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February 27, 2006

Beth O'Donnell, Executive Director
Public Service Commission
211 Sower Blvd
P.O. Box 615
Frankfort, KY 40602

RECEIVED
MAR - 1 2006
PUBLIC SERVICE
COMMISSION

Re: The Tariff Filing of North Shelby Water Company to Revise
its Extension Policy to Include a Line Upsize Charge
Case No. 2005-00327

Dear Ms. O'Donnell:

Enclosed please find the original and ten (10) copies, plus an extra first page only, of North Shelby Water Company's Answer to Commission Staff's Second Information Request to North Shelby Water Company. Please file the original and ten copies with the Commission and return to me the file-stamped first page copy. For your convenience I have enclosed a self-addressed stamped envelope.

Please do not hesitate to call me should you have any questions.

Yours truly,

MATHIS, RIGGS & PRATHER, P.S.C.

BY: Donald T. Prather
Donald T. Prather

By: P. McElain

DTP/pm
Enclosures
Cc: Darrell Dees
Duncan LeCompte
Sandy Broughman

Don/wtr/nswc/line/psc filing ltr

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RECEIVED
MAR - 1 2006
PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF NORTH SHELBY	}	
WATER COMPANY TO REVISE ITS EXTENSION	}	CASE NO. 2005-00327
POLICY TO INCLUDE A LINE UPSIZE CHARGE	}	

**ANSWERS TO COMMISSION STAFF'S SECOND
INFORMATION REQUEST TO NORTH SHELBY WATER COMPANY**

Comes North Shelby Water Company ("North Shelby"), by counsel, and for its Answers to Commission Staff's Second Information Request to North Shelby, states as follows:

1. Through general rates for service the Commission allows a water district and associations recovery of depreciation expense to fund extensions and replacements made necessary from normal wear of the system and ordinary extensions of service due to development and growth. List all previously constructed improvements and currently planned system improvements either funded or to be funded through the Line Enlargement Charge and explain why each project is not an extension or replacement made necessary by normal wear and growth of the system that should be funded through depreciation expense collected from the general rate revenues of the system. Provide all evidence showing that the growth requiring these improvements is out of the ordinary making special funding outside of general rates for service appropriate.

ANSWER: North Shelby respectfully disagrees with the Commission Staff's premise, as stated in Question No. 1, that depreciation expense is

intended or sufficient to fund ordinary extensions of service due to development and growth. Depreciation allows the utility to recover the actual costs of improvements over a period of years equal to the expected useful life of each improvement. At best, the amount recovered will fund a replacement of a worn out facility. Even that is unlikely since replacement of an item five, ten, thirty or forty years after construction of the original item will likely cost much more than the original item, and therefore the depreciation expense will only fund a fraction of the replacement cost.

The following improvements have been constructed using Line Enlargement Charge (“LEC”) funds:

a.	Harrington Mill Upgrade, Phase I:	\$25,025.00	2002
b.	Ash Avenue Upgrade:	\$68,300.00	2003
c.	Bob Rogers Road Upgrade:	\$34,762.00	2005
d.	Mulberry Loop:	\$47,183.00	2005
e.	Drane Lane Loop:	\$54,618.50	2005
f.	Trammell Road Upgrade and Loop:	\$74,047.00	2005

Currently, planned system improvements to be funded through the LEC consist of items 5 and 6 on the 2005 priority list: Aiken Road upgrade and Harrington Mill upgrade. It is expected the Aiken Road upgrade will be removed from the 2006 priority list because the existing Aiken Road line is already at least 6 inches in diameter and it is believed the use of LEC funds is improper as a general rule unless replacing or reinforcing lines of less than 6-inch in diameter.

None of these projects were made necessary by normal wear of the system (See Answer to Question 1(g) in North Shelby's Answers to the Commission Staff's First Information Request). None of North Shelby's pvc plastic pipe has been replaced due to deterioration.

The question of whether each project is or was made necessary by normal growth of the system depends upon one's definition of normal growth versus abnormal growth. We assume by "normal" growth, the Commission means a growth rate curve that could be reasonably expected at the time the improvement was constructed. The majority of North Shelby's distribution system was designed for farms and infrequently spaced rural residences. This is shown by the long-standing rural development design criteria which allowed a utility to design only for the number of existing customers plus 5 future customers for each dead end. This allowed for minimal growth, consistent with the prior agricultural history of North Shelby's service area. Farming became generally unprofitable starting in the 1970s and accelerating in the 1980s and thereafter. Large rural residential lots became increasingly popular. These factors have led to the increasing development of North Shelby's system as a large-lot rural residential system rather than an agricultural system. This development could not have been anticipated. An additional factor that could not have been anticipated was the enactment by the Kentucky legislature of a statute requiring utilities to size water mains and install fire hydrants wherever feasible.

The fact that growth can occur requiring additional revenue, other than that produced through general rate revenues of the system, is shown by the existence of the Commission's own system development regulations. The fact that this type of growth has occurred in North Shelby's case is shown by the original approval of the LEC tariff by the Commission.

2. In response to Item 9(b) of the Commission Staff's First Information Request ("Staffs First Request"), North Shelby refers to an improvement project with an estimated cost of \$2,391,000.

a. When will this improvement project be constructed?

