

Rubin & Hays

ATTORNEYS AT LAW

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

RECEIVED

JAN 25 2005

PUBLIC SERVICE
COMMISSION

January 24, 2005

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

Case 2005-00043

Re: Cumberland Falls Highway Water District - KRS 278.023 Application

Dear Ms. O'Donnell:

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

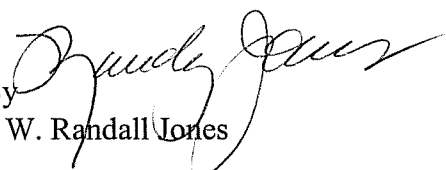
Also enclosed are eleven (11) copies of the exhibits required pursuant to 807 KAR 5.069, with the exception of the Preliminary and Final Engineering Reports, of which two copies are enclosed.

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

Sincerely,

Rubin & Hays

By


W. Randall Jones

WRJ:jlm
Enclosures
cc: Distribution List

DISTRIBUTION LIST

Account No. 590.0000

**Re: Cumberland Falls Highway Water District Waterworks Revenue Bonds, Series
2005, in the principal amount of \$1,415,000**

Mr. Kenneth H. Slone
State Director
Rural Development
771 Corporate Drive, Suite 200
Lexington, Kentucky 40503-5477

Telephone: (859) 224-7336
Fax: (859) 224-7425

Mr. Barry Turner
Rural Development
95 South Laurel Road, Suite A
London, Kentucky 40744

Telephone: (606) 864-5168
Fax: (606) 878-7717

Mr. Marshall Lovitt, Manager
Cumberland Falls Highway Water District
6926 Cumberland Falls Highway
Corbin, Kentucky 40701

Telephone: (606) 528-0222

Carlos E. Miller, P.E.
Kenvirons, Inc.
452 Versailles Road
Frankfort, Kentucky 40601

Telephone: (502) 695-4357

Maxie Higgason, Esq.
Attorney at Law
109 West First Street
Corbin, Kentucky 40701

Telephone: (606) 528-4140

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

Telephone: (502) 569-7525
Fax: (502) 569-7555

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

RECEIVED

JAN 25 2005

PUBLIC SERVICE
COMMISSION

**THE APPLICATION OF CUMBERLAND)
FALLS HIGHWAY WATER DISTRICT)
FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO)
CONSTRUCT, FINANCE AND INCREASE)
RATES PURSUANT TO KRS 278.023.)**

CASE NO. 2005-00043

A P P L I C A T I O N

This Application of the Cumberland Falls Highway Water District ("Applicant") respectfully shows:

1. That Applicant is a water district of Whitley 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:

Cumberland Fall Highway Water District
c/o Mr. Marshall Lovitt, Manager
6926 Cumberland Falls Highway
Corbin, Kentucky 40701

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 waterworks construction project, consisting of extensions, additions, and improvements (the "Project") to the existing waterworks system of Applicant; (ii) an Order approving increased rates; and (iii) approval of the proposed plan of financing said Project.

4. That the project consists of the installation of approximately 150,000 feet of 3-inch and 4-inch water line and appurtenances, a master meter and pump station, and a 25,000 gallon storage tank.

5. That Applicant proposes to finance the construction of the Project through (i) the issuance of \$1,415,000 of its Waterworks Revenue Bonds, (ii) a Rural Development ("RD") Grant in the amount of \$386,000; (iii) an Appalachian Regional Commission ("ARC") in the amount of \$400,000; (iii) a Coal Development Severance Fund grant in the amount of \$200,000; and (iv) an Applicant contribution in the amount of \$45,000. Applicant has a commitment from RD to purchase

said \$1,415,000 of bonds maturing over a 40-year period, at an interest rate of not exceeding 4.25% per annum, as set out in the RD Letter of Conditions filed herewith as an Exhibit.

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.
- B. Copy of RD Letter of Concurrence in Bid 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 Rate Increase pursuant to Section 4 of 807 KAR 5:069, in the *Times-Tribune*, which is the newspaper of general circulation in Applicant's service area and in Corbin, 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.

