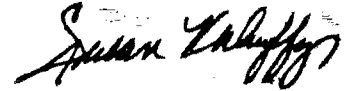


**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

STATE CORPORATION COMMISSION

MAR 30 2011



In the Matter of the Application of Suburban)
Water, Inc., d/b/a Suburban Water Company for)
An Order Increasing Its Rates in Leavenworth,)
County, Kansas)

Docket No. 11-SUBW-448-TAR

**DIRECT TESTIMONY
OF
STACEY HARDEN
ON BEHALF OF
THE CITIZENS' UTILITY RATEPAYER BOARD**

MARCH 30, 2011

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1 I. **STATEMENT OF QUALIFICATIONS**

2 Q. **Please state your name and business address.**

3 A. My name is Stacey Harden and my business address is 1500 SW Arrowhead
4 Road, Topeka, KS 66604-4027.

5
6 Q. **By whom and in what capacity are you employed?**

7 A. I am employed by the Citizens' Utility Ratepayer Board ("CURB") as a
8 Regulatory Analyst.

9
10 Q. **Please describe your educational background.**

11 A. I received a Bachelors Degree in Business Administration from Baker University
12 in 2001. I received my Masters of Business Administration degree from Baker
13 University in 2004.

14
15 Q. **Please summarize your professional experience.**

16 A. I joined the Citizens' Utility Ratepayer Board as a Regulatory Analyst in February
17 2008. Prior to joining CURB, I was the manager of a rural water district in
18 Shawnee County, Kansas for five years. I am currently an adjunct faculty member
19 at Friends University, where I am an undergraduate instructor in business courses
20 such as Data Development and Analysis, Financial Decision Making, Financial
21 Reporting of Debt & Equity, and Managerial Statistics.

22

23

1 **Q. Have you previously testified before the Commission?**

2 A. Yes. I previously offered testimony in KCC Docket Nos. 08-WSEE-1041-RTS,
3 10-KGSG-421-TAR, 10-EPDE-497-TAR, 10-BHCG-639-TAR, 10-SUBW-602-
4 TAR, 10-WSEE-775-TAR, and 10-KCPE-795-TAR.

5
6 **II. PURPOSE OF TESTIMONY**

7 **Q. What is the purpose of your testimony?**

8 A. On December 21, 2010, Suburban Water, Inc., d/b/a Suburban Water Company
9 (“Suburban” or “company”) filed an application with the Kansas Corporation
10 Commission (“KCC” or “Commission”) requesting permission to increase rates
11 by \$0.53 per 1,000 gallons in order to collect additional revenues of \$44,913.00.

12 On March 16, 2011, the Staff of the Corporation Commission (“Staff”)
13 filed testimony in which it recommended the Commission approve Suburban’s
14 request in its entirety. In my testimony I will evaluate Suburban’s proposed rate
15 increase, as well as Staff’s analysis, and provide recommendations for
16 consideration by the Commission.

17
18 **III. SUMMARY OF CONCLUSIONS**

19 **Q. Please summarize your recommendations to the Commission regarding**
20 **Suburban’s application to raise rates.**

21 A. Based upon my analysis of Suburban’s application and Staff’s testimony, I am
22 presenting three different recommendations for the Commission to consider. My
23 first, and preferred, recommendation is that the Commission:

- 1 • deny Suburban’s request and Staff’s recommendation to raise rates by
2 \$44,913, because Suburban’s request includes adjustments to revenues and
3 expenses that were not part of the agreement regarding what would
4 included in its first abbreviated filing, and because Suburban and Staff
5 propose to pass along the rate increase only to retail customers;
- 6 • find that adding the rate case expenses incurred by Suburban in this case
7 to the cost of purchased water increases will result in unjust and
8 unreasonable rates for Suburban’s retail customers, and therefore should
9 be disallowed in the revenue requirement increase determined in this case;
- 10 • allow Suburban to raise rates to its retail customers \$0.346 per 1,000
11 gallons, in order to collect additional revenues of \$29,458.06; and
- 12 • allow Suburban the opportunity to reapply for a purchased water
13 adjustment, as opposed to incurring the expense of filing two additional
14 rate cases.

15 My second recommendation, proposed as an alternative if the Commission
16 doesn’t approve my first recommendation, is that the Commission:

- 17 • deny Suburban’s request and Staff’s recommendation to raise rates by
18 \$44,913, because Suburban’s request includes adjustments to revenues and
19 expenses that were not part of the agreement regarding what would
20 included in its first abbreviated filing, and because Suburban and Staff
21 propose to pass along the rate increase only to retail customers;

- 1 • find that according to K.S.A. 66-1502, the maximum amount of regulatory
2 expenses that can be assessed to Suburban by the KCC and CURB is 0.6%
3 of Suburban's gross annual operating revenues;
- 4 • find that if, in order to ensure just and reasonable rates, the maximum
5 amount of regulatory expenses that can be assessed to Suburban by the
6 KCC is 0.6% of Suburban's gross annual operating revenues, that same
7 maximum should apply to expenses incurred by Suburban for the cost of
8 its counsel and consultants in this rate proceeding;
- 9 • allow Suburban to raise rates to its retail customers \$0.391 per 1,000
10 gallons, in order to collect additional revenues of \$33,330.90; and
- 11 • allow Suburban the opportunity to reapply for a purchased water
12 adjustment, as opposed to incurring the expense of filing two additional
13 rate cases.

14 My third recommendation, if the Commission does not adopt either my first or
15 second recommendation, is that the Commission:

- 16 • deny Suburban's request and Staff's recommendation to raise rates by
17 \$44,913, because Suburban's request includes adjustments to revenues and
18 expenses that were not part of the agreement regarding what would
19 included in its first abbreviated filing, and because Suburban and Staff
20 propose to pass along the rate increase only to retail customers;
- 21 • find that according to K.S.A. 66-1502, the maximum amount of regulatory
22 expenses that can be assessed to Suburban by the KCC and CURB is 0.6%
23 of Suburban's gross annual operating revenues, and that the Commission

1 may render bills in one fiscal year for costs incurred within a previous
2 fiscal year;

- 3 • allow Suburban to recover 100% of the rate case expenses incurred for its
4 counsel and consultants over a three year period;
- 5 • allow Suburban to raise rates to its retail customers \$0.479 per 1,000
6 gallons, in order to collect additional revenues of \$40,763.88; and
- 7 • allow Suburban the opportunity to reapply for a purchased water
8 adjustment, as opposed to incurring the expense of filing two additional
9 rate cases.

10
11 **IV. DISCUSSION OF THE ISSUES**

12 **Q. Why is Suburban requesting a rate increase?**

13 **A.** Suburban is seeking a rate increase due to the increased cost of wholesale water
14 that it purchases from the Kansas City, Kansas Board of Public Utilities (“BPU”).
15 Suburban purchases approximately 60% of the water it supplies to retail and
16 wholesale customers from the BPU. Since Suburban’s last rate filing in 2007 –
17 Docket No. 07-SUBW-1352-RTS, (“1352 Docket”) – the BPU has increased the
18 rate it charges Suburban Water for its water supply. Suburban’s rate increase
19 request will allow Suburban to collect revenues that offset the increased
20 purchased water expenses for 2011.

1 **Q. Did Suburban propose an alternate method of increasing revenues to offset**
2 **the increased purchased water expense?**

3 A. Yes. On March 19, 2010, Suburban filed an application (KCC Docket No. 10-
4 SUBW-602-TAR, “602 Docket”) with the Commission requesting permission to
5 implement a purchased water cost adjustment (“PWA”) to account for changes in
6 the wholesale rates charged to Suburban by the BPU.

7
8 **Q. Did CURB and Staff concur that Suburban’s PWA be approved?**

9 A. Yes. CURB supported Suburban’s PWA in part because “it is not economically
10 feasible for Suburban, a company with less than 1,500 customers, to apply for a
11 general rate increase each time that it experiences an increased rate in purchased
12 water.”¹ On September 7, 2010, Staff, CURB and Suburban filed a motion asking
13 the Commission for an order approving a stipulation and agreement that would
14 have allowed Suburban to implement a PWA.

15
16 **Q. Did the Commission approve the stipulation and agreement?**

17 A. No. In an order dated November, 3, 2010, the Commission denied Suburban’s
18 application for a PWA, concluding that the agreement between Suburban, Staff
19 and CURB:

- 20 • was not supported by substantial evidence in the record,
- 21 • did not contain evidence to show rates will be just and reasonable for
- 22 Suburban Water's customers, and

¹ KCC Docket No. 10-SUBW-602-TAR, July 30, 2010, Direct Testimony of Stacey Harden, at page 18.

