

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EDMONSON)	
COUNTY WATER DISTRICT TO ISSUE)	
SECURITIES IN THE APPROXIMATE)	
PRINCIPAL AMOUNT OF \$3,464,000 FOR)	CASE NO.
THE PURPOSE OF REFUNDING CERTAIN)	2019-00433
OUTSTANDING OBLIGATIONS OF THE)	
DISTRICT PURSUANT TO THE PROVISIONS)	
OF KRS 278.300 AND 807 KAR 5:001)	

ORDER

On December 16, 2019, Edmonson County Water District (Edmonson District), filed an application (Application) seeking Commission authority to enter into a lease agreement (Lease) with Kentucky Rural Water Finance Corporation (KRWFC) to borrow approximately \$3,464,000 (subject to adjustment of up to 10 percent) to refinance six outstanding debt obligations to Edmonson District. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Edmonson District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 10,519 customers in Butler, Edmonson, Grayson, Hart, and Warren counties, Kentucky.¹

¹ *Annual Report of Edmonson County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2018* (2018 Annual Report) at 12 and 63.

The Commission notes that Edmonson District reported a water loss of 25.5 percent in its 2018 Annual Report.² 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 Edmonson District's unaccounted-for water loss to 15 percent would result in an approximate \$32,953 decrease to its cost of water.³ The Commission continues to place greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Edmonson District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Edmonson 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 reflect that Edmonson District has not sought a general adjustment in rates by any other means than through financing approval or in conjunction with an application for a Certificate of Public Convenience and Necessity. The practical result of such policy is that Edmonson District has managed to avoid Commission review of its financial records and operational structure for more than 40 years. While Edmonson District has increased its rates as part of financing cases through the United States Department of Agriculture Rural Development (RD) the

² 2018 Annual Report at 71.

³ Purchased Power	\$ 233,750
Chemicals	<u>80,084</u>
Cost of Water	\$ 313,834
Multiply by Water Loss Percentage above 15%	<u>10.5%</u>
Expense Reduction to Cost of Water	<u>\$ 32,953</u>

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 intentionally use this practice to avoid a review of its financial records.⁴ Edmonson District's unaccounted-for water loss has increased from 16.22 percent in 2009⁵ to 25.5 percent in 2018. Excessive water loss was indicated as a deficiency in the Commission's September 12, 2018, Periodic Compliance Inspection. Edmonson District Commission sent a letter in response to its deficiencies claiming it was very difficult to locate leaks due to line extensions made in the mid-2000s and the policy was to replace service lines that have leaked more than two times rather than just repairing them. Finally, Edmondson District anticipated installing flow meters at water tanks. Again, as part of the investigation in Case No. 2019-00041 and to improve water leak detection, the Commission recommended zone meter installation. If utilities already use zone meters and continue to report sustained excessive water loss, the Commission recommended bypass meters or dedicated meter pits for use with a portable flow meter to help isolate leaks. The Commission finds that Edmondson District should file an update to its plans filed in its response to Commission's September 12, 2018, Periodic Compliance Inspection. The lack of insight into Edmonson District's financial records coupled with sustained excessive water loss over the past nine years is unreasonable. Therefore, this Commission finds that Edmonson District should file for an adjustment in

⁴ See generally, Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC. Nov. 22, 2019)

⁵ *Annual Report of Edmonson County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2009* at 60.

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 to combat excessive water loss.

Edmonson District proposes to execute the Lease with KRWFC to borrow \$3,464,000.⁶ The proposed lease will have a 30-year term subject to interest rates that will vary from 2.8 percent to 3.5 percent per annum.⁷ Edmonson District proposes to use the proceeds from the KRWFC Lease to fully refund the Waterworks Revenue Bonds of the District that consist of: Waterworks Revenue Bonds, Series 2001B, with an original principal amount of \$276,000; Waterworks Revenue Bonds, Series 2003, with an original principal amount of \$442,000; Waterworks Revenue Bonds, Series 2005, with an original principal amount of \$100,000; Waterworks Revenue Bonds, Series 2007A, with an original principal amount of \$1,200,000; Waterworks Revenue Bonds, Series 2007B, with an original principal amount of \$520,000; Waterworks Revenue Bonds, Series 2009, with an original principal amount of \$1,511,000 (collectively Prior Bonds).⁸

Edmonson District estimates that it will expend \$3,472,511.58 to refund the Prior Bonds.⁹ The estimated cost that will be expended to refinance the outstanding indebtedness includes a reoffering premium of \$8,511.58.¹⁰ Edmonson District provided a Debt Service Comparison indicating that the refinancing would save \$567,443.89¹¹ over

⁶ Application at 5.

⁷ *Id.*, Exhibit A.

⁸ Application at 5.

⁹ *Id.* Exhibit B, Sources and uses. Uses of Funds: \$111.59 (Original Issue Discount (OID)) + \$51,960 (Total Underwriter's Discount) + \$51,960 (Costs of Issuances) + \$3,368,059.93 (Deposit to Current Refunding Fund) + \$421.06 (Rounding Amount) = \$3,472,511.58.

¹⁰ *Id.*

¹¹ Application, Exhibit C.

the life of the proposed loan, resulting in a positive net present value (NPV) cash-flow savings of \$387,399.86.¹²

The Commission has reviewed the proposed refinancing and finds Edmonson District's proposal to be reasonable due to the lower effective interest rate and cash-flow savings Edmonson District would realize over the period of the loan. Although, if the new interest rate on the proposed refinancing is higher than the range of interest rates set forth in the Application, Edmonson District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The Commission commends Edmonson District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers. However, the Commission is concerned with Edmonson 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 Edmondson District's proposal should be granted with the condition that it file an application for adjustment of its base rates through 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 Edmonson District, is necessary and appropriate for and consistent with the

¹² *Id.*

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. Edmonson 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, Edmonson 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, Edmonson District should file with the Commission one copy in paper medium and an electronic version of the loan documents.

5. Within ten days of the filing of this Order, Edmondson District should file an update to its plans to reduce unaccounted for water loss filed in its response to Commission's September 12, 2018 Periodic Compliance Inspection.

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

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

8. Edmonson 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. Edmonson District is authorized to enter into the Lease 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 Edmonson District's Application.

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

3. Edmonson 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, 4, and 5 shall reference this case number and shall be retained in the post-case correspondence file.

5. Within ten days of the filing of this Order, Edmondson District shall file an update to its plans to reduce unaccounted for water loss filed in its response to Commission's September 12, 2018 Periodic Compliance Inspection.

6. Edmonson 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.

7. This case is hereby closed and will be 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 30 2020
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

for Gwen R. Pinson

Case No. 2019-00433

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