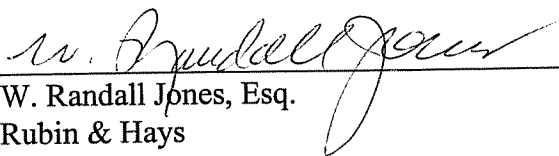
9. That the foregoing constitutes the documents necessary to obtain the approval of the Kentucky Public Service Commission in accordance with Section 278.023 of the Kentucky Revised Statutes and in accordance with the "Minimum Filing Requirements" specified in 807 KAR 5:069, Section 3.

WHEREFORE, Applicant, the Cumberland Falls Highway 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 waterworks project consisting of extensions, additions, and improvements to the existing waterworks system of Applicant.
- b. An Order approving the financing arrangements made by Applicant, viz., the issuance of (i) \$1,415,000 of Cumberland Falls Highway Water District Waterworks Revenue Bonds at an interest rate of not exceeding 4.25% per annum, (ii) an RD Grant in the amount of \$386,000; (iii) an ARC grant in the amount of \$400,000; (iii) a Coal Development Severance Fund grant in the amount of \$200,000; and (iv) an Applicant contribution in the amount of \$45,000.
- c. An Order approving the proposed increased rates as set out in Section 25 of the RD Letter of Conditions filed herewith as an Exhibit.

Cumberland Falls Highway Water District

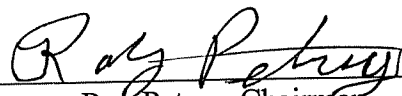
By: 
Chairman
Board of Water Commissioners


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 WHITLEY)

The undersigned, Roy Petrey, being duly sworn, deposes and states that he is the Chairman of the Board of Commissioners of the Cumberland Falls Highway 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, believes same to be true.

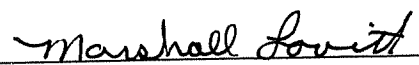
IN TESTIMONY WHEREOF, witness the signature of the undersigned on this January 18, 2005.



Roy Petrey, Chairman
Cumberland Falls Highway Water District

Subscribed and sworn to before me by Roy Petrey, Chairman of the Board of Commissioners of the Cumberland Falls Highway Water District, on this January 18, 2005.

My Commission expires: 9-2-05.



Notary Public, Whitley County, Kentucky



June 13, 2003

Mr. Roy Petrey, Chairman
Cumberland Falls Highway Water District
6926 Cumberland Falls Highway
Corbin, Kentucky 40701

Dear Mr. Petrey:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan and/or grant will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA Rural Development. 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, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan and/or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$1,415,000, a RUS grant not to exceed \$386,000, an Appalachian Regional Commission (ARC) grant of \$400,000, and a Coal Development Severance Fund grant in the amount of \$200,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

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 240 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

1. Number of Users and Their Contribution:

There shall be 2,517 water users, of which 2,367 are existing users and 150 are new users contributing \$45,000 in connection fees toward the cost of the project. The connection fees will be collected prior to advertising for construction bids and will be placed in the construction account at loan pre-closing, unless spent for authorized purposes prior to loan pre-closing. The Rural Development Manager will review and authenticate the number of users and amount of connection fees prior to advertising for construction bids. No contribution is required from the Water District.

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

2. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the bond. Principal payment will not be deferred for a period in excess of two years from the date of the bond. Payments will be in accordance with applicable KRS, which requires interest to be paid semi-annually (January 1st and July 1st) and principal will be due on or before the first of January. Rural Development may require the Water District to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the bond is held or insured by RUS. Monthly payments will be approximate amortized installments.

3. Recommended Repayment Method:

Payments on this loan can be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form SF 5510, "Authorization Agreement for Preauthorized Payments," should be signed by the District to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Rural Development Manager will furnish the necessary forms and further guidance on the PAD procedure.

4. Funded Depreciation Reserve Account:

The Water District will be required to deposit \$655.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$78,600. The deposits are to be resumed any time the account falls below the \$78,600.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the Water District's prior bond resolutions.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

5. Security Requirements:

A pledge of gross water revenue will be provided in the Bond Resolution. Bonds shall rank on a parity with existing bonds.

6. Land Rights and Real Property:

The Water 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.

7. Organization:

The Water District will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

8. Business Operations:

The Water District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the Water District after review by Rural Development. At no later than loan pre-closing, the Water District will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, bookkeeping, making and delivering required reports and audits.

