

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF )  
RATES OF THE SANDY ) CASE NO. 8313  
HOOK WATER DISTRICT )

O R D E R

On August 14, 1981, Sandy Hook Water District ("Sandy Hook") filed an application with the Commission seeking permission to increase the rates charged to its customers. This is the first rate request by Sandy Hook since 1969. The Commission commends Sandy Hook on its efforts to maintain low customer charges throughout a period of economic uncertainty. In order to determine the reasonableness of the requested rates, the Commission scheduled a public hearing for October 30, 1981, and required Sandy Hook to notify its customers of the date and location of the hearing and of the proposed rates in the manner prescribed by the Commission's regulations. Sandy Hook adhered to the notification requirements, and a hearing was held as scheduled with no parties intervening in the matter.

Sandy Hook has responded to all of the information requests and the case is now submitted for final determination by the Commission.

Test Period

Sandy Hook proposed, and the Commission has accepted, the 12-month period ending June 30, 1981, as the test period in this case.

## Revenues and Expenses

Sandy Hook submitted its actual operating statement for the 12-month period ending June 30, 1981, and proposed no pro forma adjustments thereto. The Commission finds that the following adjustments are necessary to reflect an accurate test period for rate-making purposes:

Depreciation - It is the policy of the Commission to compute depreciation expense on the basis of the original cost of the plant, less contributions in aid of construction. The utility should not be permitted recovery on that portion of the plant that is provided free of cost. Therefore, Sandy Hook's depreciation expense has been reduced by \$2,450 to an annual expense of \$4,982. (1)

Revenues - Sandy Hook has included in its test year revenues a grant from FIVCO. The Commission is of the opinion that this \$12,303 grant is non-recurring and should not be included in test year revenues for the purpose of determining rates. The Commission has, therefore, reduced Sandy Hook's miscellaneous non-operating income by the amount of the grant.

Sandy Hook's adjusted revenues and expenses are as follows:

	<u>Actual</u>	<u>Adjustment</u>	<u>Adjusted</u>
Operating Revenues	\$ 29,941	\$ -0-	\$ 29,941
Operating Expenses	39,247	(2,450)	36,797
Net Operating Income	\$ (9,306)	\$ 2,450	\$ (6,856)
Non-Operating Revenues	14,028	(12,303)	1,725
Interest Expense	6,206	-0-	6,206
Net Income	<u>\$ (1,484)</u>	<u>\$ (9,853)</u>	<u>\$ (11,337)</u>

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(1) (Plant in service) \$283,554 - (Contributions in aid of construction) \$91,943 = Depreciable plant (\$191,611) X (Depreciation rate) 2.6% = \$4,982 Depreciation expense,

### Rate Structure

Sandy Hook's present rate structure is a declining block design consisting of three rate blocks. The utility proposes to combine the last two rate blocks. The Commission is of the opinion that this would ultimately result in a savings for the majority of the utility's customers and would facilitate billing procedures for the utility, and should, therefore, be approved.

Sandy Hook proposed to eliminate its present special school rate and bill this class customer at the general service rate. Based on the total cost of pumping and distribution<sup>(2)</sup> and the total gallons sold during the test year,<sup>(3)</sup> the cost to the utility of pumping and distributing water during the test year was \$.918 per 1000 gallons.<sup>(4)</sup> The average cost of water to the school, based on the school's test year usage, was \$.465 per 1000 gallons.<sup>(5)</sup> The Commission is of the opinion that general service customers should not be required to subsidize other classes of customers, and that elimination of the special school rate will provide a more equitable means of distributing the cost of service.

Sandy Hook also proposed to increase its tap-on fee to more accurately reflect the current costs of water connection and to establish an additional "push under the road fee" which would be charged only when the customer's premises are located on the opposite side of a hard-surfaced road from the utility's lines. The Commission is of the opinion that this fee is discriminatory in that it would not be applied uniformly and is in conflict with

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(2) Income Statement.

(3) Billing Analysis Existing and Proposed Rates.

(4)  $\$17,431.13 + 18,996,000 \times 1000 = \$.918$  per 1000 gallons.

(5)  $150,000 @ \$75 \text{ min.} + 80,000 @ \$.40 \text{ per } 1000 = \$107 + 230,000 \times 1000 = \$.465$  per 1000 gallons.

807 KAR 5:066E. It should, therefore, be denied. Further, Sandy Hook should recalculate the cost of a tap-on, taking into consideration the additional cost of pushing under a road, and file new cost information justifying a fee to be applied uniformly to all customers receiving the same service.

Sandy Hook further proposed to institute a separate bulk sales rate for industrial bulk sales customers of \$25 minimum for the first 3000 gallons and \$5 per 1000 gallons for all over 3000 gallons. The Commission is of the opinion that this rate is excessive and that no evidence was presented which would justify different rates for industrial and residential bulk sales customers. The rate should, therefore, be denied.

#### Revenue Requirements

The Commission is of the opinion that the adjusted operating loss is clearly unjust and unreasonable, and that the proposed revenue increase of \$8,437 to be generated by the proposed general service rate will improve Sandy Hook's financial position. The Commission is concerned that, while the revenue requested will improve Sandy Hook's financial position, it is inadequate to produce a debt service ratio of 1.2 which will allow Sandy Hook the return necessary to comply with the provisions in its bond ordinance and provide a reasonable return necessary for equity growth. Therefore, the Commission urges Sandy Hook to reassess its financial position and take necessary steps to insure its financial stability and compliance with the requirements of its bond ordinance.

### Summary

The Commission, after careful consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are the fair, just and reasonable rates for the Sandy Hook Water District in that they will produce additional revenues from water sales of approximately \$8,437 and should improve its financial condition.

2. The rates proposed by Sandy Hook for the "push under the road fee" and industrial bulk sales are unjust, unfair, and unreasonable and should be denied.

IT IS THEREFORE ORDERED that the rates in Appendix A, attached hereto and made a part hereof, are approved for service rendered by Sandy Hook Water District on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Sandy Hook for the "push under the road fee" and industrial bulk sales are hereby denied.

IT IS FURTHER ORDERED that Sandy Hook shall recalculate the cost of a tap-on in accordance with the findings herein, and submit cost justification for such fee to be applied uniformly to all customers receiving the same service.

IT IS FURTHER ORDERED that Sandy Hook Water District shall file with the Commission within 30 days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 9th day of December, 1981.

PUBLIC SERVICE COMMISSION

Martin D. Voth  
Chairman

Katherine Randall  
Vice Chairman

Leah Carver  
Commissioner

ATTEST:

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Secretary

## APPENDIX A

### APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8313 DATED DECEMBER 9, 1981

The following rates are prescribed for all customers served by the Sandy Hook Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

#### General Service

<u>Gallonge Block</u>	<u>Monthly Rate</u>
First 2000 gallons	\$9.00 minimum
All Over 2000 gallons	1.00 per 1000 gallons

#### Bulk Sales

\$2.00 per 1000 gallons

The minimum amount under this rate is \$2.00 which shall entitle the purchaser to 1000 gallons of water.

#### Fire Hydrant Rental

\$48.00 Annually

Meter Connection (Tap-on) Fee	\$300.00
Service Fee (1)	15.00
Reconnect Fee	15.00
Returned Check Fee	6.00

(1)

This charge shall be applicable for connection of new customers, to cover the cost of discontinuance where service has been discontinued for non-payment of bills or violation of rules, and for meter testing pursuant to 807 KAR 5:006E, Section 19.