- 1 • that the PWA was not in the public interest.²

2 The Commission ordered that Suburban must use a rate case process to include
3 these increased purchased water expenses in rates and instructed the company to
4 file an abbreviated rate case in accordance with K.A.R. 82-1-231b(b)(2)(B) that
5 would “lessen the financial burden through rate case expense for this small utility
6 and its customers.”³

7
8 **Q. Did Suburban meet with Staff and CURB to determine the process of the**
9 **Commission-ordered abbreviated filing?**

10 A. Yes. On November 12, 2010, Suburban met with Staff and CURB in order to
11 determine the process of three planned abbreviated filings. On November 23,
12 2010, Staff instructed Suburban that in its first abbreviated filing, Suburban would
13 include an income statement based upon the cost of service approved by the
14 Commission in Docket No. 07-SUBW-1352-RTS, as adjusted for the following
15 components:

- 16 • The new cost of water from the BPU effective January 1, 2011;
17 • The current retail rate being charged by Suburban Water;
18 • The most recent sales volumes recorded by Suburban Water; and
19 • Rate case expense.⁴

20 Staff further instructed that in its second rate case, Suburban will file a new cost
21 of service, including the cost of water increases, any general cost increases, and
22 any cost increases related to any automated meter reading equipment installed by

² KCC Docket No. 10-SUBW-602-TAR, November 3, 2010, *Order On Application*.

³ *Id.*

⁴ KCC Docket No. 11-SUBW-448-TAR, March 16, 2011, Direct Testimony of Justin Grady, Exhibit JTG-1.

1 Suburban. In its third and final abbreviated rate case, Suburban will rely on the
2 cost of service set during the second proceeding, as adjusted for the increased cost
3 of water, and the cost of filing the rate case.
4

5 **Q. Is Suburban's application consistent with the letter sent to Suburban on**
6 **November 23, 2010?**

7 A. Yes and no. In its application, Suburban included the cost of new water purchased
8 from the BPU, the current retail rate being charged by Suburban, the most recent
9 sales volumes recorded by Suburban and an estimate of rate case expenses.
10 However, Suburban's \$44,913 rate increase request includes not only the
11 increased cost of water purchased from BPU and rate case expense, but several
12 other adjustments to revenues and expenses that were not part of the agreement
13 regarding what would be included in its first abbreviated filing.
14

15 **Q. Please explain how Suburban determined it has an operational revenue**
16 **deficiency of \$44,913.**

17 A. Suburban used the Staff-adjusted income statement from the 1352 Docket and
18 made three adjustments:

- 19 • Increased purchased water costs \$75,233;
- 20 • Increased rate case expenses \$7,500; and
- 21 • Increased current operating revenues \$211,121.

1 Suburban then compared the adjusted income statement to its fiscal year 2009
2 book balances. The result is an operating revenue deficiency of \$44,913.⁵

3

4 **Q. Which of the adjustments made by Suburban should not be included in this**
5 **abbreviated filing?**

6 A. First, the company should not have made an adjustment to its operating revenues.

7 The agreement between Staff and Suburban, as detailed in a letter attached as
8 Exhibit JTG-1 to Staff Witness Justin Grady's testimony, clearly states that the
9 cost of service in the 1352 Docket would be adjusted for the "most recent sales
10 volumes" recorded by Suburban. The agreement does not require or permit an
11 adjustment for most recent sales in dollars.

12 Second, to determine its operational revenue deficiency, Suburban
13 compared its adjusted income statement to its fiscal year 2009 book balances.
14 These book balances include changes to several components of the company's
15 operating expenses, including increases in repair and maintenance, salaries,
16 wages, and benefits, and office lease expense. These same book balances also
17 show decreases in other expenses such as outside services, meter reading
18 expenses, and many others.⁶ The agreement between Staff and Suburban does not
19 allow for Suburban to make changes to its expenses, other than for the purchased
20 water and rate case expenses, in its first abbreviated filing. These general cost
21 changes are to be included in Suburban's second filing, when a new cost of

⁵ KCC Docket No. 11-SUBW-448-TAR, Application, December 21, 2010, at Exhibit B.

⁶ KCC Docket No. 11-SUBW-448-TAR, Application, December 21, 2010, at Exhibit B.

1 service analysis is completed. These adjustments are detailed in Column H of
2 Exhibit SMH-1 attached to my testimony.

3

4 **Q. Despite the inclusion of other revenues and expenses, did Staff recommend**
5 **the Commission grant Suburban's proposed rate increase of \$44,913 in its**
6 **entirety?**

7 A. Yes.

8

9 **Q. Please explain why Staff is recommending the Commission approve**
10 **Suburban's request.**

11 A. Staff witness William E. Baldry's analysis suggests that Suburban needs to
12 increase rates by \$106,137. Because Suburban's request to increase rates by
13 \$44,913 is a smaller increase than Staff's analysis, Mr. Baldry recommends that
14 the Commission grant Suburban's request in its entirety.⁷

15

16 **Q. How did Mr. Baldry determine that Suburban's operating revenue**
17 **deficiency is \$106,137?**

18 A. Mr. Baldry made a series of adjustments to the Staff-adjusted test-year data from
19 the 1352 Docket to determine Suburban's revenue requirement. Specifically, Mr.
20 Baldry made the following adjustments:

- 21 • Increased revenues \$248,801 to reflect the increase in water sales in 2010;
- 22 • Increased revenues \$106,038 to reflect higher volumes Suburban sold to
23 its wholesale customers in 2010;

⁷ KCC Docket No. 11-SUBW-448-TAR, March 16, 2011, Direct Testimony of William E. Baldry, at page 2.

- 1 • Increased purchased water costs \$85,206 to reflect the higher volumes of
- 2 water Suburban purchased from the BPU in 2010 and to reflect the higher
- 3 price of water the BPU is currently charging Suburban;
- 4 • Increased rate case expenses \$10,443 (total amount of rate case expense is
- 5 determined to be \$31,328.69, which will be amortized over three years);
- 6 and
- 7 • Increased income tax expense \$14,357 to calculate current income taxes
- 8 based upon Staff's adjustments.⁸

9

10 **Q. Does Mr. Baldry's analysis include adjustments that were not included in**

11 **agreement between Staff and Suburban?**

12 A. Yes. Mr. Baldry's analysis includes adjustments for retail and wholesale

13 revenues as well as an adjustment to income tax expense that were not included in

14 the agreement between Staff and Suburban. Mr. Baldry analyzed this abbreviated

15 case as if it were a full rate case, whereas the agreement between Staff and

16 Suburban indicates that this filing is intended only to make a rate adjustment that

17 allows Suburban to capture the increased cost of purchasing water from the BPU,

18 as well as rate case expense.

19

20

21

22

23

⁸ KCC Docket No. 11-SUBW-448-TAR, March 16, 2011, Direct Testimony of William E. Baldry, at page 5.

1 **A. PURCHASED WATER COST ADJUSTMENT**

2 **Q. Do you agree with Staff's recommendation that the Commission grant**
3 **Suburban's request to raise rates by \$44,913?**

4 A. No, I do not. Both Staff's and Suburban's analysis includes adjustments that were
5 not agreed to in the November 12, 2010, meeting with Staff, CURB and
6 Suburban.

7
8 **Q. Did you perform an analysis of Suburban's revenue requirement, using only**
9 **the adjustments that were included in the agreement between Suburban and**
10 **Staff?**

11 A. Yes, I did.

12
13 **Q. Based on your analysis, what is an appropriate rate increase for Suburban's**
14 **retail customers?**

15 A. My analysis – attached to my testimony as Exhibits SMH-2, SMH-3, and SMH-4
16 – shows that with the agreed-upon adjustments, depending on the Commission's
17 treatment of rate case expenses, Suburban should be allowed to raise its retail
18 rates between \$0.346 and \$0.479 per 1,000 gallons sold in order to collect
19 between \$29,458.06 and \$40,763.88 in revenues. Later in my testimony, I will
20 describe each of these options at length.

21

22

1 **Q. Does your analysis include a rate recommendation for Suburban’s wholesale**
2 **customers?**

3 A. No. My analysis is based upon the volumes of water that Suburban purchases for
4 the consumption of its retail customers only. I did not include the volumes of
5 water that Suburban purchases from BPU for its two wholesale customers.

