

Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

December 5, 2006

RECEIVED

DEC 6 2006

PUBLIC SERVICE
COMMISSION

Ms. Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Case No. 7006-00535

Re: Letcher County Water and Sewer District - Public Service Commission Application
Pursuant to KRS 278.023 - assumption of securities

Dear Ms. O'Donnell:

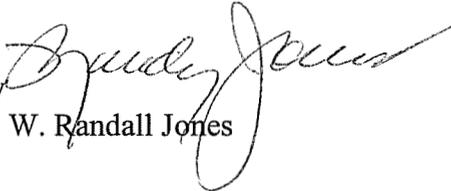
Enclosed please find the original and ten (10) copies of the Application of the Letcher County Water and Sewer District for an Order approving the assumption of certain outstanding securities of the City of Blackey pursuant to KRS 278.023.

If you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By


W. Randall Jones

WRJ:ilm
Enclosures
cc: Distribution List

DISTRIBUTION LIST

Account No. 611.0000

Re: Letcher County Water and Sewer District Assumption of City of Blackey Water System Revenue Bonds of 1997

Mr. Kenneth H. Slone
State Director
Rural Development
771 Corporate Drive, Suite 200
Lexington, Kentucky 40503-5477

Telephone: (859) 224-7336
Fax: (859) 224-7425

Mr. Barry Turner
Rural Development
95 South Laurel Road, Suite A
London, Kentucky 40744

Telephone: (606) 864-2172
Fax: (606) 878-7717

Mr. Jim Tolliver
Letcher County Water and Sewer District
P.O. Box 827
Whitesburg, Kentucky 41858

Telephone: (606) 633-2129

W. Randall Jones, Esq.
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202

Telephone: (502) 569-7525
Fax: (502) 569-7555

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
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PUBLIC SERVICE
COMMISSION

In the Matter of:

THE APPLICATION OF LETCHER COUNTY WATER)
AND SEWER DISTRICT FOR AUTHORIZATION TO) Case No. 2006-00535
ASSUME CERTAIN OUTSTANDING INDEBTEDNESS)
OF THE CITY OF BLACKKEY PURSUANT TO KRS 278.023)

APPLICATION

This Application of the Letcher County Water and Sewer District ("Applicant") of Letcher County, Kentucky, respectfully shows:

1. That Applicant is a water and sewer district of Letcher County, Kentucky, created and existing under and by virtue of Chapter 74 of the Kentucky Revised Statutes.
2. That the post office address of Applicant is:

Letcher County Water and Sewer District
c/o Mr. Don Proffitt, Chairman
P.O. Box 827
Whitesburg, Kentucky 41858
3. That Applicant, pursuant to the provisions of KRS 278.023 and 278.300, seeks an Order approving the assumption by the Applicant of certain outstanding indebtedness of the City of Blackey, Kentucky (the "City") relating to the City's water system.
4. That the Applicant is in the process of acquiring the water treatment and distribution system of the City, and as part of such acquisition, it is necessary for the Applicant to assume the outstanding City of Blackey Water Revenue Bonds, Series 1998, dated June 10, 1998, in the original principal amount of \$507,000 (the "Blackey Bonds"), which Blackey Bonds are currently held by the U.S. Department of Agriculture, acting through Rural Development ("RD").
5. That RD has issued its Letter of Conditions, dated November 2, 2006, outlining the conditions that Applicant must meet in order to obtain RD's approval of the assumption of the Blackey Bonds (a copy of said Letter of Conditions is attached hereto).
6. That Applicant files herewith the following Exhibits pursuant to 807 KAR 5:069 in support of this Application:

EXHIBIT A. Copy of RD Letter of Conditions.

Copy of RD Letter of Concurrence in Bid Award (not applicable).

Certified statement from the Chairman of Applicant (not applicable).

Engineering Reports (not applicable).

7. That Applicant will not revise its rates and charges in connection with the assumption of the Blackey Bonds.

8. That the foregoing constitutes the documents necessary to obtain the approval of the Kentucky Public Service Commission in accordance with Section 278.023 of the Kentucky Revised Statutes and in accordance with the Filing Requirements specified in 807 KAR 5:069.

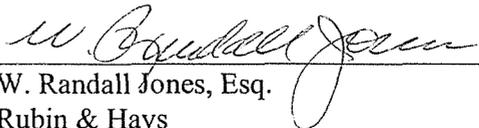
WHEREFORE, Applicant, the Letcher County Water and Sewer District, asks that the Public Service Commission of the Commonwealth of Kentucky grant to Applicant an Order authorizing the assumption by the Applicant of the Blackey Bonds.

