

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY)
WATER DISTRICT FOR AN ADJUSTMENT)
OF RATES, ISSUANCE OF BONDS, AND) CASE NO. 2012-00072
FINANCING)

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

Pursuant to 807 KAR 5:001 and the Commission's Order of July 20, 2012, Northern Kentucky Water District ("Northern District") shall file with the Commission on or before September 6, 2012, the original, one paper copy, and one electronic copy of the following information. 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.

Northern District shall make timely amendment to any response if it obtains information that 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 Northern District fails or refuses to furnish all or part of the requested information, Northern

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. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Northern District's Petition, Exhibit A at 8 and 10.

a. State whether any of the debts listed in "Gross Debt Service Structure Report (Senior Debt Only After Series 2012 Refunding)" take a subordinate or inferior position to other debts listed in this report. If yes, identify those debts and the debts to which they are subordinate.

b. State whether any of the loans from the Kentucky Infrastructure Authority ("KIA"), which are listed in "Gross Debt Service Structure Report After Series 2012 Refunding)" have a subordinate or inferior position to any of the debts listed in "Gross Debt Service Structure Report (Senior Debt Only After Series 2012 Refunding)." If yes, identify each of the KIA debts that have a subordinate position and the debts to which the KIA debt is inferior.

c. Provide for each KIA debt listed in "Gross Debt Service Structure Report After Series 2012 Refunding)" a copy of the loan agreement, promissory note, and security interest agreement for that debt.

d. For each KIA debt listed in "Gross Debt Service Structure Report After Series 2012 Refunding),"

(1) State the debt service coverage that KIA required.

(2) State the section of the loan agreement with KIA where this debt service coverage amount is found.

2. Refer to Northern District's Petition, Exhibit N, "Summary of Revenue Requirements Test Year 2011." State whether, in determining its Debt Service Coverage Requirement as \$3,793,192, Northern District assumed 20 percent debt service coverage on all of its loans from KIA. If yes, explain why Northern District assumed 20 percent debt service coverage.

3. Refer to Northern District's Petition, Exhibit A at 8. On the "Gross Debt Service Report (After Series 2012 Refunding), the term "Estimated" appears in the column heading for "Series 2008 KIA 08-07 Loan" and "Series 2010 KIA 09-02 Loan." Explain why these loans have been "Estimated."

4. Refer to Northern District's Petition, Exhibit N, Schedules G and K; Northern District's Response to Commission Staff's Second Request for Information, Item 8.

a. Explain why the amounts listed on Schedule G and Schedule K for "Bulk Water Sales" and "Other Operating Revenues" are omitted from "Revenue As Adjusted" in Item 8.

b. If these omissions were inadvertent, recalculate the coverage ratios shown in Northern District's Response to each section of Item 8 to include the appropriate level of bulk sales and other operating revenue.

c. State whether operating expenses listed in Northern District's Responses to each section of Item 8 exclude depreciation.

5. Refer to Northern District's Response to Commission Staff's Second Request for Information, Item 9(b) and (c); Northern District's Petition, Exhibit N, "Summary of Revenue Requirements Test Year 2011."

a. Northern District's Response to Item 9(b) did not include a copy of the document(s) that require Northern District to maintain 20 percent debt coverage. Provide these documents.

b. Column A in Table I details the calculation of Northern District's revenue requirement from rates as presented in Exhibit N as well as the resulting required revenue increase. Column A also shows the Debt Service Coverage Ratio resulting from the increase. Column B presents the same information as Column A except that the Debt Service Coverage component is removed from the calculations. As shown above in Column A, Northern District includes operation and maintenance expenses, debt principal and interest payments, debt service coverage, depreciation expense, amortization of acquisition adjustments, and taxes other than income in the calculation of its total revenue requirement. It is understood that recovery of operation and maintenance expenses, debt principal and interest payments, and taxes other than income are necessary to provide cash to pay the expenses and debts of the district and that recovery of depreciation and amortization of acquisition adjustments is necessary to recover the investment in plant to provide internal funding for ordinary renewals and replacement of service. Explain why Northern District must include the Debt Service Coverage in the calculation of revenue requirements. This explanation should include a description of the anticipated use of these funds after they are recovered.

