

Hardin County Water District No. 1

Serving Radcliff and Hardin County for Over 50 Years

1400 Rogersville Road
Radcliff, KY. 40160

RECEIVED

February 10, 2011

FEB 11 2011

Mr. Jeff Derouen
Executive Director - Kentucky Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, KY 40620-0615

PUBLIC SERVICE
COMMISSION

**SUBJECT: Response to Data Request from PSC Staff, Dated 30-November-2010
Case 2010-00459 - Tariff for Non-Recurring Web / Internet Payment Fee**

Dear Director Derouen,

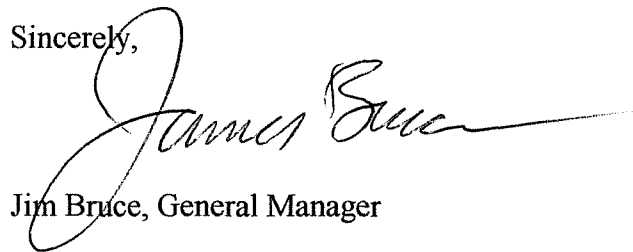
Enclosed please find an original and 10 copies of our response to a data request presented by Commission staff for the above tariff filing. The original deadline was 21-December. However, due to circumstances beyond our control, we requested two time extensions which were both approved by the Commission on 05-January and 28-January. We appreciate the Commission considering and approving these time extensions.

We believe that the responses provided will show that the costs included in our proposed fee are new, not currently being recovered and are fair and reasonable. The web / internet payment method is becoming increasingly popular for our customers providing time savings, fuel savings and overall convenience.

This method is not free however, as our District incurs technology costs, licensing fee costs, processing fees and involves two different suppliers. These added costs were not included in our last rate case (approved 2007) and we believe it is appropriate to recover through this fee. Customers certainly have several other payment methods available if they want to avoid paying this fee.

If you have any questions, please do not hesitate to call me or our attorney, Mr. David Wilson II (Phone: 270-351-4404).

Sincerely,



Jim Bruce, General Manager

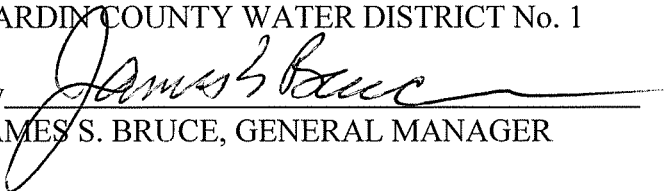
Cf; Mr. David Wilson II, HCWD1 Attorney

Encl.

VERIFICATION

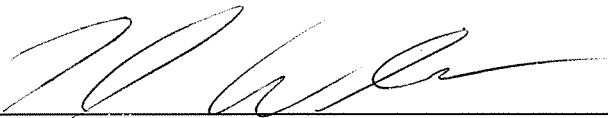
The undersigned, Mr. James S. Bruce, General Manager of the Hardin County Water District No.1, hereby verifies that he has personal knowledge of the matters set forth in the enclosed response to a Data Request from the Public Service Commission staff, dated 30-November, 2010, in the matter of a proposed tariff allowing the use of a non-recurring web payment fee and that he is duly designated by the Board of Commissioners of the Hardin County Water District No. 1 to sign and submit this information its behalf.

HARDIN COUNTY WATER DISTRICT No. 1

By 
JAMES S. BRUCE, GENERAL MANAGER

CERTIFICATION OF SERVICE

The undersigned, Mr. David Wilson, II, the attorney of the Hardin County Water District No. 1, hereby verifies that the foregoing was served on Mr. Jeff Derouen, Executive Director, Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, KY. 40601-8204 on this 16 Day of February, 2011

By 
Mr. David T. Wilson, II, ESQ, Attorney for Hardin County Water District No. 1

STATE OF KENTUCKY
COUNTY OF HARDIN

I, the undersigned, a Notary Public, do hereby certify that on this 10 day of February, 2011, personally appeared before me, James S. Bruce and David Wilson, who being by me first sworn, subscribed to and acknowledged that they both represent the Hardin County Water District No. 1, a Kentucky Corporation, that they have signed the foregoing document as General Manager and Attorney of the Corporation.