ANSWER: There is not a definite construction timetable. North Shelby has been waiting on several factors:

- **Construction of the Shelbyville western/northern bypass, which would result in the state replacing some portions of this line at state expense.**
- **Accumulation of sufficient LEC funds.**
- **Developer-driven projects financed at developer expense.**

The route of this project coincides largely with the route of a logical transmission main to Jefferson County. North Shelby is currently in urgent need of additional water supply from Louisville Water Company. It is likely this improvement project will be constructed within the next several years.

b. How does North Shelby intend to finance the project?

ANSWER: LEC funds to the extent available would be used to finance the cost of a 6-inch water main. The remaining cost of the project, including upsizing the water main from a 6-inch distribution line to a 12-inch or larger transmission main, would be financed by North Shelby's general fund revenues, borrowed funds, and any available grant funds.

c. Will the project require a Certificate of Public Convenience and Necessity from the Commission?

ANSWER: Some portions of the project will be too small to require a certificate, such as the relocation of water mains in connection with the Shelbyville bypass project and any developer-driven projects. The balance of the project will likely require a certificate because it will likely exceed the 10% rule and will almost certainly utilize borrowed funds.

3. North Shelby's Line Enlargement Charge is based on one half of the cost of main extension so that as development occurs on both sides of a main the entire cost of the main is paid through the charge. There are benefits accruing to existing customers from these main replacements such as increased quality of service, replacement of older, deteriorated main through which service is received, increased customer base, and availability of fire protection. Explain why then it is appropriate to require the developers to fund the entire cost of the main and not divert a portion of the cost to all those receiving service and benefiting from the improvements.

ANSWER: It is appropriate to require developers to fund the entire cost of a water main necessary to serve a development because the Commission's long-standing practice and regulations have permitted a utility to require a developer to fund the entire cost of a water main required to serve his/her development, whether a new water main or a replacement of an existing main rendered inadequate due to the development. If it is inappropriate, then the Commission's long-standing practice and regulations are likewise inappropriate.

Some existing customers benefit from main replacements by increased quality of service. All existing customers may benefit to some extent from an increased customer base. Existing customers do not benefit from replacement of older deteriorated mains because North Shelby's mains do not deteriorate significantly. Some existing customers benefit from available fire protection, but

this is relatively rare since most of North Shelby's system will not support fire protection.

Even with the LEC, North Shelby's existing customers pay a portion of the costs of those new customers through construction of water tanks, pump stations, and other incremental costs funded by general company revenues necessary to provide service.

The Commission Staff's premise contained in the first paragraph of this question is not accurate. It was never intended or anticipated that development on both sides of a water main would occur such that the entire cost of the main was paid through the charge. There are exemptions from the charge for lots already receiving service. Many developments occurred in North Shelby's service area before the adoption of the LEC. Even if both sides of every road developed completely, those exceptions would make it impossible to pay the entire cost of the water main. The reason the LEC was set at one-half of the cost of North Shelby's minimum water main size is by analogy to the Commission's normal rules requiring the developer to pay the entire cost of a water main serving a development. Since the type of development targeted by the LEC normally occurs only on one side of the road, it was thought unfair to charge the developer for both sides of the road. Only in the rare event that development subject to the LEC occurs on both sides of a main would the entire cost of that main be paid through the charge.

4. In response to Item 2(a) of the Staff's First Request, North Shelby cites the need for 6-inch main to provide fire protection in newly developed areas as well as those areas already served by smaller sized main as a "significant factor" for originally seeking the Line Enlargement Charge. Explain why it is appropriate for developers through the payment of the Line Enlargement Charge to subsidize construction costs necessary to provide fire protection to areas already served by North Shelby.

ANSWER: Fire protection is not provided, expected or necessary in farming areas. It is only when those farming areas develop into a rural residential area that fire protection becomes feasible and expected. It is through developments constructed by developers that North Shelby's service area has been converted from a predominantly farming area to areas of 5-acre or larger residential lots. It is entirely appropriate for developers to pay the costs of providing fire protection to these areas just as it is appropriate for developers to bear the expense of providing fire protection in a new small-lot residential subdivision constructed by that developer. It is wholly inappropriate and unfair to expect the existing customers of North Shelby, most of whom do not benefit from fire protection, and many of whom will likely never benefit from fire protection, to subsidize a developer's profit by providing fire protection to his development.

5. (a) Provide a worksheet that lists separately, by main size and the year placed into service, each main extension of North Shelby that is either currently in service or has been replaced.

ANSWER: Attached. North Shelby objects to the request that each water main be identified by size, because providing that information, if even possible, would be extremely expensive and burdensome.

