

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HARDIN COUNTY WATER	)	
DISTRICT NO. 1 FOR (1) ISSUANCE OF	)	
CERTIFICATE OF PUBLIC CONVENIENCE AND	)	
NECESSITY; (2) AUTHORIZATION TO BORROW	)	CASE NO. 2001-00211
FUNDS AND TO ISSUE ITS EVIDENCE OF	)	
INDEBTEDNESS THEREFOR; (3) AUTHORITY TO	)	
ADJUST RATES; AND (4) APPROVAL TO REVISE	)	
AND ADJUST TARIFF	)	

ORDER

Hardin County Water District No. 1 ( Hardin District ) has applied for a Certificate of Public Convenience and Necessity to construct approximately \$4.2 million in water main extensions, for authority to issue \$4,510,000 in revenue bonds, and for authority to adjust its rates to increase its normalized revenues from water sales and surcharges by \$574,412 to \$2,947,317.<sup>1</sup> By this Order, we grant the requested relief but establish rates that reflect a different allocation of costs than those that Hardin District proposes.

BACKGROUND

Hardin District, a water district organized pursuant to KRS Chapter 74, is a utility subject to Commission jurisdiction. KRS 278.010(3)(d); KRS 278.015; KRS 278.040. It provides retail water service to 9,004 customers in Hardin and Meade counties, Kentucky and wholesale water service to Meade County Water District and the city of

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<sup>1</sup> \$3,232,961 (Revised Ex. 11-1, February 5, 2002 Hearing, Total Op. Rev.). \$285,644 (Text Period Actual Other Op. Rev) = \$2,947,317.

Vine Grove, Kentucky ( Vine Grove ). Hardin District s service territory primarily covers the city of Radcliff, Kentucky. Hardin District last applied for a rate adjustment in 1990.<sup>2</sup>

### PROCEDURE

Hardin District filed written notice of its intent to file an application for an adjustment of rates on June 21, 2001.<sup>3</sup> It subsequently tendered its application on July 11, 2001. Because this application failed to comply with Administrative Regulation 807 KAR 5:001, Section 10, in several respects, the Commission rejected it. On October 16, 2001, Hardin District amended its application to correct these deficiencies and to modify its proposed rates for wholesale service to Vine Grove. It requested to place its proposed rates into effect on November 15, 2001.

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<sup>2</sup> See Case No. 1990-00019, The Petition of Hardin County Water District For a Certificate of Public Convenience and Necessity; Approval of Financing of the Construction and the Issuance of Bonds; and the Approval of Rates to be Charged Its Retail and Wholesale Customers (Feb. 21, 1991).

<sup>3</sup> See Case No. 2001-00189, Hardin County Water District No. 1 s Application For Certificate of Convenience and Necessity and Approval of Financing, Rate Adjustment and Tariff Revisions. Because of clerical error, Hardin District s Notice of Intent and its application were docketed as separate proceedings. By Order of October 19, 2001, we consolidated these proceedings into Case No. 2001-00211.

To determine the reasonableness of the proposed rates, the Commission on November 5, 2001 suspended the proposed rates for 5 months<sup>4</sup> and established a procedural schedule to further review Hardin District's application. On November 20, 2001, Hardin District moved for authority to place its proposed rates into effect immediately. On December 10, 2001, the Commission held a hearing on this motion. Finding that neither Hardin District's operations nor credit would be materially impaired or damaged by the suspension of the proposed rates, we denied the motion on January 14, 2002.

Following extensive discovery,<sup>5</sup> the Commission held a public hearing on the proposed rate adjustment on January 15, 2002. Testifying at this hearing were Jim Bruce, Hardin District's General Manager, and John Gallagher, vice-president, Black & Veatch Corporation. The Commission conducted a second public hearing on February 5, 2002, at which Mr. Bruce testified.

Following the first public hearing on the proposed rate adjustment, Hardin District and the Attorney General (AG) submitted written briefs. Following both public

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<sup>4</sup> KRS 278.190(2) provides in part:

Pending the hearing and the decision thereon, and after notice to the utility, the commission may, at any time before the schedule becomes effective, suspend the operation of the schedule and defer the use of the rate, charge, classification, or service, but not for a longer period than five (5) months beyond the time when it would otherwise go into effect if an historical test period is used, or longer than six (6) months if a forward-looking test period is used, pursuant to KRS 278.192; and after such hearing, either completed before or after the rate, charge, classification, or service goes into effect, the commission may make those orders with reference thereto as it deems proper in the matter.

<sup>5</sup> The Commission permitted the Attorney General, Vine Grove, and Fred Harmon to intervene in this matter.

hearings on the proposed rate adjustment, Hardin District submitted several responses to hearing requests for information and several revisions to its application.<sup>6</sup>

### PROPOSED CONSTRUCTION

Hardin District proposes to construct approximately \$4.2 million in water main extension and improvements. This construction consists of two projects: Highway 920 Transmission Main Project and the Highway 86 Expansion Project.

The Highway 920 Transmission Main Project involves the construction of approximately 12.3 miles of 16-inch transmission main from Hardin District's Pirtle Water Treatment Plant to an existing 12-inch water transmission main located at the intersection of Kentucky Highway 1882 and 1600. This project would provide a new transmission route to serve Hardin District's main service area. It would allow Hardin District to serve immediately approximately 100 existing households and permit subsequent expansion to 10 additional side roads. It will allow the water district to achieve \$30,000 annual savings through reduced energy costs by permitting the abandonment of Hardin District's Highway 1882 Booster Pump. Hardin District expects additional savings to be achieved through reduced maintenance costs due to lower water pressures on several existing water mains.

The Highway 86 County Expansion Project involves the construction of a back-up booster station and approximately 25.7 miles of 6-inch polyvinylchloride (PVC) and ductile iron water main along Kentucky Highway 86 in Hardin County, Kentucky. The project will immediately serve 300 existing households. It is expected to

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<sup>6</sup> For a chronology of Hardin District's revisions to its application, see Appendix B.

eventually serve 1,000 households.<sup>7</sup> The project is part of Hardin District's effort to offset the erosion of its customer base . . . by expanding into unincorporated areas of Hardin County which are experiencing significant residential development.<sup>8</sup>

#### ISSUANCE OF REVENUE BONDS

Hardin District proposes to fund the total construction cost from the issuance of \$4,510,000 in 20-Year Variable Rate Revenue Bonds. The interest rate will vary based upon 7-day Banc One Non-AMT Tax-Exempt Floater Rate. The proposed bonds will be secured by a letter of credit and thus avoid any coverage requirement that parity debt under fixed rate indentures requires. They will also permit Hardin District the option of retiring bonds prior to mandatory or optional dates and without incurring a call premium payment.<sup>9</sup> The Commission has previously reviewed Hardin District's use of variable rate bonds and found it reasonable.<sup>10</sup>

#### TEST PERIOD

Hardin District proposes to use the 12-month period ending December 31, 2000 as the test period to determine the reasonableness of its proposed rates. We find the use of this period is reasonable. In using a historic test period, the Commission gives full consideration to appropriate and known and measurable changes.

