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October 25, 2011

RECEIVED

OCT 25 2011

PUBLIC SERVICE
COMMISSION

Jeff Derouen, Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Re: Case No. 2011-00239
North Shelby Water Company's Response to Commission Staff's
First Request for Information to North Shelby Water Company

Dear Mr. Derouen:

Enclosed are the original and 8 copies of North Shelby Water Company's Response to Commission Staff's First Request for Information to North Shelby Water Company with regard to the captioned file.

If you have any questions regarding this matter, please do not hesitate to call me.

Yours truly,

MATHIS, RIGGS & PRATHER, P.S.C.

By: Donald T. Prather
Donald T. Prather

By Paula McClain

DTP/pm
Enclosures

RECEIVED

OCT 25 2011

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:

TARIFF FILING OF NORTH SHELBY WATER }
COMPANY TO REMOVE ITS RATE FOR }
FIRE PROTECTION SERVICE }

CASE NO. 2011-00239

NORTH SHELBY WATER COMPANY'S RESPONSE TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

The witness for all responses will be David Hedges, Manager.

Mathis, Riggs & Prather, P.S.C.

By: 

Donald T. Prather
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Shelbyville, Kentucky 40065
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NORTH SHELBY WATER COMPANY'S
RESPONSE TO
COMMISSION STAFF'S FIRST REQUEST FOR
INFORMATION TO NORTH SHELBY WATER COMPANY
IN
CASE NO. 2011-00239

1. Provide a copy of the Board of Directors' resolution withdrawing the fire protection fee and the minutes of each Board of Directors' meeting in which the rescission of the fee was discussed.

Response 1

A copy of the minutes May 16, 2011 Board of Director's meeting during which the rescission of the fire protection fee was approved is attached to this Response 1 as pages 2 through 5. Copies of the July, August, and September, 2011 minutes in which the rescission of the fee was discussed are attached to this Response a as pages 6 through 18.

NORTH SHELBY WATER COMPANY

Board of Directors' Regular Meeting - May 16, 2011

The regular meeting of the Board of Directors of North Shelby Water Company was held at 6:30 p.m. on May 16, 2011, at the company office. Present were Jerry Ruble, President; Lloyd Eades, Vice President; Tom McGinnis, Secretary/Treasurer; Jimmy Anglin; Kevin Armstrong; Brian Franklin; Jim Smith; Manager Pete Hedges; Engineer David Bowles; and Attorney Donald Prather.

The Cash Transactions Report for the various bank accounts for April, including the water loss, water purchase, and certificate of deposit information, Transaction Detail by Account lists of payroll and other checks written during April, April Profit & Loss Statement, April Balance Sheet, and April bill to U.S. 60 Water District were distributed to the directors at the beginning of the meeting.

Audit. Ruble reported Dennis Raizor had been scheduled to attend this meeting and review the 2010 audit. Since he is absent, he will be asked to attend the next Board meeting.

Minutes. Upon motion duly seconded, the minutes of the April 18, 2011 Board meeting were approved.

Treasurer Report. McGinnis gave the Treasurer's Report. He reviewed the starting and ending balances of the various bank accounts. He noted there was a discrepancy between the amount of money shown on the Cash Transaction Report as income from customer payments verses the amount shown on the Profit & Loss Statement. This month it is a \$16,000 difference, which is an improvement over last month's \$52,000 difference. Tara has explained this is because the types of income included in these figures on the two reports are not the same. McGinnis will ask the accountant for an explanation. He would like to see the categories modified so they are consistent and more straight forward.

The company had a net income in April of \$15,000 after the depreciation deduction. Upon motion duly seconded the Treasurer's Report was approved.

Meter Testing. Hedges reported a Public Service Commission representative came to the office today and calibrated the meter testing equipment. The company will now begin regularly testing meters so that every meter on the system will be tested once every 10 years as required by the PSC.

Assistant Manager. Hedges reported he had selected Jeremy Carmack as assistant manager at a \$42,500 per year salary. The Board unanimously agreed with this decision.

Insurance. Hedges advised the Board Whitney Smith was going to receive a raise to bring her compensation in line with similar positions at other nearby water utilities. The Board agreed and upon motion duly seconded voted to make her raise retroactive to May 1, 2011. Since setting salaries of employees is the manager's job, and since the auditors have requested written evidence of all employee salaries, Hedges is to prepare and maintain a current written list of each employee's wage rate.

Hedges reported the cost of liability insurance will increase from \$31,003 to \$34,903. The company has earthquake and directors and officers insurance coverage. He is checking on the cost of adding terrorist coverage.

Rural Development Loan. Bowles reported everything has been submitted to RD and he is awaiting a response on whether the loan will be approved.

Long Run Pump Station Replacement. A title search disclosed there are two mortgages on the primary pump station site owned by Mark Logsdon. While the second mortgage is a Kentucky credit union which might be persuaded to partially release the new site, the first mortgage is held by a large national bank. Prather believes it would be a lengthy process to obtain a partial release from that bank. The bank would likely require an appraisal to show that the partial release and presence of the pump station would not reduce the value of its collateral. There is no assurance the release would be granted given the relatively small amount of cash to be paid to the Logsdons to purchase the site. The bank holding the first mortgage would almost certainly require the money to be paid to it rather than be paid to the Logsdons.

The existing pump station is located on a 25 X 25 foot site owned by North Shelby and not encumbered by the mortgages. Bowles has determined it would be very hard to fit the new pump station onto the additional adjacent 30 feet to be acquired from the Logsdons. This combined with the mortgage problem led him to inquire about an alternate site located on land owned by the Louisville Parks Department. This is a site where the Louisville Water Company master meter is located. He has not yet heard back from them.

Prather noted the company has existing 20-foot deep easements along the entire frontage of the Logsdon property which were recorded before the mortgages in question. Bowles stated that although RD would allow the pump station to be constructed on an easement, the 20-foot wide easement would have to be enlarged to a 30-foot wide easement to accommodate the new pump station. Ruble believes the Logsdons will agree to grant a 30-foot wide easement in lieu of the deeded site and for the same compensation, since they would be able to keep the \$3,000 paid for the easement. Prather stated that if North Shelby were to acquire the site by deed and either of the Logsdon mortgages were foreclosed, North Shelby would almost certainly be made

a party to the action, and its deeded title lost through the foreclosure sale. In contrast, it was Prather's opinion it would be very unlikely North Shelby be named a party by virtue of the new proposed easement since he had never seen a utility joined in a foreclosure for an easement in his nearly 30 years of foreclosure experience. Therefore the new easement would likely pass through a foreclosure undisturbed. Eades pointed out that if there were a problem North Shelby always has the power of condemnation. Prather stated that, since the new pump station will be underground like the old pump station, and therefore have low visibility as opposed to an above ground pump station, it is less likely to attract negative attention in the neighborhood and from the mortgage companies or any prospective purchaser of the Logsdon property.

North Shelby will pay for and install the culvert and gravel and the fence and gate. Prather suggested North Shelby pay the Logsdons the cost of having their septic tank lateral lines moved, with them hiring their own contractor to perform the work. This is underground work which might develop problems in the future if not properly done, and this procedure would keep North Shelby from being involved in any future work quality dispute. It was the consensus of the Board this was a good idea.

