COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BUTLER COUNTY WATER)	
SYSTEM, INC. TO ISSUE SECURITIES IN THE)	
APPROXIMATE PRINCIPAL AMOUNT OF)	CASE NO.
\$4,595,000 FOR THE PURPOSE OF REFUNDING)	2010-00419
CERTAIN OUTSTANDING INDEBTEDNESS OF THE)	
ASSOCIATION PURSUANT TO THE PROVISIONS)	
OF KRS 278.300 AND 807 KAR 5:001)	

ORDER

On October 28, 2010, Butler County Water System, Inc. ("Butler Water") applied to the Commission for approval to enter into a loan agreement with the County of Butler, Kentucky to borrow approximately \$4,595,000 to refinance existing long-term debt.

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

- 1. Butler Water, a Kentucky corporation organized pursuant to KRS Chapter 273, owns and operates facilities that produce and distribute water to approximately 4,778 customers in Butler County, Kentucky.¹
- 2. Butler Water proposes to execute an Assistance Agreement with the County of Butler, Kentucky to borrow \$4,595,000, subject to a 10 percent adjustment. The proposed loan will have a 25-year term with interest rates that vary from 2.250 percent to 4.50 percent per annum.²

Report of Butler County Water System, Inc. to the Kentucky Public Service Commission for the Year Ended December 31, 2009 (hereinafter "Annual Report") at 5 and 21.

² Application at 3.

- 3. Butler Water will use proceeds from the proposed loan, together with \$135,791 from its debt service reserve fund and a \$16,354 reoffering premium, to retire nine outstanding promissory notes³ that Rural Development⁴ holds and to pay bond issuance costs.⁵
- 4. Butler Water estimates that its proposed refinancing will result in total gross savings and net present value savings of \$553,779 and \$411,820, respectively.⁶
- 5. Butler Water's proposed loan is for a lawful object within its corporate purpose, is reasonably necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair Butler Water's ability to perform that service, and is reasonably necessary and appropriate for such purpose.
- 6. Butler Water has requested a deviation from 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

³ The basic characteristics of the promissory notes are set forth below. For the outstanding principal amount of each promissory note as of December 31, 2009, see *Annual Report* at 22.

Date of	Outstanding	Interest
Issuance	Principal	Rate
06/27/1977	\$ 136,055	5.00
08/16/1977	72,940	5.00
02/15/1979	61,764	5.00
08/18/1987	254,821	5.00
04/21/1989	685,150	5.00
02/19/1992	593,709	5.00
02/10/1994	1,651,229	5.00
08/08/1996	804,295	4.50
07/07/1998	441,226	4.45
Total	\$4,701,189	

Rural Development is an agency of the United States Department of Agriculture.

⁵ Application at Exhibit B. \$48,247 (Total Underwriter's Discount) + \$43,855 (Cost of Issuance) + \$4,653,897 (Deposit to Current Refunding Fund) + \$1,146 (Rounding Amount) = \$4,747,145.

Id. at Exhibit C.

application is filed."⁷ It has provided its financial statements for calendar year 2009 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.

7. Butler Water has demonstrated good cause to permit its deviation from 807 KAR 5:001, Section 11(2)(a).

IT IS THEREFORE ORDERED that:

- 1. Butler Water's motion to deviate from 807 KAR 5:001, Section 11(2)(a), is granted.
 - 2. Butler Water's application is considered filed as of October 28, 2010.
- 3. Butler Water is authorized to enter into an agreement with the County of Butler, Kentucky to borrow no more than \$5,054,000⁸ for the purpose of refunding the outstanding indebtedness, but only under such terms and conditions that will produce both positive gross savings and net present value savings.
- 4. If the actual terms and conditions of the agreement with the County of Butler, Kentucky differ from those set forth in its application, Butler Water shall, within 30 days of executing the loan agreement, file with the Commission amortization schedules and work papers showing the actual gross savings and net present value savings that will result from the refinancing.

⁷ 807 KAR 5:001, Section 6. 807 KAR 5:001, Section 11(2)(a), refers to Section 6. While Butler Water requests a deviation from 807 KAR 5:001, Section 6, its requested relief requires a deviation from 807 KAR 5:001, Section 11(2)(a). The Commission will consider Butler Water's request as a motion to deviate from 807 KAR 5:001, Section 11(2)(a).

 $^{$4,595,000 \}times 110\% = $5,054,000.$

- 5. Within 30 days of executing the proposed agreement, Butler Water shall file a statement with the Commission setting forth the date on which the agreement was entered, the actual interest rates, and the principal amount.
- 6. The proceeds from the transaction authorized herein shall be used only for the lawful purposes specified in Butler Water's application.
- 7. Any documents filed pursuant to ordering paragraphs 4 and 5 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

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

DEC 0 8 2010

KENTUCKY PUBLIC SERVICE COMMISSION

Executive Director

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