



Ernie Fletcher
Governor

Mark David Goss
Chairman

Teresa J. Hill, Secretary
Environmental and Public
Protection Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

John W. Clay
Commissioner

Timothy J. LeDonne
Commissioner
Department of Public Protection

December 22, 2006

Honorable D. Berry Baxter
Attorney at Law
The Baxter Law Office
115 West Main Street
LaGrange, KY 40031

RE: Case No. 2006-00191

Please see enclosed data request from Commission Staff in the above case.

If you need further assistance, please contact my staff at (502) 564-3940.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

BOD/jc
Enclosure



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Merle Brewer
Chairman
Henry County Water District #2
8955 Main Street
P. O. Box 219
Campbellsburg, KY 40011

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James Simpson
Chief Operating Officer
Henry County Water District #2
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Honorable David Edward Spenard
Assistant Attorney General
Office of the Attorney General Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

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Darlene West
Office Manager
Henry County Water District #2
8955 Main Street
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

COMMISSION STAFF'S SECOND 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 no later than January 15, 2007, 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 Electronic Mail Message from Tom Green to Gerald Wuetcher (Oct. 31, 2006). Mr. Green states that "the costs of our OIC [Offsetting Improvement

Charge] is mostly for transmission mains.” Define “transmission main” and state the main sizes that Henry District considers as transmission mains.

2. Refer to Henry District’s Response to the Commission’s Order of May 22, 2006, Item 3. Henry District states that “[t]he OIC is limited to the cost of installing larger diameter water lines.”

a. State the sizes of water lines that will not be included in the OIC.

b. State the criteria that Henry District uses to determine if a waterline should be included in the OIC calculation.

3. State whether in Henry District’s opinion that the construction of a new water storage facility is a “hydraulic improvement.” Explain.

4. State whether in Henry District’s opinion the construction of new capacity at a water treatment facility is a hydraulic improvement.

5. State when Henry District currently expects to add additional water treatment capacity.

6. State when Henry District currently expects to add additional water storage capacity.

7. State why it is reasonable to ignore the effect of customer growth on water treatment capacity and water storage capacity and focus solely on the capacity of water mains in assessing the “hydraulic impact of growth.”

8. a. State whether, in the course of considering and implementing its OIC, Henry District calculated a system development charge for new customers based upon the “equity methodology” that the American Water Works Association recognizes.

b. If yes, provide the results.

c. If no, explain why Henry District did not make such calculations.

9. State whether, in Henry District's opinion, the construction of new water storage facilities is a means of remedying the effects of growth on a water distribution system. Explain.

10. a. State the total cost that Henry District has incurred to develop its OIC.

b. List each component (e.g., engineering services, legal) of the total cost and its cost.

11. In its Response to the Commission's Order of May 22, 2006, Item 3, Henry District states that "our methodology calculates and charges what growth *does* cost, instead of what we estimate growth may cost." Explain why, to the extent that Henry District does not immediately construct facilities to offset the hydraulic impact of growth, Henry District's methodology is not also an estimate of the cost of future facilities.

12. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 3, Sheet 3 of 4.

a. Describe Henry District's present position on the provision of fire protection service to customers served through water mains that are capable of providing fire flows.

b. State whether any local planning and zoning commission within Henry District's territory has considered the availability of fire protection service in determining the zoning classification for proposed subdivision developments.

c. State whether a local planning and zoning commission or the Commission's requirement that fire hydrants be located in real estate developments would affect Henry District's position that an increase in water pressure provides no benefit to existing customers. Explain.

d. Describe the revisions, if any, that would be required to the current methodology used to calculate the OIC if fire protection service were provided.

13. State whether in Henry District's opinion increased customer growth will increase the water district's revenues.

14. Describe the analyses that Henry District undertook to determine the effect of customer growth on its revenues and expenses. Provide all analyses and studies that Henry District or its representatives conducted and all associated workpapers used in the preparation of these analyses and studies.

15. Refer to Electronic Mail Message from Tom Green to Gerald Wuetcher (Oct. 31, 2006). At the informal conference of October 9, 2006, Mr. Green stated, that he had not analyzed the benefits from additional customers because the OIC counterbalanced these considerations by excluding the costs of treatment and storage.

a. Explain how the OIC counterbalances any benefits from additional customers by excluding the costs of treatment and storage.

b. Provide all studies and analyses that Henry District has conducted or commissioned to assess a charge on new customers related to their effect on treatment and storage costs.

16. State whether Henry District agrees with the following statement: "If customer growth produces sufficient revenues to recover the costs associated with such

growth, no need exists for a system development charge or other separate charge assessed upon new customers.” Explain.

17. Provide all studies and analyses that Henry District has conducted or commissioned regarding the effect of customer growth on its revenues and its expenses for any period from 1999 to 2020.

18. State whether Henry District has commissioned any studies or conducted any analyses and studies regarding any increase in operating revenues and expenses due to customer growth and the use of any net operating revenues, if any, to offset the cost of system improvements needed to serve these new customers.

19. In its Response to the Commission’s Order of May 22, 2006, Item 16(b), Henry District states: “For many years our district has permitted growth without requiring offsetting improvements, and consequently our distribution system has needed a lot of hydraulic strengthening.”

a. Define “hydraulic strengthening”.

b. Assume that no further growth occurs in Henry District’s territory.

State whether under such assumption Henry District would need to make any hydraulic improvements (other than replacements for water mains that have completed their service life). Explain.

20. In its Response to the Commission’s Order of May 22, 2006, Item 16(b), Henry District states: “Hydraulic improvements funded through general rates provide excess capacity, the cost of which can later be recouped through the OIC. In this sense the general rates are funding hydraulic projects as loans to the system which can eventually be repaid by future development.”

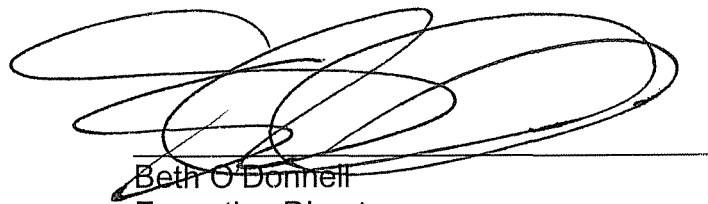
a. Explain how subsequent collections of OIC repay the earlier loan to general ratepayers.

b. Explain why, to the extent that a person who pays an OIC and then general rates for water service, that person is not paying twice for hydraulic improvements whose costs is being recovered through both general rates and the OIC.

21. Refer to Henry District's Response to Commission Staff's First Set of Interrogatories, Item 10. Henry District states that in the previous 5 years it "has not had a circumstance in which a developer built a new line extension in order to reach his subdivision." State whether Henry District issues refunds to real estate subdivision developers for customer connections to water mains that are located within the real estate subdivision development and that the developer has constructed and donated to Henry District.

22. Refer to Henry District's Response to the Commission's Order of May 22, 2006, Item 17. State whether, under present conditions, Henry District's position remains unchanged. If no, provide Henry District's current position.

23. Provide all statutory and regulatory authority for the requirement that Henry District must certify the availability of water service to local planning commissions.



Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

DATED: December 22, 2006

cc: Parties of Record