BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 93-636-W/S - ORDER NO. 95-1480

AUGUST 30, 1995

IN RE: Application of Blue Ribbon Water Corp. for Approval of the Acquisition of Certain Systems, an Extension of Service Area, and General Increase in Water and Sewer Rates and Charges.	)))))	ORDER ON PETITION FOR REHEARING OR RECONSIDERATION

This matter is before the Public Service Commission of South Carolina ("the Commission") on the Petition for Rehearing or Reconsideration of Order No. 95-1330 ("the Petition") filed by Blue Ribbon Water Corp. ("Blue Ribbon" or "the Company"). Commission Order No. 95-1330, issued in this proceeding on July 12, 1995, approved the acquisition of certain systems by Blue Ribbon, granted an extension of service area to Blue Ribbon, and granted an increase in rates and charges. Blue Ribbon's Petition is filed pursuant to S.C. Code Ann. §58-5-330 (1976) and 26 S.C. Code Regs. 103-881 (Cum. Supp. 1994).

After review of Blue Ribbon's Petition, the record from this proceeding, the applicable law, and Order No. 95-1330, the Commission hereby grants reconsideration of Order 95-1330 for the purpose of modifying Order 95-1330. The specific issues of Blue Ribbon's Petition are discussed below.

I.

Blue Ribbon first asserts that "the Commission's Order No. 95-1330 applies the fundamental ratemaking principle of the use of a test year period inconsistently with established law so as to understate materially the Company's operating expenses and thereby reduce the Company's revenue requirement." (Petition, p. 2.) Blue Ribbon alleges error by the Commission for disallowing expenses associated with new personnel, plant and equipment, and chemicals and related depreciation which Blue Ribbon states that it will incur during the period in which the approved rates will be in effect. (Petition, p. 2.) Blue Ribbon argues that these disallowed expenses are more representative of the expenses which Blue Ribbon will experience in the future than the expenses actually incurred during the test year and therefore the disallowed expenses should be included in Blue Ribbon revenue requirements. (Petition, p. 2)

In Order 95-1330, the Commission accepted the Commission Staff's adjustments regarding these disputed expenses. (Order No. 95-1330, pp. 12-16.) The Commission applied the use of the test year in determining the Company's revenue and expenses requirements. The test year is selected in order to accurately measure revenues and expenses, and the purpose of the test year is to provide representative results which may be utilized to establish future rates. Adjustments may be made to the test year only if the adjustments are "known and measurable" for the out-of-period changes. Parker v. South Carolina Public Service

Commission, et al., 280 S.C. 310, 313 S.E.2d 290 (1984). In Order No. 95-1330, the Commission determined that the expenses proposed by the Company for the new personnel, plant and equipment, and chemicals and related depreciation did not meet the known and measurable standard.

Specifically regarding the new personnel, the record reveals that neither of the proposed new personnel has yet been hired. The Commission found that the salaries for those two positions is speculative as it is not known when or if those positions will be filled. (Order No. 95-1330, p. 13.) Therefore the Commission disallowed the salaries associated for those two positions to be included in rates at this time. The Commission discerns no error in its determination on salary expense.

Regarding the Commission's disallowance of the expenses for plant and equipment, the Commission did not include expenses for property not yet purchased. The Commission finds no error in excluding "proposed" or "estimated" expenses as such expenses do not satisfy the known and measurable standard. Parker, supra.

In Order No. 95-1330, the Commission also disallowed Blue Ribbon's adjustment for chemical expense. The record shows that the Company's adjustment for chemical expense was an "estimate" of the additional cost associated with lead and copper treatment. As shown in Hearing Exhibit No. 6, the Company requested Williams Engineering, Inc. of Rock Hill to provide a calculation of the amount of chemicals needed to treat the water for one (1) year. The Company then priced these additional chemicals on the rates it

is being charged by its suppliers. However, the letter from Williams Engineering also states that "[w]ith the limited information that I have regarding your systems, I cannot reliably calculate the chemical requirements." (Hearing Exhibit No. 6.) Even Mr. Hopper, President of Blue Ribbon, admitted in his testimony that each well is different in its mineral content and each well has different treatment needs. The Commission found that Staff's adjustment properly reflected known and measurable expenses associated with chemical expenses and approved Staff's adjustment for chemical expense which was based on the chemical expenses as of the date of the Staff's audit. (Order No. 95-1330, p. 14.) The Commission finds no error in its approval of Staff's adjustment for chemical expense.

