

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KNOTT COUNTY WATER)
AND SEWER DISTRICT FOR AUTHORITY TO)
ISSUE A PROMISSORY NOTE IN THE) CASE NO. 2008-00461
APPROXIMATE AMOUNT OF \$686,758 TO)
WHITAKER BANK, INC. TO REFINANCE)
EXISTING DEBT OBLIGATIONS)

ORDER

Knott County Water and Sewer District ("Knott District") has applied to the Commission for the authority to enter a loan agreement with and to issue a promissory note to Whitaker Bank, Inc. ("Whitaker Bank") in the approximate amount of \$686,758. Having considered the application and being otherwise sufficiently advised, the Commission finds that:

1. Knott District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that treat and distribute water to approximately 440 customers in Knott County, Kentucky and that collect and treat wastewater for approximately 132 customers in Knott County, Kentucky.

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

Note No.	Date	Initial Amount	Remaining Balance	Interest Rate	Purpose
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

3. Knott District proposes to issue a promissory note to Whitaker Bank in the estimated principal amount of \$686,758 and to execute a loan assistance agreement with Whitaker Bank that pledges the revenues from its water and sewer operations as collateral for the proposed promissory note. The proposed note will be for a period of 5 years and have an estimated interest rate of 5.5 percent.

4. Knott District will use the proceeds from the proposed promissory note to refund its outstanding three promissory notes to Whitaker Bank.

5. The proposed refinancing will result in savings on Knott District's current interest payments and provide Knott District with additional time in which to meet its debt obligations to Whitaker Bank.

6. Knott District's issuance of the proposed promissory note is for a lawful object within Knott District's corporate purposes, is necessary or appropriate for or consistent with the proper performance of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

7. Knott 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."¹ It has provided its financial statements for calendar

¹ Administrative Regulation 807 KAR 5:001, Section 6. Administrative Regulation 807 KAR 5:001, Section 11(2)(a), refers to Section 6. While Knott 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).

year 2007 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

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

9. Knott District is significantly in arrears in its principal and interest payments on an outstanding loan in the original amount of \$558,321 with the Kentucky Infrastructure Authority. Knott District's failure to meet its obligations under this loan agreement may pose a risk to Knott District's ability to provide water and sewer service to the public. Knott District should report to the Commission on the present status of its efforts to pay this loan and its plans for eliminating the present arrearages under that loan agreement.

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

1. Knott 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 October 30, 2008.

2. Knott District is authorized to issue a promissory note to Whitaker Bank in an amount not to exceed \$686,758 at an interest rate not to exceed 5.5 percent per annum and with a repayment period of 5 years.

3. Knott District is further authorized to execute a loan assistance agreement with Whitaker Bank that pledges the revenues from its water and sewer operations as collateral for the proposed promissory note.

² Knott District filed its application on October 30, 2008.

4. Within 30 days of executing the proposed promissory note and loan agreement with Whitaker Bank for the amount authorized herein, Knott District shall advise the Commission in writing of the execution of the promissory note and loan agreement and the interest rate, repayment term, and principal amount of the note. If the terms and conditions of the promissory note differ from those set forth in the application, Knott District shall include with its written advisement amortization schedules and workpapers that demonstrate the actual gross savings that resulted from the refunding of the existing promissory notes to Whitaker Bank.

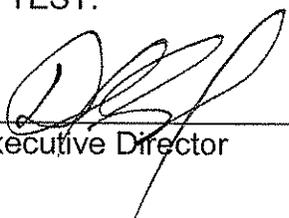
5. Knott District shall use the proceeds from the approved transaction with Whitaker Bank only for the purposes set forth in its application.

6. Within 60 days of the date of this Order, Knott District shall file with the Commission a report on its current efforts to meet its obligations under its loan agreement with the Kentucky Infrastructure Authority and its plan for eliminating the present arrearages under that loan agreement.

Done at Frankfort, Kentucky, this 3rd day of November, 2008.

By the Commission

ATTEST:



Executive Director