

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE)	
SIMPSON COUNTY WATER DISTRICT TO)	
ISSUE SECURITIES IN THE APPROXIMATE)	
PRINCIPAL AMOUNT OF \$1,620,000 FOR)	CASE NO.
THE PURPOSE OF REFUNDING AND)	2021-00014
REAMORTIZING CERTAIN OUTSTANDING)	
OBLIGATIONS OF THE DISTRICT)	
PURSUANT TO THE PROVISIONS OF KRS)	
278.300 AND 807 KAR 5:001)	

ORDER

On January 29, 2021, Simpson County Water District (Simpson District) filed an application seeking Commission authority to enter into a Loan Agreement with the Kentucky Rural Water Finance Corporation (KRWFC) to borrow approximately \$1,620,000 (subject to adjustment of up to 10 percent) to refund outstanding long-term debt obligations and to reamortize an existing 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.

Simpson District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that provide retail water service to 3,499¹ customers in Simpson County, Kentucky.²

¹ *Annual Report of Simpson 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 49.

² *Id.* at 12.

The Commission notes that Simpson District, in its 2019 Annual Report, reported a water loss of 23.7668 percent.³ Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes, a utility's 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 Simpson District's water loss to 15 percent would result in an annual decrease of approximately \$58,289⁴ to its purchased water and electricity expenses. Potentially, Simpson District is paying \$0.17 per 1,000 gallons sold for expenses associated with water loss greater than 15 percent.⁵

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent water loss threshold and strongly encourages Simpson District to pursue reasonable actions to reduce its water loss. Failure by Simpson District to make significant process towards reducing water loss may cause the Commission to pursue additional action with the utility. The Commission finds that Simpson District should file within six months of the date of filing of this Order a

³ *Id.* at 58.

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Purchased Water	\$	1,113,417
Electricity		<u>27,870</u>
Purchase and Transmission Cost of Water		1,141,287
Multiplied by: Percentage Water Loss Above 15%		<u>5.1073%</u>
Expense Reduction to Cost of Water	\$	<u><u>58,289</u></u>

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Expense Reduction to Cost of Water	\$	58,289
Divided by: Total 1,000 Gallons Water Sold 2029 Annual Report		<u>337,664</u>
Cost per 1,000 Gallons Sold	\$	<u><u>0.17</u></u>

comprehensive unaccounted-for water loss reduction plan that establishes priorities, a time schedule for eliminating each source of unaccounted-for water loss, quantifies the cost to eliminate each source of water loss identified, and a detailed plan to fund each project identified.

Simpson District proposes to execute a Loan Agreement with KRWFC to borrow \$1,620,000.⁶ The proposed Loan will have a term of 14 years with interest rates that will vary from 1.95 percent to 2.70 percent per annum.⁷ Simpson District proposes to use the proceeds from the KRWFC Loan to fully refund its outstanding long-term debt obligations designated as Simpson County Water District Water System Revenue Bonds, Series 1995, dated June 11, 1996, in the original authorized principal amount of \$1,060,000, with an outstanding principal balance of \$601,000 bearing an interest of rate of 4.875 percent per annum held by the United States Department of Agriculture, acting through Rural Development (USDA/RD).⁸ Simpson District will also use the KRWFC loan proceeds to reamortize its existing KRWFC Loan designated as Kentucky Rural Water Finance Corporation Public Projects Revenue Bonds, Series 2012B, dated March 28, 2012, in the original principal amount of \$1,575,000, with an outstanding principal balance of \$1,015,000 bearing interest rates that vary from 3.200 percent to 3.950 percent per annum, currently held in the open market.⁹

⁶ Application at 2.

⁷ *Id.*, Exhibit A, Estimated Debt Service Schedule.

⁸ *Id.* at 2–3 and Exhibit D, Prior Bonds Debt Service.

⁹ *Id.* at 3 and Exhibit D, Prior Bonds Debt Service.

