

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MCCREARY COUNTY)	
WATER DISTRICT OF MCCREARY COUNTY,)	
KENTUCKY, FOR A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY TO CONSTRUCT)	CASE NO.
AND FINANCE PURSUANT TO KRS 278.023)	2004-00405

O R D E R

On October 8, 2004, McCreary County Water District ("McCreary District") submitted an application, pursuant to KRS 278.023, for a Certificate of Public Convenience and Necessity ("CPCN") to construct a waterworks improvement project and for approval of its plan of financing. The waterworks improvement project consists of the construction and installation of approximately 18,900 linear feet of 6-inch water line; 170,500 linear feet of 4-inch water line; 117,000 linear feet of 3-inch water line; one hydro pneumatic pump station; and one 50,000 gallon elevated water storage tank with appurtenances to serve approximately 225 households.

McCreary District proposes to finance the construction project through the issuance of \$750,000 of its Waterworks Revenue Bonds; a Rural Development ("RD") Grant in the amount of \$950,000; an Appalachian Regional Commission ("ARC") grant in the amount of \$400,000; a State of Kentucky Coal Development Fund ("CDF") grant in the amount of \$920,000; and an applicant contribution in the amount of \$55,000. In its application McCreary District submitted a Letter of Conditions ("LOC"), dated April 18, 2003, in which RD agreed to purchase said \$750,000 of bonds maturing over a 40-year

period, at an interest rate not exceeding 4.5 percent per annum. Based upon documents within the application and engineering report, it appears that the project bids exceed the cost estimates and the proposed financing.

KRS 278.023 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. The minimum filing requirements were met in this case on October 8, 2004. The application and the engineering report, however, refer to a CDF grant in the amount of \$920,000, additional projects (Contracts 33 and 34) and increased project costs to which the April 18, 2003 LOC does not refer. RD acknowledged these additional costs in a concurrence letter dated October 1, 2004 but only for Contracts 30, 31, and 32. On November 3, 2004, RD issued an Amended Letter of Conditions ("ALOC") that approves the CDF grant and the increases in project cost. Neither the utility nor RD has provided any evidence to indicate that the projects set forth in Contracts 33 and 34 are part of any agreement or have received RD approval.

IT IS THEREFORE ORDERED that:

1. McCreary District is granted a CPCN for the proposed construction projects set forth in Contracts 30, 31 and 32.
2. McCreary District's proposed plan of financing is accepted.
3. McCreary District is authorized to issue \$750,000 of Waterworks Revenue Bonds at an interest rate not to exceed 4.5 percent per annum.

4. The proceeds from the issuance of the \$750,000 of Waterworks Revenue Bonds shall be used only for the purposes specified in McCreary District's application.

5. Notwithstanding Ordering Paragraph 4, if surplus funds remain after the approved construction has been completed, McCreary District may use such surplus to construct additional plant facility if RD approves of the use and the additional construction will not result in a change in McCreary District's rates for service. McCreary District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 3.

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

7. McCreary District 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 807 KAR 5:066, Section 5(1), McCreary District shall take immediate action to maintain the level of service in conformance with the regulations of the Commission.

8. McCreary District shall notify the Commission one week prior to the actual start of construction and at the 50 percent completion point.

9. McCreary District's application for a CPCN for the projects set forth in Contracts 33 and 34 is denied.

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 8th day of November, 2004.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above a solid horizontal line.

Executive Director

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