

DEHNER &  
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ATTORNEYS AT LAW

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MOREHEAD, KY 40351

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August 24, 2007

Public Service Commission  
Commonwealth of Kentucky  
P.O. Box 615  
Frankfort, KY 40602

Case No. 2007-00385

RECEIVED

AUG 27 2007

PUBLIC SERVICE  
COMMISSION

RE: Application of Rowan Water, Inc.

To Whom It May Concern:

Enclosed please find the original and ten (10) copies of the Application of Rowan Water, Inc., for a Certificate of Public Convenience and Necessity to construct, finance and increase rates pursuant to KRS 278.023.

Also enclosed are eleven (11) copies of the exhibits required pursuant to 807 KAR 5.069, **with the exception of the Preliminary and Final Engineering Reports, of which two copies are enclosed.**

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

Very truly yours,

Truman L. Dehner  
Attorney for Rowan Water, Inc.

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

**RECEIVED**  
AUG 27 2007  
PUBLIC SERVICE  
COMMISSION

In the Matter of:

THE APPLICATION OF ROWAN WATER, INC., )  
OF ROWAN COUNTY, KENTUCKY, FOR A )  
CERTIFICATE OF PUBLIC CONVENIENCE ) CASE NO. 2007-00385  
AND NECESSITY TO CONSTRUCT, FINANCE, )  
AND INCREASE RATES PURSUANT TO KRS 278.023. )

APPLICATION

This Application of Rowan Water, Inc., ("Applicant") of Rowan County, Kentucky, respectfully shows:

1. That Applicant, Rowan Water, Inc., is a nonstock, nonprofit corporation, created and existing under Chapter 273 of the Kentucky Revised Statutes.

2. That Rowan Water, Inc., has constructed, operates and maintains a rural water distribution system in Rowan County, and in parts of Carter, Elliott, Fleming and Morgan County, Kentucky.

3. That the office and business address of the Applicant is:

Rowan Water, Inc.  
ATTN: MR. JERRY PATRICK, MANAGER  
110 South Hargis Avenue  
Morehead, Kentucky 40351

4. That Applicant, pursuant to the provisions of KRS 278.020 and 278.023, seeks (i) a Certificate of Public Convenience and Necessity, permitting Applicant to construct a waterworks project, consisting of extensions, additions, and improvements to the existing waterworks system of Applicant (the "Project"); (ii) an Order approving increased rates; and (iii) approval of the proposed plan of financing said Project.

5. The project consists of the following:

(a) Replacement of an existing booster pump station on Ky. Highway 32 North (old Hilda Road);

- (b) Demolition, removal and replacement of an existing 50,000 gallon water storage tank with a new 360,000 water storage tank on U.S. Highway 60;
- (c) Upgrade of the existing Rock Fork Road hydropneumatic booster pump station;
- (d) Construction of a hydropneumatic booster pump station on Ky. Highway 377;
- (e) Replacement of the water line on Jackson Drive; and
- (f) The extension of the water line on Ky. Highway 377 to the Lewis County line.

6. That Applicant proposes to finance the construction of the Project through (i) a United States Department of Agriculture, Rural Development (“RD”) Loan of \$600,000.00; (ii) an RD grant of \$325,000.00; and (iii) a 2006 Infrastructure for Economic Development Fund (“IEDF”) state grant of \$375,000.00, as set out in the RD letter of conditions dated February 20, 2007, filed herewith as “Exhibit A.”

7. That Applicant does not contemplate having the Project constructed with any deviation from minimum construction standards of this Public Service Commission.

8. That Applicant files herewith the following Exhibits pursuant to 807 KAR 5:069 in support of this Application:

- A. Copy of RD Letter of Conditions, as amended (“Exhibit A”);
- B. Copy of RD Letter of Concurrence in Bid Award (“Exhibit B”);
- C. Certified statement from the Chairperson of Applicant (“Exhibit C”), based upon statements of the Engineers for Applicant, concerning the following:
  - (1) The proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066 Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10;
  - (2) All other state approvals or permits have already been obtained.
  - (3) The proposed rates of Applicant shall produce the total revenue requirements set out in the engineering reports; and

- (4) Setting out the dates when it is anticipated that construction will begin and end.

D. Copy of the Preliminary Engineering Report (“Exhibit D”), and the Final Engineering Report (“Exhibit E”).

9. That Applicant has arranged for the publication, prior to or at the same time this Application is filed, of a Notice of Proposed Rate Change pursuant to Section 2 of 807 KAR 5:069, in *The Morehead News*, which is the newspaper of general circulation in Applicant’s service area in Rowan County, Kentucky. Said Notice sets out the current rates and the proposed rates of Applicant and a brief description of the Project. A copy of said Notice is filed herewith as “Exhibit F.”

10. That the foregoing constitutes the documents necessary to obtain the approval of the 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, Section 1.

WHEREFORE, Applicant, Rowan Water, Inc., asks that the Public Service Commission of the Commonwealth of Kentucky grant to Applicant the following:

- a. A Certificate of Public Convenience and Necessity permitting Applicant to construct the waterworks project described herein consisting of extensions, additions, and improvements to the existing waterworks system of Applicant.
- b. An Order approving the following financing arrangements made by Applicant for the Project: (i) a United States Department of Agriculture, Rural Development (“RD”) Loan of \$600,000.00; (ii) an RD grant of \$325,000.00; and (iii) a 2006 Infrastructure for Economic Development Fund (“IEDF”) state grant of \$375,000.00, as set out in the RD letter of conditions dated February 20, 2007, filed herewith as “Exhibit A.”
- c. An Order approving the proposed increased rates as set out in Section 28 of the RD Letter of Conditions, dated February 20, 2007, filed herewith as “Exhibit A.”

ROWAN WATER, INC.

  
\_\_\_\_\_  
STEVE ELDRIDGE, CHAIRMAN





United States Department of Agriculture  
Rural Development  
Kentucky State Office

RECEIVED

AUG 27 2007

PUBLIC SERVICE  
COMMISSION

February 20, 2007

Mr. Steve Eldridge, President  
Rowan Water, Inc.  
110 Hargis Avenue  
Morehead, Kentucky 40351

Dear Mr. Eldridge:

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 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 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 \$600,000; a RUS grant not to exceed \$325,000; and a 2006 Infrastructure for Economic Development Fund (IEDF) State grant in the amount of \$375,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. 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.

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.

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

771 Corporate Drive • Suite 200 • Lexington, KY 40503  
Phone: (859) 224-7336 • Fax: (859) 224-7444 • TDD: (859) 224-7422 • Web: <http://www.rurdev.usda.gov/ky>

Committed to the future of rural communities.

\*USDA is an equal opportunity provider, employer and lender.\*  
To file a complaint of discrimination write USDA, Director, Office of Civil Rights,  
1400 Independence Avenue, SW, Washington, DC 20250-9410  
or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

EXHIBIT A

1. Number of Users and Their Contribution:

There shall be 6,253 existing water users. The Area Director will review and authenticate the number of users prior to advertising for construction bids. There will be no cash contribution required from the Corporation.

2. 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.

3. Drug-Free Work Place:

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

4. 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 years from the date of the Promissory Note. The Corporation may 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. Monthly payments will be approximate amortized installments.

