

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF WESTERN )  
ROCKCASTLE WATER ASSOCIATION, INC. )  
AND NORTHERN ROCKCASTLE COUNTY WATER )  
DISTRICT FOR (A) APPROVAL OF A JOINT )  
AGREEMENT TO MERGE NORTHERN )  
ROCKCASTLE INTO WESTERN ROCKCASTLE )  
PURSUANT TO KRS 278.020(4) AND 807 KAR 5:001; )  
(B) FOR APPROVAL OF RATES, CLASSIFICATIONS ) CASE NO. 98-099  
AND ADMINISTRATIVE REGULATIONS TO THE )  
CUSTOMERS AND TERRITORY OF NORTHERN )  
ROCKCASTLE PURSUANT TO THE PROVISIONS )  
OF 807 KAR 5:011, SECTION 11; AND (C) FOR )  
AUTHORITY FOR THE WESTERN ROCKCASTLE )  
WATER ASSOCIATION, INC. TO INCUR CERTAIN )  
INDEBTEDNESS AS REQUIRED PURSUANT )  
TO KRS 278.300 )

O R D E R

On February 24, 1998, Western Rockcastle Water Association, Inc. ("Western Rockcastle") and Northern Rockcastle County Water District ("Northern Rockcastle") tendered for filing a joint application for approval of a merger, the issuance of new indebtedness, and the adoption of Western Rockcastle's rates for the customers of Northern Rockcastle. After satisfying a number of filing deficiencies, the application was accepted for filing on April 6, 1998. Western Rockcastle provides water to approximately 2,238 customers in the western portion of Rockcastle County and portions of Lincoln and Pulaski counties, Kentucky. Western Rockcastle's service territory is adjacent to that of Northern Rockcastle, which serves approximately 795 customers. Both water systems purchase water for resale from the city of Mt. Vernon, Kentucky.

Northern Rockcastle, which had been experiencing financial and managerial difficulties for some time, approached Western Rockcastle over three years ago to initiate merger discussions. Shortly thereafter, an agreement was entered into for Western Rockcastle to operate Northern Rockcastle's system and provide daily maintenance including billing, leak repairs, and meter setting. Northern Rockcastle then closed its office and all duties and functions were transferred to Western Rockcastle. In January 1998, a definitive agreement to merge was entered into providing for the acquisition by Western Rockcastle of all assets and liabilities of Northern Rockcastle.

Upon completion of the merger, the then existing Board of Directors of Western Rockcastle will continue to govern the merged utility and Northern Rockcastle and its Board of Commissioners will be dissolved. Western Rockcastle will either assume the outstanding indebtedness of Northern Rockcastle or issue new debt to retire Northern Rockcastle's existing debt. Western Rockcastle seeks approval to charge its rates, which are lower than those of Northern Rockcastle, in the territory now served by Northern Rockcastle.

Western Rockcastle intends to physically connect its system to the Northern Rockcastle system by constructing 4,500 feet of 6-inch water line, which will provide a back up for transporting limited quantities of water between the two utilities. Western Rockcastle also proposes to perform other maintenance and construction projects having an estimated total cost of \$428,000. Western Rockcastle proposes to pay for the cost of this construction, as well as any retirement of Northern Rockcastle's existing debts of

approximately \$460,291, by the issuance of a loan and a grant through the United States Department of Agriculture Rural Development ("Rural Development").

Based on the application and being otherwise sufficiently advised, the Commission finds that pursuant to KRS 278.020(4), Western Rockcastle has the financial, technical and managerial abilities to acquire Northern Rockcastle and to provide adequate, efficient, and reasonable water service to the territory now served by Northern Rockcastle. While the merger agreement references the need for Commission approval pursuant to KRS 74.361, the Commission finds that this statute is applicable only to mergers initiated by the Commission, as opposed to voluntary mergers initiated by the affected utilities. In addition, KRS 74.361 does not encompass the merger of a water district into a water association.

Western Rockcastle received a letter of conditions, dated March 14, 1997, from Rural Development setting forth the terms and conditions which must be satisfied for Rural Development to issue a loan and a grant. However, the letter specifies that it does not constitute approval of either the loan or grant, and any such approval will be by a subsequent letter which Western Rockcastle has not yet received. Western Rockcastle has advised the Commission that final approval of the loan and grant have not yet been received and that it will provide the Commission with the details of its proposed financing as part of a future application which will include a request for a certificate of convenience and necessity to construct the proposed maintenance projects and connection to the Northern Rockcastle system. Western Rockcastle also advised the Commission that Rural Development will not authorize the use of Western Rockcastle's rates in the territory now served by Northern Rockcastle, apparently because the higher rates now charged by

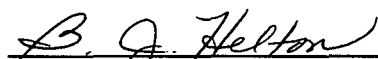
Northern Rockcastle are needed to amortize the indebtedness. Therefore, Western Rockcastle has formally deleted its request to charge uniform rates throughout its post-merger service territory.

IT IS THEREFORE ORDERED that:

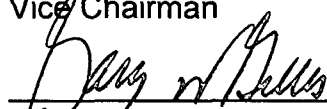
1. The acquisition of Northern Rockcastle's assets and liabilities by Western Rockcastle through a merger is approved.
2. Western Rockcastle shall continue to charge Northern Rockcastle's tariffed rates for service to customers within the existing Northern Rockcastle service territory.
3. Within 10 days from the date of this Order, Western Rockcastle shall file pursuant to 807 KAR 5:011, Section 11, a notice adopting Northern Rockcastle's existing tariffed rates for customers in that service territory and shall also file new tariffs in its own name adopting Northern Rockcastle's existing tariffed rates.
4. Upon receipt of final loan and grant approval from Rural Development, Western Rockcastle shall file an application for approval of financing and an application for the issuance of a certificate of convenience and necessity to construct the maintenance projects and system connection.

Done at Frankfort, Kentucky, this 22nd day of September, 1998.

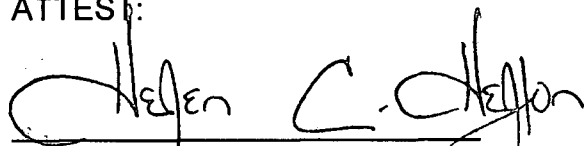
PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director