

WOOD CREEK WATER DISTRICT

1670 East Hal Rogers Parkway
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Public Service
Commission

January 26, 2016

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Re: Wood Creek Water District - issuance of securities pursuant to KRS 278.300,
Case No. 2014-00440

Dear Mr. Derouen:

The Wood Creek Water District (the "District") filed an Application with the Kentucky Public Service Commission (the "Commission") on December 17, 2014 requesting Commission approval to issue securities pursuant to the provisions of KRS 278.300 for the purpose of refunding certain outstanding Bonds held by the United States Department of Agriculture, acting through Rural Development ("USDA") in order to achieve substantial interest cost savings to the District. The Application requested approval of \$1,485,000 (plus or minus 10%) of securities in the form of a loan (the "2015 Loan") from the Kentucky Rural Water Finance Corporation ("KRWFC") through the KRWFC flexible loan program. The Application was drafted and filed by the law firm of Rubin & Hays, Louisville, Kentucky, as part of their services rendered to KRWFC. The Commission issued an Order on January 5, 2015 (the "2015 Order") authorizing the District to enter into an agreement with KRWFC to borrow no more than \$1,633,500 for the purpose of refunding certain outstanding USDA loans, provided that positive gross savings and net present value savings were achieved.

Subsequent to the filing of the Application in Case No. 2014-00440, the financial advisor for KRWFC determined that the District could achieve further interest cost savings by reamortizing certain outstanding loans made by KRWFC to the District in 2003 and 2004 (see Case Nos. 2002-00356, 2003-00389 and 2004-00108 authorizing the District to enter into the 2003 and 2004 loan agreements with KRWFC), such reamortization being included in the financing contemplated in Case No. 2014-00440. The determination to reamortize the 2003 and 2004 KRWFC loans was made after the date of the 2015 Order.

The securities approved in Case No. 2014-00440 were closed and issued on February 19, 2015. These securities consisted of two series - (i) \$1,515,000, the proceeds of which were used to refund the District's outstanding USDA loans; and (ii) \$1,265,000, the proceeds of which were used to reamortize the District's 2003 and 2004 KRWFC loans.

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It recently came to the District's attention that the District inadvertently failed to file a motion to amend the 2015 Order to include the reamortization portion of the 2015 Loan. This omission was made in error and was completely unintentional.

The District realizes that prior Commission approval under KRS 278.300 is in the best interest of all regulated utilities and is designed to prevent such utilities from incurring indebtedness that cannot be adequately repaid.

Please see the attached explanation of facts from Rubin & Hays regarding the KRWFC reamortization loan program and the necessity of obtaining Commission approval prior to regulated utilities entering into such loans.

Respectfully Submitted,

Wood Creek Water District

By 
Chairman

Attachment

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CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

January 29, 2016

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Re: Wood Creek Water District **PSC Case No. 2014-00440**

Dear Mr. Derouen:

We are writing this letter to provide background information to the Kentucky Public Service Commission (the "Commission") relating to certain financings undertaken by various Commission regulated utilities, including the Wood Creek Water District ("Wood Creek").

This office represents the Kentucky Rural Water Finance Corporation ("KRWFC") in connection with the KRWFC Flexible Term Loan Program (the "Program"). This Program was established in 2001 in order to provide tax-exempt low interest flexible term loans to Kentucky cities and water districts for utility financings and refinancings.

In 2013, Raymond James & Associates, as the financial advisors to KRWFC, identified certain outstanding KRWFC loans made early in the Program that could be reamortized at lower interest rates thus generating a significant amount of interest cost savings.

In connection with the proposed loan reamortizations, the question arose as to whether or not Commission approval was needed for these reamortizations under KRS 278.300. On December 5, 2012, this office submitted a request for a Commission Staff Opinion relating to the question proposed in the previous sentence. A Staff Opinion (PSC Staff Opinion # 2013-002) was issued on January 10, 2013 and stated that the proposed loan reamortizations constituted new securities thus requiring Commission approval under KRS 278.300.

In accordance with the opinions and recommendations rendered in PSC Staff Opinion #2013-002, this office prepared and filed a joint application requesting permission for certain Commission regulated utilities to enter into supplemental assistance agreements with KRWFC to reamortize previously issued KRWFC loans. The joint application was assigned PSC Case No. 2013-00042 and the Commission issued its approving Order on March 27, 2013.

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Due to interest rate market fluctuations, KRWFC did not undertake any reamortization loans in 2014. In 2015, two entities, East Laurel Water District ("East Laurel") and Wood Creek, sought approval from the Commission to borrow funds from the Program to refund certain outstanding loans from USDA, Rural Development (we refer to Commission cases 2014-00439 - East Laurel; and 2014-00440 - Wood Creek). As part of these refinancings, KRWFC's financial advisor determined that a reamortization of East Laurel's and Wood Creek's previous Program loans would generate sufficient interest cost savings. This determination was made after the East Laurel and Wood Creek Orders were issued by the Commission. East Laurel and Wood Creek did not file any motions with the Commission requesting that the Orders be amended to include approval to enter into supplemental assistance agreements relating to the reamortizations.

The Commission issued its Order in the East Laurel case on January 6, 2015 authorizing East Laurel to undertake a loan with KRWFC in an amount not to exceed \$1,842,500. East Laurel's final loan amount was \$1,835,000 of which \$1,640,000 was allocated to the USDA refundings and \$195,000 was allocated to the KRWFC loan reamortizations. This final total amount was lower than the Commission authorized amount of \$1,842,500.

The Commission issued its Order in the Wood Creek case on January 5, 2015 authorizing Wood Creek to undertake a loan with KRWFC in an amount not to exceed \$1,633,500. Wood Creek's final loan amount was \$2,780,000 of which \$1,515,000 was allocated to the USDA refundings and \$1,265,000 was allocated to the KRWFC loan reamortizations. This final total amount was higher than the Commission authorized amount of \$1,842,500 by \$1,146,500.

It should be noted that the inclusion of the Wood Creek reamortization in the 2015 KRWFC financing generated a net present value benefit to Wood Creek in the amount of \$142,847.30.

We hope the above explanation provided some clarity into the situation. If you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jlm
Enclosures