5. Recommended Repayment Method:

Payments on this loan can be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form SF 5510, "Authorization Agreement for Preauthorized Payments," should be signed by the Corporation to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Area Director will furnish the necessary forms and further guidance on the PAD procedure.

6. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance, pay for repairs, and assist with debt service should the need arise.

The Corporation will be required to deposit \$265 per month into a "Funded Depreciation Reserve Account" until the account reaches \$31,800. The deposits are to be resumed any time the account falls below the \$31,800.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the Corporation's prior bond ordinances.

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

The Corporation also needs to fund an account for short-lived assets by depositing a sum of \$3,520 monthly to the account. The funds in the short-lived asset account may be used by the Corporation as needed to replace or add short-lived assets in the Corporation's water system.

7. Security Requirements:

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

8. Land Rights and Real Property:

The Corporation 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.

9. Organization:

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

10. Business Operations:

The Corporation 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 Corporation after review by Rural Development. At no later than loan pre-closing, the Corporation 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.

11. Accounts, Records and Audits:

The Corporation 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. The Corporation shall be required to submit a copy of its audit agreement for review and concurrence by Rural Development prior to pre-closing the loan.

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

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



13. 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 Corporation. The Corporation should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The Corporation will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The Corporation 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 \$265,000.
- D. Real Property Insurance - The Corporation 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 Corporation 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 Corporation will obtain and maintain adequate coverage on any facilities located in special flood and mudslide prone areas.

14. 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 "24" 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 Area Director is prepared to furnish the necessary guide 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.

15. 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.

16. 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 Corporation.

17. Compliance with Special Laws and Regulations:

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

18. Treatment Plant/System Operator:

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

19. Prior to Pre-Closing the Loan, the Corporation Will Be Required to Adopt:

- A. Form RD 1942-8, "Resolution of Members or Stockholders."
- B. Form RUS Bulletin 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. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."
- H. RUS Bulletin 1780-22, "Eligibility Certification."

20. Refinancing and Graduation Requirements:

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

21. Commercial Interim Financing:

The Corporation 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 Corporation 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.

22. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the Corporation 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 Corporation 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 Corporation, 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 Corporation.

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

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

23. Disbursement of Grant Funds:

The RUS funds will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of obligations due and payable by the Corporation. Grant funds, upon receipt, must be deposited in an interest bearing account in accordance with 7 CFR part 3019 (as applicable). Interest earned on grant funds in excess of \$250 (as applicable) per year will be submitted to RUS at least quarterly.

24. Cost of Facility:

## Breakdown of Costs:

Development	\$ 1,012,000
Legal and Administrative	6,000
Engineering	166,300
Interest	14,500
Contingencies	<u>101,200</u>
TOTAL	\$ 1,300,000

Financing:

RUS Loan	\$ 600,000
RUS Grant	325,000
2006 IDEF Grant	<u>375,000</u>
<b>TOTAL</b>	<b>\$ 1,300,000</b>

25. Commitment of Other Project Funds:

This Letter of Conditions is issued contingent upon a firm commitment being in effect prior to advertising for construction bids for the 2006 IDEF State grant in the amount of \$375,000.

26. Use of Remaining Project Funds:

After providing for all authorized costs, any remaining project funds will be considered to be RUS/2006 IDEF State grant funds and refunded in proportion to participation in the project. If the amount of unused project funds exceeds the grants, that part would be RUS loan funds.

27. Proposed Operating Budget:

You will be required to submit to Rural Development a copy of your proposed annual operating budget that supports the proposed loan repayment prior to this agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow, subject to completion of this project in the first full year of operation. Form RD 442-7, Operating Budget, or similar form may be utilized for this purpose.

28. Rates and Charges:

Rates and charges for facilities and services rendered by the Corporation 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:

5/8" Meter:

First	2,000	gallons @ \$	13.90 - Minimum Bill.
Next	3,000	gallons @ \$	5.80 - per 1,000 gallons.
Next	10,000	gallons @ \$	5.30 - per 1,000 gallons.
Next	10,000	gallons @ \$	4.90 - per 1,000 gallons.
Next	10,000	gallons @ \$	4.70 - per 1,000 gallons.
Next	15,000	gallons @ \$	4.50 - per 1,000 gallons.
All Over	50,000	gallons @ \$	4.30 - per 1,000 gallons.

3/4" Meter:

First	4,000	gallons @ \$	25.50 - Minimum Bill.
Next	1,000	gallons @ \$	5.80 - per 1,000 gallons.
Next	10,000	gallons @ \$	5.30 - per 1,000 gallons.
Next	10,000	gallons @ \$	4.90 - per 1,000 gallons.
Next	10,000	gallons @ \$	4.70 - per 1,000 gallons.
Next	15,000	gallons @ \$	4.50 - per 1,000 gallons.
All Over	50,000	gallons @ \$	4.30 - per 1,000 gallons.

1" Meter:

First	5,000	gallons @ \$	31.30 - Minimum Bill.
Next	10,000	gallons @ \$	5.30 - per 1,000 gallons.
Next	10,000	gallons @ \$	4.90 - per 1,000 gallons.
Next	10,000	gallons @ \$	4.70 - per 1,000 gallons.
Next	15,000	gallons @ \$	4.50 - per 1,000 gallons.
All Over	50,000	gallons @ \$	4.30 - per 1,000 gallons.

1 1/2" Meter:

First	15,000	gallons @ \$	84.30 - Minimum Bill.
Next	10,000	gallons @ \$	4.90 - per 1,000 gallons.
Next	10,000	gallons @ \$	4.70 - per 1,000 gallons.
Next	15,000	gallons @ \$	4.50 - per 1,000 gallons.
All Over	50,000	gallons @ \$	4.30 - per 1,000 gallons.

2" Meter:

First	25,000	gallons @ \$	133.30 - Minimum Bill.
Next	10,000	gallons @ \$	4.70 - per 1,000 gallons.
Next	15,000	gallons @ \$	4.50 - per 1,000 gallons.
All Over	50,000	gallons @ \$	4.30 - per 1,000 gallons.

Meter Installation:

5/8" x 3/4"	\$ 550.00
All other meter sizes	Cost of installation, plus 15% overhead charge

Special Charges:

Reconnection Charge	\$ 32.00
Collection of Delinquent Account	\$ 20.00
Deposit on Rental Property	\$ 100.00
Credit Card Use Fee	4% applied to total of amount charged

29. Water Purchase Contract:

The Corporation will submit a Water Purchase Contract for approval by Rural Development before advertising for construction bids. If the contract is 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.

30. Compliance with the Bioterrorism Act:

Prior to pre-closing the loan, the Corporation 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).

31. Floodplain Construction:

The Corporation will be required to pass and adopt a Resolution or amend its By-Laws whereby the Corporation will deny any water service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the Corporation and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

32. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Governor's Office for Local Development letter dated April 26, 2006, from Mr. Ronald W. Cook.
- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested by letter dated August 8, 2006, and signed by Virgil Lee Andrews, Jr., Field Supervisor.
- C. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without effect after construction is complete. The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.
- D. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.

33. Final Approval Conditions:

Final approval of this assistance 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 Area Director will allot a reasonable portion of time to provide guidance in application processing.