6
7 **Q. Why is it important to segregate Suburban’s retail and wholesale customers**
8 **in this analysis?**

9 A. Suburban’s tariffed rates only include the rates charged to retail customers – retail
10 customers are both residential and commercial. Suburban entered into its
11 contracts with two wholesale customers and presumably negotiated rates with
12 these customers without the intervention or oversight of the Commission. The
13 rates being charged to these two wholesale customers were not established by a
14 tariff, and, in fact, these two customers pay different volumetric and monthly
15 customer charges than Suburban’s retail customers. Because of this important
16 distinction, it is my opinion that the Commission should only address the rates
17 charged to retail customers under the conditions of Suburban’s tariffs.

18
19 **Q. How did you determine how much water Suburban purchases for the**
20 **consumption of its retail customers?**

21 A. In 2010, Suburban’s retail customers consumed 103,582,186 gallons of water.⁹
22 To determine how much of this water was purchased from the BPU, I multiplied
23 these gallons by 44.8%, which was the percentage of water Suburban purchased

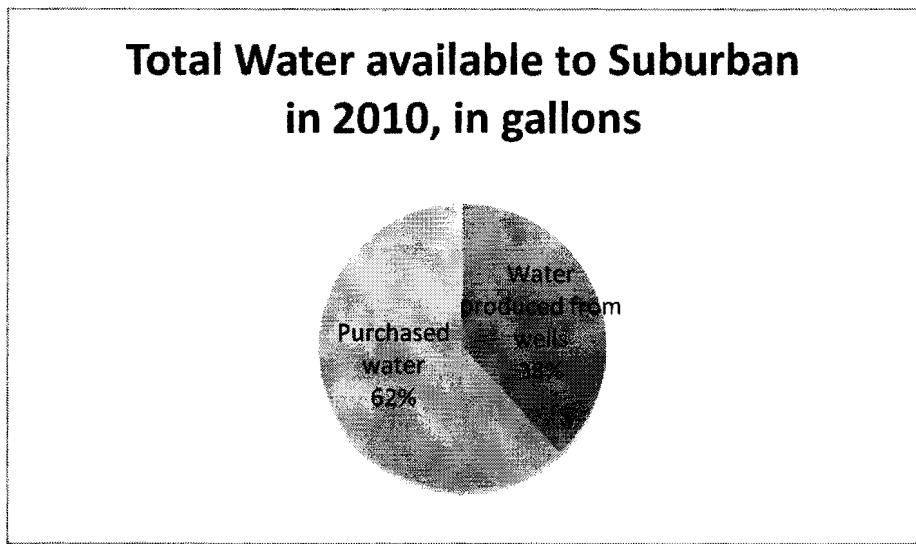
⁹ KCC Docket No. 11-SUBW-448-TAR March 16, 2011, Direct Testimony of William E. Baldry, at Exhibit WEB-2.

1 from the BPU in the 1352 Docket¹⁰, which results in 46,404,819 gallons that are
2 purchased from the BPU directly for the consumption of Suburban's retail
3 customers.

4
5 **Q. Does Suburban still purchase 44.8% of its total water from the BPU?**

6 A. No. In 2010, Suburban purchased 61.8% of its total available water from the
7 BPU.¹¹ This is an increase of 29,438,288 gallons, or 52% since the 1352
8 Docket.¹²

9 The chart below illustrates Suburban's mix of produced and purchased water.



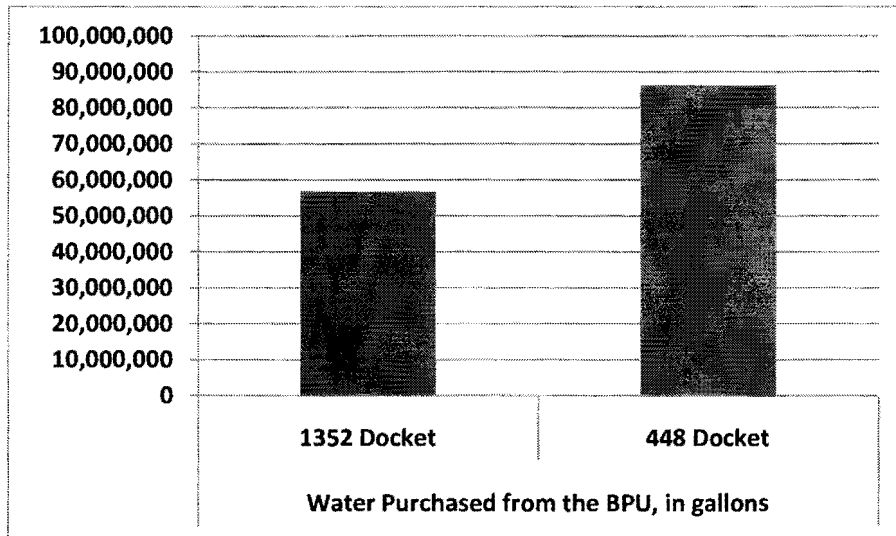
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¹⁰ KCC Docket No. 07-SUBW-1352-RTS, May 31, 2007, Application, at Section 8, Schedule 3.

¹¹ According to Exhibits WEB-2 and WEB-8 of Staff Witness William E. Baldry's testimony, 86,267,588 gallons were purchased from the BPU in 2010. Suburban's total water available in 2010 was 139,612,088, which means that Suburban pumped and produced 53,344,500 gallons of water from its well fields.

¹² Section 8 Schedule 3 of the Application in KCC Docket No. 07-SUBW-1352-RTS, shows that Suburban purchased 56,829,300 gallons of water from the BPU during the test year ending March 31, 2007.

1 The chart below illustrates the increase in water purchases from the BPU since
2 Suburban's last rate case.



3

4

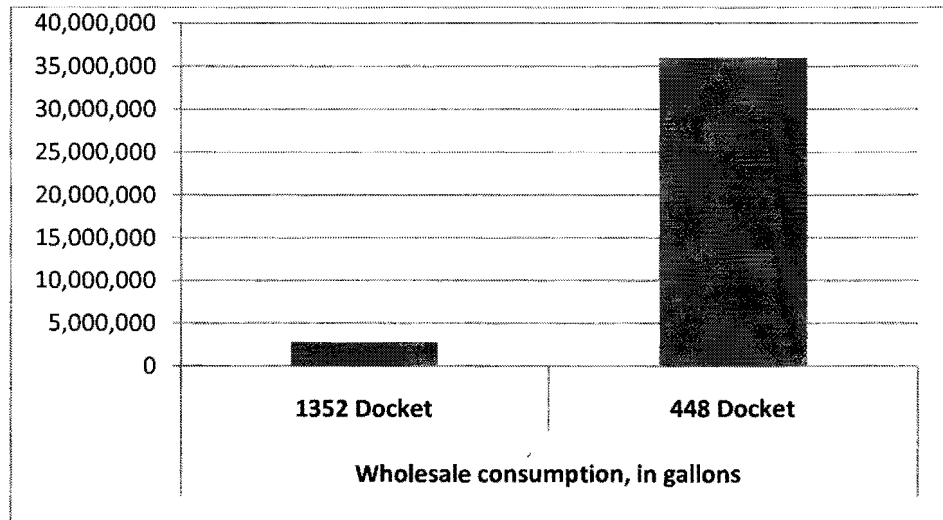
5 **Q. In your opinion, what caused the dramatic increase in water that Suburban**
6 **purchases from the BPU?**

7 **A.** In my opinion, there are two primary reasons that explain the dramatic increase in
8 Suburban's water purchases from the BPU. First, the amount of water that
9 Suburban sold to wholesale customers in 2010 rose dramatically from the test-
10 year volumes included in Suburban's last rate case. In the 1352 Docket's test
11 year (April 1, 2006 – March 31, 2007), Suburban had only one wholesale
12 customer, Rural Water District #10, to whom Suburban reportedly sold 2,810,200
13 gallons.¹³ However, Suburban now sells water to two wholesale customers, Rural
14 Water District #10 and Rural Water District #6. In 2010, Suburban reported that it
15 sold 36,029,902 gallons to these two wholesale customers.¹⁴ This is an increase of

¹³ May 31, 2007, Application, KCC Docket No. 07-SUBW-1352-RTS, at Section 8, Schedule 7.

¹⁴ March 16, 2011, Direct Testimony of William E. Baldry, KCC Docket No. 11-SUBW-448-TAR, at Exhibit WEB-2.