NOTARY PUBLIC, STATE OF KENTUCKY

My Commission Expires;

11-29-11

- Q1. Refer to the Nonrecurring Charge Cost Justification Document. For each of the following expense items, state whether each expense can be partially attributable to expenses incurred for something other than the iWeb MS web payment system.
- a. License Fee/Software/Setup - \$3,200
 - b. Website Design - \$2,600
 - c. Dedicated Server for Website - \$2,196
 - d. Comcast ISP Subscription - \$1,200
 - e. Iglou Email Hosting Service - \$180
 - f. LexNet Data back-up Service - \$1,321

- Answers:
- a. The iWEB MS License fee is required in order to process web payments and to directly interface with and credit customers HCWD1 accounts through the Harris / inHance customer billing / information system (CIS). This interface not only updates the customer balance, but also makes consumption and payment history available to the customer while accessing the web payment page. This cost is only for the new iWEB services and web payment method which costs were not included in the 2005 test year (Case No. 2006-00410) and therefore are not being recovered in its current rate structure.
 - b. The District's website was updated to allow iWEB to interface real time with the District's CIS. The District's initial purpose for developing its website was to provide a way for customers to make payments from home and view consumption and payment history. The update provided a direct link from the web payment, secure site, to the CIS without District staff having to manually update the customers balances each day, after the customer entered a web payment. Of this expense, we believe 100% is due to web based payments, either using the old manual interface method, or the current and updated iWEB method. This cost is for the District's second major website re-design, which costs were not included in the 2005 test year (Case No. 2006-00410) and therefore are not being recovered in its current rate structure.
 - c. Same answer as "b" above. The server is the same which originally was added to allow web site payments, and is still being used to now add features and functionality of the iWEB to Harris CIS interface. This cost is for a newer computer server which depreciation costs were not included in the 2005 test year (Case No. 2006-00410) and therefore are not being recovered in its current rate structure.
 - d. This is the ISP provider which enables the District to provide customers access to the WWW and its website. As with answer to "b", the primary purpose for the District providing a website is for customers to make remote payments. 100% of this cost is included in the web payment fee
 - e. This is the domain website domain name and email service router. This is necessary to maintain the "www.hcwd.com" website name and address for customers to locate through their browser and ISP provider. As with answer to "b", the primary purpose for the District providing a website is for customers to make remote payments. 100% of this cost is included in the web payment fee
 - f. This is 25% of the total annual cost for LexNet, a third party provider which provides remote back-up of all data on District key servers. Data is backed up to offsite data vaults approximately every 15 minutes to protect customers account information, credit card and other data which would be catastrophic if lost by a hardware failure at the District's office. Since only one server is dedicated to the website and the CIS (and iWEB), only that portion related to the one server has been included in the proposed web payment fee. This cost is for a new back-up, offsite service which the District starting using recently which costs were not included in the 2005 test year (Case No. 2006-00410) and therefore are not being recovered in its current rate structure.

WITNESSES: Jim Bruce, HCWD1 General Manager and Scott Schmuck, HCWD1 Finance & Accounting Manager

- Q2. For each expense listed in Item 1 above that can be partially attributable to expenses incurred for some purpose other than the iWEB MS web payment system:
- a. Explain why it is reasonable to recover the entire cost of that item through a nonrecurring charge for internet payments.
 - b. Estimate the cost or percentage of the total cost that will be incurred as a result of the iWEB MS web payment system only. For each expense listed in Item 1 above that can be partially attributable to expenses incurred for some purpose other than the iWeb MS web payment system:

Answer, Item "f" above to Question 1 has been partially attributed to the web payment fee and system. All other items are necessary to maintain and provide parts of the new iWEB and interface to CIS in order to provide customers the ability to make remote web payments.

- a. Each of these items and costs are directly related to providing customers the option to make web payments from home or remotely. As these costs are all new, they were not in place as part of the rate base and last rate case approved for the District in 2007 (Case 2006-00410). It is reasonable to recover these costs specifically from those customers who choose to use them method of payment, and who have been notified ahead of time of the additional fee, and are provided other methods of payment if they want to avoid paying the added fee.
- b. Other than item "f", all other costs are included in the calculation of the proposed fee.

WITNESSES: Jim Bruce, HCWD1 General Manager and Scott Schmuck,
HCWD1 Finance & Accounting Manager

Q3. Explain how Hardin District estimated 14,856 annual internet payments. If the estimate is based on historical usage, state whether the estimate was adjusted to account for potentially fewer customers paying online if they were assessed an additional fee for the service.

