

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HARDIN COUNTY WATER)	
DISTRICT NO. 2 FOR AUTHORITY TO)	CASE NO.
EXECUTE A PROMISSORY NOTE IN THE)	2014-00289
PRINCIPAL AMOUNT OF \$8,000,000)	
PURSUANT TO THE PROVISIONS OF KRS)	
278.300 AND 807 KAR 5:001)	

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO HARDIN COUNTY WATER DISTRICT NO. 2.

Hardin County Water District No. 2 ("Hardin County No. 2"), pursuant to 807 KAR 5:001, is to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due 14 days from the issuance of these requests for information. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the individual responsible for responding to questions relating 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 the 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.

Hardin County No. 2 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 Hardin County No. 2 fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. 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 Application, pages 16 and 17 and Exhibit 21. State whether public notice containing the rate transition plan as stated in the Elizabethtown ("Elizabethtown") Ordinance No. 07-2014 ("Ordinance No. 07-2014") has been provided to the customers of the Elizabethtown Water System ("Elizabethtown WS").

a. If notice has been provided, explain how it was provided. Provide a copy of the notice

b. If notice has not been provided, will the Elizabethtown provide notice to the customers of the Elizabethtown WS before the rates in the transition plan are to go into effect? If not, explain why.

c. If notice has not been provided, will Hardin County No. 2 provide notice to the customers of the Elizabethtown WS before the rates in the transition plan are to go into effect? If not, explain why.

2. Refer to Application, pages 15 to 19. State how the rate transition plan for the Elizabethtown WS service area as stated in Ordinance No. 07-2014 was developed.

a. Refer to Numbered Paragraph 55, page 16. In reaching the compromise, explain how each factor listed was taken into consideration in developing the rate transition plan.

b. Identify any additional factors not listed in Numbered Paragraph 55 that were taken into consideration and explain how each additional factor was taken into consideration in developing the rate transition plan.

3. Refer to Application, Exhibit 20, Ordinance No. 07-2014, Section 4, Tapping or Connection Fees (Water). The fee as stated in Ordinance No. 07-2014 is \$150 for the 3/4-inch through the 2-inch meters, and the fee is \$300 for the 3-inch through the 8-inch meters. State whether Hardin County No. 2 will adopt these charges.

a. If so, explain why.

b. If so, state whether public notice containing the tapping or connection fees as stated in Ordinance No. 07-2014 has been provided to the customers of the Elizabethtown WS. If notice has been provided, identify how it was provided. Provide a copy of the notice.

c. Does Hardin County No. 2 plans to charge tapping or connection fees in the Elizabethtown WS service area following the acquisition?

(1) If not, explain why.

(2) If so:

i. Identify the tapping or connection fees that Hardin County No. 2 will charge.

ii. State whether the tapping or connection fees that Hardin County No. 2 plans to charge in the Elizabethtown WS service area will be different from the tapping or connection fees in Hardin County No. 2's current service territory. Explain any difference in fees.

iii. State whether public notice containing the tapping or connection fees that Hardin County No. 2 plans to charge in the Elizabethtown WS service area has been provided to the customers of the Elizabethtown WS. If so, explain how and provide a copy of the notice. If not, explain why.

4. Refer to Application, Exhibit 20, Ordinance No. 07-2017, Section 6, Standby Fire Protection Taps and Section 19.0, Fire Protection, in Hardin County No. 2's Tariff. The fee as stated in Ordinance No. 07-2014 is \$250 for the 4-inch tap; \$500 for the 6-inch tap; \$1,000 for the 8-inch tap; and \$1,500 for the 12-inch tap. State whether Hardin County No. 2 will be adopting these charges.

a. If so, explain why.

b. If so, state whether public notice containing the standby fire protection tap fees as stated in Ordinance No. 07-2014 has been provided to the customers of the Elizabethtown WS. If notice has been provided, identify how it was provided. Provide a copy of the notice.

c. Does Hardin County No. 2 plan to charge standby fire protection tap fees in the Elizabethtown WS service area following the acquisition.

(1) If not, explain why.

