Direct Testimony

of

Gregory L. Wilson

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE 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

DIRECT TESTIMONY OF GREGORY L. WILSON

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Gregory L. Wilson. My business address is 13104 S. Homestead Lane, Olathe, Kansas 66061.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am a self-employed consultant. I am the owner of Twenty-First Century Management Consultants.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I hold two degrees from Kansas University: a Bachelor of Science in Business; and a Master of Public Administration. I am also a Certified Public Accountant, license number 4094. I am a Member of the American Institute of Certified Public Accountants and the Kansas Society of Certified Public Accountants. I have over 30 years' experience in public utility management and consulting; on the staff of the Kansas Corporation Commission ("Commission"), Chief Accountant for the Kansas Municipal Energy Agency ("KMEA"), Accounting Manager, Water

District No. 1 of Johnson County ("WaterOne") and for the past 20 years as a management consultant.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS ("COMMISSION")?

A. Yes. I have previously testified before the Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am sponsoring the rate base, cost of service, rate design and capital structure schedules. I am also sponsoring testimony in support of Suburban Water Company's ("Company") renewed request to implement a Purchase Water Adjustment ("PWA"). Finally, I discuss the Company's recent efforts to address some of the issues raised by the Commission regarding the Company's purchasing practices, including the Company's recent amendment to its water supply contract with the Board of Public Utilities, an administrative agency of the Unified Government of Wyandotte County/Kansas City, Kansas ("BPU"), its efforts to diversify its water supplies, and the cost involved in exploring the possibility of obtaining additional water rights to drill additional water wells.

II. TEST YEAR, RATE BASE AND USE OF OPERATING MARGIN APPROACH TO SET RATES

Q. WHAT TEST YEAR DID YOU USE IN THIS RATE CASE?

A. I used a twelve month test year ending December 31, 2010.

Q. IS THE COMPANY REQUESTING ITS REVENUE REQUIREMENT BE DETERMINED USING THE TRADITIONAL RATE BASE AND RATE OF RETURN METHODOLOGY?

A. No, the Company is not requesting rates be set based on the traditional rate base method of

determining their revenue requirement.

Q. HAVE YOU INCLUDED SCHEDULES THAT SHOW WHAT THE REVENUE REQUIREMENT WOULD BE IF THE TRADITIONAL RATE SETTING METHODOLOGY WAS USED?

A. Yes. Rate Base and Revenue Deficiency is found in Section 3, Schedule 1. Section 4, Schedules 1, 2, and 3 shows the components of Rate Base and the Company's proposed adjustments. Under the rate base approach, the Company's revenue deficiency would be approximately $11,500 greater than under the operating margin approach the Company proposes to use in this case. Section 7, Schedule 1 shows the Company's required Rate of Return. Section 9, Schedules 2, 3, and 4 provide the Company's adjusted Income Statement.

Q. WHAT METHOD OF RATE SETTING IS THE COMPANY PROPOSING?

A. Section 9, Schedule 1 shows the Company's revenue requirement using the percent of Operation and Maintenance expense methodology (O&M).

Q. WHAT WAS THE OPERATING REVENUE DEFICIENCY?

A. Section 9, Schedule 1 shows the Company's operating revenue deficiency is $296,448.

Q. HOW MUCH OF THIS DEFICIENCY IS THE COMPANY REQUESTING TO BE RECOVERED THROUGH RATES?

A. Attached to this direct testimony is the requested rate design which recovers the amount of $296,280.

Q. WHY IS THE COMPANY REQUESTING THAT ITS RATES BE SET USING THE OPERATING MARGIN APPROACH?

A. The Company asked for and received permission from the Commission in its last rate case to use the operating margin approach to set rates. In fact, the Company's revenue requirement has

been based on the operating margin approach in its last three rate cases. The Company is a very small water utility operating in a service area that has historically experienced rapid growth in residential and small commercial customers. Residential development water main extension is funded primarily through developer provided funds. These funds are ultimately recorded as Contribution in Aid of Construction ("CIAC"). CIAC is an off-set to traditional rate base rate setting methodology. The Company has over $3.4 million of CIAC on its books. This represents 47.7% of its capital structure and 48.3% of its gross water plant in service at the end of the test year. CIAC carries a 0% cost of capital and is a reduction to the gross water plant in service. This results in a declining rate base and a declining required operating income.