1 33,219,702 gallons, or a 1,182% percent increase in water sold to wholesale
2 customers. It is my opinion that the increase in wholesale water sales is one of the
3 primary factors that caused Suburban to purchase more water from the BPU in
4 2010. The chart below illustrates in increase in demand from Suburban's
5 wholesale customers since Suburban's last rate case.



6
7 Second, the amount of water that Suburban was able to pump and produce
8 from its well fields has declined. In the 1352 docket, Suburban reported that it
9 was able to pump and produce 70,135,760 gallons from its two well fields.¹⁵ In
10 2010, Suburban was only able to pump and produce 53,344,500 from its two well
11 fields, a decline of 24%. I did not perform an investigation into the reasons why
12 these well fields are experiencing a decline in production rates. However, Staff
13 witness Justin Grady's testimony provides the results of his investigation into the
14 decline in water production from these two well fields. Mr. Grady's testimony
15 points to a history of "declining water tables"¹⁶ as one of the primary reasons for
16 the decline in production from Suburban's well fields. This decline in production

¹⁵ May 31, 2007, Application, KCC Docket No. 07-SUBW-1352-RTS, at Section 8, Schedule 3.

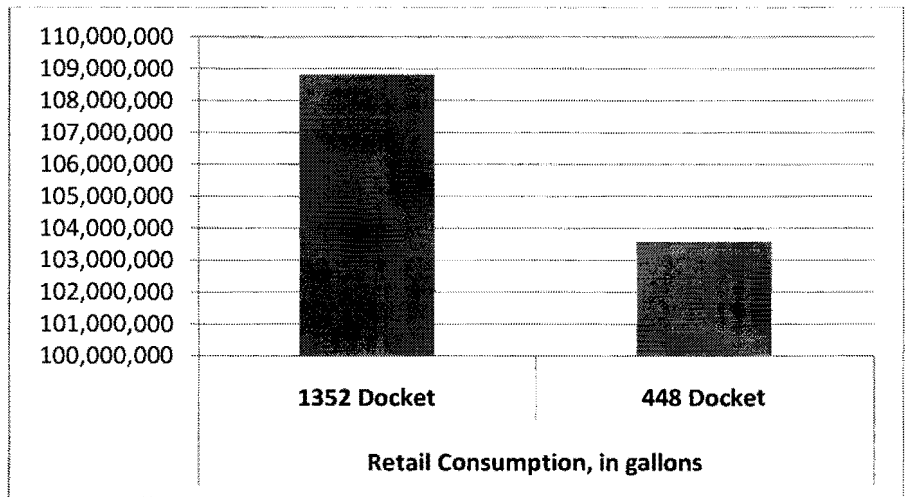
¹⁶ KCC Docket No. 11-SUBW-448-TAR, March 16, 2011, Direct Testimony of Justin Grady at page 7.

1 from its well fields, coupled with Suburban’s increased sales to its wholesale
2 customers, is likely causing Suburban to purchase more water from the BPU.

3

4 **Q. Has the water consumption of Suburban’s retail customers increased?**

5 **A.** No. In fact, retail consumption of water has decreased. In the 1352 Docket’s test
6 year, Suburban reported that 1,408 retail customers consumed 108,829,025
7 gallons of water during the test year – or an average of 6,441 gallons per customer
8 per month.¹⁷ Additionally, Suburban’s application indicates that Suburban now
9 has 1,542 retail customers. These 1,542 retail customers consumed 103,582,186
10 gallons in 2010 – or an average of 5,598 gallons per customer per month.¹⁸ The
11 chart below illustrates in decrease in demand from Suburban’s retail customers
12 since Suburban’s last rate case.



13

14

15

¹⁷ May 31, 2007, Application, KCC Docket No. 07-SUBW-1352-RTS, at Section 8, Schedule 7.

¹⁸ March 16, 2011, Direct Testimony of William E. Baldry, KCC Docket No. 11-SUBW-448-TAR, at Exhibit WEB-2.

1 **Q. Does Suburban’s application indicate that it intends to pass a Commission-**
2 **approved rate increase onto its wholesale customers?**

3 A. No. Exhibit B of Suburban’s application includes an analysis of its rate design
4 using the operating margin approach. This analysis shows that Suburban’s
5 requested rate increase of \$0.53 per 1,000 gallons would be applied only to the
6 gallons Suburban sells to its retail customers. This same analysis shows that
7 Suburban anticipates \$108,265 in wholesale revenues, which is based upon the
8 current contracted rates for 2011. From these exhibits, it appears that Suburban
9 does not intend to pass on the requested \$0.53 per 1,000 rate increase to its
10 wholesale customers.

11
12 **Q. Should Suburban’s retail customers be required to pay the entire cost of the**
13 **increased cost of water purchased from the BPU?**

14 A. No. If the Commission approves Suburban’s request to raise retail rates \$0.53 per
15 1,000 gallons, it will be asking retail customers to subsidize the cost of water
16 being sold to Suburban’s wholesale customers. Since the 1352 Docket’s test year
17 data, Suburban has experienced a 10% growth in the number of retail customers,
18 while experiencing a decrease in retail consumption of 5%. During this same
19 time, Suburban’s wholesale customers have increased their consumption 1,182%.
20 It is my opinion that the large increase in demand from Suburban’s wholesale
21 customers has caused Suburban to increase its water purchases from the BPU.
22 Suburban’s retail customers – who have reduced their overall consumption –

1 should not be required to subsidize the cost of water purchased for the benefit of
2 Suburban's wholesale customers.

3

4 **Q. You previously provided three different recommendations for the**
5 **Commission to consider. Please explain how you calculated your adjustment**
6 **for the cost of purchased water costs for each of these recommendations.**

7 A. First, my analysis for the purchased water cost adjustment is consistent
8 throughout all three of my recommendations to the Commission. The variations in
9 my alternatives reflect different options for treatment of rate case expenses –
10 which are in addition to the purchased water cost. For the purchased water costs, I
11 began by determining the amount of volumes of water that Suburban purchases
12 from the BPU for the consumption of its retail customers. To do this, I took the
13 percentage of total water sold by Suburban in the 1352 Docket that was purchased
14 from the BPU – or 44.8%. I then took the total number of gallons that were
15 consumed by Suburban's retail in customers in 2010 and multiplied it by 44.8% to
16 determine that approximately 46,404,819 of the gallons sold to Suburban's retail
17 customers were purchased from the BPU.

18 Next, I completed a side-by-side analysis of what the 46,404,819 gallons
19 that Suburban purchases from the BPU for its retail customers would have cost –
20 using BPU rates applicable during Suburban's last rate case, as compared to the
21 cost of the same water using BPU rates today. The base cost of purchased water
22 per 1,000 gallons included in the 1352 Docket was \$1.70 per 1,000 gallons.¹⁹ I
23 compared this to the \$2.05 per 1,000 gallons, plus an 11.9% PILOT fee, that it

¹⁹ KCC Docket No. 10-SUBW-602-TAR March 19, 2010, Application, at 13.

1 will cost Suburban to buy those same 46,404,819 gallons of water in 2011.²⁰ My
2 analysis shows that it will cost Suburban \$27,790.62 more to purchase 46,404,819
3 gallons for its retail customers in 2011 than it did during the test year in the 1352
4 Docket.²¹

5

6 **B. ADJUSTMENT FOR RATE CASE EXPENSES**

7 **Q. Do you have any comments regarding the amount of rate case expense**
8 **incurred in this docket?**

9 A. Yes. For Suburban’s retail customers, the financial burden of the actual rate case
10 expenses in this docket is larger by \$3,911.57 than the increased cost of
11 purchasing water from the BPU.²² This docket was filed as a result of the
12 Commission denying the implementation of a PWA in the 602 Docket. In the 602
13 Docket, the Commission concluded that the PWA was not in the public interest
14 despite recognizing that CURB’s concerns “regarding the expense of a traditional
15 rate proceeding under K.A.R. 82-1-231 are real.”²³ The Commission directed “its
16 Staff to work with Suburban Water to develop an appropriate abbreviated process
17 that will provide the Commission with the information it needs to set just and
18 reasonable rates, as reflected in this Order, but that will lessen the financial
19 burden through rate case expense for this small utility and its customers.”²⁴
20 Because of its order denying the PWA, the Commission caused Suburban to incur

²⁰ KCC Docket No. 11-SUBW-448-TAR, December 21, 2010, Application, at Exhibit B.

²¹ Exhibit SMH-2.

