



Steven L. Beshear
Governor

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

November 18, 2010

PARTIES OF RECORD

Re: Case No. 2010-00313

Attached is a copy of the memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Virginia Gregg at 502/564-3940, Extension 407.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".

Jeff Derouen
Executive Director

VG/ew

Attachment

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Virginia Gregg, Staff Attorney

DATE: November 18, 2010

RE: Informal Conference
Case No. 2010-00313
Application of the city of Falmouth, Kentucky and the East Pendleton
Water District for an Order Approving Transfer of a Sewer Utility

On November 16, 2010, Commission Staff held an informal conference to obtain clarification regarding several issues in the above matter. The individuals who participated in the informal conference are listed on the sign-in sheet which is attached hereto and incorporated herein as Exhibit A.

On August 30, 2010, the Department of Environmental Protection, Division of Enforcement, issued a Notice of Violation ("NOV") against Falmouth and Falmouth was to develop and submit a Corrective Action Plan ("CAP") by October 25, 2010. At the time of the informal conference, a CAP had not been received. According to Falmouth, the reason given for the delay in submitting a CAP was that Falmouth had not yet definitively determined what was causing the problems that were identified in the NOV (although an industrial customer was possibly contributing) or how to correct the cited violations. Falmouth stated that this issue was being turned over to its outside engineer to develop a CAP. It was further discussed that the violations generally occur during cold weather. Because the Waste Water Treatment Plant has been in full operation for over two years, Commission Staff and the Division of Enforcement were concerned that Falmouth was still unsure of the source of the problem. Falmouth agreed to check the status of the CAP and to share this information with the Commission and with the Division of Enforcement.

The issue of Falmouth's financial ability to construct and acquire East Pendleton's package treatment plant, which it intends to close down after a connection is made to Falmouth's wastewater treatment plant, was discussed in detail. Falmouth stated that it had just received an un-audited financial statement for its sewer utility for fiscal year 2010, which was of concern to Falmouth. It experienced a net operating loss of \$76,912 in fiscal year 2009 and, according to the un-audited financial statement from fiscal year 2010, the net operating loss had increased to \$81,313. Also, Falmouth had a negative cash flow of \$23,811 in fiscal year 2009 and, again based on an un-audited financial statement for fiscal year 2010, the cash flow continued to be negative

(\$18,459). It was acknowledged that the sewer utility, as well as the other Falmouth utilities, should pay for its own operation, which it has been unable to do for the past two years. Based upon the operational costs of Falmouth's sewer utility exceeding its revenues for 2009 and 2010, Falmouth stated that at this time there was no viable way to make the acquisition of the East Pendleton sewer utility work at the present time.

In addition, while the application before the Commission includes a construction estimate by GRW Engineers, Inc. of \$564,835 and a Conditional Commitment Letter from the Kentucky Infrastructure Authority ("KIA") to loan Falmouth \$564,835 for the construction of a connection to East Pendleton's sewer utility, Falmouth acknowledged that, at a recent Falmouth city council meeting, GRW Engineers, Inc. stated that the construction cost had been revised to \$800,000. Although KIA may be willing to increase the amount of its loan to Falmouth, at the time of the informal conference, this had not yet occurred.

Falmouth stated that a special city council meeting was scheduled on November 17, 2010 to discuss withdrawing the application currently pending before the Commission. Falmouth agreed to inform the Commission of the city council's decision on November 18, 2010.

The conference then adjourned.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2010-00313

JOINT APPLICATION OF CITY OF FALMOUTH, KENTUCKY AND EAST
PENDLETON WATER DISTRICT FOR AN ORDER APPROVING TRANSFER
OF SEWER UTILITY

SIGN IN

November 16, 2010

PERSON

REPRESENTING

George W. Watkins

PSC - Engineering

JASON L. GREEN

PSC - F.A.

Virginia Gregg

PSC - legal

Jeffrey Schuhmann

DENF

D. Kip Watson III

City of Falmouth