COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CLASSIC CONSTRUCTION, INC. FOR RATE ADJUSTMENT FOR SMALL UTILITIES PURSUANT TO 807 KAR 5:076	)))	CASE NO. 2013-00258

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of September 18, 2013, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding.

Please note that pursuant to the ordering paragraphs 2, 3, and 4 of Commission's Order of September 18, 2013, Classic Construction, Inc. is required to, no later than November 4, 2013, file with the Commission its written comments on and any objections to the findings and recommendations contained in the Report; any additional evidence for the Commission's considerations; and written notice as to whether this matter may be submitted for decision based upon the existing record without hearing.

Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED OCT 3 1 2013

cc: Parties of Record

STAFF REPORT

ON

CLASSIC CONSTRUCTION, INC.

CASE NO. 2013-00258

Classic Construction, Inc. ("Classic Construction") provides wastewater service to approximately 107 customers residing in the Ridgewood Subdivision and the Circle Subdivision located in Franklin County, Kentucky.[1] On July 2, 2013, Classic Construction tendered an application to the Commission pursuant to 807 KAR 5:076 seeking to increase its flat monthly wastewater service rate from $29.57 to $45.00, an increase of $15.43, or 52.18 percent.

Classic Construction based its application on the test year ending December 31, 2012.[2] The financial exhibits prepared by Classic Construction and included with its Application are shown below in condensed form.[3] These exhibits support a flat monthly rate of $40.21. Classic Construction did not state the reason it sought a higher rate than supported by its financial exhibits.

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[1] *Annual Report of Classic Construction, Inc. to the Public Service Commission for the Calendar Year Ended December 31, 2012* ("*Annual Report*") at 1 and 8.

[2] 807 KAR 5:076, Section 8, requires that the Commission make its decision based upon the utility's annual report for the immediate past year. At the time Classic Construction submitted its application, the most recently filed report was for the year ended December 31, 2012.

[3] Application, ARF FORM 1, ATTACHMENT RR-OR.

Pro Forma Operating Expenses Before Taxes	$	44,479
Divide by: Operating Ratio		88%
Operating Revenues Before Taxes and Interest		50,544
Less: Pro Forma Operating Expenses Before Taxes		(44,479)
Net Income Allowable		6,065
Add: Provision for State and Federal Income Taxes		175
Interest Expense		908
Pro Forma Operating Expenses Before Taxes		44,479
Total Revenue Requirement		51,627
Divide by: Number of Customers		107
12 Months		12
New Flat Monthly Rate		40.21
Less: Current Rate		(29.57)
Increase	$	10.64
Percentage Increase		35.98%

To determine the reasonableness of the proposed rates, Staff performed a limited financial review of Classic Construction's test-year operations. The scope of the review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable changes to test-year operations were identified and adjustments were made when their effects were deemed to be material. Insignificant and immaterial discrepancies were not pursued or addressed.

Staff's findings are summarized in this report. Jack Scott Lawless and Daryl Parks reviewed Classic Construction's Overall Revenue Requirement. Sam Reid reviewed Classic Construction's reported revenues and rate design.

Summary of Findings

1) Overall Revenue Requirement, Required Revenue Increase, and Rates. Staff applied the Operating Ratio Method, as historically used by the Commission, to determine that Classic Construction has supported a $38,903 overall revenue requirement and that a $935 revenue increase is appropriate at this time; however, when responding to this report, Classic Construction may file additional documents with the Commission that support the expenditures listed in Attachment B of this report and additional loan documents that support a higher revenue increase. A flat monthly rate of $30.30 will generate a $935 revenue increase.

2) Internal Controls. Classic Construction did not receive and retain vendor invoices for all test-year expenditures. Classic Construction should keep all source documents supporting all transactions. At a minimum, these documents should include invoices that are prepared by the vendor providing the product or service. Each invoice should include a clear statement of the services or products provided, the location to which the product or service was delivered, the date delivered, and the amount of the vendor's charges. Classic Construction should write on each vendor invoice the check number used to pay the invoice and the date the invoice was paid. Classic Construction should pay all invoices by check to strengthen internal controls.