Sincerely,

  
KENNETH SLONE  
State Director

Enclosures

cc: Area Director - Morehead, Kentucky  
Rural Development Manager - Flemingsburg, Kentucky  
Gateway ADD - Owingsville, Kentucky  
Truman Dehner - Morehead, Kentucky  
✓ O'Brien & Gere - Lexington, Kentucky  
PSC - ATTN: Bob Amato - Frankfort, Kentucky





United States Department of Agriculture  
Rural Development  
Kentucky State Office

RECEIVED  
AUG 27 2007  
PUBLIC SERVICE  
COMMISSION

August 9, 2007

SUBJECT: Rowan Water, Inc.  
Water System Improvements- Contract 11 & 12  
Contract Award Concurrence

TO: Area Director  
Morehead, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of subject contract to the low bidder on Contract 11, Staton's Construction Company, in the amount of \$624,985.00, and the low bidder on Contract 12, Kentucky Glass Lined Tanks, in the amount of \$446,491.00.

If you have any questions, please contact Julie Anderson, State Engineer, at (859) 224-7348.

  
KENNETH SLONE  
State Director  
Rural Development

cc: O'Brien and Gere  
Lexington, Kentucky

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>

Committed to the future of rural communities.

"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, 14<sup>th</sup> and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

EXHIBIT B

CERTIFICATE OF CHAIRMAN OF ROWAN WATER, INC.,  
AS TO STATEMENT REQUIRED BY SECTION 1(5) OF 807 KAR 5:069

I, Steve Eldridge, hereby certify that I am the duly qualified and acting Chairperson of Rowan Water, Inc., of Rowan County, Kentucky, and that Rowan Water, Inc., is in the process of arranging to finance the construction of extensions, additions and improvements to the existing waterworks system of Rowan Water, Inc. (the "Project"), in cooperation with O'Brien & Gere Engineers, Lexington, Kentucky, the Engineers for Rowan Water, Inc. (the "Engineers").

Based on information furnished to me by said Engineers for Rowan Water, Inc., I hereby certify as follows:

1. That the proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066 Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10.

2. That all other state approvals and/or permits have already been obtained.

3. That the rates proposed by Rowan Water, Inc., in its current Application filed with the Public Service Commission of Kentucky are contemplated to produce total revenue requirements set out in the Engineering Reports prepared by such Engineers and filed with the Public Service Commission.

4. That it is now contemplated that construction of the Project will begin on or about October 1, 2007, and will end on or about March 29, 2008.

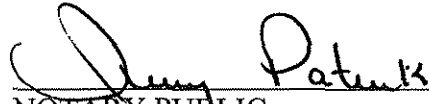
IN TESTIMONY WHEREOF, witness my signature this 22 day of August, 2007.

  
\_\_\_\_\_  
STEVE ELDRIDGE, CHAIRMAN  
ROWAN WATER, INC.

EXHIBIT C

STATE OF KENTUCKY    )  
                                  ) SCT  
COUNTY OF ROWAN    )

Subscribed and sworn to before me by Steve Eldridge, Chairman of the Board of Directors of Rowan Water, Inc., on this 22 day of August, 2007.



NOTARY PUBLIC  
IN AND FOR SAID STATE AND COUNTY  
MY COMMISSION EXPIRES: 9/1/08

(Seal of Notary)


**ROWAN WATER, INC.**

**Preliminary Engineering Report  
Water Distribution System Upgrade**

**April 2006**

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**Submitted By:**

  
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**Bryan K. Lovan, P.E., P.L.S.  
Project Manager**

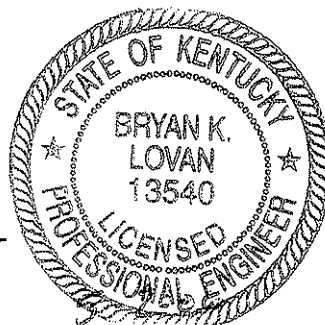


EXHIBIT D

# **ROWAN WATER, INC.**

## **Preliminary Engineering Report Water Distribution System Upgrade**

### **Purpose**

Rowan Water, Inc. (RWI) is proposing a system wide upgrade to their distribution system to help improve water quality and service. This proposed project will involve the upgrade of their water distribution system in various areas by replacing the KY 32 (North) Booster Pump Station, installing approximately 13,100 LF of 6-inch water main in the Jackson Drive-Pine Hills area, replacing the US 60 Water Storage Tank and the US 60 Booster Pump Station, upgrading the Rock Fork Hydropneumatic Booster Pump Station, and adding a hydropneumatic booster pump station near Kinder Branch.

This section of the existing system has experienced high demands and the existing booster pump stations must operate continuously in order to meet the demand and supply water to the existing storage tank and other parts of the system. The Jackson Drive-Pine Hills area currently has 2- and 4-inch water mains that are not adequate for the number of customers in the area to provide appropriate flow and pressure.

The two proposed hydropneumatic booster pump stations will allow for Rowan Water to provide increase pressure to their current customers and to extend service to potential customers at the higher elevations that are not currently being served.

Project mapping showing the proposed locations of the new water lines, storage tank, and booster pump stations is attached to this Preliminary Engineering Report as Appendix A.

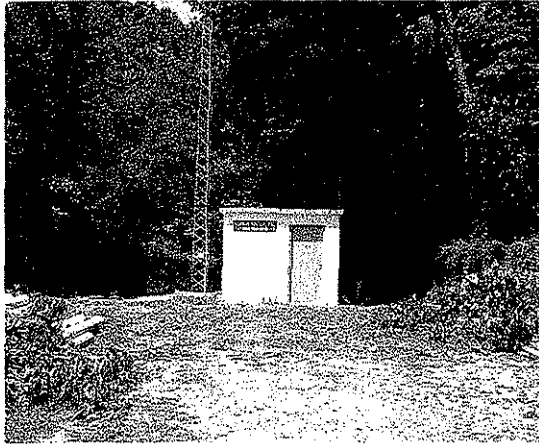
### **Project Planning Area**

The project areas are located along KY 32 north of Morehead near Hilda, along KY 377 near the Rowan and Lewis County boundary line in northern Rowan County, and along US 60 near the Carter County boundary east of Haldeman. There is a significant number of threatened, endangered, or species of special concern in Rowan County. However, it is anticipated that this project will have no impact on these species. The project area is proposed and located at existing facilities or where the water line is currently located.

According to the Kentucky State Data Center, Rowan County's population grew from 1980 to 1990 by almost seven percent. The 2000 population is almost 8.5 percent higher than the 1990 population. The Data Center has projections through the year 2030, which project the population in Rowan County to continue to grow by approximately 18 percent.

From 1987 through 1996, RWI's customer base grew from 2,022 customers to 4,249. As of the December 2004 billing, the number of customers had increased to 6,156.

