

Hardin County Water District No. 1

Serving Radcliff and Hardin County for Over 50 Years

1400 Rogersville Road
Radcliff, KY. 40160

March 20, 2007

Ms. Beth O'Donnell
Executive Director - Kentucky Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, KY 40620-0615

RECEIVED

MAR 20 2007

PUBLIC SERVICE
COMMISSION

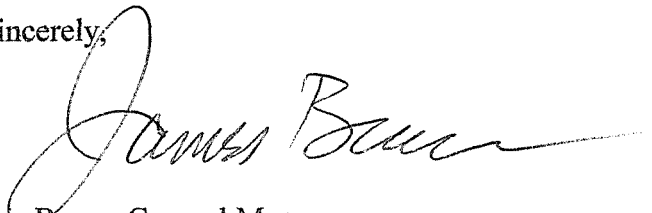
**SUBJECT: Response to Data Request No. 3
General Water Rate Increase - Case 2006-00410**

Dear Director O'Donnell,

We are herein submitting the response to the third data request. We have also served the same to Assistant Attorney General, Honorable David Spenard at his office.

Please contact myself directly, or our legal counsel, Mr. David Wilson, II, if you need additional information or have any questions. We would request your expedited review of this information, so as not to delay our needed rate adjustment.

Sincerely,



Jim Bruce, General Manager

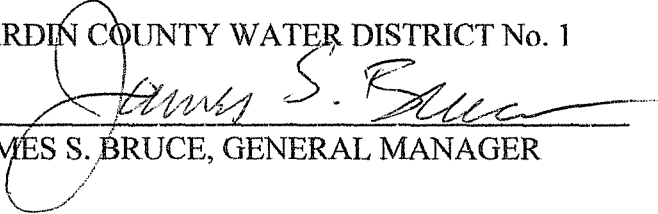
Cf: Mr. David Wilson II, HCWD1 Attorney
Mr. Brent Tippey, P.E., Quest Engineers

Encl.

VERIFICATION

The undersigned, Mr. James S. Bruce, General Manager of the Hardin County Water District No.1, hereby verifies that he has personal knowledge of the matters set forth in the enclosed data response and answers, and that he is duly designated by the Board of Commissioners of the Hardin County Water District No. 1 to sign and submit this information its behalf.

HARDIN COUNTY WATER DISTRICT No. 1

By 
JAMES S. BRUCE, GENERAL MANAGER

CERTIFICATION

This is to certify that a true and correct copy of the foregoing was delivered this 20th day of March, 2007 to Hon. David E. Spendar, Assistant Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, KY. 40601-8204.



Mr. David T. Wilson II, ESQ.
Attorney for Hardin County Water District No. 1

STATE OF KENTUCKY
COUNTY OF HARDIN

I, the undersigned, a Notary Public, do hereby certify that on this 20 day of March, 2007, personally appeared before me, James S. Bruce and David T. Wilson, II, who being by me first sworn, subscribed to and acknowledged that they both represent the Hardin County Water District No. 1, a Kentucky Corporation, that they have signed the foregoing document as General Manager and Attorney of the Corporation.


NOTARY PUBLIC, STATE OF KENTUCKY
AT LARGE

My Commission Expires; 11-12-10

1. Refer to Hardin's response to Commission Staff's First Information Request, Item 11.
 - a. In its response to 11(a), Hardin failed to include a copy of the ordinance or resolution for its 1998 "fixed rate" bond issuance. Provide a copy of the ordinance or resolution for that bond issuance.
 - b. In response to 11(c), Hardin submitted a combined amortization schedule for its outstanding bond issuances. Provide a separate amortization schedule for each bond issuance using the format in Table 2(b) below

Table 2(b)					
<u>Year</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal &</u> <u>Interest</u>	<u>Outstanding</u> <u>Balance</u>
2005					

- ANSWER
- 1.a) The requested document follows this page
 - 1.b) The request information follows this page (Tables provided by Mr. Robert Cramer, Structures & Strategies and Finance Advisor to HCWD1).

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

**Hardin County Water District No. 1
Minutes of the Regularly Scheduled Meeting
of the Board of Commissioners**

December 14, 1998

Chairman Ron Vasquez called the meeting to order at 6:20 p.m. with Commissioners Portia Petties, Bill Cecil, Jimmy Stovall and Bill Gossett present. Mr. Charlie Whelan and Mr. Bob Cramer were in attendance as a guests.

Treasurer Cecil made a motion to accept the Secretary's report from November 30, 1998. Motion was seconded by Mr. Gossett. Motion passed. (Unan.)

Mr. Bob Cramer of Banc One Capital Corporation and Mr. Charles Whelan, CPA attended the meeting to review bids received for the 1998 Refunding Revenue Bonds. Mr. David Wilson also explained documents that need to be signed, should the Board accept the bid. Mr. Cramer explained that the low bid was from Banc One Capital Markets. Accepting the bid would result in savings in debt service for the 1989 and 1992 Series Bonds of \$399,672 through 2012. The present value savings after issuance costs will be approximately \$290,500.

Treasurer Cecil made a motion to approve Ordinance 98-02 designating the bonds as tax exempt obligations of the District. Motion was seconded by Secretary Petties. Motion passed. (Unan.)

Secretary Petties made a motion to accept the successful bid from Banc One Capital Markets for the \$3,950,000 Waterworks Refunding Bonds-Series 1998. Motion was seconded by Treasurer Cecil. Motion passed. (Unan.)

Mr. Bruce then reviewed the proposed 1998-99 salary increases. There was some discussion about the distribution of adjustments. Mr. Stovall made a motion to approve a 3% overall increase to 1998 salaries based on performance reviews. Motion was seconded Treasurer Cecil. Motion passed. (Unan.)

Mr. Bruce then reviewed proposed position adjustments or reclassifications to the pay plan. Treasurer Cecil made a motion to approve the proposed changes to the pay plan with the exception of the change to the Heavy Equipment Operator and Construction Inspector. Motion was seconded by Secretary Petties. Motion passed. (Unan.)

Secretary Petties then made a motion to increase the employees life insurance coverage to twice their annual salary and to authorize the General Manager to implement an Employee Voluntary Contribution 401k Supplemental Retirement Plan administered by the Kentucky Public Employees Deferred Compensation Authority after January 1, 1999. Motion was seconded by Mr. Gossett. Motion passed. (Unan.)

Mr. Bruce then reviewed the proposed 1999 Operations and Maintenance Budget. Mr Stovall made a motion to adopt the proposed budget, with changes as directed. Motion was seconded by Secretary Petties. Motion passed. (Unan.) (The approved 1999 Operations and Maintenance Budget is \$2,708,117, with revenues being \$3,058,908 and income \$350,791. The approved Capital Equipment List is \$71,550.)

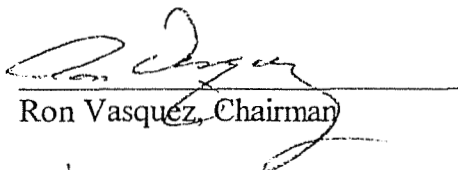
Mr Gossett then made a motion to reimburse the employees soda fund for expenses related to the 1998 employees Christmas party. Motion was seconded by Secretary Petties. Motion passed. (Unan.)

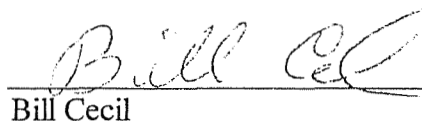
Mr. Bruce reviewed the need for a pressure sustaining valve at the L G & E 4-inch service line connected to Fort Knox. Mr. Stovall made a motion to install the valve and to contact Fort Knox about future reimbursement to the District for the costs. Motion seconded by Mr. Gossett. Motion passed. (Unan.)

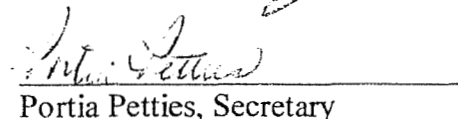
Mr. Stovall made a motion to enter into executive session at 9:01 p.m. Motion was seconded by Mr. Cecil. Motion passed. (Unan.)

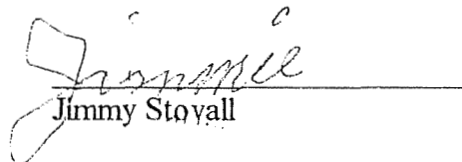
Chairman Vasquez reconvened open session at 9:11 p.m.

