

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF POTTER WATER SERVICE)
FOR A RATE ADJUSTMENT PURSUANT TO THE)
ALTERNATIVE RATE FILING PROCEDURE FOR) CASE NO. 92-540
SMALL UTILITIES)

O R D E R

On December 7, 1992, Potter Water Service ("Potter") filed an application for Commission approval to increase the water rates charged its residential customers. Potter's proposed rate increase would generate additional annual revenues of \$16,040, an increase of 38 percent. A motion for intervention was filed on December 28, 1992 by the Lower Pigeon Community Development, Inc. ("Lower Pigeon") on behalf of Potter's residential customers.

On August 18 and 19 and December 28, 1992, Commission Staff conducted a field review of Potter's 1991 test-year financial records. Based upon this review, Commission Staff issued a report on February 19, 1993 recommending that Potter be granted an increase in residential rates sufficient to produce a \$951 increase in annual operating revenues.

By Order dated February 19, 1993, the Commission advised Potter that comments on the Staff Report or a request for public hearing must be submitted no later than March 8, 1993, or this case would stand submitted to the Commission for decision. On March 8, 1993, the Commission received a request from Potter for an extension of time until April 1, 1993, which the Commission

granted. Additionally, on March 8, 1993, a request for an informal conference was filed by Lower Pigeon.

On March 23, 1993, Potter filed its written response to the Staff Report. In its response, Potter proposed to modify its application by now requesting a rate change for its one commercial customer, Mother Nature Natural Spring Water, Inc. ("Mother Nature"), a water bottling operation. Potter's proposal is that Mother Nature, whose existing rate includes no minimum bill, be charged a minimum monthly bill of \$3,500. An informal conference was held on April 8, 1993 at the Commission's offices in Frankfort, Kentucky. Potter and Mother Nature attended while Lower Pigeon participated telephonically. The participants filed additional comments by April 22, 1993, and Mother Nature also filed a motion for intervention, which was granted by our April 26, 1993 Order.

REVENUE REQUIREMENTS, RATES AND TARIFF ISSUES

The Commission will accept the recommendations included in the Staff Report and finds Potter's annual revenue requirements to be \$42,956 based on a 1991 test year. Also based on the 1991 test year, the Commission finds that residential rates should be increased to the level recommended by Commission Staff.

In recognition of the declining usage of Mother Nature beginning the latter part of the test year and continuing to the present, we find that some change in the rate charged Mother Nature is appropriate. The Commission has reviewed Potter's proposed rate for Mother Nature consisting of a \$3,500 monthly minimum bill for usage up to 466,667 gallons. We have also reviewed Mother Nature's

counter proposal which includes a monthly minimum usage of 60,000 gallons at its current rate of \$11.50 per thousand gallons. In reviewing these two proposals, the Commission's foremost concerns were allowing Potter an opportunity to meet its revenue needs while establishing fair and equitable rates for Mother Nature and any future water bottlers.¹ The Commission also considered the concern expressed by Potter that its water supply could not accommodate two fully operative commercial water bottlers.

Having considered all these matters, the Commission has determined that two different tariffs, and rates, should be established for Potter's water bottling customers. One tariff is patterned after Potter's proposal and the other mirrors Mother Nature's counter proposal. The tariff patterned after Potter's proposal is designated Large Water Bottler Rate, while the tariff based on Mother Nature's counter proposal is designated Small Water Bottler Rate. Both tariffs, which are subject to interruption, are set out in the attached Appendix.

The Large Water Bottler Rate includes a monthly minimum bill of \$2,137.50 based on a rate of \$9.50 per thousand gallons for the first 225,000 gallons. All additional water usage will be billed at \$9.00 per thousand gallons. This monthly minimum bill will generate \$25,650 annually, the approximate adjusted revenue level generated from sales to Mother Nature during the 1991 test year.

¹ Potter indicated, in its comments filed April 22, 1993 and at the April 8, 1993 informal conference, that another water bottling customer might take service from Potter.

This level of revenue, combined with the revenue from residential sales, will meet Potter's annual revenue requirement of \$42,956, assuming Mother Nature opts to be served on this tariff, which it, or any other water bottling customer, can do by entering into a 12-month contract with Potter. Mother Nature or any other water bottling customer which does not enter such a contract will be served under the Small Water Bottler Rate.

The Small Water Bottler Rate includes a monthly minimum bill of \$690 based on a rate of \$11.50 per thousand gallons for the first 60,000 gallons. Additional water usage will be billed at a rate of \$12.00 per thousand gallons. Although patterned after Mother Nature's proposal, this tariff would be available to any water bottling customer which chooses not to contract for service on the Large Water Bottler Rate. If Mother Nature opts for the Small Water Bottler Rate and maintains its current usage level, revenue from existing customers will not be sufficient to meet Potter's revenue requirement. This is a business risk Potter, or any utility, faces when it relies so heavily on one customer for a majority of its revenues. It is not the Commission's obligation to insulate Potter by shifting this risk to its customers.

