

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN KENTUCKY)
WATER DISTRICT FOR AN ADJUSTMENT) CASE NO.
OF RATES) 2015-00143

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

Northern Kentucky Water District ("Northern District"), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic copy of the following information. The information requested herein is due on or before September 14, 2015. Responses to requests for information in paper medium 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 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

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 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. When filing a document containing personal information, Northern District shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the document so that personal information cannot be read.

1. Refer to Northern District's application, Exhibit A, Comparative Operating Statement, page 10, and the Revenue Requirement Schedule,¹ Table 2: Revenue Requirement Comparison ("Revenue Requirement Comparison").

a. In its Comparative Operating Statement, Northern District reports operation and maintenance expenses of \$24,803,454, but in its revenue requirement calculation, Pro Forma Operating Expenses total \$24,712,281. Provide a detailed reconciliation for the differing amounts.

b. In its Comparative Operating Statement, Northern District reports Depreciation of \$11,006,545, but in its Revenue Requirement Comparison, Depreciation totals \$9,355,563. Provide a detailed reconciliation for the differing amounts.

¹ Northern District's Revenue Requirement Schedule (filed July 20, 2015).

c. In its Comparative Operating Statement, Northern District reports Taxes Other Than Income of \$566,125, but in its Revenue Requirement Comparison, Taxes Other Than Income equals \$657,298. Provide a detailed reconciliation for the differing amounts.

2. Refer to Northern District's Revenue Requirement Comparison, and Exhibit B, Schedule L, Summary of ProForma Revenues Under Present Rates for the Twelve Months Ended December 31, 2014. Northern District has determined its Revenue Requirement – Water Sales as \$55,516,145 and in its application requests an increase in revenues of \$4,840,032.

a. State for each phase of the phase-in period the amount of the requested rate increase.

b. Northern District reports on Schedule L, Billing Analysis Revenues from Present Rates of \$49,604,341.² Subtracting this amount from the Revenue Requirement – Water Sales of \$55,516,146 results in an increase of \$5,911,805, which is \$1,071,773 more than the requested revenue. Provide a detailed explanation of the differing amounts.

c. Northern District reports Other Operating Revenues of \$3,344,517 on Schedule L, and \$3,403,711 of Other Operating Revenues in its Revenue Requirement Comparison. Reconcile the differing amounts.

3. Refer to Northern District's application, Exhibit B. In Schedule L, Northern District reports Other Operating Revenues of \$3,344,517. Provide a schedule that lists

² \$49,551,594 (Total Sales of Water) + \$52,747 (Bulk Water Sales) = \$49,604,341.

each revenue included in this total and reconcile any difference between these amounts to those listed in Schedule B at page 5.

4. Refer to Northern District's Revenue Requirements Comparison.

a. In calculating its debt service coverage, Northern District uses an Average Debt Service – Senior Debt of \$17,731,385. Provide a detailed schedule showing how Northern District calculated this amount and how the senior debt differs from the Bonded Debt that appears in this schedule.

b. In calculating its revenue requirement, Northern District uses an Average Debt Service – Bonded Debt of \$20,447,317. Provide a detailed schedule showing how Northern District calculated this amount.

5. Refer to Northern District's application, Exhibit C at 28; Northern District's Response to Commission Staff's First Request for Information ("Staff's First Request"), Items 8 and 11.

a. In its 2014 Annual Report, Northern District reports total salaries and wages expense of \$7,931,952,³ but reported in its Response to Staff's First Request, Item 8, salaries and wages of \$8,184,569, a difference of \$252,617. Provide a detailed explanation for the differing amounts.

b. In its 2014 Annual Report, Northern District reports employee pension and benefits expense of \$4,080,951, but reported in its Response to Staff's First Request, Item 11, pension and benefits of \$3,859,252, a difference of \$221,699. Provide a detailed explanation for the differing amounts.

³ \$7,895,952 (Salaries and Wages – Employees) + \$36,000 (Salaries and Wages – Officers) = \$7,931,952.

6. Refer to Northern District's Response to Commission Staff's First Information Request, Item 8.

a. For those positions that are listed as vacant, state the reason(s) why the position is vacant and whether Northern District intends to fill the position.

b. State the current status of Northern District's efforts to fill the vacant positions.

c. State whether any of the costs associated with the former employees are included in the 2014 operating expenses and the total amount of these costs. Explain.

7. Refer to Northern District's application, Exhibit A at 28. Northern District reports in Account 633, Contractual Services – Engineering, a balance of \$128,422. List each expenditure included in this expense account and provide a detailed description of that expenditure and all invoices related to that expenditure.

8. Refer to Northern District's application, Exhibit A at 28. Northern District reports in Account 631, Contractual Services – Accounting, a balance of \$30,800. List each expenditure included in this expense account and provide a detailed description of that expenditure and all invoices related to that expenditure.

9. List each fringe benefit provided to Northern District's president and vice-presidents and state the cost of that benefit.

10. Provide all correspondence, electronic mail messages, memorandum and all other documents exchanged between Northern District and Gannett Fleming Inc. that discuss the performance and preparation of the cost-of-service study that Northern District submitted in this proceeding.