Table I

	Column A	Column B
Calculation of Required Revenue Increase/(Decrease)		
Operation and Maintenance Expense	\$ 22,779,395	\$ 22,779,395
Debt Service Requirements	18,965,960	18,965,960
Debt Service Coverage	3,793,192	
Depreciation Expense	9,296,885	9,296,885
Amortization of Acquisition Adjustment	201,120	201,120
Taxes Other Than Income	630,798	630,798
Total Revenue Required	55,667,350	51,874,158
Other Operating Revenue	(3,770,347)	(3,770,347)
Revenue Required from Water Service Rates	51,897,003	48,103,811
Less: Pro forma Present Water Service Rate Revenue	(48,650,077)	(48,650,077)
Required Revenue Increase	\$ 3,246,926	\$ (546,266)
Resulting Debt Service Coverage		
Total Revenue	\$ 55,667,350	\$ 51,874,158
Less: Expenses	(32,908,198)	(32,908,198)
Add Back: Depreciation	9,296,885	9,296,885
Net Revenues for Debt Service Coverage Calculation	32,056,037	28,262,845
Divided by: Maximum Annual Debt Service Requirement		
Requirement, Refer to Application, Exhibit A, Page 8.	\$ 20,661,038	\$ 20,661,038
DSC ratio	155%	137%

Note that the coverage requirement requested by Northern District is equal to 20 percent of the debt principal and interest payments and that, as shown in Column B, after removing this amount from the revenue requirement, revenues could be decreased by \$546,266 and the resulting debt service coverage ratio would be 137 percent of the maximum annual principal and interest payments which exceeds the 120 percent required by Northern District's debt instruments.

6. In Case No. 2005-00148,¹ the Commission reduced payroll taxes and employee pensions and benefits to remove the portion that should be capitalized as payroll overhead. Explain why Northern District did not propose such an adjustment in this proceeding.

7. Refer to Northern District's Response to Commission Staff's Second Request for Information, Item 5(a).

a. Northern District refers to the "Payout of Accrued PTO for terminating employees." Define "PTO."

b. Provide Northern District's written policy regarding the accrual of employee PTO.

c. Provide Northern District's written policy regarding the payout of PTO to current and terminated employees.

d. Provide a breakdown of the \$55,457 of PTO by terminated employee position and identify the period the PTO was accrued over. Include a detailed calculation of the PTO.

e. Provide the journal entry(s) Northern District records accruing the employee PTO.

f. Provide the journal entry(s) Northern District records when the employee PTO is paid out for employees that are terminated and to current employees.

g. State when Northern District records the accrual of the employee PTO (i.e.; monthly, quarterly, annual).

¹ 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; and (C) Issuance of Bonds* (Ky. PSC Apr. 28, 2006) at 9-10.

h. (1) Identify by position title the employee receiving the "One Week Unused PTO Buyback" of PTO of \$66,788.

(2) Describe how this amount was determined. Show all calculations and state all assumptions used.

i. Explain why, if the pro forma salaries and wages expense reflects that each employee worked 2,080 hours in the test year, the accrued payroll adjustment of \$15,084 of third-party sick pay should be reflected in the pro forma adjustment.

j. Describe in detail each item listed below and explain why it should be included in Northern District's pro forma salaries and wages expense:

(1) Increase in Accrued Payroll Year End 2010 to 2011 of \$15,084.

(2) Third Party Sick Pay for Short Term Disability of \$14,829.

(3) Miscellaneous Taxable Benefit of \$14,500.

(4) Decrease in Accrued Vacation/Sick Year End 2010 to 2011 of \$(44,154).

(5) Miscellaneous Capitalized Payroll of \$39,831.

8. State for each year from 2009 through 2011 Northern District's accrued PTO liability balance as of December 31.

9. Refer to Northern District's Response to Commission Staff's Second Request for Information, Item 5(c). Describe each item listed in that schedule and explain why it should be included in Northern District's pro forma employee pension and benefit expense.

