

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

On July 15, 2022, Sandy Hook Water District (Sandy Hook District) filed an application, pursuant to KRS 278.023, requesting a Certificate of Public Convenience and Necessity (CPCN) to construct a water system improvements project and approval of the proposed plan of financing the project, which includes the issuance of securities. No party has sought intervention in this matter.

Sandy Hook District, a water district organized under KRS Chapter 74, provides retail water service to approximately 1,178 water customers in Elliott and Morgan counties.<sup>1</sup> The Commission's Division of Inspections last inspected Sandy Hook District on February 4, 2020. Based on the inspector's observations, the only deficiency noted was water loss in excess of 15 percent, in violation of 807 KAR 5:066, Section 7.

Sandy Hook District has submitted its application pursuant to KRS 278.023. The Commission is required, pursuant to KRS 278.023, to accept agreements between water

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<sup>1</sup> *Annual Report of Sandy Hook District to the Public Service Commission for the Year Ended Dec. 31, 2021* (2021 Annual Report) at 27 (not yet published).

utilities and the United States Department of Agriculture Rural Development (RD) regarding construction projects, and to issue the necessary orders to implement the terms of such agreements no later than 30 days after filing the application with the Commission. KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of the agreement between the RD and Sandy Hook District or to defer the issuance of all necessary orders to implement the terms of that agreement. It further denies the Commission any authority to reject an application when the evidence of record indicates that a water utility's proposed construction will result in the wasteful duplication of facilities, result in an excessive investment, or its proposed rates are unfair, unjust, or unreasonable. The Commission, therefore, is not able to review this application using the same standards that are used for applications that are not filed pursuant to KRS 278.023.

The proposed project consists of two different contracts. One is for the construction of a new 0.374 million gallons per day (MGD) Water Treatment Plant to replace an existing 60-year-old facility. Also included in this project are new high service pumps, backwash pumps, pressure vessels, filter media, and other site work improvements. The other contract involves the installation of approximately 20,000 linear feet (LF) of 2-inch, 4-inch, and 6-inch polyvinyl chloride (PVC) water main on parts of Kentucky Highway 755 and 556 to replace an aging and problematic water main.<sup>2</sup>

The total estimated cost of the proposed project, including but not limited to legal expenses, land and rights, engineering, construction, and contingencies, is approximately \$7,980,000.<sup>3</sup> Sandy Hook District has received a grant from the Appalachian Regional

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<sup>2</sup> Application, Exhibit A (Project Description).

<sup>3</sup> Application, Exhibit B.

Commission (ARC) in the amount of \$1,500,000, as well as a grant in the amount of \$3,579,000 from the RD program. Sandy Hook District's application proposes funding the remaining cost for the project of \$2,901,000 through its issuance of \$1,180,000 of Series A Bonds maturing over a 40-year period at an interest rate not to exceed 1.125 percent annually; and \$1,721,000 of Series B Bonds maturing over a 40-year period at an interest rate not to exceed 1.50 percent annually.<sup>4</sup> Sandy Hook District has a commitment from RD to purchase the bonds and thereby provide the additional funding required.

The proposed rates contained in the application are the minimum rates and charges required under the agreement with RD. Sandy Hook District's proposed rates meet the total revenue requirements recommended in the engineering reports. The monthly bill of an average customer who uses 5,000 gallons will increase from \$62.14 to \$80.78, an increase of \$18.64 or approximately 30 percent.<sup>5</sup> Based on the information provided herein, Commission Staff will monitor whether Sandy Hook District's proposed rates meet the total revenue requirements recommended in the engineering reports. Therefore, Commission Staff is attaching to this Order a Request for Information as Appendix B to Sandy Hook District to clarify this matter.

The Commission also notes that Sandy Hook District's unaccounted-for water loss has been over 15 percent for the last two years. Its unaccounted-for water loss in 2021

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<sup>4</sup> Application, paragraph 5.

<sup>5</sup> Application, Exhibit E (Notice of Proposed Rate Change).

was 19.48 percent,<sup>6</sup> which represents an increase from 15.87 percent the previous year<sup>7</sup> and results in total cost excess cost of water loss of \$15,842<sup>8</sup> and a cost for water loss in excess of 15 percent of \$3,643.<sup>9</sup> The Commission is concerned that Sandy Hook District is consistently in excess of the 15 percent of unaccounted-for water loss permitted in rate recovery, and the water loss amount is increasing year over year. The proposed project of this CPCN will assist Sandy Hook District in reducing the amount of water loss, but the Commission reminds it to continue to implement all reasonable and available measures to reduce its unaccounted-for water loss.

IT IS THEREFORE ORDERED that:

1. Sandy Hook District is granted a CPCN for the proposed project as submitted.
2. Sandy Hook District's proposed plan of financing is approved.

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<sup>6</sup> 2021 Annual Report at 57 (not yet published).

<sup>7</sup> *Annual Report of Sandy Hook District to the Public Service Commission for the Year Ended December 31, 2020* at 58.