(2) If so:

i. Identify the standby fire protection tap fees that Hardin County No. 2 will charge.

ii. State whether the standby fire protection tap fees that Hardin County No. 2 plans to charge in the Elizabethtown WS service area will be different from the standby fire protection tap fees charged in Hardin County No. 2's current service territory. Explain any difference in fees.

iii. State whether public notice containing the standby fire protection tap fees that Hardin County No. 2 plans to charge in the Elizabethtown WS service area has been provided to the customers of the Elizabethtown WS. If so, explain how and provide a copy of the notice. If not, explain why.

d. Section 19.0, Fire Protection, in Hardin County No. 2's Tariff states: "Although the District is not a fire protection district, certain portions of the District's water distribution system have the capability of providing some level of fire protection. In those areas where a professional engineer with a Kentucky registration has certified that the system can provide the required fire flow, the District will provide fire protection for customers on a negotiated fee basis. The District and the customer shall enter into a special contract before any connection is made to the District's system."

(1) State whether Hardin County No. 2 has conducted a review or otherwise analyzed the ability of Hardin County No. 2 to provide fire flow in the Elizabethtown WS service area. If so, provide the review or analysis. If not, explain why.

(2) State whether there are customers in the Elizabethtown WS service area that will be required to enter into a special contract with Hardin County No. 2 in order to continue to receive the level of service that each customer is currently receiving from Elizabethtown WS.

(3) If there are customers in the Elizabethtown WS service area that will be required to enter into a special contract with Hardin County No. 2 in order to continue to receive the level of service that each customer is currently receiving from Elizabethtown WS, state whether Hardin County No. 2 has provided each customer with notice. If so, explain how notice was given and provide a copy of the notice. If not, explain why notice has not been given.

5. Refer to Application, Exhibit 20, Ordinance No. 07-2017, Section 8, Deposit Required. The deposit as stated in Ordinance No. 07-2014 is \$30.00 for residential customers and \$60.00 for commercial and industrial customers. State whether Hardin County No. 2 will be adopting these amounts.

a. If so, explain why.

b. If so, state whether public notice containing the deposit amounts as stated in Ordinance No. 07-2014 has been provided to the customers of the Elizabethtown WS. If notice has been provided, identify how it was provided. Provide a copy of the notice.

c. If not, state whether Hardin County No. 2 will require deposits in the Elizabethtown WS service area following the acquisition. If not, explain why. If so:

(1) Identify the deposit amounts that Hardin County No. 2 will require.

(2) State whether the deposit amounts that Hardin County No. 2 plans to require in the Elizabethtown WS service area will be different from the deposit requirement in Hardin County No. 2's current service territory. Explain any differences in deposit amounts.

(3) State whether public notice containing the deposit amounts that Hardin County No. 2 plans to require in the Elizabethtown WS service area has been provided to the customers of the Elizabethtown WS. If so, explain how and provide a copy of the notice. If not, explain why.

6. State whether Hardin County No. 2's current schedules containing its approved rates and conditions for service will apply to the customers in the Elizabethtown WS service area following the acquisition. For the purposes of this question, Hardin County No. 2 may exclude from the response discussion of the rates for water service in the rate transition plan.

a. If so, state whether public notice has been provided to the customers of the Elizabethtown WS.

b. If notice has been provided, identify how it was provided. Provide a copy of the notice.

c. If not, explain why.

7. Refer to Application, Numbered Paragraph 26, page 7. Hardin County No. 2 states it will acquire 2 million gallons of additional storage capacity.

a. The GRW Engineers, Inc.'s ("GRW") Hydraulic Modeling Report, Application, Exhibit 9, page 11, states that the average daily demand for the Elizabethtown WS is approximately 3.85 million gallons per day ("MGD"). Does Hardin

County No. 2 anticipate constructing additional storage in Elizabethtown WS pressure zones to be in compliance with the Commission's regulation 807 KAR 5:066 Section 4(4)?

b. If the answer to 7.a. is yes:

(1) How much additional storage will be added?

(2) Will Hardin County No. 2 seek a Certificate of Convenience and Necessity ("CPCN") for these projects?

(3) When does Hardin County No. 2 expect to begin construction?

(4) What is the estimated total project cost to be in compliance?

c. If the answer to 7.a. is no, please explain.

8. Refer to Application, Numbered Paragraph 28, page 7. Does Hardin County No. 2 anticipate a physical disconnection from the existing distribution system of those assets listed as being excluded from the proposed transaction?

