

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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|--------------------------------------|---|---------------------|
| THE APPLICATION OF THE ADAIR COUNTY |) | |
| WATER DISTRICT, A WATER DISTRICT |) | |
| ORGANIZED PURSUANT TO KRS CHAPTER 74 |) | |
| OF THE KENTUCKY REVISED STATUTES, IN |) | CASE NO. 2007-00473 |
| ADAIR COUNTY, KENTUCKY FOR THE |) | |
| APPROVAL OF A PLAN OF FINANCING |) | |
| IMPROVEMENTS TO THE DISTRICT'S WATER |) | |
| DISTRIBUTION SYSTEM |) | |

ORDER

On November 7, 2007, Adair County Water District (“Adair District”) applied for authority to borrow \$1,000,000 from the Kentucky Infrastructure Authority (“KIA”) repayable over a 20-year term at an interest rate of 1 percent per annum to fund a proposed construction project.

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Adair District is a water district that provides water service to approximately 5,635 customers in Adair County, Kentucky.
2. Adair District intends to construct a proposed waterworks improvement project (“Phase I Project”) that consists of the construction and installation of approximately 39,800 linear feet of 12-inch water main and a 500,000-gallon water storage tank.
3. Adair District estimates the cost of the Phase I Project as \$2,302,000.

4. Adair District proposes to finance the Phase I Project with a loan of \$752,000 from the United States Department of Agriculture Rural Development (“RD”), a grant of \$550,000 from RD, and a grant of \$1,000,000 from KIA.

5. The Commission has previously granted a Certificate of Public Convenience and Necessity to Adair District for construction of the Phase I Project and authorized Adair District’s entry into a loan agreement with RD.¹

6. Adair District intends to construct an additional water improvement project (“Phase II Project”). This project consists of undisclosed water system improvements, the construction and installation of an undetermined amount of water main, and the purchase and installation of an undetermined amount of radio read water meters to expand Adair District’s existing radio read metering system. Adair District has not yet completed engineering designs and studies or obtained the governmental permits necessary to begin construction of the Phase II Project

7. Adair District estimates the cost of the Phase II Project as \$1,000,000.

8 KIA has approved a loan in the amount of \$1,000,000 to Adair District to finance the Phase II Project. KIA further will permit Adair District to use the proceeds of this loan to displace the proceeds of the RD loan and grant, provided that those proceeds are used for the Phase II Project.

¹ Case No. 2007-00195, The 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 Adair Water District to Construct Water Distribution System Improvements, Consisting of the Construction of Extensions, Additions and Improvements to the District’s Water System and (2) the Approval of the Proposed Plan of Financing said Improvements (Ky. PSC June 14, 2007).

9. Adair District asserts that its failure to enter into a loan agreement with KIA prior to completion of the engineering designs and studies or obtaining the governmental permits will greatly decrease the likelihood that the loan will be issued.

10. Adair District requests that proceeds from the KIA loan be pooled with Phase I Project funding sources to permit Phase I Project and Phase II Project construction costs to be paid from available financing sources.²

11. Adair District's proposed loan is for a lawful object within its corporate purpose, is necessary, and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

12. Adair District has requested a deviation from Administrative Regulation 807 KAR 5:001, Section 11(2)(a), which requires the filing of a financial exhibit covering "operations for a twelve (12) month period . . . ending not more than ninety (90) days prior to the date the application is filed."³ It has provided its financial statements for calendar year 2006 and represents that there has been no change that is material in nature in its financial condition or operation since the publication of these statements.

² For example, if the proceeds of the KIA loan are available to pay Phase I Project costs and RD has yet to disburse funds to Adair District, Adair District may use the KIA loan proceeds to pay Phase I Project costs. When RD disburses the proceeds from the loan and grant, Adair District would use these funds for Phase II Project costs.

³ Administrative Regulation 807 KAR 5:001, Section 6. Administrative Regulation 807 KAR 5:001, Section 11(2)(a), refers to Section 6. While Adair District in its application requested a deviation from Administrative Regulation 807 KAR 5:001, Section 6, its requested relief requires a deviation from 807 KAR 5:001, Section 11(2)(a).

13. Adair District has demonstrated that good cause exists to permit its deviation from Administrative Regulation 807 KAR 5:001, Section 11(2)(a).

Having considered the evidence of record and being otherwise sufficiently advised, the Commission HEREBY ORDERS that:

1. Adair District's request for permission to deviate from Administrative Regulation 807 KAR 5:001, Section 11(2)(a), is granted and its application is accepted for filing as of November 9, 2007.

2. Adair District is authorized to borrow an amount from KIA not to exceed \$1,000,000 at an interest rate not to exceed 1 percent per annum and with a repayment period of 20 years.

3. Within 30 days of executing its loan agreement with KIA for the amount authorized herein, Adair District shall advise the Commission in writing that the loan agreement was executed and the interest rate, repayment term, and principal amount of the loan.

4. Adair District shall use the proceeds from the approved transaction with KIA only for the purposes set forth in its application. These purposes may include the payment of Phase I Project costs provided Adair District reallocates an equal amount of proceeds from debt instruments that the Commission authorized in the Order of June 14, 2007 in Case No. 2007-00195 for Phase II Project costs.

5. Adair District shall deposit and maintain the proceeds from any debt instruments that the Commission has authorized in this Order or in the Order of June 14, 2007 in Case No. 2007-00195 into an interest bearing account.

6. Adair District shall not undertake any construction related to the Phase II Project until obtaining a Certificate of Public Convenience and Necessity.

7. Order paragraph 4 of the Commission's Order of June 14, 2007 in Case No. 2007-00195 is amended to permit the use of proceeds from the debt instruments that the Commission authorized in that proceeding for Phase II Project costs. Adair District, however, shall use such proceeds only to replace the proceeds from the KIA loan that are used for Phase I Project costs.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 12th day of December, 2007.

By the Commission

ATTEST:


Executive Director