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July 12, 2006

Mr. Millard Rose  
Lancaster Water Works  
101 Standford Street  
Lancaster, Kentucky 40444

Mr. Harold C. Ward  
Garrard County Water Association, Inc.  
P. O. Box 670  
Lancaster, Kentucky 40444

Re: Case No. 2006-00182  
City of Lancaster, Kentucky

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

Beth O'Donnell  
Executive Director

gw  
Enclosure

**INTRA-AGENCY MEMORANDUM**

**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Case File No. 2006-00182

**FROM:** Gerald Wuetcher *GEW*  
Deputy General Counsel

**DATE:** July 12, 2006

**RE:** Telephone Conference Call of May 23, 2006

On May 23, 2006, Commission Staff conducted a conference call in this case. The persons participating in this call were:

Millard Rose	-	City of Lancaster, Kentucky
Paul Reynolds	-	Garrard County Water Association
Brent Kirtley	-	Commission Staff
Jess Thompson	-	Commission Staff
George Wakim	-	Commission Staff
Gerald Wuetcher	-	Commission Staff

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. Wuetcher briefly explained why the Commission suspended the city of Lancaster's ("Lancaster") proposed rate adjustment. He stated that a discrepancy existed between the rate set forth in the contract between the city of Lancaster and Garrard County Water Association ("GCWA") and the rate schedule that Lancaster has submitted. The contract set forth a rate of \$1.78 per 1,000 gallons. The rate schedule listed a rate of \$1.82 per 1,000 gallons.

Mr. Rose stated that the difference reflected the fee that Lancaster paid to the Kentucky River Authority for withdrawing water from the Kentucky River. This rate, which is \$.038 per 1,000 gallons, has been reflected previously on bills as a separate line item. The proposed rate schedule merely combined the rate for water service with the KRA Withdrawal Rate. Mr. Reynolds acknowledged that Lancaster had previously billed GCWA for the KRA Withdrawal Rate as a separate line item and stated that GCWA does not contest the assessment of such rate.

Mr. Wuetcher noted that the problem is one of form. The contract between the two utilities does not mention any pass through of the KRA Withdrawal Fee nor does the

Case File No. 2006-00182

July 12, 2006

Page 2

rate schedule. Questions, therefore, are likely to arise regarding Lancaster's legal authority to assess the fee. Mr. Wuetcher proposed that Lancaster revise its rate schedule to contain a rider that expressly authorizes the assessment of the KRA Withdrawal Fee as a line item on its bills to GCWA. He stated that Commission Staff will shortly submit a proposal to Lancaster regarding such a rider. Mr. Rose stated that Lancaster had no objection to the addition of such a rider to its filed rate schedule.

Mr. Reynolds then asked when GCWA could assess the new rates as a purchased water adjustment to its ratepayers. Mr. Wuetcher stated that any purchased water adjustment should be effective for service rendered on and after May 5, 2006. The Commission had authorized Lancaster to begin charging the \$1.82 rate on and after May 5, 2006 subject to refund. Mr. Wuetcher also suggested that Commission Staff further discuss this matter with GCWA after Lancaster's rate adjustment proceeding is completely resolved.

The conference then adjourned.

cc: Parties of Record