

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE ADAIR COUNTY WATER )  
DISTRICT FOR A CERTIFICATE OF PUBLIC )  
CONVENIENCE AND NECESSITY TO )  
CONSTRUCT A WATER IMPROVEMENTS ) CASE NO. 2013-00016  
PROJECT AND TO ISSUE SECURITIES IN THE )  
APPROXIMATE AMOUNT OF \$446,000 TO )  
FINANCE SAID PROJECT PURSUANT TO KRS )  
278.020, 278.300 AND 807 KAR 5:001 )

ORDER

Adair County Water District ("Adair District") has applied for a Certificate of Public Convenience and Necessity for a water main extension and for authority to execute an assistance agreement with Kentucky Infrastructure Authority ("KIA").<sup>1</sup> Having reviewed the application and being otherwise sufficiently advised, the Commission finds that:

1. Adair District, a water district organized pursuant to KRS Chapter 74, owns and operates water distribution facilities that serve approximately 7,668 customers in Adair County, Kentucky.<sup>2</sup>

2. Adair District proposes to replace 10,400 linear feet of 6-inch water distribution main with 10,400 linear feet of 8-inch polyvinyl chloride ("PVC") water distribution main along Kentucky Highway 80 East/Russell Creek Road, to install 4,400

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<sup>1</sup> Adair County tendered its application on January 14, 2013. In its application, it requested a deviation from 807 KAR 5:001, Section 17(2). On January 31, 2013, the Commission granted this request and accepted the Application for filing. No person or entity has sought intervention in this proceeding.

<sup>2</sup> *Annual Report of Adair County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2011* at 5, 27.

linear feet of 3-inch PVC water distribution main on Lory Road, and to construct a 250-gallon-per-minute water booster pump station and related appurtenances.

3. The proposed construction will improve water service to the Kentucky Highway 80 East/Russell Creek Road area and provide water service to three additional customers along Lory Road in Adair County.

4. The estimated total cost of the proposed project, including construction cost, contingencies, engineering and inspection fees, is \$445,139.74.

5. Monarch Engineering, Inc., of Lawrenceburg, Kentucky, prepared the plans and specifications for the proposed project.

6. The Division of Water of the Kentucky Energy and Environment Cabinet has approved the plans and specifications for the proposed construct.

7. The proposed construction will not compete or conflict with the facilities of other jurisdictional utilities operating in the same area.

8. The proposed construction will not result in the wasteful duplication of utility facilities or excessive investment.

9. The proposed construction is part of the Phase 11-2 Water Improvements and Extension Project. This project involves the construction of a 300,000-gallon water storage tank, the replacement and enlargement of approximately 10,000 linear feet of water-distribution main that will extend from the new water storage tank towards Kentucky Highway 80 East, the construction of a transmission main to connect the northeastern portion of Adair District's distribution system to its southern portion, the construction of 84,000 linear feet of 3-inch water-distribution main to serve 76 additional

customers, and replacement of approximately 46,000 linear feet of 12-inch, 6-inch and 4-inch water main.

10. Estimated total cost of the Phase 11-2 Water Improvements and Extension Project is \$3,554,000.

11. Adair District proposes to finance Phase 11-2 Water Improvements and Extension Project through a \$1,500,000 loan from KIA and through local funds of \$2,054,000.<sup>3</sup>

12. On August 4, 2012, KIA approved a loan of \$1,500,000 from the Drinking Water State Revolving Fund to finance the Phase 11-2 Water Improvements and Extension Project. KIA offered to provide a loan to be repaid over a 20-year term an interest rate of 1.0 percent per annum. Under the terms of this Agreement, approximately 40 percent of the principal amount, or \$600,000, will be forgiven.<sup>4</sup>

13. KIA has placed as a condition to the loan that Adair District execute an assistance agreement with KIA no later than August 5, 2012.<sup>5</sup>

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<sup>3</sup> In its application for funding to the Kentucky Infrastructure Authority, Adair District represented that Rural Development would provide \$2,054,000 in funds for the project. While Rural Development has recently provided that level of funding to Adair District, the funding documents did not reference the Phase 11-2 Water Improvements and Extension Project. See Case No. 2012-00018, *Application of the Adair County Water District, a Water District Organized Pursuant To Chapter 74 of the Kentucky Revised Statutes in Adair County, Kentucky For (1) A Certificate of Public Convenience and Necessity Authorizing and Permitting Said Water District to Construct Water Distribution System Improvements, (2) Approval of the District's Plan of Financing Said Improvements Through the Issuance of the District's Water Revenue Bonds, and (3) The Approval of Increases In the District's Rates and Charges For Water Service* (Ky. PSC filed Jan. 13, 2012).

