

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE PROPOSED MERGER OF THE HENRY)
COUNTY WATER DISTRICT AND THE) CASE NO. 9327
HENRY COUNTY WATER DISTRICT NO. 2)

O R D E R

On April 30, 1985, the Commission, upon its own motion and pursuant to KRS 74.361, initiated investigations to determine the advisability as to the merger of the Henry County Water District and the Henry County Water District No. 2. In accordance with KRS 74.361, the Commission prepared a feasibility report. This report found that a merger was feasible and that it should be accomplished.

A hearing was held on November 26, 1985, in the offices of the Public Service Commission, Frankfort, Kentucky, and all parties of interest were provided an opportunity to be heard. Mr. Donald W. Heilman, Commissioner of the Henry County Water District No. 2; Mr. Harold W. Bishop, Accountant for Henry County Water District No. 2; Mr. James C. Cubbage, Chairman of the Henry County Water District; and Mr. Doug Moore of the Farmers Home Administration ("FmHA") appeared at the hearing and provided testimony in this matter. Mr. Eddie B. Smith, a Commission staff engineer, also appeared to respond to questions concerning the feasibility report.

The testimony of Mr. Heilman included opinions that the proposed merger was not feasible and that present operations could not be improved by merger. Mr. Cabbage stated that he agreed with the conclusions and recommendations of the staff report. At the close of the hearing the Commission granted counsel for Henry County Water District No. 2 until December 13, 1985, to file a brief of the District's position in this matter. The District's brief has been filed.

In its brief Henry County Water District No. 2 reiterated its three original objections to the proposed merger. The brief admitted that District No. 2 itself considered that two of its objections--operations in an additional county and increased travel expenses--were "not insurmountable" and that District No. 2 could "live with them." Henry County Water District No. 2 restated its concern about the bookkeeping and allocation problems associated with a merger of the two water districts. District No. 2 stated that if its concerns on this issue could be resolved "District No. 2 will be most happy to endorse the merger." In addition to the original objections District No. 2's brief raised the question of the interest rate that would be required for the transfer of Henry County Water District's debt held by the U. S. Department of Housing and Urban Development ("HUD"). In his testimony before the Commission, Mr. Doug Moore of FmHA stated that it was his understanding from conversations with a representative of HUD that the debt could possibly be

transferred at the same interest rate, subject to the opinion of recognized bond counsel. Henry County Water District No. 2 also expressed its opinion that a merger of the two water districts at this time would delay the construction of the waterworks improvement project currently proposed by District No. 2.

The Commission, after consideration of the intent of KRS 74.361, the record in this matter and being advised, is of the opinion and finds that:

1. Section (1) of KRS 74.361 establishes a statutory basis for merger and sets forth the purposes of merger. It states:

The General Assembly of the Commonwealth of Kentucky determines as a legislative finding of fact that reduction of the number of operating water districts in the Commonwealth will be in the public interest, in that mergers of such districts will tend to eliminate wasteful duplication of costs and efforts, result in a sounder and more businesslike degree of management, and ultimately result in greater economies, less cost, and a higher degree of service to the general public; and that the public policy favors the merger of water districts wherever feasible.

2. The feasibility study of record in this matter shows that merger of the Henry County Water District into the Henry County Water District No. 2 is feasible and, in accordance with the purposes of KRS 74.361, should be accomplished.

3. It is in the public interest for the Henry County Water District to be merged into the Henry County Water District No. 2.

4. The Henry County Water District No. 2, in accordance with KRS 74.110, should petition the County Judge/ Executives of Henry and Shelby counties for definition of the territorial limits of the District to include the service area of the Henry County Water District. In addition, the Henry County Water District No. 2 should annex those areas now served by its water system but lying outside its recorded boundaries.

5. Retirement of the outstanding obligations of both the Henry County Water District and the Henry County Water District No. 2 should be continued by the Henry County Water District No. 2 in accordance with Section (5) of KRS 74.361. Henry County Water District No. 2 should file with this Commission by February 1, 1986, a copy of its plan for managing the outstanding debts of the merged water district.

6. Additional Orders may be required to address outstanding obligations, rates and charges for services of the merged water district.

IT IS THEREFORE ORDERED that:

1. The Henry County Water District shall be merged into the Henry County Water District No. 2 effective January 1, 1986.

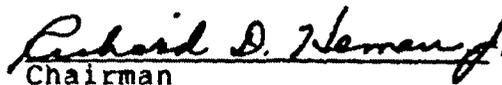
2. Both the Henry County Water District and the Henry County Water District No. 2 shall immediately begin the work essential to accomplishment of the merger. All aspects of the merger, including those set out herein by Findings Number

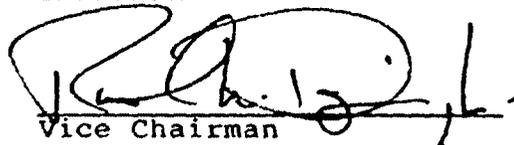
4 and 5, shall be accomplished by the merged Henry County Water District No. 2. Henry County Water District No. 2 shall file with this Commission by February 1, 1986, a report on the progress of the merged water district.

3. All parties of interest be advised that additional Orders may be required to address outstanding obligations, charges for services and the rates of the merged water district, all in accordance with Section (6) of KRS 74.361.

Done at Frankfort, Kentucky, this 20th day of December, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary