

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

**ELECTRONIC JOINT APPLICATION)
OF LARUE COUNTY WATER)
DISTRICT NO. 1 AND THE CITY OF)
NEW HAVEN FOR AN ORDER)
APPROVING THE TRANSFER OF)
OWNERSHIP OF THE CITY OF NEW)
HAVEN'S WATER SYSTEM AND)
APPROVING LARUE COUNTY)
WATER DISTRICT NO. 1'S)
ASSUMPTION OF CERTAIN DEBT)
OBLIGATIONS OF THE CITY OF NEW)
HAVEN PURSUANT TO THE)
PROVISIONS OF KRS 278.020, KRS)
278.300, AND 807 KAR 5:001)**

CASE NO. 2022-00207

RESPONSE OF

LARUE COUNTY WATER DISTRICT NO. 1

TO

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

DATED August 29, 2022

FILED: September 13, 2022

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

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**RESPONSE OF LARUE COUNTY WATER DISTRICT NO. 1 TO
COMMISSION STAFF’S SECOND REQUEST FOR INFORMATION**

Comes LaRue County Water District No. 1 (“LaRue District”) for its Response to Commission Staff’s Second Request for Information, and states as shown on the following pages.



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No. 1*

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

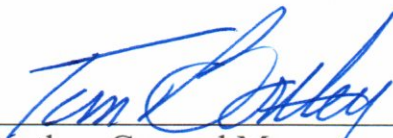
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**CERTIFICATION OF RESPONSE OF LARUE COUNTY
WATER DISTRICT NO. 1 TO COMMISSION STAFF’S
SECOND REQUEST FOR INFORMATION**

This is to certify that I have supervised the preparation of LaRue District’s Response to Commission Staff’s Second Request for Information. The Response submitted on behalf of LaRue District is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Date: September 13, 2022



Tim Bartley, General Manager
LaRue County Water District No. 1

CERTIFICATE OF SERVICE

In accordance with the Commission's Order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), this is to certify that the electronic filing has been transmitted to the Commission on September 13, 2022; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.



Damon R. Talley

LARUE COUNTY WATER DISTRICT NO. 1

CASE NO. 2022-00207

Response to Commission Staff's Second Request for Information

Question No. 1

Responding Witness: Tim Bartley, General Manager

Q-1. Refer to Commission Staff's First Request for Information (Staff's First Request), Item 6(c).

- a. Provide a comparison of the 2021 expense of the water purchased from the city of New Haven (New Haven) versus if these purchases were made directly from the city of Bardstown.**
- b. Provide a comparison of the water that was purchased from the multiple sources (suppliers) and any impact there will be to these purchases from the suppliers once LaRue District No. 1 acquires New Haven's water utility.**

A-1.

- a. A comparison of the savings by purchasing water directly from Bardstown rather than from New Haven will not be a realistic comparison if purchases made during 2021 are used. As shown in the Table (Attachment 2) provided in response to Question 2 of this Response, Larue District only purchased 412,200 gallons directly from New Haven during 2021. This is approximately 34,000 gallons per month. As shown in Note 1 to Attachment 2 provided in response to

Question 2 of this Response, Bardstown's wholesale rate was \$2.45 per 1,000 gallons during the first half of 2021 and \$2.56 per 1,000 gallons during the second half of 2021, for an average of \$2.51 per 1,000 gallons during the entire year ($\$2.45 + \$2.56 / 2 = \$2.51$). During 2021, New Haven's wholesale rate was, on average, **\$0.51** per 1,000 gallons more expensive than Bardstown's wholesale rate ($\$3.02$ less $\$2.51$ equals $\$0.51$). The additional expense for purchasing this water from New Haven rather than from Bardstown during 2021 was only **\$210.22**. Since July 1, 2022, the difference is \$0.41 per 1,000 gallons ($\3.05 less $\$2.64$ equals $\$0.41$).

Consequently, the "rest of the story" needs to be explained. Historically, LaRue District purchased over 1,000,000 gallons per month or over 12,000,000 gallons per year directly from New Haven to supply the Lyons and adjacent areas. This is the most direct and most efficient route to get water from Bardstown to the Lyons area. In 2020, however, New Haven started interpreting its contract with LaRue District differently and "passed through" a much larger increase than Bardstown's increase to New Haven. Because of the huge difference in the cost of purchasing water from New Haven versus purchasing it directly from Bardstown through a more circuitous

and longer route (\$0.51 per 1,000 gallons), LaRue District started purchasing practically all the water needed to serve the Lyons area directly from Bardstown. Based upon the historical purchases, the savings per year would have been more than **\$6,100** (12,000,000 times \$0.00051 equals \$6,120).

