

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--|---|------------|
| APPLICATION OF NORTHERN KENTUCKY |) | |
| WATER DISTRICT FOR (A) FOR AN |) | |
| ADJUSTMENT OF RATES; (B) A CERTIFICATE |) | CASE NO. |
| OF PUBLIC CONVENIENCE AND NECESSITY |) | 2003-00224 |
| 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 (Northern District) applied to the Commission seeking approval for (a) an adjustment of rates; (b) a Certificate of Public Convenience and Necessity (Certificate) for improvements to water facilities if necessary; and (c) the issuance of bonds. On September 11, 2003, the Commission issued a letter to Northern District rejecting the application due to deficiencies in its filing. On September 16, 2003 and September 19, 2003, Northern District submitted additional information. However, the corrected customer notification was not scheduled to be published until Saturday, September 20, 2003.

Northern District identifies in its application a number of projects it intends to construct in 2003. It claims that all of the construction projects identified that require a Certificate have already received one from the Commission, except for the Customer Information System and SCADA Upgrade Phase 2. Northern District has determined that the remaining projects are in the ordinary course of business and, therefore, Certificates are not being requested for those projects. If, however, the Commission

determines that a project is not an ordinary extension, then Northern District specifically requests a Certificate for each project so determined.

The Commission has reviewed the construction projects for 2003 and finds that the projects Northern District has designated as extensions in the ordinary course of business in Exhibit O of the Application do not, pursuant to KRS 278.020, require Certificates. The Commission further finds that the information submitted by Northern District in its supplemental responses cured all other filing deficiencies and, therefore, Northern District's application should be considered filed as of September 22, 2003, the first day of business following the publication of the corrected customer notification.

Northern District originally proposed that its rates become effective on October 1, 2003. Northern District has not revised the effective date nor requested a notice period shorter than the 30-day notice required by KRS 278.180(1). Therefore, the earliest date on which NKWD's proposed rates could become effective is October 22, 2003. Based on a review of Northern District's rate application, the Commission finds that an investigation will be necessary to determine the reasonableness of the proposed rates and that investigation cannot be concluded by October 22, 2003.

IT IS THEREFORE ORDERED that:

1. Northern District's application shall be considered filed as of September 22, 2003.
2. The proposed rates are hereby suspended for 5 months from October 22, 2003 up to and including March 21, 2004.
3. The procedural schedule set forth in Appendix A, which is attached hereto and incorporated herein, shall be followed.

4. 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.

5. Any party filing testimony shall file an original and eight copies.

6. Northern District 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, Northern District shall forward a duplicate of the notice and request to the Commission.

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

8. 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.

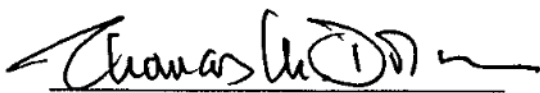
9. All documents that this Order requires to be filed with the Commission shall be served upon all other parties.

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

Done at Frankfort, Kentucky, this 1st day of October, 2003.

By the Commission

ATTEST:

A handwritten signature in black ink, appearing to read "Thomas H. [unclear]", written over a horizontal line.

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2003-00224 DATED OCTOBER 1, 2003

Northern District shall file responses to the requests
for information contained in Exhibit B no later than 10/13/03

All requests for information to Northern District shall
be served upon NKWD no later than..... 10/28/03

Northern District shall file with the Commission and
serve upon all parties of record its responses to the
requests for information no later than..... 11/12/03

All supplemental requests for information to Northern
District shall be served upon Northern District no later than 11/24/03

Northern District shall file with the Commission and serve
upon all parties of record its responses to the
supplemental requests for information no later than 12/08/03

Intervenor testimony, if any, shall be filed with the
Commission in verified prepared form no later than 12/22/03

All requests for information to any Intervenor shall
be served upon that Intervenor no later than..... 01/05/04

Intervenors shall file with the Commission and
serve upon all parties of record their responses to
the requests for information no later than..... 01/19/04

Northern District may file with the Commission the
testimony of its rebuttal witnesses in written verified
form no later than 01/26/04

Last day for Northern District to publish notice of the
hearing date To be scheduled

Public Hearing is to begin at 9:00 a.m., Eastern
Standard 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
Northern District 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. 2003-00224 DATED OCTOBER 1, 2003

