

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY	)	
WATER DISTRICT FOR AN ADJUSTMENT OF	)	CASE NO. 2010-00094
RATES, ISSUANCE OF BONDS, AND TARIFF	)	
CHANGES	)	

COMMISSION STAFF'S SECOND INFORMATION REQUEST  
TO NORTHERN KENTUCKY WATER DISTRICT

Northern Kentucky Water District ("NKWD"), pursuant to 807 KAR 5:001, shall file with the Commission on or before August 17, 2010 the original, one paper copy and one electronic copy of the following information, with a copy to all parties of record. 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.

NKWD 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 NKWD fails or refuses to furnish all or part of the requested information, NKWD shall

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

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 separately provided for total company operations and jurisdictional operations.

1. a. State whether NKWD provides an “automobile allowance” to any of its employees

b. If the response to Item 1(a) is yes, list each employee that receives an automobile allowance, the amount of the allowance that he or she receives, the reason for the allowance, and the expense account in which the allowance is recorded.

2. Refer to Prefiled Testimony of Keith Brock. In response to Question 13, Mr. Brock states, “Yes, see schedule.” Identify the schedule that reflects the cost of the 2011 Bond Anticipation Notes.

3. At page 2 of his Prefiled Testimony, C. Ronald Lovan states, “The adjustment is based upon a comprehensive cost of service study prepared by Gannett Fleming. A two year phase in of the rate adjustments is proposed.”

a. List and describe each rate methodology that NKWD considered before selecting its proposed two-year phase approach. For each methodology considered and not chosen, explain why the methodology was not chosen.

b. Provide all correspondence between NKWD and Gannett Fleming regarding the preparation or review of the cost-of-service study and the proposed rate phase-in set forth in NKWD's Petition.

c. Provide all studies and analyses that NKWD has performed or commissioned of the alternative plans it considered.

4. Refer to NKWD's Supplemental Filing of June 14, 2010, Exhibit 6, Summary of Revenue Requirements. NKWD has determined that it requires a "Net Revenue Requirement" of \$48,616,094 and states that it is requesting an increase in revenues of \$8,255,454.<sup>1</sup> State, for each year of the proposed two-year phase-in period, the amount of the rate increase that NKWD is requesting.

5. Refer to the Petition, Exhibit J, NKWD's 2009 Financial Statements and Independent Auditor's Report at 24. The 1985 General Bond Resolution (as amended November 17, 1987) requires that NKWD's "net annual income and revenues, as adjusted, be equal to at least one and twenty hundredths (1.20) times the maximum debt service."

a. List in detail the revenue and expense components and the adjustments that NKWD's bond resolution requires.

b. In response to Question No. 9 of his Prefiled Testimony, Jack Bragg states, "[W]e are in danger of falling below our mandated coverage limit and must increase our revenues to avoid problems associated with the coverage." Using the guidelines of the 1985 General Bond Resolution as amended, calculate NKWD's debt service coverage in Year One and Year Two if NKWD is not granted its requested rate

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<sup>1</sup> Petition, Exhibit N, Schedule A, \$48,615,158 (Revenues Proposed Rates) - \$40,359,705 (Revenues Present Rates) = \$8,255,453.

increases. Your response should include all workpapers and state all assumptions used in this calculation.

c. Describe the problems that NKWD faces if it fails to meet the coverage limits set forth in its bond ordinances.

d. Provide a detailed calculation showing that, in Year One of NKWD's phase-in approach, its requested revenue requirement is in compliance with the 1985 General Bond Resolution as amended. Your response should include all workpapers and state all assumptions used in this calculation.

e. Provide a detailed calculation showing that, in Year Two of NKWD's phase-in approach, its requested revenue requirement is in compliance with the 1985 General Bond Resolution as amended. Your response should include all workpapers and state all assumptions used in this calculation.

6. Listed in the schedule are eight employee positions that became vacant in the test period or in the calendar year 2010. For each vacant position listed in Table 1 below:

a. If the position has been filled, identify the employee currently in the position, state the date on which the employee was hired, and state his or her actual annualized salary and actual benefit information. Identify the salary and employee benefit costs that are included in NKWD's pro forma operating expenses.

b. If the position is still vacant, state the reason(s) why the position must be filled and explain why the position is currently vacant.

c. State the current status of NKWD's efforts to fill the position and the anticipated hire date.

d. State the total cost of the position included in the pro forma test period (i.e., payroll expenses, payroll capitalized, retirement, payroll taxes, insurance benefits), stated separately, and the accounts to which each amount was charged.

