

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

REVISED EXTENSION POLICY)
REGULATIONS OF KENTUCKY-) CASE NO. 10000
AMERICAN WATER COMPANY)

O R D E R

On February 25, 1987, Kentucky-American Water Company ("Kentucky-American") filed proposed tariff revisions concerning its present extension policy. These revisions were made in response to the Tax Reform Act of 1986 ("Tax Reform Act"), which required all "property, including money, that is received to encourage the provision of service to, or for the benefit of, the person transferring the property"¹ to be included in the gross taxable income of corporate regulated utilities effective after December 31, 1986.

Since the changes in the tax law which necessitated this filing could greatly affect the future extension policy of Kentucky-American, the Commission on its own motion has established this proceeding to address these proposed revisions.

The tariff changes proposed by Kentucky-American would allow for the extension of service under either an "Extension Deposit Agreement (3T)," an "Extension Deposit Agreement (50 feet)" or a "Non-Refundable Contribution Agreement."

¹ Tax Reform Act of 1986, Law and Controlling Committee Reports. Published by Commerce Clearing House, Inc., page 1222.

Under the two deposit agreements the contribution required would include the "current estimated cost" of the extension and an "Income Tax Expansion Factor" which would increase the current estimated cost by the income tax effect of the contribution on Kentucky-American's gross taxable income. The non-refundable agreement would include only the cost of the extension and contain no provision for the income tax effects of the contribution on Kentucky-American's gross taxable income. The two deposit agreements contemplate refunds being made to the contributor. The non-refundable agreement does not.

The entity making the contribution would be allowed to select the extension agreement under which the contribution would be made. However, since the tariff provisions proposed by Kentucky-American do not become effective until approved by this Commission, any charges levied and/or contractual arrangements entered into by Kentucky-American under those proposed revisions, to the extent they are in conflict with the existing tariff or have not otherwise been approved by this Commission, are not binding upon the parties involved and should be denied by this Commission.

On June 11, 1987, the Commission issued its Order in Case No. 9815.² Page 19 of this Order specifically stated that the refund option, as presented by Kentucky-American in its letter to the Commission dated December 12, 1986, was to be used by Kentucky-

² The Effects of the Federal Tax Reform Act of 1986 on the Rates of Kentucky-American Water Company.

American and other affected utilities in their treatment of customer advances and contributions in aid of construction pending the outcome of a formal investigation into this issue.

FINDINGS AND ORDERS

The Commission, after examining the evidence of record and being advised, finds that:

1. Substantial portions of the tariff revisions proposed by Kentucky-American are in direct conflict with the Commission's Order in Case No. 9815 and should be denied.

2. Any charges or contractual arrangements entered into by Kentucky-American which are not in agreement with its existing tariff or has not otherwise been approved by this Commission should be denied.

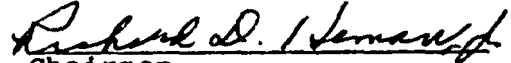
IT IS THEREFORE ORDERED that:

1. The tariff provisions proposed by Kentucky-American be and they hereby are denied.

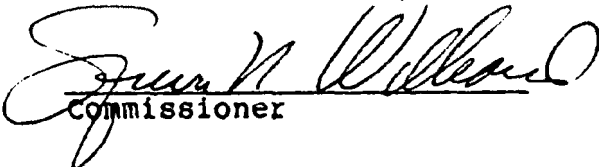
2. Any charges or contractual arrangements entered into by Kentucky-American under the proposed revisions, insofar as they are in conflict with the existing tariffs, be and hereby are denied.

Done at Frankfort, Kentucky, this 14th day of August, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director