Prather noted his title opinion to RD will show the two existing mortgages as title exceptions for the easement site. Bowles will confirm this is acceptable to RD. Upon motion duly seconded the Board approved proceeding with the 30-foot easement rather than the deeded site, subject to RD approval.

Fire Protection and Fire Hydrant Tariffs. Prather reported he has not yet heard back from the District's insurance company underwriters regarding whether the new fire hydrant and private fire suppression regulation is acceptable and, if so, the effect it would have on coverage or the insurance premium. Hedges reported he has confirmed the District does have director and officer liability insurance.

Fire Protection Charge - Elimination. Lloyd inquired about the elimination of the fire protection charge presently being paid only by the Shelby County School Board, and over which the School Board has expressed great unhappiness. It was the consensus of the Board this should be eliminated. Prather suggested this be done in connection with the upcoming Rural Development loan since PSC would be legally required to approve the elimination of the rate as part of the RD financing package. Bowles suspects it may be too late for the pending Long Run Pump Station replacement RD loan. If it is too late for this loan, it could either be done with the next RD loan or a future general rate case, in order to avoid the expense of a special rate case only for it. Upon motion duly seconded the Board approved eliminating this charge as part of a RD loan or general rate case.

Non-Recurring Charges. Bowles suggested all non-recurring charges be reviewed for adjustment in connection with the elimination of the fire protection charge. This would include tap-on fees,

bounced check fees, non-payment disconnect fees, etc. Hedges believes the tap-on fee is probably too low since it is much lower than neighboring water utilities. The Board agreed it would be a good idea to review all of these charges and request any appropriate increases. Bowles and Hedges will pursue this matter and report back to the Board with their suggested changes.

Frankfort Water Wholesale Contract. Prather reported he has not yet received a copy of the Contract Amendment, but has been told by Frankfort's attorney it will be approved and signed at Frankfort's Board meeting this Friday.

Louisville Water company Rate Increase. Bowles reported LWC has filed the new rate tariff with PSC. North Shelby is not going to object to the new rate since the modest increase (from \$1.71 per thousand gallons to \$1.82 per thousand gallons) is the first increase in several years. Assuming no one else files an objection and PSC approves the rate increase, he will file for a purchased water rate increase.

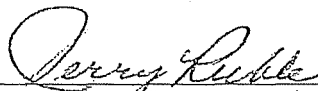
Jacksonville Water Tank Repainting. Ruble requested a decision regarding whether or not to repaint the Jacksonville Water Tank. Although Bowles did not have exact figures, it was his strong recollection the cost to remove the old lead paint and apply new paint would be almost as much as tearing down the old water tank and building a new one. Although unsightly, Bowles stated the existing tank is structurally sound and there would not be any danger in leaving the tank in service for many years without repainting it. Bowles suggested not painting the tank and eventually erect a new one, possibly in conjunction with deleting the Bagdad water tank. It was the consensus of the Board this was a good idea.

There being no further business, the meeting was adjourned.

The next meeting will be Monday June 20, 2011 at 6:30 p.m.



Tom McGinnis, Secretary-Treasurer



Jerry Ruble, President

NORTH SHELBY WATER COMPANY

Board of Directors' Regular Meeting - July 18, 2011

The regular meeting of the Board of Directors of North Shelby Water Company was held at 6:30 p.m. on July 18, 2011, at the company office. Present were Jerry Ruble, President; Lloyd Eades, Vice President; Tom McGinnis, Secretary/Treasurer; Jimmy Anglin; Kevin Armstrong; Brian Franklin; Jim Smith; Manager Pete Hedges; Assistant Manager Jeremy Carmack; Engineer David Bowles and Attorney Donald Prather.

The Cash Transactions Report for the various bank accounts for June, including two Transaction Detail by Account lists of the payroll checks and the operation and maintenance checks, respectively, written during June; June bill to U.S. 60 Water District; Cash Transaction Spreadsheet for June for the various bank accounts, including the water purchase, sales; loss, and certificate of deposit information; June Balance Sheet; June Profit & Loss Statement; and the list of June deposits and adjustments were all distributed to the directors at the beginning of the meeting. These documents were approved as evidenced by the signed copies attached to these minutes.

Guests. Jeff Rummage, a customer residing at 2581 Elmburg Road (Ky. 395), and Eddie Kinsolver, Shelby County Magistrate for that area, were present to discuss the low water pressure situation that exists from the Elmburg Road/Benson Pike intersection to the point near Peytona where the U.S. 60 and North Shelby water territories meet. The situation affects 8-10 houses which are on a dead-end 4-inch water main. It is primarily a spring and summer issue. Most of the time the pressure is fine, but when it is low Rummage stated his toilets will not fill up and the pressure is too low to take a shower on the second floor of his house. The Directors stated they would try to find a solution.

Minutes. After Mr. Rummage and Mr. Kinsolver departed, the minutes from the June 20, 2011 Board meeting were approved.

Treasurer Report. McGinnis gave the Treasurer's Report. He reviewed the starting and ending balances of the various bank accounts. The line of credit loan at Commonwealth Bank & Trust Company was paid off using funds from the construction extension account. The profit and loss statement looks normal. North Shelby had a net income of \$5,600 for the month.

The Water Loss Report for June is as follows:

| | | |
|----------------------------|------------|---------|
| Bought: | 43,177,000 | gallons |
| Sold: | 30,065,900 | gallons |
| Leaks: | 3,979,229 | gallons |
| Flushing: | 1,644,280 | gallons |
| Unaccounted-for Water Loss | | 13% |

Upon motion duly seconded, the Treasurer's Report was accepted.

Rural Development Loan. Hedges reported the pump station Rural Development loan has been approved at a 4.25% rate payable over 40 years. Ruble inquired whether North Shelby should apply for another rate increase because the last rate increase is not producing any surplus revenue to use for construction projects. Prather stated North Shelby will have new rates set when this Rural Development loan is closed. Ruble commented the beauty of a RD loan is that PSC has to approve whatever rate Rural Development says, allowing North Shelby to bypass the cost and delay of a general rate case. It was the consensus of the Board to wait on the Rural Development loan rate increase.

Manager's Report. Hedges discussed his suggested solution to the low water pressure issue on Elmburg Road. There is an existing water main and meter connecting the North Shelby and U.S. 60 systems near Peytona. If that connection is opened, and the Elmburg Road main valved off at the Benson Pike intersection, all of the low pressure houses could be served using water purchased from U.S. 60. Since the District's tank is in Peytona, North Shelby's customers would see a significant increase in water pressure. Prather stated U.S. 60's wholesale rate is what North Shelby would be charged. After discussion, upon motion duly seconded, the Board voted to request permission to re-open the connection and begin supplying the customers in question using water purchased from U.S. 60 Water District.

Meter Testing and Back-Billing. Hedges reported Rhonda is now fully certified as a meter tester. Ruble reported he had checked with PSC staff and was advised not to back-bill customers with slow meters unless a complaint is filed.