²² Rate case expenses incurred by Suburban through February 28, 2011 are \$16,489.69; KCC actual expenses through February 28, 2011 in this docket are \$15,212.50; the sum of these expenses exceeds my adjustment for purchased water expenses of \$27,790.62, as detailed in Exhibit SMH-1.

²³ November 3, 2010, *Order On Application*, KCC Docket No. 10-SUBW-602-TAR, at 41.

²⁴ *Id.*

1 \$16,489.69 in expenses from its counsel and consultants in a short four months,
2 and an additional \$15,212.50 in fees assessed from the Commission's Staff and
3 CURB. I believe the public interest would have been better served by allowing
4 Suburban to pass along its increased purchased water expenses through its
5 proposed PWA, as opposed to this rate case process, which is why I
6 recommended the Commission approve the PWA in my testimony in the 602
7 Docket. Now Suburban's retail customers will be saddled with not only the cost
8 of water, but mounting rate case expenses as well.

9

10 **Q. Will Suburban continue to incur additional rate case expense as a result of**
11 **the Commission's order in the 602 Docket?**

12 **A.** Yes. The agreement between Staff and Suburban provided that Suburban will file
13 three abbreviated rate cases in three consecutive years. The \$31,702.19 in rate
14 case expenses booked by Suburban through February 2011 in this abbreviated
15 filing is just the first of three years' worth of rate case expenses that Suburban
16 will incur in order to pass along the increased cost of purchasing water from the
17 BPU.²⁵ Assuming the Commission adheres to its order in the 602 Docket, the
18 second abbreviated rate case filed by Suburban will be a complete rate case,
19 including a full cost of service analysis, and will likely result in an even larger
20 rate case expense. This would then be followed by yet another abbreviated rate
21 case filing, with even more rate case expense.

22

²⁵ The \$31,702.19 in actual rate case expenses includes charges through February 28, 2011. It is anticipated that there will be additional rate case expenses associated with this docket, until the Commission issues a final order.

1 **Q. Please summarize your recommendations regarding rate case expenses**
2 **incurred by Suburban in this docket.**

3 A. I have three different recommendations, to the Commission regarding the
4 treatment of rate case expenses incurred by Suburban in this docket. The three
5 individual recommendations are that the Commission:

- 6 • find that adding the rate case expenses incurred by Suburban in this case to the
7 cost of purchased water increases will result in unjust and unreasonable rates
8 for Suburban’s retail customers, and therefore the Commission should
9 disallow recovery of rate case expenses in the revenue requirement increase
10 determined in this case; or as an alternative,
- 11 • find that according to K.S.A. 66-1502, the maximum amount of regulatory
12 expenses that can be assessed to Suburban by the KCC and CURB is 0.6% of
13 Suburban’s gross annual operating revenues, and that if, in order to ensure just
14 and reasonable rates, the maximum amount of regulatory expenses that can be
15 assessed to Suburban by the KCC is limited to 0.6% of Suburban’s annual
16 gross operating revenues, that same maximum should apply to expenses
17 incurred by Suburban for the cost of its counsel and consultants in this rate
18 proceeding; or as an alternative,
- 19 • find that K.S.A. 66-1502 limits the maximum amount of regulatory expenses
20 that can be assessed to Suburban by the KCC and CURB to 0.6% of
21 Suburban’s annual gross operating revenues, and that the Commission may
22 render bills in one fiscal year for costs incurred within a previous fiscal year,
23 which will allow the KCC and CURB to assess Suburban with up to 0.6% of

1 its annual gross operating revenues each year for regulatory expenses in this
2 docket, until all fees have been recovered.

3
4 **Q. Please explain your first and preferred recommendation that the**
5 **Commission disallow all regulatory and rate case expenses incurred in this**
6 **docket.**

7 A. It is my preferred recommendation that the Commission disallow the recovery of
8 all rate case and regulatory expenses in this docket. It is my opinion that the
9 inclusion of rate case expenses in this docket will result in unjust and
10 unreasonable rates for Suburban's retail customers. As I previously testified, the
11 actual rate case and regulatory expenses in this docket are larger than the
12 increased cost of purchasing water from the BPU by \$3,911.57. It is only because
13 the Commission denied Suburban's request for a PWA in the 602 Docket, that
14 through February 2011, Suburban has incurred an additional \$16,489.69 in
15 expenses for its counsel and consultants and an additional \$15,212.50 in
16 regulatory fees assessed by the Commission's Staff and CURB. These rate case
17 expenses will likely continue to grow if the Commission orders a hearing in this
18 docket. The decision of the Commission in the 602 Docket has resulted in
19 Suburban's retail customers being burdened with an unjust and unreasonable
20 amount of regulatory and retail expenses. It is my recommendation that the
21 Commission disallow the recovery of all regulatory and rate case expenses.

22

1 **Q. What is the financial impact on rates for retail customers if the Commission**
2 **disallows the inclusion of rate case expense in this docket?**

3 A. If the Commission disallows the inclusion of rate case expenses in this docket,
4 rates for retail customers will be adjusted for the increased cost of purchasing
5 water, plus Suburban's 6% operating margin. This equals a retail rate increase of
6 \$0.346 per 1,000 gallons.²⁶ It is important for the Commission to note that this
7 recommendation to allow Suburban to increase retail rates \$0.346 per 1,000
8 gallons is nearly identical to the \$0.3418 per 1,000 gallons purchased water
9 adjustment that would have occurred had the Commission approved the PWA as
10 proposed in the 602 Docket.²⁷

11
12 **Q. Please explain your second recommendation that the Commission limit the**
13 **recovery of regulatory and rate case expenses incurred in this docket.**

14 A. In the event that the Commission declines to approve my first and preferred
15 recommendation, my second recommendation is to limit the amount of regulatory
16 and rate case expenses that Suburban could recover to 0.6% of its gross operating
17 revenues. K.S.A. 66-1502 limits the amount of regulatory fees that can be
18 assessed to Suburban, as follows:

19 The total amount, in any one state fiscal year for which
20 any public utility or common carrier shall be assessed
21 under the provisions of this section shall not exceed the
22 following ... for any other public utility or common
23 carrier under the jurisdiction of the commission, 0.6% of
24 the public utility's or common carrier's gross operating
25 revenues derived from intrastate operations as reflected
26 in the last annual report...

²⁶ Calculations included in Exhibit SMH-3.

²⁷ KCC Docket 10-SUBW-602-TAR, July 30, 2010, Direct Testimony of Stacey Harden, Exhibit SMH-1.

1 Suburban's last annual report was filed with the Commission on April 23, 2009,
2 and shows gross revenues derived from intrastate operations are \$968,210 –
3 which means that the maximum amount of regulatory fees that the KCC and
4 CURB can assess Suburban in this proceeding is \$5,809.26. It is my
5 recommendation that the Commission allow only \$5,809.26 of the regulatory fees
6 assessed to Suburban by the KCC in this docket to be included in retail rates.

7 Additionally, while K.S.A. 66-1502 limits the amount of regulatory
8 expenses that can be assessed to a utility by the KCC and CURB, it does not place
9 a cap on the amount of other regulatory expenses that a public utility can incur
10 and then request recovery for as additional rate case expenses. It is my opinion
11 that this statute exists to limit the financial burden on customers that can be
12 imposed by regulatory expenses of the KCC, and logically, the same limits should
13 apply to the rate case expenses that are incurred by the company. Therefore, I
14 recommend that the Commission reduce the amount of rate case expenses to be
15 recovered by Suburban in this docket to 0.6% of its operating revenues – which is
16 \$5,809.26 of the \$16,489.69 in rate case expenses included in its rate application.

17
18 **Q. What is the financial impact on rates for retail customers if the Commission**
19 **limits rate case expense in this docket to 0.6% of Suburban's gross operating**
20 **revenues?**

21 **A.** Reducing the amount of rate case expenses in this docket to the K.S.A. 66-1502
22 limit of 0.6% of gross operating revenues would eliminate over \$20,000 in
23 regulatory and rate case fees that would otherwise be recovered from Suburban's

1 retail customers. By allowing \$5,809.26 to be included for the KCC's
2 assessments, in addition to \$5,809.26 for the rate case expenses incurred directly
3 by Suburban would result in a total of \$11,618.52 in rate case expenses that I
4 recommend be amortized over a three-year period. The end result, including the
5 purchased water adjustment and operating margin, would be an increase in retail
6 rates of \$0.392 per 1,000 gallons of water.²⁸

7
8 **Q. Please explain your third recommendation that the Commission allow**
9 **Suburban to recover 100% of all regulatory and rate case expenses incurred**
10 **in this docket.**

11 A. In the event that the Commission declines to approve my first and second
12 recommendation, my third recommendation would allow Suburban to collect
13 100% of all regulatory and rate case expenses incurred in this proceeding from its
14 retail customers. As I previously explained, K.S.A. 66-1502 limits the amount of
15 regulatory fees that can be assessed to Suburban to 0.6% of its gross operating
16 revenues. However, the statute reads that the Commission “may render bills in
17 one fiscal year for costs incurred within a previous fiscal year.” The authority of
18 the Commission to render bills for costs incurred in a previous fiscal year would
19 allow the Commission to recover the full amount owed over several years until
20 the full balance is recovered, in spite of the unreasonable burden placed upon
21 Suburban’s retail customers. Because of the 0.6% assessment limitation, the
22 maximum amount of KCC regulatory fees would be \$5,809.26 during the first and

²⁸ Exhibit SMH-4.