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<sup>7</sup> Hardin District's Application, Exhibit 11 at 5.

<sup>8</sup> Hardin District's Amended Application, Exhibit 22 at 2.

<sup>9</sup> Hardin District's Application at Exhibit 8.

<sup>10</sup> Case No. 1997-00388, Application of Hardin County Water District No. 1 For a Certificate of Convenience and Necessity to Construct the Fort Knox Interconnect Project.

## INCOME STATEMENT

For the test period, Hardin District reports actual operating revenues of \$2,708,219 and actual operating expenses of \$2,301,118.<sup>11</sup> In its application, Hardin District proposed several adjustments to revenues and expenses to reflect current and anticipated operating conditions. Throughout this proceeding, it has revised the pro forma adjustments. Its most recent revisions<sup>12</sup> result in pro forma operating revenues of \$3,232,961 and pro forma operating expenses of \$2,332,259.<sup>13</sup> Our review of these proposed adjustments is set forth below.

### Forecasted Adjustments

Hardin District's actual operating revenue and expense account balances including its proposed pro forma adjustments are set forth in Table I.<sup>14</sup> Hardin District provided no workpapers or calculations to support its proposed adjustments. It offered no basis for these adjustments other than the history, experience, and expertise of its general manager.<sup>15</sup> Noting that actual operations have been within 0.7 percent of

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<sup>11</sup> Hardin District's Amended Application, Exhibit A-20, Table 20-E ( Proposed Pro-forma Adjustments to Operating Income ).

<sup>12</sup> Hardin District's Supplemental Data and Information Requested at Hearing on February 5, 2002 ( filed Feb. 18, 2002 ) at 3-1.

<sup>13</sup> \$1,682,031 ( Operation & Maint. Exp. ) + \$582,257 ( Depreciation ) + \$67,971 ( Taxes Other Than Income Taxes ) = \$2,332,259.

<sup>14</sup> These adjustments result in a net increase of \$224,860 to income available for debt service.

<sup>15</sup> Hardin District's Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents, Item 11b ( Hardin District does not have workpapers, or calculations. There were no uniform assumptions regarding any of the pro forma adjustments. Rather, the adjustments are simply predicated upon Mr. Bruce's history, experience and expertise in managing the district wide revenue and expenses of Hardin District. ).

projections, Hardin District asserts that the projections should be deemed reliable and acceptable for rate-making purposes.<sup>16</sup>

**TABLE I**

<u>Account Title</u>	<u>Actual Balances</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Balances</u>
Forfeited Discounts	\$118,928	\$ 24,339	\$ 143,267
Misc. Service Revenues	\$ 4,629	\$ 371	\$ 5,000
Rents from Water Prop.	\$ 23,938	\$ 8,462	\$ 32,400
Other Water Revenues	\$138,149	\$ 117,889	\$ 256,038
Purchased Power Exp.	\$200,368	\$ (82,876)	\$ 117,492
Materials & Supplies Exp.	\$131,694	\$ (43,826)	\$ 87,868
Contractual Services Eng.	\$ 2,348	\$ ( 848)	\$ 1,500
Contractual Services Acct.	\$ 22,836	\$ ( 5,036)	\$ 17,800
Contractual Services Legal	\$ 3,739	\$ ( 2,989)	\$ 750
Contractual Services Other	\$124,666	\$ (29,702)	\$ 94,964
Transportation Exp.	\$ 26,643	\$ 3,132	\$ 29,775
Advertising Exp.	\$ 790	\$ 11,969	\$ 12,579
Miscellaneous Exp	\$ 90,379	\$ 42,401	\$ 132,780
Interest Income	\$213,976	\$ (33,976)	\$ 180,000

Administrative Regulation 807 KAR 5:001, Section 10(1), provides that all applications for general rate adjustment shall be supported by either a twelve (12) month historical test period which may include adjustments for known and measurable changes or a fully forecasted test period. Where an applicant bases its application upon a historical test period, it must provide a complete description and quantified explanation for all proposed adjustments with **proper support for any proposed changes** in price or activity levels, and any other factors which may affect the adjustment.<sup>17</sup> That support should, at a minimum, include some documentary evidence to demonstrate the certainty of some expected change or event.

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<sup>16</sup> Hardin District's Response to Commission Staff's Second Set of Interrogatories and Requests for Production of Documents, Item 10a.

<sup>17</sup> Administrative Regulation 807 KAR 5:001, Section 10(6) (emphasis added).

Hardin District has failed to provide such evidence. Its proposed adjustments are based upon budgetary projections. While such projections may be acceptable when an applicant bases its application upon a forecasted test period, they are not when the basis for the proposed rate adjustment is a historical test period. Assuming arguendo that the projections were permissible support for Hardin District's application, the utility's failure to produce the calculations and assumptions used to develop these projections makes it impossible for the Commission to assess the validity and reasonableness of such projections. Accordingly, we find that the pro forma adjustments contained in Table I should be denied.

### Operating Revenues

Hardin District reports test year operating revenues of \$2,708,219.<sup>18</sup> Of this amount, revenue from retail water sales is \$2,068,688 and revenue from wholesale water sales is \$353,887. Total test year revenue from water sales, therefore, is \$2,422,575.

In October 2000, Hardin County Water District No. 2 ( Hardin District No. 2 ) brought its expanded water treatment plant into operation and ceased purchasing water from Hardin District.<sup>19</sup> During the test year, Hardin District collected \$138,566 in revenue from water sales to Hardin District No. 2. The Commission has decreased test-year revenue by this amount to reflect a normalized test year.

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<sup>18</sup> Hardin District's Application, Exhibit 10 - Independent Auditor's Report at 12.