## KY 32 (North) Booster Pump Station Replacement



The existing KY 32 North Booster pump station is in dire need of repairs and upgrading to provide a reliable water supply to the service area. During recent summer storms that occurred in 2004, the station's electrical service was damaged by falling limbs and had to be replaced. During a recent inspection of the station revealed that the electrical controls and interior piping was in need of major repairs. The station was constructed in July 1981 and operates approximately 16 hours per day. In order for the Rowan Water personnel to access the pumps and piping in the station requires the employees to be placed in unsafe

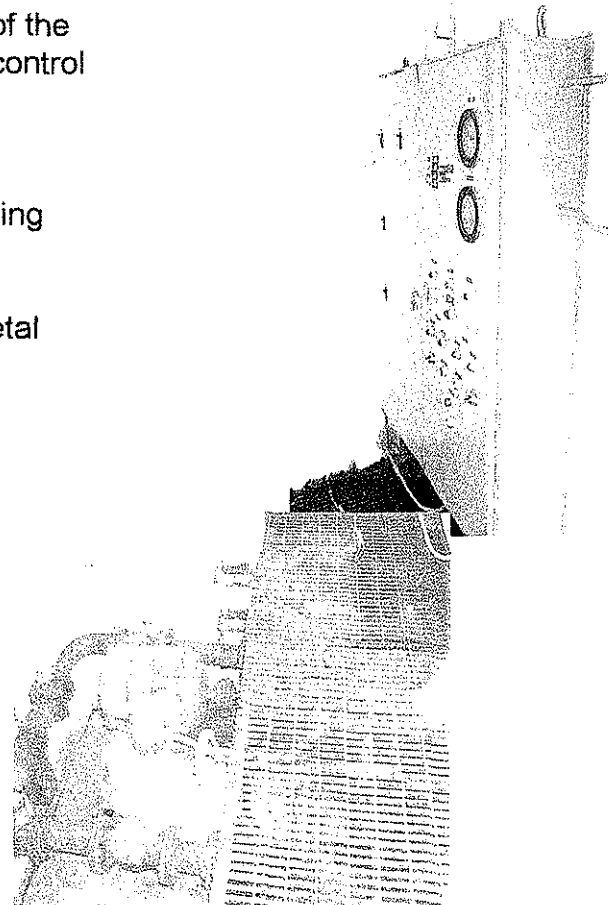
working conditions. Over the years, the interior steel piping has corroded severely to the point that the employees are hesitant to close any valves inside of the station.

The photo to the left is the exterior view of the concrete block station. The proposed booster pump station will be constructed in the vacant area to the left of the station. This will allow the existing station to remain in operation until the new station is completed.

The photo to the right shows the condition of the existing pump station piping and electrical control panel.

The access to the electrical control panel is in an unsafe condition with the metal grating located immediately below.

Access to the station piping is below the metal grating with limited ingress and egress.





Rowan Water proposes to replace this station with a new 24' x 12' concrete block building, new pumps, controls, and piping similar to the newly constructed station on KY 32 South. The proposed station will need to be constructed on the same site while the existing station remains in service. Once the new station is completed, the existing booster station may be demolished.

See a portion of the USGS Topographic map showing the project location at the end of this report.

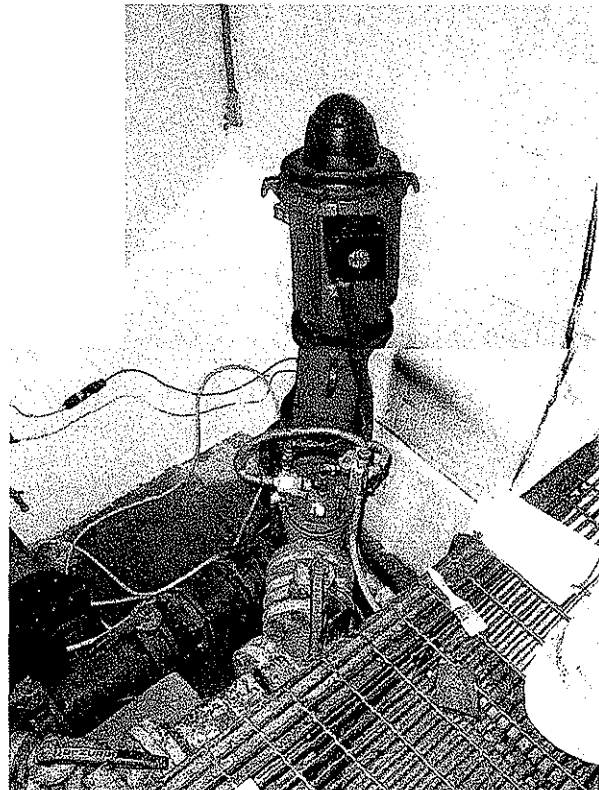
### **US 60 Storage Tank and Booster Pump Station Replacement**

This section of the existing system has high demands, provides service to Carter County, and requires the existing US 60 booster pump station to operate continuously in order to meet the demand and supply water to the 50,000 gallon storage tank and other parts of the system. The existing tank is proposed to be demolished and replaced with a 220,000 gallon glass-lined ground storage tank at a slightly higher elevation in order to provide adequate pressure to existing customers currently at the minimum pressure of 30 psi.

The existing US 60 Booster pump station is similar to the KY 32 North Booster pump station and is in dire need of repairs and upgrading also. During a recent inspection of the station revealed that the electrical controls and interior piping was in need of major repairs. The station was constructed about the same time as the KY32 North station and operates approximately 16 to 18 hours per day. In order for the Rowan Water personnel to access to the pumps and piping in the station requires the employees to be placed in unsafe working conditions. Over the years, the interior steel piping has corroded severely.

The photo to the right is the interior view of the pump station. The proposed booster pump station will be constructed on a vacant site located approximately 800 feet east and across the highway from the existing booster pump station site. This will allow the existing station to remain in operation until the new station is completed.

The access to the electrical control panel and piping in the existing station is an unsafe condition with the metal grating located immediately above the piping with access to the station piping giving limited ingress and egress.



See a portion of the USGS Topographic map showing the project location at the end of this report.

### **Rock Fork Hydropneumatic Booster Pump Station Upgrade**

The existing Rock Fork Hydropneumatic Booster Pump Station currently serves approximately 60 customers and operates 18 to 20 hours per day. The existing pumps and hydropneumatic tanks are undersized for meeting the peak demands for this number of customers. It is proposed to replace the existing constant speed pumps with variable frequency drive pumps in order to meet the peak demands during the day and allow the tanks to provide the needed pressure during low demand periods.

See a portion of the USGS Topographic map showing the project location at the end of this report.

### **Kinder Branch Hydropneumatic Booster Pump Station**

The Kinder Branch Hydropneumatic Booster Pump Station is proposed in order to provide adequate pressure and meet peak demand flows to the existing customers near Kinder Branch. The current system in the area is adequate to serve the existing customers during average demand periods, however, the system does not have adequate pressure to meet peak demands or adequate flushing at the dead-end lines in the area. The existing low pressures in the area does not allow for additional customers to be added to the system and with the proposed hydropneumatic station the system pressures can be increase allowing for the addition of new customers in the area.

See a portion of the USGS Topographic map showing the project location at the end of this report.

### **Jackson Drive Waterline Improvements**

This area of Rowan Water's system is near the KY 32 North Booster pump station and serves the Jackson Drive and Pine Hills area. The existing water mains are 2- and 4- inch lines with a majority being 2-inch. The small diameter line does not provide adequate pressure and flow to the existing customers. The proposed replacement will install approximately 13,100 linear feet of 6-inch water main along Jackson Drive, reconnecting all customer meters and branch lines to the new main. The new main will provide increased flows and pressure to the area as well as provide a secondary feed to the Pine Hills area near Maple and Overlook Lanes.

