

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|------------|
| ELECTRONIC APPLICATION OF LARUE |) | |
| COUNTY WATER DISTRICT NO. 1 TO ISSUE |) | |
| SECURITIES FOR THE PURPOSE OF |) | CASE NO. |
| REFINANCING CERTAIN OUTSTANDING |) | 2021-00464 |
| OBLIGATIONS OF THE DISTRICT PURSUANT TO |) | |
| THE PROVISIONS OF KRS 278.300 AND 807 KAR |) | |
| 5:001 |) | |

ORDER

On December 21, 2021, LaRue County Water District No. 1 (LaRue District No. 1), pursuant to KRS 278.300 and 807 KAR 5:001, filed an application seeking Commission authority to issue certain securities in the approximate principal amount of \$1,895,000 (subject to adjustment of up to 10 percent). The proceeds of the issuance will be used for the purpose of refinancing outstanding indebtedness of LaRue District No. 1.

LaRue District No. 1, a water district organized under KRS Chapter 74, owns and operates facilities that provide retail water service to 3,699 residential customers in Larue County, Kentucky.¹ There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the written record.

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

¹ *Annual Report of LaRue District No. 1 System to the Public Service Commission of the Commonwealth of Kentucky for the Calendar year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

to the securities or evidences of indebtedness of any other person.”² 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

LaRue District No. 1 proposed to borrow funds from Kentucky Rural Water Finance Corporation (KRWFC) pursuant to an Assistance Agreement (KRWFC Loan) in the amount of approximately \$1,895,000 (subject to adjustment of up to 10 percent).³ The proposed loan will have a 18-year term subject to interest rates between 2.30 to 3.00 percent per annum.⁴ LaRue District No. 1 proposed to use the proceeds from the issuance for the purpose of refinancing a loan from KRWFC, designated as Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds, with an

² KRS 278.300(1).

³ Application at 2, paragraph 5.

⁴ *Id.* and Exhibit A.

original principal amount of \$2,680,000 (Series 2012F) dated November 13, 2012,⁵ bearing interest at a rate between 2.93 and 4.30 percent.⁶

LaRue District No. 1 estimated that it will expend \$1,966,264 to refund the Series 2012F loan.⁷ LaRue District No. 1's outstanding principal on its prior loan being refunded is \$1,895,000.⁸ LaRue District No. 1 provided a Debt Service Comparison indicating that the refinancing would save \$228,167⁹ over the life of the proposed Loan, resulting in a positive net present value (NPV) cash flow savings of \$182,053.¹⁰

DISCUSSION AND FINDINGS

LaRue District No. 1's 2020 annual water loss was 6.30 percent.¹¹ The cost of this water loss at 6.30 percent is approximately \$31,286.¹² Commission regulation 807 KAR

⁵ *Id.*, at 2, paragraph 5. The Series 2012F Loan was approved by the Commission in Case No. 2012-00387, *Application of Larue County Water District No. 1 To Issue Securities in the Approximate Principal Amount of \$2,830,000 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 Sept. 24, 2012).

⁶ *Id.*, Exhibit D.

⁷ *Id.*, Exhibit B, Sources and Uses, Uses of Funds: \$33,162.50 (Total Underwriter's Discount) + \$30,320.00 (Costs of Issuances) + \$1,898,852.98 (Deposit to Current Refunding Fund) \$3,928.22 (Rounding Amount) = \$1,966,263.70.

⁸ *Id.*, Exhibit D.

⁹ *Id.*, Exhibit C.

¹⁰ *Id.*

¹¹ 2020 Annual Report at 57.

¹²

| | Purchased Water | Purchased Power | Total |
|--|--------------------|--------------------|------------|
| 2020 Reported Expenses from 2020 Annual Report | \$ 469,310 | \$ 27,299 | \$ 496,609 |
| Multiplied by Water Loss | 6.30% | 6.30% | 6.30% |
| Excess Purchased Water and Pumping Cost | | | \$ 31,286 |

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 LaRue District No. 1 on its low level of water loss and encourages LaRue District No. 1 to pursue reasonable actions to continue to prevent water loss in excess of 15 percent.

Having reviewed the proposed refinancing, the Commission finds LaRue District No. 1's proposal to be reasonable due to the lower effective interest rate and cash flow savings LaRue District No. 1 would realize over the period of the KWRFC Loan. However, if the new interest rate on the proposed refinancing is higher than the range of interest rates set forth in the application, LaRue District No. 1 should not proceed with the refinancing unless the NPV of the refinancing results in positive cash flow.

The Commission further finds that that LaRue District No. 1 satisfied the legal standards established in KRS 278.300 for the reasons that follow. First, the lawful object of LaRue District No. 1'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 LaRue District No. 1 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 LaRue District No. 1'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 LaRue District No. 1 to meet its statutory duty to provide safe, adequate, and reliable service because the current low interest rate environment will allow LaRue District No. 1 to achieve the NPV savings. For the reasons set forth above, the Commission further finds that LaRue District No. 1 should be authorized to enter into the proposed Assistance Agreement with KRWFC in order to refinance its existing debt obligations to KRWFC.

The Commission notes that LaRue District No. 1 is currently a party to Case No. 2021-00285,¹³ which is still pending before the Commission. After a review of the proposal in the instant case, the Commission believes the results of the refinancing will have a material impact on the total debt service that should be applied in Case No. 2021-00285. Therefore, the Commission finds that Larue District No. 1 should file in Case No. 2021-00285, the amortization schedule for the refinanced amount within ten days of finalizing the transaction for the indebtedness approved herein.

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

1. The proposed security is for lawful objects within the corporate purposes of LaRue District No. 1; 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. LaRue District No. 1 should secure the proposed loan in the manner described in its application.

¹³ Case No. 2021-00285, *Electronic Application of Larue County Water District No. 1 for a Rate Adjustment Pursuant to 807 KAR 5:076*, (filed July 23, 2021).

3. The final amounts of the 2012F Loan payoff, the price paid, fees incurred, and its terms and interest rates legal fees, and the KRWFC Loan will not be known until the refinancing transaction is finalized. Therefore, LaRue District No. 1 should provide the Commission an updated version of the application, Exhibit 3, reflecting the cash flow analysis of the new KRWFC Loan within ten days of finalizing the transaction. The Commission directs LaRue District No. 1 to the Commission's July 22, 2021 Order in Case No. 2020-00085¹⁴ regarding filings with the Commission.

4. Within ten days of the execution of the new security issuance, LaRue District No. 1 should file an electronic version of the new KRWFC Loan documents.

5. The proceeds from the proposed new KRWFC Loan should be used only for the lawful purposes set out in LaRue District No. 1's application.

6. The terms and conditions of the new KRWFC Loan should be consistent with the KRWFC assistance agreement as described in LaRue District No. 1's application.

IT IS THEREFORE ORDERED that:

1. LaRue District No. 1 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 KRWFC Loan maturity date and interest rate shall be in accordance with the KRWFC Loan agreement as described in LaRue District No. 1's application.

¹⁴ 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. LaRue District No. 1 shall execute the KRWFC Loan documents as authorized herein.

3. LaRue District No. 1 shall comply with all matters set out in finding paragraphs 2 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. LaRue District No. 1 shall file in Case No. 2021-00285, the amortization schedule for the refinanced amount within ten days of finalizing the transaction for the indebtedness approved herein.

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.

By the Commission

ENTERED
JAN 11 2022 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2021-00464

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