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June 1, 2010


PARTIES OF RECORD

Re: Case No. 2010-00094

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact M. Todd Osterloh at 502/564-3940, Extension 439.

Sincerely,


Jeff Derouen
Executive Director



TO/ew

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File
FROM: Todd Osterloh
Staff Attorney
DATE: June 1, 2010
RE: Case No. 2010-00094
Informal Conference of May 19, 2010

On May 19, 2010, Commission Staff held an informal conference in this proceeding at the request of Northern Kentucky Water District ("NKWD") to discuss various strategies in implementing rate adjustments in light of planned capital expenditures. The following individuals attended:

Jack Bragg	NKWD
Richard Harrison	NKWD
Jack Hughes	NKWD
Ron Lovan	NKWD
David Spenard	Office of the Attorney General
Eddie Beavers	PSC Staff
Jason Green	PSC Staff
Dennis Jones	PSC Staff
Todd Osterloh	PSC Staff
Sam Reid	PSC Staff
James Rice	PSC Staff
Gerald Wuetcher	PSC Staff

Mr. Lovan began by noting that last year NKWD forecasted a significant increase in rates based on projected costs to improve its Fort Thomas and Memorial Parkway Treatment Facilities. Because the bids on the construction projects were significantly lower than expected, NKWD revised its estimated rate increase and is considering phasing in the new rates to avoid rate shock for its customers.

Mr. Lovan and Mr. Bragg explained how delaying the recovery of certain expenses would affect projected rate increases. Mr. Bragg also described projections based on whether the water district sought increases in three of the next four years or in each of the next four years. A copy of NKWD's PowerPoint presentation is attached to this memorandum. The numbers contained in that document are preliminary numbers for discussion purposes only.

Mr. Lovan and Mr. Bragg then inquired whether NKWD could propose a two-year phase-in for its rates. If NKWD proposed this method and the Commission approved the proposal, NKWD would take an aggressive revenue strategy in this rate case, but it would implement only part of the rate adjustment immediately and implement the remaining portion in January 2012.

Commission Staff and Mr. Spenard stated that they did not envision theoretical problems with a phased-in rate but that NKWD would have to demonstrate that the approach would result in fair, just, and reasonable rates. Mr. Spenard explained that his office would seek information on why the utility chose such an approach, whether the ratepayers would ultimately pay more based on the phased-in approach, and how NKWD evaluated the risk (or lack thereof) of this approach. Conference attendees also discussed how rate case expenses may affect the utility's decisions.

The notice requirements for a rate phase-in were then discussed. It was generally agreed that NKWD would need to publish the overall rate increase that is being sought, but that it could also break down the proposed increase to clarify the separate, phased-in rates.

