

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF ADJUSTMENT OF)	
RATES OF KENTUCKY-AMERICAN)	CASE NO. 8314
WATER COMPANY, INC.)	

ORDER DENYING REHEARING

On February 8, 1982, the Commission entered an Order granting Kentucky-American Water Company, Inc., ("Kentucky-American") \$2,177,946 in increased operating revenue. On March 1, 1982, Kentucky-American filed a petition for rehearing requesting that the Commission include an additional \$981,464 in short-term debt and approve revenue requirements sufficient to cover the increased interest expense and provide a return on the added short-term debt. Kentucky-American contended that the \$981,464 of construction work in progress was in accounts payable at the end of the test period and it was thus granted no return on this portion of its capitalization.

Fundamental to the rate-making process is the principle that a utility be allowed the opportunity to earn a fair return on capital supplied by its debt and equity investors. In many jurisdictions, rate base is used as investor-supplied capital. Commissions which use rate base attempt to develop a rate base that includes only the plant financed by investor-supplied capital. This Commission adheres to that principle. From the

testimony presented, the Commission develops a rate base that is financed by investor-supplied capital. It then compares that rate base with capital supplied by the utility's investors and analyzes the reasons for any difference. A frequent reason for rate base exceeding capital is overstatement of working capital.

In this case, Kentucky-American performed a comprehensive lead lag study. Thus, the rate base reflected an accurate measure of working capital. This point is demonstrated by the fact that the rate base found fair of \$41,950,910 was only \$70,652 greater than the capital of \$41,880,558 upon which the fair return was allowed. Therefore, we conclude there is no basis for Kentucky-American's request for a return on an additional \$981,464 of investor-supplied capital. In fact, such an allowance would result in an overstatement of capital at the end of the adjusted test year.

Therefore, the Commission, after examining the evidence of record and being advised, finds that Kentucky-American's request for a rehearing on this matter should be denied.

IT IS THEREFORE ORDERED that the petition of Kentucky-American Water Company, Inc., be and it hereby is denied.

Done at Frankfort, Kentucky
this 19th day of March,
1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohs
Chairman

Bathecine Sandall
Vice Chairman

Don Carrigan
Commissioner

ATTEST:

Secretary