10. Provide the most recent "Business Ethics and Conflicts of Interest Policy" of Northern District's Board of Commissioners.

11. Provide a copy of the Northern District's current employment contract with its President.

12. Provide a copy of Mr. Bragg's presentation to Northern District's Board of Commissioners on February 25, 2011 regarding monthly and quarterly billing.

13. List all legal actions in which Northern District is currently involved and state the current status of each action.

14. Refer to "Status Report Implementation of Monthly Billing (March 31, 2011)."

a. Provide a copy of the survey forms regarding monthly billing that Northern District placed on its website.

b. Provide a copy of the opinion forms that were placed in Northern District's office lobby to solicit customer opinions.

c. Provide a sample of the message on customer bills to encourage customer participation in Northern District's web survey.

d. Provide a copy of the results of the surveys if additional information not included in the Status Report of March 31, 2011.

e. Explain why Northern District believes that the sampling of 356 customers is representative of customer opinion. The response should describe the analysis applied to the results to determine that sample was representative.

15. a. State whether Northern Kentucky accepts payment of fees by credit card.

b. If Northern Kentucky accepts such payments, state whether a customer paying his or her bills by credit must pay a separate fee to make payment by credit card.

c. State Northern District's cost per transaction to accept payment by credit card. If the cost of the transaction is based upon a percentage of the bill, provide the percentage. If costs vary due to the credit card provider used (e.g., Discover, MasterCard, Visa), indicate the cost associated with each provider.

d. State the average number of bills per quarter that were paid by credit card in calendar year 2011.

e. State the average total amount of customer payments per quarter in calendar year 2011 that were made by credit card payments.

f. State the average percentage of total customer bills per quarter that were paid by credit card in calendar year 2011.

16. Refer to Northern District's Response to Commission Staff's Second Request for Information, Item 21.

a. Describe Northern District's current program to reduce non-revenue water.

b. Provide a copy of Northern District's contract with ADS Environmental Services.

c. Provide all written guidance that Northern District has provided to ADS Environment Services regarding the conduct of the pilot program.

d. Identify the water main sections that were examined in 2010 (15 miles) and 2011 (67 miles). Explain why these sections were selected for the pilot program. State the criteria used for the selection.

e. Describe the results of the 2010 and 2011 main inspection.

17. Refer to Northern District's Response to Commission Staff's Second Request for Information, Item 18.

a. In Case No. 2010-00094,² the Commission placed Northern District "on notice that it would have to explain why a declining block rate design is appropriate given the recent trends within the water industry." Explain why Northern District failed to provide any instructions to its consultant to explore the benefits and disadvantages of using a declining block rate design and the use of an alternative rate design.

b. Describe all studies and analyses that Northern District conducted or commissioned regarding the use of alternative rate designs. Provide a copy of such studies or analyses.

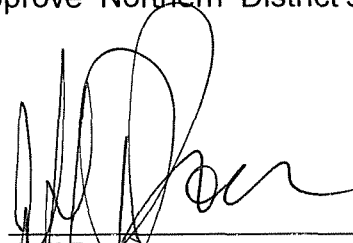
c. List and describe all studies, reports, articles, monographs, or other papers that Northern District reviewed before deciding to retain its current rate design. If no studies, reports, articles, monographs, or other papers were reviewed, explain why not.

d. Provide all internal memoranda, electronic mail messages, and correspondence in which Northern District officials discussed the use of alternative rate design or revisions to its existing declining rate block structure.

² Case No. 2010-00094, *Application of Northern Kentucky Water District for an Adjustment of Rates, Issuance of Bonds, and Tariff Changes* (Ky. PSC Jan. 7, 2011) at 26, n.97.

e. State the date of each meeting of Northern District's Board of Commissioners since January 1, 2011 in which Northern District's current rate design and possible changes or alternatives to that design were discussed.

f. State and discuss all reasons not previously provided in Northern District's response to Commission Staff's Second Request for Information for Commission why the Commission should approve Northern District's proposed rate structure.



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DATED **AUG 24 2012**

cc: Parties of Record

Case No. 2012-00072

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