

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| ELECTRONIC APPLICATION OF NORTHERN |) | |
| KENTUCKY WATER DISTRICT FOR AN |) | CASE NO. |
| ADJUSTMENT OF RATES; ISSUANCE OF |) | 2018-00291 |
| BONDS; FINANCING; AND TARIFF REVISIONS |) | |

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION
TO NORTHERN KENTUCKY WATER DISTRICT

Northern Kentucky Water District (Northern Kentucky District), pursuant to 807 KAR 5:001, shall file with the Commission the original and an electronic version of the following information. The information requested is due on or before January 8, 2019. Responses to requests for information in paper medium shall be appropriately bound, tabbed and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the name of the witness responsible for responding to the questions related 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 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.

Northern Kentucky District shall make timely amendment to any prior response if it obtains information that 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

Northern Kentucky District fails or refuses to furnish all or part of the requested information, Northern Kentucky District shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should 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. When filing a document containing personal information, Northern Kentucky District shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the document so that personal information cannot be read.

1. Refer to the Application, Exhibit K, page 8, Reconciliation of Income Statement Summary Per Cost of Service Study. Provide a breakdown of the miscellaneous Non-Operating Revenue of \$163,256.

2. Refer to the Application, Exhibit M, Proposed Tariff Original Sheet No. 5, paragraph 12.

a. Given that Northern Kentucky District utilizes an automated meter reading system, explain whether the meter transmitter or software will be upgraded if a customer switches from quarterly to monthly billing.

b. Explain why there would be additional monthly fees from the vendor for reading meters more frequent than quarterly.

3. Refer to the Application, Exhibit M, Proposed Tariff Original Sheet No. 5, paragraph 14. Indicate under what circumstances customers will be billed for water testing.

4. Refer to Appendix A, the frequently asked questions (FAQ) guide that was prepared for and emailed to all water districts and water associations on January 14,

2013, regarding KRS 278.460, the statute regarding interest on customer deposits. Also refer to Appendix B, the updated FAQ with the interest rate applicable for customer deposits for calendar year 2019. Also refer to Northern Kentucky District's Application, Exhibit M, Proposed Tariff Original Sheet No. 11, paragraph 6, which states, "[t]he District will pay interest on deposits in accordance with KRS 278.460 at the rate the District receives (as determined on January 1 of each year) but not to exceed six percent (6%) annually." As stated in the FAQs, under KRS 278.460, a water district is required to pay interest on customer deposits at the lesser of the annual interest rate the water district earned on its bank accounts or the annual interest rate established by the Commission.

a. Indicate whether Northern Kentucky District will revise the Tariff language as follows: "Interest will accrue on all deposits at the rate prescribed by law beginning on the date of the deposit. Interest accrued will be refunded to the customer or credited to the customer's bill on an annual basis. If interest is paid or credited to the customer's bill prior to twelve (12) months from the date of deposit or the last interest payment date, the payment or credit shall be on a prorated basis."

b. If so, provide a revised tariff sheet reflecting such change. If not, explain why not.

5. Refer to the Application, Exhibit M, Current Tariff Sheet No. 34 and Proposed Tariff Sheet No. 56. Explain why Northern Kentucky District is proposing to remove the following language from the Billing Card: "To pay by credit card, please check here, complete the information on the reverse side and mail back to NKWD."

6. Refer to Northern Kentucky District's Response to Commission Staff's Second Request for Information (Staff's Second Request), Item 2. Provide an updated calculation of the three-year average of Northern Kentucky District's Average Debt

Service for the calendar years 2019-2021 that also reflects the updated principal, interest, and service fees due on the Kentucky Infrastructure Authority Loan #F14-015, approved in Case No. 2015-00108¹, for which the repayment schedule of the fully executed assistance agreement was provided on December 11, 2018.

7. Refer to Northern Kentucky District's Response to Staff's Second Request, Item 4.c. When the minutes have been approved, provide the final version of the approved board minutes from the November 15, 2018 meeting. If the minutes are not approved by the due date for this request, provide within ten days of the approval of the board minutes.

8. Refer to Northern Kentucky District's Response to Staff's Second Request, Item 8, Proposed Disconnection Notice. Explain why Northern Kentucky District is proposing to remove the following language from the Disconnection Notice: "To pay by credit card, please check here, complete the information on the reverse side and mail back to NKWD."