Answer; The estimate was based on web payments received January 2010 thru May 2010 which is a known and measurable amount or quantity and was not adjusted upward or downward, other than being annualized to a 12 month period.

The District does not believe that this payment method will decrease, even with the added fee. Payments by the web method were first start in November, 2004. Since then the annual increase of this method has grown by about 200% per year. Compared to the bank draft method (which was first offered in 1999), the web payment method has grown three times faster than the bank draft payment method.

Many stores, outlets, banks or other vendors which allow monthly payments to be made online have added processing fees or charges, but still this method continues explosive growth. The District believes this is in part to the added convenience, time savings and avoidance of having to drive to the District office or post office to mail or drop off a payment.

The District has provided Exhibit A (page 6) which is an article dated May 25, 2010 which provides data and statistics on the growth of on-line bill payments. With all the new customers which have moved to the area with the Ft. Knox, BRAC transformation, from other states, the District has found many of these customers demand and prefer web based payment options, and the growth of this payment method at the District reflects this trend, which is expected to continue. Furthermore, after the District made required public notice of the proposed fee, no comments, complaints or contacts were received to the District or to the Commission regarding adding the proposed fee.

WITNESSES: Jim Bruce, HCWD1 General Manager and Charlene Easter, HCWD1 Customer Service Manager

Q4. Explain how funds are tracked from the credit card company or customer's banking account to Hardin District. In the response, describe the involvement of Transaction Warehouse and Collector Solutions, and explain how these entities collect for their services.

Answer; The process begins with the customer making a payment that is processed by Collector Solution via the merchant account from the customer's credit card company or bank and then that amount is deposited into the District's bank account, typically within three business days. At the time the customer is beginning their web payment they are required to approve or accept the \$1.20 additional charge being added to their District account balance. If they do not agree, they can cancel the transaction and pay their bill by one of several other methods.

Transaction Warehouse (iWEB MS) is our hosted online payment interface connects with directly with our CIS, which provides direct link to the customers HCWD1 account. Transaction Warehouse transmits encrypted information to Collector Solutions to provide additional security of the customers credit card and account information. For each successful transaction Collector Solution calculates the transaction fee for their service and then adds \$1.00 for Transaction Warehouse's fee.

An monthly invoice is then sent to the District for the total amount of fees charged during the for all customer transactions completed (see attached Exhibit B, pages 7~9). The District pays Collector Solution the full amount and Collector Solution pays Transaction Warehouse their portion. The District charges these costs to its "Contractual Services" expense account (10.15.6350000) which is in the Customer Service cost center. The \$1.20 revenue is credited to a separate revenue account so it is not added directly to any water or sewer amount billed or meter fees.

WITNESSES: Charlene Easter, HCWD1 Customer Service Manager

Q5. Explain why Hardin District has proposed a nonrecurring charge for costs incurred for internet payments but not for other methods of payments.

Answer; The District directs Commission staff to Exhibit 3 (page number 28) of our original October, 2010 tariff filing with supporting cost data. This shows which costs were included in our last rate design (Case 2006-00410), and which new costs are not being recovered, which costs are being recovered with the proposed web payment fee.

Using Transaction Warehouse to manage sensitive information such as customer data, payment profiles are stored by Transaction Warehouse according to the Payment Card Industry Data Security Standard (PCI DSS) which mandates rigid standards for compliance certification, which provides additional security and protection for customer's account and credit card information.

Futhermore, using iWEB / Transaction Warehouse provides a seamless way for payments initiated by the customer through the website to be directly posted to the CIS system more quickly, avoiding staff having to re-enter the web payment manually the next morning, which also reduces risk of human error in re-entering or transferring the data.

The District's Board also believes that the Commission, provided through annual PSC Commissioner training, encourages water districts to make sure added fees or costs for credit cards, bank draft or other alternate payment methods are being recovered from those customers choosing to use these methods, which costs can be recovered through a non-recurring charge or general rate base. Prior to this method being added and enhanced, the District incurred credit card merchant processing fees, which was and is being recovered through the overall rate base and was included in the Customer Meter Charge.

The added, new, costs related to the iWEB, Transaction Warehouse and providing the enhanced web payment process were not being recovered, but would be by adding and approving the new web payment fee of \$1.20 per payment.

