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April 18, 2007

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

Kipley J. McNally, Esq.
Kipley J. McNally, PLC
2527 Nelson Miller Parkway
Louisville, KY 40223

Re: Case No. 2007-00095
Prestonsburg City's Utilities Commission

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, Assistant General Counsel, at (502) 564-3940, Extension 259.

Sincerely,

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

Beth O'Donnell
Executive Director

Enclosure

cc: Parties of Record

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2007-00095
FROM: Gerald Wuetcher *GEW*
Assistant General Counsel
DATE: April 16, 2007
RE: Conference of April 12, 2007

On April 12, 2007, the Commission held a conference in this case in the Commission's offices in Frankfort, Kentucky. Present were:

Kipley J. McNally	-	Prestonsburg City's Utilities Commission
John N. Hughes	-	Southern Water District
Eddie Beavers	-	Commission Staff
P.O. Robards	-	Commission Staff
Sam Reid	-	Commission Staff
Gerald Wuetcher	-	Commission Staff

On March 23, 2007, the Commission ordered that the conference be convened.

Beginning the conference, Mr. Wuetcher stated that Commission Staff would prepare minutes of the conference for the case record, that a copy of these minutes would be provided to all parties, and that all parties would be given an opportunity to submit written comments upon those minutes.

Mr. McNally advised the attendees that Prestonsburg had filed two pleadings with the Commission this day. The first pleading involved a notice of address correction for Prestonsburg City's Utilities Commission. The second pleading involved a motion to bifurcate the proceeding and proceed immediately to a decision on Prestonsburg's proposed rate adjustment for Auxier Water Company. Mr. McNally stated that Auxier Water Company does not object to the proposed rate adjustment and has advised the Commission in writing of its position.

Mr. Hughes stated that Southern Water District has no objection to the proposed rate adjustment for either Sandy Valley Water District or Auxier Water Company. He noted that Southern Water District takes the position that Prestonsburg's wholesale water supply agreement with Sandy Valley Water District will terminate when Southern Water District acquires ownership of Sandy Valley Water District's assets. Mr. Hughes further noted that, upon this acquisition of assets, Sandy Valley Water District will dissolve.

Mr. McNally stated that Prestonsburg was not aware that Southern Water District took this position. He stated that Prestonsburg had previously had negotiations with the Floyd County Judge Executive and representatives from Southern Water District to discuss water supply issues upon the transfer of Sandy Valley Water District's assets. Prestonsburg was not advised that the contract would be terminated or that Southern would cease purchasing water from Prestonsburg. Based upon representations made to Prestonsburg, it had agreed to forego intervention in the proceedings in which the Commission reviewed the proposed transfer of assets to Southern Water District. Mr. McNally further stated that he considered Mr. Hughes' statement to constitute an anticipatory breach of the existing water supply agreement.

Mr. Hughes disputed Mr. McNally's characterization of his statement. He noted that Southern Water District is not a party to the current water supply agreement and does not have a contract to purchase water from Prestonsburg.

Mr. McNally stated that Prestonsburg questions Southern Water District's ability to provide water service to the areas that Sandy Valley Water District currently serves. He noted that Southern Water District must currently purchase water from Prestonsburg to meet its current needs. Although these purchases were intended as emergency purchases, Southern Water District has consistently purchased large volumes of water over the last several months.

Mr. McNally acknowledged that this "emergency agreement" had not been filed with the Commission. He stated that Prestonsburg assumed that Southern Water District had responsibility for making such filing. Mr. Wuetcher stated that the municipal utility, as the water supplier, was responsible for the filing and recommended that Prestonsburg move expeditiously to file the "emergency agreement" with the Commission.

Mr. Wuetcher stated that, based upon the comments presented, no controversy appeared to exist as to the proposed wholesale rate adjustment. Mr. Hughes agreed that Southern Water District did not object to the proposed rate but consider the rate as inapplicable to any Sandy Valley Water District facilities that it acquired.

The conference then adjourned.

cc: Parties of Record