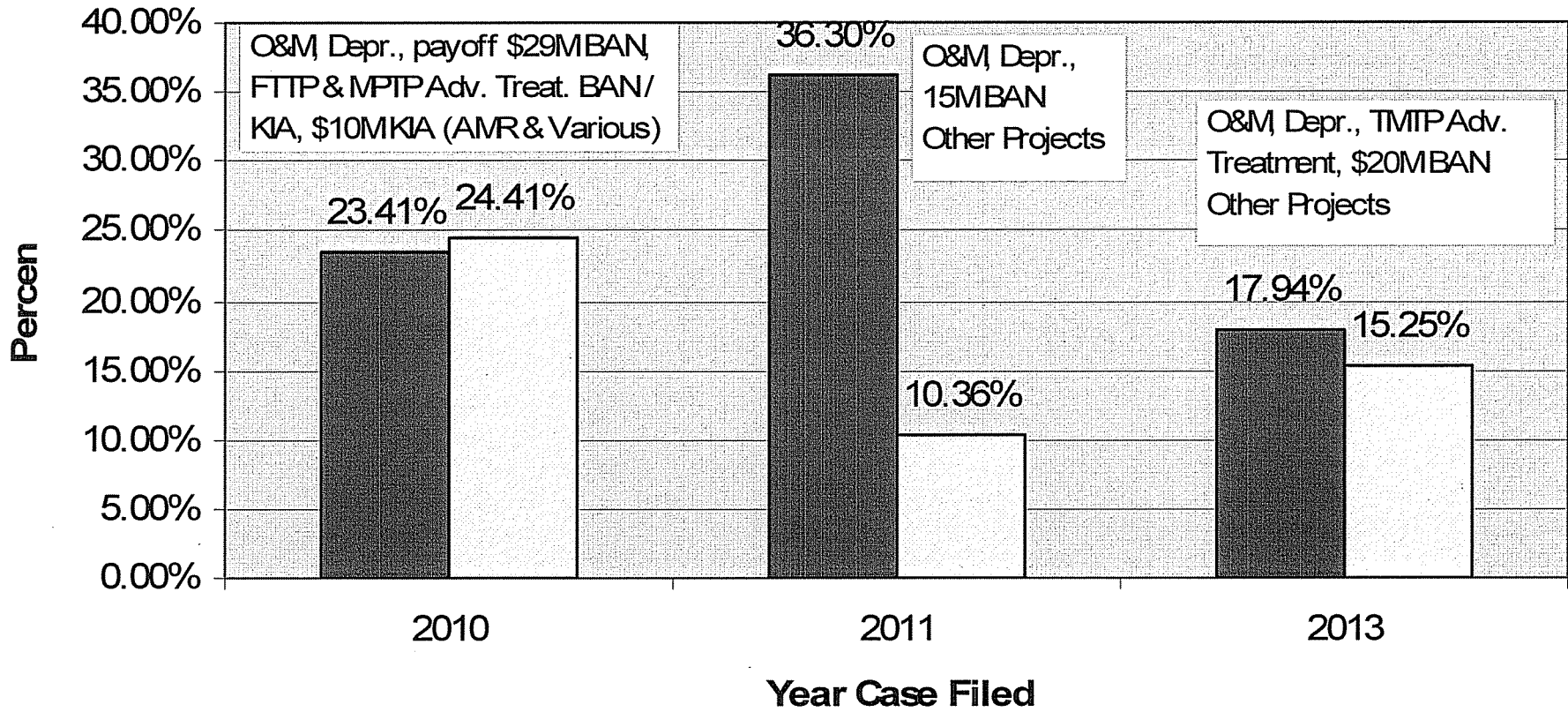
NKWD also asked about the feasibility of an automatic rate adjustment mechanism for power purchases. Commission Staff members and Mr. Spenard noted that current litigation in the Kentucky Supreme Court may provide some guidance on the Commission's authority to authorize such a mechanism. Commission Staff noted that, if the Commission is found to authorize such a mechanism, NKWD must propose the adjustment mechanism in a general rate case.

The conference then adjourned.



