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SARAH K. MELLO

December 19, 2007

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

RECEIVED

DEC 20 2007

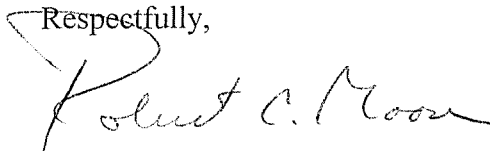
PUBLIC SERVICE
COMMISSION

Re: Farmdale Development Corporation Application for an Adjustment in Rates
Case #2007-00436

Dear Ms. O'Donnell:

Please find attached an original and five copies of the Answers of Farmdale Development Corporation to the Commission's Data Requests for filing in the above referenced case. Thank you for your attention to this matter, and please feel free to contact me should you wish to discuss same.

Respectfully,



Robert C. Moore

RCM/neb
Enclosure
cc: Carroll Cogan

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
DEC 20 2007
PUBLIC SERVICE
COMMISSION

In the Matter of:

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

**ANSWERS OF FARMDALE DEVELOPMENT CORPORATION TO
COMMISSION STAFF'S FIRST DATA REQUEST**

Comes Farmdale Development Corporation ("Farmdale"), by counsel, and for its

Answers to Commission Staff's First Data Request to Farmdale states as follows:

1. Provide at least three competitive bids for the billing and collection service currently provided by Farmdale Water District.

ANSWER: Farmdale Water District's billing and collection service is unique because it: a) is immediately aware of any new residences signing up for or cancelling water meter services; b) is immediately aware of new and changed billing addresses; and, c) has the ability to turn off water for non-payment of any portion of its bill. A letter forwarded on November 27, 2007 to Jack Kaninberg of the Public Service Commission setting forth these benefits is attached as Attachment A. Therefore, Farmdale is not aware of any entity or individual that can provide a truly competitive bid comparable to the service provided by the Farmdale Water District.

However, Farmdale is attempting to obtain bids for billing and collection services from qualified companies or individuals and will provide same upon receipt. The individual responsible for providing this information is Carroll F. Cogan.

2. Has any entity other than Farmdale Water District provided billing and collection

services for Farmdale and, if so, at what expense?

ANSWER: No. No individual or entity has provided collection services for Farmdale other than the Farmdale Water District. The individual responsible for providing this information is Carroll F. Cogan.

3. Given that Farmdale's owner has a long history of operating sewer utilities, explain whether any of his sewer utilities have done their own billing and collection without reliance upon the local water utility, and, if so, at what cost.

ANSWER: Farmdale is owned by Farmdale Utilities, Inc., and the only sewer utility it has owned is Farmdale. Farmdale Utilities, Inc., has never done its own billing, but has used the services of the Farmdale Water District. Farmdale Utilities, Inc. is owned by Carroll Cogan. None of the sewer utilities that Mr. Cogan has owned have done their own billing and collection services, and instead the Louisville Water Company has performed the billing and collection services for the sewer utilities owned by Mr. Cogan. The individual responsible for providing this information is Carroll F. Cogan.

4. Explain whether any of the sewer utilities operated by Farmdale's owner have ever negotiated for and received billing and collection services based upon a flat charge per customer rather than a percentage of revenues and, if so, at what charge.

ANSWER: The Farmdale Water District and the Louisville Water Company have refused to charge for billing and collection services on a flat charge per customer. The individual responsible for providing this information is Carroll F. Cogan.

5. If Farmdale is aware of any collection problems experienced with its customers, explain those problems and how they were resolved?

ANSWER: Farmdale is not aware of any collection problems experienced with its customers. Since the Farmdale Water District will not accept a partial payment from its customers, if full payment of the water and sewer bill is not received in a timely manner, the water is turned off. This policy is crucial to the Farmdale Water District's success in providing effective billing services to Farmdale. The individual responsible for providing this information is Carroll F. Cogan.

6. If Farmdale has done any cost/benefit analyses to determine what billing and collection amounts charged by Farmdale would be sufficiently high to cause it to pursue alternative billing and collection arrangements, please provide these analyses?

