

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF VERNA HILLS, LTD.)	
FOR A RATE ADJUSTMENT PURSUANT TO)	CASE NO.
THE ALTERNATIVE RATE FILING PROCEDURE)	91-403
FOR SMALL UTILITIES)	

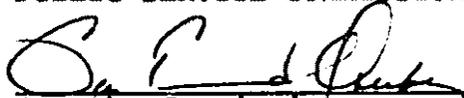
O R D E R

On November 4, 1991, Verna Hills, Ltd. ("Verna Hills") filed its application for Commission approval of a proposed increase in its rates for sewer service. Commission Staff, having performed a limited financial review of Verna Hills' operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this order.

IT IS THEREFORE ORDERED that all parties shall have 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, then this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 17th day of March, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF VERNA HILLS, LTD.)
FOR RATE ADJUSTMENT PURSUANT TO THE)
ALTERNATIVE RATE FILING PROCEDURE) CASE NO. 91-403
FOR SMALL UTILITIES)

STAFF REPORT

March 12, 1992

Prepared By: Mark C. Frost
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
Requirements Branch
Rates and Tariffs Division

Prepared By: John Geoghegan
Public Utility Rate
Analyst, Principal
Communications, Water and
Sewer Rate Design Branch
Research Division

STAFF REPORT

ON

VERNA HILLS, LTD.

CASE NO. 91-403

On November 4, 1991, Verna Hills, Ltd. ("Verna Hills") applied for a rate increase under Alternative Rate Filing Procedures. Verna Hills also requested Commission approval of surcharges to pay for past-due accounts in the amount of \$39,026 and capital improvements of \$72,329. The proposed rates would generate an increase in annual operating revenue of \$17,264, an increase of approximately 39 percent over test-period revenues from rates of \$44,194.

To evaluate Verna Hills' application, Commission Staff attempted to perform a limited review of Verna Hills' operations. In late November 1990, Mark Frost contacted by telephone Donald Bates, president and sole stockholder of Verna Hills, to schedule a review of Verna Hills' records. They agreed that this review should be held on December 3, 1991. In a letter dated November 27, 1991 (Attachment 1), Mr. Frost confirmed their agreement and identified the financial records required for this review.

On December 2, 1991, Mr. Bates advised Mr. Frost by telephone that these materials were not yet ready and requested a postponement. Mr. Bates advised Mr. Frost that he would contact him within 14 days to arrange a new date for the review.

After Mr. Bates had failed to contact him, Mr. Frost in mid-January 1992 telephoned Mr. Bates and scheduled a review for February 6, 1992. Mr. Frost confirmed this meeting by letter

(Attachment 2). In his letter, he again identified the required records.

On February 6, 1992, Mr. Frost and John Geoghegan visited Verna Hills' office in Louisville, Kentucky. Mr. Bates was present but none of the requested materials were available. Messrs. Frost and Geoghegan identified the materials necessary for the review and Mr. Bates agreed to mail them a copy of these materials.

By letter dated February 10, 1992 (Attachment 3), Mr. Frost again identified the pertinent financial material and requested that they be provided no later than February 18, 1992. His letter was sent by first-class mail to Mr. Bates on February 10, 1992. Another copy of this letter was mailed by certified mail to Mr. Bates on February 11, 1992. The letter mailed February 10, 1992 was not returned to the Commission's office and the certified letter was delivered to Verna Hills on February 20, 1992 (Attachment 4).

On February 28, 1992, Mr. Bates telephoned Mr. Frost and advised him that some of the requested documents would be submitted by mail no later than March 4, 1992. To date, none of the requested financial records have been received.

The requested material is necessary to verify Verna Hills' actual test-year operating revenues and expenses and the reasonableness of the requested pro forma operations and surcharges. As the information contained in Verna Hills' application is not sufficient to form an opinion and as Verna Hills' financial records have not been made available for our review, Commission Staff is

unable to form an opinion on Verna Hills' application. Commission Staff therefore recommends that Verna Hills' application be denied.

Mark C. Frost
Prepared by: Mark C. Frost
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
Requirements Branch
Rates and Tariffs Division

John Geoghegan
Prepared by: John Geoghegan
Public Utility Rate
Analyst, Principal
Communications, Water and
Sewer Rate Design Branch
Research Division



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
710 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

November 27, 1991

Mr. Donald W. Bates
Verna Hills Ltd.
P. O. Box 16085
Louisville, Kentucky 40256-0085

RE: Case No. 91-403

Dear Mr. Bates:

This is to confirm 9:30 a.m. on December 3, 1991, as the time when I will conduct a limited financial review of Verna Hills Ltd.'s records for the test year ended December 31, 1990.

