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Governor

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Environmental and Public
Protection Cabinet

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Commonwealth of Kentucky
Public Service Commission
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Mark David Goss
Chairman

John W. Clay
Commissioner

October 20, 2006

Mr. Will Brown
Mountain Water District
Post Office Box 3157
Pikeville, Kentucky 41502

Re: Case No. 2006-00123
Mountain Water District

Dear Mr. Brown:

Commission Staff acknowledges receipt of Mountain Water District's letter of October 10, 2006. Except as noted below, Commission Staff concurs with the actions that Mountain Water District proposes in that letter.

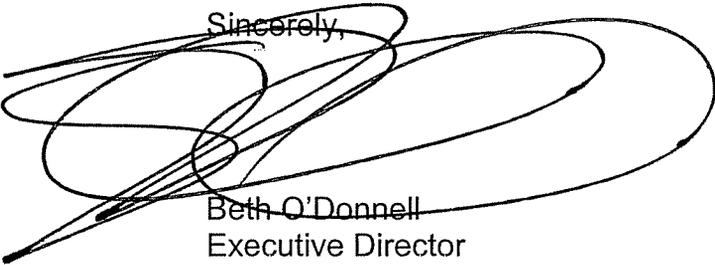
In its letter of September 29, 2006, Commission Staff noted that the utility was depreciating some sewer mains over 20 years and others over 40 years. In its response, Mountain Water District stated its intention to reduce the service life of sewer mains that are currently being depreciated over a 40-year period to 20 years. Commission Staff is of the opinion that a 20-year useful life is too short for an asset of this type and that a 40-year useful life is more appropriate. Commission Staff, therefore, respectfully requests that Mountain Water District use a useful life of 40 years for its sewer mains.

Commission Staff further requests that Mountain Water District make an adjustment to accumulated depreciation and retained earnings on its 2006 Annual Report to reflect the effect of this proposed change on prior years. In addition, the change in the useful lives of the Mossy Bottom Sewer Collection Facilities to be transferred to the City of Pikeville should be reflected in the journal entry to record the transfer.

Mr. Will Brown
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If you have any questions, please call Daniel Hinton of the Commission Staff at (502) 564-3940, extension 276.

Sincerely,

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

Beth O'Donnell
Executive Director

cc: Case File No. 2006-00123
David E. Spenard, Esq.
John N. Hughes, Esq.