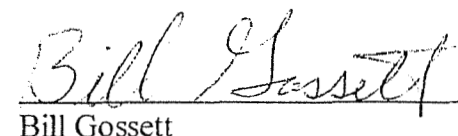
Mr. Stovall made a motion to adjourn at 10:18 p.m. Motion was seconded by Mr. Gossett. Motion passed. (Unan.)


Ron Vasquez, Chairman


Bill Cecil


Portia Petties, Secretary


Jimmy Stovall


Bill Gossett

AMENDMENT NO. 1 TO ORDINANCE NO. 98-02 OF
HARDIN COUNTY WATER DISTRICT NO. 1 OF
HARDIN COUNTY, KENTUCKY (THE "DISTRICT")
DESIGNATING THE \$3,950,000 HARDIN COUNTY
WATER DISTRICT NO. 1 WATERWORKS REFUNDING
REVENUE BONDS, SERIES 1998 (THE "BONDS") AS
QUALIFIED TAX-EXEMPT OBLIGATIONS UNDER
SECTION 265(b)(3) OF THE INTERNAL REVENUE
CODE OF 1986, AS AMENDED

WHEREAS, Hardin County Water District No. 1 of Hardin County, Kentucky (the "District") adopted Ordinance No. 98-02 (the "Ordinance") on September 28, 1998 authorizing the issuance, execution and delivery of the \$3,950,000 Hardin County Water District No. 1 Waterworks Refunding Revenue Bonds, Series 1998 (the "Bonds"); and

WHEREAS, after careful study and investigation, the District has decided to amend the Ordinance to designate the Bonds as "Qualified Tax-Exempt Obligations".

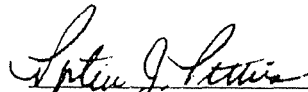
NOW, THEREFORE, THE ORDINANCE IS AMENDED TO ADD THE FOLLOWING SECTION 19 WHICH READS AS FOLLOWS:

Section 19. Designation as "Qualified Tax-Exempt Obligations". The District hereby certifies that it does not reasonably anticipate that the total principal amount of "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended which the District, or any subordinate entity of the District, will issue during 1998, the calendar year during which the Bonds are issued, will exceed \$10,000,000; and therefore the District hereby designates the Bonds issued pursuant to this Ordinance as "qualified tax-exempt obligations".

CERTIFICATION

The undersigned hereby certifies that he/she is the duly qualified and acting Secretary of the Board of Commissioners of Hardin County Water District No. 1 of Hardin County, Kentucky, and that the foregoing is a true, correct and complete copy of an ordinance duly adopted by the Board of Commissioners of said District at a duly convened meeting held on the 14th day of December, 1998, on the same occasion signed by the Chairman as evidence of his/her approval, and now in full force and effect, all as appears from the official records of said District in my possession and under my control.

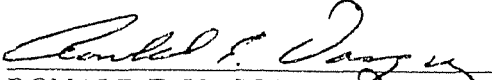
WITNESS my hand and the Seal of said District as of the 14th day of December, 1998.



PORTIA J. PETTIES
Secretary

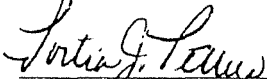
INTRODUCED, PASSED AND ADOPTED, at a duly convened meeting of the Board of Commissioners of Hardin County Water District No. 1 of Hardin County, Kentucky, held on December 14, 1998.

[SEAL]



RONALD E. VASQUEZ
Chairman

ATTEST:



Portia J. Petties
Secretary

RESOLUTION OF THE HARDIN COUNTY WATER DISTRICT NO. 1 ACCEPTING
THE SUCCESSFUL BID FOR THE PURCHASE OF
\$3,950,000 HARDIN COUNTY WATER DISTRICT NO. 1
WATERWORKS REFUNDING REVENUE BONDS, SERIES 1998

WHEREAS, notice of sale of \$3,950,000 principal amount of Hardin County Water District No. 1 Waterworks Refunding Revenue Bonds, Series 1998 (the "Bonds") has heretofore been advertised in compliance with legal requirements;

WHEREAS, all bids received for the purchase of the Bonds from the Hardin County Water District No. 1 (the "District") have been duly considered; and

WHEREAS, the matter of which bid is the most advantageous to the District has been sufficiently considered.

NOW, THEREFORE, THE BOARD OF COMMISSIONERS OF THE DISTRICT DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. That the bid of BANC ONE CAPITAL MARKETS for the purchase of said \$3,950,000 principal amount of Hardin County Water District No. 1 Waterworks Refunding Revenue Bonds, Series 1998 be accepted and confirmed.

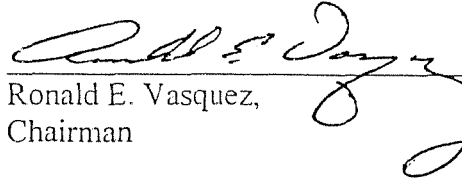
SECTION 2. That all other bids are hereby rejected, and the Secretary is ordered to hold the good faith check of the successful purchaser(s) in accordance with the published Notice of Bond Sale and the Official Terms and Conditions of Bond Sale, and to return the other checks to the respective unsuccessful bidders immediately.

SECTION 3. That the Bonds shall be delivered by the proper District officials to the purchaser(s) or their designees as soon as the Bonds are ready for delivery in accordance with the Ordinance (as hereinafter defined) authorizing the Bonds and all of the proceeds of the Bonds shall be used only as provided in Ordinance No. 98-02 adopted by the District on September 28, 1998, as amended on December 14, 1998 (the "Ordinance") and the Trust Indenture, dated as of December 1, 1998, by and between the District and Fifth Third Bank, as Trustee.

SECTION 4. That said bid is accepted subject to the condition that such acceptance subjects the District to no obligation to deliver the Bonds either in whole or in part if for any reason the District is unable to obtain the final approving legal opinion of the firm of Stites & Harbison, Louisville, Kentucky, as to said Bonds; or if the Bonds should be subject to ad valorem taxation by the Commonwealth of Kentucky; or if the receipt of interest on the Bonds should be subject to income taxation of the Federal Government or by the Commonwealth of Kentucky prior to or on the delivery date of the Bonds; and the purchaser(s) shall not be required to take delivery of the Bonds without the final approving opinion of said Attorneys or if the Bonds or the interest thereon should become subject to such ad valorem or income taxation prior to such delivery date.

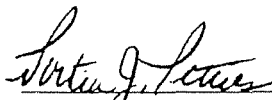
SECTION 5. That all Ordinances, Orders and Resolutions, or parts thereof, in conflict herewith, be and the same are hereby amended or repealed to the extent of such conflict, and this Resolution shall be effective immediately upon its adoption.

Adopted on December 14, 1998.



Ronald E. Vasquez,
Chairman

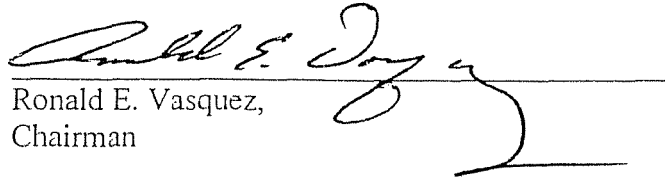
Attest:



Portia V. Petties,
Secretary

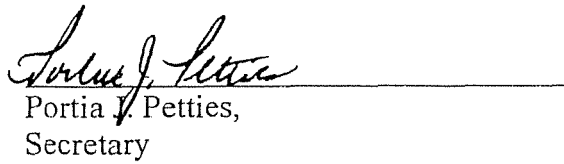
SECTION 5. That all Ordinances, Orders and Resolutions, or parts thereof, in conflict herewith, be and the same are hereby amended or repealed to the extent of such conflict, and this Resolution shall be effective immediately upon its adoption.

Adopted on December 14, 1998.



Ronald E. Vasquez,
Chairman

Attest:



Portia Y. Petties,
Secretary

CERTIFICATE

I, Portia J. Petties, hereby certify that I am the duly qualified and acting Secretary of the Hardin County Water District No. 1, that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Commissioners of said District, at a meeting duly held on December 14, 1998, and that said Resolution has been duly recorded in the records of the District and has been signed therein by the Chairman.

That said meeting was held in accordance with all applicable requirements of Kentucky law, including KRS 61.180, 61.815, 61.820 and 61.825, and a quorum was present.

