



Jerry

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

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May 20, 1997

RECEIVED

MAY 21 1997

GENERAL COUNSEL

Mr. Robert M. Cramer
Banc One Capital Corporation
111 Monument Circle, Suite 1101
P.O. Box 7700
Indianapolis, Indiana 46277-0111

Dear Mr. Cramer:

Commission Staff acknowledges receipt of your letter of March 26, 1997 in which you request an opinion about the regulatory review required for financing arrangements which Hardin County Water District No. 1 ("Hardin District") is considering.

KRS 278.300 sets forth the regulatory review requirements for debt instruments which public utilities issue. Section 1 of this statute provides:

No utility shall issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person until it has been authorized so to do by order of the commission.

Section 8 provides a limited exception to this general rule:

This section does not apply to notes issued by a utility, for proper purposes and not in violation of law, that are payable at periods of not more than two (2) years from the date thereof, or to like notes, payable at a period of not more than two (2) years from date thereof, that are issued to pay or refund in whole or in part any such notes, or to renewals of such notes from time to time, not exceeding in the aggregate six (6) years from the date of the issue of the original notes so renewed or refunded.

Based upon information provided in your letter, Commission Staff is of the opinion that the proposed financing arrangements would require Commission approval. Since

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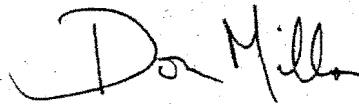
Mr. Robert M. Cramer
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all financing options discussed in your letter involve the refinancing of bonds which have a remaining life greater than three years or involve construction projects whose cost would be amortized over a period exceeding three years, Commission Staff assumes that the term of any debt instruments issued would exceed two years and thus requires Commission approval.

If Hardin District issues debt instruments which are payable upon demand, Commission Staff's opinion on the need for prior Commission approval remains the same. While the debt represented by such instruments may exist for period less than two years, the possibility also exists that such debt may remain for a period exceeding two years. Under such circumstances, Commission Staff believes that KRS 278.300 requires Commission approval of the debt instruments.

This letter represents Commission Staff's interpretation of the law as applied to the facts presented. This opinion is advisory in nature and not binding on the Commission should the issues herein be formally presented for Commission resolution. Questions concerning this opinion should be directed to Gerald Wuetcher, Commission counsel, at (502) 564-3940, Extension 259.

Sincerely,



Don Mills
Executive Director

gw

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Indianapolis IN 46277 0111

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BANC ONE

March 26, 1997

Mr. Don Mills
Executive Director
Public Service Commission of Kentucky
P.O. Box 615
Frankfort, Ky. 40602

Dear Mr. Mills:

I am serving as financial advisor to the Hardin County Water District No.1 which is contemplating the use of a 7-day floating rate bond to reduce the cost of their Ft. Knox Interconnect Project and at the same time shorten and simplify the PSC review process.

After discussions with Mr. Jerry Woetcher of your staff the District is confident the financing vehicle will qualify under the short-term financing rules employed by PSC. However, the District has two (2) additional opportunities to use floating rate debt to its advantage. The first is to reimburse the costs incurred by the District from its own funds to construct a new Service Facility. Such a reimbursement would permit the funds to be "matched" to the debt and invested at rates higher than those on the bonds. A draft copy of a report prepared for the District is attached as background information on the concept.

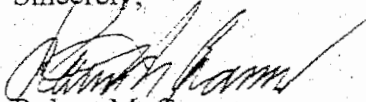
The second opportunity arises from the existence of some high coupon fixed rate debt incurred in 1978 having an invested sinking fund. Our analysis indicates a fixed rate refunding costs the District more than it would save over the life of the issue and is therefore not a viable course of action. A variable rate refunding however produces the prospect of significant savings, liberates for unrestricted investment the current deposits in their 1978 B&I fund, and again permits matching the investment portfolio to the liabilities.

The central question at this point is whether or not the District can proceed with the Service Facility and refunding under the PSC provisions which abbreviate your reviews since the financing vehicle of choice would be a short-term variable rate obligation. Clearly, there is an advantage to the District if the Service Facility and refunding could be reviewed with the construction plans for the Ft. Knox project because all three elements could then be financed at the same time.

The Ft. Knox plans will be submitted for review within the next couple of weeks and it would be helpful if the District could get some indication of the PSC position on these other two (2) issues as soon as possible.

Thank you for your attention to this matter and if you have any questions or require additional information, please call.

Sincerely,



Robert M. Cramer
Managing Director
Public Finance

CC: Jim Bruce

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BANC ONE

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March 25, 1997

FILED
MAR 27 1997
PUBLIC SERVICE
COMMISSION

Mr. Jim Bruce
General Manager
Hardin County Water District No. 1
409 West Lincoln Trail Blvd.
Radcliff, KY. 40160

Dear Jim:

Attached for your review and comment is a draft report of the financing alternatives required for Board presentation and discussion.

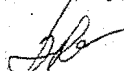
I have as we discussed previously put the alternatives in the context of the effects each would have on water rates without losing our focus on the primary importance of the Ft. Knox project. A copy has also been sent to Chuck Whelan for his review and comment.

A copy of the proposed Financial Advisory agreement is enclosed along with the other material. You indicated back in July of last year the District would consider formalizing the relationship when we approached the need to raise capital. Perhaps after the final decisions are made on the financing(s) we can turn our attention to the need for such an agreement.

As a final matter, I am composing a letter at Jerry Woetcher's suggestion to Mr. Don Mills of the Kentucky PSC to see if we need full Commission review of the Service Center re-financing and the 1978 refunding. A copy of the letter will be sent once it is finished.

Thanks for your time and attention. Please give me a call with and comments or suggestions on the attachments.

Sincerely,



Robert M. Cramer
Managing Director
Public Finance

CC: Mr. Charles F. Whelan, C.P.A.