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NEWS RELEASE

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PSC Approves Transfer of Eight Small Sewer Systems

Most of the systems have financial, operational or environmental challenges

FRANKFORT, Ky. (Aug. 14, 2019) – The Kentucky Public Service Commission (PSC) has approved the sale of eight small sewer systems to a Missouri-based company that has promised to correct long-standing problems with most of the systems.

In an order issued today, the PSC found that Bluegrass Water Utility Operating Co., LLC, a subsidiary of Central States Water Resources, has the necessary financial, technical and managerial ability to provide reasonable service and that the transaction is in the public interest, as required by state law.

The eight privately owned sewer systems together provide sewer service to about 1,300 customers. Those utilities are:

- P.R. Wastewater serves 361 customers in the Persimmon Ridge development in Shelby County. It is in generally good condition, but has had some problems meeting wastewater treatment standards.
- Marshall County Environmental Services, which operates the Great Oaks and Golden Acres systems, has a combined 126 customers. Both systems are in poor condition; Great Oaks has operated without a valid environmental permit since 2012.
- LH Treatment Co. serves 277 customers in the Longview and Homestead subdivisions in Scott County. Its permit expired last year and it has exceeded some discharge limits.
- Kingswood Development has 124 customers in Bullitt County. The system has recorded sporadic environmental violations.
- Airview Utilities has asked the PSC for permission to abandon its system, which serves 203 customers in Hardin County. The system is in serious disrepair and needs major renovations.
- Brooklyn Utilities serves about 168 customers in Madison County. It is in poor condition, operating on an expired permit, and is barely able to provide adequate service.
- Fox Run Utilities has 34 customers in Franklin County. Its plant is in disrepair and is not meeting environmental standards.
- Lake Columbia Utilities serves 33 customers in Bullitt County. The treatment plant has not been maintained, is not meeting environmental standards and may need to be replaced.

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Central States Water Resources was formed to acquire and rehabilitate small water and wastewater systems. It owns nine water systems and 16 wastewater systems in Missouri and Arkansas.

Bluegrass Water stated in its application, filed jointly with the eight sewer utilities, that it will have to spend a total of \$2.9 million to correct the problems at the utilities. It intends to fund the improvements through a combination of loans and equity capital.

Bluegrass Water plans to operate the Kentucky utilities using the same third-party contractors it has employed successfully in Missouri and Arkansas. The application identifies them as Nitor Billing Services and Midwest Water Operations. Both will maintain toll-free lines for customers.

In today's order, the PSC acknowledged the unique circumstance of an out-of-state entity that is willing to acquire small sewer systems, many of which "are distressed, failing and in need of significant investment and repair."

In particular, the Airview, Brocklyn, Fox Run and Lake Columbia systems, owned by Marty Cogan and Larry Smithers, have suffered from "neglect and a lack of investment." Cogan and Smithers "have generally failed to maintain their systems, or seek the necessary revenues over time to pay for the cost of maintaining and repairing the systems," the PSC said in the order, further noting that they "sought to abandon (Airview) rather than attempt to repair it.

"Because several of the current owners are unwilling, or unable, to maintain their systems, Bluegrass Water is the only option that has presented itself as a viable solution for rehabilitating the wastewater facilities and providing reasonable service to the customers," the PSC said in approving the transaction.

Today's order places several conditions on Bluegrass Water, notably:

- Bluegrass Water is required to post a bond or other financial instrument in an amount equal to two months of payments to its third-party contractors.
- Bluegrass Water must notify the PSC if it sells, transfers or abandons any of its utilities in other jurisdictions.
- Over the course of the first year of its ownership of the utilities, Bluegrass Water is required to file reports that will allow the PSC to monitor whether Bluegrass Water has made progress in improving the operation of the systems.
- Bluegrass Water is required to maintain a website with key information for consumers, including emergency contact numbers for during and outside of regular business hours.

The purchase prices for the utilities are confidential. The PSC reduced the price Bluegrass Water will pay for Airview to its net book value of \$450. In its order, the PSC noted that Cogan and Smithers, in filing to abandon Airview, "proposed to walk away uncompensated." Therefore there is "no reason for Bluegrass Water to pay anything beyond the net utility plant value" for the system, the PSC said.

Despite its "concerns regarding the purchase price of Messrs. Cogan's and Smithers' other systems," the PSC let those purchase prices stand. There had been no application made for their abandonment.

Bluegrass Water stated in the application that the rates for each utility initially will remain unchanged, but that it will eventually apply to the PSC for a unified rate for all of the systems. Any changes in rates will have to be approved by the PSC.

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Bluegrass Water and the eight utilities filed their joint application on April 26, 2019. The only other party to the case was the Kentucky Office of Attorney General.

The PSC conducted a formal evidentiary hearing in the case on July 2.

Today's order, a video recording of the hearing and other records in the case are available on the PSC website, psc.ky.gov. The case number is 2019-00104.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,100 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

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