

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY)	
WATER DISTRICT FOR (A) AN)	
ADJUSTMENT OF RATES; (B) A)	CASE NO.
CERTIFICATE OF PUBLIC CONVENIENCE)	2002-00105
AND NECESSITY FOR IMPROVEMENTS TO)	
WATER FACILITIES IF NECESSARY; AND)	
(C) ISSUANCE OF BONDS)	

O R D E R

On April 30, 2002, Northern Kentucky Water District (NKWD) submitted an application seeking approval for (a) an adjustment of rates; (b) a Certificate of Public Convenience and Necessity (CPCN) for improvements to water facilities if necessary; and (c) the issuance of bonds. On May 23, 2002, the Commission issued a letter to NKWD rejecting the application due to deficiencies in its filing. On June 3, 2002 and June 11, 2002, NKWD submitted additional information.

NKWD identifies in its application a number of projects it intends to construct in 2002. It states that all of the projects identified have already received a CPCN from the Commission, except for those that NKWD has determined to be in the ordinary course of business. NKWD states in its supplemental response of June 11, 2002 that it believes the Commission's Order in Case No. 2000-00481 supports its conclusion that these projects do not require a CPCN. It requests, however, that if the Commission believes a CPCN is required on these remaining projects, NKWD be granted a deviation from any regulation that was not adequately addressed in the application. The

Commission finds that further review is necessary to determine whether any of the remaining uncertified projects require CPCNs. Moreover, the Commission is reluctant to grant a deviation on the filing requirements of a CPCN before it has completed its review of this matter; therefore, NKWD's blanket request for approval to deviate from the filing requirements of Administrative Regulation 807 KAR 5:001 regarding the construction of these projects should be deferred until a decision is reached as to whether certificates are necessary. Only at that time can requests for specific regulatory deviations, each of which must be based on good cause, be adequately considered.

NKWD also requests a deviation from Administrative Regulation 807 KAR 5:001, Section 10(3), which requires, among other things, that the notice given set forth the present rates and the proposed rates for each customer class. NKWD states in support of its request that the information provided in the notice provides a clear, simplified explanation of the new rates and the direct impact on each customer and that the notice given is in compliance with the requirements in Administrative Regulation 807 KAR 5:011. The Commission, after reviewing the notice given and considering the cost to republish, finds that there is good cause to grant NKWD's request to deviate from Administrative Regulation 807 KAR 5:001, Section 10(3).

The Commission further finds that the information submitted by NKWD in its supplemental responses cured all other filing deficiencies. Therefore, the Commission finds that since all filing deficiencies on the rate portion of the application have been cured, that portion of the application should be considered filed as of the date of this Order.

IT IS THEREFORE ORDERED that:

1. NKWD's request for approval to deviate from the requirements of Administrative Regulation 807 KAR 5:001, Section 10(3), is granted.

2. NKWD's request for approval to deviate from any and all filing requirements in Administrative Regulation 807 KAR 5:001 regarding the construction of the projects identified in its application is deferred until the Commission can determine whether the projects in the application require a CPCN. As a result, the CPCN portion and the financing portion of NKWD's application are not considered filed at this time.

3. The rate portion of NKWD's application shall be considered filed as of the date of this Order.

4. The procedural schedule set forth in Appendix A, which is attached hereto and incorporated herein, shall be followed.

5. All requests for information and responses thereto shall be appropriately indexed. Any request for information by letter from the Commission Staff shall be responded to as if set forth in a Commission Order. All responses shall include the name of the witness who will be responsible for responding to the questions related to the information provided, with copies to all parties of record and 5 copies to the Commission.

6. Any party filing testimony shall file an original and eight copies. The original and at least three copies of the testimony shall be filed as follows:

- a. Together with cover letter listing each person presenting testimony.
- b. Bound in 3-ring binders or with any other fastener which readily opens and closes to facilitate easy copying.

- c. Each witness s testimony should be tabbed.
- d. Every exhibit to each witness s testimony should be appropriately

marked.

7. NKWD shall give notice of the hearing in accordance with the provisions set out in 807 KAR 5:011, Section 8(5). At the time publication is requested, NKWD shall forward a duplicate of the notice and request to the Commission.

8. At any public hearing in this matter, neither opening statements nor summarization of direct testimonies shall be permitted.

9. The parties are hereby put on notice that the Commission does not look favorably upon motions for continuance. Accordingly, motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of compelling reasons.

10. All documents that this Order requires to be filed with the Commission shall be served upon all other parties.

11. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

Done at Frankfort, Kentucky this 1st day of July, 2002.

By the Commission

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2002-00105 DATED July 1, 2002

NKWD shall file responses to the requests for information contained in Exhibit B no later than..... 07/12/02

All requests for information to NKWD shall be served upon NKWD no later than..... 07/29/02

NKWD shall file with the Commission and serve upon all parties of record its responses to the requests for information no later than..... 08/12/02

All supplemental requests for information to NKWD shall be served upon NKWD no later than..... 08/27/02

NKWD shall file with the Commission and serve upon all parties of record its responses to the supplemental requests for information no later than 09/10/02

Intervenors testimony, if any, shall be filed with the Commission in verified prepared form no later than 09/24/02

All requests for information to any Intervenor shall be served upon that Intervenor no later than..... 10/08/02

Intervenors shall file with the Commission and serve upon all parties of record its responses to the requests for information no later than..... 10/23/02

NKWD may file with the Commission the testimony of its rebuttal witnesses in written verified form no later than 10/23/02

Last day for NKWD to publish notice of the hearing date..... To be scheduled

Public Hearing is to begin at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission s offices at 211 Sower Boulevard, Frankfort, Kentucky, for the purpose of cross-examination of witnesses of NKWD and Intervenors To be scheduled

Parties may file written briefs with the Commission no later than To be scheduled

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2002-00105 DATED July 1, 2002

1. Provide a list all business activities of NKWD aside from its regulated utility activities. For each activity listed describe the accounting policies and procedures in place to ensure that those activities are not subsidized by regulated rates or vice versa.

