

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SANDY HOOK)	
WATER DISTRICT FOR A CERTIFICATE OF)	
PUBLIC CONVENIENCE AND NECESSITY TO)	
CONSTRUCT A SYSTEM IMPROVEMENTS)	CASE NO.
PROJECT AND AN ORDER APPROVING AN)	2022-00206
INCREASE IN RATES AND AUTHORIZING THE)	
ISSUANCE OF SECURITIES PURSUANT TO)	
KRS 278.023)	

ORDER

By Order dated August 10, 2022, the Commission granted Sandy Hook Water District (Sandy Hook District) a Certificate of Public Convenience and Necessity (CPCN) to construct a water system improvements project, approved the proposed financing for the project, and approved a rate increase necessitated by the project. Sandy Hook District’s application was pursuant to KRS 278.023, which did not permit the Commission to review it under the same standards used for reviewing applications for rate adjustments, CPCNs, or financing filed pursuant to other statutes. The Commission noted its concern regarding Sandy Hook District’s unaccounted-for water loss and held the record of this proceeding open following granting the CPCN and rate increase to permit Commission Staff an opportunity to engage in discovery concerning the overall financial health of Sandy Hook District. Sandy Hook District responded to Commission Staff’s First Request for Information on August 23, 2022.

The Commission, on its own motion, having reviewed the record and being otherwise sufficiently advised finds that Sandy Hook District should file an application for

a general rate adjustment pursuant to 807 KAR 5:001E, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or a formal motion with a detailed analysis of its rates and revenues and a statement explaining the reasons why no rate modifications are necessary by June 30, 2024. Further, the Commission finds that any application for an adjustment in Sandy Hook District's rates should be based upon 2023 data and Sandy Hook District's 2023 annual report.

Commission regulation 807 KAR 5:076, Section 3(1) provides that the record upon which a decision will be made in an alternative rate filing proceeding is the applicant's annual report for the immediate past year and the annual reports for the prior two years. Commission regulations 807 KAR 5:006, Section 4(1) and (2), require utilities to file a gross annual operating revenue report and a financial and statistical report no later than March 31 each year. The Commission finds that a rate case or formal motion filed after Sandy Hook District files its 2023 annual report will provide the clearest picture of Sandy Hook District's current operations, as 2023 financial data will include a full year of the rates previously approved in this proceeding. The Commission strongly advises Sandy Hook District to take whatever steps are necessary to file its annual report by the regulatory deadline of March 31, 2024. The Commission will not look favorably upon any motion for an extension of time to file an application for an adjustment in Sandy Hook District's rates that is based on its failure to timely file its annual report with the Commission.

The Commission is ordering Sandy Hook District to make a rate filing because although Sandy Hook District projects an increase in revenue, its depreciation is also projected to significantly increase. Information provided in Sandy Hook District's

response to Commission Staff’s First Request for Information, Item 3, reflects that given expected increases in employee salary, retirement contribution, and overall operating costs, Sandy Hook District’s current rates will be insufficient to fully fund depreciation expense as shown below:

	<u>2021 (Annualized)</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Operating Revenues	\$780,962.00	\$792,676.43	\$1,001,676.00	\$1,016,701.14	\$1,031,951.66
Operating Expenses (4.0% inflationary increase)	\$688,221.00	\$715,749.84	\$744,379.83	\$774,155.03	\$805,121.23
Operating Income (Loss)	\$92,741.00	\$76,926.59	\$257,296.17	\$242,546.11	\$226,830.43
Depreciation Expense	\$211,395.00	\$211,395.00	\$275,235.00	\$339,075.00	\$339,075.00
	-\$118,654.00	-\$134,468.41	-\$17,938.83	-\$96,528.89	-\$112,244.57
Average Annual Debt Service	\$99,984.00	\$99,057.00	\$100,637.00	\$204,947.77	\$205,749.77
Debt Service Coverage Ratio	-119%	-136%	-18%	-47%	-55%
Increase in depreciation due to project depreciation					
Total project construction cost - \$7980000					
project cost	7,980,000				
depreciable life per PSC guidelines	62.5				
annual depreciation	127,680				

Considering the totality of these circumstances, the Commission finds a review of the sufficiency of Sandy Hook District’s rates, using 2023 financial data, to be necessary.

IT IS THEREFORE ORDERED that:

1. Sandy Hook District shall file an application for a general rate adjustment pursuant to 807 KAR 5:001E, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or a formal motion with a detailed analysis of its rates and revenues and a statement explaining the reasons why no rate modifications are necessary by June 30, 2024.

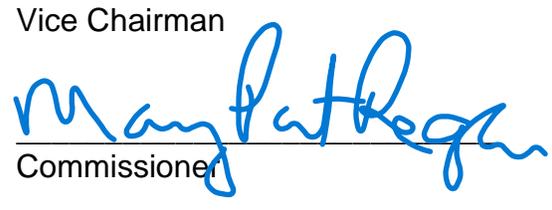
2. The rate adjustment or detailed motion filed by Sandy Hook District on or before June 30, 2024, shall be based upon 2023 financial data and Sandy Hook District’s 2023 annual report

3. This case is closed and removed from the Commission’s docket.

PUBLIC SERVICE COMMISSION

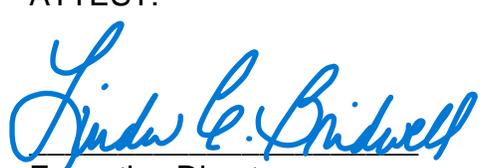

Chairman

Vice Chairman


Commissioner



ATTEST:


Executive Director

*Riley Sumner
Kentucky Engineering Group, LLC
PO Box 1034
Versailles, KENTUCKY 40383

*Sandy Hook Water District
1000 Howard's Creek Road
P. O. Box 726
Sandy Hook, KY 41171

*Bridgett Howard
Sandy Hook Water District
P. O. Box 726
Sandy Hook, KY 41171

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