<sup>8</sup>

	Purchased Power
2021 Expense	\$ 81,327
Multiply by: Total Water Loss	19.48%
Excess Cost	\$ 15,842

<sup>9</sup>

	Purchased Power
2021 Expense	\$ 81,327
Multiply by: Water Loss in Excess of 15 Percent	4.48%
Excess Cost	\$ 3,643

3. Sandy Hook District is authorized to issue \$1,180,000 of Series A Bonds maturing over a 40-year period at an interest rate not to exceed 1.125 percent annually; and \$1,721,000 of Series B Bonds maturing over a 40-year period at an interest rate not to exceed 1.50 percent annually.

4. The proceeds from the issuance of the Water System Revenue Bonds shall be used only for the purposes specified in Sandy Hook District's application.

5. Sandy Hook District shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.

6. Sandy Hook District shall file with the Commission documentation of the total costs of this project, including the cost of construction and all other capitalized costs (e.g., engineering, legal, and administrative), within 60 days of the date that construction is substantially completed. Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

7. Sandy Hook District shall file a copy of the "as-built" drawings and a certified statement from the engineer that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of substantial completion of the construction certified herein.

8. Sandy Hook District shall require the construction to be inspected 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.

9. Sandy Hook District shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

10. Any documents filed in the future pursuant to ordering paragraphs 6, 7, and 9 of this Order shall reference this case number and shall be retained in the utility's post-case correspondence file.

11. The Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon Sandy Hook District's showing of good cause for such extension.

12. The rates set forth in Appendix A to this Order are approved for service that Sandy Hook District renders on and after the date of this Order.

13. Within 20 days of the date of this Order, Sandy Hook District shall file revised tariff sheets with the Commission, using the Commission's electronic Tariff Filing System, containing the rates set forth in Appendix A to this Order.

14. This case shall remain open pursuant to the issuance of the Commission Staff's First Request for Information, attached as Appendix B, for Sandy Hook District to submit its responses to the Request for Information; and to allow the Commission ample time to review Sandy Hook District's responses and evaluate Sandy Hook District's financial information.

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

PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman



Commissioner



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2022-00206 DATED AUG 10 2022

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 the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

5/8- x 3/4-Inch Meter

First	2,000 Gallons	\$37.14	Minimum Bill
Next	8,000 Gallons	0.01455	Per Gallon
Next	40,000 Gallons	0.01300	Per Gallon
Over	50,000 Gallons	0.01145	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$80.78	Minimum Bill
Next	5,000 Gallons	0.01455	Per Gallon
Next	40,000 Gallons	0.01300	Per Gallon
Over	50,000 Gallons	0.01145	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$153.52	Minimum Bill
Next	40,000 Gallons	0.01300	Per Gallon
Over	50,000 Gallons	0.01145	Per Gallon

2-Inch Meter

First	20,000 Gallons	\$283.52	Minimum Bill
Next	30,000 Gallons	0.01300	Per Gallon
Over	50,000 Gallons	0.01145	Per Gallon

3-Inch Meter

First	30,000 Gallons	\$413.52	Minimum Bill
Next	20,000 Gallons	0.01300	Per Gallon
Over	50,000 Gallons	0.01145	Per Gallon



## APPENDIX B

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00206 DATED AUG 10 2022

#### COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION TO SANDY HOOK WATER DISTRICT

Sandy Hook Water District (Sandy Hook District), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested herein is due within 14 days of the date of this request. The Commission directs Sandy Hook District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

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<sup>1</sup> 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).

Sandy Hook District shall make timely amendment to any prior response if Sandy Hook District obtains information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Sandy Hook District fails or refuses to furnish all or part of the requested information, Sandy Hook District shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Sandy Hook District shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Application, Exhibit D, Certificate of the Chairman. The Chairman of Sandy Hook District certifies, “that the rates proposed by the District in its current application filed with the Kentucky Public Service Commission are contemplated to produce total revenue requirements recommended in the engineering reports.” Commission regulation 807 KAR 5:069, Section 2(6)(c), provides the proposed rates, if any, shall produce the total revenue requirements recommended in the engineering reports. Provide a copy of the billing analysis in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible, showing revenue at current rates and at proposed rates based on actual and forecasted water usage for the

existing system for 12 months that supports the revenue requirement recommended in the Engineering Report and referenced by the Chairman of Sandy Hook District.

2. Provide a schedule in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible showing that Sandy Hook District will meet the debt service coverage requirements of its lenders (existing and proposed long-term debt) for the three years following the completion of its proposed construction project. Include all calculations, assumptions (customer growth and increases in operating expenses), and workpapers used by Sandy Hook District in its response.

3. Provide a schedule in Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible showing Sandy Hook District's debt service coverage (existing and proposed long-term debt), including full recovery of its depreciation expense (existing plant and the completed project) for the three years following the completion of its proposed construction project. Include all calculations, assumptions (customer growth and increases in operating expenses), and workpapers used by Sandy Hook District in its response.

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