3) Correction of Prior Period Accounting Errors. After reviewing Classic Construction's financial records, Staff determined that the adjusting journal entry shown below is required to correct prior-period accounting errors made to Utility Plant in Service, Accumulated Depreciation, Other Current and Accrued Assets, Other Deferred Debits, Contributions in Aid of Construction ("CIAC"), and Miscellaneous Operating

Reserves.[4] Correction of the prior-period adjustments to Other Current and Accrued Assets and Other Deferred Debits required an adjustment to Retained Earnings.

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[4] Utility Plant in Service. Construction of the wastewater treatment and collection facilities located in the Ridgewood Subdivision that currently serve Ridge Wood Subdivision and the Circle Subdivision was completed in 1979 by James Mitchell at an original cost of $88,880. (*See* 1979 Annual Report for Ridgewood Subdivision Sewer System). The plant's original cost must be reported on Classic Construction's balance sheet, since it is still in service and owned and operated by Classic Construction. After adding this amount to the original cost of the two plant improvements listed on Classic Construction's Asset Summary Schedule that have a total original cost of $10,951 (*See* Application at 20. A third asset, a "Jetter," is also listed on this schedule that has been removed from service and should not be reported on Classic Construction's financial statements), Staff determined that Classic Construction's correct Utility Plant in Service account balance is $99,831.

Accumulated Depreciation. The 1979 wastewater treatment and collection facilities have been fully depreciated. This depreciation should be reported by Classic Construction along with the plant's original cost. By adding the depreciation accumulated on the 1979 assets, $88,880, to the depreciation accumulated on the two plant improvements shown on Classic Construction's Asset Summary Schedule, $3,383, Staff determined that the correct Accumulated Depreciation balance is $92,263.

Other Current and Accrued Assets. Classic Construction reported $1,780 as Other Current and Accrued Assets at December 31, 2012. This amount was first reported as a part of the accounting entry used by Classic Construction to record its purchase of the wastewater assets serving the Coolbrook Subdivision in 2004. The amount should have been removed from Classic Construction's financial statements upon its sale of those assets in 2008.

Other Deferred Debits. In 2012 Classic Construction expensed $3,700 paid to the Kentucky Department for Environmental Protection Division of Water to renew its Kentucky Pollutant Discharge Elimination System Permit. The new permit is effective from March 1, 2013, to February 28, 2018. Proper accounting requires the cost of the permit to be accrued as a regulator asset to Other Deferred Debits that is amortized over the five-year term of the permit.

CIAC. Classic Construction reported $20,029 for CIAC. This amount represents the unamortized balance of the developer contribution of the original wastewater treatment plant and collection system made in 1979 to the sewer corporation. Amortization of this contribution is proper and necessary to match the contribution to the accounting periods benefited by the contributed assets; however, the amortization should not be charged to Contributions-in-Aid-of-Construction. It should be charged to Miscellaneous Operating Reserves. The test-year amount reported for CIAC must be increased by $68,851 to restate the account balance to the original amount of the developer contribution, $88,880.

Miscellaneous Operating Reserves. The entire cost of the original plant was funded by a developer contribution when constructed in 1979. The cost of the original plant has been fully depreciated. To match full depreciation of the plant, the developer contribution must be fully amortized. This amortization must be reported using the Miscellaneous Operating Reserves account.

		Debit		(Credit)
Utility Plant in Service	$	53,456		
Other Deferred Debits		3,700		
Miscellaneous Operating Reserves		88,880		
Accumulated Depreciation			$	(73,485)
Other Current Assets				(1,780)
Retained Earnings				(1,920)
Contributions-in-Aid-of-Construction				(68,851)

Classic Construction's adjusted balance sheet appears below.

	Balance Annual Report 12/31/2012	Adjusting Journal Entry	Restated Balance 12/31/2012
Utility Plant	$ 46,375	$ 53,456	$ 99,831
Accumulated Depreciation	(18,778)	(73,485)	(92,263)
Cash	986		986
Other Current Assets	1,780	(1,780)	
Other Deferred Debits		3,700	3,700
Total Assets	$ 30,363	$ (18,109)	$ 12,254
Common Stock	$ (1,000)		$ (1,000)
Other Paid in Capital	(8,848)		(8,848)
Retained Earnings	17,672	(1,920)	15,752
Note Payable	(4,185)		(4,185)
Note Payable to Asso.	(13,973)		(13,973)
CIAC	(20,029)	(68,851)	(88,880)
Misc. Oper. Res.		88,880	88,880
Total Liabilities and Equity	$ (30,363)	$ 18,109	$ (12,254)

Pro Forma Operating Statement

Classic Construction's Pro Forma Operating Statement for the test year ended December 31, 2012, as determined by Staff, appears below.

