

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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COMMISSION

IN THE MATTER OF:

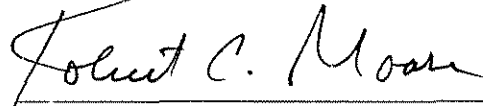
In the Matter of:

APPLICATION OF FARMDALE DEVELOPMENT)
CORPORATION FOR AN ADJUSTMENT IN RATES) CASE NO. 2007-00436
PURSUANT TO THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

NOTICE OF FILING

Comes the Applicant, Farmdale Development Corporation ("Farmdale"), by counsel, and hereby files the attached Pre-Filed Testimony of Carroll F. Cogan.

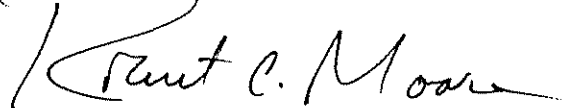
Respectfully Submitted,



Robert C. Moore
Hazelrigg & Cox, LLP
415 West Main Street, 1st Floor
P.O. Box 676
Frankfort, Kentucky 40602-0676

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon Stephanie Stumbo, Executive Director, Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, Kentucky 40602, David Edward Spenard, Assistant Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601-8204, Kenny and Marilyn Glass, 223, Briarwood Drive, Frankfort, Kentucky 40602, and Tiffany Bowman, Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, Kentucky 40602 by placing same in the U.S. Mail, postage pre-paid, this the 30th day of May, 2008.



Robert C. Moore

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BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF FARMDALE DEVELOPMENT)
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PRE-FILED TESTIMONY OF CARROLL F. COGAN

1. What is your name and business address?

Answer: My name is Carroll F. Cogan and my business address is 1706 Bardstown Road, Louisville, Kentucky 40205.

2. What is your relationship to Farmdale Development Corporation?

Answer: I am the President and sole shareholder of Farmdale Utilities, Inc., the company that is the sole owner of Farmdale Development Corporation ("Farmdale"). Farmdale is a utility subject to the jurisdiction of the Public Service Commission ("Commission") under KRS 278.010(3)(f).

3. How long has Farmdale owned and operated the Farmdale Wastewater Treatment Plant ("WWTP") and the collection system and how long has the plant and collection system been in operation?

Answer: Farmdale has owned and operated the WWTP and collection system located in Franklin County, Kentucky since approximately 1974. The WWTP and collection system were built in the 1960s and wastewater treatment services have been provided for approximately 241 residential customers since that time.

4. Please provide a general description of the Farmdale WWTP.

Answer: The Farmdale WWTP is a package sewage treatment plant consisting of a small 25,000 gallon per day plant and a 60,000 gallon per day plant that has a collection system with a remote lift station. The average daily treatment capacity of the Farmdale WWTP is 85,000 gallons. The plant consistently meets state water quality standards.

5. Do you have any experience in the operation and maintenance of a WWTP?

Answer: Yes, from approximately 1955 to 1990, I was the owner of Andriot-Davidson Co., Inc., a company specializing in sales, design, service and turnkey installation of all types of pumping, water and waste treating equipment. Furthermore, from approximately 1962 until approximately 1986, I owned and operated 33 WWTPs. In 1986, I sold 28 WWTPs located in Jefferson County, Kentucky to the Louisville and Jefferson County Metropolitan Sewer District. I still own several WWTPs. A brief summary of my education and training is attached to my Pre-Filed testimony as Attachment A.

6. Is the current rate for Farmdale adequate to cover the operating expenses of Farmdale?

Answer: No.

7. How long has Farmdale's current rate been in effect?

Answer: The prior rate case was submitted to the Commission by Farmdale on January 19, 2006 and was assigned Case No. 2006-00028. On April 11, 2007, after the parties filed a Stipulation and Agreement proposing to settle Case No. 2006-00028, the Commission entered its Order approving the Stipulation and Agreement establishing a base monthly rate of \$28.00 per customer and a monthly surcharge in the amount of \$9.92 per month for a period of 5

years or the collection of \$146,307.00, whichever occurs first.

Farmdale entered into the Stipulation and Agreement even though it did not resolve all of the issues, such as including in the rate the amount necessary to pay for the interest on the loan to fund the surcharge repairs which repairs were required to be completed within 360 days of April 11, 2007. However, in order to conclude the case, avoid the cost of the formal hearing and filing of briefs and to get a new rate in place in a timely manner, Farmdale decided it was in its best interest to enter into the Stipulation and Agreement. I would note that the Commission's April 11, 2007 Order expressly recognized that Farmdale would need to obtain a loan to fund the surcharge and to complete the surcharge repairs in accordance with the required time line. (See April 11, 2007 Order, pp.3 and 4).

Farmdale then obtained the needed five (5) year loan from Old National Bank in Louisville, Kentucky, with a loan commitment fee of \$1,500.00 and interest expense of \$31,413.00 over the five (5) year life of the loan. Pursuant to discussions with Commission Staff during the negotiation of the Stipulation and Agreement, Farmdale filed the above-styled rate case to include the loan commitment fee and interest expense in its rate. Farmdale also included expenses incurred during the 2006 test year in the rate case.

8. Do you agree with the Staff Report reflecting adjustments to the figures to be used in calculating the proposed rates set forth in Farmdale's Application?

Answer: No.

9. Please described in detail the reasons you do not agree with the Staff's recommended adjustments in calculating the new rate for Farmdale?

Answer: Staff's Report is based on a limited financial review of Farmdale's test

period, which were the operations for the calendar year ending December 31, 2006. In issuing its Report, Staff rejected actual expenses and costs incurred by Farmdale in operating its WWTP, and recommended adjusted expenses and costs that are not based on the actual experience of operating the WWTP. Staff failed to take into consideration the long term experience of Farmdale in operating its own WWTP and the need to insure that Farmdale's rate is sufficient to pay its bills when it recommended the downward adjustment of Farmdale's expenses and costs. It is not in Farmdale's or its customers best interests to bankrupt Farmdale.

10) Do you agree with Staff's recommendation to decrease the owner/manager fee from \$9,600 to \$6,000?

Answer: No. Farmdale requested an owner/manager fee of \$9,600, and the Staff Report recommended decreasing the fee by \$3,600, for a total fee of \$6,000. Based on the following factors, the authorized owner/manager fee should be \$9,600.

a) Commission Staff advised me that the Commission has historically authorized a WWTP owner/manager to be paid a salary equivalent to the salary authorized for a single water district commissioner, on the theory that the duties of a water district commissioner and WWTP owner/manager are similar. In making its recommendation to decrease Farmdale's proposed owner/manager salary, Staff failed to consider that a water district commissioner shares his/her duties with at least two (2) other commissioners, while a WWTP only has a single owner/manager. Using Staff's logic, a WWTP owner/manager should be compensated at the total amount paid all three (3) water district commissioners because the WWTP owner/manager is doing the job of all of the water district commissioners.

The amount paid to the officers of the Farmdale Water District per year totals \$10,800,

which does not include the salaries paid to its full-time employees, which I understand include two office personnel and one outside person. The amount paid to the officers and managers of the South Elkhorn Water District per year totals \$30,000, and the amount paid to the officers and managers of the Northeast County Water District per year totals \$18,000. The amount paid to the officers and manager of the South Woodford Water District per year totals \$10,800. (See Section III of Farmdale's Application). Accordingly, the Commission should authorize the payment of the requested owner/manager fee of \$9,600, which is less than the amount paid to the water district commissioners of the above listed water districts for their services.

Additionally, my training and experience justifies an owner/manager fee of \$9,600. In authorizing annual compensation of \$6,000 in this case, Staff referred to KRS 74.020(6) which provides for annual compensation of \$6,000 for a water district commissioner who, among other things, meets certain enhanced training requirements. Staff recommended the allowance of an owner/manager fee of \$6,000 in this case based upon my 30-plus years of experience owning and operating jurisdictional sewer utilities. Of course, if all three commissioners of the Farmdale Water District had the training and experience sufficient to satisfy KRS 74.020(6), they would receive total compensation of at least \$18,000. Accordingly, the Commission should authorize the payment of the reasonable owner/management fee in this case of \$9,600.

This is particularly true where I have been a licensed professional engineer since approximately 1960, and for over 30 years owned and operated the Andriot-Davidson Co., Inc., a company that manufactured, repaired and sold WWTPs and their components. My licensure and substantial experience has helped to save or avoid expenses for the Farmdale WWTP, as the need to hire outside engineering services has been minimized and unnecessary maintenance and repair expenses were avoided.

b) The payment of the owner/management fee of \$9,600 is more that justified when

considering my duties and responsibilities as a WWTP owner/manager, as compared to the duties and responsibilities of the multiple officers and managers of the above-referenced water districts. I am solely responsible for:

- the operation and management of the Farmdale WWTP, consisting of the plant site, two extended aeration treatment plants, blower building with blowers and electrical controls, raw sewage pump station at the plant, chlorine contact system, chlorination system, dechlorination system, flow meter, tertiary lagoon, lagoon aerators, approximately 14,000 feet of 8" sanitary sewer line and one remote lift station.
- insuring proper maintenance, repairs and improvements to the plant.
- preparing and submitting the required reports, applications for rate adjustment and tax returns to the Commission and the Revenue Department.
- preparing and submitting the required reports to the Kentucky Division of Water, including the monthly discharge monitoring reports
- compliance by the Farmdale WWTP with the regulations of both the Commission and the Kentucky Division of Water.
- I am subjected to substantial potential liability arising out of the operation of the WWTP, including potential liability in the event that Farmdale has an upset and fails to comply with its KPDES permit or one of its customers experiences a backup of wastewater into his/her home. The applicable statutes authorize a fine of up to \$5,000 for discharges in violation of the KPDES permit.
- hiring and supervising the professionals retained by Farmdale, including accountants and attorneys.
- personally guaranteeing loans obtained by Farmdale, as lending institutions will not loan monies to a privately owned sewer utility without an adequate guarantee. (See Attachment B).
- hiring and supervising Farmdale's part-time employee and its subcontractors.
- monitoring the billing and collection of Farmdale's total revenue exceeding \$80,000 from its 241 customers and payment of Farmdale's total expenses, which exceed \$95,000.
- I do not employ a superintendent or treasurer as is authorized for water districts. (KRS 74.040 and KRS 74.050).

I would also like to point out that, unlike a WWTP, a water district has little or no treatment or operating equipment and its lines and meters require little or no maintenance. This information confirms that the owner/management fee of \$9,600 proposed in Farmdale's application is more than reasonable and should be approved by the Commission.

c) Please note that due to Farmdale's poor financial condition, I have not been paid an owner/manager fee for the last ten (10) years.

11) Do you agree with Staff's recommendation to decrease the sludge hauling expense?

