

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF EDMONSON	)	
COUNTY WATER DISTRICT TO ISSUE	)	
SECURITIES FOR THE PURPOSE OF	)	CASE NO.
REFINANCING CERTAIN OUTSTANDING	)	2021-00463
OBLIGATIONS OF THE DISTRICT PURSUANT TO	)	
THE PROVISIONS OF KRS 278.300 AND 807 KAR	)	
5:001	)	

ORDER

On December 16, 2021, Edmonson County Water District (Edmonson 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. Edmonson District proposed to borrow funds of approximately \$4,410,000 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.”<sup>1</sup> The legal standard contained in KRS 278.300(3) establishes the purview of Commission review, stating:

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

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

Edmonson District proposed to borrow funds pursuant to the KRWFC Loan in the approximate amount of \$4,410,000 (subject to adjustment of up to 10 percent) for the purposes of refinancing existing outstanding indebtedness as follows:<sup>2</sup>

<u>Loan/Bond Series</u>	<u>Original Amount</u>	<u>Interest</u>	<u>Case Number Approved</u>
Edmonson County Water District Water System Revenue Bonds, Series 2001A	\$3,837,000	3.25%	2001-00037 <sup>3</sup>
Edmonson County Water District Water System Revenue Bonds, Series 2005	\$100,000	4.25%	2005-00203 <sup>4</sup>
KRWFC Public Projects Refunding Revenue Bonds, Series 2012D	\$2,990,000	3.82% (average)	2012-00163 <sup>5</sup>

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

<sup>3</sup> Case No. 2001-00037, *The Application of Edmonson County Water District, Edmonson, Warren, Grayson and Hart Counties, Kentucky, (1) for a Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements to Its Water System; (2) Seeking Approval of Revised Water Service Rates and Charges; and (3) Seeking Approval of the Issuance of Certain Securities* (Ky. PSC Mar. 2, 2001).

<sup>4</sup> Case No. 2005-00203, *Application of Edmonson County Water District (1) for a Certificate of Public Convenience and Necessity Authorizing Construction of a New Sanitary Sewer System; (2) Seeking Approval of Sanitary Sewer Service Rates and Charges; and (3) Seeking Approval of the Issuance of Certain Securities* (Ky. PSC June, 13 2005).

<sup>5</sup> Case No. 2012-0163, *Application of Edmonson County Water District to Issue Securities in the Approximate Principal Amount of \$3,160,000 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 30, 2012).

The refinancing is comprised of a single loan agreement, with an approximate 24-year term, funded by bonds that will be issued at interest rates that will vary between 2.20 percent and 3.00 percent per annum.<sup>6</sup> Under current interest rates, the refinancing is estimated to yield net present value (NPV) savings to the district of approximately \$361,283 through 2045.<sup>7</sup> Edmonson District stated that the final principal amount of the KRWFC Loan will be based upon interest rates at the date of sale.<sup>8</sup> However, Edmonson District clarified that no refinancing will occur if interest rates shift so that NPV debt service savings can no longer be achieved.<sup>9</sup> Edmonson 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.<sup>10</sup>

#### DISCUSSION AND FINDINGS

Edmonson District is a water and sewer utility providing service to approximately 10,941 customers in Butler, Edmonson, Grayson, Hart, and Warren counties, Kentucky.<sup>11</sup> Regarding Edmonson District's water division, the Commission notes that Edmonson District's last general rate adjustment was in Case No. 2021-00013, where the

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<sup>6</sup> Application, Exhibit A.

<sup>7</sup> *Id.* at 3, paragraph 9; see also Application, Exhibit C.

<sup>8</sup> *Id.* at 3-4, paragraph 10.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.* at 3, paragraph 7.

<sup>11</sup> *Annual Report of Edmonson County Water District to the Public Service Commission (Annual Report of Edmonson District) for the Year Ending December 31, 2020* at 12 and 59.

Commission approved a 15.97 percent increase to its water service revenues.<sup>12</sup> Due to the recency of this 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 the financial well-being of Edmonson District's water division.<sup>13</sup>

The Commission further notes that Edmonson District's sewer rates were not addressed in the last rate case, but were last modified in Case No. 2014-00175, when the District requested (and the Commission approved) a loan agreement with USDA that set sewer rates to the USDA required minimums in order to fund major additions and improvements to the water system.<sup>14</sup> The loan agreement with USDA stipulated that, "[r]ates and charges for facilities and services rendered by the District must be at least adequate to meet cost of maintaining, repairing and operating the water system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve."<sup>15</sup> Here, the Commission is concerned that Edmonson District's sewer operations are being subsidized by water revenues and/or that

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<sup>12</sup> Case No. 2021-00013, *Electronic Application of Edmonson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 4, 2021).

<sup>13</sup> 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.

<sup>14</sup> Case No. 2014-00175, *Application of Edmonson County Water District, Edmonson, Warren, Grayson and Hart Counties, Kentucky for a Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements to its Water System and Seeking Approval of the Issuance of Certain Securities* (Ky. PSC June 27, 2014).