9. Refer to Application, Numbered Paragraph 32, page 8. Provide the total cost to have GRW "evaluate the physical assets of the Elizabethtown Water System, to prepare a hydraulic model of the combined water distribution system, and to identify assets which might not be needed by the District for operation of the combined system."

10. Refer to Application, Numbered Paragraph 56, page 16. Hardin County No. 2 states that the Elizabethtown WS's water rates will equalize on July 1, 2017, when the transition period ends.

a. Hardin County No. 2 has not increased its rates to its customers since 2007. Does Hardin County No. 2 anticipate any rate increases to its existing customers prior to the end of the rate transition plan on July 1, 2017?

b. If the answer to 10.a. is yes, what effect will it have on the proposed gradual four-step transition?

c. If the answer to 10.a. is no, explain why an increase to Hardin County No. 2's existing customers would not be required.

11. Refer to the GRW Asset Management Program and Capital Improvement Planning Report ("GRW Report"), Application, Exhibit 8.

a. When does Hardin County No. 2 anticipate constructing the facilities to connect to the Louisville Water Company ("LWC")?

b. What is the estimated construction cost for this connection?

c. What is the plan for the Freeman WTP after the connection to LWC is complete?

d. If the Freeman WTP is abandoned, how much of the 10 MGD from LWC will be needed to offset the supply lost from the Freeman WTP?

e. Refer to Chapter 3, page 18, of the GRW Report. The three projects identified as essential to complete the successful merger of the two distribution systems have a total approximate cost of \$560,000.

(1) When does Hardin County No. 2 anticipate beginning construction of these recommended projects?

(2) Does Hardin County No. 2 plan to seek a CPCN for the recommended projects?

f. Refer to Chapter 4, page 23 of the GRW Report. The nine asset projects recommended to be part of the renewal and replacement plan have a total cost of \$1,680,000.

(1) Does Hardin County No. 2 plan to seek a CPCN for any of the projects listed under Phase 2?

(2) Does Hardin County No. 2 plan to seek a CPCN for any of the projects listed under Phase 3?

(3) Does Hardin County No. 2 plan to seek a CPCN for any of the projects listed under Phase 4?

g. Refer to Chapter 5, page 29, of the GRW Report. The nine capital improvement projects identified by the GRW Report to account for assets that were beyond repair, did not meet industry standards, or were not compliant with current codes have a total cost of \$2,870,000.

(1) When does Hardin County No. 2 anticipate beginning construction of these projects?

(2) Does Hardin County No. 2 plan to seek a CPCN for any of these projects? If so, which ones.

(3) When does Hardin County No. 2 anticipate starting the construction necessary to convert the Springs WTP to a chloramines disinfection system?

i. What is the estimated total project cost to complete this conversion?

ii. Does the answer to the above question include the new chemical storage building? If not, what is the estimated total project cost for the new chemical storage building?

12. Refer to Application, Numbered Paragraph 14, page 4. The Application states that “[t]he District’s existing service area completely surrounds Elizabethtown’s service area.”

a. State whether the entirety of the Elizabethtown WS service area is included within the boundaries of Hardin County No. 2.

b. If the entirety of the Elizabethtown WS service area is wholly within the boundaries of Hardin County No. 2, state the date upon which Elizabethtown WS service area was included within the boundaries. Provide all supporting documentation.

c. If Elizabethtown WS service area is partially within the boundaries of Hardin County No. 2, state the date(s) upon which the portion(s) of Elizabethtown WS service area was(were) included within the boundaries. Provide all supporting documentation.

d. If the Elizabethtown WS service area is partially within the boundaries of Hardin County No. 2, identify the portion of Elizabethtown WS service area that is within the boundaries and the portion of Elizabethtown WS service area that is outside of the boundaries. Provide a map of Elizabethtown WS service area that depicts the areas within the boundaries and outside of the boundaries.

e. If any portion of Elizabethtown WS service area is not within the boundaries of Hardin County No. 2, state all actions that are necessary in order for

Hardin County No. 2 to lawfully provide water service throughout the Elizabethtown WS service area.

f. State whether it is necessary for Hardin County No. 2 to obtain the Elizabethtown's consent to be included in the boundaries of Hardin County No. 2. If so, state whether consent was obtained or is anticipated to be obtained. If not, explain why.