ASSET DEPRECIATION SHORT REPORT
 North Shelby Water Company Dec. 31, 2005

Sorted: ASSET A/C#
 Method: 1-FEDERAL-Std Conv Applied

Range: 109 - 109
 Include: All assets

Date Acq	Description	Meth/Life	Cost	Section 179	Depr Basis	Includes Section 179		
						Beg A/Depr	Curr Depr	End A/Depr
ASSET A/C#: 109 - WATER DISTRIBUTION MAINS								
06/01/73	WATER DIST LINES	SL/50.00	1,349,867.95	0.00	1,349,867.95	850,420.15	26,997.36	877,417.51
06/01/76	WATER DIST LINES	SL/50.00	750.00	0.00	750.00	435.00	15.00	450.00
06/01/78	WATER DIST LINES	SL/50.00	1,554.00	0.00	1,554.00	839.16	31.08	870.24
06/01/79	WATER DIST LINES	SL/50.00	99,450.00	0.00	99,450.00	50,720.00	1,989.00	52,709.00
06/01/80	WATER DIST LINES-DOVER	SL/50.00	20,300.00	0.00	20,300.00	9,947.00	406.00	10,353.00
06/01/80	WATER DIST LINES-OLDHAM	SL/50.00	12,993.74	0.00	12,993.74	6,365.00	259.87	6,624.87
06/01/80	WATER DIST LINES-FRANKLIN	SL/50.00	704,960.98	0.00	704,960.98	345,435.88	14,099.22	359,535.10
06/01/81	WATER DIST LINES-COMBS & MARSH	SL/50.00	2,053.00	0.00	2,053.00	964.20	41.06	1,005.26
06/01/81	WATER DIST LINES-TAYLOR EST RD	SL/50.00	2,862.00	0.00	2,862.00	1,344.80	57.24	1,402.04
06/01/82	WATER DIST LINES-US 60	SL/50.00	9,000.00	0.00	9,000.00	4,050.00	180.00	4,230.00
06/01/82	WATER DIST LINES	SL/50.00	1,924.00	0.00	1,924.00	864.60	38.48	903.08
06/01/83	WATER DIST LINES-BEACHRIDGE	SL/50.00	10,000.00	0.00	10,000.00	4,300.00	200.00	4,500.00
06/01/83	WATER DIST LINES-CROPPER	SL/50.00	6,010.00	0.00	6,010.00	2,584.00	120.20	2,704.20
06/01/84	WATER DIST LINES-BELLVIEW RD	SL/50.00	13,744.02	0.00	13,744.02	5,634.60	274.88	5,909.48
06/01/85	WATER DIST LINES-FRANKFORT	SL/50.00	366,233.82	0.00	366,233.82	142,831.18	7,324.68	150,155.86
06/01/85	WATER DIST LINES-LOUISVILLE	SL/50.00	69,356.13	0.00	69,356.13	27,048.84	1,387.12	28,435.96
06/01/85	WATER DIST LINES-395 HATTON	SL/50.00	112,354.22	0.00	112,354.22	43,818.06	2,247.08	46,065.14
06/01/86	WATER DIST LINES	SL/50.00	95,242.01	0.00	95,242.01	35,239.54	1,904.84	37,144.38
06/01/87	WATER DIST MAINS	SL/50.00	33,808.75	0.00	33,808.75	11,889.43	676.18	12,565.61
01/31/88	DIST LINES-RUBIE ON POGUE RD	SL/50.00	8,163.20	0.00	8,163.20	2,775.42	163.26	2,938.68
07/01/88	DIST MAINS-UPGRADE LONG RUN-RELOCAT	SL/50.00	11,794.68	0.00	11,794.68	3,892.19	235.89	4,128.08
07/01/88	DIST MAINS-HANSBOROUGH RD 1070FT	SL/50.00	1,605.00	0.00	1,605.00	529.65	32.10	561.75
08/01/88	DIST MAINS-HERMITAGE RIDGE 600 FT	SL/50.00	10,000.00	0.00	10,000.00	3,283.33	200.00	3,483.33
09/01/88	DIST MAINS-PERSIMMON RIDGE 8"MAINS	SL/50.00	29,533.70	0.00	29,533.70	9,647.61	590.67	10,238.28
10/01/88	DIST MAINS-BEARD RD-STIVERS 4485 FT	SL/50.00	12,716.50	0.00	12,716.50	4,132.86	254.33	4,387.19
06/01/89	VARIOUS DIST MAINS	SL/50.00	17,628.70	0.00	17,628.70	5,494.22	352.57	5,846.79
08/01/89	PERSIMMON RIDGE	SL/50.00	34,046.26	0.00	34,046.26	10,497.62	680.93	11,178.55
01/01/90	HANSBOROUGH RD-2800 FT 4"	SL/50.00	12,316.00	0.00	12,316.00	3,694.80	246.32	3,941.12
04/01/90	TRACEY LANE-3000FT 4"	SL/50.00	9,350.50	0.00	9,350.50	2,758.40	187.01	2,945.41
06/19/90	LONG RUN RELOCATION	SL/50.00	3,960.64	0.00	3,960.64	1,155.15	79.21	1,234.36