WITNESSES: Jim Bruce, HCWD1 General Manager and Scott Schmuck,
HCWD1 Finance & Accounting Manager

Exhibit A

May 25, 2010

Online Bill Payment Now Mainstream, Women Edge out Men, Says Fiserv Survey

Annual survey also shows e-bill usage grew nine percent in one year

BROOKFIELD, Wis., May 25, 2010 (BUSINESS WIRE) -- [Fiserv, Inc.](#) (NASDAQ: FISV), the leading global provider of financial services technology solutions, today shared the results of the most recent Consumer Billing and Payment Trends survey, which has tracked online consumer bill payment habits since 2001. The 2010 survey shows online banking, bill payment and e-bill usage continues to grow, and that the online bill payment population has changed significantly during the last decade.

Between 2000 and 2010, the number of households that use online banking increased more than six-fold, and the number that use online bill payment increased nearly eight-fold. Online bill payers now represent a wide cross-section of the U.S. population, and women have edged out men as the primary users of the service.

A comprehensive overview of the 2010 [Consumer Billing and Payment Trends](#) survey results can be downloaded at www.fiserv.com/trends.htm.

Online Banking and Bill Payment Boast Diverse User Base

During the course of the Consumer Billing and Payment Trends survey, online bill payment has moved into the mainstream. Currently, 72.5 million U.S. households, 80 percent of all households with Internet access, use online banking, while 36.4 million households, 40 percent of all households with Internet access, use online bill payment.

In 2002, men represented the majority of online bill payers, at 61 percent, and they maintained the lead in usage of the service through 2009. In 2010 the tables turned, with women edging ahead to represent 51 percent of online bill payers.

Today, the age of online bill payers is also more representative of the entire U.S. population than when the study began. In 2002, more than half of online bill payers were between the ages of 35 and 54. In 2010, consumers age 21-34 made up 28 percent of online bill payers, consumers age 35-54 made up 48 percent, and consumers over age 55 made up a sizeable 24 percent of all online bill payers, underscoring the fact that the service is not only for the young.

Consumers of all income levels have embraced online bill payment as well. In 2002, middle-income consumers dominated use of the service, whereas, in 2010, more than a third of online bill payers had a yearly household income of less than \$50,000. Usage among the highest income brackets has grown as well.

"The face of online bill payment has changed significantly over the last decade," said Geoff Knapp, vice president, Online Banking and Consumer Insights, Fiserv. "Early users were tech-savvy and tended to be young and male, as is typical with new technology. Now it's moms and seniors and people at all income levels using the service. Online bill payment has become mainstream, and there's still room to grow."

Decline in Paper Checks, Growth of e-Bills

Among households with Internet access, online bill payment, both at financial institution websites and company (biller direct) websites has grown substantially during the last 10 years, with a corresponding reduction of paper checks. While other forms of payment have remained relatively stable as a percentage of overall bill payments, paper checks have declined from 61 percent of all payments in 2000 to 26 percent in 2010, while online bill payments have grown from 12 percent to 45 percent of all payments.

Electronic bills, or e-bills, which contain all the same information as paper bills but are delivered online, also appear to be catching on, perhaps due to technology that has made e-bills more visible within the online banking and bill payment service as well as increased efforts to educate consumers about the benefits. The number of consumers that receive an e-bill jumped nine percent between 2009 and 2010. Today, 33 percent of all consumers who pay a bill at their financial institution website also receive at least one e-bill there, up from 24 percent in 2009.

To hear more about e-bills and their growing popularity, listen to the podcast at www.fiserv.com/trends.htm.

Online Bill Payment Use Correlates with Deeper Banking Relationships

Consumers who pay bills online have consistently used more services from their financial institution than the average customer, with usage of additional services becoming even more pronounced in recent years. The connection between online bill payment and consumer loyalty has remained strong as well.

In 2005, consumers who used the online bill payment service at their financial institution were eight percent more likely than the average customer to have a savings account at the same institution, and by 2010 that number had increased to 13 percent. The percentage of customers who used online bill payment and also had a mortgage with their financial institution increased from two percent in 2005 to 10 percent in 2010. In addition, 49 percent of customers who use online bill payment said they were less likely to switch to another financial institution as a result of their experience with the service.

Mobile Banking and Person-to-Person Payments

Newer technologies such as mobile banking and person-to-person payments are areas to watch over the next decade, and are already showing an adoption trajectory similar to online bill payment. In just two years, the number of mobile phone users who conducted one or more banking services via their mobile phone increased from 23 percent in 2008 to 30 percent in 2010. The number of mobile banking users who receive or pay bills via their mobile phone jumped from 18 percent in 2008 to 30 percent in the same time period. This is most likely due to the increasing adoption of smartphones.


















