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David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Linda Breathitt
Commissioner

December 5, 2013

PARTIES OF RECORD

Re: Case No. 2013-00258
Application of Classic Construction, Inc. for Rate Adjustment for Small Utilities
Pursuant to 807 KAR 5:076

Attached is a copy of the memorandum that has been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Ann Ramser, Commission Staff Attorney, at (502) 782-2585.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen".


Jeff Derouen
Executive Director

AR/kar
Attachments

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case No. 2013-00258
Classic Construction, Inc.

FROM: Ann Ramser
Staff Attorney 

DATE: December 5, 2013

RE: Informal Conference of December 4, 2013

Pursuant to the Commission's Order of September 18, 2013, an informal conference was held in Case No. 2013-00258 on December 4, 2013. Attending the conference were:

David Foster	-	Commission Staff
Scott Lawless	-	Commission Staff
Daryl Parks	-	Commission Staff
Ann Ramser	-	Commission Staff
Sam Reid	-	Commission Staff
Ariel Turnbull	-	Commission Staff
George Wakim	-	Commission Staff
Russell Givens	-	Classic Construction, Inc.
Gregory Dutton	-	Office of Attorney General

A copy of the signed attendance roster is attached.

Beginning the conference, Ms. Ramser stated that Commission Staff would prepare minutes of the conference for the case record, that a copy of the minutes would be provided to all parties, and that all parties would be given an opportunity to submit written comments upon those minutes.

Mr. Givens acknowledged that he acquired ownership of Classic Construction, Inc. ("Classic Construction") in 2003 and that this was his first alternative rate filing. Ms. Ramser then reviewed the current rates, Classic Construction's proposed rates, and the rates proposed by Commission Staff.

The current flat rate is \$29.57 and in its rate application, Classic Construction requested a flat rate of \$45, a 52.18% increase. The numbers supplied by Classic Construction in its application only supported a rate increase of \$40.21, a 35.98% increase. In the Commission Staff's Report filed October 31, 2013, Commission Staff found that many of Classic Construction's expenses were not properly documented and

disallowed more than \$9,400 in expenses.¹ Based on the documented expenses available at the time of the Commission Staff's Report, Commission Staff found that a flat rate of \$30.30, a 2.46% increase, would produce Classic Construction's required operating revenues.

On November 26, 2013, Classic Construction provided additional documentation.² Based on the additional documentation, Ms. Ramser advised that a flat rate of \$36.57, a 23.67% increase, would produce Classic Construction's required operating revenues.

Ms. Ramser then reviewed the Pro Forma Operating Statement on page 6 of the Commission Staff's Report and indicated the changes occurring as a result of the additional documentation Classic Construction provided.

Due to the lack of documentation, Commission Staff originally reduced Classic Construction's test year amount by \$3,152 for *fuel and power* expense. Classic Construction provided copies of checks written to Kentucky Utilities, invoices, and 2012 usage and billing histories provided by Kentucky Utilities.³ The usage and billing histories for Shenandoah Drive pump station and Owenton Road pump total \$4,083 but do not include any taxes. School taxes of \$245 and Sales taxes of \$130 bring the *fuel and power* test year expense to \$4,457. This amount is \$174 less than the \$4,631 listed in Classic Construction's application.

In its comments, Classic Construction requested that the *fuel and power* expense be increased by the percentage of the increase granted to Kentucky Utilities by the Commission.⁴ Kentucky Utilities rate increase of 5.6% is a known and measurable expense. Due to Kentucky Utilities' rate increase, Classic Construction's test year *fuel and power* expense should be increased by \$250 (5.6% of \$4,457). The adjustment to the *fuel and power* expense is \$76 (\$250 for the Kentucky Utilities rate increase less the \$174 not documented by Classic Construction). Based on the additional documentation provided and Kentucky Utilities rate increase, the pro forma amount for *fuel and power* expense on page 6 of the Commission Staff Report changes from \$1,479 to \$4,707.