13. Refer to Application, Numbered Paragraphs 50 through 63, pages 15-19.

a. Numbered Paragraph 55, page 16, states, "the District agreed, subject to Commission approval, to transition the existing Elizabethtown customers from Elizabethtown's rates to the District's rates over a three (3) year period." In a scenario in which the rate transition plan is approved, state whether, during the period after approval through July 1, 2017, each presently existing metered connection of the Elizabethtown WS will continue to receive service pursuant to the rates contained in the rate transition plan regardless of whether there is a change in the party responsible for the account. If not, explain why.

b. Numbered Paragraph 55, page 16. State the definition of "existing Elizabethtown customers."

c. Indicate whether an Elizabethtown WS customer receiving service as of the date of an approval of the rate transition plan rate structure will remain an "existing" customer for the duration of the transitional rate plan period regardless of whether the customer experiences any change or break in service consequent to events such as disconnection for nonpayment or change in location consequent to moving from one residence within the Elizabethtown WS existing service area to another residence within the Elizabethtown WS existing service area. Identify each event that will

terminate a customer's status as an "existing Elizabethtown customer" during the rate transition plan period.

d. In a scenario in which the rate transition plan is approved, state whether, during the period after approval through July 1, 2017, a customer who applies for and receives water service through the extension of service through a new meter within the limits of Elizabethtown WS current service area will be billed for service pursuant to the rates contained in the rate transition plan schedule in Numbered Paragraph 56, page 17. If no, explain why not.

14. Provide copies of all minutes of Hardin County No. 2's Board of Commissioner's meetings in which the purchase of Elizabethtown WS assets was discussed.

15. Provide copies all correspondence, memoranda, electronic mail messages, and any other documents in which Hardin County No. 2 or its agents discuss the purchase of Elizabethtown WS assets.

16. Provide copies of all correspondence, memoranda, electronic mail messages, and any other documents in which Hardin County No. 2 or its agents discuss the physical condition of Elizabethtown WS assets.

17. Provide copies of all minutes of the Elizabethtown city council meetings, and any other meetings held by an Elizabethtown official for which minutes were recorded, in which the sale of Elizabethtown WS assets to Hardin County No. 2 was discussed.

18. Provide copies of all correspondence, memoranda, electronic mail messages, and any other documents in which an Elizabethtown official or Elizabethtown agents discuss the sale of the Elizabethtown's water assets.

19. Provide copies of all correspondence, memoranda, electronic mail messages, and any other documents in which Hardin County No. 2 or its agents discuss the physical condition of Elizabethtown WS assets.

20. Refer to the Application, Page 5, Paragraph 18.

a. Hardin County No. 2 states that the proposed transfer will enable Elizabethtown WS to forego capital projects costing multiple millions of dollars. Provide a list that includes the title, description, and estimated cost of each project that will be avoided by Elizabethtown WS as a result of the sale of its water assets.

b. For each project listed above, state the anticipated date that Hardin County No. 2 will begin constructing the improvement or state the reason that Hardin County No. 2 will not be required to construct the improvement subsequent to its purchase of Elizabethtown WS assets.

c. Hardin County No. 2 states that the combined system can be managed, operated, and maintained in a more cost-effective manner. Provide a copy of all analysis, studies, and reports that were either performed or commissioned by Hardin County No. 2 or Elizabethtown that identify and quantify the operating efficiencies and cost savings that will result from Hardin County No. 2's purchase of Elizabethtown WS assets.

21. Refer to the Application, Exhibit 4, Page 15, Numbered Paragraph 8.

a. Explain why ownership of the Freeman WTP will not transfer from Elizabethtown to Hardin County No. 2 as a part of the proposed transaction.

b. Provide a copy of the Freeman WTP lease agreement between Elizabethtown and Hardin County No. 2.

c. State the methods Hardin County No. 2 will use to account for the Freeman WTP lease.

d. Explain under what conditions and circumstances Hardin County No. 2 will renew the lease upon expiration of the original five-year term.

e. Provide the lease's payment schedule.

