

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE VERIFIED JOINT APPLICATION OF TRI-)
VILLAGE WATER DISTRICT AND KENTUCKY-)
AMERICAN WATER COMPANY FOR THE)
APPROVAL OF THE TRANSFER OF THE) CASE NO. 2001-094
OWNERSHIP OF ASSETS OF TRI-VILLAGE WATER)
DISTRICT TO KENTUCKY-AMERICAN WATER)
COMPANY)

O R D E R

On April 10, 2001, Tri-Village Water District ("Tri-Village") and Kentucky-American Water Company ("KAWC") (collectively "the Joint Applicants") applied for Commission approval of KAWC's purchase of Tri-Village's assets.

The Commission granted the Attorney General's ("AG") motion for intervention on April 16, 2001. On May 14, 2001, the Commission entered a procedural order in this case setting the matter for hearing on May 31, 2001. KAWC notified the Commission by letter on May 18, 2001 that neither it nor Tri-Village desired a hearing of this case.¹ That same day, the AG filed a notice stating that he did not desire a hearing of this case.²

¹ May 18, 2001 letter of Lindsey Ingram, Counsel for KAWC, to Doug Hendrix, Commission Staff.

² Notice Regarding Application and Notice Regarding Discovery. The AG stated further, however, that by filing this notice he "decline[d] to take a position on the issues whether the transaction is in accordance with law, whether the transaction is for a proper public purpose, or whether it is consistent with the public interest." Id. at 1.

Therefore, having considered the application and the evidence of record, the Commission finds that:

1. KAWC is a Kentucky corporation located at 2300 Richmond Road, Lexington, Kentucky. It is wholly owned by American Water Works Company, Inc. located at 1025 Laurel Oak Road, Voorhees, New Jersey.³

2. As of December 31, 2000, KAWC had net utility plant valued at \$189,561,668. For this period, KAWC reported long-term debt of \$42,000,000 and total equity capital of \$66,310,164.⁴

3. As of December 31, 2000, KAWC served 89,476 residential customers, 7,801 commercial customers, and 16 industrial customers in Bourbon, Fayette, Harrison, Scott, Clark and Woodford counties, Kentucky. In addition, KAWC sells water for resale to customers in Bourbon, Jessamine, Scott and Woodford counties, Kentucky.⁵

4. For the calendar year 2000, KAWC recorded operating revenues of \$38,689,332 and utility operating expenses of \$26,836,756, resulting in net utility operating income of \$11,852,576.⁶

5. Tri-Village is a water district organized pursuant to KRS Chapter 74. It was established in 1961. As of December 31, 1999, Tri-Village provided water service to

³ Annual Report of Kentucky-American Water Company to the Public Service Commission For The Year Ended December 31, 2000 at 6.

⁴ Id. at 7.

⁵ Id. at 31, 33.

⁶ Id. at 11.

1504 residential and 29 commercial customers in Owen, Gallatin and Grant counties, Kentucky.⁷

6. As of December 31, 2000, Tri-Village had total utility plant of \$2,730,248.⁸ In addition, Tri-Village reported long-term debt and accrued liabilities of \$1,678,700 and \$73,977, respectively.⁹

7. For the calendar year ending December 31, 2000, Tri-Village recorded operating revenues of \$701,502 and utility operating expenses of \$609,791, resulting in net utility operating income of \$91,711.¹⁰

8. Tri-Village currently employs a manager, 2 service managers, and a billing clerk.¹¹ Upon completion of the proposed transfer, KAWC will hire these employees to continue their present duties. None of Tri-Village's employees will fill any current vacancies at KAWC. KAWC's Vice President of Operations will supervise these employees.¹² This transfer will not likely affect the daily operation and management of Tri-Village's system.¹³

⁷ Annual Report of Tri-Village Water District to the Public Service Commission For The Year Ended December 31, 2000 at 29.

⁸ Id. at 7.

⁹ Id. at 9.

¹⁰ Id. at 11.

¹¹ Response to Commission Staff's First Data Request, Item 22.

¹² Id. See also Joint Application, para. 10 and Exh. 6.

¹³ KAWC Response to AG Data Request No. 6.

9. For the year ending December 31, 2000, Tri-Village purchased 113,678,000 gallons of water from the city of Owenton.¹⁴ It does not have water production facilities.

10. Tri-Village purchases water from Owenton pursuant to a contract dated January 5, 1993. The contract terminates on January 5, 2043. The contract allows Tri-Village to purchase a maximum of 500,000 gallons per day from Owenton. The contract provides that Tri-Village's successor shall succeed to Tri-Village's rights and obligations under the contract.¹⁵ Tri-Village currently pays Owenton \$2.11 per 1,000 gallons of water purchased plus a \$.04 per 1,000 gallons surcharge.¹⁶ KAWC will continue to purchase water for Tri-Village's system pursuant to the existing contract.¹⁷ Tri-Village also has contracts to purchase water from the Carroll County Water District and Gallatin County Water District. However, these districts are not physically connected with Tri-Village. Through these contracts Tri-Village could supply water to some customers in northern Owen County.¹⁸

¹⁴ Tri-Village 2000 Annual Report at 31.

¹⁵ Joint Application, Exh. 5.

¹⁶ Response to Commission Staff's First Data Request, Item 18.

¹⁷ Id., Item 21(a).

¹⁸ Id., Item 19. The city of Owenton and KAWC were aware of these contracts and are in agreement with them. Id.

