

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE)	
RATTLESNAKE RIDGE WATER DISTRICT TO)	
ISSUE SECURITIES IN THE APPROXIMATE)	
PRINCIPAL AMOUNT OF \$3,420,000 FOR)	CASE NO.
THE PURPOSE OF REFUNDING CERTAIN)	2020-00086
OUTSTANDING OBLIGATIONS OF THE)	
DISTRICT PURSUANT TO THE PROVISIONS)	
OF KRS 278.300 AND 807 KAR 5:001)	

ORDER

On May 21, 2020, Rattlesnake Ridge Water District (Rattlesnake Ridge District) filed an application (Application) seeking Commission authority to enter into a Loan Agreement (Loan) with Kentucky Rural Water Finance Corporation (KRWFC) to borrow approximately \$3,420,000 (subject to adjustment of up to 10 percent) to refinance six 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.

Rattlesnake Ridge District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 4,089 customers in Carter, Elliott, Lawrence, Lewis, and Morgan counties, Kentucky.¹

¹ *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 in Rattlesnake Ridge District's 2018 Annual Report a water loss of 59.53 percent was reported.² Commission regulation 807 KAR 5:066, Section 6(3), states that for rate making 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 Rattlesnake Ridge District's water loss to 15 percent would result in a 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 Rattlesnake Ridge District to pursue reasonable actions to reduce its water loss. Failure by Rattlesnake Ridge District to make significant progress towards reducing water loss may cause the Commission to pursue additional action with the utility.

Rattlesnake Ridge District proposes to execute a Loan with KRWFC to borrow \$3,420,000.³ The proposed Loan will have a 31-year term subject to interest rates that will vary from 3.20 percent to 5.20 percent per annum.⁴ Rattlesnake Ridge District proposes to use the proceeds from the KRWFC Loan to fully refund the Waterworks Revenue Bonds of the District, Series 1989, with an original principal amount of \$195,000, Waterworks Revenue Bonds, Series 1992, with an original principal amount of \$365,000, Waterworks Revenue Bonds, Series 1994 A and B, with original principal amounts of \$434,000, and \$197,000 respectively, Waterwork Revenue Bonds Series 1995 A and B, with original principal amounts of \$445,000, and \$100,000 respectively, Waterworks

² *Id.* at 57.

³ Application, paragraph 5.

⁴ *Id.*, Exhibit A.

Revenue Bonds Series 2000 A and B, with original principal amounts of \$900,000, and \$425,000 respectively, and Waterworks Revenue Bonds Series 2004 A and B with original principal amounts of \$1,340,000, and \$549,000 respectively (collectively, Prior Bonds).⁵

Rattlesnake Ridge District estimates that it will expend \$3,707,009 to refund the Prior Bonds.⁶ The estimated cost that will be expended to refinance the outstanding indebtedness includes a reoffering premium of \$233,859.25.⁷ Rattlesnake Ridge District provided a Debt Service Comparison that indicates that the refinancing would save \$483,997⁸ over the life of the proposed Loan, resulting in a net present value (NPV) cash flow savings of \$417,564.⁹

The Commission has reviewed the proposed refinancing and finds Rattlesnake Ridge District's proposal to be reasonable due to the lower effective interest rate and cash flow savings Rattlesnake Ridge District 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, Rattlesnake Ridge District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The

⁵ *Id.*, paragraph 5.

⁶ *Id.*, Exhibit B, Sources and uses. Uses of Funds: \$51,300.00 (Total Underwriter's Discount) + \$54,800.00 (Costs of Issuances) + \$3,596,347.74 (Deposit to Current Refunding Fund) + \$4,561,51 (Rounding Amount) = \$3,707,009.25. Sources of Funds: \$3,420,000.00 (Par Amount of Bonds) + \$233,859.25 (Reoffering Premium) + \$63,150.00 (Transfers from Prior Issue Debt Service Funds) = \$3,707,009.25.

⁷ *Id.*

⁸ *Id.*, Exhibit C.

⁹ *Id.*

Commission commends Rattlesnake Ridge District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers.

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 Rattlesnake Ridge 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. Rattlesnake Ridge 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, Rattlesnake Ridge 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. The Commission directs Rattlesnake Ridge District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹⁰ 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.

¹⁰ 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.

5. The proceeds from the proposed Loan should be used only for the lawful purposes set out in Rattlesnake Ridge District's Application.

6. The terms and conditions of the new KRWFC Loan should be consistent with the KRWFC assistance program as described in Rattlesnake Ridge District's Application.

IT IS THEREFORE ORDERED that:

1. Rattlesnake Ridge District 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 Rattlesnake Ridge District's Application.

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

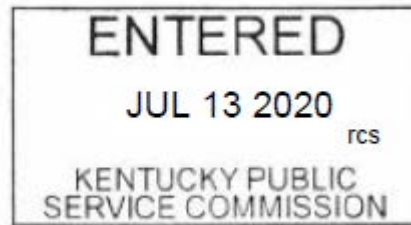
3. Rattlesnake Ridge District shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

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. 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.

By the Commission



ATTEST:



Acting Executive Director

*Kristen Millard
Raymond James Financial Services
300 West Vine Street
Lexington, KENTUCKY 40507

*Rattlesnake Ridge Water District
3563 State Highway 1661
P. O. Box 475
Grayson, KY 41143-0475

*W.C. Gilbert
Rattlesnake Ridge Water District
P. O. Box 475
Grayson, KY 41143

*Honorable W. Randall Jones
Attorney at Law
Rubin & Hays
Kentucky Home Trust Building
450 South Third Street
Louisville, KENTUCKY 40202