Long Run Pump Station Replacement. Bowles reported Larry Tingle has the survey completed and the plat prepared for the new pump station site in Long Run Park. It will be finalized after he, Ruble and Hedges have reviewed it for suggested changes. The Louisville Park system is not going to charge North Shelby for a 99-year lease of this site. The expense of Shelby Energy extending 3-phase electric service to the new site will cost no more than the proposed Logsdon site. The new site is far superior, having much better access.

Fire Protection Charge - Elimination. Ruble reported he has been working with PSC staff and Rural Development on this matter. John Johnson from Rural Development sent a signed letter via e-mail to PSC authorizing elimination of the fire protection charge; however, PSC

has stated they will not accept a letter by e-mail. Johnson will re-send the letter by regular mail. PSC will then allow North Shelby to file an amended rate tariff eliminating the fire protection charge, which has been paid by only the Shelby County School Board since it was first imposed.

Frankfort Water Wholesale Contract. Prather reported PSC finally approved the Contract amendment on June 30, 2011, the day after Prather pointed out to PSC staff that PSC's own order in the rate case directed that the amendment be prepared and signed.

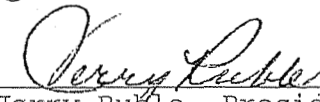
Operations Committee Report. Anglin presented and discussed the July 6, 2011 Operations Committee report. A copy is attached to these minutes. It contains, among other things, a flat hourly rate increase for specified employees. There was not time to implement the new employee evaluation process, but next year raises will be based on the results of those evaluations. Upon motion duly seconded the Board approved all actions suggested in the Operations Committee report.

East-West Connector Project. Due to the length of time involved in apply for approval and closing of a Rural Development loan, there was discussion whether another Rural Development loan should be applied for to construct the East-West connector and associated pump station. This would allow pumping of water supplied by the Louisville transmission main from the existing 12-inch main to the Vigo Road and Cranbourne Road Intersection. Eades and McGinnis expressed their opinion the process should be immediately started. Bowles estimates a cost of \$1.7 million to construct the pipeline. The pump station would be extra. Upon motion duly seconded, the Board directed Bowles to work on an application for a Rural Development loan to construct the East-West connector and pump station. The Board further directed Bowles to prepare a 5 to 10 year plan of projects needed to continue quality service to North Shelby's customers.

There being no further business, the meeting was adjourned.

The next meeting will be Monday August 15, 2011 at 6:30 p.m.


Tom McGinnis, Secretary-Treasurer


Jerry Ruble, President

North Shelby Water Company

PO Box 97
Bagdad, KY 40003

Toll Free 1-800-870-4148
(502) 747-8942
Fax: (502) 747-5048

Jerry Ruble, President

Herb McCoun, Vice President

Tom Miginnis, Secretary/Treasurer

Kevin Armstrong, Director
James Anglin, Director
Lloyd Eades, Director
Bryan Franklin, Director
Jim Smith, Director

We, North Shelby Water Company, approve all attached documents for the month of June
year 2011.

Transaction Detail by Account (payroll and Operations and Maintenance checks)

Bill from US 60 Water District

Cash Transactions spreadsheet, pages 1 and 2

Balance Sheet

Profit and Loss Statement

Monthly Adjustments

X Jerry Ruble
X JM
X Herbert H. McCoun Jr.
X Tom Miginnis
X Kevin Armstrong
X James Anglin
X Lloyd Eades
X Bryan Franklin
X Jim Smith

NORTH SHELBY WATER COMPANY

Board of Directors' Regular Meeting - August 15, 2011

The regular meeting of the Board of Directors of North Shelby Water Company was held at 6:30 p.m. on August 15, 2011, at the company office. Present were Jerry Ruble, President; Lloyd Eades, Vice President; Tom McGinnis, Secretary/Treasurer; Jimmy Anglin; Kevin Armstrong; Brian Franklin; Herb McCoun; Jim Smith; Manager Pete Hedges; Assistant Manager Jeremy Carmack; Engineer David Bowles and Attorney Donald Prather.

The two Transaction Detail by Account lists of the payroll checks and the operation and maintenance checks, respectively, written during July; July bill to U.S. 60 Water District; Cash Transaction Spreadsheet for July for the various bank accounts, including the water purchase, sales, loss, and certificate of deposit information; July Balance Sheet; July Profit & Loss Statement; and the list of July deposits and adjustments were all e-mailed or mailed, respectively, to the directors prior to the meeting. These documents were approved as evidenced by the signed cover sheet attached to these minutes.

Minutes. The minutes from the July 18, 2011 Board meeting were approved.

Treasurer Report. McGinnis gave the Treasurer's Report. He reviewed the starting and ending balances of the various bank accounts. The profit and loss statement shows North Shelby had a net income of \$34,268 for the month of July.

The Water Loss Report for July is as follows:

| | |
|----------------------------|--------------------|
| Bought: | 45,215,000 gallons |
| Sold: | 38,372,300 gallons |
| Leaks: | 2,668,604 gallons |
| Flushing: | 931,090 gallons |
| Unaccounted-for Water Loss | 7% |

The Company has purchased about 4 million gallons more water from Louisville Water Company this year than last year, probably due to the dry weather. The additional income from the sale of this water has been helpful.

The gross profit as shown on the Profit & Loss Statement for July was about the same as July 2010. In the expense category, engineering fees were unusually high last year due to payments to Broughman. The net income for July of this year was \$32,497 as compared to a \$1,771 loss last year. If the extra engineering fees paid last year are added back into last year's figures, plus the approximately \$5,000 in additional expenses incurred this year in July, the bottom line result

for both years is about the same. The Company's financial position looks pretty good.

Upon motion duly seconded, the Treasurer's Report was approved.

Manager's Report. Hedges wants to sell the old trencher which he believes is not needed. It has only been used 3 times since it was purchased because the ditch it digs is too narrow for the Company's 6-inch minimum pipe size. He also wants to sell the old pump station shell, which is too outdated to be useful, for scrap. It was the consensus of the Board Hedges should do what he thinks is best on these two matters.

U.S. 60 Water District Connection. McGinnis inquired about the status of this situation. Hedges advised the Board the connection between North Shelby and U.S. 60 is completed and operational. At this point, North Shelby's 68 psi is higher than U.S. 60's 50 psi, so the valve is shut and North Shelby's customers are being supplied using North Shelby's water. If the meter were opened now, North Shelby's water would back flow into U.S. 60's system. If the weather turns hot and dry, however, North Shelby's pressure will probably fall below U.S. 60's pressure, the valve at the Benson Pike intersection will be closed, the meter with U.S. 60 opened, and the customers will be served using U.S. 60 water.

Long Run Pump Station Replacement. Bowles reported the plans are being reviewed by the Division of Water. He is working with the Louisville Parks Department to obtain approval of the plat. He advised that it may take as much as two months because this is not something they normally do. Prather reported his office believes it has found the source deed for the property in question and the title is now being run. Bowles stated the Rural Development loan application is progressing.

