

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE SANDY HOOK WATER)
DISTRICT, OF ELLIOTT COUNTY, KENTUCKY,) CASE NO.
FOR APPROVAL OF CONSTRUCTION, FINANCING,) 9768
AND INCREASED RATES)

O R D E R

Sandy Hook Water District ("Sandy Hook") by application filed November 18, 1986 is seeking approval of adjustments to its water service rates, authorization to construct a \$723,000 waterworks improvement project, and approval of its plan of financing for this project. The project funding includes a \$237,000 loan from the Farmers Home Administration ("FmHA"), and a \$486,000 grant from FmHA. The FmHA loan will be secured by waterworks revenue bonds maturing over a 40-year period at an interest rate of 7 1/4 percent per annum.

The construction is proposed to improve the water service to the existing customers. Drawings and specifications for the proposed improvements by Kenco Associates, Inc., of Ashland, Kentucky ("Engineer") and have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

On January 27, 1987, the Commission Staff conducted a field review of Sandy Hook's test period financial records and issued its report on June 1, 1987 containing Staff's recommendations.

No comments were filed by Sandy Hook in response to the Staff report.

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

Sandy Hook's Engineer has provided information which indicates that reliable and adequate service can be maintained throughout the expanded system after completion of the proposed construction. However, the potential exists for several areas to have residual pressure below 30 psig, in violation of regulation 807 KAR 5:066, Section 6(1).

The Commission reminds Sandy Hook of its obligation to provide adequate and reliable service to all of its customers. Sandy Hook should monitor the adequacy of the expanded water distribution system after construction. If this monitoring indicates that the level of service is inadequate or declining, Sandy Hook must take necessary actions to maintain the level of service in conformance with the regulations of the Commission.

FIRE HYDRANT INSTALLATION

Sandy Hook is proposing to install one new conventional fire hydrant and reconnect four existing conventional fire hydrants as part of this construction project. This fire hydrant installation is not in compliance with Standard 24 of the National Fire Protection Association as adopted by 815 KAR 10.020 and the "Recommended Standards For Water Works" by the Great Lakes-Upper Mississippi River Board of State Sanitary Engineers as adopted by 401 KAR 6:200.

Sandy Hook did not provide any information showing that these fire hydrants are capable of providing fire protection.

The Commission, in good conscience, cannot approve the installation of or the reconnection of conventional fire hydrants that cannot provide fire protection in compliance with both state regulations and accepted engineering criteria. There are other pieces of water system equipment which can be used for the intended operation and maintenance procedures instead of fire hydrants. The installation of conventional fire hydrants may mislead the customers of Sandy Hook into believing that the water distribution system is capable of providing adequate and reliable volumes of water for fire protection purposes. Under these circumstances the proposed conventional fire hydrant should not be installed, and the existing conventional fire hydrants should not be reconnected.

REVENUE REQUIREMENTS

In its Order of September 18, 1987, the Commission granted Sandy Hook a revenue increase of \$8,713. This increase did not allow for the proposed construction project and related financing. As a result of the Commission's approval of the construction project, Staff has reevaluated the revenue requirements of Sandy Hook.

The revenue figures as reported in the Staff report have not changed. Due to an increase in the total project cost of the construction operating expenses have increased as follows:

Operating Expenses per Staff Report	\$65,994
Less: Depreciation Expense	21,506
Add: Revised Depreciation Expense ¹	25,383
Adjusted Operating Expenses	<u>\$69,871</u>

In its report, Staff calculated Sandy Hook's annual debt service to be \$29,318 based on proposed debt of \$253,000. The loan amount has been revised to a lesser amount of \$237,000, thereby reducing the annual debt service requirement to \$28,352. Based on Sandy Hook's proposed revenue figure of \$94,561, adjusted operating expenses of \$69,871, and annual debt service of \$28,352, Sandy Hook would generate a debt service coverage of .87X² and a net cash flow of \$21,721.³ Therefore, Staff reaffirms its

1			
	<u>Asset</u>	<u>Revised Dep. Basis</u>	<u>Annual Depreciation</u>
	Lines	\$ 138,210	\$ 3,455
	Tanks	108,850	2,721
	Plant, Wells	473,940	15,798
	Annual Depreciation Exp. - New Const.		\$ 21,974
	- Orig. Water System		3,138
	- Capitalized Supplies Expense		271
	Total Depr. Expense		<u>\$ 25,383</u>
2	Proposed Operating Revenues	\$ 94,561	
	Adjusted Operating Expenses	<u>69,871</u>	
	Operating Income	24,690	
	Annual Debt Service	<u>- 28,352</u>	
	Debt Service Coverage	<u>.87</u>	
3	Operating Income	\$24,690	
	Add: Depreciation Expense	25,383	
	Less: Annual Debt Service	<u>28,352</u>	
	Net Cash Flow	<u>\$21,721</u>	

recommendation that Sandy Hook be allowed to increase its annual revenues to the proposed level of \$94,561. This would result in a revenue increase of \$37,550, calculated as follows:

Total Proposed Operating Revenue	\$94,561
Less: Test Year Adjusted Operating Revenue	48,298
Increase Allowed - 9/18/87 Order	8,713
Required Increase	<u>\$37,550</u>

After careful review of the recommendations made by Staff, the Commission is of the opinion that Sandy Hook will have adequate cash flow to meet its obligations and provide for future equity growth. Therefore, the Commission affirms the Staff's recommended annual increase of \$37,550.

