

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ALLEN COUNTY)	
WATER DISTRICT TO ISSUE SECURITIES IN)	
THE APPROXIMATE PRINCIPAL AMOUNT OF)	
\$4,050,000 FOR THE PURPOSE OF)	CASE NO.
REFINANCING CERTAIN OUTSTANDING)	2021-00444
OBLIGATIONS OF THE DISTRICT PURSUANT TO)	
THE PROVISIONS OF KRS 278.300 AND 807 KAR)	
5:001)	

ORDER

On November 30, 2021, Allen County Water District (Allen District) filed an application seeking Commission approval to refinance certain outstanding debt to Kentucky Rural Water Finance Corporation (KRWFC) (Prior KRWFC Loan) and other district bonds pursuant to KRS 278.300 and 807 KAR 5:001. Allen District proposed to borrow funds of approximately \$4,050,000 for the refinancing via an Assistance Agreement (KRWFC Loan) with KRWFC. There are no intervenors in this case, and the matter now stands before the Commission for a decision based upon the evidentiary record.

LEGAL STANDARD

KRS 278.300 requires Commission approval 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.”¹ The legal standard contained in KRS 278.300(3) establishes the purview 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

Allen District proposed to borrow funds pursuant to the KRWFC Loan in the approximate amount of \$4,050,000 (subject to adjustment of up to 10 percent) for the purposes of refinancing existing outstanding indebtedness as follows:²

<u>Loan/Bond Series</u>	<u>Original Amount</u>	<u>Interest</u>	<u>Case Number Approved</u>
Allen County Water District Waterworks Revenue Bonds, Series 2006	\$1,614,000	4.50%	2006-00115 ³
Allen County Water District Waterworks Revenue Bonds, Series 2012	\$797,000	3.00%	2011-00366 ⁴

¹ KRS 278.300(1).

² Application at 2–3, paragraph 5.

³ Case No. 2006-00115, *Application of Allen County Water District of Allen County, Kentucky for a Certificate of Public Convenience and Necessity to Construct and Finance Pursuant to the Provisions of KRS 278.023* (Ky. PSC Mar. 29, 2006).

⁴ Case No. 2011-00366, *Application of Allen County Water District for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Oct. 5, 2011).

KRWFC Public Projects Refunding Revenue Bonds, Series 2012D	\$2,935,000	3.94% (average)	2012-00144 ⁵
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The refinancing is comprised of a single loan agreement, with an approximate 31-year term, funded by bonds that will be issued at interest rates that will vary between 2.30 percent and 3.00 percent per annum.⁶ Under current interest rates, the refinancing is estimated to yield net present value (NPV) savings to the district of approximately \$477,374 through 2052.⁷ Allen District stated that the final principal amount of the KRWFC Loan will be based upon interest rates at the date of sale.⁸ However, Allen District clarified that no refinancing will occur if interest rates shift so that NPV debt service savings can no longer be achieved.⁹ Allen District stated that the KRWFC Loan would provide the funds necessary to refinance the Prior KRWFC Loan and other district bonds and to pay the fees and expenses incident to the issuance of the KRWFC Loan.¹⁰

DISCUSSION AND FINDINGS

The Commission notes that Allen District's last general rate case occurred in 2020, where the Commission approved a 13.56 percent increase to its water service

⁵ Case No. 2012-0144, *Application of Allen County Water District to Issue Securities in the Approximate Principal Amount of \$2,940,000 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).

⁶ Application, Exhibit A.

⁷ *Id.* at 3, paragraph 9; see also Application, Exhibit C.

⁸ *Id.* at 3–4, paragraph 10.

⁹ *Id.*

¹⁰ *Id.* at 3, paragraph 7.

revenues.¹¹ Other rate increases have directly resulted from purchased water adjustments (PWA) commensurate with increases in Allen District's wholesale water costs from the Glasgow Water and Sewer Commission as recently as 2009.¹² Due to the recency of the Allen District rate case, the effects of the rate increase are not fully quantifiable, and the past annual reports on file with the Commission would not provide a current and accurate insight into Allen District's financial well-being.¹³

In Allen District's 2020 rate case, the Commission discussed concerns over Allen District's high level of water loss.¹⁴ The Commission recognized that the adjustments required to be made to comply with the 15.00 percent water loss limitation in 807 KAR 5:066, Section 6(3), could severely restrict Allen District's cash flow and could impair its ability to take the necessary action to focus on its leak detection and repair.¹⁵ Consequently, the Commission approved a water loss surcharge of \$1.77/meter over 48 months.¹⁶ Furthermore, the Commission directed Allen District to file a qualified infrastructure improvement plan that includes a comprehensive unaccounted-for water

¹¹ Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

¹² Case No. 2009-00189, *Application of Allen County Water District for Purchased Water Adjustment* (Ky. PSC June 17, 2009).

¹³ Application at 3, paragraph 9; see also Application, Exhibit C. The Commission notes that the refinancing is expected to provide NPV savings to the District which will in-turn provide a cushion to stem future rate increase needs.

¹⁴ Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021) at 2.

¹⁵ *Id.* at 12–13.