	Name	Title/Duties	Date Position Terminated
a.	Derick Clapbern	Fieldman	05/13/09
b.	Mike Epling	Meter Reader	03/20/09
c.	AmandaENZweiler	Lab - PT	07/17/09
d.	Mark Lofland	V.P. Cust. Accts	04/30/10
e.	Mark Lucas	Lab PT	04/15/10
f.	Jackie McKinley	Dist. Clerk	05/01/10
g.	Corina Starks	Acct Serv. Rep	03/20/09
h.	Waj Syed	Sr. Accountant	05/06/09

7. Refer to NKWD's Petition, Exhibit A, "Gross Debt Service Structure Report."

a. The electronic and the paper copies of the schedule are not legible. Resubmit the Debt Service Schedule in Microsoft Office Excel format.

b. Provide an amortization schedule for each loan or bond listed in the Gross Debt Service Structure Report in Microsoft Office Excel format.

8. Refer to NKWD's Petition, Exhibit A, "Principal Reduction Report." The electronic and the paper copies of the schedule are not legible. Resubmit the Principal Reduction Report in Microsoft Office Excel format.

9. Refer to NKWD's Supplemental Filing of June 14, 2010, Exhibit 6, Summary of Revenue Requirements.

a. In calculating its revenue requirement, NKWD uses an annual debt service of \$17,314,762. Provide a detailed schedule showing how NKWD calculated its annual debt service of \$17,314,762.

b. NKWD includes a \$201,120 amortization of acquisition adjustment in its revenue requirement calculation. Provide a complete description of this \$201,120 amortization of acquisition adjustment expense and list all rate adjustment proceedings in which the Kentucky Public Service Commission has authorized the inclusion of this amortization in NKWD's revenue requirement.

10. Refer to NKWD's Supplemental Filing of June 14, 2010, Exhibit 6, Summary of Revenue Requirements; Annual Report of NKWD to the Public Service Commission for the Calendar Year Ended December 31, 2009 ("2009 Annual Report") at 25. In its revenue requirement calculation, NKWD includes taxes other than income tax expense of \$663,941 but reports the taxes other than income tax expense in its 2009 Annual Report as \$600,166. Explain the discrepancy.

11. Refer to NKWD's Supplemental Filing of June 14, 2010, Exhibit 6, Summary of Revenue Requirements; 2009 Annual Report at 11 and 27. In its revenue requirement calculation, NKWD includes other operating revenues of \$4,462,722. Provide a schedule that lists each revenue included in this total and reconcile any difference between these amounts to those listed in the 2009 Annual Report.

12. Provide NKWD's most current vendor invoice for dental insurance. This invoice shall list all employees individually. If the invoice identifies employees by code number, provide the name for each code number.

13. Provide NKWD's most current vendor invoice(s) for disability insurance and life insurance. Each invoice shall list all employees individually. If the invoice identifies employees by code number, provide the name for each code number.

14. Provide NKWD's most recent vendor invoice for health insurance. This invoice shall list all employees individually. If the invoice identifies employees by code number, provide the name for each code number.

15. In Case No. 2005-00148,<sup>2</sup> the Commission reduced payroll taxes and employee pensions and benefits to remove the portion that should be capitalized as payroll overhead. Explain why NKWD did not propose a similar adjustment in this proceeding.

16. Provide a copy of all schedules presented in the cost-of-service study, electronically, in Microsoft Office Excel format, allowing for the review of and unrestricted access to the underlying formulas.

17. Refer to the 2009 Annual Report at 28. NKWD reports in Account 631, Contractual Services – Engineering, a balance of \$180,947. Provide a schedule that lists each expenditure that is included in this expense account with a detailed description of that expenditure. Provide all invoices related to that expenditure.

18. Refer to NKWD's Response to Commission Staff's First Information Request, Item 4. For each item listed in Table 2 below, provide a schedule listing each expenditure with a detailed description of that expenditure. Provide all invoices related to that expenditure.

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<sup>2</sup> See Case No. 2005-00148, *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* (Ky. PSC Apr. 28, 2006) at 9-10.

