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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

DEC 29 2008
PUBLIC SERVICE
COMMISSION

In the Matter of:

CENTER RIDGE WATER DISTRICT, INC.)
_____) CASE NO. 2008-00145
ALLEGED VIOLATIONS OF 807 KAR 5:066)

STIPULATION AND AGREEMENT

This Agreement made and entered on December 29, 2008, by and between the STAFF OF THE PUBLIC SERVICE COMMISSION ("Commission Staff") and CENTER RIDGE WATER DISTRICT, INC. ("Center Ridge").

WITNESSETH:

THAT WHEREAS, Commission Staff issued a Utility Inspection Report that contains the findings of its inspection of Center Ridge's facilities on June 5, 2007;

WHEREAS, Commission Staff in its Utility Inspection Report found that, at the time of the inspection, certain of Center Ridge's facilities failed to comply with Administrative Regulation 807 KAR 5:066 and Center Ridge was not operating its facilities in accordance with that regulation;

WHEREAS, on July 17, 2008, the Public Service Commission found that prima facie evidence existed that Center Ridge had failed to comply with Administrative Regulation 807 KAR 5:066;

WHEREAS, on July 17, 2008, the Public Service Commission ordered Center Ridge to show cause why it should not be subject to the penalties of KRS 278.990 for its alleged violations of 807 KAR 5:066; and

WHEREAS, Center Ridge and Commission Staff stipulate that:

1. Center Ridge is a corporation organized pursuant to KRS Chapter 271B and owns and operates facilities that treat and distribute water to the public for compensation in Calloway County, Kentucky.
2. Center Ridge is a utility subject to the jurisdiction and regulation of the Public Service Commission.
3. Administrative Regulation 807 KAR 5:066 prescribes general rules for the operation of water utilities.
4. On June 5, 2007, Commission Staff inspected Center Ridge's facilities and records.
5. Commission Staff prepared a report of the findings of its inspection ("Commission Staff Inspection Report"), a copy of which is attached as Exhibit A to this Stipulation and Agreement.
6. The Commission Staff Inspection Report accurately describes and sets forth the condition of Center Ridge's facilities as they existed on June 5, 2007.
7. The conditions set forth in the Commission Staff Inspection Report were still present as of October 31, 2008.
8. Center Ridge has failed to install an approved flushing hydrant or blowoff for flushing purposes on dead end mains in certain portions of its distribution systems as required by 807 KAR 5:066, Section 8(2).
9. Center Ridge has allowed the presence of loose electrical wiring at all of its distribution systems and failed to operate and maintain its distribution systems in a manner to provide adequate and safe service as required by 807 KAR 5:066, Section 7.
10. Center Ridge has allowed the water storage tank serving Center Ridge System No. 3 to rust and develop leaks and thus has failed to operate and maintain its distribution systems in a manner to provide adequate and safe service to its customers as 807 KAR 5:066, Section 7 requires.

11. The distribution mains for Center Ridge System No. 1 and Center Ridge No. 4 are poorly designed for the installation of blowoff valves and flushing hydrants. Moreover, the mains are in poor condition, are poorly suited for use in a water distribution system, and should be replaced as soon as practical.

12. Center Ridge has applied for a grant from the Kentucky Infrastructure Authority ("KIA") for funds to rehabilitate and refurbish the water distribution mains in Center Ridge System 4. The proposed project has been given the identifier WX21035016.

13. In its 2008 Session, the General Assembly authorized the expenditure of \$190,000 from the proceeds of a \$150,000,000 bond issuance for Economic Development Fund for Non-Coal Producing Counties for the rehabilitation of water mains within Center Ridge's System No. 4.

14. On September 5, 2008, Center Ridge requested that Commission Staff assist it in the preparation of an application for rate adjustment.

