposed project.

c. Identify the area in which the project will be constructed.

d. State how the project is expected to improve the system.

e. State the year in which Henry District currently expects construction to commence.

f. State the expected source of funding.

2. Provide a system map showing all of Henry District's distribution facilities. This map shall, at a minimum, show all master meters, pumping stations, storage tanks, water transmission mains and water distribution mains. The size of all mains shall be clearly indicated on this map.

3. Describe the methodology that Henry District presently uses to determine if the construction of a system line improvement benefits existing customers.

4 Refer to Letter of Tom Green to Thomas Dorman (April 21, 2004).

a. Explain how Henry District's certification to the Henry County Planning and Zoning Commission of the availability of water service to a lot "creates hydraulic impact on the system."

b. Explain why for single tracts of agricultural land it is not more reasonable to require payment of the Offsetting Improvement Charge when a service connection is made instead of when the water district certifies the availability of water service.

c. State whether it is Henry District's position that it may refuse water service to an applicant where actual usage, combined with certified commitments of usage, would result in pressures below state regulations even if the applicant's connection would not result in actual pressures below state regulations upon or after his connection.

5. State the number of times since January 1, 1996, that the connection of a customer resulted in system pressure falling below 30 pounds per square inch in either Henry District's transmission or distribution system. For each incident, state the date of the connection, the type of customer added, the amount of demand from the new customer, the size of connection, the location of the connection, the size of water distribution main to which the connection was made, the actions taken to correct the low pressure problem, and the cost of the corrective actions.

6. Identify all other water utilities that impose a charge similar to Henry District's "Offsetting Improvement Charge." For each utility identified, provide the rate schedule in which the charge is incorporated.

7. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 3. State whether Henry District's OIC is intended to cover "only the cost of installing larger [water distribution] lines."

8. Refer to Case No. 2001-00393,[1] Henry District's Response to Commission Staff's Interrogatories and Requests for Production of Documents, Item 5. Henry District states that "[t]he Offsetting Improvement Charge (OIC) is necessary to avoid

[1] Case No. 2001-00393, The Tariff Filing of Henry County Water District No. 2 for an Offsetting Improvement Charge.

imposing substantial and ongoing rate increases on existing HCWD2 customers in order to accommodate the hydraulic demands of development." State if the Offsetting Improvement Charge is necessary if substantial and ongoing rate increases do not materialize or can be avoided through other mechanisms.

9. State if Henry District currently applies the policies set forth in its "Water Main Extension to Existing Houses & Refund Policy"[2] to extensions to existing houses.

10. State for each of the previous 5 years the amount that Henry District refunded to real estate subdivision developers pursuant to Administrative Regulation 807 KAR 5:066, Section 11(3).

11. State why revisions to Henry District's current water main extension policy to permit Henry District to assess to real estate subdivision developers the cost of constructing replacement or supplemental water mains needed as a result of the proposed extension is not a more fair and equitable means of assigning costs related to water main extensions rather that the assessment of an Offsetting Improvement Charge.

12. Provide a copy of the ordinances for the bond issuances that Henry District executed in 1998 and 2001.

13. State how Henry District intends to finance main replacements necessary to serve customers in areas certified or receiving water service prior to July 25, 2002.

14. Refer to Table I. This table suggests that Henry District collects net annual revenue of $138.87 from each customer added. Assuming this revenue is used solely for capital improvements, Henry District will collect net revenues from each added

[2] Tariff of Henry County Water District No. 2, Second Revised Sheet No. 12.

customer to offset that customer's hydraulic impact on the distribution system within 7 years.[3] Explain why a one-time charge to each new customer for the cost of his or her hydraulic effect on the water district's distribution system is necessary if present general service rates effectively provide for recovery of that cost over a 7-year period. To the extent that the response refers to "fairness" to existing customers, the response should address why existing customers, who are not assessed an Offsetting Improvement Charge, are effectively permitted to pay for their share of capital improvement costs over 17- to 30-year periods (the payment period for Henry District's long-term debts.

