

STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held in the City of  
Albany on January 8, 2015

COMMISSIONERS PRESENT:

Audrey Zibelman, Chair  
Patricia L. Acampora  
Garry A. Brown  
Gregg C. Sayre  
Diane X. Burman

Case 14-W-0459 - Petition of Beaver Dam Lake Water Corp. for an  
Order authorizing Petitioner, Pursuant to  
Public Service Law §89, to Extend the EFC Loan  
Surcharge Approved in Case No. 06-W-1561.

ORDER AUTHORIZING THE MODIFICATION AND EXTENSION OF THE CURRENT  
EFC SURCHARGE

(Issued and Effective January 9, 2015)

BY THE COMMISSION:

INTRODUCTION

On October 10, 2014, Beaver Dam Lake Water Corporation  
(Beaver Dam or the Company) filed a petition requesting,  
pursuant to Public Service Law (PSL) Section §89-f, to issue  
indebtedness, and to extend the period for the collection of the  
surcharge approved in Case 06-W-1561.<sup>1</sup>

Under PSL §89-f, Commission authorization is required  
before a water utility may enter into a long-term financing  
agreement. The Commission may approve the financing if it is

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<sup>1</sup> Case 06-W-1561, Beaver Dam Lake Water Corporation - Long Term  
Financing, Order Authorizing Petitioner to Issue and Sell Long  
Term Debt in an Amount not to Exceed \$2,100,000 and to  
Increase Water Rates and Surcharges. (Issued June 26, 2007).

for an authorized purpose, with reasonable terms and is in the public interest.

In this Order, the Commission finds that the proposed financing and the amendment to the repayment terms of the 2007 Order are in the public interest and therefore grants Beaver Dam's petition.

#### BACKGROUND

Beaver Dam is a lightly regulated not-for-profit corporation owned by all of its water users. The Company provides metered water service to 154 homes in the Towns of New Windsor and Cornwall in Orange County. Public fire protection service is not provided.

In the 2007 Order the Commission approved the Company's request to enter into a 30 year, zero percent loan agreement not to exceed \$1,842,900 with the New York State Environmental Facilities Corporation (EFC) for the purpose of repair its infrastructure, and also to establish a customer surcharge in the amount of \$390 annually to repay the loan. Customers have paid back \$318,105 through the surcharge over the last seven years, which leaves the original loan balance at \$1,524,795.

#### PETITION

In this petition the Company is seeking authorization to issue an additional \$495,708 in long term debt, bringing the current loan amount to \$2,020,503. The additional financing is needed due to a combination of cost-over runs and the expanded scope of the projected, which was mostly offset by a grant from the American Recovery and Reinvestment Act (ARRA).

The Company is also seeking to reset the 30-year payback period for the new loan amount. The Company began

making payments on the original loan in 2007, and now has 23 years of additional loan payments. If the Commission authorizes the additional financing, the Company would, under its petition, begin a new 30 year payment cycle, which would have the effect of lowering the annual surcharge amount for ratepayers.<sup>2</sup>

PUBLIC NOTICE

In accordance with the State Administrative Procedure Act (SAPA) §202(1), a Notice of Proposed Rulemaking was published in the State Register on November 5, 2014. The Secretary received no comments by the expiration of the comment period, which occurred on December 20, 2014.

DISCUSSION

Summary of the Project Costs since the 2007 Order

The table below summarizes the change in the project costs from the original authorized loan amount of \$1,842,900 approved in the 2007 Order to the \$2,020,503 loan that the Company is now requesting. The \$2,020,503 reflects \$3,348,796 total actual project cost less \$1,010,188 for the 50% principal forgiveness program under ARRA, and less \$318,105 representing principal payments made by Beaver Dam to EFC.

<b>Beaver Dam Project Cost Summary</b>	
Original project cost Estimate from 2007 Order for a new ground water source, new storage, and upgrade distribution system.	\$1,842,900
Cost over-runs from original estimates	484,709
New estimate for a new ground water source, new storage, and upgrade distribution system.	2,327,609
Cost of the Expanded Scope of the Project to replace an additional 5,625 foot of galvanized	1,021,188

<sup>2</sup> Since the loan has an interest of zero, there is no additional cost to ratepayers if the repayment period is extended.

pipes	
Total Actual Cost of the Project	3,348,796
Principal Payments made by Beaver Dam	(318,105)
ARRA Principal Forgiveness	(1,010,188)
<b>New Loan Amount Requested</b>	<b>\$2,020,503</b>

Since the 2007 Order, the costs of the project to create a new ground water source, new storage, and upgrade the distribution system, exceeded the original engineering estimates of \$1,842,900 by \$484,709. In addition, the scope of the project was expanded to include the replacement of 5,625 feet of galvanized mains that were not included in the original engineering estimate. These mains date back to the original system construction in the 1930's and are in dire need of replacement due to periodic pipe failures, suspected year-round leakage, and occasional brown water events as identified by the engineering firm that provided the water system design report. The cost to replace the antiquated mains is estimated to be \$1,021,188.

