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John W. Clay
Commissioner

December 18, 2008

PARTIES OF RECORD

Re: Case No. 2008-00373
Case No. 2008-00383

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 M. Todd Osterloh at 502/564-3940, Extension 439.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie Stumbo".

Stephanie Stumbo
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2008-00373
Case File No. 2008-00383

FROM: Todd Osterloh ^{MTO}
Staff Attorney

DATE: December 18, 2008

RE: Informal Conference of December 17, 2008

On December 17, 2008, Commission Staff held an informal conference in these cases in the Commission's offices in Frankfort, Kentucky. Present were:

Greg Puckett	-	Richmond Utilities Board
Scott Althausser	-	Richmond Utilities Board
David Spenard	-	Office of the Attorney General
Jud Patterson	-	Kirksville Water Association
Chuck Hardin	-	Madison County Utilities District
Brent Kirtley	-	Commission Staff
Todd Osterloh	-	Commission Staff
Sam Reid	-	Commission Staff
James Rice	-	Commission Staff
Gerald Wuetcher	-	Commission Staff

Richmond Utilities Board ("Richmond") requested an informal conference to discuss the Commission's investigation into the reasonableness of using an indexing factor in setting Richmond's wholesale water rate to Madison County Utilities District and Kirksville Water Association.

Beginning the conference, Mr. Osterloh stated that Commission Staff would prepare minutes of the conference for the case records, 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.

During the conference, the parties provided background information relating to the contracts. They agreed to increase the wholesale rates based on the consumer price index ("CPI") for several reasons. Most significantly, Richmond's cost of providing water to its wholesale customers has increased annually, and an automatic adjustment would eliminate the additional costs of performing expensive cost-of-service studies annually. The parties agreed upon the CPI factor because it provided a relatively consistent increase that could be relied upon by seller and purchaser.

Commission Staff noted that the Commission has previously struck a provision in a wholesale water service contract that provided for annual adjustments in the wholesale rates that were based on the CPI. In Case No. 2006-0067, the city of Lawrenceburg contracted with South Anderson Water District for wholesale water service. This contract provided for, among other things, an automatic adjustment in wholesale rate based upon changes in the CPI. The Commission found that the goods and services used to calculate the CPI are not directly related to the cost of providing water service to customers. Commission Staff noted that Lawrenceburg did not provide sufficient evidence to demonstrate the reasonableness of using CPI as an indexing factor. Commission Staff noted that the Commission did not hold that use of the CPI as an adjustment factor was unreasonable per se and that, if Richmond wished to pursue the use of the CPI as an indexing factor, it would need to demonstrate that the CPI is an accurate indicator of the cost of providing water service. Commission Staff also suggested that the parties consider another index that is more directly related to water service costs.

The conference participants discussed alternatives to the use of an established indexing factor. Among the possible alternatives was an index based upon the actual costs of a small group of significant factors, such as chemicals or purchased power. Commission Staff suggested that Richmond review the wholesale water supply contracts that the Morehead Water Plant Board has negotiated with its wholesale customers.

The conference participants also discussed possible amendments to the existing wholesale agreement to exclude the reference to CPI. Among those considered was a revision that would limit the amount of any adjustment but allow Richmond the discretion to increase its rates based upon a minimal showing of increased costs.

Commission Staff stated that KRS 278.190 requires the Commission to take final action on the contract within 10 months of its filing. Because the contract was initially filed on April 3, 2008, the Commission must issue an order no later than February 2, 2009. The parties informed the Commission that they would discuss the issues with their governing bodies and respond to the Commission prior to February 2, 2009. Commission Staff suggested that Richmond could withdraw and resubmit its contracts prior to that date if the parties were unable to reach an agreed course of action and present it to the Commission by that date.

The conference then adjourned.

W. Scott Althaus
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Alice C. Edwards
Bookkeeper
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