

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC JOINT APPLICATION OF)	
PADUCAH WATER WORKS AND WEST)	CASE NO.
MCCRACKEN COUNTY WATER DISTRICT FOR)	2021-00374
APPROVAL OF TRANSFER OF MCCRACKEN)	
COUNTY WATER DISTRICT)	

ORDER

On September 29, 2021, Paducah Water Works (Paducah Water) and West McCracken County Water District (West McCracken District) (collectively, Joint Applicants) filed an application, pursuant to KRS 278.020(6) and KRS 278.020(7), requesting approval of Paducah Water’s acquisition of West McCracken District, a utility subject to the Commission’s jurisdiction. By Order entered October 8, 2021, the Commission found good cause to continue the proceeding for 60 additional days to January 21, 2022, in order to ensure the orderly review of the application and establish a procedural schedule.

LEGAL STANDARD

At issue is the Commission’s approval of the Joint Applicant’s application pursuant to KRS 278.020(6) and KRS 278.020(7).

KRS 278.020(6) provides that:

No person shall acquire or transfer ownership of, or control, or the right to control, any utility under the jurisdiction of the commission by sale of assets, transfer of stock, or otherwise, or abandon the same, without prior approval by the commission. The commission shall grant its approval if the

person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service.

KRS 278.020(7) provides, in relevant part, that the Commission shall approve a proposed acquisition of control upon a finding that the proposed transaction is “made in accordance with law, for a proper purpose and is consistent with the public interest.”

DISCUSSION

Paducah Water was formed in the 1930s and acts pursuant to KRS Chapter 96. As of August 12, 2021, Paducah Water had approximately 27,300 customers.¹

West McCracken District was established on July 30, 1962, pursuant to KRS Chapter 74. As of August 12, 2021, West McCracken District provided retail water service to approximately 1,520 residential customers.² West McCracken District currently purchases its water through a wholesale agreement with Paducah Water.

On July 19, 2021, the Joint Applicants entered into a merger Agreement (the Merger Agreement) whereby West McCracken District would merge its entire water distribution system with the water distribution system of Paducah Water.³ According to the Merger Agreement, West McCracken District is to transfer to Paducah Water and Paducah Water to accept all West McCracken District’s assets, including both real and personal property, and all rights, and privileges of every kind and nature, and whatsoever situated.⁴ Upon Paducah Water’s assumption of operations and transfer of property from

¹ Joint Petition of Paducah Water Works and the West McCracken Water District (Joint Petition), (filed Sept.29, 2021), Exhibit A at 11.

² *Annual Report of West McCracken Water District to the Public Service Commission for the Year Ending December 31, 2019* at 49.

³ Joint Petition, Exhibit D

⁴ *Id.* at 1.

West McCracken District, Paducah Water will file the appropriate documents finalizing the dissolution of West McCracken District.⁵

The Joint Applicants filed current audits of both Paducah Water and West McCracken District.⁶ The Commission finds Paducah Water clearly demonstrated that the acquisition of West McCracken District would not negatively affect the financial health of either of the Joint Applicants. In a response to Staff's request for information, Paducah Water supplied current and projected budgets for the combined systems that indicate the acquisition will not reduce Paducah Water's ability to provide safe and reliable service to its existing customers while fully funding its and West McCracken District's depreciation accounts⁷, and will likely provide rate savings to the customer of West McCracken District.⁸ In addition, Paducah Water provided prospective joint debt service schedules that indicate that the utility will continue to satisfy all lender's debt service coverage requirements after the proposed acquisition.⁹ The Commission finds that the Joint Applicants have provided the financial documents to prove the consolidated utility will have the financial abilities to provide reasonable service to its customers.¹⁰

The Joint Applicants have certified water distribution system operators who hold valid water certification licenses issued by the Kentucky Board of Certification of Water

⁵ *Id.* at 5.

⁶ *Id.*, Exhibit A and Exhibit C.

⁷ Paducah Water Works and West McCracken County Water Response to Staff's First Request for Information (Response to First Request), (filed Oct.21, 2021), Operating Budget for Fiscal Year ending June 30, 2022.

⁸ Joint Petition, Exhibit E.

⁹ Response to First Request, Debt Service Coverage.

¹⁰ Joint Petition, Exhibit A and Exhibit C.

System Operators to prove that Paducah Water Works has the technical ability to provide reasonable service to West McCracken District's customers in addition to continuing to provide adequate service to its own customers.¹¹ The Joint Applicants have proven that Paducah Water is currently managed sufficiently to maintain its system and operations and financial health¹² such that the combined will have sufficient managerial ability to provide reasonable service to all of its customers.¹³ Furthermore, Paducah Water supplied a copy of a letter received from the United States Environmental Protection Agency citing Paducah Water's success in meeting the optimized drinking water system performance goals in 2020. The Commission finds that the record of licensed water system workers and proof of successful management thus far, combined with the federal recognition of Paducah Water's success demonstrates a technical and managerial proficiency in the operation of a drinking water system.

Additionally, the merger will result in significant rate savings to the customers of West McCracken District. While the current rates of Paducah Water will not be impacted, the customers of West McCracken District will experience a rate decrease since they will now be charged the rates charged by Paducah Water. A customer of West McCracken District using 3,500 gallons of water will see their bill decrease from \$35.08 to \$24.61, a decrease of \$10.47, or approximately 29.85 percent.¹⁴ Therefore, the Commission, based upon the evidence in this proceeding, finds that the Joint Applicants have shown

¹¹ Joint Petition, Item 5, unnumbered at 2.

¹² *Id.*

¹³ *Id.*

¹⁴ Paducah Water charges \$11.35 for the first 1,500 gallons of water and \$4.23 per 1,000 gallons over the minimum, as well as a Capital Replacement and Expansion fee of \$4.80. West McCracken District charges a \$8.51 customer charge with a usage charge of \$7.59 per 1,000 gallons.

that the combined utility will have the financial, technical, and managerial abilities to provide reasonable service as required by KRS 278.020(6).

The proposed merger is in the public interest of the ratepayers of West McCracken District as well as its employees and thereby serves the community for the better. Paducah Water will either be retaining employees of West McCracken District or providing a severance.¹⁵ Paducah Water is assuming all debts and liabilities of West McCracken, insuring there will be no financial defaults.¹⁶ Most of the former West McCracken District customers will receive a decreased rate.¹⁷ Finally, all customers will benefit from the improved efficiencies, economies of scale, and regionalization. Based upon the record, the Commission finds therefore that the merger proposed meets the public interest requirement in KRS 278.020(7) because it furthers the public interest, and the Commonwealth's public policy "to encourage regionalization, consolidation, and merger of water districts wherever possible."¹⁸

IT IS THEREFORE ORDERED that:

1. The application for merger is approved.
2. Within five days of the completion of the approved transfer, Joint Applicants shall file written notice setting forth the date that the acquisition was completed.

¹⁵ Joint Petition, Exhibit D at 7.

¹⁶ *Id.* at 1.

¹⁷ Joint Petition, Exhibit D, at 6, and Exhibit E.

¹⁸ KRS 224A.300(1), KRS 74.361(1), and KRS 270.020(7).

3. Within 60 days of the date of entry of this Order, West McCracken District shall file a financial and statistical report as required by 807 KAR 5:006, Section 4, for the reporting period from January 1, 2021, to the date of merger.

4. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED
DEC 06 2021
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KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2021-00374

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