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April 7, 2008

Mr. David M Ellis
Prestonsburg City Utilities Commission
2560 South Lake Drive
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Kipley J. McNally, Esq.
2527 Nelson Miller Parkway
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Mr. Hubert Halbert
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P. O. Box 610
245 Kentucky Route 680
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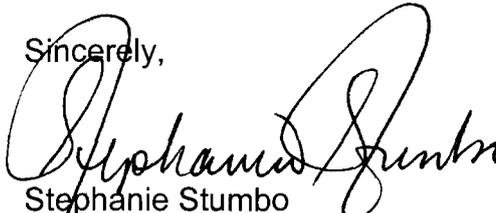
Lawrence W. Cook, Esq.
Office of Rate Intervention
1024 Capital Center Drive
Suite 200
Frankfort, Kentucky 40602-8204

Re: Case No. 2007-00218
Prestonsburg City Utilities Commission

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, Assistant General Counsel, at (502) 564-3940, Extension 259.

Sincerely,



Stephanie Stumbo
Executive Director

gw
Enclosure
cc: Parties of Record

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2007-00218

FROM: Gerald Wuetcher *GW*
Assistant General Counsel

DATE: April 7, 2008

RE: Conference of March 17, 2008

Upon the motion of Prestonsburg City Utilities Commission ("PCUC"), the Commission on March 12, 2008, ordered that an informal conference be convened in this proceeding. On March 17, 2008 the conference was held in the Commission's offices in Frankfort, Kentucky. Present were:

Kipley J. McNally	-	PCUC
Lawrence W. Cook	-	Office of Attorney General
Eddie Beavers	-	Commission Staff
Sam Reid	-	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. McNally stated that PCUC wished to avoid extended litigation on this matter. He noted that the contract was for an emergency supply of water, that Southern Water and Sewer District's purchases under the contract were erratic, and that the proposed rate adjustment would generate additional annual revenues of \$400. He further noted that PCUC had other wholesale contracts with public utilities that contained automatic adjustment mechanisms based upon the Consumer Price Index.

Mr. Wuetcher acknowledged that PCUC had previously filed wholesale water contracts with the Commission that contained adjustment mechanisms based upon the CPI. He noted contracts between PCUC and Auxier Water Company and Sandy Valley Water District. Mr. Wuetcher suggested that the Commission may not have fully comprehended the significance of the mechanism when reviewing those contracts in the late 1990s. He noted that the Commission has been more vigilant in reviewing wholesale contracts in recent years and has rejected similar mechanisms when found in other contracts. He noted Case No. 2006-00067 which involved a contract between the city of Lawrenceburg and South Anderson Water District.

Mr. Wuetcher provided some historical background regarding automatic adjustment mechanisms. He stated that the Commission has previously stated that it does not oppose their use, but was concerned about the indexing mechanism. The Commission, he explained, had required that a reasonable basis exist between the selected index and the cost of producing water. No party had yet demonstrated a strong connection between the CPI and the cost of producing water. Other state utility commissions had similar concerns. The Florida Public Service Commission, he noted, had gone so far as develop its own index that eliminated many of the non-water related items found in the CPI.

Mr. McNally stated that, given the limited revenue that the contract generates, PCUC did not find it cost-effective to pursue the matter. He inquired whether the contract would be allowed to become effective if the CPI adjustment mechanism were withdrawn. Mr. Wuetcher stated that the Commission's only concern with the contract, as evidenced by its Order of January 30, 2008, was the automatic adjustment mechanism. Mr. McNally then presented conference participants with a motion that PCUC intended to file in which PCUC would withdraw the adjustment mechanism and request the Commission to close its investigation.

The conference then adjourned.

cc: Parties of Record