Beaver Dam was also awarded an ARRA grant of \$1,010,188 to help offset the cost of the project.

Extending the Term of the Loan by Seven Years

Beaver Dam is requesting that the term of the loan be reset to 30 years from the date of this Order, which would effectively extend the original term of the loan by the seven years that have lapsed since the 2007 Order. It is in the customers' interest to grant an extension to the term of the loan, since the loan is a zero-percent loan, and the extension of the loan repayment would effectively decrease the surcharge from \$143 to \$109.33 per quarter,

EFC Loan Financing Terms

As the number of loans to small water companies increases, including hardship loans, EFC may leverage the loans by offering bonds to the public that are backed by the small private water company loans. For this reason, and because of the fragile credit quality of the companies taking the loans, EFC has required some credit enhancing terms for the loans.

Foremost among the credit requirements is one that all small private water companies receiving loans must agree to a "step-up" provision. This loan provision requires additional, but limited, payments by borrowers in the program if another small water company defaults on a loan payment. If called upon by EFC, the Company must increase its surcharge by 10% in its next quarterly billing to help cover the default of another small private water company. The surcharge can only be used to pay principal on the loan and step-up payments; otherwise, it is to be refunded to the customers.

In general, the DWSRF<sup>3</sup> loans follow the terms and conditions established in a previous Commission approved pooled financing case.<sup>4</sup> A trustee will retain the funds and the Company will apply to the trustee when it needs to pay for the new facilities. There are no issuance costs for the hardship loan. Other terms of the loan are as follows:

1. Term: 30 years

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<sup>3</sup> The DWSRF is administered by the EFC and New York State Department of Health (DOH). The EFC is responsible for establishing reasonable project financing and construction schedules and ensuring compliance with the Federal Safe Drinking Water Act and the financing and loan agreement. The DOH is responsible for determining eligibility of projects for financial assistance.

<sup>4</sup> Case 92-W-0791, Cambridge Water Works Company et.al. - Financings, Untitled Order (issued January 28, 1994).

2. Prepayment penalty: None
3. Interest Rate: None
4. Security: A pledge on all revenue and a dedicated surcharge
5. Restrictions: Sale of the company needs EFC approval

EFC Surcharge

Although the Company is authorized to set its own rates and surcharges, the EFC requires Commission approval of EFC loans and the related surcharges. The Company must surcharge its customers for the principal on any EFC loan it secures. The amount of this surcharge is approximately \$67,350 annually. The Company will place all the money collected in the EFC surcharge in a dedicated bank account. The Company will reconcile collections with charges each year such that \$67,144 is collected annually. The first annual surcharge should be \$437.34 (\$109.33 per quarter) for each of 154 service taps as it is shown in the attached Appendix.

Accounting

Because the Company is financing all the new plant with an EFC loan paid for with a dedicated customer surcharge, the Company may not include the recovery of the plant in base rates. Accordingly, throughout the life of the new plant, any differences between the depreciation and the amount of the loan repayment should be recorded as customer contributed capital.

CONCLUSION

The Company's request for authority to enter into a long-term loan of up to \$2,202,503 with the EFC is approved. The plant improvements are necessary for the continued provision of safe and adequate water service for the customers of Beaver Dam and they provide the basis and the need for the financing. The terms and conditions of the loan are the same as those

offered to other small water companies under the Commission's jurisdiction, which the Commission has found to be reasonable.

The Commission orders:

1. Beaver Dam Lake Water Corporation is authorized to enter into a loan agreement with the New York State Environmental Facilities Corporation for not more than \$2,020,503 of aggregate principal of debt. The proceeds from the issuance of these securities shall only be used for the purposes described in Ordering Clause 2.

2. The proceeds from the loan authorized by this Order may be used only for the permanent financing of long-term debt and other corporate purposes as discussed in the body of this Order.

3. Within 30 days after the execution of any debt financing authorized under this Order, Beaver Dam Lake Water Corporation shall file with the Secretary to the Commission a complete term sheet on the transaction. The filing should include a detailed breakdown of the external costs associated with the new issue.