IN TESTIMONY WHEREOF, witness my signature and the Seal of said District on December 14, 1998.



Portia J. Petties,
Secretary

(Seal of District)

1998 Fixed Rate Bonds

	Interest Rate	Principal	Interest	Total P&I	Outstanding Balance
					\$ 3,275,000.00
2005	4.000%	\$ 315,000.00	\$ 133,587.50	\$ 448,587.50	\$ 2,960,000.00
2006	4.000%	\$ 415,000.00	\$ 120,987.50	\$ 535,987.50	\$ 2,545,000.00
2007	4.000%	\$ 430,000.00	\$ 104,387.50	\$ 534,387.50	\$ 2,115,000.00
2008	4.000%	\$ 450,000.00	\$ 87,187.50	\$ 537,187.50	\$ 1,665,000.00
2009	4.125%	\$ 470,000.00	\$ 69,187.50	\$ 539,187.50	\$ 1,195,000.00
2010	4.150%	\$ 380,000.00	\$ 49,800.00	\$ 429,800.00	\$ 815,000.00
2011	4.150%	\$ 400,000.00	\$ 34,030.00	\$ 434,030.00	\$ 415,000.00
2012	4.200%	\$ 415,000.00	\$ 17,430.00	\$ 432,430.00	\$ -
		\$ 3,275,000.00	\$ 616,597.50	\$ 3,891,597.50	

2002 Variable Rate Demand Bonds

	Interest Rate *Est	Principal	Interest	Total P&I	Outstanding Balance
					\$ 4,490,000.00
2005	4.500%	\$ 20,000.00	\$ 201,823.14	\$ 221,823.14	\$ 4,470,000.00
2006	4.500%	\$ 200,000.00	\$ 198,881.49	\$ 398,881.49	\$ 4,270,000.00
2007	4.500%	\$ 200,000.00	\$ 189,881.52	\$ 389,881.52	\$ 4,070,000.00
2008	4.500%	\$ 200,000.00	\$ 181,383.27	\$ 381,383.27	\$ 3,870,000.00
2009	4.500%	\$ 200,000.00	\$ 171,881.51	\$ 371,881.51	\$ 3,670,000.00
2010	4.500%	\$ 260,000.00	\$ 162,200.96	\$ 422,200.96	\$ 3,410,000.00
2011	4.500%	\$ 260,000.00	\$ 150,500.97	\$ 410,500.97	\$ 3,150,000.00
2012	4.500%	\$ 260,000.00	\$ 139,189.29	\$ 399,189.29	\$ 2,890,000.00
2013	4.500%	\$ 260,000.00	\$ 127,100.94	\$ 387,100.94	\$ 2,630,000.00
2014	4.500%	\$ 280,000.00	\$ 115,174.12	\$ 395,174.12	\$ 2,350,000.00
2015	4.500%	\$ 280,000.00	\$ 102,574.12	\$ 382,574.12	\$ 2,070,000.00
2016	4.500%	\$ 280,000.00	\$ 90,229.31	\$ 370,229.31	\$ 1,790,000.00
2017	4.500%	\$ 290,000.00	\$ 77,374.09	\$ 367,374.09	\$ 1,500,000.00
2018	4.500%	\$ 300,000.00	\$ 64,097.28	\$ 364,097.28	\$ 1,200,000.00
2019	4.500%	\$ 300,000.00	\$ 50,597.25	\$ 350,597.25	\$ 900,000.00
2020	4.500%	\$ 300,000.00	\$ 37,208.24	\$ 337,208.24	\$ 600,000.00
2021	4.500%	\$ 300,000.00	\$ 23,597.24	\$ 323,597.24	\$ 300,000.00
2022	4.500%	\$ 300,000.00	\$ 10,097.28	\$ 310,097.28	\$ -
		\$ 4,490,000.00	\$ 2,093,792.02	\$ 6,583,792.02	

*Estimated Rate which changes weekly over the life of the issue

2005 Fixed Rate Bonds

	Interest Rate	Principal	Interest	Total P&I	Outstanding Balance
2005	4.125%	\$ -	\$ 59,739.17	\$ 59,739.17	\$ 6,860,000.00
2006	4.125%	\$ 65,000.00	\$ 282,975.00	\$ 347,975.00	\$ 6,795,000.00
2007	4.125%	\$ 70,000.00	\$ 280,293.76	\$ 350,293.76	\$ 6,725,000.00
2008	4.125%	\$ 100,000.00	\$ 277,406.26	\$ 377,406.26	\$ 6,625,000.00
2009	4.125%	\$ 130,000.00	\$ 273,281.26	\$ 403,281.26	\$ 6,495,000.00
2010	4.125%	\$ 160,000.00	\$ 267,918.76	\$ 427,918.76	\$ 6,335,000.00
2011	4.125%	\$ 200,000.00	\$ 261,318.76	\$ 461,318.76	\$ 6,135,000.00
2012	4.125%	\$ 240,000.00	\$ 253,068.76	\$ 493,068.76	\$ 5,895,000.00
2013	4.125%	\$ 360,000.00	\$ 243,168.76	\$ 603,168.76	\$ 5,535,000.00
2014	4.125%	\$ 370,000.00	\$ 228,318.76	\$ 598,318.76	\$ 5,165,000.00
2015	4.125%	\$ 385,000.00	\$ 213,056.26	\$ 598,056.26	\$ 4,780,000.00
2016	4.125%	\$ 400,000.00	\$ 197,175.00	\$ 597,175.00	\$ 4,380,000.00
2017	4.125%	\$ 415,000.00	\$ 180,675.00	\$ 595,675.00	\$ 3,965,000.00
2018	4.125%	\$ 430,000.00	\$ 163,556.26	\$ 593,556.26	\$ 3,535,000.00
2019	4.125%	\$ 445,000.00	\$ 145,818.76	\$ 590,818.76	\$ 3,090,000.00
2020	4.125%	\$ 465,000.00	\$ 127,462.50	\$ 592,462.50	\$ 2,625,000.00
2021	4.125%	\$ 485,000.00	\$ 108,281.26	\$ 593,281.26	\$ 2,140,000.00
2022	4.125%	\$ 500,000.00	\$ 88,275.00	\$ 588,275.00	\$ 1,640,000.00
2023	4.125%	\$ 525,000.00	\$ 67,650.00	\$ 592,650.00	\$ 1,115,000.00
2024	4.125%	\$ 545,000.00	\$ 45,993.76	\$ 590,993.76	\$ 570,000.00
2025	4.125%	\$ 570,000.00	\$ 23,512.50	\$ 593,512.50	\$ -
		\$ 6,860,000.00	\$ 3,788,945.55	\$ 10,648,945.55	

2. Refer to Hardin's response to Commission Staff's Second Information Request, Item 6(e). Hardin did not respond to Commission Staff's request that it explain, "[w]hy it is appropriate and necessary for Hardin to calculate its revenue requirements using the debt coverage inclusive of depreciation expense as done at page 1 of Exhibit 11 of the application" when the 2005 bond issuance requires a 120 percent debt service coverage exclusive of an allowance for depreciation. Provide Hardin's explanation as Commission Staff originally requested.

ANSWER 2: The revenue requirement determination shown in Exhibit 11 of the application was developed based on the methodology outlined in the PSC Order for Rate Case 2001-00211 (Page 21) which reflects that for rate making purposes both coverage and depreciation are justified for inclusion.

The "exclusive of allowances for depreciation" element in the 2005 bond covenant appears to be for the purpose of calculating coverage and not for the purpose of determining rates. If the District did not fund its depreciation, it would not have adequate funds to replace aging infrastructure when needed. Therefore, while depreciation expense is excluded in determining net revenues available for debt service (according to bond covenant), revenues still have to be sufficient, and rates need to be designed accordingly, to meet the overall expenses of the utility, including depreciation expense.

WITNESS: Mr. Brent Tippey, P.E., HDR/Quest Engineers and Rate Consultant for HCWD1

3. Refer to Hardin's response to Commission Staff's Second Information Request, Items 8(c) and (d)
 - a. Provide an itemized list of the sewer and waste water activity that occurs at the Service Center.
 - b. Hardin states that it will be performing an update of its sewer rate to the government based upon actual cost of service in 2008. Is Hardin currently tracking the actual costs that it is incurring to operate either the sewer or the waste water operations?
 - c. If the response to 3(b) is yes, provide the actual costs that Hardin is incurring to operate the sewer and waste water operations.
 - d. If the response to 3(b) is no, explain why Hardin is not currently tracking those costs.

