

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY)	
WATER DISTRICT FOR APPROVAL OF)	CASE NO.
FINANCING THE ACQUISITION OF THE)	2002-00066
CITY OF NEWPORT WATERWORKS)	

COMMISSION STAFF S INTERROGATORIES AND
REQUESTS FOR PRODUCTION OF DOCUMENTS

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Northern Kentucky Water District (Northern Water) file with the Commission, within 7 days of the date of this pleading, the original and eight copies of the following information, with a copy to all parties of record. Each copy of the data 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 person who is responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information herein has been previously provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Provide the journal entries that Northern Water will record to reflect the purchase of the assets of the City of Newport Waterworks.

2. Provide the following financial statements for the City of Newport Waterworks for the most recent fiscal year:

- a. Balance Sheet
- b. Income Statement
- c. Statement of Retained Earnings

3. Are the utility assets listed in the City of Newport Waterworks balance sheet provided in response to Item 2 recorded at their original cost? Provide a detailed analysis of utility plant in service showing the original cost of the City of Newport Waterworks utility plant in service.

4. Provide a detailed analysis of the City of Newport Waterworks accumulated depreciation equal to the amount reported in the balance sheet provided in response to Item 2.

5. Provide a detailed analysis of the City of Newport Waterworks Contribution In Aid of Construction (CIAC) showing the source of the contribution, the date received, the amount received, if the contribution is subject to refund, and the reason the contribution is required to be refunded. If the analysis of CIAC does not equal the amount recorded in City of Newport Waterworks balance sheet provided in response to Item 2, explain the difference.

6. Northern Water states that the acquisition of the City of Newport Waterworks system is justified based on the cost analysis that it prepared. Has Northern Water performed an analysis of the asset values to determine if the amount paid is reasonable? If not, explain why an analysis of projected cash flows is sufficient justification of the amount Northern Water is paying for the City of Newport Waterworks assets.

7. In Case No. 9059,¹ the Commission determined that, The burden of proof is upon the utility to justify its investment at the price in excess of the net original cost based on economic and quality of service criteria. To meet this burden of proof, the Commission established the criteria a utility must meet in order to recover any investment in excess of the net original cost (plant acquisition adjustment). Provide evidence to show that Northern Water's proposed purchase of City of Newport Waterworks meets the following criteria:

- a. The purchase price was established upon arms-length negotiation.
- b. The initial investment plus the cost of restoring the facilities to required standards will not adversely impact the overall costs and rates of the existing and new customers.
- c. Operational economies can be achieved through the acquisition.
- d. The purchase price of utility and non-utility property can be clearly identified.
- e. The purchase price will result in overall benefits in the financial and service aspects of the utility's operations.

8. In prior transfer cases involving private utilities, the Commission has mandated that the acquiring utility agree not to recover a plant acquisition adjustment from the ratepayers. In these instances the excess paid over the net book values is borne by the stockholder. Given that Northern Water is not a private utility having stockholders, explain how Northern Water will recover any amount incurred in the

¹ Case No. 9059, An Adjustment of Rates of Delta Natural Gas Company, Inc., Order dated September 11, 1985.

purchase of the City of Newport Waterworks assets that would be classified by this Commission as plant acquisition adjustment.

9. Provide a complete description of the process Northern Water used to arrive at the purchase price of \$17,100,000 as set forth in Paragraph 1.3 of the Agreement.

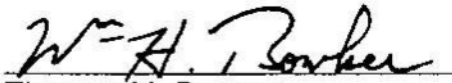
10. The Asset Acquisition Agreement between Northern Water and the city of Newport, Kentucky (Agreement) is signed but does not have an effective date. Provide the date the contract was signed.

11. Schedule 1.2(b)(i) of the agreement lists real property used in connection with the business and operations of the Newport System. Provide a schedule of these assets in the same level of detail as Schedule 1.2(b)(ii) of the Agreement. This schedule should include, but not be limited to, treatment plants, storage tanks, pumping stations, mains, service lines, and meters.

12. According to Section 8.6 of the Agreement, the city of Newport will construct a new 8-inch water line serving the Newport Shopping Center and the Newport Plaza. After completing the construction, the city of Newport will convey the new 8-inch line to Northern Water. Provide the anticipated construction costs of the new 8-inch line and the journal entry that Northern Water will record to reflect the transfer. Include copies of all workpapers, calculations, and assumptions used to estimate the construction cost.

13. Provide a comparison of the \$17,100,000 purchase price with the net original value of the city of Newport Waterworks assets. Provide all workpapers, calculations and assumption used in the comparison.

14. If the purchase price is in excess of the net original value of the City of Newport Waterworks assets, explain how the Commission can find the proposed financing is for a lawful object within Northern Water's corporate purpose, is necessary, appropriate for and consistent with the proper performance of its service to the public, and should therefore be approved.

for 
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Public Service Commission
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DATED: 3/26/02

cc: Parties of Record