LAW OFFICES

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RECEIVED
JUN 14 2004
GENERAL COUNSEL
PSC

June 11, 2004

RECEIVED
JUN 14 2004
PUBLIC SERVICE
COMMISSION

Mr. James R. Goff
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

Re: PSC Cases No. 2003-00364 & 2004-00202
Adair County Water District

Mr. Goff:

Attached please find a response to your inquirer prepared by David M. Bowles, P.E. of Monarch Engineering Inc., Engineers for the Adair County Water District.

Under separate cover by regular mail I am forwarding to you a copy of the Agreed Order (Case No. DOW 04024) of the Environmental and Public Protection Cabinet of the Commonwealth.

Please do not hesitate to contact me if you have any further questions or require any additional information.

Sincerely yours,

Henry M. Reed SFB

HENRY M. REED III

cc: Mr. David Bowles
Monarch Engineering Inc.
556 Carlton Drive
Lawrenceburg, Kentucky 40342-9788

June 11, 2004

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PUBLIC SERVICE
COMMISSION

Mr. James R. Goff
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

Re: Case No. 2004-00202
Adair County Water District

Dear Mr. Goff:

In response to your correspondence dated June 10, 2004, regarding the above referenced case, we offer the following. We concur that the cost of Phase I will be $1,426,000.00. The budget for Phase II has been increased from $1,457,000.00 to $1,870,000.00 due to the receipt of a grant by the Water District in the amount of $413,000.00. This grant is from the Commonwealth of Kentucky through last year's Kentucky Infrastructure Authority's Tobacco Settlement Program, and the funds are allocated to be spent to develop the water system in the areas of the Phase II project. In order to include it with the budget that includes Rural Development funds, that agency issued a revised "Letter of Conditions" recognizing the grant and the new total project budget.

We also concur with your statement that the funds remaining from the Phase I project, plus the already approved funds to complete the Phase II project are sufficient, but due to the conditions of the Tobacco Settlement Grant which stipulate where the funds are to be spent has resulted in the revised budget. The District recognizes the amount of funds that are budgeted in contingency in the Phase II budget, and these funds are targeted toward water system improvements that are required as a result of the recent Agreed Order imposed upon the Water District which limits the number of new customers that can be connected to the system. This Order was issued to the District due to the inability of the wholesale suppliers to either treat or transport to the District the volume of water needed for the District to operate.

Finally, in accordance with Condition No. 7 of the Order that was issued to the District for Phase I, which stated "Adair District shall make application with the Commission for a Certificate of Public Convenience and Necessity when approval is necessary for Phase II of the project."

We trust that this information is sufficient in addressing your concerns and should you need additional information, please advise.

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COMMONWEALTH OF KENTUCKY

ENVIRONMENTAL AND PUBLIC PROTECTION CABINET

DEPARTMENT FOR ENVIRONMENTAL PROTECTION

IN THE MATTER OF:

Adair County Water District
109 Grant Lane
Columbia, KY 42728

AGREED ORDER

Case No. DOW 04024

* * * * * * * * * * *

WHEREAS, the parties to this Agreed Order, the Environmental and Public Protection Cabinet (hereinafter the Cabinet) and Adair County Water District (hereinafter the System), state:

1. The Cabinet is charged with the statutory duty of enforcing KRS Chapter 224 and the regulations promulgated pursuant thereto.

2. The System operates a community public water system (PWSID No. 0010702), as that term is defined in 401 KAR 8:010 (92), and which is located in Adair County, Kentucky.

3. The System purchases drinking water from Jamestown Municipal Water Works (PWSID No. 1040210). On November 20, 2002, the Cabinet's Division of Water imposed a water line extension ban on Jamestown Municipal Water Works, based on its drinking water production levels being at approximately 90 percent of plant design capacity and in accordance with 401 KAR 8:100 Section 1 (10).

4. The System purchases drinking water from Russell Springs Water/Sewer (PWSID No. 1040377). Russell Springs Water/Sewer purchases drinking water from Jamestown Municipal Water Works.

