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April 30, 2007

**RECEIVED**

APR 30 2007

PUBLIC SERVICE  
COMMISSION

Mike Buford  
Director of Filings  
Public Service Commission  
211 Sower Blvd.  
Frankfort, KY 40601

Case No. 2007-00131

Dear Mr. Buford:

Northern Kentucky Water District submits this response to your letter of April 23, 2007.

The deficiency letter refers to the lack of information about bonds, notes or other indebtedness that will be issues as part of this case. As previously explained, it is Northern's understanding based on Commission action in a number of similar applications, that there are no bonds, notes or other debt associated with this application, which require approval pursuant to KRS 278.300.

The Sources of Funds exhibit in this case, exhibit F to the Application lists the funding mechanism for this sub district. (There was a minor mathematical error on the exhibit F filed with the Application. The corrected exhibit is attached)

There is an amount of \$750,000 labeled NKWD Extension Contribution. That \$750,000 has previously been approved by the Commission. In Case Number 2003-0224, Northern included as part of its financing request recognition of \$500,000 of Bond Anticipation Notes (BANS). Those BANS were listed on exhibit O, reference Number 42 – mains to unserved areas 2003 Sub G – Kenton. Copy attached. Those BANS were included in the permanent financing requested and approved in that case. The bonds which retired the 2003 BAN were approved in the final order in that case.

In Case 2005-00148, an additional \$250,000 of BANS for sub district G was included in the financing request. That portion of the BAN is shown on exhibit O, reference 54. Copy attached. As with the 2003 BAN, the 2005 BAN was included in the permanent financing of the bonds in Case 2005-00148.

The remaining portion of Northern's contribution to this project is included in the Sources of Funds, exhibit F of the application, in the amount of \$1,103,095. A BAN in the amount of \$27,165,000 was recently issued by the District, which has been designated the 2007 BAN. The funds for this BAN were received by the District on April 26. The interest rate for the note is 3.7%. A portion of that BAN funds this project. The 2007 BAN will be included in the permanent financing to be proposed in Northern's next rate case, expected to be filed within a few weeks. All appropriate financial information about that bond will be included in the rate application. As with prior BANS, the 2007 BAN falls within the exemption for approval of KRS 278.300. It will be converted to permanent financing upon the issuance of the final order in the pending rate case.

No other BANS, bonds or debt is proposed to be included in the financing of this sub district. Because all of the debt associated with this sub district has been approved in prior cases, or will be submitted as part of the rate case, it is Northern's understanding, based on prior Commission orders, that no additional financing approval is required for this Application.

The remaining funds for the project come from a KIA grant, a contribution from the Kenton Fiscal Court and the customer surcharge. A copy of the KIA approval letter is attached.

As with the previous sub district cases, the surcharge is the amount each sub district customer pays to defray a portion of the cost of the project. Because the project is not financially feasible based on normal extension policies, it is necessary to have the customers pay a monthly surcharge of \$30.00 in addition to the regular water bill. The surcharge is not supported by debt. It is a means of recovering additional revenue to offset the cost of the project. As explained in the Application, this \$30.00 payment benefits the customers because it eliminates the need for a lump sum payment of several thousand dollars from each resident that would be required if the extension were made under the District's main extension tariff.

Northern has requested approval of the use of a surcharge in this case, just as it has done in all prior sub district applications, because it is the key element in making the extension of water facilities to the sub district G area. Without approval of the surcharge, the proposed financing plan cannot generate the funds necessary for the extension.

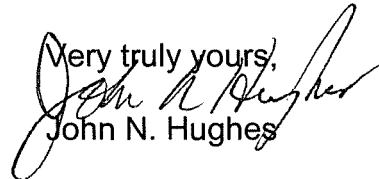
The reference to \$1,509,565 of accounts payable listed in exhibit H is unrelated to any long term debt or financing. It is merely the current ordinary accounts payable. It was not included in the Application because it is not part of the District's financed debt and no debt is being issued or has been issued to finance the payments of these accounts. A schedule of these payables is attached.

The affidavit for Jack Bragg is attached.

