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Commissioner
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October 12, 2007

Honorable Truman L. Dehner
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206 East Main Street
Morehead, KY 40351

CERTIFICATE OF SERVICE

RE: Case No. 2007-00385
Rowan Water, Inc.

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 October 12, 2007.

A handwritten signature in black ink, appearing to read "Beth O'Donnell", written over a horizontal line.

Executive Director

BOD/rs
Enclosure



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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF ROWAN WATER, INC., OF)
ROWAN COUNTY, KENTUCKY, FOR A)
CERTIFICATE OF PUBLIC CONVENIENCE AND) CASE NO. 2007-00385
NECESSITY TO CONSTRUCT, FINANCE, AND)
INCREASE RATES PURSUANT TO KRS 278.023)

O R D E R

On September 18, 2007,¹ Rowan Water, Inc. ("Rowan Water") applied for a Certificate of Public Convenience and Necessity to construct a \$1,300,000 waterworks improvement project, for authority to borrow \$600,000, and for a rate adjustment. The proposed project includes the replacement of an existing booster pump station and water storage tank; improvements to an existing hydropneumatic booster pump station; and construction of an additional hydropneumatic booster pump station and additional water distribution mains.

Rowan Water proposes to finance the construction of the proposed project with a loan of \$600,000 from the United States Department of Agriculture, Rural Development ("RD"); an RD grant in the amount of \$325,000; and a 2006 Infrastructure for Economic Development Fund state grant of \$375,000.

¹ Rowan Water tendered its application to the Commission on August 27, 2007. As this application failed to meet the requirements set forth in Administrative Regulation 807 KAR 5:069, the Executive Director did not accept it for filing. On September 18, 2007, Rowan Water submitted information that cured the deficiencies in its application.

Rowan Water'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 September 18, 2007, KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of this agreement.

Pursuant to KRS 278.023(3), which permits the Commission to recommend changes to the agreement between the water utility and the federal agency, we recommend that RD remove 2 conditions to the proposed financing plan. RD requires that Rowan Water require a deposit of \$100 from customers who are served in rental properties and that Rowan Water establish a credit card usage fee of \$3. Neither condition is necessary to the repayment of the proposed loan or will materially affect the water utility's financial integrity. Moreover, as to the deposit requirement, we have previously found that the required disparate treatment of renters is unreasonable and unlawful.² As to the credit card charge, such charges are of recent vintage and have required Commission review to ensure their reasonableness and compliance with Administrative Regulation 807 KAR 5:011, Section 8(2).

² Case No. 9322, North McClain County Water District (Ky. PSC Oct. 21, 1985) at 12-13. See also Hardin County Water District No. 1, Case No. 9383 (Ky. PSC Aug. 25, 1985) at 5. The required deposit also appears to exceed the amount that Administrative Regulation 807 KAR 5:006, Section 7, permits.

While the Commission reluctantly accepts the premise of KRS 278.023 that conflicting federal agency and Commission requirements may delay or jeopardize construction projects that are subject to federal agency financing and oversight, we do not accept the view that KRS 278.023 should be used for the wholesale circumvention of Commission review of water utility rates and charges that are unrelated or remotely related to a proposed construction project. When enacting KRS 278.023, the General Assembly attempted to provide for the expedited review of RD-funded construction projects, not the total surrender of state regulatory authority to a federal government agency.

We respectfully submit that RD should refrain from including any rates and charges that are unrelated to proposed construction projects in its letters of conditions, especially those charges that involve customer deposits and non-recurring charges. Water utilities seeking review of such charges should follow the procedures set forth in Administrative Regulation 807 KAR 5:011. Commission review of these charges have historically been prompt and have not involved expensive or lengthy proceedings.

IT IS THEREFORE ORDERED that:

1. Rowan Water is granted a Certificate of Public Convenience and Necessity for the proposed construction project.
2. Rowan Water's proposed plan of financing with RD is accepted.
3. Rowan Water is authorized to borrow \$600,000 from RD.
4. Except as provided for in Ordering Paragraph 5, Rowan Water should use the proceeds of the approved loan from RD only for the purposes set forth in its application.