TABLE I

Net Operating Income ("NOI")	$279,095
Plus: Interest Income	85,905
Income Available to Service Debt	$365,000
Principal Retirement	$333,008
Interest Expense	509,830
Coverage at 20 Percent of Principal and Interest	168,568
Total Debt Service	$1,011,406
Income to Debt Shortfall	$646,406
Depreciation Expense included in NOI	$780,845
Less: Income to Debt Shortfall	(646,406)
Depreciation Funded Through Rates	$134,439
Total Debt Service	$1,011,406
Plus: Depreciation Funded Through Rates	134,439
Total Fixed Capital Costs Recovered Through Rates	1,145,845
Divide by: Gallons sold	529,879,000
Fixed Capital Costs per Gallon Sold	.00216
Times: Average Annual Gallons Sold per Residential Customer	64,292
Fixed Capital Costs Collected through Rates from the Average Residential Customer in an Annual Period	$138.87

[3] Current Offsetting Improvement Charge ($950) ÷ $138.87 per year = 6.84 years.

15. State the time limit, if any, that should be placed on Henry District's retention of unused proceeds from the Offsetting Improvement Charge.

16. State if Henry District has projected the level and characteristics of the customer growth that it will experience in the next 10 years and the demand that such growth will place on its system. If such projections have been made, provide these projections.

17. State if the closing of loops provides benefits to existing customers. If yes, describe how these benefits can be ascertained.

18. State if Henry District currently has any plans to provide fire protection service.

19. List and describe all Henry County Planning and Zoning Commission requirements regarding the availability of fire protection service to real estate subdivision developments.

20. State if Henry District has conducted any analyses or studies to determine if it can provide fire protection flows to portions of its system. If yes, provide a copy of all analyses and studies.

21. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 6(a). Define "growth area."

22. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 6(b). State the level at which Henry District defines an area as low pressure and requires the construction of additional improvements to raise existing water pressures in the area.

23. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 6(a).

a. State if Henry District has conducted any study or analysis to determine the component of its present general service rates that covers "the maintenance, operation, debt service, etc. of those existing facilities which are not necessary to serve" customers in areas not certified before July 25, 2002.

b. State if isolation of this component will ensure that customers in areas not certified before July 25, 2002 do not contribute to the cost of water distribution mains in certified areas. Explain.

24. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 5(a). State if the documents found at Appendix B comprise Henry District's complete and current long-term plan for the construction of water mains.

25. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 10. Describe how Henry District intends to finance the construction of water mains to remedy pre-existing deficiencies in its water distribution system.

26. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 12. Define "minor replacement expenditures."

27. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 12. State if Henry District agrees with the following statement: "If a water district fails to include depreciation expense in calculating its general rates, it fails to assess its customers the actual cost of providing water service and requires future customers to bear a share of the costs necessary to provide service to current customers." Explain.

28. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 13. Henry District states that "general rates should recover the cost of providing water service including an annual allowance for replacing capital equipment and facilities, not the full expense of depreciation."

a. Describe how this "annual allowance" should be determined.

b. Explain why recovery of the amount of depreciation expense is inappropriate.

29. Explain why Mr. Green requested Henry District's Board of Commissioners on June 13, 2006 to adopt the two resolutions regarding depreciation policy and the upsizing of water mains.

30. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 16(b).

a. Explain how the cost of hydraulic improvements funded through general rates can later be recouped though the Offsetting Improvement Charge.

b. Provide the written procedures or policies that Henry District has to govern the use of Offsetting Improvement Charge proceeds to reimburse projects funded through general service rates.

31. State if Henry District classifies its customers into different customer classes (e.g., residential, industrial, agricultural) for customer usage or billing. If yes, define each classification and describe how that classification is used for billing and planning purposes.

32. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 20. Provide for each year from January 1, 1996 to December 31, 2005 the number of new meters set on previously unserved new lots.

Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
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DATED: __August 11, 2006_____

cc: Parties of Record