

Rubin & Hays

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Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
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CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

PARALEGAL
MARY M. EMBRY

May 28, 2004

Ms. Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Case 2004-00206

RECEIVED
JUN 01 2004
PUBLIC SERVICE
COMMISSION

Re: McCreary County Water District PSC Application

Dear Ms. O'Donnell:

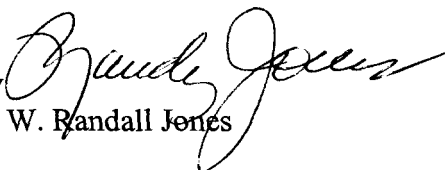
Enclosed please find the original and ten (10) copies of the Application of the McCreary County Water District for a Certificate of Public Convenience and Necessity to construct, finance and increase rates pursuant to KRS 278.023.

Also enclosed are eleven (11) copies of the exhibits required pursuant to 807 KAR 5.069, with the exception of the Preliminary and Final Engineering Reports, of which two copies are enclosed.

If you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jkm
Enclosures

cc: Distribution List

DISTRIBUTION LIST

Account No. 156.0000

**Re: McCreary County Water District Public Service Commission Application for
the Big Creek Sewer Project**

Mr. Stephen T. Owens, Manager/Superintendent
McCreary County Water District
P.O. Box 488
Whitley City, Kentucky 42653

Telephone: (606) 376-2540

Mr. Deron S. Bryne, PE
Monarch Engineering, Inc.
556 Carlton Drive
Lawrenceburg, Kentucky 40342

Telephone: (502) 839-1310
Fax: (502) 839-1373

W. Randall Jones, Esq.
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202

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RECEIVED

JUN 01 2004

PUBLIC SERVICE
COMMISSION

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) NO. 2004-00206
AND NECESSITY TO CONSTRUCT AND INCREASE)
RATES PURSUANT TO KRS 278.023.)

A P P L I C A T I O N

This Application of the McCreary County Water District ("Applicant") of McCreary County, Kentucky, respectfully shows:

1. That Applicant is a water district of McCreary County, Kentucky, created and existing under and by virtue of Chapter 74 of the Kentucky Revised Statutes.

2. That the post office address of Applicant is:

McCreary County Water District
c/o Mr. Raymond Taylor, Chairman
P.O. Box 488
Whitley City, Kentucky 42653

3. That Applicant, pursuant to the provisions of KRS 278.020 and 278.023, seeks (i) a Certificate of Public Convenience and Necessity, permitting Applicant to construct a sewer construction project, consisting of extensions, additions, and improvements (the "Project") to the existing sewer system of Applicant; and (ii) an Order approving increased rates.

4. That the Project consists of the construction and installation of approximately 13,350 linear feet of force sewer main and appurtenances and 63 grinder stations and appurtenances.

5. That Applicant proposes to finance the construction of the Project through the proceeds of a Personal Responsibility in a Desirable Environment ("PRIDE") grant in the amount of \$483,000. The PRIDE grant is being administered by the United States Department of Agriculture, acting through Rural Development ("RD") pursuant to an agreement between the Applicant and RD as evidenced in the RD Letter of Conditions, a copy of which is attached hereto.

6. That Applicant does not contemplate having the Project constructed with any deviation from minimum construction standards of this Public Service Commission.

7. That Applicant files herewith the following Exhibits pursuant to 807 KAR 5:069 in support of this Application:

- A. Copy of RD Letter of Conditions, as amended.
- B. Copy of RD Letter of Concurrence in Contract Award.
- C. Copy of Preliminary and Final Engineering Reports.
- D. Certified statement from the Chairman of Applicant, based upon statements of the Engineers for Applicant, concerning the following:
 - (1) The proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066, Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10;
 - (2) All other state approvals or permits have already been obtained;
 - (3) The proposed rates of Applicant shall produce the total revenue requirements set out in the engineering reports; and
 - (4) Setting out the dates when it is anticipated that construction will begin and end.

