COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ALTERNATIVE RATE FILING OF CITIPOWER, LLC	))	CASE NO. 99-225

O R D E R

On June 3, 1999, Citipower, LLC ("Citipower") applied for an adjustment of rates pursuant to Administrative Regulation 807 KAR 5:076, the alternative rate filing procedure for small utilities. Having performed a limited financial review of Citipower's operations, Commission Staff has submitted to the Commission a report of its findings and recommendations regarding the proposed rate adjustment. A copy of this report is attached hereto.

IT IS THEREFORE ORDERED that:

1. All parties shall have 10 days from the date of this Order to review the Commission Staff Report and comment upon it.

2. Any party objecting to any finding or recommendation contained in the Commission Staff Report shall file such objections in writing within 10 days of the date of this Order. Parties submitting written objections shall identify each finding and recommendation to which they object and state the basis for their objection.

3. If a party does not submit any objection to the Commission Staff Report within 10 days of the date of this Order, the Commission Staff's findings and recommendations shall be considered accepted by that party.

4. A public hearing on the proposed rate adjustment shall be held in Hearing Room 2 of the Commission's offices at 211 Sower Blvd., Frankfort, Kentucky on March 29, 2000, at 10:00 a.m., Eastern Standard Time.

5. Citipower shall cause to be published in a newspaper of general circulation in the area affected by its proposed rate adjustment, no later than March 22, 2000, notice of the purpose, time, place, and date of the hearing.

6. If no objections to the findings and recommendations of the Commission Staff Report are received within 10 days of the date of this Order, the scheduled hearing in this matter shall be canceled and this matter shall stand submitted to the Commission for decision based upon the existing record.

Done at Frankfort, Kentucky, this 17th day of March, 2000.

By the Commission

ATTEST:

____

Executive Director

STAFF REPORT

ON

CITIPOWER, LLC

Case No. 99-225

Preface

On June 3, 1999, Citipower, LLC ("Citipower") filed an application for a rate adjustment pursuant to Administrative Regulation 807 KAR 5:076, the Alternative Rate Filing Procedure for Small Utilities ("ARF"). Staff has determined that the amount of increase produced by the proposed rates is $40,466, which represents a 23 percent increase over revenues from existing rates. In order to meet the minimum filing requirements for an ARF, a utility must have less than 500 customers or less than $300,000 in gross annual revenues. During 1998, Citipower met the minimum requirements for an ARF filing.

The Commission Staff performed a limited financial review of Citipower's operations for the test year ending December 31, 1998. The Commission's objective was to reduce the need for additional written data requests, and therefore, decrease the expense to the utility. On January 7, 2000, the Commission issued a letter specifying what information would be needed to assist Commission Staff ("Staff") during the field review. John Williams and Katy Finn of the Commission's Division of Financial Analysis performed the field visit on January 24 to 26, 2000, at the business office of Citipower in Whitley City, Kentucky. Dawn McGee of the Division of Financial Analysis performed a review of Citipower's reported revenues at the office of the Commission.

Scope

The scope of the review was limited to obtaining information to determine that the operating expenses as reported in Citipower's application for the period ending December 31, 1998 were representative of normal operations, and to gather information to evaluate the pro forma adjustments proposed in Citipower's filing. Expenditures charged to test-year operations were reviewed, including any supporting invoices. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Accounting and Record-Keeping Procedures

The company's accounting records and procedures are subject to the requirements established by the Uniform System of Accounts ("USoA") prescribed for natural gas companies in the Code of Federal Regulations ("CFR"), Title 18, Chapter I, Subchapter F, as well as the financial reporting requirements prescribed by the Kentucky Public Service Commission. Several deviations from the USoA and prescribed practices and procedures were disclosed. We have noted the following exceptions:

Plant Records

Plant records presently maintained by the utility are insufficient to determine the historical cost of utility property, plant and equipment. It is imperative that the cost of plant assets be effectively controlled and accurately accounted for, because of the importance of these costs in determining periodic depreciation charges and as a measure of rate base. Staff recommends that a subsidiary plant ledger be maintained with the accounting records to contain a card or sheet for each unit of property, showing details such as description, location, cost, vendor, date of purchase or installation, estimated salvage value, estimated cost of removal rate and method of depreciation, depreciation accumulated to date, and capitalized repairs, replacements, and improvements. Supplementary information to the plant ledger would include documentation of periodic inventories and periodic appraisals of property, plant, and equipment for insurance purposes.

Unauthorized Amounts Charged

From September 23, 1998 through December 31,1998 Citipower charged hook-up fees, and refundable deposits that were not authorized by the Commission. There are no provisions for these charges in its tariff.[1] KRS 278.160 requires that "each utility shall file with the Commission, within such time and in such form as the Commission designates, schedules showing all rates and conditions for service established by it and collected or enforced." Citipower is advised to cease collection of any unauthorized rate or charge until such time as it is approved in its tariff.

Maintaining Books and Records

Citipower retains the accounting firm of Ernst and Young to prepare its audited financial statements. As of the conclusion of the field review on January 26, 2000, Citipower's 1998 audited financial statements had not been released as "final." Citipower used the calendar year 1998 operating statement information included in the 1998 annual report to the Commission as the test period in this case.

[1] The Tariff Filing Of Citipower, L.L.C. Of Whitley City, Kentucky For Furnishing Natural Gas Service In McCreary County, Kentucky, Case No. 97-528, September 23, 1998.

Staff requested supporting documentation that would verify the financial information contained in the filing, yet Citipower was not able to supply sufficient information to reconcile the general ledger accounts to either its "draft" audited financial statements or the annual report to the Commission prior to the field review. Citipower provided a general ledger that did not reconcile with the information in the annual report. Following the field review, Citipower provided a second copy of the general ledger that was not in agreement with the first general ledger. For purposes of this report, Staff used the 1998 annual report to the Commission and the version of the general ledger that was provided prior to Staff's field review. Although some information from 1999 is used in this report, Staff determined that Citipower's 1999 records could not be relied upon as a basis for an updated 1999 test year.

Staff emphasizes the importance of having one general ledger that can be used as support for the financial statements. The general ledgers that were provided to Staff did not reconcile with Citipower's 1998 annual report or its 1998 draft audit report. The general ledger is a permanent organizational record and as such is vital in reporting to regulatory authorities, other federal, state and local authorities, and owners or limited liability members.

Records Retention

According to the CFR 18, Subchapter F, Section 225.3, Item 10, general and subsidiary ledgers should be retained for at least 50 years, and the trial balance sheets of the general and subsidiary ledgers should be kept for two years. Citipower has not complied with this section of the CFR.

The CFR 18, Subchapter F, Section 225.2(d)(2) states, "If the media form of the record retained is other than a readable paper copy, then reader and/or printer equipment and related printout programs, if required, shall be provided by the utility for data reference." Section (g) states, "(1) All records created or maintained in a media and a format other than readable entries on paper shall: (i) Be prepared, arranged, classified, identified, and indexed as to permit the subsequent location, examination, and reproduction of the record to a readable media."

Citipower did not produce a complete copy of their supporting/subsidiary ledgers, transaction journals, or other supporting workpapers necessary to trace receipts and disbursements to its general ledgers. In the general ledgers provided to Staff, the transactions were divided into separate accounts for record-keeping purposes. However, the general ledgers did not indicate which accounts these were.

Governing Statutes and Regulations

The operation of a utility in Kentucky is subject to statutes as provided by the Kentucky Revised Statutes ("KRS") and to regulations as established by the Kentucky Administrative Regulations ("KAR"). The following deviations were disclosed during the review:

Issuance or Assumption of Debt by Utility

Citipower obtained an auto loan from the Bank of McCreary County in 1998 without prior approval from the Commission. The auto loan was issued to finance the purchase of a 1996 Toyota Tacoma 4-Wheel Drive Truck. The loan was dated February 10, 1998, has a four-year maturity, a 9.467% interest rate, and a total amount financed of $18,871. A utility is required by KRS 278.300 to obtain prior approval before assuming evidence of indebtedness payable in more than two years from the date of issuance and/or renewing such debt for a period exceeding six years from the date of issuance of the original debt. Prior to the test period, Citipower obtained three additional auto loans that also required Commission approval because of the indebtedness' term to maturity.

Certificate of Public Convenience and Necessity ("CPCN") for Gas Plant Additions

KRS 278.020(1) requires utilities to seek Commission approval prior to "the construction of any plant, equipment, property or facility for furnishing to the public any of the services enumerated in KRS 278.010." During 1998, Citipower placed in service in excess of $560,000 of Kentucky jurisdictional natural gas utility plant and equipment. Staff believes that Citipower should have obtained a CPCN for the projects constructed in 1998. Additionally, Citipower has filed no application for Commission approval of a CPCN for any of its planned 1999 capital projects referenced in its application. Staff does not believe the extensions of this scope qualify for treatment as "extensions in the ordinary course of business" under the statute.[2]

Purchase of McCreary Natural Gas Systems, Inc. ("McCreary") Assets.

