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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the request of The Raytown Water Company for an interim increase in rates for water service.)
) Case No. WR-94-300
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)

APPEARANCES

Derron D. Gunderman, Spradley & Riesmeyer, Suite 1900, Boatmen's Center, 920 Main, Kansas City, Missouri 64105, for The Raytown Water Company.

John B. Coffman, Senior Public Counsel, Office of Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of Public Counsel and the public.

William K. Haas, Assistant General Counsel, and **Eric D. Witte**, Assistant General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the staff of the Missouri Public Service Commission.

REPORT AND ORDER

On March 28, 1994, The Raytown Water Company (Raytown) filed a petition with the Commission requesting that it be granted an increase in the rate for water usage on an interim subject to refund basis. Raytown stated in its request that the interim rate request was to pass through a rate increase due May 1, 1994, by its wholesale supplier, the city of Kansas City, Missouri (Kansas City). The interim rate increase is proposed to continue in effect until permanent rates are established in Raytown's current pending general rate increase case, Case No. WR-94-211. On April 4, 1994, the Office of Public Counsel (OPC) filed motions opposing the request and to dismiss the petition. On April 12, 1994, Raytown filed a response to OPC's motions.

The Commission on April 13, 1994, issued an order giving notice of the Petition For Interim Rate Relief and establishing a procedural schedule, including a hearing, to consider the matter. On April 15, 1994, Raytown filed

a tariff showing the interim rate proposed to be charged. On April 22, 1994, Commission Staff filed a memorandum recommending that the Commission approve the proposed tariff.

A hearing was held in this case as scheduled on April 27, 1994. Closing statements were presented by the parties at the hearing and the case is now before the Commission for decision.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact.

The Raytown Water Company is a regulated public water utility which provides water service to an area including the city of Raytown, Missouri. Raytown receives water wholesale from the city of Kansas City, Missouri. On April 14, 1994, Kansas City passed an ordinance which increased the charge for water to its wholesale customers, including Raytown. The evidence indicates the increase was approximately 6.5 percent for Raytown, and will take effect on May 1, 1994. Raytown has filed a proposed tariff to pass through the increase in wholesale water costs. The tariff would increase the charge for water usage by \$.11 from \$2.63 per thousand gallons to \$2.74 per thousand gallons.

Although a significant amount of evidence was introduced at the hearing concerning the operations of Raytown, the Commission finds that the focus of this proceeding is on the extent to which an emergency situation will exist once the May 1 wholesale rate increase is in effect. The Commission finds that the evidence adduced by Raytown and Commission Staff is sufficient to support approval of the interim rate increase. The evidence indicated that Raytown has a large accounts payable balance on its books, that Raytown has reduced its inventory of replacement parts, which could affect its ability to serve its

customers, and that it has recently been denied short term borrowing by its primary lending institution.

The evidence indicates that the cost of water is 50 percent of Raytown's overall cost of providing service and that the Commission has traditionally allowed for a pass-through of the increase in wholesale water rates without a hearing. This pass-through has occurred as recently as May 18, 1993. In addition, Staff adduced evidence that Raytown had a serious cash flow problem and that Raytown needed the funds to be generated from the interim rate increase immediately. Staff also adduced evidence that Raytown's debt service coverage ratio is below that required to be maintained by the letter of credit agreement between Raytown and Mercantile bank of St. Louis. Based upon Staff's analysis, Raytown's debt service coverage had decreased to 1.14 in 1993, which is substantially below the 1.5 required.

OPC's evidence focused on the operations of Raytown and areas where OPC believes Raytown could cut costs to cover the increase in wholesale water costs. The Commission finds that this evidence addresses issues that are relevant to the permanent rate increase, but is not sufficiently compelling to warrant a denial of the interim increase. OPC's evidence concerning allegedly imprudent expenditures by Raytown over the preceding year raises serious concerns about the way the company is operated, but this evidence does not outweigh the evidence of the financial need of the company during the interim period before permanent rates will go into effect. The evidence of potential ongoing savings also raises significant questions about the management of the company and should be addressed in establishing permanent rates for Raytown.

The evidence of ongoing savings included items that the Commission finds should not be used in determining whether an emergency exists. Factors which the Commission considers important to evaluate an emergency situation are whether there would have to be layoffs of personnel, whether dividends must be

delayed or not paid, and whether a company could continue to provide safe and adequate service to its customers. The first two factors are part of the potential ongoing savings which the company could accomplish, cited by OPC to show that Raytown is not in an emergency situation. These items cut both ways when dealing with a request for interim relief. The Commission finds that the third factor is supported by the evidence of the low inventory of replacement parts maintained by Raytown and the potential for interruption of service to customers because of the low inventory if a series of breaks occurs in the water system.

The Commission also finds that a significant factor in granting the interim rate increase request is that the Commission has traditionally allowed the pass-through of increases of wholesale water costs for Raytown. If there were no permanent rate increase case now before the Commission, the Commission finds that it would grant an increase in rates which result from the increase of wholesale water costs. In this case Raytown has only asked for an interim increase in rates pending a decision in the permanent rate case and subject to refund. Under these circumstances the customers are protected from any over-recovery by Raytown.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

The Commission has jurisdiction over Raytown pursuant to the provisions of Chapters 386 and 393, R.S.Mo., and has jurisdiction over the rates charged by Raytown to its customers. The Commission has been found to have the authority to approve interim rate requests under the appropriate circumstances. *State ex rel. Laclede Gas Company v. PSC*, 535 S.W.2d 561, 567 (Mo. App. 1976). The Commission has found in this case that the evidence of the financial

condition of the company is sufficiently serious to warrant approval of an interim rate increase to cover the increased costs of wholesale water from its supplier. Based upon this evidence, the Commission concludes that Raytown is unable to arrange short term borrowing to ensure that its customers receive safe and adequate service during the interim period before permanent rates are established in Case No. WR-94-211, and therefore an emergency situation exists.

The Commission also concludes that this is not single-issue ratemaking since the interim increase is subject to refund. In addition, the Commission has, in the past, granted the pass-through of wholesale costs for this company without a hearing. The Commission will grant the interim rate increase request of Raytown and approve the tariff.

IT IS THEREFORE ORDERED:

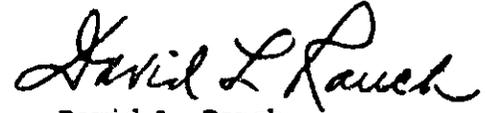
1. That the proposed tariff filed by The Raytown Water Company which implements an increase in water usage rates on an interim subject to refund basis be hereby approved for service on and after May 15, 1994. The tariff sheet approved is:

P.S.C. MO. No. 3
Original Sheet No. 1.1

2. That the motions filed by Office of Public Counsel to reject or dismiss the tariff be hereby denied.

3. That this Report And Order shall become effective on the
15th day of May, 1994.

BY THE COMMISSION



David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., Perkins, Kincheloe
and Crumpton, CC., concur and
certify compliance with the
provisions of Section 536.080,
R.S.Mo. 1986.
McClure, C., absent.

Dated at Jefferson City, Missouri,
on this 29th day of April, 1994.