Simpson District estimates that it will expend \$1,679,413 to refund the outstanding long-term debt obligations and to reamortize the KRWFC Loan.¹⁰ The estimated cost that will be expended to refinance the outstanding indebtedness includes a reoffering premium of \$54,222.¹¹ Simpson District provided a Debt Service Comparison indicating that the refinancing would result in a savings in debt service payment of \$231,227¹² over the life of the proposed Loan, resulting in a net present value (NPV) cash flow savings of \$201,507.¹³

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

The Commission is concerned with Simpson District's prolonged absence from the Commission's review of Simpson District's asset management through an application for adjustment of its rates. Pursuant to KRS 278.300(4), the Commission may grant or deny

¹⁰ *Id.*, Exhibit B, Total Sources and Uses of Funds. Uses of Funds: \$38,350 (Total Underwriter's Discount) + \$29,420 (Costs of Issuances) + \$1,620,989 (Deposit to Current Refunding Fund) + \$654 (Rounding Amount) = \$1,679,413. Sources of Funds: \$1,620,000 (Par Amount of Bonds) + \$54,222 (Reoffering Premium) + \$5,191 (Transfers from Prior Issue DSR Funds) = \$1,679,413.

¹¹ *Id.*

¹² *Id.*, Exhibit C, Debt Service Comparison.

¹³ *Id.*

an application for approval of financing in whole or in part, or upon such terms and conditions as deemed necessary or appropriate.

The Commission has performed a limited review of Simpson District's financial records that are on file for the five calendar years and determined that Simpson District appears to be on solid financial footing at the present time. However, the Commission finds that Simpson District should file a general rate case application pursuant to KRS 278.180 and 807 KAR 5:001, Section 16, within three years of the date of the filing of this Order, or, in the alternative, file a formal motion with a detailed analysis of its rates and state the reasons why no rate modification is necessary.

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

1. The proposed KRWFC Loan is for lawful objects within the corporate purposes of Simpson 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. Simpson District should execute its Loan Agreement as security for the proposed KRWFC Loan in the manner described in its application.

3. The final amounts of the long-term debt payoff and loan reamortization, the legal fees, and the new KRWFC Loan will not be known until the refinancing transaction is finalized. Therefore, Simpson District should provide the Commission an updated version of the application and Exhibit C, reflecting the cash flow analysis of the new KRWFC Loan within ten days of finalizing the transaction.

4. The Commission directs Simpson District to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹⁴ 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.

5. The proceeds from the proposed KRWFC Loan should be used only for the lawful purposes set out in Simpson District's application.

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

7. Simpson District should file within six months of the date of filing of this Order a comprehensive unaccounted-for water loss reduction plan that establishes priorities, a time schedule for eliminating each source of unaccounted-for water loss, quantifies the cost to eliminate each source of water loss identified, and a detailed plan to fund each project identified.

8. Simpson District should file a general rate case application pursuant to KRS 278.180 and 807 KAR 5:001, Section 16, within three years of the date of filing of this Order to ensure that its rates are sufficient or, in the alternative, file a formal motion with a detailed analysis of its rates, and state the reasons why no rate modifications are necessary.

¹⁴ 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.

IT IS THEREFORE ORDERED that:

1. Simpson District is authorized to enter into the loan agreement with KRWFC to borrow an amount up to and not exceeding \$1,760,500,¹⁵ but no more than the total amount needed to pay off the long-term indebtedness proposed to be refinanced or reamortized 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 Simpson District's application.

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

3. Simpson 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. Simpson District shall file within six months of the date of filing of this Order a comprehensive unaccounted-for water loss reduction plan that establishes priorities, a time schedule for eliminating each source of unaccounted-for water loss, quantifies the cost to eliminate each source of water loss identified, and a detailed plan to fund each project identified.

¹⁵ \$1,600,000 (Loan subject to a 10% Adjustment) x 10% (Adjustment) = \$160,000 + \$1,600,000 = \$1,760,500 (Maximum Loan Amount).

6. Simpson District shall file a general rate case application pursuant to KRS 278.180 and 807 KAR 5:001, Section 16, within three years of the date of filing of this Order or, in the alternative, file a formal motion with a detailed analysis of its rates and states the reasons why no modifications are necessary.

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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