See a portion of the USGS Topographic map showing the project location at the end of this report.



## **KY 377 Waterline Extension**

This area of Rowan Water's system is near the intersection of KY 377 and Kinder Branch Road. The existing water main is a 4-inch line with a proposed 4-inch water main extension of approximately 2,500 linear feet. This extension is proposed to provide water service to new customers from the end of the existing main to near the Rowan-Lewis County line. The water main will be installed along the state highway right-of-way.

See a portion of the USGS Topographic map showing the project location at the end of this report.

## **Existing Facilities**

RWI has a contract to purchase water from the Morehead Utility Plant Board (MUPB). The contract allows RWI to purchase up to 30 percent of the capacity of the current water treatment plant. The MUPB water treatment plant and storage/transmission system has recently been upgraded with the new a plant capacity of 8.5 MGD. RWI's allocated portion of this plant is 30 percent or 2.7 MGD. RWI averages 1.3 to 1.7 MGD and in the dry summer months of 1999, purchased over the maximum amount with a peak demand of 1.7 MGD. The contract was signed in February 2001 and is valid for a period of 40 years. RWI sells water to several water district and associations including the Fleming County Water Association which purchases approximately 300,000 gallons per month and the Carter County Water District, which can purchase up to 50,000 gallon per day and currently is purchasing approximately 15,000 to 20,000 gallons per day.

## **Need for Project**

Rowan Water, Inc. has had considerable growth in customers during the past several years 25 percent. Continued growth is expected but not at the rate of the past. The additional storage volume and increased pumping capacity will enable the RWI to continue to add customers as requested.

## **Alternatives Considered**

There is no viable alternative to this project due to the fact that the project is replacing existing facilities in this area.

## Proposed Project

The preliminary estimated cost for this project is as follows:

### Construction Cost

KY 32 (North) Booster Pump Station Replacement	\$ 150,000
US 60 Storage Tank Replacement	\$ 300,000
Rock Fork Hydropneumatic Booster Pump Station Upgrade	\$ 80,000
Kinder Branch Hydropneumatic Booster Pump Station	\$ 70,000
Jackson Drive Water Main Replacement	\$ 262,000
US 60 Booster Pump Station Replacement	<u>\$ 150,000</u>

### Construction Sub-total **\$1,012,000**

Construction Contingency -10%	\$ 101,200
Engineering	
Design Fees	\$ 89,400
Other Engineering Fees	\$ 20,300
Inspection Fees	\$ 56,600
Legal Fees	\$ 6,000
Interim Financing	<u>\$ 14,500</u>

### **Total Project Costs \$ 1,300,000**

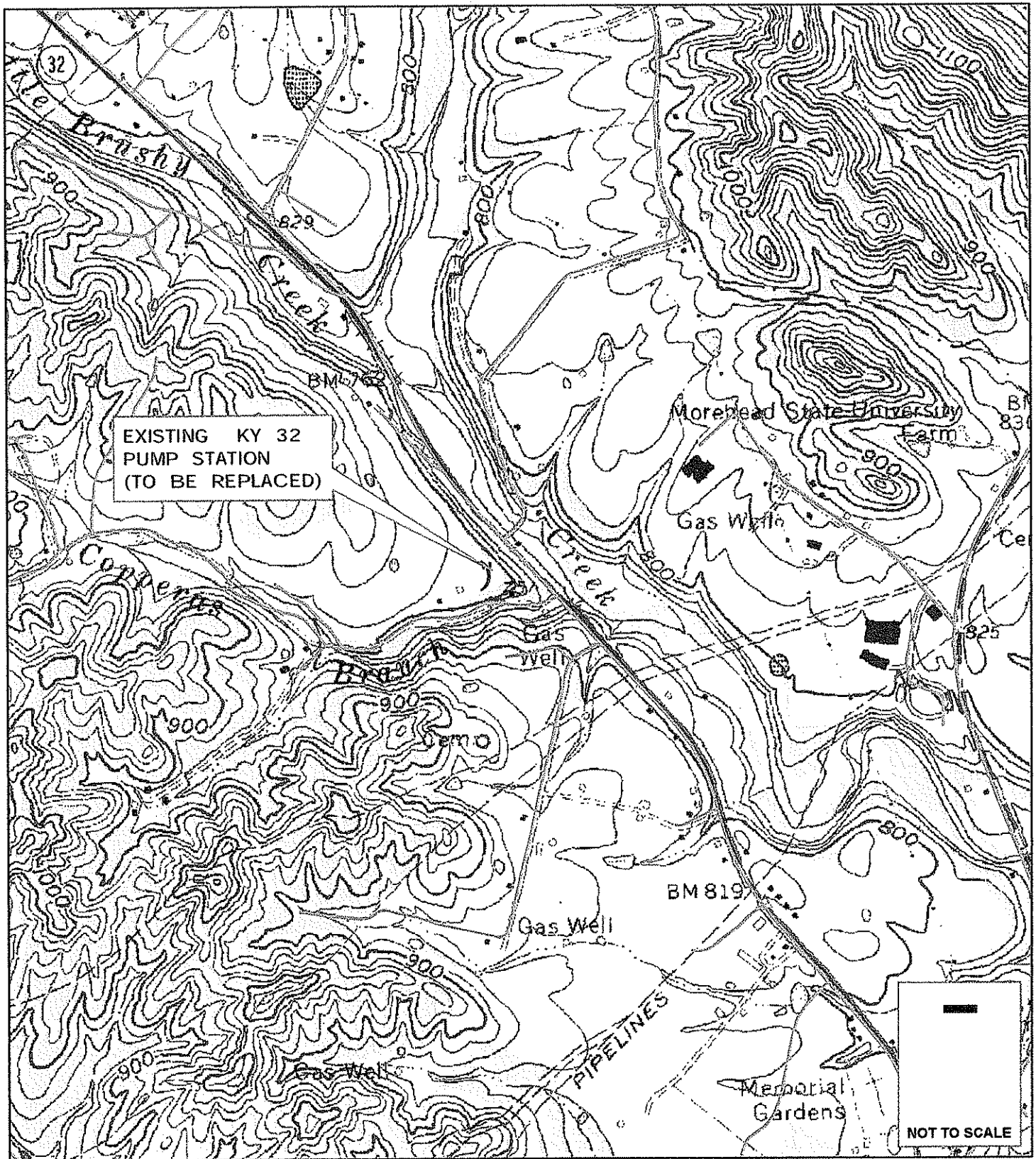
## Current and Proposed Water Rates

The rates charged for water sales and non-recurring charges such as tap fees are approved by the Kentucky Public Service Commission. The current approved rates for RWI and proposed rates are shown in Table I.

