

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HARDIN COUNTY WATER)	
DISTRICT NO. 2 FOR AUTHORITY TO		
EXECUTE A PROMISSORY NOTE IN THE)	CASE NO.
PRINCIPAL AMOUNT OF \$8,000,000)	2014-00289
PURSUANT TO THE PROVISIONS OF KRS)	
278.300 AND 807 KAR 5:001		

ORDER

On July 28, 2014, Hardin County Water District No. 2 (“Hardin County”)¹ and the city of Elizabethtown (“E-town”)² entered into an Asset Purchase Agreement (“Agreement”) pursuant to which Hardin County will assume a 20-year, interest-free promissory note payable to E-town in the amount of \$8 million in exchange for E-town’s water system assets that had a net book cost of \$5,899,140³ as of December 31, 2013.⁴ The transaction is scheduled to close on October 31, 2014. On August 15,

¹ Hardin County is a water district formed pursuant to KRS Chapter 74. It provides wholesale water service to E-town and retail water service to approximately 17,000 customers that reside in Hardin, Hart, and LaRue Counties, Kentucky.

² E-town, a city of the fourth class located in Hardin County, Kentucky, provides retail water service to approximately 9,500 customers.

³ Hardin County’s Supplemental Response to Commission Staff’s Request for Information, Item 28.f.

⁴ E-town will not transfer ownership of all its water assets to Hardin County. The water assets that will be transferred are listed in the Application, Exhibit 4, pages 4-11. The water assets that will not be transferred are listed in Exhibit 4, pages 12-15.

2014,⁵ Hardin County submitted an Application to the Commission, as required by KRS 278.300, seeking authorization to enter into the promissory note.

Pursuant to the terms of the promissory note, Hardin County will pay E-town \$400,000 per year for 20 years beginning 12 months from the note's closing date. The annual payments total \$8 million. Although the note has no stated rate of interest, Hardin County will impute interest annually at 2.745 percent for accounting and reporting purposes. As a result, Hardin County will report the note's original principal balance at \$6,093,748. Hardin County will systematically recognize the remaining portion of the payments, \$1,906,252, as interest expense over the note's 20-year term. Hardin County states that this method of accounting is consistent with the reporting requirements of the Financial Accounting Standards Board and the Governmental Accounting Standards Board.⁶

Following the accounting requirements of the Uniform Systems of Accounts ("USoA"), Hardin County will record the acquired assets at their net book cost as reported by E-town on the date of transfer. Hardin County will record an acquisition adjustment for the difference between the assets' net book cost and their purchase price. Based on the assets' net book cost at December 31, 2013, the acquisition

⁵ After Hardin County corrected a filing deficiency, the Commission accepted the application for filing on August 26, 2014.

⁶ Hardin County's Supplemental Response to Commission Staff's Request for Information, Items 35.a.-35.d.

adjustment would be \$194,608.⁷ Hardin County proposes to amortize the acquisition adjustment over the 20-year term of the promissory note.

While Hardin County did not request that the Commission evaluate the reasonableness of the amount of the estimated acquisition adjustment for ratemaking purposes, it addressed future rate recovery through presentation of evidence that the transaction satisfies each element of the five-step "Delta Test"⁸ that was first developed and applied by the Commission in Case No. 9059.⁹

Immediately upon the asset transfer, Hardin County will assume all rights and responsibilities associated with providing retail water service to E-town's customers. The Agreement requires that, subsequent to the asset transfer, Hardin County will implement and assess E-town's customers the volumetric water service rates that were passed by E-town's city council on February 18, 2014, as part of Ordinance 07-2014.¹⁰ These rates include the four-step rate phase-in plan that is appended hereto. To satisfy the requirement of the Agreement, Hardin County requested to amend its tariff to include the phase-in rate plan. E-town's customers will be subject to the rules and rates

⁷ The amount of the actual acquisition adjustment will depend on the asset's net book cost on the transfer date.

Purchase Price	\$	6,093,748
Less: Asset's Net Book Cost		<u>(5,899,140)</u>
Acquisition Adjustment	\$	<u>194,608</u>

⁸ Hardin County's application of the Delta Test was provided in its Response to the Commission Staff's Request for Information, Item 27.d.

⁹ Case No. 9059, An Adjustment of Rates of Delta Natural Gas Company, Inc. (Ky. PSC Sept. 11, 1985).

¹⁰ Application, Exhibit 4, pages 18-20.

for service (except for the volumetric rates as set forth in the Agreement) that are included in Hardin County's tariff that is on file with the Commission.

Hardin County states that execution of the Agreement will result in numerous operational economies and is consistent with KRS 74.361 and KRS 224A.300, which encourages regionalization, consolidation, and merger of water utilities wherever feasible.¹¹ Two examples of operational economies that will result from the asset transfer are savings on capital expenditures and more efficient customer account and administrative services. Hardin County states that the merged system will not be required to construct additional storage facilities that are currently planned by E-town to meet its minimum daily storage requirements.¹² Also, Hardin County recognizes that, as a result of the asset purchase, it will serve approximately 58 percent more customers from its already existing customer service center.¹³

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

1. Hardin County's proposal to enter into the promissory note, as described herein, in exchange for E-town's water system assets is for a lawful object within its corporate purpose, is necessary or appropriate for and consistent with the proper performance of its service to the public, and should be approved.