RATE DESIGN

Sandy Hook proposed to change its present two-step rate design to a graduated schedule. The new design allows a more equitable allocation of the revenue requirement. The present design places an excessive burden on the low-quantity user. The Commission finds that the proposed rate design will benefit the ratepayer and should be accepted as proposed.

FINDINGS AND ORDERS

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

1. With appropriate monitoring of the system after construction, and the deletion of the conventional fire hydrants, public convenience and necessity require that the construction proposed in the application be performed and that a certificate of public convenience and necessity be granted.

2. The proposed construction consists of approximately 2 miles of 6- and 3-inch diameter pipelines and related appurtenances. The low bids received for the proposed construction totaled \$562,000 which will require about \$723,000 after allowances are made for fees, contingencies, and indirect costs.

3. Sandy Hook should monitor the adequacy of the expanded water distribution system after construction. If the level of service is inadequate or declining, Sandy Hook should take immediate action to maintain the level of service in conformance with the regulations of the Commission.

4. Any deviations from the construction herein approved which could adversely affect service to any customer should be done only with the prior approval of the Commission.

5. Sandy Hook should furnish duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

6. Sandy Hook's contract with its Engineer should require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that the construction work is done in accordance with the contract drawings

and specifications and in conformance with the best practices of the construction trades involved in the project.

7. Sandy Hook should require the Engineer to furnish a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of the date of substantial completion of this construction.

8. The financing plan proposed by Sandy Hook is for lawful objects within its corporate purposes, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform these services. The financing plan is reasonably necessary and appropriate for such purposes and should, therefore, be approved.

9. If under FmHA loan conditions Sandy Hook is notified and granted an option to accept a lower interest rate on the date of closing, Sandy Hook should file the following with the Commission within 30 days of the date of closing: (1) the FmHA notification of the lower interest rate and all correspondence from and to FmHA concerning this notification; (2) a statement of the interest rate accepted from FmHA; (3) amended pages to its bond resolution and an amended amortization schedule based on the different interest rate if a different rate is accepted; and, (4) full documentation of why the lower rate was not accepted showing an analysis of the higher costs associated with the loan over the loan's repayment period in the event the option to accept the lower rate is not taken by Sandy Hook.

10. The rates and charges in Appendix A are the fair, just, and reasonable rates and charges to be charged by Sandy Hook in that they should produce annual revenue of \$94,561.

11. Within 30 days of the date of this Order, Sandy Hook should file with this Commission its revised tariff sheets setting out the rates approved herein.

IT IS THEREFORE ORDERED that:

1. Sandy Hook be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction project as set forth in the drawings and specifications of record herein on the condition that the system be monitored and corrective action taken in accordance with Finding 1 and Finding 3 of this Order and that the conventional fire hydrants be deleted.

2. Sandy Hook's financing plan consisting of an FmHA loan of \$237,000 and FmHA grant of \$486,000 be and it hereby is approved.

3. Sandy Hook shall comply with all matters set out in Findings 3 through 7 and Finding 9 as if the same were individually so ordered.

4. The rates and charges in Appendix A are the fair, just, and reasonable rates and charges to be charged by Sandy Hook on and after the date of this Order.

5. Within 30 days of the date of this Order, Sandy Hook shall file with this Commission its revised tariff setting out the rates approved herein.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 18th day of May, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Demaree
Chairman

Robert M. Davis
Vice Chairman

Gene M. Williams
Commissioner

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9768 DATED 5/18/88

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

Monthly Rate

5/8 inch x 3/4 inch Meter

First 2,000 gallons	\$ 10.25 Minimum Bill
Next 8,000 gallons	4.10 per 1,000 gallons
Next 10,000 gallons	3.10 per 1,000 gallons
Next 10,000 gallons	2.75 per 1,000 gallons
Over 30,000 gallons	2.50 per 1,000 gallons

3/4 inch Meter

First 5,000 gallons	\$ 22.55 Minimum Bill
Next 5,000 gallons	4.10 per 1,000 gallons
Next 10,000 gallons	3.10 per 1,000 gallons
Next 10,000 gallons	2.75 per 1,000 gallons
Over 30,000 gallons	2.50 per 1,000 gallons

1 inch Meter

First 10,000 gallons	\$ 43.05 Minimum
Next 10,000 gallons	3.10 per 1,000 gallons
Next 10,000 gallons	2.75 per 1,000 gallons
Over 30,000 gallons	2.50 per 1,000 gallons

1 1/2 inch Meter

First 30,000 gallons	\$101.55 Minimum Bill
Over 30,000 gallons	2.50 per 1,000 gallons

2 inch Meter

First 50,000 gallons	\$151.55 Minimum Bill
Over 50,000 gallons	2.50 per 1,000 gallons

3 inch Meter

First 100,000 gallons
Over 100,000 gallons

\$276.55 Minimum Bill
2.50 per 1,000 gallons

Bulk Sales
Over 1,000 gallons

\$ 3.00 Minimum Charge
3.00 per 1,000 gallons