Citipower was initially formed to purchase McCreary's assets. The purchase took place on September 26, 1996. Staff requested data or any studies performed to determine the original cost of the assets purchased. Citipower provided McCreary's balance sheet for the year ended December 31, 1995. However, no up-to-date detailed

[2] 807 KAR 5:001, Section 9(3), provides that in order to qualify as an extension in the ordinary course of business, said extensions should not "involve sufficient capital outlay to materially affect the existing financial condition of the utility involved, or will not result in increased charges to its customers."

supporting information was provided concerning the cost of the assets to the original purchaser. This information is required by the USoA for use in recording utility plant asset purchases. According to the USoA, all amounts included in the accounts for gas plant acquired as an operating unit or system "shall be stated at the cost incurred by the person who first devoted the property to utility service. All other gas plant shall be included in the accounts at the cost incurred by the utility."[3]

Citipower's acquisition of McCreary's assets should have been accounted for in accordance with the USoA. The amounts included in the gas plant accounts of McCreary should have been recorded on Citipower's books at the cost to the original purchaser. If that amount is not known, it should be estimated. Pursuant to the USoA, the following journal entries should be made to effect the purchase of another utility's assets:

a. To record the purchase of assets:

Acct 102 – Gas Plant Purchased or Sold	XXXX	
Acct 130 – Cash		XXXX

b. To record original cost of plant, estimated if not known:

Acct 101 – Gas Plant in Service	XXXX	
Including entries to accounts # to #		
Acct 104 – Gas Plant Leased to Others	XXXX	
Acct 105 – Plant Held for Future Use	XXXX	

[3] 18 CFR, Chapter 1, Part 201, at Gas Plant Instructions, Section 2(A).

Acct 105.1 – Production Properties Held for Future Use	XXXX	
Acct 107 – Construction Work in Progress	XXXX	
Acct 102 – Gas Plant Purchased or Sold		XXXX

c. To record accumulated depreciation, depletion and amortization incurred up to the time of transfer:

Acct 102 – Gas Plant Purchased or Sold	XXXX	
Acct 110 – Accumulated Provision for Depreciation, Depletion and Amortization of Gas Utility Plant		XXXX

d. Any amount remaining in Account 102, Gas Plant Purchased or Sold, should be closed to Account 114, Gas Plant Acquisition Adjustments ("GPAA"):

Acct 102 – Gas Plant Purchased or Sold	XXXX	
Acct 114 – Gas Plant Acquisition Adjustment		XXXX

OR:

Acct 114 – Gas Plant Acquisition Adjustment	XXXX	
Acct 102—Gas Plant Purchased or Sold Sold		XXXX

Pursuant to the USoA, amortization of the GPAA may be recorded in account 425, Miscellaneous Amortization. The amortization period cannot exceed "the remaining useful life of the properties to which such amounts relate."[4] The Commission

[4] 18 Code of Regulations, Chapter 1, Part 201, Section 114.

must approve any exceptions to the amortization period. Citipower made no request for approval of a GPAA.

The USoA provides that if the original cost of the assets is not known, the cost should be estimated. This process would require taking an inventory of the assets purchased in the original transaction with McCreary and determining the estimated cost to construct those assets using acceptable indices and appropriate cost valuation techniques to arrive at the estimate. Staff believes that Citipower should determine whether it could undertake this study with its own personnel or whether it should use a professional consultant to conduct the original cost study. The study should be conducted prior to Citipower's next rate adjustment request. If the study is not completed, Citipower may be subject to having the total investment excluded for ratemaking purposes.

<u>Staff Recommended Accounting and Rate-Making Adjustments</u>

Citipower presented its test-year operating statement based on its annual report to the Commission for the calendar year 1998. Citipower proposed numerous adjustments to its test-year operations. Based on the review of the proposed adjustments, Staff recommends that none of the requested adjustments be accepted for ratemaking purposes. The adjustments proposed by Citipower were not quantified based on appropriate utility ratemaking methodology, and do not meet the "known and measurable standard." Citipower gave general descriptions of adjustments without explanations any supporting documentation or explanation that is necessary to evaluate the reasonableness of the proposals.[5]

[5] Citipower's response to Item 3.d. of the Commission's August 3, 1999 Order.

Although not accepting any of the adjustments proposed by Citipower, Staff has made adjustments where sufficient information is available from the field review and the public record to make the appropriate adjustment. The Staff's evaluation of the adjustments is discussed below. Schedule I contains a proforma income statement with the allowable adjustments.

Normalized Revenues

Citipower proposed normalized jurisdictional revenues of $132,465 in its application. This amount, reported in Schedule E of the application, consisted of $128,817 in gas sales revenue, $3,160 in minimum bill revenue and $488 in late payment fees. The sales revenue was based on Citipower's retail rates in effect during 1998 and its actual sales volumes for calendar year 1998.

Citipower has been operating as a Local Distribution Company ("LDC") under the Commission's jurisdiction for a limited period of time and it only had two years of financial information on file with the Commission at the time it filed its application. Based on a review of that information, for calendar years 1997 and 1998, as well as Staff's review of additional information for part of 1999, two conclusions can be made. First, Citipower's average Mcf sales per residential customer were less during the 1998 test year than during either 1997 or 1999. Second, Citipower has experienced substantial customer growth, both during 1998 and 1999. Staff's field review found that Citipower had 363 total customers at the end of 1999, an increase of 72% over the 211 customers it had at the end of 1998. Because of the lower per-customer sales during the test year and in recognition of the growth Citipower is experiencing, Staff recommends two adjustments to Citipower's proposed normalized revenues.

The first adjustment is a sales volume normalization adjustment. For calendar year 1998, especially for the residential class, sales volumes did not appear representative of normal on-going levels. The 1998 per customer usage was lower than in both 1997 and in the first five months of 1999 for which monthly usage data was available. To provide a more representative level of sales, Staff felt it was appropriate to develop weighted average sales volumes based on the information available for 1997, 1998, and the first five months of 1999. This approach produced mixed results; the residential and industrial monthly weighted averages were higher than the 1998 sales while the commercial and institutional monthly weighted averages were lower than the 1998 sales. Given the rather limited amount of historical information available and the fact that residential usage is more temperature sensitive than usage of other customer classes, Staff believes this averaging approach is appropriate. Staff calculated normalized test year revenue of $124,120 from this information.

The second adjustment is a customer growth adjustment to recognize additional revenue that would have been generated if Citipower had served the 1998 year-end customer level for the entire test period. Using the same weighted average monthly usage per customer as used in the previous adjustment, Staff calculated the revenue that would have been generated based on the 1998 year-end number of customers. This year-end customer adjustment, which is shown in Schedule II, is a standard adjustment made by the Commission in rate cases, produces normalized test year revenues of $174,796.

Non-Jurisdictional Revenue and Purchased Gas Expense

During 1998 Citipower sold gas purchased from its affiliated company, Forexco, Inc., to Citizens Gas Utility District ("Citizens Gas"), a natural gas utility district serving Scott and Morgan Counties, Tennessee. These sales for resale totaled $54,276 for the calendar year 1998. These sales are not subject to the authority of the Kentucky PSC.

The only revenue included in Account 483, Sales for Resale, is revenue derived from Tennessee. Therefore, Staff recommends an adjustment decreasing sales for resale by the entire amount of $54,276.

The purchased gas expense of $49,709 related to sales to Citizens Gas on Citipower's application is consistent with the amount reported on the annual report to the Commission. However, since this cost relates to non-jurisdictional (Tennessee) sales the expense should be removed from Citipower's projected revenues and expenses. Accordingly, Staff recommends an adjustment decreasing purchased gas expense by the entire amount of $49,709.

Purchased Gas Expense

Citipower proposed normalized jurisdictional purchased gas expense of $54,669 based on the 26,788 Mcf purchased in 1998 at an average cost of $2.0408. Information provided by Citipower during the field review indicates that the test year average cost of $2.0408 is lower than that expected in the future. However, due to the potential for gas cost fluctuations and the fact that such fluctuations are recoverable through the GCA mechanism, the test year average cost was accepted by Staff.

Staff adjusted the normalized purchased gas expense to reflect the average annual usage volumes used to calculate the normalized revenues. The adjusted volume is 28,397 Mcf, which includes a 5% allowance for line loss. Using this approach produces a normalized purchased gas expense of $57,953.

<u>Miscellaneous Service Revenues</u>

Citipower included two sub-accounts in its test year-end balance for miscellaneous service revenues: sub-account 488.2, Late Charges Collected, with a balance of $488; and sub-account 488.3, Hook Up Fees Collected, with a balance of $25,977. Based upon Staff's review of these accounts, certain charges to customers were erroneously included as revenue.

The Commission approved a change in Citipower's tariff on September 23, 1998. After that tariff change, Citipower could no longer charge a tap fee of $100 per customer or a refundable customer deposit in the amount of $200. The previously mentioned account balances were a significant portion of the Hook-Up Fees Collected account. Charges for tap fees should be recorded as contra-assets to the plant accounts being constructed. Refundable customer deposits should be recorded in account 235, Customer Deposits. Charges for service line installation and the extra service line fees should be included in USoA Account 415, Revenues from Merchandising, Jobbing, and Contract Work. If Citipower continues to install service lines to its customers, it should isolate and identify costs associated with those installations and record the costs in account 416, Costs and Expenses of Merchandising, Jobbing and Contract Work. Citipower should also be aware that when the customer pays for distribution line extensions of more than 100 feet, the payment by the customer should be recorded in account 252, Customer Advances for Construction, and refunded according to 807 KAR 5:022, Section 9.