Please have the following records available for review:

- Invoices for expenses incurred during the test year as well as preceding and subsequent months
- Accountant's year-end adjusting journal entries
- General Ledger
- Cash Disbursements and Receipts Journals
- Depreciation Schedule
- Schedule of employees including job duties, length of employment, and current salary
- Schedule of Insurance Coverage including type of coverage, premiums, etc.
- Amortization schedule of Bonds and Notes Payable
- Schedule of Investments and current interest rates
- All contracts and agreements
- Most recent Income Tax Returns
- Minutes of Commissioners or Board of Directors Meetings

Some items may not apply to your utility and other records may be requested to facilitate the review.

Mr. Donald W. Bates
Page Two
November 27, 1991

If you should have any questions or require further information regarding the items on this list, please contact me at (502) 564-2355. Thank you for your cooperation in this matter.

Sincerely,

Mark C. Frost
Public Utilities Financial
Analyst

MCF/amh/18



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-1940

January 23, 1992

Mr. Donald W. Bates
Verna Hills Ltd.
P. O. Box 16085
Louisville, Kentucky 40256-0085

RE: Case No. 91-403

Dear Mr. Bates:

This is to confirm 1:00 p.m. on February 6, 1992, as the time when I will conduct a limited financial review of Verna Hills Ltd.'s records for the test year ended December 31, 1990.

Please have the following records available for review:

- Invoices for expenses incurred during the test year as well as preceding and subsequent months
- Accountant's year-end adjusting journal entries
- General Ledger
- Cash Disbursements and Receipts Journals
- Depreciation Schedule
- Schedule of employees including job duties, length of employment, and current salary
- Schedule of Insurance Coverage including type of coverage, premiums, etc.
- Amortization schedule of Bonds and Notes Payable
- Schedule of Investments and current interest rates
- All contracts and agreements
- Most recent Income Tax Returns
- Minutes of Commissioners or Board of Directors Meetings

Some items may not apply to your utility and other records may be requested to facilitate the review.

Mr. Donald W. Bates
Page Two
January 23, 1992

If you should have any questions or require further information regarding the items on this list, please contact me at (502) 564-2355. Thank you for your cooperation in this matter.

Sincerely,

Mark C. Frost
Public Utilities Financial
Analyst

MCF/amh/18



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
 710 SCHINKEL LANE
 POST OFFICE BOX 615
 FRANKFORT, KY. 40602
 (502) 564-3940

February 10, 1992

Mr. Donald W. Bates
 Verna Hills, Ltd.
 P. O. Box 16085
 Louisville, Kentucky 40256-0085

Dear Mr. Bates:

With regard to Verna Hills, Ltd., Case No. 91-403, you agreed to provide the following information:

1. Copies of Verna Hills' monthly check register for December 1989 through January 1991.
2. Copies of Verna Hills' invoices for the same period as 1 above.
3. Documentation (i.e., invoices, price quotes, etc.) to support Verna Hills' pro forma operations contained in Exhibit A of its application.
4. Documentation to support Verna Hills' proposed capital expenditures listed on page 4 of its application.
5. Documentation of the debt Verna Hills owes Don Bates in the amount of \$7,500, as listed in Verna Hills' application.
6. A copy of Verna Hills' 1991 itemized expenses attached as an exhibit to its 1990 Federal Income Tax Returns.
7. Copies of Verna Hills' billing registers for the test period, January through December 1990.

To allow Commission Staff to complete its Field Review of Verna Hills, provide the requested information by February 18, 1992.

Sincerely,

Mark C. Frost

Mark C. Frost
 Public Utilities Financial
 Analyst, Chief

M.C. 77051

SENDER: Complete items 1 and 2 when additional services are desired, and complete items 3 and 4. For return address in the "RETURN TO" space on the reverse side. Failure to do this will prevent this item from being returned to you. The return receipt fee will provide you the name of the person delivered, the date of delivery. For additional fees the following services are available. Consult postmaster for details and check box(es) for additional service(s) requested.
1. Registered Mail (Extra charge)
2. Restricted Delivery (Extra charge)

Article Addressed to:
R. DONALD W. BATES
Cedar Hills MO.
P. Box 16085
Wishville Ky 40256-0085

4. Article Number

Type of Service:
 Registered Insured
 Certified COD
 Express Mail Return Receipt for Merchandise

Always obtain signature of addressee or agent and DATE DELIVERED.

Signature - Addressee

8. Addressee's Address (ONLY if requested and fee paid)

Signature - Agent

Date of Delivery
2-20-97

ATTACHMENT 4