Q. IS THERE ANOTHER REASON THE OPERATING MARGIN METHODOLOGY IS APPROPRIATE FOR THE COMPANY?

A. Yes. The Company has limited access to the capital markets. In fact, its current capital structure shows 14.37% Equity, 57.71% Contributed Capital and 27.38% Long-Term Debt. The local bank servicing the Company's debt looks at the Company's cash flow. Establishing the revenue requirement using the Company's cash flow with a margin based on total O&M provides the best method to insure the Company has the funds needed to meet annual O&M and debt interest costs.

Q. WHAT IS THE RECOMMENDED O&M MARGIN PERCENTAGE?

A. I used the same O&M Margin Percentage that was approved by the Commission in the Company's last rate case of 6%.

Q. WERE THERE ANY ADJUSTMENTS YOU MADE TO THE COMPANY'S RATE BASE?

A. Yes. A working capital adjustment (Section 4, Schedule 2) was developed using a 45-day working capital method. The adjustment added $174,082 to the Company's total rate base.

Q. DOES THIS WORKING CAPITAL ADJUSTMENT IMPACT THE OPERATING MARGIN APPROACH YOU USED IN DEVELOPING THE COMPANY'S REVENUE REQUIREMENT?

A. No.

Q. WERE THERE ANY OTHER ADJUSTMENTS TO THE RATE BASE THAT YOU MADE?

A. No.

Q. WHAT COST OF CAPITAL WAS USED IN THE RATE BASE APPROACH?

A. The cost of capital is shown on Section 7, Schedule 1, and Page 6 of 37.

Q. IS THE COST OF CAPITAL USED IN THE OPERATING MARGIN APPROACH TO DETERMINE THE COMPANY'S REVENUE REQUIREMENT?

A. No.

Q. ARE YOU RECOMMENDING USING THE RATE BASE APPROACH TO DETERMINE THE COMPANY'S REVENUE REQUIREMENT?

A. No. I am recommending the Commission use of the operating margin approach to set rates for the Company.

III. ACCOUNTING ADJUSTMENTS

Q. WHAT ACCOUNTING ADJUSTMENTS WERE MADE TO THE COMPANY'S TEST YEAR EXPENSES?

A. The adjustments to test year operating expenses are found in Section 9, Schedule 5. The first

operating expense adjustment increases water purchases for the number of customers at year-end in the amount of $585. The second adjustment to operating expenses normalizes the cost of purchased water for 2010, 2011 and 2012 from the Company's supplier in the amount of $35,272. Another adjustment to operating expenses is the cost of filing rate cases. Rate case expense is being amortized over three years. The amount of the amortization is $23,500 per year. Section 9, Schedule 6 develops the three year amortization amount. The final adjustment to operating expenses is the normalization of Wages, Salaries and Benefits. Total normalized payroll expenses increased by $67.024 of which $18,000 is the results of a reclassification from Outside Services to Wages, Salaries and Benefits.

Q. WHERE THERE ANY ADJUSTMENTS TO THE COMPANY'S TEST YEAR REVENUES?

A. Yes.

Q. WOULD YOU EXPLAIN THE ADJUSTMENTS MADE TO THE COMPANY'S TEST YEAR OPERATING REVENUES?

A. Yes. There were three adjustments to the Company's test year revenues (see, Section 9, Schedule 7). The first adjustment normalized test year water sales to reflect rate increases authorized on February 1, 2009, February 1, 2010 and June 1, 2011. The second adjustment increased wholesale revenues to reflect the June 1, 2011, increase in wholesale rates. The final adjustment increased water sales revenues to reflect year-end customers.

