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NEWS RELEASE

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PSC Approves Financing for Water System Merger in Hardin County

Hardin County Water District #2 will take over Elizabethtown system

FRANKFORT, Ky. (Oct. 23, 2014) – The Kentucky Public Service Commission (PSC) has approved a financing plan that will enable Hardin County Water District #2 to complete its purchase of the Elizabethtown municipal water system.

In an order issued today, the PSC authorized a loan arrangement that requires Hardin County Water District #2 to pay Elizabethtown \$400,000 per year for 20 years – a total of \$8 million. The purchase agreement takes effect Nov. 1.

Consolidating the two systems will produce economies of scale and is consistent with goals and policies set forth in state laws that favor the merger of water utilities, Hardin County Water District #2 said in its application to the PSC.

Testimony in the case indicated that consolidating the two water systems would provide long-term benefits by reducing the need for future rate increases once the systems are operating under a single rate structure.

The purchase agreement includes adoption by Hardin County Water District #2 of a rate schedule set earlier by the Elizabethtown City Council. It puts in place four rate increases for Elizabethtown's 9,500 customers, ending in July 2017. After the final increase, the rates within the city will equal those paid by the water district's 17,000 other customers.

The first of those four rate increases – which will increase a typical residential water bill by 13.49 percent - takes effect Nov. 1. It will be followed by increases on July 1 of 2015 (8.04 percent), 2016 (7.45 percent) and 2017 (6.93 percent). The total cumulative increase will come to 40.87 percent for the typical Elizabethtown residential water customer.

When the rate is fully equalized in 2017, an Elizabethtown customer using 5,000 gallons of water per month will have a monthly bill of \$33.95.

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Hardin County Water District #2 current customers in Hardin, Hart and Larue counties will see no increase as a result of the transaction.

Today's PSC order does not address the purchase agreement itself, but authorizes the debt repayment plan and the rate schedule put in place by Elizabethtown.

That is because Kentucky law gives the PSC no authority over the sale or merger of municipal water systems. However, if the acquiring entity is a regulated utility such as a water district, the PSC has jurisdiction over any debt assumed by the regulated utility, as well as any future recovery through rates of the cost of the acquisition.

Thus, should Hardin County Water District #2 seek to increase rates in the future to pay the debt to Elizabethtown, the PSC will review the reasonableness of the transaction, including the purchase price, as part of its consideration of the request to adjust rates.

Today's order and other records in the case are available at the PSC website, psc.ky.gov. The case number is 2014-00289.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 85 employees.

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