

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SALT RIVER)
WATER DISTRICT FOR AN ADJUSTMENT) CASE NO. 8782
OF RATES)

O R D E R

On March 7, 1983, Salt River Water District ("Salt River") filed its application with this Commission to increase its rate pursuant to 807 KAR 5:076, alternative rate adjustment procedure for small utilities ("ARF"). Salt River used the forms prescribed by the Commission for use in ARF proceedings. The Commission has reviewed the information submitted by Salt River and has determined that the case filed by Salt River is not in compliance with 807 KAR 5:076 and Commission requirements.

In adopting the ARF, the Commission recognized the high costs associated with rate applications before the Commission and initiated the simplified procedure in order to alleviate the necessity of acquiring legal counsel and rate consultants. The Commission anticipated that in most cases a hearing would not be required and that the evidence of record would consist of the annual reports on file with the Commission, information submitted in the application, and responses to information requests.

The Commission has a well-established policy of requiring the use of a historical test period in rate cases

brought before it. The application used in the ARF proceedings states that the most recent annual report will be used as the basic test period data in order to determine the reasonableness of the proposed rates. At the time of filing of this case, Salt River's most recent annual report on file with the Commission was for the calendar year 1981. Thus, this period would constitute the test period. The financial information contained in the 1981 annual report would be used as the basic test period data in this case and would be reported in column 1 of page 2 of the application. Projected increases or decreases in revenues and expenses would be shown as adjustments to the 1981 amounts and reported in column 2. The adjusted amounts would be reported in column 3 and would serve as the underlying financial data in support of the rate request.

The financial information supplied by Salt River deviates from Commission policy and ARF requirements in several respects. The revenue and expense data provided on page 2 of the application contain revenues and expenses for different time periods. The revenues are reported for the 12 months ended September 30, 1982, while the expenses are for the 12 months ended December 31, 1982. Commission policy and generally accepted accounting principles require that when reporting the results of operations, revenues and expenses must be for the same time period. In addition, the expenses for the 12 months ended December 31, 1982, include estimated costs, while it is the Commission's policy to

require actual historical data for use as the test period data. Estimates are neither known nor measurable and thus not suitable for use in establishing rates.

Salt River's use of a test period other than the 12-month period covered by its most recent annual report is in violation of the ARF requirements. The ARF application form clearly states that the most recent annual report will be used as the base test period data. Furthermore, Salt River's request to recover, by means of a surcharge, funds needed to make past-due payments on its long-term debt is beyond the scope of the ARF. The request for a surcharge must be considered in a general rate case which will include public hearings and the taking of additional evidence on this issue.

The Commission finds that due to Salt River's failure to meet the minimum ARF filing requirements and its request for a surcharge, Salt River will be allowed to withdraw this case and refile either under the ARF or under the general rate case procedure in a manner conforming to Commission requirements.

IT IS THEREFORE ORDERED that Salt River shall notify the Commission within 10 days after the date of this Order of its intention to withdraw this case and refile under the ARF procedure or the general rate case procedure. Salt River's failure to notify the Commission within 10 days will result in dismissal of this case.

IT IS FURTHER ORDERED that should Salt River wish to pursue its requested surcharge, it shall do so in a general rate case.

Done at Frankfort, Kentucky, this 4th day of May, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary