

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 SECOND 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") file the original and 8 copies of the following information with the Commission no later than September 10, 2002 with a copy to all parties of record. Each copy of the information requested shall 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 shall 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. When applicable, the requested information shall be provided for total company operations and jurisdictional operations, separately.

1. Refer to the cost-of-service study filed in Kenton County Water District No. 1, Case No. 1994-00056.<sup>1</sup> The study in this case acknowledged that the wholesale customers do not use mains 10 and smaller. Provide an adjusted cost-of-service study, along with workpapers, similar to Schedule 8 of the study in Case No. 1994-00056 wherein expenses associated with the small distribution mains are reallocated to the residential, commercial and industrial user classes. The adjusted table should look as follows:

Customer Class	Allocated costs	Small Main Adj. Base \$	%	Small Main Adj. - Max Hour \$	%	Adjusted costs
Residential/Multi Family	\$16,549,577					
Commercial	4,629,677					
Industrial	1,416,166					
Pub Authority	1,543,069					
Wholesale	1,668,647					
Total	\$25,807,136					

2. Refer to the Application, Exhibit N, Cost of Service Allocations, Schedule 14 Line 17. Provide a detailed explanation and show all calculations NKWD used in determining the \$1,668,646 allocated to the wholesale customer.

3. Refer to the Application, Exhibit N, Appendix C, Schedule 12.2. The allocation procedures do not correspond with the description lines in Schedule 12. Provide a revised schedule 12.2 that corresponds to Schedule 12.

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<sup>1</sup> Case No. 1994-00056, Application of Kenton County Water District No. 1 (A) for Authority to Issue Parity Revenue Bonds in the Approximate Principal Amount of \$7,315,000 for the Purpose of Refunding Bond Anticipation Notes and for Other Needs; and (B) Notice of an Adjustment in Water Rates: an Increase of Approximately \$1,834,000 Effective May 1, 1994 Order dated January 27, 1995.

4. On June 11, 2002, NKWD filed a Revised Exhibit R, Capital Budget (2001-2006).

a. Explain why NKWD considers line item 5, SCADA Upgrade Phase 2 for a total cost of \$3.5 million as ordinary course of business as compared to line item 8, SCADA Upgrade Phase 3 for a total cost of \$2.4 million which it has classified as requiring a Certificate of Public Convenience and Necessity ( Certificate ).

b. Provide a detailed explanation as to why line item 23, Sub-District E (Kenton County) for a total cost of \$1.6 million does not require a Certificate.

c. Will NKWD acquire the land for its proposed office facility prior to obtaining the Certificate? Provide an explanation for the response.

5. The letters provided in the response to Item 12 of Commission Staff's Second Set of Interrogatories and Requests for Production of Documents to NKWD dated July 29, 2002 ( Staff's First Data Request ) were obtained in 1999 and specifically approve NKWD's use of the legal services of Charles H. Pangburn. Provide updated letters from the Judge/Executives of Kenton County and Campbell County authorizing NKWD to employ its private legal counsel that it has used in the calendar year 2002.

6. Refer to the amortization schedule of the 1992B bond issuance provided in the response to Item 15(a) of Staff's First Data Request. Provide a detailed calculation for the February 1, 2002 interest expense of \$302,103.

7. Refer to the response to Item 16(a) of Staff's First Data Request.

a. NKWD states that because it does not have accurate information regarding the operation of Newport it is not possible to include the revenues and expenses associated with serving Newport, but since the debt service is known and

measurable, it has been included. Provide a detailed explanation as to why reflecting the debt service while not including the operating revenues and expenses is not a violation of the rate-making principle of matching.

b. NKWD contends that including the debt service of the bonds issued to acquire Newport has a minimal impact on the current rates and that any adjustment needed to correlate actual debt service to rates can be made in NKWD's next rate case filing that is expected to be filed within one year after the conclusion of this current case. Since the impact is minimal, explain why NKWD did not postpone including the Newport debt service in its revenue requirement until NKWD is able to include the associated operating revenues and expenses.

c. Given the length of time between NKWD's last rate case filing and this application and the fact that NKWD's financial condition can change within a year, what assurances can NKWD give the Commission that it will file a rate case within a year as projected?

