

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN)
KENTUCKY WATER DISTRICT (A) FOR) Case No. 2012-00072
AN ADJUSTMENT OF RATES;)
(B) ISSUANCE OF BONDS ; AND)
(C) FINANCING)

PETITION

Northern Kentucky Water District (NKWD), by counsel, petitions the Commission for an order authorizing an adjustment in rates effective August 1, 2012 or on the date approved by the Commission and issuance of bonds. The following information is filed in accordance with the Commission's regulations:

1. NKWD's office address is 2835 Crescent Springs Road, Erlanger, KY 41018-0640. Its principal officers are listed in its current Annual Report on page 6, which is filed with the Commission as are its prior years Reports;

2. NKWD is a non-profit water district organized under Chapter 74 and has no separate articles of incorporation. It has no affiliates and no accounts charged to or allocated to an affiliate;

3. A description of NKWD's water system and its property stated at original cost by accounts is contained in its Annual Report, which is on file with the Commission and attached as Exhibit C.

4. It serves retail customers in Kenton, Campbell and part of Boone County and sells water at wholesale to other water distribution systems in Pendleton, Boone and Grant Counties.

5. This application includes a request for an adjustment in annual revenue of approximately \$3.4 million related to the debt service on capital projects necessary to

complete previously approved projects related to mandated and unfunded EPA regulations, projects to help address aging infrastructure and projects needed to help address distribution system deficiencies. To minimize the impact on our customers of the rate adjustment needed to help finance these improvements, the District has done the following:

- 1) Proposed a gradualistic, two year phased-in rate approach;
- 2) Refinanced four existing bond series saving approximately \$13.3 million;
- 3) Reduced operating costs from those approved in the District's 2010 rate case.

The savings realized from the bond refinancing and reduced operating costs have more than offset required depreciation expense adjustments and allowed pro forma adjustments to the 2011 test year.

6. The financing of the construction is in the public interest and is required to allow NKWD to continue to provide adequate service to its customers. These projects have already been issued certificates of convenience and necessity or are considered ordinary extensions. The cost, need and other details of the projects are contained in Exhibit O.

7. The total financing requested to be included in rates is approximately \$28,165,000 See Exhibits A and O. The actual cost of the issuance cannot be determined until the sale of the bonds at which time the cost of issuance, interest rate and actual amount of bonds will be known. See Salsbury and Peterman testimony.

8. Easements and rights of way have been obtained for the facilities;
9. This service will not compete with any other utility in the area;

10. The proposed construction projects are identified in Exhibit O. All projects have been previously issued a certificate of convenience and necessity, except for those that have been previously recognized by the Commission to be in the ordinary course of business. No certificate is being requested for the projects listed as ordinary extensions. All of the projects listed are believed to be ordinary extensions as defined in 807 KAR 5:001(9)(3). Based on the Commission's orders in Case 2002-00105 and Case 2003-00224,

these projects fall within the parameters of projects previously approved as ordinary extensions. If a certificate is needed for such projects, the District specifically requests a certificate for each of the projects so determined.

11. Rates are being proposed to (1) to fund improvements to existing facilities and related capital improvements to meet increasingly stringent and unfunded state and federal water quality standards; (2) to recover operation and maintenance expenses; (3) to recover depreciation and expenses related to aging infrastructure; (4) to recover pro forma adjustments to operating expenses; and (5) to issue bonds to finance the proposed construction. As explained in detail in the testimony, the District is proposing to implement a portion of the rate adjustment on or about January 1, 2013, depending on Commission approval. The second phase of the adjustment is expected to be implemented on or about January 1, 2014, depending on Commission approval. The two step adjustment will provide a gradual increase in the rates and will minimize the impact on customers. This will result in an increase for the average customer after adjustment 1 of \$1.37 per month or 4.6 cents per day and \$1.28 per month or 4.3 cents per day after adjustment 2. The proposed rates are detailed in Exhibit M. The cost of service study supporting the rate adjustment is included with Exhibit N. Updated schedules reflecting current adjustments are provided with that exhibit.