The District has attempted to explain the issues it believes are referenced in your letter. However, if there are still matters that are unclear or unresolved, the District would like to meet with the staff to discuss those matters. Very favorable bids were received on this project. They expire on June 2, 2007. A re-bid or the project is expected to increase the project costs significantly. It is in the best interest of the customers affected to get these matters resolved to everyone's satisfaction, so that this effort to provide a significant number of residents potable water can proceed.

A copy of this letter has been delivered to the Attorney General's Office of Rate Intervention.

If there are any questions about this, please contact me.

Very truly yours,  
  
John N. Hughes

Attorney for Northern Kentucky  
Water District

NORTHERN KENTUCKY WATER DISTRICT  
 SUBDISTRICT - G WATER MAIN PROJECT  
 KENTON COUNTY SERVICE AREA  
 Prices Based on 1,000 Foot Fire Hydrant Spacing

	STREET	DISTANCE MILES	TOTAL AVAIL. CUST	EST. SIGN-UPS	CUST. PER/MI	ACTUAL CUST. PER/MI	Bid Prices
9	Banklick Road 24" Upgrade	2.70	33	17	12.22	6.11	\$862,523
1	Bramlage Road (From Backlick to Wilson)	0.90	23	17	25.56	18.89	
11	Independence Road	0.23	4	2	17.39	8.70	
Total Phase 1							\$1,702,292
3	Klein Rd. (Visalia to D.E.)	1.00	32	14	32.00	14.00	
4	Petty Road (From Marshall to End of Sub A)	1.00	26	10	26.00	10.00	
7	Estate Lane	0.27	9	8	33.33	29.63	
Total Phase 2							\$627,102
5	Pleasure Isle Drive (New KY17 to D.E.)	0.19	10	8	52.63	42.11	
2	Bullock Pen Rd (From Old KY17 to D.E.)	0.70	20	12	28.57	17.14	
8	Misty Lane	0.11	4	2	36.36	18.18	
12	Cody Road (#5414 to #5365)	0.29	6	3	20.69	10.34	
18	Cody Road from Flagg Springs to #5545	0.52	8	4	15.38	7.69	
13	Webster Road (Off Cody Road)	0.27	5	3	18.52	9.26	
14	Upton Drive	0.25	4	2	16.00	8.00	
Total Phase 3							\$902,435
15	Holly Hock	0.10	5	3	50.00	25.00	
16	Wolf	0.40	7	4	17.50	8.75	
6	Fowler Creek Road 12" upgrade cost	1.30	26	3	20.00	2.31	\$103,032
10	Lieberman Drive	0.35	11	6	31.43	15.71	
17	Sugar Camp Road	0.40	10	5	25.00	12.50	
Total Phase 4							\$1,306,178
		10.98	243	121	22.13	23.52	\$4,538,007

**Cost Estimate:**

1	Construction	\$4,538,007
2	Engineering (actual)	\$113,246
3	Geo. Engineering	\$32,149
4	Geotechnical Inspection (0.06%)	\$27,228
5	KIA Administrative Fee (1/2 of 1%)	\$15,000
7	Legal	\$5,000
8	Contingencies	\$790,751
Total		\$5,521,381

**Source of Funds:**

1	KIA/State Budget Funding	\$3,000,000
2	Kenton County Fiscal Court	\$50,000
3	Northern Ky Water Dist. Bond Issue	
3a	NKWD Extension Contribution	\$750,000
3b	NKWD Hydraulic Contribution	\$1,103,095
3c	NKWD Customer Surcharge	\$618,286
Total		\$5,521,381