<sup>19</sup> Hardin District No. 2's action was not unexpected. In 1990 the water districts entered into an agreement in which they agreed that Hardin District No. 2 would decrease its purchases from Hardin District by 10 percent annually for 10 years and cease purchasing in 2000. T.E. at 26 (Jan. 15, 2002).



Hardin District anticipates that the Highway 920 Transmission Main Project and the Highway 86 Expansion Project will eventually add 1,000 customers to its system. It expects the projects to initially generate 400 new residential customers.<sup>20</sup> Based on current rates and an estimated monthly usage of 5,000 gallons, these new customers will provide additional annual revenues from water sales of \$88,896.

In recognition of these adjustments, the Commission finds that Hardin District's normalized test-year revenue from water sales is \$2,372,905.

#### Salaries and Wages Employees

Hardin District reports a test-period level of salaries and wages employees expense of \$697,951. Hardin District's Board of Commissioners recently approved a 3.5 percent employee wage increase effective January 29, 2002.<sup>21</sup> Using the January 29, 2002 wage increase, the current staff level, and the actual amount of test-period over-time hours, Hardin District determined that test-period salaries and wages employees expense should be increased by \$68,168 to a pro forma level of \$766,119.<sup>22</sup>

Hardin District includes in salaries and wages employees expense attorney fees of \$8,819. Hardin District's agreement with the law firm of Skeeters, Bennett and Wilson requires the payment of a retainer fee of \$750 per month.<sup>23</sup> Hardin District's attorney receives health insurance coverage through the employee plan and is able to

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<sup>20</sup> Hardin District's Application at 9.

<sup>21</sup> Hardin District Board of Commissioners Resolution No. 01-2002 (Feb. 15, 2002).

<sup>22</sup> Hardin District's Supplemental Data and Information Requested at Hearing on February 5, 2002 (filed Feb. 18, 2002) at 3-1.

<sup>23</sup> Hardin District's Response to Commission Staff's Second Set of Interrogatories and Requests for Production of Documents, Item 7.

make contributions to the pension fund. Health insurance and pension costs are deducted from the monthly retainer fee. Combining the pension contribution of \$576<sup>24</sup> with the health insurance premium of \$9,312<sup>25</sup> results in a reduction to the retainer of \$9,888, which is \$888 above the annual retainer fee of \$9,000. The Commission finds that since Hardin District's attorney receives 100 percent of the retainer in employee benefits, the pro forma salaries and wages employees expense should be decreased by \$8,819.<sup>26</sup>

We further find that adjustments are required to reflect labor costs included in Hardin District's tap-on fee. This fee currently includes labor cost of \$375. All costs associated with the installation of a meter, including labor, are capital expenditures that should be removed from expenses and depreciated instead. Based upon the change in the number of Hardin District's residential customers during the test period from 8,080 to 8,085,<sup>27</sup> the Commission finds that 5 new meters were added during the test period. Over the next 10 years, Hardin District will add 100 new residential customers annually as a result of its proposed water main extension projects.<sup>28</sup> Multiplying the \$375 labor cost by 105 meters results in an annual capitalized labor cost of \$39,375.

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<sup>24</sup>  $\$9,000 \text{ (Annual Retainer)} \times 6.41\% \text{ (Contribution Rate)} = \$576.$

<sup>25</sup>  $\$776 \text{ (Monthly Premium)} \times 12\text{-Months} = \$9,312.$

<sup>26</sup> The retainer fee of \$9,000 is reflected in employee pension and benefits. It has been removed to ensure that Hardin District does not doubly recover this expense.

<sup>27</sup> Annual Report of Hardin County Water District to the Public Service Commission For the Year Ended December 31, 2000 at 29.

<sup>28</sup> Hardin District's Supplemental Data and Information Requested at Hearing on January 15, 2002 (filed Feb. 4, 2002) at H-1.

Reducing Hardin District's pro forma salaries and wages employees expense by the \$8,819 retainer fee and capitalized labor of \$39,375 results in pro forma expense of \$717,925, an increase of \$19,974 above the actual test-period level. Accordingly, test-period salaries and wages employees expense has been increased by that amount.

#### Employee Pensions and Benefits

Hardin District provides its employees with health insurance, retirement, life insurance and a \$100 flexible monthly benefit.<sup>29</sup> It proposes to increase test-period employee pension and benefit expense of \$108,406 by \$141,469 for a pro forma level of \$249,875.

The Commission has determined a pro forma level of pension contribution and life insurance of \$49,118 and \$4,180, respectively. We obtained this level by first determining an insurance premium rate of 0.55 percent of employee annual salary.<sup>30</sup> We determined pension contribution using Hardin District's employee pension contribution rate of 6.41 percent,<sup>31</sup> which is in effect for the period of July 2001 through June 2002.

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<sup>29</sup> This is a cafeteria plan option that allows the employee to select which benefit options (health insurance, dental insurance, or retirement plan) it is applied to.

<sup>30</sup> For a schedule of employee benefits, see Hardin District's Amended Application, Exhibit 20, Table 20-B. From this schedule, a ratio of life insurance premiums to total salaries can be determined. This ratio is:

$$\text{\$3,924 (Life Premium)} \div \text{\$719,722 (Full-Time Staff Salaries)} = 0.55\%$$

<sup>31</sup> Hardin District's Response to Commission Staff's Second Set of Interrogatories and Requests for Production of Documents, Item 15.

In determining the pro forma level of Hardin District's health insurance premium, the Commission has allowed only the costs associated with the provision of single health insurance coverage.<sup>32</sup>

Hardin District currently provides family health insurance coverage for the members of its Board of Commissioners and its General Manager, but single coverage only for its remaining employees. Such distinctions between board officials and other district employees is contrary to law. See OAG 94-15 (Mar. 4, 1994). The Commission finds that the cost of family health insurance coverage must be eliminated and has calculated a pro forma level of health insurance premium of \$92,640.

Finally, the Commission has applied a \$100-per-month flex benefit to all eligible employees, including Commissioners, resulting in an annual cost of \$317,200.

#### Purchased Water

Hardin District proposes a pro forma level of purchased water expense of \$23,200, a decrease of \$161,457 from its test-period level of \$184,457 to reflect its need for its purchased water.<sup>33</sup> Hardin District has failed to produce any workpapers or calculations to support its pro forma adjustment.

The Commission notes that Hardin District No. 2 has discontinued purchases from Hardin District and 400 new residential customers will be added as a result of the two proposed construction projects. An increase or a decrease in water sales will have a corresponding impact on the amount of water produced and purchased.