1. a. Refer to pages 10 and 11 of Exhibit C, Class A & B Water Districts & Associations Annual Report of Northern District to the Public Service Commission for the Year Ended December 31, 2002 (2002 Annual Report) the Comparative Operating Statement. Provide an operating statement for the 12-month period ending May 31, 2003 that separately shows the city of Newport (Newport) operations using Format 1(a).
- b. Refer to page 27 of Exhibit C, the 2002 Annual Report, Water Operating Revenue. Provide the breakdown of the operating revenues for the 12-month period ending May 31, 2003 that separately shows the Newport operations using Format 1(b).
- c. Refer to page 28 of Exhibit C, the 2002 Annual Report, Water Utility Expense Accounts. Provide the breakdown of the operating revenues for the 12-month period ending May 31, 2003 that separately shows the Newport operations using Format 1(c).
2. Calculate test period revenues from water sales for the Newport customers using the current tariffed rates for the customers in Campbell and Kenton counties. Include copies of all calculations, assumptions, and workpapers used to formulate the response.
3. a. Refer to Exhibit G, Test Year Depreciation Summary. Provide a revised summary that lists for each property item the depreciation life.

b. Provide a schedule that lists the assets recorded in the depreciation summary that were purchased from Newport. Include in the schedule the original cost recorded by Newport and the amount being reported by Northern District in its depreciation summary. If the amount reported by Northern District differs from the amount originally recorded by Newport, provide a detailed explanation.

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

- a. Name.
- b. Title.
- c. Length of employment with Northern District.
- d. Job duties.
- e. Test period pay rate and current pay rate.
- f. Test period regular hours worked and overtime hours worked.
- g. Percentage of test period payroll capitalized.
- h. Total test period payroll expensed and capitalized.
- i. Type of insurance benefits provided to each employee and the

amounts paid for each by Northern District.

5. Refer to the \$263,350 pro forma adjustment to salaries shown in Note A of Exhibit K, Pro Forma Financial Statements for the Pro Forma Year May 31, 2003.

a. Provide all workpapers used to determine the adjustment of \$263,350. These workpapers, at a minimum, should include a list of employees along with their test period pay, and a calculation applying the 2003 raise of 4.1 percent to the test year amounts.

b. To meet the known and measurable requirement of 807 KAR 5:001, Section 10(7), you must provide some form of documentation to support the adjustment. To meet that requirement supply a copy of the Board of Commissioners minutes passing the salary increase for 2003.

c. Does the pro forma salary adjustment include adjustments for any associated payroll expenses (i.e., pensions, social security, etc.)? If the response is yes, provide separate workpapers that include the calculations for the associated payroll adjustments.

6. Refer to the \$121,030 pro forma health insurance adjustment on Exhibit N, Revenues and Revenue Requirements, Schedule 2, Test Year Operation and Maintenance Expense and the discussion on page 4.

a. Provide workpapers that detail the adjustment of \$121,030. These workpapers should include, at a minimum, a summary of test period health insurance expense, the determination of the projected health insurance costs as they relate to test period costs, along with supporting documentation to meet the known and measurable requirement.

b. Provide a copy of all materials received from the insurance provider(s) relating to the stated 7.6 percent increase.

c. Provide copies of health insurance billing statements for May 2003 of the test period and the two most current months available.

7. Refer to the \$39,543 pro forma adjustment for other insurance on Exhibit N, Revenues and Revenue Requirements, Schedule 2, Test Year Operation and Maintenance Expense and the discussion on page 4.

a. For each insurance listed in the table below, provide the test period expense, the pro forma adjustment, and the pro forma expense level.

| Insurance Type | Test Period Expense | Pro Forma Adjustment | Pro Forma Level |
|----------------------|---------------------|----------------------|-----------------|
| Workers Compensation | | | |
| Automobile | | | |
| General Liability | | | |

b. Provide workpapers that detail the pro forma Workers Compensation adjustment. These workpapers should include, at a minimum, detailed calculation of test period Workers Compensation expense that includes test period payroll costs subject to coverage and coverage rates, and the calculation of the projected pro forma expense, along with supporting documentation that meets the known and measurable requirement. The information should include applicable payroll amounts and coverage rates.

c. Provide workpapers that detail the pro forma automobile insurance adjustment. These workpapers should include, at a minimum, a detailed calculation of test period auto insurance expenses, and a calculation of projected pro forma expenses as it relates to the test period amount.

d. Provide workpapers that detail the pro forma adjustment to general liability insurance. These workpapers should include, at a minimum, a detailed calculation of test period general liability insurance expenses, and a calculation of the projected pro forma general liability insurance expense as it relates to the test period amount.

e. Provide supporting documentation for the projected increases to Workers Compensation insurance, automobile insurance and general liability insurance that meets the known and measurable requirement.

