

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF GILBERT CONSTRUCTION)
d/b/a GRAHAM ESTATES FOR A RATE) CASE NO.
ADJUSTMENT PURSUANT TO THE ALTERNATIVE) 99-315
RATE FILING PROCEDURE FOR SMALL UTILITIES)

ORDER

On September 23, 1999, Gilbert Construction Services, Inc. d/b/a Graham Estates ("Graham Estates") filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of Graham Estates' operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 25th day of January, 2000.

ATTEST:

By the Commission

Executive Director

STAFF REPORT
ON
GILBERT CONSTRUCTION d/b/a GRAHAM ESTATES
CASE NO. 99-315

On September 23, 1999, Gilbert Construction d/b/a Graham Estates filed an application to adjust its sewer service rates pursuant to 807 KAR 5:076. 5:076 requires that a utility establish rates based on annual reports filed with the Commission for the three most recent years of operation. As of the date of this report Graham Estates had not filed those reports. The Commission accepted Graham Estates' application but ordered that the annual reports be filed no later than November 15, 1999. Staff recommends that the rates approved in this case become effective only after those reports have been properly completed and filed.

The test year used in the application was the calendar year ending December 31, 1997. In the absence of the annual reports, a test year income statement was compiled from invoices supplied by Graham Estates' vendors. Scott Lawless and John Williams of Commission Staff ("Staff") performed a limited financial review of Graham Estates' test year operations. To gather information a field inspection was performed and one written information request was issued. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Graham Estates' proposed operating income statement is shown on Attachment A of this report. Attachment B details Staff's recommended operating income statement and includes explanations for all adjustments.

Attachment C compares Graham Estates' and Staff's revenue requirement and rate calculations. Graham Estates proposed to increase its current monthly rate of \$15.80 to \$24.10. Staff recommends that the current rate be increased to \$17.95.

Signatures

Prepared by: Jack Scott Lawless, CPA
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Sam Reid
Rate Analyst, Communications, Water,
and Sewer Rate Design Branch
Division of Financial Analysis

ATTACHMENT A
 STAFF REPORT CASE NO. 99-315
 GRAHAM ESTATES' REQUESTED OPERATIONS

	Test Year	Adjustment	Pro forma Operations
Operating Revenue (\$15.80 current rate x 47 customers x 12 months)	<u>8,911</u>		<u>8,911</u>
Operating Expenses			
Contract labor - C.G. Williams, Inc.	525	795	1,320
Operating contract	1,556		1,556
Purchased power	2,275		2,275
Baird Plumbing and Heating	2,099		2,099
Owner manager fee	3,600		3,600
Legal and professional expenses		909	909
KPDES Permit fee		<u>200</u>	<u>200</u>
Total Operating Expenses	<u>10,055</u>	<u>1,904</u>	<u>11,959</u>
Net Operating Income	<u>(1,144)</u>	<u>(1,904)</u>	<u>(3,048)</u>

ATTACHMENT B
STAFF REPORT CASE NO. 99-315
STAFF'S RECOMMENDED OPERATIONS

	Test Year	Adjustment	Ref .	Pro forma Operations
Operating Revenue (\$15.80 current rate x 47 customers x 12 months)	8,911			8,911
Operating Expenses				
Contract labor - C.G. Williams, Inc.	525		A	525
Operating contract	1,556			1,556
Purchased power	2,275			2,275
Baird Plumbing and Heating	2,099	(1,347)	B	752
Owner manager fee	3,600			3,600
Legal and professional expenses			C	-
KPDES Permit fee		200	D	200
Total Operating Expenses	10,055	(1,147)		8,908
Net Operating Income	(1,144)	1,147		3

ATTACHMENT B
STAFF REPORT CASE NO. 99-315
STAFF'S RECOMMENDED OPERATIONS

(A) Contract Labor. During the test year \$525 was paid to C.G. Williams for cleaning the chlorine contact chamber and sludge pumping. Graham Estates proposed to increase that amount to \$1,320 to reflect a monthly payment of \$110 to C.G. Williams for pumping sludge from the contact and aeration chambers.

Through an information request issued on October 27, 1999, Staff requested that a detailed basis for this adjustment be provided. Graham Estates responded on December 6, 1999, by simply stating that one monthly service trip was now required for this maintenance at a cost of \$110 per trip. Graham Estates provided no evidence that these services were required and being performed or that the charge for such service was reasonable. Therefore, Staff recommends that this adjustment be denied.

(B) Baird Plumbing and Heating. In compiling the test year income statement, payments made to Baird Plumbing and Heating were allocated to Graham Estates in the amount of \$2,099. The total amount paid to Baird by Gilbert Construction on behalf of its two sewer operations was \$6,878. The allocation was based on the number of customers served by each of Gilbert Construction's sewer operations. This allocation procedure was necessary because detailed invoices were not maintained so that direct allocations could be made.

During Staff's review it was discovered that the total payments of \$6,878 represented amounts paid to Baird from 1994 to 1998. Staff has adjusted the test year expense to reflect payments made during 1997 only. The adjustment was calculated as follows:

ATTACHMENT B
STAFF REPORT CASE NO. 99-315
STAFF'S RECOMMENDED OPERATIONS

Total Paid in 1997 per Invoice Summary	\$2,465.41
Times: 30.5 percent (47 Graham Estates customers divided by 154 Total Gilbert Construction Customers)	<u>30.50%</u>
Amount allocated to Graham Estates	752.00
Less: Test year	<u>(2,099.00)</u>
Adjustment – Decrease	<u>\$(1,347.00)</u>

(C) Legal and Professional Services. Graham Estates proposed to increase test year expenses by \$909 to include legal fees. Staff requested detailed support for this adjustment in its information request. In response, Graham Estate submitted a 1998 invoice summary sheet billed to Robert E. Gilbert, owner of Graham Estates, by his attorney. The invoice summary totaled \$2,616.91. In the response Gilbert's attorney stated that \$909 of the total was related to Graham Estates.

The invoice summary provides no detailed information regarding the nature of the legal services provided. In the absence of such information, Staff is not able to determine the reasonableness of the charges and therefore recommends that they be denied.

(D) KPDES Permit Fee. Graham Estates proposed to increase test year expenses by \$200 to reflect the five-year amortization of its KPDES permit. Graham Estates provided a copy of its current permit that expires July 31, 2000. The amount paid for the permit was not included in the response. Staff contacted the Division of Water and found that the current permit was \$1,000. Therefore, Staff agrees that test year expenses should be increased by \$200 (\$1,000 / 5 years).

ATTACHMENT C
 STAFF REPORT CASE NO. 99-315
 COMPARISON OF REVENUE REQUIREMENT AND RATE CALCULATIONS

	Recommended By Staff	Requested By Graham Estates
Operating Expenses	8,908	11,959
Divide by: 88 percent	<u>88%</u>	<u>88%</u>
Required Revenue	10,123	13,590
Divide by: Number of customers	47	47
12 months	<u>12</u>	<u>12</u>
Recommended Rate	<u><u>17.95</u></u>	<u><u>24.10</u></u>