2003 Rate Case Projects

Exhibit O

Ref No.	Projects	Acct #	2002	Bond Issue 2003	Funding thru Surcharge	Previously Funded	Total Cost 2003 Rate Case	Source
5	SCADA Upgrade Phase 2	184-411.501	\$300,000.00	\$2,425,000.00		\$300,000.00	\$2,425,000	B03/BAN 03B
23	Sub-District E (Kenton County)	184-0078	\$300,000.00	\$1,140,000.00	\$1,165,506.00	\$300,000.00	\$0	B03/BAN 03B
24	Ryland/Fairview Grant Project	184-0122		\$172,000.00	\$134,067.00		\$37,933	BAN 2003B
41	Water Main Replacement Program 2003 (\$1.3M)	-		\$28,535.00			\$28,535	BAN 2003B
41-a	35th Street & Grace (Southern to Latonia Ave)	184-0103		\$433,650.00			\$433,650	BAN 2003B
41-b	Rossford Ave. Main Replacement	-		\$110,250.00			\$110,250	BAN 2003B
-41-c	Cecelia/South Arlington	184-0101		\$191,700.00			\$191,700	BAN 2003B
41-d	Jefferson/Eucild, Covington	184-0157		\$535,865.00			\$535,865	BAN 2003B
42	Mains into Unserved Areas 2003 (Sub - G, Kenton)	-		\$500,000.00			\$500,000	BAN 2003B
42-a	Banklick, Bullock Pen, Pleasure Isle, Bramble	-						
64	Customer Information System	184-0320		\$2,900,000.00			\$2,900,000	BAN 2003B
71	Newport High Service 12" Interconnect	184-0140		\$225,000.00			\$225,000	BAN 2003B
72	Newport MPTP Low Service 20" Interconnect	184-0141		\$150,000.00			\$150,000	BAN 2003B
73	Klette Road/Rice Road	184-0142		\$626,000.00	\$375,634.00		\$250,366	BAN 2003B
				<b>Total Estimate Cost</b>			<b>\$9,438,000.00</b>	
							<b>\$7,788,299</b>	

Ref No.	Projects	Acct #	Construction Start	Completion Date	In-Service Date	No. Cust. Added	Certificate of Need
5	SCADA Upgrade Phase 2	184-411.501	October 2003	November 2004	May & Oct 2004	0	Cert Required
23	Sub-District E (Kenton County)	184-0078	April 2003	December 2003	December 2003	275	2003-00167
24	Ryland/Fairview Grant Project	184-0122	August 2003	December 2003	December 2003	52	Ord. Course Bus
41	Water Main Replacement Program 2003	-	-	-	-	-	-
41-a	35th Street & Grace (Southern to Latonia Ave)	184-0103	December 2003	May 2004	May 2004	0	Ord. Course Bus
41-b	Rossford Ave. Main Replacement	-	December 2003	June 2004	June 2004	0	Ord. Course Bus
41-c	Cecelia/South Arlington	184-0101	March 2003	August 2003	August 2003	0	Ord. Course Bus
41-d	Jefferson/Eucild, Covington	184-0157	September 2003	February 2004	February 2004	0	Ord. Course Bus
42	Mains into Unserved Areas 2003 (Sub - G, Kenton)	-	December 2003	June 2004	June 2004	67	Ord. Course Bus
42-a	Banklick, Bullock Pen, Pleasure Isle, Bramlage	-	-	-	-	-	-
64	Customer Information System	184-0320	September 2003	September 2004	June 2004	0	Cert Required
71	Newport High Service 12" Interconnect	184-0140	November 2003	February 2004	February 2004	0	Ord. Course Bus
72	Newport MPTP Low Service 20" Interconnect	184-0141	November 2003	February 2004	February 2004	0	Ord. Course Bus
73	Klette Road/Rice Road	184-0142	October 2003	December 2003	December 2003	48	Ord. Course Bus

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Exhibit O  
2005 Project List

NKWD  
Rate Case 2005-00148  
Exhibit O  
Witness: Harrison

Page #	PSC #	Northern Kentucky Water District Projects	Tracking Acct #	Total Project Cost	Funding Source	Certificate of Need
1	82	US 27 Pumping Station Expansion	184-0433	\$2,300,000	BAN 2005	Cert. applied for Case # -2005-00052
2	83	TMTF Filter and Pump Drive Improvements	184-0434	\$610,000	BAN 2005	Ord. Course of Business
3	85	FTTP Tube Settler Replacement		\$950,000	BAN 2005	Ord. Course of Business
4	86	MPTP Chemical Building/Raw Water PS/Transfer Pipe - 3 Projects (Engineering)	184-0435	\$500,000	BAN 2005	Ord. Course of Business
5	22	24" Redundancy Glenn Ave. Covington	184-0123	\$980,000	BAN 2005	Certificated needed <i>2005-00063</i>
6	34	Poplar Ridge Rd./Four Mile Pike/Nelson Road 12" Project (PSC#34+35+36)	184-0132	\$1,160,000	BAN 2005	Ord. Course of Business
7	48	Water Main Replacement Program 2004	184-0160	\$477,410	BAN 2005	Ord. Course of Business
	48-a	3rd Street		\$372,000	BAN 2005	Ord. Course of Business
	48-b	Steel Water Main Phase 3	184-0175	\$315,590	BAN 2005	Ord. Course of Business
	48-d	New Richmond Road (Old Carthage Rd)	184-0168	\$420,000	BAN 2005	Ord. Course of Business
	48-f	4 Mile Circle	184-0167	\$115,000	BAN 2005	Certificate Needed, currently under design
8	96	2004 Systematic Water Main Replacement (Grand Ave.)	184-0121	\$1,000,000	BAN 2005	Ord. Course of Business
9	52	Lower Tug Fork (Upper Tug Fork 6")	184-0174	\$325,000	BAN 2005	Ord. Course of Business
10	53	Water Main Replacement Program 2005 (\$2,100,000)	184-0135	\$1,520,000	BAN 2005	Ord. Course of Business
	53a	Forest/Short John/John St. 2005 Main Replacement	184-0135	\$580,000	BAN 2005	Ord. Course of Business
11	59	Pelly Rd from Ky 17 to Senour Road	184-0137	\$400,000	BAN 2005	Ord. Course of Business
12	61	Senour Road from Pelly to Ky 16	184-0305	\$165,500	BAN 2005	Ord. Course of Business
13	65c	Central Facility - Remodeling		\$4,600,000	BAN 2005	Cert. applied for Case # -2005-00063
				<b>\$16,790,500</b>	<b>BAN 2005</b>	<b>Certificate Needed</b>
14	84	Standby Generator at ORPS1		\$1,500,000	BAN 2005	Ord. Course of Business
15	110	FTTP Ultraviolet Disinfection (Engineering Only)		\$500,000	BAN 2005	Certificate Needed
16	119	TMTF Backwash Handling System	184-0116	\$1,389,000	BAN 2005	Ord. Course of Business
17	45	Licking Pike From Trapp Rd to Rifle Range	184-0117	\$135,000	BAN 2005	Ord. Course of Business
18	46	Licking Pike from Rifle Range to Sub-D		\$70,000	BAN 2005	Ord. Course of Business
19	49	Mains into Unserved Areas 2004 (Campbell Co.) Engineering & Upgrade		\$250,000	BAN 2005	Ord. Course of Business
20	54	Mains into Unserved Areas 2005 (Kenton Co.) Engineering & Upgrade		\$250,000	BAN 2005	Ord. Course of Business
21	104	Radio Read Meters for Newport Area	184-0305	\$800,000	BAN 2005	Ord. Course of Business
13	65b	Central Facility - Purchase Price \$4,900,000 (BAN 2004)		\$3,650,000	BAN 2004	Cert. applied for Case # -2005-00063
				<b>\$8,544,000</b>	<b>Additional Project Totals</b>	
<b>Total 2005 Rate Case Projects</b>				<b>\$25,334,500</b>		

Date: 5/6/2005

Exhibit O List

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## KENTUCKY INFRASTRUCTURE AUTHORITY

**Ernie Fletcher**  
Governor

1024 Capital Center Drive, Suite 340  
Frankfort, Kentucky 40601  
Phone (502) 573-0260  
Fax (502) 573-0157  
<http://kia.ky.gov>

**Jody E. Hughes**  
Executive Director

August 21, 2006

Mr. Richard Harrison, President  
Northern Kentucky Water District  
P.O. Box 17010  
Covington, Kentucky 41017