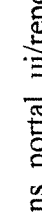
Person-to-person (P2P) payments also are gaining support. Over half of the respondents who gave or sent money to friends, relatives or other people in the past year said they used an online payment service.

The 2010 Consumer Billing and Payment Trends survey reflects the responses of 3029 consumers who were at least 21 years old and responsible for paying their households bills, and is representative of the habits of the 90.5 million households in the United States with Internet access. The Fiserv-sponsored survey was conducted in January 2010 by The Marketing Workshop.

Exhibit B

Detailed Transaction Report
 2/8/2011 11:39:26 AM
 2/8/2011 - 2/8/2011
 8:00 AM - 11:59 PM
 Entire Organization
 All Payment Types
 All Collection Modes

Date Entered	Date Effective	Time	PRC	Name	Card Type	Collection Mode	Amount	Fee Amount	Total Remitted
1	2/8/2011	2/8/2011 8:03 AM	10067213	[REDACTED]	VISA	face-to-face (manual)	\$27.65	\$1.00	\$27.65
2	2/8/2011	2/8/2011 8:04 AM	10067219	[REDACTED]	VISA	face-to-face (manual)	\$85.76	\$2.53	\$85.76
3	2/8/2011	2/8/2011 8:05 AM	10067220	[REDACTED]	VISA	face-to-face (manual)	\$32.85	\$1.00	\$32.85
4	2/8/2011	2/8/2011 8:10 AM	10067221	[REDACTED]	VISA	face-to-face (manual)	\$52.61	\$1.55	\$52.61
5	2/8/2011	2/8/2011 8:17 AM	10067222	[REDACTED]	VISA	face-to-face (manual)	\$39.98	\$1.18	\$39.98
6	2/8/2011	2/8/2011 8:24 AM	10067223	[REDACTED]	VISA	face-to-face (manual)	\$22.66	\$1.00	\$22.66
7	2/8/2011	2/8/2011 8:27 AM	10067224	[REDACTED]	VISA	face-to-face (manual)	\$81.19	\$2.40	\$81.19
8	2/8/2011	2/8/2011 8:46 AM	10067225	[REDACTED]	VISA	face-to-face (manual)	\$235.96	\$6.96	\$235.96
9	2/8/2011	2/8/2011 8:55 AM	10067226	[REDACTED]	VISA	web	\$23.40	\$2.00	\$23.40
10	2/8/2011	2/8/2011 9:02 AM	10067227	[REDACTED]	VISA	face-to-face (manual)	\$24.26	\$1.00	\$24.26
11	2/8/2011	2/8/2011 9:11 AM	10067228	[REDACTED]	VISA	face-to-face (manual)	\$72.04	\$2.13	\$72.04
12	2/8/2011	2/8/2011 9:13 AM	10067229	[REDACTED]	VISA	face-to-face (manual)	\$30.91	\$1.00	\$30.91
13	2/8/2011	2/8/2011 9:23 AM	10067230	[REDACTED]	VISA	face-to-face (manual)	\$45.95	\$1.36	\$45.95
14	2/8/2011	2/8/2011 9:25 AM	10067231	[REDACTED]	VISA	web	\$66.32	\$2.96	\$66.32