12. The following information is supplied pursuant to 807 KAR 5:001(9):

a. The rate adjustment is needed to provide for debt service on capital projects necessary to complete previously approved projects related to mandated and unfunded EPA regulations, projects to help address aging infrastructure and projects needed to help address distribution system deficiencies. It will also provide the District with sufficient operating funds to maintain its current level of service to its customers and to continue to improve its service. Funding for capital projects as reflected in Exhibit O will allow the District to repair and replace deteriorated or inadequate infrastructure and to make needed improvements to the distribution and treatment system. This

construction is part of an ongoing five year plan of improvements, which will necessitate a series of rate adjustments over the next several years. The extent of the construction program is contained in the Five Year Plan, Exhibit R.

Rates are also being adjusted to reflect pro forma changes in operating expenses and revenues and fund the debt associated with the capital projects as reflected in Exhibits O and N.

b. No new franchises are required. Copies of DOW permits have been previously provided;

c. Construction descriptions are in Exhibit O.

d. Maps of the area showing location of the proposed facilities listed in Exhibit O have previously been provided.

e. The financing of the construction costs will be funded by the issuance of approximately \$28,165,000 parity revenue bonds as shown in Exhibit A.

f. Costs for operation and maintenance, depreciation and debt service are shown in Exhibits K, N and O;

g. Description of the facilities and operation of the system are in Exhibits O;

h. A full description of the route, location of the projects, description of construction and related information is in Exhibit O;

i. The projects will not compete with any other utility;

j. The start date for construction, proposed in-service date, total estimated cost of construction at completion are included in Exhibit O;

k. CWIP at end of test year is listed in Exhibits C and J.

l. Plant retirements are listed in the PSC Annual Report of 2011, Exhibit C. No salvage values are included as booked.

m. There is no reconciliation of capital budget and pro forma capital, because there are no differences.

n. Monthly budget reports are included in Exhibit I. These reports are the

only monthly reports prepared by the District. If necessary, a deviation from the specific filing requirement is requested;

o. Number of customers added to test period is reflected in Exhibit N.

13. The following information is provided as required by 807 KAR 5:001 (11):

a. A general description of the property is contained in the Annual Report, Exhibit C;

b. No stock is to be issued. Bonds to be issued and terms, including the most recent prospectus, are described in Exhibits A and D;

c. All funds are to be used for the construction of the proposed facilities and issuance of debt as described in Exhibits A and O;

d. The property to be constructed is described in Exhibit O;

e. The refunding of prior bonds or refinancing of BANS is shown in Exhibit A;

14. The following exhibits are provided pursuant to 807 KAR 5:001 (11)(2):

a. A current financial analysis and calculation of rates and revenue requirements, including the effect of the proposed rates on revenues, the increase in revenues and the percentage increases on rates is attached as Exhibit N;

b. There are no trust deeds. All notes, indebtedness and mortgages are included in Exhibits D and J;

c. No property is to be acquired;

15. The following information is provided pursuant to 807 KAR 5:001(6):

a. No stock is authorized. There are no annual reports to shareholders;

b. No stock is issued;

c. There are no stock preferences;

d. Mortgages are listed in Exhibits C, D and J;

e. Bonds and related information are listed in Exhibits C, D and J. The most recent bond prospectus is included in Exhibit A;

- f. Notes are listed in Exhibits C, D, and J;
- g. Other indebtedness is listed in Exhibits C, D, and J;
- h. No dividends have been paid;
- i. A current balance sheet and income statement is included in Exhibit J.

