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Department of Public Protection

August 3, 2006

Hon. Donna Powell  
101 Standford Street  
Lancaster, Kentucky 40444

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

Re: City of Lancaster  
Case No. 2006-00182

Mayor Powell and Mr. Ward:

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  
cc: Parties of Record

**INTRA-AGENCY MEMORANDUM**

**KENTUCKY PUBLIC SERVICE COMMISSION**

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

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

**DATE:** August 3, 2006

**RE:** Conference Call of July 28, 2006

On July 28, 2006, Commission Staff conducted a telephone conference to discuss this case. Participating in the call were:

Donna Powell	-	City of Lancaster (Acting Mayor)
Harold C. Ward	-	Garrard County Water Association (President)
Brent Kirtley	-	Commission Staff
Sam Reid	-	Commission Staff
Jess Thompson	-	Commission Staff
Gerald Wuetcher	-	Commission Staff

Commission Staff arranged the conference to discuss proposals to resolve outstanding issues with the city of Lancaster's ("Lancaster") proposed rate adjustment.

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.

Commission Staff briefly discussed the Public Service Commission's reasons for establishing this case. Lancaster proposed to adjust its existing rate for wholesale water service to Garrard County Water Association ("Garrard County") effective for service on and after May 4, 2006. Lancaster's proposed rate was set forth in a rate schedule and a "Water Rate Agreement" with Garrard County. These documents, however, were inconsistent. Lancaster's proposed rate schedule provided for a wholesale rate of \$1.82 per 1,000 gallons of purchased water. The "Water Rate Agreement" provided for a wholesale rate of \$1.78 per 1,000 gallons of purchased water. Lancaster subsequently advised the Commission that the discrepancy in rates reflects the pass-through of water withdrawal fees that the Kentucky River Authority assesses. Neither the "Water Rate Agreement" nor the proposed rate schedule made any provision for the assessment of such fees to Garrard County.

Mayor Powell and Mr. Ward agreed that Lancaster and Garrard County intended that Lancaster be permitted to assess a separate rate to recover Kentucky River Authority ("KRA") withdrawal fees. Neither utility disagreed with the rate of \$0.04 per 1,000 gallons.

Commission Staff noted that Lancaster's rate schedule should reflect this agreement. It proposed two alternatives. The first alternative would allow a separate line item based on the sum of KRA's Tier I and Tier II rates rounded to the nearest cent. Under KRA's current rates, this fee would be \$0.04 per 1,000 gallons of water sold. Commission Staff noted that this alternative would permit automatic adjustment of the separate line item in the event KRA adjusted its withdrawal fee rate. The rounding feature, however, might prevent Lancaster from recovering the full KRA rate. (For example, if the KRA rate were \$.044 per 1,000 gallons, Lancaster's separate line item would be only \$0.04 per 1,000 gallons.)

The second alternative would be to establish a flat rate of \$0.04 per 1,000 gallons sold that would be adjusted by a separate filing if KRA adjusted its withdrawal fee rate. Commission Staff noted that this rate is higher than the actual rate that Lancaster currently pays to KRA, but does not reflect the full cost of water loss incurred. (For example, if Lancaster experiences a 15 percent line loss, it must withdraw 1,150 gallons of water from the Kentucky River for every sale of 1,000 gallons to Garrard County. Under the second alternative, Garrard County pays the KRA withdrawal fee only on 1,000 gallons. Hence, Lancaster does not fully recover the KRA withdrawal fee from Garrard County.)

Mayor Powell noted that currently Lancaster does not fully recover the full cost of the KRA withdrawal fees from Garrard County. She stated that the municipal utility's engineering firm had estimated that the fee should be \$0.041 per 1,000 gallons to enable the full recovery of the fee. Lancaster, she stated, was willing to accept the \$0.040 fee as more administratively convenient to assess. Mr. Ward stated that Garrard County accepted the \$0.04 rate as reasonable.

The conference then adjourned.

cc: Parties of Record