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September 20, 2006

John N. Hughes, Esq.
124 West Todd Street
Frankfort, Kentucky 40601

David Edward Spenard, Esq.
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, Kentucky 40601-8204

Re: Case No. 2006-00315
Northern Kentucky Water District

Gentlemen:

The enclosed memorandum has been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Gerald Wuetcher, Deputy General Counsel, at (502) 564-3940, Extension 259.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell", written over a large, stylized, scribbled signature.

Beth O'Donnell
Executive Director

gw
Enclosure

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2006-00315

FROM: Gerald Wuetcher 
Deputy General Counsel

DATE: September 20, 2006

RE: Telephone Discovery Request

On September 11, 2006, I attempted to contact by telephone John Hughes and David Spenard, counsel for Northern Kentucky Water District ("NKWD") and the Attorney General, respectively, to discuss an aspect of NKWD's proposed surcharge for Subdistrict F. As Mr. Hughes was not available, I left a voicemail message in which I advised of my efforts to arrange a telephone conference call and described the conference call's purpose.

On September 12, 2006, Mr. Hughes left a message on my voicemail in which he provided additional information on the method that NKWD used to calculate the proposed surcharge for Subdistrict F. Mr. Hughes stated that NKWD first determined the present value of the total payments of an individual Subdistrict F customer if the surcharge was \$30 per month and made for a period of 25 years. This amount was \$5,131. NKWD next assumed that 48 households would be the average number of households annually served by Subdistrict F facilities over the next 25 years. It then multiplied 48 households by \$5,131 to determine the total customer contribution from Subdistrict F customers.

Mr. Hughes also stated that NKWD has budgeted \$750,000 towards the cost of the Subdistrict F facilities. Approximately \$250,000 had been budgeted in NKWD's capital budget for Fiscal Year 2006. NKWD had budgeted the remaining amount in the following year's capital budget. These amounts represented the "NKWD Extension Contribution" to which the application refers. He further stated that the "NKWD Hydraulic Improvement Contribution" of \$175,515 represented the difference in cost between the use of 12-inch water main and 8-inch water main. Mr. Hughes noted that NKWD was assuming the cost of the larger size main because of the hydraulic benefits that accrue to all customers. He stated that NKWD had followed this process when making water main extensions to other subdistricts.

cc: Parties of Record