

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE VERIFIED JOINT APPLICATION OF ELK)	
LAKE PROPERTY OWNERS' ASSOCIATION,)	
INC. AND KENTUCKY-AMERICAN WATER)	
COMPANY FOR THE APPROVAL OF THE)	CASE NO.
TRANSFER OF THE OWNERSHIP OF THE)	2002-00094
ASSETS OF ELK LAKE PROPERTY)	
OWNERS' ASSOCIATION, INC. DEVOTED TO)	
THE PROVISION OF WATER SERVICE TO)	
KENTUCKY-AMERICAN WATER COMPANY)	

O R D E R

On March 25, 2002, Elk Lake Property Owners' Association Inc. ("Elk Lake") and the Kentucky-American Water Company ("Kentucky-American") submitted a joint application for Commission approval for the transfer of the water utility owned and operated by Elk Lake to Kentucky-American. On April 19, 2002, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, pursuant to motion, was permitted to intervene as a party to these proceedings. Neither of the parties prefiled testimony and, in accordance with the procedural order entered in these proceedings on April 9, 2002, the matter is before the Commission on the existing record. Having reviewed the record, the Commission makes the following Findings of Fact, Conclusions of Law and Order.

FINDINGS OF FACT

1. Elk Lake is a non-stock, nonprofit corporation, organized and existing under the laws of this state, whose address is 445 Elk Lake Resort Road, Owenton,

Kentucky 40359. Elk Lake owns and operates a water utility operating under the jurisdiction of this Commission that serves 310 customers in Owen County.

2. Kentucky-American is a corporation organized and existing under the laws of this state, whose address is 2300 Richmond Road, Lexington, Kentucky 40502. It is a wholly owned subsidiary of American Water Works Company, Inc. whose subsidiaries provide water service in 22 states.

3. Kentucky-American owns and operates a water utility under the jurisdiction of this Commission, serving more than 103,000 retail water customers in parts of nine counties. In addition, Kentucky-American provides water to ten water districts and municipalities. To service its customers, Kentucky-American has over 1,500 miles of water mains. In 2001 Kentucky-American had an average daily net system delivery in excess of 40,000,000 gallons. Kentucky-American employs 29 water treatment plant operators and 11 distribution system operators to operate its water utility.

4. In July 2001, the applicants executed an Asset Purchase Agreement under the terms of which Elk Lake agreed to convey to Kentucky-American all of its assets used to distribute water to its customers. The negotiations began after Elk Lake began having difficulties complying with the Safe Drinking Water Act. 42 U.S.C.A. § 300(f) *et seq.* The agreement was later amended on February 16, 2002 to include Elk Lake's water treatment plant. In consideration of the conveyance Kentucky-American has agreed to pay Elk Lake \$89,084. As additional consideration, Kentucky-American has agreed that upon transfer of Elk Lake's water distribution facilities and assets to Kentucky-American, Kentucky-American will continue to furnish water to Elk Lake

customers, including future customers who connect to the system being conveyed. Kentucky-American has further agreed, in accordance with 807 KAR 5:001, Section 11, that service shall be provided to those customers at the same rates currently being charged by Elk Lake under its filed tariff, except for a \$3.00 monthly fee that will be terminated, until new rates for the Elk Lake customers are approved by this Commission.

5. Combining and consolidating the Elk Lake distribution system with the Kentucky-American water system should result in economies of scale and should allow the combined system to be operated, managed, and maintained more efficiently.

CONCLUSIONS OF LAW

1. Kentucky-American has the financial, technical and managerial abilities to provide reasonable service to the customers of Elk Lake, and the proposed transfer is for a proper purpose.

2. The proposed transfer would serve the public interest by absorbing a small water system into a larger professionally operated system thereby better ensuring Elk Lake customers of receiving reliable and efficient service at fair, just and reasonable rates.

3. Within 20 days of the date of the proposed transfer, Kentucky-American should file with the Commission a copy of the journal entry used to reflect the purchase of the properties. The amount should be based upon the balance in each account included in the journal entry on the date of the transfer.

This Commission being otherwise sufficiently advised, IT IS HEREBY ORDERED that:

1. The proposed transfer of Elk Lake's water system to Kentucky-American is in the public interest and is hereby approved.

2. Within 20 days following the transfer, Kentucky-American shall file with the Commission a copy of the journal entry used to reflect the purchase of the properties.

Done at Frankfort, Kentucky, this 22nd day of May, 2002.

By the Commission

ATTEST:


Deputy Executive Director