Old Office Building. Prather reported the partial release of the old office building from the Rural Development mortgages is progressing. Smith reported a sales contract has been signed with RX Plumbing, LLC for \$65,000. RX will pay \$4,000 down and North Shelby will seller finance the remaining \$61,000 at 6% interest, with monthly payments on a 20-year amortization and a balloon payment of all unpaid principle and interest after 5 years. The closing is to occur within 30 days as soon as Rural Development releases its mortgages. Smith believes the purchaser will pay off the loan within two years.

East-West Connector - Phase 2 Project Rural Development Loan. Bowles presented a resolution authorizing a loan application with Rural Development to fund construction of the East-West Connector - Phase 2 Project water main. Upon motion duly seconded it was approved. A copy is attached to these minutes.

Fire Protection Charge - Elimination. Ruble reported PSC has everything it needs to delete this charge; however, the matter must wade its way through the bureaucracy for approval.

Ruble Commendation. Smith advised the Board Ruble is no longer working in the office and has once again retired. Smith expressed his gratitude for a job well done. He thinks North Shelby has, as a result of Ruble's efforts, a good foundation on which to move forward, an opinion with which Hedges agrees. The remaining Directors also expressed their appreciation.

Meter Testing Program. Hedges reported he has received a letter from George Wakim of the PSC regarding North Shelby's meter testing deficiency. Wakim has accepted North Shelby's proposal to catch up over the next 5½ years.

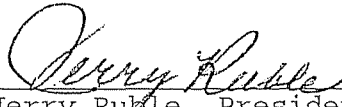
GPS. Ruble inquired about the status of this project. Hedges will follow up and advise Ruble and Bowles of the current status.

Lucas Road Leak. Hedges advised the Board a large leak had been discovered and repaired on Lucas Road. It was really hard to find because it was running into a drain tile which led under the road and into a creek. Even after the running water was discovered, the source of the leak was hard to find because it was approximately 300 yards further up the road.

There being no further business, the meeting was adjourned.

The next meeting will be Monday September 19, 2011 at 6:30 p.m.

Tom McGinnis, Secretary-Treasurer



Jerry Ruble, President

RESOLUTION OF AUTHORIZATION

The North Shelby Water Company hereby orders to file an application with USDA Rural Utility Service (RUS) program for funding under the Water & Wastewater Program for fiscal year 2012. Said application is approved by this legislative body for the following project:

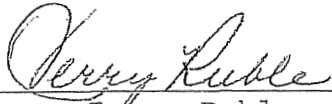
EAST WEST CONNECTOR - PHASE 2 PROJECT

The North Shelby Water Company additionally authorizes Jerry Ruble, in his capacity as President, to review and sign the necessary documents that may be required for payment and completion of the project.

Action herein ordered shall be duly recorded in the minutes of this public meeting of the North Shelby Water Company held on this 15th day of August, 2011.

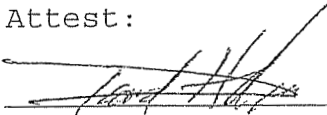
Ordered this the 15th day of August, 2011.

Signed:



Jerry Ruble, President

Attest:



Manager

Title

North Shelby Water Company

PO Box 97
Bagdad, KY 40003

Toll Free 1-800-870-4148

(502) 747-8942

Fax: (502) 747-5048

Jerry Ruble, President

Herb McCoun, Vice President

Tom Miginnis, Secretary/Treasure

Kevin Armstrong, Director

James Anglin, Director

Lloyd Eades, Director

Bryan Franklin, Director

Jim Smith, Director

We, North Shelby Water Company, approve all attached documents for the month of July
year 2011

Transaction Detail by Account (payroll and Operations and Maintenance checks)

Bill from US 60 Water District

Cash Transactions spreadsheet, pages 1 and 2

Balance Sheet

Profit and Loss Statement

Monthly Adjustments

X Jerry Ruble
X Herb McCoun
X Herbert H. McCoun Jr.
X Bryan Franklin
X Tom Miginnis
X Jerry Ruble
X James Anglin

NORTH SHELBY WATER COMPANY

Board of Directors' Regular Meeting - September 19, 2011

The regular meeting of the Board of Directors of North Shelby Water Company was held at 6:30 p.m. on September 19, 2011, at the company office. Present were Jerry Ruble, President; Lloyd Eades, Vice President; Jimmy Anglin; Kevin Armstrong; Brian Franklin; Herb McCoun; Jim Smith; Manager Pete Hedges; and Attorney Donald Prather. Lee Mudd attended representing Monarch Engineering. Tom McGinnis was absent.

The two Transaction Detail by Account lists of the payroll checks and the operation and maintenance checks, respectively, written during August; August bill to U.S. 60 Water District; Cash Transaction Spreadsheet for August for the various bank accounts, including the water purchase, sales, loss, and certificate of deposit information; August Balance Sheet; August Profit & Loss Statement; and the list of August deposits and adjustments were all e-mailed or mailed, respectively, to the directors prior to the meeting. These documents were approved as evidenced by the signed cover sheet attached to these minutes.

Minutes. The minutes from the August 15, 2011 Board meeting were approved.

Treasurer Report. Ruble gave the Treasurer's Report. He reviewed the starting and ending balances of the various bank accounts.

The Water Loss Report for August is as follows:

| | | |
|----------------------------|------------|---------|
| Bought: | 47,475,040 | gallons |
| Sold: | 41,688,500 | gallons |
| Leaks: | 3,011,083 | gallons |
| Flushing: | 958,771 | gallons |
| Unaccounted-for Water Loss | | 7% |

The Company has purchased less water this year, as compared to last year, from Frankfort and Louisville, but more water from Shelbyville.

Upon motion duly seconded, the Treasurer's Report was approved.

Louisville Transmission Line. Hedges reported Orville Dotson has called a second time complaining that the contractor killed a walnut tree in his creek. The contractor has refused to take responsibility. The tree is located in North Shelby's easement, therefor Prather advised the Directors North Shelby should have no responsibility for the death of the tree. It was the consensus of the Board to advise Mr. Dotson North Shelby did not have any

responsibility for the tree because it was in the easement.

Long Run Pump Station Replacement. Mudd advised the Board the USDA has given its letter of conditions approving financing pending completion of the checklist items. The plans and specifications have been approved by the Kentucky Division of Water. The next step is to acquire the pump station site followed by solicitation for bids.

Although Louisville Parks Department representatives initially indicated there would be no charge to North Shelby for the new pump station site, it now appears compensation will be required. At the Parks Department's request, the site is being appraised by Danny Harrison; this should take approximately 3 weeks and is expected to cost around \$2,000. The appraised value should be minimal since the site is in a flood zone.

Prather mentioned that his title examination had disclosed an existing 20-foot easement in North Shelby's favor across the property, which contains language allowing appurtenances which would include a pump station. He will further review the easement language to see if it could be used if necessary. Mudd indicated it would be very difficult, if not impossible, to locate the new pump station within that 20-foot easement.