5. If surplus funds remain after the approved construction has been completed, Rowan Water 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 Rowan Water's rates for service. Rowan Water shall provide written notice of this additional construction in accordance with Administrative Regulation 807 KAR 5:069, Section 3.

6. Rowan Water 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. Rowan Water 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 Administrative Regulation 807 KAR 5:066, Section 5(1), Rowan Water shall take immediate action to ensure that the level of service conforms to the regulations of the Commission.

8. Rowan Water 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, Rowan Water shall file with the Commission its revised tariffs setting out the rates approved herein.

10. The rates set out in Appendix A, which is attached hereto and incorporated herein, are the rates approved for service rendered on and after the date of this Order.

11. Three years from the effective date of this Order, Rowan Water 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.

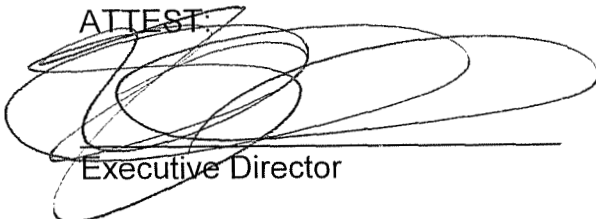
12. The Executive Director shall serve a copy of this Order upon RD's State Director.

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 12th day of October, 2007.

By the Commission

ATTEST:

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2007-00385 DATED October 12, 2007

The following rates and charges are prescribed for the customers in the area served by Rowan Water, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8" Meter

First	2,000	Gallons	\$13.90	Minimum Bill
Next	3,000	Gallons	5.80	per 1,000 Gallons
Next	10,000	Gallons	5.30	per 1,000 Gallons
Next	10,000	Gallons	4.90	per 1,000 Gallons
Next	10,000	Gallons	4.70	per 1,000 Gallons
Next	15,000	Gallons	4.50	per 1,000 Gallons
All Over	50,000	Gallons	4.30	per 1,000 Gallons

3/4" Meter

First	4,000	Gallons	\$25.50	Minimum Bill
Next	1,000	Gallons	5.80	per 1,000 Gallons
Next	10,000	Gallons	5.30	per 1,000 Gallons
Next	10,000	Gallons	4.90	per 1,000 Gallons
Next	10,000	Gallons	4.70	per 1,000 Gallons
Next	15,000	Gallons	4.50	per 1,000 Gallons
All Over	50,000	Gallons	4.30	per 1,000 Gallons

1" Meter

First	5,000	Gallons	\$31.30	Minimum Bill
Next	10,000	Gallons	5.30	per 1,000 Gallons
Next	10,000	Gallons	4.90	per 1,000 Gallons
Next	10,000	Gallons	4.70	per 1,000 Gallons
Next	15,000	Gallons	4.50	per 1,000 Gallons
All Over	50,000	Gallons	4.30	per 1,000 Gallons

1 1/2" Meter

First	15,000	Gallons	\$84.30	Minimum Bill
Next	10,000	Gallons	4.90	per 1,000 Gallons
Next	10,000	Gallons	4.70	per 1,000 Gallons
Next	15,000	Gallons	4.50	per 1,000 Gallons
All Over	50,000	Gallons	4.30	per 1,000 Gallons

2" Meter

First	25,000	Gallons	\$133.30	Minimum Bill
Next	10,000	Gallons	4.70	per 1,000 Gallons
Next	15,000	Gallons	4.50	per 1,000 Gallons
All Over	50,000	Gallons	4.30	per 1,000 Gallons

Meter Installation:

5/8" x 3/4" Meters	\$550.00
All other meter sizes	Cost of installation plus 15 percent overhead charge

Special Charges:

Reconnection Charge	\$ 32.00
Collection of Delinquent Account	20.00
Deposit on Rental Property	100.00
Credit Card Use Fee	4 percent applied to total of amount charged