ASSET DEPRECIATION SHORT REPORT
 North Shelby Water Company Dec. 31, 2005

Sorted: ASSET A/C#
 Method: 1-FEDERAL-Std Conv Applied

Range: 109 - 109
 Include: All assets

Date Acq	Description	Meth/Life	Cost	Section 179	Depr Basis	Includes Section 179		
						Beg A/Depr	Curr Depr	End A/Depr
ASSET A/C#: 109 - WATER DISTRIBUTION MAINS								
08/01/90	PADDOCK DIVISION-3060FT 4"	SL/50.00	9,940.00	0.00	9,940.00	2,866.03	198.80	3,064.83
09/01/90	HANSBOROUGH-3020FT 4"	SL/50.00	11,485.20	0.00	11,485.20	3,292.37	229.70	3,522.07
11/01/90	AIKEN ANDERSON-1400FT	SL/50.00	4,000.00	0.00	4,000.00	1,133.33	80.00	1,213.33
07/01/91	WATER DIST MAINS	SL/50.00	20,070.00	0.00	20,070.00	5,418.90	401.40	5,820.30
02/29/92	400 FT 2" & 720 FT 4"	SL/50.00	4,160.00	0.00	4,160.00	1,074.67	83.20	1,157.87
04/30/92	PERSIMMON RD 1980FT 8",520 6"150 1"	SL/50.00	30,000.00	0.00	30,000.00	7,650.00	600.00	8,250.00
05/31/92	HARRINGTON MILL RD- 1600FT 6"	SL/50.00	3,593.00	0.00	3,593.00	910.23	71.86	982.09
05/31/92	2620 4" EAST & WEST CONNECTOR	SL/50.00	9,925.00	0.00	9,925.00	2,514.33	198.50	2,712.83
08/05/92	SMWC-BRASSFIELD-PARTRIDGE RUN	SL/50.00	2,730.00	0.00	2,730.00	677.95	54.60	732.55
08/11/92	ROAD BORE-BRASSFIELD 80FT 12"	SL/50.00	5,600.00	0.00	5,600.00	1,390.67	112.00	1,502.67
08/31/92	PARTRIDGE RUN & BRASSFIELD CONNECTI	SL/50.00	13,811.00	0.00	13,811.00	3,429.73	276.22	3,705.95
09/30/92	7020FT 4"-PILCHER RD	SL/50.00	24,215.00	0.00	24,215.00	5,973.03	484.30	6,457.33
09/30/92	9 NEW REGULATORS-BRASSFIELD	SL/50.00	1,020.00	0.00	1,020.00	251.60	20.40	272.00
10/06/92	ENGINERRING-PERSIMMON RIDGE	SL/50.00	1,500.00	0.00	1,500.00	367.50	30.00	397.50
03/31/93	UPGRADE 1200FT 6"-TRAVIS FARM	SL/50.00	4,000.00	0.00	4,000.00	946.67	80.00	1,026.67
03/31/93	200 FT 4"-E'BURG	SL/50.00	700.00	0.00	700.00	165.67	14.00	179.67
07/01/93	135610 FT 4-8"-FRANKLIN CO PROJECT	SL/50.00	626,904.68	0.00	626,904.68	144,188.04	12,538.09	156,726.13
07/30/93	720 FT 4" -DOVER RD	SL/50.00	2,940.00	0.00	2,940.00	676.20	58.80	735.00
09/24/93	50FT 12",1585FT 8",396FT 1x2" PERSI	SL/50.00	24,000.00	0.00	24,000.00	5,440.00	480.00	5,920.00
09/30/93	400FT 4" PILCHER RD	SL/50.00	1,600.00	0.00	1,600.00	362.67	32.00	394.67
10/29/93	53/55 CONNECTOR 1140FT 4"	SL/50.00	4,960.00	0.00	4,960.00	1,116.00	99.20	1,215.20
10/29/93	6860FT 6" HWY 43-COTTER JOB	SL/50.00	27,835.37	0.00	27,835.37	6,262.98	556.71	6,819.69
11/30/93	1040FT 6" HEBRON RD	SL/50.00	5,600.00	0.00	5,600.00	1,250.67	112.00	1,362.67
04/30/94	PERSIMMON RIDGE-CLEAN UP	SL/50.00	2,000.00	0.00	2,000.00	430.00	40.00	470.00
06/30/94	DOUG ALDRIDGE 950FT 4"	SL/50.00	3,000.00	0.00	3,000.00	635.00	60.00	695.00
07/30/94	1580FT 6" SCOTT STATION	SL/50.00	10,000.00	0.00	10,000.00	2,100.00	200.00	2,300.00
07/30/94	1200 FT 6"-HARRINGTON MILL	SL/50.00	8,733.50	0.00	8,733.50	1,834.03	174.67	2,008.70
07/30/94	1100FT 6" & 60FT 12"-HARRINGTON MIL	SL/50.00	22,039.91	0.00	22,039.91	4,628.40	440.80	5,069.20
07/30/94	520 FT 4"-CHRISTIANBURG	SL/50.00	2,500.00	0.00	2,500.00	525.00	50.00	575.00
07/30/94	1040FT 4"-CHRISTIANBURG #2	SL/50.00	10,323.81	0.00	10,323.81	2,168.04	206.48	2,374.52

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North Shelby Water Company Dec. 31, 2005

