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May 31, 2006

CERTIFICATE OF SERVICE

RE: Case No. 2006-00204
Morgan County Water District

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on May 31, 2006.

Executive Director

BOD/jc
Enclosure

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Barbara L. Stacy
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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF MORGAN COUNTY)	
WATER DISTRICT FOR A CERTIFICATE OF)	CASE NO.
PUBLIC CONVENIENCE AND NECESSITY TO)	2006-00204
CONSTRUCT AND FINANCE PURSUANT TO)	
THE PROVISIONS OF KRS 278.023)	

O R D E R

On May 15, 2006, Morgan County Water District ("Morgan District") submitted an application for a Certificate of Public Convenience and Necessity to construct and finance a \$1,850,000 waterworks improvement project. This project consists of the construction and installation of approximately 27 miles of 6-inch, 4 miles of 4-inch, and 1 mile of 3-inch waterline and appurtenances to provide water service to approximately 238 new customers.

Morgan District proposes to finance the construction of the project through the issuance of \$1,000,000 of its Waterworks Revenue Bonds; a Rural Development ("RD") grant in the amount of \$500,000; a grant from the Appalachian Regional Commission ("ARC") in the amount of \$300,000; and a contribution from the applicant in the amount of \$50,000. The said \$1,000,000 bonds mature over a 40-year period at an interest rate not to exceed 4.125 percent per annum. Morgan District'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 May 15, 2006, KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of this agreement.

IT IS THEREFORE ORDERED that:

1. Morgan District is granted a Certificate of Public Convenience and Necessity for the proposed construction project.

2. Morgan District's proposed plan of financing with RD is accepted.

3. Morgan District is authorized to issue \$1,000,000 Waterworks Revenue Bonds at an interest rate not exceeding 4.125 percent per annum, maturing over 40 years.

4. The proceeds from the bond issuance shall be used only for the purposes specified in Morgan District's application.

5. Notwithstanding Ordering Paragraph 4, if surplus funds remain after the approved construction has been completed, Morgan 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 Morgan District's rates for service. Morgan District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 3.

6. Morgan 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 certified herein.

7. Morgan 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), Morgan District shall take immediate action to ensure that the level of service conforms to the regulations of the Commission.

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

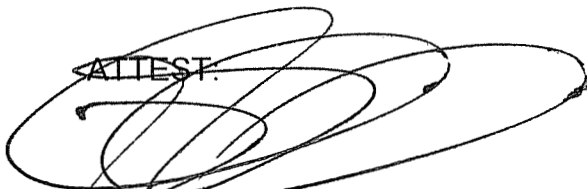
9. Within 30 days of the date of this Order, Morgan District shall file with the Commission its revised tariffs setting out the rates approved herein.

10. Three years from the effective date of this Order, Morgan District 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.

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 31st day of May, 2006.

By the Commission

ATTEST

Executive Director