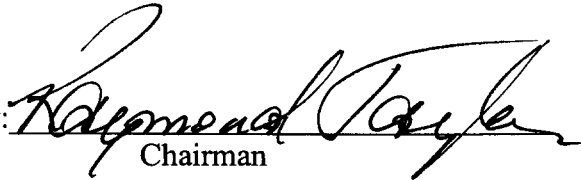
8. That Applicant has arranged for the publication, prior to or at the same time this Application is filed, of a Notice of Proposed Rates pursuant to Section 4 of 807 KAR 5:069, in the McCreary County Record, which is the newspaper of general circulation in Applicant's service area and in McCreary County, Kentucky. Said Notice sets out the current rates and the proposed rates of Applicant and a short description of the Project. A copy of said Notice is filed herewith as an Exhibit.


9. That the foregoing constitutes the documents necessary to obtain the approval of the Kentucky Public Service Commission in accordance with Section 278.023 of the Kentucky Revised Statutes and in accordance with the "Minimum Filing Requirements" specified in 807 KAR 5:069, Section 3.

WHEREFORE, Applicant, the McCreary County Water District, asks that the Public Service Commission of the Commonwealth of Kentucky grant to Applicant the following:

- a. A Certificate of Public Convenience and Necessity permitting Applicant to construct a sewer project consisting of extensions, additions, and improvements to the sewer system of Applicant.
- b. An Order approving the increased rates as set out in Section 17 of the RD Letter of Conditions, as amended, filed herewith as an Exhibit.

MCCREARY COUNTY WATER DISTRICT

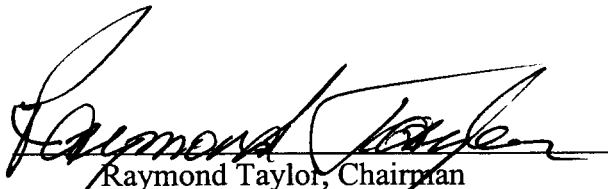
By: 
Chairman
Board of Water Commissioners


W. RANDALL JONES, ESQ.
RUBIN & HAYS
Counsel for Applicant
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
(502) 569-7525

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF MCCREARY)


The undersigned, Raymond Taylor, being duly sworn, deposes and states that he is the Chairman of the Board of Commissioners of the McCreary County Water District, Applicant, in the above proceedings; that he has read the foregoing Application and has noted the contents thereof; that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, he believes same to be true.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on this May 25, 2004.


Raymond Taylor, Chairman
McCreary County Water District

Subscribed and sworn to before me by Raymond Taylor, Chairman of the Board of Commissioners of the McCreary County Water District, on this May 25, 2004.

My Commission expires: 7/13/06.


Notary Public
In and for said County and State



Rural Development
A mission area of the
United States Department of Agriculture

771 Corporate Drive, Suite 200
 Lexington, KY 40503-5477
 859/224-7336 Fax 859/224-7344
 TTY 859/224-7422

JAN 20

Rural Business
 Cooperative Service

January 16, 2004

Rural Housing
 Service

Rural Utilities
 Service

Mr. Raymond Taylor, Chairman
 McCreary County Water District
 P.O. Box 579
 Whitley City, Kentucky

Dear Mr. Taylor:

This letter establishes conditions which must be understood and agreed to by you before further processing of your Personal Responsibility in a Desirable Environment (PRIDE) grant application and which must be met before the grant funds are released.

The Executive Director of PRIDE has entered into an agreement with the State Director of Rural Development whereby the grant will be administered by the Rural Utilities Service (RUS). The State and Area Office staff will be responsible for administering the PRIDE grant offer for the proposed project in an amount not to exceed \$483,000.00. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development and PRIDE, by written amendment to this letter. Any changes not approved by Rural Development and PRIDE shall be cause for discontinuing processing of the application. It should also be understood that PRIDE is under no obligation to provide additional funds to meet an overrun in construction costs.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 120 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

1. Applicant Contribution:

The District will not be required to make a contribution toward the cost of the project.

1a. Grant Agreement:

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

1b. Drug-Free Work Place:

Prior to release of grant funds, the District will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

2. Land Rights and Real Property:

The District will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

3. Organization:

The District will be legally organized under applicable KRS, which will permit them to perform this service.

4. Planning and Performing Development:

A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "11" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Rural Development Manager is prepared to furnish the necessary guide for him to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.

B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:

1. Final plans, specifications and bid documents.
2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
3. Legal Service Agreements.
4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds.

Prior to receipt of an authorization to advertise for construction bids, the District will obtain advance clearance from Local Counsel regarding compliance with KRS 424 pertaining to publishing of the advertisement for construction bids in local newspapers and the period of time the notice is required to be published.

5. Compliance with Section 504 of the Rehabilitation Act of 1973:

The District will be required to comply with Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), in order to make sure no handicapped individual, solely by reason of their handicap, is excluded from participation in the use of the sewer system, be denied the benefits of the sewer system, or be subjected to discrimination.

6. Compliance with Special Laws and Regulations:

The District will be required to conform with any and all state and local laws and regulations affecting this type project.

7. Treatment Plant/System Operator:

The District is reminded that the treatment plant and/or system operator must have an Operator's Certificate issued by the State.

8. Prior to Release of Funds, the District Will Be Required to Adopt:

- A. Form RD 400-1, "Equal Opportunity Agreement."
- B. Form RD 400-4, "Assurance Agreement."
- C. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- D. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

The District must offer the opportunity for all residents in the service area to become users of the facilities regardless of race, creed, color, religion, sex, national origin, marital status, physical or mental handicap or level of income.

9. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (PRIDE) will be established by the District prior to start of construction. The position of officials entrusted with the receipt and disbursement of PRIDE project funds will be covered by a "Fidelity Bond," with PRIDE as Co-obligee, in the amount of construction funds on hand at any one time during the construction phase.

During construction, the District shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the District, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the District.

Monthly review of the District's construction account records shall be made by Rural Development.

10. Disbursement of Grant Funds:

The PRIDE funds will be advanced as they are needed in the amounts(s) necessary to cover the PRIDE proportionate share of obligations due and payable by the District. Grant funds, upon receipt, must be deposited in an interest bearing account in accordance with 7 CFR part 3016 (as applicable). Interest earned on grant funds in excess of \$100 (as applicable) per year will be submitted to PRIDE at least quarterly.

11. Cost of Facility:

Breakdown of Costs:

Development	\$348,600.00
Land and Rights	15,000.00
Legal and Administrative	10,000.00
Engineering	75,000.00
Contingencies	<u>34,400.00</u>
TOTAL	\$ 483,000.00

Financing:

PRIDE Grant	<u>\$ 483,000.00</u>
TOTAL	\$ 483,000.00

12. Mandatory Sewer Connection Ordinance:

The County will be required to adopt a mandatory Sewer Connection Ordinance and will be required to enforce required connections to the sewer system to the maximum extent practical and permissible pursuant to the provisions of the applicable Kentucky Revised Statutes.

13. Debt Collection Improvement Act (DCIA) of 1996:

The Debt Collection Improvement Act (DCIA) of 1996 requires that all federal payments after January 1, 1999 must be made by Electronic Funds Transfer/Automated Clearinghouse (EFT/ACH). Grantees receiving payments by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment. The grantee should complete Form SF-3881, "Electronic Funds Transfer Payment Enrollment Form," for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds.

14. Use of Remaining Project Funds:

After providing for all authorized costs, any remaining project funds will be considered to be PRIDE grant funds and refunded.

15. Mitigation Measures:


- A. The project shall be in compliance with all requirements noted in the Kentucky Department for Local Government letter dated February 27, 2003, from Mr. Ronald A. Cook, Manager.
- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested by letter dated March 27, 2003, and signed by Virgil Lee Andrews, Jr., Field Supervisor.
- C. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without affect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.
- D. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.