8. Provide a test-period general ledger of Northern District that details each entry to all accounts.

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

10. a. Provide a schedule detailing all test year expenditures related to the application filed in this current proceeding. Provide in the schedule the nature and amounts of all charges along with a copy of vendor invoices. The invoices should contain detailed descriptions of the services, the amount of time billed for each service, and the hourly billing rate. Identify the account number and title to which each amount was charged.

b. Provide the anticipated total cost of the case upon completion. The projected amount should be detailed by type of service and vendor with supporting documentation for each.

c. Provide a monthly update of the schedule requested in 10(a) showing all of the costs incurred as of that date. Include the supporting detailed vendor invoices as requested in 10(a).

11. Refer to Exhibit E, Northern District's Financial Statements December 31, 2002 and 2001.

a. The copies of the financial statements included in Exhibit E are only the odd number pages. Provide copies of the complete audited financial statements.

b. On page 17 is the auditor's determination that Northern District is in compliance with Section 726-subsection (iii) of the 1985 General Bond Resolution (as amended November 17, 1987). Provide a detailed calculation listing each component Northern District's auditor has included or excluded from the determination that Northern District's net annual income and revenues, as adjusted, be equal to at least one and twenty hundredths (1.2) times the annual debt service requirement.

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

12. a. For each Sub-district surcharge listed in the table below, provide the information requested in Format 12(a).

| Table 12(a) | |
|-----------------|-------------------|
| Description | Monthly Surcharge |
| Sub-District A | \$ 13.34 |
| Sub-District B | \$ 20.78 |
| Sub-District C | \$ 23.60 |
| Sub-District D | \$ 30.00 |
| Sub-District E | \$ 30.00 |
| Sub-District R | \$ 19.13 |
| Sub-District RF | \$ 30.00 |
| Sub-District RL | \$ 37.50 |

b. For each Sub-district listed in Table 12(a), provide a detailed description of how the associated utility plant facilities have been integrated into Northern District's overall operations.

c. For each Sub-district listed in Table 12(a), provide a detailed explanation of the benefits, if any, that associated utility plant facility provides to non-

Sub-district customers and state whether any adjustments to the surcharge are necessary to reflect these benefits.

d. If a line or main extension is connected to a Sub-district, does Northern District charge the customers served on the extension the Sub-district surcharge? Provide a detailed explanation of Northern District's response.

13. Refer to Exhibit N, Cost of Service Allocations, page 18.

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.

14. Provide all schedules in Exhibit N, Cost of Service Allocations and Billing Analysis, Appendix C Calculations on a computer disk in Microsoft® Excel 97 format.

15. Refer to Exhibit N, Cost of Service Allocations, page 29, Schedule 13. Northern District stated in Case No. 2002-00105¹ that they did not complete a Demand Study at that time.

a. Has a Demand Study been performed since that case?

b. If not, provide calculations, studies, or any other relevant information to support each capacity factor shown on this schedule.

16. Refer to Exhibit N, Cost of Service Allocations, page 13.

¹ See Case No. 2002-00105, Application of Northern Kentucky Water District for (A) An Adjustment of Rates; (B) A Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds (April 30, 2003).

a. Explain why maximum day demands can be expected to amount to as much as 157.4 percent of average day demand levels.

b. Explain why maximum hour demands can be expected to amount to 236.1 percent of average day demand levels.

c. Provide all calculations used to determine that 63.5 percent of the capacity of facilities designed to meet maximum day demands is required for average or base use and 36.5 percent is required for maximum day extra capacity demands.

d. Provide all calculations used to determine that 42.4 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 24.3 percent of the capacity of facilities is required to meet maximum day extra capacity requirements.

f. Provide all calculations used to determine that 33.3 percent of the capacity of facilities is required to meet maximum hour extra capacity requirements.

17. Refer to Exhibit N. Explain why Appendix D Alternative Calculations is included in the filing.

18. Refer to Paragraph 16a of the application. Exhibit U and Exhibit V are referenced, however, the application does not contain Exhibit U or Exhibit V. Provide Exhibit U and Exhibit V to complete the application.