<sup>4</sup> Letter from Kasi L. White, Financial Analyst, Kentucky Infrastructure Authority to Danny Downey, Chairman, Adair County Water District (Aug. 5, 2011).

<sup>5</sup> *Id.* at 1.

14. At Adair District's request, KIA extended the time period for executing the Assistance Agreement to February 5, 2013.<sup>6</sup>

15. Adair District's failure to execute the proposed Assistance Agreement with KIA by February 5, 2013 will result in the rescission of KIA's commitment to fund the Phase 11-2 Water Improvements and Extension Project

16. Except for the portion of the Phase 11-2 Water Improvements and Extension Project set forth in its current Application, Adair District has not yet applied for a Certificate of Public Convenience and Necessity for that Project.

17. The proposed Assistance Agreement with KIA is for lawful objects within Adair District's corporate purpose, is necessary, appropriate for and consistent with the proper performance of Adair District's service to the public, will not impair Adair District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

18. No determination is made in this Order regarding the need for or reasonableness of those portions of the Phase 11-2 Water Improvements and Extension Project that are not included in the Application, nor is use of any proceeds from Adair District's proposed KIA loan for those improvements authorized until and unless Adair District is granted a Certificate of Public Convenience and Necessity to construct such improvements.

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<sup>6</sup> Letter from John Covington, Executive Director, Kentucky Infrastructure Authority to Danny Downey, Chairman, Adair County Water District (Aug. 31, 2012).

IT IS THEREFORE ORDERED that:

1. Adair District is granted a Certificate of Public Convenience and Necessity to proceed with the proposed construction as set forth in the plans and specifications filed with the Commission in this case.

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

3. Any deviation from the construction approved shall be undertaken only with the approval of the Commission.

4. Adair District shall furnish documentation of the total costs of this construction including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

5. Adair District shall file with the Commission 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 substantial completion of the construction certificated herein.

6. Adair District shall require the construction to be inspected under the general supervision of a licensed professional engineer with a Kentucky registration in civil, electrical, or mechanical engineering to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

7. Adair District is authorized to enter the proposed Assistance Agreement with KIA and, under the terms of that Agreement, to borrow from KIA an amount not to exceed \$1,500,000, 40 percent of the principal to be forgiven over the life of the loan and the remaining portion to be repaid over a 20-year period at an interest rate of 1 percent per annum.

8. Within 30 days of executing its proposed Assistance Agreement with KIA, Adair District shall file with the Commission an executed copy of the Assistance Agreement.

9. Adair District shall use the proceeds from the proposed Assistance Agreement with KIA only for the lawful purposes set forth in its application. None of the proceeds, however, shall be used for the construction of any of the improvements that are part of the Phase 11-2 Water Improvements and Extension Project, except those clearly identified in Adair District's Application in this proceeding, unless and until Adair District is granted a Certificate of Public Convenience and Necessity to construct such improvements.

10. Any documents filed pursuant to ordering paragraphs 2, 4, 5, and 8 shall reference this case number and shall be retained in the utility's general correspondence file.

11. The Executive Director shall serve a copy of this Order upon KIA.

Nothing contained herein shall be deemed a warranty or guarantee of the Commonwealth of Kentucky, or any agency thereof, of the evidences of indebtedness authorized herein.

By the Commission

ENTERED <sup>74</sup>  
JAN 31 2013  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2013-00016

Honorable W. Randall Jones  
Attorney at Law  
Rubin & Hays  
Kentucky Home Trust Building  
450 South Third Street  
Louisville, KENTUCKY 40202