Answer: No. Farmdale's Application included sludge hauling expense of \$5,450, the identical expense incurred in 2006 for sludge hauling. Staff initially adjusted the sludge hauling expense downward by \$2,850, recommending a total sludge hauling expense of \$2,600. However, its Amended Staff Report acknowledged that sludge hauling expense of at least \$4,250 had been incurred in 2007, and suggested that additional evidence needed to be provided to the Commission on this issue. The following factors reflect that the sludge hauling expense should be maintained at \$5,450:

a) In order to insure the proper operation of the Farmdale WWTP and in response to complaints by the Commission, Farmdale changed operators in May of 2005. Lawrence Smither, the WWTP's current operator, knows that the wasting of sludge on a regular basis is important to insure proper and efficient plant operation, to obtain the most effective treatment of the wastewater and to obtain better plant results. An increase in aeration time and frequency of wasting and hauling sludge prevents bulking and overflow, resulting in improved efficiency in the operation of WWTP. The cost to haul sludge to maintain the efficient operation of the plant in 2006 was \$5,450. The amount paid to haul sludge in 2007 to maintain the efficient operation of the plant was \$4,250. The total cost of \$4,250 for 2007 did not include two loads of sludge that were hauled away by Martin's Sanitation at no charge. The normal cost of \$850 was not charged because Farmdale allowed Martin's Sanitation to process through the WWTP liquids it generated during the pumping and cleaning of the WWTP's lagoon. Accordingly, the cost to haul sludge in 2007 would be \$5,100, which is much closer to the 2006 expense of \$5,450 than the \$2,600 amount recommended by Commission Staff. (See Attachment C). Therefore, the proposed expense of \$5,450 to haul sludge should be maintained, as the expense to haul sludge

cannot be reduced without impacting the efficient operation of the plant.

b) Staff states that Farmdale paid sludge hauling expenses totaling \$1,975 through June 30, 2007, but that \$1,550 of this amount was actually incurred for hauling performed in November and December 2006, thereby stating that only \$425 in sludge hauling expenses had been incurred as of June 30, 2007. Staff failed to take into account that if \$1,550 is deducted from sludge hauling expenses from 2007 because the sludge was actually hauled in it 2006, then this \$1550 must be added to sludge hauling expenses incurred in 2006. Of course, whether this \$1,550 is allocated to sludge hauling expenses in 2006 or 2007, the same total cost of \$11,250 has been expended for sludge hauling in 2006 and 2007. The average of the sludge hauling expense would remain \$5,625 per year for the last two years. This amount does not include any cost for the two loads of sludge that were hauled away at no charge. If this amount is included, the total sludge hauling cost in 2006 and 2007 was \$12,100 for an average of \$6,100.

Furthermore, the invoices issued by Martins Sanitation for sludge hauled in 2007 total \$4,250.00. When you add the cost of hauling two loads of sludge for which FArmdale was not billed (2 loads x \$425.00 each), the total cost of hauling sludge in 2007 was \$5,100.00.

c) Please note that if the sludge is not wasted and hauled when needed in order to maintain the efficient operation of the WWTP, the sludge will overflow into the tertiary lagoon. The lagoon will eventually fill up and require pumping and cleaning. In rate Case No. 2006-00028, the Commission authorized a surcharge which included the cost of \$58,750 incurred to pump and clean the subject lagoon. The hauling of sludge on a more frequent basis not only results in improved wastewater treatment, but also avoids or defers the significant cost of pumping and cleaning the lagoon. Furthermore, if the sludge is allowed to build up in the lagoon, it becomes even more important to waste and haul the sludge before it enters the lagoon in order to maintain the efficient operation of the plant and also to avoid the sludge being wasted

into the receiving stream after a heavy rainfall;

d) In making its recommendation to reduce the sludge hauling expense to \$2,600, Staff also fails to consider that the need to haul sludge is variable and is based on weather conditions and other factors.

12) Do you agree with Staff's recommendation to decrease the fuel/power for pumping expense?

No. Farmdale's Application proposed the amount of \$19,150 to pay for fuel/power consumption. This amount was based upon the cost of fuel/power experienced in 2006, and Farmdale made no increase to this number. Accordingly, the \$19,150 expense is based directly on the fuel/power expense incurred in 2006. Staff proposed an approximately twenty-five percent (25%) reduction in recommending adjusting the expense of fuel/power for pumping to \$15,303. In making this recommendation, Commission Staff ignores actual expenses incurred by Farmdale and fails to take into consideration the fact that, due to concerns about the operation of the WWTP, Farmdale changed the operator of the Farmdale WWTP in the May-June of 2005 time frame. Mr. Smither, the current operator, has improved the operating efficiency of the operation by increasing the overall operating time of the plant, which includes the operation of the blowers and aerators. Of course, power/fuel is needed in order to operate the blowers and aerators. The previous operator was not getting the aeration needed to keep dissolved oxygen at the levels required to obtain proper treatment of the wastewater. The most accurate projection of fuel and power costs is the amount actually expended in 2006.

Farmdale's fuel/power expense in 2007 was \$14,570.81 and the projected fuel/power cost for 2008 is \$15,324.69. (See Attachment D). The difference in fuel/power costs reflects the fact that the operation of a WWTP is affected by variable conditions, including weather and the amount of flow. Accordingly, Staff should recommend an amount that ensures that the WWTP

can be operated properly.

Staff's recommendation further fails to take into the account that Farmdale's energy demands are met by Blue Grass Energy. By letter dated April 11, 2008, Blue Grass Energy advised Farmdale that it has filed an application for rate adjustment seeking to increase its rate by 9.01 percent. (See Attachment E). It would be unwise to bankrupt Farmdale by not allowing it to recover the full amount of its energy costs or to force it to operate under unsatisfactory conditions.

Should the Commission only authorize a fuel/power expense of \$15,303, then Farmdale should be allowed to recover as a nonrecurring expense the amount of \$3,847, the difference between the 2006 electric cost and the 2005 electric cost. This electricity insured the proper operation of the WWTP and was certainly a legitimate expense.

13) Do you agree that the annual cost of surveying mains and manholes set forth in the Maintenance of Treatment and Disposal Expenses Section of the Staff Report should be listed as a non-recurring expenditure?

Answer: No. Staff agreed in its Amended Report that the amount of \$597.52, the cost of the survey of sewer mains and manholes should be allowed as recurring expenditure. 807 KAR 5:071, Section 7(4) requires Farmdale to make inspections of collecting sewers and manholes on a scheduled basis at intervals not to exceed one (1) year, unless conditions warrant more frequent inspections, and shall make inspections of all mechanical equipment on a daily basis. Clearly, the cost of the survey of sewer mains and manholes is required to be incurred on an annual, recurring basis pursuant to the above cited regulation. Therefore, the \$597.52 expense for the survey of the sewer mains and manholes should be allowed rather than amortized over five (5) years.

Additionally, Staff has requested the Commission to use post test-year information to

decrease the amount of the requested rate increase. If the Commission does so, then I request that the Commission consider the quote obtained from Martin's Pipeline Inspection (Attachment F) in the amount of \$1,000 to perform the annual survey of sewer mains and manholes for purposes of this rate case. Accordingly, Farmdale should be allowed to recover \$1,000 for this recurring expense.

14) Do you agree with Staff's recommendation to decrease the Agency collection fee?

Answer: No. Farmdale has used the billing and collection services provided by the Farmdale Water District ("FWD") since it has owned the WWTP. FWD charges a flat fee of fifteen percent (15%) of the gross amount collected for this service. Farmdale uses this billing and collection service due to the unusually high successful collection percentage and minimal collection problems experienced by FWD. The reason for the extremely high collection rate is that FWD includes the sewer charge on its water bill, and if a customer fails to pay the bill in full, FWD can cut off the delinquent customer's water service. FWD's unique ability to insure a high collection rate is a primary reason that Farmdale utilizes its services. FWD's billing and collection services are also used because it is able to accurately and expeditiously identify any changes in customers.

Farmdale included billing and collection costs in the amount of \$22,934 in its application. This \$22,934 cost is based on the 15% fee charged by FWD for billing and collection services on its proposed base rate and the \$9.92 per month surcharge. Staff proposes to reduce this amount by \$14,943, asserting that FWD's fee is exorbitant. A review of the following factors establishes that FWD's fee is reasonable and the Commission should approve same:

a) In rate Case 2006-00028, Farmdale included the FWD 15% billing and collection fee in its Application for Rate Adjustment. Staff noted the FWD fee, but did not propose any adjustment to this expense in its Staff Report in Case No. 2006-00028. Instead, Staff suggested

that Farmdale consider more economical alternatives to its present billing and collection service in the future. The parties to Case No. 2006-00028 then filed a Stipulation and Agreement with the Commission which included the FWD fee in the WWTP's operating expenses, which was approved by the Commission when it issued its April 11, 2007 Order approving the increase in the Farmdale rate from \$19.05 to \$28.00 per month and approving a surcharge of \$9.92 for a period of 5 years. Accordingly, since the Commission has previously included FWD's billing and collection fee in an approved rate, it should do so in this case

b) As stated above, the billing and collection services provided by FWD are unique because the bill for sewer services is included on the water bill, and water service to a customer can be cut off if the bill, including the charge for sewer services, is not paid in full. FWD can easily cut off a customer's water service at the meter when a bill is unpaid and easily turn the water service back on when the bill is paid in full. The same simple procedure is not available to Farmdale if a sewer customer fails to pay his/her sewer bill. Instead of merely turning off the water supply at the meter, the sewer line must be dug up using a backhoe and then capped in order to cut off sewer service to a delinquent sewer customer. If the sewer bill is paid in full, the sewer line must be reconnected and the excavation closed up. This procedure is both time consuming and expensive to Farmdale, particularly where there is no guarantee that Farmdale will be able to recover the cost of same. This procedure is also costly to the individual that pays his delinquent sewer bill and then has to pay for the disconnection and the re-connection of the sewer line. Furthermore, this procedure is costly to the rate payers, who must ultimately shoulder these costs, if the delinquent customer does not pay same. Finally, the capping of the sewer line could result in health problems where a customer continues to use the bathroom facilities even though the sewer connection has been capped.

If Farmdale ceased using FWD's billing and collection services, it would have to hire an

employee to handle the billing and collection administrative duties because it has been unable to locate another third party that will provide this service. This employee would also handle the process of collecting delinquent accounts, filing cases in small claims court and disconnecting and re-connecting customers to the system. It is anticipated that the salary of such an employee, including benefits, would exceed the \$22,934 charged by FWD.

