

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 CERTIFICATE OF PUBLIC)	CASE NO.
CONVENIENCE AND NECESSITY FOR)	2002-00105
IMPROVEMENTS TO WATER FACILITIES IF)	
NECESSARY; AND (C) ISSUANCE OF BONDS)	

COMMISSION STAFF S FIRST SET OF INTERROGATORIES
AND REQUESTS FOR PRODUCTION OF DOCUMENTS
TO NORTHERN KENTUCKY WATER DISTRICT

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Northern Kentucky Water District ("NKWD") shall file the original and 8 copies of the following information with the Commission no later than August 12, 2002 with a copy to all parties of record. Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to NKWD s response to the Commission s Order of July 1, 2002, Tab 3, Line 2.

a. Provide all workpapers used to determine the proposed adjustment of \$310,000. These workpapers shall include, at a minimum, a list of all employees along with their salaries during the test year, a calculation applying the 2002 raise of 4.5 percent to the test year amounts, the percentage of increase applied to the projected 2002 payroll to determine the proposed 2003 payroll, and the calculation applying that increase to the 2002 payroll.

b. To meet the known and measurable requirement of Administrative Regulation 807 KAR 5:001, Section 10(7), NKWD must provide documentation to support the proposed adjustment. Provide a copy of the minutes of the meeting in which the Board of Commissioners approved the salary increases for 2002 and 2003. If the 2003 pay increase has not been approved by the Board of Commissioners, provide other support for the proposed adjustment, and explain how the proposed adjustment meets the known and measurable requirement.

c. Provide separate workpapers that include the calculations for pension costs, social security, etc.

2. Refer to NKWD's response to the Commission's Order of July 1, 2002, Tab 3, Line 3.

a. Provide workpapers that detail the proposed adjustment of \$120,000. These workpapers shall include, at a minimum, a summary of test year health insurance expense, the projected 2002 health insurance expense as it relates to the test year expense, along with documentation sufficient to support the known and measurable requirement, and the 2003 expense as it relates to the 2002 projected expense.

b. Provide a copy of all materials NKWD received from its insurance provider concerning the stated 16.7 percent increase.

c. Provide copies of health insurance billing statements for December of the test year and the two most current months available.

3. Refer to NKWD's response to the Commission's Order of July 1, 2002, Tab 3, Line 4.

a. Is NKWD stating that the proposed adjustment of \$60,406 is no longer warranted? If no, answer the remaining items.

b. Provide workpapers that detail the adjustment of \$60,406. These workpapers shall include, at a minimum, a detailed calculation of test year Workers Compensation expense that includes test year payroll costs subject to coverage and coverage rates, the calculation of the projected 2002 and 2003 expenses along with supporting documentation for each that meets the known and measurable requirement. The information for 2002 and 2003 shall include applicable payroll amounts and coverage rates.

4. Refer to NKWD's response to the Commission's Order of July 1, 2002, Tab 3, Line 5.

a. Provide workpapers that detail the proposed adjustment of \$8,621. These workpapers shall include, at a minimum, detailed calculation of test year automobile insurance expense, a detailed calculation of the projected 2002 expense as it relates to the test year amount, and a detailed calculation of the projected 2003 expense as it relates to the 2002 amount.

b. Explain how the projected increase meets the known and measurable requirement.

5. Refer to NKWD's response to the Commission's Order of July 1, 2002, Tab 3, Line 6.

a. Provide workpapers that detail the proposed adjustment of \$43,239. These workpapers shall include, at a minimum, a detailed calculation of the test year general liability insurance expense, a detailed calculation of the projected 2002 expense as it relates to the test year amount, and a detailed calculation of the projected 2003 expense as it relates to the 2002 amount.

b. Explain how the projected increase meets the known and measurable requirement.

6. Refer to NKWD's response to the Commission's Order of July 1, 2002, Tab 3, Line 13. Provide workpapers that detail the proposed adjustment of <\$1,091,120>. These workpapers shall include, at a minimum, the account titles under which the variable costs are recorded, the specific variable costs that NKWD proposes to adjust, the impact on each account, and an explanation of how the impact was determined. The response shall include a detailed explanation of all assumptions and calculations used to determine the proposed adjustment of <\$1,091,120>.

7. Amend the information provided in Tab 10 of NKWD's response to the Commission's Order of July 1, 2002 to include all of the information presented in the table as well as the following:

- a. 2001 annual pay for each employee.
- b. 2001 pay capitalized for each employee.
- c. Totals for all columns.
- d. Hourly pay rates for 2002.