16. Final Approval Conditions:

Release of grant funds will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner.

If you desire to proceed with your application, the Rural Development Manager will allot a reasonable portion of time to provide guidance in processing your grant offer.

Sincerely,


KENNETH SLONE
State Director

Enclosures

cc: Rural Development Manager - London, Kentucky
Community Development Manager - Somerset, Kentucky
Lake Cumberland ADD – Russell Springs, Kentucky
Monarch Engineering - Lawrenceburg, Kentucky
Tim Lavender Attorney – Whitley City, Kentucky
PRIDE, Attn: Cindy Lackey - Somerset, Kentucky



Committed to the future of rural communities.

771 Corporate Drive, Suite 200, Lexington, KY 40503-5477
 Telephone 859/224-7300; Fax 859/224-7340; TTY 859/224-7422

May 7, 2004

Mr. Raymond Taylor, Chairman
 McCreary County Water District
 P.O. Box 579
 Whitesley City, Kentucky 42653

Re: Letter of Conditions Dated January 16, 2004

Dear Mr. Taylor:

This letter shall serve as Amendment No. 1 to the PRIDE Letter of Conditions dated January 16, 2004. The purpose of this amendment is to adjust the rates charged by the water and sewer district in order to sustain financial integrity.

Paragraph numbered "17" is added to read as follows:

" 17. Rates and Charges:

Rates and charges for facilities and services rendered by the Water District must be at least adequate to meet cost of maintaining, repairing and operating the water and sewer systems and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

Residential & Non-Residential Rates:

First	2,000	gallons @ \$	14.95 - Minimum Bill.
All Over	2,000	gallons @ \$	4.95 - per 1,000 gallons.

Prison Rates:

First	1,950,000	gallons @ \$	9,657.55 - Minimum Bill.
All Over	1,950,000	gallons @ \$	4.95 - per 1,000 gallons.

Sewer rates will be at least:

Residential:

First	2,000	gallons @ \$	8.10 - Minimum Bill.
Next	8,000	gallons @ \$	4.30 - per 1,000 gallons.
Next	10,000	gallons @ \$	3.40 - per 1,000 gallons.
All Over	20,000	gallons @ \$	2.70 - per 1,000 gallons.

McCreary County Water District

Page 2

Non-Residential:

First	2,000	gallons @ \$	10.80 - Minimum Bill.
Next	8,000	gallons @ \$	5.80 - per 1,000 gallons.
Next	10,000	gallons @ \$	4.50 - per 1,000 gallons.
All Over	20,000	gallons @ \$	3.60 - per 1,000 gallons.

Federal Prison Facility:

First	1,300,000	gallons @ \$	4,710.20 - Minimum Bill.
All Over	1,300,000	gallons @ \$	3.60 - per 1,000 gallons.

East Pine Knot System:

Residential	\$11.82
Commercial	\$11.82 - Per Residential Equivalent*


* The number of Residential Equivalents and/or fractional parts there of shall be determined by dividing the customers average monthly water consumption in gallons. The minimum bill for this type of service shall be \$11.82.

Connection Fees:

5/8" x 3/4" Meter Size	\$350.00
Larger than 5/8" x 3/4" Meters	Actual Cost of Installation "

All other provisions of the referenced Letter of Conditions remain in full force and unchanged.

Sincerely,


KENNETH SLONE
State Director

cc: Area Director - London, Kentucky
Rural Development Manager - Somerset, Kentucky
Lake Cumberland ADD - Russell Springs, Kentucky
Monarch Engineering - Lawrenceburg, Kentucky
Tim Lavender, Attorney - Whitely City, Kentucky
PRIDE, Attn: Cindy Lackey - Somerset, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



Committed to the future of rural communities.