1 second years of this rate increase. In the third year, the remaining amount of KCC
2 regulatory fees, \$3,593.98, would be included in retail rates.

3 Additionally, this recommendation would allow Suburban to recover
4 100% of the rate case expenses it incurred during this proceeding, amortized over
5 a three year period.²⁹ The fees booked by Suburban for its counsel and consultant
6 in this proceeding are \$16,489.69, through February 2011. The recovery of these
7 expenses would be in addition to the amount recovered from KCC and CURB's
8 regulatory fees. It is likely that as this proceeding continues, these fees will
9 continue to increase.

10

11 **Q. What is the financial impact on rates for retail customers if the Commission**
12 **approves the recovery of all rate case expense in this docket?**

13 A. If the Commission chooses to allow 100% of rate case expenses to be recovered
14 from Suburban's retail customers, in addition to the increased cost of purchased
15 water, Suburban would need to increase its rates to retail customers \$0.479 per
16 1,000 gallons for two years and then \$0.453 per 1,000 gallons in the third year.³⁰

17

18 **Q. Is your third recommendation regarding rate case expense a realistic option**
19 **for the Commission?**

20 A. No. While K.S.A. 66-1502 reads that the Commission "may" render bills in one
21 fiscal year for fees incurred in previous years, it is my opinion that this action
22 would result in unjust and unreasonable rates for Suburban's retail customers.

²⁹ Suburban response to Staff Data Request No. 61.

³⁰ Exhibit SMH-5.

1 Suburban's retail customers did not cause the company to incur over \$30,000 in
2 legal and regulatory expenses in this docket – it was the Commission's order in
3 the 602 Docket that directed the company to incur these expenses. It is my
4 opinion that saddling Suburban's retail customers with regulatory expenses that
5 exceed the actual increased cost of purchasing water is not in the public interest,
6 and will result in unjust and unreasonable rates.

7 Further, if the Commission chooses to allow for continued billing of all
8 regulatory fees, it should be mindful that this docket is really the second in what is
9 anticipated to be four cases to adjust rates for purchased water (the first case being
10 the 602 Docket that was denied by the Commission). If the Commission chooses
11 to bill Suburban for regulatory expenses that occurred in previous fiscal years, it
12 is possible that by 2013, Suburban's retail customers will be paying regulatory
13 and rate case expenses for not only this proceeding, but also the 602 Docket,
14 Suburban's second abbreviated rate case, and its third abbreviated rate case. At
15 the current rate at which Suburban is incurring rate case expenses, it is not
16 unreasonable to expect Suburban will be saddled with over \$100,000 in rate case
17 expenses and regulatory fees in order to pass along a \$27,000 per year purchased
18 water increase. Further, at a maximum assessment rate of \$5,809.26 per
19 proceeding, per fiscal year, it is possible that in 2013, Suburban will be assessed
20 over \$23,000 in KCC and CURB regulatory fees alone, which also would be in
21 addition to Suburban's own rate case expenses, which would be in addition to the
22 increased cost of purchased water. It seems clear that these regulatory fees and

1 expenses will cause an unreasonable and unfair financial burden on Suburban's
2 1,542 retail customers.

3

4 **Q. How can the Commission better serve the public interest by reducing the**
5 **amount of rate case expenses that will be passed on to retail customers?**

6 A. The Commission should revisit its decision in the 602 Docket that denied the
7 implementation of a PWA. If Suburban were given the opportunity to reapply for
8 a PWA, as opposed to preparing and filing two additional rate cases, the financial
9 burden of rate case expenses passed on to retail customers would be dramatically
10 lessened.

11 When the Commission denied Suburban's PWA application, it did so
12 because of unanswered questions relating to Suburban's water supply and its
13 water purchase contract with the BPU. It is my opinion that those questions have
14 been sufficiently answered in the testimony provided by Staff witness Justin
15 Grady. Because the Commission's questions have been answered, it is my opinion
16 that requiring Suburban to complete two additional rate cases during the next two
17 years is a complete waste of resources. It is my recommendation that the
18 Commission, in its order in this proceeding, provide Suburban the opportunity to
19 reapply for a PWA, as opposed to filing two additional rate cases.

20

21

22

23

1 **C. ADJUSTMENT FOR OPERATING MARGIN**

2 **Q. Please explain your adjustment of \$1,667.44 for operating margin.**

3 A. In the 1352 Docket, the Commission approved an operating margin of 6% for
4 Suburban Water. Earlier in my testimony, I determined that because of the
5 increased cost of purchasing water from the BPU, Suburban will experience an
6 increase in operating expenses of \$27,790.62. In order to ensure that Suburban is
7 able to maintain its operating margin of 6%, I have made an adjustment for 6% -
8 or \$1,667.44 – of the increased operating expense due to water purchases.

9
10 **Q. Why didn't you calculate a 6% margin on rate case expenses incurred by**
11 **Suburban in this docket?**

12 A. While I recognize that rate case expense is typically considered an operating
13 expense, it is my opinion that it would be inappropriate to allow Suburban to
14 realize a profit of 6% on expenses that were charged to them by their counsel and
15 consultants, in addition to fees that the Commission assesses to Suburban.

16
17 **Q. Please summarize your recommendations to the Commission regarding**
18 **Suburban's application to raise rates.**

19 A. Based upon my analysis of Suburban's application and Staff's testimony, I
20 presented three different recommendations for the Commission to consider. My
21 first, and preferred, recommendation is that the Commission:

- 22 • deny Suburban's request and Staff's recommendation to raise rates by
23 \$44,913, because Suburban's request includes adjustments to revenues and

1 expenses that were not part of the agreement regarding what would
2 included in its first abbreviated filing, and because Suburban and Staff
3 propose to pass along the rate increase only to retail customers;

- 4 • find that adding the rate case expenses incurred by Suburban in this case
5 to the cost of purchased water increases will result in unjust and
6 unreasonable rates for Suburban’s retail customers, and therefore should
7 be disallowed in the revenue requirement increase determined in this case;
- 8 • allow Suburban to raise rates to its retail customers \$0.346 per 1,000
9 gallons, in order to collect additional revenues of \$29,458.06; and
- 10 • allow Suburban the opportunity to reapply for a purchased water
11 adjustment, as opposed to incurring the expense of filing two additional
12 rate cases.

13 My second recommendation, proposed as an alternative if the Commission
14 doesn’t approve my first recommendation, is that the Commission:

- 15 • deny Suburban’s request and Staff’s recommendation to raise rates by
16 \$44,913, because Suburban’s request includes adjustments to revenues and
17 expenses that were not part of the agreement regarding what would
18 included in its first abbreviated filing, and because Suburban and Staff
19 propose to pass along the rate increase only to retail customers;
- 20 • find that according to K.S.A. 66-1502, the maximum amount of regulatory
21 expenses that can be assessed to Suburban by the KCC and CURB is 0.6%
22 of Suburban’s annual gross operating revenues;

- 1 • find that if, in order to ensure just and reasonable rates, the maximum
2 amount of regulatory expenses that can be assessed to Suburban by the
3 KCC is 0.6% of Suburban's gross operating revenues, that same maximum
4 should apply to expenses incurred by Suburban for the cost of its counsel
5 and consultants in this rate proceeding;
- 6 • allow Suburban to raise rates to its retail customers \$0.391 per 1,000
7 gallons, in order to collect additional revenues of \$33,330.90; and
- 8 • allow Suburban the opportunity to reapply for a purchased water
9 adjustment, as opposed to incurring the expense of filing two additional
10 rate cases.