- ANSWER
- 3.a) An "itemized list" is vague as to its intended detail or length. As the District has already answered with the second data request, item 8.c, activities performed by the District in relation to its sewer (and waste water ?) activities are primarily those related to overseeing the contractual requirements performed by a large contractor, and those contractual requirements of the District to its customer, the U.S. Government. All the operating activities of the sewer utilities (sanitary and storm) are performed by Veolia Water, and carried out on post at Ft. Knox. The activities performed at the Service Center, by primarily the Operations Manager, include talking to Veolia Project Manager (PM) by phone, creating and reading emails to and from the Veolia PM, talking to primary sewer engineer regarding status of capital projects, talking to the Capital Project Manager (consultant, not District employee) about overall capital program, providing the Board a monthly report and briefing the General Manager about status of sewer operations and projects. The District also remits a single payment monthly to Veolia Water for its operations fee, and remits payments to contractors for progress payments for capital construction projects. Most of the payments for supplies, sub-contractors, employees and vendors occur between Veolia Water and those providers, not from the District.
 - 3.b) District staff believes it is adequately tracking and allocating costs between its two regulated utilities, and in accordance with its methods as provided in the first data request, answer 2.
 - 3.c) The actual costs, which include some estimation of time spent at meetings and on phone calls, is provided for in data request 2, item 20, and item 25.
 - 3.d) N/A

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

4. Refer to Hardin's response to Commission Staff's Second Information Request, Item 3.
- a. Has Hardin included either the financing costs or the depreciation expense associated with these projects in its calculation of the revenue requirement? If the response is yes, identify the projects that have been included.
 - b. Explain why these construction projects are included in test-period Construction Work In Progress.
 - (1) Lex-A-Villa North, Water Main Extension, Estimated completion date December 12, 2001.
 - (2) Hilltop Section 10, Water Main Extension, Estimated completion date April 9, 1999.
 - (3) Whispering Hills Section 15, County Expansion Project, Estimated completion date May 2000.

- ANSWER
- 4.a) There are no financing costs related to these projects. Depreciation has been calculated as part of "CIP - Construction in Progress" since the projects were completed.
 - 4.b) The projects should have been closed out in previous years, and will be during 2007. The balances for these CIP projects will be credited to zero, and the amounts moved to fixed asset account 331 (UsoA), "Transmission & Distribution Mains".

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

5. Refer to Hardin's response to the Commission Staff's Second Information Request, Item 12.
 - a. Identify the "year end adjusting entries" that will increase or decrease the unaudited income from sewer operations of \$416,000.
 - b. Are the "numerous and significant capital projects" referenced in 12(a) the projects that were funded with the government contribution of \$15,197,541?
 - c. If the response to 5(b) is yes, explain why it is appropriate to include depreciation on utility plant in service that has been funded by cost-free capital, contributions in aid of construction.
 - d. If the response to 5(b) is no, identify each project, its total cost, the date completed, how it was funded, and the impact on depreciation expense. Include all workpapers, calculations, and assumptions used in the response.

- ANSWER
- 5.a) This was a rough calculation using the most recent month end balances, subtracting additional cost reimbursement to water, subtracting unpaid invoices to Veolia water, the monthly accrued depreciation expense and adding revenues in December and estimated interest earnings. The District is in process of closing out 2006, and auditors have been on site, and the actual, final amount will be known when the audit is complete, and any adjusting entries are made.
 - 5.b) No. Those projects were funded through the monthly fee for services from the Government to the District, and the monthly Initial Capital Surcharge, both included in the District's sewer tariff and rates approved by the Commission with Case 2004-00422. The \$15,197,541 is the plant asset value, net of depreciation, which the Government transferred to the District.
 - 5.c) If the Commission staff is questioning why the District is calculating depreciation on its sewer assets, and whether this is appropriate to include in its sewer rate base, the District assumes that would be an appropriate question for a future a sewer rate case / filing.
 - 5.d) Sewer capital projects, asset value and calculated depreciation on those assets would be reviewed and submitted with the future, and upcoming rate case and filing for the District's sanitary sewer utility, which it will be filing in 2008. The District assumes the current level of depreciation on sewer assets would have no impact on the water rates, or the case before the Commission..

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

6. In reviewing Hardin's response to Item 12 of Commission Staff's Second Information Request, it was noted that Hardin did not respond to Item 12(b).
- a. Absent the allocation of a portion of the net income of the storm water operations to its water division, state the benefits accruing to Hardin's water customers in this proceeding in return for assuming the risk of ownership of these storm water assets.
 - b. Identify the benefits accruing to Hardin's water customers in this proceeding in return for assuming the risk of ownership of sewer assets.

- ANSWER
- 6.a) A portion of income derived from sanitary and storm water operations at Ft. Knox are allocated to the District's water utility. Specifically, \$95,428 was assumed for this allocation, when the District originally calculated its sewer rate to the Government. When the District developed this amount, it did not proportion this amount between sanitary and storm water. For 2007, the District's total sewer budget includes \$405,732 of total storm water revenues, of a total sewer revenues of \$3,458,630, so storm water represents about 11.7% of total sewer revenues. When the District filed its original request to the Commission to take over ownership of the Government's sanitary and storm sewer utilities, it was unaware that the Commission would find the storm utility an un-regulated operation or enterprise.
 - 6.b) For the benefit of assuming the risk of ownership of the storm water (and sanitary) sewer system, there is an offsetting revenue source to the water utility. The District is able to allocate some water utility fixed costs to sewer, which it previously could not do before it began ownership and operations of the sewer utility. The District is also able to charge a portion of capital equipment and assets to sewer (See answer 17, second data request) for shared items / equipment, thus lowering the cost of those items to the water customers. The District and its Board, believed that in the long run, accepting ownership of the Ft. Knox sewer systems will provide numerous benefits to its water customers, as certain capital and equipment, and fixed operating costs, will be paid by the Government and sewer revenues, lowering costs to the water utility and its customers. (See answer to question 7 also).

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

7. Refer to Exhibit 11 of the Application, Revenue Requirements. Provide workpapers, calculations, and assumptions that Hardin used to derive the \$69,396 adjustment for reimbursement from sewer utility for salaries.

ANSWER 7: The amount reimbursed from sewer to water, for allocation of salaries, during the test year (2005) was \$26,033 (See answer 27, second data request). This was only for a portion of 2005's operations due to the takeover date from the Government. In the District's sewer rate designed for the Government, the Government required and allowed a portion of their costs to reimburse the District for the management of the sewer system. This amount was programmed in and included in the sewer rate the Government agreed to (and was approved by the Commission). That amount for a full year was \$95,428 (See answers 12.b and 23.b, second data request).

The \$69,396 is the adjustment amount to bring the reimbursement amount, for years after 2005, to the full annual amount and is shown on original application filing, Section 8 ("Description of Test Year Adjustments"), item 14. As answer 12.b to second data requested explains, this amount was developed between 2002 and 2004, as an estimated amount, but was a fixed component used to calculate the rate charged to the Government, in their sewer rate. This amount is subject to adjustment when the Government is updated. The schedule for that rate change is July 1, 2008 (which the District will need to file a rate adjustment during early, 2008). At that time, the sewer operations will have completed the transition and ownership and the District will have a full understanding of the level of District managerial involvement required, and subsequent allocation of costs to sewer, and subsequent credit to its water expenses.

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

8. Refer to Hardin's responses to Commission Staff's Second Information Request, Items 17 and 20. According to the response to Item 20, 237.5 hours of Brett Pyles' time was spent on sewer-related functions, which results in a sewer allocation factor of 11.4 percent.¹ Explain why Hardin used a 25 percent allocation to the sewer operations for the assets listed in the response to Item 17.

ANSWER 8: The only workpapers and calculations are those provided in response to second data request, item 27. These hours were arrived at by reviewing calendar list of meetings, known other standing meetings and estimated time required for certain tasks.

