

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 \$2,581,000 FOR THE)	CASE NO.
PURPOSE OF REFUNDING CERTAIN)	2019-00434
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 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). On January 29, 2020, the Commission entered an Order authorizing Todd District to borrow \$2,581,000 from KRWFC and, to ensure that its rates are sufficient, ordered Todd District to file for an adjustment in base rates or file for an alternative rate filing within one year of January 29, 2020. On December 30, 2020, Todd District filed a letter and rate study report performed by Kentucky Rural Water Association.¹ In the letter, James W. Lear, vice chairman of Todd District, noted that the January 29, 2020 Order required the utility to file a base rate case. In addition, Mr. Lear stated the September 11, 2020 final Order entered in Case No. 2020-00227,² allowed for

¹ Letter of Introduction and TCWD Rate Study Report with Supplement (filed Dec. 30, 2020).

² Case No. 2020-00227, *Electronic Application of Todd County Water District to Request for Permission to Deviate from 807 KAR 5:068, Section 2(2)* (Ky. PSC Sept. 11, 2020).

a deviation from 807 KAR 5:068, Section 8, so that an adjustment in rates due to the purchased water expense could be carried out in the base rate case to be filed prior to January 29, 2021. Mr. Lear concluded that analysis from a rate study report indicates that a rate adjustment “does not appear necessary.”

Todd District is represented by counsel in this case and should have filed a formal motion for leave to deviate from the January 29, 2020 Order. Going forward, a request to deviate from an order expressed in a letter to the Executive Director will not be considered by the Commission. The Commission, however, acknowledges the administrative efficiency of proceeding with this matter to provide procedural guidance. The Commission’s goal is to assist Todd District, and other water utilities, to create better business practices and policies. The water utilities that present sustained, high unaccounted-for water loss amounts or that have not undergone a review of their finances for rate sufficiency within a base rate adjustment case for an extended period are vulnerable to poor financial decisions such as using their depreciation funds to operate from or failing to maintain their systems properly. Todd District was able to present a reasonable report to the Commission to show that its rates are sufficient at this time. That report was credible and well supported by its financial records.

The Commission ordered Todd District to file for an adjustment in base rates or an alternative rate filing because of the findings in the January 29, 2020 Order that Todd District had not been in for a base rate increase since 2003 and its unaccounted-for water loss consistently exceeded the 15 percent unaccounted-for water loss threshold disallowed for ratemaking purposes pursuant to 807 KAR 5:066 Section 6(3). While the rate study report filed by Todd District on December 30, 2020, shows that the district has

sufficient revenues from rates, it does not address the issue of water loss. Todd District, however, appears to be making progress towards reducing its water loss. Todd District's water loss increased from 14.61 percent in 2003 to 28.71 percent in 2015. Since 2015, however, it has not been over 28 percent.³

The Commission has reviewed the rate study and finds that Todd District has provided sufficient evidence that it does not need a rate case at this time. Todd District has filed all of the documentation that would normally be filed into the record to meet the minimum filing requirements for an alternative rate filing. The rate study report shows several of, if not all, the pro forma adjustments were made to Todd District's revenues and expenses that Commission Staff would have made had it prepared a Staff Report in a formal proceeding.⁴ In addition to the findings of the rate study, a review of Todd District's most recently filed annual report and 2019 audit⁵ shows that Todd District has built up significant cash reserves both in short term investments and in restricted cash to meet its bond covenants. Todd District's financials appear to be in order, and its unaccounted-for water loss has only exceeded 15 percent for one out of the last three years.

³ Water loss percentages reported by Todd County Water District in 2016-2019 Annual Reports filed with the Public Service Commission: 2016-27.37%; 2017- 11.76%; 2018- 22.07%; 2019 - 11.16%.

⁴ Without a thorough review of Todd District's general ledger and other financial records, the Commission cannot make a wholesale determination whether additional material adjustments would be necessary.

⁵ *Annual Report of Todd County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2019* ("Annual Report") at 16 and 66.

The September 11, 2020 final Order entered in Case No. 2020-00227⁶ allowed for a deviation from 807 KAR 5:068, Section 8, so that an adjustment in rates due to the purchased water expense could be carried out in the base rate case to be filed prior to January 29, 2021. However, evidence provided in the rate study reveals that if the Commission were to now order a decrease in rates, it would place financial strain on Todd County. Based upon the rate study, Todd District's sound financials have provided sufficient evidence to outweigh the Commission's concern regarding the time that has expired since its last rate case. Therefore, the Commission finds the rate study report filed by Todd District is sufficient in this case to comply with the Commission's January 29, 2020 Order and the Commission's September 11, 2020 Order in Case No. 2020-00227.⁷ The Commission notes that any subsequent modification in rates from Todd District's wholesale supplier after the date of this Order should be passed through pursuant to the purchased water adjustment procedure outlined in 807 KAR 5:068.

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

1. The rate study report performed by Kentucky Rural Water Association and filed on December 30, 2020, is sufficient to comply with the requirement that Todd District file an adjustment in base rates or an alternative rate filing prior to January 29, 2021.
2. The rate study report performed by Kentucky Rural Water Association and filed on December 30, 2020, is sufficient to comply with the requirement that Todd District file an adjustment in base rates or an alternative rate filing prior to January 29, 2021, for

⁶ Case No. 2020-00227, *Electronic Application of Todd County Water District to Request for Permission to Deviate from 807 KAR 5:068, Section 2(2)* (Ky. PSC Sept. 11, 2020).

⁷ *Id.*

the deviation granted in Case No. 2020-00227; therefore, the time for the deviation granted should expire.

IT IS THEREFORE ORDERED that:

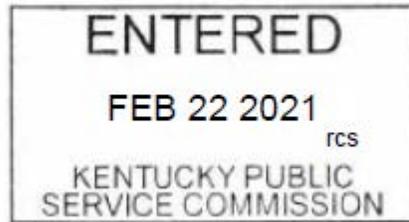
1. Todd District has complied with the requirement that it file an adjustment in base rates or an alternative rate filing prior to January 29, 2021, and therefore shall not file for a rate case proceeding pursuant to the Commission's previous Order in this case.

2. The deviation granted in Case No. 2020-00227 has expired and Todd County shall file for any further deviations pursuant to the normal filing procedures to petition for a new deviation.

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

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By the Commission



ATTEST:


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