Because of FWD's unique ability to insure payment, its services are valuable and actually result in a savings to Farmdale's customers and the utility, because of fewer collection costs incurred by the utility and little lost revenue from delinquent customers. This ability to ensure collection is even more critical where an unpopular surcharge, in addition to the base rate, must be paid. These avoided costs translate into a lower rate for Farmdale's customers.

c) Farmdale requested quotes from all three (3) companies that perform billing services that are listed in the Yellow Pages for the City of Frankfort phone book and that are still in business. (See Attachment G). Based on the response received, it is clear that the FWD's billing and collection fee is reasonable and should be approved by the Commission. The first quote for billing and collection services was received from Bluegrass Billing Services, LLC. (See Attachment H). A review of its quote reflects that it charges a fee of 10% of gross collections. Its quote also states that in its experience, 10 to 15% of customers billed fail to pay their bill, and the cost Bluegrass Billing Services, LLC charges for collections is 30% of the amount collected. As indicated below, the use of Bluegrass Billing Services, LLC results in billing and collection charges slightly higher than that charged by FWD, with no guarantee of comparable effectiveness and ultimately less revenue to Farmdale:

Proposed revenue in Application:	\$123,629
Delinquent accounts (12.5%):	<u>(\$23,454)</u>
Total revenue collected:	\$100,175
Collection fee (10%):	<u>(\$10,018)</u>
Sub-total of revenue:	\$90,157

Recovery from delinquent accounts (50%) minus 30% collection fee	<u>\$8,209</u>
Total Revenue recovered:	\$98,366

Based on this analysis, greater revenue is received by Farmdale using FWD's services (\$105,085.00) as compared to the billing and collection agency (\$98,366.00). Liberty Billing, LLC responded, stating that it has no experience in this type of billing and collection and only performs medical billing. Liberty Billing also stated in its response that it unsuccessfully used its contacts to attempt to locate a company specializing in billing and collection service for companies providing waste water treatment service. (See Attachment I). Cap Billing Services also declined to provide billing and collection services for Farmdale, stating that it only performs medical billing and does not want to handle funds paid to another company. (See Attachment J)

d) Farmdale also contacted the Electric and Water Plant Board of the City of Frankfort and Blue Grass Energy and asked if either of these entities would provide billing and collection services to Farmdale. Both of these entities declined to do so. (See Attachment K).

e) As stated above, the Commission has previously approved a rate that included the cost incurred by Farmdale in using FWD's billing and collection services (See Case No. 2006-00028). Relying upon this approval, Farmdale continued to use FWD's billing and collection services to collect the new rate and the surcharge. This new rate (\$28.00) and surcharge (\$9.92) was implemented on May 1, 2007. Since that time, Farmdale has paid FWD its normal fee of 15% on the amount of the new rate and surcharge collected for its services. In the event the Commission does not ultimately approve Farmdale's use of FWD's billing and collection service, Farmdale requests that any requirement to use a new billing collection service become effective sixty (60) days after the date of the Commission's Order, and further, that it be allowed to recover in its rate the amount over and above Staff's recommended allowance of \$8,097,

already to paid to FWD for billing and collection services for the time period from May 1, 2007 to a date sixty (60) days after entry of the Order. To do otherwise would unfairly penalize Farmdale for relying upon the Commission's Order entered in Case No. 2006-00028.

f) Farmdale has requested FWD to reduce the percentage it charges for its billiing and collection services from fifteen percent (15%) to seven and one-half percent (7.5%), resulting in a total fee of \$11,467, but FWD denied this request. Farmdale subsequently asked FWD if, based upon KRS 96.930, it would cut off water service to its customers who fail to pay their sewer bill, even if FWD does not provide billing and collection services to Farmdale. KRS 96.930 provides that the use of water in any manner tending to contaminate it raises a duty to provide for the proper disposition of the wastewater according to the highest public health standards and such duty includes full responsibility for paying the cost of such disposition. FWD denied this request as well. (See Section IV to Application and Attachment L.) This information establishes that Farmdale attempted to negotiate a fee that was more economical for its customers. If the Commission is dissatisfied with the rate charged by FWD, it should use its regulatory powers to require FWD to reduce same.

15) Do you agree with Staff's recommendation to decrease the Interest Expense?

Answer: No. Staff recommended removing interest expense of \$2,313.00 incurred by Farmdale on a one year renewable loan from National City Bank. (See Attachment M). Based upon the following factors, this interest expense should be included in the calculations for purposes of setting the rate.

a) Farmdale obtained the subject loan because it was necessary to pay legal bills, accounting fees, the cost of extraordinary repairs to its remote lift station, and other bills that were due. The legal fees and accounting fees were incurred in preparing:

i) the application for rate adjustment and representing Farmdale in rate Case No.

2006-00028 (filed January 12, 2006 and concluded on April 11, 2007);
ii) the petition for the CPCN in Case No. 2006-00209 (filed May 22, 2006 and concluded on April 11, 2007P; and,
iii) the amended application for rate adjustment needed due to the filing of the petition for CPCN (filed June 14, 2006 and concluded on April 11, 2007).

Farmdale incurred accounting fees in the amount of \$6,610.00, payable to Logsdon & Co., PC, CPAs. Additionally, Farmdale incurred attorney's fees in the amount of \$5,000.00, payable to Hazelrigg & Cox, LLP. These amounts were included in the amortization schedule of the above-styled application.

Farmdale also incurred extraordinary costs in February and March of 2006 in the amount of \$5,328.56 to keep the remote lift station functioning. A motion was filed by Farmdale in Case No. 2006-00028 requesting an Informal Conference to discuss setting a surcharge for these expenses related to the remote lift station repairs and replacement but the Order providing for the surcharge was not granted until April 11, 2007. Additionally, as noted above, Farmdale also incurred fuel/power costs in the amount of \$19,150 in 2006, which were \$3,847 higher than that incurred in 2005.

While Farmdale should recover these fees and extraordinary expenses through the rate process, it cannot expect its vendors and/or service providers to wait one (1) year or five (5) years to be paid. As Staff is aware, Farmdale's rate only pays operating expenses, and not additional expenses such as these. Therefore, Farmdale was required to borrow money from National City Bank in order to pay its vendors and professional advisors in a timely manner so that they would continue to provide needed services. Simply put, the interest due on this loan should be recoverable.

I would also like to point out that I, in my individual capacity, had to loan funds to Farmdale so that it could pay its expenses and continue to operate. I am not seeking to recover interest on the approximately \$39,500 I loaned to Farmdale in 2006 and 2007. All parties should

be aware that I will not be making any further loans to Farmdale, and Farmdale will rely on the monies collected from its rate payers to maintain and operate the WWTP.

b) The Commission and the Kentucky Division of Water require proper maintenance and upkeep of Farmdale's WWTP, and compliance with the applicable regulations and its KPDES permit. In a perfect world, the expenses incurred in maintaining and repairing the equipment at the Farmdale WWTP would be identical to the expenses included in setting the rate. However in 2006, Farmdale incurred substantial extraordinary maintenance, repair and energy costs, including but not limited to \$5,328.56 of the \$8,328.56 cost of keeping the remote lift station in operation and the fuel/power cost of \$19,150. As previously stated, the cost of these repairs and new equipment and energy was not included in the prior rate and therefore, monies from the National City loan were used to pay for same. Simply put, the interest expense on this necessary loan should be included in the rate case.

Staff's Recommendation deleting the interest expense is unrealistic, as it assumes:

- the need for and cost of all maintenance and repairs can be accurately predicted.
- vendors will wait for a rate case to be filed and completed, as well as the collection of the monies authorized by the rate case, before seeking payment for the services rendered.
- vendors will continue to work for the utility even though they have not paid in a timely manner.

The above factors further establish that Farmdale should be allowed to recover the interest expense on the loan needed to fund Farmdale's rate case expenses and extraordinary maintenance and repair costs.

c) Staff states that, historically, the Commission has not allowed utilities to recover interest on loans to cover operating expenses, because it is the responsibility of an owner to monitor a utility's financial condition and seek rate relief in a timely manner. In making this statement, Staff ignores the fact that the large majority of the loan proceeds were used to pay fees

associated with rate case No. 2006-00028 and the CPCN Case No. 2006-00209, and extraordinary electricity expenses and expenses to repair the failing remote lift station. Accordingly, these were not normal WWTP operating expenses. Nor could the loan have been avoided by filing the rate case and CPCN case prior to January and May, of 2006, respectively. These facts confirm that Farmdale should be allowed to recover the \$2,313 in interest expenses.

Additionally, Farmdale did in fact seek rate relief in a timely manner, but as indicated in the time-line set forth below, it took the Commission over fifteen (15) months to rule on its Application for Rate Adjustment in Case No. 2006-00028.

- January 12, 2006, Farmdale files Application for Rate Adjustment, with surcharge request.
- March 14, 2006, Farmdale files Motion for Informal Conference and also requests expedited approval of the funds necessary to replace the remote lift station.
- April 20, 2006, Informal Conference held, and Staff recommended the filing of an Application for a Certificate of Public Convenience and Necessity ("CPCN") for the replacement of the remote lift station.
- May 22, 2006, Farmdale files Petition for CPCN.
- June 14, 2006, Farmdale files Amended Application for Rate Adjustment to exclude cost of the replacement of the remote lift station and filed Motion to Consolidate CPCN case with this application. The Motion to Consolidate was denied.
- October 4, 2006, Staff forwards First Information Request to Farmdale.
- October 26, 2006, second Informal Conference held.
- February 26, 2007, Order granting Farmdale's Application for a CPCN and consolidating CPCN case with application for rate adjustment entered.
- March 15, 2007, Formal Hearing held in CPCN case.
- April 11, 2007, Commission enters final Order granting rate increase and surcharge.

Due to the length of time (15 months), it took for the Commission to rule in Case No. 2006-00028 and to establish new rates for Farmdale, Farmdale believes it would be inequitable to apply the "historical" rules precluding the payment of interest on any loan incurred to pay expenses, which include operating expenses. Accordingly, Farmdale should be allowed to recover the interest expense incurred on the loan from National City.

16) Do you agree with Staff's recommendation to decrease the Depreciation expense?

Answer: No. Staff has agreed that the \$1,635.29 cost of the "motor, materials, labor and mileage; worked on blower @ #1 plant" should be depreciated over a period of five (5) years since it included a substantial amount of labor charges.

17) Is Farmdale authorized by statute or regulation to include a component in its rate for a sinking fund to accrue monies to pay for needed repairs?

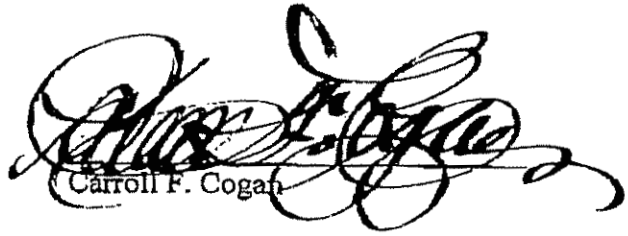
Answer: No. Even though I have often suggested to Commission personnel that the funding of a sinking fund or contingency fund should be allowed to cover unanticipated repair expenses, as well as the cost to replace major equipment, I have been advised by Commission personnel that statutes and regulations do not currently allow this. The article titled "Good Old Days Long Gone" appears in the April 2007 edition of Water & Wastes Digest mentions that utility consultants recommend the creation and funding of a repair, replacement and rehabilitation account due to the fact that plants, pump stations and lines have finite lives and must eventually be replaced. (See Attachment N). I request the Commission seek to amend the relevant statutes to allow for such an account so that utilities such as Farmdale and its customers are not hit with a large unanticipated expense.

18) Do you request that Farmdale be allowed to recover the attorney's fees incurred in this rate case?

Answer: Yes. I request that Farmdale be allowed to include the total amount of attorney's fees incurred in this rate case in setting its new rate, which as of April 30, 2008 is \$11,668.78. The Application estimated the legal fees for this current rate case was to be \$3,000.00.

19) Did Farmdale publish notice of this hearing in the State Journal?

