

DAMON R. TALLEY, P.S.C.

112 N. LINCOLN BLVD.
P.O. BOX 150
HODGENVILLE, KENTUCKY 42748

TEL. (270) 358-3187
FAX (270) 358-9560

DAMON R. TALLEY

ATTORNEY AT LAW

March 5, 2012

Mr. Jeff Derouen
Executive Director
Public Service Commission
PO Box 615
Frankfort, KY 40602

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PUBLIC SERVICE
COMMISSION

RE: Adair County Water District
Case No. 2011-00478

Dear Mr. Derouen:

The Commission's Order in this case dated December 27, 2011 imposed certain requirements upon the Adair County Water District (Adair District). A summary of these requirements and Adair District's response are set forth below:

1. **KIA Loan.** To advise the Commission within 30 days after executing the proposed KIA Loan Assistance Agreement (Loan Agreement);

Response: On February 9, 2012, Adair District's Board of Commissioners approved the proposed Loan Agreement. It was executed by the Chairman of Adair District on or about February 9, 2012 and returned to KIA. Adair District does not yet have a fully executed Loan Agreement because the Loan Agreement must still be executed by KIA, the Secretary of the Finance and Administration Cabinet, and the Director of the Division of Water. The Loan Agreement contains the same terms and conditions set forth in Adair District's Application to the Commission.

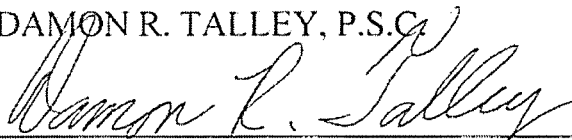
2. **Rate Increase.** To file an application to adjust water rates no later than February 25, 2012.

Response. On January 13, 2012, Adair District filed, pursuant to KRS 278.023, an application seeking: (a) a CPCN; (b) approval to issue Revenue Bonds in the amount of \$1,459,000 to be purchased by Rural Development (RD); and (c) **an adjustment of its water rates** (see PSC Case No. 2012-0018). The Commission issued an Order on February 3, 2012 approving the proposed rates and granting the other relief requested by Adair District. On March 2, 2012, Adair District filed a new Tariff Sheet containing the rates set forth in Appendix A of the Commission's February 3, 2012 Order (see TFS 2012-00140). According to Adair District's consulting engineer and RD officials, the rates approved by the Commission in PSC Case No. 2012-0018 should be sufficient to enable Adair District to service all outstanding RD bonds and KIA loans; to service the new RD bonds approved in PSC Case No. 2012-0018; to service the new KIA debt approved in PSC Case No. 2011-00478; and to maintain the required debt service coverage.

Should you need any additional information, please let me know.

Yours truly,

DAMON R. TALLEY, P.S.C.



DAMON R. TALLEY, ATTORNEY FOR
ADAIR COUNTY WATER DISTRICT

DRT:ms

cc: Adair County Water District