16. The following information is filed pursuant to 807 KAR 5:001(10):

- a. Reasons the adjustment is required are discussed in Exhibit P and in the testimony contained in Exhibit Q;
- b. The annual reports are on file with the Commission;
- c. There are no articles of incorporation;
- d. and e. The District is not a limited partnership;
- f. There is no assumed name;
- g. The current and proposed tariffs are attached as Exhibit M;
- h. Comparative tariffs and changes are attached as Exhibit M;
- i. The customer notice is being published in the local newspapers and a copy is attached as Exhibit L;

17. A notice of intent was filed on March 1, 2012 and was mailed to the Attorney General.

18. A description of the proposed pro forma adjustments is attached as Exhibits K and N;

19. Testimony of the District's witnesses is attached as Exhibit Q;

20. An estimate of the impact of the rate adjustment is attached as Exhibit N;

21. The effect on the average customer bill is contained in Exhibits M and N;

22. A bills analysis is included in Exhibit N;

23. A summary of the revenue requirement determination is included in Exhibits K and N;

24. A reconciliation of rate base is not included because there is no rate base calculation in Exhibit N or K;

25. A current chart of accounts is attached as Exhibit F;
26. The independent auditor's report is attached as Exhibit J;
27. A summary of the latest depreciation schedule is attached as Exhibit G;
28. A list of software used by the District is attached as Exhibit H;
29. Monthly managerial reports are attached as Exhibit I. These reports substitute for monthly operating budgets, which are not prepared by the District. These reports are the only monthly reports prepared by the District. If necessary, a deviation from the specific filing requirement is requested;
30. A cost of service study is attached as Exhibit N;
31. A detailed income statement and balance sheet is attached as Exhibit J;
32. The most recent capital construction budget is attached as Exhibit R;
33. Pro forma adjustments are reflected in Exhibits K and N;
34. There are no affiliated transactions or allocated revenues or expenses among affiliates;
35. NKWD requests that it be granted a deviation under 807 KAR 5:004(14), if necessary for any of the documents requested, but which are not specifically maintained by the District or which are substantially included in similar documents and to allow the use of December 31, 2011 financial data, which is sufficiently current to accurately reflect the financial condition of the District. Because the test year is December 31, 2011, that information is adequate for use in the determination of the appropriateness of the related financing being proposed under KRS 278.300. There have been no extraordinary events that would distort the year end statements. Using the same period for both the test period and financing allows for comparable analysis of the data and avoids unnecessary revision of certain schedules and inconsistent data for essentially the same purpose.

For these reasons, NKWD requests that it be granted an order authorizing financing of construction, issuance of parity revenue bonds in the approximate amount of \$28,165,000 adjustment of rates and any other approval necessary.

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| KRS 278.180 | 30 days' notice of rates to Commission (no effective date means no notice given and this is acceptable) | Effective 8/1/12 |
| 807 KAR 5:001: | | |
| Section 8(1) | Full name and post office address of applicant and a reference to the particular provision of law requiring Commission approval. | Application |
| Section 8(2) | The original and 10 copies of the application with an additional copy for any party named therein as an interested party. | Electronic filing |
| Section 10(1)(b)(1) | A statement of the reason the adjustment is required. | Exhibits P and Q |
| Section 10(1)(b)(2) | A statement that the utility's annual reports, including the annual report for the most recent calendar year, are on file with the commission in accordance with 807 KAR 5:006, Section 3(1) | Statement included in Application |
| Section 10(1) (b)(3) and (5) | If the utility is incorporated, a certified copy of the utility's articles of incorporation and all amendments thereto or out of state documents of similar import. If the utility's articles of incorporation and amendments have already been filed with the Commission in a prior proceeding, the application may state this fact making reference to the style and case number of the prior proceeding <u>and</u> a certificate of good standing or certificate of authorization dated within sixty (60) days of the date the application is filed. | Not Incorporated |
| Section 10(1)(b)(4) and (5) | If applicant is a limited partnership, a certified copy of the limited partnership agreement <u>or</u> if the agreement was filed with the PSC in a prior proceeding, a reference to the style and case number of the prior proceeding <u>and</u> a certificate of good standing or certificate of authorization dated within sixty (60) days of the date the application is filed. | Not a partnership |
| Section 10(1)(b)(6) | A certified copy of a certificate of assumed name as required by KRS 365.015 or a statement that such a certificate is not necessary. | No assumed name |
| Section 10(1)(b)(7) | The proposed tariff in form complying with 807 KAR 5:011 with an effective date not less than thirty (30) days from the date the application is filed. | Exhibit M |
| Section 10(1)(b)(8) | Proposed tariff changes shown either by providing present and proposed tariffs in comparative form or indicating additions by italicized inserts or underscoring and striking over deletions in a copy of the current tariff. | Exhibit M |
| Section 10(1)(b)(9) | Statement that notice given, see subsections (3) and (4) of 807 KAR 5:001, Section 10 with copy. | Exhibit L |
| Section 10(2) | If gross annual revenues exceed \$1,000,000 written notice of | Filed March 1, 2012 |