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<sup>32</sup> The attorney's health insurance premium has been reduced by the amount that the health insurance and pension contribution exceeds the \$9,000 annual retainer.

<sup>33</sup> Hardin District's Supplemental Data and Information Requested at Hearing on February 5, 2002 (February 18, 2002) at 3-1.

Using test-period line loss of 9.319 percent, the amount of water sold to Hardin District No. 2 of 92,857,000 gallons and water sales for the 400 new customers of 24,000,000 gallons, the Commission determined that Hardin District will experience a net decrease in water purchases of 75,933,200 gallons. Multiplying the decrease in water purchases by the average test-period water cost of \$0.86376<sup>34</sup> per 1,000 gallons results in a decrease in purchased water of \$65,588. Accordingly, purchased water expense has been decreased by that amount.

#### Purchased Power

Hardin District proposes to reduce test-period purchased power expense of \$200,368 to \$117,492, a decrease of \$82,876. Hardin District explains that its adjustment assumes a decrease in pumping energy costs, but it failed to provide documentation to support its proposed adjustment.<sup>35</sup>

In its 2000 Annual Report, Hardin District reports that \$78,555 of its test-period electricity expense is for the transmission and distribution of water. Electricity cost incurred for pumping will vary depending on the amount of water produced and purchased. A decrease of 75,933,200 gallons of water purchased will have a corresponding impact on the variable electricity costs.

Dividing the \$78,555 of electricity cost incurred for pumping by test-period water produced and purchased of 960,505,000 gallons,<sup>36</sup> results in a variable rate of electricity

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<sup>34</sup> 2000 Annual Report, \$184,657 (Purchased Water) ÷ 213,782,000 (Water Purchases Gallons) = \$0.86376 per 1,000 Gallons.

<sup>35</sup> Id.

<sup>36</sup> Annual Report of Hardin County Water District No. 1 to the Public Service Commission for Year Ending December 31, 2001 at 31.

of \$0.081785 per 1,000 gallons. Applying the variable electricity rate to the decrease in water purchases, the Commission calculates a pro forma decrease in purchased power of \$6,210.<sup>37</sup>

Materials and Supplies

Hardin District proposed to reduce its test-period materials and supplies expense of \$131,694 by \$43,826 to a pro forma level of \$87,868. In describing its adjustment, Hardin District states that the proposed adjustment includes \$25,000 of rate funded equipment.<sup>38</sup> Hardin District described this equipment as replacement equipment or small capital items, treatment plant instruments.<sup>39</sup> Hardin District's proposed adjustment represents the average that the Board of Commissioners has approved in the past.<sup>40</sup>

Hardin District provided a schedule and supporting invoices of the items exceeding \$500 that were recorded in Account No. 620 Materials and Supplies.<sup>41</sup> After reviewing Hardin District's schedule and invoices, the Commission finds that Hardin District had expensed the following capital expenditures:

Chemical Feed Pump	\$	878
Turbidity Analyzer	\$	1,050
Low-Range Turbidity Sensor	\$	945

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<sup>37</sup>  $\$0.081785$  (Variable Rate of Electricity) x 75,933.2 (Decrease in Water Purchases) = \$6,210.

<sup>38</sup> Page 3-1, Revised Exhibit 11-1, filed February 18, 2002.

<sup>39</sup> Transcript of Evidence ( T.E. ) January 15, 2002 Hearing, at 80.

<sup>40</sup> Id.

<sup>41</sup> Hardin District's Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents to Hardin County Water District No. 1, released November 16, 2001, Response to Item 26.

5/8 x 3/4 Sensus Meters	\$	9,120
2 Sensus Meters	\$	820
Siding and Gutter Ft. Knox Pump Station	\$	951
Chop saw	\$	919
8 Propeller Meter	\$	1,219
20 Meter Boxes & Lids	\$	709

Hardin District explains that the meters were expensed because they were placed in service within 30 to 60 days of being purchased. The remaining items were either the repair or replacement of an existing asset and did not require a retirement or re-capitalization of the same asset.<sup>42</sup>

The correct accounting treatment is to depreciate all capital expenditures over their estimated useful lives. Therefore, materials and supplies expense has been reduced by \$16,611 to eliminate the capital expenditures from Hardin District's test-period operating expenses. A provision for the recovery of these capital expenditures is included in the depreciation expense adjustment.

Insurance General Liability

Hardin District proposes a pro forma level of insurance general liability expense of \$37,640, an increase of \$2,997 above its test-period level of \$34,643.<sup>43</sup> Hardin District provided a schedule of its 2001 and 2002 general liability insurance.<sup>44</sup> This schedule shows that the pro forma level of this expense is \$39,906,<sup>45</sup> which is \$2,266

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<sup>42</sup> Paragraph B of the information filed February 18, 2002.

<sup>43</sup> Page 3-1; Revised Exhibit 11-1; filed February 18, 2002.

<sup>44</sup> Hardin District's Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents to Hardin County Water District No. 1, Item 27.

<sup>45</sup> \$507 (Encroachment Bond) + \$1,842 (Crime Bond) + \$1,798 (Flood Insurance) + \$35,759 (General Liability and Auto) = \$39,906.

above Hardin District's proposed level. A Hardin District witness testified that the \$39,906 pro forma level is reasonable.<sup>46</sup> Accordingly, insurance general liability has been increased by \$5,263 to reflect the pro forma level of \$39,906.

#### Insurance Workers Compensation

Hardin District proposes to reduce test-period insurance Workers Compensation expense of \$9,716 by \$881.<sup>47</sup> Hardin District fails to provide any explanation or documentation to support its pro forma adjustment.

Workers Compensation premiums are dependent upon salaries and wages. Therefore, granting a wage rate increase will have a corresponding change in the Workers Compensation premium. Using the total pro forma payroll and the Workers Compensation rates that are effective for the period of July 1, 2001 to July 1, 2002,<sup>48</sup> the Commission calculated a pro forma level of Workers Compensation insurance of \$11,598, \$1,882 above the test-period level. Accordingly, the insurance Workers Compensation expense has been increased by \$1,882.

#### Miscellaneous

Hardin District proposed to increase test-period miscellaneous expense of \$90,379 by \$42,401 to a pro forma level of \$132,780.<sup>49</sup> Hardin District failed to provide any workpaper or a calculation to support this adjustment, but did provide a portion of its

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<sup>46</sup> T.E. at 81.