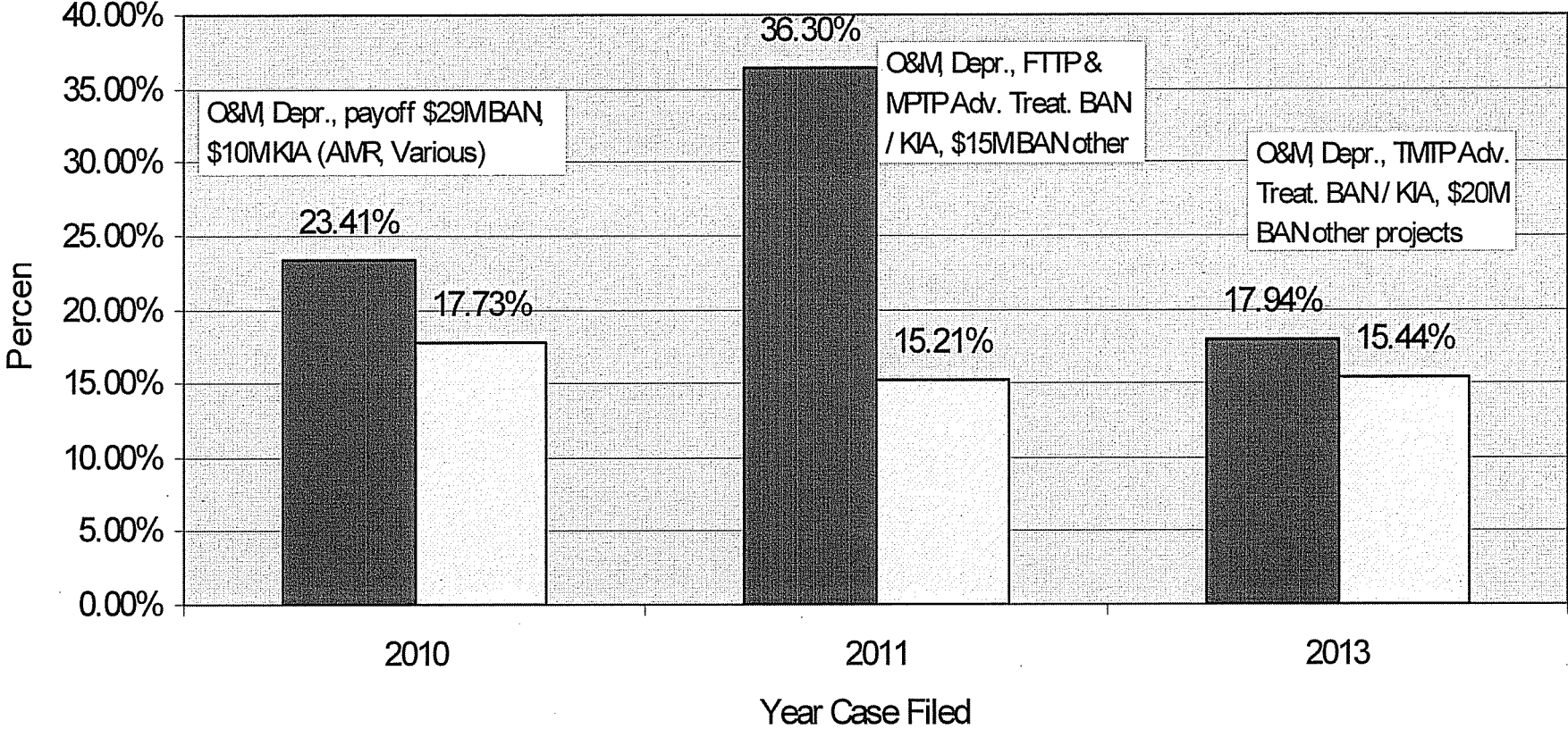
NKYWD Revenue Adjustment Scenarios

Aggressive Revenue Strategy



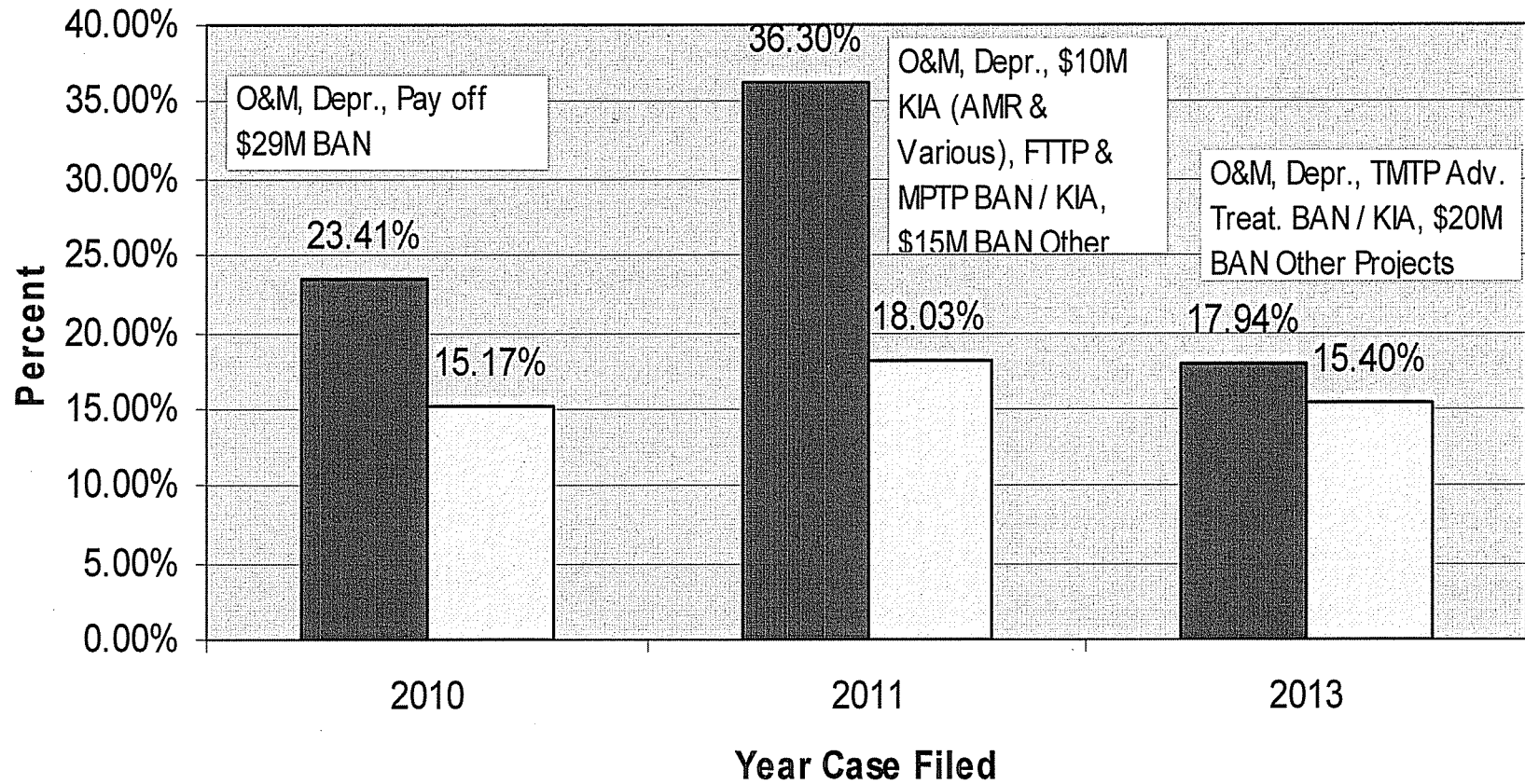
■ Original □ New estimates

Moderate Revenue Strategy



Original
 New estimates

Minimal Revenue Strategy (Delay Debt Service KIA)