8. Explain the accounting process used for materials and supplies. The response shall include, but not be limited to, a detailed description of the process used to purchase materials, an explanation of how the materials and supplies are inventoried, and an explanation of the process used to determine how the amounts are removed from the materials and supplies account and moved to either an expense or capital account.

9. Provide a detailed explanation of the test year bad debt expense of \$373,581. The explanation shall include a statement on how this amount was determined and a narrative on management's philosophy on writing off accounts receivable.

10. Provide the ordinances or resolutions of the fiscal courts of Kenton and Campbell counties that establish the current level of compensation for members of NKWD's Board of Commissioners.

11. For each member of NKWD's Board of Commissioners who was paid a salary in excess of \$3,600 in the calendar year 2001, provide documentary evidence of that member's completion of at least 6 hours of certified water district commissioner training.

12. Provide all documents demonstrating that the Judge/Executives of Kenton and Campbell counties authorized NKWD's employment of private legal counsel.

13. a. Explain why NKWD retained private legal counsel rather than utilizing the services of the County Attorney of either Campbell or Kenton counties.

b. Provide all correspondence between NKWD and the County Attorney of Campbell County concerning legal representation of the water district.

c. Provide all correspondence between NKWD and the County Attorney of Kenton County concerning legal representation of the water district.

14. The Series 1992 Bond Resolution provided in NKWD's response to Item 11(a) of the Commission's July 1, 2002 Order refers to the 1985 General Bond Resolution and the First Supplemental General Bond Resolution adopted November 1, 1987. Provide copies of each of the referenced resolutions.

15. Refer to the response to Item 11(b) of the Commission's July 1, 2002 Order.

a. Instead of providing the requested amortization schedules, NKWD makes reference to pages 15-A through 15-J of its Annual Report. However, these are not complete amortization schedules in that they list only the annual principal payments and not the interest. Also, the amortization schedule for the bonds NKWD was authorized to issue in Case No. 2001-00198¹ is not included in the 2001 Annual Report. Provide a complete amortization schedule for each of NKWD's outstanding bond issuances as originally requested.

b. In Case No. 2001-00198, NKWD was directed to use \$28,945,000 of its bond proceeds to refinance the Kenton County Water District No. 1 Revenue Bonds 1992, Series A and in Case No. 2002-00066,² NKWD was authorized to use the remaining \$17,100,000 of bond proceeds for the purchase of the Newport facilities.

¹ Case No. 2001-00198, Application of Northern Kentucky Water District for Approval to Refinance Revenue Bonds in the Approximate Amount of \$38,425,000, Order dated January 8, 2002.

² Case No. 2002-00066, Application of Northern Kentucky Water District for Approval of Financing the Acquisition of the City of Newport Waterworks, Order dated April 16, 2002.

Provide separate amortization schedules for the bonds used for the refinancing and the bonds used to purchase the Newport facilities.

16. a. Since NKWD is proposing to recover debt service associated with the purchase of Newport, explain why the revenues and expenses associated with providing service to Newport have not been included in test period operations.

b. Provide the date the transfer of Newport facilities will be consummated.

c. Provide the date NKWD will begin providing service to Newport's customers.

d. Provide a billing analysis showing the revenues NKWD expects to receive from Newport's customers. Include copies of all workpapers, assumptions, and calculations used to compute the billing analysis.

e. Provide an estimate of the expenses NKWD will incur in providing service to Newport. Include copies of all workpapers, assumptions, and calculations used to compute the expenses.

f. Provide an updated cost-of-service study showing the impact upon NKWD of providing service to Newport. Include copies of all workpapers, assumptions, and calculations used to compute the updated cost of service.

17. Refer to NKWD's Application, Exhibit N, Schedule 3, Debt Service. Provide a separate schedule for each year listed (2002 through 2006) showing the interest, the principal, and the total debt service for each of NKWD's outstanding bond issuances using the schedule attached as Format 1. The total of the total debt service column should correspond to the amount shown on Schedule 3 for that year.

18. Refer to NKWD's Application, Exhibit E, NKWD's Financial Statements December 31, 2001 and 2000 at 19 and Exhibit N, Cost of Service Study, Schedule 1, Summary of Test-Year Revenue Requirements at 3.

a. According to the financial statements, Section 726-subsection (iii) of the 1985 General Bond Resolution (as amended November 17, 1987) requires that the net annual income and revenues, as adjusted, be equal to at least one and twenty hundredths (1.2) times the annual debt service requirement. Provide a detailed listing of the revenue and expense components and the adjustments that are required by NKWD's bond resolution.

b. Provide a detailed calculation showing that NKWD's requested revenue requirement is in compliance with the 1985 General Bond Resolution as amended. Include all workpapers and assumptions used by NKWD in its calculation.

