

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF GALLATIN)	
COUNTY WATER DISTRICT TO ISSUE)	
SECURITIES IN THE APPROXIMATE PRINCIPAL)	
AMOUNT OF \$1,633,000 FOR THE PURPOSE OF)	CASE NO.
REFUNDING CERTAIN OUTSTANDING)	2019-00460
OBLIGATIONS OF THE DISTRICT PURSUANT TO)	
THE PROVISIONS OF KRS 278.300 AND 807 KAR)	
5:001)	

ORDER

On January 2, 2020, Gallatin County Water District (Gallatin District) filed an application (Application) seeking Commission authority to refinance certain debt of up to \$1,633,000 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 in its 2018 Annual Report Gallatin District reported a water loss of 25.46 percent. Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Reduction of Gallatin District's water loss to 15 percent would result in an approximate \$7,757¹ decrease to its cost of water. The Commission is placing greater emphasis on

monitoring utilities that consistently exceed the 15 percent water loss threshold and strongly encourages Gallatin District to pursue reasonable actions to reduce its water loss. Failure by Gallatin District to make significant progress towards reducing water loss may cause the Commission to pursue additional action against the utility.

In addition, the Commission notes that there are discrepancies in Gallatin District's audit reports. Gallatin District's last rate case was in 2011.² Since 2011, there have been several years where year-to-year operating expense totals were not consistent. Audit reports for 2015 and 2018 have restated totals that do not match prior years' audit reports; however, Gallatin District included disclosures to these audit reports that explain that the totals were restated to account for two GASB decisions. In contrast, the 2016 audit report contains similar discrepancies from the prior year, but there is no disclosure provided to the audit report that explains the reasons for the differences. Further, in any year Gallatin District restates totals in an audit report, the corresponding year's annual report should be amended to reflect the restatements. The Commission's records indicate Gallatin District has failed to do so.

As mentioned above, Gallatin District has not sought a general adjustment in base rates since 2011. A key general recommendation that resulted from the investigation of

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	Purchased Water	\$ 7,701
	Purchased Power for Pumping	61,021
	Chemicals	<u>5,432</u>
	Cost of Water	74,154
	Times Line Loss Above 15 Percent	<u>10.46%</u>
	Expense Reduction to Cost of Water	<u>\$ 7,757</u>

² See, Case No. 2011-00378, *Application of Gallatin County Water District for the Approval of Increased Monthly Rates and for Approval of an Increase in its Meter Connection Fee* (Ky. PSC. Apr. 16, 2012).

the Commission in Case No. 2019-00041,³ was that water districts with sustained excessive 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 The Commission also noted the troubling practice of water utilities to file for rate increases as part of a loan process to fund capital projects and use those rate increases obtained to avoid filing a comprehensive rate adjustment with the Commission.⁵ Gallatin District's unaccounted for water loss has increased from 16.70 percent in 2011⁶ to 25.46 percent.⁷ The lack of insight into Gallatin District's financial records, coupled with the fact that Gallatin District has sustained excessive water loss over the past eight years indicates to the Commission that Gallatin District should file an application for a traditional adjustment in rates or an alternative rate adjustment within six months of the date of filing of this Order to ensure its financial situation is sufficient to combat excessive water loss.

Gallatin District intends to use the proceeds from the proposed KRWFC Loan to refinance and discharge \$1,633,000 of outstanding indebtedness to the U.S. Department of Agriculture, acting through Rural Development (RD). The outstanding RD balance consists of two fixed-rate debts with the original principal amounts of \$1,394,000 carrying an interest rate of 4.125 percent per annum and \$500,000 carrying an interest rate of

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

⁴ *See generally, Id.*

⁵ *Id.*, Appendix L, *Confronting the Problems Plaguing Kentucky's Water Utilities* at ii.

⁶ Annual Report of Gallatin County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2011, at 57.

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

4.125 percent per annum, respectively.⁸ The outstanding balance for the prior bonds held by RD is approximately \$1,633,000.⁹ The total refinancing amount is \$1,633,000 that is comprised of one lease agreement with a 27-year term funded by bonds that will be issued at interest rates that will vary between 2.6 percent and 3.5 percent per annum.¹⁰

Gallatin 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 Gallatin District provided a cash flow analysis that indicates that the refinancing would save \$211,350 over the life of the proposed loan, resulting in a positive net present value (NPV) cash flow of \$143,072.¹²

The Commission has reviewed the proposed refinancing and finds Gallatin District's proposal to be reasonable due to the lower effective interest rate and cash flow savings Gallatin District would realize over the period of the KRWFC 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, Gallatin District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The Commission is concerned with Gallatin 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

⁸ Application, paragraph 5.

⁹ *Id.*, Exhibit B.

¹⁰ *Id.*, Exhibit A.

¹¹ *Id.*, paragraph 7.

¹² *Id.*, Exhibit C.

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 Gallatin District's proposal should be granted with the condition that it file an application for adjustment of its base rates through a traditional or an alternative rate filing within six months 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 Gallatin 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. Gallatin 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, Gallatin District 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. Within ten days of the execution of the new KRWFC Loan documents, Gallatin 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 Gallatin District's Application.

6. The terms and conditions of the new KRWFC Loan should be consistent with the KRWFC Assistance Program as described in Gallatin District's Application.

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

IT IS THEREFORE ORDERED that:

1. Gallatin District is authorized to borrow from KRWFC an amount up to \$1,633,000, but no more than the total amount needed to pay off the RD indebtedness proposed to be refinanced in the Application and 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 Gallatin District's Application.

2. Gallatin District shall execute the KRWFC Loan documents as authorized herein.

3. Gallatin District shall comply with all matters set out in the findings paragraphs 3 through 7 above as if they were individually ordered.

4. Any documents filed in the future pursuant to the findings paragraphs 3 and 4 above shall reference this case number and shall be retained in the post-case correspondence file.

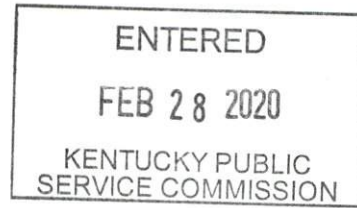
5. Gallatin District shall file for an adjustment in base rates or file for an alternative rate filing within six months of the date of the filing of this Order to ensure that its rates are sufficient.

6. 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.

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

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By the Commission



ATTEST:



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