2. Hardin County's proposed accounting for the promissory note and for the asset purchase is consistent with the accounting and reporting requirements of the

¹¹ Application, page 19.

¹² Hardin County's Response to Commission Staff's Request for Information, Items 7.c. and 20.b.

¹³ *Id.*, Item 27.d., page 7.

Financial Accounting Standards Board, the Governmental Accounting Standards Board, and the USoA.

3. Although Hardin County argues that application of the Delta Test demonstrates that rate recovery of the acquisition adjustment is reasonable, it did not request that the Commission rule on the reasonableness of the adjustment for ratemaking purposes in this proceeding. Therefore, such a ruling shall be deferred to Hardin County's next application for rate adjustment.

4. Hardin County should amend its tariff to include the water service rates that will be assessed to the customers receiving service in the E-town service area.

5. Within 20 days after issuance of this Order, Hardin County should publish notice of the rates, as appended hereto, at least once in a newspaper of general circulation in its entire service territory or place an insert in bills rendered to all customers. Hardin County should use the same format for notice as used in the Notice of Filing of Customer Notice filed with the Commission on October 10, 2014, in this case.

6. No earlier than 30 days, but no later than 20 days prior to the effective date of each new rate phase, Hardin County should publish notice at least once in a newspaper of general circulation in its entire service territory or place an insert in bills rendered to all customers. Hardin County should use the same format for notice as used in the Notice of Filing of Customer Notice filed with the Commission on October 10, 2014, in this case.

IT IS THEREFORE ORDERED that:

1. Hardin County is authorized to enter into a promissory note with E-town that requires Hardin County to pay E-town \$8 million over a 20-year period.

2. Hardin County shall notify the Commission of the purchase of E-town's assets within 10 days of the completion thereof.

3. Hardin County's proposed accounting for the promissory note and the asset purchase is approved.

4. Within 30 days of the completion of the transaction, Hardin County shall file the journal entries used to record the asset purchase that identify the detailed plant accounts to which the assets are recorded.

5. The recording of the acquisition adjustment and its amortization are approved for accounting purposes only. The ratemaking treatment of the adjustment and any associated costs (i.e., amortization and debt service) shall be deferred until Hardin County's next rate case proceeding.

6. The rate phase-in plan appended hereto shall become effective for Hardin County's E-town service area for service rendered on and after November 1, 2014.

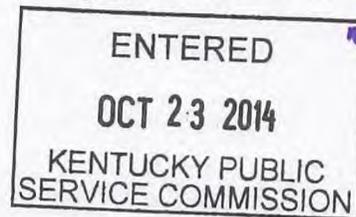
7. Within 20 days of the date of this Order, Hardin County shall publish notice of all rate phases, as appended hereto, at least once in a newspaper of general circulation in its entire service territory or place an insert in bills rendered to all customers. Hardin County shall file with the Commission proof of publication no later than ten days after publication of the notice.

8. No earlier than 30 days, but no later than 20 days prior to the effective date of each new rate phase, as appended hereto, Hardin County shall publish notice of the remaining rate phases at least once in a newspaper of general circulation in its entire service territory or place an insert in bills rendered to all customers. Hardin County shall file with the Commission proof of publication no later than ten days after publication of each notice.

9. Within 20 days of the date of this Order, Hardin County shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets containing the phase-in rate plan approved herein.

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.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00289 DATED **OCT 23 2014**

The following water rates and charges are prescribed for the customers in the area served by Hardin County Water District No. 2's Elizabethtown Service Area for water service rendered on and after November 1, 2014. All other Hardin County Water District rates and charges that are not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

Phase 1

Elizabethtown Service Area

Effective from 11/01/2014 through 06/30/15

First	2,000	gallons	\$12.80	Minimum bill
Next	3,000	gallons	4.85	per 1,000 gallons
Next	5,000	gallons	4.65	per 1,000 gallons
Next	490,000	gallons	4.40	per 1,000 gallons
All Over	500,000	gallons	2.60	per 1,000 gallons

Phase 2

Elizabethtown Service Area

Effective from 07/01/2015 through 06/30/16

First	2,000	gallons	\$14.70	Minimum bill
Next	3,000	gallons	4.95	per 1,000 gallons
Next	5,000	gallons	4.85	per 1,000 gallons
Next	490,000	gallons	4.65	per 1,000 gallons
All Over	500,000	gallons	2.70	per 1,000 gallons

Phase 3

Elizabethtown Service Area

Effective from 07/01/2016 through 06/30/17

First	2,000	gallons	\$16.60	Minimum bill
Next	3,000	gallons	5.05	per 1,000 gallons
Next	5,000	gallons	5.05	per 1,000 gallons
Next	490,000	gallons	4.90	per 1,000 gallons
All Over	500,000	gallons	2.80	per 1,000 gallons

Phase 4
Elizabethtown Service Area
Effective 07/01/2017

First	2,000	gallons	\$18.50	Minimum bill
Next	3,000	gallons	5.15	per 1,000 gallons
Next	5,000	gallons	5.15	per 1,000 gallons
Next	490,000	gallons	5.15	per 1,000 gallons
All Over	500,000	gallons	2.90	per 1,000 gallons

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