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August 4, 2006

Beth O'Donnell, Esq.
Executive Director
Public Service Commission
Post Office Box 615
Frankfort, Kentucky 40602-0615

Re: Case No. 2005-00440
City of Manchester

Dear Ms. O'Donnell:

On April 24, 2006, the Commission directed Commission Staff to review the financial records of the City of Manchester's ("Manchester") water department and to prepare no later than August 22, 2006, a report containing its findings and recommendations on the appropriate wholesale water service for North Manchester Water Association. I regret to advise that Commission Staff is unable to complete its review within the specified period and respectfully request a suspension of the August 22, 2006 date.

Commission Staff has worked diligently to conduct its review of Manchester's financial records. It has conducted three on-site examinations of these records, the first of which occurred on May 3, 2006. It has made numerous inquiries to Manchester representatives by telephone and electronic mail and gathered several hundred pages of documents and financial records for review. Despite these efforts, Commission Staff estimates that less than 50 percent of the review has been completed.

Several factors have contributed to Commission Staff's inability to meet the deadline of August 22, 2006. First, Manchester is a municipal utility. Prior to 1994, it was not subject to Commission regulation. Currently, only its wholesale operations are subject to the Commission's jurisdiction. Prior to Case No. 2005-00440, it had never sought Commission approval of an adjustment to its rates. As a municipal utility, Manchester is not required to maintain its records in accordance with the Uniform System of Accounts as public utilities are. Its personnel are unfamiliar with the Commission's ratemaking methodology and its recordkeeping practices differ from those required of public utilities. Manchester's employees are thus limited in the assistance that they can provide Commission Staff. Conversely, Commission Staff must devote greater efforts to gathering and reviewing the basic documents essential to review of Manchester's wholesale rate.

Second, unlike most regulated public utilities, Manchester provides several different utility and public services, such as water, sewage, garbage collection, street maintenance, recreation, and fire and police protection, using common facilities, equipment and personnel. To obtain an accurate estimate of Manchester's cost of providing water service, Commission Staff must ensure that these costs are segregated and must allocate common costs between these services. Given the number of public services involved and the different record keeping system employed, this task is very labor intensive and requires a review of virtually every transaction during the test period.

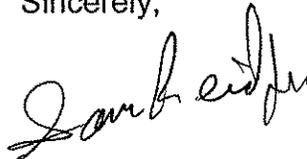
Third, no audit of Manchester's financial records has occurred since the fiscal year ended June 30, 2003. In most rate reviews, Commission Staff relies heavily upon the results of such a financial audit. The absence of a recent audit requires Commission Staff to compile test year financial statements and, consequently, extends the time necessary for it to perform the review.

Presently, Commission Staff is awaiting Manchester's response to a request for additional documents and information, which Commission Staff submitted to Manchester by electronic mail on July 11, 2006. A copy of this request is enclosed. The request requires the production of a significant amount of documents and other materials. Manchester has yet to advise when it will provide the requested materials. Its response may require additional information requests.

Nothing in this letter should be construed as implying that Manchester has acted in a dilatory manner. To the contrary, its representatives have fully cooperated with Commission Staff and have worked diligently to respond to Commission Staff's requests. Manchester has provided Commission Staff with a high level of access to its records and personnel.

In summary, additional time is necessary to perform a thorough and complete review of Manchester's financial records and prepare findings and recommendations. The 120-day reporting requirement appears to have been based upon the assumption that Manchester's recordkeeping and operating practices were similar to regulated public utilities. This assumption is not correct. Generally, it takes nearly the full 5 months or 150 day suspension period allowed by statute to process a rate application by the Commission and Staff. Sometimes the complexity of a rate case pushes the Commission to go beyond that suspension date and up to the statutory date of 10 months or 300 days. In both instances the application for the utility is completed and filed with the Commission and all that is required of the Commission and Staff is to compile and review information supporting the application. Accordingly, Staff respectfully requests that the 120 day reporting requirement should be suspended.

Sincerely,



Sam Reid, Jr.
Manager, Water Rate Design Branch

cc: Main Case File
Case No. 2005-00440
Parties of Record