Operationally, however, purchasing all the water for the Lyons area from Bardstown presents a challenge. The water must travel approximately six miles further through smaller water lines; it is stored in LaRue District's water storage tank located on Kentucky Highway 46; and the age of the water is increased slightly. This means the water is not quite as "fresh" when it is consumed by the customers in the Lyons area. Normally, this is not a problem, but LaRue District's employees must spend additional time monitoring the quality of the water.

Once LaRue District acquires New Haven's Water Assets, it will immediately change the flow of the water to the Lyons area. The water will flow through the 8-inch diameter water transmission main along U.S. Highway 31-E to New Haven and then directly to the Lyons area just as it did until 2020.

- b. As shown in the response to Question 2 of this Response, LaRue District currently purchases water from six (6) different wholesale suppliers (Bardstown, New Haven, and four (4) other suppliers). LaRue District does not anticipate that there will be any immediate impact upon the volume of water that will be purchased from these other four (4) wholesale suppliers. Should one of these other suppliers have a temporary problem or shortage of water, however, owning the New Haven water system will give LaRue District more flexibility. LaRue District will now have the option to “move” more Bardstown water to areas of its system where it might be needed (See LaRue District’s Answer 6(d) to Question 6 of the Commission Staff’s First Request for Information).

LARUE COUNTY WATER DISTRICT NO. 1

CASE NO. 2022-00207

Response to Commission Staff's Second Request for Information

Question No. 2

Responding Witness: Tim Bartley, General Manager

Q-2. Refer to Staff's First Request, Item 6(c). Provide the following:

- a. The names of the water suppliers.**
- b. The total amount of water purchased in 2021 from each supplier.**
- c. The rate charged by each supplier for the water that was purchased in 2021.**
- d. The annual expense for these water purchases from each supplier for 2021.**

A-2 (a-d). See Attachment 2.

**Wholesale Water Purchases - 2021
By LaRue District**

Supplier		Water Purchased (Gallons)	Rate Per 1,000 Gallons	Annual Expense
Bardstown		37,148,000	See Note 1	\$ 94,087
Campbellsville		13,529,800	See Note 2	\$ 34,583
Green River Valley Water District		93,097,900	\$ 2.59	\$ 241,124
Green-Taylor Water District		3,899,300	\$ 2.89	\$ 11,269
Hodgenville		46,432,900	\$ 2.10	\$ 97,509
New Haven		412,200	See Note 3	\$ 1,243
	Totals	194,520,000	N/A	\$ 479,815

Notes:

1. Bardstown's wholesale rate was \$2.45 per 1,000 gallons prior to 7-1-21 and increased to \$2.56 per 1,000 gallons on 7-1-21. On 7-1-22 it increased to \$2.64 per 1,000 gallons.
2. Campbellsville's wholesale rate was \$2.35 prior to 8-1-21 and increased to \$2.54 on 8-1-21. In addition, Campbellsville charges a small monthly meter fee.
3. New Haven's wholesale rate was \$3.02 prior to 7-1-22 and increased to \$3.05 on 7-1-22.

LARUE COUNTY WATER DISTRICT NO. 1

CASE NO. 2022-00207

Response to Commission Staff's Second Request for Information

Question No. 3

Responding Witness: Tim Bartley, General Manager

Q-3. Refer to Staff's First Request, Item 3 and Item 4. Provide documentation of the approval for LaRue District No. 1 to acquire both of the Rural Development (RD) Series bonds. If LaRue District No. 1 has not received approval to assume the debts, provide an explanation as to why.

A-3. Although LaRue District has had several verbal communications with Rural Development ("RD") Staff at the State level, the District level, and the Local level (Elizabethtown RD Field Office), RD has not yet officially approved LaRue District's assumption of the two (2) RD Bonds owed by New Haven to RD. The State Community Programs Director has verbally expressed that the "assumption will not be a problem. It will go smoothly." Similar comments have been expressed by officials at the Shelbyville District Office, and the Elizabethtown Field Office.

Typically, RD does not prepare the necessary Assumption forms until after the Commission approves the proposed acquisition. The interest rates and maturities of the RD Bonds owed by New Haven and to be assumed by LaRue District will remain the same.

Attachment 3 to this Response is a blank version of the Community Programs Assumption Agreement that will be completed by RD and signed by LaRue District and RD at the Closing of the proposed Acquisition.