22. Refer to the Application, Page 8, Numbered Paragraph 31 and Exhibit 7. Numbered Paragraph 31 states that "[t]he book value of the Assets being purchased is \$7,718,229. A schedule itemizing the book value of each of the major components of the Assets is attached hereto and incorporated herein by reference as Exhibit 7."

In Exhibit 7, the original cost of the Freeman WTP, \$819,089 (\$36,624 + 782,465), is included in the \$7,718,229 total stated book value of assets being purchased by Hardin County No. 2. Confirm that Numbered Paragraph 31 and Exhibit 7 are in error and that ownership of the Freeman WTP will not transfer to Hardin County No. 2 as a result its purchase of Elizabethtown's water assets.

23. Refer to the Application, Exhibit 8. In Chapters 4 and 5 GRW identifies the capital improvement projects listed below that it recommends Hardin County No. 2 make to Elizabethtown WS's assets subsequent to its purchase of those assets.

	Estimated Cost
Projects Listed in GRW Report, Table 4.1	
Renewal of Wells 1,2, and Gaither Spring Raw Water Source	\$ 134,325
Miscellaneous Building and Electrical Code Repairs	170,150
Renewal of South End Storage Tank	452,400
Stair and Handrail Safety Modifications	45,025
Replacement of City Springs WTP Electrical Panels and Instrumentation	173,225
Renewal of City Springs WTP Building Roofs	85,675
Renewal of Helmwood Storage Tank	199,525
Renewal of 3 Million Gallon Raw Water Storage Tank	284,925
Replacement of Filter Media at City Springs WTP	133,980
 Total Cost Table 4.1	 <u>1,679,230</u>
Projects Listed in GRW Report, Table 5.1	
Site Security Upgrades to City Springs WTP and Raw Water Sources	118,450
New Off-Site Bulk Water Loading Station	62,525
Chemical Feed Building Addition to Proposed Ammonia Building	518,750
Install pH Meers at Raw Water Spring Sources	8,950
Raw Water Well to Replace Wells 3, 4, 5 and Transfer Station	403,700
Installation of 1990 Clearwell Level Sensor	17,450
Raw Water Influent Pump Station to Replace Roundhouse	777,100
On-Site Generator for City Springs WTP	559,550
Cover for 3 Million Gallon Raw Water Storage Tank	400,350
 Total Cost Table 5.1	 <u>2,866,825</u>
 Grand Total	 <u>\$4,546,055</u>

a. Indicate the projects identified in the GRW Report that Hardin County No. 2 does not intend to construct. Explain why the construction of these projects is not necessary and will not be performed.

b. For each project identified in the GRW Report that Hardin County No. 2 intends to construct, state the date that construction will begin and the date that it will be completed.

c. State the date that Elizabethtown WS would complete each project identified in the GRW Report if its water assets are not sold to Hardin County No. 2.

d. Provide all studies and reports, other than the GRW Report, that were prepared or commissioned by Hardin County No. 2 or Elizabethtown or their agents subsequent to January 1, 2004, that review or discuss the physical condition of Elizabethtown WS's assets.

24. Provide Elizabethtown WS's long-term water asset capital construction plan.

25. Provide Hardin County No. 2's long-term water asset capital construction plan.

26. Provide the journal entry that Hardin County No. 2 will record in its general ledger to report its purchase of Elizabethtown's water assets.

27. Refer to Exhibit 22 that is attached to Hardin County No. 2's August 26, 2014 response to the Commission's deficiency notice. This exhibit shows Hardin County No. 2's allocation of the face value of the note payable to Elizabethtown for the assets it will acquire from Elizabethtown. This suggests that Hardin County No. 2 intends to record the Elizabethtown assets at their purchase price.

a. Confirm that Hardin County No. 2 recognizes and understands that, pursuant to the original cost accounting principles stated in the Uniform Systems of Accounts that has been adopted by the Commission, Hardin County No. 2 must record the Elizabethtown WS assets at their original cost to Elizabethtown when they were first devoted to public service, and Hardin County No. 2 must record all accumulated

depreciation and contributions in aid of construction that have been recognized by Elizabethtown for those assets.

b. Confirm that Hardin County No. 2 recognizes and understands that original cost accounting requires that it record an acquisition adjustment that is equal to the difference between the asset's purchase price and the asset's original cost net of depreciation and contributions in aid of construction. Based on the information provided in Exhibit 22, Hardin County No. 2 will be required to record a positive acquisition adjustment for the Elizabethtown WS asset purchase in the amount of \$1,100,860.

