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Mark David Goss
Chairman

John W. Clay
Vice Chairman

Caroline Pitt Clark
Commissioner

March 12, 2008

CERTIFICATE OF SERVICE

RE: Case No. 2008-00052
Mountain Water District

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on March 12, 2008.

A handwritten signature in black ink, appearing to read "Beth O'Donnell", written over a horizontal line.

Executive Director

BOD/tw
Enclosure



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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MOUNTAIN WATER DISTRICT)	
FOR A CERTIFICATE OF PUBLIC CONVENIENCE)	CASE NO.
AND NECESSITY TO CONSTRUCT, FINANCE, AND)	2008-00052
INCREASE RATES PURSUANT TO KRS 278.023)	

O R D E R

On February 11, 2008, Mountain Water District ("Mountain Water") applied for a Certificate of Public Convenience and Necessity to construct a waterworks improvement project, authority to issue revenue bonds, and an adjustment in rates for service. The proposed project consists of the construction and installation of a new 2,600 gallon per minute pump station and certain renovations to the Russell Fork Water Treatment Plant. Project funding consists of a \$650,000 loan from the U.S. Department of Agriculture's Rural Development ("RD").

Mountain Water's application was made pursuant to KRS 278.023, which 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 filing requirements were met in this case on February 11, 2008, KRS 278.023 does not

grant the Commission any discretionary authority to modify or reject any portion of this agreement.¹

The Commission notes that, in addition to Mountain Water's rates for general service and for wholesale transactions, RD has required adjustments to Mountain Water's Line Leak Adjustment Rate. We have on previous occasions expressed our concern to RD regarding the use of RD funding to subvert and circumvent the Commission's authority over a water utility's rates and recommended that RD refrain from conditioning its loans and grants upon adjustments to non-recurring rates that are unrelated to the financing of a waterworks improvement project.

IT IS THEREFORE ORDERED that:

1. Mountain Water is granted a Certificate of Public Convenience and Necessity for the proposed construction project.
2. Mountain Water's proposed plan of financing with RD is accepted.
3. Mountain Water is authorized to issue its Waterworks Revenue Bonds to RD in the amount of \$650,000 at an interest rate not exceeding 4.5 percent per annum, maturing over 40 years.
4. The proceeds from the proposed bond issuance shall be used only for the purposes specified in Mountain Water's application.

¹ The Commission notes that, in addition to Mountain Water's rates for general service and for wholesale transactions, RD has required adjustments to Mountain Water's Line Leak Adjustment Rate. We have on previous occasions expressed our concern to RD regarding the use of RD funding to subvert and circumvent the Commission's authority over a water utility's rates and recommended that RD refrain from conditioning its loans and grants upon adjustments to non-recurring rates that are unrelated to the financing of a waterworks improvement project. See e.g., Case No. 2007-00385, The Application of Rowan Water, Inc. of Rowan County, Kentucky for a Certificate of Public Convenience and Necessity to Construct, Finance, and Increase Rates Pursuant to KRS 278.023 (Ky. PSC Oct. 12, 2007). We offer the same recommendation in this proceeding.

5. Notwithstanding Ordering Paragraph 4, if surplus funds remain after the approved construction has been completed, Mountain Water 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 Mountain Water's rates for service. Mountain Water shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 3.

6. Mountain Water 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 certified herein.

7. Mountain Water shall monitor the adequacies of the expanded water distribution system after construction. If the level of service is inadequate or declining, or the pressure to any customer is outside the requirements of 807 KAR 5:066, Section 5(1), Mountain Water shall take immediate action to ensure that the level of service conforms to the regulations of the Commission.

8. Mountain Water shall notify the Commission one week prior to the actual start of construction and at the fifty percent completion point.

9. The rates set out in Appendix A, which is attached hereto and incorporated herein, are the rates approved for service rendered on and after the date of this Order.

10. Within 30 days of the date of this Order, Mountain Water shall file with the Commission its revised tariffs setting out the rates approved herein.

11. Three years from the date of this Order, Mountain Water 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. The Executive Director shall serve a copy of this Order upon the RD's State Director.

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 12th day of March, 2008.

By the Commission

ATTEST:

Executive Director

Case No. 2008-00052

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00052 DATED MARCH 12, 2008

The following rates and charges are prescribed for the customers in the area served by Mountain 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.

Monthly Water Rates

5/8" Inch Meter

First	2,000 Gallons	\$20.02	Minimum Bill
Next	8,000 Gallons	7.01	Per 1,000 Gallons
All Over	10,000 Gallons	6.22	Per 1,000 Gallons

1" Meter

First	5,000 Gallons	\$ 42.00	Minimum Bill
Next	5,000 Gallons	7.01	Per 1,000 Gallons
All Over	10,000 Gallons	6.22	Per 1,000 Gallons

2 " Meter

First	20,000 Gallons	\$ 130.00	Minimum Bill
All Over	20,000 Gallons	6.22	Per 1,000 Gallons

3 " Meter

First	30,000 Gallons	\$ 190.00	Minimum Bill
All Over	30,000 Gallons	6.22	Per 1,000 Gallons

4 " Meter

First	50,000 Gallons	\$ 300.00	Minimum Bill
All Over	50,000 Gallons	6.22	Per 1,000 Gallons

6 " Meter

First	100,000 Gallons	\$ 595.00	Minimum Bill
All Over	100,000 Gallons	6.22	Per 1,000 Gallons

Wholesale Rates

Martin County Water District	\$2.40	Per 1,000 Gallons
Mingo County Public Service	3.75	Per 1,000 Gallons
Nolin Public Service District	2.40	Per 1,000 Gallons

City of Elkhorn

First 215,000 Gallons Per Day	\$2.25	Per 1,000 Gallons
All over 215,000 Gallons Per Day	2.40	Per 1,000 Gallons
Line Leak Adjustment Rate	\$3.60	Per 1,000 Gallons