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Teresa J. Hill
Vice Chairman

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Commissioner
Department of Public Protection

September 21, 2006

Henry Watson, Esq.
525 High Street
Suite 328
Paris, Kentucky 40361

Re: Case No. 2006-00072
City of North Middletown

Dear Mr. Watson:

This letter confirms our telephone conversation of September 20, 2006 in which we discussed the city of North Middletown's tariff filing of June 26, 2006.

In our conversation, you advised that the tariff filing reflected the current rates that North Middletown has charged Judy Water Association since February 27, 2005. You further explained that North Middletown has a two-step rate. The first step covers all purchases within the maximum quantity limits set forth in the contract. North Middletown assesses a rate of \$2.33 per 1,000 gallons of water for all purchases below the daily maximum of 70,000 gallons. This rate covers the wholesale cost of the water, which North Middletown purchases from Kentucky-American Water Company, plus a \$0.10 markup to cover North Middletown's costs as a water reseller. The second step covers all purchases in excess of the daily maximum of 70,000 gallons. North Middletown reads daily the master meter through which it sells water to Judy Water Association.

You also explained how the second step rate of \$2.65 per 1,000 gallons is consistent with the Water Purchase Contract between North Middletown and Judy Water Association. Part B(2) of Addendum A of that Contract provides that Judy Water Association

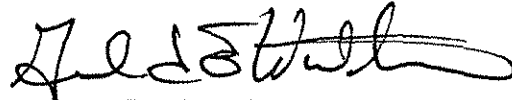
shall be charged an 'excess usage fee' equal to four (4x) times the current minimum (dollar amount on maximum quantity usage) per thousand gallon charge under the general water rate schedule of Seller [North Middletown] in effect at the time.

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North Middletown interprets the current minimum to mean the differential between its cost of purchasing water from Kentucky-American Water Company and the first step rate. This differential has been \$0.10 since North Middletown began supplying water to Judy Water Association. The excess usage fee, therefore, is equal to \$0.40 (4 x \$0.10). While the addition of the excess usage fee to the purchased water cost results in a rate of \$2.63 per 1,000 gallons of water (\$2.23 + \$0.40), the municipal utility has rounded the second step to \$2.65 for administrative convenience. Mr. Watson noted that Judy Water Association did not object to this rounding.

This letter reflects my understanding of our telephone conversation. If your recollection is different, please advise within 10 days of the date of this letter. Any questions regarding this letter should be directed to me at (502) 564-3940, Extension 259.

Sincerely,



Gerald E. Wuetcher
Deputy General Counsel

cc: Case File No. 2006-00072
Tariff Branch