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September 4, 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,


Jeff Derouen
Executive Director

TO/ew

Attachment

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Todd Osterloh, Staff Attorney

DATE: September 4, 2009

RE: Case No. 2009-00041
Proposed Adjustment of the Wholesale Water Service Rates of the
City of Burkesville
Conference of September 2, 2009

On September 2, 2009, the Commission held an informal conference in this case at the Commission's offices in Frankfort, Kentucky. The purpose of the meeting was to discuss the concerns of Commission Staff about the wholesale rate in this case.

The following individuals participated in the informal conference:

Commission Staff:

Eddie Beavers, Financial Analysis Division
Sam Reid, Financial Analysis Division
Dennis Jones, Financial Analysis Division
Gerald Wuetcher, Legal Division
Todd Osterloh, Legal Division

City of Burkesville:

Keith Riddle, Mayor
Ed Peretto, Water Works Manager
Brenda Spears, City Clerk
Lindsey Bell, City Attorney

Cumberland County Water District:

Steve Capps, Chairman
Johnny Carter, Water District 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 discussed some concerns of Commission Staff about the proposed wholesale rate. He stated that, based on the information provided by the parties and

using a methodology previously approved by the Commission, Staff has not calculated rates that are as high as the city of Burkesville's ("Burkesville") proposed wholesale water service rate. Staff is unable to suggest an exact rate at this time because it is unclear how much water would be purchased by Cumberland County Water District.

The parties and Commission Staff discussed the quantities to be purchased by the water district. Mr. Capps stated that it was unlikely that the water district would purchase any water from Burkesville until the time that Burkesville's new plant becomes operational. In addition, he stated that the water district would probably need to upgrade its system with a pump station or other facilities in order to accept significant amounts of water from Burkesville.

Commission Staff provided a brief overview of general rate-making principles and explained why it may be difficult to establish a set rate. One problem is that it is difficult to estimate expenses that would be adjusted based on additional production requirements, because the water district is not currently purchasing any water from Burkesville.

Burkesville officials stated that they wanted a reasonable rate set so that, when the new plant was operational and the water district began purchasing water, Burkesville was not left in a situation in which it was left carrying the extra costs of producing water until a cost-of-service study could be performed. Burkesville is also concerned that the water district has the contractual right to purchase up to 3 million gallons of water per month from Burkesville's existing plant. Commission Staff questioned whether the parties could agree to a prospective rate with the understanding that there would be a "true-up" at the time a cost-of-service study could be completed for the new plant.

Burkesville officials proposed that the parties agree to a rate of \$3.43 with two contingencies. First, the water district would not purchase any water until the new plant becomes operational. Second, the parties would perform a cost-of-service study after six months or one year of plant operations and then any under- or over-recovery would be paid by the appropriate party.

Mr. Capps stated that he would have to present that proposal to the water district board, which meets again on September 14. The parties agreed to hold a teleconference on September 15, 2009 at 4:00 p.m., Eastern Daylight Time. Commission Staff noted that, if this matter goes to a hearing, the hearing is likely to be held on either September 24 or 25, 2009.

The conference then adjourned.