The reason the amount of Brett Pyle's time in 2005 (test year for water rate case) was less than 25%, is that the District only began operations of the sewer utility on July 1, 2005, so only half of that year could be applied to the 25% estimate of that employee's time. The reason that not exactly 12.5% (25% x 50% of the year) was used, was that the District did the calculation of actual time spent, as described above in this answer. An adjustment to a full year's reimbursement from sewer to water was provided for on line 14, Page 1 of 16, in tab 8 of the District's original filing.

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

¹ 237.5 (Sewer Hours) / 2,080 (Total Hours) = 11.4%

9. Refer to Hardin's response to Commission Staff's Second Information Request, Item 19. In its response to Item 8 of the Commission Staff's First Information Request, Hardin listed the monthly employee health insurance premium as \$295.31, but the current monthly premium is approximately \$260. Provide the monthly premium Hardin used to calculate its pro forma employee health insurance.

ANSWER 9: Between the time the District provided answers to first data request (Item 19 - then current premium \$295.31) and the second request, the District changed its health insurance company from Humana to Anthem, thus realizing a savings of \$35.48 / month (- 20%). Humana had proposed a new, 2007 premium of \$450 / month (+ 53%). The District's insurance consultant advised the Board that he had seen Anthem provide very low rates to new clients, to take business from Humana, only to increase those in future years.

Given the volatile and increasing health care and health insurance costs, the District does not believe it would be prudent or wise to lower the health insurance costs, in its proposed water rate revenue requirements, to below the \$295 amount, even though the current Anthem rates are lower than that. Averaging the three known and measurable amounts (Humana 2006 and 2007 and Anthem 2007 premiums) results in an average of \$335 / month, which is more than the current \$260 amount. While the District cannot predict what Anthem rates will be in 2008, there is a strong possibility that they will increase to equal or more than the \$295 amount.

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

10. Refer to Hardin's response to Commission Staff's Second Information Request, Item 20 and Hardin's response to Commission Staff's First Information Request, Item 8. Using the responses to these requests, calculate the salary for each employee listed in the response to Item 20 broken down into the following categories

- a. Regular
- b. Overtime
- c. Meter Reading
- d. Meter Installations
- e. Capitalized
- f. Sewer

ANSWER 10 a) The requested information follows this page.

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

1-SC Third Data Request - Question 10

FST_NME	LAST_NME	TITLE	Regular Wage \$	Meter Reading \$	Meter Install \$	Capital Salary \$	Sewer Salary \$
Charles	Williams	Customer Service Representative	\$28,698.04	\$0.00	\$0.00	\$0.00	\$0.00
Karen	Brown	Accounting Specialist	\$38,237.59	\$0.00	\$0.00	\$0.00	\$286.65
Charlie	Miller, C	Project Coordinator	\$31,333.31	\$0.00	\$0.00	\$0.00	\$620.64
Jim	Bruce	General Manager	\$82,559.66	\$0.00	\$0.00	\$0.00	\$12,145.80
Charlene	Easter	Customer Service Manager	\$40,062.34	\$0.00	\$0.00	\$0.00	\$548.93
John	Tindall	Commissioner	\$6,000.00	NA	NA	NA	NA
Bill	Gossett	Commissioner-Treasurer	\$6,200.00	NA	NA	NA	NA
Leslie	Powers	Commissioner	\$1,500.00	NA	NA	NA	NA
Portia	Petties	Commissioner	\$4,500.00	NA	NA	NA	NA
Bill	Rissel	Commissioner	\$6,000.00	NA	NA	NA	NA
Ron	Hockman	Commissioner	\$6,000.00	NA	NA	NA	NA
Sandra	Hammock	Customer Service Representative	\$19,042.36	\$0.00	\$0.00	\$0.00	\$0.00
Lynn	King	Customer Service Representative	\$22,609.28	\$0.00	\$0.00	\$0.00	\$0.00
Kim	Burns	Customer Service Representative	\$24,767.37	\$0.00	\$0.00	\$0.00	\$0.00
Shirley	Blanton	TEMP Winter Help	\$3,718.25	\$0.00	\$0.00	\$0.00	\$0.00
Bonnie	Hazelett	Administrative Assistant	\$3,007.22	\$0.00	\$0.00	\$0.00	\$0.00
Deondrea	Bostic	Administrative Assistant	\$21,840.19	\$0.00	\$0.00	\$0.00	\$0.00
John	Mancik	Field Service Representative	\$29,152.88	\$29,152.88	\$0.00	\$0.00	\$0.00
Cecil	Ashberry	Field Service Representative	\$19,415.92	\$19,415.92	\$0.00	\$0.00	\$0.00
Linda	Thompson	Utility Billing Specialist	\$30,202.22	\$0.00	\$0.00	\$0.00	\$119.24
Moseley	Mike	Meter Tester	\$6,223.84	\$0.00	\$0.00	\$0.00	\$0.00
Amanda	Voelker	CSR Intern	\$621.36	\$0.00	\$0.00	\$0.00	\$0.00
Daniel	Clifford	Dist. System GIS/Planning Specialist	\$36,716.57	\$0.00	\$0.00	\$6,608.98	\$2,453.66
Carl	Frederick	Construction Inspector	\$27,577.14	\$0.00	\$0.00	\$27,577.14	\$0.00
Jim	Gray	Distribution Operator IV	\$31,998.20	\$7,999.55	\$5,759.68	\$0.00	\$0.00
Jerry	McCoy	Heavy Equipment Operator - IVD	\$33,633.03	\$0.00	\$6,053.95	\$0.00	\$0.00
Clifford (Jay)	Davis	Distribution Operator	\$16,568.20	\$0.00	\$2,982.28	\$0.00	\$0.00
John	Miller	Distribution Operator	\$4,935.00	\$0.00	\$888.30	\$0.00	\$0.00
Scott	Houser	Distribution Operator	\$6,503.50	\$1,625.88	\$1,170.63	\$0.00	\$0.00
Steel	Joseph	Distribution Operator	\$4,527.00	\$1,131.75	\$814.86	\$0.00	\$0.00
Brett	Pyles	Distribution/Operations Manager	\$48,801.53	\$0.00	\$0.00	\$0.00	\$5,572.29
Richard	Stranahan	Distribution Supervisor	\$36,609.43	\$0.00	\$6,589.70	\$0.00	\$0.00
Brennen	Mayhew	TEMP Summer Help	\$5,380.82	\$2,690.41	\$0.00	\$0.00	\$0.00
Brandon	Furnish	TEMP Summer Help	\$989.00	\$247.25	\$0.00	\$0.00	\$0.00
David	Wilson	Attorney	\$12,328.84	NA	NA	NA	NA
Curt	Pickrell	Maint. & Controls Specialist	\$38,684.57	\$0.00	\$0.00	\$0.00	\$0.00
Phil	Clark	Plant Supervisor	\$46,127.51	\$0.00	\$0.00	\$0.00	\$0.00
Chris	Cecil	WTP Operator - Class III	\$25,092.76	\$0.00	\$0.00	\$0.00	\$0.00
Mike	McKinley	WTP Operator - Class - Trainee	\$31,556.48	\$0.00	\$0.00	\$0.00	\$0.00
Steve	Ellington	WTP Operator - Class IV	\$36,945.57	\$0.00	\$0.00	\$0.00	\$0.00
John	Thomas	WTP Operator - Class IV	\$36,952.04	\$0.00	\$0.00	\$0.00	\$0.00
Donnie	Underhill	WTP Operator - Class IV	\$34,786.16	\$0.00	\$0.00	\$0.00	\$0.00
James	Perry	WTP Operator - Class IV	\$35,230.20	\$0.00	\$0.00	\$0.00	\$0.00
			\$583,635.38	\$62,263.64	\$24,259.38	\$34,186.12	\$21,747.21

11. Refer to Hardin's response to Commission Staff's Second Information Request, Item 20. The normal hours that an employee works during an annual period are 2,080. Explain why the employees listed in the Table 11 below either worked over or under the normal number of annual hours.

ANSWER 11: Five of the employees listed worked only part of the test year (Hammock, Bostic, Asberry, Moseley and Davis).

The total annual hours shown on the table were calculated using actual 2005 total wage *dollars* for the test year, and dividing that amount by the hourly rate for the year, to arrive at total equivalent hours. This resulting calculated hours includes impacts of any premium time, which adds 1.5 hours for each time called out after hours, but is not considered overtime.