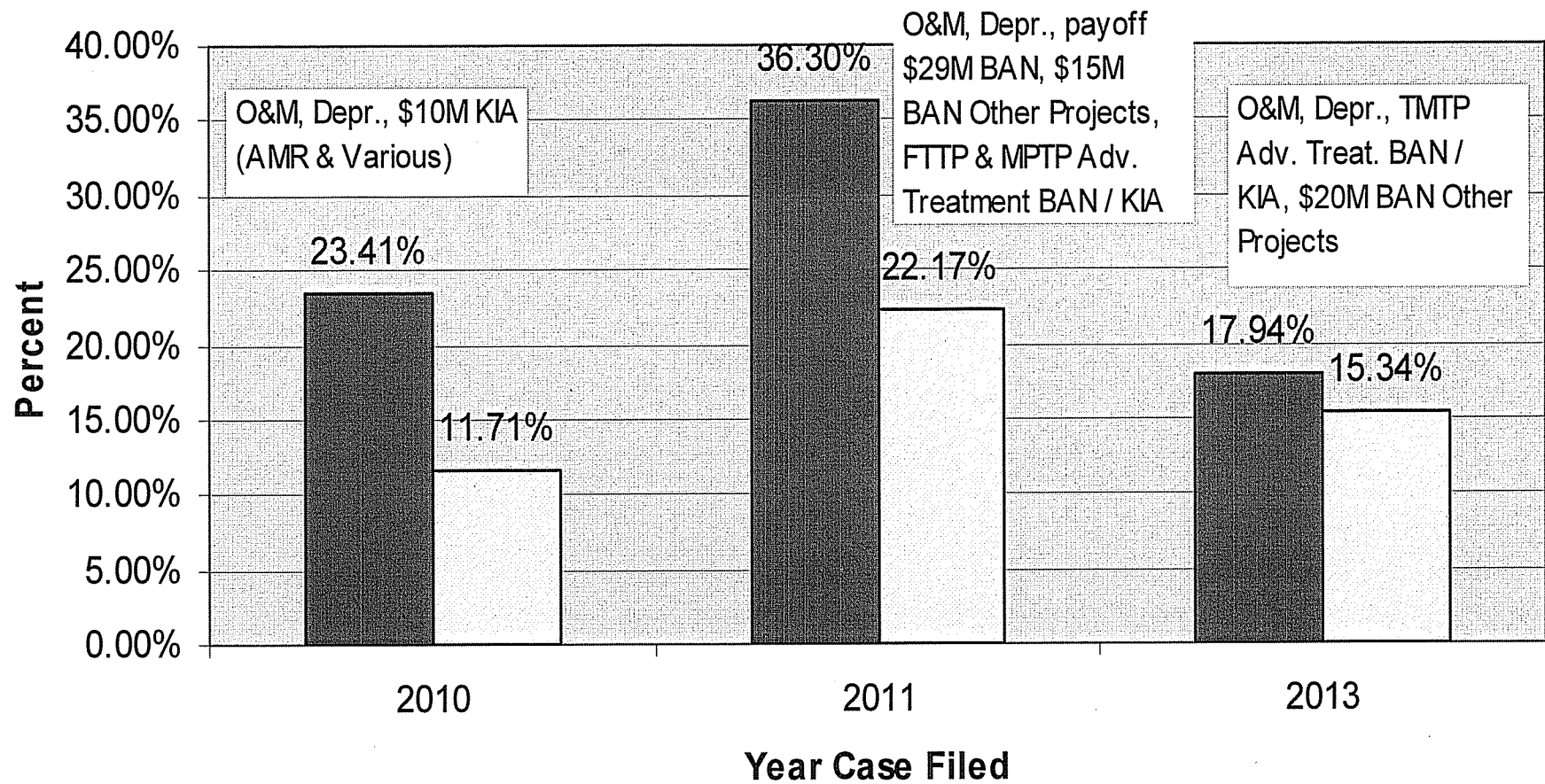
Original
 New estimates

O&M, Depr., Pay off
\$29M BAN

O&M, Depr., \$10M
KIA (AMR &
Various), FTTP &
MPTP BAN / KIA,
