

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

Before Commissioners: Mark Sievers, Chairman
Ward Loyd
Thomas E. Wright

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) Docket No. 12-SUBW-359-RTS
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.)

ORDER GRANTING MOTION FOR WAIVER

The above-captioned matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and determination. Having examined its files and records and being fully advised in the premises, the Commission finds and concludes as follows:

1. On November 16, 2011, Suburban Water Company (Suburban Water), pursuant to K.S.A. 66-117, 66-1,230, 66-1,232, 66-1,233 and K.A.R. 82-1-231(b) and (c), filed an Application seeking approval of the Commission of: (1) certain changes in its rates for water service; (2) an amendment to a contract for sale of water between Suburban Water and the Board of Public Utilities; and (3) approval of a Purchase Water Adjustment. Application, November 16, 2011, paragraphs 7, 12 (Application, ¶¶ 7, 12). Suburban Water is a privately owned water public utility serving approximately 1,500 residential and small commercial customers in Leavenworth County, Kansas. Application, ¶ 3. Suburban Water claims its existing retail water rates are unjust and unreasonable in that its earnings are deficient, and that rates based upon a cash-flow/margin approach will allow it to provide adequate supplies of water, and continue to

render the quality of service that the public requires. Suburban Water proposes to adjust its rates to increase its revenues annually by \$296,280. Application, ¶ 9.

2. Suburban Water requested the Commission waive rate case filing requirements under K.A.R. 82-1-231 to allow Suburban Water to support its proposed rates by using a cash-flow/margin approach rather than the rate base/rate of return approach. Suburban Water stated its calculations are still based upon a test-year as required by the Commission's rate application rules, and contain typical pro-forma adjustments to the utility's test year operating expenses and revenues, but that there are several reasons why the proposed cash-flow/margin approach is reasonable. Motion for Waiver, November 16, 2011, paragraph 3 (Motion, ¶ 3).

3. First, Suburban Water argues its rate base is relatively small and the majority of the investment needed to serve new customers is provided as contributions-in-aid of construction by real estate developers under the Commission-approved line extension policy for Suburban Water. Motion, ¶ 4. Second, Suburban Water's water storage facility and related facilities cost approximately \$1.2 million and was entirely financed by debt, thus Suburban Water has not sought to include this investment in rate base or to recover any return on that investment, and only seeks to recover depreciation expense on and interest of the debt incurred with respect to the financing. Motion, ¶ 4. Finally, Suburban states that the cash-flow/margin approach is more effective for small utilities as it uses a less complicated approach which can significantly reduce the cost of the rate case and the impact the costs has on customers, and it is typically used by small municipal and other public water utilities. Motion, ¶¶ 5-6.

4. Commission Staff (Staff) recommended the Commission approve of Suburban Water's use of cash-flow/margin approach to setting rates in this case. Report and Recommendation, December 14, 2011, page 2 (Staff Report, p. 2). Staff advised that the

Commission granted a similar motion made by Suburban Water in Docket No. 07-SUBW-1352-RTS. Staff explained that the cash-flow/margin approach has been used by the Commission in the past in establishing rates for municipal and cooperative utilities, and use of this approach will not mitigate the Commission's requirements that the resulting rates be cost-based, just and reasonable. Staff Report, p. 2.

5. The Commission notes that CURB has remained silent on this issue.

6. The Commission has authority, pursuant to K.A.R. 82-1-231(i), to waive filing requirements of the regulation for good cause shown. The Commission finds that good cause has been shown to grant Suburban Water's Motion. The Commission concurs with Staff's analysis of Suburban Water's Motion requesting waiver of the requirements of K.A.R. 82-1-231 insofar as necessary to permit the use of its cash-flow/margin approach to set rates, and notes that the Commission has previously approved of the use of the cash-flow/margin approach under similar circumstances. The Commission further finds and concludes that the request is reasonable, in the public interest and should be approved.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

A. The Commission grants the Motion for Waiver. The Commission waives the filing requirements of K.A.R. 82-1-231 insofar as necessary to permit the use of Suburban Water's cash-flow/margin approach to set rates in this docket.

B. A party may file a petition for reconsideration of this Order within 15 days from the date of service of this Order. If service is by mail, service is complete upon mailing and three days shall be added to the above time frame. K.S.A. 66-118b; K.S.A. 2010 Supp. 77-529(a)(1).

C. The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further orders as it may deem necessary.

BY THE COMMISSION IT IS SO ORDERED.

Sievers, Chairman; Loyd, Commissioner; Wright, Commissioner

Dated: JAN 04 2012



ORDER MAILED JAN 05 2012

Patrice Petersen-Klein
Executive Director

mrd

PLEASE FORWARD THE ATTACHED DOCUMENT (S) ISSUED IN THE ABOVE-REFERENCED DOCKET TO THE FOLLOWING:

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES
JAMES G. FLAHERTY, ATTORNEY ANDERSON & BYRD, L.L.P. 216 SOUTH HICKORY PO BOX 17 OTTAWA, KS 66067		
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ORDER MAILED JAN 05 2012

The Docket Room hereby certified that on this ____ day of _____, 20____, it caused a true and correct copy of the attached ORDER to be deposited in the United States Mail, postage prepaid, and addressed to the above persons.

PLEASE FORWARD THE ATTACHED DOCUMENT (S) ISSUED IN THE ABOVE-REFERENCED DOCKET TO THE FOLLOWING:

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES
JUDY JEWSOME, LITIGATION COUNSEL KANSAS CORPORATION COMMISSION 1500 SW ARROWHEAD ROAD TOPEKA, KS 66604-4027 ***Hand Delivered***		
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ORDER MAILED JAN 05 2012

The Docket Room hereby certified that on this _____ day of _____, 20_____, it caused a true and correct copy of the attached ORDER to be deposited in the United States Mail, postage prepaid, and addressed to the above persons.