The difference between the amounts for the questioned employees on table (per year) and 2,080 hours is about 2%. The District agrees that 40 hours x 52 weeks = 2,080 hours, but believes the hours shown on table are reasonable, and do not materially affect its proposed rates. The *dollar* amount used for wages in the test year is accurate and actual, which is needed for rate making purposes, as opposed to hours worked on the table.

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

12. a. Has Hardin received notification from the Kentucky Retirement System of the employer contribution rate that will be effective for the Fiscal Year 2007 through 2008?
- b. If the response is yes to 12(a), provide a copy of the correspondence.

ANSWER 12.a) Yes

12.b) The requested document follows this page. The effective date for the increased employer contribution amount (+ 23%) is July 1, 2007.

WITNESS: Mr. Jim Bruce, General Manager, HCWD1



KENTUCKY RETIREMENT SYSTEMS
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601



Kentucky Employees Retirement System
County Employees Retirement System
State Police Retirement System

William P. Hanes, Esq.
Executive Director
Phone 502-696-8800
FAX # 502-696-8822
www.kyret.com

MEMORANDUM

TO: Agencies participating in the County Employees Retirement System

FROM: William P. Hanes, Esq., Executive Director
Kentucky Retirement Systems

DATE: November 16, 2006

SUBJECT: **Contribution Rates for Fiscal Year 2007-2008**

The Kentucky Retirement Systems Board of Trustees adopted the following employer contribution rates at their November 16, 2006 meeting in accordance with KRS 61.565 and the recommendation of the actuary:

CERS nonhazardous	16.17%
CERS hazardous	33.87%

These rates will be effective July 1, 2007.

Please distribute copies of this memorandum to the individuals responsible for your budget. Employer contribution rates for all systems may be amended if legislation affecting the rates is implemented in upcoming sessions of the Kentucky General Assembly.

13. Refer to Hardin's response to Commission Staff's Second Information Request, Item 37. For each payment listed in Table 13 below provide the account(s) each payment was charged.

ANSWER 13: The request information follows this page. Note that check numbers 72335, 72336 and 72338 should be 72336, 72337 and 72339, respectively.

WITNESS: Mr. Jim Bruce, General Manager, HCWD1

PSC Data Request 3 Question 13

Check Number	Vendor	Amount	Account Name	Account Number
71570	Grassy Knoll, Inc.	558.00	Contractual Services	10.196350000
71571	Harris	7,632.00	Contractual Services	10.196350000
71575	Peterson Truck Center	54,769.00	Transportation Equipment	10.001834100
71577	Radcliff Rotary Club	35.00	Dues & Subscriptions	10.196750300
71649	James D or Theresa K Reed	50.00	CIP-New Salem Area Expansion	10.001057700
71656	Tim Davis and Associates	2,335.75	Health & Life Insurance	10.156010300
			Health & Life Insurance	10.116010300
			Health & Life Insurance	10.146010300
			Flexible Benefits	10.196010801
			Flexible Benefits	10.146010801
71657	Tim Davis and Associates	2,233.14	Payroll Deductions-Clearing Account	10.196590100
71659	Grassy Knoll, Inc.	2,148.10	CIP-New Salem Area Expansion	10.001057700
71695	Beckmar	1,680.00	Professional Services/Lab	10.116350100
71698	Cl Thornburg	5,864.72	Inventory - Meters	10.001510400
71699	Dataimage	1,960.00	Bill Printing/Mailing Contract	10.156350102
71705	Holt Equipment Co.	587.70	Transportation Fuel & Repairs	10.146500000
71706	Horizon Equipment Co.	738.25	Maintenance & Repairs	10.116200400
71709	Martin & Associates	5,935.00	Transportation Fuel & Repairs	10.146500000
71710	Myers Concrete Products	2,850.00	VG-Creekvale Wholesale Meter	10.001059600
71711	Nalco Chemical Co.	16,270.80	Inventory-Chemicals	10.001510100
71714	Quest Engineers	1,000.00	CIP-Notting Hill Phase 2	10.001059700
			CIP-Ashley Estates WME	10.001059800
71715	Radcliff Community Leadership	500.00	Education & Conferences	10.196750900
71716	Reynolds, Inc.	2,137.57	Water Treatment Equipment	10.001832000
71717	Sunguard	11,422.28	Bill Printing/Mailing Contract	10.156350102
71725	Hunt Tractor	57,581.00	Transportation Equipment	10.001834100
71793	High Tide Technologies	270.00	CIP-Streamflow Mont. Study	10.001057200
71797	Martin & Associates	8,499.07	CIP-Ft. Knox Wastewater Project	10.001056000
71798	Quest Engineers	5,322.24	CIP-Pirtle WTP Recon	10.001051010
			CIP-New Salem Area Expansion	10.001057700
71800	Sunguard	1,838.60	Bill Printing/Mailing Contract	10.156350102
71821	Jeff Jones Chevrolet	14,141.00	Transportation Equipment	10.001834100
71822	Kentucky Retirement Systems	10,041.11	County Retirement Withheld-Clearing Acct. Payroll Deductions-Clearing Account Pension	10.002420200 10.196590100 10.116010200

	Pension		10.146010200
	Pension		10.156010200
	Pension		10.166010200
	Pension		10.196010200
	Comm/Pension		10.196030200
	Legal/Pension		10.196030500
71825 Metro United Way of Central KY	Payroll Deductions-Clearing Account	142.50	10.196590100
71826 PNC Advisors Retirement	Bonds Payable-2002 Issue	9,982.97	10.002211600
	Bonds Payable-1998 Issue		10.002211300
71830 Tim Davis and Associates	Health & Life Insurance	2,239.44	10.156010300
	Health & Life Insurance		10.116010300
	Health & Life Insurance		10.196010300
	Health & Life Insurance		10.146010300
	Flexible Benefits		10.146010801
71871 Kenney, Inc.	CIP-New Salem Area Expansion	496,466.51	10.001057700
71873 Kentucky Glass Lined Tank	CIP-New Salem Area Expansion	17,676.00	10.001057000
71875 Phillips Brothers Construction, LLC	CIP-New Salem Area Expansion	668,084.49	10.001057000
71882 Dataimage	Bill Printing/Mailing Contract	3,177.18	10.156350102
71925 Metro United Way of Central KY	Payroll Deductions-Clearing Account	142.50	10.196590100
71963 Jim Bruce	Materials & Supplies/Misc	73.00	10.196200000
71967 CI Thornburg	Inventory - Meters	6,840.00	10.001510400
71969 Engineering Design Group	Professional Services-Engineering	1,732.50	10.196310000
71971 Fifth Third Bank	Variable Rate Long Term Debt	3,658.55	10.196427040
71976 Hughes Supply, Inc.	CIP-Ashley Estates VME	11,182.07	10.001059800
71977 JP Morgan Securities, Inc.	Variable Rate Long Term Debt	828.33	10.196427040
71983 T & W Office Products	Office Furniture & Equipment	4,345.00	10.001834000
71990 Breckinridge County Court Clerk	CIP-New Salem Area Expansion	60.00	10.001057700
71995 Kim Burns	Education & Conferences	966.94	10.196750900
72000 Humana Health Plan	Payroll Deductions-Clearing Account	701.47	10.196590100
72013 Tim Davis and Associates	Payroll Deductions-Clearing Account	2,233.14	10.196590100
72014 Tim Davis and Associates	Health & Life Insurance	2,473.44	10.156010300
	Health & Life Insurance		10.116010300
	Health & Life Insurance		10.196010300
	Health & Life Insurance		10.146010300
	Flexible Benefits		10.146010801
72017 Kenney, Inc.	CIP-New Salem Area Expansion	125,985.62	10.001057700
72018 Kentucky Glass Lined Tank	CIP-New Salem Area Expansion	2,493.00	10.001057700

