

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

Northern Kentucky Water District ("NKWD"), pursuant to 807 KAR 5:001, shall file with the Commission the original, one paper copy and one electronic copy of the following information, with a copy to all parties of record. The information requested herein is due on or before September 14, 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.

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 should be given to copied material to ensure that it is legible. 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. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 1.

a. Explain in detail why the annual automobile allowance of \$18,000 that NKWD pays to its President is reasonable.

b. State whether the annual automobile allowance of \$18,000 paid to NKWD's President has been included in NKWD's proposed pro forma salaries.

c. State NKWD's expected annual cost if it provided its President a company automobile in lieu of an automobile allowance. Show all calculations and state all assumptions used to develop the expected annual cost.

d. Describe the recordkeeping requirements that NKWD imposes upon its President to document his personal automobile expenses and usage.

e. Provide all written policies that NKWD has currently in effect that address automobile allowances to its officers.

f. Provide the minutes of each NKWD Board of Commissioners meeting held since January 1, 2005 in which an automobile allowance to any NKWD officer is discussed.

2. Refer to NKWD's Response to Commission Staff's Second Information Request, Items 5(a) and 5(b). Provide the dollar amount for each revenue account listed in 5(a) that was used by NKWD to calculate its "Revenue As Adjusted" of \$42,486,874.

3. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 5(a), and NKWD's Supplemental Filing of June 14, 2010, Item 6, Summary of Revenue Requirements Test Year 2009.

a. In its calculation of the requested revenue requirement, NKWD included pro forma operating expenses, net of depreciation and amortization expenses, of \$24,479,122.¹ When pro forma operating expenses of \$24,479,122 are adjusted by the two percent annual escalation factor, an annual expense of \$24,968,704² results. This expense level is \$321,735 greater than the operating expenses of \$24,646,969 the NKWD lists for Year One. Describe how NKWD calculated the Year One operating expenses of \$24,646,969. Show all calculations and state all assumptions used to develop the operating expense level.

¹ \$23,815,181 (Operations and Maintenance Expense) + \$663,941 (Taxes Other Than Income) = \$24,479,122.

² \$24,479,122 x 2% = \$489,582 + \$24,479,122 = \$24,968,704.

b. State how NKWD determined that the use of a two percent escalation factor was reasonable and appropriate. Identify all reports, studies, and analyses upon which NKWD relied in reaching its determination. If any of the identified reports, studies, or analyses is not readily accessible through the Internet, provide a copy of such report, study, or analysis.

4. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 6. NKWD states that the cost for the position of Vice President of Customer Accounts is included in its 2010 pro forma labor expense but that NKWD's President is still analyzing the future need for this position. Given the uncertainty of whether this position will be filled in the foreseeable future, explain why the salary and benefits costs associated with the position should be included in NKWD's pro forma operating expenses.

5. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 7. In Case No. 2010-00038,³ the Commission authorized NKWD to enter into a loan agreement with Kentucky Infrastructure Authority ("KIA") to borrow \$8,000,000 to fund improvements at the Memorial Parkway Treatment Plant. NKWD has advised the Commission in writing that the KIA loan bears an interest rate of three percent per annum and will have a 20-year term.

a. State the date on which NKWD executed its loan agreement with KIA.

³ Case No. 2010-00038, Application of Northern Kentucky Water District for a Certificate of Public Convenience and Necessity to Construct and Finance Memorial Parkway Treatment Plant (Ky. PSC Apr. 21, 2010).

b. Provide a copy of the amortization schedule for the KIA loan on a computer disc in Microsoft Office Excel format.

c. Explain in detail why NKWD did not include the debt service for the KIA loan in its "Gross Debt Service Structure Report."

d. Refer to NKWD's Response to Commission Staff's Second Information Request, Items 5(b), 5(d), and 5(e). Describe how the debt service for the KIA loan will affect the calculations that NKWD provided in these responses.

6. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 7. In Case No. 2008-00188,⁴ the Commission authorized NKWD to enter into a loan agreement with the KIA to borrow \$2,700,000 to fund improvements at the Fort Thomas Treatment Plant. KIA had authorized a loan of \$4,000,000 to finance the proposed facility and distribution upgrades.

a. State the date on which NKWD executed its loan agreement with KIA to obtain the \$2,700,000 loan.

b. State the date on which NKWD executed or will execute a loan agreement with KIA to obtain the additional \$1,300,000.

c. State whether the loan approved in Case No. 2008-00188 is listed in the Gross Debt Service Report and the Principal Reduction Report as the Series 2010-KIA Loan. If yes, indicate where it is found in these reports.

⁴ Case No. 2008-00188, Application of Northern Kentucky Water District for Approval of Construction of Pretreatment Building Improvements at Fort Thomas Treatment Plant and Issuance of A Certificate of Convenience and Necessity (Ky. PSC Aug. 13, 2008).

d. If the response to Item 6(c) above is yes, explain why the total principal payments for the Series 2010-KIA Loan are listed as \$4,000,000 in the Principal Reduction Report but NKWD has only received Commission authorization to obtain \$2,700,000 of the \$4,000,000 KIA loan.

7. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 7. Given that the Commission authorized NKWD to obtain the Series 2010-KIA Loan on August 13, 2008 and the Series 2010-AMR Loan on August 21, 2010,⁵ explain why these loans are identified on the Gross Debt Structure Report and the Principal Reduction Report as "Estimated."

8. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 9(a). NKWD calculated its three-year average debt service of \$17,314,762 using the annual debt service for the years 2010, 2011, and 2012.

a. State whether the debt service for the KIA loan of \$8,000,000 is included in the average debt service of \$17,314,762.

b. Given that NKWD's proposed rates have been suspended until January 1, 2011, explain why it is appropriate to include the annual debt service payments for 2010 in the calculation of NKWD's three-year average debt service.

c. State NKWD's three-year average debt service if the annual debt service payments for the calendar years 2011, 2012, and 2013 are used and the debt service for the KIA loan of \$8,000,000 is included in the calculation.