Sorted: ASSET A/C#
 Method: 1-FEDERAL-Std Conv Applied

Range: 109 - 109
 Include: All assets

Date Acq	Description	Meth/Life	Cost	Section 179	Depr Basis	Includes Section 179		
						Beg A/Depr	Curr Depr	End A/Depr
ASSET A/C#: 109 - WATER DISTRIBUTION MAINS								
09/30/94	1365FT 4" DOVER RD	SL/50.00	8,120.00	0.00	8,120.00	1,678.13	162.40	1,840.53
09/30/94	1600 FT 4" TRACY RD	SL/50.00	4,800.00	0.00	4,800.00	992.00	96.00	1,088.00
05/31/95	FOX RUN 2000 FT 6"	SL/50.00	58,213.70	0.00	58,213.70	11,174.16	1,164.27	12,338.43
07/31/95	HWY 53 3000 FT 4" - 2 ROAD BORES	SL/50.00	26,698.80	0.00	26,698.80	5,072.81	533.98	5,606.79
08/31/95	PERSIMMON RIDGE 1500 FT 8" & 6"	SL/50.00	20,150.68	0.00	20,150.68	3,795.01	403.01	4,198.02
11/30/95	TRACEY LANE 775 FT 4"	SL/50.00	3,500.00	0.00	3,500.00	641.67	70.00	711.67
06/01/96	BANTA LANE	SL/50.00	21,215.00	0.00	21,215.00	3,641.91	424.30	4,066.21
06/01/97	Todds Point Fire Station	SL/50.00	15,559.63	0.00	15,559.63	2,359.86	311.19	2,671.05
07/01/97	Water distribution mains	SL/50.00	3,729.72	0.00	3,729.72	559.43	74.59	634.02
08/01/97	Aikenshire	SL/50.00	24,885.00	0.00	24,885.00	3,691.28	497.70	4,188.98
09/01/97	West Shelby Connection	SL/50.00	10,989.75	0.00	10,989.75	1,611.87	219.80	1,831.67
09/01/97	Cardinal View	SL/50.00	16,996.74	0.00	16,996.74	2,492.82	339.93	2,832.75
11/01/97	Clear Creek	SL/50.00	16,488.72	0.00	16,488.72	2,363.35	329.77	2,693.12
11/01/97	Emma Wade Road	SL/50.00	9,172.45	0.00	9,172.45	1,314.72	183.45	1,498.17
12/01/97	Catwalk	SL/50.00	92,875.78	0.00	92,875.78	13,157.43	1,857.52	15,014.95
12/01/97	Persimmon Ridge	SL/50.00	56,203.75	0.00	56,203.75	7,962.23	1,124.08	9,086.31
04/15/98	NORTH COUNTRY SUBDIVISION	SL/50.00	65,604.80	0.00	65,604.80	8,856.67	1,312.10	10,168.77
08/15/98	ORPHANS LANE	SL/50.00	9,165.83	0.00	9,165.83	1,176.30	183.32	1,359.62
04/28/99	5299 FT 6" DEVILS HOLLOW ROAD	SL/50.00	27,920.25	0.00	27,920.25	3,210.85	558.41	3,769.26
12/31/99	4000 FT 6" PVC-WASHBURN/CHRISTIANBU	SL/50.00	16,051.61	0.00	16,051.61	1,631.90	321.03	1,952.93
01/01/00	2000 FT 6" FLOYDSBURG	SL/50.00	23,335.00	0.00	23,335.00	2,333.50	466.70	2,800.20
01/01/00	4900 FT 8" ANDERSON LANE	SL/50.00	74,225.55	0.00	74,225.55	7,422.55	1,484.51	8,907.06
07/01/00	900 FT 8"-NORTH COUNTRY PHASE II	SL/50.00	14,099.70	0.00	14,099.70	1,268.96	281.99	1,550.95
07/01/00	117,000 FT 6-8"-FLAT CREEK	SL/50.00	1,092,589.27	0.00	1,092,589.27	98,333.05	21,851.79	120,184.84
07/01/00	3500 FT 8" WATCH HILL SUBDIVISION	SL/50.00	80,453.78	0.00	80,453.78	7,240.86	1,609.08	8,849.94
07/01/00	WATER DISTRIBUTION MAINS VARIOUS	SL/50.00	8,705.57	0.00	8,705.57	783.50	174.11	957.61
10/01/00	5550 FT 8" PERSIMMON RIDGE	SL/50.00	33,408.75	0.00	33,408.75	2,839.76	668.18	3,507.94
04/30/01	10230 FT 6" & 2120 FT 8" CEDARMORE-	SL/50.00	136,696.63	0.00	136,696.63	10,252.24	2,733.93	12,986.17
05/15/01	HWY 55 UPSIZE	SL/50.00	33,428.30	0.00	33,428.30	2,451.42	668.57	3,119.99
07/01/01	WATER DIST MAINS VARIOUS LOCATIONS	SL/50.00	9,597.30	0.00	9,597.30	671.82	191.95	863.77