Following is a list of the items and the amounts that Citipower included in Account 488 for the test year 1998:

Account 488—Miscellaneous Service Revenues:

Account 488.2—Late Charges Collected		$ 488
Account 488.3—Hook up Fees Collected		
A. Additional Audit Adjustment		
-Unearned Well Hook-Up Fees	$10,000	
B. Customer Deposits		
Before 9/23/98	2,400	
After 9/23/98	800	
Returned Security Deposit	(250)	
C. Service Line Charges	6,500	
D. Extra service line fees	1,097	
E. Non-tariffed Tap Fees		
After 9/23/98	1,200	
F. Non-Recurring Tap Fees		
Before 9/23/98	300	
G. Non-Recurring Miscellaneous Charges	3,442	
Total Account 488.3		$25,689
To adjust for unexplained difference between annual report and general ledger		200
Total Account 488		$26,177

Items A, B, C, and D from the above schedule, totaling $20,747, should be removed from account 488 because they were initially posted to the wrong account. Item A should be included in Account 238, Other Current and Accrued Liabilities, Item B should be included in Account 235, Customer Deposits, and Items C and D, totaling $7,597 should be included in Account 415, Revenues from Merchandising, Jobbing, and Contract Work. The $1,200 in Item E consists of non-tariffed items that were erroneously collected after the September 23, 1998 filing of the new tariff. The new tariff did not include these charges; therefore, they are not allowable. The charges in

Item F of $300 were excluded because they are non-recurring. The revenues in Item G totaling $3,442 were not sufficiently explained in the general ledger and Staff was unable to determine the nature of these charges. Consequently, Staff has not included these revenues for ratemaking purposes. Therefore, Staff recommends an adjustment decreasing miscellaneous service revenue by $25,689 to exclude the above amounts.

The only charge identified in Citipower's records that should be included in miscellaneous service revenues is a late payment fee, which is 10 percent of a customer's bill. In 1998, late fees totaling $488 were charged to account 488.3 in Citipower's general ledger. This fee is included in Citipower's tariff. Therefore, Citipower's miscellaneous service revenues should be $488.

Citipower included in Schedule A to its application, in Item ll, a $19,275 increase to other revenue. The notation for the adjustment was "taking into account 70 new customers added." Considering the amounts that Citipower has historically posted to these accounts, the potential customer charges according to the current tariff and Citipower's explanation, Staff finds no basis for including the proposed adjustment.

<u>Salaries, Wages and Other Compensation</u>

Citipower proposed six adjustments to salaries, wages and other compensation. First, it proposed an adjustment to increase administrative and general salaries by $100,000 for 1/3 of the management and office salaries paid by an affiliated company, Forexco, Inc. ("Forexco"), for services performed on behalf of Citipower at Forexco's office in Greensboro, North Carolina. These proposed salaries were for work performed in Greensboro by Forexco employees Daniel Forsberg, H.V. McCue and J.B. Lawson, CPA.[6]

The salary allocated to Citipower for Daniel Forsberg represented “duties customary of President/CEO” in the amount of $73,600. H.V. McCue’s salary allocation to Citipower in the amount of $8,250 was for “accounting . . . and administrative/clerical” work. J.B. Lawson, CPA’s work on behalf of Citipower was for “oversee[ing] . . . accounting; . . . prepar[ing] internal financial statements . . . and provid[ing] financial information for management decision-making” in the amount of $18,150. Staff finds the allocations for Ms. McCue and Ms. Lawson reasonable. These Forexco employees’ salary allocations to Citipower are 50 percent to customer accounting and collecting and 50 percent to administrative and general salaries and wages. However, due to other forms of compensation to Mr. Forsberg and the lack of a better description of the services he performed, the allocation of pay by Forexco is not considered reasonable and has been excluded by Staff for ratemaking purposes. Citipower’s response to Item 4.A. of the July 16, 1999 AG data request said the adjustment for Mr. Forsberg’s salary allocation was in error.[7] Staff agrees that the explanation of work he performed is insufficient support to allocate affiliated company expenses for recovery of his services from Citipower’s ratepayers.

---

[6] Citipower’s response to Item 4 of the Attorney General’s (“AG”) July 16, 1999 data request.

[7] The proposed adjustment allocating part of Mr. Forsberg’s Forexco salary to Citipower was eliminated in Citipower’s response to Item 3.d. of the Commission’s August 3, 1999 Order.

During the test year, Citipower reported total officers compensation and consulting expense of $251,840. Citipower proposed adjustments to wages and salaries to decrease officer's compensation and consulting expense by $50,000, and to reduce commissions by $10,000. Citipower's only explanation for the adjustments was "based on investments sold." These accounts included only non-cash compensation that was offered to officers in exchange for raising equity capital from investors in Citipower. In regard to the non-cash officer's compensation and consulting expense, Citipower stated its "management does not . . . believe it is appropriate to include such items in Citipower's rate base."[8] However, Citipower made no adjustment to exclude the proposed officer's compensation and consulting expense in its revenue requirement calculation. Staff agrees that the non-cash compensation for raising equity capital should not be included in operating expenses recoverable from ratepayers. Staff recommends a decrease to administrative and general salaries for the entire officer's compensation and consulting expense in the amount of $251,840. For the same reason, Staff recommends that the non-cash commissions of $25,774 that were included in administrative and general salaries be excluded from operating expenses.

Total salaries and wages paid, according to Citipower's general ledger in the amount of $176,761 during the 1998 test year, were included in administrative and general salaries, account 920. According to payroll records maintained by a computerized payroll service for Citipower, the total salaries and wages paid by Citipower during the test period totaled $175,569. Accordingly, Staff recommends a

[8] Citipower's response to Item 7 of the Commission's August 3, 1999 Order.

decrease to administrative and general salaries of $1,192 to balance with subsidiary payroll records.

Citipower proposed a $20,005 adjustment to decrease by one-third the salaries and wages of the operations manager and the office manager/bookkeeper in Whitley City, Kentucky for services that they provided to Forexco, an affiliate of Citipower with gas production operations in Kentucky. Staff recomputed this adjustment to be a $26,805 decrease in administrative and general salaries.[9] The difference is $6,800.

According to its response to Item 12 of the Commission's October 27, 1999 Order, Citipower provided laborers to perform well hook-up and reclamation work. The estimated total cost of this work during the test year was $5,240. There is no evidence that this work relates to the Kentucky PSC jurisdictional operations of Citipower. Any cost of this nature that is related to the production of gas to sell in the interstate market should not be included in the revenue requirements of Citipower. Therefore, Staff recommends that this amount be excluded from administrative and general salaries for ratemaking purposes.

After its pipeline and distribution system expansion was completed in June 1999, Citipower reduced its workforce. The employees remaining are the operations manager, office manager, a part-time office assistant, and two laborers. Staff normalized the salaries of the operations manager, office manager, and office assistant based on 1998 hours worked and rates effective at the time of the field review. The two

[9] According to its response to Item 12 of the Commission's October 27, 1999 Order, Citipower's "allocations for James Curd and Janice Ross . . . [are] one-third allocation of each employee's salary based on an estimate of hours spent providing services for Forexco, Inc."

remaining laborers' wages were normalized using a 2,080-hour work year and actual hours of overtime as worked in 1998. The salaries and wages of the other laborers employed during 1998 were considered to be allocated to construction during the test year. Thus, Staff has decreased operating expenses by $56,934 for non-recurring expenses related to construction labor.

After allocating one-third of the operations manager's and office manager's salaries to Forexco, the remainder of their salaries was allocated between distribution supervision, customer accounting and collecting, and administrative and general salaries. The office assistant's wages were allocated 100 percent to customer accounting and collecting.

Citipower's laborers' normalized salaries are allocated 75 percent to Account 761, Distribution Mains and Services Labor, and 25 percent to Account 901, Customer Meter Reading Labor. In normalizing these laborers' wages, Staff increased administrative and general wages (Citipower's direct wages) and operating expenses by $11,227. Schedule V contains an allocation of normalized salaries which explains how these salaries are allocated to the various expense accounts.

Additionally, in its 1998 annual report to the Commission, Citipower included amounts in the salaries and wages Account 761, Distribution Mains and Services Labor in the amount of $8,063, and Account 902, Customer Accounting and Collecting Labor in the amount of $14,713. Staff found no support for these amounts in Citipower's records and accordingly, operating expenses are being adjusted to decrease these account balances in the amounts of $8,063 and $14,713, respectively.

Citipower proposed two additional adjustments to wages and salaries. One was to increase contract labor by $10,400 to hire an individual to perform easement work. Because Citipower is recording the costs of obtaining easements as capital expenditures, Staff does not find support for including these expenses as operating expenses subject to rate recovery. Also, Citipower proposed an additional cost increase for marketing salaries, "to promote new customer hook-ups."[10] Citipower did not demonstrate by its explanation that this new position is required to provide gas service to the customers of Citipower. Therefore, Staff has not included this proposed adjustment as a recoverable operating expense from Citipower's ratepayers.

A summary of the salary and wages adjustments made by Staff is as follows:

Acct. No. & Title / Narrative	Total Salaries & Wages	Acct. 920, Admin. & General	Acct. 760, Distr. Supr.	Acct. 761, Distr. Labor	Acct. 901, Meter Reading	Acct. 902, Acctg. & Collecting
Per 1998 Annual Report	$477,151	$454,375	$ -0-	$8,063	$ -0-	$14,713
Forexco Work for Citipower	26,400	13,200				13,200
Non-cash Salaries & Comp.	(277,614)	(277,614)				
Subsidiary Record Difference	(1,192)	(1,192)				
Citipower Admin. & Labor for Forexco	(26,805) (5,240)	(26,805) (5,240)				
Non-Recurring Labor	(56,934)	(56,934)				

[10] Citipower's response to Item 3.d. of the Commission's August 3, 1999 Order.