Q. ARE YOU SPONSORING THE OTHER SCHEDULES INCLUDED IN THE COMPANY'S RATE CASE FILING?

A. Yes. I am sponsoring all of the schedules included in the Company's rate case filing.

Q. DID YOU PREPARE THESE SCHEDULES?

A. Yes.

IV. RATE DESIGN

Q. WHAT ARE THE RATES PROPOSED IN THIS FILING?

A. The Company is proposing the following rates:

1. Customer Charge $21.00 per month
2. For all Gallons $9.33 per 1,000 gallons

Q. WERE THERE OTHER RATE DESIGN CHANGES PROPOSED?

A. Yes. The company proposes to eliminate the 1,000 gallons currently included in the customer charge and charge the commodity rate for all gallons sold.

Q. WHY IS THE COMPANY PROPOSING TO ELIMINATE THE 1,000 GALLONS FROM THE CUSTOMER CHARGE?

A. The attached cost of service analysis (Exhibit GLW-1) shows that the customer charge should be set at approximately $22.00 per customer per month, excluding the cost of water. The customer charge rate proposed in this case is $21.00 per month per customer. In addition, sending the correct commodity price signal to the customer will help promote water conservation.

Q. CAN YOU IDENTIFY WHAT IS ATTACHED TO YOUR TESTIMONY AND MARKED EXHIBIT GLW-1?

A. Yes. Exhibit GLW-1 is the schedule that supports the proposed rate design in this case.

V. PURCHASED WATER ADJUSTMENT

Q. IS THE COMPANY RENEWING ITS REQUEST TO IMPLEMENT A PWA TARIFF IN THIS CASE?

A. Yes. Attached to my testimony as Exhibit GLW-2 is the proposed PWA tariff.

Q. WHY IS THE COMPANY RENEWING ITS REQUEST TO IMPLEMENT A PWA TARIFF?

A. As I indicated in the testimony filed in 2010 when the Company first proposed a PWA tariff, the Company is a very small water utility. In 2009, it purchased 56% of its water from the BPU. This represented 20% of the Company's 2009 total O&M expenses. Purchased water, as a percentage of total water available for sale, has increased from 15% in 2002 to 56% in 2009 to approximately 60% in 2010. The Company has become increasingly more dependent on purchased water. As a result, purchase water costs have become a major cost item within its operations. The Company and BPU entered into a long-term water purchase contract in 2000. This contract allows BPU to pass on to the Company any rate increases approved by BPU. As this Commission knows, BPU has approved wholesale water rate increases beginning July 1, 2010, and annually through January 1, 2013. Rate increases will total nearly 30%. A copy of BPU's water rate increase was attached to my testimony in the earlier case. The Company basically has two regulatory options available to it in order to recover these cost increases from its customers. It can file a rate case each year for the next several years or, it can seek approval to implement a PWA. The cost of filing a rate case to recover the increased cost of water is as much as the increased cost of water. In fact, in Docket No. 11-SUBW-448-RTS ("448 Docket"), where the Company filed a rate case to recover only the increase in the cost of water purchased by BPU and the cost of filing the rate case, the rate case expense as calculated by the Commission Staff was approximately $31,000.00 ($19,000.00 incurred by the Company and $12,000.00 incurred by the Commission Staff and CURB). The total amount of the rate increase in the 448 Docket was $44,913.00. Amortizing recovery of

the rate case expense over a three year period lessened the impact somewhat, but still shows how much the rate case expense increases the total cost to the customers.

While the Commission has not established a PWA Policy for regulated water utilities in the state of Kansas mostly because of the low number of water utilities regulated by the Commission, it has established a general policy regarding the use of an adjustment for the recovery of commodity costs outside the context of a rate case.

In Docket No. 106,850-U, the Commission established the policy that allows jurisdictional natural gas and electric utilities to implement procedures to recover the increased costs of natural gas and fuel purchased by jurisdictional utilities. The Commission discussed the various alternatives for purchased cost adjustment clauses in that docket. Section III, page 8 of Docket No. 106,850-U described the Commission's analysis of the various cost recovery alternatives presented in the docket. Each alternative was analyzed and the reason for accepting or rejecting each alternative was discussed by the Commission.