ASSET DEPRECIATION SHORT REPORT
 North Shelby Water Company Dec. 31, 2005

Sorted: ASSET A/C#
 Method: 1-FEDERAL-Std Conv Applied

Range: 109 - 109
 Include: All assets

Date Acq	Description	Meth/Life	Cost	Section 179	Depr Basis	Includes Section 179		
						Beg A/Depr	Curr Depr	End A/Depr
ASSET A/C#: 109 - WATER DISTRIBUTION MAINS								
07/16/01	1010 FT 8" & 2300 FT 12" MAGNOLIA	SL/50.00	81,061.62	0.00	81,061.62	5,674.31	1,621.23	7,295.54
10/05/01	1200 FT 12" NORTH COUNTRY PHASE III	SL/50.00	29,650.00	0.00	29,650.00	1,927.25	593.00	2,520.25
12/14/01	300 FT 8" PAINTED STONE SCHOOL	SL/50.00	12,557.80	0.00	12,557.80	774.41	251.16	1,025.57
02/05/02	NEW MASTER 4" TANDEM METER AT AIKEN	SL/50.00	5,000.00	0.00	5,000.00	291.67	100.00	391.67
02/19/02	ASH AVENUE 3340' 12"	SL/50.00	215,484.44	0.00	215,484.44	12,569.93	4,309.69	16,879.62
06/17/02	COTTER FARM 2265' 6" PVC	SL/50.00	21,600.00	0.00	21,600.00	1,116.00	432.00	1,548.00
06/28/02	BELLVIEW RD 765' 6" PVC	SL/50.00	11,770.00	0.00	11,770.00	608.12	235.40	843.52
07/01/02	WATER DIST MAINS VARIOUS	SL/50.00	4,303.10	0.00	4,303.10	215.15	86.06	301.21
07/26/02	OLD MILL VILLAGE 1750' 12",1200' 8	SL/50.00	102,055.60	0.00	102,055.60	5,102.78	2,041.11	7,143.89
08/01/02	MOODY PIKE 950' 6" PVC	SL/50.00	13,592.00	0.00	13,592.00	656.95	271.84	928.79
09/30/02	BEARD LANE 4220' 6" PVC	SL/50.00	42,190.12	0.00	42,190.12	1,968.87	843.80	2,812.67
01/31/03	FINAL HANSBOROUGH LANE	SL/50.00	12,915.00	0.00	12,915.00	516.60	258.30	774.90
04/10/03	1655' 6" PVC PARTRIDGE RUN	SL/50.00	35,042.67	0.00	35,042.67	1,226.49	700.85	1,927.34
04/29/03	2010' 6"PVC SHELBY ATHLETIC COMPLEX	SL/50.00	28,244.08	0.00	28,244.08	988.54	564.88	1,553.42
06/30/03	FINAL BEARD RD	SL/50.00	850.00	0.00	850.00	26.92	17.00	43.92
09/04/03	34458' 6" PVC KY 43	SL/50.00	336,215.61	0.00	336,215.61	8,965.75	6,724.31	15,690.06
09/04/03	6" SDR21 PIPE 2090 FT CEDARMORE RD	SL/50.00	20,082.70	0.00	20,082.70	535.53	401.65	937.18
09/15/03	1840' 6" MAGNOLIA PLACE	SL/50.00	17,850.00	0.00	17,850.00	476.00	357.00	833.00
12/01/03	1150' 6" PVC VIGO RD & HWY 141	SL/50.00	4,090.68	0.00	4,090.68	88.63	81.81	170.44
05/31/04	400' 8" PVC - ST JOHNS RD	SL/50.00	4,319.00	0.00	4,319.00	57.59	86.38	143.97
07/31/04	MULBERRY TIE-IN	SL/50.00	6,110.12	0.00	6,110.12	61.10	122.20	183.30
07/31/04	910' 6" PVC OLD MILL VILLAGE	SL/50.00	18,678.00	0.00	18,678.00	186.78	373.56	560.34
07/31/04	2510' 6" PVC OAKMOORE WOODS	SL/50.00	37,642.35	0.00	37,642.35	376.42	752.85	1,129.27
07/31/04	1000' 12" PVC -- 2275' 6" PVC NORTH	SL/50.00	63,339.00	0.00	63,339.00	633.39	1,266.78	1,900.17
07/31/04	2690' 6" PVC VIGO ROAD	SL/50.00	13,197.35	0.00	13,197.35	131.97	263.95	395.92
Grand totals: 109 - WATER DISTRIBUTION MAINS (115 assets)			7,115,489.57	0.00	7,115,489.57	2,058,431.61	142,309.78	2,200,741.39

ASSET DEPRECIATION SHORT REPORT
North Shelby Water Company Dec. 31, 2005

Sorted: ASSET A/C#
 Method: 1-FEDERAL-Std Conv Applied

Range: 109 - 109
 Include: All assets

Date Acq	Description	Meth/Life	Cost	Section 179	Depr Basis	Includes Section 179			
						Beg A/Depr	Curr Depr	End A/Depr	
Grand totals for all accounts: (115 assets)			7,115,489.57	0.00	7,115,489.57	2,058,431.61	142,309.78	2,200,741.39	
Additional Summary Statistics:									
		Cost	Curr Yr Sect 179	Section 179	Depr Basis	Beg A/Depr	Curr Depr	Ending A/Depr	Net Book Value
Grand Totals for All Assets:		7,115,489.57	0.00	0.00	7,115,489.57	2,058,431.61	142,309.78	2,200,741.39	4,914,748.18
Less: Inactive Assets		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Disposed Assets		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Traded Assets		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Totals (Active Assets)		7,115,489.57	0.00	0.00	7,115,489.57	2,058,431.61	142,309.78	2,200,741.39	4,914,748.18
Total Additional First Year Depreciation Taken at 30% Rate:				0.00					
Total Additional First Year Depreciation Taken at 50% Rate:				0.00					
Total Additional First Year Depreciation Taken:				0.00					