	Test Year	Adjustments	Ref.	Pro forma
Operating Revenue				
Sewer Service Revenue	$ 35,984	$ 1,984	(A)	$ 37,968
Total Operating Revenue	35,984	1,984		37,968
Operating Expenses				
Operation and Maintenance				
Owner/Manager Fee		3,600	(B)	3,600
Collection System	9,049	2,951	(C)	12,000
Treatment System - Sludge Hauling	2,605			2,605
Treatment System - Water Cost	304			304
Fuel and Power	4,631	(3,152)	(D)	1,479
Chemicals	284			284
Routine Maintenance Fees	1,450	1,874	(E)	3,324
Maintenance of Pumping System	1,961	(1,756)	(D)	205
Maintenance of Treatment and Disposal Plant	2,942	(2,203)	(D)	
		(96)	(F)	
		(200)	(G)	443
Agency Collection Fee	5,398		(H)	5,398
Office Supplies and Other Expenses	1,148	(417)	(D)	
		(197)	(I)	534
Outside Services Employed	1,350	(1,050)	(G)	300
Transporation Expenses	379	(379)	(J)	
Total Operation and Maintenance Expense	31,501	(1,025)		30,476
Amortization		740	(K)	740
Depreciation	796	1,499	(L)	2,295
Taxes Other Than Income	6,173	(1,908)	(D)	
		(3,700)	(K)	
		(205)	(M)	360
Total Operating Expenses Before Income Taxes	38,470	(4,599)		33,871
Net Operating Income Before Income Taxes	$ (2,486)	$ 6,583		$ 4,097

(A) Sewer Service Revenue. Classic Construction used a cash basis of accounting to report test-year revenues at $35,984. The Uniform System of Accounts requires Classic Construction to prepare its financial statements using an accrual basis of accounting.[5] Staff determined that test-year revenues should be increased by $1,984

[5] USoA for Class C and D Sewer Utilities at 15.

to $37,968 to restate test-year revenues to an accrual basis.[6] The test-year normalized revenues represent sales at the present rate and customer levels.

(B) Owner/Manager Fee. The Commission has historically allowed a small, investor-owned sewer utility recovery of a $3,600 owner/manager fee to be paid to the utility's owner for serving as its chief executive officer. In the cases of the very small utilities, the fee is also considered compensation for providing additional services.[7] In this case, Classic Construction has requested recovery of a $3,600 owner/manager fee in return for Mr. Givens' service to Classic Construction as its executive officer. It is Staff's opinion that Classic Construction's request is consistent with prior Commission rulings and has increased Classic Construction's test-year expenses by $3,600.

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[6]

Flat Monthly Charge Per Customer	$	29.57
Times: Number of Customers		107
12 Months		12
Pro Forma Present Rate Revenues		37,968
Less: Test Year		(35,984)
Increase	$	1,984

[7] In Case No. 2007-00397, *Application of Woodland Estates Sewage System for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 27, 2007), the Commission found that the $3,600 owner/manager fee awarded to Woodland Estates Sewage System, who served 24 customers at the time its rate application was filed, was appropriate compensation for the owner serving as the utility's executive officer and for the owner's contribution to the utility of office space, office supplies, telephone service, billing and collection services, and bookkeeping services. In Case No. 2005-00036, *Application of Lewis Sanitation Company, Inc., D/B/A Garden Heights Sewer Division for Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Apr. 14, 2005), the Commission found that the $3,600 owner/manager fee was appropriate compensation for only the owner's executive oversight of the utilities operations. In addition to the owner/manager fee, the Commission allowed rate recovery for expenses that were incurred by the utility for bookkeeping services, office rent, office supplies, office utilities, and reimbursement to the owner for transportation expenses. Lewis Sanitation Company, Inc. served 108 customers at the time its rate application was filed.