East-West Connector. Aerial view plans of the proposed route were presented. The line will extend from Magnolia subdivision to Fox Run Road, then south along that road a short distance to the Clear Creek Park access road just north of the creek, then following that access road cross-country across property owned by Moffett, then Eddie Mathis, and finally First Christian Church to Kentucky Highway 53 (Eminence Pike); then along Kentucky Highway 53 to its intersection with Kentucky Highway 1005. A preliminary cost estimate has been developed. Clearinghouse comments have been requested and the total project cost has been estimated to be \$1,732,000. An application for USDA financing has been prepared and is ready for execution.

Old Office Building. Prather reported the closing occurred on the sale of this property to RX Plumbing, LLC for \$65,000. RX paid \$4,000 down and North Shelby seller-financed the remaining \$61,000. It is expected RX will pay off the loan within 2 years. Hedges will monitor the payments from RX.

Fire-Protection Charge-Elimination. Mudd reported the request to eliminate this charge has been submitted to PSC, but is still pending approval.

Operations and Maintenance Manual. Mudd reported Monarch Engineering is in the process of preparing an Operations and Maintenance Manual for the North Shelby pump stations and water tanks.

GPS. Tru-check is in the process of obtaining GPS locations of all water meters as it reads those meters. The work is expected to take at least two meter reading cycles to complete.

Executive Session. The Board entered an Executive Session during which Ruble read to the Board a letter from Attorney Prather. No action was taken.

There being no further business, the meeting was adjourned.

The next meeting will be Monday October __, 2011 at 6:30 p.m.

Tom McGinnis, Secretary-Treasurer

Jerry Ruble, President

North Shelby Water Company

PO Box 97

Bagdad, KY 40003

Toll Free 1-800-870-4148

(502) 747-8942

Fax: (502) 747-5048

Jerry Ruble, President

Herb McCoun, Vice President

Tom Miginnis, Secretary/Treasure

Kevin Armstrong, Director

James Anglin, Director

Lloyd Eades, Director

Bryan Franklin, Director

Jim Smith, Director

We, North Shelby Water Company, approve all attached documents for the month of August
year 2011.

Transaction Detail by Account (payroll and Operations and Maintenance checks)

Bill ^{to} from US 60 Water District

Cash Transactions spreadsheet, pages 1 and 2

Balance Sheet

Profit and Loss Statement

Monthly Adjustments

X MM

X Herbert H. McCoun Jr.

X Bryan Franklin

X Kevin Armstrong

X James Anglin

X Lloyd Eades

X Jerry Ruble

X _____



2. State the revenue effect of withdrawing the fire protection fee.

Response 2

North Shelby receives \$180.00 per month from the fire protection fee, or a total of \$2,160.00 per year.

3. Provide a copy of all correspondence with Rural Development in which withdrawal of the fire protection fee was discussed.

Response 3

These are attached to this Response 3 as pages 2 through 15.

Donald Prather

From: Donald Prather [dprather@iglou.com]
Sent: Thursday, October 20, 2011 5:09 PM
To: 'johnson, john - RD, Shelbyville, KY'
Cc: 'Jerry Ruble'; 'Pete Hedges'; 'Hollinsworth, Anthony - RD, Lexington, KY'; 'Dunn, Robert - RD, Lexington, KY'
Subject: RE: North Shelby Water Company
Thanks, John!

From: johnson, john - RD, Shelbyville, KY [mailto:john.johnson@ky.usda.gov]
Sent: Thursday, October 20, 2011 4:45 PM
To: Donald Prather
Cc: 'Jerry Ruble'; 'Pete Hedges'; Hollinsworth, Anthony - RD, Lexington, KY; Dunn, Robert - RD, Lexington, KY
Subject: RE: North Shelby Water Company

Don,
Attached is information from the Rural Development file regarding elimination of the fire protection charge.

Please let me know if I may be of additional assistance.
John

John Johnson, Area Director
Rural Development
U.S. Department of Agriculture
90 Howard Drive, Ste. 3 | Shelbyville, KY 40065
Phone: 502.633.3294, Ext. 4 | Fax: 502.633.0552
www.rurdev.usda.gov

"Committed to the future of rural communities"
"Estamos dedicados al futuro de las comunidades rurales"

From: Donald Prather [mailto:dprather@iglou.com]
Sent: Thursday, October 20, 2011 3:32 PM
To: johnson, john - RD, Shelbyville, KY
Cc: 'Jerry Ruble'; 'Pete Hedges'
Subject: North Shelby Water Company

John, as we discussed just now, PSC is requesting a copy of all correspondence between North Shelby and Rural Development regarding elimination of the fire protection charge. If you would check your file and forward same to me I would greatly appreciate it. I already have a copy of your July 20th. letter to North Shelby's chairman Ruble so I don't need it. I honestly doubt there is anything else because it is my understanding the request to delete it was presented verbally to you by Pete Hedges and Jerry Ruble.

I apologize for the rush but I must mail my response to PSC on Monday so if you could in any way respond to this letter before the end of tomorrow I would greatly appreciate it.

Thanks, Don Prather

johnson, john - Shelbyville, KY

From: johnson, john - Shelbyville, KY
Sent: Monday, July 18, 2011 4:05 PM
To: johnson, john - Shelbyville, KY; petehedges@bellsouth.net; Tara Peyton (tarapeyton@bellsouth.net); DennisB.Kirtley@ky.gov
Cc: Brown, Vernon - Lexington, KY
Subject: RE: Ky PSC - North Shelby Water Company

David,
I received a faxed copy of printout from the water company documenting billings totaling \$2,160 for the past year for the fire protection tariff.

Rural Development concurs with your request to amend the conditions by removing the fire protection tariff.

Please let us know if we may be of additional assistance!

John

John Johnson, Area Director
Rural Development
U.S. Department of Agriculture
90 Howard Drive, Ste. 3 | Shelbyville, KY 40065
Phone: 502.633.3294, Ext. 4 | Fax: 502.633.0552
www.rurdev.usda.gov

"Committed to the future of rural communities"
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From: johnson, john - Shelbyville, KY
Sent: Friday, July 15, 2011 2:18 PM
To: 'petehedges@bellsouth.net'; Tara Peyton (tarapeyton@bellsouth.net); 'DennisB.Kirtley@ky.gov'
Cc: 'DennisB.Kirtley@ky.gov'; Brown, Vernon - Lexington, KY
Subject: FW: Ky PSC - North Shelby Water Company

To: David Hedges, Manager, North Shelby (502)220-0169

David,
Please provide information to document income received by the water company during the previous fiscal year from the fire protection tariff. There should be no problem in concurring with your request.

Thanks!

John

John Johnson, Area Director
Rural Development
U.S. Department of Agriculture
90 Howard Drive, Ste. 3 | Shelbyville, KY 40065
Phone: 502.633.3294, Ext. 4 | Fax: 502.633.0552
www.rurdev.usda.gov

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From: Kirtley, Brent (PSC) [mailto:DennisB.Kirtley@ky.gov]
Sent: Wednesday, July 13, 2011 5:22 PM
To: johnson, john - Shelbyville, KY
Subject: Ky PSC - North Shelby Water Company

Mr. Johnson:

I was going to give you a call and go over this but I thought it might be better if you had had something in front of you explaining the situation.

