

Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

September 27, 2006

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

RECEIVED

SEP 29 2006

PUBLIC SERVICE
COMMISSION

Re: Nicholas County Water District

Dear Ms. O'Donnell:

Case No. 2006-00432

Enclosed please find the original and ten (10) copies of the Application of the Nicholas County Water District for a Certificate of Public Convenience and Necessity to construct, finance and add a surcharge 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 will be forwarded to your office in the near future.

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. 506.0000

Re: Nicholas County Water District Waterworks Revenue Bonds, Series 2006, in the principal amount of \$203,000

Rural Development

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

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

Mr. Elwood Howe
Rural Development
220 West First Street
Morehead, Kentucky 40351

Telephone: (606) 784-6447
Fax: (606) 784-2076

District Officials

Ms. Mary Jo McCord, Chairperson
Ms. Georgia Livingood
Nicholas County Water District
1639 Old Paris Road
Carlisle, Kentucky 40311

Telephone: (859) 289-3157
Fax: (859) 289-8131

Engineer

Mr. Mike Maggard
Sisler - Maggard Engineering, PLLC
P.O. Box 23780
Lexington, Kentucky 40523

Telephone: (859) 271-2978
Fax: (859) 271-5670

Local Counsel

Dawn Curran Letcher, Esq.
Attorney at Law
105 West Main Street
Carlisle, Kentucky 40311

Telephone: (859) 289-5400
Fax: (859) 289-8036

Bond Counsel

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
SEP 29 2006
PUBLIC SERVICE
COMMISSION

THE APPLICATION OF NICHOLAS)
COUNTY WATER DISTRICT OF)
NICHOLAS COUNTY, KENTUCKY,)
FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO)
CONSTRUCT, FINANCE AND INCREASE)
RATES PURSUANT TO KRS 278.023.)

NO. 2006-00437

APPLICATION

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

1. That Applicant is a water district of Nicholas 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:

Nicholas County Water District
c/o Ms. Mary Jo McCord, Chairperson
1639 Old Paris Road
Carlisle, Kentucky 40311

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 Phase VIII project consists of the construction and installation of approximately 40,859 linear feet of 4 inch water line; 11,848 linear feet of 3 inch water line; and 11,417 linear feet of 2 inch water line and appurtenances.

5. That Applicant proposes to finance the construction of the Project through (i) the issuance of \$203,000 of its Waterworks Revenue Bonds, (ii) a Rural Development ("RD") Grant in the amount of \$140,000; (iii) a Kentucky Tobacco Settlement Grant ("KTS") in the amount of \$300,000; and (iv) an Applicant contribution in the amount of \$17,000. Applicant has a commit-

ment from RD to purchase said \$203,000 of bonds maturing over a 40-year period, at an interest rate of not exceeding 4.125% 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 Chairperson 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 2 of 807 KAR 5:069, in the Nicholas News, which is the newspaper of general circulation in Applicant's service area and in Nicholas 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 "Filing Requirements" specified in 807 KAR 5:069, Section 1.

WHEREFORE, Applicant, the Nicholas 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 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) \$203,000 of Nicholas County Water District Waterworks Revenue Bonds at an interest rate of not exceeding 4.125% per annum, (ii) an RD Grant in the amount of \$140,000; (iii) a KTS Grant in the amount of \$300,000; and (iv) an Applicant contribution in the amount of \$17,000.
- c. An Order approving the proposed increased rates as set out in Section 24 of the RD Letter of Conditions filed herewith as an Exhibit.

NICHOLAS COUNTY WATER DISTRICT

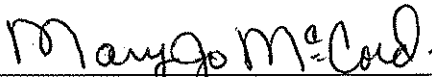
By: Mary Jo McCord.
Chairperson
Board of Water Commissioners

W. Randall Jones
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 NICHOLAS)

The undersigned, Mary Jo McCord, being duly sworn, deposes and states that she is the Chairperson of the Board of Commissioners of the Nicholas County Water District, Applicant, in the above proceedings; that she has read the foregoing Application and has noted the contents thereof; that the same is true of her own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, she believes same to be true.