9. Accounts, Records and Audits:

The Water District will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits) in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed.

10. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The Water District will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The Water District will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

11. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the Water District. The Water District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Water District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Water District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$198,000.
- D. Real Property Insurance - The Water District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the Water District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The Water District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

12. 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 "22" 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 or revenues from facilities financed by this Agency.

Prior to receipt of an authorization to advertise for construction bids, the Water District will obtain advance clearance from Bond 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.

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

The Water 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 water system, be denied the benefits of the water system, or be subjected to discrimination.

14. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the Water District.

15. Compliance with Special Laws and Regulations:

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

16. System Operator:

The Water District is reminded that the system operator must have an Operator's Certificate issued by the State.

17. Prior to Pre-Closing the Loan, the Water District will be Required to Adopt:

- A. Form RUS Bulletin 1780-27, "Loan Resolution (Public Bodies)."
- B. Form RD 400-1, "Equal Opportunity Agreement."
- C. Form RD 400-4, "Assurance Agreement."
- D. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- E. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- F. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

The Water 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.

18. Refinancing and Graduation Requirements:

The Water District is reminded that if at any time it shall appear to the Government that the Water District is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the Water District will apply for and accept such loan in sufficient amount to repay the Government.

19. Commercial Interim Financing:

The Water District will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the Water District will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

20. Disbursement of Project Funds:

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

During construction, the Water 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 Water 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 Water District.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing _____," will be prepared by the Water District and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

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

21. Disbursement of Grant Funds:

The RUS funds will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of obligations due and payable by the Water 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 RUS at least quarterly.

22. Cost of Facility:

Breakdown of Costs:

Development	\$ 1,946,000
Land and Rights	10,000
Legal and Administrative	24,100
Engineering	231,900
Interest	60,000
Contingencies	<u>174,000</u>
TOTAL	\$ 2,446,000

Financing:

RUS Loan	\$ 1,415,000
RUS Grant	386,000
ARC Grant	400,000
Coal Development Severance Fund Grant	200,000
Applicant Contribution	<u>45,000</u>
TOTAL	\$ 2,446,000

23. 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 Clearing House (EFT/ACH). Borrowers 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 borrower 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.

24. Use of Remaining Project Funds:

The applicant contribution shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be RUS/ARC/Coal Development Severance Fund grant funds and refunded in proportion to participation in the project. If the amount of unused grant funds exceeds the grants, that part would be RUS loan funds.

25. 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 system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

5/8" x 3/4" Meter:

First	1,000	gallons @ \$	16.70 - Minimum Bill.
All Over	1,000	gallons @ \$	6.50 - per 1,000 gallons.

1" Meter:

First	5,000	gallons @ \$	42.70 - Minimum Bill.
All Over	5,000	gallons @ \$	6.50 - per 1,000 gallons.

2" Meter:

First	25,000	gallons @ \$	172.70 - Minimum Bill.
All Over	25,000	gallons @ \$	6.50 - per 1,000 gallons.

26. Water Purchase Contracts:

The Water District will submit Water Purchase Contracts for approval by Rural Development before advertising for construction bids. If the contracts are not on Form RD 442-30, "Water Purchase Contract," the contracts will require approval by our Regional Attorney. The contracts must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

27. Commitment of ARC and Coal Development Severance Fund Grants:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the ARC grant in the amount of \$400,000 and for the Coal Development Severance Fund grant in the amount of \$200,000.

28. Floodplain Construction:

The Water District will be required to pass and adopt a Resolution or amend its By-Laws whereby the Water District will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the Water District and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

29. Mitigation Measures:

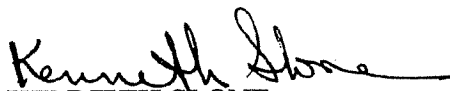
- A. The project shall be in compliance with all requirements noted in the Kentucky Department for Local Government letter dated April 29, 2002, from Mr. Ronald A. Cook, Manager.
- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested by letter dated May 24, 2002, 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. An Archaeological survey of the proposed tank sites must be performed by a professional archaeologist to determine if sites eligible for listing in the National Register for Historic Places will be affected by the undertaking.
- E. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.

