

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION FOR RATE ADJUSTMENT)
BEFORE THE PUBLIC SERVICE)
COMMISSION OF KENTUCKY FOR SMALL) CASE NO. 9457
UTILITIES PURSUANT TO 807 KAR)
5:076 OF EAST JEFFERSON WASTE)
WATER, INC.)

O R D E R

IT IS ORDERED that:

1. The Staff Audit Report for East Jefferson Waste Water, Inc., ("East Jefferson") attached hereto as Appendix A shall be included as a part of the record in this proceeding.

2. East Jefferson shall have 10 days from the date of this Order, to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 31st day of January, 1986.

~~PUBLIC SERVICE COMMISSION~~


For the Commission

ATTEST:

Forest M. Stagg
Secretary

APPENDIX A

Staff Audit Report On East Jefferson Wastewater, Inc.

PREFACE

On November 8, 1985, East Jefferson Wastewater, Inc., ("East Jefferson") filed its application seeking an increase in its rates for sewer service. The proposed rates would generate \$60,808, an increase of 102.62 percent in the residential rate currently being charged.

As part of its endeavor to shorten and simplify the regulatory process for small utilities the Commission chose to perform a limited financial audit of East Jefferson's operations for the test year, calendar year 1984. The Commission's objective was to substantially reduce the need for written data requests, decrease the time necessary to examine the application and, therefore, decrease the expense to the utility. Mr. Dennis Jones of the Commission's Division of Rates and Tariffs performed the audit on January 15, 1986, at the office of East Jefferson in Middletown, Kentucky.

SCOPE

The scope of the audit was limited to ascertaining whether the operating expenses as reported in the 1984 Annual Report were representative of normal annual operations. The primary focus of the audit was to assure that no improper or extraordinary expenses were included in test-year operations. In order to determine this, expenditures charged to the test year operations were reviewed and the invoices of potential improper charges were

subsequently examined, insignificant discrepancies were not pursued and are not addressed herein. No recommendations concerning rate-making treatment of specific items are contained in this report.

FINDINGS

The main objective of the audit was to assure the propriety of each expenditure charged to the test-year operations. An examination of these expenditures revealed that East Jefferson had expensed the installation by Andriot-Davidson Company, Inc. of its Cross Creek pump station invoiced at \$7,597. This expenditure should be capitalized to the pumping plant accounts and depreciated over a 10 year period. Therefore, Account No. 363, Pumping Equipment has been increased by \$7,597; Account No. 713, Maintenance of Pumping System has been reduced by \$7,597; and Account No. 403, Depreciation Expense has been increased by \$760.

The effect of these adjustments on the 1984 Annual Report is as follows:

AUDIT REPORT ADJUSTMENTS

<u>Account Number</u>	<u>Test Year Per Annual Report</u>	<u>Staff Audit Adjustments</u>	<u>Staff Adjusted</u>
<u>Sewer Utility Plant In Service</u>			
363A	\$ 1,055	\$7,597	\$ 8,652
<u>Operating Revenues</u>			
521-26	\$42,051	\$ -0-	\$42,051
<u>Operating Expenses</u>			
701-A			
	\$ 6,708	\$ -0-	\$ 6,708
703	9,225	-0-	9,225
704	1,946	-0-	1,946

705	Misc. Supplies and Expenses	146	-0-	146
710-A	Routine Maintenance Service	7,760	-0-	7,760
710-B	Internal Supervision and Engineering	3,600	-0-	3,600
713	Maintenance of Pumping System	7,597	<7,597>	-0-
903-A	Agency Collection Fee	1,824	-0-	1,824
904	Uncollectible Accounts	22	-0-	22
920	Admin. and General Salaries	1,500	-0-	1,500
921	Office Supplies and Other Expenses	429	-0-	429
923	Outside Services Employed	220	-0-	220
924	Insurance Expense	1,187	-0-	1,187
931	Rents	500	-0-	500
403	Depreciation Expense	18,800	760	19,560
404-7	Amortization Expense	167	-0-	167
408-1	Taxes Other Than Income	937	-0-	937
	Total Operating Expenses	62,568	<6,837>	55,731
	Operating Income (Loss)	<\$20,517>	\$6,837	<\$13,680>
431	Other Interest Expense	1,497	-0-	1,497
	Net Income (Loss)	<\$22,014>	\$6,837	<\$15,177>

PRO FORMA ADJUSTMENTS

During the course of the audit additional information concerning East Jefferson's pro forma adjustments included in its rate case filing was requested by Mr. Jones and supplied by East Jefferson's accountant Mr. John E. Chilton, CPA of Cotton and Allen, Certified Public Accountants. This information consisted of explanations of the calculations of the dollar amount of the adjustments and certain service contracts entered into by East Jefferson. A copy of the information provided is attached hereto and made a part of this report.