Project	Linear Length	Main Size	Total Cost	Number of New Customers Served	Depreciable Life	Depreciation Taken as of 12/31/2005
Monroe Lane, Devil's Hollow Road, Snow Hill Road	6,403 feet	6" and 4" line	\$160,011	14 new customers served	50 years	0
Partridge Run Subdivision	1,750 feet	6" and 8" line	\$38,610	30 new customers served	50 years	0
Hale Farm Extension off Country Manor Subdivision	490 feet	6" line	\$15,708	3 new customers served	50 years	0
North Country Subdivision	1,330 feet	6" and 12" line	\$15,235	11 new customers served	50 years	0
Vigo Road Loop and Miles Lane Extension	2,320 feet	6" line	\$33,997	3 new customers served	50 years	0
Bob Rogers Road Upgrade and Hansborough Loop	9,840 feet	6" line	\$139,049	2 new customers served	50 years	0
Drane Lane Loop	3,255 feet	6" line	\$54,618	1 new customer served	50 years	0
Mulberry Loop	4,150 feet	6" line	\$47,183	0 new customers served	50 years	0
Trammell Road Upgrade and Loop	5,610 feet	6" line	\$74,074	0 new customers served	50 years	0

(b) For each main extension project listed in response to (a), provide its total costs, linear length, number of customers served, depreciable life, and depreciation taken to date.

ANSWER: See answer to Question 5A. North Shelby objects to the request that the linear length and number of customers served be identified for each main extension because providing that information, if even possible, would be extremely expensive and burdensome. The question is also unclear because it does not specify whether it is the number of customers originally served or currently served by each main extension.

(c) Indicate on the worksheet which mains were replaced using Line Enlargement Charge funds.

ANSWER: It is impossible to answer this question with certainty, but it is believed the Harrington Mill, Phase I project replaced a portion of the June 1, 1973 water lines and the Ash Avenue project replaced a portion of the June 1, 1985 Louisville extension water mains. The Bob Rogers Road upgrade replaced lines installed by developers at various times in the early 1980s. The Trammell Road project was primarily a new main, but a small portion replaced short sections of undersized lines installed at unknown dates.

(d) State the method of funding for the main replacements where Line Enlargement Charge funds were not used.

ANSWER: Any water mains replaced where LEC funds were not used would have been funded using grant funds, borrowed funds, excess North Shelby general revenue funds, customer contribution funds, developer funds, highway relocation funds from the Kentucky Department of Transportation (“DOT”), or some combination thereof.

(e) Of the mains that are currently in-service indicate which were constructed to replace other mains.

ANSWER: The July 1, 1988 Long Run relocation was necessitated and financed by a Kentucky DOT road relocation project. The May 31, 1992 Harrington Mill Road project was an upgrade using company funds. The January 1, 2000 Anderson Lane project upgraded some mains, but mostly consisted of new line completing a loop and was financed by a combination of company and developer funds. The May 15, 2001 Highway 55 upsize was financed by the Kentucky DOT as part of the relocation and improvement of Kentucky Highway 55 between Shelbyville and Eminence. The February 19, 2002 Ash Avenue project was an upgrade financed with LEC funds, company funds, and Kentucky Department of Corrections funds. The Bob Rogers Road upgrade and a small part of the Trammell Road upgrade and loop, both constructed in 2005, replaced other mains using LEC funds.

(f) Indicate on the worksheet all main replacements planned in the next 10 years and describe how each replacement will be funded, i.e., Line Enlargement Charge, general funds of the District, etc.

ANSWER: The one definite project is the project referred to in Question 2 of these Answers. It will replace undersized mains built at various times along Harrington Mill Road, Antioch Road, Kentucky Highway 1848 and possibly Noland Road and/or within Long Run subdivision. We will utilize LEC funds, general company funds, and borrowed funds. Other replacements will be made as growth renders lines more inadequate and as indicated by the results of the hydraulic study referenced in Question 6 of these Answers.

6. Refer to North Shelby's response to Item 1 (h) of the Staff's First Request North Shelby states that in April 2005 it directed its engineer to conduct a system-wide hydraulic analysis to determine the order in which mains should be upgraded. Provide the status of this analysis and all reports issued as a result of this analysis.

ANSWER: The Engineer reports this is still in progress. No reports have been issued.

7. Refer to North Shelby's response to Item 5(a) of the Staff's First Request. North Shelby states that one reason it may not apply for a system development charge is its "belief that such charges unfairly place the economic burden on the purchaser of a residential building lot." Isn't it true that a new customer is required to pay the current Line Enlargement Charge when building on a residential lot that is not a part of a development?

ANSWER: Yes. However, the vast majority of residential lots for which a LEC is paid are part of developments. Residential lots not part of a development generally occur only when a residential lot is divided off a person's farm either for a child or for the farm owner to construct a new house for themselves.

8. Refer to North Shelby's response to Item 5(c) of the Staff's First Request. North Shelby states that it believes developers make infrastructure costs necessary and, therefore, the developers should pay these costs. Ultimately, isn't it the people who move into the development that make the infrastructure costs necessary?

ANSWER: It is a legitimate viewpoint to state that the people who move into the development make the infrastructure costs of that development necessary. It is likewise a legitimate viewpoint that those infrastructure costs would not occur if the developers did not create the developments.

9. Refer to North Shelby's response to Item 6 of the Staff's First Request. North Shelby states that neither a system development charge nor a surcharge is appropriate because both impose the cost of improvements on existing customers. Explain how this is true for a system development charge that is charged to new customers?

ANSWER: North Shelby's response to Question No. 6 of the Commission Staff's First Request for Information was incorrect. Only a surcharge imposes the costs of improvements on existing customers. A system development charge is inappropriate, in North Shelby's opinion, because it imposes the cost of improvements on the new customer rather than on the developer.

