

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HENRY COUNTY WATER)
DISTRICT NO. 2 FOR APPROVAL TO ADJUST)
WATER RATES AND CHARGES AND TO) CASE NO. 2009-00370
IMPLEMENT A SYSTEM DEVELOPMENT)
CHARGE)

COMMISSION STAFF'S THIRD SET OF INFORMATION
REQUESTS TO HENRY COUNTY WATER DISTRICT NO. 2

Henry County Water District No. 2 ("Henry District"), pursuant to 807 KAR 5:001, shall file with the Commission the original, one paper copy and one electronic copy of the following information. The information requested herein is due on or before May 21, 2010. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Henry District shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Henry District fails or refuses to furnish all or part of the requested information, Henry

District shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

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 Henry District's Response to Commission Staff's Second Set of Information Requests, Item 11.

a. At Account 304-00, the fourth and tenth lines appear to be entries for transmission and distribution mains for the years 1974 and 1975 in the amounts of \$305,757.38 and \$2,037,295, respectively. These entries have been assigned a depreciable life of 60 years. State the basis for the 60-year depreciable life.

b. The next entry in Account 304-00 for transmission and distribution mains appears to be on line 15 which was installed and recorded in 1983 in the amount of \$154,510.41. This entry, as well as all the remaining entries to Account 304-00 for transmission and distribution mains, is depreciated over 33 years.

(1) Provide the basis for the 33-year depreciable life.

(2) Explain why Henry District began using a 33-year depreciable life for all transmission and distribution mains placed into service since 1983 instead of the 60-year life that was assigned to mains installed in prior years.

c. Within Account 304-00 are six items partially labeled as "structures" that were depreciated during the test year. The first entry was placed into service in 1977 at a cost of \$291,787 and assigned a 60-year depreciable life. One of the remaining entries was placed into service in 1987 at a cost of \$362,323, while the

remaining four entries in the amounts of \$157,708, \$331,672, \$60,946 and \$40,907 were placed into service during 1988. The last five entries were assigned a 25-year depreciable life. For each of the six entries labeled as “structures,” describe the structure and explain why the assigned depreciable life is appropriate.

d. In Account 304-00, an amount of \$3,001,568 was recorded in year 2003 and labeled as “Regionalization p.” This amount was assigned a 25-year life. Provide a description of this asset and explain why a 25-year life is appropriate.

e. In Account 304-00, an amount of \$238,526 was recorded in year 2004 and labeled as “2004 System Upgrade.” This amount was assigned a 40-year depreciable life. Describe this asset and explain why a 40-year life is appropriate.

f. In Account 304-00, an amount of \$755,661 was recorded in year 2007, labeled as “System Betterment,” and assigned a 33-year depreciable life. Describe this asset and explain why a 33-year life is appropriate.

g. The following entries were made to Account 304-00 for water storage facilities:

Year	Description	Amount	Life
1974	Reservoirs & sta	\$ 77,492	40
1992	Franklinton tower	\$227,559	25
1999	Pleasureville Tank	\$ 77,490	25

For each entry, provide a description of the assets and the reasons the assigned depreciable life is appropriate.

h. Within Account 304.01, the “office and storg” and the “building addition” are being depreciated over 25 years. Describe how Henry District determined this depreciable life and state the reasons the assigned depreciable life is appropriate.

i. Refer to Account 334.04. The entries made for 1976 were assigned a 40-year depreciable life, the entry made for 1979 was assigned a 33-year depreciable life, and the entries for all other years, except for the “meter pickup reg,” were assigned depreciable lives over 10 years.

(1) Explain why the depreciable lives assigned to different vintages in this account range from 10 years to 40 years.

(2) Explain why the depreciable lives assigned to each vintage are appropriate.

(3) State whether the amounts recorded in this account include the cost of the meters and the cost of installing the meters (e.g., meter boxes, connections, trenching, boring, service lines, labor). Explain.

j. The depreciation schedule provided in Henry District’s Response is sorted and totaled by the “G/L Code.” Provide a revised depreciation schedule that shows each asset group sorted and totaled by the “PSC Code” that is indicated on the schedule.

2. Refer to Henry District’s Response to Commission Staff’s Second Set of Information Requests, Item 11(e).

a. Explain why any additional revenue resulting from rates that include depreciation expense would not assist the water district in paying for infrastructure that has reached the end of its service life.

b. State whether the water district has performed any studies or calculations to determine the level of rates if depreciation expense is fully recovered through general service rates. If yes, provide such calculations and studies.

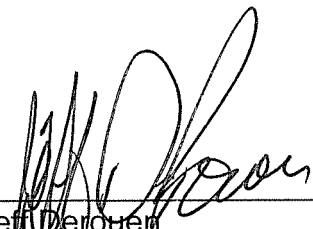
c. List and describe the "improved management practices" referenced in Henry District's response.

d. State whether Henry District agrees that its last rate adjustment occurred in Case No. 96-378 and that, as Henry District's application in that proceeding was made pursuant to KRS 278.023, the Commission conducted no review of the water district's rates.

3. Refer to Henry District's Response to Commission Staff's Second Set of Information Requests, Item 16(a) and (c). Henry District has yet to provide a response to Commission Staff's request. Provide a response.

4. Refer to Henry District's Response to Commission Staff's Second Set of Information Requests, Item 17(c). Henry District's Response was not responsive to the request. State whether Henry District refunds the cost of 50 feet for each additional customer connecting to the line extension accounted for in Audit Adjustment 34 to those who paid for the cost of the line construction.

5. Refer to Henry District's Response to Commission Staff's Second Set of Information Requests, Item 17(d). State whether Henry District takes the position that it is not legally required to follow the Uniform System of Accounts for Class A/B Water Districts and Water Associations. Explain.



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DATED: APR 30 2010

cc: Parties of Record