AUG 25 2006

RE: Infrastructure for Economic Development Fund For  
Tobacco Producing Counties (2005)  
**Northern Kentucky Water District WX21037004 - \$1,000,000 - Subdistrict G**

Dear Richard:

Enclosed please find a copy of the fully executed Grant Assistance Agreement for the above referenced grant. I have also attached a checklist indicating the status of documents submitted to date. All items under Step 1 have been submitted. The following item remains outstanding for Step 2:

- As-bid Budget

In order to release funds, we will need the as-bid budget. All pay requests with supporting invoices are to be submitted to the Authority by the 10<sup>th</sup> of each month on the **Request for Payment and Project Status Report Form (Exhibit 8)**.

Please note, Step 3 – Project Closeout items remain outstanding. Thank you.

Sincerely,

  
Debby L. Milton  
Kentucky Infrastructure Authority

Attachment

**KENTUCKY INFRASTRUCTURE AUTHORITY**  
**INFRASTRUCTURE FOR ECONOMIC DEVELOPMENT FUND FOR**  
**TOBACCO/COAL PRODUCING COUNTIES**

**GRANT ASSISTANCE AGREEMENT**

PROJECT NUMBER: WX21117004  
GRANT AMOUNT: \$1,000,000  
GRANTEE: Northern Kentucky Water District  
DATE OF AGREEMENT: November 2, 2005



**KENTUCKY INFRASTRUCTURE AUTHORITY**

**2006 GENERAL ASSEMBLY  
HOUSE BILL 380**

**GRANT ASSISTANCE AGREEMENT**

WRIS NUMBER: WX21117203

GRANT ID #: 359N-2007

GRANT AMOUNT: \$2,000,000

GRANTEE: Northern Kentucky Water District

DATE OF AGREEMENT: \_\_\_\_\_

Northern Kentucky Water District  
Balance Sheet  
As of February 28, 2007

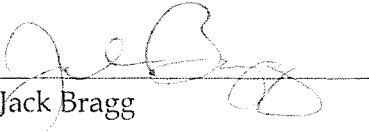
	<u>2007</u>	<u>2006</u>
Accounts Payable:		
231-0001-000 Accounts Payable Vendors	368,759	351,828
231-0003-000 Accounts Payable - Plant	5,000	
231-0008-000 Retainage - O & M expenses		9,726
235-0002-000 Fire Hydrant Deposits	6,801	(2,199)
242-0003-000 Sur Charges Collected- Sub District A	65,532	66,893
242-0004-000 Sur Charges Collected - Sub District B	19,659	17,174
242-0005-000 Sur Charges Collected - Sub District R	13,889	17,801
242-0006-000 Sur Charges Collected - Sub District RL	58,712	58,989
242-0011-000 Due To Campbell C CTY Sanitation		
242-0013-000 Accrued Vacation/Sick	803,856	742,606
242-0015-000 Colonial Insurance		
242-0061-000 Sur Charges Collected - Sub District C	213,532	208,475
242-0063-000 Sur Charges Collected - Sub District D	(14,630)	4,289
242-0067-000 Sub Districe E Surcharges	(33,734)	9,928
242-0068-000 Sub District RF Surcharges	3,418	2,436
242-0077-000 Sub-District K	(1,228)	429
Total Accounts Payable	<u>1,509,565</u>	<u>1,488,375</u>

AFFIDAVIT


COMMONWEALTH OF KENTUCKY

COUNTY OF KENTON

Affiant, Jack Bragg, after being first sworn, deposes and says that he is the Vice President - Finance for Northern Kentucky Water District, that he is authorized on behalf of the District to file this Application, that the Application is being filed pursuant to KRS 278.300, that this affidavit is his verification of the requirements of that statute and that the statements contained in the Application are true and correct to the best of his knowledge and belief except as to those matters that are based on information provided to him and as to those he believes to be true and correct.

  
\_\_\_\_\_  
Jack Bragg

This instrument was produced, signed and sworn by Jack Bragg to be his act and deed the 30<sup>th</sup> day of April, 2007.

  
\_\_\_\_\_  
Notary Public

My Commission expires: May 26, 2009