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May 4, 2006

TO: PARTIES OF RECORD
RE: Case No. 2006-00156
Jessamine-South Elkhorn Water District

Enclosed please find a memorandum that 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. Questions regarding this memorandum should be directed to J.R. Goff at 502/564-3940, Extension 261.

Sincerely,

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


Beth O'Donnell
Executive Director

vh/
Enclosure

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: File: Case No. 2006-00156

FROM: J. R. Goff, Staff Attorney 

DATE: May 3, 2006

RE: Jessamine-South Elkhorn Water District
System Development Charge Application

On April 27, 2006, an informal conference was held with Commission Staff and Jessamine-South Elkhorn Water District (JSE). The names of those in attendance are shown on the attached sign-in sheet.

Sam Reid explained the informal conference procedure and the purpose of the meeting, which is to discuss the filing deficiencies described in the April 21, 2006 deficiency letter.

First, as shown in the deficiency letter, we discussed the need for pre-filed testimony as required by 807 KAR 5:090, Section 3(3). Rather than adopt the capital improvement plan (CIP), Staff advised JSE that it should have a witness offer more detail and an explanation of issues to satisfy the utility's burden of proof. The testimony should be comprehensive support for its case. The testimony should be sufficiently detailed as to only require cross-examination of those witnesses if a hearing is required.

Second, the utility needs to affirm in its filing the original cost of the property as stated in 807 KAR 5:090, Section 3(4), which can be done by including the utility's annual report in its filing.

Next, there was an involved discussion of the CIP as noted in #3 of the deficiency letter. Staff determined that the present CIP did not adequately set out the overall plan of the system and that the storage tank was the sole project to be constructed for the next ten years. Staff stated that the explanations and reasoning offered by JSE would be proper for their filed testimony. Staff pointed out that JSE should make sure that the necessary information was included in the CIP to conform with the regulation and for the application to be considered filed. Staff also advised that the regulation provides for a deviation from the requirements if necessary. Staff's position is that the present CIP filed in the application was long on history and short on future projections as to growth and need.

Staff then suggested that the utility provide minutes of board meetings during which discussions and decisions approving the project took place [Section 3(10)]. In addition Staff indicated that the utility should provide its considerations and reasons for the

proposed time of the assessment [Section 3 (7)]. Also, the tariff needs to contain corrected meter sizes and the rules and regulations governing the charge [Section 3(9)]. Staff pointed out that the notice needs to follow verbatim the language of the regulation.

Staff suggested that the District's attorney should sign off on the filing and make entry of appearance. Also, the tariff should include language addressing compliance with the refund provisions contained in the regulation.

There was discussion concerning the assumptions and calculations used to determine the SDC as follows:

1. The SDC was determined based on a constant growth rate of 60 new customers per year over the 40-year life of the loan used to finance the tank. Commissioner Jerry Haws indicated that this was a very conservative estimate and that it is reasonable to believe that the actual growth rate will be double the estimate and 2,400 new customers would be added in a much shorter time frame--maybe by half the estimate or 20 years.

2. Staff discussed the fact that the calculated SDC gives no credit to the customers paying the SDC for the general rate revenue they will pay into the system. It was explained that there is a debt component in the rates assessed by the District to all customers. At the current customer level the debt component is adequate to service the existing debt level. Therefore, for each additional new customer coming onto the system, additional revenue from rates will be generated that includes this debt component which can be used to retire new debt. This revenue should be used to discount the amount of the SDC to the point that the SDC and the new revenue together will be adequate to retire the new debt.

3. Although the District's application states that the objective of the new tank is to meet the future one-day minimum storage requirement for new customers, at the conference other benefits of the tank were discussed. Among those benefits were the hydraulic improvements to the system that will benefit both future and existing customers. The point was made that the amount of the SDC should be discounted for the benefits accruing to existing customers.

4. The proposed SDC is \$2,000 for a 5/8" connection and \$4,000 for a 1" connection. An error in the petition was noted where it stated that a charge of \$4,000 would be assessed for 2" connections. The District does not allow new 2" connections. It was also noted that the calculated SDC did not include projections for the collection on 1" meters. The SDC was calculated as though only 5/8" connections would be made.

JSE inquired about the effective date of the SDC and were informed by Staff that they would need to specifically request a date that the tariff be put into effect subject to refund and state the reasons for the request since the charge could be suspended for 5-6 months. JSE should consult KRS 278.190(2-3) for the procedure concerning the request.

Meeting was adjourned.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JESSAMINE-SOUTH)
ELKHORN WATER DISTRICT FOR)
APPROVAL OF A SYSTEM DEVELOPMENT) CASE NO. 2006-00156
CHARGE PURSUANT TO 807 KAR 5:090)

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April 27, 2006 Informal Conference
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Please sign in:

NAME

REPRESENTING

<u>Scott Lawless</u>	<u>PSC Staff</u>
<u>Sam Reid</u>	<u>PSC Staff</u>
<u>Jess Thompson</u>	<u>PSC Staff</u>
<u>Mark Frost</u>	<u>PSC Staff</u>
<u>Gerald Wuetcher</u>	<u>PSC Staff</u>
<u>JOHN G. HORNE</u>	<u>HEI</u>
<u>Glenn T. Smith</u>	<u>JSEWD</u>
<u>Nick Strong</u>	<u>JSEWD</u>
<u>Caryn Lee</u>	<u>JSEWD / KRWA</u>
<u>David Edward Spenzel</u>	<u>Office of the Attorney General</u>
<u>Jerry Haws</u>	<u>JSEWD</u>
<u>JAMES RICE</u>	<u>PSC</u>
<u>Denise Jones</u>	<u>"</u>
<u>LISA TAYLOR</u>	<u>PSC</u>
<u>J. R. Zoff</u>	<u>PSC</u>