Mr. Chilton stated that the new expansion identified in his explanation of the pro forma expenses was for future construction not requested in this proceeding. He further stated East Jefferson would file for a certificate of public necessity and

convenience for an addition to its treatment plant in the near future. The expansion which was included in the application was primarily for updating the existing system and providing service to the Towncreek Subdivision. This expansion increased East Jefferson's capacity from 120,000 gpd to 220,000 gpd of which 212,000 gpd is currently being utilized.

CONCLUSION

East Jefferson had no major distortions on the 1984 Annual Report other than that noted herein. East Jefferson should make these adjustments on its books and file revised pages to its 1984 Annual Report to reflect these adjustments. Minor misallocations between expense accounts were noted but no action has been taken herein.

A handwritten signature in cursive script, appearing to read "Dennis Jones", is written over a solid horizontal line.

Public Utilities Financial
Analyst Chief

RESTATEMENT OF INFORMATION
Provided by Mr. Chilton, CPA

#1	Estimated Average Bill for current operation - See Attached - est. based on July, 85 Bill	1,170
	Current pump stations-	
	(1) 50 per month	70
	(2) 20 per month	
	New Expansion	<u>900</u>
		2,140/mo.
#2	Chemicals	
	1984 Amount	\$1,946
	Chemicals to double with New Expansion	\$4,000
#3	Misc. Supplies - Simply estimated at \$50/mo	\$ 600 per year
#7	Bad Debts - Estimated at \$300 per year without support - No real experience with accounts until 1984	
#8	Rent is \$100 per month. Rent was charged for only part year in 1984. This is for use of Gordon Moert office to utility	
#9	Adm. & General Salaries - \$300 per month for 12 months. 1984 was only for part. year.	

East Jefferson Waste Water, Inc.
P.O. Box 43182
Louisville, KY 40243
February 9, 1984

✓
McCullar Waste Water Operations
3811 Belle Grade Road
Louisville, KY 40299

Dear Bill,

Enclosed is our check in the amount of \$600 for January operation of Cross Creek treatment plant.

According to Don Lorenz conversation with you the billing amount would be \$600 per month for the existing plant monthly service fee. \$700 per month would be due upon the completion of the expansion on the existing plant, then \$800 per month when the lagoon is completed.

If there is any misunderstanding about the above, please call me.

Sincerely,

Gordon L. Moert

GLM: do

Enclosure



DEVELOPMENT PLANNING & ENGINEERING, INC.

22 AIKEN ROAD

LOUISVILLE, KENTUCKY 40223

(502) 245-7540

CONSULTING ENGINEERS

CONSTRUCTION MANAGERS

October 16, 1985

Gordon L. Moert, President
East Jefferson Waste Water, Inc.
P. O. Box 43182
Louisville, KY 40243

Dear Gordon:

At your request I have evaluated the sewer lines which are part of the East Jefferson Waste Water treatment system. These lines are over 20 years old and in numerous locations deterioration has occurred.

A number of times over the last several years we have excavated the sewer lines and found them to be in need of repair.

I would estimate that East Jefferson Waste Water will spend a minimum of \$6000.00 per year for a number of upcoming years in replacement of the sanitary sewer lines.

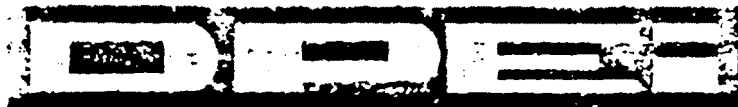
As always we will continue to monitor the system and make you aware of any situations which need immediate correction.

Sincerely,

Donald A. Lorenz
President

DAL/saf

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DEVELOPMENT PLANNING & ENGINEERING, INC.

13122 AIKEN ROAD

LOUISVILLE, KENTUCKY 40223

(502) 245-7540

CONSULTING ENGINEERS

CONSTRUCTION MANAGERS

December 26, 1984

East Jefferson Waste Water
c/o Durst & Moert Development Corp.
P.O. Box 43182
Louisville, Kentucky 40243

Re: East Jefferson Waste
Water Sewage Treatment
Lagoon

Dear Sirs:

We are enclosing our invoice for partial payment of survey and engineering services on the subject project. The total fee is to be based upon 8% of construction costs which we estimate to be between \$150,000 to \$200,000, but in no event to be less than \$12,000. This will include presently due invoices numbered 177-84 and 244-84. If you have any questions, please contact the office.

Sincerely,

DEVELOPMENT PLANNING
& ENGINEERING, INC.



James A. Pope

JAP/slb

Enclosure