Back in 1999 a letter of conditions was issued setting rates for North Shelby Water Company. The rate section included a clause requiring a fire protection rate "of .00754 per square foot of sprinklered space" to be collected from customers receiving that benefit.

A few weeks ago, North Shelby contacted me requesting the remove that charge from their tariff. Initially I thought that would be a simple procedure but when it went through review I found that aforementioned rate in the letter of conditions. It is my understanding that the utility cannot deviate from the letter of conditions and we cannot remove this charge without permission from RD since it was filed under the KRS 278.023 statute. The entire letter of conditions has been included as an attachment and the specific language causing the concern has been listed below.

23. Rates and Charges

Rates and charges for facilities and services rendered by the Association must be at least adequate to meet cost of maintaining, repairing, and operating the water system and meeting required principal and interest payments and the required deposits to debt service and or depreciation reserve.

Water rates will be at least:

| | | | | | |
|-------|--------|---------|---|---------|-------------------|
| First | 2,000 | gallons | @ | \$11.14 | Minimum Bill |
| Next | 3,000 | gallons | @ | 4.45 | Per 1,000 gallons |
| Next | 5,000 | gallons | @ | 3.33 | Per 1,000 gallons |
| Next | 40,000 | gallons | @ | 2.77 | Per 1,000 gallons |
| Over | 50,000 | gallons | @ | 2.21 | Per 1,000 gallons |

In addition to the above rates, a fire protection tariff of .00754 per square foot of sprinklered space shall be assessed the customer receiving the benefits of this service.

Please let us know if RD is okay with amending the condition and allowing North Shelby to discontinue collecting this charge. The PSC would be fine with removing the charge or keeping the charge, whichever RD would prefer.

If you have any questions, please email us or give us a call at 502-564-3940 and ask for me or Daniel.

Thank you in advance for your assistance with this matter.

Brent

Brent Kirtley
Tariff Branch Manager
Public Service Commission
502-564-3940
PSC.tariffs@kv.gov

10,070
Attn. John Johnson

BILLINGS BY SERVICE/RATE

| MON/YR | SERVICE | RATE | ACCOUNTS | CHARGES | USAGE | |
|---------|-------------|-------|----------|-----------|--------|-----------------|
| 01/2010 | SALES | I | 2 | 9.50 | 0 | |
| | 2010 SALES | I | 2 | 9.50 | 0 | TOTAL BY PERIOD |
| | SALES | I | 2 | 9.50 | 0 | TOTAL BY RATE |
| 01/2010 | SALES | SLI | 14 | 47.59 | 0 | |
| | 2010 SALES | SLI | 14 | 47.59 | 0 | TOTAL BY PERIOD |
| | SALES | SLI | 14 | 47.59 | 0 | TOTAL BY RATE |
| | SALES | *ALL* | 16 | 57.39 | 0 | SERVICE TOTAL |
| 01/2010 | SCHOOL | SCI | 4797 | 4435.05 | 0 | |
| | 2010 SCHOOL | SCI | 4797 | 4435.05 | 0 | TOTAL BY PERIOD |
| | SCHOOL | SCI | 4797 | 4435.05 | 0 | TOTAL BY RATE |
| | SCHOOL | *ALL* | 4797 | 4435.05 | 0 | SERVICE TOTAL |
| 01/2010 | [REDACTED] | | | | | |
| | [REDACTED] | | | | | TOTAL BY PERIOD |
| | [REDACTED] | | | | | TOTAL BY RATE |
| | [REDACTED] | | | | | SERVICE TOTAL |
| 01/2010 | WATER | WAI | 3704 | 106030.77 | 200547 | |
| | 2010 WATER | WAI | 3704 | 106030.77 | 200547 | TOTAL BY PERIOD |
| | WATER | WAI | 3704 | 106030.77 | 200547 | TOTAL BY RATE |
| 01/2010 | WATER | WBI | 38 | 2333.13 | 5477 | |
| | 2010 WATER | WBI | 38 | 2333.13 | 5477 | TOTAL BY PERIOD |
| | WATER | WBI | 38 | 2333.13 | 5477 | TOTAL BY RATE |
| 01/2010 | WATER | WCI | 9 | 716.00 | 1690 | |
| | 2010 WATER | WCI | 9 | 716.00 | 1690 | TOTAL BY PERIOD |
| | WATER | WCI | 9 | 716.00 | 1690 | TOTAL BY RATE |
| 01/2010 | WATER | WDI | 5 | 1098.20 | 2893 | |

\$ 2160.00
for a year

\$ 180.00
per month



**United States Department of Agriculture
Rural Development
Shelbyville Area Office**

July 20, 2011

North Shelby Water Company
Attn: Jerry Ruble, Chairman
4596 Bagdad Road
Bagdad, KY 40003

Re: Concurrence to Remove Fire Protection Tariff

Dear Chairman Ruble:

Rural Development considered your request to remove the fire protection tariff. The water company provided information to document minimal loss of revenue to the water company by the removal of the tariff.

Rural Development concurs with your request to remove the fire protection tariff, as listed in the letter of conditions dated November 5, 1999, Item 23, and listed below.

“In addition to the above rates, a fire protection tariff of .0075 per square foot of sprinklered space shall be assessed the customer receiving the benefits of this service.”

Please contact me if I may be of further assistance.

Sincerely,

John Johnson
Area Director

CC: Thomas G. Fern, State Director
Donald Prather, Local Counsel ✓
Brent Kirtley, PSC

90 Howard Drive • Suite 3 • Shelbyville, KY 40065
Phone: (502) 633-3294 XT 4 • Fax: (502) 633-0552 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

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



United States
Department of
Agriculture

Rural
Development

771 Corporate Drive, Suite 200
Lexington, KY 40503-5477
(606) 224-7336 TTY(606) 224-7422

November 5, 1999

Mr. Duncan LeCompte
President, North Shelby Water Company, Inc.
P.O. Box 97
Bagdad, Kentucky 40003

Dear Mr. LeCompte:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan and/or grant will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA, Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA, Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan and/or grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$568,000, a RUS grant not to exceed \$443,500, a cash contribution from the Shelby County Fiscal Court in the amount of \$5,000, and a cash contribution from the applicant in the amount of \$104,300.

If Rural Development makes the loan, you may make a written request that the interest rate be the lower of the rate in effect at the time of loan approval or the time of loan closing. If you do not request the lower of the two interest rates, the interest rate charged will be the rate in effect at the time of loan approval. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you. If you want the lower of the two rates, your written request should be submitted to Rural Development as soon as practical. In order to avoid possible delays in loan closing, such a request should ordinarily be submitted at least 30 days before loan closing.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 240 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

North Shelby Water Company, Inc.

In signing Form RD 1942-46, you are agreeing to complete the following as expeditiously as possible:

1. Number of Users and Their Contribution:

There shall be 3,256 water users, of which 3,254 are existing users and 2 are new users. The Rural Development Manager will review and authenticate the number of prior to advertising for construction bids.