intent filed at least four (4) weeks prior to application. Notice shall state whether the application will be supported by historical or a fully forecasted test period.

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| Section 10(6)(a) | Complete description and quantified explanation for proposed adjustments with support for changes in price or activity levels, and other factors affecting the adjustment. | Petition and Exhibit N |
| Section 10(6)(b) & (c) | If gross annual revenues exceed \$1,000,000, prepared testimony of each witness who will support the application. If less than \$1,000,000, prepared testimony of each witness who will support application or statement that utility does not plan to submit prepared testimony. | Exhibit Q |
| Section 10(6)(d) | Estimate of effect that new rate(s) will have on revenues including, at minimum, total revenues resulting from increase or decrease and percentage of increase or decrease. | Exhibit N |
| Section 10(6)(e) | If electric, gas, water or sewer utility effect upon the average bill for each customer classification to which change will apply. | Exhibits L, M, N |
| Section 10(6)(f) | If local exchange company, effect upon the average bill for each customer class for change in basic local service. | Not a local Exchange Co |
| Section 10(6) (g) | Analysis of customers' bills in such detail that revenues from present and proposed rates can be readily determined for each customer class. | Exhibit N |
| Section 10(6)(h) | Summary of determination of revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio, with supporting schedules. | Exhibit N Not Applicable – no rate base |
| Section 10(6)(i) | Reconciliation of rate base and capital used to determine revenue requirements. | Exhibit N Not Applicable – no rate base |
| Section 10(6)(j) | Current chart of accounts if more detailed than the Uniform System of Accounts. | Exhibit F |
| Section 10(6)(k) | Independent auditor's annual opinion report, with any written communication from auditor which indicates existence of material weakness in internal controls. | Exhibit J |
| Section 10(6)(l) Section 10(6)(m) | The most recent FERC or FCC audit reports. The most recent FERC Form 1 (electric), FERC Form 2 (gas), or Automated Reporting Management Information System Report (telephone) and PSC Form T (telephone). | Not regulated by FERC |
| Section 10(6)(n) | Summary of latest depreciation study with schedules by major plant accounts, except that telecommunications utilities adopting PSC's average depreciation rates shall provide schedule identifying current and test period depreciation rates used by major plant accounts. If filed in another PSC case refer to that case's number and style. | Exhibit G |