Normalize Laborers' Wages	11,227	11,227					
Eliminate Amounts Not Supported	(22,776)			(8,063)		(14,713)	
Reclassify to Various Accounts	-0-	(71,007)	20,773	27,485	9,161	13,588	
Staff Adjusted Balances	$124,217	$40,010	$20,773	$27,485	$9,161	$26,788	

Taxes Other Than Income Taxes

Taxes other than income taxes should include employer payroll taxes, the PSC assessment fee, licenses (representing other taxes) and property taxes. Staff recomputed employer payroll taxes based on normalized employees and salaries and wages as follows:

Total Adjusted Test Year Salaries and Wages	$124,217	
FICA and OASDI tax rate	7.65%	
FICA and OASDI taxes – employer portion computed		$ 9,503
State Unemployment ("SUI") wages subject to tax	$ 32,000	
SUI tax rate	3.00%	
SUI tax computed on applicable employee wage limit		$ 960
Federal Unemployment ("FUTA") wages subject to tax	$ 28,000	
FUTA tax rate	0.80%	
FUTA tax computed on applicable employee wage limit		$ 224
SUBTOTAL		$ 10,687
Amount reported on annual report to the Commission		$ (14,376)
Retail Sales Revenues (as normalized) subject to PSC assessment fee	$174,796	
Rate of 1.667 per $1,000 revenue	(X) 1.667	
	(÷) 1,000	
PSC assessment fee computed		$ 292
Amount reported on annual report to the Commission		$ (216)

Licenses included in sub-account 928.2 per general ledger	513
Property taxes substantiated on Citipower's general ledger	$ -0-
Property taxes reported on annual report to the Commission	$ (1,152)
Staff adjustment to test year balance, taxes other than income tax	$ (4,252)
Test year balance reported on the annual report	$ 15,744
Staff Adjusted Test Year Balance	$ 11,492

Injuries and Damages

Citpower's injuries and damages account balance of $16,350 included employee health, dental and life insurance premiums totaling $11,556 that should have been posted to Account 926, Employees' Pension and Benefits. The $16,350 balance also included $207 that Staff was unable to trace to Citipower's general ledger.

Citipower proposed a $1,481 increase to injuries and damages for workers compensation. This was based on a December 1998 workers compensation audit by Kentucky Employers' Mutual Insurance. Staff has not accepted this adjustment as proposed due to the reduction of the salaries and wages accounts addressed in the salaries and wages section of this report. A computation of Citipower's workers compensation premium based on normalized wages is provided below. The calculation is based on the workers compensation rates on Citipower's January 1, 2000 invoice from Kentucky Employers' Mutual Insurance. Staff's calculation assumes Kentucky workers compensation rates for Citipower's employees located in Kentucky. In allocating wages to Forexco, Staff has not calculated the difference in wages caused by the differing workers compensation rates in Kentucky and North Carolina because the result would be inconsequential.

Adjusted Total Citipower Salaries and Wages	$124,217	
Base Premium Calculation:		
Total office employees' class salaries	$ 25,660	
Rate per $100 of compensation $0.38	x .0038	
Base Premium on office employees' class		$ 98
Total employees' class salaries for natural gas		
Local distributing, drivers, etc.	$ 98,557	
Rate per $100 of compensation $4.11	x .0411	
Base Premium on employees' class for natural Gas local distributing, drivers, etc.		$ 4,051
Premium portion		$ 118
Base Premium calculated		$ 4,267
Rate Adjustment Factor		$ (640)
Expense Constant		$ 140
Subtotal		$ 3,767
Kentucky Special Fund Assessment of 9%		$ 339
Staff computed workers compensation policy premium		$ 4,106
Less: Account no. 925 balance per annual report		$ 16,350
Staff recommended adjustment to injuries and damages		$ (12,244)

Employee Pensions and Benefits

Citipower included $3,795 in Account 926, Employee Pensions and Benefits in its 1998 annual report. Citipower has a simplified employee pension plan ("SEP") for its employees. For each employee participating in the plan, Citipower matches up to three percent of an employee's salaries or wages when the employee contributes three percent or more of his/her salary or wages. Staff has calculated the adjusted cost for Citipower's SEP, taking into account the number of employees at the time of the field review, their normalized salaries, and each individual level of participation.

As previously discussed, Citipower did not include employee insurance benefits in the Employee Pensions and Benefits account. Instead, Citipower erroneously included these expenses in Account 925, Injuries and Damages. As shown below, Staff has computed the adjusted employee insurance benefit expenses based on the present level of personnel and the current policy premium costs reflected on recent invoices.

SEP Pension Expense:		
Employees contributions for the test year …	$ 98,720	
Employer matching rate	3.00%	
Citipower SEP pension expense computed		$ 2,961
Employee Health, Dental and Life Insurance:		
Monthly health ins. premium per employee	$ 106	
Monthly dental ins. premium per employee	$ 19	
Total monthly premiums	$ 125	
Total Citipower employees at time of review	4	
Total health & dental premiums	$ 500	
Times the number of months in a year	x 12	
Annualized health & dental ins. expense		$ 6,000
Life insurance provided operations manager		$ 547
Citipower employee benefit expense computed		$ 6,547
Staff computed adjusted balance		$ 9,508
Less: 1998-account no. 926 balance per annual report		$ 3,795
Staff adjustment to employees pensions & benefits		$ 5,713

Customer Installation Expenses, Maintenance of Meters, and Other Plant

In its annual report to the Commission, Accounts 764, 768 and 769 contained expenses described on Citipower's general ledger as materials, labor and "new customer hook-ups and customer repairs and maintenance."

The annual report balance for Account 769, Maintenance of Other Plant, included one unsubstantiated audit adjustment from the general ledger that increased the account by $32,883. The description was "to correct PPE [property, plant and equipment]." Citipower was asked to provide its auditor's workpapers, but only provided a trial balance and adjustments, without any other supporting documentation. Consequently, there is no explanation available for the $32,883 adjustment. Another transaction included in this account was to "B.K.R. Well Service Company" in the amount of $1,540. This transaction was a portion of a split invoice with additions to gas plant and equipment, with no allocations noted on the invoice and no explanation of what the $1,540 represented. Staff has excluded these items for ratemaking purposes.

Citipower's sub-category of customer hook-up expense appeared to be included in Account 764, Customer Installation Expense on the annual report in the amount of $14,998. Many of the vendors listed on the general ledger are the same as those providing construction services. Several of Citipower's invoices do not provide an allocation by account number of items purchased. Notation of the accounts to which invoices are charged should be provided on the invoice and/or the check voucher in order to distinguish expense items from capital items. Citipower did not provide any form of transaction journal or any other ledgers that would show the accounts to which the costs were posted in the general ledger. Based on the above explanations, Staff recommends that the $14,998 in Account 764, Customer Installation Expenses, be removed from operating expenses and added to the gas plant and equipment account 381 as a depreciable asset. Staff could not locate any support on Citipower's general ledger for the $1,950 included on its annual report to the Commission included in Account 768, Maintenance of Other Meters. Since no support could be found for the $1,950 Citipower included on the annual report in the Account 768, Maintenance of Meters, Staff recommends this amount be disallowed from operating expenses for ratemaking purposes.

Staff recommends that the entire balance of $34,693 in Account 769, Maintenance of Other Plant, be removed from operating expenses and reclassified as gas plant and equipment. Lacking better documentation, this reclassification to gas plant and equipment should be allocated between Kentucky jurisdictional assets and non-jurisdictional assets placed in service during 1998. These adjustments bring Staff's recommendation for total reductions to operating expenses from these accounts to $51,641. Depreciation for the cost reclassifications will be addressed later in this Staff Report.

Uncollectible Accounts

Staff has computed an adjustment to Account 904, Uncollectible Accounts, based on Citipower's 1998 uncollectible rate of $72 divided by $131,288, or 0.0548 percent. Normally, Staff requires three or five years of data for an adjustment of this nature. However, because Citipower has not been subject to Commission regulation that long, the 1998 data is reasonable.

Retail Sales Revenues (as normalized) subject Applied to uncollectible experience rate	$174,796	
Rate of 0.05%	(X) .0548%	
Uncollectible accounts computed		$ 96
Amount reported on annual report to the Commission		$ (72)
Staff recommended adjustment		$ 24

Outside Services Employed

Citipower reported $77,673 in Account 923, Outside Services Employed. Citipower proposed to reduce its account to reflect a $5,000 decrease in engineering costs and a $15,000 decrease in legal costs.

Invoices for legal expenses incurred with the Law Offices of Robert L. Brown, lll during 1998, as well as the response (Schedule A) to Item 1 of the AG's July 16, 1999 data request showed charges for direct work on utility business research, assistance with interpreting Kentucky employment statutes, the preparation of an employee handbook of company employment policies, communication with Commission Staff, research on statutory and regulatory requirements, preparation of responses to

Commission Orders, revisions to tariffs submitted in Citipower's initial tariff filing case, and communications regarding future service to the planned federal prison. These readily identifiable legal expenses have been included for ratemaking purposes. Many of the invoice descriptions included discussions with politicians, discussions about state legislative bills, discussions with localities where Citipower has no franchise to serve the public (i.e., Monticello), extensive work on leases, easements, wells and well operations, and the conduct of business in Tennessee. These kinds of charges are not included for ratemaking purposes by Staff because they are either unrelated to Citipower utility business operations or are unrelated to jurisdictional operations. A significant portion of these bills appears to be related to legal work for Forexco (e.g., discussions with localities where Citipower has no franchise to do business, work on leases, easements, wells and well operations). In instances where professional services are performed for affiliated companies, the services should be billed directly to the company for which the service is performed.

