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January 12, 2009

PARTIES OF RECORD

Re: Case No. 2007-00414

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

Attachment

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: File

FROM: Virginia Gregg
Staff Attorney

DATE: January 12, 2009

RE: Case No. 2007-00414
Investigation into the Water Purchase Agreement Between South
Eastern Water Association and the City of Burnside
Teleconference of December 30, 2008

On December 30, 2008, Commission Staff conducted a teleconference in Case No. 2007-00414 to discuss certain issues involving the water supply contract ("contract") between Southeastern Water Association, Inc. ("Southeastern") and the city of Burnside ("Burnside"). Commission Staff gave notice of the teleconference to all parties. The following persons participated:

Damon Talley	-	Southeastern
Morris Vaughn	-	Southeastern
Sam Reid	-	Commission Staff
James Rice	-	Commission Staff
Dennis Jones	-	Commission Staff
Virginia Gregg	-	Commission Staff

The parties executed the contract in question on December 31, 2002 but did not file it with the Commission until June 7, 2007. Following a review of the contract and the responses to discovery requests, several issues remained. Paragraph 12 of the contract establishes a 1-to-1 formula for the pass-through of any increased purchased water costs to Burnside if Somerset, Southeastern's water supplier, increases its rate to Southeastern. The participants discussed in detail the contract formula's failure to provide for water line loss and the contract's failure to require an adjustment of Southeastern's retail rates as a condition for any rate adjustment in the wholesale rate to Burnside.

Southeastern stated that water sales to Burnside represented a relatively small portion of Southeastern's overall operations. Southeastern uses approximately 1,500 miles of water distribution mains to serve its customers and has a water line loss of approximately 14 percent. Southeastern provides water only to the Cumberland Heights area of Burnside and provides it through a 5-mile segment of 8-inch water main

that also serves other Southeastern customers. Burnside's use comprises only 25 percent of the water pumped through this segment.

The conference participants also discussed Southeastern's continued ability to furnish Burnside with the monthly maximum quantity of 2,160,000 gallons as Paragraph 2 of the contract requires. Southeastern stated that Burnside's monthly usage has actually diminished over the past few years from approximately 1.5 million gallons in 2006 to 1.2 million gallons in 2007 and to 1.0 million gallons in 2008. Southeastern further stated that no new growth in the Cumberland Heights area is expected to occur.

The conference participants also discussed Somerset's ability to meet Southeastern's needs, including its contract with Burnside. According to Southeastern, Somerset has sufficient water to meet its present needs but will likely need to expand its treatment capacity in the near future to comply with Division of Water regulations. Southeastern stated that if Somerset expands its treatment capacity, a significant rate increase is anticipated. Southeastern acknowledged that in that event it would adjust its retail and wholesale rates using the procedures set forth in 807 KAR 5:068.

Commission Staff inquired about the last section of paragraph 3, which states that in the event of a water shortage, Southeastern would give first priority to its retail customers and second priority to Burnside. Southeastern was uncertain how any rationing or curtailment would be implemented in the event of a water shortage. Commission Staff stated that a proportional reduction would be expected. Southeastern agreed that its water shortage plan would take precedence over any contractual terms.

Southeastern agreed to file with the Commission within 5 business days a map showing the exact location of the 5 miles of the 8-inch line that provides water to Burnside under the contract. Southeastern indicated that its water shortage plan should be on file with the Commission, but if it is not filed, it will be.

The teleconference then adjourned.