Northern Kentucky Water District
Case No. 2003-00224
Comparative Income Statement
For the Year Ended December 31, 2002

| Account No. (a) | Account Name (b) | Northern District (c) | City of Newport (d) | Combined Operations (e) |
|--------------------|--|--------------------------|------------------------|----------------------------|
| | Utility Operating Income | | | |
| 400.0 | Operating Revenue | | | |
| 401.0 | Operating Expenses | | | |
| 403.0 | Depreciation Expenses | | | |
| 406.0 | Amortization of Utility Plant Acquisition Adj. | | | |
| 407.0 | Amortization Expense | | | |
| 408.1 | Taxes Other Than Income Tax | | | |
| | Utility Operating Expenses | | | |
| | Utility Operating Income | | | |
| 414.0 | Gains(Losses) Disposition of Utility Prop. | | | |
| | Other Income and Deductions | | | |
| 419.0 | Interest & Dividend Income | | | |
| 421.0 | Nonutility Income | | | |
| | Total Other Income & Deductions | | | |
| | Interest Expense | | | |
| 427.0 | Interest Expense | | | |
| 428.0 | Amortization of Debt Discount & Expense | | | |
| 429.0 | Amortization of Premium on Debt | | | |
| | Total Interest Expense | | | |
| | NET INCOME | | | |

Northern Kentucky Water District
Case No. 2003-00224
Comparative Water Revenue Statement
For the Year Ended December 31, 2002

| Account No. (a) | Account Name (b) | Northern District (c) | City of Newport (d) | Combined Operations (e) |
|--------------------|---------------------------------------|--------------------------|------------------------|----------------------------|
| | Operating Revenue | | | |
| 461.0 | Metered Water Revenue: | | | |
| 461.1 | Sales to Residential Customers | | | |
| 461.2 | Sales to Commercial Customers | | | |
| 461.3 | Sales to Industrial Customers | | | |
| 461.4 | Sales to Public Authorities | | | |
| 461.5 | Sales to Multiple Family Dwellings | | | |
| 461.6 | Sales through Bulk Loading Stations | | | |
| | Total Metered Sales | | | |
| 462.0 | Fire Protection Revenue: | | | |
| 462.2 | Private Fire Protection | | | |
| 464.0 | Other Sales to Public Authorities: | | | |
| 466.0 | Sales for Resale | | | |
| 467.0 | Miscellaneous Sales | | | |
| | Total Sales of Water | | | |
| | Other Water Revenues: | | | |
| 470.0 | Forfeited Discounts | | | |
| 472.0 | Rents from Water Property | | | |
| 474.0 | Other Water Revenue | | | |
| | Total Other Water Revenues | | | |
| | Total Water Operating Revenues | | | |

Northern Kentucky Water District
 Case No. 2003-00224
 Comparative Water Utility Expenses
 For the Year Ended December 31, 2002

| Account No. (a) | Account Name (b) | Northern District (c) | City of Newport (d) | Combined Operations (e) |
|--------------------|--|--------------------------|------------------------|----------------------------|
| 601.0 | Salaries & Wages Employees | | | |
| 603.0 | Salaries & Wages - Officers, Directors, & Etc. | | | |
| 604.0 | Employee Pensions & Benefits | | | |
| 610.0 | Purchased Water | | | |
| 615.0 | Purchased Power | | | |
| 618.0 | Chemicals | | | |
| 620.0 | Materials & Supplies | | | |
| 631.0 | Contractual Services - Eng. | | | |
| 632.0 | Contractual Services - Acct. | | | |
| 633.0 | Contractual Services Legal | | | |
| 635.0 | Contractual Services Other | | | |
| 642.0 | Rental of Equipment | | | |
| 650.0 | Transportation | | | |
| 656.0 | Insurance Vehicle | | | |
| 657.0 | Insurance - General Liability | | | |
| 658.0 | Insurance - Workers Comp. | | | |
| 659.0 | Insurance Other | | | |
| 660.0 | Advertising Expense | | | |
| 667.0 | Regulatory Commission Expense/Other | | | |
| 670.0 | Bad Debt Expense | | | |
| 675.0 | Miscellaneous Expense | | | |
| | Total Water Utility Expenses | | | |

Northern Kentucky Water District
Case No. 2003-00224
Sub-district Analysis
For the Year Ended December 31, 2002

| Sub-district Title No. (a) | Commission Approval | | | Number of Customers Served | | |
|----------------------------------|---------------------|-------------------------|------------------------------|----------------------------|---------------------------|--------|
| | Case No. (b) | Date of Order (c) | Original Surcharge (d) | LMI ¹ (e) | Regular Regular (f) | S E |
| Sub-District A | | | | | | |
| Sub-District B | | | | | | |
| Sub-District C | | | | | | |
| Sub-District D | | | | | | |
| Sub-District E | | | | | | |
| Sub-District R | | | | | | |
| Sub-District RF | | | | | | |
| Sub-District RL | | | | | | |

¹ Low to Moderate Customers