**Table I**

	Existing Rates	Proposed Rates
<b><u>5/8 inch</u></b>		
first 2000	\$13.90	minimum
next 3000	\$5.80	per 1000 gallons
next 10000	\$5.30	per 1000 gallons
next 10000	\$4.90	per 1000 gallons
next 10000	\$4.70	per 1000 gallons
next 15000	\$4.50	per 1000 gallons
over 50000	\$4.30	per 1000 gallons
<b><u>3/4 inch</u></b>		
first 4000	\$25.50	minimum
next 1000	\$5.80	per 1000 gallons
next 10000	\$5.30	per 1000 gallons
next 10000	\$4.90	per 1000 gallons
next 10000	\$4.70	per 1000 gallons
next 15000	\$4.50	per 1000 gallons
over 50000	\$4.30	per 1000 gallons
<b><u>1 inch</u></b>		
first 5000	\$31.30	minimum
next 10000	\$5.30	per 1000 gallons
next 10000	\$4.90	per 1000 gallons
next 10000	\$4.70	per 1000 gallons
next 15000	\$4.50	per 1000 gallons
over 50000	\$4.30	per 1000 gallons
<b><u>1.5 inch</u></b>		
first 15000	\$84.30	minimum
next 10000	\$4.90	per 1000 gallons
next 10000	\$4.70	per 1000 gallons
next 15000	\$4.50	per 1000 gallons
over 50000	\$4.30	per 1000 gallons
<b><u>2 inch</u></b>		
first 25000	\$133.30	minimum
next 10000	\$4.70	per 1000 gallons
next 15000	\$4.50	per 1000 gallons
over 50000	\$4.30	per 1000 gallons