In regard to the remaining legal services, a legal claim of settlement in the amount of $7,405 was unexplained.[11] Also, $20,000 of charges by Peter D.W. Heberling were for services in connection with Citipower raising equity capital.[12] Both of these are non-recurring charges. Additionally, Heberling's service is a cost of equity funding, not an operating expense. As such, both costs are disallowed for ratemaking purposes.

[11] Citipower's response to Item 1 of the Attorney General's ("AG") July 16, 1999 data request.

[12] Id.

The accounting, tax and payroll services that are allowed for rate-making purposes according to the table below are amounts that are supported in Citipower's general ledger. Invoices in support of engineering services were not provided for Staff review and are not supported in Citipower's general ledger; thus the expense has not been included for ratemaking purposes.

Following is a table of the outside services employed expenses that have been included and excluded for ratemaking purposes.

Sub-categories	Totals	Allowed for Rate Recovery	Disallowed for Rate Recovery
Acctg., tax & payroll services	$ 5,118	$ 4,008	$ 1,110
Legal – Brown Law Offices	$ 30,878	$ 10,412	$ 20,465
Legal – Akin, Gump, Strauss	$ 2,389	$ 2,389	$ -0-
Legal – Peter D.W. Heberling	$ 20,000	$ -0-	$ 20,000
Legal – Claim Settlement	$ 7,405	$ -0-	$ 7,405
Engineering fees	$ 11,883	$ -0-	$ 11,883
Totals	$ 77,673	$ 16,809	$ 60,864

Property Insurance

On its 1998 annual report to the Commission in Account 924, Property Insurance, Citipower reported a balance of $7,642. According to Citipower's most recent invoices, it has annual premiums for general liability and umbrella policies totaling $8,354. Therefore, Staff recommends an adjustment to increase operating expenses for the property insurance adjusted balance in the amount of $712.

Rents

Citipower reported no Account 931, Rents, on its 1998 annual report to the Commission. Citipower included in Account 930.1, Miscellaneous General Expense, a total of $6,000 for storage rental. Because the majority of the pipeline and distribution system construction ceased in June 1999, management is no longer renting the storage space. A smaller unit was rented at $150 per month or $1,800 annually for supplies and equipment storage. Staff has included the $1,800 annual rental expense in Account 931, Rents.

As part of its purchase of McCreary Gas, Citipower bought a log office building in downtown Whitley City and recorded it on both the general ledger and depreciation schedule at a cost of $125,000. Citipower was not able to provide a copy of the deed to this building as documentation of the purchase price. The building appears to exceed the size that would be needed to operate daily activities for a utility of Citipower's size. Furthermore, because the building was acquired from a previous owner, the cost recorded on Citipower's books for depreciation should have been the cost to the first user of the property, or an estimate thereof. Citipower provided no substantiation to Staff for either the original cost of the property or an estimate of that cost. In the portion of this report dealing with depreciation expense, Staff has disallowed the depreciation on the building in the amount of $5,000 for ratemaking purposes. In the portion of this report entitled Insurance Expense, Staff disallowed the cost of property insurance on the office building for ratemaking purposes. Furthermore, no property tax expenses were substantiated in its general ledger, although $1,152 was included on Citipower's 1998 annual report to the Commission. Therefore, Staff is disallowing costs directly associated with operating expenses for the office building for rate-making purposes. In lieu of depreciation, taxes, and insurance on the office building, Staff has included a monthly rent expense of $400 for a total annual expense of $4,800. Staff believes this amount is reasonable based on experience with other small utilities.

Amortization Expense

In its 1998 annual report to the Commission, Citipower erroneously reported $14,670 in Account 406, Amortization of Gas Plant Acquisition Adjustments. In its response to the Commission's August 3, 1999 Order, Citipower stated that the amortization expense resulted from organizational costs, not a gas plant acquisition adjustment. Citipower's general ledger shows total amortization expense of $15,132 in contrast to the amount in the annual report of $14,670.

Citipower's 1998 annual report to the Commission contains organizational costs recorded during the test year in the amount of $73,350. This was identified in the supporting schedule of the report on page 5, line 1 as "allocation of original purchase." Citipower's general ledger shows "Intangible Plant – Goodwill – Other" in the amount of $75,648. Citipower provided no supporting workpapers or any explanation of this item. Due to the lack of supporting documentation for this item, Staff has excluded recovery of amortization expense in the amount of $14,670 for ratemaking purposes.

Office Supplies and Expense

In its 1998 annual report to the Commission, Citipower included $10,978 in Account 921, Office Supplies and Expenses. Citipower proposed an adjustment to decrease office supplies and expenses by $2,500. However, it did not provide an explanation of its proposed adjustment.[13] From Citipower's general ledger, Staff found the following sub-accounts in support of the office supplies and expense account balance:

Sub-Account No.	Account Title	Account Balance
921.1	Office Supplies	$4,851
921.2	Office Cleaning	945
921	Office Supplies/Exp. – Other	1,352
Total Account Balance per Citipower's General Ledger, 1998		$7,148

Staff found two items in these accounts that do not belong in operating expenses for rate-making purposes. First, check number 1092 was made to Kinko's on April 4, 1998 in the amount of $969 for printing "offering memoranda." This is a cost of securing equity capital, not an operating expense. Also, on January 15,1998 a payment was made to Merry's Flower Shop in the amount of $40. While this expense may represent a business gift, it is not an operating expense for ratemaking purposes.

As described in the Miscellaneous General Expense section, costs for communications expenses of $14,867, bank charges of $699, and postage and FedEx expenses of $2,665 should be reclassified to the Office Supplies and Expenses, Account 921. The total amount reclassified is $18,231. Of this total amount reclassified, Staff has determined that $8,881 should not be included for ratemaking purposes. The portion not included is comprised of $748 from postage and FedEx expenses and $8,133 from communications expenses. The disallowed portion of the postage and FedEx expense is for a payment to UPS of December 10, 1998 for

[13] Citipower's response to Item 3.d. of the Commission's August 3, 1999 Order.

shipping of Christmas gifts. The $8,133 of communications expenses included telephone, cellular, and paging services. Because Staff considered the total communications expenses extremely high for a utility of Citipower's size, Staff requested support for the amount. Citipower's response was that significant costs were incurred during the test period for frequent communications with the numerous suppliers of components for the distribution system development and the pipeline construction. Citipower lacks contemporaneous records for call purposes and the individuals responsible for cellular and long-distance calling. A printout of charges for the same account for the first nine months of 1999 revealed a significant decline in expenses of this nature. Normally, changes for costs reductions outside the test year would not be accepted when a historical test period is used and it would be a voluminous task for Citipower to reconstruct a detailed analysis of all of the costs. Staff finds that an allocation of the 1998 costs based on an annualized proration of the costs for the first nine months of 1999 communications expenses provides a reasonable basis for estimating an allowable amount of communications expense. The 1999 communications costs were $7,576 for the first nine months. By annualizing this amount, Staff derived a result of $10,101 for 1999. Because Citipower's operations manager and office manager work one-third of their time for Forexco, Staff has allocated 66.67 percent of the communications expense to Citipower. Thus, the allowable communications expense is $6,734 ($10,101 x .6667 = $6,734). Of the amounts reclassified from Miscellaneous Expense to Office Supplies and Expense, Staff recommends allowing $9,350. This amount is comprised of $699 from bank charges, \$6,734 from communications expense and \$1,917 from postage and FedEx expense.

Accordingly, Staff has increased Account 921, Office Supplies and Expenses, to an adjusted balance of \$15,489.[14]

Miscellaneous General Expense

In its 1998 annual report Citipower included \$31,785 in Account 930.2, Miscellaneous General Expenses. Citipower proposed an adjustment to decrease Miscellaneous General Expenses by \$10,000, Citipower's explanation of the proposed decrease was "Travel, Utilities, Postage, Computer Repairs." An explanation such as this is insufficient for ratemaking purposes. A description or calculation showing the derivation of a proposed adjustment, as well as, any external factors having an impact on the calculation of an adjustment should be disclosed.

Following is a table of the adjustments explained above to Citipower's Miscellaneous General Expenses for ratemaking purposes.

Sub-Accounts	Gen. Ledger Bal.	Amount Allowed	Disallowed Amt.
Bank Charges	\$ 699	\$ 699	\$ -0-
Computer Repairs	\$ 600	\$ 600	\$ -0-
Dues/Subscriptions	\$ 1,029	\$ 1,029	\$ -0-
Employee Testing	\$ 475	\$ 475	\$ -0-
Postage & FedEx	\$ 2,665	\$ 1,917	\$ 748
Supplies & Repairs	\$ 114	\$ 114	\$ -0-
Communication Exp.	\$14,867	\$ 6,734	\$ 8,133
Meals/Entertainment	\$ 278	\$ 240	\$ 38

[14] General Ledger Balance of \$7,148 - \$969 - \$40 + 9,350 = \$15.489.

Travel	$(2,302)	$(2,302)	$ -0-
Utilities	$ 2,080	$ 2,080	$ -0-
Pest Control	$ 497	$ 497	$ -0-
"Prior Period Adjust."	$13,944	$ -0-	$13,944
Subtotal	$34,946	$12,083	$22,863
Less: Reclassifications			
Communication Exp.	$14,867	$ 6,734	$ 8,133
Bank Charges	$ 699	$ 699	$ -0-
Postage & FedEx	$ 2,665	$ 1,917	$ 748
Total Reclassifications	$18,231	$ 9,350	$ 8,881
Total Miscellaneous	$16,715	$ 2,733	$13,982

The above table of sub-accounts within the miscellaneous general expenses, as reported on Citipower's general ledger, includes the sub-accounts communications expense, bank charges, and postage and FedEx, which should be correctly recorded under Account 921, Office Supplies and Expenses. Staff has reclassified these items to office supplies and expenses. A discussion of the amounts in these sub-accounts allowable for rate-making purposes was discussed in that section of this report.