The Commission heard presentations on four alternative approaches with respect to purchase cost adjustments. In rejecting the first alternative, periodic rate hearings to adjust rates, the Commission found that significant regulatory lag would be introduced; cash requirements increased, and increased regulatory expenses ultimately paid for by the customers would be incurred. The second alternative, less informal filings to change rates, was also rejected. However, the Commission believed that some procedure for informal review by the Commission and its Staff was appropriate. The Commission did not believe that informal filings per se were the solution to the purchase cost adjustment problem. The third basic alternative was for the Commission to authorize the use of incentive type automatic adjustment provisions which were intended to encourage efficient operations. This alternative was rejected

because of the lack of established and published efficiency standards. The final alternative, and the one the Commission accepted, was to allow for variable automatic adjustment provisions which permit the pass-through of actual costs. The Commission stated:

> With this type of clause, if operating characteristics change, the resulting changes in cost are included in the energy cost adjustment. It eliminates the need for the difficult and costly task of setting standards, and it is most effective in passing on actual cost changes (decreases, as well as increases) to the consumer.

Finally, as I also mentioned in my earlier testimony, other state public utility commissions which regulate quite a few water utilities have approved purchase water cost adjustments for the regulated water utilities located in their states. I included a list of some of the public utility commissions which allow purchase water cost adjustments in my previous testimony. I also attached to my earlier testimony, the Institute of Public Utilities Regulatory Research and Education ("IPU"), an arm of the National Association of Regulatory Commissions ("NARUC"), glossary of terms used in water utility regulations. Page 3 of the glossary includes the definition of "automatic adjustments" and states "commissions have permitted automatic adjustments for such items as ... purchased water."

I attached to my earlier testimony copies of orders recently issued by the Kentucky Public Service Commission approving a purchase water adjustment filing for a water utility that, like the Company, had just received notice from its wholesale water utility of an increase in its water rates.

I attached to my earlier testimony a document showing how the Public Service Commission of Wisconsin's web-based Purchase Water Adjustment Clause ("PWAC") application process worked. It allows water utilities to seek permission to change their PWAC on-line using the Internet. I also provided a copy of a letter from the Wisconsin Commission

approving a recent PWAC application filed by a water utility using the on-line application process.

I attached to my earlier testimony reports and recommendations issued by the staff of the Public Utility Commission of Oregon recommending the Oregon Commission approve revisions to the water utility's purchase water cost adjustment clause. I attached to my earlier testimony a document showing water rates information for New Jersey American Water. The document explained how this water utility's purchase water cost adjustment filed with the New Jersey Board of Public Utilities ("NJBPU") allows the water utility to recover increase in rates for water received from its wholesale provider. Instead of providing that same information again to the Commission, I would ask that those items be incorporated as part of my testimony in this case.

Q. HOW WILL THE PROPOSED PWA TARIFF WORK?

A. As set forth in the tariff attached to my testimony the cost of purchased water per 1,000 gallons in the Company's most recent rate case (base year) will be subtracted from the BPU's current cost of purchased water. Each time BPU changes wholesale water rates, a new PWA will be calculated. BPU proposed to change its water rates on January 1, 2013. This annual adjustment would be applied to each customer's monthly water usage billing. A separate line item will be added to monthly billings showing the PWA amount.

Q. HOW DOES THE COMPANY PROPOSE TO REPORT TO THE COMMISSION THE PWA CALCULATIONS?

A. The Company will submit monthly reports to the Commission showing water sales and PWA charges. As is the case with the natural gas and electric utilities that have approved purchase cost adjustment clauses, the costs recovered through the PWA will be subject to periodic

audits by the Commission Staff and customers will only be required to pay for the actual cost incurred by the Company to purchase water supplies.