5. On December 17, 2003, representatives of the Cabinet and the System met to discuss the current water line extension ban on Jamestown Municipal Water Works and ways to avoid further line extension and tap on bans that will affect the System. Also present at this meeting were representatives of Jamestown Municipal Water Works and Russell Springs Water/Sewer. At the meeting, an agreement was reached between the Cabinet and the System. The intent of this agreement is to allow the System to manage its municipal water supply through the use of a Cabinet approved water budget.

6. This Agreed Order sets forth the agreement reached between the Cabinet and the System at the meeting described in Paragraph 5, above.

NOW THEREFORE, in the interest of settling all civil claims and controversies involving the sanctions described above, the parties hereby consent to the entry of this Agreed Order and agree as follows:

REMEDIAL MEASURES

7. The System shall submit two water budgets to the Cabinet. One water budget shall address the area of the System served by Jamestown Municipal Water Works and one water budget shall address the area of the System served by Russell Springs Water/Sewer. These water budgets shall be approved by the Cabinet and then implemented by the System. Requirements for the water budgets are as follows:

a. The budget shall be for projected growth, and is in addition to service provided to current customers.

b. Allocations of drinking water shall be listed in the water budget and shall include allotted amounts, in gallons per day (gpd), as defined by a priority listing. Total allocations shall be subtracted from the water budget. The remaining balance of the water budget may be applied to regular growth in the System's service area, using the equation:

Number of taps * 75 gallons per tap * 3.3 people per tap = tap demand.

c. The priority listing shall include all projects and reserved sales to other public drinking water systems.

d. Tap demand shall only include new water taps that will utilize under 1,000 gpd (hereinafter "small taps"). All new water taps that will utilize more than 1,000 gpd (hereinafter "large taps") shall be submitted to the Cabinet and reviewed according to 401 KAR Chapter 8.

e. Tap demand shall be tracked on the System's Monthly Operating Reports (MORs). Tracking of tap demand shall continue until this Agreed Order is terminated.

f. Any project not listed on the priority listing shall not be approved by the Cabinet, and will be considered a violation of this Agreed Order.

g. New regular growth that exceeds the balance of the water budget shall not be approved and shall be considered a violation of this Agreed Order.

h. The System, through a review and approval by the Cabinet, may request amendments to one or both of the water budgets on a semi-annual basis, in June or January. Amendments may be requested for new projects not appearing on a water budget's priority listing, for large taps, or for infrastructure improvements.

The Cabinet acknowledges that the System has submitted water budgets and those water budgets have been accepted as a result of the meeting described in paragraph 5 of this order, and are as follows:

Initial Budget (for area served by Jamestown Municipal Water Works)			*7,500*	*gpd*
Priority Listing				
Melson Ridge	*1,500*	*gpd*		
Total Allocations	*1,500*	*gpd*		
Balance			*6,000*	*gpd*
Initial Budget (for area served by Russell Springs Water/Sewer)			*27,500*	*gpd*
Priority Listing				
Phase 5, Line Extension Project	*7,000*	*gpd*		
Total Allocations	*7,000*	*gpd*		
Balance			*20,500*	*gpd*

MISCELLANEOUS PROVISIONS

8. This Agreed Order addresses only those sanctions specifically described above. Nothing contained herein shall be construed to waive or to limit any remedy or cause of action by the Cabinet based on statutes or regulations under its jurisdiction, and the System reserves its defenses thereto. The Cabinet expressly reserves its right at any time to issue administrative orders and to take any other action it deems necessary, including the right to order all necessary remedial measures, assess penalties for violations, or recover all response costs incurred, and the System reserves its defenses thereto.

9. This Agreed Order shall not prevent the Cabinet from issuing, reissuing, renewing, modifying, revoking, suspending, denying, terminating, or reopening any permit or approval to the System. The System reserves its defenses thereto, except that the System shall not use this Agreed Order as a defense.

10. The System waives its right to any hearing on the matters admitted herein. However, failure by the System to comply strictly with the terms of this Agreed Order shall be grounds for the Cabinet to seek enforcement of this Agreed Order in Franklin Circuit Court and to pursue any other appropriate administrative or judicial action under KRS Chapter 224 and the regulations promulgated pursuant thereto.