Answer: On or about June 8, 2008, the required notice will be published in the State Journal, and a copy of the notice will be filed with the Commission.

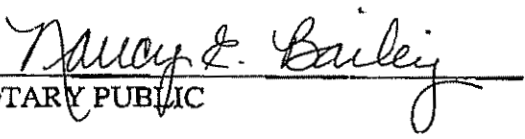

Carroll F. Cogan

STATE OF KENTUCKY

COUNTY OF FRANKLIN

SUBSCRIBED AND SWORN to before me by Carroll F. Cogan, this the 30th day of May, 2008.

My Commission expires: 3-11-10


NOTARY PUBLIC

ATTACHMENT A

Resume

Carroll F. Cogan, President, P.E.

1943 - 1945 Telegraph operator Illinois Central R.R. while attending high school

1945 Graduated High School

1945 - 1947 US Navy active duty W. W. II
Pacific Theater U.S. Naval Salvage - Clear Manila Harbor
Honorable discharge Seaman 1st Class

1947 - 1950 Texas A&M University Graduated June BS ME
Received Commission as 2nd Lieutenant
US Army Reserve in Armor

June 1950 Hired by Shell Oil Co. Entered Engineer training program
Oil well drilling rigs, gas plants, all of Shell operations.

Aug 1950 Called by Army to serve in Korean conflict.
Received six (6) month deferment through Shell Oil
Called to active duty in February 1951

1951 - 1952 Service in US Army during Korean War
Honorable discharge with rank of 1st Lieutenant

1952 - 1955 Employed by M. N. Dannenbaum Company of Houston, TX
Sales & application engineer pumping equipment (all types) large water
well drilling operation, & water and sewage equipment

1955 - 1990 Employed by Andriot-Davidson Co., Inc. of Louisville, KY (Est. 1920)
Specializing in Sales, design, service, and turn key installations of all types
of pumping, water and waste treating equipment

Attachment A

- 1959 Purchased Andriot-Davidson Company from the founder H.B. Davidson, Estate
- 1959 – 1960 Joined Kentucky – Tennessee Water & Sewage Association and
Joined the current Water Environmental Federation (National Society)
Attended both state and federal meetings annually until 1995.
Received a Life Membership from National WEF Society.
- 1959 –
Current Received membership as a Registered Professional Mechanical Engineer
in Kentucky
- 1962 Acquired the first private waste water treatment plant
- 1964 Formed Andriot Davidson Service Co. and provided the first local WWTP
operation service with a certified plant operator.
- 1962 – 1986 Owned and operated 33 private WWTP.
Andriot-Davidson Service Co. operated, serviced, and maintained an
additional 30 or more systems for other customers.
- 1986 Turned over to MSD 28 Jefferson County private plants with 10,000
customers.
- 1990 -
Current Entered semi-retirement, delegated Andriot Davidson Co. operation to
others, continued to manage the remaining private plants outside Jefferson
County and oversee MSD's contract to operate and eliminate 28 Jefferson
County systems.

ATTACHMENT B

Thomas K. Elliott
Senior Vice President
tommy_elliott@oldnational.com

March 12, 2007

Via Facsimile 502-564-7279
Ms. Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: In the Matter of the Application of Farmdale Development Corporation for an
Adjustment of Rates pursuant to the Alternative Rate Filing Procedure for
Small Utilities: Case No. 2006-00028

Dear Ms. O'Donnell:

At the request of Carroll Cogan with Farmdale Development Corporation, I am hereby providing the following information to you for consideration in the above-referenced case.

I am currently employed as a Senior Vice President with Old National Bank located in Louisville, Kentucky. I obtained a bachelor's degree in business and office administration from the University of Kentucky in 1981. I have worked in the financial industry for 26 years, including in positions at National City Bank in Louisville, Kentucky (formerly known as First National Bank of Louisville) and now with Old National Bank in Louisville, Kentucky. During this time period, I have gained considerable experience in providing financing to privately owned wastewater treatment plants.

In providing financing to privately owned wastewater treatment plants, as well as to any business entity, a review of the entity's cash flow is the primary consideration. A financial institution generally requires a debt service ratio of approximately 1.3 prior to considering providing financing to an applicant. In other words, if the borrower is required to make payment of \$1,000 per month, it will need to provide documentation establishing revenue of at least \$1,300 per month to service the debt, after expenses have been paid. If an applicant cannot meet the required debt service ratio of approximately 1.3, the bank likely will not provide financing to the applicant.

In addition to considering the cash flow position of the applicant, a lending institution will also review the collateral available to secure the loan. Financial institutions do not typically consider privately owned wastewater treatment plants to be satisfactory collateral to secure a loan. This is due to many considerations, including the inability to sell a wastewater treatment plant at foreclosure and environmental considerations that are often connected with

Preston Pointe Financial Center
333 East Main Street
Louisville, KY 40202
T: 502.540.7333
F: 502.540.7366
oldnational.com

Thomas K. Elliott
Senior Vice President
tommy_elliott@oldnational.com

Beth O'Donnell
March 12, 2007
Page Two

wastewater treatment plants. Accordingly, a lending institution will not typically accept a wastewater treatment plant as the sole collateral to secure a loan. The financial institution could also require guarantees from qualified individuals or entities owning the company that owns the wastewater treatment plant. I would note that in the late 1970s and early 1980s, when developers defaulted on loans, National City Bank (formerly known as First National Bank of Louisville) took possession of a number of wastewater treatment plants. These wastewater treatment plants then had to be sold for pennies on the dollar by the bank to recover even a partial amount due on the loans.

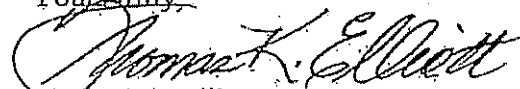
Other factors considered by a lending institution are the condition of the wastewater treatment plant, how soon it will become obsolete and the length of time it will remain in service. If the repairs that are being financed by the loan will be obsolete by the maturity date of the loan, the wastewater treatment plant is clearly insufficient collateral to secure the loan. Furthermore, if the wastewater treatment plant is not expected to remain in service for the life of the loan, due to purchase by, or transfer to a public utility, it is also considered insufficient collateral to secure the loan.

A financial institution will not generally provide financing to a wastewater treatment plant for a term of more than five (5) years. The current interest rate that would be offered by Old National Bank to a private entity such as Farndale Development Corporation on financing with either a three (3) or five (5) year term is approximately 10 percent (10%) per annum.

Please note that this letter is not to be considered as a commitment for financing. Old National Bank has had no prior dealing with Farndale Development Corporation or its principal. Nor has Old National Bank considered any financial information regarding Farndale Development Corporation.

Please feel free to call me if you have any questions concerning this information. Thank you for your consideration of same.

Yours truly,



Thomas K. Elliott
Senior Vice President

cc: Carroll Cogan

Preston Pointe Financial Center
333 East Main Street
Louisville, KY 40202
T: 502.540.7333
F: 502.540.7366
oldnational.com

ATTACHMENT C



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF FARMDALE DEVELOPMENT)
CORPORATION FOR AN ADJUSTMENT IN RATES) CASE NO. 2007-00436
PURSUANT TO THE ALTERNATIVE RATE FILING)
PROCEDURE FOR SMALL UTILITIES)

AFFIDAVIT OF LAWRENCE W. SMITHER

Comes the affiant, Lawrence W. Smither, and after being sworn, states as follows:

1) That my name is Lawrence W. Smither and my business address at Smither Consulting Company is P. O. Box 1077, 3906 North Camden Lane, Crestwood, Kentucky 40014.

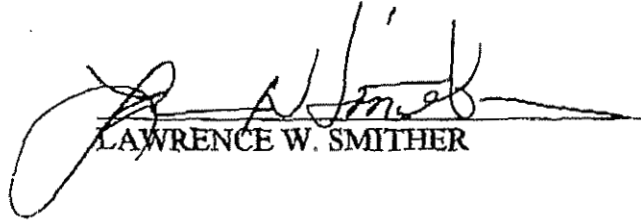
2) That in addition to being the owner of Smither Consulting Company, I am also an employee and owner of Covered Bridge Utilities, Inc., which has operated the Farmdale WWTP for Farmdale Development Corporation since approximately May 2005. Since May of 2005, I have been listed by the Kentucky Division of Water as the operator of record of the Farmdale WWTP. Additionally, Covered Bridge Utilities, Inc. has performed repair work at the Farmdale WWTP.

3) During August and September of 2007, I was frequently on site at the Farmdale WWTP in order to assist and/or oversee the work performed by Martin's Sanitation in pumping and cleaning the lagoon at the Farmdale WWTP site.

4) In pumping and cleaning the lagoon, Martin's Sanitation had to dispose of liquids from the lagoon. The liquids generated in this process were treated by the Farmdale WWTP, after testing to insure that the Farmdale WWTP was not adversely effected.

5) In return for processing the liquid generated during the pumping and cleaning of the lagoon, Martin's Sanitation processed at least two (2) loads of sludge that had built up at the Farmdale WWTP for no charge. If the loads of sludge had not been processed by Martin's Sanitation at no charge, Farmdale WWTP would have been required to pay for same.

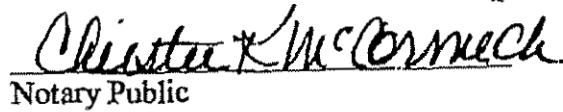
Further the affiant sayeth naught.

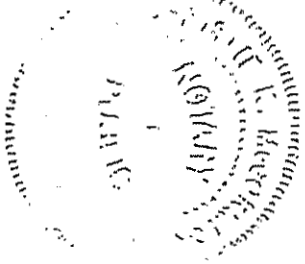

LAWRENCE W. SMITHER

STATE OF KENTUCKY)
)SS.
COUNTY OF FRANKLIN)


SUBSCRIBED AND SWORN TO before me by Lawrence W. Smither, on this the 18th
day of April, 2008.