<sup>47</sup> Page 3-1; Revised Exhibit 11-1; filed February 18, 2002.

<sup>48</sup> Hardin District's Response to Commission Staff's Second Set of Interrogatories and Requests for Production of Documents to Hardin County Water District No. 1, Item 20.

<sup>49</sup> Hardin District's Supplemental Data and Information Requested at Hearing on February 5, 2002 (filed Feb. 18, 2002) at 3-1.



payable journal report to support the test-period level of miscellaneous expense. In reviewing this journal, Hardin District identified \$2,564 of expenses that should be excluded for rate-making purposes.<sup>50</sup> During the hearing, Commission Staff noted an additional \$4,768 in donations and advertising costs that should likewise be excluded. Mr. Bruce testified that the water district did not oppose removing those costs from test-period operating expenses.<sup>51</sup> Therefore, miscellaneous expense has been reduced by \$7,332.

We note our concern over the water district's use of its funds as demonstrated by these miscellaneous expenses. For example, Hardin District donated \$500 to Radcliff-Vine Grove Community Leadership Program.<sup>52</sup> It donated \$1,000 to the North Hardin Hope Foundation and \$150 to the Association of the United States Army. Such donations involve expenditures inconsistent with the statutory purpose of a water district, and thus cannot be lawfully made. OAG 92-43 (Mar. 19, 1992). We further find little need or use for approximately \$1,400 in test year advertising expenses that are nothing more than thinly veiled donations.

#### Abandoned Pump Station

In its annual operating cost impact analysis of the Highway 920 and 86 County Expansion Projects, Hardin District estimates a reduction of \$36,430 in operating

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<sup>50</sup> Page L-9, Table 11-1, Calculation of Debt Service Coverage & Net Income, filed February 18, 2002.

<sup>51</sup> T.E. at 107.

<sup>52</sup> Coincidentally, Hardin District's General Manager is the program's founder and chairman of its Board of Trustees.

expenses when the 1882 pump station is abandoned.<sup>53</sup> The abandonment of the pump station will occur when the construction projects are completed; therefore, an adjustment to reflect this impact on test-period operating expenses meets the criteria of known and measurable. Therefore, the Commission accepts Hardin District's pro forma adjustment.

Depreciation Expense

Hardin District proposes a pro forma level of depreciation expense of \$582,257,<sup>54</sup> an increase of \$78,620 above its test-period level of \$503,637. This adjustment reflects Hardin District's estimate of the effects on depreciation of the assets added and scrapped as a result of the proposed construction project.<sup>55</sup>

Hardin District filed a copy of its depreciation schedule for the calendar year ending December 31, 2001. This schedule shows that Hardin District's annual depreciation expense is \$509,683. The Commission has increased test-period depreciation expense by \$125,185 to a pro forma level of \$628,822 as follows:

<u>Item</u>	<u>Expenditure</u>	<u>Life</u>	<u>Depreciation Expense</u>
Annual Depreciation Expense			\$ 509,682
Capitalized Labor	\$ 39,375	30 Years	1,313
Chemical Feed Pump	\$ 878	3 Years	293
Turbidity Analyzer	\$ 1,050	3 Years	350
Low-Range Turbidity Sensor	\$ 945	3 Years	315
5/8 x 3/4 Sensus Meters	\$ 9,120	30 Years	304
2 Sensus Meters	\$ 820	30 Years	27
Siding and Gutter Ft. Knox Pump Station	\$ 951	3 years	317

<sup>53</sup> Page H-1, Revised Exhibit 7, filed February 18, 2002.

<sup>54</sup> Page 3-1; Revised Exhibit 11-1; filed February 18, 2002.

<sup>55</sup> Commission Staff's First Set of Interrogatories and Requests for Production of Documents to Hardin County Water District No. 1, released November 16, 2001, Response to Item 11(a).

Chop saw	\$ 919	3 Years	306
8 Propeller Meter	\$ 1,219	30 years	41
20 Meter Boxes & Lids	\$ 709	30 years	24
	\$		
Proposed Construction	\$ 4,634,005	40 years	+ 115,850
Pro Forma Depreciation Expense			<u>\$ 628,822</u>

Amortization Expense

Hardin District submitted invoices showing the following expenses to prosecute this current proceeding:

Black & Veatch	\$ 23,998
Attorney Fee	\$ 12,291
Transcript	\$ 206

The invoice from Black & Veatch was for assistance to prepare Hardin District's cost-of-service study. At the hearing Mr. Bruce testified that the Black & Veatch consultants played no role in preparing the application and failed to make any firm recommendations.<sup>56</sup> Mr. Gallagher of Black & Veatch testified that he did not review revenue requirements and that the study provided to Hardin District was for illustrative purposes only.<sup>57</sup>

The Commission is unable to determine the extent of work that Black & Veatch performed for the \$23,980 billed. Given that Black & Veatch did not perform any allocation of expenses and submitted no rate study to Hardin District, we find that expenses associated with the rate study are unreasonable. We further find that only the Black & Veatch expense that should be allowed for rate-making purposes is the witness fee of \$5,120. Hardin District has proposed to amortize rate case expense over a 3-

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<sup>56</sup> T. E. at 109,110.

<sup>57</sup> No completed study ever was submitted.

year period, which the Commission finds is reasonable. Therefore, operating expenses have been increased by \$5,873 to reflect amortizing allowable rate case cost of \$17,617 over 3 years.

#### Taxes Other Than Income Tax

Hardin District proposes to increase taxes other than income tax expense of \$57,971 by \$10,000 for a pro forma level of \$67,971. This adjustment reflects the increase in the city of Radcliff franchise fee.<sup>58</sup> Hardin District is acting as a collection agent on behalf of the city of Radcliff, in that every dollar collected is given to the city. Since pro forma operating revenues do not include the collection of the fee, the payment of the fee to the city of Radcliff should not be included as an operating expense.

During the test period Hardin District reported payroll taxes of \$65,011.<sup>59</sup> Payroll taxes are dependent upon salaries and wages, if a wage increase is granted then there is a corresponding impact to the payroll tax expense. Using the pro forma payroll and the appropriate payroll tax rates, the Commission calculated a pro forma level of payroll tax expense of \$65,011, \$13,054 above the test-period level. Accordingly, taxes other than income tax expense has been increased by that \$13,054.

