

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

AN ADJUSTMENT OF RATES OF THE )  
SPEARS WATER COMPANY, INC. )      CASE NO. 9067

INTERIM ORDER

On May 23, 1984, Spears Water Company, Inc., ("Spears") in accordance with provisions of KRS 278.190 and pursuant to 807 KAR 1:010(9), filed a petition with the Commission seeking an increase in its rates for water service effective June 25, 1984. The proposed rates, as reflected in the billing analysis, will generate additional revenues of \$76,668 annually, an increase in combined revenues of 22 percent.<sup>1</sup> On June 12, 1984, the Commission suspended the proposed tariffs for 5 months.

On June 27, 1984, Spears, pursuant to KRS 278.190, filed a motion requesting an Order for interim rate relief. In support of its motion, Spears submitted pre-filed testimony of its Secretary and General Manager, Elizabeth Underwood, and provided a cash-flow analysis of current and projected operations. The Commission, pursuant to established guidelines, held a hearing on Spears' motion for interim relief on July 26, 1984. The Consumer Protection Division of the Attorney General's Office was the sole

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<sup>1</sup>Effective July 1, 1983, the merger of Spears and Spears Water District was consummated.

intervenor in this matter. All materials requested for the record in the matter of Spears' motion for interim relief now stand submitted for consideration by the Commission.

Discussion

On September 29, 1982, the Commission established formal guidelines for applications for interim rate relief. The opening paragraph of those guidelines states that an applicant must prove that nondiscretionary expenditures have been incurred or will be incurred prior to the expiration of the suspension period that cannot reasonably be paid without materially impairing the credit or operations of the utility. Spears, in its pre-filed testimony, contended that certain expenditures presented to the Commission were nondiscretionary. A number of these expenditures were specific increases, such as employer paid social security, liability insurance, property taxes, worker's compensation, etc., which had occurred during its test period. In keeping with the Commission's guidelines for interim rate relief, these expenditures are rejected since paragraph 5 of the guidelines specifically states that pro forma adjustments will not be considered as part of any interim rate relief.

The remainder of Spears' proposed expenditures were for items which had not been incurred to date but which might be incurred in the near future. During cross-examination it was learned that of these proposed expenditures, only the accountant's fee for the preparation of the general rate case had been billed. Several of the proposed expenditures, such as tank painting, road repair, etc., are discretionary and could easily

be deferred until the final determination in this matter is completed, with some of the proposed expenditures possibly requiring Commission approval for construction and financing.

Spears also provided the required monthly cash-flow analysis for the months prior to the expected final Order. As submitted, Spears' Revised Exhibit B-1 reflected a negative cash flow of \$41,250 for the 7-month period between the end of its test period and the expected final Order in this matter. Correcting for mathematical errors would result in a negative cash flow of \$44,855. However, as discussed earlier, certain items included in Spears' cash-flow analysis are based on costs to be incurred at the discretion of the utility at some future date unspecified by Spears. Adjusting for legal fees (\$2,300), road work (\$4,080), Ashgrove Road renovation (\$21,000) and tank painting (\$8,200), the negative cash flow for this period is reduced by \$35,580. Furthermore, the projected expenses used for the cash-flow analysis were the actual expenses experienced 1 year earlier. A review of these expenses showed that non-recurring legal expenses of \$5,759 for the defeasement of bonds had been incurred and should appropriately be excluded from the current cash-flow analysis. Thus, the Commission has reduced the negative cash flow to \$3,516, as shown in Appendix A. The Commission's adjustment for the above expenditures does not in any way suggest that such expenditures are unreasonable, but merely indicates that they are discretionary in the determination of interim rate relief.

Even with its proffered cash-flow deficiency, Mrs. Underwood stated during cross-examination that Spears was current in the payment of its bills with the exception of the current month's water bill and principal payments.<sup>2</sup> Thus, it is the Commission's opinion that interim rate relief is not warranted. It is also noted that Spears is some 14 months ahead of schedule in the repayment of its 1978 long-term debt.

#### Short-Term Debt

During the hearing, it was noted that Spears has an extremely high level of short-term debt, totalling some \$104,500. Additionally, Spears has an outstanding loan obtained for the defeasement of the former Spears Water District bonds of \$241,630 with a term of 1 year. It was learned that some of this debt was the result of some major extensions in the recent past and a major repair due to frozen mains this past winter. The Commission is very concerned with the level of short-term debt and urges Spears to review its debt and take remedial action to obtain long-term financing of sufficient length to allow orderly repayment.

#### Findings and Orders

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. Spears is current with its bills with minor exceptions.

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<sup>2</sup> Transcript of Evidence, July 26, 1984, page 33.

2. Many of the expenditures identified by Spears are discretionary.


3. Spears should approach its noteholders in an effort to formulate a plan to rollover its short-term notes into long-term notes and Spears should provide the Commission the results of such discovery within 21 days of the date of this Order.

IT IS THEREFORE ORDERED that Spears' motion for interim rate relief be and it hereby is denied.


IT IS FURTHER ORDERED that Spears shall file a plan of refinancing with the Commission within 21 days of the date of this Order.

Done at Frankfort, Kentucky, this 31st day of August, 1984.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 9067 DATED 8/31/84

Following is a schedule showing the adjustments made to Spears' proposed cash flow analysis:

|                                                   |                                 |
|---------------------------------------------------|---------------------------------|
| Cash flow as shown on Revised Exhibit B-2         | \$ <41,250 >                    |
| Corrections                                       | <u>&lt;3,605 &gt;</u>           |
| Total Cash Flow Deficiency                        | \$ <44,855 >                    |
| Discretionary Adjustments:                        |                                 |
| (1) Legal Fees                                    | \$ 2,300                        |
| (2) Road Work                                     | 4,080                           |
| (3) Ashgrove Road Renovation                      | 21,000                          |
| (4) Tank Painting                                 | <u>8,200</u>                    |
| Total Discretionary Adjustments                   | <u>\$ 35,580</u>                |
| Net Cash Flow                                     | \$ <9,275 >                     |
| Nonrecurring Legal Fees in the projected expenses | <u>\$ 5,759</u>                 |
| Net Cash Flow                                     | <u><u>\$ &lt;3,516 &gt;</u></u> |