Of the $16,715 remaining in miscellaneous general expenses after the above-mentioned reclassification, two sub-accounts include expenses that are not allowable for ratemaking purposes. First, Citipower has a sub-account entitled "prior period adjustment" in the amount of $13,944. Staff was not provided with any explanation of this amount and even so, as an expense related to a prior period, the amount cannot pertain to current normalized operations. Therefore, Staff has disallowed the entire sub-account balance in the amount of $13,944. Additionally, Citipower has a sub-account for meals and entertainment. While, entertainment is a below-the-line expense (not an expense in determining net operating income) and not subject to rate recovery, meals that apply to operations should be recorded in the appropriate account according to FERC account definitions and appropriately identified. Contemporaneous documentation of business purpose and place, among the other record-keeping requirements, should also be maintained. Investor-related meals identified in this account totaling $38 should be recorded in Account 426.5, Other Deductions. The $38 was not included by Staff in the allowable operating expenses for ratemaking purposes.

The total miscellaneous general expenses disallowed by Staff and excluded from operating expenses after making the reclassification to office supplies and expense is $13,982.

General Advertising Expenses

In its 1998 annual report to the Commission, Citipower included $1,463 in Account 930.1, General Advertising Expenses. Citipower proposed an adjustment to decrease general advertising expenses by $500 without an explanation.[15] Upon review of Citipower's general ledger, Staff only found a balance of $259 supporting the general advertising expense account. Accordingly, Staff has reduced Account 930.1, General Advertising Expenses, by $1,204 due to lack of supporting documentation.

Transportation Expenses

In its 1998 annual report to the Commission, Citipower included $18,284 in Account 933, Transportation Expenses. Citipower proposed an adjustment to decrease

---

[15] Id.

transportation expenses by $3,000; however Citipower did not provide a thorough explanation of why the proposed adjustment should be made.[16] Citipower's only explanation of the proposed account balance decrease was "Auto Expense, Repair, Maintenance, and Gas." An explanation such as this is insufficient support for ratemaking purposes.

During the test period Citipower operated, maintained, fueled, and kept in repair four trucks. As discussed in the section on salaries, wages and other compensation, Citipower has been operating with two laborers and an operations manager since the completion of the distribution system expansion and pipeline construction in June of 1999. Since only three personnel remain for normal operations that work in the field, Citipower should not be entitled to charge its ratepayers for a fourth vehicle. The associated expenses for fuel, maintenance, repairs, taxes, insurance, and other should likewise not be included. Staff was not provided any contemporaneous records of individual vehicle use and costs. The truck was operated during the test year due to extensive construction activities. Therefore, Staff has excluded one-fourth of the expense.

The operations manager provides services for Forexco that requires transportation. The services for the affiliated company occupies one-third of his time. As previously stated, since Citipower did not provide contemporaneous records of vehicle use and costs, Citipower should not be allowed to recover one-third of the transportation expenses on the truck used by the operations manager. Following is a

[16] Id.

computation of the transportation expenses (based on Citipower's general ledger balances) that are being disallowed for rate recovery.

Sub-Account	Title	Amount
933.1	Automobile Expenses	$ 2,007
933.3	Auto Taxes	332
933.4	Repairs & Maintenance	4,888
933.5	Insurance/Titles/Fees	4,039
933	Other	5,972
	Total per general ledger	$ 17,238
	Less: One-fourth of total for extra truck expenses	4,309
	Subtotal	$ 12,929
	Less: One-third of cost related to operations manager's truck	1,437
	Allowable transportation expenses	$ 11,492
	Amount included in test period	$(18,284)
	Staff recommended decrease to expense	$(6,792)

Maintenance of General Plant

In its 1998 annual report, Citipower included $16,247 in Account 935, Maintenance of General Plant. Citipower proposed an adjustment to decrease maintenance of general plant by $3,000 based on cost reductions related to maintenance and storage of equipment. As previously mentioned in the section on Account 931, Rents, Citipower misposted storage rental expense in the amount of $6,000. This $6,000 rental expense was reclassified to Account 931, Rents, then reduced as previously discussed. Therefore, this account should be reduced by $6,000 to an adjusted test year balance of $10,247.

Depreciation Expense

Citipower reported total depreciable assets of $3,250,855 at the end of the test period. The depreciation schedules provided by Citipower that were prepared by the external auditors reflected total depreciable assets of $3,222,168. Of this amount, $1,673,416 was added to plant during the test period. The total depreciation expense reported by Citipower for the test period was $117,566. Upon a review of the depreciation schedules, staff determined that Citipower was using incorrect service lives for many of the plant in service items. Using the appropriate depreciation rates results in total annualized depreciation expense of $99,251. Depreciation expense has been reduced by $18,315 to reflect annualized depreciation expense based on the proper depreciation rates. Schedule III hereto, contains an analysis of the depreciation rates used by staff to calculate the normalized depreciation expense. Citipower should adjust its depreciation records to agree with the depreciable lives included in Schedule III.

Information provided in the record and obtained in the field review indicates that $1,121,057 of the plant on Citipower's books consists of a compressor site and steel pipeline located in the State of Tennessee and used to provide wholesale gas to Citizens. Consequently, these assets are not within the regulatory jurisdiction of the Commission and should not be included in the Kentucky jurisdictional rate base for Citipower. Staff has removed the $28,952 of annual depreciation expense associated with these assets.

When Citipower purchased the assets of McCreary in 1996, the 1995 balance sheet of McCreary reflected total assets at a gross book value of $175,772 that included the farm-tap gathering and distribution lines. The McCreary balance sheet was the only source of information on the value of the assets purchased from McCreary. The purchase price of all of the assets acquired by Citipower and added to the depreciation records in 1996 was $746,268. The purchase contract reflects that a substantial portion of the purchase price was for assets other than the assets of McCreary, and for the premium paid for the assets above the net book value. However, due to the failure of Citipower to supply adequate supporting documentation of the purchase, we can not determine the precise amount that Citipower paid for the Kentucky jurisdictional assets. Because Citipower has not substantiated the portion of the purchase price to be applied to the McCreary assets, Staff has no alternative but to exclude the total amount, or include only the portion that was included on McCreary's balance sheet. Based on Staff's discussions with Citipower personnel, the assets purchased from McCreary are in good working order and are currently being used to supply LDC service to Citipower's customers. Staff, therefore, has included depreciation expense on the gross book value of the assets purchased from McCreary.

Due to the failure of Citipower to record the original cost of the purchased assets appropriately, Staff has reduced depreciation expense by $14,262. This amount represents the depreciation expense on the difference between the $175,772 of assets on the books of McCreary and the $746,268 of assets recorded on the books of Citipower during 1996. As stated earlier in this report, Citipower should research the purchase price of the McCreary assets and record the purchase in accordance with the USoA so that the appropriate level of depreciation and amortization expense can be included for ratemaking purposes in future cases.

The office building that Citipower and Forexco currently use was purchased in 1996 from the owners of McCreary. For the same reasons listed above, as well as the fact that the property is jointly used by Citipower and its affiliate, Staff does not believe it is appropriate to include the recorded value of this property for ratemaking purposes. Consequently, Staff has reduced depreciation expense by $3,125. Staff has included rent expense in another section of this report to compensate Citipower for the office space it uses.

At the end of the test period, Citipower included four trucks as depreciable assets. Based on the reduction of employees discussed elsewhere in this report, and the fact that Citipower has reduced the level of new construction since 1998, Staff believes it is appropriate to exclude one of these vehicles for ratemaking purposes. The oldest of the four vehicles is a 1995 Dodge Truck with a gross depreciable value of $17,884 and a useful life of 5 years. Staff has deducted $3,577 from depreciation expense to exclude this vehicle. Also, a portion of the vehicle that is used by the operations manager should be allocated to Forexco since it is used for both companies' operations. Staff is excluding 1/3 of the depreciation based on the allocation of salary of this employee. This adjustment results in a reduction of $1,367 to depreciation expense.

In another section of this order, Staff removed $14,998 of customer hook-up and meter installation expenses from expense accounts that should have been capitalized. Applying a 30-year depreciable life to these assets will result in an increase to depreciation expense of $500.

Finally, Staff reclassified some expenses in other sections of this report that result in additional depreciation expense. Staff reclassified $36,643 of other plant and equipment that had erroneously been charged to expense accounts. This adjustment results in $916 of additional annual depreciation expense based on a 40-year useful life. Staff reclassified $67,154 of salaries, and wage related expenses that should have been capitalized during the test year. The annual depreciation expense associated with these reclassified assets, based on a 40-year useful life, is $1,679. These costs are related to both the jurisdictional and non-jurisdictional operations of Citipower and should be allocated between the two. Because the salaries and wages that are being capitalized relate to construction performed during the test year, the basis for allocation should be the jurisdictional and non-jurisdictional plant additions for the test year. Based on the total plant additions during the test year of $1,673,416 and the portion that was constructed during the test year for the Tennessee operations in the amount of $1,110,008, staff has determined that 33.668% of the depreciation expense related to these two items is for Kentucky jurisdictional operations. Therefore Staff has included $874 (($1,679 + $916) x .33668 = $874)) in additional depreciation for these reclassified items.