¹⁶ *Id.* at 13–14.

loss reduction plan, a time schedule for eliminating each source of unaccounted-for water loss, and a detailed spending plan for the proceeds of the water loss surcharge.¹⁷

Allen District’s 2020 annual water loss was 21.38 percent.¹⁸ The cost of Allen District’s water loss at 21.38 percent is approximately \$172,715.¹⁹ 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 Allen District’s unaccounted-for water loss to 15 percent would result in an approximate \$51,573 decrease to its cost of water.²⁰

As was discussed in Allen District’s 2020 rate case, the Commission has established precedent for greater monitoring of utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encouraged Allen District to continue to pursue reasonable actions to reduce its unaccounted-for water loss, which has exceeded the 15 percent limit for four of the past five years. Allen District’s five-year water loss is as follows:²¹

Year	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Water Loss (%)	20.59	12.27	25.58	30.90	21.38

¹⁷ *Id.*

¹⁸ *Annual Report of Allen County Water District to the Public Service Commission (Annual Report for Allen District) for the Year Ending December 31, 2020* at 58.

¹⁹ *Id.* at 50 and 58. Allen District’s 2020 purchased water, power, and chemical expense totaled \$807,612; multiply by 2020 water loss of 21.38%: \$807,612 x 21.38% = \$172,715 (rounded).

²⁰ *Id.* Allen District’s 2020 purchased water, power, and chemical expense totaled \$807,612; multiply by 2020 water loss in excess of 15%: \$807,612 x (21.38% - 15.00%) = \$51,573 (rounded).

²¹ 2020 Annual Report of Allen District at 58; 2019 Annual Report of Allen District at 57; 2018 Annual Report of Allen District at 57; 2017 Annual Report of Allen District at 56; 2016 Annual Report of Allen District at 56.

Allen District provided a debt service schedule comparison that indicated the refinancing would save \$620,464 over the life of the KRWFC Loan, resulting in a positive NPV cash flow savings of \$477,374.²² 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, the Commission finds that Allen District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow.

The Commission further finds that Allen District satisfied the legal standards established in KRS 278.300 to refinance the Prior KRWFC Loan and district bonds, previously approved by the Commission, for the reasons that follow. First, the lawful object of Allen 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 is intended to strengthen the financial position of Allen District through substantial NPV debt service savings. Second, the refinancing 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 Allen 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 refinancing is a reasonably appropriate option for Allen District to meet its statutory duty to provide safe, adequate, and reliable service because the current low interest rate environment will allow Allen District to achieve such savings.

²² Application, Exhibit C.

For the reasons set forth above, the Commission directs Allen District to file for a general adjustment in base rates or Alternative Rate Filing (ARF) by January 28, 2025, as to provide time to see the effects of the latest rate increase. In the alternative, Allen District may file a formal motion with a detailed analysis of its rates and revenues and a statement of the reasons why a rate case is not necessary. The motion should also discuss the effectiveness of its water loss control plan and efforts related to its qualified infrastructure improvement plan. The Commission further directs Allen District to review its finances on an annual basis, and ensure that depreciation accounts are being fully funded. Should the need arise, Allen District should file for a rate case or ARF before the January 28, 2025 deadline.

The Commission finds Allen District's application and proposal to be reasonable due to the lower effective interest rate and cash flow savings realized over the period of the KRWFC Loan, and Allen District should be authorized to enter into the KRWFC Loan in order to refinance its existing debt obligations outlined in the application.

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

1. The KRWFC Loan is for lawful objects within the corporate purposes of Allen 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. Allen District shall secure the KRWFC Loan in the manner described in its application.

3. The final amount of the KRWFC Loan, legal expenses, and interest rates will not be known until the refinancing transaction is finalized. Therefore, Allen District shall provide the Commission an updated version of the debt service schedule in Exhibit A, reflecting the cash flow analysis of the proposed KRWFC Loan within ten days of finalizing the transaction.

4. Within ten days of the execution of the KRWFC Loan documents, Allen District shall file with the Commission an electronic version of the loan documents.

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

6. The terms and conditions of the KRWFC Loan shall be consistent with the loan proposal as described in Allen District's application.

IT IS THEREFORE ORDERED that:

1. Allen District is authorized to enter into the KRWFC Loan to borrow no more than the amount proposed in the application needed to pay off and refinance the Prior KRWFC Loan indebtedness and district bonds on the condition that the final NPV of the savings, determined upon closing, generate positive cash flow. The loan amount, maturity date, and interest rate shall be in accordance with the KRWFC Loan as described in Allen District's application.

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

3. Allen District shall comply with all matters set out in the findings paragraphs 2 through 6 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. Allen District shall file an application for an adjustment in base rates by January 28, 2025, to ensure that its rates are sufficient, or in the alternative, file a formal motion with a detailed analysis of its rates and revenues and a statement explaining the reasons why no modifications are necessary.

6. 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

ENTERED
JAN 25 2022 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2021-00444

*Allen County Water District
330 New Gallatin Road
P. O. Box 58
Scottsville, KY 42164

*DeAnn Marquez
Allen County Water District
330 New Gallatin Road
P. O. Box 58
Scottsville, KY 42164

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

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