IN TESTIMONY WHEREOF, witness the signature of the undersigned on this September 25, 2006.



Mary Jo McCord, Chairperson
Nicholas County Water District

Subscribed and sworn to before me by Mary Jo McCord, Chairperson of the Board of Commissioners of the Nicholas County Water District, on this September 25, 2006.

My Commission expires: August 26, 2006



Notary Public, Nicholas County, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

May 17, 2005

Ms. Mary Jo McCord, Chairperson
Nicholas County Water District
1939 Old Paris Road
Carlisle, Kentucky 40311

Dear Ms. McCord:

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 \$203,000, a RUS grant not to exceed \$140,000, and a State of Kentucky Tobacco Settlement Grant in the amount of \$300,000..

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:

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.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

1. Number of Users and Their Contribution:

There shall be 1,407 water users, of which 1,359 are existing users and 48 are new users contributing \$17,000 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 Area Director 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 Area Director will furnish the necessary forms and further guidance on the PAD procedure.

4. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance and repairs and assist with debt service should the need arise.

The District will be required to deposit \$95.00 per month into a "Funded Depreciation Reserve Account" until the account reaches \$11,400. The deposits are to be resumed any time the account falls below the \$11,400.

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

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.

The District also needs to fund an account for short-lived assets by depositing a sum of \$51,667 annually into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's water system.

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, if possible. If this is not possible, the bond will be subordinate and junior to the existing bonds, in which case the Water District will be required to abrogate its right to issue additional bonds ranking on a parity with the existing bonds, so long as any unpaid indebtedness remains on this bond issue.

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. 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 \$139,000.
- 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.

11. 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 "21" 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 Area Director is prepared to furnish the necessary guide 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.

12. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Rural Development financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

13. 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.

14. 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.

15. System Operator:

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

16. 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."

17. 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.

18. 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.

19. 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.

20. 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.

21. Cost of Facility:

Breakdown of Costs:

Development	\$ 478,000
Land and Rights	10,000
Legal and Administrative	20,000
Engineering	102,000
Interest	10,000
Contingencies	<u>40,000</u>
TOTAL	\$ 660,000

Financing:

RUS Loan	\$ 203,000
RUS Grant	140,000
Tobacco Settlement Grant	300,000
Applicant Contribution	<u>17,000</u>
TOTAL	\$ 660,000

22. Proposed Operating Budget:

You will be required to submit to Rural Development a copy of your proposed annual operating budget that supports the proposed loan repayment prior to this agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow, subject to completion of this project in the first full year of operation. Form RD 442-7, "Operating Budget," or similar form may be utilized for this purpose.

23. 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/Tobacco Settlement 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.

24. 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 Size:

First	1,000	gallons @ \$	13.13 - Minimum Bill.
Next	2,000	gallons @ \$	6.17 - per 1,000 gallons.
Next	2,000	gallons @ \$	5.38 - per 1,000 gallons.
Next	5,000	gallons @ \$	4.19 - per 1,000 gallons.
Next	15,000	gallons @ \$	3.80 - per 1,000 gallons.
All Over	25,000	gallons @ \$	3.40 - per 1,000 gallons.

1" Meter Size:

First	3,000	gallons @ \$	25.47 - Minimum Bill.
Next	2,000	gallons @ \$	5.38 - per 1,000 gallons.
Next	5,000	gallons @ \$	4.19 - per 1,000 gallons.
Next	15,000	gallons @ \$	3.80 - per 1,000 gallons.
All Over	25,000	gallons @ \$	3.40 - per 1,000 gallons.

1 1/2" Meter Size:

First	8,400	gallons @ \$	48.80 - Minimum Bill.
Next	1,600	gallons @ \$	4.19 - per 1,000 gallons.
Next	15,000	gallons @ \$	3.80 - per 1,000 gallons.
All Over	25,000	gallons @ \$	3.40 - per 1,000 gallons.

2" Meter Size:

First	12,667	gallons @ \$	68.58 - Minimum Bill.
Next	12,333	gallons @ \$	3.80 - per 1,000 gallons.
All Over	25,000	gallons @ \$	3.40 - per 1,000 gallons.