4. Beaver Dam Lake Water Corporation shall file a new surcharge, entitled "Drinking Water State Revolving Fund Surcharge Statement No. 2," on not less than three days notice, to become effective February 28, 2015, in the form shown on Appendix I of this Order. After the financing is approved by the New York State Environmental Facilities Corporation and the actual debt service is known, the Company is permitted to file with the Commission, a final surcharge statement, as needed to match the debt service requirements of the financial documents, to become effective on not less than three days notice.

5. Any new adjusted charges filed in reference to Ordering Clause 4, will be charged to each service tap as set forth in Appendix I.

6. The requirements of Section 89-c (10) of the Public Service Law and 16 NYCRR 530.70 as to newspaper publication of the amendment shown in Appendix I and the amendments directed in Ordering Clauses 4 and 5 are waived provided that Beaver Dam Lake Water Corporation individually notifies its customers, and provides a copy of the notice to the Secretary to the Commission, no later than February 28, 2015, as to the Commission's determination in this matter.

7. Beaver Dam Lake Water Corporation shall maintain its books and records such that items relating to the surcharge, including billings, collections, accounts receivable, and cash held, as well as the financial components of the loan and related investments, are in separate accounts.

8. The loan authorized by this Order shall not be undertaken by Beaver Dam Lake Water Corporation unless and until there has been filed with the Secretary an unconditional acceptance by Beaver Dam Lake Water Corporation agreeing to obey all the terms, conditions and requirements of this Order. If such acceptance is not so filed within a period of 30 days from the effective date of this Order, this Order may be revoked by the Commission without further notice.

9. If the surcharges are used for purposes other than paying the annual debt service on the loan or other uses authorized in the documents describing the terms of the loan and this Order, the Commission may instruct ratepayers to stop paying the surcharges or authorize that the surcharges be paid to an independent trustee.

10. Commission approval is contingent on the receipt by the Secretary of the Commission of loan documents that are



consistent with the terms and conditions discussed in this Order.

11. The Secretary in her sole discretion may extend the deadlines set forth in this order. Any request for an extension must be in writing, must include a justification for the extension, and must be filed at least one day prior to the affected deadline.

12. This case is continued, but shall close once the compliance filings required in Ordering Clause Nos. 3, 4, 6, 8 and 10 have been made and reviewed, unless the Secretary finds good cause to continue the case further.

By the Commission,

(SIGNED)

KATHLEEN H. BURGESS  
Secretary

PSC NO: 4 WATER  
 COMPANY: BEAVER DAM LAKE WATER CORPORATION  
 INITIAL EFFECTIVE DATE: FEBRUARY 1, 2015

STATEMENT TYPE: WSUR  
 STATEMENT NO: 2

(Issued in compliance with Commission Order issued January XX, 2015 in Case 14-W-0459.)

Drinking Water State Revolving Fund  
Surcharge Statement No. 2

Beaver Dam Lake Water Corporation (Company) is authorized to surcharge the bills of all of its customers, quarterly for about 120 quarters, to repay an Environmental Facilities Corporation (EFC) zero-interest loan used to cover the costs of system improvements estimated to cost about \$2,020, 503. The initial quarterly surcharge is estimated to be \$109.33 per quarter per service tap. There are currently 154 service taps. The surcharge will be adjusted to reflect the actual costs of improvements and financing costs related thereto. The Company is authorized to collect a levelized surcharge over the term of the EFC loan effective February 1, 2015. If the company experiences any under-collections/over-collections or changes in the required levelized annual loan payments\* and associated charges required, it will file a new surcharge statement to become effective January 1 of the following year.

The calculation of the surcharge is shown below:

Annual debt service funding required	\$67,350
Prior period under (over) recovery	\$0
Quarterly Surcharge (for each service tap)	\$109.33

This surcharge will be adjusted or eliminated in the final years when there are sufficient funds in the EFC escrow account to pay off the balance of the loan.

Note: Any new statements the company files with the Commission will be audited by the Department of Public Service.

\* Private water companies with EFC loans from the Drinking Water State Revolving Fund are placed in a pool and if any company defaults, EFC can increase the payments required by the other companies in the pool by up to 10%. Should EFC increase the required payment, the company will file a statement containing the increased surcharge, on not less than three days notice, to go into effect the following quarter without further Commission action.

Issued By: John L. Kolp, President, P.O. Box 407, Salisbury Mills NY 12577  
 (Name of Officer, Title, Address)