11 My third recommendation, if the Commission does not adopt either my first or
12 second recommendation, is that the Commission:

- 13 • deny Suburban's request and Staff's recommendation to raise rates by
14 \$44,913, because Suburban's request includes adjustments to revenues and
15 expenses that were not part of the agreement regarding what would
16 included in its first abbreviated filing, and because Suburban and Staff
17 propose to pass along the rate increase only to retail customers;
- 18 • find that according to K.S.A. 66-1502, the maximum amount of regulatory
19 expenses that can be assessed to Suburban by the KCC and CURB is 0.6%
20 of Suburban's annual gross operating revenues, and that the Commission
21 may render bills in one fiscal year for costs incurred within a previous
22 fiscal year;

- 1 • allow Suburban to recover 100% of the rate case expenses incurred for its
2 counsel and consultants over a three year period;
- 3 • allow Suburban to raise rates to its retail customers \$0.479 per 1,000
4 gallons, in order to collect additional revenues of \$40,763.88; and
- 5 • allow Suburban the opportunity to reapply for a purchased water
6 adjustment, as opposed to incurring the expense of filing two additional
7 rate cases.

8

9 **Q. Does this conclude your testimony?**

10 **A. Yes.**

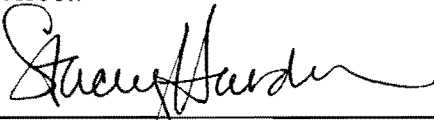
11

VERIFICATION

STATE OF KANSAS)
COUNTY OF SHAWNEE) ss:

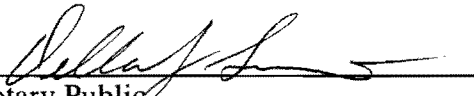
I, Stacey Harden, of lawful age, being first duly sworn upon her oath states:

That she is a regulatory analyst for the Citizens' Utility Ratepayer Board, that she has read the above and foregoing document, and, upon information and belief, states that the matters therein appearing are true and correct.



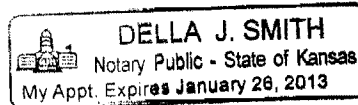
Stacey Harden

SUBSCRIBED AND SWORN to before me this 30th day of March 2011.



Notary Public

My Commission expires: 01-26-2013.



EXHIBITS

SMH-1

SMH-2

SMH-3

SMH-4

SMH-5

**Suburban Water Company
Jurisdictional Income Statement
Operating Margin Approach
Test Year Ending March 31, 2007**

**Suburban Water Company
Jurisdictional Income Statement
Operating Margin Approach
For the Year Ending December 31, 2009**

Line No	Description	A Applicant Jurisdictional Per Books	B Applicant Test Year Adjustments	C Applicant Adjusted Income Statement	D Staff Adjusted Income Statement	E Applicant Pro-forma Adjustments	F Applicant Adjusted Income Statement	G Applicant FY2009 Per Books	H Difference between FY2009 Per Books and Staff Adjusted Income Statement in 1352 Docket
1	Operating and Maintenance Expenses:								
2	Repair and Maintenance	\$ 74,786	\$ -	\$ 74,786	\$ 74,786	\$ -	\$ 74,786	\$ 87,050	\$ 12,264
3	Purchased Water Cost	\$ 109,967	\$ 10,855	\$ 120,822	\$ 114,397	\$ 75,233	\$ 189,630	\$ 189,630	\$ -
4	Outside Services	\$ 70,603	\$ -	\$ 70,603	\$ 70,603	\$ -	\$ 70,603	\$ 45,086	\$ (25,517)
5	Salaries, Wages & Benefits	\$ 213,592	\$ -	\$ 213,592	\$ 235,610	\$ -	\$ 235,610	\$ 280,024	\$ 44,414
6	Meter Setting Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Meter Reading Expense	\$ 5,877	\$ -	\$ 5,877	\$ 3,877	\$ -	\$ 3,877	\$ -	\$ (3,877)
8	Fire Hydrant Setting Cost	\$ 3,409	\$ -	\$ 3,409	\$ 3,409	\$ -	\$ 3,409	\$ -	\$ (3,409)
9	Office Lease	\$ 31,000	\$ -	\$ 31,000	\$ 36,000	\$ -	\$ 36,000	\$ 48,000	\$ 12,000
10	Admin & General	\$ 51,621	\$ -	\$ 51,621	\$ 45,431	\$ -	\$ 45,431	\$ 37,953	\$ (7,478)
11	Production Electric Cost	\$ 17,131	\$ -	\$ 17,131	\$ 17,131	\$ -	\$ 17,131	\$ 17,286	\$ 155
12	Materials & Supplies	\$ 44,015	\$ -	\$ 44,015	\$ 44,015	\$ -	\$ 44,015	\$ 37,321	\$ (6,694)
13	Transportation Expenses	\$ 28,369	\$ -	\$ 28,369	\$ 28,369	\$ -	\$ 28,369	\$ 23,230	\$ (5,139)
14	Insurances	\$ 20,249	\$ -	\$ 20,249	\$ 20,249	\$ -	\$ 20,249	\$ 10,925	\$ (9,324)
15	Regulatory Costs	\$ 883	\$ -	\$ 883	\$ 883	\$ -	\$ 883	\$ -	\$ (883)
16	Rate Case Expenses	\$ -	\$ 17,333	\$ 17,333	\$ 9,201	\$ 7,500	\$ 16,701	\$ 16,701	\$ -
17	Utility Property Taxes	\$ 34,446	\$ -	\$ 34,446	\$ 63,456	\$ -	\$ 63,456	\$ 39,315	\$ (24,141)
18	Misc. Corp Fees	\$ 3,598	\$ -	\$ 3,598	\$ 3,598	\$ -	\$ 3,598	\$ 5,698	\$ 2,100
19	Clean Drinking Water Fee	\$ 3,415	\$ -	\$ 3,415	\$ 3,415	\$ -	\$ 3,415	\$ 3,029	\$ (386)
20	Interest Expense	\$ 96,254	\$ 13,741	\$ 109,995	\$ 109,995	\$ -	\$ 109,995	\$ 88,875	\$ (21,120)
21	Payroll Tax Expense	\$ 29,522	\$ -	\$ 29,522	\$ 31,206	\$ -	\$ 31,206	\$ 23,337	\$ (7,869)
22	Depreciation Expense	\$ 262,452	\$ (195,098)	\$ 67,354	\$ 123,042	\$ -	\$ 123,042	\$ 123,042	\$ -
24	Total Operating & Maintenance Expense	\$ 1,101,189	\$ (153,169)	\$ 948,020	\$ 1,038,673	\$ 82,733	\$ 1,121,415	\$ 1,076,502	\$ (44,904)
25	Below the line corporate expenses	\$ -	\$ (5,823)	\$ (5,823)	\$ (5,823)	\$ -	\$ -	\$ -	\$ -
26	Net Operating and Maintenance Expenses	\$ 1,101,189	\$ (158,992)	\$ 942,197	\$ 1,032,850	\$ 82,733	\$ 1,121,415	\$ 1,076,502	\$ -
27	O&M Margin Percentage	6.0%	6.0%	6.0%					
28	Margin Required	\$ 66,071	\$ (9,540)	\$ 56,532					
29	Tax Factor (Divided)	0.6022	0.6022	0.6022					
30	Tax Expense	\$ 43,645	\$ (6,302)	\$ 37,344	\$ 13,553	\$ -	\$ 13,553	\$ 13,553	\$ -
31	Revenue Requirement	\$ 1,210,905	\$ (174,834)	\$ 1,036,073	\$ 1,046,412	\$ -	\$ 1,134,968	\$ 1,090,055	\$ (44,913)
32	Current Operating Revenues	\$ 730,064	\$ 27,026	\$ 757,089	\$ 757,089	\$ 211,121	\$ 968,210	\$ 968,210	\$ -
33	Operating Revenue Deficiency	\$ (480,841)	\$ 201,860	\$ (278,984)	\$ (289,323)	\$ 128,388	\$ (166,758)	\$ (121,845)	\$ -
34	Additional Revenue Requirement						\$ 44,913		