c. Confirm that Hardin County No. 2 recognizes and understands that the Commission has historically found that rate recovery for a positive acquisition adjustment is only appropriate when: 1) the asset's purchase price was established upon arms-length negotiations; 2) 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; 3) operational economies can be achieved through the acquisition; 4) the purchase price of utility and non-utility property can be clearly identified; and 5) the purchase will result in overall benefits in the financial and service aspects of the utility's operations.

d. Provide all the evidence that Hardin County No. 2 purchase of Elizabethtown WS's water assets meets the Commission's five-part Delta.

28. When a note is exchanged for property, goods, or services, Generally Accepted Accounting Principles require that consideration be given to the reasonableness of the note's stated rate of interest when compared to prevailing market conditions. It requires that, when an interest rate is deemed unreasonable, the

exchange should be valued at the fair value of the note or the property, goods, or services, whichever is more clearly determinable.¹

a. The note payable from Hardin County No. 2 to Elizabethtown has a stated interest rate of zero. State whether Hardin County No. 2 is of the opinion that this rate of interest is reasonable based on current market conditions.

b. If Hardin County No. 2's opinion is that the stated rate of interest is reasonable, explain and discuss Hardin County No. 2's reasoning and rationale.

c. If Hardin County No. 2 is of the opinion that the stated rate of interest is unreasonable, state the fair value it will assign to the note payable for reporting purposes and explain how the fair value was determined.

d. Hardin County No. 2's most recent bond issuance occurred in 2012. Hardin County No. 2 reported the average rate of interest for these bonds to be 2.745 percent in its 2013 Annual Report that it filed with the Commission. Explain whether Hardin County No. 2 agrees that current market conditions are not materially different than when it issued the 2012 bonds.

e. Explain whether Hardin County No. 2 agrees that it would be appropriate to calculate the fair value of the note payable for reporting purposes by discounting the note's \$400,000, 20-year annual payment using as the discount factor the average interest rate of Hardin County No. 2's 2012 Revenues Bonds.² As shown in the amortization schedule below, this method results in a fair value of \$6,093,748.

¹ Financial Account Standards Board, Accounting Standards Codification 835.

² Hardin District's 2013 Annual Financial and Statistical Report at 49.

Payment Number	Payment Amount	Imputed Interest at 2.745 Percent	Principal Reduction	Principal Balance Outstanding
				\$ 6,093,748
1	\$400,000	\$ 167,273	\$ 232,727	5,861,021
2	400,000	160,885	239,115	5,621,906
3	400,000	154,321	245,679	5,376,228
4	400,000	147,577	252,423	5,123,805
5	400,000	140,648	259,352	4,864,454
6	400,000	133,529	266,471	4,597,983
7	400,000	126,215	273,785	4,324,197
8	400,000	118,699	281,301	4,042,897
9	400,000	110,978	289,022	3,753,874
10	400,000	103,044	296,956	3,456,918
11	400,000	94,892	305,108	3,151,810
12	400,000	86,517	313,483	2,838,328
13	400,000	77,912	322,088	2,516,240
14	400,000	69,071	330,929	2,185,310
15	400,000	59,987	340,013	1,845,297
16	400,000	50,653	349,347	1,495,951
17	400,000	41,064	358,936	1,137,015
18	400,000	31,211	368,789	768,226
19	400,000	21,088	378,912	389,313
20	400,000	10,687	389,313	-

f. Confirm that Hardin County No. 2 understands that, based on the information provided in Hardin County No. 2's application, accounting for the note payable at a fair value of \$6,093,748 would result in the recording of a negative acquisition adjustment in the amount of \$805,392³ and that, while a negative acquisition adjustment is not subject to the Commission's aforementioned five-part Delta test, the

³

Net Book Value of Water Assets Purchased	\$ 6,899,140
Less: Fair Value of Note Payable to Elizabethtown	<u>(6,093,748)</u>
Acquisition Adjustment	<u>\$ 805,392</u>

Commission may require that the benefit of the acquisition adjustment's amortization be passed through to Hardin County No. 2's customers in Hardin County No. 2's next application for a general rate adjustment unless Hardin County No. 2 can demonstrate that such a pass-through is unreasonable.