The net effect of all of the above adjustments on depreciation expense, is a reduction of the test period depreciation expense of $68,224.

<u>Other Deductions</u>

<u>Donations.</u> Citipower had $535 in Donations on its 1998 general ledger. These amounts were erroneously included as part of Account 930.2, Miscellaneous General Expense on Citipower's annual report to the Commission. These donations were not

addressed in Staff's discussion of Miscellaneous General Expense. The donations do not have an effect on operating expenses since these costs are below-the-line expenses. Staff is adjusting the Statement of Revenues and Expenses to include donations of $535 appropriately in Account 426.1, under Other Income (Deductions). As stated, donations do not impact Total Gas Operating Expenses or Citipower's revenue requirement determination.

Other Interest Expense. In its application, Citipower proposed an adjustment to increase interest expense by $42,500. Citipower explained that this was an annual estimate of the interest to be charged Citipower by the Bank of McCreary on short-term financing totaling $500,000.[17] The interest was estimated at eight and one-half percent, or three-quarters of a percent over the "New York Prime Rate" at the time of the application.

Generally, the Commission does not approve the financing of long-lived plant and equipment, or operating expenses with short-term financing. Staff inquired whether any studies had "been performed to evaluate the cost effectiveness of short-term loans to finance long-lived assets".[18] Citipower responded that profitability must be achieved before the short-term indebtedness could be converted to long-term debt. It also reported that no studies or analyses had been performed to evaluate the financing method used. As is explained in the revenue requirements section of this report, Citipower's lack of rate base support for equity capital precludes a rate of return on

[17] Citipower's response to Item 5 of the Commission's August 3, 1999 Order.

[18] Citipower's response to Item 2 of the Commission's August 3, 1999 Order.

investment in the revenue requirement determination. The 88 percent operating ratio provides sufficient earnings to repay the reported interest. Therefore, Staff does not approve the recovery of this proposed request of short-term interest expense and has reduced Other Interest Expense by $5,434, leaving only the interest on customer deposits in the amount of $114. Additionally, Staff reclassifies the Interest on Long-term Debt for the automobile loans of $5,851 to Account 427, since it was misposted to Account 431.

Other Adjustments Requested by Citipower

"Transmission Expenses: USoA # 751, 752, 754, 756, $72,000."[19] In its application and explanation of adjustments, Citipower requested an increase to Accounts 751, 752, 754 and 756 for additional natural gas transmission expenses to operate the new compressor station for gas delivery to Citizens Gas. As discussed in previous sections of this report, revenue and expenses for sales of gas to Citizens Gas are outside the jurisdiction of the Commission. Since the requested adjustment for transmission expenses is associated with non-jurisdictional revenue, the expenses are considered non-jurisdictional, and as such, are not recoverable from Kentucky ratepayers. Accordingly, Staff has not included any of the proposed adjustments to increase operating expenses.

Revenue Requirements

Citipower did not propose a rate of return on rate base approach or the operating ratio method to determine its total revenue requirements in this case. The operating

[19] Citipower's response to Item 3.d. of the Commission's August 3, 1999 Order.

ratio method is used primarily when there is no sound basis for a rate of return determination using the required return on capital and rate base method. In order for the rate of return on equity to be conceptually valid, capitalization must be closely supported by rate base.

In its 1998 annual report to the Commission, Citipower reported net utility plant of $3,007,973 and equity capital, net of accumulated losses, equal to $2,253,688. As previously mentioned, Staff noted significant discrepancies in Citpower's historical calculations of depreciation. Also, Staff noted significant unsubstantiated amounts Citipower recorded as utility assets from the purchase of McCreary's assets, that Staff cannot accept without more thorough documentation by Citipower. Staff requested explanations needed in regard to Citipower's asset cost allocation from the McCreary acquisition, but no adequate supporting information was provided.

Citipower's members' equity consists of limited liability units acquired with cash, and equity has been issued to certain owners for services provided (non-cash issuances). Citipower was asked prior to the Staff review to provide a schedule of members' equity, a reconciliation of total investments (both cash and non-cash), the allocations of losses, and support for the valuation of the services rendered for LLC units. No response was provided by Citipower.

Without answers to these issues, Staff does not have the information necessary to provide the Commission with an informed decision as to the appropriateness of using a required return on capital and rate base. Therefore, Staff believes that the operating ratio method is the only appropriate method that can be used to determine revenue requirements in this case.

The Commission generally uses an 88 percent operating ratio to determine a reasonable level of earnings for small utilities. Applying the operating ratio to the Staff adjusted operating expenses results in a total revenue requirement of $365,914. This revenue requirement is before adjustments for the additional PSC assessment fees ($27) and uncollectible accounts ($9). The total revenue requirement after consideration of these items is $365,950. Staff computed normalized revenues based on the adjusted test period sales and current rates of $175,284. This includes revenue from sales and revenue from late payment fees. The revenue produced by the proposed rates including the revenues from late payment fees is $215,750. (See Schedule IV.) Therefore, Staff recommends an increase in operating revenue of $40,466. Although the proposed rates will not produce sufficient revenues to meet the total revenue requirement, due to the uncertainties that exist with the appropriate costs, Staff recommends no additional increase.

Following is a calculation of the revenue requirement:

Total Gas Operating Expenses			329,288
Less: Purchased Gas Expense			57,953
Subtotal			271,335
Operating Ratio			88%
Subtotal			308,335
Add: Purchased Gas Expense			57,953
Interest Expense on Customer Deposits			114
Less: Miscellaneous Service Revenues			488
Revenue Requirement From Rates			365,914
Uncollectible Accounts		0.054800%	9
PSC Assessment Fee	($1.667 per $1,000 of Revenue)	0.166700%	27
Total Revenue Requirement			$ 365,950
Normalized Revenues			174,796
Increase Required			$ 191,154

Staff Recommendations

Included in this report are several items of concern to Staff that will require Citipower to take corrective action in order to be in compliance with the Commission's rules and regulations and Kentucky Statutes. Citipower should take the appropriate steps to become familiar with the Kentucky Revised Statutes and the Commission's Administrative Regulations in order to comply with same.

Following is a list of items that will require corrective action:

1. Plant Records – Citipower should conduct a study to determine the original cost of the assets acquired from McCreary, and record the acquisition pursuant to the USoA. Plant records should be maintained in a manner that is sufficient to determine the historical cost of utility property, plant and equipment.

2. Subsidiary Plant Records – Citipower should establish a subsidiary plant ledger to reflect the continuing property records of the utility. The subsidiary plant ledger should contain a card or sheet for each unit of property, showing details such as description, location, cost, vendor, date of purchase or installation, estimated cost of removal and salvage value and method of depreciation, depreciation accumulated to date, and capitalized repairs, replacements, and improvements. Additional information should include documentation of periodic inventories and periodic appraisals of property, plant, and equipment for insurance purposes.

3. Capitalization of Previously Expensed Costs – Citipower should capitalize the costs improperly expensed in accordance with the adjustments contained in this report.

4. Depreciation Records – The Depreciation schedules of Citipower should be corrected in accordance with the findings of this report. The appropriate depreciation rates should be used to accrue depreciation prospectively, and corrections should be made to the accumulated provision for depreciation to reflect the adjustments contained in this report.

5. Maintaining Books and Records – Citipower should correct its accounting procedures to assure that the general ledger supporting the information contained in the Annual Report to the Commission is accurate.

6. Records Retention – Citipower should review the requirements of the USoA regarding retention of records and comply with same. At a minimum, Citipower should maintain general and subsidiary ledgers and the trial balance sheets for the required time period. Records related to revenues and expenses and capitalized assets should be retained for the minimum number of years required by the USoA.

7. Non-jurisdictional Business Activity – Citipower should develop procedures to allocate costs between it and its affiliates in order to define and separate the operations of the various affiliates. The procedures should be written and included in the cost allocation manual, and updated as circumstances change within the utility and/or the affiliates. To the extent possible, the books and records should be maintained separately, and costs should be directly assigned to the appropriate entity that incurs the cost. Transactions between Citipower and its affiliates should be conducted in a manner that does not result in any cross subsidization of the non-regulated affiliate by the regulated utility.

8. Certificate of Public Convenience and Necessity – Prior to conducting any construction that is not in the ordinary course of business, Citipower should receive approval from the Commission.

9. Financing Approval – Prior to issuing any evidences of indebtedness of a period greater than 2 years, Citipower should obtain Commission approval pursuant to KRS 278.300.

10. Financial Reporting – In order to monitor the progress of compliance with the recommendations in this report, Citipower should file quarterly financial reports to the Commission. The reports should include, at a minimum, a comparative balance sheet and detailed income statement. Staff will work with Citipower to develop any additional schedules deemed necessary.

11. GCA Filings – Citipower should develop a procedure to track gas costs and submit quarterly GCA filings in accordance with their tariff.

12. Unauthorized Rates – Citipower should immediately discontinue charging any rate for regulated utility services that has not been approved by the Commission.

13. 1999 Financial Statements – The adjustments and concepts contained in the corrections to the 1998 financial statements contained in this report should be considered and included in the preparation of financial statements for 1999.

14. Plan For Compliance With Recommendations – Within 30 days of the final Order in this case, Citipower should file a plan to comply with the recommendations in this report.