	Transaction Date	Journal No.	Vendor	Amount
a.	01/06/09	194,553	Hemmer Pangburn DeFrank PLLC	\$ 1,729.00
b.	02/04/09	195,955	Hemmer Pangburn DeFrank PLLC	\$ 1,254.00
c.	03/05/09	197,632	Hemmer Pangburn DeFrank PLLC	\$ 2,033.00
d.	06/03/09	202,726	Hemmer Pangburn DeFrank PLLC	\$ 2,508.00
e.	06/06/09	203,411	Hughes, PSC., John N.	\$ 6,229.18
f.	09/11/09	206,788	Hughes, PSC., John N.	\$ 1,229.18
g.	10/05/09	208,086	Hughes, PSC., John N.	\$ 1,145.83
h.	12/01/09	211,022	Hemmer Pangburn DeFrank PLLC	\$ 1,132.75
i.	05/05/09	200,811	Hemmer Pangburn DeFrank PLLC	\$ 13,113.70
j.	01/06/09	194,552	Hemmer Pangburn DeFrank PLLC	\$ 3,506.34
k.	01/06/09	194,555	Hemmer Pangburn DeFrank PLLC	\$ 5,396.00
l.	02/04/09	195,953	Hemmer Pangburn DeFrank PLLC	\$ 1,889.50
m.	02/04/09	195,956	Hemmer Pangburn DeFrank PLLC	\$ 3,500.00
n.	02/27/09	197,227	Travelers	\$ 10,000.00
o.	03/05/09	197,631	Hemmer Pangburn DeFrank PLLC	\$ 3,500.00
p.	03/05/09	197,634	Hemmer Pangburn DeFrank PLLC	\$ 1,577.00
q.	03/12/09	197,782	Greenebaum Doll & McDonald	\$ 1,662.50
r.	04/07/09	199,232	Hughes, PSC., John N.	\$ 13,187.50
s.	04/08/09	199,380	Hemmer Pangburn DeFrank PLLC	\$ 3,500.00
t.	05/05/09	200,810	Hemmer Pangburn DeFrank PLLC	\$ 1,041.25
u.	05/05/09	200,812	Hemmer Pangburn DeFrank PLLC	\$ 3,500.00
v.	06/03/09	202,724	Hemmer Pangburn DeFrank PLLC	\$ 3,553.00
w.	06/03/09	202,727	Hemmer Pangburn DeFrank PLLC	\$ 3,500.00
x.	06/03/09	202,729	Hemmer Pangburn DeFrank PLLC	\$ 3,372.50
y.	07/06/09	204,449	Hemmer Pangburn DeFrank PLLC	\$ 3,477.00
z.	07/06/09	204,451	Hemmer Pangburn DeFrank PLLC	\$ 3,500.00
aa.	07/06/09	204,453	Hemmer Pangburn DeFrank PLLC	\$ 2,477.53
ab.	08/05/09	204,736	Hemmer Pangburn DeFrank PLLC	\$ 2,356.00
ac.	08/05/09	204,738	Hemmer Pangburn DeFrank PLLC	\$ 3,405.00
ad.	08/05/09	204,739	Hemmer Pangburn DeFrank PLLC	\$ 4,450.75
ae.	09/11/09	206,788	Hughes, PSC., John N.	\$ 1,708.32
af.	10/01/09	207,794	Hemmer Pangburn DeFrank PLLC	\$ 2,745.50
ag.	10/01/09	207,796	Hemmer Pangburn DeFrank PLLC	\$ 3,513.59
ah.	10/01/09	207,797	Hemmer Pangburn DeFrank PLLC	\$ 1,123.75
ai.	10/28/09	208,777	Frost Brown Todd LLC	\$ 7,385.80
aj.	11/19/09	210,001	Frost Brown Todd LLC	\$ 1,427.87
ak.	12/01/09	211,020	Hemmer Pangburn DeFrank PLLC	\$ 3,500.00
al.	12/01/09	211,021	Hemmer Pangburn DeFrank PLLC	\$ 3,500.00
am.	12/01/09	211,060	Hughes, PSC., John N.	\$ 2,771.84
an.	12/09/09	211,522	Hemmer Pangburn DeFrank PLLC	\$ 3,500.00
ao.	12/10/09	211,168	Frost Brown Todd LLC	\$ 5,598.88

19. Refer to NKWD's Response to Commission Staff's First Information Request, Item 12. Complete the following table.



Table 3			
<u>Title</u>	<u>June 30, 2010 Customer Level</u>	<u>2010 Surcharge</u>	<u>Annual Collections</u>
Sub-District A			
Sub-District B			
Sub-District C			
Sub-District D			
Sub-District E			
Sub-District F			
Sub-District G			
Sub-District K			
Sub-District R			
Sub-District RF			
Sub-District RL			
Total			

20. At page 10 of his Direct Testimony, Paul R. Herbert states, “[T]he step 1 rates were designed to be approximately half-way between the present rates and the proposed step 2 rates.” Explain why the step 1 rates were designed to be halfway between the present rates and proposed step 2 rates.