VI. PURCHASING PRACTICES

Q. WHAT HAS THE COMPANY DONE TO ADDRESS THE CONCERNS RAISED BY THE COMMISSION WITH RESPECT TO THE COMPANY'S WATER SUPPLY PURCHASING PRACTICES?

A. The Company has taken the following steps to address the concerns raised by the Commission:

(1) AMENDMENT TO BPU CONTRACT

The Company negotiated an amendment to its water supply contract with BPU. The Company extended the primary term of the contract for an additional ten (10) year period so the primary term runs through 2030. The Company also amended the provisions relating to any succeeding term under the Contract to succeeding five (5) year terms with the requirement that if either party plans to terminate the contract, it must provide the other party three (3) years prior notice. This will allow both parties sufficient planning time should the contract terminate. The Company also had BPU memorialize BPU's current practice on the state water rights held by BPU with respect to BPU's water supplies and including the Company's demand for water in all demand forecasts performed by BPU. The Company replaced the Payment in Lieu of Taxes ("PILOT") fee paid by the Company under the contract with a contribution to general fund fee. Finally, the Company included a provision that the amendment to the contract would not become effective until approved by the Commission.

(2) DIVERSIFICATION OF WATER SUPPLIES

Although there was consensus among all of the parties in the 448 Docket that among

the various alternative water supplies available to the Company, BPU's water supply was the least cost supply, the Company met with the City of Leavenworth, Kansas and has obtained an offer from the City to supply water to the Company. However, the cost of that water supply is $2.496 per 1,000 gallons or approximately 8% higher than the cost of water currently obtained from BPU and, in addition, would require significant system improvements with corresponding capital expenditures that would increase costs. Because of these higher costs, the Company does not believe that it is in the best interest of its customers at this point in time to pursue that alternative supply. However, if the Commission believes the increase in cost of water to the Company's customers is outweighed by the Company having a more diversified water supply, then the Company is ready to go forward with the offer made by Leavenworth.

In addition, the Company met with the Board of Public Wholesale Water Supply District No. 6 ("PWWSD No. 6") to discuss purchasing water from them. PWWSD No. 6 obtains its water supplies from two sources. The first source is from BPU, so this would not provide any diversification for the Company. The second source is from Bonner Springs. Bonner Springs has two sources of supply, BPU and its own water. PWWSD No. 6 indicated at the meeting that its attorneys had told them that because the Company was not rural water district or municipality it could not become a member of PWWSD No. 6. The Company asked PWWSD No. 6 to consider a contractual arrangement with the Company whereby the Company would purchase water but not become a member. PWWSD No. 6 indicated at the meeting it was currently busy with other projects, but the Company could visit with them in about six months to see if such a contract was possible. The Company intends to follow up with PWWSD No. 6 at the beginning of 2012.

Q. IF THE COMPANY WERE TO BE ABLE TO PURCHASE WATER FROM PWWSD

NO. 6, WHAT WOULD THE COST BE AND HOW DOES THAT COMPARE TO THE COST CHARGED BY BPU?

A. The price would have to be negotiated with PWWSD No. 6. However, it is likely the price would be in the range of $2.68 per thousand gallons since Bonner Springs sells water to PWWSD No. 6 for that price. That price is over 10% higher than the cost of water currently obtained from BPU.

(3) ADDITIONAL WATER WELLS

The Company has received bids from two companies with respect to the preliminary work that would need to be done to determine if new ground water supplies are located in proximity to the Company's distribution system on which the Company could seek to obtain water rights to drill wells and produce ground water. However, before going forward to spend the money for this preliminary work that would eventually have to be paid for by the customers, the Company is seeking approval from the Commission. Based upon the bids received by the Company, the preliminary work would cost an estimated $15,650. If the Commission decides that it is worth the investment to hire the expert to determine if ground water sources are viable and within proximity to the Company's system, the Company should be allowed to recover those legitimate costs either through an approved PWA or in the third abbreviated rate case filling.