3" Meter Size:

First	41,125	gallons @ \$	165.18 - Minimum Bill.
All Over	41,125	gallons @ \$	3.40 - per 1,000 gallons.

4" Meter Size:

First	66,125	gallons @ \$	250.18 - Minimum Bill.
All Over	66,125	gallons @ \$	3.40 - per 1,000 gallons.

A \$5.00 per month surcharge will be assessed to all customers within the Phase V area and all new customers within the Phase VIII project area.

25. 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.

26. Commitment of State of Kentucky Tobacco Settlement Grant Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the State of Kentucky Tobacco Settlement grant in the amount of \$300,000.

27. 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 December 12, 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 December 6, 2004, 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.

30. Final Approval Conditions:

Final approval of this assistance 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 Area Director will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,


KENNETH SLONE
State Director

Enclosures

cc: Area Director - Morehead, Kentucky
Rural Development Manager - Flemingsburg, Kentucky
Bluegrass ADD - Lexington, Kentucky
Dawn Letcher - Carlisle, Kentucky
✓ Rubin and Hays - Louisville, Kentucky
Sisler & Maggard Engineering - Lexington, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



United States Department of Agriculture
Rural Development
Kentucky State Office

August 25, 2006

SUBJECT: Nicholas County Water District
Contract 8- Water System Improvement
Contract Award Concurrence

TO: Area Director
Morehead, 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, Staton's Construction, in the amount of \$453,100.00.

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

KENNETH SLONE
State Director
Rural Development

cc: Sisler-Maggard Engineering, Inc.
Lexington, Kentucky

~~Rubin and Hayes~~
Louisville, 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.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

**CERTIFICATE OF CHAIRPERSON OF NICHOLAS COUNTY WATER
DISTRICT, AS TO STATEMENT REQUIRED
BY SECTION 1(5) OF 807 KAR 5:069**

I, Mary Jo McCord, hereby certify that I am the duly qualified and acting Chairperson of the Nicholas County 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 Sisler-Maggard Engineering, PLLC, Lexington, 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 October 23, 2006, and will end on or about June 19, 2007.

IN TESTIMONY WHEREOF, witness my signature this September 25, 2006.



Chairperson

Nicholas County Water District

STATE OF KENTUCKY)
) SS
COUNTY OF NICHOLAS)

Subscribed and sworn to before me by Mary Jo McCord, Chairperson of the Board of Commissioners of the Nicholas County Water District, on this September 25, 2006.



Notary Public

In and For Said State and County

NOTICE OF PROPOSED SURCHARGE

In accordance with the requirements of the Kentucky Public Service Commission as set out in 807 KAR 5:069, Section 2, notice is hereby given to the customers of the Nicholas County Water District of a surcharge to the District's water rates as set forth herein. The proposed surcharge is required by USDA, Rural Development in connection with a loan by the RD to the District in the amount of \$203,000 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 adding a surcharge as set forth below:

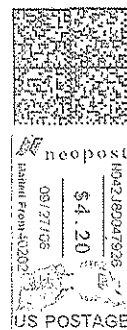
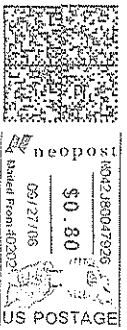
Current Monthly Surcharge

A \$5.00 per month surcharge is in effect for all new customers in the Phase V project area.

Proposed Monthly Surcharge

A \$5.00 per month surcharge is assessed for all new customers in the Phase VIII project area.

The RD loan proceeds will be used in conjunction with (i) an RD Grant in the amount of \$140,000; (ii) a Tobacco Settlement grant in the amount of \$300,000; and (iii) a District contribution in the amount of \$17,000 to finance the cost of the construction and installation of approximately 40,859 linear feet of 4 inch water line; 11,848 linear feet of 3 inch water line; and 11,417 linear feet of 2 inch water line and appurtenances. Signed: Mary Jo McCord, Chairperson, Nicholas County Water District, Carlisle, Kentucky



ATTORNEYS-AT-LAW
Rubin & Hays

Kennedy Heane Trust Bldg., 450 South Third St., Louisville, KY 40202

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

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COMMISSION

