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January 28, 2008

PARTIES OF RECORD:
Case No. 2007-00488
Auxier Water Company

Attached is a copy of the informal conference memorandum which is being filed in the record of the above-referenced case. If you wish to make any comments regarding the contents of the memorandum, please do so within five days of receipt of this letter. Should you have any questions regarding the memorandum, please contact Todd Osterloh at 502/564-3940, Extension 439.

Sincerely,

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

Beth O'Donnell
Executive Director

MTO:v

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2007-00488

FROM: Todd Osterloh, Staff Attorney

DATE: January 28, 2008

RE: Conference of January 24, 2008

On January 24, 2008, the Commission Staff held a conference in this case in the Commission's offices in Frankfort, Kentucky. Present were:

Kip McNally	-	Prestonsburg
Bruce Clark	-	Auxier Water Company
Mark Frost	-	Commission Staff
Sam Reid	-	Commission Staff
Bob Robards	-	Commission Staff
Todd Osterloh	-	Commission Staff

Auxier Water Company ("Auxier") and the City of Prestonsburg ("Prestonsburg")(jointly "parties") requested this meeting to discuss their responses to Commission Staff's First Data Request and the processing of the case.

At the start of the conference, Mr. Clark and Mr. McNally noted their interest in an efficient resolution of the case, while still ensuring a proper and complete record so that the Commission can resolve the issues. Mr. Clark mentioned that Forest Music's health is deteriorating. Mr. Music is a 49 percent owner of Auxier, and his son, who is Auxier's majority owner and primary operator, wants to complete the sale of Auxier to Prestonsburg prior to further complications with his father's health.

Having a brief opportunity to review the parties' responses to the data request, Commission Staff informed counsel that a second data request would be needed to gather more information on the transaction. One of the Commission Staff's primary concerns was the difference between purchase price of \$2,650,000 and Auxier's net plant investment of approximately \$311,000, which is calculated by subtracting contributed capital from net property and equipment. Commission Staff noted PSC Case No. 2001-00325 that involved the purchase of Spears Water Company by the City of Nicholasville. In that case, the Commission required Nicholasville to agree that "[n]o portion of the rates charged to Spears Water's existing customers and to future customers in the area now served by Spears Water shall be used to recover the

difference between the purchase price for the Spears Water system and the net unrecovered value of the system at the time of transfer.”¹

Commission Staff informed the parties that it would attempt to issue its second data request earlier than the February 4 deadline in the procedural schedule, and the parties stated that they would attempt to submit responses prior to the February 14 deadline. After these responses are filed, the parties may seek a second informal conference to discuss the status of the case.

At the end of the conference, Mr. Osterloh 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.

The conference then adjourned.

cc: Parties of Record

¹ Case No. 2001-00325, Joint Application of the Spears Water Company, Inc. and the City of Nicholasville for the Approval of an Asset Purchase Agreement (Ky. PSC March 7, 2002) at 5.