The Commission after considering the pro forma adjustments found reasonable herein, has determined that Hardin District's pro forma operations would be as follows:

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<sup>58</sup> Hardin District's Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents to Hardin County Water District No. 1, Item 11(a).

<sup>59</sup> 2000 Annual Report.

	<u>Test-Period Operations</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 2,708,219	\$ ( 49,670)	\$ 2,658,549
Operating Expenses	<u>2,301,118</u>	<u>113,792</u>	<u>2,414,910</u>
Net Operating Income	\$ 407,101	\$ ( 163,462)	\$ 243,639
Interest Income	<u>213,976</u>	<u>0</u>	<u>213,976</u>
Income Available for Debt Service	<u>\$ 621,077</u>	<u>\$ ( 163,462)</u>	<u>\$ 457,615</u>

### REVENUE REQUIREMENT DETERMINATION

Hardin District proposes to finance its proposed construction project with a \$4,510,000 variable rate bond issuance. The proposed bonds will have a 20-year term. Hardin District uses the 10-year average annual interest rate of 4.5 percent per annum to calculate its amortization schedule. The 3-year average debt service for Hardin District's parity debt, which requires a 1.2x debt service coverage, is \$859,350. The 3-year average debt services for Hardin District's existing and proposed variable rate bonds is \$214,127 and \$222,008, respectively.

Hardin District determined that its requested pro forma operations would support a revenue requirement from water sales of \$2,947,317. The Commission has determined that Hardin District would justify a revenue requirement from water sales of \$2,747,950 to \$3,382,645 as follows:

	<u>Revenue Requirement Range</u>	
3-Year Average Debt Service Parity Debt	\$ 859,350	\$ 859,350
Multiplied by: Debt Service Coverage	1.2	1.2
Debt Service Coverage - Parity Debt	<u>\$ 1,031,220</u>	<u>\$ 1,031,220</u>
Add: 3-Year Average Debt Service - Existing VRDB	214,127	214,127
3-Year Average Debt Service - Proposed VRDB	<u>222,008</u>	<u>222,008</u>
Required Income Available for Debt Service	\$ 1,467,355	\$ 1,467,355
Add: Operating Expenses	1,709,190	1,709,190
Depreciation	0	628,822
Amortization	0	5,873
Taxes Other Than Income	<u>71,025</u>	<u>71,025</u>
Total Revenue Requirement	<u>\$ 3,247,570</u>	<u>\$ 3,882,265</u>

Less: Interest Income	213,976	213,976
Revenue Requirement from Operations	<u>\$ 3,033,594</u>	<u>\$ 3,668,289</u>
Less: Other Operating Revenues	<u>285,644</u>	<u>285,644</u>
<b>Revenue Requirement Water Sales &amp; Surcharge</b>	<b><u>\$ 2,747,950</u></b>	<b><u>\$ 3,382,645</u></b>

Hardin District's Board of Commissioners made a management decision to request rates that meet the debt service requirements but do not totally fund depreciation.<sup>60</sup> Because of the removal of depreciation associated with missing assets, Hardin District requests that 80 percent of its depreciation be included in rates. By including all depreciation expense, the Commission arrived at its revenue requirement from water sales of \$3,382,645, which is \$435,328 above the amount requested by Hardin District. Reducing the depreciation expense to 80 percent results in a revenue requirement from water sales of \$3,256,881,<sup>61</sup> which is \$309,564 above the amount requested by Hardin District. Upon reviewing the financial information contained herein, if Hardin District deems that its requested revenue is insufficient, then Hardin District may apply for rehearing to revise its requested revenue requirement.

Hardin District's requested revenue requirement from water sales will allow the water district to meet its adjusted test-period operating expenses, the minimum debt service requirements of its long-term debt instruments, and partially fund depreciation expense. Therefore, the Commission finds that Hardin District should be allowed to increase its rates to generate the requested revenue requirement from water sales of \$2,947,317.

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<sup>60</sup> Hardin District's Amended Application, Exhibit at 1-2.

<sup>61</sup> \$3,382,645 (revenue requirement) - [\$628,822 (pro forma depreciation) x 20%] = \$3,256,881.

## COUNTY EXPANSION SURCHARGE

Hardin District proposes to assess a monthly surcharge of \$9.01 upon all persons who are served through facilities constructed as part of the Highway 920 Transmission Main Project and the Highway 86 Expansion Project. This surcharge is intended to recover directly from these persons a portion of the debt service and operating costs directly attributed to the construction and operation of these facilities. It would remain in effect until it has recovered \$2,163,320 in proceeds. The amount of the proposed surcharge would be recalculated annually to reflect the number of customers and actual surcharge receipts.

Hardin District argues the surcharge is appropriate because of the unique nature of its current operations and the nature of the area that the Highway 920 Transmission Main Project and the Highway 86 Expansion Projects will serve. It notes that its current service area, which primarily covers the city of Radcliff, Kentucky, is predominantly urban and has a relatively high customer density. The area that the new construction projects will serve is primarily rural with a lower customer density. With this lower customer density, there are fewer customers to spread the cost of the expansion and thus a higher per capita cost to provide service. Without the surcharge, Hardin District argues, the rates of Hardin District's current urban customers must be increased to cover the cost of facilities that will provide them few benefits. Equity and fairness, Hardin District contends, require the assessment of the surcharge.<sup>62</sup>

Opposing the proposed surcharge, the AG argues that the Commission lacks the legal authority to authorize such surcharges. He argues that the Commission is a

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<sup>62</sup> Hardin District's Response to Commission Staff's Second Set of Interrogatories and Requests for Production of Documents, Item 36.

creature of statute and therefore our powers are limited to those expressly set forth in statute. While noting that the General Assembly has authorized the use of different types of surcharges, it has not authorized the assessment of any surcharge designed to allocate the cost of system development. In the absence of such expressed authority, the Commission is without power to establish such charges.

The Commission finds no merit in this argument. KRS 278.040 grants broad authority to us to establish rates. It is the final result of our use of this authority that determines whether we have acted within the scope of our authority. See National-Southwire Aluminum Co. v. Big Rivers Electric Corporation, Ky.App., 785 S.W.2d 503, 516 ( the PSC has many appropriate rate-making methodologies available to it, and it must have some discretion in choosing the best one for each situation. . . . [W]e must look more to whether the result is fair, just and reasonable rather than at the particular methodology used to reach the result. ) (citation omitted).

