

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF AQUA/KWS,)	
INC., UTILITIES OF KENTUCKY, INC., AND)	
WATER SERVICE CORPORATION OF)	
KENTUCKY FOR APPROVAL OF THE)	
TRANSFER OF THE OWNERSHIP OF THE)	CASE NO. 2002-00142
ASSETS OF AQUA/KWS, INC. AND)	
UTILITIES OF KENTUCKY, INC. TO WATER)	
SERVICE CORPORATION OF KENTUCKY)	
PURSUANT TO THE PROVISIONS OF)	
KRS 278.020(4) AND (5) AND 807 KAR 5:001,)	
SECTION 8)	

O R D E R

On April 22, 2002, Water Service Corporation of Kentucky (Water Service), Aqua/KWS, Inc. (Aqua) and Utilities of Kentucky, Inc. (UKI) filed with the Commission an application pursuant to KRS 278.020(4) and (5) and 807 KAR 5:001, Section 8, requesting Commission approval of Water Service s proposed acquisition of the assets of Aqua and UKI.

PROCEDURE

On May 7, 2002, the Attorney General filed for full intervention in this matter, which the Commission granted on May 15, 2002. On May 24, 2002, the Attorney General filed a motion to dismiss the case without prejudice, citing jurisdictional concerns. However, following the Attorney General s discussions with counsel for the applicants, the Attorney General concluded that the proper parties were before the Commission and withdrew his motion to dismiss on May 30, 2002. On June 13, 2002,

NV Nuon, the parent company of UKI, filed a motion with the Commission requesting that it be made a party to this proceeding. The Commission will address NV Nuon's motion in this Order.

Commission Staff issued Interrogatories and Requests for Production of Documents on May 22, 2002. On May 29, 2002, the applicants filed a motion for an extension of time in which to answer the data request. The Commission granted the applicants' motion on June 4, 2002. The applicants responded to Commission Staff's Interrogatories and Requests for Production of Documents on June 5, 2002. After carefully reviewing the applicants' responses, the Commission found the record sufficient to issue a decision in the matter and cancelled the evidentiary hearing scheduled for June 12, 2002.

PROPOSED TRANSACTION

Water Service, a Kentucky corporation formed for the purpose of acquiring Aqua and UKI, is a wholly owned subsidiary of UKI. UKI's address and principal place of business is 2355 Sanders Road, Northbrook, Illinois 60062. UKI operates 409 water and wastewater utility systems in Florida, North Carolina, South Carolina, Louisiana and Illinois. This acquisition, if approved, will be the company's first utility acquisition in Kentucky. NV Nuon, a Dutch public company with limited liability, acquired UKI in March 2002.

Aqua is a wholly owned subsidiary of UKI. UKI owns, operates, and maintains potable water production, treatment, storage, transmission, and distribution systems. Its principal place of business is 21 Burns Lane, Suite 100, Charleston, South Carolina 29401. UKI and Aqua currently provide water to approximately 6,437 customers in

Middlesboro and Clinton, Kentucky. The companies also operate the water distribution facilities for Cumberland Falls Highway Water District and manage the wastewater system for the city of Clinton.

On December 10, 2001, the parties entered into a purchase agreement wherein Water Service agreed to acquire substantially all the assets of Aqua and UKI for the purchase price of \$3,150,084. The purchase agreement is subject to certain conditions, one of which is Commission approval of the transfer of assets to Water Service.

STATUTORY PROVISIONS

KRS 278.020(4) provides that no person may acquire or transfer control or ownership of a utility without prior approval by the Commission. The Commission shall approve such a transfer if it determines that the acquirer has the financial, technical, and managerial abilities to provide reasonable service. The Commission must also determine that the acquisition is made in accordance with the law, for a proper purpose, and is consistent with the public interest. KRS 278.020(5). The Commission may grant any application upon terms and conditions it deems necessary or appropriate.

After careful consideration and deliberation, the Commission has determined that Water Service will meet the standards set forth in KRS Chapter 278. Water Service has provided sufficient evidence to support its assertion that it has the financial, technical, and managerial ability to provide reasonable service to Kentucky consumers.

Water Service has demonstrated the financial ability necessary to acquire Aqua/UKI. UKI, Water Service's parent company, reported in 2001 operating revenues of \$66,652,842, total assets of \$429,580,241, and shareholder equity of \$76,392,765.¹

¹ Utilities 2001 Financial Statement.

Water Service has also demonstrated the technical and managerial ability necessary to provide reasonable service to Kentucky customers. Water Service will utilize the same facility and equipment used by Aqua/UKI to serve its new customers. Water Service will also retain key Aqua/UKI employees who have already demonstrated their ability to effectively operate a water utility. Water Service's management expertise, together with its financial and technical resources, ensures that Kentucky consumers will receive safe and reliable service.

The proposed acquisition is consistent with the public interest. Water Service will have enhanced access to UKI's capital and human resources. Also, because Water Service will be retaining the same employees, infrastructure, and customer service system, the company ensures a smooth transition for its new customers.

CONCLUSIONS

Water Service has provided sufficient evidence to prove that it has the financial, technical, and managerial ability to provide reasonable service to Kentucky customers. The proposed acquisition is made in accordance with law, does not violate any statutory prohibition, and is executed for a proper purpose. The Commission finds that the proposed acquisition is consistent with the public interest and that it will maintain both the level and quality of service currently received by Aqua/UKI customers.

The Commission, having reviewed the evidence of record and having been otherwise sufficiently advised, HEREBY ORDERS that:

1. NV Nuon's motion requesting that it be made a party to this proceeding is granted.

2. The application for the approval of Water Service s acquisition of Aqua and UKI is approved.

3. Within 20 days of the asset transfer, Water Service shall file with the Commission a copy of the journal entry used to reflect the asset purchase and shall identify the detailed plant accounts to which the assets are recorded.

4. Within 60 days of the asset transfer, Aqua shall file an annual report for the portion of the year 2002 that it owned and operated the water system.

Done at Frankfort, Kentucky, this 14th day of June, 2002.

By the Commission

ATTEST:


Executive Director