21. Refer to the Direct Testimony of Mr. Herbert at 8.

a. Mr. Herbert states that he “discussed rate design guidelines with management.” Provide all correspondence, letters, notes, memoranda, and e-mails between NKWD representatives and Mr. Herbert or his associates in which rate design guidelines were discussed.

b. Mr. Herbert states: “The guidelines established were: (1) maintain the existing rate structure applicable to all classifications excluding wholesale, which includes a service charge by meter size and a three-block volumetric charge; (2) increase customer charges and volumetric charges to produce revenues among the classes in conformity with or toward the indicated cost of service and to generate sufficient revenues to recover the total cost of service; and (3) design the proposed rate

structure to be implemented over a 2 step phase-in plan which reflects the District's effort toward a gradual adjustment of its rates." Describe how these guidelines were established and the theory or policy rationale for the guidelines.

22. Refer to NKWD's Petition, Exhibit N, Schedule A, Comparison of Cost of Service with Revenues Under Present and Proposed Rates – Step 2. Provide the revenues for the step 1 proposed rates in addition to the revenues for the step 2 proposed rates.

23. Refer to the Application, Exhibit N, Schedule L and Exhibit K, "Statement of Income – Pro Forma Year Ended December 31, 2009." NKWD adjusts its revenues at present rates and its revenues at proposed rates by a "Volume Normalization Adjustment." Explain this adjustment and state if the normalization adjustment is reflected in NKWD's pro forma operating revenues as shown in Exhibit K.

24. Refer to NKWD's Petition, Exhibit M3, "Justification for Overtime Charges."

a. Describe how the average overtime labor cost of \$32.45 was determined. Provide all workpapers, state all assumptions, and show all calculations used to develop the \$32.45 overtime labor cost.

b. Explain how NKWD determined the 40 percent overhead factor. Provide all workpapers, state all assumptions, and show all calculations used to develop the 40 percent factor.

c. Explain why 28 percent of labor cost is used to calculate equipment cost. Provide all workpapers, state all assumptions, and show all calculations used to develop this amount.

- d. List the equipment that employees use during overtime hours.
  - e. Explain why NKWD would experience additional cost of equipment used to perform work outside of normal business hours.
  - f. Regarding the addition of Overhead Cost, explain why 10 percent is added to labor and describe how the 10 percent factor was determined. Provide all workpapers, state all assumptions, and show all calculations used to develop the 10 percent factor.
25. a. Explain why neither NKWD's current tariff nor proposed tariff contains language explaining when the overtime charge will be applied.
- b. State when the charge will be applied to a customer's bill.
26. Provide a copy of NKWD's written procurement policies and procedures.
27. State whether NKWD has established a code of ethics for its commissioners or employees. If yes, provide a copy.
28. State whether, in the period from January 1, 2008 to December 31, 2009, NKWD conducted any transactions with any entity that is owned by or employs a member of NKWD's Board of Commissioners, an officer of NKWD, or a relative of a member of NKWD's Board of Commissioners or an NKWD officer. If yes, describe each transaction, identify the entity with whom NKWD engaged in the transaction and the NKWD commissioner or officer involved, and state whether the NKWD commissioner or officer involved participated in the decision.
29. Describe the actions that NKWD has taken since January 1, 2008 to reduce its consumption of electric energy.

30. Provide a copy of NKWD's current written policies, programs, or procedures, if any, to reduce NKWD's consumption of electric energy.


31. Provide a copy of NKWD's current written policies, programs, or procedures, if any, to promote the general conservation of water and to reduce unaccounted-for water.

32. a. State whether NKWD has conducted or commissioned any studies, audits, or reviews of its management and operation practices since January 1, 2008.

b. If yes,

(1) Provide a copy of the findings of each study, audit and review.

(2) Describe the actions that NKWD has taken on the findings and recommendations of each study, audit and review.

  
Jason D. Greenwell  
Jeff Derouen  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED: JUL 30 2010

cc: Parties of Record