We also find no merit to the argument that the enactment of statutes authorizing the assessment of specific types of surcharges<sup>63</sup> limits the Commission's authority to establish other types. These statutes do not expressly limit the Commission's authority to engage in new and more effective rate design, but merely establish a utility's right to assess a surcharge under tightly controlled conditions.

While the Commission may authorize the assessment of the proposed County Expansion Surcharge, we find the proposed surcharge is not appropriate under the facts of this case and should be denied. The proposed construction projects will benefit all customers regardless of location.

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<sup>63</sup> See, e.g., KRS 74.395; KRS 278.183.



While the Commission may authorize the assessment of the proposed County Expansion Surcharge, we find the proposed surcharge is not appropriate under the facts of this case and should be denied. The proposed construction projects will benefit all customers regardless of location. The construction of the proposed projects will result in \$30,000 annually in energy costs. It will enable the water district to increase its own water treatment capacity from the Pirtle Water Treatment Plant and thus save approximately \$50,000 annually in decreased purchases from Fort Knox. By reducing water pressure on older water mains from the Pirtle Water Treatment Plant, it will reduce the number of water main breaks and service interruptions for persons connected to these older mains.<sup>64</sup>

The proposed projects, moreover, are intended to enhance the economic viability of the entire water district. It has embarked on the proposed projects in response to the erosion of its existing customer base.<sup>65</sup> Mr. Bruce suggests that the areas to be served by the proposed projects are the areas that can provide customer growth for the water district. Based upon the potential customers who are located in the areas that the proposed projects will serve, the water district will experience customer growth of approximately 12 percent.

Although the Commission has previously approved surcharges for water main extension projects, we find the facts of those cases are readily distinguishable from those currently before us. In most of these cases, the number of customers that these projects serve were smaller and the customer density was much less. In virtually all of

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<sup>64</sup> Hardin District s Application at 2-3.

<sup>65</sup> Hardin District s Amended Application, Exhibit 22 at 2.

these cases, the water main extension was not economically feasible with the imposition of a surcharge. Moreover, the vast body of ratepayers in those cases receive no benefit from the water main extension.

### Rate Design

Hardin District provided a cost-of-service study wherein costs were allocated among the various customer classes. The Commission has been unable to verify the accurateness of the study. When questioned about certain allocations, Hardin District stated that its accounting workpapers could not be located.<sup>66</sup> An accurate cost-of-service study cannot be prepared when the utility cannot determine the components of an expense category. For example, Hardin District could not identify the items in Account No. 620, Material and Supplies that totaled \$131,694. It also could not identify items totaling \$124,666 for Account No. 635, Contractual Services.

Since the information necessary to prepare a complete rate analysis is unavailable, the Commission will accept Hardin District's filed cost-of-service study with minor revisions. The Commission, however, places Hardin District on notice that a more detailed allocation of expenses will be required in its next rate case and that such information may result in a reallocation of costs.

Hardin District's current rate design consists of a three step declining block with increments of a first 2,000, next 13,000, and over 15,000 gallons. Hardin District proposed to change its rate design by adding a customer charge and reducing the number of rate increments to a first 15,000 gallons and over 15,000 gallons level.

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<sup>66</sup> Response to Commission's Second Set of Interrogatories at Item 19.

As to Hardin District's proposed customer charge, we are unable to discern how Hardin District determined the ratios to be used to calculate the customer charge for the different meter sizes. The Commission has allocated customer costs to the different meter sizes based on flow rates and the ratio of each meter size to a 5/8 inch meter. This results in a monthly customer charge for a typical residential customer of \$4.70 as compared to Hardin District's proposed customer charge of \$5.24.

Hardin District sells water at a wholesale rate to Vine Grove and Meade County Water District. In its initial application, Hardin District proposed a wholesale rate of \$1.48 per 1,000 gallons. In arbitration and settlement negotiations with Vine Grove, Hardin District agreed to lower the proposed wholesale rate to \$1.39 per 1,000 gallons. After reviewing the cost allocations, the Commission finds the wholesale rate appears to be within a range of reasonableness and that it should be approved.

Hardin District requested to assess a monthly charge for private fire service line or hydrant. Hardin District stated that the charge would only be assessed to those customers who had a dedicated line or main that only feed and serve a private fire line or hydrant line for one customer.<sup>67</sup> Hardin District projected that the cost of providing this service is \$31,814; however, it proposed to collect only \$9,202 from fire protection rates. The Commission finds the proposed charges should be approved. The Commission further finds that in its next rate case Hardin District should move toward cost-based rates with regard to private fire protection.

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<sup>67</sup> Response to Commission's Second Set of Interrogatories at Item 39.

## FOCUSED MANAGEMENT AUDIT

During this proceeding, the Commission has become aware of several instances with regard to Hardin District's management and operation that cause it concern. These instances have included:

- Lack of strategic planning in failing to timely plan for the loss of Hardin District No. 2 as a wholesale customer.
- Numerous failures to comply with the requirements of KRS Chapter 74.
- Lack of understanding of Hardin District's depreciation records.
- Inability to reconcile Hardin District's accounting system to its annual report as required by the Uniform System of Accounts For Class A and B Water Districts and Associations.

Based on these concerns, the Commission finds that a focused management audit of Hardin District should be performed. We believe that such an audit will benefit Hardin District's management by allowing for greater familiarity with legal, regulatory, and accounting requirements and will aid Hardin District in developing and implementing a strategic plan. These efforts will ultimately result in reduced costs and thus benefit Hardin District's customers. The Commission will instruct its Staff to initiate this focused management audit in the near future.

## CONCLUSION

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Hardin District proposes to construct 12.3 miles of 16-inch ductile iron transmission main from its Pirtle Water Treatment Plant to an existing 12-inch transmission main located at the intersection of Kentucky Highways 1882 and 1600 in Hardin County, Kentucky. It further proposes to construct approximately 25.7 miles of

6-inch PVC and ductile iron water main along Kentucky Highway 86 in Hardin County, Kentucky.

2. Quest Engineering of Louisville, Kentucky, prepared the plans and specifications for the proposed construction.

3. The Division of Water, Department of Environmental Protection, of the Kentucky Natural Resources and Environmental Protection Cabinet has approved the plans and specifications for the proposed construction.

4. The proposed projects either will provide water service in areas that Hardin District has not previously served or improve existing service.

5. The proposed construction will not serve areas that other water utilities presently serve.

6. The proposed construction will neither create wasteful duplication of plant, equipment, property or facilities nor result in uneconomic or wasteful competition between public utilities.