Q. HAS THE COMPANY TAKEN ANY OTHER STEPS TO ADDRESS THE CONCERNS RAISED BY THE COMMISSION CONCERNING THE COMPANY'S PURCHASING PRACTICES?

A. Yes. The Company retained the services of Gary Hanson to review the Company's purchasing practices. Mr. Hanson represents several water districts and municipalities that operate water

utilities in Kansas. He has written several articles relating to water supply contracts and has represented water utilities in negotiating water supply contracts. The Company asked Mr. Hanson to review the Company's purchasing practices and to prepare a report that could be provided to the Commission in this rate case.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

VERIFICATION OF GREGORY L. WILSON

STATE OF KANSAS)
) ss:
COUNTY OF FRANKLIN)

Gregory L. Wilson, being first duly sworn upon his oath, deposes and says that he is a Certified Public Accountant and owner of Twenty First Century Management Consultants; that he has read and is familiar with the foregoing direct testimony; and that the statements contained therein are true and correct.

Gregory L. Wilson

SUBSCRIBED AND SWORN to before me this 26 day of October, 2011.

NOTARY PUBLIC – State of Kansas
RONDA ROSSMAN
My Appt. Expires 5/25/2014

Notary Public

Appointment/Commission Expires:

Suburban Water Company
Rate Design - Operating Margin
Test Year Ending December 31, 2010

Line No	Customer Class	A Annual Use 1,000 Gallons		B Average 1,000 Gal per Day	Maximum Day C Capacity Factor %	D Total Capacity 1,000 Gallons	Maximum Hour E Capacity Factor %	F Total Capacity 1,000 Gallons	G Number of Customers	Bills
1	Residential	103,479	68%	421	1.36	572	2.69	1,133	1,532	18,384
2	Fire-protection Service	-								
3	Wholesale	32,038	21%	73	1.41	103	2.79	203	2	24
4	Total System	135,517	89%	371					1,534	18,408
5	Pumped & Purchased Water	152,722	100%	418						
6	Unmetered	2,068	1%	6						
7	Water Losses	17,204	11%	47						
8	Total Unmetered & Losses	19,272	13%	53						

EXHIBIT GLW-1

Suburban Water Company
Rate Design - Operating Margin
Test Year Ending December 31, 2010

Line No	Item		Total Cost		Commodity	Demand Maximum Day	Demand Maximum Hour	Customer Costs Meters and Services	Customer Cost Billing and Collection	Direct Fire Protection Service
1	Total System Units of Service:									
2	Number				135,517	572	1,133	1,532	18,384	
3	Units				thou. Gal	thou Gal per Day	thou Gal per Day	Year End Meters	bills	
4	Operation and Maintenance Expenses					15.4%	30.5%	8.3%	8.3%	
5	Total	$	1,155,418		$ 432,490	$ 177,902	352,456	96,285	$ 96,285	
6	Unit Cost ($ / unit)	$	8.53							
7	Depreciation Expense									
8	Total	$	237,235		$ 88,801	$ 36,528	$ 72,368	$ 19,770	$ 19,770	
9	Unit Cost ($ / unit)	$	1.75							
10	Rate Base:									
11	Total Rate Base	$	2,180,156		$ 997,744	$ 335,683	$ 665,049	$ 181,680		
12	Unit rate base ($ / unit)	$	135,517							
13	Income Tax Expense									
14	Total	$	20,140		$ 7,539	$ 3,101	$ 6,144	$ 1,678	$ 1,678	
15	Unit Cost ($ / unit)	$	0.15							
16	Operating Margin	$	83,559		$ 528,829	$ 217,531	$ 430,968	$ 117,733	$ 117,733	
17	Unit Cost ($ / unit)	$	0.68							
18	Total Unit Costs of Service:	$	1,496,352							
19	Cost per 1,000 Gallons	$	11.04							
20	Adjusted Cost per 1,000	$	11.04					**Monthly Service Charge**		
	Proposed Rate Schedule							Customer Costs	$ 417,145	
21	Rate per 1,000 Gallons	$	11.04	per 1,000 gallons				Monthly Charge	$ 22.69	
22	Adjusted Customer Service Charge	$	20.00	per month						
	Current Rate Schedule				Proposed Increase		Proposed Rates			
23	Rate per 1,000 Gallons	$	7.86	per 1,000 gallons	$ 1.47	per 1,000 gallons	$ 9.33	per 1,000 gallons		
24	Customer Service Charge	$	20.00	per month	$ 1.00	per month	$ 21.00	per month		
	Current Cost for 7,000 Gallons									
25	First 1,000 Gallons	$	20.00							
26	Next 6,000 Gallons	$	47.16							
27	Cost of Water	$	67.16							
28	Cost per 1,000 Gallons	$	9.59							

