

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE  
COMMISSION

In the Matter of:

APPLICATION OF KNOTT COUNTY WATER )  
AND SEWER DISTRICT FOR AUTHORITY TO )  
ISSUE A PROMISSORY NOTE IN THE ) CASE NO. 2008-00161  
APROXIMATE AMOUNT OF \$686,758 TO )  
WHITAKER BANK, INC. TO REFINANCE )  
EXISTING DEBT OBLIGATIONS )

APPLICATION

Pursuant to KRS 278.300, Knott County Water and Sewer District ("Knott District") applies to the Public Service Commission for authorization to enter a loan agreement with and issue a promissory note to Whitaker Bank, Inc. for approximately \$686,758. In support of its application, Knott District states:

1. Knott District is a water district organized pursuant to KRS Chapter 74. A copy of the Knott County Fiscal Court Resolution of February 10, 1999 creating Knott District is set forth in Exhibit A. Knott District is not a private corporation organized pursuant to KRS Chapter 271C or Chapter 273 and therefore does not have any articles of incorporation.

2. Knott District's business and affairs are managed under the direction and oversight of Knott District's Board of Commissioners. The Board of Commissioners is a body corporate with the power to make contracts for the water district and do all acts necessary to carry on the work of the water district.

3. Knott District's mailing address is:

Knott County Water and Sewer District  
P.O. Box 884  
Hindman, Kentucky 41822

4. A general description of Knott District's water system property, together with a statement of the original cost, is contained in Knott District's Annual Report to the Kentucky Public Service Commission for the calendar year ending December 31, 2007 ("Annual Report"). A copy of this report is attached as Exhibit B.

5. Knott District has previously issued three notes to Whitaker Bank for a total of \$916,432.60. The purpose, amount, date, and remaining balance on these notes is set forth below:

<b>Note No.</b>	<b>Date</b>	<b>Initial Amount</b>	<b>Remaining Balance</b>	<b>Interest Rate</b>	<b>Purpose</b>
8411596370	07/06/2006	\$42,150.00	\$18,198.40	4.5%	Refinance Earlier Note
8411729818	04/04/2007	\$500,150.00	\$290,676.00	8.25%	Refinance Earlier Note
8411741818	07/27/2007	\$374,132.36	\$374,132.36	5.5%	Refinance Earlier Note

6. Knott District proposes to issue a promissory note to Whitaker Bank in the estimated principal amount of \$686,758 for the purpose of refunding the outstanding three promissory notes. The proposed note will be for a period of 5 years and have an estimated interest rate of 5.5 percent.

7. A schedule of the estimated principal and interest payments for the proposed note is set forth in Exhibit C. This schedule and the estimated interest rate are subject to change because of market conditions.

8. The proceeds of the proposed promissory note will provide Knott District with the funds necessary to refund the prior notes that Whitaker Bank currently holds and pay any processing fees related to the refinancing.

9. It is anticipated that the proposed refinancing of the existing notes will result in a significant savings to Knott District.

10. The amortization schedule of Knott District's current notes that Whitaker Bank holds is set forth in Exhibit D.

11. Knott District represents that the issuance of the proposed promissory note and loan agreement is in the public interest, is intended to strengthen Knott District's financial condition by producing significant debt service savings, is a lawful object within Knott District's corporate purposes, is necessary and appropriate for and consistent with Knott District's proper performance of its service to the public, and will not impair Knott District's ability to perform that service.

12. The financial schedules and other information necessary for the financial exhibit that 807 KAR 5:001, Sections 6 and 11(2)(a), requires are set forth in Knott District's 2007 Annual Report, which is attached as Exhibit B.

13. In accordance with 807 KAR 5:001, Section 6, the following information is provided:

- a. Knott District has no authorized stock.
- b. Knott District has no issued or outstanding stock.
- c. Knott District has not issued any preferred stock.
- d. Knott District has authorized or issued the following bonds as of the

date of this application:

Bond Holder	Date of Issuance	Face Value	Interest Rate	Remaining Balance	Date of Maturity	Security
Rural Development	12/19/2003	\$185,000	4.5%	\$185,000	12/18/2043	All Revenues
Rural Development	03/08/2007	\$100,000	4.125%	\$100,000	03/07/2047	All Revenues

e. In addition to the outstanding notes described above, Knott District issued a note to the Kentucky Infrastructure Authority on or about August 1, 2004 in the amount of \$558,321 with a maturity date of June 1, 2022. The interest rate on this loan varies between 2.250 and 4.625 percent. As of October 1, 2008, the current balance on this loan is \$547,000. Knott District also owes accrued interest of \$85,753.83 and service fees of \$4,032.64.

14. Knott District requests a deviation from the requirements of 807 KAR 5:001, Sections 6, which requires that the financial exhibit cover a 12-month period of operations ending no more than 90 days from the date on which an application is filed. There has been no material change in the financial condition or operation of Knott District since December 31, 2007. The financial exhibit filed with this Application is for the 12-month period ending December 31, 2007 and represents the most recently published information about the water district. Preparation of a financial exhibit for a more recent period would involve additional expense and would unduly delay efforts to refinance Knott District's outstanding notes.

15. The proposed issuance of indebtedness will not require an adjustment of Knott District's rates.

WHEREFORE, Knott District respectfully requests that the Commission:

1. Authorize the issuance of the promissory note and security agreement requested in the Application;
2. Grant Knott District a deviation, to the extent necessary, from 807 KAR 5:001, Section 6, to allow submission of Knott District's Annual Report for 2007 in lieu of more recent financial information; and
3. Review this Application without a formal hearing.

Respectfully,



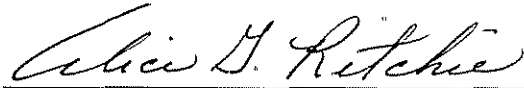
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STATE OF KENTUCKY    )  
  ) SS  
COUNT OF KNOTT        )

The affiant, Alice G. Ritchie, being first duly sworn, states: That she is the Chair of the Knott County Water and Sewer District, the Applicant in this case; that she has read the foregoing Application and understands its contents; that the same are true of her own knowledge and belief, except to matters which are stated to be based on information or belief, and that these matters she believes to be true and correct.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on the \_\_\_\_\_ day of October, 2008.



Alice G. Ritchie, Chair  
Knott County Water and Sewer District

SUBSCRIBED, SWORN TO AND ACKNOWLEDGEED before me by Alice G. Ritchie, Chair, Knott County Water and Sewer District, on this the 30<sup>th</sup> day of October, 2008.

My Commission expires: 11/26/09

  
NOTARY PUBLIC