

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WESTERN LEWIS)
RECTORVILLE WATER DISTRICT FOR A)
RATE ADJUSTMENT PURSUANT TO THE) CASE NO. 9641
ALTERNATIVE RATE ADJUSTMENT)
PROCEDURE FOR SMALL UTILITIES)

O R D E R

IT IS ORDERED that:

1. The Staff Audit Report for Western Lewis Rectorville Water District ("Western Lewis Water") attached hereto as Appendix A shall be included as a part of the record in this proceeding. In the event a public hearing is held, staff preparing the Staff Report will be available for cross-examination.

2. Western Lewis Water shall also have until the close of business on November 25, 1986, to file written comments concerning the staff report in Appendix A. In the event Western Lewis Water desires a public hearing, it shall file a Motion requesting such hearing, with a copy to all parties of record.

Done at Frankfort, Kentucky, this 11th day of November, 1986.

PUBLIC SERVICE COMMISSION

ATTEST:

Richard D. Wemmer, Jr.
For the Commission

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 9641 DATED NOVEMBER 11, 1986.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

REPORT ON
THE LIMITED SCOPE AUDIT
OF
WESTERN LEWIS RECTORVILLE WATER DISTRICT

Prepared By:

Tom Wells
Public Utilities Financial
Analyst Principal
Electric and Gas Revenue
Requirements Branch
Rates and Tariffs Division

REPORT ON THE
LIMITED SCOPE AUDIT
OF
WESTERN LEWIS RECTORVILLE WATER DISTRICT

PREFACE

On July 16, 1986, Western Lewis Rectorville Water District ("Western Lewis Water") filed its application pursuant to 807 KAR 5:076, Alternative Rate Filing Procedure for Small Utilities, ("ARF"), requesting authority to increase its rates charged for furnishing water. The proposed rates would generate \$14,726 annually in additional revenues.

In order to expedite the processing of this case and substantially reduce the need for written data requests, the Commission staff chose to perform an audit, limited in scope, on the operations of Western Lewis Water. The audit was conducted by Tom Wells of the Commission's Rates and Tariffs Division on September 8-11, 1986, at the offices of Western Lewis Water, Maysville, Kentucky.

SCOPE

The scope of this audit was limited to ascertaining whether the operating expenses for the test period ended December 31, 1985, were accounted for in accordance with the Uniform System of Accounts for Class C and D Water Utilities ("USoA") and were properly allocated.

FINDINGS

Following is a discussion of the findings of the audit and recommended adjustments to the test-year operating expenses:

Associated Companies

Western Lewis Water is operated from the same office as Western Lewis Rectorville Gas District. Some costs are allocated on a 50-percent basis such as most of administrative and general costs. Other costs are specifically identified as belonging to either the gas or water operation. The only allocation method observed was the 50-percent allocation of certain administrative and general expenses.

Maintenance of Pumps

Western Lewis Water reported \$7,180 in maintenance of pumps expense. An audit of this account showed that \$4,762 of the reported amount was expensed in December 1985, to Reynolds Supply, Inc., for parts to rebuild certain pumps. As this rebuilding will benefit more than one accounting period, the reported \$7,180 in maintenance expense has been reduced by \$4,762 to \$2,418 annually. The appropriate depreciation expense will be recognized elsewhere in this report.

Operation Supplies and Expenses

Western Lewis Water reported \$3,888 in operation supplies and expenses for the test period. An audit of this accounts showed that the following capital items were expensed currently:

<u>Payee</u>	<u>Expense Date</u>	<u>Description</u>	<u>Amount</u>
Lute Plumbing Supply	1/85	Service Lines	\$ 215
Southern Cross Corp.	3/85	Pipe Horn	459
Mid-States Meter	10/85	Meter Parts	1,539
Ross Valve	12/85	Solenoid Valve	276

These assets provide economic benefits for more than a single accounting period and, therefore, have been capitalized.

The audit of operation supplies and expenses also showed that certain items had been 50 percent allocated to gas operations which were exclusively attributable to water operations:

<u>Payee</u>	<u>Expense Date</u>	<u>Description</u>	<u>Amount</u>
J.C. Everette Company	9/85	HTH - 50%	\$73
J.C. Everette Company	10/85	HTH - 50%	73

Therefore, operations supplies and expense has been increased by \$146 annually.

The aggregate effect of these adjustments is to reduce operation supplies and expenses by \$2,343 to \$1,545 annually. Depreciation expense on the capitalized items is recognized elsewhere in this report.