7. Total cost of the proposed construction projects, including land acquisition, contract administration, inspection and engineering costs and construction contingency, is \$4,211,771.

8. Public convenience and necessity require the construction set forth in Hardin District's application.

9. Hardin District proposes to fund the total construction cost from the issuance of \$4,510,000 in 20-Year Variable Rate Revenue Bonds.

10. The proposed issuance of 20-Year Variable Rate Revenue Bonds is for lawful objects within Hardin District's corporate purposes, is necessary and appropriate

for and consistent with the proper performance by Hardin District of its service to the public, and will not impair its ability to perform that service.

11. Based upon adjusted test-period operations, Hardin District's total revenue requirement from water sales is \$3,367,333.

12. Hardin District's proposed rates will produce \$2,947,317 from water sales.

13. Hardin District's proposed rates will produce revenues sufficient to meet adjusted test-period operating expenses, the minimum debt service requirements of its long-term debt instruments, and 31 percent of its depreciation expense.

14. Hardin District has failed to articulate a reasonable basis for segregating the charges associated with its Highway 86 County Expansion Project from its general rates and for recovering those expenses through a surcharge on customers served through facilities constructed as part of that Project.

15. As Hardin District's proposed rates are based upon an unreasonable and inequitable allocation of cost, those rates should be denied.

IT IS THEREFORE ORDERED that:

1. Hardin District is granted a Certificate of Public Convenience and Necessity to construct the proposed construction projects as set forth in the drawings and specifications of its application.

2. Hardin District shall obtain prior Commission approval to perform any additional construction not expressly authorized herein.

3. No deviation to the proposed construction shall be undertaken without prior Commission approval.

4. Within 60 days of the date that the proposed construction is substantially completed, Hardin District shall inform the Commission in writing of the total project

costs, including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.). Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

5. Hardin District shall require that the proposed construction project be inspected under the general supervision of a professional engineer who is licensed to engage in the practice of engineering in Kentucky and who is competent to practice in civil or mechanical engineering to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

6. Hardin District shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction approved herein.

7. Hardin District shall notify the Commission 7 days prior to the actual scheduled start of construction and at the 50 percent completion point.

8. Hardin District is authorized to issue approximately \$4,510,000 20-Year Variable Rate Revenue Bonds.

9. The proceeds of the issuance authorized herein shall be used only for the purposes set forth in Hardin District's application.

10. Hardin District's proposed rates are denied.

11. The rates set forth in Appendix A are approved for service rendered by Hardin District on and after the date of this Order.

12. Within 30 days of the date of this Order, Hardin District shall file revised tariff sheets reflecting the rates approved herein.

13. Within 3 calendar years from the date of this Order Hardin District shall file with its Annual Report an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet Hardin District's operating expenses and annual debt service requirements. Hardin District shall include workpapers, assumptions, and calculations to support its pro forma adjustments and debt service determination.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 1<sup>st</sup> day of March, 2002.

By the Commission

ATTEST:

Deputy W. H. Fowler  
Executive Director



APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2001-00211 DATED MARCH 1, 2002

The following rates and charges are prescribed for the customers in the area served by Hardin County Water District No. 1. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the effective date of this Order.

RATES: Monthly

Customer Charge:

5/8 Inch Connection	\$4.70
3/4 Inch Connection	7.05
1 Inch Connection	11.75
1.5 Inch Connection	23.50
2 Inch Connection	37.60
3 Inch Connection	70.50
4 Inch Connection	117.50
6 Inch Connection	235.00

Water Rates:

First 15,000 gallons	\$3.90 per 1,000 gallons
Over 15,000 gallons	2.79 per 1,000 gallons

Wholesale Rate: \$1.39 per 1,000 gallons

Private Fire Protection Charges:

Hydrant or Line Size	Monthly Charge
1.5 Inch	\$0.56
2.0 Inch	1.20
3.0 Inch	3.50
4.0 Inch	7.46
6.0 Inch	21.64
8.0 Inch	46.10

APPENDIX B

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2001-00211 DATED MARCH 1, 2002

A CHRONOLOGY OF HARDIN COUNTY WATER DISTRICT NO. 1 S  
FILINGS

<u>Date</u>	<u>Filing</u>
06/21/2001	Hardin District files Notice of Intent to file an application for rate adjustment.
07/11/2001	Hardin District files application for rate adjustment. Several deficiencies noted.
08/17/2001	Commission Staff convenes informal conference to discuss deficiencies in Hardin District's application. Hardin District agrees to cure deficiencies no later than 09/07/2001.
10/16/2001	Hardin District files amended application for rate adjustment. Hardin District amends its revenue requirements and proposed wholesale water rate.
11/16/2001	Commission Staff issues First Set of Interrogatories and Requests for Production of Documents.
12/03/2001	Hardin District files response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents. Hardin District revises all pro forma adjustments.
12/17/2001	Commission Staff issues Second Set of Interrogatories and Requests for Production of Documents.
12/21/2001	Hardin District requests additional time to respond to Commission Staff's Second Set of Interrogatories and Requests for Production of Documents.
01/07/2002	Hardin District responds to Commission Staff's Second Set of Interrogatories and Requests for Production of Documents. Hardin District announces intention to make further revisions to its proposed pro forma adjustments.
01/15/2002	First Hearing on proposed rate adjustment held. Hardin District advises Commission that required notice of hearing not published.
02/01/2002	Hardin District submits supplemental data. Supplemental data includes revisions to operation and maintenance expenses and depreciation expense and notice of proposed wage increases.
02/05/2002	Second Hearing on proposed rate adjustment held to resolve notice problems.
02/18/2002	Hardin District submits supplemental data. Supplemental data includes revision to the proposed construction projects, revised depreciation schedules, revised pro forma income statement, and Board of Commissioner's Resolution 01-2002 (directing employee wage increase effective 01/29/2002).
02/22/2002	Commission Staff advises Hardin District that final engineering study and bid tabulations have yet to be filed with the Commission.

02/25/2002	James Bruce submits by facsimile a revised Calculation of 2002 Variable Rate Bond Issue.
02/25/2002	Bob Kramer submits by facsimile a revised Calculation of 2002 Variable Rate Bond Issue that revises calculations submitted by James Bruce.
02/26/2002	Hardin District submits by facsimile the final engineering report on the proposed construction.
02/26/2002	Hardin District submits bid tabulations.