72019	SJ Cox Enterprises, Inc.	26,288.58	CIP-New Salem Area Expansion	10.001057700
72051	MTS Swope Motors	19,714.10	Transportation Equipment	10.001834100
72052	Chris Cecil	171.31	Certification Training	10.196750700
72055	Phillips Brothers Construction, LLC	142,262.57	CIP-New Salem Area Expansion	10.001057700
72058	Grassy Knoll, Inc.	2,960.32	Contractual Services	10.146350000
72085	Fifth Third Bank	39,796.66	Prepaid LOC Fees	10.001620400
72092	Carlton Satellite Systems	135.00	Contractual Services	10.116350000
72094	Corvin's Carpet	1,128.57	Office Furniture & Equipment	10.001834000
72100	Gemini Group, LLC	2,205.00	Advertising Expense	10.196600000
72101	Hach	5,312.50	Lab Equipment	10.001834400
			Supplies & Expense	10.146200300
72106	Kentucky Classified Network	768.65	Advertising Expense	10.196600000
72108	Martin & Associates	1,081.00	CIP-Ft. Knox Wastewater Project	10.001056000
72110	Naico Chemical Co.	12,524.40	Inventory-Chemicals	10.001510100
72116	USA Bluebook	2,505.08	Lab Equipment	10.001834400
			Small Tool Expense	10.116200900
72118	Waterworks Supplies	8,010.19	Distribution Materials	10.001510600
72124	Metro United Way of Central KY	132.00	Payroll Deductions-Clearing Account	10.196590100
72140	PNC Advisors Retirement	23,318.22	Bonds Payable-1998 Issue	10.002211300
			Bonds Payable-2002 Issue	10.002211600
72141	Radcliff Rotary Club	35.00	Dues & Subscriptions	10.196750300
72185	Douglas Kasey	2,536.00	CIP-New Salem Area Expansion	10.001057700
72186	Kenney, Inc.	80,178.70	CIP-New Salem Area Expansion	10.001057700
72187	Kentucky Glass Lined Tank	7,380.00	CIP-New Salem Area Expansion	10.001057700
72188	Phillips Brothers Construction, LLC	338,703.04	CIP-New Salem Area Expansion	10.001057700
72189	SJ Cox Enterprises, Inc.	28,298.45	CIP-New Salem Area Expansion	10.001057700
72191	Basham Lumber Co.	1,896.80	CIP-Pirtle Raw Building	10.001059900
72197	Hayes Pipe Supply, Inc.	1,402.85	Distribution Materials	10.001510600
72204	Quest Engineers	420.00	CIP-Hunter's Ridge II	10.001051020
72205	Radio Communications Systems	2,475.00	Communication Equipment	10.001834600
72247	Meredith & Sons	8,486.62	CIP-Pirtle Raw Building	10.001059900
72257	Swope Motors	772.08	Transportation Fuel & Repairs	10.146500000
72299	Lincoln Trail Regional	4,500.00	Notes Receivable	10.001440000
72307	Fifth Third Bank	12,226.91	Variable Rate Long Term Debt	10.196427040
72313	Gemini Group, LLC	2,501.60	Advertising Expense	10.196600000
72316	Jacobi Sales	224.38	Contractual Services	10.116350000
72319	Moody's Investors Service	500.00	Contractual Services	10.196350000

72322	Waterworks Supplies	14,792.00	Inventory - Meters	10.001510400
72332	Kenney, Inc.	119,240.11	Distribution Materials	10.001510600
72333	Kentucky Glass Lined Tank	61,056.00	Notes Payable - Cecilian Bank	10.002320000
72335 is 36	Phillips Brothers Construction, LLC	145,695.72	Interest on Short Term Debt	10.196427020
72336 is 37	Quest Engineers	234,221.14	CIP-New Salem Area Expansion	10.001057700
72338 is 39	SJ Cox Enterprises, Inc.	10,392.97	CIP-New Salem Area Expansion	10.001057700
72386	Kim Burns	1,402.70	Bonds Payable-2002 Issue	10.002211600
72388	Elizabethtown Radiology	14.40	Education & Conferences	10.196750900
72396	Engineering Design Group	735.00	Health & Life Insurance	10.146010300
72400	Hayes Pipe Supply, Inc.	5,827.61	CIP-New Salem Area Expansion	10.001057700
72403	Skeeters., Bennett, and Wilson	7,400.92	Distribution Materials	10.001510600
72405	Waterworks Supplies	12,366.84	CIP-Ft. Knox Wastewater Project	10.001056000
72415	The City of Radcliff		Distribution Materials	10.001510600
72445	Colonial	6,390.00	CIP-New Salem Area Expansion	10.001057700
72470	B&W Metals	329.32	DeRoche-Water Line Relocation	10.001051030
72472	Bart's Lawn Service	4,221.99	Contractual Services	10.146350000
72480	Hartford Fire Insurance	8,132.80	Payroll Deductions-Clearing Account	10.196590100
72481	Hayes Pipe Supply, Inc.	2,508.00	CIP-Pirtle Raw Building	10.001059900
72486	JP Morgan Securities, Inc.	12,065.16	Contractual Services	10.146350000
72487	Kenney, Inc.		Prepaid Insurance	10.001620000
72489	Kentucky Glass Lined Tank		Distribution Materials	10.001501060
72493	Phillips Brothers Construction, LLC		CIP-Spectra	10.001051040
72494	Quest Engineers		Service Line Repairs	10.146200200
		831.78	Variable Rate Long Term Debt	10.196427040
		112,259.86	CIP-New Salem Area Expansion	10.001057700
		125,213.04	CIP-New Salem Area Expansion	10.001057700
		114,545.03	CIP-New Salem Area Expansion	10.001057700
		9,707.42	CIP-New Salem Area Expansion	10.001057700
			CIP-Meadowlake Sect. 14	10.001051050
			CIP-Meadowlake Sect. 13	10.001051060
			Professional Services-Engineering	10.196310000
			CIP-Shelton Woods	10.001051070
72498	Skeeters., Bennett, and Wilson	4,964.00	CIP-Ft. Knox Wastewater Project	10.001056000
72499	Spatial Design Integrations, Inc.	2,800.00	Contractual Services	10.146350000
72502	Waterworks Supplies	5,397.41	CIP-New Salem Area Expansion	10.001057700

72503	Wemhoener Water Works	2,917.34	DeRoche-Water Line Relocation	10.001051030
72560	High Tide Technologies	1,320.24	Distribution Materials	10.001510600
72592	Harris Computer Systems	450.00	CIP - Stream Flow Monitoring Study	10.001057200
72637	Hardin Memorial Hospital	1,000.24	Education & Conferences	10.196750900
72661	Bart's Lawn Service	7,053.10	Health & Life Insurance	10.166010300
72676	Quest Engineers	1,425.00	Contractual Services	10.146350000
72679	Southern Backhoe	9,950.00	Professional Services - Engineering	10.196310000
72681	Waterworks Supplies	217,434.87	CIP - New Salem Church Road Exp	10.001057700
			CIP - New Salem Church Road Exp	10.001057700
			Inventory - Meters	10.001510400
			Distribution Materials	10.001510600
			Transmission Main Repairs	10.146200100
			CIP - Hunter's Ridge	10.001051020
			CIP - AMR Project	10.001051080
			Materials & Supplies/Misc	10.146200000
72693	Kenney, Inc	117,217.08	CIP - New Salem Church Road Exp	10.001057700
72694	Kentucky Glass Lined Tank	124,938.37	CIP - New Salem Church Road Exp	10.001057700
72695	Phillips Brothers Construction, LLC	129,297.91	CIP - New Salem Church Road Exp	10.001057700
72697	Stauffer Pump and Supply	3,240.00	New Meters	10.001510400
72698	Waterworks Supplies	144,797.98	New Meters	10.001510400
72718	PNC Advisors Retirement	74,107.96	Bond Series 1991 Sinking Fund	10.001320600
			Bond Series 1998 Sinking Fund	10.001320400
72723	Treasurer of US	3,248.16	2002 Debt Service Reserve	10.001311100
			Purchased Water	10.196100000
			Ft. Knox Energy	10.146150200
72756	Kenney, Inc	21,971.03	CIP - New Salem Church Road Exp	10.001057700
72757	Kentucky Glass Lined Tank	69,779.29	CIP - New Salem Church Road Exp	10.001057700
75758	Phillips Brothers Construction, LLC	93,991.39	CIP - New Salem Church Road Exp	10.001057700
72806	Bart's Lawn Service	4,424.60	Contractual Services	10.146350000
72819	Hayes Pipe Supply, inc	4,653.75	Contractual Services	10.196350000
72825	Naico Chemical Co.	12,658.80	Distribution Materials	10.001510600
72826	Quest Engineers, Inc.	9,168.13	Service Line Repairs	10.146200200
			Inventory - Chemicals	10.001510100
			CIP - New Salem Church Road Exp	10.001057700
			CIP - Looping Projects	10.001051070
72827	Reynolds, Inc.	10,304.91	Maintenance & Repairs	10.106200400
72830	Southern Backhoe, Inc.	17,900.00	CIP - New Salem Church Road Exp	10.001057700