771 Corporate Drive, Suite 200, Lexington, KY 40503-5477
Telephone 859/224-7300; Fax 859/224-7340; TTY 859/224-7422

May 21, 2004

SUBJECT: McCreary County Water District
Big Creek Sewer Project- Phase 1
Contract Award Concurrence

TO: Rural Development Manager
London, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of subject contract to the low bidder, Akins Excavating Co., Inc., in the amount of \$371,200.25.

If you have any questions, please contact Julie Anderson, State Engineer, at (859) 224-7348.


KENNETH SLONE
State Director
Rural Development

cc: Monarch Engineering, Inc.
Lawrenceburg, Kentucky

~~Rubin and Hays~~
Louisville, Kentucky

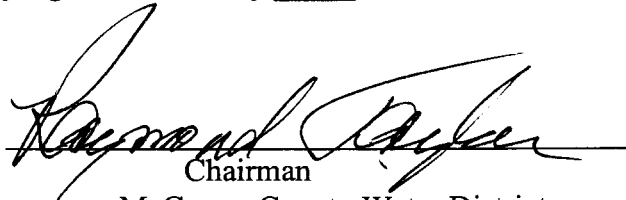
**CERTIFICATE OF CHAIRMAN OF THE MCCREARY COUNTY WATER DISTRICT,
AS TO STATEMENT REQUIRED BY SECTION 3(2)(D) OF 807 KAR 5:069**

I, Raymond Taylor, hereby certify that I am the duly qualified and acting Chairman of the McCreary County Water District of McCreary County, Kentucky, and that said District is in the process of arranging to finance the construction of extensions, additions and improvements to the sewer system of the District (the "Project"), in cooperation with Monarch Engineering, Inc., Lawrenceburg, Kentucky, the Engineers for the District (the "Engineers").

Based on information furnished to me by said Engineers for the District, I hereby certify as follows:


1. That the proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066 Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10.
2. That all other state approvals and/or permits have already been obtained.
3. That the rates proposed by the District in its current Application filed with the Kentucky Public Service Commission are contemplated to produce total revenue requirements set out in the Engineering Reports prepared by such Engineers and filed with the Public Service Commission.
4. That it is now contemplated that construction of the Project will begin on or about July 1, 2004, and will end on or about December 31, 2004.

IN TESTIMONY WHEREOF, witness my signature this May 25, 2004.


Chairman
McCreary County Water District

STATE OF KENTUCKY)
) SS
COUNTY OF MCCREARY)

Subscribed and sworn to before me by Raymond Taylor, Chairman of the Board of Commissioners of the McCreary County Water District, on this May 25, 2004.


Notary Public
In and For Said State and County

NOTICE OF PROPOSED RATES

In accordance with the requirements of the Kentucky Public Service Commission as set out in 807 KAR 5:069, Section 4, notice is hereby given to the customers of the McCreary County Water District of a change in rates as set forth herein. The proposed rates are required by the United States Department of Agriculture, acting through Rural Development ("RD") in connection with the administration of certain project funds.

Current Monthly Water Rates

Residential Rates:

First 2,000 gallons	\$ 10.95 minimum bill
All Over 2,000 gallons	3.25 per 1,000 gallons

Nonresidential Rates:

First 2,000 gallons	\$ 12.45 minimum bill
All Over 2,000 gallons	3.75 per 1,000 gallons

Prison Rates:

First 1,950,000 gallons	\$7,317.45 minimum bill
All Over 1,950,000 gallons	3.75 per 1,000 gallons

Proposed Monthly Water Rates

Residential and Nonresidential Rates:

First 2,000 gallons	\$ 14.95 minimum bill
All Over 2,000 gallons	4.95 per 1,000 gallons

Prison Rates:

First 1,950,000 gallons	\$9,657.55 minimum bill
All Over 1,950,000 gallons	4.95 per 1,000 gallons

The project consists of the construction and installation of approximately 13,350 linear feet of force main and appurtenances and 63 grinder stations and appurtenances. Signed: Raymond Taylor, Chairman McCreary County Water District.