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| Section 10(6)(o) | List of all commercial or in-house computer software, programs, and models used to develop schedules and work papers associated with the filing. Include each software, program, or model; what each was used for; its supplier; brief description and specifications for the computer hardware and the operating system required to run the program. | Exhibit H |
| Section 10(6)(p) | Prospectuses of most recent stock or bond offerings. | None |
| Section 10(6)(q) | Annual report to shareholders, or members, and statistical supplements covering 2 years prior to application filing date. | None |
| Section 10(6)(r) | Monthly managerial reports providing financial results for 12 months in test period. | Exhibit I |
| Section 10(6)(s) | SEC's annual report for most recent 2 years, Form 10-Ks and any Form 8-Ks issued within past 2 years, and Form 10-Qs issued during the past 6 quarters updated as current information becomes available. | Not applicable to non-Stock company |
| Section 10(6)(t) | If utility had any amounts charged or allocated to it by affiliate or general or home office, or paid any monies to affiliate or general or home office during test period or during previous 3 calendar years, file: <ol style="list-style-type: none"> 1. Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each charge allocation or payment; 2. Explanation of how allocator for the test period was determined; and 3. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during test period was reasonable; | None |
| Section 10(6)(u) | If gas, electric or water utility, whose annual gross revenues exceed \$5,000,000, cost of service study based on methodology generally accepted in industry and based on current and reliable data from a single time period. | Exhibit N |
| Section 10(6)(v) | Local exchange carriers with fewer than 50,000 access lines need not file cost of service studies, except as specifically directed by PSC. Local exchange carriers with more than 50,000 access lines shall file <ol style="list-style-type: none"> 1. Jurisdictional separations study consistent with Part 36 of the FCC's rules and regulations; and 2. Service specific cost studies supporting pricing of all services that generate annual revenue greater than \$1,000,000 except local exchange access: | Not A LEC |

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| | a. Based on current and reliable data from a single time period; and | |
| | b. Using generally recognized fully allocated, embedded, or incremental cost principles. | |
| Section 10(7)(a) | Detailed income statement and balance sheet reflecting impact of all proposed adjustments. | Exhibits K and N |
| Section 10(7)(b) | Most recent capital construction budget containing at | Exhibit R |
| Section 10(7)(c) | For each proposed pro forma adjustment reflecting plant additions the following information: | Exhibit O |
| | 1. Starting date of the construction of each major component of plant; | |
| | 2. Proposed in-service date; | Exhibit O |
| | 3. Total estimated cost of construction at completion; | Exhibits O, R |
| | 4. Amount contained in construction work in progress at end of test period; | Exhibit C |
| | 5. Complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement; | Exhibit C and K |
| | 6. Original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions; | Exhibits C and K |
| | 7. Explanation of any differences in amounts contained in the capital construction budget and amounts of capital construction cost contained in the pro forma adjustment period; and | Exhibit K |
| | 8. Impact on depreciation expense of all proposed pro forma adjustments for plant additions and retirements; | Exhibit K |
| Section 10(7)(d) | Operating budget for each month of the period encompassing the pro forma adjustments; | Exhibit I |
| Section 10(7)(e) | Number of customers to be added to the test period – end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers. | Exhibit N |
| Section 10(3)(a) | Amount of change requested in dollar amounts and percentage for each customer classification to which change will apply. | Exhibit N |
| Section 10(3)(b) | Present and proposed rates for each customer class to which | Exhibits M and N |

change would apply.

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| Section 10(3)(c) | Electric, gas, water and sewer utilities - effect upon average bill for each customer class to which change will apply. | Exhibits L and N |
| Section 10(3)(d) | Local exchange companies include effect upon average bill for each customer class for change in basic local service. | Not A LEC |
| Section 10(4) | If copy of public notice included, did it meet requirements?* | Exhibit L |

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| Section 8(1) | Full name and post office address of applicant and a reference to the particular provision of law requiring Commission approval. | Application |
| Section 8(2) | The original and 10 copies of the application with an additional copy for any party named therein as an interested party. | Electronic filing |
| Section 8(3) | If applicant is a corporation, a certified copy of the Articles of Incorporation and all amendments thereto <u>or</u> if the articles were filed with the PSC in a prior proceeding, a reference to the style and case number of the prior proceeding. | Not a corporation |
| KRS 278.300(2) | Every financing application shall be made under oath, and shall be signed and filed on behalf of the utility by its president, or by a vice president, auditor, comptroller or other executive officer having knowledge of the matters set forth and duly designated by the utility. | Affidavit provided |

