

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF NORTHERN)
KENTUCKY WATER DISTRICT (A) FOR) Case No. 2018-00291
AN ADJUSTMENT OF RATES;)
(B) ISSUANCE OF BONDS;)
(C) FINANCING; AND (D) TARIFF)
REVISIONS)

RESPONSE

Northern Kentucky Water District (NKWD), by counsel, submits its response to the order of October 5, 2018.

1. Depreciation Study:

NKWD prepared a depreciation study that was submitted in Case No. 2006-00398.

To maintain consistent application of depreciation practices for water utilities where traditional depreciation studies are not performed, the Commission finds that Northern shall be allowed to adjust its current depreciation rates based on the average life range for each asset group found appropriate in the NARUC Study. Application of Northern Kentucky Water District for Approval of Depreciation Study. 2006-00398, November 21, 2007, p. 5.

In all subsequent cases, NKWD has used the rates approved in that case. In each of those cases the rates have been approved. As the Commission stated in Case No. 2015-00143, Order dated January 15, 2016, the last general rate case:

The test-year amount was calculated by applying depreciable lives that have been approved by this Commission. NKWD applied these rates using the straight-line method as required by the USoA. Application of Northern Kentucky Water District for an Adjustment of Rates. P. 7.

The depreciable lives used by NKWD are consistent with the prior orders and with the USoA and NARUC requirements. Because the useful lives used by NKWD are within

the range of previously accepted standards, a new study is unnecessary. The last review of the useful lives was only two years ago and no significant changes to plant accounts have occurred.

The Commission granted a deviation for a similar issue in Case No. 2015-00382, Order dated December 9, 2015:

“...the depreciation rates it proposes in its application are consistent with and supported by the National Association of Regulatory Utility Commissioners' Study of Depreciation Practices for Small Water Utilities, which the Commission has generally relied upon to evaluate the reasonableness of the depreciation practices of small water utilities.” P.1.

Additionally, the cost of a depreciation study compared to the value of the study is negligible. NKWD has made great efforts to keep operating expenses as low as possible and thus rates as low as possible to benefit its customers. The cost of a depreciation study will only add to the rate increase.

For these reasons, NKWD seeks a deviation from the preparation and filing of a depreciation study with this application.

2. Financing:

807 KAR 5:001(18)(1)(f): If it is proposed to discharge or refund obligations, a statement of the nature and description of the obligations including their par value, the amount for which they were actually sold, the associated expenses, and the application of the proceeds from the sales. If notes are to be refunded, the application shall show the date, amount, time, rate of interest, and payee of each and the purpose for which their proceeds were expended

The Bond Anticipation Notes (BANS) that are the subject of this financing are described in the Official Statement (2017 Prospectus) attached as part of Exhibit A of the petition. Included in the Statement is the following Plan of Finance on page 6 describing the use and amount of the proceeds of the BANS. On April 19, 2017, the

District issued \$26,000,000 worth of Bond Anticipation Notes (the "2017 Notes"). The 2017 Notes were sold via a competitive bid process and the final coupon rate was 3.00%. The 2017 Notes were issued as a bullet maturity with the entire \$26,000,000 due on 04/01/19. The Sources and Uses of Funds on the 2017 Notes is as follows:

PLAN OF FINANCE

Proceeds of the Series 2017 Notes will be used to pay the costs of various capital projects of the System and to pay interest on the Series 2017 Notes through their maturity. Proceeds of the Series 2017 Notes will also be used to pay the costs of issuing the Series 2017 Notes.

SOURCES AND USES OF FUNDS

<u>Sources</u>	
Principal Amount of Series 2017 Notes	\$26,000,000.00
Plus Original Issue Premium	613,600.00
TOTAL	\$26,613,600.00
<u>Uses</u>	
Deposit to Construction and Acquisition	\$25,347,992.46
Deposit to Capitalized Interest Fund	1,131,000.00
Costs of Issuance	56,607.54
Underwriter's Discount	78,000.00
TOTAL	\$26,613,600.00

A complete description of the date of issuance, amount, yield and interest is included in the summary on the first page of the Statement:

Interest on the captioned Series 2017 Notes (the "Series 2017 Notes") will be payable, from the date of issuance, on April 1 and October 1, commencing October 1, 2017.