Commission Staff originally reduced Classic Construction's *maintenance of treatment and disposal* expense by \$2,203 due to lack of documentation. Classic Construction provided the following exhibits with its November 26, 2013 comments.

¹ Commission Staff's Report, Attachment B.

² Comments of Classic Construction, Inc. to Commission Staff Report filed November 26, 2013.

³ *Id.*, Exhibit 1.

⁴ *Id.* at ¶ 9.

	Vendor Name	Amount	Invoice Date
Exhibit 3	Wayne's Perry's Septic Tank Service, Inc.	\$410.00	2/9/2012
Exhibit 4	Mike Wilson Electric LLC	\$482.30	2/1/2012
Exhibit 5	Edmondson Plumbing & Heating, Inc.	\$341.55	12/1/2012
Exhibit 6	Kentucky Welding Tool and Die, Inc.	\$263.50	12/26/2012
Exhibit 7	Oldcastle Precast	\$349.80	11/14/2012
		\$1,847.15	

With the additional documentation Classic Construction's *maintenance of treatment and disposal plant* expense is reduced by \$356 instead of \$2,203 due to lack of documentation. Based on the additional documentation, the pro forma amount for *maintenance of treatment and disposal plant* expense on page 6 of the Commission Staff's Report changes from \$443 to \$2,290 (an increase of \$1,847).

The *amortization* expense on page 6 of the Commission Staff's Report reflected \$740 to amortize the \$3,700 permit fee over five years. Classic Construction provided documentation for \$1,000 in attorney fees for rate case expenses.⁵ Classic Construction's written comments indicate it paid Doug Carpenter \$500 for accounting services in connection with this rate case and that a copy of the invoice will be provided.⁶ The \$1,500 in rate case expense is amortized over five years, increasing the *amortization* expense by \$300. Based on the written comments and additional documentation, the pro forma amount for *amortization* expense on page 6 of the Commission Staff's Report changes from \$740 to \$1,040.

Due to lack of documentation, Commission Staff originally reduced *taxes other than income* expense by \$1,908. Classic Construction provided a copy of the Ridgewood Sub Sewer Plant property tax invoice dated January 12, 2012 showing a grand total of \$846.46 or \$1,024.22 if paid after February 12, 2012.⁷ Classic Construction paid the January 12, 2012 property tax invoice after February 12, 2012. Classic Construction also provided a copy of the Ridgewood Sub Sewer Plant property tax invoice dated November 1, 2012 showing a grand total of \$868.84 or \$1,051.30 if paid after December 1, 2012.⁸ Classic Construction timely paid the November 1, 2012 property tax invoice. Based on the additional documentation, the *taxes other than income* expense is now reduced by \$192 instead of \$1,908. The January 12, 2012 property tax invoice late fee expense of \$178 was not included as a reasonable expense. The remaining amount not allowed represents a Kentucky license fee for which Classic Construction failed to provide documentation.⁹ Based on the additional documentation, the pro forma amount for *taxes other than income* expense on page 6 of the Commission Staff's Report changes from \$360 to \$2,076.

⁵ *Id.* Exhibit 8.

⁶ *Id.* Classic Construction needs to provide the invoice from Doug Carpenter.

⁷ *Id.* Exhibit 2.

⁸ *Id.*

⁹ Commission Staff's Report, Attachment B.

The additional documentation Classic Construction provided changes the *total operating expenses before income taxes* on page 6 of the Commission Staff's Report from \$33,871 to \$40,962. The *net operating income before income taxes* changes from \$4,097 to (\$2,994). A copy of the revised pro forma operating statement is attached.

Ms. Ramser then presented the calculations for Classic Construction's overall revenue requirement and monthly sewer rate. A copy of the calculations is attached.

Mr. Givens asked about the adjustment for *sewer service* revenue. During the test year, Classic Construction received \$35,984 in *sewer service* revenues. In its application, Classic Construction indicated they had 107 customers. Commission staff adjusted the *sewer service* revenue by adding \$1,984 for a pro forma amount of \$37,968. The \$37,968 is based on 107 customers at a monthly rate of \$29.57 for 12 months. Mr. Givens explained that Classic Construction's maximum capacity is 107, but that he does not always have 107 customers. Mr. Reid and Mr. Lawless explained that the calculation was based on information provided in the application.