9. Refer to Northern Kentucky District's Response to Staff's Second Request, Item 12. Also refer to the March 24, 2014 letter filed in TFS2014-00161. In the March 24, 2014 letter, Northern Kentucky District states "The District has deleted the federal employer identification number from the application. Because the identity and legal existence of the applicant business entity can be verified in alternative ways, and because of concerns raised by the Public Service Commission in its Order in Case No. 2013-00309, entered January 31, 2014, the District has removed the federal employer

¹ Case No. 2015-00108 *Application of Northern Kentucky Water District for Approval of the Ft. Thomas Treatment Plant Basin Improvements, Issuance of a Certificate of Convenience and Necessity and Approval of Financing* (Ky. PSC May 21, 2015).

identification number.” Explain what has happened since then to cause Northern Kentucky District to propose to put the federal employer identification number back into the customer service application.

10. Refer to Northern Kentucky District’s Response to Staff’s Second Request, Item 11b. Also refer to the March 24, 2014 letter filed in TFS2014-00161. In it, Northern Kentucky District states “The District has deleted the Social Security number from the current application. Because the identity of the individual applicant can be verified in alternative ways, and because of concerns raised by the Public Service Commission in its Order in Case No. 2013-00309 entered January 31, 2014, the District has removed the Social Security number.” Explain what has happened since then to cause Northern Kentucky District to propose to put the Social Security number back into the customer service application.

11. Refer to Northern Kentucky District’s Response to Staff’s Second Request, Item 8, the Water Turn-On Release Forms for residential and commercial customers. Explain whether Northern Kentucky District would agree to revise these forms to delete all language after the first paragraph and include the following language after the first paragraph, “When turning on the meter, any indication that the water is running will require that the meter be shut off. The applicant will be charged a turn-on fee even if the meter had to be shut off due to water running.”

12. Refer to the response to Staff’s Second Request, Item 20.

a. The total amount of Employee Wages of \$8,046,007, less the amount of capitalized labor provided in the response to Staff’s Second Request, Item 21, in the amount of \$284,545 for both hourly and salary labor, do not appear to correspond to the

amount of wages reported on the test period general ledger of \$7,813,804. Provide a reconciliation that describes in detail the difference(s) between the two amounts.

b. The sum of the employer-contributed employee benefits in the amount of \$4,542,291 does not appear to match the amount of employee benefits reported on the test period general ledger in the amount of \$4,663,501. Provide a reconciliation for the two amounts.

13. Refer to the Application, Exhibit L, regarding Northern Kentucky District's proposal to increase the charge for customers that choose to pay their bill with a credit card.

a. Provide the total number of credit card and debit card payments made to Northern Kentucky District during the test year.

b. Provide the total amount paid by Northern Kentucky District to vendors for credit card payments during the test year.

c. Provide the total amount paid to Northern Kentucky District to vendors for debit card payments during the test year.

14. Refer to the Direct Testimony of Lindsey Rechtin, Lines 95–97, which states that Northern Kentucky District routinely repairs and replaces significant portion of its aging infrastructure to minimize maintenance costs and line loss. Also refer to Northern Kentucky District's Response to Commission Staff's First Request for Information (Staff's First Request), Item 23, and to Staff's Second Request, Item 13.

a. Explain whether Ms. Rechtin is referencing the projects set forth in the Application, Exhibits O and R, or whether Ms. Rechtin is referencing additional projects.

b. If the reference is to Exhibits O and R, identify the projects completed in the in the test year and projects planned for the future to reduce maintenance costs and line loss.

c. If the reference is to other projects, provide of list of projects completed in the test year and projects planned for the future to reduce maintenance costs and line loss.

15. Refer to the direct testimony of Kim Clemons, Item 12. Provide the salary studies referenced in the testimony.

16. Refer to the response to Staff's First Request, Item 5.

a. The general ledger that was provided in the response for the six months ended December 31, 2017, shows a Net Change of \$18,428.57 and Ending Balance of \$36,428.57 for Account No. 601-8100-076, Board of Comm. – Monthly Fee. Provide a breakdown for the transactions that total with the Net Change in this account.

b. The general ledger provided in this response of the six months ended June 30, 2018, show a Net Change of \$17,571.43 and Ending Balance of \$17,571.43 for Account No. 601-8100-076, Board of Comm. – Monthly Fee. Provide a breakdown for the transactions that total the Net Change in this account.

c. Provide the invoices or other support for each item included in the Net Change for the test period general ledger for Account No. 604-8500-076, Education – Board of Comm.

d. Account No. 659-8000-076, Insurance Expense – Public Officials, has a Net Change of \$0.00 for the test period. Confirm that there are no expenses associated

with this account in the test period. If this cannot be confirmed, provide a list and supporting invoices for any amounts that are included in this account.

e. Provide the invoices or other support for each item included in the Net Change for the test period general ledger for Account No. 659-8000-079, Insurance – Officials.

f. Provide invoices or other support for any item included in the Net Change for the test period general ledger for Account No. 675-8000-079, Miscellaneous Expense, that totals \$500.00 or greater.

