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COMMISSION

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May 1, 2013

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Sub district F

Dear Mr. Derouen:

This is in response to your April 12, 2013 letter requesting additional information about the status of Sub District F.

1. A description of how sub district F facilities have been integrated into NKWD's overall operations:

As has been the District's practice in these types of extensions, a 12 inch main is generally installed, rather than an 8 inch to provide for increased demand and to allow for such services as fire protection. The larger mains enhance the entire distribution system, rather than just provide adequate service to sub district F. This allows the District to use the sub district F facilities to strengthen and improve the local transmission and distributions system to meet population growth and commercial development needs in areas not directly within the boundaries of the sub district.

As part of the final determination of the feasibility of sub district F, the District reviewed the overall hydraulic functioning of the area adjacent to the sub district to determine if there were any additional system benefits that could be achieved from extending the facilities. For example, if the existing primary main serving the nearby area is undersized for future growth as shown in the District's Master Hydraulic Plan, it may be economically sound to upgrade that main as part of the sub district

project to avoid a higher cost in the future to make that same upgrade. Such improvements made as part of sub district F have achieved that goal.

Given the overall hydraulic improvements made to the distribution system as a result of the construction of sub district F, the facilities have been fully integrated into Northern's system.

2. A listing and description of all benefits that sub district F facilities provide to NKWD customers who are not within sub district F.

The benefits of sub district F to the general ratepayers fall within two broad categories: First, the use of the surcharge to fund sub district F allows extension of water to an area that the District would not serve due to excessive costs. By imposing the surcharge, more residents are provided access to potable water, which improves public health and safety and reduces the overall cost of water to all of the District's customers, not just the sub district F customers. By imposing the cost of the extension on the customers that most directly benefit and who would otherwise not qualify for a District initiated extension, more customers are served, customers that otherwise would not receive service get service, and general rate payers avoid excessive costs.

Second, the District's general rate customers (non-sub district F) benefit from the revenue generated by the sub district F customers and from the lower debt cost from grants and government subsidized loans.

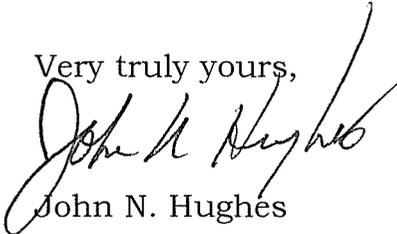
3. A statement as to whether further adjustments to the sub district F surcharge are necessary to reflect any benefits to NKWD customers who are not within sub district F.

The sub district F surcharge is reviewed annually and is subject to periodic adjustments to reflect the number of customers and current cost of debt. This funding mechanism assures that the sub district F customers are paying the actual cost of the extension and that those costs are not being funded by the general ratepayers to any extent different from any other sub district or District extension. Benefits to the non-sub district customers are lower per unit operating costs, lower debt cost and economies of scale resulting from the addition of the sub district customers to the to the customer base, each of which is reflected in the cost of service filed with each rate application.

Because the benefits are already included in the periodic surcharge adjustment and in each general rate case, no further adjustment is needed.

If additional information is needed, please contact me.

Very truly yours,

A handwritten signature in black ink, appearing to read "John N. Hughes". The signature is written in a cursive style with a large, sweeping initial "J".

John N. Hughes

Attorney for Northern Kentucky Water District