<u>Interest Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Price/ Yield</u>	<u>CUSIP</u>
April 1, 2019	\$26,000,000	3.000%	102.360%	665306 NV4

The Series 2017 Notes will be fully registered notes in denominations of \$5,000 or any integral multiple thereof without coupons. The Series 2017 Notes will be issuable under a book entry system, registered in the name of The Depository Trust Company ("DTC") or its nominee. There will be no distribution of the Series 2017 Notes to the ultimate purchasers. See "Book Entry System" herein. Principal and interest on the Series 2017 Notes is payable at the principal office of The Bank of New York Mellon Trust Company, N.A, Louisville, Kentucky, as Paying Agent and Bond Registrar. The Series 2017 Notes are subject to optional redemption prior to maturity as described herein.

The Series 2017 Notes are special and limited obligations of the Northern Kentucky Water District (the "District"), a nonprofit, non-stock special District organized under the provisions of Kentucky Revised Statutes (KRS) Chapter 74, issued at the request of the District, and do not constitute a debt, liability or general obligation of the District within the meaning of the Constitution and laws of the Commonwealth of Kentucky, or a pledge of the faith and credit or the taxing power of the District. See "SECURITY FOR THE SERIES 2017 NOTES" herein.

The Series 2017 Notes do not rank on the same basis of parity as the Outstanding Bonds of the District. Interest due on the Series 2017 Notes prior to maturity will be paid from monies deposited from the Note proceeds to the Debt Service Fund - Interest Account, which amount is planned to be adequate to pay all the interest on the Notes prior to the Due Date of the Notes. Principal on the Notes and interest due at maturity is payable from the proceeds of the Series 2019 Bonds or from renewal notes issued prior to the maturity date of the Series 2017 Notes. The District reserves the right to issue additional series of notes and bonds payable from the revenues of the System which then will be considered Outstanding on a basis of parity and equality with all other parity notes and bonds authorized and issued pursuant to the Resolution. See "Security and Source of Payment for the Notes," herein for a more complete description as to the sources of payment and security for the Notes and the bonds issued by the District.

The Notes are subject to redemption prior to maturity as described herein.

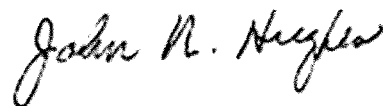
The use of the proceeds of the BANS is contained in Exhibit O of the petition, which lists the capital projects, amount and date funded with the notes.

The BANS are not subject to refund but are being redeemed as provided on page 4 of the Statement. As indicated in NKWD's rate petition, it was determined that approximately \$8,000,000 of projects included in the 2017 Note project would not be completed in a timely manner. As such, NKWD elected to redeem \$8,675,000 of the 2017 Notes as of November 6, 2018. Upon redemption, the outstanding balance of the 2017 Notes will be \$17,325,000. It is not anticipated that NKWD's rate application will be completed and approved prior to the 2017 Note Maturity date of April 1, 2019. Thus, sometime prior to that date, NKWD intends to issue another Bond Anticipation Note of approximately \$17,600,000 (the "2019 Notes"). The proceeds of the 2019 Notes will be used to retire the outstanding balance of the 2017 Notes. The 2019 Notes will again be issued via a competitive bid process so the interest rate and other costs of issuance have not been determined.

As indicated in the rate case petition, Exhibit A, Plan of Finance, p. 1, NKWD intends to issue approximately \$19,600,000 of long term bonds (the "2019 Bonds") on or after August 1, 2019. The proceeds of the 2019 bonds will be used to pay off the then outstanding Series 2019 Notes. The issuance of the 2019 Bonds was approved by NKWD in the bond resolution approved on February 16, 2017 (the "2017 Bond Resolution"). The 2017 Bond Resolution approved the issuance of Bonds for the purpose of "retiring the Notes". In the 2017 Bond Resolution "Notes" are defined as the "District's Water District Revenue Bond Anticipation Notes, Series 2017 and like obligations issued on a parity therewith, *including any renewal Notes issued to retire outstanding Notes*". The 2019 Notes would be considered renewal Notes issued to retire outstanding Notes.

NKWD believes that the information provided contains all requirements of the regulations. To the extent that the information provided does not adequately address some portion of the regulations cited, NKWD requests a deviation for that information pursuant to 807 KAR 5:001(22).

SUBMITTED BY:



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