The tariffs we now establish will allow Mother Nature to choose the rate it pays for water. At its current usage level, the Small Water Bottling Tariff is the more economically attractive rate, although that tariff provides an economic incentive not to exceed the 60,000 gallons minimum. If Mother Nature chooses the Small Water Bottler Rate, there should be ample opportunity for

Potter to add a second water bottling customer to its system. Service to Mother Nature, or other potential water bottling customers, may be interrupted or curtailed when supply shortages might jeopardize service to Potter's residential customers or when the water bottling customers' combined demand exceeds Potter's capacity to meet such demand. Such interruption or curtailment must be imposed in a fair and equitable manner; there can be no preference given to a particular tariff or a particular customer. All water bottling customers must receive the same quality of service and, in order to monitor this service, the Commission will require Potter to file annual reports detailing such interruptions. These reports, which will be due at the same time as Potter's annual financial report, must be prepared in conformance with 807 KAR 5:066, Section 4(5), and be signed by the affected water bottling customers.

SUMMARY

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

1. The rates in Appendix A, attached hereto and incorporated herein, are the fair, just, and reasonable rates to be charged by Potter for service rendered on and after the date of this Order.
2. The rates proposed by Potter would produce revenue in excess of that found reasonable herein and should be denied.
3. Potter should maintain a record of all interruptions or curtailments of service to its water bottling customers and should submit such record to the Commission on an annual basis.

IT IS THEREFORE ORDERED that:

1. The rates in Appendix A be and they hereby are approved for service rendered by Potter on and after the date of this Order.

2. The rates proposed by Potter be and they hereby are denied.


3. Potter shall file an annual calendar year report of the interruptions or curtailments of service to its water bottling customers. This report shall include the information required by 807 KAR 5:066, Section 4(5), and shall be filed no later than March 31 of the following year.

4. Within 30 days from the date of this Order, Potter shall file with the Commission revised tariff sheets setting out the rates and tariff provisions approved herein.

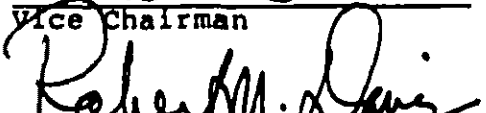
5. Within 30 days from the date of this Order, Potter shall file with the Commission a status report identifying the water bottling customers being served at that date and the tariff under which they are being served.

Done at Frankfort, Kentucky, this 18th day of June, 1993.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 92-540 DATED JUNE 18, 1993

The following rates and charges are prescribed for customers in the area served by Potter Water Service. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RESIDENTIAL RATE

Availability

Available to any non-water bottling customer located on the Company's water distribution system.

Rates

First 2,000 gallons	\$18.14 minimum bill
All over 2,000 gallons	\$2.12 per thousand gallons

Minimum Bill

The minimum bill of \$18.14 shall entitle the customer to 2,000 gallons of water.

LARGE WATER BOTTLER RATE

Availability

Available to any water bottling customer located on the Company's water distribution system who signs a contract with the Company for service under this rate schedule. The Company reserves the right to interrupt or curtail service under this rate schedule when, in the Company's judgment, rendering the service would be detrimental to the Company's ability to supply water to its residential customers. The Company may also interrupt or curtail service under this rate schedule when the Company's source of supply dedicated to water bottling customers is inadequate to meet the demand of all water bottling customers served by the Company. Interruptions or curtailments of service for customers served under this rate schedule shall be concurrent with interruptions or

curtailments for customers served under the Company's Small Water Bottler rate schedule. The customer must elect annually whether it wishes to receive service under this rate schedule. Water bottling customers who do not specifically request service under this rate schedule will be served under the Company's Small Water Bottler rate schedule.

Rates

First 225,000 gallons	\$2,137.50 minimum bill
All over 225,000 gallons	\$9.00 per thousand gallons

Minimum Bill

The minimum bill of \$2,137.50 shall entitle the customer to 225,000 gallons of water.

SMALL WATER BOTTLER RATE

Availability

Available to any water bottling customer located on the Company's water distribution system. The Company reserves the right to interrupt or curtail service under this rate schedule when, in the Company's judgment, rendering the service would be detrimental to the Company's ability to supply water to its residential customers. The Company may also interrupt or curtail service under this rate schedule when the Company's source of supply dedicated to water bottling customers is inadequate to meet the demand of all water bottling customers served by the Company. Interruptions or curtailments of service for customers served under this rate schedule shall be concurrent with interruptions or curtailments for customers served under the Company's Large Water Bottler rate schedule.

Rates

First 60,000 gallons	\$690.00 minimum bill
All over 60,000 gallons	\$12.00 per thousand gallons

Minimum Bill

The minimum bill of \$690 shall entitle the customer to 60,000 gallons of water.