11. The Joint Applicants executed the Asset Purchase Agreement on October 13, 1999.¹⁹ None of Tri-Village's current employees took part in the negotiations or Tri-Village's decision to sell its assets to KAWC.²⁰

12. The parties agreed upon a sale price of \$1,659,233 for Tri-Village's assets.²¹

13. An independent appraiser, hired by Tri-Village, determined the fair cash value of Tri-Village's assets to be \$1,610,000.²²

14. The depreciated original cost of Tri-Village's assets is \$1,650,451.²³ Therefore, the purchase will render an \$8,782 acquisition adjustment.²⁴ KAWC intends to write off this adjustment upon this Commission's approval of the transaction.²⁵ At this time, KAWC is unaware of any additional costs associated with this transfer.²⁶

15. Under the terms of the Asset Purchase Agreement, Tri-Village will deliver to KAWC all its tangible assets.²⁷ The contract contains a clause to consider assets

¹⁹ See Asset Purchase Agreement.

²⁰ Response to Commission Staff's First Data Request, Item 23.

²¹ Joint Application, para. 6 and Asset Purchase Agreement.

²² Response to Commission Staff's First Data Request, Item 11(a).

²³ Joint Application, p. 3.

²⁴ Id.

²⁵ Response to Commission Staff's First Data Request, Item 20.

²⁶ Id., Item 38.

²⁷ See Asset Purchase Agreement.

sold or purchased by Tri-Village since the date the Joint Applicants executed the contract. However, Tri-Village has not purchased or sold any assets since that date.²⁸

16. Tri-Village has obtained Rural Development's oral approval of the sale.²⁹

17. KAWC stated in the application that it reduced Tri-Village's accumulated depreciation by \$429,910 to eliminate the depreciation of plant supported by Contributions In Aid of Construction.³⁰ This adjustment is consistent with the Commission's methodology for recording depreciation and the treatment used in the rate-making process.

18. KAWC intends to make improvements to Tri-Village's system³¹ and to include Tri-Village in its Comprehensive Planning Study, which determines what capital improvements are needed.³² KAWC has not yet determined when or where it will expand the Tri-Village system.³³ Further, KAWC does not intend to connect Tri-Village to its current distribution system.³⁴

²⁸ Response to Commission Staff's First Data Request, Item 31.

²⁹ Id., Item 32.

³⁰ Joint Application at 3.

³¹ Id.

³² Response to Commission Staff's Data Request, Item 9.

³³ Id., Item 28.

³⁴ KAWC's Response to AG Data Request No. 4(a).

19. KAWC projects nominal growth of the Tri-Village system in the near future.³⁵ The New Columbus project will include approximately 300 customers upon its completion.³⁶

20. The Purchase Agreement states that KAWC will seek Commission approval of the New Columbus project "as soon as practicable following the Closing Date."³⁷ KAWC will fund the project in the amount of approximately \$1,800,000. This project will not immediately affect Tri-Village's rates. However, upon completion of the project, KAWC plans to seek a rate increase.³⁸

21. KAWC intends to adopt and charge Tri-Village's rates until the New Columbus project is completed.³⁹

22. Tri-Village's customers will benefit from KAWC's greater access to capital for construction, such as the New Columbus project.⁴⁰ Customers will also benefit from greater economies of scale and the management expertise of KAWC.⁴¹

³⁵ Id., No. 4(c). KAWC projects growth of 50 to 60 customers per year.

³⁶ Id. The New Columbus project is referred to in the Asset Purchase Agreement, para. 10.

³⁷ Asset Purchase Agreement, para. 10.

³⁸ Response to Commission Staff's First Data Request, Item 14.

³⁹ Response to Commission Staff's First Data Request, Item 15.

⁴⁰ Id., Item 36. In fact, Tri-Village had difficulty obtaining funding for the New Columbus project.

⁴¹ Id., Item 11.

23. KAWC will continue to purchase water from Owenton under the terms of the Purchase Water Agreement of January 5, 1993 as Tri-Village's successor because KAWC has an adequate source of water supply to serve Tri-Village's customers.

Based upon the above findings, the Commission makes the following conclusions of law:

1. KRS 278.020(4) provides:

No person shall acquire . . . ownership of, or control . . . any utility under the jurisdiction of the commission . . . without prior approval by the commission. The commission shall grant its approval if the person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service.

2. KRS 278.020(5) provides that "[t]he commission shall approve any proposed acquisition when it finds that the same is to be made in accordance with law, for a proper purpose and is consistent with the public interest."

3. KAWC has the financial, managerial and technical abilities to provide reasonable service to Tri-Village's customers.

4. This transfer is in accordance with law, is for a proper purpose, and is consistent with the public interest.

IT IS THEREFORE ORDERED that:

1. The proposed acquisition is approved as of the date of this Order.
2. Upon the completion of the transfer of Tri-Village's assets, KAWC shall write off the \$8,782 acquisition adjustment. If the acquisition adjustment is greater than this amount, KAWC shall notify the Commission in writing, giving a detailed explanation for the difference in the acquisition adjustment.

3. If, upon the completion of the transfer, KAWC intends to record the acquisition adjustment on its books, then it shall immediately request Commission approval for such adjustment.

4. Tri-Village shall immediately notify this Commission of the date it ceases operations and the date the water district is dissolved.

5. KAWC and Tri-Village shall file with the Commission Rural Development's written approval of this transfer.

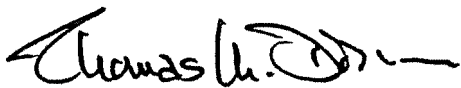
6. Within 10 days of the date of the transfer, KAWC shall file an adoption notice with the Commission in accordance with 807 KAR 5:011, Section 11(1).

7. Within 10 days of filing its adoption notice with the Commission, KAWC shall issue and file in its own name the rate schedules that Tri-Village had on file with the Commission at the time of the transfer.

Done at Frankfort, Kentucky, this 8th day of June, 2001.

By the Commission

ATTEST:



Executive Director