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| Section 11(1)(a) | Description of applicant's property. | Exhibit C |
| | Statement of original cost of applicant's property and the cost to the applicant, if different. | Exhibit C |
| Section 11(1)(b) | If stock is to be issued: and kinds to be issued. | None |
| | --Description of amount and kinds to be issued. | |
| | --If preferred stock, a description of the preferences. | None |
| | If Bonds or Notes or Other Indebtedness is proposed: | Exhibit A,D |
| | --Description of the amount(s) | |
| | --Full description of all terms | Exhibit A,D |
| | --Interest rates(s) | Exhibit A,D |
| | --Whether the debt is to be secured and if so a description of how it's secured. | Exhibit B,D |

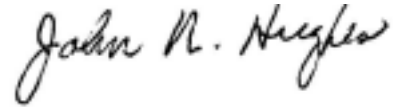
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| Section 11(1)(c) | Statement of how proceeds are to be used. Should show amounts for each type of use (i.e., property, debt refunding, etc.) | Application Exhibits A and O |
| 807 KAR 5:001: | | |
| Section 11(1)(d) | If proceeds are for property acquisition, give a full description thereof. Supply any contracts. | Application |
| Section 11(1)(e) | If proceeds are to refund outstanding obligations, give: | No refunding |
| | --Par value | |
| | --Amount for which actually sold | |
| | --Expenses and application of proceeds | |
| | --Date of obligations | |
| | --Total amount | |
| | --Time held | |
| | --Interest rate | |
| | --Payee | |
| Section 11(2)(a) | Financial Exhibit (see below) | |
| Section 11(2)(b) | Copies of all trust deeds or mortgages. If previously filed, state case number. | Exhibit C |
| Section 11(2)(c) | If Property to be acquired: | Exhibit O |
| | --Maps and plans of property. | |
| Section 11(2)(c) | --Detailed estimates by USOA account number. | Not applicable |
| 807 KAR 5:001 | | |
| Section 6(1) | Amount and types of stock authorized. | None |
| Section 6(2) | Amount and types of stock issued and outstanding. | None |
| Section 6(3) | Detail of preference terms of preferred stock. | None |
| Section 6(4) | <u>Mortgages:</u> | <u>Ex C, D, J</u> |
| | --Date of Execution | |
| | --Name of Mortgagor | |
| | --Name of Mortgagee or Trustee | |
| | --Amount of Indebtedness Secured | |

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| | --Sinking Fund Provisions | |
| Section 6(5) | <u>Bonds</u> | <u>Ex A, C, D, J</u> |
| | --Amount Authorized | |
| | --Amount Issued | |
| | --Name of Utility Who Issued | |
| | --Description of Each Class Issued | |
| | --Date of Issue | |
| | --Date of Maturity | |
| | --How Secured | |
| | --Interest Paid in Last Fiscal Year | |
| Section 6(6) | <u>Notes Outstanding:</u> | <u>Ex C, D, J</u> |
| | --Date of Issue | |
| | --Amount | |
| | --Maturity Date | |
| | --Rate of Interest | |
| | --In Whose Favor | |
| | --Interest Paid in Last Fiscal Year | |
| Section 6(7) | <u>Other Indebtedness:</u> | <u>Ex C, D, J</u> |
| | --Description of Each Class | |
| | --How Secured | |
| | --Description of Any Assumption of Indebtedness by Outside Party (i.e., any transfer) | |
| | --Interest Paid in Last Fiscal Yr. | |
| Section 6(8) | Rate and amount of dividends paid during the five (5) previous fiscal years and the amount of capital stock on which dividends were paid each year. | None |
| Section 6(9) | Detailed income statement and balance sheet. | Exhibit J |

I certify that a copy of this Petition was served on the Attorney General, 1024 Capital

Center Dr. by electronic service on the 29th day of June, 2012.

SUBMITTED BY:

A handwritten signature in cursive script that reads "John N. Hughes".

John N. Hughes
124 W. Todd St.
Frankfort, KY 40601
Attorney for Northern
Kentucky Water District