

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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by
State Corporation Commission
of Kansas

In the Matter of the Application of Suburban)
Water, Inc., d/b/a Suburban Water)
Company, for Approval of the Commission)
to Make Certain Changes in its Rates for)
Water Service, for Approval of an)
Amendment to a Contract for Sale of Water)
with Board of Public Utilities, an)
Administrative Agency of the Unified)
Government of Wyandotte County/Kansas)
City, Kansas ("BPU") and for Approval of a)
Purchase Water Adjustment ("PWA"))
Tariff.))

) Docket No. 12-SUBW-359-RTS

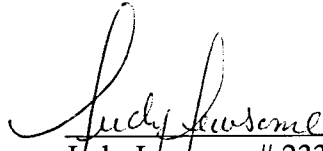
NOTICE OF FILING OF STAFF REPORT AND RECOMMENDATION

The Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), files its Report and Recommendation on the request of Suburban Water, Inc., d/b/a Suburban Water Company for approval to make certain changes in its rates for water service, for approval of amendment to a Contract for Sale of water with Board of Public Utilities, an Administrative Agency of the Unified Government of Wyandotte County/Kansas City, Kansas ("BPU") and for approval of a purchase water adjustment ("PWA") tariff. K.S.A. 66-2201 through 66-2204.

Staff recommends the Commission issue an order granting Suburban's Motion For Waiver waiving the requirements of K.A.R. 82-1-231 insofar as necessary to permit Suburban's use of its proposed cash-flow margin approach to set rates.

WHEREFORE Staff requests the Commission consider its Report and Recommendation and for such other and further relief as the Commission deems just and proper.

Respectfully submitted,

A handwritten signature in cursive script that reads "Judy Jewsome". The signature is written in black ink and is positioned above a horizontal line.

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Mark Sievers, Chairman
Ward Loyd, Commissioner
Thomas E. Wright, Commissioner

Sam Brownback, Governor

**REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Chairman Mark Sievers
Commissioner Ward Loyd
Commissioner Thomas E. Wright

FROM: William E. Baldry
Justin Grady

DATE: December 6, 2011

DATE SUBMITTED TO EXECUTIVE DIRECTOR: 12/8/11 ✓

DATE SUBMITTED TO LEGAL: 12.13.11

DATE SUBMITTED TO COMMISSIONERS: 12/14/11

SUBJECT:

In the Matter of the Application of Suburban Water, Inc., d/b/a Suburban Water Company, for Approval of the Commission to Make Certain Changes in its Rates for Water Service, for Approval of an Amendment to a Contract for Sale of Water with Board of Public Utilities, an Administrative Agency of the Unified Government of Wyandotte County/Kansas City, Kansas ("BPU") and for Approval of a Purchase Water Adjustment ("PWA") Tariff; Docket No. 12-SUBW-359-RTS.

EXECUTIVE SUMMARY:

Suburban requests permission to set its revenue requirement request in its current rate case utilizing a cash flow/margin methodology versus a rate base/rate of return methodology. Staff supports this request as the cash flow/margin methodology has multiple advantages over the traditional rate base/rate of return model when setting rates for small water utilities such as Suburban. Staff's recommendation is consistent with multiple previous cases involving small utilities, and will allow the rates resulting from this rate case to be cost based and just and reasonable.

BACKGROUND:

On November 16, 2011, Suburban Water Company (Suburban) filed an application for a rate increase with the Commission. Concurrently with that filing, Suburban filed a Motion for Waiver of certain of the filing requirements for rate proceedings under K.A.R. 82-1-231 to allow Suburban Water to support its proposed rates by using a cash-flow/margin approach as an

alternative to the rate base/rate of return approach in its rate case application. Suburban is a small, but growing, privately owned water company serving approximately 1,530 residential and small commercial customers in Leavenworth County, Kansas.

ANALYSIS:

For water utilities, the rate of return on rate base methodology model may not provide a reasonable end-rate for water utilities because many of them have a small and/or declining rate base. One reason for this is that the physical, in the ground, assets tend to last an extraordinarily long time, usually much longer than the straight-line depreciable life set by regulators. This is because water systems operate under low pressures and supply a non-corrosive commodity. Functioning water pipes older than 50 years are not uncommon in many systems.

Using the cash-flow approach to set rates eliminates the problems enumerated above, yet still includes all of the utility cost elements needed to operate the utility and determine a cost of service. Further, using this approach will not mitigate the Commission's requirements that the resulting rates be cost based and just and reasonable.

Staff has reviewed Suburban's application and finds it to contain all of the elements needed to determine a cost of service and set rates using either a cash-flow or rate of return methodology.

Finally, using a cash-flow approach to set rates is not uncommon at this Commission. Staff has used this methodology in the past for most municipal and cooperative utilities (KEPCO, MKEC divisions). Further, this is not the first time that Staff has recommended that water rates be set using a cash-flow approach. In 96-BTHW-385-RTS and in 07-SUBW-1352-RTS, the Commission approved rates for Barton Hills Water Company and Suburban Water Company, respectively, in which Staff employed a cash-flow methodology.

RECOMMENDATION:

For the reasons stated above, Staff recommends the Commission issue an Order granting Suburban's Motion for Waiver waiving the requirements of K.A.R. 82-1-231 insofar as necessary to permit Suburban's use of its proposed cash-flow/margin approach to set rates.

CERTIFICATE OF SERVICE

12-SUBW-359-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Notice of Filing of Staff Report and Recommendation was placed in the United States mail, postage prepaid, or hand-delivered this 14th day of December, 2011, to the following:

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12-SUBW-359-RTS



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