ANSWER: Farmdale has not performed such a cost/benefit analyses. The current cost of billing and collection services provided by the Farmdale Water District is sufficiently high to consider alternative billing methods. However, it is difficult, if not impossible, to place a dollar value on the importance of Farmdale Water District's collection policy refusing to accept partial payments of a bill. This is particularly true where the approved surcharge has been added to the existing operating charge, which might make a customer more likely to refuse to pay the sewer portion of the bill. The individual responsible for providing this information is Carroll F. Cogan.

7. Provide an itemized estimate of the expenses necessary if Farmdale were to use personnel affiliated with the Cogan Companies to perform billing and collection services instead of Farmdale Water District.

ANSWER: The Cogan Companies does not employ any individuals. All services, including bookkeeping services, are provided on a contract basis. The bookkeeping service used by the Carroll Cogan Companies does not have time to perform the billing and collection services for

Farmdale. The individual responsible for providing this information is Carroll F. Cogan.

8. Provide all legal and accounting bills (not previously provided) for rate case expenses incurred to date in this case.

ANSWER: The legal and accounting bills for rate case expenses incurred to date in this case are provided as Attachment B. The individual responsible for providing this information is Carroll F. Cogan.

9. Provide an explanation for the fluctuations in electricity expense and electricity consumption at the Farmdale Sewage Treatment Plant for the period from 2003 to the latest bill billed by Bluegrass Energy Cooperative Corp.

ANSWER: The Farmdale Sewage Treatment Plant was operated by Terry Coker prior to May of 2005 when Larry Smither was hired as the operator. The change in operators may have caused some fluctuation in electricity expense and electricity consumption. Any increase in electrical costs may be attributable to seasonal differences and the increased operation of the blowers and related equipment at the plant to achieve better overall results in the plant treatment and operation. The individual responsible for providing this information is Carroll F. Cogan.

10. If Farmdale has realized any operational expense savings as a result of the capital expenditures that were agreed to as a result of Case No. 2006-00028, provide a list and an annual estimate of such savings.

ANSWER: The capital expenditures agreed to in Case No. 2006-00028 resulted in the replacement of the remote lift station, the replacement of the chlorine tank, the replacement of the standby blower motor assembly, the replacement of diffuser drop pipes, the installation of new grating on top of the lift station and pumping and cleaning of the lagoon. The video study

of, and application of root treatment to, the collection system, small plant maintenance and temporary repairs have also been completed. The installation of the new remote lift station should reduce repair costs. However, it will take at least one year of operational history to determine any savings. No cost savings from the other capital expenditure items are anticipated. The individual responsible for providing this information is Carroll F. Cogan.

11. Farmdale's proposed Interest Expenses includes not only interest of \$6,283 on the funds borrowed to make capital improvements approved by the Commission, but also interest of \$2,313 on a one year renewable \$25,000 loan from National City Bank at 9.25%. Provide a copy of the National City Bank loan agreement. Explain in detail its use, and explain whether and why this interest expense might be expected to recur on an annual basis.

ANSWER: The loan obtained from National City Bank was used to pay the bills due at that time, including legal fees, accounting fees, and other bills that were due. For example, suppliers will not provide additional materials if the account is not current. Additionally, the funds were needed to pay a part of the operating expenses, as the former rate was not sufficient to pay all the normal operating expenses. The loan agreement is attached as Attachment C. The individual responsible for providing this information is Carroll F. Cogan.

12. Relative to Exhibit I wherein Farmdale contends that the duties, responsibilities, decisions and potential liability of a sewer owner/manager are greater than those of a water district commission, provide any evidence available to Farmdale that supports this assertion.