Suburban Water Company
Rate Design - Operating Margin
Test Year Ending December 31, 2010

Line	Typical Water Customer Bill			Typical Water Customer Bill			
1	Proposed Cost for 7,000 Gallons	Current Cost		Proposed Cost for 7,000 Gallons	Proposed Cost	Increase	% Increase
2	First 1,000 Gallons	$ 20.00		Proposed Monthly Customer Charge	$ 21.00	$ 1.00	5.0%
3	Next 6,000 Gallons	$ 47.16		All Water at Commodity Rate	$ 65.31	$ 18.15	38.5%
4	Cost of Water	$ 67.16		Cost of Water	$ 86.31	$ 19.15	28.5%
5	Cost per 1,000 Gallons	$ 9.59		Cost per 1,000 Gallons	$ 12.33	$ 2.74	28.5%
6	Rate per 1,000 Gallons		$ 7.86				
7	Dollar Increase per 1,000 Gallons				$ 1.47	28.5%	
8	Customer Service Charge Percent Increase			5.0%			
9	Rate per 1,000 Gallons Percent Increase			18.7%			
10	Cost of Water Percent Increase (7,000 Gallons)			28.5%			
11	**Revenue Deficiency Proof**	Current Water Sales		Water Sales			
12	Test-Year Water Sales (Gallons)	103,479		103,479			
13	Sales Associated with Customer Charge	18,384		-			
14	Net Water Sales From Rates	85,095		103,479			
15	Total Dollar Increase			$ 277,896			
16	Cost per 1,000 Gallons Increase			$ 1.47			
17	Total Revenue Increase from Water Sales			$ 277,896			
18	Customer Service Charge Revenues			$ 18,384			
19	Total Increase in Revenues			$ 296,280			
20	Revenue Deficiency			$ (296,448)			
21	**Proposed Rates:**	Current Rate		**Proposed Rates:**	Proposed Rate	Proposed Increase	% Increase
22	Minimum Bill (1,000 Gallons)	$ 20.00		Monthly Customer Charge	$ 21.00	$ 1.00	5%
23	Cost per 1,000 Gallons	$ 7.86		All Water at Commodity Rate	$ 9.33	$ 1.47	19%
24	**Proposed Rate Revenues:**	Test Year Revenues		**Proposed Rate Revenues:**	Proposed Revenues	Increases	
25	Water Sales Revenues	$ 687,562		Water Sales Revenues	$ 965,458	$ 277,896	
26	Customer Service Charge Revenues	$ 367,680		Customer Service Charge Revenues	$ 386,064	$ 18,384	
27	Total Water Revenues	$ 1,055,242		Total Water Revenues	$ 1,351,522	$ 296,280	
28	Wholesale Water Sales	$ 118,273		Wholesale Water Sales	$ 118,273	$ -	
29	Other Misc. Revenues	$ 26,389		Other Misc. Revenues	$ 26,389	$ -	
30	Total Revenue Requirement	$ 1,199,904		Total Revenue Requirement	$ 1,496,184	$ 296,280	
31	Annual Increase	$ -		Annual Increase	$ 296,280		
32	Percentage Increase	0%		Percentage Increase		28.1%	

THE STATE CORPORATION COMMISSION OF KANSAS

Index No. _____

SUBURBAN WATER, INC.,
d/b/a SUBURBAN WATER COMPANY
(Name of Issuing Utility)