72836	Waterworks Supplies	13,629.78	Transmission Main Repairs	10.146200100
			CIP - Shelton Woods	10.001051070
			Distribution Materials	10.001510600
72871	SJ Cox Enterprises, Inc.	3,420.00	CIP - New Salem Church Road Exp	10.001057700
72971	Frost, Brown, Todd	15,179.24	CIP - Ft. Knox Wastewater Proj.	10.001056000
72977	HPP Industrial Sales	1,103.00	CIP - Pirtle Raw Building	10.001059900
72978	J&K Communications	7,974.50	CIP - New Salem Church Road Exp	10.001057700
72985	Naico Chemical Co.	12,742.80	Inventory - Chemicals	10.001510100
72986	Sewell Industrial Electronics	24,606.36	CIP - New Salem Church Road Exp	10.001057700
72987	Southern Backhoe, Inc.	11,950.00	CIP - New Salem Church Road Exp	10.001057700
72992	Waterworks Supplies	79,293.43	Distribution Materials	10.001510600
			Transmission Main Repairs	10.146200100
			CIP - Vineland Subdivision	10.001051095
			Materials & Supplies/Misc	10.146200000
			CIP - Shelton Woods	10.001051070
			Inventory - Meters	10.001510400
			CIP - AMR Project	10.001051080
73000	Kenney, Inc	33,798.96	CIP - New Salem Church Road Exp	10.001057700
73001	Kentucky Glass Lined Tank	27,560.00	CIP - New Salem Church Road Exp	10.001057700
73003	Phillips Brothers Construction, LLC	82,178.77	CIP - New Salem Church Road Exp	10.001057700
73006	Bart's Lawn Service	5,566.00	Contractual Services	10.196350000
			Contractual Services	10.146350000
73008	Meredith & Son	3,803.88	CIP - Pirtle Raw Building	10.001059900
73161	Bart's Lawn Service	5,467.69	Contractual Services	10.196350000
			Contractual Services	10.146350000
73167	Hayes Pipe Supply, Inc.	12,325.77	Transmission Main Repairs	10.146200100
			Distribution Materials	10.001510600
73175	Quest Engineers, Inc.	3,986.23	Professional Services - Engineering	10.196310000
			CIP - New Salem Church Road Exp	10.001057700
73180	Sewell Industrial Electronics	13,525.00	CIP - New Salem Church Road Exp	10.001057700
73183	Southern Backhoe, Inc.	9,600.00	CIP - New Salem Church Road Exp	10.001057700
73190	Waterworks Supplies	15,461.80	Distribution Materials	10.001510600
			CIP - Vineland Subdivision	10.001051095
			CIP - Shelton Woods	10.001051070
			Materials & Supplies/Misc	10.146200000
			New Meters	10.001510400
			Transmission Main Repairs	10.146200100

73192	Hardin County Water Dist. #1	Service Line Repairs	6,803.00	Sewer Deposit Account	10.146200200
73194	Murrell Construction	Advance For Construction-1/2 Revenue Fnd	44,975.46		10.001321300
73195	Kenney, Inc.	CIP - New Salem Church Road Exp	100,980.98		10.002520000
73196	Kentucky Glass Lined Tank	CIP - New Salem Church Road Exp	9,764.50		10.001057700
73197	Phillips Brothers Construction, LLC	CIP - New Salem Church Road Exp	121,340.39		10.001057700
73251	William Gossett	Comm/Health Insurance	2,000.00		10.196030300
73317	All Country Paving	Transmission Main Repairs	4,500.00		10.146200100
73319	Bart's Lawn Service	Contractual Services	2,545.85		10.146350000
		Contractual Services			10.196350000
		CIP - New Salem Church Road Exp			10.001057700
		CIP - Pirtle Raw Building			10.001059900
73330	J&K Communications	CIP - New Salem Church Road Exp	30,111.75		10.001057700
73342	Southern Backhoe, Inc.	CIP - New Salem Church Road Exp	19,275.00		10.001057700
73343	Temco, Inc.	New Meters	2,681.00		10.001510400
73408	Waterworks Supplies	CIP - AMR Project	8,399.98		10.001051080
		New Meters			10.001510400
		Distribution Materials			10.001510600
73414	Dickie Cecil	Advance For Construction-1/2 Revenue Fnd	8,624.98		10.002520000
73415	The City of Vine Grove	Advance For Construction-1/2 Revenue Fnd	4,882.50		10.002520000
73419	Highpoint Const. Inc.	Advance For Construction-1/2 Revenue Fnd	9,868.36		10.002520000
73420	Joe Anderson	Advance For Construction-1/2 Revenue Fnd	13,331.30		10.002520000

14. Refer to Hardin's Application, Exhibit 10, "Billing Analysis (Existing and Proposed Rates)."
- a. Explain how Hardin selected the size of the usage blocks for its billing analysis.
 - b. Explain why, if the current rate structure of the first 15,000 gallons and over 15,000 gallons is the most appropriate structure for Hardin, why did Hardin use a usage block of 14,000 gallons to 24,999 gallons in its billing analysis?

ANSWER 14 a): The blocks were maintained at 1,000 gallon intervals until it became statistically insignificant to maintain that resolution. At that point, the block interval was raised to 10,000. In developing this analysis, the District accounted for every bill issued during the test period. The number of bills below 14,000 gallons per month was 109,774 (approx. 9,147 customers). The number of bills in the entire 14,000-24,999 category was 1,558 (approx 130 customers or less than 1.3% of the total bills). If the number of bills in this category had been greater, we would have utilized the 1,000 gallon increments further.

14 b): The 15,000 gallon threshold appears to be a subjective rate block breakpoint between average and larger users which is a holdover from previous rate cases which provided a declining block rate which had continued to be approved by the Commission. No relationship to the actual usage patterns of District customers is apparent. In the billing analysis, we were solely concerned with developing a model that is reflective of the actual usage patterns of District customers so that the impact of rate adjustments could be predicted.

WITNESS: Mr. Brent Tippey, P.E., HDR/Quest Engineers and Rate Consultant for HCWD1

15. Refer to Hardin's Application, Exhibit 16, "Schedule A, Cost of Service Comparison with Existing and Proposed Revenues/Rates and Schedule B, Allocation of Cost of Service by Function to Customer Classifications."
- a. The calculation of the Meter Charge on Schedule A, appears to contain a calculation error from the information provided on Schedule B for the three segments of the charge as stated on Schedule A. Identify the segments of Schedule B used to calculate the Meter Charge Rate on Schedule A.
 - b. In Hardin's response to Item 15(a), include all workpapers, calculations and assumptions used by Hardin to calculate its response.

ANSWER 15a); The cost "segments" used for the Meter Charge are from the total for each segment identified in Schedule C (Page 77 of 111). Schedule B has these segments divided across retail, wholesale, etc. cost functions and doesn't have a sum total for each "segment". If Schedule B items are totalized, a small round-off error from the distribution equation appears to be present. The total difference between Schedule B and Schedule C is \$187.

15 b): Schedule C provides the workpapers for this calculation.

WITNESS: Mr. Brent Tippey, P.E., HDR/Quest Engineers and Rate Consultant for HCWD1

16. Refer to Hardin's Application, Exhibit 16, "Cost of Service Study."
- a. Identify the location of the calculation of the volumetric rate on this Exhibit.
 - b. Identify all segments of the Cost of Service Study worksheets used to calculate the volumetric rate.

ANSWER 16 a): The increase in the volumetric rate charged for each usage block was done by multiplying the existing rate by the proposed increase amount shown on Schedule A (Column 7) of Exhibit 16 (Cost of Service Study). This information is also provided in Exhibit 6. The increase amounts for wholesale and retail volumetric sales are different (38% vs.13.4%) as the District is committed to cost based rates but will use gradualism to achieve these.

16 b): Exhibit 16 - Schedule A identifies the revenue requirements that were allocated to be met through retail and wholesale rate increases.

Exhibit 6 and 7 - Reflect the new rates based on percentage increases shown in Schedule A.

WITNESS: Mr. Brent Tippey, P.E., HDR/Quest Engineers and Rate Consultant for HCWD1