30. Final Approval Conditions:

Final approval of this loan 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. Then too, final approval will depend on funds being available.

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

Sincerely,


KENNETH SLONE
State Director

Enclosures

cc: Rural Development Manager - London, Kentucky
Community Development Manager - London, Kentucky
Cumberland Valley ADD - London, Kentucky
Maxie Higgason - Corbin, Kentucky
Rubin and Hays - Louisville, Kentucky
Kenvirons, Inc. - Frankfort, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

RECEIVED

December 28, 2004

JAN 05 2004/5


KENVIRONS, INC.

SUBJECT: Cumberland Falls Water District
Phase 3 Water System Extensions
Contract Award Concurrence

TO: Area Director
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, Inc., in the amount of \$1,643,006.00

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


KENNETH SLONE
State Director
Rural Development

cc: Kenvirons, Inc.
Frankfort, Kentucky

Higgason and Hoskins
Corbin, Kentucky

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities

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**CERTIFICATE OF CHAIRMAN OF CUMBERLAND FALLS HIGHWAY WATER
DISTRICT, AS TO STATEMENT REQUIRED
BY SECTION 3(2)(D) OF 807 KAR 5:069**

I, Roy Petrey, hereby certify that I am the duly qualified and acting Chairman of the Cumberland Falls Highway Water District, and that said District is in the process of arranging to finance the construction of extensions, additions and improvements to the existing waterworks system of the District (the "Project"), in cooperation with Kenviron, Inc., Frankfort, 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 Public Service Commission of Kentucky 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 March 1, 2005, and will end on or about November 30, 2005.

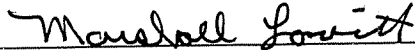
IN TESTIMONY WHEREOF, witness my signature this January 18, 2005.



Chairman
Cumberland Falls Highway Water District

STATE OF KENTUCKY)
) SS
COUNTY OF WHITLEY)

Subscribed and sworn to before me by Roy Petrey, Chairman of the Board of Commissioners of the Cumberland Falls Highway Water District, on this January 18, 2005.



Notary Public
In and For Said State and County

NOTICE OF PROPOSED RATE INCREASE

In accordance with the requirements of the Public Service Commission of the Commonwealth of Kentucky as set out in 807 KAR 5:069, Section 4, notice is hereby given to the customers of the Cumberland Falls Highway Water District of an increase to the District's rate schedule as set forth herein. The proposed rate increase is required by Rural Development in connection with a loan by RD to the District in the amount of \$1,415,000 to be evidenced by the issuance by the District of its Waterworks Revenue Bonds in such amount, which RD has agreed to purchase provided the District meets certain conditions of RD, including increasing water rates as set forth below:

Current Monthly Rates

5/8" x 3/4" Meters:

First 1,000 gallons	\$14.70 minimum bill
All over 1,000 gallons	5.70 per 1,000 gallons

1" Meters:

First 5,000 gallons	\$37.50 minimum bill
All over 5,000 gallons	5.70 per 1,000 gallons

2" Meters:

First 25,000 gallons	\$151.50 minimum bill
All over 25,000 gallons	5.70 per 1,000 gallons

Proposed Monthly Rates

5/8" x 3/4" Meters:

First 1,000 gallons	\$16.70 minimum bill
All over 1,000 gallons	6.50 per 1,000 gallons

1" Meters:

First 5,000 gallons	\$42.70 minimum bill
All over 5,000 gallons	6.50 per 1,000 gallons

2" Meters:

First 25,000 gallons	\$172.70 minimum bill
All over 25,000 gallons	6.50 per 1,000 gallons

The RD loan proceeds will be used in conjunction with (i) an RD Grant in the amount of \$386,000; (ii) an ARC grant in the amount of \$400,000; (iii) a Coal Development Severance Fund grant in the amount of \$200,000; and (iv) a District contribution in the amount of \$45,000 to finance the cost of extensions, additions and improvements to the existing waterworks system of the District, consisting of the installation of approximately 150,000 feet of 3-inch and 4-inch water line and appurtenances, a master meter and pump station, and a 25,000 gallon storage tank. Signed: Roy Petrey, Chairman, Cumberland Falls Highway Water District