

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE BIG SANDY WATER)	
DISTRICT TO ISSUE SECURITIES IN THE)	
APPROXIMATE PRINCIPAL AMOUNT OF)	
\$1,875,000 FOR THE PURPOSE OF)	CASE NO.
REFUNDING AND RE-AMORTIZING CERTAIN)	2019-00276
OUTSTANDING OBLIGATIONS OF THE)	
DISTRICT PURSUANT TO THE PROVISIONS)	
OF KRS 278.300 AND 807 KAR 5:001)	

ORDER

On August 7, 2019, Big Sandy Water District (Big Sandy District) filed an application (Application) seeking Commission authority to refinance certain debt of up to \$1,875,000, subject to an adjustment of up to 10 percent, for the purpose of refunding certain outstanding waterworks revenue bonds of the District and reamortizing an outstanding loan from the Kentucky Rural Water Finance Corporation (KRWFC). There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

The Commission notes that Big Sandy District reported a water loss of 40.7654 percent in its 2018 Annual Report. Commission regulation 807 KAR 5:066(6)(3) states that, for ratemaking purposes, a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations. The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Big Sandy District is to pursue reasonable actions to reduce its unaccounted-

for water loss. Failure by Big Sandy District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

Big Sandy District intends to use the proceeds from the proposed KRWFC Loan to refinance three outstanding revenue bonds. The first, Series 1993 dated December 13, 1994, in the original principle amount of \$1,214,000, bearing an interest rate of 4.50 percent per annum and currently held by the U.S. Department of Agriculture, acting through Rural Development (RD); the second, Series 2000 dated September 26, 2000, in the original principal amount of \$495,000, with an interest at the rate of 4.50 percent per annum, also currently held by RD; and the third, Series 2001 dated December 18, 2001, in the original principal amount of \$527,000, at an interest rate of 4.50 percent per annum and currently held by RD. Big Sandy District also proposes reamortizing an outstanding loan from KRWFC designated as Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bond (Flexible Term Program) Series 2007A, dated January 30, 2007, in the original principal amount of \$931,000, currently held in the open market.

The total amount being refinanced of \$1,875,000 will allow Big Sandy District to refund the prior RD Bonds, reamortize the prior KRWFC Loan and pay the fees and expenses for issuing the new loan¹. The proposed loan is a 22-year term that will be issued at interest rate averaging approximately 3.269 percent per annum.² Big Sandy District provided a cash flow analysis that indicates that the refinancing would save

¹ *Id.*, paragraph 7.

² Application, Exhibit A.

\$238,239.47 over the life of the proposed loan, resulting in a positive net present value (NPV) cash flow of \$176,100.39.³

The Commission has reviewed the proposed refinancing and finds Big Sandy District's proposal to be reasonable due to the lower effective interest rate and cash flow savings Big Sandy District would realize over the period of the loan. However, in the event that the new interest rate on the proposed refinancing is higher than the range of interest rates set forth in the Application, Big Sandy District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The Commission commends Big Sandy District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers.

After consideration of the evidence of record and being sufficiently advised, the Commission finds that:

1. The proposed loan from KRWFC is for lawful objects within the corporate purposes of Big Sandy District, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Big Sandy District should execute its note as security for the proposed loan in the manner described in its Application.

3. The final amounts of the RD payoff, the legal fees, and the new KRWFC loan will not be known until the refinancing transaction is finalized. Therefore, Big Sandy

³ Application, Exhibit C.

District should provide the Commission an updated version of Exhibit C, reflecting the cash flow analysis of the new KRWFC loan, within ten days of finalizing the transaction.

4. Within ten days of the execution of the new KRWFC loan documents, Big Sandy District should file with the Commission one copy in paper medium and an electronic version of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Big Sandy District's Application.

6. The terms and conditions of the new KRWFC loan should be consistent with the KRWFC assistance program as described in Big Sandy District's Application.

IT IS THEREFORE ORDERED that:

1. Big Sandy District is authorized to borrow from KRWFC an amount up to \$1,875,000, but no more than the total amount needed to pay off the RD indebtedness proposed to be refinanced and fees and expenses as identified in the Application on the condition that the final NPV of the savings, determined upon closing, generate positive cash flow. The loan maturity date and interest rate shall be in accordance with the KRWFC assistance program as described in Big Sandy District's Application.

2. Big Sandy District shall execute the KRWFC loan documents as authorized herein.

3. Big Sandy District shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 shall reference this case number and shall be retained in the post-case correspondence file.

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

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

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By the Commission

ENTERED
OCT 03 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2019-00276

*Paul Thomas
Chairman
Big Sandy Water District
18200 Kentucky Route #3
Catlettsburg, KY 41129

*Big Sandy Water District
18200 Kentucky Route #3
Catlettsburg, KY 41129

*Honorable W. Randall Jones
Attorney at Law
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, KENTUCKY 40202