8. Refer to the response to Item 17 of Staff's First Data Request, Debt Service Schedule for the Year 2002. Given that NKWD refinanced its 1992A Bond Issuance ( 2002A ) with its 2002A Bond Issuance, provide a detailed explanation why the 2002A principal and interest are included in the 2002 debt service.

9. In its response to Item 20(a) of Staff's First Data Request, NKWD provided a calculation to support its estimate that the cost to replace its undersized mains will be \$227,000,000.

a. Provide documentation to support NKWD's estimate that it will cost \$95 per foot to replace the undersized mains with 8-inch pipe.

b. NKWD estimates that it will replace 452.88 miles of undersized main with 8-inch pipe. Provide a schedule listing the locations of the undersized mains, the length of main to be replaced, the existing main size, and the projected date the mains will be replaced.

10. NKWD's response to Item 20(b) of Staff's First Data Request does not explain how its proposed adjustment to reflect the \$1,000,000 estimate for the Main Repair, Replacement and Extension Reserve meets the rate-making criteria of known and measurable. Provide the explanation as requested.

11. Refer to the response to Item 20(d) of Staff's First Data Request. KRS 74.395 allows a water district that is organized under this chapter to finance all or part of an expansion of its system by adding a temporary surcharge to the rates charged for service. Under this statute the water district must develop a plan for the expansion project or projects to be financed from the reserve, and all funds collected are to be deposited in a reserve trust account.

a. Explain why NKWD did not fund its main replacements with a surcharge as allowed in KRS 74.395 and that would be collected from all of its ratepayers.

b. KRS 74.395 requires all of the surcharge proceeds, together with any interest or other earnings, to be used solely for the expansions or extensions specified in the plan. What guarantees has NKWD given that its proposed funding mechanism will be spent entirely on main replacements?

12. Refer to Item 7 of Staff's First Data Request.

a. Listed as retired employees are Tom Becker, Bob Gabbard, John Turner, and Jim Turner. Have these employees been replaced? If so, state name, title, and wage rate for the replacement employee.

b. Listed as employed since the end of the test year are Tom Alford, Seth Bingham, Mike Blanchet, Kevin Carlisle, Tina Carter, Jamie Denlinger, and Amy Kramer. Were any of these employees formerly employed by the city of Newport (Newport)? If so, state the position of each employee previously held with Newport. Would the position they currently hold with NKWD have been filled regardless of NKWD's purchase of Newport's system?

13. Provide a copy of the Operations and Maintenance Budget for year 2002, the proposed Operating Capital Budget for year 2002 and the proposed Capital Project Budget for the years 2001 through 2006 as approved by the Board of Commissioners on November 13, 2001.

14. Health insurance charged to account 604 during the test year totals \$716,878.61. Does that amount reflect the gross amount paid to the insurance provider or is it netted with the employees 20 percent contribution as referred to at Item 10(i) of NKWD's response to the Commission's Order of July 1, 2002? It appears that it includes the gross amount given the calculation of NKWD's health insurance adjustment as expressed in NKWD's response to Commission Staff's First Data Request, Item 2(a), which is based on the gross monthly premium paid by NKWD of \$73,373.23. Explain.

15. Refer to Item 2(c) of Staff's First Data Request. Commissioners Jackson and Almoslechner are not included on the insurance invoice. Do they receive health insurance? Explain.

16. NKWD's annual report and general ledger state test year Workers Compensation at \$72,774. In its response to Item 3 Staff's First Data Request, NKWD states the total estimated premium for 2002 is \$71,000, yet NKWD maintains that an increase of \$60,406 is warranted when calculating pro forma operations. Explain and supply supporting documentation for the adjustment.

