COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES, KENTUCKY FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO CONSTRUCT, FINANCE, AND INCREASE RATES PURSUANT TO KRS 278.023	)	CASE NO. 2008-00045

O R D E R

On February 6, 2008, U.S. 60 Water District ("U.S. 60") applied for a Certificate of Public Convenience and Necessity to construct a $1,755,685 waterworks construction project, authority to issue $764,000 in revenue bonds, and authority to adjust rates. The proposed project involves the construction and installation of approximately 36,000 linear feet of 12-inch ductile iron transmission main from the Bridgeport area of Franklin County, Kentucky to U.S. 60's central water storage tank at Peytona, Kentucky, and approximately 41,000 linear feet of 6-inch distribution pipe to serve more than 70 new customers in Spencer County, Kentucky.

U.S. 60 proposes to finance the construction of the project through the issuance of $764,000 of its Waterworks Revenue Bonds; a United States Department of Agriculture, Rural Development ("RD") grant in the amount of $272,900; a Kentucky Infrastructure Authority ("KIA") grant in the amount of $700,065; and a contribution from the Applicant in the amount of $18,720.

U.S. 60's application was made pursuant to KRS 278.023, which requires the Commission to accept agreements between water utilities and the U.S. Department of Agriculture or the U.S. Department of Housing and Urban Development, and to issue the necessary orders to implement the terms of such agreements within 30 days of

satisfactory completion of the minimum filing requirements. Given that minimum filing requirements were met in this case on February 6, 2008, KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of this agreement.

Pursuant to KRS 278.023(3), which permits the Commission to recommend changes to the agreement between the water utility and the federal agency, we recommend RD remove one condition to the proposed financing plan. RD requires that U.S. 60 establish a fire hydrant fee of $5 per month. This condition is unnecessary to the repayment of the proposed loan nor will it materially affect the water utility's financial integrity.[1]

While the Commission reluctantly accepts the premise of KRS 278.023 that conflicting federal agency and Commission requirements may delay or jeopardize construction projects that are subject to federal agency financing and oversight, we do

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[1] As the rules contained in U.S. 60's filed rate schedules appear to discourage strongly fire protection services, the Commission strongly questions the need for the fees. Rule VI(D) provides:

> No Fire Protection Service. The District provides only domestic water service to rural residences and businesses. The District does not provide fire protection to its customers or to others. Fire protection must be provided on site by the customer using means other than the District's distribution system.

Similarly, Rule VI(E) provides:

> Fire Hydrants. The fire hydrants installed on the distribution lines of this District are for the sole purpose of flushing the lines, or other uses by the District necessary for proper maintenance of the lines. The District is not responsible for, nor does it guarantee, any minimum pressure or flow at these hydrants, other than the minimum required by the Public Service Commission for distribution lines. If these fire hydrants are used by fire protection units in the performance of their duty, any damage to the distribution lines resulting from excessive pumping pressure will be the liability of that unit.

not accept the view that KRS 278.023 should be used for the wholesale circumvention of Commission review of water utility rates and charges that are unrelated or remotely related to a proposed construction project. When enacting KRS 278.023, the General Assembly attempted to provide for the expedited review of RD-funded construction projects, not the total surrender of state regulatory authority regarding rates to a federal government agency.

We respectfully submit that RD should in the future refrain from including any rates and charges that are unrelated to proposed construction projects in its letters of conditions, especially those charges that involve customer deposits and non-recurring charges.[2] Water utilities seeking review of such charges should follow the procedures set forth in Administrative Regulation 807 KAR 5:011. Commission review of these charges has historically been prompt and has not involved expensive or lengthy proceedings.

IT IS THEREFORE ORDERED that:

1. U.S. 60 is granted a Certificate of Public Convenience and Necessity for the proposed construction project.

2. U.S. 60's proposed plan of financing is accepted.

3. U.S. 60 is authorized to issue $145,000 of U.S. 60 Water District Workworks Revenue Bonds, Series A, and $619,000 of U.S. 60 Water District Workworks Revenue Bonds, Series B.

4. If surplus funds remain after the approved construction has been completed, U.S. 60 may use such surplus to construct additional plant facility if RD

[2] See also Case No. 2007-000385, The Application of Rowan Water, Inc., of Rowan County, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023 (Ky. PSC Oct. 12, 2007) (wherein the Commission made similar recommendations to RD).

approves of the use, and the additional construction will not result in a change in U.S. 60's rates for service. U.S. 60 shall provide written notice of this additional construction in accordance with Administrative Regulation 807 KAR 5:069, Section 3.

5. U.S. 60 shall file a copy of the "as-built" drawings and a certified statement the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certified herein.

6. U.S. 60 shall monitor the adequacies of the expanded water distribution system after construction. If the level of service is inadequate or declining, or the pressure to any customer is outside the requirements of Administrative Regulation 807 KAR 5:066, Section 5(1), U.S. 60 shall take immediate action to ensure that the level of service conforms to the regulations of the Commission.

7. U.S. 60 shall notify the Commission one week prior to the actual start of construction and at the 50 percent completion point.

8. Within 30 days of the date of this Order, U.S. 60 shall file with the Commission its revised tariffs setting out the rates approved herein.

9. The rates set out in Appendix A, which is attached hereto and incorporated herein, are the rates approved for service rendered on and after the date of this Order.

10. Three years from the effective date of this Order, U.S. 60 shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet its operating expenses and annual debt service requirements.

11. If RD amends any conditions set forth in the Letter of Conditions of May 27, 2003 and the Amended Letter of Conditions of January 8, 2008, U.S. 60 shall advise

the Commission in writing of these amendments within 20 days of its receipt of notification of RD's action.

12. The Executive Director shall serve a copy of this Order upon RD's State Director.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

Done at Frankfort, Kentucky, this 7th day of March, 2008.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00045 DATED MARCH 7, 2008

The following rates and charges are prescribed for the customers in the area served by U.S. 60 Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8" x 3/4" Meter

First	1,000	Gallons	$12.86	Minimum Bill
Next	2,000	Gallons	6.41	Per 1,000 Gallons
Next	2,000	Gallons	5.15	Per 1,000 Gallons
All Over	5,000	Gallons	4.54	Per 1,000 Gallons

1" Meter

First	5,000	Gallons	$ 35.98	Minimum Bill
All Over	5,000	Gallons	4.54	Per 1,000 Gallons

2 " Meter

First	25,000	Gallons	$ 126.78	Minimum Bill
All Over	25,000	Gallons	4.54	Per 1,000 Gallons

Bulk User Rate:

First	1,000	Gallons	$2.70	Minimum Bill
All Over	1,000	Gallons	2.70	Per 1,000 Gallons

Wholesale Water:

Sale to co-owner North Shelby Water Company from 16" line

First	1,000	Gallons	$ 26.36	Minimum Bill
All Over	1,000	Gallons	2.02	Per 1,000 Gallons

Fire Hydrants:

Rental by Fire Districts	$5.00 Per Month Per Hydrant
Rental by Private Party	5.00 Per Month Per Hydrant