ANSWER: The Farmdale Waste Water Treatment Plant is comprised of the following components: a) plant site; b) two (2) extended aeration treatment plants; c) blower building with blowers and electrical controls; d) raw sewage pump station at the plant; e) chlorine contact system; f) chlorination system; g) de-chlorination system; h) flow-meter; i) tertiary

lagoon; j) 2 lagoon aerators; k) approximately 14,000 feet of 8" sanitary sewer line; and l) one (1) remote lift station. Each component of the WWTP requires operational attention, and repairs which are supervised and/or approved by the owner/manger. Additionally, the owner/manager is responsible for: a) selecting and contracting with an outside laboratory to provide weekly testing of the plant effluent to insure compliance with KPDES permit; and, b) insuring that the KPDES reports are complete in a correct manner and filed with the Kentucky Division of Water on a monthly basis. The owner/manager of a WWTP is subject to substantial liability in the event that the WWTP is not operating in compliance with its KPDES permit and faces potential liability in the event that backups occur within the homes served by the WWTP. The 14,000 feet of sanitary sewer line requires constant attention to prevent backups into the lines and overflows or backups into residences. Of course, each complaint must be reviewed by the owner/manager and the owner/manager is required to insure that the appropriate repairs are made in a timely manner. The individual responsible for providing this information is Carroll F. Cogan.

13. Farmdale's Sludge Hauling Expense of \$5,450 for 2006 was more than double the amount of \$2,600 allowed in Case No. 2006-00028. Explain whether the sludge hauling done in 2006 was higher than normal, and whether the capital expenditures agreed to in Case No. 2006-00028 are expected to reduce future Sludge Hauling Expense from the amount incurred in 2006.

ANSWER: The wasting of sludge on a regular basis is important to insure proper and efficient plant operation and to obtain the most effective treatment. However, sludge builds up at a variable rate. Therefore, there will be a variability in the amount of sludge build up and the cost to haul same. The sludge hauling in 2006 was not higher than normal. The

improvements to the plant agreed to in Case No. 2006-00028 will not result in a decrease in sludge hauling. The individual responsible for providing this information is Carroll F. Cogan.

14. Page 11 of the application appears to be missing from the October 3, 2007 filing. Provide the missing page 11.

ANSWER: Page 11 of the application is provided in Attachment D. The individual responsible for providing this information is Carroll F. Cogan.

15. Provide an itemized breakdown for Outside Services Employed Expense of \$5,709 during 2006 which shows the amount paid to each outside vendor and what services were performed. In addition, since page 11 appears to be missing from the application, explain in detail the proposed adjustment to reduce this expense on a pro forma basis.

ANSWER: The following is the itemized breakdown for the Outside Services Employed Expense of \$5,709 for 2006:

- a) Bookkeeping: Bookkeeping, computer records, correspondence, reports and rate case (Linda Wood) \$ 2,100.00
- b) Accounting: Logsdon & Company
Monthly records, annual PSC Report, State & Federal tax returns \$ 1,980.00
- c) DMR Reports (monthly): Martin G. Cogan \$75 / month
Total '06 \$ 900.00
Checks DMR's from Fouser Lab for accuracy; advises operator of failure to meet KPDES permit and discusses operational changes necessary. Contacts Dept. of Natural Resources as to problems and steps being taken to correct. (Martin has a Master Degree in Environmental Engineering from UofL.)
- d) Supervision: Smither Consulting.
Normally @ \$35.00/hr \$ 729.25
These special trips to Farmdale Development sewer system made at request of owner / manager to check plant, pumping station & sewers for stoppages, overflows, etc. and notify D.O.W. of any overflows & Manager of any problems.

Page 11 is provided in Attachment D. The individual responsible for providing this information is Carroll F. Cogan.

16. Provide an itemized breakdown for Maintenance of Treatment Plant Expense of \$19,712 during 2006 which shows the amounts paid to each vendor and what services were performed. In addition, since page 11 appears to be missing from the application, explain in detail the proposed adjustment to reduce this expense on a pro forma basis.

ANSWER: The itemized breakdown for Maintenance of Treatment Plant Expense of \$19,712 is provided in Attachment E. The individual responsible for providing this information is Carroll F. Cogan.

17. Provide a status report on the sewer line rehabilitation project and the actual costs incurred in replacing the wet well and pumps.