\$15M BAN Other

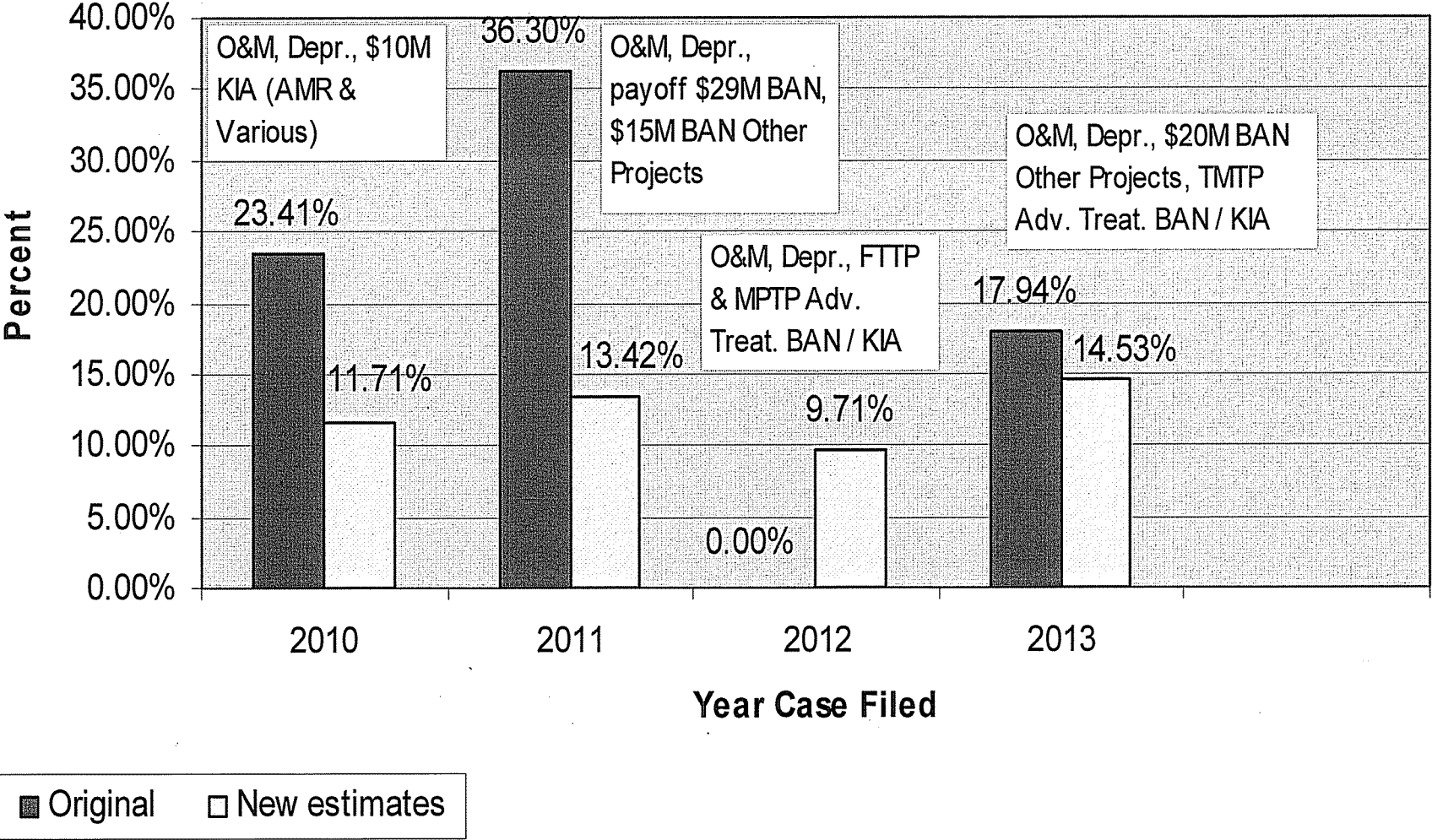
O&M, Depr., TMTP Adv.
Treat. BAN / KIA, \$20M
BAN Other Projects

Minimal Revenue Strategy (Delay BAN Payoff)

