

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SOUTH EASTERN WATER)	
ASSOCIATION, INC. TO ISSUE SECURITIES IN THE)	
APPROXIMATE PRINCIPAL AMOUNT OF)	CASE NO.
\$3,410,000 FOR THE PURPOSE OF REFUNDING)	2010-00431
CERTAIN OUTSTANDING INDEBTEDNESS OF THE)	
ASSOCIATION PURSUANT TO THE PROVISIONS)	
OF KRS 278.300 AND 807 KAR 5:001)	

ORDER

On November 5, 2010, South Eastern Water Association, Inc. ("South Eastern") applied to the Commission for approval to enter into an agreement with the County of Butler, Kentucky ("Butler County") to borrow approximately \$3,410,000 to refinance existing long-term debt.

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

1. South Eastern, a Kentucky corporation organized pursuant to KRS Chapter 273, owns and operates facilities that distribute water to approximately 7,377 customers in Pulaski County, Kentucky.¹

2. South Eastern proposes to execute an agreement with Butler County to borrow \$3,410,000, subject to a 10 percent adjustment. The proposed loan will have a

¹ *Report of South Eastern Water Association to the Kentucky Public Service Commission for the Year Ended December 31, 2009* (hereinafter "Annual Report") at 5 and 21.

25-year term with interest rates that vary from 2.250 percent to 4.50 percent per annum.²

3. South Eastern will use proceeds from the proposed loan, together with \$97,407 from its debt service reserve fund and a reoffering premium of \$11,614, to retire five outstanding promissory notes³ that Rural Development⁴ holds and to pay bond issuance costs.⁵

4. South Eastern estimates that its proposed refinancing will result in total gross savings and net present value savings of \$534,377 and \$312,903, respectively.⁶

5. South Eastern's proposed loan is for a lawful object within its corporate purpose, is necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair South Eastern's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

6. South Eastern 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

² Application at 3.

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 Issuance	Outstanding Principal	Interest Rate
10/17/1991	\$ 406,760	5.000
09/14/1995	288,601	5.000
02/12/1997	788,311	5.000
02/12/1997	525,765	5.000
07/10/2001	1,364,543	4.875
Total	\$3,373,980	

⁴ Rural Development is an agency of the United States Department of Agriculture.

⁵ Application at Exhibit B. \$35,910 (Total Underwriter's Discount) + \$43,480 (Cost of Issuance) + \$3,438,620 (Deposit to Current Refunding Fund) + \$1,011 (Rounding Amount) = \$3,519.021.

⁶ *Id.* at Exhibit C.

(12) month period . . . ending not more than ninety (90) days prior to the date the 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. South Eastern has demonstrated good cause to permit its deviation from 807 KAR 5:001, Section 11(2)(a).

IT IS THEREFORE ORDERED that:

1. South Eastern’s motion to deviate from 807 KAR 5:001, Section 11(2)(a), is granted.

2. South Eastern’s application is considered filed as of November 5, 2010.

3. South Eastern is authorized to enter into a loan agreement with Butler County to borrow no more than \$3,751,000⁸ 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 proposed loan differ from those set forth in its application, South Eastern 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 South Eastern 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 South Eastern’s request as a motion to deviate from 807 KAR 5:001, Section 11(2)(a)

⁸ $\$3,410,000 \times 110\% = \$3,751,000$.

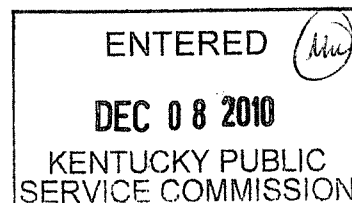
5. Within 30 days of executing the proposed loan agreement, South Eastern shall file with the Commission a statement setting forth the date on which the agreement was entered, the actual interest rates, and the principal amount.

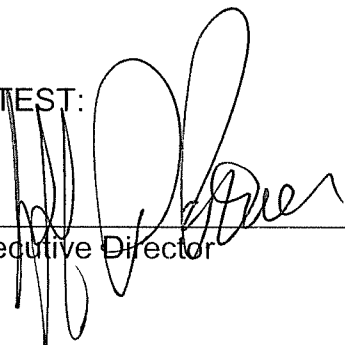
6. The proceeds from the transaction authorized herein shall be used only for the lawful purposes specified in the application.

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



ATTEST:


Executive Director

Honorable W. Randall Jones
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