29. Refer to the Application, Exhibit 10.

a. A four-year financial projection for the "Elizabethtown Division" is provided on page 2. Provide a copy of the workpapers that show the calculation of the amounts projected for the year 2015.

b. On page 3, when discussing the water sales projections for Elizabethtown WS, reference is made to the May 2012 rate study performed by HDR Engineering, Inc. ("HDR") Provide a copy of the HDR rate study and a copy of all other studies of Elizabethtown WS's water rates that were performed or commissioned by Elizabethtown subsequent to January, 2010.

c. On page 4, it is stated that payroll projections were calculated based on estimated positions needed for the Elizabethtown Division. Provide a list of the job titles and salaries included in the payroll projections and indicate which positions on the list will be filled by a current employee of the Elizabethtown.

30. Provide all studies or analysis that were performed or commissioned by Hardin County No. 2 subsequent to January 1, 2010, to assess the reasonableness of its water service rates.

31. Refer to the Application, Exhibit 12. Hardin County No. 2 reports depreciation expense for the year ended June 30, 2014, in the amount of \$1,786,288. Provide a copy of Hardin County No. 2's detailed plant ledger that shows the calculation

of this expense. The ledger should list each property unit's in-service date, original cost, depreciable life, annual depreciation accrual, and accumulated depreciation.

32. Refer to the Application, Exhibit 15, page 12 and page 69.

a. On page 12, Elizabethtown reports \$49,369,466 for total "Long-term Debt" and on page 69 the Water and Sewer System reports \$9,666,368 for a "Construction Loan" and \$280,930 for "Notes Payable."

(1) Confirm that the \$9,666,368 construction loan and the \$280,930 note payable are included with and are a part of the \$49,369,466 long-term debt.

(2) State to whom the construction loan is payable and state the terms of repayment.

(3) Provide a copy of the construction loan documents.

(4) If Elizabethtown anticipates refinancing the construction loan, provide the anticipated refinancing date, the anticipated refinancing terms, and the name of the refinancing entity.

(5) State how the proceeds from the construction loan were used by Elizabethtown.

(6) State to whom the notes are payable and state the terms of repayment.

(7) State how the proceeds from the note were used by Elizabethtown.

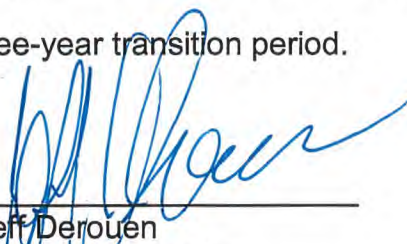
33. Refer to the Application, Exhibit 15, page 70. Elizabethtown reports depreciation expenses on its water and sewer system assets for the year ended June 30, 2013, in the amount \$1,559,336.

a. Provide a copy of Elizabethtown's detailed plant ledger that shows the calculation of this expense. The ledger should list each property unit's in-service date, original cost, depreciable life, annual depreciation accrual, and accumulated depreciation. Mark or highlight on the ledger the assets that Elizabethtown intends to sell to Hardin County No. 2.

b. For each water asset highlighted in the plant ledger, state whether Elizabethtown funded the asset's original cost with debt proceeds, internal funds, or contributions in aid of construction. Examples of contributions in aid of construction include, but are not limited to, customer tap-on fees, system development charges, developer contributions, and private and public grants.

34. Refer to the Application, Exhibit 15, page 69 and page 70. These pages show Elizabethtown's balance sheet and income statement for its combined water and sewer divisions for the fiscal years ended June 30, 2012 and June 30, 2013. Provide balance sheets and income statements for the fiscal year ended June 30, 2013, that report the operating results of these divisions separately.

35. Refer to the Application, Exhibit 4. On page 19, Hardin County No. 2 obligates itself, subject to the Commission's approval, to transition Elizabethtown's existing customers to the Hardin County No. 2's existing unified rate structure over a three-year period. Explain how Hardin County No. 2 would apply general rate adjustments, surcharges, or purchased water adjustments to Elizabethtown's existing customers approved or authorized during the three-year transition period.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
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DATED SEP 05 2014

cc: Parties of Record

Case No. 2014-00289

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