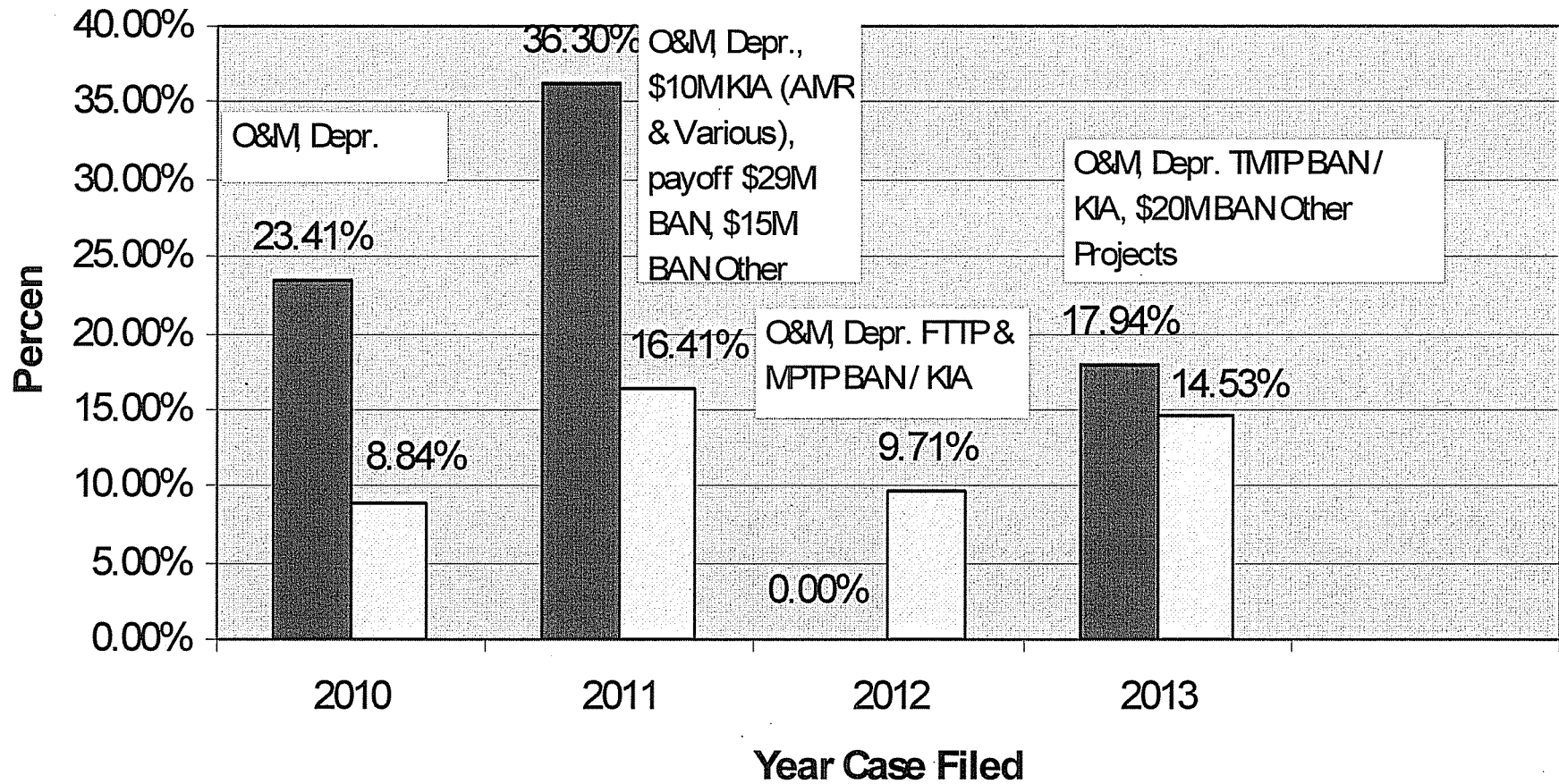


■ Original □ New estimates

Minimal Revenue Strategy (Delay Bonds Water Treat. Plants)