WHEREAS, Center Ridge and Commission Staff desire to resolve the issues presented in this proceeding and to develop a plan to improve the quality of Center Ridge's facilities and service and to better the utility's financial integrity;

NOW, THEREFORE, Center Ridge and Commission Staff agree:

1. No later than January 1, 2009, Center Ridge shall repair the water storage tank that serves Center Ridge System No. 3 and restore it to a condition that meets the requirements of 807 KAR 5:066, Section 7, and ensures adequate and safe service to its customers, as required.

2. No later than January 1, 2009, Center Ridge shall repair the loose electrical wiring at all of its distribution and pumping facilities in a manner to provide adequate and safe service to its customers as 807 KAR 5:066, Section 7, requires.

3. No later than February 28, 2009, Center Ridge shall develop a written flushing program for each of its distribution systems and henceforth will maintain contemporaneous records evidencing compliance with 807 KAR 5:066, Section 8(2).

4. a. Center Ridge shall actively pursue its pending grant applications with KIA and the Calloway County Fiscal Court and will exercise all efforts within its control to obtain the issuance of the grant funds that the General Assembly has allocated.

b. Within 60 days of receiving the proceeds of any KIA grant, Center Ridge shall complete the design work for the proposed rehabilitation of Center Ridge System No. 4 and submit the plans and designs to the Kentucky Division of Water and Public Service Commission for approval.

c. Within 45 days of obtaining the approval of the Kentucky Division of Water and Public Service Commission for its plans and designs, Center Ridge shall commence replacement and rehabilitation of Center Ridge System No. 4 water distribution mains.

5. Center Ridge shall actively pursue applications for additional funding from KIA and other funding sources to finance the rehabilitation and replacement of Center Ridge System No. 1 distribution mains.

6. No later than March 31, 2009, Center Ridge shall apply to the Public Service Commission for rate adjustment to obtain rates to operate adequately its water distribution systems. Center Ridge shall fully cooperate with Commission Staff in the preparation of an application for rate adjustment and shall provide all requested documents and information necessary for Commission Staff's preparation of such application.

7. On or before January 1, 2009, Center Ridge shall contact and request the assistance of Kentucky Rural Water Association ("KRWA") to improve the operation of its water production and distribution systems through KWRA's Utility Optimization Program. Center Ridge shall fully cooperate with KWRA's Staff and shall exercise good faith efforts to implement its recommendations.

8. Beginning March 31, 2009, and every 3 months thereafter until the Public Service Commission directs otherwise, Center Ridge shall advise the Public Service Commission in writing of its efforts to rehabilitate its water distribution mains and to comply with the terms of this Agreement.

9. Center Ridge shall be assessed a penalty of \$7,500 for its failure to comply with 807 KAR 5:066. This penalty should be suspended for a period of two years from the date of entry of an Order approving this Agreement. If, at the end of those two years, Center Ridge has fully complied with the terms of this Agreement and has otherwise complied with the provisions of KRS Chapter 278 and 807 KAR 5:066, this penalty shall be vacated.

10. If, at any time within two years from the date of entry of an Order approving this Agreement, Center Ridge fails to comply with the terms of this Agreement or with the provisions of KRS Chapter 278 and 807 KAR 5:066, the suspension period shall immediately terminate and the penalty shall become immediately due and payable.

11. This Agreement is subject to the acceptance of and approval by the Public Service Commission.

12. If the Public Service Commission fails to accept and approve this Settlement Agreement in its entirety, this proceeding shall go forward and neither the

terms of this Settlement Agreement nor any matters raised during settlement negotiations shall be binding on any signatory.

13. If the Public Service Commission accepts and adopts this Settlement Agreement in its entirety and enters an order in this proceeding to that effect, Center Ridge shall not apply for rehearing in this proceeding nor bring an action for review of that order.

IN WITNESS WHEREOF, Commission Staff and Center Ridge have executed this Agreement the day and year first above written.

STAFF OF PUBLIC SERVICE COMMISSION
OF KENTUCKY

BY: Virginia Gregg

TITLE: Staff Attorney

CENTER RIDGE WATER DISTRICT, INC.

BY: William Duncan

TITLE: Owner & operator