ATTACHMENT 3

Community Programs Assumption Agreement

COMMUNITY PROGRAMS ASSUMPTION AGREEMENT

PART A

1. TRANSFER CASE NUMBER		2. TRANSFEREE NAME			
3. ASSUMPTION TYPE	4. NOTE INTEREST RATE %	5. EFFECTIVE DATE	6. AMOUNT ASSUMED		
7. APPROVAL DATE		8. APPROVAL DATE		9. TRANSFEROR CASE NUMBER	
10. TRANSFEROR NAME				11. LOAN NUMBERS BEING TRANSFERRED	
12. PURCHASE CODE 0-PROGRAM 1-NONPROGRAM <input type="checkbox"/>	13. FUND CODE	14. RACE/TAX CODE	15. EMPLOYEE RELATIONSHIP CODE <input type="checkbox"/>	16. ASSUMPTION CODE: 1 - SAME 2 - NEW <input type="checkbox"/>	17. RELEASE FROM LIABILITY 1 - YES 2 - NO <input type="checkbox"/>

PART B

AGREEMENT

This agreement dated _____, _____, is between the United States of America, acting through the Rural Housing Service or the Rural Utilities Service or the Rural Business-Cooperative Service (herein called the Agency), and the assuming party, _____ (herein called Transferee), whose mailing address is _____

The Government is the holder of debt instrument(s) executed by _____ and identified as follows:

TABLE I

Instrument Type	Date Executed	Principal Amount	UNPAID ON DATE HEREOF		Int. Rate	Ins. Charge Rate
			Principal	Accrued Interest		

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0066. The time required to complete this information collection is estimated to average 30 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

WHEREAS in connection with such loans the following security instruments were taken on property described therein

which is located in _____

County, State of _____

TABLE II

KIND OF INSTRUMENT	DATE EXECUTED	OFFICE WHERE RECORDED	BOOK/VOLUME/ DOCUMENT NO.	PAGE NUMBER

Now therefore, in consideration of the assumption of indebtedness as herein provided and the Agency's consent to the assumption and related conveyance of security property, if applicable, it is agreed as follows:

1. The transferee hereby jointly and severally assumes liability for and agrees to pay to the order of the Agency, or to the order of the insured holder through the Agency if and when an insured holder is the holder of said debt instrument(s), at the office of the Agency shown below, the entire unpaid indebtedness in accordance with the rates and terms specified in the following subparagraphs (a) or (b) designated by an X in the appropriate block:

(a) Same Rates/Terms. The entire unpaid indebtedness will be paid in accordance with the rates and terms stipulated in the debt and security instruments listed in Tables I and II of Part B of this agreement.

(b) New Rates/Terms. The entire unpaid indebtedness will be paid in the amounts and at the times specified in the following subparagraph (i) or (ii) designated by an X in the appropriate block.

(i). The sum of _____
dollars (\$ _____) plus interest at the rate of _____
percent (_____ %) per annum, paid in installments of \$ _____ on _____,
and \$ _____ thereafter on the _____
of _____ until the principal and interest are fully paid, except that the final
installment of the entire indebtedness evidenced hereby, if not sooner paid, shall be due and payable
_____ (_____) months/years from the date of this Assumption Agreement.

(ii). The sum of _____
dollars (\$ _____) with interest thereon at the rate of _____
percent (_____ %) per annum from the date hereof. The principal and interest shall be due and
payable as follows:

\$ _____ on _____ ; \$ _____ on _____ ; \$ _____ on _____ ;
 \$ _____ on _____ ; \$ _____ on _____ ; \$ _____ on _____ ;
 \$ _____ on _____ ; \$ _____ on _____ ; \$ _____ on _____ ;
 \$ _____ on _____ ; \$ _____ on _____ ; \$ _____ on _____ ;
 \$ _____ on _____ ; \$ _____ on _____ ; \$ _____ on _____ ;

and a final installment in the amount of any remaining portion of the indebtedness hereby assumed which shall be paid on or before _____ Interest hereafter accruing shall be due and payable on the same dates as principal installments listed above.

