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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

JUL 27 2005

PUBLIC SERVICE
COMMISSION

NORTHERN KENTUCKY WATER DISTRICT'S)
APPLICATION FOR GENERAL RATE INCREASE,) Case No. 2005-00148
APPROVAL OF FINANCING AND)
CONSTRUCTION - HISTORIC TEST PERIOD)

ATTORNEY GENERAL'S REQUEST FOR INFORMATION
TO THE NORTHERN KENTUCKY WATER DISTRICT

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, submits this Request for Information to the Northern Kentucky Water District.

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the company witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

GREGORY D. STUMBO
ATTORNEY GENERAL

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Certificate of Service and Filing

Counsel certifies filing of the original and ten photocopies of this Motion to Intervene by hand delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, service of the filing was by mailing a true and correct of the same, first class postage prepaid, to Ronald J. Barrow, Northern Kentucky Water District, P. O. Box 220, Cold Spring, Kentucky 41076, and John N. Hughes, 124 West Todd Street, Frankfort, Kentucky 40601 all on this 27th day of July 2005.

David Edward Spenard
Assistant Attorney General

**Attorney General's Request for Information
to the Northern Kentucky Water District**

1. Re: Petition, Numbered Paragraph 5. The District indicates that that a multi-year adjustment of rates is necessary. Please explain how the acceptance of the District's proposal will impact the need to issue short-term debt. Include in the response a narrative that demonstrates the projected issuance of short-term debt without the multi-year adjustment versus the projected issuance of short-term debt with the multi-year adjustment through the end of 2010. Include in the explanation how the acceptance of the proposal would impact the District's use of bond anticipation notes (BANs).
2. Re: Petition, Numbered Paragraph 5. Please confirm that the District does not have any shareholders with an equity claim on the District.
3. Re: Petition, Numbered Paragraph 5. Please indicate whether the District has approached any of its current debt holders or potential issuers of debt in order to garner feedback on its multi-year plan. If yes, please identify the lenders and summarize the feedback and assessments by the lenders. (For example, do the lenders believe that this will make the District's cost of debt increase, decrease, or that there will be no material impact.) Provide any correspondence or presentation materials for the discussions.
4. Re: Petition, Numbered Paragraph 5. Is it fair to characterize the District's multi-year proposal as a cost reimbursement program? If not, please explain how adjustments in rates based upon actual amounts of capital costs plus proforma adjustments to operating and maintenance accounts does not constitute cost reimbursement rather than an opportunity to earn which the District currently has through the use of the rate-setting process that it has been using.
5. Re: Petition, Numbered Paragraph 5. During the 2005 Regular Session of the General Assembly, a bill was introduced (HB 427 – An Act relating to water utility rates) to amend KRS 278.192 to authorize the Public Service Commission to allow a water utility to implement a rate adjustment through a multi-year phase-in process using a capital improvement plan as a basis. HB 427 did not pass. In light of the fact that the General Assembly has not yet provided the Public Service Commission with the jurisdiction to implement such a rate adjustment as sought in this case, please explain the jurisdictional basis for the program sought under the Petition.
6. Re: Petition, Numbered Paragraph 12(a). For the \$25,334,500 of new projects, please indicate the amount attributable to repair and replacement and the amount attributable to improvements to the system.

7. Re: Petition, Numbered Paragraph 12(a). Consider a scenario in which during the multi-year period the District must expend significant funds for an infrastructure project (such as a new treatment plant). How will the District handle the need to obtain a significant amount of additional funding above and beyond the funding in the multi-year capital plan?
8. Re: Petition, Exhibit C. Please explain the District's current policy regarding the use of subdistricts.
9. Re: Petition, Exhibit C. Please explain the increase in Accounts and Notes Receivable, Less Accumulated Provision for Uncollectible Accounts from \$3,987,193 in the previous year to \$4,717,008 in the current year. Provide the balance for this account as of 30 June 2005.
10. Re: Petition, Exhibit C. Please explain the increase in Notes Payable from \$100,000 in the previous year to \$3,705,000. Provide the balance for this account as of 30 June 2005.
11. Re: Petition, Exhibit C. Please explain the decrease in Nonutility income from \$314,577 in the previous year to \$31,138 in the current year. Provide the balance for this account as of 30 June 2005. Please also describe what impact that Nonutility has on the District in setting rates. (Is it the same as unregulated activity?)
12. Re: Petition, Exhibit C. Please explain the Extraordinary Income amount of \$685,841 for the pervious year.
13. Re: Petition, Exhibit E. Please indicate the District's debt coverage ratio for each year through the end of Year 2010 under the assumption that the multi-year proposal is in place and explain how it would differ in the absence of the multi-year proposal.
14. Re: Petition, Exhibit E, page 30, Statement of Comparison of Budget to Actual. For Year 2004, please provide a summary that explains each variance between the "budget" amount and the "actual" amount greater than 5%. Please do not simply refer to the individual explanations in Exhibit I.
15. Please provide an overall summary of the assessment of the ability of the District to prepare a budget as compared to actual operating results for Year 2004 and include any modifications or changes to the budget process as a consequence of the assessment of the 2004 results.
16. Re: Petition, Exhibit E. page 30, Statement of Comparison of Budget to Actual. Please provide this statement for Years 2000, 2001, 2002, and 2003.
17. Re: Petition, Exhibit I, notwithstanding OAG 1 – 14, please explain how the record turbidities impacted the operating results for Year 2004 and

please explain how the operating results differ from the corresponding budget projection as a consequence.

18. Re: Petition, Exhibit M, Section XVII-A – Upgrading Inactive Service Connection. The language in the proposal indicates that a point of service is located; however, no meter is present. If the customer asks that a meter be set in an inactive service connection the District will activate the service at no cost to the customer. Please explain (a) whether the activation will require District personnel to visit the location and actually set a meter (and if not, what steps are necessary at the point of service to bring the service back on); (b) how the District selected the period of one year in order to classify this type of service; and (c) what goals or objectives that the District is attempting to meet by adopting this policy.
19. Re: Prefiled Direct Testimony of Peggy L. Howe. What type of review did Ms. Howe conduct to assess the accuracy and reasonableness of the District's budgeting process? Please explain.
20. Re: Prefiled Direct Testimony of Peggy L. Howe. For the utilities listed in the schedule appearing on page 5, please indicate which of the utilities, if any, are regulated by state regulatory agencies (as opposed to local agencies or governmental bodies) with regard to the process of approving their rate structures and charges for service.
21. Re: Prefiled Direct Testimony of Peggy L. Howe. For the utilities listed in the schedule appearing on page 5, please indicate which of the utilities, if any, have private shareholder equity interests as a source of capital.
22. Re: Prefiled Direct Testimony of Peggy L. Howe. Please provide a photocopy of the article mentioned on page 6 as well as a photocopy of any of the presentation materials available to Ms. Howe from the workshop mentioned on page 6.
23. Re: Prefiled Direct Testimony of Peggy L. Howe. Does Ms. Howe assume that the District's multi-year proposal will terminate in 2010, continue indefinitely, or terminate at another time (for this last case, please, if applicable, provide the date of termination)?
24. Re: Prefiled Direct Testimony of Peggy L. Howe. If the Commission were to approve the District's proposal, what would be the role, if any, of the traditional rate case for the District's subsequent rate setting activities?
25. Re: Prefiled Direct Testimony of Peggy L. Howe. Please provide a narrative of Ms. Howe's understanding of the District's growth through merger, consolidation, and acquisition as well as the increase in native customer base since 1 January 1995.

- a. Additionally, what impact, if any, does the District's growth through merger, etc. have on a multi-year planning process?
 - b. Is there a base level of stability in the utility's growth pattern that must be present in order for an alternative approach, such as the District's, proposal to be more cost-effective than the traditional rate case mechanism for setting rates?
 - c. Is it the case that the process of modifying the plan may be more expensive than not having the plan and simply using traditional regulation in times of fluctuating growth?
26. Re: Prefiled Direct Testimony of Peggy L. Howe. Is there any difference between the use of a "look-back" adjustment process by a non-shareholder entity such as the District and a shareholder entity that has a "market-based" equity requirement? Please explain and include a discussion of any additional complexity that would be associated with adjusting an equity cost requirement in a "look-back" adjustment process.
27. Re: Prefiled Direct Testimony of Peggy L. Howe. Is it fair to characterize the "look-back" and "true-up" mechanism described by Ms. Howe's testimony as a modified reimbursement system under which the reimbursement amount would not change within a certain band? If not, please explain how the mechanism differs from a reimbursement system.
28. Re: Prefiled Direct Testimony of Peggy L. Howe. Assuming for the moment that a multi-year mechanism was in place and functioning.
- a. By what means and how often would the District reconsider cost allocation and rate design.
 - b. How would changes in cost allocation and rate design be implemented while the mechanism is in place and functioning?
29. Re: PSC request of 26 April 2005, item 5. Please explain the following:
- a. What is the "Metropolitan Club" (Check #34319)?
 - b. Explain the Kiwanis Go expense (Check #36052).
 - c. Explain the fees associate with "governmental affairs" (Check 36301).
 - d. Explain Rotary Dues and Expenses (Check #37961).
 - e. For each of the above: (i) explain in detail how these expenses were removed from the base period; (ii) explain if and how the District will prevent these types of expenses from being included in the rate setting process through a multi-year mechanism such as the one proposed by the District.