ANSWER: With respect to the sewer line project, Martin's Pipeline Inspection has completed the videoing of the Farmdale collection system, the cleaning of the roots in the collection system and the application of the root treatment. The report reflecting the results of this work has not been received by Farmdale. The final report, when received, will indicate the repairs and rehabilitation that need to be performed on the collection system. With respect to the replacement of the remote lift station, as reported in the September 28, 2007 report submitted to Michael F. Burford, the installation of the remote lift station, including fencing, grading, seeding and straw was completed as of September 14, 2007. Farmdale is in the process of determining the total cost of the actual costs incurred in replacing the remote lift station. The individual responsible for providing this information is Carroll F. Cogan.

Respectfully Submitted,

Robert C. Moore

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

Certification

Carroll F. Cogan hereby certifies that the answers provided to the Data Requests of the Public Service Commission are true and accurate to the best of his knowledge, information and belief formed after reasonable inquiry.

Carroll F. Cogan
Carroll F. Cogan

STATE OF KENTUCKY)
)
COUNTY OF FRANKLIN)

Subscribed, sworn to before me this 19th day of December, 2007, by Carroll F. Cogan.

My commission expires: 3/11/10

Nancy E. Bailey
NOTARY PUBLIC

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by first class mail, postage prepaid, on David Edward Spenard, Assistant Attorney General, 1024 Capital Center Drive, Suite 200, Frankfort, Ky., 40601-8204, Beverly J. Hunt, 304 Peachtree Road, Frankfort, Kentucky 40601-8141, Kenny and Marilyn Glass, 223 Briarwood Drive, Frankfort, Kentucky 40601 and Mary Pennington, 210 Cherry Lane, Frankfort, Kentucky 40601, on this the 19th day of December, 2007.

Robert C. Moore
Robert C. Moore

ATTACHMENT A

Carroll Cogan Companies
1706 Bardstown Road
Louisville, KY 40205
(502) 238-3301
(502) 238-3329 Fax

Memo

November 27, 2007

To: Public Service Commission
Attn: Jack Kaninberg, PSC Staff

Re: Farmdale Development Corporation Rate Case
Su: Data Request

Dear Jack,

This letter confirms our telephone conversation on Monday, November 26, 2007 (yesterday), concerning the status of the above referenced case in which you advised me that a data request was being prepared and would be sent to Farmdale Development. We also discussed the Staff's concern with the amount of the fee paid by Farmdale Development to the Farmdale Water District for billing and collection services.

Farmdale Development agrees that the basic fee of 15% of gross receipts may be high for the billing and collection services provided by Farmdale Water District. This 15% is applied to both the normal monthly receipts and to the surcharge receipts. Farmdale Development's counsel requested Farmdale Water District to not apply the 15% fee to the surcharge receipts or to reduce this percentage. Farmdale Water District initially gave this request some consideration, but ultimately denied the request. Farmdale Development's request and the denial were confirmed by correspondence submitted with its application for rate adjustment. Accordingly, Farmdale Development has made every effort to get this request granted.

While Farmdale Development disagrees with the amount of the collection fee, it does not wish to alienate Farmdale Water District, because the service it provides has distinct advantages over any other feasible type of direct billing and collection. The Farmdale Water District does not accept partial payments, and therefore can turn off a customer's water supply if the water and/or sewer bill is not paid in a timely manner. Farmdale Development could implement billing and collection procedures that might initially save money, but would then have to address bookkeeping and collection issues that it is not currently equipped to handle that would cost it and the rate payer more in the long run.

I have discussed the billing and collection process with the owners of Brooklyn Utilities, located in Richmond, Kentucky, which uses an outside third party to perform the

billing and collection services for its 70 plus customer WWTP system. They have advised me of the many problems they experience with billing and collections, including difficulties in identifying tenants that live in some of the houses and locating and collecting past due bills from individuals that move out of the neighborhood. This is caused, in part, by the fact that where the water company does not perform the billing, it will not supply the names or data concerning a customer to a privately owned WWTP due to privacy concerns. Additionally, the owners of Brocklyn Utilities have had to utilize the services of a collection agency at a charge of 30% of the amount collected. Even a collection agency cannot collect overdue bills when the former customer cannot be located.

Based on my experience and the experience of Brocklyn Utilities, billing and collection services are most effectively provided by water districts or other water utilities. Privately owned utilities cannot turn off the water supply, and disconnecting and reconnecting a sewer line is very expensive and has potential legal liability. Of course, where the billing is not performed by the water company, the failure to pay the sewer bill does not result in the water supply being turned off.

If you have any suggestions for a more efficient billing and collection process that can be used by Fairdale Development, please advise me of same. Thank you for your consideration of this matter.

Sincerely,


Carroll F. Cogan, President

Fairdale Development Corporation



ATTACHMENT B

LOGSDON & CO., PC

GENERAL & OTHER ACCOUNTANTS

405 West Sixth Street
Jeffersonville, Indiana 47130

(812) 283-7722

Invoice

To:

FARMDALE DEVELOPMENT CORP.
1706 BARDSTOWN ROAD
LOUISVILLE, KY 40205

Invoice Number:
7207

Invoice Date:
11/30/07

Customer ID:	Payment Terms:	Due Date:
FAR100	Net 10 Days	12/10/07
Description		Amount
PREPARATION OF 2007 RATE CASE APPLICATION		2,000.00
ADDITIONAL PROFESSIONAL SERVICES REGARDING 2007 RATE CASE		796.00

Total Invoice Amount 2,796.00

Check No:

Payment Received

TOTAL 2,796.00

1% PER MONTH FINANCE CHARGE

12% PER YEAR

Summary of Statements of Hazelrigg & Cox, LLP for Legal Fees Associated with the Rate Case

- 1) August 10, 2007 statement - \$1,229.67
- 2) September 10, 2007 statement - \$1,434.43
- 3) October 10, 2007 statement - \$734.57
- 4) November 10, 2007 statement - \$239.84
- 5) December 10, 2007 - \$549.21

ATTACHMENT C

PROMISSORY NOTE

Borrower: Farmdale Development Corporation
1706 Bardestown Road
Louisville, KY 40205

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 Lenders 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 disavows 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 that 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.

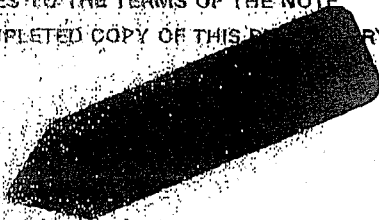
GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent 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, no 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 impair, 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:

[Signature]
FARMDALE DEVELOPMENT CORPORATION
Farmdale Development Corporation



ATTACHMENT D

FARMDALE DEVELOPMENT CORPORATION
 PROPOSED PRO FORMA ADJUSTMENTS
 EXHIBIT B

1. Other Labor

Adjust weekly testing fee to \$150 as previously approved by Public Service Commission.

2. Routine Maintenance Fee

Adjust monthly routine maintenance fee to \$810 as previously approved by Public Service Commission.

3. Maintenance of Treatment Plant

Capitalize completed project costs per Case No. 2006-00028 Attachment A page 3.

4. Agency Collection Fee

Farmdale Water District charges a 15% collection fee on revenues (letter attached). Farmdale Development Corporation failed to include the collection fee on increased revenues in its previous rate case. In addition, there is a 15% collection fee charged on the approved annual surcharge of \$29,261.