17. Provide all 2002 information that was used in responding to Items 4 and 5 of Staff's First Data Request.

18. Refer to NKWD's response to Item 6 of Staff's First Data Request.

a. Provide all workpapers used to determine the \$.40 per 1,000 gallon variable cost.

b. Will any assets listed on Exhibit G of the Application no longer be necessary upon the cessation of service to the city of Florence and Boone County Water District? If so, identify and explain.

19. Provide a schedule detailing all advertising expenses incurred by NKWD during the test year. Include on the list the vendor, amounts charged, expense or asset account charged, and the nature of the advertisement.

20. Test year pension expense totaled \$370,779. Explain NKWD's pension program and how the expense amount was determined.

21. Throughout the general ledger there are receivings transaction entries. What do these entries represent and how are they determined?

22. Explain the procedures in place to safe guard NKWD against employee misuse of company credit cards and accounts.

23. Explain and discuss NKWD's policy and theory on capitalizing versus expensing an expenditure.

24. Account 610-1000-026, Water Purchased City of Newport (tower rental) totals \$745,115.80 for the test year. Provide a schedule detailing the nature of each charge to this account. Will the purchase of Newport's water system result in an elimination of this expense? Explain.

25. Account 631-5000-030, Contractual Eng. Engineering, was charged with \$23,747.35 for write off land for warehouse on December 31, 2001. Explain this entry.

26. Provide a schedule detailing all test year expenditures related to the Application filed in Case No. 2002-00105. Provide in the schedule the nature and amounts of all charges along with a copy of vendor invoices. Identify the account number and title to which each amount was charged. Also provide the anticipated total cost of the case upon completion. The projected amount shall be detailed by type of service and vendor with supporting documentation for each.

27. Provide a copy of the original invoices and explanation of the \$215,236 charge to account 635-6001-027, Water Tower Painting Write Off for the test year. Provide all workpapers used to determine the amount of the write-off.

28. Provide workpapers used to calculate test year bond discount and expense and premium amortizations in the amounts of \$96,019 and \$84,453, respectively.

29. NKWD purchased many water meters during the test year. Is the cost of new meters capitalized as utility plant in service when they are used to replace an




existing meter? If yes, is the cost of the old meter removed from the utility plant in service balance?

30. The following amounts were accrued to accounts payable during the test year. Provide vendor invoices describing the nature of each item and detail the accounts to which each amount was charged.

<u>Date Accrued</u>	<u>Amount</u>	<u>Description</u>
01/16/01	\$ 21,850	Rebuild starter Rich Rd #2
04/06/01	\$ 64,959	Eng Bristow Rd pump station
04/27/01	\$ 12,500	Digital surveillance system
05/16/01	\$ 18,787	Drinking Water Research
05/19/01	\$ 1,000	Goal setting season
05/25/01	\$ 2,670	Cost of service study
05/04/01	\$ 17,625	Roof FTTP
05/17/01	\$ 50,306	Office renovation
06/01/01	\$ 10,645	Consumer confidence reports
06/01/01	\$ 17,580	Restoration work
06/01/01	\$ 25,856	IMS system
06/11/01	\$ 19,950	Security system
07/01/01	\$ 211,372	Dayton and Devon Tanks
07/01/01	\$ 30,000	Conversion fee
08/01/01	\$ 8,840	General profession matters
08/13/01	\$ 6,362	NKWD v. Wessels Construction
08/16/01	\$ 167,610	Cleaning and Lining-Amsterdam
10/09/01	\$ 3,858	Tank painting
10/19/01	\$ 8,574	Antennal rental collections
11/01/01	\$ 22,135	New Services
11/07/01	\$ 65,310	Lawn service
11/12/01	\$ 174,973	Dayton and Devon Tanks
11/01/01	\$ 17,625	FTTP Roof
12/04/01	\$ 71,005	Tower Rental
12/06/01	\$ 7,883	Rate Construction

12/31/01	\$ 340,435	Record PPD ins in proper pd
12/06/01	\$ 63,660	GIS Update
12/12/01	\$ 70,834	Eng. Sub Dist E



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Dated: 9/03/2002

cc: Parties of Record