

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF THE GRAYSON )	
COUNTY WATER DISTRICT FOR APPROVAL TO )	
ISSUE SECURITIES IN THE APPROXIMATE )	
PRINCIPAL AMOUNT OF \$2,365,000 FOR THE )	CASE NO.
PURPOSE OF REFINANCING CERTAIN )	2021-00309
OUTSTANDING OBLIGATIONS OF THE )	
DISTRICT PURSUANT TO THE PROVISIONS OF )	
KRS 278.300 AND 807 KAR 5:001 )	

ORDER

On August 6, 2021, Grayson County Water District (Grayson District), pursuant to KRS 278.300 and 807 KAR 5:001, filed an application seeking Commission authority to enter into a loan agreement (Loan) from Kentucky Rural Water Finance Corporation (KRWFC) to borrow approximately \$2,365,000. The proceeds of the Loan will be used for the purpose of refinancing outstanding debt obligations of Grayson District, and to pay the costs of issuance of the Loan.

Grayson District, a water district organized under KRS Chapter 74, owns and operates facilities that provide retail water service to 6,425 residential customers in Grayson County, Kentucky.<sup>1</sup> There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the written record.

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<sup>1</sup> *Annual Report of Grayson District System 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.

## LEGAL STANDARD

KRS 278.300 requires Commission authorization before a utility may “issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person.”<sup>2</sup> KRS 278.300(3) establishes the legal standard and clarifies the scope of Commission review, stating:

The Commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and proceeds thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

## PROPOSED REFINANCING

Grayson District proposes to execute the Loan with KRWFC to borrow \$2,365,000.<sup>3</sup> The proposed Loan will have a 13-year term subject to interest rates that will vary from 2.00 percent to 2.60 percent per annum.<sup>4</sup> Grayson District proposes to use the proceeds from the Loan for the purpose of refinancing an outstanding loan from KRWFC designated as KRWFC Public Projects Refunding Revenue Bonds with an

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<sup>2</sup> KRS 278.300(1)

<sup>3</sup> Application at 2, paragraph 5.

<sup>4</sup> *Id.* and Exhibit D.

original principal amount of \$3,680,000 (Series 2012D) dated May 30, 2012,<sup>5</sup> bearing interest at a rate between 3.00 and 3.80 percent.<sup>6</sup>

Grayson District estimates that it will expend \$2,541,487.12 to refund the KRWFC loan.<sup>7</sup> Grayson District's outstanding principal on its prior loan being refunded is \$2,445,000. Grayson District will use \$100,516.77 from its Prior Issue Debt Service Funds account to pay the difference between the original loan principal, the new loan amount, and the closing costs.<sup>8</sup> Grayson District provided a Debt Service Comparison indicating that the refinancing would save \$294,969.50<sup>9</sup> over the life of the proposed Loan, resulting in a positive net present value (NPV) cash flow savings of \$292,026.45.<sup>10</sup>

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<sup>5</sup> Application at 2, paragraph 5. The 2012 KRWFC loan was approved by the Commission in Case No. 2012-00147, *Application of Grayson County Water District to Issue Securities in the Approximate Principal Amount of \$3,700,000 for the Purpose of Refunding Certain Outstanding Revenue Bonds of the District Pursuant to the Provisions of KRS 278.300 and 807 KAR 5:001* (Ky. PSC May 21, 2012).

<sup>6</sup> *Id.*, Exhibit D, Prior Bonds Debt Service.

<sup>7</sup> *Id.*, Exhibit B, Sources and Uses, Uses of Funds: \$41,387.50 (Total Underwriter's Discount) + \$41,340.00 (Costs of Issuances) + \$2,455,535.71 (Deposit to Current Refunding Fund) + \$3,223.91 (Rounding Amount) = \$2,541,487.12.

<sup>8</sup> *Id.*, Exhibit B, Sources and Uses, Sources of Funds: \$2,365,000.00 (Par Amount of Bonds) + \$75,970.35 (Reoffering Premium) + \$ 100,516.77 (Transfers from Prior Issue Debt Service Funds) = \$2,541,487.12

<sup>9</sup> *Id.*, Exhibit C.

<sup>10</sup> *Id.*

## DISCUSSION AND FINDINGS

Grayson District's 2019 annual water loss was 8.95 percent.<sup>11</sup> The cost of this water loss at 8.95 percent is approximately \$54,516.<sup>12</sup> 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.

The Commission commends Grayson District on its low level of water loss and encourages Grayson District to pursue reasonable actions to continue to prevent water loss in excess of 15 percent.

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

The Commission further finds that that Grayson District satisfied the legal standards established in KRS 278.300 for the reasons that follow. First, the lawful object

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<sup>11</sup> 2019 Annual Report at 57.

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	<u>Purchased Water</u>	<u>Purchased Power</u>	<u>Chemicals</u>
Purchased Water from 2019 Annual Report	\$ 422,323	\$ 122,618	\$ 64,189
Times: Total Water loss	8.95%	8.95%	8.95%
Excess Water Loss Reductions	<u>\$ 37,797</u>	<u>\$ 10,974</u>	<u>\$ 5,745</u>
Total			<u>\$ 54,516</u>

of Grayson District's purpose is to provide safe, adequate, and reliable water service to the public. The refinancing meets the lawful object of the utility's purposes because it will be used to refinance a KRFWC Loan previously approved by the Commission and is intended to strengthen the financial position of Grayson District through substantial NPV debt service savings. Second, the financing is appropriate for the proper performance by the utility and will not impair its ability to perform that service because the KRWFC Loan is exclusively for the purposes of refinancing existing debt and achieving debt service NPV savings. No other aspects of Grayson District's operations or finances will change, except those related to the refinancing of existing debt as outlined in the application and this Order. Third, the financing is a reasonably appropriate option for Grayson District to meet its statutory duty to provide safe, adequate, and reliable service because the current low interest rate environment will allow Grayson District to achieve the NPV savings. For the reasons set forth above, the Commission further finds that Grayson District should be authorized to enter into the proposed Assistance Agreement with KRWFC in order to refinance its existing debt obligations to KRWFC.

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 Grayson 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. Grayson District should execute its note as security for the proposed Loan in the manner described in its application.

3. The final amounts of the KRWFC Loan payoff, the legal fees, and the new KRWFC Loan will not be known until the refinancing transaction is finalized. Therefore, Grayson District should provide the Commission an updated version the application, Exhibit C, reflecting the cash flow analysis of the new KRWFC Loan within ten days of finalizing the transaction. The Commission directs Grayson District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>13</sup> regarding filings with the Commission.

4. Within ten days of the execution of the new KRWFC Loan documents, Grayson District should file 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 Grayson District's application.

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

IT IS THEREFORE ORDERED that:

1. Grayson 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 Loan agreement as described in Grayson District's application.

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<sup>13</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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

3. Grayson 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 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.

By the Commission



ATTEST:

  
Executive Director

Case No. 2021-00309

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