

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE)	
CUMBERLAND COUNTY WATER DISTRICT TO)	
ISSUE SECURITIES IN THE APPROXIMATE)	
PRINCIPAL AMOUNT OF \$1,570,000 FOR THE)	CASE NO.
PURPOSE OF REFUNDING CERTAIN)	2020-00188
OUTSTANDING OBLIGATIONS OF THE DISTRICT)	
PURSUANT TO THE PROVISIONS OF KRS)	
278.300 AND 807 KAR 5:001)	

ORDER

On June 25, 2020, Cumberland County Water District (Cumberland 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 \$1,570,000 (subject to adjustment of up to 10 percent). The proceeds of which will be used to refinance eleven outstanding debt obligations to Cumberland District and to pay the costs of issuance of the Loan. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Cumberland District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 2,483 customers in Cumberland County, Kentucky.¹

¹ *Annual Report of Cumberland County Water District to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2019* (2019 Annual Report) at 12 and 49.

The Commission also notes that its records reflect that Cumberland 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 Cumberland District has managed to avoid Commission review of its financial records and operational structure for more than 18 years.² While Cumberland District has increased its rates as part of financing cases through the United States Department of Agriculture Rural Development (RD) the 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. In Commission Case No. 2019-00041 and the resulting investigative report, the Commission discussed the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.³ A key recommendation from that investigative report was that water districts 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 notes that while Cumberland District's audit reports for the calendar years 2015 through 2019 reflect varying levels of cash flow, which

² Cumberland District's last application for a general adjustment of rates was filed in 2002 and the rates were adjusted in 2003. See Case No. 2002-00477, *The Application of Cumberland County Water District for the Approval of the Proposed Increase In Rates for Water Service*, (Ky. PSC May 6, 2003).

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

⁴ *Id.*

included a cash flow deficit of \$129,502 in 2018,⁵ Cumberland District’s last three annual reports reflected significant net operating losses.⁶ For this reason, the Commission will require Cumberland District to file an adjustment in base rates or file for an alternative rate filing within one year of this Order.

The Commission notes that in its 2019 Annual Report Cumberland District reported a water loss of 39.8999 percent. Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's water loss shall not exceed fifteen (15) percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Reduction of Cumberland District’s water loss to 15 percent would result in an approximate \$47,415.88⁷ decrease to purchased water expense. Potentially, Cumberland District is paying \$.41 per 1,000 gallons sold for expenses associated with water loss greater than 15 percent.⁸

⁵ Cumberland District’s Audit Reports can be found on the Commission’s website at:
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_20150_2015_1.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_20150_2016_1.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_20150_2017_1.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_20150_2018_1.pdf
https://psc.ky.gov/Utility_Financial_Reports_Net/uploaded/support/SD_20150_2019_1.pdf

⁶ Cumberland District’s Comparative Operating Statement in its Annual Reports to the Commission for 2017, 2018, and 2019 reflected Net Income before Contributions of \$(82,731), \$(181,584), and \$(236,245), respectively.

7

Purchased Water from 2019 Annual Report	\$ 190,426
Times: Water Loss Above 15 Percent	<u>24.8999%</u>
Purchased Water Expense Reduction	\$47,415.88

8

Purchased Water Expense Reduction	\$47,415.88
Divided by: Total 1,000 gallons sold from 2019 Annual Report	<u>115,848</u>
Cost per 1,000 gallons sold	\$ 0.41

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent water loss threshold and strongly encourages Cumberland District to pursue reasonable actions to reduce its water loss. Failure by Cumberland District to make significant progress towards reducing water loss may cause the Commission to pursue additional action with the utility.

Cumberland District proposes to execute the Loan with KRWFC to borrow \$1,570,000.⁹ The proposed loan will have a 30-year term subject to interest rates that will vary from 3.2 percent to 5.2 percent per annum.¹⁰ Cumberland District proposes to use some of the proceeds from the Loan to fully refund the Waterworks Revenue Bonds of the District that consist of Cumberland County Water District Revenue Bonds, Series 1995A, with an original principal amount of \$339,000; Series 1995B Water Revenue Bond, with an original principal amount of \$73,500; Series 1995C Water Revenue Bond, with an original principal amount of \$315,000; Series 1995D New Liberty Bonds, with an original principal amount of \$115,000; Series 1995E Water Revenue Bond, with an original principal amount of \$87,300; Series 1995F Water Bonds, with an original principal amount of \$151,000; Series 1995G Cumberland Falls Bonds, with an original principal amount of \$133,000; Series 1996 New Liberty Bonds, with an original principal amount of \$254,000; Series 2001 Sewer Bonds, with an original principal amount of \$400,000; Series 2005 Water Bonds, with an original principal amount of \$415,000; and Series 2009 Cumberland Falls Bonds, with an original principal amount of \$415,000 (Prior Bonds).¹¹

⁹ Application at 5.

¹⁰ *Id.*, Exhibit A.

¹¹ *Id.* at 5.

Cumberland District estimates that it will expend \$1,764,340.43 to refund the Prior Bonds.¹² The estimated expended cost to refinance the outstanding indebtedness includes reoffering premiums of \$115,651.30.¹³ Cumberland District provided a Debt Service Comparison indicating that the refinancing would save \$311,949.81¹⁴ over the life of the proposed loan, resulting in a positive net present value (NPV) cash flow savings of \$218,553.52.¹⁵

The Commission has reviewed the proposed refinancing and finds Cumberland District's proposal to be reasonable due to the lower effective interest rate and cash flow savings Cumberland 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, Cumberland District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow. The Commission commends Cumberland District for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its customers. Therefore, the Commission finds that Cumberland District's proposal should be granted.

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

¹² *Id.*, Exhibit B, Sources and uses. Uses of Funds: \$27,475.00 (Total Underwriter's Discount) + \$28,620.00 (Costs of Issuances) + \$1,704,346.58 (Deposit to Current Refunding Fund) + \$3,898.85 (Rounding Amount) = \$1,764,340.43.

¹³ *Id.*, Exhibit B.

¹⁴ Application, Exhibit C.

¹⁵ *Id.*

1. The proposed loan from KRWFC is for lawful objects within the corporate purposes of Cumberland 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. Cumberland District should execute its note as security for the proposed loan in the manner described in its Application.

3. The Commission directs Cumberland District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹⁶ 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.

4. 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, Cumberland 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.

5. Within ten days of the execution of the new KRWFC loan documents, Cumberland District should file with the Commission one copy in paper medium and an electronic version of the loan documents.

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

¹⁶ 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.

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

8. Cumberland District should enter an application for an adjustment in base rates within one year of the date of filing of this Order to ensure that its rates are sufficient.

IT IS THEREFORE ORDERED that:

1. Cumberland District is authorized to enter into the Loan with KRWFC to borrow no more than the total amount to pay off the 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 Cumberland District's Application.

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

3. Cumberland District shall comply with all matters set out in finding paragraphs 3 through 8 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 4 and 5 shall reference this case number and shall be retained in the post-case correspondence file.

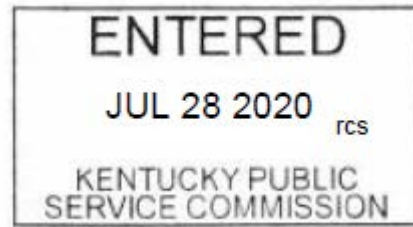
5. Cumberland District shall enter an application for an adjustment in base rates within one year of the date of filing of this Order.

6. This case is 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



ATTEST:



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