

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT)	
FILING OF THE MILFORD WATER)	CASE NO. 9315
COMPANY)	

O R D E R

On July 19, 1985, Milford Water Company ("Milford") filed an application for rehearing of the Commission's decision rendered in this case on July 2, 1985. Milford stated as grounds for rehearing:

...that the rates fixed by the Commission are (1) not fair, just or reasonable, (2) require Milford to absorb more than \$4,898 of the total purchased water cost increase, and (3) do not provide for a return on equity of 14 percent and do not yield 11.7 percent of the net investment rate.

In support of its petition for rehearing, Milford argues that the Commission did not properly determine the return on investment, depreciation on contributed property should not be excluded, line loss should not be limited to 15 percent, and the Commission did not take into consideration the rising costs of Milford in requiring absorption of part of the increase.

The purchased water adjustment regulations provide for a flow-through of wholesale water increases in instances where the cost increase cannot be absorbed. The Commission has taken the position that, in determining whether a portion of the cost increase can be absorbed, adjustments should be made to reflect

decisions of the Commission in the utility's most recent rate case. These limited adjustments include depreciation on contributed property and rate of return. Moreover, the purchased water adjustment regulation limits the flow-through to a maximum line loss allowance of 15 percent. The adjustments in Milford's case, and the reason for those adjustments, is set out fully in the Order of July 2, 1985.

The purchased water adjustment clause was designed to allow water utilities to recover wholesale water cost increases in a timely manner without the normal time involved in filing an application for a rate increase. Thus, the Commission must apply rate-making criteria established in the utility's last rate case in evaluating absorption potential and preclude the normal evidentiary proceedings on contested issues. If a utility feels that it needs revenues in excess of those allowed in a purchased water adjustment filing it should file for a rate increase under the general Procedural Rules of the Commission (807 KAR 5:001) or the Alternative Rate Adjustment Procedure for Small Utilities (807 KAR 5:076).

SUMMARY

The Commission is of the opinion and finds that Milford's petition for rehearing contains issues which are outside the scope of a purchased water adjustment proceeding and that the appropriate means of addressing these issues should be in an application under the general procedural rules or the alternative rate adjustment procedure for small utilities.

IT IS THEREFORE ORDERED that Milford's petition for rehearing be and it hereby is denied.

IT IS FURTHER ORDERED that the Commission's Order of July 2, 1985, be and it hereby is affirmed in its entirety.

Done at Frankfort, Kentucky, this 8th day of August, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Hemminger
Chairman

Robert L. Schaefer
Vice Chairman

did not participate
Commissioner

ATTEST:

Secretary