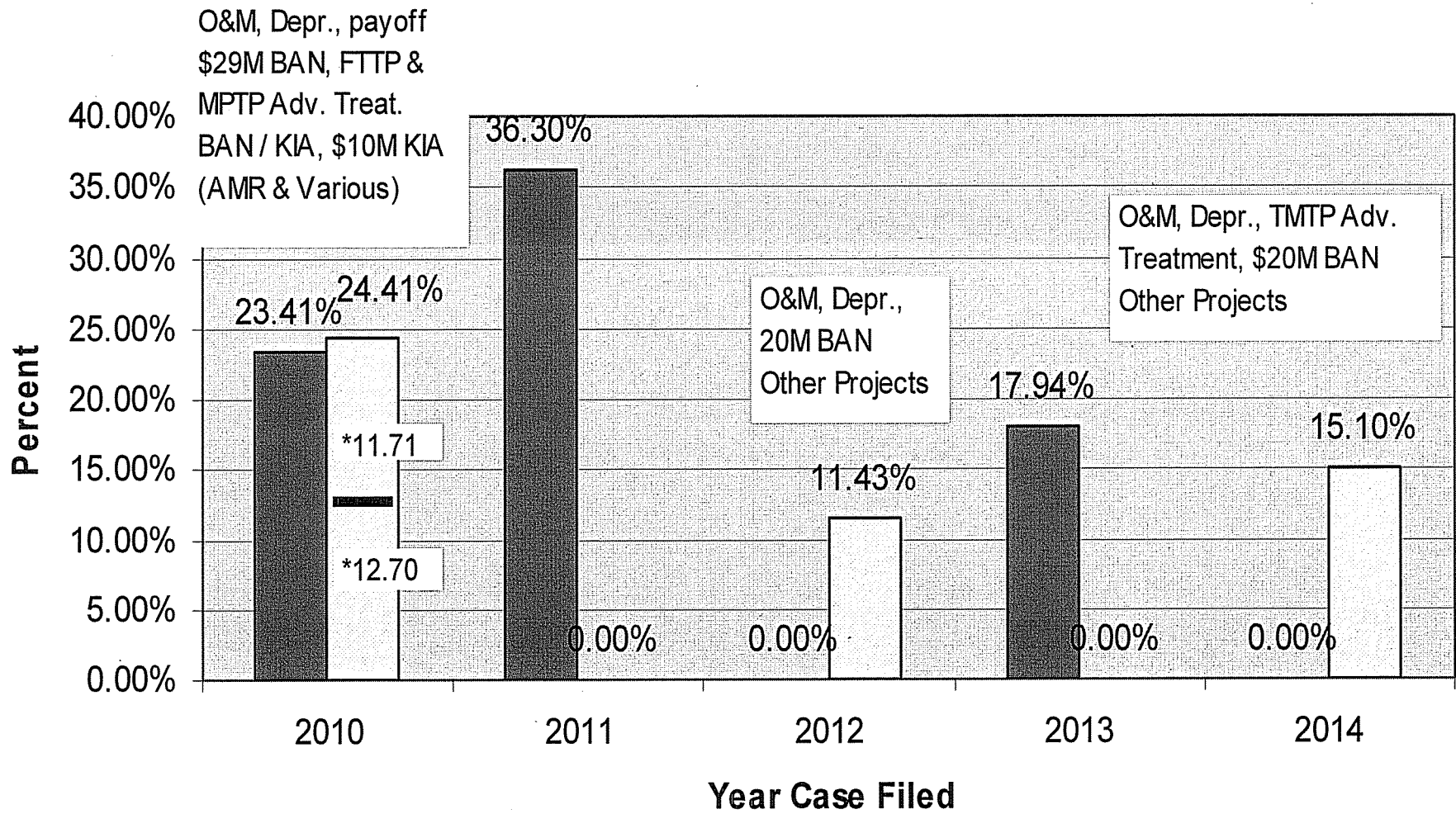


Minimal Revenue Adjustment (Lowest Initial Increase)



Original
 New estimates

Aggressive Revenue Strategy (With 2 Year Phase In)



O&M, Depr., payoff
 \$29M BAN, FTTP &
 MPTP Adv. Treat.
 BAN / KIA, \$10M KIA
 (AMR & Various)

O&M, Depr.,
 20M BAN
 Other Projects

O&M, Depr., TMTP Adv.
 Treatment, \$20M BAN
 Other Projects

*Note- 2010 filing increases phased in: 11.71% 1/1/11, 12.71% 1/1/12.

■ Original □ New estimates