Mr. Givens asked if the checks written to cash would be included as an operating expense. Included with Classic Construction's written comments was Mr. Givens' affidavit explaining the purpose of the checks written to cash.¹⁰ The checks, totaling \$1,435, were for services to maintain the wastewater treatment plant. Scott Givens provided the services and he was paid in cash.¹¹ Mr. Givens stated that his son is Scott Givens. Ms. Ramser showed Mr. Givens a copy of the Statement of Disclosure of Related Party Transactions, ARF Form 3, which Mr. Givens signed on August 23, 2013. Mr. Givens acknowledged signing the ARF Form 3 indicating that Classic Construction had no related party transactions.

Ms. Ramser further explained that additional documentation of the work performed by Scott Givens would be necessary for the cash payments to be considered as a reasonable expense. Classic Construction had not provided the number of hours Scott Givens worked, when the hours were worked, and the type of work performed on specific dates. Mr. Lawless recommended that Mr. Givens make all future payments by check after documenting the number of hours worked, the date the hours were worked, and the work performed. Ideally, Scott Givens should provide an invoice for payment to Mr. Givens.

Mr. Givens asked about the failure to adjust the *agency collection fee* by 15% of any increase in the monthly flat sewer rate. Mr. Dutton explained that the Office of the Attorney General is concerned that customers are not receiving any additional benefits for an increase in the *agency collection fee* and Classic Construction is not able to provide proof that the collection agency's cost increased.

¹⁰ Comments of Classic Construction, Inc. to Commission Staff Report filed November 26, 2003, Exhibit 10.

¹¹ *Id.*

Classic Construction provided copies of four requests for proposals for billing and collection services with its written comments.¹² Mr. Givens advised that Robert A. Amato, professional engineer, declined to provide a quote because Mr. Amato could not provide the billing and collection services cheaper than Peaks Mill Water District.¹³ Mr. Givens also provided a response from Harrod & Associates, P.S.C. declining to submit a proposal because they could not provide collection services for unpaid bills. A copy of the response is attached.

Mr. Lawless advised Mr. Givens to seek proposals from businesses that provide billing and collection services including businesses outside of Kentucky. The requests for proposals provided with Classic Construction's written comments were sent to a professional engineer and two public accountants. Only one request for proposal was sent to a company that appeared to provide billing and collection services (Liberty Billing, LLC) on a regular basis. Classic Construction has not received a response from Liberty Billing. Mr. Givens was also questioned about attempts to renegotiate the contract with Peaks Mill.

Mr. Givens asked if the loan payments based on the loan he made to Classic Construction would be considered as an expense. Included with Classic Construction's written comments was a copy of the promissory note.¹⁴ Mr. Lawless explained that recovery of costs for capital expenditures is allowed.

After all of Mr. Givens questions were answered, Ms. Ramser discussed the possibility of entering into stipulations. Mr. Givens indicated he would stipulate to an increase in rates to \$36.57 as presented during the informal conference.

Mr. Dutton indicated that he needed to review the documentation and figures presented during the informal conference before indicating whether or not he would recommend entering into a stipulation to the Attorney General.

The conference then adjourned.

Attachments

Signed Attendance Roster

Revised pro forma operating statement

Calculations for revenue requirement and monthly sewer rate

Harrod & Associates, PSC Letter

cc: Parties of Record

¹² *Id.*, Exhibit 9.