Maintenance of Standpipes

Western Lewis Water reported \$2,250 in maintenance of standpipes for the test period. The expense consisted of one charge of \$2,250 paid to Consolidated Tank and Tower Service for cleaning and painting towers. This expenditure will provide economic benefits for more than a single period and has, therefore been capitalized reducing the test period expense to \$0. Appropriate depreciation expense is recognized elsewhere in this report.

Outside Services Employed

Western Lewis Water reported \$1,322 in outside services employed for the test period. An audit of this account shows that three invoices totaling \$504 were charged to water operations which are more appropriate expenses of gas operations:

<u>Payee</u>	<u>Expense Date</u>	<u>Description</u>	<u>Amount</u>
Accounting Data Corp.	3/85	PGA Work	\$ 19
HEA, Inc.	4/85	PGA Work	260
HEA, Inc.	11/85	PGA Work	225

Therefore, outside services employed has been reduced by \$504 to \$818 annually for the water operations.

Rents

Although Western Lewis Water reported no rental expense for the test period it had been billed \$1,200 in rents and had charged \$564 of the rent expense to various other expense accounts. The additional \$636 was either charged to the gas operations or omitted entirely. Therefore, rent expense has been increased by \$636 for the test period.

Depreciation Expense

Western Lewis Water reported \$13,306 in depreciation expense for the test period. Certain items have been capitalized elsewhere in this report. The following shows the payee, the description, the appropriate useful life, the cost and the related depreciation expense:

<u>Payee</u>	<u>Description</u>	<u>Years of Life</u>	<u>Cost</u>	<u>Depreciation</u>
Reynolds Supply	Rebuild pumps	10	\$4,762	\$ 476
Lute Plumbing	Service lines	20	215	11
Southern Cross Corp.	Pipe horn	10	459	46
Mid-State Meter	Rebuild meters	10	1,539	154
Consolidated Tank	Clean and paint	5	2,250	450
Total				<u>\$1,137</u>

Therefore, depreciation expense has been increased by \$1,137 to \$14,443 for the test period.

SUMMARY

The following is a summary of the effect of these adjustments on Western Lewis Water's test-year operating statement:

Acct. No.	Account Name	Test Year Reported	Staff Adjustments	Test Year Adjusted
<u>Total Operating Revenues</u>		\$80,999	\$ -0-	\$80,999
622	Fuel or Power for Pumping	14,019	-0-	14,019
625	Maintenance of Pumps	7,180	<4,762>	2,418
635	Maintenance of Treatment Plant	2,660	-0-	2,660
640	Operation Labor	5,709	-0-	5,709
641	Operation Supplies and Expenses	3,888	<2,343>	1,545
650	Maintenance of Standpipes	2,250	<2,250>	-0-
651	Maintenance of Mains	2,079	-0-	2,079
652	Maintenance of Services	3,751	-0-	3,751
653	Maintenance of Meters	5,947	-0-	5,947
654	Maintenance of Hydrants	210	-0-	210
901	Meter Reading Labor	2,909	-0-	2,909
902	Accounting and Collection Labor	1,171	-0-	1,171
903	Supplies and Expenses	953	-0-	953
920	Administrative and General Salaries	6,067	-0-	6,067
921	Office Supplies and Expenses	3,844	-0-	3,844
923	Outside Services Employed	1,322	<504>	818
924	Property Insurance	399	-0-	399
926	Employee Pensions and Benefits	127	-0-	127
930	Miscellaneous General Expenses	50	-0-	50
931	Rents	-0-	636	636
933	Transportation Expense	442	-0-	442
403	Depreciation Expenses	13,306	1,137	14,443
408	Taxes Other Than Income	475	-0-	475
<u>Total Operating Expenses</u>		\$78,758	\$<8,086>	\$70,672
<u>OPERATING INCOME</u>		<u>\$ 2,241</u>	<u>\$ 8,086</u>	<u>\$10,327</u>

CONCLUSION

The books and records maintained by Western Lewis Water are reasonably in accordance with the USoA. The most serious flaw in its system is Western Lewis Water's review of expenditures to determine the capital or current expense nature of these expenditures. Western Lewis Water should review all expenditures over \$100 which may be capital in nature.

Respectfully Submitted,



Tom Wells, Public Utilities Financial
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Electric and Gas Revenue Requirements
Branch
Rates and Tariffs Division