COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF ELZIE NEELY GAS COMPANY, INC., FOR A RATE ADJUSTMENT PURSUANT TO THE ALTERNATIVE RATE FILING PROCEDURE FOR SMALL UTILITIES	)	CASE NO. 9521

O R D E R

IT IS ORDERED that:

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

2. Elzie Neely shall have until the close of business within 2 weeks of the date of this Order to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 9th day of June, 1986.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX A

REPORT ON LIMITED AUDIT

OF

ELZIE NEELEY GAS COMPANY

CASE NO. 9521

PREFACE

On March 6, 1986, Elzie Neeley Gas Company ("Elzie Neeley") filed an application pursuant to 807 KAR 5:076, Alternative Rate Filing Procedure for Small Utilities, ("ARF"), requesting authority to increase its rates charged for furnishing gas. The proposed rates would generate $4,496 annually in additional revenues.

In order to expedite the processing of the 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 Elzie Neely. The audit was conducted by Tom Wells of the Division of Rates and Tariffs on April 16-17, 1986, at the offices of Elzie Neely in Melvin, 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 Gas Utilities ("Uniform System of Accounts") and were properly allocated. The Audit Division of the Public Service Commission has recently begun a full scope audit of Elzie Neeley.

Because of the expanded scope of that audit, the findings and discoveries of it may differ from the findings and discoveries made herein.

Associated Organizations

Elzie Neeley is operated out of the same office as four other entities: Phelps Gas Company; Mike Little Gas Company, Inc.; Burton Antenna Company, Inc.; and Licking Valley Cable Company, Inc. Mike Little is the owner and operator of each of the five companies, and labor and other resources are shared among the entities. Costs are often allocated among the companies, especially gas-associated costs among the three gas companies. Different allocation methods are used according to the circumstances involved with the cost. Allocation methods observed during the audit included one-third allocation, one-fourth allocation, and allocation based upon the number of customers.

Purchased Gas

Elzie Neeley reported $49,865 in test-period purchased gas costs based on purchases of 10,300 Mcf of natural gas, an average cost per Mcf of $4.811 and late interest charges of $312. For the 1985 test period, Elzie Neeley reported a line gain of 563 Mcf of natural gas; however, according to a letter dated March 19, 1986, received from Elzie Neeley's supplier, Columbia Gas of Kentucky, Inc., Elzie Neeley was underbilled by 609 Mcf of natural gas at a total cost of $2,772 for the months of November and December 1985. Therefore, test-period purchased gas costs should be increased by $2,772 to $52,637 and the amount of Mcf purchases should be increased by 609 Mcf to 10,909 Mcf.

Office Supplies and Expenses

Elzie Neeley reported $1,267 in office supplier and expenses for the test period. As represented by management, an expenditure of $486 to Miller Engineering Company ("Miller") for the purchase of a 2-inch relief valve was erroneously classified as an office supplies and expense item. Several small expenditures totaling $257 were not supported by original invoices.

The expenditure of $486 for a 2-inch relief valve is not a legitimate expense of the test period since the relief valve will provide economic benefits to Elzie Neeley for approximately 15 years during its useful life. Therefore, the expenditure of $486 to Miller should be capitalized and depreciation recognized in the amount of $16 annually over the 30-year useful life of the relief valve.

Additionally, Elzie Neeley should establish an imprest fund, petty cash fund, to properly account for small disbursements. The check written to the imprest fund should be supported by vouchers or original invoices to document the expenditures made from the fund. In audits of future periods the Commission will pay close attention to expenditures made from the imprest fund.

Outside Services Employed

Elzie Neeley reported $2,730 in outside services employed for the test period. An allocated expenditure of $326 for the purchase of an odorometer, as Elzie Neeley shares the use of the odorometer with two other gas utilities mentioned herein, was erroneously classified as a current expense in outside services employed. As the odorometer will provide economic benefits for longer than the current period, the odorometer has been capitalized and the related depreciation expense recognized elsewhere. Therefore, outside services employed has been reduced by $326 to $2,404 annually.

Depreciation Expense

Elzie Neeley reported 1985 depreciation expense of $2,073. The depreciation schedule reflects that the calculation of this amount included some assets depreciated by the Accelerated Cost Recovery System ("ACRS") method. The Commission requires utilities under its jurisdiction to use depreciation methods that spread the cost of utility assets evenly, over their estimated useful lives. Accelerated types of depreciation result in recovery of more of the cost of the asset at the beginning of its useful life and less cost near the end of its useful life. For tax purposes, of course, accelerated methods are acceptable to the Commission. Consequently, depreciation expense has been recalculated based on the in-service dates of the assets and the remaining useful lives of the assets as enumerated in Schedule 1. Therefore, the test-period depreciation expense has been reduced by $514 to $1,559 annually which includes depreciation expense on items capitalized herein.

Rent

Within the course of the limited audit, it was found that Mike Little is the owner of the building in which Elzie Neeley rents office space. Elzie Neeley and four other companies occupy one-half of the building and the Melvin Post Office, the other.

The rent charged to Elzie Neeley is $200 monthly. There does not seem to be any particular basis for this amount, nor does there seem to be any consistency in the determination of the monthly rental charge among the several tenants.

SUMMARY

The following is a summary of the effect of these adjustments on Elzie Neeley's test-year operating statement:

Acct. No.	Account Name	Test Year Reported	Staff Adjustments	Test Year Adjusted
	Total Gas Operating Revenues	$73,745	$ -0-	$73,745
	Operating Expenses			
730	Gas Purchases	$49,865	$ 2,772	$52,637
901	Meter Reading Labor	1,444	-0-	1,444
920	Admin. Salaries	6,000	-0-	6,000
921	Office Sup. & Expenses	1,267	<486>	781
923	Outside Serv. Employed	2,730	<326>	2,404
924	Property Insurance	2,951	-0-	2,951
931	Rents	2,400	-0-	2,400
403	Depreciation	2,073	<514>	1,559
408.1	Other Taxes	1,041	-0-	1,041
	NET OPERATING INCOME	$ 3,974	$<1,446>	$ 2,528

CONCLUSION

The books and records maintained by Elzie Neeley are reasonably in accordance with the Uniform System of Accounts. The most serious flaw in its system is the lack of documentation for the wages and salaries accounts. Though according to the management of Elzie Neeley, time records are kept; they are discarded at the time of payment of the wage. Elzie Neeley should begin to carefully maintain and file these records, not only for its own benefit, but for the benefit of future confirmation by outside auditors. Moreover, Elzie Neeley should obtain a copy of the

Guide to Record Retention Requirements from the General Services Administration and attempt to adopt the precepts contained therein into its record-keeping system.

Respectfully Submitted,

Tom Wells
Public Utilities Financial Analyst
PUBLIC SERVICE COMMISSION
Rates and Tariffs Division
Revenue Requirements Section

SCHEDULE 1

In-Serv. Date	Description	Cost	Life (Yrs.)	Accumulated Depreciation 12/31/84[1]	1985 Depreciation
64-74	Dist. Lines	$26,355	33	$11,968	$ 791
64-74	Meters	3,677	20	2,905	184
79	Billing Machine	596	7	510	86
80	Toyota Truck	1,900	3	1,900	-0-
83	Dist. Lines	2,858	28	429	87
9/85	1986 Ford Ranger	2,250	3	-0-	250
5/85	Abacus Computer	900	5	-0-	120
8/85	Odorometer	326	5	-0-	27
3/85	Relief Valve	426	30	-0-	14
ADJUSTED DEPRECIATION EXPENSE					$1,559

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1 Straight-Line Method.