

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

A JOINT APPLICATION OF THE CITY OF)
PADUCAH, BY AND THROUGH THE PADUCAH)
WATER WORKS AND THE MASSAC WATER)
ASSOCIATION, INC., THAT THE PUBLIC) CASE NO. 10104
SERVICE COMMISSION APPROVE THE FINAL)
TRANSFER OF THE ASSETS OF MASSAC WATER)
ASSOCIATION, INC., TO THE CITY OF PADUCAH)

O R D E R

On December 7, 1987, the City of Paducah ("Paducah") and Massac Water Association, Inc., ("Massac") filed a joint application for approval of the final transfer of Massac to Paducah.

The City of Paducah, Kentucky, is a municipal corporation of the second class situated in McCracken County, Kentucky. The City of Paducah, Kentucky, owns and operates the municipal water works by and through its duly established and authorized Paducah Water Works Commission, which commission acts pursuant to KRS Chapter 96. The city has lawful authority and power to own and operate a municipal water works and distribution system. The city presently owns its municipal water works and distribution system serving approximately 13,500 customers.

Massac is a Kentucky not for profit corporation established and authorized pursuant to KRS Chapter 273. Massac is regulated by and subject to the jurisdiction of the Commission. Massac

presently serves approximately 402 customers in and near Paducah in the McCracken County area.

On or about November 12, 1985, the Paducah Water Works entered into a lease agreement with Massac wherein the Paducah Water Works leased from Massac its entire water distribution system consisting of all assets, rights, and privileges of every nature and wheresoever situated. The term of the lease agreement was to commence in January 1985 and terminate in January 2116 or upon the final retirement of a debt of Massac to Farmers Home Association ("FmHA") by reason of a loan dated April 27, 1976, in the original amount of \$514,000, whichever occurred first.

Simultaneously with the execution of the aforesaid lease agreement, the Paducah Water Works and Massac executed an option to purchase agreement. In this option to purchase agreement, Massac granted to the Paducah Water Works an exclusive option of purchasing the entire Massac water system, including all assets, rights and privileges of every nature and wheresoever situated for the sum of \$1.00.

Prior to the execution of the lease and option to purchase agreement, the proposal was submitted to the Commission. On September 17, 1984, Massac and Paducah Water Works filed a joint application requesting approval by the Commission of the execution of the agreements, which application was docketed in Case No. 9141, In The Matter Of The Application Of Massac Water Association And The City Of Paducah For Approval Of Lease-Purchase Agreement. On December 14, 1984, the Commission entered an Order approving the lease and option to purchase agreements.

At the time of the execution of the lease agreement and option to purchase agreement, there was outstanding a loan of Massac with FmHA. This loan was evidenced by a promissory note executed by Massac to FmHA on April 27, 1976, in the original sum of \$514,000, and additionally, by other collateral documents wherein FmHA acquired lien interests against the property of Massac as security for the payment of the note. Pursuant to the loan documents between Massac and FmHA, consummation of the aforesaid lease agreement was subject to the consent and approval of FmHA. Additionally, pursuant to the Commission Order of December 14, 1985, the Commission required the approval of FmHA.

On or about the time of the execution of the lease and option to purchase, the unpaid and outstanding sum due on Massac's indebtedness to FmHA was well in excess of \$450,000. From and after the date of execution of the lease agreement and option to purchase agreement, the Paducah Water Works paid and satisfied all monthly payments as the same became due in the manner as prescribed in the aforesaid promissory note. Subsequently, FmHA notified Paducah Water Works of a newly conceived discount purchase program wherein Paducah Water Works was given an opportunity to purchase the Massac indebtedness to FmHA at a substantial discount. By reason of the substantial discount offered by FmHA, Paducah Water Works elected to participate in the program and purchase the indebtedness. Funds to purchase the indebtedness were obtained from Paducah Water Works' general revenue fund. On August 18, 1987, the Paducah Water Works

tendered to FmHA the sum of \$163,407.07 as full payment on the indebtedness.

In light of the full satisfaction of the FmHA loan, and in accordance with its rights as evidenced in the option to purchase agreement, the Paducah Water Works exercised its right to purchase the real and personal property of Massac by giving to Massac written notice of its intent to purchase. Said written notice was received by Massac within the time period as prescribed by the option to purchase agreement. As required by the order of the Commission dated December 14, 1985, the joint applicants now desire to obtain approval from the Commission regarding the final consummation of sale and transfer of all property of Massac to the Paducah Water Works.

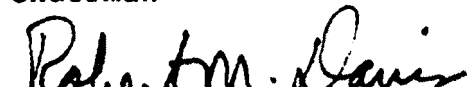
After review of the record, the Commission finds that the terms of the Order dated December 14, 1985, have been met, that Paducah is willing to purchase Massac, and has the technical, financial and managerial ability to operate it, and that the transfer should be approved.

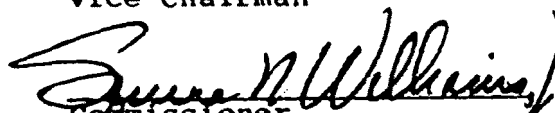
IT IS ORDERED that the transfer of Massac to Paducah is approved and that Massac shall file its 1987 Annual Report and all journal entries related to the transfer.

Done at Frankfort, Kentucky, this 19th day of January, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director