19. In its response to Item 13(a) of the Commission's July 1, 2002 Order, NKWD did not provide the schedule as requested and did not provide all of the requested information for each project. Provide the originally requested information.

20. Refer to NKWD's Application, Exhibit N, Revenues and Revenue Requirements, Schedule 4, Main Replacement and Extension Reserve and the response to Item 5(a) of the Commission's July 1, 2002 Order.

a. Provide any study or analysis NKWD has performed to support its estimate that the cost to replace the undersized mains will be \$227,000,000.

b. Since NKWD's cost to replace its undersized mains is an estimate, explain how the proposed \$1,000,000 adjustment for the Main Repair, Replacement and Extension Reserve meets the known and measurable requirement of Administrative Regulation 807 KAR 5:001, Section 10(7).

c. Provide NKWD's estimate of the cost of the extensions that will be funded by the proposed \$1,000,000 adjustment for the Main Repair, Replacement and Extension Reserve. Include copies of all workpapers, assumptions, and calculations used to compute the estimate.

d. State whether NKWD considered establishing a surcharge to fund its main replacements rather than including the \$1,000,000 funding in the general rates. Explain the response.

21. Refer to NKWD's Application, Exhibit N, Revenues and Revenue Requirements, Schedule 4, Main Replacement and Extension Reserve and the response to Item 5(d) of the Commission's July 1, 2002 Order. One reason for NKWD's establishment of the sub-district is that the customer receiving the benefit should pay the cost of the extension. Provide a detailed explanation of why NKWD's general customer base, specifically those customers paying extension surcharges, should fund extensions to new customers.

22. Refer to the Application, Exhibit N, Revenues and Revenue Requirements, Schedule 1, Summary of Test-Year Revenue Requirements. Included in NKWD's revenue requirement is depreciation of \$4,353,431. Provide a detailed explanation of why this does not provide adequate funding for NKWD's main replacement and extensions.

23. Refer to NKWD's Application, Exhibit N, Cost of Service Allocations, Page 9, Schedule 8. The sources of information referenced for the following lines are incorrect. Identify the correct source.

Line 2 Non-Operating Income.
Line 5 Other Revenues Not Subject to Rate Increase.
Line 8 Non-Operating Income.
Line 10 Other Revenues Not Subject to Rate Increase.
Line 14 Non-Operating Income.

24. Refer to NKWD's Application, Exhibit N, Cost of Service Allocations, Page 16.

a. Provide the basis for allocating 90 percent of electric costs to base and 10 percent to maximum day.

b. Provide an explanation of how it was determined that 75 percent of flushing costs should be allocated to base and 25 percent to public fire protection.

25. Refer to NKWD's Application, Exhibit N, Cost of Service Allocations, Page 23, Schedule 8. Provide calculations, studies, or any other relevant information to support each capacity factor shown on this schedule.

26. Refer to NKWD's Application, Exhibit N, Cost of Service Allocations, Page 13.

a. Explain why maximum day demands can be expected to amount to as much as 149.4 percent of average day demand levels.

b. Explain why maximum hour demands can be expected to amount to 216.5 percent of average day demand levels.

c. Provide all calculations used to determine that 66.9 percent of the capacity of facilities designed to meet maximum day demands is required for average or base use and 33.1 percent is required for maximum day extra capacity demands.

d. Provide all calculations used to determine that 46.2 percent of the capacity of facilities is required to meet maximum hour demands for average rates of use.

e. Provide all calculations used to determine that 22.8 percent of the capacity of facilities is required to meet maximum day extra capacity requirements.

f. Provide all calculations used to determine that 31.0 percent of the capacity of facilities is required to meet maximum hour extra capacity requirements.

27. Were any demand studies prepared to determine the Max day and Max hour demands placed on the system by the wholesale customers?

28. Was an adjustment made to exclude mains 12 inches and smaller in the allocation of wholesale costs?

29. Provide all workpapers showing the calculations of the wholesale rate.

30. What considerations, if any, were given to excluding expenses from the calculation of the wholesale rates if those expenses were not related to furnishing water to the wholesale customers?

31. Provide Schedules 10, 11, 12, and 13 in NKWD's Application, Exhibit N, Cost of Service Allocations, on a computer disk in Microsoft Excel format.



Stephanie Bell, Secretary of the Commission
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DATED: July 29, 2002

cc: Parties of Record