15	2/8/2011	2/8/2011	9:28 AM	Utility	10067232		58560618	VISA	web	\$214.05	\$7.31	\$66.32
16	2/8/2011	2/8/2011	9:30 AM	Utility	10067235		00050620	VISA	face-to-face (manual)	\$29.77	\$1.00	\$214.05
17	2/8/2011	2/8/2011	9:33 AM	Utility	10067234		99170830	VISA	face-to-face (manual)	\$32.85	\$1.00	\$29.77
18	2/8/2011	2/8/2011	9:36 AM	Utility	10067236		93250818	VISA	web	\$39.05	\$2.15	\$32.85
19	2/8/2011	2/8/2011	9:42 AM	Utility	10067236		06990329	VISA	face-to-face (manual)	\$69.76	\$2.06	\$39.05
20	2/8/2011	2/8/2011	9:52 AM	Utility	10067237		01181123	VISA	face-to-face (manual)	\$27.03	\$1.00	\$69.76
21	2/8/2011	2/8/2011	10:04 AM	Utility	10067236		2070227602	VISA	web	\$115.48	\$4.41	\$27.03
22	2/8/2011	2/8/2011	10:15 AM	Utility	10067238		2020188201	VISA	face-to-face (manual)	\$40.64	\$1.20	\$115.48
23	2/8/2011	2/8/2011	10:23 AM	Utility	10067241		1170837500	VISA	web	\$290.75	\$9.58	\$40.64
24	2/8/2011	2/8/2011	10:30 AM	Utility	10067241		78281201	VISA	face-to-face (manual)	\$34.13	\$1.01	\$290.75
25	2/8/2011	2/8/2011	10:40 AM	Utility	10067243		3090418007	VISA	face-to-face (manual)	\$55.98	\$1.65	\$34.13
26	2/8/2011	2/8/2011	10:43 AM	Utility	10067244		83230125	VISA	face-to-face (manual)	\$61.76	\$1.82	\$55.98
27	2/8/2011	2/8/2011	10:45 AM	Utility	10067245		2030328802	VISA	face-to-face (scan)	\$154.63	\$4.56	\$61.76
28	2/8/2011	2/8/2011	10:50 AM	Utility	10067246		1180019402	VISA	face-to-face (manual)	\$66.32	\$1.96	\$154.63
29	2/8/2011	2/8/2011	11:18 AM	Utility	10067249		72300225	VISA	face-to-face (manual)	\$88.05	\$2.60	\$66.32
30	2/8/2011	2/8/2011	11:19 AM	Utility	10067250		03120818	VISA	face-to-face (manual)	\$23.15	\$1.00	\$88.05
31	2/8/2011	2/8/2011	11:20 AM	Utility	10067251		1170697000	VISA	web	\$73.60	\$3.17	\$23.15
32	2/8/2011	2/8/2011	11:24 AM	Utility	10067254		07252210	VISA	face-to-face	\$39.51	\$1.17	\$73.60

Line	Date	Time	Account	Card	Transaction	Amount	Auth	Terminal	Merchant	Category	Rate	Balance	
33	2/8/2011	2/8/2011 11:35 AM	10067266	VISA	Utility	\$39.98			(manual)		\$1.18	\$39.51	
34	2/8/2011	2/8/2011 11:40 AM	10067266	VISA	Utility	\$58.32			face-to-face (manual)		\$1.72	\$39.98	
35	2/8/2011	2/8/2011 11:41 AM	10067267	VISA	Utility	\$19.38			face-to-face (scan)		\$1.00	\$58.32	
36	2/8/2011	2/8/2011 11:46 AM	10067266	VISA	Utility	\$91.23			face-to-face (manual)		\$2.69	\$19.38	
37	2/8/2011	2/8/2011 11:48 AM	10067269	VISA	Utility	\$49.79			face-to-face (scan)		\$1.47	\$91.23	
38	2/8/2011	2/8/2011 11:56 AM	10067269	VISA	Utility	\$19.38			face-to-face (manual)		\$1.00	\$49.79	
39	2/8/2011	2/8/2011 12:00 PM	10067261	VISA	Utility	\$27.16			face-to-face (manual)		\$1.00	\$19.38	
40	2/8/2011	2/8/2011 12:05 PM	10067262	VISA	Utility	\$120.00			web		\$4.54	\$27.16	
41	2/8/2011	2/8/2011 12:05 PM	10067263	VISA	Utility	\$32.34			face-to-face (manual)		\$1.00	\$120.00	
42	2/8/2011	2/8/2011 12:19 PM	10067264	VISA	Utility	\$62.36			face-to-face (manual)		\$1.84	\$32.34	
43	2/8/2011	2/8/2011 12:19 PM	10067265	VISA	Utility	\$43.45			web		\$2.28	\$62.36	
44	2/8/2011	2/8/2011 12:24 PM	10067266	VISA	Utility	\$34.97			web		\$2.03	\$43.45	
45	2/8/2011	2/8/2011 12:26 PM	10067267	VISA	Utility	\$32.34			face-to-face (manual)		\$1.00	\$34.97	
46	2/8/2011	2/8/2011 12:27 PM	10067268	VISA	Utility	\$28.15			face-to-face (scan)		\$1.00	\$32.34	
												\$28.15	
Overall Totals :											\$2,956.90	\$100.47	\$2,956.90