My commission expires: 4-25-2009


Notary Public



Category Report - All Dates:2
12/31/2006 through 3/29/2008



2/13/2008

Page 1

Date	Account Num	Description	Memo	Category	Amount
12/31/2006 - 12/31/2006					0.00
1/9/2007	NCB Fa... 1245	Martin's Sanit... #7961 Pumping L.S. 06 A/P		Sludge hauling	-700.00
1/26/2007	NCB Fa... 1248	Martin's Sanit... #8256 Pump Digester x 2 06 A/P		Sludge hauling	-500.00
2/13/2007	NCB Fa... 1259	Martin's Sanit... #8256 Pump Digester x 2 06 A/P		Sludge hauling	-350.00
5/8/2007	NCB Fa... 1291	Martin's Sanit... #8716 Pumped digester		Sludge hauling	-425.00
7/10/2007	NCB Fa... 1321	Martin's Sanit... #9756 Wet well, basin, digester		Sludge hauling	-425.00
8/10/2007	NCB Fa... 1331	Martin's Sanit... #9756 skimming clarifier		Sludge hauling	-425.00
9/10/2007	NCB Fa... 1347	Martin's Sanit... #10061 Small Plant Clarifier		Sludge hauling	-425.00
10/8/2007	NCB Fa... 1363	Martin's Sanit... #10399 Pumping Digester x2		Sludge hauling	-850.00
11/12/2007	NCB Fa... 1378	Martin's Sanit... #10734 Pumping Treat.Pit x2		Sludge hauling	-450.00
12/11/2007	NCB Fa... 1384	Martin's Sanit... #10734 Pumping Treat.Pit x2		Sludge hauling	-400.00
1/1/2007 - 12/31/2007					-4,950.00
1/15/2008	NCB Fa... 1410	Martin's Sanit... #11382 Partial 07 A/P		Sludge hauling	-225.00
2/15/2008	NCB Fa... 0000	Martin's Sanit... #11382 Balance 07 A/P		Sludge hauling	-200.00
2/29/2008	NCB Fa... 0000	Martin's Sanit... #11665 07 A/P		Sludge hauling	-425.00
1/1/2008 - 3/29/2008					-850.00

OVERALL TOTAL **-5,800.00**

TOTAL INFLOWS **0.00**

TOTAL OUTFLOWS **-5,800.00**

NET TOTAL **-5,800.00**

c

ATTACHMENT D

*Electric*Category Report - All Dates:2
12/31/2006 through 3/29/2008

2/13/2008

Page 1

Date	Account Num	Description	Memo	Category	Clr	Amount
12/31/2006 - 12/31/2006						0.00
1/19/2007	NCB F...1234	Blue Grass E... #160102		Utilities:Electric	R	-1,208.40
2/13/2007	NCB F...1260	Blue Grass E... #160102		Utilities:Electric	R	-1,216.55
3/13/2007	NCB F...1133	Blue Grass E...		Utilities:Electric	R	-1,028.40
4/20/2007	NCB F...1282	Blue Grass E... #160102		Utilities:Electric	R	-1,065.55
5/11/2007	NCB F...1292	Blue Grass E... #160102		Utilities:Electric	R	-1,286.38
6/18/2007	NCB F...1309	Blue Grass E... #160102		Utilities:Electric	R	-1,219.83
7/20/2007	NCB F...1326	Blue Grass E... #160102		Utilities:Electric	R	-1,436.07
8/17/2007	NCB F...1337	Blue Grass E... #160102		Utilities:Electric	R	-1,418.50
9/18/2007	NCB F...1353	Blue Grass E... #160102		Utilities:Electric	R	-1,339.98
10/23/2007	NCB F...1370	Blue Grass E... #160102		Utilities:Electric	R	-1,042.59
11/19/2007	NCB F...1382	Blue Grass E... #160102		Utilities:Electric	R	-1,033.64
12/14/2007	NCB F...1387	Blue Grass E... #160102		Utilities:Electric	R	-1,214.92
1/1/2007 - 12/31/2007						-14,510.81
1/16/2008	NCB F...1403	Blue Grass E... #160102 07		Utilities:Electric	R	-1,201.79
2/23/2008	NCB F...	Blue Grass E... #160102		Utilities:Electric		-1,339.36
1/1/2008 - 3/29/2008						-2,541.15
OVERALL TOTAL						-17,051.96
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-17,051.96
NET TOTAL						-17,051.96

ATTACHMENT E

Rec'd 4/15/08



Blue Grass Energy

A Touchstone Energy Cooperative

P.O. Box 990 • 1201 Lexington Road • Nicholasville, Kentucky 40340-0990
Phone: (859) 885-4191 • Fax: (859) 885-2854 • www.bgenergy.com

April 11, 2008

FARMDALE SEWAGE PLANT
1706 BARDSTOWN RD
LOUISVILLE KY 402051212

Dear Customer:

Blue Grass Energy filed an application on April 11, 2008 with the Kentucky Public Service Commission for a rate adjustment.

Blue Grass Energy's request is for an average increase of 9.01%. This increase will vary between different classes of customers and is based on cost of service to various rates. If the PSC approves our request, we expect the increase to become effective on bills rendered in September or October, 2008.

As we strive to provide your electric service at the lowest possible cost, we have delayed this increase as long as possible. In order to continue to provide quality service, we must increase revenue as we continue to contain costs.

Please do not hesitate to call Blue Grass Energy at (859) 885-4191 if you have any questions.

Respectfully,

Harold Cornett
Manager, Key Accounts

ATTACHMENT B

ATTACHMENT F



MARTIN'S PIPELINE INSPECTION

PO BOX 4143
PARIS, KY 40362-0043
PHONE (859) 987-2529
FAX (859) 987-2583

March 18, 2008

Ref: Quote for Annual Manhole Inspections

Larry,

I would like to begin by saying thank you for your continued interest in our company. The following is a quote for the annual manhole inspection located in the Farmdale Subdivision in Frankfort KY. Inspections will include detailed forms listing information pertaining to manhole including general info, flow rate, and all defects. These inspections will be for all manholes in the total water shed for this area.

- Annual Manhole Inspections- \$2700.00 Annually

If you have any additional questions, please feel free to call me at 859-987-2529.office
859-983-8605 cell

Thank you,

Neil Buchanan

ATTACHMENT G

HAZELRIGG & COX, LLP

ATTORNEYS AT LAW

415 WEST MAIN STREET

P.O. Box 676

FRANKFORT, KENTUCKY 40602-0676

WILLIAM P. CURLIN, JR.
DANDRIDGE F. WALTON
JOHN B. BAUGHMAN
ROBERT C. MOORE
CLAYTON B. PATRICK
SQUIRE N. WILLIAMS III
J. SCOTT MELLO
SARAH K. MELLO

DYKE L. HAZELRIGG (1881-1970)
LOUIS COX (1907-1971)

FAX (502) 875-7158
TELEPHONE: (502) 227-2271

February 15, 2008

Bluegrass Billing Service
6477 Bagdad Road
Bagdad, Kentucky 40003

Re: Farmdale Development Corporation ("Farmdale")

Dear Sir/Madam:

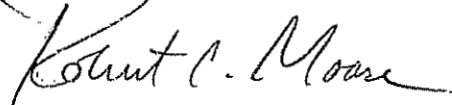
I am writing you to determine if your company is interested in performing billing and collection services for Farmdale. Farmdale owns and operates a wastewater treatment and collection system serving the Farmdale Subdivision in Frankfort, Franklin County, Kentucky. Farmdale has approximately 246 customers that receive separate sewer bills on a monthly basis. The base sewer rate is \$28 per month and there will be an additional surcharge of \$9.92 per month, for a total monthly bill of \$37.92 per month. The bills would issued on a monthly basis, with payment to made to your company, and the amounts remitted, with an accounting, would be provided to Farmdale at the end of each month. Based upon this information, please provide me with your quote to provide the requested billing and collection services to Farmdale:

- 1) What would be the cost to issue to the bills to the 246 persons at the addresses provided by Farmdale on a monthly basis, to receive the payments and to make the end of month accounting and payment to Farmdale at its offices in Louisville, Kentucky;
- 2) Would your company be able to determine the names and addresses of new customers of Farmdale;
- 3) Would your company be able to determine the names and addresses of individuals ceasing to customers of Farmdale;
- 4) Based upon your experience in the billing and collection industry, what is the estimated percentage of individuals that would not pay the sewer bill in a timely manner;
- 5) Based upon your experience in the billing and collection industry, what would be the estimated percentage of individuals that would fail to pay the sewer bill; and,
- 6) What would be the cost for your company to perform the collection of delinquent accounts.

Bluegrass Billing Services
February 15, 2008
Page Two

Thank you for your attention to this request, and please feel free to call me if you have any questions concerning same.

Yours truly,



Robert C. Moore

RCM/neb
cc: Carroll Cogan

HAZELRIGG & COX, LLP

ATTORNEYS AT LAW

415 WEST MAIN STREET

P.O. Box 676

FRANKFORT, KENTUCKY 40602-0676

DYKE L. HAZELRIGG (1881-1970)

LOUIS COX (1907-1971)

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ROBERT C. MOORE

CLAYTON B. PATRICK

SQUIRE N. WILLIAMS III

J. SCOTT MELLO

SARAH K. MELLO

FAX: (502) 875-7158

TELEPHONE: (502) 227-2271

February 15, 2008

DGV Services, Inc.
1002 Buckner Centre Dr.
LaGrange, Kentucky 40031

Re: Farmdale Development Corporation ("Farmdale")

Dear Sir/Madam:

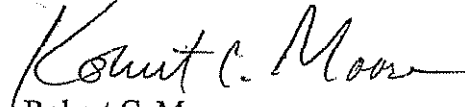
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- 2) Would your company be able to determine the names and addresses of new customers of Farmdale;
- 3) Would your company be able to determine the names and addresses of individuals ceasing to be customers of Farmdale;
- 4) Based upon your experience in the billing and collection industry, what is the estimated percentage of individuals that would not pay the sewer bill in a timely manner;
- 5) Based upon your experience in the billing and collection industry, what would be the estimated percentage of individuals that would fail to pay the sewer bill; and,
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DGV Services, Inc.
February 15, 2008
Page Two

Thank you for your attention to this request, and please feel free to call me if you have any questions concerning same.

Yours truly,



Robert C. Moore

RCM/neb
cc: Carroll Cogan

HAZELRIGG & COX, LLP

ATTORNEYS AT LAW

415 WEST MAIN STREET

P.O. Box 676

FRANKFORT, KENTUCKY 40602-0676

DYKE L. HAZELRIGG (1881-1970)

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ROBERT C. MOORE
CLAYTON B. PATRICK
SQUIRE N. WILLIAMS III
J. SCOTT MELLO
SARAH K. MELLO

FAX: (502) 875-7158
TELEPHONE: (502) 227-2271

February 15, 2008

Liberty Billing LLC
93C Michael Davenport Blvd.
Frankfort, Kentucky 40601

Re: Farmdale Development Corporation ("Farmdale")

Dear Sir/Madam:

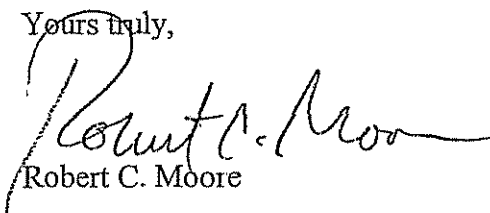
I am writing you to determine if your company is interested in performing billing and collection services for Farmdale. Farmdale owns and operates a wastewater treatment and collection system serving the Farmdale Subdivision in Frankfort, Franklin County, Kentucky. Farmdale has approximately 246 customers that receive separate sewer bills on a monthly basis. The base sewer rate is \$28 per month and there will be an additional surcharge of \$9.92 per month, for a total monthly bill of \$37.92 per month. The bills would be issued on a monthly basis, with payment to be made to your company, and the amounts remitted, with an accounting, would be provided to Farmdale at the end of each month. Based upon this information, please provide me with your quote to provide the requested billing and collection services to Farmdale:

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- 3) Would your company be able to determine the names and addresses of individuals ceasing to be customers of Farmdale;
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- 5) Based upon your experience in the billing and collection industry, what would be the estimated percentage of individuals that would fail to pay the sewer bill; and,
- 6) What would be the cost for your company to perform the collection of delinquent accounts.