2. The provisions of said debt and security instruments and of any outstanding agreements executed or assumed by the present debtors pertinent thereto shall, except as modified herein, remain in full force and effect, and the transferee hereby assumes the obligations of and agrees to be bound by and to comply with all covenants, agreements and conditions contained in said instruments and agreements, except as modified herein, the same as if they had executed them as of the dates thereof as principal obligors, including any obligation to pay the Agency an insurance charge in addition to interest if and as provided in any such instruments.
3. REFINANCING AGREEMENT: If at any time it shall appear to the Agency that the transferee may be able to obtain a loan from a responsible cooperative or private credit source at reasonable rates and terms for loans for similar purposes and periods of time, transferee will, at the Agency's request, apply for and accept a loan in a sufficient amount to pay the loan(s) hereby assumed in full and, if the lender is a cooperative, to pay for any necessary stock. (Refinancing requirements do not apply to loans classified as nonprogram loans.)
4. This agreement shall be subject to present regulations of the Agency and to its future regulations which are not inconsistent with the express provisions hereof.
5. When the loan(s) hereby assumed is held by an insured holder, prepayments made by the transferee may, except for final payment, be remitted by the Agency to the holder on an annual installment due date basis or other basis established by Agency regulation. Final payment will be remitted promptly. The effective date of every payment made by the transferee shall be the date the payment is received by the Agency.
6. The property described in Table II was obtained or improved through Federal financial assistance. This property is subject to the provisions of Title VI of the Civil Rights Act of 1964 and the regulations issued pursuant thereto for so long as the property continues to be used for the same or similar purpose for which financial assistance was extended or so long as the transferee owns it, whichever is longer.

TRANSFeree

(SEAL)

Attest:

Name of Transferee

BY _____

BY _____

TITLE _____

TITLE _____

Agency Name

UNITED STATES OF AMERICA

Agency Name

OFFICE ADDRESS:

BY _____

TITLE _____

LARUE COUNTY WATER DISTRICT NO. 1

CASE NO. 2022-00207

Response to Commission Staff's Second Request for Information

Question No. 4

Responding Witness: Tim Bartley, General Manager

Q-4. Refer to the Application, Exhibit 5, Asset Purchase Agreement and Exhibit 8, Water Revenue Bonds.

- a. Assuming a closing date during 2022, state how accrued interest payable to RD after the July 1 interest payment to the closing date will be incorporated in the transaction.**
- b. Assuming a closing date during 2023, state how payments made by New Haven through the January 2023 principal and interest payment will be incorporated in the transaction.**

A-4.

- a. If the Closing occurs in 2022, New Haven will be responsible for paying the accrued interest on the RD Bonds from July 1, 2022 until the date of the Closing because it has been collecting the revenue from water sales.
- b. If the Closing does not take place until after January 1, 2023, Rural Development will make a withdrawal from New Haven's Sinking Fund account just as it normally would do (the withdrawal will probably

occur on Friday, December 30, 2022, which is the last banking day of 2022). Then, at the Closing, New Haven will receive a credit from LaRue District for the principal payments that were made to RD, but **not** for the interest payments made by New Haven. This means that the amount of cash to be paid by LaRue District to New Haven will increase by the amount of the January 1 principal payments made by New Haven. If the Closing occurs during the first couple of weeks of January 2023, Larue District will probably agree to be responsible for the accrued interest since January 1. If the Closing is delayed for more than a couple of weeks for some unforeseen reason, then New Haven will be responsible for the accrued interest from January 1, 2023 until the date of the Closing.

LARUE COUNTY WATER DISTRICT NO. 1

CASE NO. 2022-00207

Response to Commission Staff's Second Request for Information

Question No. 5

Responding Witness: Brian Woosley, Heartland CPAs and Advisors, PLLC

Q-5. Refer to the Application, Exhibit 5, Asset Purchase Agreement and LaRue District No. 1's response to Staff's First Request, Item 14, Attachment 14. Provide the anticipated journal entry that LaRue District No. 1 will record, assuming the acquisition and debt assumption amounts stated in the Asset Purchase Agreement and net book value of \$642,635 stated in Attachment 14.

A-5. See Attachment 5.

JOURNAL ENTRY TO RECORD PURCHASE
 OF NEW HAVEN'S WATER ASSETS AND NOTE PAYABLE

ACCOUNT NUMBER	DESCRIPTION	DEBIT	CREDIT
00300	STANDPIPES AND TANKS	427,969.00	
00331	TRANSMISSION, DISTRIBUTION & FIRE MAINS	451,766.00	
00334	METER & METER INSTALLATIONS	95,700.00	
00335	HYDRANTS	31,580.00	
00108.1	ACCUMULATED DEPRECIATION		364,380.00
00232	NOTE PAYABLE - RD		209,900.00
00131.2	CASH		340,100.00
00271	CAPITAL CONTRIBUTIONS - NEW HAVEN		92,635.00 (1)
	TOTAL FOR ENTRY	1,007,015.00	1,007,015.00

(1) THE REVENUE ACCOUNT IS USED IN ORDER TO ACCOUNT FOR THE NET CAPITAL CONTRIBUTIONS. THE AMOUNT IS NOT CHARGED DIRECTLY TO NET POSITION, BUT WILL BECOME A COMPONENT OF NET POSITION IN ACCOUNT 00215 AFTER THE CLOSE OF THE DISTRICT'S CALENDAR YEAR.