



Steven L. Beshear
Governor

Robert D. Vance, Secretary
Environmental and Public
Protection Cabinet

Larry R. Bond
Commissioner
Department of Public Protection

Honorable W. Randall Jones
Attorney at Law
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, KY 40202

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

John W. Clay
Vice Chairman

Caroline Pitt Clark
Commissioner

May 29, 2008

CERTIFICATE OF SERVICE

RE: Case No. 2008-00097
Barkley Lake Water District

I, Stephanie Stumbo, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on May 29, 2008.

Executive Director

SS/rs
Enclosure



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Protection Cabinet

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Commissioner
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Terry McNichols
Chairman
Barkley Lake Water District
1420 Canton Road
P. O. Box 308
Cadiz, KY 42211

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE BARKLEY LAKE WATER)
DISTRICT FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY TO) CASE NO. 2008-00097
CONSTRUCT AND FINANCE A WATER)
IMPROVEMENTS PROJECT PURSUANT TO KRS)
278.020)

ORDER

On March 17, 2008, Barkley Lake Water District ("Barkley District") applied for a Certificate of Public Convenience and Necessity to construct a waterworks improvement project and for authorization to enter into loan agreements with Kentucky Rural Water Finance Corporation ("KRWFC") for loans totaling \$3,035,000.

Having considered the application and being otherwise sufficiently advised, the Commission finds that:

1. Barkley District proposes to construct approximately 591 linear feet of 20-inch ductile iron water main and a 1,000,000-gallon elevated water storage tank.
2. The proposed water storage tank will replace an existing 200,000-gallon water standpipe that, due to its elevation and existing hydraulic conditions, has a useful volume of only 16,000 gallons.
3. The proposed water storage tank is the first phase of a two-phased plan of system improvements. The second phase of the plan includes upgrading Barkley District's existing water treatment plant capacity from 2.5 million gallons per day

("MGD") to 3.75 MGD, improvements to Barkley District's raw water and high service pumps, and construction of a 16-inch water transmission main.

4. Full use of the proposed water storage tank's capacity is dependent upon completion of both phases of the plan of system improvements. Upon its completion and prior to the completion of the second phase of the plan of system improvements, the proposed water storage tank will not fill completely and will have a useful volume of only 400,000 gallons.

5. Hydraulic models indicate that, until completion of the second phase of the plan of system improvements, volume in the proposed water storage tank will have a 150 percent turnover within 72 hours.

6. The second phase of the plan of system improvements is currently under design and is expected to be completed before this year. Barkley District has obtained commitment for most of the funding for the cost of these improvements and expects to obtain remaining funds before the close of 2009.¹ It anticipates soliciting bids on the construction of the water treatment plan improvements in January 2009.

7. Notwithstanding its dependence upon the second phase of the plan of system improvements, the proposed water storage tank will significantly improve the operation of Barkley Lake's water distribution system and the quality of water service.

8. The estimated total cost of the proposed project, including construction cost, contingencies, and engineering and inspection fees, is \$1,935,400.

¹ E-mail from Richard Oakley, Jr., Professional Engineer, GRW Engineers, Inc., to Gerald Wuetcher, Assistant General Counsel, Kentucky Public Service Commission (May 15, 2008, 16:33 EDT); Letter from Kenneth Slone, State Director, Rural Development, to Terry L. McNichols, Chairman, Barkley Lake Water District (May 14, 2007).

9. GRW Professional Engineers, Inc., prepared the plans and specifications for the proposed project.

10. The Division of Water of the Kentucky Environmental and Public Protection Cabinet has approved the plans and specifications for the proposed project.

11. The proposed project will not compete or conflict with the facilities of other jurisdictional utilities operating in the same area.

12. The proposed project will not result in the wasteful duplication of utility facilities.

13. The public convenience and necessity require the construction of the proposed project.

14. The proposed project will be funded with a grant of \$489,000 from the Kentucky Infrastructure Authority, internally generated funds of \$81,400, and the proceeds of a KRWFC loan of \$1,365,000.

15. The proposed KRWFC loan of \$1,365,000 will mature over a 25-year term with approximate incremental rates of interest ranging from 3 percent to 5 percent per annum.

16. Barkley District also proposes to enter a loan agreement with KRWFC for an additional \$1,670,000. The proceeds of this loan will be used to refund and redeem the outstanding balance of Barkley Lake Water District Water System Refunding Revenue Bonds, Series of 1998 ("1998 Bonds"). The loan is for a term of 19 years with approximate incremental rates of interest ranging from 3 percent to 4.75 percent per annum. The proposed refinancing will result in a net present value savings of \$44,510.²

² Application, Exhibit F at 2.

17. Barkley District's proposed loan agreements with KRWFC are for lawful objects within Barkley District's corporate purpose, are necessary and appropriate for and consistent with the proper performance of Barkley District's service to the public, will not impair Barkley District's ability to perform that service, and are reasonably necessary and appropriate for such purposes.

IT IS THEREFORE ORDERED that:

1. Barkley District is granted a Certificate of Public Convenience and Necessity to construct approximately 591 linear feet of 20-inch ductile iron water main and a 1,000,000 gallon elevated water storage tank.

2. Barkley District shall notify the Commission prior to performing any additional construction not expressly authorized by this Order.

3. Any deviation from the construction approved shall be undertaken only with the prior approval of the Commission.

4. Barkley District shall furnish written evidence of the total costs of this project, including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.), within 60 days of the date construction is substantially completed. Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

5. Barkley District shall file a copy of the "as-built" drawings and a certified statement the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the construction certificated herein.

6. Barkley District shall require construction to be inspected under the general supervision of a licensed professional engineer with a Kentucky registration in civil, electrical, or mechanical engineering, to ensure that construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

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

8. Barkley District is authorized to enter loan agreements with KRWRC

a. to borrow an amount not to exceed \$1,365,000 to be repaid over a 25-year period with incremental rates of interest ranging from 3 percent to 5 percent to finance the proposed project; and,

b. to borrow an amount not to exceed \$1,670,000 to be repaid over a 19-year period with incremental rates of interest ranging from 3 percent to 4.75 percent to refund the 1998 Bonds.

9. The proceeds from each KRWFC loan shall be used only for the lawful purposes specified in Barkley District's application.

10. Within 30 days of entering the loan agreements with KRWFC that are authorized by this Order, Barkley District shall advise the Commission in writing of the date on which the loan agreements were entered, the actual interest rates of these loans, and the principal amount.

11. If the actual terms and conditions of the loan agreements with KRWFC differ from those set forth in its application, Barkley District shall, within 30 days of entering the loan agreements, file with the Commission amortization schedules and

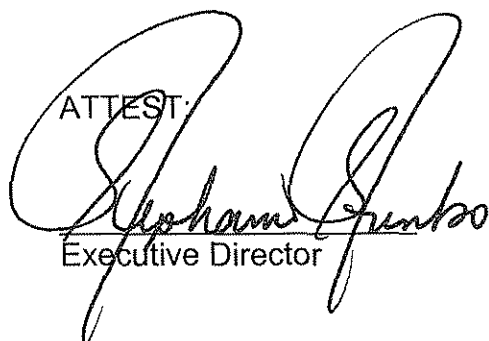
workpapers showing the gross and net present value savings that resulted from refinancing the 1998 Bonds.

Nothing contained herein shall be deemed a warranty or a finding of value of the securities or the financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 29th day of May 2008.

By the Commission

ATTEST:



Stephen J. Hunt
Executive Director