Liberty Billing LLC
February 15, 2008
Page Two

Thank you for your attention to this request, and please feel free to call me if you have any questions concerning same.

Yours truly,



Robert C. Moore

RCM/neb
cc: Carroll Cogan



ATTACHMENT H

Bluegrass Billing Services, LLC

6477 Bagdad Rd.
Bagdad, Ky. 40003
(502) 747-5632

4119 Browns Ln. Ste. 2B
Louisville, Ky. 40220
(502) 454-7766

February 18, 2008

Hazelrigg & Cox, I.L.P.
Attorneys At Law
415 West Main St.
P.O. Box 676
Frankfort, Ky. 40602-0676
Attn: Robert C. Moore

RE: Farmdale Development Corporation ("Farmdale")

Dear Mr. Moore,

I would like to thank you for considering Bluegrass Billing Services for your client's billing and collections needs. Although my current clients are medical, I feel confident that we could accommodate Farmdale's needs.


The following are my recommendations to the questions that were presented in your letter:

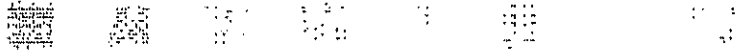
1. The cost for our services that I am quoting you is 10% of gross collections. I currently have payments sent to our office, made out to the individual client. We then deposit into their accounts and send a monthly invoice, along with accounting reports, to the client for payment for services. I would prefer to continue this method instead of Bluegrass making payment to your client.
2. For new customers, I would assume the information would be provided to us by Farmdale when a new customer requests service.
3. For existing customers ceasing service, I believe Farmdale should also furnish us with this information when a customer contacts them to end service. Also, our statements do have an area to list any changes. If that information is provided to us, we will forward to Farmdale.
4. Since my experience is in medical collections, I would estimate a 80/20 % collections of timely payments. Physician office visit claims pay sooner than hospital or surgery claims.
5. Again, in the medical collections, the percentage is higher. However, with a smaller bill amount, I would estimate 10-15% will fail to pay.
6. The cost for collections on delinquent accounts is 30%. I do utilize an outside collection agency for this purpose.

I hope this information is helpful in considering our service. I also have a few questions that I would like to be considered as well.

1. Do you charge a late fee if a bill is paid after the due date? If so, how much? Is there a grace period?
2. How long do you allow an account to go with no payment before going to collections?

I am enclosing a sample copy of our contract for your review. If you have any further questions or concerns, please feel free to contact me at the numbers above. I look forward to the opportunity of working with your company.

Sincerely,

Alison J. Shy



Bluegrass Billing Services, LLC

6477 Bagdad Rd
Bagdad, Ky. 40003

4119 Browns Ln. Ste 2B
Louisville, Ky. 40220

Phone - 502-454-7766
Fax - 502-451-9291

FAX TRANSMITTAL FORM

To:
Name: Robert Moore
CC:
Phone:
Fax: 502-875-7158

From: Alison
Date Sent: 2/18/08
Number of Pages: 7

Message:

Please call if you have any questions.

Thank you,
Alison



Contract With Independent Contractor

1. Names

This agreement is between _____ (Client), and Bluegrass Billing Services, LLC (Contractor).

2. Services to be Performed by Contractor

- a) Provide data set on Paradigm server
- b) Maintain Paradigm support contracts
- c) Maintain Paradigm Update Manager
- d) Perform all aspects of Billing office as follows:
 - (1) Print and mail monthly statements;
 - (2) Provide month-end billing reports;
 - (3) Post payments and adjustments;
 - (4) Review outstanding accounts and advise Client of status;
 - (5) Respond to telephone and other inquiries relating to billing and collection services;
 - (6) Enter charge data;
 - (7) Assist the Client with any reviews or audits of claims submitted or billing practices by a federal, state or local regulatory agency or their contractors which occur in the normal course of business.
 - (8) Provide electronic and physical reports and access to data, at a detailed level, in order to properly account for each transaction, credits and adjustments. All information and access will be agreed upon by both parties;

SAMPLE

3. Term

The term of this Agreement shall begin on _____ and shall continue for a period of one (1) year, with annual renewal thereafter.

4. Payment

Client will pay Contractor 10% of the gross collections of the Practice per month. Client will pay Contractor according to the following schedule:

Independent contractor will be paid by the 15th of every month.

5. State and Federal Taxes

Client will not:

- withhold Social Security and Medicare taxes from Contractor's payments or make such tax payment on Contractor's behalf
- make state or federal unemployment contributions on Contractor's behalf, or
- withhold state or federal income tax from Contractor's payments.

Contractor will pay all applicable taxes related to the performance of services under this

contract. This includes income, Social Security, Medicare and self-employment taxes. Contractor will also pay all unemployment contributions related to the performance of services under this contract. Contractor will reimburse Client if Client is required to pay such taxes or unemployment contributions.

6. Fringe Benefits

Neither Contractor nor Contractor's employees are eligible to participate in any employee pension, health, vacation pay, sick pay or other fringe benefit plan of Client.

7. Invoices

Contractor will submit invoices to Client for all services performed at the beginning of each month.

8. Independent Contractor Status

The parties intend Contractor to be an independent contractor in the performance of the services. Contractor will have the right to control and determine the methods and means of performing the contractual services.

9. Other Clients

Contractor retains the right to perform services for other clients.

10. Assistants

Contractor, at Contractor's expense, may employ assistants as Contractor deems appropriate to perform the contractual services. Contractor will be responsible for paying these assistants as well as any expense attributable to them including income, Social Security and Medicare taxes, and unemployment contributions. Contractor will maintain workers' compensation insurance for all of its employees.

11. Equipment and Supplies

Contractor will provide use of Paradigm server.

12. Expenses

Client will be responsible for all expenses required for the performance of the contractual services.

13. Entire Agreement

This is the entire agreement between the parties. It replaces and supersedes any and all oral agreements between the parties, as well as any prior writings.

14. Successors and Assignees

This agreement binds and benefits the heirs, successors and assignees of the parties.

15. Notices

All notices must be in writing. A notice may be delivered to a party at the address that follows a party's signature or to a new address that a party designates in writing. A notice may be delivered:

- in person
- by certified mail, or
- by overnight courier.

16. Governing Law

This agreement will be governed by and construed in accordance with the laws of the state of Kentucky.

17. Counterparts

The parties may sign several identical counterparts of this agreement. Any fully signed counterpart shall be treated as an original.

18. Modification

This agreement may be modified only by a writing signed by the party against whom such modification is sought to be enforced.

19. Severability

If any court determines that any provision of this agreement is invalid or unenforceable, any invalidity or unenforceability will affect only that provision and will not make any other provision of this agreement invalid or unenforceable and such provision shall be modified, amended or limited only to the extent necessary to render it valid and enforceable.

SAMPLE

20. Client Obligations

A. The Client agrees to make available to BBS all records necessary for performing the above stated Services. All records necessary will be ready for pick-up on the scheduled day and time, to be agreed upon by Client and Contractor. The Client will communicate with BBS, in a timely manner, as reasonably necessary for BBS to perform the above stated Services, provided that all such communications between the parties will be in writing.

B. The Client covenants that the patient account information submitted for billing and collection will contain all billing information required for the completion and submission of claims, including, but not limited to, current patient name and address, code numbers, procedure, time, face sheet and insurance card, front and back, etc., and including other information necessary in the billing and collection procedures.

C. The Client agrees that BBS is its exclusive agent for billing and collecting its accounts and that it will provide to BBS all accounts accumulated in its business during the term of this Agreement for processing by BBS.

D. The Client authorizes BBS to provide training to the employees of Client, identified by Client, who are responsible for data collection, copying, and forwarding to BBS. Such training will be part of the set-up cost and be provided at no additional cost to the Client's employees at the time of execution of this Agreement. If the Client hires or replaces staff who require training, the additional training will be billed at the rate of \$100.00 per day of training.

E. The Client agrees that it will not market, broker, sell, or re-sell BBS's services to any other person (including, without limitation, customers or clients of the Client) without BBS's prior written consent.

21. Early Termination

There will be a \$500.00 fee assessed if early termination is requested by the Client prior to the completion of the initial 1 year agreement.

CLIENT

Dated: _____

By:

SAMPLE

Owner

CONTRACTOR

Blucgrass Billing Services, LLC
6477 Bagdad Rd
Bagdad, Kentucky 40003

Dated: _____

By:

Alison Jackson-Shy
Owner

ATTACHMENT I

Specializing in Medical Billing and Collection



87 C. Michael Davenport Blvd.
Frankfort, Kentucky 40601
502.226.3858 Toll Free 888.800.7248
Fax 502.227.5081

February 20, 2008

Robert C. Moore
Hazelrigg & Cox, LLP
415 West Main Street
Frankfort, KY 40602

Re: Farndale Development Corporation

Dear Mr. Moore:

Thank you for your letter of inquiry dated February 15, 2008. Our company specializes in electronic medical billing and collection. While our software is capable of generating monthly statements such as those mentioned in your letter and tracking the amounts remitted with an accounting at the end of each month, we have no experience in this type of billing and collection.

I contacted the collection agency our clients utilize for delinquent accounts (Cash-Pro, Inc. located in Evansville, Indiana) but Jon Townsend, the President, was not aware of any company specializing in billing and collection services for a wastewater treatment system. I was hoping to offer a solution!

Thank you again.

Sincerely,

A handwritten signature in black ink, appearing to read "Kristine Kaiser", written in a cursive style.

Kristine Kaiser
President

ATTACHMENT J

HAZELRIGG & COX, LLP

ATTORNEYS AT LAW

415 WEST MAIN STREET

P.O. Box 676

FRANKFORT, KENTUCKY 40602-0676

DYKE L. HAZELRIGG (1881-1970)

LOUIS COX (1907-1971)

WILLIAM P. CURRIN, JR.
DANDRIDGE F. WALTON
JOHN B. BAUGHMAN
ROBERT C. MOORE
CLAYTON B. PATRICK
SQUIRE N. WILLIAMS III
J. SCOTT MELLO
SARAH K. MELLO

FAX: (502) 875-7158
TELEPHONE: (502) 227-2271

March 13, 2008

George Phelps
Cap Billing Service
6126 Coen Tush
Greenville, Indiana

Re: Farmdale Development Corporation ("Farmdale")

Dear Mr. Phelps:

Thank you for contacting me on Wednesday, March 12, 2008, concerning whether your company will be able to provide billing services to Farmdale Development Corporation. Based upon your statement that Cap Billing Service only performs medical billing and does not wish to handle funds due another company, it is my understanding that you do not wish to handle the billing and collection services for Farmdale. Thank you very much for your attention to this matter.