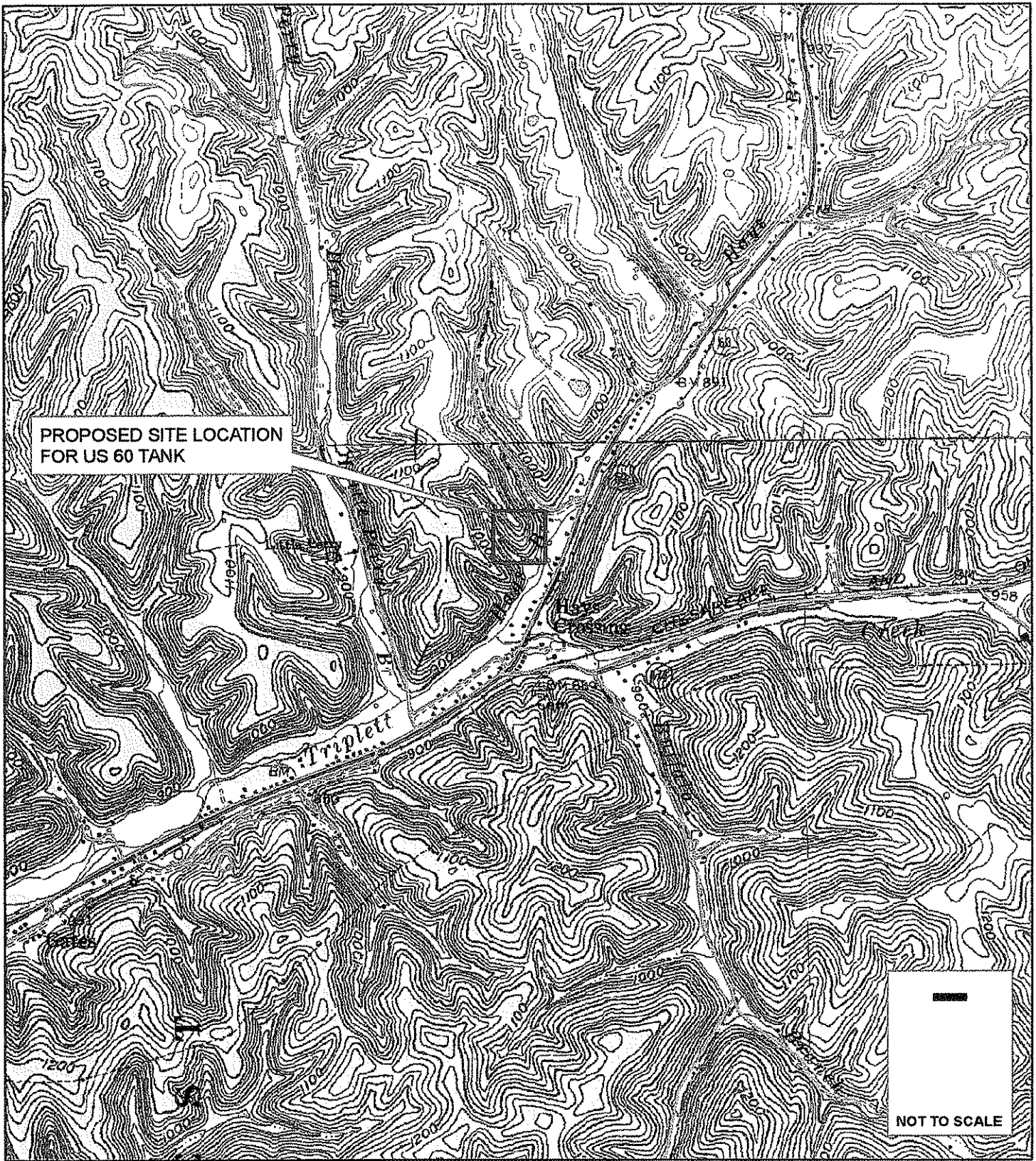


**O'BRIEN & GERE**

1019 MAJESTIC DRIVE  
SUITE 110  
LEXINGTON KY 40513

**2006 WATER SYSTEM IMPROVEMENTS  
ROWAN WATER, INC.  
MOREHEAD, KENTUCKY**

**KY 32 BOOSTER PUMP  
STATION UPGRADE**

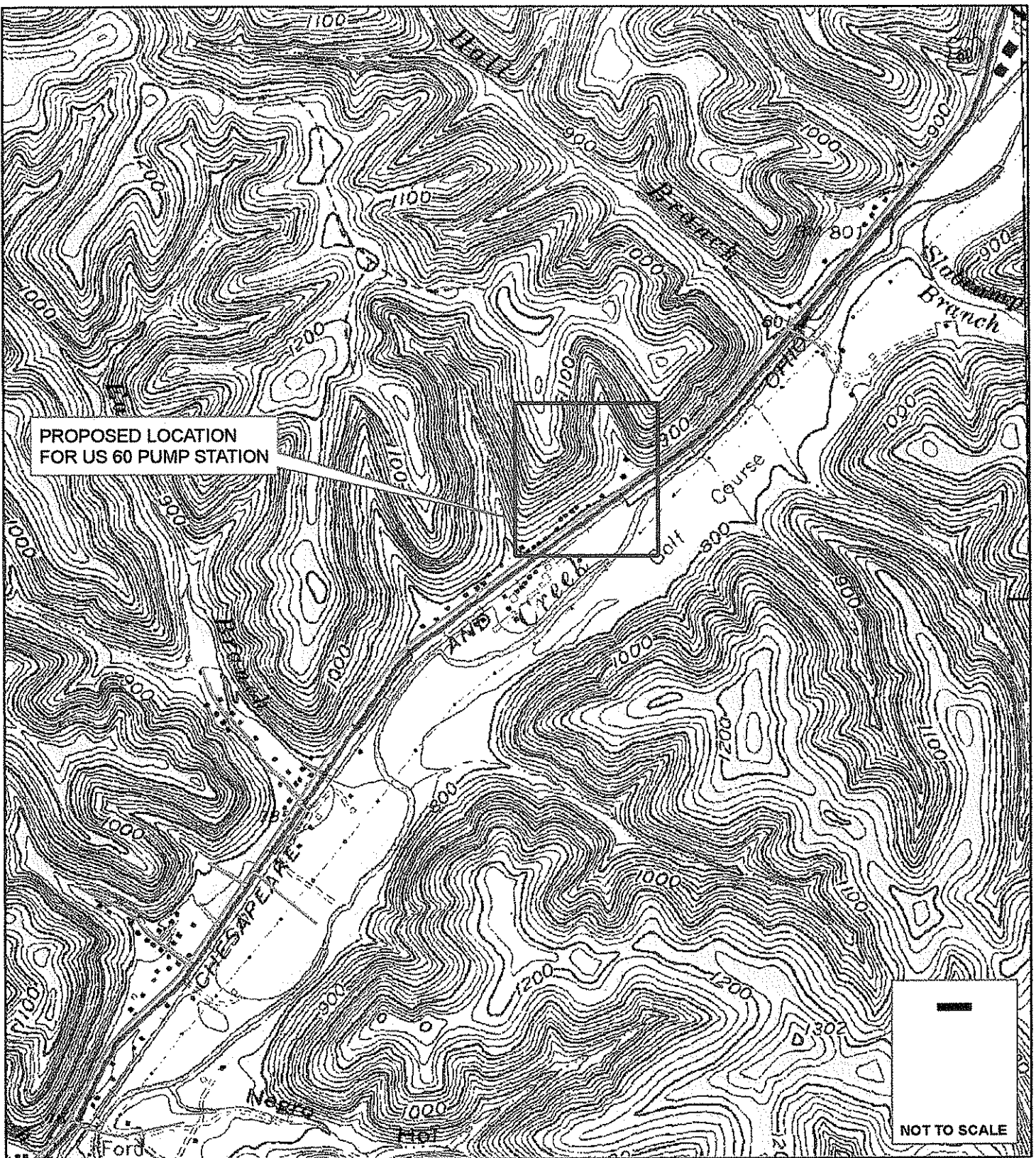


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**2006 WATER SYSTEM IMPROVEMENTS  
 ROWAN WATER, INC.  
 MOREHEAD, KENTUCKY**

**US 60 WATER STORAGE TANK**



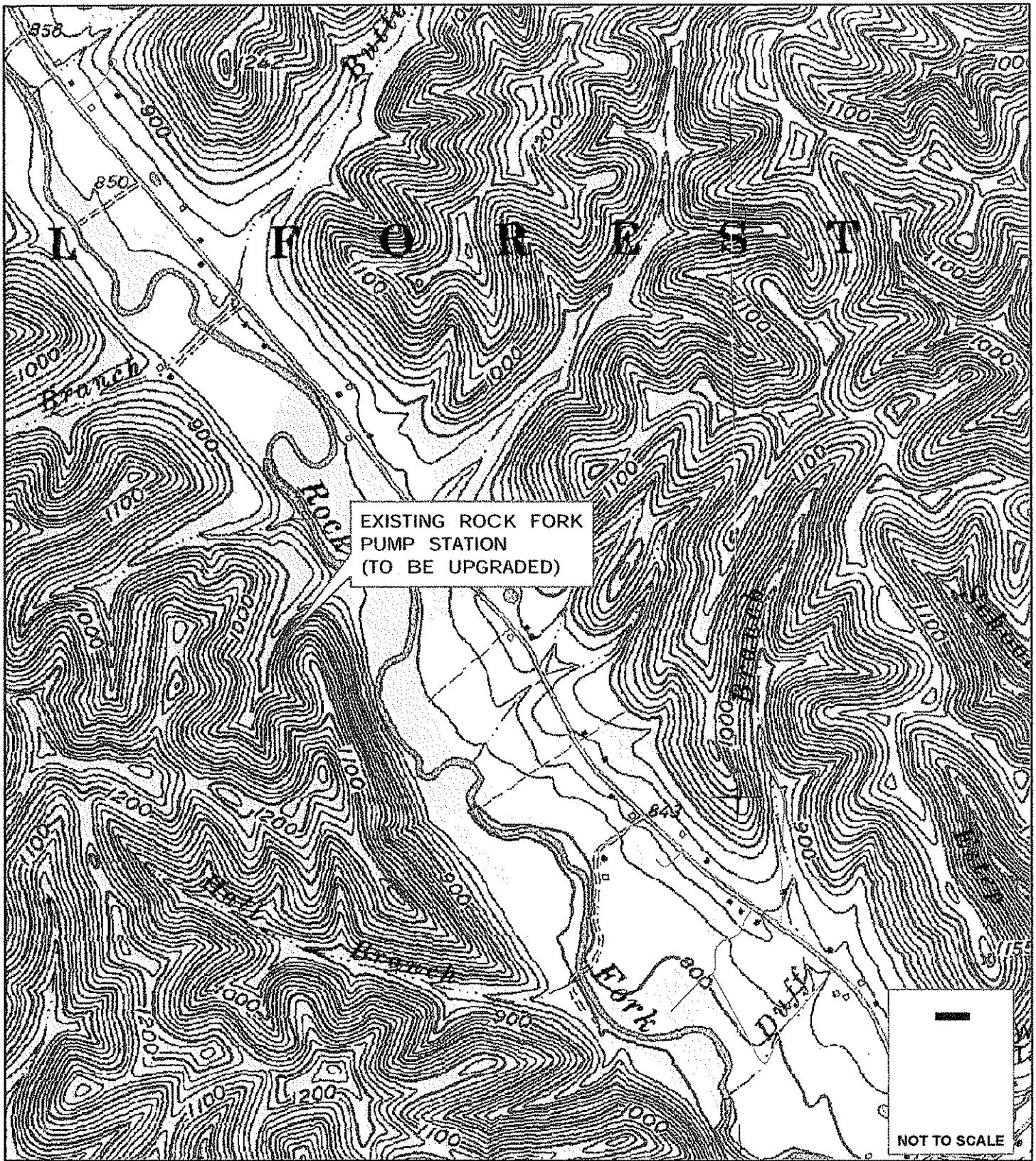
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2006 WATER SYSTEM IMPROVEMENTS  
 ROWAN WATER, INC.  
 MOREHEAD, KENTUCKY

