

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF TODD COUNTY)	
WATER DISTRICT TO ISSUE SECURITIES IN)	
THE APPROXIMATE PRINCIPAL AMOUNT OF)	CASE NO.
\$2,581,000 FOR THE PURPOSE OF REFUNDING)	2019-00434
CERTAIN OUTSTANDING OBLIGATIONS OF THE)	
DISTRICT PURSUANT TO THE PROVISIONS OF)	
KRS 278.300 AND 807 KAR 5:001)	

ORDER

On December 10, 2019, Todd County Water District (Todd District) filed an application (Application) seeking Commission authority to refinance certain debt of up to \$2,581,000 via an Assistance Agreement (KRWFC Loan) with 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 Todd District reported a water loss of 22.07 percent in its 2018 Annual Report.¹ 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. Reduction of Todd County's unaccounted-for water loss to 15 percent

¹ Annual Report of Todd County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2018 at 57.

would result in an approximate \$68,074 decrease to its cost of water.² The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Todd District is to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Todd District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

The Commission also notes that its records indicate that Todd District has not sought a general adjustment in base rates by any other means than through a financing approval or in conjunction with an application for a Certificate of Public Convenience and Necessity since 2003. While Todd District has increased its rates as part of financing cases through the United States Department of Agriculture Rural Development (RD), the Commission's review of records in a RD financing case is limited and very different from the comprehensive review of a utility's total financial stability and operational viability that takes place in a traditional rate adjustment case or an alternative rate adjustment. The Commission recently noted that utilities use this practice intentionally to avoid a review of its financial records.³ A key general recommendation that resulted from the investigation of Commission Case No. 2019-00041 was that water districts with sustained excessive

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Purchased Water	\$ 900,212
Add: Transmission and Distribution	<u>62,017</u>
Cost of Water	962,229
Multiply By: Water Loss Percentage above 15%	<u>7.07%</u>
Expense Reduction to Cost of Water	<u><u>\$ 68,074</u></u>

³ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019).

water loss should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.⁴ Todd District's unaccounted for water loss has increased from 14.61 percent in 2003⁵ to 28.71 percent in 2015⁶ and is currently 22.07 percent.⁷ The lack of insight into Todd District's financial records, coupled with the fact that Todd District has sustained excessive water loss over the past 15 years indicates to the Commission that Todd District should file an application for a traditional adjustment in rates or an alternative rate adjustment within one year of the date of filing of this Order to ensure its financial situation is sufficient to combat excessive water loss.

Todd District intends to use the proceeds from the proposed KRWFC Loan to refinance and discharge \$2,581,000 of outstanding indebtedness to the U.S. Department of Agriculture, acting through RD. The outstanding RD balance consists of two fixed-rate debts with the original principal amounts of \$1,100,000 carrying an interest rate of 4.125 percent per annum and \$1,800,000 carrying an interest rate of 4.125 percent per annum, respectively.⁸ The outstanding balance for the prior bonds held by RD is approximately \$2,581,000.⁹ The total refinancing amount is \$2,581,000 that is comprised of one lease

⁴ *Id.*

⁵ Annual Report of Todd County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2003 at 57.

⁶ Annual Report of Todd County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2015 at 61.

⁷ Annual Report of Todd County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2018 at 57.

⁸ Application, paragraph 5.

⁹ *Id.*, Exhibit B.

agreement with a 28-year term funded by bonds that will be issued at interest rates that will vary between 2.6 percent and 3.3 percent per annum.¹⁰

Todd District stated that the KRWFC loan would provide the funds necessary to refund the RD indebtedness and pay the fees and expenses incident to the issuance of the loan.¹¹ Todd District provided a cash-flow analysis indicating that the refinancing would save \$424,263 over the life of the proposed loan resulting in a positive net present value (NPV) cash flow of \$261,230.¹²

The Commission has reviewed the proposed refinancing and finds Todd District's proposal to be reasonable due to the lower effective interest rate and cash-flow savings Todd 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, Todd District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The Commission is concerned with Todd District's prolonged absence from the Commission's review of its asset management through an application for adjustment of its rates and its sustained reported excessive water loss. KRS 278.300(4) states that the Commission may grant or deny an application for approval of financing in whole or in part, or upon such terms and conditions as deemed necessary or appropriate. Therefore, the Commission finds that Todd District's proposal should be granted with the condition that it file an application for

¹⁰ *Id.*, Exhibit A.

¹¹ *Id.*, paragraph 7.

¹² *Id.*, Exhibit C.

adjustment of its base rates through a traditional or an alternative rate filing within one year of the date of filing of this Order.

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 Todd 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. Todd 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, Todd District should provide the Commission an updated version the Application, 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, Todd 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 Todd District's Application.

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

7. Todd District should file for an adjustment in base rates or file for an alternative rate filing within one year of the date of filing of this Order to ensure that its rates are sufficient.

IT IS THEREFORE ORDERED that:

1. Todd District is authorized to borrow from KRWFC an amount up to \$2,581,000, but no more than the total amount needed to pay off the RD indebtedness proposed to be refinanced 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 Todd District's Application.

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

3. Todd District shall comply with all matters set out in finding paragraphs 3 through 7 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. Todd District shall file for an adjustment in base rates or file for an alternative rate filing within one year of the date of filing of this Order to ensure that its rates are sufficient.

6. 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
JAN 29 2020
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


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