1a. Grant Agreement:

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

1b. Drug-Free Work Place:

Prior to grant approval, the Association will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

2. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the Promissory Note. Principal payment will not be deferred for a period in excess of two (2) years from the date of the Promissory Note. The Association will be required to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the Promissory Note is held or insured by RUS.

Rural Development encourages the use of the Preauthorized Debit (PAD) payment process, which authorizes the electronic withdrawal of funds from your bank account on the exact installment payment due date (contact the Rural Development Manager for further information).

3. Funded Depreciation Reserve Account:

The Association will be required to deposit \$260.00 per month into a "Funded Depreciation Reserve Account". The per month deposits are for the life of the loan.

The required deposits to the Reserve Account are in addition to the requirements of the Association's prior note resolutions.

The monthly deposits to the Reserve Account are required to commence the first full fiscal year after the facility becomes operational.

4. Security Requirements:

The loan will be secured by a real estate mortgage, a financing statement, and pledge of gross revenue, in the Loan Resolution and Financing Statement.

5. Land Rights and Real Property:

The Association will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

6. Organization:

The Association will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

7. Business Operations:

The Association will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the Association after review by Rural Development. At no later than loan pre-closing, the Association will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, bookkeeping, making and delivering required reports and audits.

8. Accounts, Records and Audits:

The Association will be required to maintain adequate records and accounts and submit statistical and financial reports in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed. Annual audits, budgets, and reports will be submitted to Rural Development showing separate accounts, if applicable.

9. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The Association will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The Association will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

10. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the Association. The Association should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Association will carry worker's compensation insurance for employees in accordance with applicable state laws.

North Shelby Water Company, Inc.

- C. Fidelity Bond - The Association will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$169,000.
- D. Real Property Insurance - The Association will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the Association from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The Association will obtain and maintain adequate coverage on any facilities located in special flood and mudslide prone areas.

11. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph "20" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 210 days from this date, and prepare bid documents. The Rural Development Manager is prepared to furnish the necessary guide for him to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.
- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
 - 1. Final plans, specifications and bid documents.
 - 2. Applicant's letter on efforts to encourage small business and minority - owned business participation.
 - 3. Legal Service Agreements.
 - 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

12. Compliance with Section 504 of the Rehabilitation Act of 1973:

The Association will be required to comply with Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), in order to make sure no handicapped individual, solely by reason of their handicap, is excluded from participation in the use of the water system, be denied the benefits of the water system, or be subjected to discrimination.

North Shelby Water Company, Inc.

13. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the Association.

14. Compliance with Special Laws and Regulations:

The Association will be required to conform with any and all state and local laws and regulations affecting this type project.

15. System Operator:

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

16. Prior to Pre-Closing the Loan, the Association will be Required to Adopt:

- A. Form RD 1942-8, "Resolution of Members or Stockholders."
- B. Form RUS 1780-28, "Loan Resolution Security Agreement."
- C. Form RD 400-1, "Equal Opportunity Agreement."
- D. Form RD 400-4, "Assurance Agreement."
- E. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- F. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."
- G. FmHA Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."

The Association must offer the opportunity for all residents in the service area to become users of the facilities regardless of race, creed, color, religion, sex, national origin, marital status, physical or mental handicap or level of income.

17. Refinancing and Graduation Requirements:

The Association is reminded that if at any time it shall appear to the Government that the Association is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the Association will apply for and accept such loan in sufficient amount to repay the Government.

North Shelby Water Company, Inc.

18. Commercial Interim Financing:

The Association will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the Association will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

19. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Association prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA-Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

During construction, the Association shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the Association, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the Association.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing _____," will be prepared by the Association and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Monthly audits of the Association's construction account records shall be made by Rural Development.

20. Cost of Facility:

Breakdown of Costs:

| | |
|--------------------------|---------------|
| Development | \$ 920,000 |
| Land and Rights | 4,000 |
| Legal and Administrative | 6,800 |
| Engineering | 126,700 |
| Interest | 13,000 |
| Contingencies | <u>50,300</u> |
| TOTAL | \$ 1,120,800 |

North Shelby Water Company, Inc.

Financing:

| | |
|---|--------------|
| RUS Loan | \$ 568,000 |
| RUS Grant | 443,500 |
| Shelby County Fiscal Court Contribution | 5,000 |
| Applicant Contribution | 104,300 |
| TOTAL | \$ 1,120,800 |

21. Debt Collection Improvement Act (DCIA) of 1996:

The Debt Collection Improvement Act (DCIA) of 1996 requires that all federal payments after January 1, 1999, must be made by Electronic Funds Transfer/Automated Clearing House (EFT/ACH). Borrowers receiving payments by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment. The borrower should complete Form SF-3881, Electronic Funds Transfer Payment Enrollment Form, for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds.

22. Use of Remaining Project Funds:

The applicant contribution and Shelby County Fiscal Court funds shall be considered as the first funds expended. After providing for all authorized costs, any remaining project funds will be considered to be RUS grant funds and refunded to RUS. If the amount of unused grant funds exceeds the grants, that part would be RUS loan funds.

23. Rates and Charges:

Rates and charges for facilities and services rendered by the Association must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

| | | | |
|----------|--------|--------------|---------------------------|
| First | 2,000 | gallons @ \$ | 11.14 - Minimum Bill. |
| Next | 3,000 | gallons @ \$ | 4.45 - per 1,000 gallons. |
| Next | 5,000 | gallons @ \$ | 3.33 - per 1,000 gallons. |
| Next | 40,000 | gallons @ \$ | 2.77 - per 1,000 gallons. |
| All Over | 50,000 | gallons @ \$ | 2.21 - per 1,000 gallons. |

In addition to the above rates, a fire protection tariff of .0075¢ per square foot of sprinklered space shall be assessed the customer receiving the benefits of this service.

North Shelby Water Company, Inc.

24. Water Purchase Contracts:

The Association will submit Water Purchase Contracts for approval by Rural Development before advertising for construction bids. If the contracts are not on Form RD 442-30, "Water Purchase Contract," the contract will require approval by our Regional Attorney. The contract must meet the requirements of subsection 1780.62 of RUS Instruction 1780.

25. Commitment of Shelby County Fiscal Court Contribution and Applicant Contribution:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the Shelby County fiscal Court contribution in the amount of \$5,000 and for the applicant contribution in the amount of \$104,300.

26. Final Approval Conditions:

Final approval of this loan will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

If you desire to proceed with your application, the Rural Development Manager will allot a reasonable portion of his time to provide guidance in application processing.

Sincerely,

Christie B. Brewer

for THOMAS G. FERN
State Director
Rural Development

Enclosures

cc: Rural Development Manager - Shelbyville, Kentucky
Community Development Manager - New Castle, Kentucky
KIPDA - Louisville, Kentucky
Donald Prather - Shelbyville, Kentucky
Warner A Broughman, III - Lexington, Kentucky
PSC - ATTN: James Rice - Frankfort, Kentucky

4. Identify all customers to whom North Shelby is currently charging the fire protection fee.

Response 4

The Shelby County School Board, for service at East Middle School and Painted Stone Elementary School.



5. a. Describe the North Shelby facilities to which each of the customers identified in the response to Item 4 are connected.