**US 60 BOOSER PUMP STATION UPGRADE**



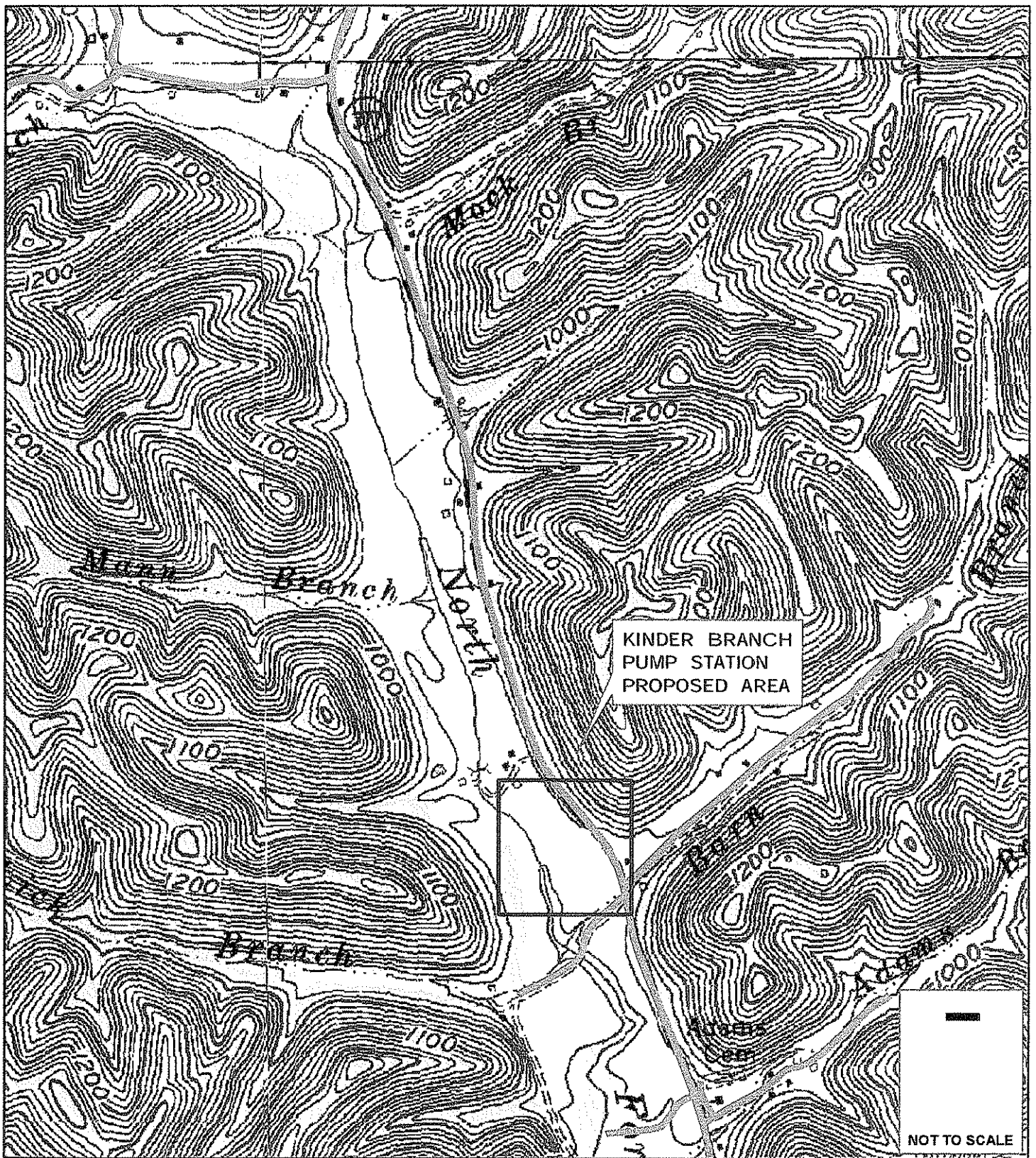


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2006 WATER SYSTEM IMPROVEMENTS  
 ROWAN WATER, INC.  
 MOREHEAD, KENTUCKY

**ROCK FORK HYDRONEUMATIC  
 PUMP STATION UPGRADE**

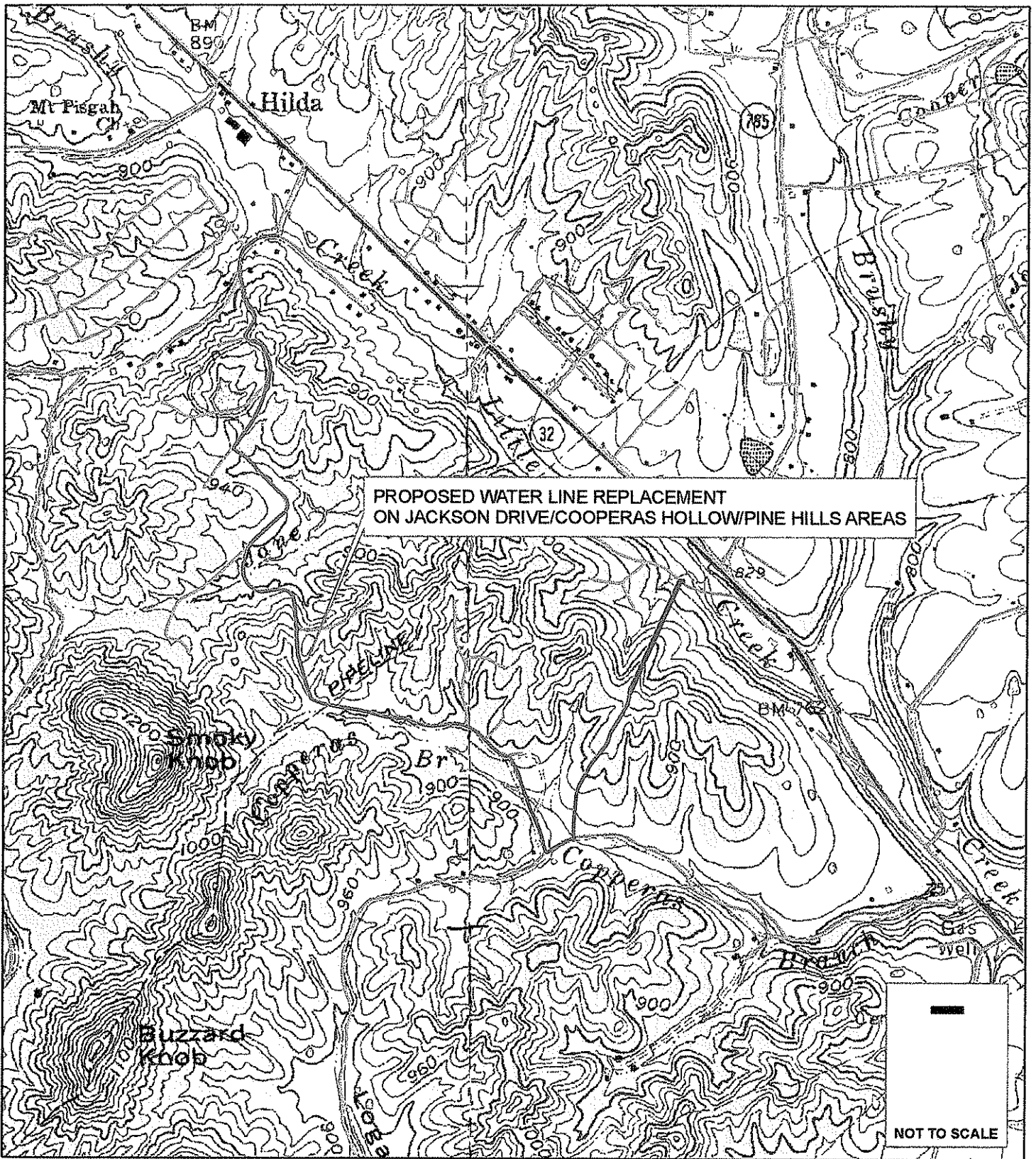


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2006 WATER SYSTEM IMPROVEMENTS  
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 MOREHEAD, KENTUCKY

**KINDER BRANCH HYDRONEUMATIC  
 PUMP STATION**



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**2006 WATER SYSTEM IMPROVEMENTS**  
**ROWAN WATER, INC.**  
**MOREHEAD, KENTUCKY**  
**JACKSON DRIVE WATER**  
**LINE UPGRADE**