10. Refer to North Shelby's response to Item 7(a) of the Staff's First Request. North Shelby was requested to file a copy of each filing it made with the Commission in accordance with the Order in Case No. 1995-00161.1 Commission Staff notes that not all of the information filed by North Shelby in response to this item has been filed with the Commission. Further, for most of the information that was filed by the utility since the approval of the Line Enlargement Charge, the filing was made in response to prompting by Commission Staff. In response to Item (7(b), North Shelby states that the reason for the filing deficiencies was that the Assistant Manager Russ Rose resigned in 2001 and that "no one else in the office was aware that the information needed to be filed." Explain that statement given that the correspondence the utility filed in response to Item 7(a) includes Commission Staff correspondence with Manager Darrell Dees dated May 20, 1998 and with Commissioner Duncan LeCompte dated April 29, 1999 directing the utility to file the required information annually.

ANSWER: Neither Manager Darrell Dees nor President Duncan LeCompte are regularly in North Shelby's office. North Shelby's failure to file the required information was not intentional. Regardless of whether it was because no one in the office was aware the information needed to be filed, or someone was or should have been aware but forgot to file the information, the failure to file the required information was inadvertent.

11. Refer to North Shelby's response to Item 7(a) of the Staffs First Request. North Shelby included correspondence with Commission Staff dated May 20, 1998 in which Staff recalculated the Line Enlargement Charge and directed the utility to charge no more than \$4.79 per foot for 1998. Provide the line enlargement rate per foot charged in 1998 subsequent to the date of that letter.

ANSWER: All projects in 1998, both before and after the May 20, 1998 letter, were charged \$5.33 per foot, except for three projects dated August 28, September 22, and October 6, which were charged at \$5.31.

12. Refer to North Shelby's response to Item 7(c)(2) of the Staffs First Request regarding the utility's purchase of a \$200,000 certificate of deposit ("CD") using line upsize proceeds. North Shelby states that "[w]hen Mr. Rose left North Shelby, he did not advise anyone of the existence of this CO." Explain that statement given that the correspondence filed in response to Item 7(a) includes correspondence between Manager Darrell Dees and Commission Staff dated May 1, 2001 in which Mr. Dees informs Staff that \$200,000 was transferred to a CD.

ANSWER: According to Mr. Dees, when Mr. Rose left North Shelby, Mr. Rose did not advise anyone of the existence of the certificate of deposit. Sometime between the departure of Mr. Rose and the letter dated May 1, 2001, Mr. Dees became aware from another source of the \$200,000.00 certificate of deposit.

13. Refer to North Shelby's responses to Item 7(d) of the Staff's First Request. North Shelby states that it did not charge a Line Enlargement Charge that was \$2.56 higher per foot to one customer than it did to other customers.

a. Explain why this response differs from the response to Commission Staff's Accounting Inspection Report.

ANSWER: See copy of attached original Item 7(d) answer.

d. At page 11 of the Report, Commission Staff reports one instance in which North Shelby charged a customer a Line Enlargement Charge that was \$2.56 per foot higher than was charged to other customers. State whether North Shelby charged a different rate to one customer than it did to others. Explain.

ANSWER: North Shelby did not charge a different rate to one customer than it did to other similarly situated customers. Generally, plats are presented by developers to North Shelby's Board of Directors for review and approval. The plats are not signed by North Shelby until the LEC has been paid. Usually, the developers submit the LEC check at the same time the plat is submitted for approval. In these instances, the rate paid by the developer is the same rate in effect on the date the plat is approved by the Board. Occasionally, developers fail to pay the LEC until some time after the plat is approved by the Board. In those circumstances, North Shelby has consistently believed that the rate charged the developer should also be the rate which was in effect on the night the plat is approved by the Board, rather than the rate which may be in effect several weeks or months later. The customer which was charged \$2.56 per foot "higher" was charged the amount which was in effect on the night that customer's plat was approved by the Board. The LEC rate subsequently declined for the next year. Since the customer's check was not received until after the LEC rate had changed for the next year, it only appears he was charged a different rate.

b. Attachment A to this request is a copy of a page of North Shelby's line enlargement records obtained by Commission Staff during the recent Accounting Inspection. Attachment B is a copy of a document filed by North Shelby in response to Item 7(a). Explain why the footage shown on Attachment M.J. Farms is shown as 1,381.32 for a Line Enlargement Charge of \$8.57 but Attachment B shows the footage for this customer as 1,969.75 for a Line Enlargement Charge of \$6.01.

ANSWER: These appear to be separate records which are generally consistent except for the M.J. Farms entry. The correct footage is 1,969.75 feet, which when charged \$6.01 per foot (which was the correct charge at that time) equals \$11,838.22, which was the amount collected. The 1,381.32 figure in Attachment A is obviously incorrect. The ledger under attachment B is the record actually kept by Darrell Dees, Manager, and is in his handwriting. It appears he initially calculated the footage at 1,381.32. That figure is scratched through and 1,969.75 is written next to it. When this footage is multiplied by the correct rate, \$6.01, the result is the amount actually collected from M.J. Farms, \$11,838.22. It appears the record under Attachment A was prepared using the initial footage and was never corrected.

Respectfully Submitted,

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By 

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