¹³ *Id.*

¹⁴ *Id.*, Exhibit 11.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CLASSIC CONSTRUCTION,) CASE NO.
INC. FOR RATE ADJUSTMENT FOR SMALL) 2013-00258
UTILITIES PURSUANT TO 807 KAR 5:076)

Please sign in:

NAME	REPRESENTING
<u>Dussell Grews</u>	<u>Classic Construction</u>
<u>Scott Lawless</u>	<u>PSC Staff</u>
<u>Daryl Parks</u>	<u>PSC Staff</u>
<u>Gregory Dutton</u>	<u>OAG</u>
<u>Ariel Turnbull</u>	<u>PSC Staff</u>
<u>Ann Ramser</u>	<u>PSC Staff</u>
<u>David L. Pugh</u>	<u>PSC Staff</u>
<u>Sam Reid</u>	<u>PSC Staff</u>
<u>George Wakim</u>	<u>" "</u>

	Test Year	Adjustments	Ref.	Pro forma
Operating Revenue				
Sewer Service Revenue	<u>\$ 35,984</u>	<u>\$ 1,984</u>	A	<u>\$ 37,968</u>
Total Operating Revenue	<u>35,984</u>	<u>1,984</u>		<u>37,968</u>
Operating Expenses				
Operation and Maintenance				
Owner/Manager Fee		3,600	B	3,600
Collection System	9,049	2,951	C	12,000
Treatment System - Sludge Hauling	2,605			2,605
Treatment System - Water Cost	304			304
Fuel and Power	4,631	76	D	4,707
Chemicals	284			284
Routine Maintenance Fees	1,450	1,874	E	3,324
Maintenance of Pumping System	1,961	(1,756)	D	205
Maintenance of Treatment and Disposal Plant	2,942	(356)	D	
		(96)	F	
		(200)	G	2,290
Agency Collection Fee	5,398		H	5,398
Office Supplies and Other Expenses	1,148	(417)	D	
		(197)	I	534
Outside Services Employed	1,350	(1,050)	G	300
Transporation Expenses	<u>379</u>	<u>(379)</u>	J	
Total Operation and Maintenance Expense	31,501	4,050		35,551
Amortization		1,040	K	1,040
Depreciation	796	1,499	L	2,295
Taxes Other Than Income	6,173	(192)	D	
		(3,700)	K	
		(205)	M	2,076
Total Operating Expenses Before Income Taxes	<u>38,470</u>	<u>2,492</u>		<u>40,962</u>
Net Operating Income Before Income Taxes	<u>\$ (2,486)</u>	<u>\$ (508)</u>		<u>\$ (2,994)</u>

Pro Forma Operating Expenses Before Income Taxes	\$ 40,962
Divide by: Operating Ratio	<u>0.88</u>
Sub-Total	46,548
Less: Pro Forma Operating Expenses Before Income Taxes	<u>40,962</u>
NOI Allowed Before Income Taxes	5,586
Add: LLE Tax	175
Interest Expense	238
Pro Forma Operating Expenses Before Income Taxes	<u>40,962</u>
Overall Revenue Requirement	<u><u>46,961</u></u>
Overall Revenue Requirement	46,961
Less: Pro Forma Present Rate Revenues	<u>(37,968)</u>
Revenue Increase	<u><u>8,993</u></u>
Revenue Requirement	46,961
Divided: Total Customers x 12 Months (107 X 12)	<u>1,284</u>
Monthly Sewer Rate	<u>\$ 36.57</u>

HARROD & ASSOCIATES, P.S.C.

Certified Public Accountants

#2 HMB CIRCLE, SUITE A
FRANKFORT, KENTUCKY 40601

TEL. (502) 695-7300

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MEMBER
AMERICAN INSTITUTE OF CPA'S
KENTUCKY SOCIETY OF CPA'S

DEC 02 2013

November 27, 2013

Rob Moore
Hazelrigg & Cox, LLP
P.O. Box 676
Frankfort, KY 40602

Dear Rob,

Thank you so much for the opportunity to provide accounting services for Classic Construction Wastewater systems operations. After a review of the job requirements we feel there are several areas for which we are not equipped to handle, most notably collections of unpaid bills. For this reason we regretfully decline the invitation to bid on the accounting work. Again, we do appreciate being considered.

Sincerely,


David R. Harrod, CPA