5. Outside Services Employed

Logsdon & Co., PC, CPAs	\$ 1,800
Integrity Bookkeeping	1,200
Smither Consulting	<u>729</u>
	\$ 3,729

6. Depreciation

See Fixed Asset Schedule Exhibit C

7. Amortization

a. Preparation of previous rate case application fee charged by Logsdon & Co., PC, CPAs, of \$2,000 amortized over 3 years.	\$ 667
b. Preparation of amended previous rate case application fee charged by Logsdon & Co., PC, CPAs, of \$2,500 amortized over 5 years.	500

c. Legal fees incurred with Hazelrigg & Cox, Attorneys, of \$5,000 for previous rate case amortized over 5 years.	1,000
d. Preparation of current rate case application fee charged by Logsdon & Co., PC, CPAs, of \$2,000 amortized over 3 years.	667
e. Estimated legal fees with Hazelrigg & Cox, Attorneys, of \$3,000 for current rate case amortized over 5 years.	600
f. Loan commitment fee of \$1,500 charged by Old National Bank for funds borrowed to make capital improvements approved by Public Service Commission amortized over 5 years.	<u>300</u>
	\$ 1,567
 8. Interest Expense	
a. Total interest expense of \$31,413 for 5 years amortized on a straight-line basis for funds borrowed to make capital improvements approved by Public Service Commission. A copy of the note and amortization schedule is attached.	\$ 6,283
b. Annual interest expense on a one year renewable \$25,000 loan from National City Bank at 9.25%	<u>2,313</u>
	\$ 8,596

ATTACHMENT E

Fairdale Development
Increased Cost Information
Breakdown

2,128.86	Eqpt Repairs:	1,785.76	Quality Electric #54527 - Ebara Pump
		343.10	Quality Electric #54818 - Grinder Pump
339.63	Equipment	44.15	USA BlueBook #135879 - Sludge Spud
		295.48	Quality Electric #54688 - 5 HP Smith motor
14,977.32	Operation - CBU	1,635.29	#112-01 Motor, materials, labor & mileage: worked on blower @ #1 plant
		799.58	#209-02 Worked on air lift sludge returns & pumps @ remote L.S.
		242.56	#216-01 Worked on remote L.S. pump
		533.08	#228-01 Pulled pump @ L.S.; repaired volute
		402.56	#302-01 Installed repaired pump & remote L.S.
		517.06	#316-01 New motor installed @ #1 plant
		631.92	#323-01 Cleaned pump #1; installed #2 repaired pump
		105.00	#330-05 Air lift sludge returns
		187.51	#496-03 Cleaned up overflow @ L.S.
		587.36	#413-02 Worked on air lift sludge return
		671.22	#518-01 Repairs made: exhaust fan & light in chl. Room; 2 float switches
		482.56	#601-04 Pulled diffuser drops; lagoon overflow pipe cleaned <i>See attached</i>
		2,814.25	#608-04 New diffuser drops fabricated <i>See attached</i>
		236.27	#706-11 Air supply lines cleaned
		455.76	#720-01 Plant cleaned contact tank; repaired wire connections; PSC inspection
		156.02	#727-02 Repair to flow meter
		229.28	#811-01 No power - Electric Co problem
		80.00	#922-02 Pumps out - cleaned floats
		647.42	#1005-01 Repaired grating; welded in new supports <i>See attached</i>
		1,080.91	#1110-01 Discharge pipe full of tubes - sealed them
		1,074.22	#1118-04 Installed grinder pump & Ebara pump
		282.56	#1126-03 Airline: took apart & cleaned
		597.52	#1130-02 Survey of sewer mains & M.H.
		527.41	#1222-01 Airline to skimmer replaced

Farmdale Development
Increased Cost Information
Breakdown

2,139.29	Parts	397.11	Stoddard Silencers
		5.87	Larry Smither / reimbursed for oil
		773.57	Master Supply <u>Black pipe, etc.</u>
		26.58	Larry Smither / reimbursed for Lowe's
		95.33	Grainger
		113.14	USA BlueBook
		238.57	Stoddard Silencers
		96.36	Lowe's Building Supplies
		7.29	Larry Smither / reimbursed for oil
		385.47	USA BlueBook <u>Diffusers purchased</u>
26.58	Repairs	26.58	Larry Smither / reimbursed for galv. Pipe fittings
100.00	Accts Pay	100.00	Quality Electric #57288 - Pump voltabe changed

19, 7/11/68 Maintenance of Treatment Plant

NOTE: You do not have any invoices
except for CBK - PSC have them