11. In the Direct Testimony of Constance E. Heppenstall (“Heppenstall Testimony”), in response to question 27, it states: “The 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 the proposed Step 2 rates.

12. In Heppenstall Testimony, in response to question 23, it 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. Identify and discuss the theory or policy rationale for the guidelines.

13. Refer to the Heppenstall Testimony, response to question 16.

a. State whether the estimated demands used in the current cost-of-service study are the same as used in the cost-of-service study submitted in Case No. 2012-00072.

b. If the estimated demands are not the same, explain why. Describe all changes in the methodology used to determine estimated demands in the current study from those used in the previous study and why these changes were implemented.

14. Describe how Northern District establishes the level of compensation for its president and senior management. This description should address the role of Northern District's Board of Commissioners in the process. Compensation includes salary and all fringe benefits.

15. Pursuant to the Governmental Accounting Standards Board Statement No. 68, Northern District will be required to record on the financial statements published after July 1, 2015, its portion of the County Employee Retirement System's ("CERS's").

a. State Northern District's current share of the net pension liability.

b. State the journal entry, or entries, that have been made, or will be made to record Northern District's share of the net pension liability.

c. Explain whether Northern District believes that it could ever be held financially liable for its portion of CERS's net pension liability, either in full or in part.

16. Refer to Northern District's application in Case No. 2012-00072,⁴ Exhibit A.

a. The following reports are included in this exhibit: Gross Debt Structure Report and Gross Debt Structure Report Senior Debt Only. Provide updates to these reports to reflect Northern District's current outstanding debt.

b. Using these reports show how Northern District calculated its debt service used in the cost-of-service study.

c. Provide the schedules requested in Item 15(a) in Microsoft Excel format.

⁴ Case No. 2012-00072, *Application of Northern Kentucky Water District for an Adjustment of Rates, Issuance of Bonds, and Financing* (Ky. PSC Dec. 20, 2012).

17. Refer to Northern District's application, Exhibit I, and the Final Order in Case No. 2006-00398.⁵ Provide a schedule comparing the depreciation lives being used in this current case to those lives authorized by the Commission in Case No. 2006-00398. Include a detailed explanation for any depreciation lives currently being used that differ from those depreciation lives that the Commission authorized.

18. Refer to Northern District's application, Exhibit B, page 6 of Schedule H, page 2 of Schedule I, and page 30 of Exhibit A.

a. Total Water Sales of 7,814,808,000 gallons in Exhibit A, page 30, converts to 10,447,604 CCF. This differs from the amounts reported for water sales on the Consumption Analysis of 10,440,187 CCF, by 7,417 CCF. Reconcile the amounts for water sales on these two schedules.

b. Exhibit B, Schedule I ,details Consumption Adjustments made to the Consumption Analysis made on the previous pages. Explain what assumptions were made in the consumption adjustments and provide any calculations that were made to reach these figures in detail.

19. Refer to Northern District's application, Exhibit A, page 30. Describe how each item in this report was derived. Provide all documents and work papers used to derive each item, state all assumptions used and show all calculations.

20. Refer to Northern District's application, Exhibit H, 2014 Financial Statements and Independent Auditor's Report, page 28. The 1985 General Bond Resolution (as amended November 17, 1987) requires Northern District's "net annual

⁵ Case No. 2006-00398, *Application of Northern Kentucky Water District for Approval of Depreciation Study* (Ky. PSC Nov. 21, 2007).

income and revenues, as adjusted, be equal to at least one and twenty hundredths (1.20) times the maximum debt service.”

a. Provide a detailed calculation showing that, in Year One of Northern District’s phase-in approach, its requested revenue requirement is in compliance with the 1985 General Bond Resolution as amended. Include all work papers and state all assumptions used in the calculation.

b. Provide a detailed calculation showing that, in Year Two of Northern District’s phase-in approach, its requested revenue requirement is in compliance with the 1985 General Bond Resolution as amended. Include all work papers and state all assumptions used in the calculation.

c. Provide the calculations and assumptions used by Northern District in formulating its responses to parts a. and b. of this question.

21. In Case No. 2005-00148,⁶ the Commission reduced payroll taxes and employee pensions and benefits to remove the portion that should be capitalized as payroll overhead.

a. Using the methodology employed by the Commission, provide a detailed calculation showing the test-year payroll taxes and employee pensions and benefits that should be capitalized as payroll overhead.

b. Has Northern District excluded the capitalized portion of payroll taxes and employee benefits from its test-year operating expenses?

⁶ 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.

c. If Northern District's response to part b. of this question is no, explain why it did not propose to eliminate those costs.

22. In Case No. 2003-00224,⁷ the Commission denied the recovery of the costs of employee benefits⁸ that Northern District provided to members of its Board of Commissioners.

a. Provide the costs of the employee benefits Northern District provided to members of its Board of Commissioners in the test year.

b. Did Northern District remove the costs of the employee benefits provided to members of its Board of Commissioners test-year operating expenses?

c. If Northern District's response to part b. of this question is no, explain why it did not propose to eliminate those costs.



Jeff Derouen
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DATED **AUG 27 2015**

cc: Parties of Record

⁷ Case No. 2003-00224, *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 June 14, 2004) at 11-12.

⁸ Employee health insurance, life insurance, and dental insurance coverages.

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