Signatures:

Prepared By: John D. Williams
Public Utility
Financial Analyst
Electric and Gas Revenue
Requirements Branch
Division of Financial Analysis

Prepared By: Kathaleen Finn
Public Utility
Financial Analyst
Electric and Gas Revenue
Requirements Branch
Division of Financial Analysis

Prepared By: S. Dawn McGee
Public Utility
Rate Analyst
Electric and Gas Rate
Design Branch
Division of Financial Analysis

Schedule 1
Pro Forma Income Statement

Acct. No.	Account Title	Test Year End Balances Per Annual Report	Staff Adjustments	Staff Recommended Test Year Balances
	Operating Revenues:			
481, 482	Retail Sales	$ 131,288	$ 43,508	$ 174,796
483	Sales for Resale	54,276	(54,276)	-
489	Miscellaneous Service Revenues	26,177	(25,689)	488
	Operating Revenues	211,741	(36,457)	175,284
	Operating Expenses:			
730	Natural Gas Purchases	104,378	(46,425)	57,953
761	Distribution Supervision	-	20,773	20,773
762	Distribution Mains & Svcs. Labor	8,063	19,422	27,485
764	Customer Installation Expenses	14,998	(14,998)	-
768	Maintenance of Meters & Regulators	1,950	(1,950)	-
769	Maintenance of Other Plant	34,693	(34,693)	-
901	Meter Reading Labor	-	9,161	9,161
902	Accounting & Collecting Labor	14,713	12,075	26,788
903	Supplies and Expenses	676	(85)	591
904	Uncollectible Accounts	72	24	96
907	Customer Svc. & Informational Expenses	-	-	-
908	Customer Assistance Expenses	-	-	-
920	Administrative & General Expenses	454,375	(414,365)	40,010
921	Office Supplies and Expenses	10,978	4,511	15,489
923	Outside Services Employed	77,673	(60,864)	16,809
924	Property Insurance	7,642	712	8,354
925	Injuries and Damages	16,350	(12,244)	4,106
926	Employee Pensions & Benefits	3,795	5,713	9,508
928	Regulatory Commission Expenses	-	-	-
930.1	General Advertising Expenses	1,463	(1,204)	259
930.2	Miscellaneous General Expenses	31,785	(29,052)	2,733
931	Rents	-	6,600	6,600
933	Transportation Expenses	18,284	(6,792)	11,492
935	Maintenance of General Plant	16,247	(6,000)	10,247
	Total Operating & Maintenance Expenses	818,135	(549,681)	268,454
403	Depreciation Expense	117,566	(68,224)	49,342
404	Amortization Expense	14,670	(14,670)	-
408.1	Taxes Other Than Income Taxes	15,744	(4,252)	11,492
	Total Gas Operating Expenses	$ 966,115	$ (636,827)	$ 329,288
	Net Operating Income	(754,374)	600,370	(154,004)
	Other Income (Deductions):			
415	Jobbing Revenue	-	7,597	7,597
416	Jobbing Expenses	-	-	-
419	Interest Income	5,103	-	5,103
421	Miscellaneous Nonoperating Income	6	-	6
426.1	Donations	-	-	-
427	Interest on Long-Term Debt	-	-	-
431	Other Interest Expense	(11,399)	11,285	(114)
	Total Other Income (Deductions)	(6,290)	18,882	12,592
	NET INCOME	$ (760,664)	$ 619,252	$ (141,412)

SCHEDULE II

Normalized Test Year Revenues

1998 Test Year	Residential	Commercial	Public
Wt'd Avg. Monthly Usage per Customer 1997 - May 1999	3.72	7.33	55
x 12 Months	12	12	
Avg. Annual Usage per Customer	44.58	87.94	671
Avg. Annual Usage per Customer	44.58	87.94	671
x # Customers End of Year 1998	160	30	
Avg. Annual Sales Volume	7,133.49	2,638.18	12,754
Avg. Annual Sales Volume	7,133.49	2,638.18	12,754
x Current rate/Mcf	$7.00	$7.00	$6
Normalized Sales Revenue	$49,934.45	$18,467.24	$76,527
Normalized Sales Revenue	$49,934.45	$18,467.24	$76,527
+ Minimum Bills	$2,430.00	$455.00	$245
+ Late Payment Fees	$422.91	$65.00	$0
Total Normalized Revenue	$52,787.36	$18,987.24	$76,772

SCHEDULE III

Depreciation Schedule

	Staff Estimated Useful Lives	Staff Depreciation Rate Used	Per Auditor Prepared Schedule TOTAL COST	Staff Computed Annual Depreciation
Office Building	40 years	0.025	125,000	3,125
Office Furniture & Equip.	5-15 years	.2-.066	9,177	612
Trucks (4)	5 years	0.2	87,311	17,462
Compressor Site - TN rev.('98 add'n)	30 years	0.033	111,094	3,703
Equip. Ditchwitch, Other	30 years	0.033	49,970	1,666
Meters	30 years	0.033	195,853	6,528
Reg. Odorant Station	30 years	0.033	7,321	244
Pipeline, 1" & 2"	40 years	0.025	307,695	7,692
Pipeline, 3"	40 years	0.025	246,154	6,154
Pipeline, 4"	40 years	0.025	583,664	14,592
Pipeline, 6"	40 years	0.025	488,966	12,224
Steel Pipeline to TN	40 years	0.025	1,009,963	25,249
Annualized Staff Total			3,222,168	99,251
ADJUSTMENTS				
A. Compressor Site			(111,094)	(3,703)
Steel Pipeline			(1,009,963)	(25,249)
Total in Tennessee			(1,121,057)	(28,952)
B. McCreary Purchase	40 years			
Citipower's Assets-1996=		$746,268		
Gross Book Value=		$175,772		
Difference (Non-allowable)			(570,496)	(14,262)
C. Office Building	40 years		(125,000)	(3,125)
D. 1995 Dodge Truck	5 years		(17,884)	(3,577)
E. Reclassified Customer Hook-up and Meter Installation Expenses	30 years		14,998	500
F. Reclassified from Maintenance Accounts 768 and 769	40 years		36,643	916
G. Reclassified Salaries and Wage Related Expenses	40 years		67,154	1,679
H. Nonjurisdictional Reclassifications				(1,721)
I. 33.3% Allocation for Forexco Use of 1995 Toyota Forerunner				(1,367)
Total Plant in Service in Kentucky and Total Depreciation			1,506,526	49,342

SCHEDULE IV

Revenue under Proposed Rates

1998	Residential	Commercial	Public
Wt'd Avg. Monthly Usage per Customer 1997 – May 1999	3.72	7.33	55.94
x 12 Months	12	12	12
Avg. Annual Usage per Customer	44.58	87.94	671.29
Avg. Annual Usage per Customer	44.58	87.94	671.29
x # Customers End of Year 1998	160	30	19
Avg. Annual Sales Volume	7,133.49	2,638.18	12,754.58
Avg. Annual Sales Volume	7,133.49	2,638.18	12,754.58
x Proposed Rate/Mcf	$8.50	$8.50	$7.50
Normalized Sales Revenue	$60,634.69	$22,424.51	$95,659.38
Normalized Sales Revenue	$60,634.69	$22,424.51	$95,659.38
+ Minimum Bills	$2,430.00	$455.00	$245.00
+ Late Payment Fees	$422.91	$65.00	$0.00
Total Normalized Revenue	$63,487.60	$22,944.51	$95,904.38

Schedule V
Allocation of Normalized Salaries and Wages

1998 Reg. Hrs.	1998 OT Hrs.		1998 Total Pay	Normalized Total Pay	Citipower Alloc. %	Citipower Alloc. $
Salaried		Operations Manager	$ 62,316	62,316	66.67%	41,546
2,200.50	21.00	Office Manager	$ 18,108	18,108	66.67%	12,073
1,084.50	-	Office Assistant	$ 7,552	7,552	100%	7,552
2,166.80	138.00	Laborer 1, "normalized"	$ 26,566	18,296	100%	18,296
819.00	142.50	Laborer 2, "normalized"	$ 7,929	18,350	100%	18,350
						$ 97,817
		Allocated from Forexco (McCue & Lawson)				$ 26,400
		Adjusted And Normalized Citipower Wages				$ 124,217

Note that the 1998 Salaries and Wages of the operations manager, office manager and office assistant are accepted by Staff as a normal annual representation.

Reg. Hrs.	OT Hrs.		Normalized Total Pay	760, Distr. Supervision	761, Labor	901, CA, Mtr. Reading	902, CA Acct./Coll.	920, CA Admin./Genl.
Salaried		Operations Manager	62,316	$ 20,773				$ 20,773
2,200.50	21.00	Office Manager	18,108				$ 6,036	$ 6,037
1,084.50	-	Office Assistant	7,552				$ 7,552	
2,080.00	138.00	Laborer 1, "normalized"	18,296		$ 13,722	$ 4,574		
2,080.00	142.50	Laborer 2, "normalized"	18,350		$ 13,763	$ 4,587		
			$ 97,817	$ 20,773	$ 27,485	$ 9,161	$ 13,588	$ 26,810
Allocated from Forexco (McCue & Lawson)			$ 26,400				$ 13,200	$ 13,200
Adjusted And Normalized Citipower Wages			$ 124,217	$ 20,773	$ 27,485	$ 9,161	$ 26,788	$ 40,010

Normalized Reg. Hrs.	Normalized OT Hrs.		Total Pay at $8 / Per Hour
2,080.00	138.00	Laborer 1, "normalized"	$ 18,296
2,080.00	142.50	Laborer 2, "normalized"	$ 18,350