17. Northern Kentucky District reported line loss in their 2017 PSC Annual Report as 12.65 percent. Provide a detailed description of Northern Kentucky District's ongoing efforts to reduce line loss and non-revenue water.

18. Provide a detailed explanation of the differences, if any, in the assumptions utilized and procedures followed for the cost of service study filed in Case No. 2015-00143² and the cost of service study filed in this case.



Gwen R. Pinson
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED DEC 17 2018

cc: Parties of Record

²Case No. 2015-00143, *Application of Northern Kentucky Water District for an Adjustment of Rates* (Ky. PSC Jan. 15, 2016).

APPENDIX A

APPENDIX TO A REQUEST FOR INFORMATION OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00291 DATED **DEC 17 2018**

[THREE PAGES TO FOLLOW]

**WATER DISTRICTS AND ASSOCIATIONS
FREQUENTLY ASKED QUESTIONS
REGARDING INTEREST ON CUSTOMER DEPOSITS**

1. Has something changed in the way that utilities are to pay interest on customer deposits?

Yes. The General Assembly enacted a new law that affected the interest rate that utilities are required to pay on customer deposits.

2. Does the new law apply to water districts and water associations?

When the new law went into effect last year it was determined that it did not apply to water districts and water associations. The original determination was recently reviewed and it has now been determined that the new law may in fact affect water districts and water associations.

3. How does a water district or water association know if it is affected by the new law?

It depends upon the interest rate earned on its bank accounts.

A water district or water association is required to pay the rate it earns on its bank accounts if the rate it earns is 0.18% or less for calendar year 2013.

A water district or water association that earns more than 0.18% on its bank accounts should only pay interest on its customer deposit accounts at a rate of 0.18% for calendar year 2013.

4. If a water district or water association maintains a separate interest-bearing account for customer deposits, at what rate should it pay interest on customer deposits?

A water district or water association that maintains a separate interest-bearing bank account designated as the customer deposit account shall pay interest to its customers on the deposits held at the lesser of:

- The rate in effect either (1) at each customer's anniversary date, or (2) at December 31 of the previous year for the customer deposit account, or
- The rate calculated by the Commission, which for calendar year 2013, is 0.18%.

5. If a water district or water association does not maintain a separate interest-bearing account for customer deposits, but does have other interest bearing accounts, at what rate should it pay interest on customer deposits?

A water district or association that does not maintain a separate interest-bearing bank account designated as the customer deposit account shall pay interest to its customers on the deposits held at the lesser of:

- A rate that is the weighted average rate of all of its interest-bearing accounts as of December 31 of the previous year, or
- The rate calculated by the Commission, which for calendar year 2013, is 0.18%.

6. If a water district or water association does not have any funds in an interest-bearing account, does it have to pay interest on deposits, and if so, at what rate should it pay interest on customer deposits?

A water district or association that does not have any funds in an interest-bearing account shall pay interest to its customers on the deposits held at the lesser of:

- The rate in effect either (1) at each customer's anniversary date, (2) or at December 31 of the previous year for a basic savings account at the financial institution at which it maintains its operation and maintenance account, or
- The rate calculated by the Commission, which for calendar year 2013, is 0.18%.

7. What is the basis of the 0.18% interest rate?

The new law requires the PSC to calculate an interest rate each December that utilities are to use in the next calendar year for paying interest on customer deposits.

In December of 2012 the PSC calculated an interest rate of 0.18% to be the maximum rate that water districts and water associations could pay on customer deposits for calendar year 2013.

So for water districts and water associations, the interest on customer deposits for calendar year 2013 should be paid at a rate that will range from 0.01% to 0.18% depending upon the individual circumstances of the water district or water association.

8. Why is 0.01% the minimum interest rate that water districts and associations can pay for interest on customer deposits?