<sup>15</sup> Case No. 2014-00174, *Edmonson County Water District*, (filed May 29, 2014) Application, Exhibit G at 9, paragraph 28.

the revenues generated at current sewer system rates are not adequate enough to fund depreciation accounts, indicated by negative net incomes, shown below.<sup>16</sup>

Edmonson County Sewer Division

Year	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net Income	\$ (85,511)	\$ (92,008)	\$ (79,452)	\$ (61,822)	\$ (72,715)
Add Depreciation	\$ 95,041	\$ 99,008	\$ 89,244	\$ 77,074	\$ 77,025
Cash Basis Income	\$ 9,530	\$ 7,000	\$ 9,792	\$ 15,252	\$ 4,310

In Edmonson District’s 2021 rate case, the Commission discussed concerns over Edmonson District’s high level of water loss, but provided no direction to the utility in regards to controlling the losses.<sup>17</sup> In Case No. 2019-00433, Edmonson District set a goal to reduce its water loss in 2020, and dedicated a separate crew from the distribution system to continually concentrate on leak detection and repair.<sup>18</sup> Further, Edmonson District stated that it has been replacing customer meters, and making improvements to their leak-detection system.<sup>19</sup> It appears that those efforts did not lead to lowered levels of water loss in 2020.

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<sup>16</sup> 2020 Audit Report of Edmonson District at 29; 2019 Audit Report of Edmonson District at 29; 2018 Audit Report of Edmonson District at 30; 2017 Audit Report of Edmonson District at 28; 2016 Audit Report of Edmonson District at 28.

<sup>17</sup> Case No. 2021-00013, *Electronic Application of Edmonson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 4, 2021) at 3.

<sup>18</sup> Case No. 2021-00013, *Electronic Application of Edmonson County Water District for a Rate Adjustment Pursuant to 807 KAR 5:076* (Ky. PSC Aug. 4, 2021), “Update to plan to reduce unaccounted water loss in its response to the commissions September 12th, 2018 periodic compliance inspection. Reference Case No. 2019-00433” at unnumbered pages 2–3.

<sup>19</sup> *Id.*

Edmonson District's 2020 annual water loss was 27.92 percent.<sup>20</sup> The cost of Edmonson District's water loss at 27.92 percent is approximately \$83,624.<sup>21</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. Reduction of Edmonson District's unaccounted-for water loss to 15 percent would result in an approximate \$38,697 decrease to its cost of water.<sup>22</sup> Edmonson District's 5 year water loss is as follows:<sup>23</sup>

Year	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Water Loss (%)	22.71	23.88	25.50	25.36	27.92

As expressed in the rate case, the Commission has established precedent for greater monitoring of utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. In response to the increasing levels of water loss, the Commission finds that Edmonson District should file a capital improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss. Other reasonable actions to reduce unaccounted-for water loss, which has exceeded the 15 percent limit for the past five years, are strongly encouraged.

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<sup>20</sup> 2020 Annual Report of Edmonson District at 67.

<sup>21</sup> *Id.* at 60 and 67. Edmonson District's 2020 purchased water, power, and chemical expense totaled \$299,513; multiply by 2020 water loss of 27.92%:  $\$299,513 \times 27.92\% = \$83,624$  (rounded).

<sup>22</sup> *Id.* Edmonson District's 2020 purchased water, power, and chemical expense totaled \$299,513; multiply by 2020 water loss in excess of 15 percent:  $\$299,513 \times (27.92\% - 15.00\%) = \$38,697$  (rounded).

<sup>23</sup> 2020 Annual Report of Edmonson District at 67; 2019 Annual Report of Edmonson District at 72; 2018 Annual Report of Edmonson District at 71; 2017 Annual Report of Edmonson District at 70; 2016 Annual Report of Edmonson District at 70.

Edmonson District provided a debt service schedule comparison that indicated the refinancing would save \$431,948 over the life of the KRWFC Loan, resulting in a positive NPV cash flow savings of \$361,283.<sup>24</sup> 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 Edmonson District should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow.

The Commission further finds that Edmonson 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 following reasons. First, the lawful object of Edmonson 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 Edmonson 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 Edmonson 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 Edmonson District to meet its statutory duty to provide safe, adequate, and reliable service because the current low interest rate environment will allow Edmonson District to achieve such savings.

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<sup>24</sup> Application, Exhibit C.

For the reasons set forth above, the Commission directs Edmonson District to file for a general adjustment in base rates or Alternative Rate Filing (ARF) for its water division by February 14, 2025, as to provide time to see the effects of the latest rate increase. In the alternative, Edmonson 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 Edmonson District to review its finances on an annual basis, and ensure that depreciation accounts are being fully funded. Should the need arise, Edmonson District should file for a rate case or ARF before the February 14, 2025 deadline.

The Commission further directs Edmonson District to file for a general adjustment in base rates or Alternative Rate Filing (ARF) for its sewer division by February 14, 2023 to ensure that its rates are sufficient enough to cover depreciation, meet USDA loan requirements, and ensure that its water customers are not subsidizing sewer customers.

Lastly, the Commission finds Edmonson 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 Edmonson 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 Edmonson 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. Edmonson 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, Edmonson 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, Edmonson 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 Edmonson District's application.

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

IT IS THEREFORE ORDERED that:

1. Edmonson 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 Edmonson District's application.

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

3. Edmonson 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. Edmonson District shall file an application for an adjustment in base rates for its water division by February 14, 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.

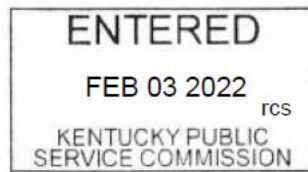
6. Edmonson District shall file an application for an adjustment in base rates for its sewer division by February 14, 2023, to ensure that its rates are sufficient.

7. Within 120 days of the date of this Order, Edmonson District shall file with the Commission a capital improvement plan, including a comprehensive unaccounted-for water loss reduction plan that establishes priorities and a time schedule for eliminating each source of unaccounted-for water loss.

8. 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:

  
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