

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF EAST DAVIESS COUNTY)	
WATER ASSOCIATION, INC. TO ISSUE)	
SECURITIES IN THE APPROXIMATE PRINCIPAL)	
AMOUNT OF \$1,741,278 FOR THE PURPOSE OF)	CASE NO.
REFUNDING CERTAIN OUTSTANDING)	2010-00246
INDEBTEDNESS OF THE ASSOCIATION)	
PURSUANT TO THE PROVISIONS OF KRS)	
278.300 AND 807 KAR 5:001)	

ORDER

On June 21, 2010, East Daviess County Water Association, Inc. ("East Daviess") applied to the Commission for the authority to borrow \$1,741,278, subject to an adjustment of up to 10 percent, from U.S. Bank, National Association ("U.S. Bank"). East Daviess estimates that the proposed loan will have a 10-year term with an interest rate of 4.17 percent per annum.¹

As part of its application, East Daviess moves for a deviation from the provision of 807 KAR 5:001, Section 6, requiring that "[w]henever in these rules it is provided that a financial exhibit shall be annexed to the application, the said exhibit shall cover operations for a twelve (12) month period, said period ending not more than ninety (90) days prior to the date the application is filed."² However, Section 14 of that regulation permits a deviation upon the showing of good cause.

¹ Application, Exhibit A, Debt Service Schedule.

² Application at 5.

In support of its request for a deviation from 807 KAR 5:001, East Daviess states that no material changes in its financial condition or operation have occurred since December 31, 2009, the most recent published financial information available.³ Due to the volatility of the bond market, East Daviess claims that it cannot run the risk of delaying the closing of the U.S. Bank loan while more current financial information is gathered.⁴

The Commission has determined that good cause for granting East Daviess' requested deviation has been presented and that there is sufficient financial information in the record to render a decision regarding the proposed financing.

The proceeds of the U.S. Bank loan will be used to refund the following outstanding indebtedness (collectively "Outstanding Indebtness"): (1) a note issued to Berkadia Mortgage on June 21, 1981, bearing an interest rate of 5.0 percent per annum and having an outstanding principal balance of \$155,707; (2) a note issued to Berkadia Mortgage on May 1, 1982, bearing an interest rate of 5.0 percent per annum and having an outstanding principal balance of \$245,442; (3) a note issued to the United States Department of Agriculture, Rural Development ("RD") on January 1, 1989, bearing an interest rate of 7.5 percent per annum and having an outstanding principal balance of \$370,564; (4) a note issued to RD on December 16, 1996, bearing an interest rate of 5.0 percent per annum and having an outstanding principal balance of \$964,992; and (5) a note issued to RD on August, 27, 1998, bearing an interest rate of

³ Id.

⁴ Id.

4.75 percent per annum and having an outstanding principal balance of \$139,926.⁵ East Daviess estimates that its proposed refinancing will result in total gross savings and net present value savings of \$706,816 and \$68,743, respectively.⁶

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed U.S. Bank loan is for a lawful object within East Daviess' corporate purposes and is necessary, appropriate for and consistent with the proper performance of its service to the public, will not impair the utility's ability to perform its service, and is reasonably necessary and appropriate for such purpose. The financing should, therefore, be approved.

IT IS THEREFORE ORDERED that:

1. East Daviess' motion to deviate from 807 KAR 5:001, Section 6, is granted.
2. East Daviess is authorized to enter a loan agreement with U.S. Bank to borrow up to \$1,915,406⁷ to refinance the Outstanding Indebtedness but only under such terms and conditions as will produce both positive gross savings and net present value savings.
3. If the actual terms and conditions of the proposed loan agreement differ from those set forth in its application, East Daviess shall, within 30 days of executing the loan agreement with U.S. Bank, file amortization schedules and workpapers with the

⁵ The Annual Report of East Daviess County Water Association, Inc. to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2009 at 23.

⁶ Application, Exhibit C, Debt Service Comparison.

⁷ $\$1,741,278 \times 10\% = \$174,128 + \$1,741,278 = \$1,915,406.$

Commission showing the actual gross savings and net present value savings that resulted from the refinancing of the Outstanding Indebtedness.

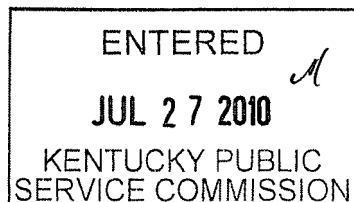
4. East Daviess shall, within 30 days of executing the proposed loan agreement with U.S. Bank, file a statement with the Commission setting forth the date the loan was obtained, the actual interest rates, and the principal amount.

5. The proceeds from the proposed loan agreement shall be used only for the lawful purposes specified in the application.

6. Any documents filed in the future pursuant to ordering paragraphs 3 or 4 herein shall reference this case number 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



ATTEST:

Executive Director

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