⁵ Case No. 2009-00266, Application of Northern Kentucky Water District for Approval of Financing for the Purchase and Installation of Automated Meter Reading Equipment (Ky. PSC Aug. 21, 2009).

d. Refer to NKWD's Supplemental Filing of June 14, 2010, Item 6, "Summary of Revenue Requirements Test Year 2009." Provide a revised revenue requirement using the average debt service NKWD calculated in its response to Item 8(c).

9. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 9(b). The Commission requested NKWD to "list all rate adjustment proceedings in which the Kentucky Public Service Commission has authorized the inclusion of the amortization in NKWD's revenue requirement." NKWD's response was not responsive. Provide the information that was originally requested.

10. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 10, and NKWD's Supplemental Filing of June 14, 2010, Item 6, "Summary of Revenue Requirements Test Year 2009." State whether NKWD has included the Commission assessment of \$63,775 in its pro forma operation and maintenance expense of \$23,815,181 and in its taxes other than income tax expense of \$663,941.

11. Refer to NKWD's Response to Commission Staff's Second Information Request, Items 11 and 19.

a. State whether the subdivision revenue of \$1,803,434 listed in the schedule NKWD provided in its Response to Item 11 represents the sub-district surcharge collections.

b. If the response to Item 11(a) above is yes, explain the difference between the \$1,803,434 listed in that schedule and the \$612,708 that is calculated for the sub-district surcharge collections shown in NKWD's Response to Item 19.

c. If the response to Item 11(a) is no, provide a more detailed description of the \$1,803,434 of subdivision revenue and explain why NKWD uses this revenue as an offset to its interest expense.

12. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 11, and NKWD's Annual Report to the Public Service Commission for the Calendar Year Ended December 31, 2009 ("2009 Annual Report") at 10. In the schedule provided in its response to Item 11, NKWD shows that \$192,329⁶ in credits were recorded in Account 426, Nonutility Income, but in the 2009 Annual Report this account has a debit balance of \$229,112. Provide a detailed explanation for the apparent discrepancy of \$421,441 between the revenues listed in the schedule to the debit amount reported in the 2009 Annual Report.

13. Refer to the Application, Exhibit N, Cost-of-Service Study, Schedule B at 1.

a. In the allocation of costs for transmission and distribution operations, gas expense was allocated by using Factor 6, "costs associated with transmission and distribution mains." Explain why this factor was used instead of Factor 1, "costs that vary with the amount of water used."

b. If Factor 6 is an appropriate method for allocating these costs, explain why the same factor should not be used when allocating purchased power costs. If the use of Factor 6 is not appropriate, explain why not.

⁶ \$34,855 (Lab Test Fees) + \$87,023 (Material Sold) + \$59,715 (Income Miscellaneous) + \$7,549 (Commission on Sales Tax) - \$80 (Cash Over (Short)) + \$3,267 (Miscellaneous Income) = \$192,329.

c. Explain why costs for "gas" would be used for water treatment operations. State whether this reference refers to costs for natural gas or gasoline.

14. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 16, Factors for Allocating Cost of Service to Customer Classification, Factor 4, Allocation of Costs Associated With Facilities Serving Base And Maximum Hour Extra Capacity Functions. There appears to be a reference error in the calculations concerning Private Fire Protection.

- a. Provide a revised Factor 4 page with the reference corrected.
- b. If no reference error exists in NKWD's calculations, explain this reference error in the electronic version submitted to the Commission.

15. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 23. NKWD states that the "normal residential consumption is 18.22 CCF per quarter or 6.07 CCF per month."

- a. Explain how this level was determined to be the "normal residential consumption per quarter and per month."
- b. Identify the person(s) who determined the level of "normal residential consumption per quarter and per month."
- c. Provide all workpapers, state all assumptions, and show all calculations pertaining to the determination of the "normal residential consumption per quarter and per month."
- d. Provide the "normal residential consumption per quarter and per month" for the years of 1998-2008.

16. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 25.

a. State whether NKWD intends to submit to the Commission a revised tariff that defines and outlines when this Overtime Charge will be assessed to NKWD customers.

b. If NKWD does not intend to submit a revised tariff containing such provisions, explain why not.

c. Explain how a customer will know when the Overtime Charge will be assessed.

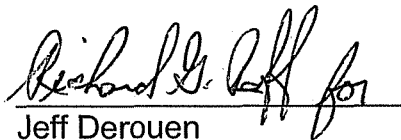
d. Explain how applying the Overtime Charge to a customer's arrears portion of his or her bill is appropriate.

e. Explain why a separate line charge is not being used to inform the customer of the charge type with the amount of the charge.

17. Refer to NKWD's Response to Commission Staff's Second Information Request, Item 16. When the Excel spreadsheet file is opened, the following error message appears: "Microsoft Office Excel cannot calculate a formula. Cell references in the formula refer to the formula's result, creating a circular reference." Provide a revised Microsoft Office Excel spreadsheet correcting the circular references on a computer disc.

18. Assume that NKWD has failed to properly calculate its revenue requirement and that its requested rates will produce approximately 30 percent below the correct revenue requirement. State NKWD's position on whether this would require NKWD to amend its Application to request rates that produce the correct revenue requirement and if it should be required to give a revised customer notification of the increased rates.

19. Refer to NKWD's response to Commission Staff's Second Information Request, Item 27. State whether the "Business Ethics and Conduct" code applies to NKWD's commissioners. If no, explain why not.



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DATED: AUG 3 1 2010

cc: Parties of Record

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