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Chairman

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Commissioner

May 29, 2009

**PARTIES OF RECORD**

Re: Case No. 2009-00041

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 black ink, appearing to read "Jeff Derouen".

Jeff Derouen  
Executive Director

Attachment

**INTRA-AGENCY MEMORANDUM**  
**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Case File  
**FROM:** Eddie Beavers, Financial Analysis Staff  
**DATE:** May 29, 2009  
**RE:** Case No. 2009-00041  
Conference of May 18, 2009

On May 18, 2009, the Commission held a teleconference in this case at the Commission's offices in Frankfort, Kentucky. The purpose of the meeting was to discuss the concerns of Commission Staff on the wholesale rate in this case.

The following individuals participated in the teleconference:

Commission Staff:  
Eddie Beavers, Financial Analysis Division  
Mark Frost, Financial Analysis Division  
Dennis Jones, Financial Analysis Division  
Bob Robards, Engineering Division  
Todd Osterloh, Legal Division

City of Burkesville:  
Keith Riddle, Mayor  
Ed Peretto, Water Works Manager  
Brenda Spears, City Clerk

Cumberland County Water District:  
Steve Capps, Chairman  
Johnny Carter, Water District Manager  
Elizabeth Cornwall, Office Manager

Beginning the conference, Commission Staff stated that it 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. Beavers briefly discussed the concerns of Commission Staff on the wholesale rate and the concerns of Staff in regards to the failure of the City of Burkesville ("Burkesville") to implement rates derived in the 2005 Cost of Service Study

("COSS") performed by the Kentucky Rural Water Association for Burkesville. He mentioned that Staff feels that the Commission might question the reasonableness of the proposed wholesale rate as this rate was not established in a COSS but was set using a percentage across the board.

Mr. Peretto asked to address the lack of implementation of the COSS rates and stated that the City Council did not want to raise rates at that time, and this forced the utility to exhaust all its reserve funds in order to operate. Mr. Peretto stated that when the water works could no longer function under the previous rates, it used the COSS rates as a guideline to establish the rates currently being charged its retail customers as well as the proposed wholesale rate. Mr. Peretto stated that at the current time Cumberland County Water District ("Cumberland District") does not purchase water from Burkesville.

Mr. Capps stated that several years ago the Kentucky Division of Water asked Cumberland District to discontinue buying water from Burkesville. This was an informal request as at the time Burkesville's plant was not capable of providing enough water to its retail customers as well as the water needs of Cumberland District. Mr. Capps also stated that Cumberland District was concerned that the proposed rate was set improperly.

Mr. Capps asked when the new Burkesville water treatment plant would be operational, and Mr. Peretto responded that it would be in September/October of this year. Mr. Peretto stated that the plant construction costs had nothing to do with the proposed wholesale rate and that the inter-local agreement dictated how the rate for the new water treatment plant would be established. Mr. Peretto also stated that the inter-local agreement established that a mutually agreed upon entity would develop the rate to be set once the new water treatment plant was to begin operation. Mr. Peretto asked if the Commission Staff would be available to offer assistance in reviewing the information to establish this new plant wholesale rate.

Ms. Corwall stated that Cumberland District did not know that the inter-local agreement would be suspended and a new wholesale rate would be established outside of the manner described in the inter-local agreement.

Mr. Peretto again stated that the proposed rate did not take into account the new water treatment plant or the method stated in the inter-local agreement and that Burkesville set the rates for all customers the same way. He also stated that as Cumberland District is a customer per contract, the proposed rate was set as all other rates were set for all other customers of Burkesville.

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Mr. Beavers then stated that with that understanding, Commission Staff would need to gather additional information so as to advise the Commission on the reasonableness of the proposed rate. Additionally, Commission Staff would have to address the request for assistance in establishing the wholesale rate for the new water treatment plant in the near future after discussing that issue with the Commission.

Mr. Osterloh stated that Commission Staff wanted to have the information in the record for the Commission. The information would be needed so that the Commission would be able to make an informed decision on the reasonableness of the proposed wholesale rate. Certain items that were previously omitted from the responses provided by Burkesville would need to be made available for Commission Staff to review.

Mr. Beavers and Mr. Osterloh stated that Commission Staff will provide either attached to this memo a list of items or provide the request in the form of a Data Request to Burkesville.

The conference then adjourned.