Schedule Purchased Water Adjustment

ENTIRE SERVICE AREA
(Territory to which schedule is applicable)

No supplement or separate understanding shall modify the tariff as shown hereon. Sheets of Sheets

COMPUTATION FORMULA

The specified service rates are subject to adjustment for change in the average cost of water from all wholesale sources of supply purchased. On ~~June~~ 1 of each year, the company will project the average cost of wholesale water for the 12 months ending ~~June~~ 30 of the following year. If at any time during this 12-month period, the company experiences a change or changes in supplier rates or in sources of supply, the cumulative effect of which change or changes is to produce an increase or decrease in the new projected effective rate for purchased water from all suppliers of at least 0.1¢ per 1,000 gallons, then an adjusted average rate shall be determined. The annual cost of water projection and any revised projections throughout the year will be computed using the following formula:

$$\left\{ \frac{P}{(.01)\,V} \right\} - b = \text{Adjustment}$$

Where:

P = The estimated total dollar cost of purchased water to be sold calculated by summing the products of the most recent unit cost of purchased water from each wholesale supplier and the estimated unit purchased from each wholesale supplier for the 12-month period ending ~~June~~ 30. In the event that changes in the rates paid for purchased water will take place within the current 12-month period ending ~~Jun~~ 30 as specified by contract provisions currently in effect, the estimated average unit cost of purchased water from each supplier for the current 12-month period ending ~~June~~ 30, may be used in the calculation in place of the cost recent unit cost.

V = The estimated sales volume in 1,000 gallons for the 12-month period

Issued _____
Month Day Year

Effective upon Commission approval
Month Day Year

By _____
Signature Title

cnding ~~June~~ 30.*

b = Actual purchase water cost in ¢/1,000 gallons established during the base period.

*If the actual sales volume reflects a line loss factor greater than the limit value, restatement of sales volume, based on the limit value for line loss, shall be required.

COMPUTATION PERIOD

The computation period shall be the subsequent 12-month period ending ~~June 30~~.

COMPUTATION FREQUENCY

The computation shall be made annually on June 1, and each time a change or changes occur in supplier rates or sources of supply, the cumulative effect of which change or changes is to produce an increase or decrease in the new effective rate paid for purchased water by at least 0.1¢/1,000 gallons.

SETTLEMENT PROVISION

Subsequent to the effective date of this clause, the company shall maintain a continuing monthly comparison cost of wholesale water as shown on the books and records of the company, exclusive of refunds, and the cost of wholesale water for the same month calculated by applying to the volumes sold during said month the new estimated effective rate $\frac{P}{(0.1)\,V}$ used to determine the purchased water cost adjustments pursuant to these purchased water cost adjustment provisions. For each 12-month billing period ended ~~June 30~~, the cumulative differences of the comparisons

THE STATE CORPORATION COMMISSION OF KANSAS

Index No. _____

SUBURBAN WATER, INC.,
d/b/a SUBURBAN WATER COMPANY
(Name of Issuing Utility)

Schedule Purchased Water Adjustment

ENTIRE SERVICE AREA
(Territory to which schedule is applicable)

No supplement or separate understanding shall modify the tariff as shown hereon. Sheets of Sheets

described above will be added to the "Actual Cost Remainder" described below to produce a cumulative balance of over-recovered or under-recovered costs. An "Actual Cost Adjustment" ("ACA") shall be computed by dividing the cumulative balance of under-recovered or over-recovered costs by the volume of total sales during the 12-month period ending on that date. This adjustment shall be rounded to the nearest 0.0001/per 1,000 gallons and applied to sales billed on or after the first day of the month following the month in which the adjustment has been approved by the Commission. The "Actual Cost Adjustments" shall remain in effect until superseded by subsequent "Actual Cost Adjustments" calculated according to this provision.

Issued _____
Month Day Year

Effective upon Commission approval
Month Day Year

By _____
Signature Title