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November 8, 2004

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PUBLIC SERVICE
COMMISSION

Ms. Beth O'Donnell, Executive Director
ATTN: Brenda Talley
Public Service Commission
PO Box 615
Frankfort, Kentucky 40602

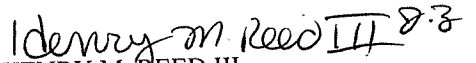
**In re: \$1,238,000 Adair County (Kentucky) Water District Water Revenue Bonds,
Series of 2004-PSC Case Number 2004-00202**

Ms. O'Donnell:

Pursuant to your request of November 4, 2004 to the Adair County Water District enclosed please find a copy of the Order entered by the Public Service Commission of Kentucky in Case Number 2004-00202 on June 28, 2004, including the Schedule of Rates and Charges approved by said Order.

If I can supply any additional information please do not hesitate to call me.

Sincerely yours,


HENRY M. REED III

HMR:jmz
Enclosures

cc: Jennifer Carter
Adair County Water District
109 Grant Lane
PO Box 567
Columbia, Kentucky 42728

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE ADAIR COUNTY)
WATER DISTRICT FOR (1) A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY)
AUTHORIZING AND PERMITTING)
CONSTRUCTION OF WATER DISTRIBUTION)
SYSTEM IMPROVEMENTS, CONSISTING OF) CASE NO. 2004-00202
THE CONSTRUCTION OF EXTENSIONS,)
ADDITIONS AND IMPROVEMENTS TO THE)
DISTRICT'S WATER SYSTEM AND (2) THE)
APPROVAL OF THE PROPOSED PLAN OF)
FINANCING SAID IMPROVEMENTS)

ORDER

On May 27, 2004, Adair County Water District ("Adair District") applied to the Commission for a Certificate of Public Convenience and Necessity to construct the second phase of a \$3,296,000 waterworks improvement project, a rate adjustment, and approval of its proposed plan of financing. In Case No. 2003-00364,¹ this Commission issued a Certificate of Public Convenience and Necessity for the construction of the first phase of the proposed waterworks improvement project and for the water district's proposed plan of financing. Adair District now proposes revisions to the original plan of financing.

¹ Case No. 2003-00364, The Application of the Adair County Water District For (1) A Certificate of Public Convenience and Necessity Authorizing and Permitting Construction of Water Distribution System Improvements, Consisting of the Construction of Extensions, Additions and Improvements to the District's Water System and (2) The Approval of the Proposed Plan of Financing Said Improvements (Ky. PSC Nov. 10, 2003).

The second phase of the improvement project consists of the installation of approximately 22.5 miles of 8-inch through 3-inch water transmission mains and related appurtenances to provide service to approximately 113 new customers. Estimated total funds budgeted for completion of this project are approximately \$1.87 million. Adair District intends to enter into a contract with United Pipeline, Inc. to construct the proposed second phase improvements at a cost of \$844,385, and Adair District has budgeted \$1,025,615 for legal, engineering and other fees and contingencies.

Adair District proposes to fund both phases of the improvement project with the issuance of \$1,238,000 in water district revenue bonds to Rural Development² ("RD"), a \$900,000 grant from RD, a \$745,000 State of Kentucky 2020 Program grant, and a \$413,000 State of Kentucky Tobacco Settlement grant.³ Adair District further proposes to adjust its rates to ensure sufficient revenues to meet current operating and maintenance expenses, increase debt service costs, and meet expected increases in purchased water costs.

Adair District makes its application pursuant to KRS 278.023. This statute requires the Commission to accept agreements between water utilities and the U.S. Department of Agriculture or the U.S. Department of Housing and Urban Development and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements. Given that minimum

² Rural Development is an agency of the U.S. Department of Agriculture.

³ The current application contains several revisions to the original project budget and financing plan that the Commission approved in Case No. 2003-00364. Originally the total project cost was \$2,883,000. Adair District has revised the cost to \$3,296,000. Additional funding in the form of a \$413,000 grant from the Kentucky Tobacco Settlement Fund has been obtained. Adair District now proposes to adjust its rates.

filing requirements were met in the case on May 27, 2004, KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of this agreement.

IT IS THEREFORE ORDERED that:

1. Adair District is granted a Certificate of Public Convenience and Necessity for the second phase of the proposed waterworks improvement project as described in the Final Engineering Report appended to its application.
2. Adair District's proposed plan of financing, as amended in its current application, is approved.
3. Adair District is authorized to issue \$1,238,000 in revenue bonds to RD for the purposes set forth in its application in Case No. 2003-00364 and as amended in its application in this proceeding.
4. The proceeds from the revenue bond issuance shall be used only for the purposes specified in Adair District's application.
5. Notwithstanding Ordering Paragraph 4, if surplus funds remain after the approved construction has been completed, Adair District may use such surplus to construct additional plant facility if RD approves of the use and the additional construction will not result in a change in Adair District's rates for service. Adair District shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 3.
6. Adair District shall file a copy of the "as-built" drawings and a certified statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the substantial completion of the

construction for which a Certificate of Public Convenience and Necessity has been issued.

7. The rates set out in Appendix A are the rates approved for water service that Adair District renders on and after the date of this Order.

8. Within 30 days of the date of this Order, Adair District shall file with the Commission revised tariff sheets setting out the rates approved herein.

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

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

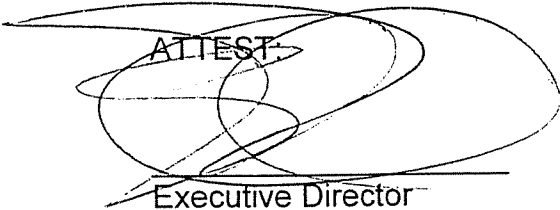
11. Three years from the effective date of this Order, Adair District shall file an income statement, along with any pro forma adjustments, in sufficient detail to demonstrate that the rates approved herein are sufficient to meet its operating expenses and annual debt service requirements.

12. Ordering Paragraph 11 of this Order supersedes Ordering Paragraph 6 of the Commission's Order of November 10, 2003 in Case No. 2003-00364.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

Done at Frankfort, Kentucky, this 28th day of June, 2004.

By the Commission



ATTEST
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2004-00202 DATED June 28, 2004.

The following rates and charges are prescribed for the customers in the area served by Adair County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

5/8" X 3/4" Inch Meter

First 2,000	\$13.85 Minimum Bill
Next 3,000	5.60 per 1,000 gallons
Next 5,000	4.85 per 1,000 gallons
Next 15,000	3.75 per 1,000 gallons
Over 25,000	3.00 per 1,000 gallons

1" Inch Meter (Residential & Non-Residential Out of Town):

First 5,000	\$30.65 Minimum Bill
Next 5,000	4.85 per 1,000 gallons
Next 15,000	3.75 per 1,000 gallons
Over 25,000	3.00 per 1,000 gallons

1 1/2" Inch Meter (Non-Residential Out-of-Town):

First 10,000	\$54.90 Minimum Bill
Next 15,000	3.75 per 1,000 gallons
Over 25,000	3.00 per 1,000 gallons

2" Inch Meter (Non-Residential Out-of-Town):

First 16,000	\$77.40 Minimum Bill
Next 9,000	3.75 per 1,000 gallons
Over 25,000	3.00 per 1,000 gallons