3. Provide all workpapers and supporting documentation for all adjustments to test-period expenses as shown at Exhibit N, Revenues and Revenue Requirements, Schedule 2. The workpapers should include the basis for all assumptions used in the development of the adjustments.

4. Refer to Exhibit N, Revenues and Revenue Requirements, Schedule 1, Boone and Florence Reserve in the amount of \$2,000,000.

a. Describe the nature of this reserve. Include in the response where the reserve originated.

b. Provide the total reserve amount.

c. Provide a schedule detailing the amounts and years that the total reserve will be recognized.

d. State how the timing and amounts of recognition were determined.

5. Refer to Exhibit N, Revenues and Revenue Requirements, Schedule 4, Main Repair, Replacement, and Extension Reserve.

a. Explain how this adjustment meets the known and measurable requirement of Administrative Regulation 807 KAR 5:001, Section 10(7).

b. Explain how the recovery of main replacement costs does not represent the recovery of a portion of main costs for a third time given the fact that the cost of the original main is included in the revenue requirement determination as a component of depreciation expense as well as debt service, assuming the main was financed with debt.

c. If the Commission were to grant the adjustment, would the cost of the replacement main be included in the determination of depreciation expense as calculated in future rate cases? If so, explain how this would not represent double recovery.

d. If yes to (c), provide a quantitative analysis showing this adjustment is necessary given the fact that NKWD recovers debt service requirements as well as depreciation on all plant in service, including mains, and will recover the costs of the future main replacements through future rates.

6. Refer to Exhibit N, Revenues and Revenue Requirements, Schedule 4, Depreciation Expense.

a. Provide workpapers detailing the calculations of depreciation shown for Current Asset for the years 2002 and 2003 in the amounts of \$3,793,024 and \$3,565,938, respectively. The workpapers should give clear indication of changes to individual account groups as shown in Exhibit G of the application. Also relate plant additions in these workpapers to those included at Exhibit O of the Application.

b. Provide a schedule listing each project included in the test period Construction Work in Progress (CWIP) of \$787,493. Include a detailed description of each project included in the schedule.

c. Explain what the amount of CWIP represents and why it is appropriate to include it in the determination of depreciation expense.

d. Relate the amount of CWIP to Exhibit O of the application.

7. Provide a general ledger of NKWD that details each entry to all accounts.

8. Reconcile the general ledger expense accounts to those shown at page 30 of NKWD's annual report included in the application as Exhibit C.

9. Provide a copy of all audit adjustments made for the test-period financial statements.

10. Provide a list of all employees employed during the test period along with a current list of employees. For each employee listed provided the following:

a. Name.

b. Title.

c. Length of employment with NKWD.

d. Job duties.

e. Test period pay rate and current pay rate.

f. Test period regular time worked and overtime worked.

g. Percentage of test period payroll capitalized.

h. Total test period payroll expenses and capitalized.

i. Type of insurances and amounts paid for each by NKWD.

11. For each outstanding bond issuance of NKWD provide:

a. The bond ordinance and resolution authorizing its issuance.

b. An amortization schedule.

c. A detailed explanation of the use of the proceeds.

d. The case number where the Public Service Commission authorized the issuance.

12. Refer to Page 1 of Exhibit A in the application. Provide a detailed analysis as to the nature and timing of the expenditures anticipated of the \$10,354,704 to be deposited in a construction fund. Relate this response to the capital items listed in Exhibits O and R of the application.

13. Refer to the Exhibits A and O of the application and revised Exhibit R filed June 11, 2002.

a. NKWD proposes to use the \$30,000,000 of bond proceeds to redeem \$16,905,000 of Bond Anticipation Notes (BANs) and \$10,354,704 will be deposited in a construction fund. For those construction projects listed in Exhibit O and revised Exhibit R that are being financed with the proposed \$30,000,000 bond issuance, provide a schedule containing:

- (1) A detailed description of each construction project.
- (2) The estimated/actual date construction will begin.
- (3) The estimated/actual date construction will be completed.
- (4) Identify how the construction project was originally funded (e.g.; 02//01/01 BANs, 06/26/01 BANs, or Construction Fund).
- (5) For each listed construction project provide the amount that will be financed with proceeds from the proposed bond issuance. The total cost should be equal to the \$27,259,704 that was identified in the application.¹

¹ \$16,905,000 (BANs) + \$10,354,704 (Construction Fund) = \$27,259,704.

(6) For each construction project NKWD deems that a Certificate of Public Convenience and Necessity (Certificate) is not required, provide a detailed explanation of how NKWD reached this conclusion.

b. Provide a detailed description of the criteria NKWD uses to determine if a construction project requires a Certificate.

c. NKWD states that it will seek a Certificate for construction project 184-0305, Central Facility, sometime in the future. Provide the estimated date NKWD will request its Certificate for that project.