The interest rate cannot go below 0.01% because water districts and water associations must pay interest on customer deposits.

9. Will the 0.18% interest rate change for calendar year 2014?

Probably. Each December the PSC will prepare a newly calculated interest rate to be used in the following calendar year, so the interest rate will in all probability differ from year to year.

10. How will the utility be notified of the rate for calendar year 2014?

The PSC will post the newly calculated interest rate on its website and will send an email to the official contact email address that each utility has on file with the PSC.

11. How is the new interest rate calculated each December?

The PSC calculates the customer deposit interest rate each December to be used in the upcoming calendar year by averaging the one year constant maturity treasury rate from September, October, and November.

12. Is there someone to contact if a water district or water association has additional questions?

The following PSC staff is available to answer questions regarding this new procedure:

| | | |
|------------------------------|----------------|----------------|
| Division of Filings: | Brent Kirtley | (502) 782-2627 |
| Office of General Counsel: | Jonathan Beyer | (502) 782-2581 |
| Financial Analysis Division: | Leah Faulkner | (502) 782-2649 |

APPENDIX B

APPENDIX TO A REQUEST FOR INFORMATION OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO. 2018-00291 DATED **DEC 17 2018**

[TWO PAGES TO FOLLOW]

FREQUENTLY ASKED QUESTIONS REGARDING INTEREST ON CUSTOMER DEPOSITS

1. Has something changed in the way that utilities are to pay interest on customer deposits?

Yes. Revisions were made to KRS 278.460 in the 2012 session of the Kentucky General Assembly that affected the interest rate that utilities are required to pay on customer deposits.

2. What is the rate utilities are to use for calendar year 2019?

The Commission has calculated an interest rate of 2.64% to be paid on customer deposits for calendar year 2019.

3. How was the new interest rate calculated?

The PSC calculates the customer deposit interest rate each December for the upcoming calendar year by averaging the one year constant maturity treasury rate from September, October, and November.

4. How are utilities notified of the new rate?

In early December of each year the PSC will post the newly calculated interest rate on its website and will send an email to the official contact email address that each utility has on file with the PSC.

5. Is there someone to contact if a utility has additional questions?

The following PSC staff is available to answer questions regarding this new procedure:

Daniel Hinton (502) 782-2626

Jeb Pinney (502) 782-2587

ADDITIONAL INFORMATION FOR WATER DISTRICTS & WATER ASSOCIATIONS

6. Did the new law affect water districts and water associations?

It may or may not, as it depends upon the interest rate a district or association earned on its deposits.

7. How does a water district or water association know if it is affected by the new law?

In 2019 a water district or water association is required to pay interest on customer deposits at the rate it earned on its accounts in 2018 if the rate was 2.64% or less.

A water district or water association that earned more than 2.64% on its accounts in 2018 should only pay interest on customer deposits at a rate of 2.64% for calendar year 2019.

8. Can a water district or water association pay an interest rate on customer deposits at a rate less than it earns on its bank accounts?

Yes. A water district or water association that earned more than 2.64% on its bank accounts in 2018 would only pay interest on customer deposits at the rate of 2.64% for calendar year 2019.

9. Can you give an example?

If a water district or water association earned an interest rate of 0.05% on its bank accounts in 2018, then it would pay a rate of 0.05% interest on customer deposits for the calendar year 2019.

A water district or water association that earned an interest rate of 3.0% on its bank accounts in 2018 would only pay a rate of 2.64% interest on customer deposits for the calendar year 2019.

So for water districts and water associations, the interest on customer deposits for calendar year 2019 should be paid at a rate that will range from 0.01% to 2.64% depending upon the individual circumstances of the water district or water association.

10. Why is 0.01% the minimum interest rate that water districts and associations can pay for interest on customer deposits?

The interest rate cannot go below 0.01% because water districts and water associations must pay interest on customer deposits.

11. If a water district or water association keeps its funds in a non-interest bearing account, what is the rate it should pay for interest on customer deposits?

If a water district or water association does not maintain a separate interest-bearing bank account used to deposit money collected from customer deposits, the water district or water association must pay interest to its customers on deposits at the rate that is the weighted average rate of all of its interest bearing accounts as of December 31, 2018, not to exceed 2.64%.

If a water district or water association does not have any funds in an interest bearing bank account, the water district or water association must pay interest to its customers on deposits at the rate that a basic savings account earns at the financial institution where the water district or water association maintains its operations and maintenance account, not to exceed 2.64%.

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