11. Each separate provision, condition or duty contained in this Agreed Order may be the basis for an enforcement action for a separate violation and penalty pursuant to KRS Chapter 224

upon failure to comply with the terms of this Agreed Order.

12. This Agreed Order may not be amended except by a written order of the Cabinet's Secretary or the Secretary's designee. The System may request an amendment by writing the Director of the Division of Water at 14 Reilly Road, Frankfort, Kentucky 40601 and stating the reasons for the request. If such request is granted, the amended Agreed Order shall not affect any provision of this Agreed Order unless expressly provided in the amended Agreed Order.

13. The Cabinet does not, by its consent to the entry of this Agreed Order, warrant or aver in any manner that the System's complete compliance with this Agreed Order will result in compliance with the provisions of KRS Chapter 224, and the regulations promulgated pursuant thereto. Notwithstanding the Cabinet's review and approval of any plans formulated pursuant to this Agreed Order, the System shall remain responsible for compliance with the terms of KRS Chapter 224 and the regulations promulgated pursuant thereto, this Agreed Order and any permit requirements.

14. The provisions of this Agreed Order shall apply to and be binding upon the System. The acts or omissions of the System's officers, directors, agents, and employees shall not excuse the performance of any provision of this Agreed Order. The Cabinet reserves the right to seek enforcement of this Agreed Order against the successors and assigns of the System, and the System reserves its defenses thereto. The System shall give notice of this Agreed Order to any purchaser, lessee or successor in interest prior to the transfer of ownership and/or operation of any of its now-existing facilities occurring prior to termination of this Agreed Order, shall notify the Cabinet that such notice has been given, and shall follow all statutory and regulatory requirements for a transfer. Whether or not a transfer takes place, the System shall remain fully responsible for payment of all civil penalties and for performance of all remedial measures identified in this Agreed Order.

15. The Cabinet agrees to allow the performance of the above-listed remedial measures by the System to satisfy the System's obligations to the Cabinet generated by the sanctions described above.

16. This Agreed Order shall be of no force and effect unless and until it is entered by the Secretary or the Secretary's designee as evidenced by the Secretary's signature thereon. If this Agreed Order contains any date by which the System is to take any action, and the Secretary enters the Agreed Order after that date, then the System is nonetheless obligated to have taken the action by the date contained in this Agreed Order.

TERMINATION

17. Both parties of this Agreed Order understand and agree that the Agreed Order will remain in affect until such time that the plant capacity expansion project for Jamestown Municipal Water Works is completed and the System can procure an amount of water from Jamestown Municipal Water Works and Russell Springs Water/Sewer that is required to supply the areas of the System utilizing these sources. The System may submit written notice to the Cabinet when it believes all

requirements of this Agreed Order have been performed. The System may also submit written notice to the Cabinet should it procure other sources of water that would sufficiently supply the areas of the System currently supplied by water purchased from Jamestown Municipal Water Works and Russell Springs Water/Sewer. The Cabinet will notify the System in writing of whether it intends to agree with or object to termination. The Cabinet reserves its right to enforce this Agreed Order, and the System reserves its right to file/seek a hearing pursuant to KRS 224.10-420(2) contesting the Cabinet's determination.

AGREED TO BY:

Authorized Agent for
Adair County Water District

4/8/04
DATE

APPROVAL RECOMMENDED BY:

Jeffrey W. Prater, Director
Division of Water

4/22/04
DATE

Attorney for the Cabinet
Office of Legal Services

4-27-04
DATE

William P. Emrick, Executive Director
Office of Legal Services

4/28/04
DATE

Case No. DOW 04024

ORDER

WHEREAS, the foregoing Agreed Order is entered as the final Order of the Environmental and Public Protection Cabinet this 27th day of May, 2004.

LaJuana S. Wilcher

LAJUANA S. WILCHER, SECRETARY
ENVIRONMENTAL AND PUBLIC
PROTECTION CABINET

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing AGREED ORDER was mailed, postage prepaid, to the following this 27th day of May, 2004.

Adair County Water District
109 Grant Lane
Columbia, KY 42728

DOCKET COORDINATOR

DISTRIBUTION:

Division of Water
Order File
Attorney, Office of Legal Services
LTS
Gom