Response 5a

Both schools are connected to North Shelby's 12 inch water main running along Warrior Way to North Shelby's 1,000,000 gallon elevated storage tank located behind Painted Stone Elementary School.

5. b. Provide a copy of all water service agreements between North Shelby and the customers identified in the response to Item 4.

Response 5b

None can be located.



6. State whether the water flowing from North Shelby's distribution system into the sprinkler systems of the customers identified in the response to Item 4 is metered. If not, explain how North Shelby would determine water usage for the sprinkler system if a fire event occurred.

Response

The water which would flow from North Shelby's distribution system into the sprinkler system into the schools' is not metered. In the event of a fire, North Shelby would estimate the amount of water used by multiplying the duration of time the sprinklers operate by the number of sprinklers operating and the number of gallons per minute emitted by each sprinkler head at the estimated water pressure existing at the time the sprinklers operated.

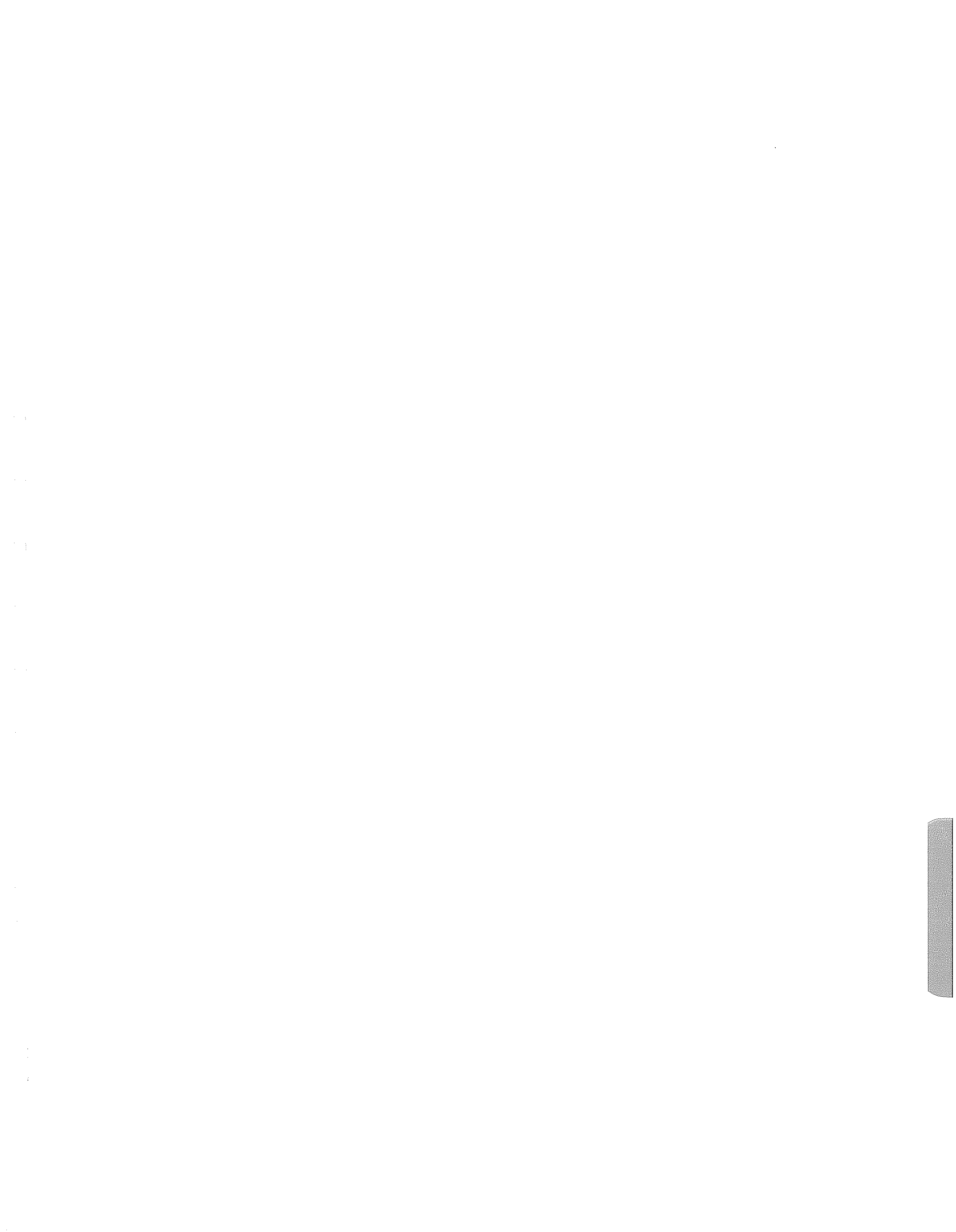


7. Assume the Commission approves the proposed withdrawal of the fire protection fee and a fire event occurs. State whether the customers formerly subject to the fire protection fee would be responsible for the cost of any water used to extinguish the fire. Explain.

Response 7

While the Board of Directors has not rendered a decision either way on the issue, it is unlikely the Shelby County School Board would be billed for the cost of water use used to extinguish a fire. The School Board is a public governmental entity, just like fire departments which are either city-owned or special district subdivisions of county government. North Shelby does not charge fire departments for their use of reasonable amounts of water in training and fire fighting purposes as long as they comply with North Shelby's reporting requirement. It would not be fair to charge the School Board for such water if fire departments are not being charged for water used for an identical purpose, namely to suppress fires.

In addition, North Shelby's one million gallon elevated storage tank is located behind Painted Stone Elementary School. The base of the tank, including the overflow outlet and perimeter fence, are not visible from the road. It is essential to maintain good relations with school officials to encourage vigilant observation and prompt reporting to North Shelby of any problems at the tank.



8. State whether North Shelby has notified each of the customers identified in the response to Item 4 of its intent to withdraw the fire protection fee. For each customer, state how North Shelby notified the customer.

Response 8

No. North Shelby was contacted in the past by representatives of the Board of Education complaining about the charge by stating they thought it was unfair and excessive, and requesting that it be eliminated. North Shelby is not aware of any recent communications between school board representatives and North Shelby.



9. State whether North Shelby has received any response from any of the customers identified in the response to Item 4 regarding its proposal to withdraw the fire protection fee. If yes, identify each customer responding and summarize its response. Provide a copy of any written response(s).

Response 9

No.


The undersigned, **David Hedges**, Manager of North Shelby Water Company, being duly sworn, states that the responses herein are true and accurate to the best of my knowledge and belief formed after reasonable inquiry.

Dated: October 25, 2011.

NORTH SHELBY WATER COMPANY

By: 
David Hedges, Manager

The foregoing was subscribed, sworn to and acknowledged before me by David Hedges, Manager, on behalf of North Shelby Water Company, this 25 day of October, 2011.


Notary Public, State at Large
My Comm. Expires: 2/1/12
I.D. #: 434455

CERTIFICATE OF SERVICE

I, the undersigned attorney, do hereby certify that the foregoing responses were mailed to the following on October 25, 2011:

Original and 8 Copies

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601


Donald T. Prather