Yours truly,


Robert C. Moore

RCM/neb

cc: Carroll Cogan

ATTACHMENT K

436

HAZELRIGG & COX, LLP

ATTORNEYS AT LAW

415 WEST MAIN STREET

P.O. Box 676

FRANKFORT, KENTUCKY 40602-0676

DYKE L. HAZELRIGG (1881-1970)

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CLAYTON B. PATRICK

SQUIRE N. WILLIAMS III

J. SCOTT MELLO

SARAH K. MELLO

FAX: (502) 875-7158

TELEPHONE: (502) 227-2271

April 3, 2008

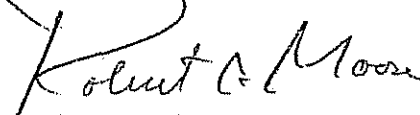
Paula Rearden
Frankfort Electric and Water Plant Board
P. O. Box 308
Frankfort, Kentucky 40602

Re: Billing and Collection Services for the Farmdale Development Corporation

Dear Paula:

Pursuant to our telephone conversation on Monday, March 31, 2008, it is my understanding that the Electric Water Plant Board of the City of Frankfort does not perform *billing services* for any third parties with the exception of the City of Frankfort's Sewer Department. Additionally, the Plant Board does not wish to perform billing services for the Farmdale Development Corporation. Thank you for discussing this matter with me and please contact me if my understanding is incorrect.

Yours truly,


Robert C. Moore

RCM/neb

cc: Carroll Cogan
Warner Caines

ATTACHMENT C

HOWARD DOWNING
ATTORNEY AT LAW
109 South First Street
Nicholasville, Kentucky 40356
(859)885-4619 fax (859)885-1127

REC'D APR 30 2008

April 29, 2008

Mr. Robert C. Moore
415 West Main Street
P.O. Box 676
Frankfort, KY 40602-0676

RE: Farmdale Development Corporation

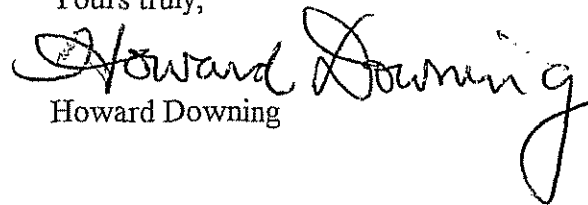
Dear Mr. Moore:

Your inquiry about providing billing and collection services for Farmdale WWTP has been received by Donald Smothers at Blue Grass Energy.

Blue Grass Energy would not be able to provide those services to Farmdale at this time.

Thank you for your interest and consideration of Blue Grass Energy.

Yours truly,


Howard Downing

ATTACHMENT L

HAZELRIGG & COX, LLP

ATTORNEYS AT LAW

415 WEST MAIN STREET

P.O. Box 676

FRANKFORT, KENTUCKY 40602-0676

DYKE L. HAZELRIGG (1881-1970)

LOUIS COX (1907-1971)

WILLIAM P. CURLIN, JR.

DANDRIDGE F. WALTON

JOHN B. BAUGHMAN

ROBERT C. MOORE

CLAYTON B. PATRICK

SQUIRE N. WILLIAMS III

J. SCOTT MELO

SARAH K. MELO

FAX: (502) 875-7158

TELEPHONE: (502) 227-2271

December 20, 2007

Mr. Berl Robinson, Chairman
Farmdale Water District
90 Mill Road
Frankfort, Kentucky 40601

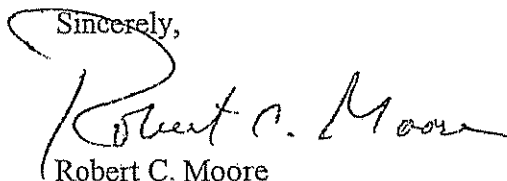
Re: Farmdale Development Corporation

Dear Mr. Robinson:

As we have previously discussed, I am counsel for Farmdale Development Corporation, which operates the Farmdale Wastewater Treatment Plant. The Public Service Commission is currently reviewing the amount billed to Farmdale's customers for billing and collection services providing by the Farmdale Water District. Please let me know whether the Farmdale Water District will agree to stop water service to one of its customers if the customer fails to pay its sewer bill even if you do not provide billing and collection services, and the charge for this service, as well as the charge for turning the water back on. Please note that pursuant to KRS 96.930 the user of water in any manner tending to contaminate it raises a duty to provide for the proper disposition of the waste water according to the highest public health standards and such duty includes full responsibility for paying the cost of such disposition. Agreeing to stop water service to a customer who fails to pay his or her sewer bill is certainly consistent with the provisions of KRS 96.930. I have enclosed a draft contract that has been entered into by other water utility companies providing for this service for your review.

I will be contacting you to discuss this matter and look forward to speaking with you at that time.

Sincerely,



Robert C. Moore

RCM/neb

cc: Carroll Cogan

AGREEMENT

This Agreement is entered into and effective this ____ day of December, 2007

by and between the [redacted] Utilities Commission ("PUC") whose address is [redacted]

[redacted] Kentucky 41240 and [redacted] pl

[redacted]

[redacted] whose address is Hazelrigg & Cox, LLP, 415 W. Main Street, P.O. Box 676, Frankfort, Kentucky 40601.

WITNESSETH:

WHEREAS, pursuant to KRS 96.930, the General Assembly of the Commonwealth of Kentucky has declared the use of water, in any manner tending to contaminate it, raises a correlative public duty to provide for the proper disposition thereof according to the highest public health standards, and that such public duty includes full responsibility for paying the cost of such disposition; and

WHEREAS, [redacted] controls, operates, and maintains those certain sewer facilities located within [redacted] County, Kentucky, and more particularly the facilities contained within the [redacted]

[redacted] ("A [redacted] customers"); and

WHEREAS, the [redacted] the authorized entity that supplies water to residents within the above-described communities; and

WHEREAS, certain residents in the above-described communities have demonstrated a refusal of timely pay for sewer services to [redacted] and

WHEREAS, in the best interests of public health, safety and general welfare, [redacted] has sought the assistance of [redacted] enforce collection of lawful rates and charges

SECTION THREE

Compensation to PUC

a. [REDACTED] shall pay [REDACTED] the sum of Twenty-Five Dollars (\$25.00) for each event in which [REDACTED] disconnects water service pursuant to a [REDACTED] Notice. [REDACTED] shall pay [REDACTED] the sum of Twenty-Five Dollars (\$25.00) for each event in which [REDACTED] connects water service at [REDACTED] request.

b. In instances in which [REDACTED] has received a notification from [REDACTED] and arrived at the premises in order to perform services but is directed by [REDACTED] not to discontinue service or reestablish service, [REDACTED] shall be entitled to receive the payments set forth above.

SECTION FOUR

Indemnity

[REDACTED] shall indemnify and hold harmless [REDACTED] for any and all claims caused, in whole or in part, by [REDACTED]'s negligence. It is further agreed and understood that [REDACTED] shall fully and completely and unconditionally indemnify and hold harmless [REDACTED] for any claims or causes of action asserted against [REDACTED] for discontinuing or reestablishing service under this Agreement.

SECTION FIVE

Liability for Failure to Discontinue Service

In the event [REDACTED] wrongfully fails or refuses to discontinue water service pursuant to a [REDACTED] notice and continues such failure or refusal for a period of thirty (30) days

after receipt of the notice, [REDACTED] shall be liable to [REDACTED] for the amount due from [REDACTED] customer involved from the effective date of the [REDACTED] Notice.

SECTION SIX

General Provisions

- a. If any provision of this Agreement is determined to be unenforceable that determination shall not affect the enforceability of any other provisions of this Agreement.
- b. This Agreement contains the entire agreement between the parties, and no statements, promises or inducements made by either party or agent of either party that are not contracted in this written contract shall be valid or binding; this Agreement may not be enlarged, modified or altered except in writing signed by the parties and indorsed on this Agreement.
- c. It is mutually understood and agreed that this Agreement shall be governed by the laws of the Commonwealth of Kentucky, both as to interpretation and performance.
- d. The Parties agree this Agreement is the result of mutual changes and the Rule of Construction against the drafter shall not apply.

In witness whereof, the Parties have executed this Agreement the day and year first above written.

[REDACTED]

BY: _____

ITS: _____

[REDACTED]

BY: *Spencer A. Williams*

ITS: [REDACTED]

COMMONWEALTH OF KENTUCKY
COUNTY OF [REDACTED]

Subscribed and sworn to before me by [REDACTED] an authorized representative
of the [REDACTED] Commission, on this the _____ day of December, 2007.

NOTARY PUBLIC

MY COMMISSION EXPIRES: _____

COMMONWEALTH OF KENTUCKY
COUNTY OF Franklin

Subscribed and sworn to before me by [REDACTED]
[REDACTED] Franklin Circuit Court, on this the 13th day of December, 2007.

Cindy J. Cannon
NOTARY PUBLIC

MY COMMISSION EXPIRES: 11-10-2010

Rec'd 2/01/08
#1 date

HAZELRIGG & COX, LLP
ATTORNEYS AT LAW
415 WEST MAIN STREET
P.O. BOX 870
FRANKFORT, KENTUCKY 40602-0870

DEAN L. HAZELRIGG (1881-1970)
LOUIS COX (1907-1971)

FAX (502) 575-7158
TELEPHONE: (502) 227-2271

WILLIAM P. CURLIN, JR.
DANDRIDGE F. WALTON
JOHN B. BAUGHMAN
ROBERT C. MOORE
CLAYTON B. PATRICK
GUYTON N. WILLIAMS III
J. SCOTT MELLO
SARAH K. MELLO

January 31, 2008

Mr. Berl Robinson, Chairman
Farmdale Water District
90 Mill Road
Frankfort, Kentucky 40601

Re: Farmdale Development Corporation

Dear Mr. Robinson:

Thank you for agreeing to speak with me on Thursday, January 31, 2008, concerning whether the Farmdale Water District would terminate water service to one of its customers pursuant to KRS 96.930 if a sewer bill is not paid where the water district is not handling the billing and collection services for the sewer company. Based on our telephone conversation, it is my understanding that the water district would not terminate water service to the customer. It is also my understanding that the water district does not wish to reconsider its decision declining to reduce the percentage charged for billing and collection services provided to Farmdale Development Corporation.

Again, thank you very much for speaking with me concerning this matter and please feel free to contact me if my understanding is incorrect.

Sincerely,

Robert C. Moore
Robert C. Moore

RCM/neb

cc: Carroll Cogan

ATTACHMENT M

PROMISSORY NOTE

Borrower: Farmdale Development Corporation
1708 Bardsstow Road
Louisville, KY 40206

Lender: National City Bank of Kentucky
Private Client Group - Louisville
101 South Fifth Street
Louisville, KY 40202

Principal Amount: \$25,000.00

Date of Note: July 18, 2006

PROMISE TO PAY. Farmdale Development Corporation ("Borrower") promises to pay to National City Bank of Kentucky ("Lender") or order, in lawful money of the United States of America, the principal amount of Twenty-five Thousand & 00/100 Dollars (\$25,000.00) or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance.

PAYMENT. Borrower will pay this loan in accordance with the following payment schedule:

One payment of all outstanding principal plus all accrued unpaid interest on January 18, 2007. In addition, Borrower will pay regular monthly payments of accrued unpaid interest beginning August 18, 2006, and all subsequent interest payments are due on the same day of each month thereafter. Borrower may make advances hereunder until January 17, 2007. Amounts repaid may not be reborrowed.

Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any unpaid collection costs; and then to any late charges. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an Index which is the Lender's Prime Rate. "Prime Rate" means the fluctuating rate per annum which is publicly announced from time to time by Lender as being its "prime rate" or "base rate" thereafter in effect, with each change in the Prime Rate automatically, immediately, and without notice changing the Prime Rate thereafter applicable hereunder, it being acknowledged that Prime Rate is not necessarily the lowest rate of interest then available from Lender on fluctuating rate loans (the "Index"). Lender will tell Borrower the current Index rate upon Borrower's request. The interest rate change will not occur more often than each day. Borrower understands that Lender may make loans based on other rates as well. The interest rate to be applied to the unpaid principal balance during this Note will be at a rate of 1.000 percentage point over the Index. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, early payments will reduce the principal balance due. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: National City Bank of Kentucky, Private Client Group - Louisville, 101 South Fifth Street, Louisville, KY 40202.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the unpaid portion of the regularly scheduled payment or \$20.00, whichever is greater.

INTEREST AFTER DEFAULT. Upon default, including failure to pay upon final maturity, the interest rate on this Note shall be increased by adding a 2.000 percentage point margin ("Default Rate Margin"). The Default Rate Margin shall also apply to each succeeding interest rate change that would have applied had there been no default. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Insolvency. The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Change in Ownership. Any change in ownership of fifty percent (50%) or more of the common stock of Borrower.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay the amount, provided, however that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional.

PROMISSORY NOTE (Continued)

Loan No: 113000

Page 2

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction) and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the Commonwealth of Kentucky without regard to its conflicts of law provisions. This Note has been accepted by Lender in the Commonwealth of Kentucky.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of \$25.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

LINE OF CREDIT. This Note evidences a straight line of credit. Once the total amount of principal has been advanced, Borrower is not entitled to further loan advances. Advances under this Note, as well as directions for payment from Borrower's accounts, may be requested orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. Borrower agrees to be liable for all sums either: (A) advanced in accordance with the instructions of an authorized person or (B) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (A) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (B) Borrower or any guarantor ceases doing business or is insolvent; (C) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; or (D) Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender.

FINANCIAL INFORMATION. Borrower will furnish to Lender, at Borrower's expense, promptly upon each request of Lender, such information in writing regarding Borrower's financial condition, income taxes, properties, business operations, if any, and pension plans, if any, as Lender may from time to time reasonably request, prepared in the case of financial information, in accordance with generally accepted accounting principles consistently applied and otherwise in form and detail satisfactory to Lender.

SHARING INFORMATION. Borrower hereby authorizes Lender to share all credit and financial information relating to Borrower with Lender's parent company and with any subsidiary or affiliate of Lender or of Lender's parent company.

FINAL AGREEMENT. This Note and the related documents set forth the entire agreement between the parties regarding the transactions contemplated hereby and supercede all prior agreements, commitments, discussions, representations and understandings, whether written or oral, and any and all contemporaneous oral agreements, commitments, discussions, representations and understandings between the parties relating to the subject matter hereof.

DIRECT DEBIT. The following is applicable if checked by Borrower: [] Payments shall be paid by Borrower by debiting Borrower's account, number _____ on the due date.

RELATED DOCUMENTS. The words "related documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, subordination agreements, assignments, financial statements, certificates and all other instruments, agreements and documents, whether now or hereafter existing, which evidence or secure any debt of Borrower to Lender, which govern the relative rights and priorities of Lender and one or more other persons or entities to payments made by, or the property of, Borrower or any guarantor of the obligations of Borrower, which are delivered to Bank pursuant to another such writing, or which are otherwise delivered to Lender by or on behalf of any person or entity (or any employee, officer, auditor, counsel, or agent of any person or entity) in respect of or in connection with all or any part of Borrower's debt to Lender.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

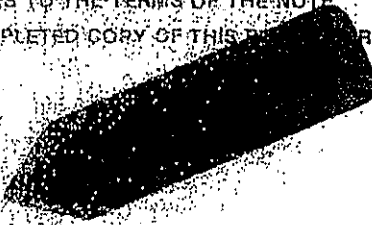
GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing by party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral or insurer, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

FARMDATA DEVELOPMENT CORPORATION
[Signature]
Farmdata Development Corporation



ATTACHMENT N

April 2007

A SCRANTON GILLETTE PUBLICATION

WWDmag.com

WATER & WASTES DIGEST

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Special Section
**RURAL & SMALL
 UTILITY SYSTEMS**

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It's cold. It's dark. The smell of raw sewage fills the air. "Who you gonna call? Ghostbusters!"

Actually you wouldn't call Bill Murray, Dan Aykroyd or Harold Ramis of Ghostbusters fame, but rather your local water and wastewater magician. Neither rain, snow nor sleet—or the need for sleep—will keep this professional from answering the call to repair yet another aged wastewater line whose replacement has languished for years.

Water and wastewater utilities will be facing a myriad of challenges in the years ahead. The "good old days" when the infrastructure was new, the regulations were few and utility managers sported dark hair, are long gone.

Today's water and wastewater utilities must nurse aged water and wastewater infrastructure, which by now should be earning Social Security. At the same time, today's utility managers must cope with increasingly stringent regulations, competition for raw water and ever-increasing customer service demands.

These challenges bring premature aging to utility managers accompanied by increasing hair loss, insomnia and occasional "mad moments."

However, the complexity and the breadth of the challenges are what attract capable leaders to the utility business. The allure of the utility business is clearly the opportunity to serve fellow citizens and the excitement of juggling tangles of conflicting priorities and

still making meaningful progress. Said simply, what a great job!

In this article, we will examine some of the most significant challenges facing water and wastewater utilities and identify some best practices, which will help utilities continue to provide safe and reliable drinking water and wastewater services to their customers.

Aging infrastructure

In many parts of the country, especially in the older industrialized areas, water and wastewater facilities are aged and in need of replacement or upgrading. The last major drink of federal and state grant funds was in the 1970s and the prospects for a new major influx of federal or state grant funds are thin, at best.

Utility consultants rightfully recommend as a best practice the creation and funding of a "3-R reserve account" (repair, replacement and rehabilitation) due to the fact that plants, pump stations and lines have finite lives and must eventually be replaced. There is no dispute that every utility should create and fund a 3-R reserve account.

Unfortunately for many utilities, political pressure has kept utility rates low or the local economy is weak and the customer base is barely surviving on fixed incomes. These utilities—and there are many of them across the U.S.—are simply unable to significantly fund a 3-R reserve account. Because the cost of construction continues to escalate significantly and other priorities can take up

for it, even the utilities that can fund a 3-R reserve account may find themselves short on needed funds.

Environmental issues

Water and wastewater utilities have historically and rightfully been regarded as champions of the environment and responsible environmental stewards.

However, we have recently seen the focus of federal and state regulators shift increasingly to community water and wastewater utilities.

This is not to criticize dedicated federal and state regulators or to characterize them to resemble Walter Peck, the loveable legal representative of the Environmental Protection Agency in "Ghostbusters."

The increased focus on the utility industry is caused by several factors. First, water and wastewater utilities have recently been plagued by front-page news articles on sanitary sewer overflows, nutrient enrichment of bays and estuaries and violations of permit requirements. The release of raw sewage during heavy rains or the failure of aged infrastructure has become a major concern of regulators and local citizens.

Second, wastewater discharges from communities meeting their historical permit requirements are now being found to cause water quality problems; thus municipal dischargers are increasingly finding themselves the subject of demanding total maximum daily loads.

For example, sanitary waste discharges that travel to tributaries in the Chesapeake Bay, one of our nation's most precious natural resources, must be upgraded to resolve water quality problems in the bay.

Third, gone are the days when a municipal drinking water provider had virtually unlimited access to area water resources. Today, science has demonstrated that water is a scarce resource

Good Old Days Long Gone

that must be fairly allocated between competing uses. For example, minimum in-stream flow must be maintained under all weather conditions to protect and assure a balanced aquatic ecosystem. This generally means that drinking water suppliers will, at times, be limited in the quantity of stream flow they can use for their drinking water customers.

Strategic planning

It is a best practice that all utilities develop a strategic plan to guide the utility and ensure that it effectively addresses key strategic challenges.

Some utilities create "feel good" strategic plans that are little more than "dust catchers." These utilities celebrate the creation of their strategic plans but they fail to drive it into the culture and daily activities of the utility. While the strategic plan plays an important role at utility "show and tell" events, it does not transform the utility or move the utility forward to aggressively address its key strategic needs.

A strategic planning best practice is to involve all levels of the utility organization, including its governing board or commission, in the strategic planning process. Experience has illustrated that some of the best ideas and most practical implementation advice will come from plant operators, members of the line maintenance crews and the administrative staff. If a utility does not actively involve these individuals in the strategic planning process, it will lose valuable input and will not ultimately achieve employee acceptance.

Once the strategic plan is drafted, it is best for the utility to make it available to its customers and members of the public. Experience indicates that the

wider the utility throws the net, the better the strategic plan.

It is also a best practice for utility management to carefully explain the strategic objectives to employees and describe how each of them plays a key role in ensuring the long-term success of the enterprise.

The single most important factor of the strategic planning process is the steps utility leadership takes once the plan has been created. Utility officials should thoughtfully cascade the strategic plan objectives throughout the organization and use the strategic objectives to create performance objectives for the utility managers and staff.

This accomplishes a lot for the utility and its employees because it places the key strategic objectives into the hands of the employees who will be responsible for accomplishing the objective. It also gives each strategic objective a Champion to lead the charge within the organization. Most importantly, it ensures employees remain involved in the process and it helps ensure organizational alignment with the key strategic objectives.

Capital Investment Plan

The creation of a capital investment plan (CIP) is a best practice for all water and wastewater utilities. It is

best to develop a CIP with at least a ten-year planning horizon. The traditional creation of a one- to five-year CIP is simply not adequate in today's fast-paced utility world.

In order to bring a capital project to fruition, the project must be carefully planned, environmental permits must be obtained and long-lead equipment must be procured. In addition, projects and related schedules must reflect the reality that construction activities have become extended. It is not uncommon to need five years or longer to plan and construct major new facilities. As such, utilities must start early on their capital planning and recognize that it will take time to bring new facilities into operation.


Final analysis

Utility leaders face many challenges in providing safe and reliable water and wastewater services to their customers. They must increasingly rely upon these best practices and they must not suffer in silence when utility rates must increase to address aged infrastructure and new environmental needs.

Utilities need to invest in education to establish a community-wide understanding of the need and benefits of raising utility rates. Community education is not an activity that can be

undertaken the week before the utility rate hearing; rather it is best to conduct year-round community education. A properly educated community will understand the need to increase utility rates in order to address aging infrastructure and new environmental needs.

Utility managers must develop strategic plans and then cascade the key strategic objectives throughout the organization. Strategic plans should not be ornaments or dust-catchers that do not add value for utility customers.

Communities are truly fortunate that we have a cadre of dedicated utility managers who work tirelessly on behalf of their customers and communities. We are fortunate that they are there for us and we do not have to call Ghostbusters! 

Lawrence C. Tropea, Jr., P.E., BOEE is president and CEO of LCTropea P.E. Environmental & Engineering Services. He can be reached at 423/963-2633 or by e-mail at larrytropea@comcast.net.

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