PURCHASED WATER COST ADJUSTMENT

EXHIBIT SMH-2

2010 Retail Sales (in gallons):	85,078,186	
Gallons of water included in customer charge:	18,504,000	
Gallons of water purchased from BPU, for the consumption of Suburban's retail customers:	46,404,819	* this is calculated with the estimate that Suburban purchased 44.8% of its total water from BPU in its last rate case
	Based upon \$1.70/1,000 BPU rate that was included in 07-SUBW-1352-RTS	Based upon 2011 BPU rate charged to Suburban - \$2.05/1,000
BPU Charge for water:	\$78,888.19	\$95,129.88
Monthly Customer Charge paid to BPU:	\$1,920.00	\$1,920.00
BPU Total Water Charges:	\$80,808.19	\$97,049.88
Add PILOT fee:	n/a **	\$11,548.94
Total Amount Paid to BPU	\$80,808.19	\$108,598.82
Price Increase from 2010 to 2011:		\$27,790.62
Revenue Requirement increase for increased cost of purchased water:		\$27,790.62

** In the 1352 Docket, the PILOT fee of 9.9% was embedded in the \$1.70 per 1,000 gallons base rate

PURCHASED WATER ADJUSTMENT +
RECOMMENDATION #1 FOR RECOVERY OF RATE CASE EXPENSES

2010 Retail Sales (in gallons):	85,078,186	
Gallons of water included in customer charge:	18,504,000	
Gallons of water purchased from BPU, for the consumption of Suburban's retail customers:	46,404,819	* this is calculated with the estimate that Suburban purchased 44.8% of its total water from BPU in its last rate case

	Based upon \$1.70/1,000 BPU rate that was included in 07-SUBW- 1352-RTS	Based upon 2011 BPU rate charged to Suburban - \$2.05/1,000
BPU Charge for water:	\$78,888.19	\$95,129.88
Monthly Customer Charge paid to BPU:	\$1,920.00	\$1,920.00
BPU Total Water Charges:	\$80,808.19	\$97,049.88
Add PILOT fee:	n/a **	\$11,548.94
Total Amount Paid to BPU	\$80,808.19	\$108,598.82
Price Increase from 2010 to 2011:		\$27,790.62
Revenue Requirement increase for increased cost of purchased water:		<u>\$27,790.62</u>
Add Operating Margin of 6%:		<u>\$1,667.44</u>

Rate Case Expense:	
Suburban's Rate Case Expense:	\$ 4,500.00
	\$ 1,874.15
	\$ 4,605.95
	\$ 1,359.79
	<u>\$ 4,149.80</u>
Total Suburban RC Expense:	<u>\$ 16,489.69</u>
KCC Staff & CURB Rate Case Expense:	<u>\$ 15,212.50</u>

Maximum amount of regulatory expenses allowed per KSA 66-1502 (0.6% of operating revenues)	<u>\$ -</u>
Total Rate Case Expense:	<u>\$ -</u>
Amortize Rate Case Expense over 3 years:	\$ -

Rate Case Expense Adjustment: \$ 1,667.44

Revenue Requirement Increase: \$29,458.06

Rate increase per 1,000 gallons for retail customers: 0.346246919

** In the 1352 Docket, the PILOT fee of 9.9% was embedded in the \$1.70 per 1,000 gallons base rate

PURCHASED WATER ADJUSTMENT +
RECOMMENDATION #2 FOR RECOVERY OF RATE CASE EXPENSES

2010 Retail Sales (in gallons):	85,078,186	
Gallons of water included in customer charge:	18,504,000	
Gallons of water purchased from BPU, for the consumption of Suburban's retail customers:	46,404,819	* this is calculated with the estimate that Suburban purchased 44.8% of its total water from BPU in its last rate case

	Based upon \$1.70/1,000 BPU rate that was included in 07-SUBW- 1352-RTS	Based upon 2011 BPU rate charged to Suburban - \$2.05/1,000
BPU Charge for water:	\$78,888.19	\$95,129.88
Monthly Customer Charge paid to BPU:	\$1,920.00	\$1,920.00
BPU Total Water Charges:	\$80,808.19	\$97,049.88
Add PILOT fee:	n/a **	\$11,548.94
Total Amount Paid to BPU	\$80,808.19	\$108,598.82

Price Increase from 2010 to 2011:	\$27,790.62
Revenue Requirement increase for increased cost of purchased water:	<u>\$27,790.62</u>

Add Operating Margin of 6%:	<u>\$1,667.44</u>
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Rate Case Expense:

Suburban's Rate Case Expense:	\$ 4,500.00
	\$ 1,874.15
	\$ 4,605.95
	\$ 1,359.79
	\$ 4,149.80
Total Suburban RC Expense:	<u>\$ 16,489.69</u>
KCC Staff & CURB Rate Case Expense:	<u>\$ 15,212.50</u>

\$ 20,083.67

Commission limited regulatory expenses incurred by the company by outside consultants/counsel

	<u>\$ 5,809.26</u>
Maximum amount of regulatory expenses allowed per KSA 66-1502 (0.6% of operating revenues)	<u>\$ 5,809.26</u>
Total Rate Case Expense:	<u>\$ 11,618.52</u>

Amortiza Rate Case Expense over 3 years:	\$ 3,872.84
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Rate Case Expense Adjustment:	<u>\$ 3,872.84</u>
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Revenue Requirement Increase:	\$33,330.90
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Rate increase per 1,000 gallons for retail customers:	<u>0.391767871</u>
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** In the 1352 Docket, the PILOT fee of 9.9% was embedded in the \$1.70 per 1,000 gallons base rate

PURCHASED WATER ADJUSTMENT +
RECOMMENDATION #3 FOR RECOVERY OF RATE CASE EXPENSES

2010 Retail Sales (in gallons):	85,078,186	
Gallons of water included in customer charge:	18,504,000	
Gallons of water purchased from BPU, for the consumption of Suburban's retail customers:	46,404,819	* this is calculated with the estimate that Suburban purchased 44.8% of its total water from BPU in its last rate case

	Based upon \$1.70/1,000 BPU rate that was included in 07-SUBW-1352-RTS	Based upon 2011 BPU rate charged to Suburban - \$2.05/1,000
BPU Charge for water:	\$78,888.19	\$95,129.88
Monthly Customer Charge paid to BPU:	\$1,920.00	\$1,920.00
BPU Total Water Charges:	\$80,808.19	\$97,049.88
Add PILOT fee:	n/a **	\$11,548.94
Total Amount Paid to BPU	\$80,808.19	\$108,598.82

Price Increase from 2010 to 2011:	\$27,790.62
Revenue Requirement increase for increased cost of purchased water:	<u>\$27,790.62</u>

Add Operating Margin of 6%:	<u>\$1,667.44</u>
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Rate Case Expense:	
Suburban's Rate Case Expense:	\$ 4,500.00
	\$ 1,874.15
	\$ 4,605.95
	\$ 1,359.79
	\$ 4,149.80
Total Suburban RC Expense:	<u>\$ 16,489.69</u>
KCC Staff & CURB Rate Case Expense:	<u>\$ 15,212.50</u>
Amortize Suburban Rate Case Expenses over 3 years:	\$ 5,496.56
Maximum amount of regulatory expenses allowed per KSA 66-1502 per year (0.6% of operating revenues)	<u>\$ 5,809.26</u>

Total Rate Case Expense in year one:	\$ 11,305.82	(amortized Suburban expenses, plus .6% of operating revenues for KCC expenses in 448 Docket)
Total Rate Case Expense in year two:	\$ 11,305.82	(amortized Suburban expenses, plus .6% of operating revenues for KCC expenses in 448 Docket)
Total Rate Case Expense in year three:	\$ 9,090.54	(amortized Suburban expenses, plus remaining KCC expenses for 448 Docket)
Rate Case Expense Adjustment (year one):	<u>\$ 11,305.82</u>	
Rate Case Expense Adjustment (year two):	<u>\$ 11,305.82</u>	
Rate Case Expense Adjustment (year three):	<u>\$ 9,090.54</u>	

Revenue Requirement Increase (year one):	<u>\$40,763.88</u>
Revenue Requirement Increase (year two):	<u>\$40,763.88</u>
Revenue Requirement Increase (year three):	<u>\$38,548.60</u>

Rate increase per 1,000 gallons for retail customers (year one):	<u>0.479134371</u>
Rate increase per 1,000 gallons for retail customers year two:	<u>0.479134371</u>
Rate increase per 1,000 gallons for retail customers (year three):	<u>0.453096204</u>

** In the 1352 Docket, the PILOT fee of 9.9% was embedded in the \$1.70 per 1,000 gallons base rate

CERTIFICATE OF SERVICE

11-SUBW-448-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was placed in the United States mail, postage prepaid, electronic service, or hand-delivered this 30th day of March, 2011, to the following:

JAMES G. FLAHERTY, ATTORNEY
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Della Smith
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