Letcher County Water and Sewer District

By: _____


Chairman

Board of Water Commissioners


W. Randall Jones, Esq.

Rubin & Hays

Counsel for Applicant

Kentucky Home Trust Building

450 South Third Street

Louisville, Kentucky 40202

(502) 569-7525



United States Department of Agriculture
Rural Development
Kentucky State Office

November 2, 2006

Mr. Don Proffitt, Chairman
Letcher County Water and Sewer District
P.O. Box 827
Whitesburg, Kentucky 41858

Dear Mr. Proffitt:

This letter establishes conditions that must be understood and agreed to by you before further consideration may be given to the assumption, by the Letcher County Water and Sewer District (LCWSD), of the loan of the City of Blackey. Any changes in 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 assumption. It should also be understood that Rural Development is under no obligation to provide additional funds.

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 request to assume this loan.

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 120 days from the date hereof, Rural Development reserves the right to discontinue the processing of the assumption.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

1. Grant Agreement:

The LCWSD will be required to provide a written agreement to comply with the conditions of the prior grant agreement of the City of Blackey.

2. Drug-Free Work Place:

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

3. Repayment Period:

The outstanding loan of the City Blackey will be transferred to the LCWSD at the existing rates and terms.

771 Corporate Drive • Suite 200 • Lexington, KY 40503
Phone: (859) 224-7300 • Fax: (859) 224-7425 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

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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)

4. Reserve Accounts:

The requirements for funding of the Depreciation Reserve Accounts will be unchanged. If any Depreciation Reserve Accounts are under funded, they will be funded to the required amounts as soon as funds are available.

5. Security Requirements:

Security will remain the same as pledged on the original Bond Ordinance. The LCWSD will re-affirm the pledge of gross water revenue from the former Blackey Water System. USDA Rural Development will maintain a statutory lien on all revenue from this system.

6. Organization:

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

7. Business Operations:

The LCWSD 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 District after review by Rural Development. At no later than the date of the assumption, the District 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 LCWSD will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits) in accordance with subsection 1780.47 of RUS Instruction 1780 and RUS Staff Instruction 1780-4, a copy of which is enclosed.

The enclosed audit booklet will be used as a guide for preparation of audits. Annual audits and budgets will be submitted to Rural Development.

9. 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 LCWSD. The District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The LCWSD will carry worker's compensation insurance for employees in accordance with applicable state laws.

- C. Fidelity Bond - The LCWSD 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 \$73,000.
 - D. Real Property Insurance - The LCWSD 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 District 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 LCWSD will obtain and maintain adequate coverage on any facilities located in special flood and mudslide prone areas.
10. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d *et seq.*) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 *et seq.*) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Rural Development financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

11. Closing Instructions:

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

12. Compliance with Special Laws and Regulations:

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

13. Treatment Plant/System Operator:

The LCWSD is reminded that the treatment plant and/or system operator must have an Operator's Certificate issued by the State.

14. Refinancing and Graduation Requirements:

The LCWSD is reminded that if at any time it shall appear to the Government that the District 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 District will apply for and accept such loan in sufficient amount to repay the Government.

15. Assumption Agreement:

In this assumption, the LCWSD will execute form 1951-15, "Community Programs Assumption Agreement," for the following outstanding bond issue:

City of Blackey	Water Revenue Bond, Series 1998, Original amount of \$507,000 @ 4.50%
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16. Rates and Charges:

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

Water rates for all customers of both the existing City of Blackey system and the LCWSD system will be at least:

First 2,000 gallons @ \$ 22.00 - Minimum Bill.
All Over 2,000 gallons @ \$ 6.00 - per 1,000 gallons.

17. Prior to the Assumption, the LCWSD Will Be Required to Adopt:

- A. Form RD 400-4, "Assurance Agreement."
- B. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- C. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."

18. Compliance with the Bioterrorism Act:

Prior to closing the assumption, the LCWSD will provide a certification they have completed a Vulnerability Assessment (VA) and prepared an emergency response plan (ERP) as required by the Safe Drinking Water Act (SDWA).

19. PSC Approval:

The LCWSD will obtain PSC approval for the transfer of assets and assumption of indebtedness as outlined in the Asset Purchase Agreement.

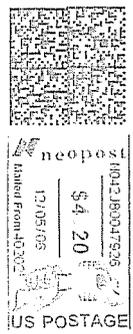
If you desire to proceed with the assumption, the Area Director will allot a reasonable portion of time to provide guidance in processing.

Sincerely,


for KENNETH SLONE
State Director

Enclosures

cc: Area Director – London, Kentucky
Rural Development Manager - Hazard, Kentucky
Kentucky River ADD - Hazard, Kentucky
Rubin and Hays – Louisville, Kentucky
Harold Bolling – Whitesburg, Kentucky
PSC - ATTN: Bob Amato - Frankfort, Kentucky



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PRIORITY SERVICE
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ATTORNEYS AT LAW
Rubin & Hays
Kentucky Home Trust Bldg., 450 South Third St., Louisville, KY 40202

To
Ms. Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