Blue Ribbon also asserts error by the Commission for disallowing its proposed adjustment to depreciation expense. The Commission found that the Company's adjustment did not satisfy the known and measurable standard because the Company's adjustment included property not yet purchased or placed in service. Furthermore, as the property has not yet been purchased, it is not "used and useful" in providing service, and the Commission believes that it properly accepted the Staff's adjustment of depreciation. Additionally, the Company computed depreciation on the accelerated income tax basis. The Commission approved Staff's adjustment which recomputed depreciation of existing plant using NARUC guidelines. The Commission finds no error in its treatment of depreciation expense.

II.

Blue Ribbon next alleges that the 10.12% operating margin approved by the Commission in Order No. 95-1330 is "inadequate to permit the Company a fair opportunity to produce revenues which will assure confidence in the Company's financial integrity and that be adequate to enable the Company, through efficient and economical management, to maintain and support its credit to enable it to raise the funds necessary for the proper discharge of its public responsibilities." (citation omitted, Petition p. 3.) In Order No. 95-1330, the Commission approved an operating margin of 10.12% for Blue Ribbon. In approving a 10.12% operating margin, the Commission considered, among other factors, the interests of the Company with the competing interests of the ratepayers. (Order No. 95-1330, p. 27.) The Commission also considered the capital improvements which the Company has made "to improve and upgrade the water and sewerage system so that its customers may continue to receive adequate service." (Order No. 95-1330, p. 27.)

The determination of a fair operating margin is peculiarly within the province of the PSC. Seabrook Island Property Owners Assn. v. South Carolina Public Service Commission, et al., 303 S.C. 493, 401 S.E.2d 672 (1991). The Commission finds no error with its approval of a 10.12% operating margin for Blue Ribbon. While the approved operating margin is less than what was requested by Blue Ribbon, the Commission believes that a 10.12% operating margin is supported by the record in this case.

III.

Finally, Blue Ribbon contends that "Order No. 95-1330 imposed a schedule for the effective dates for the approved rates and charges which is unjust and unreasonable." (Petition p. 3.) By its Application, Blue Ribbon proposed a schedule of uniform rates for its consolidated utility systems. In Order No. 95-1330, the Commission agreed that a uniform system of rates would reduce confusion and error on the part of the Company; however, the Commission also stated that it was concerned with possible rate shock to the customers. (Order No. 95-1330, p. 29.) To ease the rate shock to these customers, the Commission adopted a phase-in schedule for the rates approved in Order No. 95-1330.

An examination of the record reveals quite a bit of evidence regarding the quality of service from customers in numerous subdivisions served by Blue Ribbon. The record also contains testimony regarding the cost of the water service. S.C. Code Ann. §58-5-210 (1976) gives the Commission statutory authority "to supervise and regulate the rates and service of every public utility in this State." In exercising that authority, the Commission is allowed the discretion to impose reasonable requirements on the public utilities in this State. Based on the record of this case, the Commission finds no error in the phase-in schedule set forth in Order No. 95-1330.

IV.

After review of Order No. 95-1330, the Commission notes that the Order leaves out a requirement that the Commission desired to

be placed on the Company with regard to the phase-in of the rate schedule. During the hearing, Mr. Hopper, President of Blue Ribbon, testified about improvements that had been made to the system and also testified about additional improvements that the Company needed to make to the system. The Commission intends to monitor the progress of the Company in making these improvements as testified to by Mr. Hopper. In order to monitor the progress of the Company in making these improvements, the Commission directs the Company to file with the Commission a schedule setting forth the improvements that need to be made to the system and a time table of when these improvements will be made. The Commission Staff is directed to inspect and to monitor the improvements on the system and to inform the Commission of the Company's progress in making the improvements. Furthermore, the Company shall not implement the next phase on the rate schedule until such time as the improvement schedule is submitted and approved by the Commission.

IT IS THEREFORE ORDERED THAT:

1. The Petition for Rehearing or Reconsideration filed by Blue Ribbon is granted in order to modify Order No. 95-1330.

2. Blue Ribbon's grounds for rehearing or reconsideration as stated in its Petition are hereby denied.

3. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Rudolph Mitchell
Chairman

ATTEST:

Charles W. Dalton
Executive Director

(SEAL)