

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE LAUREL	)	
COUNTY WATER DISTRICT NO. 2 TO ISSUE	)	
SECURITIES IN THE APPROXIMATE	)	
PRINCIPAL AMOUNT OF \$6,105,000 FOR THE	)	CASE NO.
PURPOSE OF REFUNDING CERTAIN	)	2020-00157
OUTSTANDING OBLIGATIONS OF THE	)	
DISTRICT PURSUANT TO THE PROVISIONS	)	
OF KRS 278.300 AND 807 KAR 5:001	)	

ORDER

On June 5, 2020, Laurel County Water District No. 2 (Laurel District No. 2) filed an application (Application) seeking Commission authority to enter into a Loan Agreement (Loan) with Kentucky Rural Water Finance Corporation (KRWFC) to borrow approximately \$6,105,000 (subject to adjustment of up to 10 percent) to refinance two outstanding debt obligations and to pay the costs of issuance of the KRWFC Loan. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Laurel District No. 2, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 6,041 customers in Knox and Laurel counties, Kentucky.<sup>1</sup>

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<sup>1</sup> *Annual Report of Laurel County Water District No. 2 to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2018* (2018 Annual Report) at 12 and 49.

The Commission notes that its records indicate that Laurel District No. 2 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 its Application for Alternative Rate Filing in 2015.<sup>2</sup> While Laurel District No. 2 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 an 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.<sup>3</sup> The lack of insight into Laurel District No. 2's financial records indicates to the Commission that Laurel District No. 2 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.

Laurel District No. 2 proposes to execute a Loan with KRWFC to borrow \$6,105,000.<sup>4</sup> The proposed Loan will have a 31-year term subject to interest rates that will vary from 2.80 percent to 3.45 percent per annum.<sup>5</sup> Laurel District No. 2 proposes to use the proceeds from the KRWFC Loan to fully refund the Waterworks Revenue Bonds

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<sup>2</sup> Case No. 2015-00341, *Application of Laurel County Water District No. 2 For Rate Adjustment Pursuant to 808 KAR 5:076* (Ky. PSC Oct. 13, 2015).

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

<sup>4</sup> Application at 5.

<sup>5</sup> *Id.*, Exhibit A.

of the District, Series 1997, with an original principal amount of \$545,000, and Waterworks Revenue Bonds, Series 2010A, with an original principal amount of \$6,065,000 (collectively, Prior Bonds).<sup>6</sup>

Laurel District No. 2 estimates that it will expend \$6,231,014 to refund the Prior Bonds.<sup>7</sup> The estimated cost that will be expended to refinance the outstanding indebtedness includes a reoffering premium of \$8,427.<sup>8</sup> Laurel District No. 2 provided a Debt Service Comparison that indicates that the refinancing would save \$738,049<sup>9</sup> over the life of the proposed loan, resulting in a net present value (NPV) cash flow savings of \$515,415.<sup>10</sup>

The Commission has reviewed the proposed refinancing and finds Laurel District No. 2's proposal to be reasonable due to the lower effective interest rate and cash flow savings Laurel District No. 2 would realize over the period of the Loan. However, if the new interest rate on the proposed refinancing is higher than the range of interest rates set forth in the Application, Laurel District No. 2 should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The Commission commends Laurel District No. 2 for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers.

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<sup>6</sup> Application at 5.

<sup>7</sup> *Id.* Exhibit B, Sources and uses. Uses of Funds: \$6,819.95 (Original Issue Discount) + \$106,837.50 (Total Underwriter's Discount) + \$101,180.00 (Costs of Issuances) + \$6,015,010.90 (Deposit to Current Refunding Fund) + \$1,165.34 (Rounding Amount) = \$6,231,013.69. Sources of Funds: \$6,105,000 (Par Amount of Bonds) + \$8,426.60 (Reoffering Premium) + \$117,587.09 (Transfers from Prior Issue Debt Service Funds) = \$6,231,013.69.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*, Exhibit C.

<sup>10</sup> *Id.*

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 Laurel District No. 2, 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. Laurel District No. 2 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, Laurel District No. 2 should provide the Commission an updated version of the Application, Exhibit C, reflecting the cash flow analysis of the new KRWFC Loan within ten days of finalizing the transaction.

4. The Commission directs Laurel District No. 2 to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085<sup>11</sup> regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency.

5. The proceeds from the proposed Loan should be used only for the lawful purposes set out in Laurel District No. 2's Application.

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<sup>11</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

6. The terms and conditions of the new KRWFC Loan should be consistent with the KRWFC assistance program as described in Laurel District No. 2's Application.

7. Laurel District No. 2 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. Laurel District No. 2 is authorized to enter into a Loan with KRWFC to borrow no more than the total amount 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 Laurel District No. 2's Application.

2. Laurel District No. 2 shall execute the KRWFC Loan documents as authorized herein.

3. Laurel District No. 2 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. Laurel District No. 2 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.

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  
JUN 23 2020 rcs  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2020-00157

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