(C) Certified Operator Fee. Pursuant to 401 KAR 5:010, Section 1, Classic Construction is required to retain an operator that is certified by the Kentucky Division of Water ("DOW"). Since 2002, Classic Construction has contracted with Chris Keffer for $800 per month, or $9,600 annually, to satisfy the requirements of the regulation.[8] This fee was recently renegotiated to $1,000 per month, or $12,000 annually. The new fee is scheduled to begin on January 1, 2014, to coincide with the anticipated date the Commission approves new wastewater service rates for Classic Construction.

The proposed fee is consistent with the level of the contract operator fees most recently approved by the Commission for other small sewer systems and is, therefore, reasonable. Finding that the new fee is reasonable, Staff increased test-year expenses by $2,951. If the Commission accepts Staff's adjustment, Classic Construction should be required to submit a copy of the cancelled check used to make the first $1,000 payment to Mr. Keffer for services rendered during January, 2014, to verify that the new amount is being paid. The Commission should take action should Classic Construction

[8] The test-year expense was reported on a cash basis. The amount paid to Mr. Keffer during the test year was $9,049.

fail to submit this copy. Such action would result in a $2.12 decrease to the monthly rate approved by the Commission in this proceeding.[9]

(D) Unsupported Expenditures. Classic Construction did not retain vendor invoices for all expenditures reported for the test year. These expenditures are individually listed in this report at Attachment A and Attachment B. For the items listed in Attachment A, Staff was able to review other supporting documentation, such as a cancelled check, to determine that their rate recovery is appropriate. It is Staff's opinion that the Commission should allow rate recovery for these items, but should also remind Classic Construction of the importance of receiving and retaining source documents in an orderly manner for all transactions.

Staff cannot determine whether rate recovery is appropriate for the expenditures listed in Attachment B absent an invoice detailing the products or services received by Classic Construction.[10] Staff removed the total of these expenditures to calculate Classic Construction's overall revenue requirement. The Commission should allow rate recovery for any of these expenditures for which Classic Construction provides

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Increase to Annual Fee	$	2,400
Divide by: Operating Ratio		88%
Reduction to Revenue Requirement		2,727
Divide by: 12 Months		12
107 Customers		107
Reduction to Monthly Rate	$	2.12

[10] As shown on Attachment B, Staff's adjustment for unsupported expenses exceeded the total amount of the checks listed in the Attachment by $12.78. The amount of unsupported expenses eliminated was limited to the amount actually reported in test-year expenses.

documentation demonstrating that the amount of the expenditure was reasonable and that it was incurred by Classic Construction for the operation of the wastewater facilities serving the Ridgewood Subdivision and the Circle Subdivision. Classic Construction should file this documentation when responding to this report.

(E) Routine Maintenance Fees - Testing. During the test year, Classic Construction was required to renew its Kentucky Pollutant Discharge Elimination System ("KPDES") Permit. The new permit required Classic Construction to switch from quarterly testing to monthly testing. Classic Construction's current routine testing is performed by McCoy and McCoy Laboratories at a cost of $277 per month. Staff increased test-year expenses by $1,874 to annualize the current monthly payment to McCoy and McCoy Laboratories.[11]

(F) Maintenance of Treatment and Disposal – Double Entry. During the test year, Classic Construction paid two invoices from Lowes that totaled $96. It mistakenly recorded these invoices twice in its general ledger. Staff reduced test-year expenses by $96 to remove the effects of this accounting error.

(G) Maintenance of Treatment and Disposal and Outside Services Employed – Inappropriate Expenses. During the test year, Classic Construction paid $1,250 to Whitehead-Hancock Plumbing & Heating, Inc. ("Whitehead") on an account payable that

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Monthly Testing Fee	$ 277
Times: 12 Months	12
Pro forma	3,324
Less: Test Year	(1,450)
Increase	$ 1,874

accrued in 2008 with an original balance of $7,374. The total amount was split in amounts of $200 to Maintenance of Treatment and Disposal expenses and $1,050 to Outside Services Employed expenses. The original fee was for work performed at a lift station located in the Coolbrook Subdivision, where Classic Construction then owned and operated the wastewater treatment and collection facilities.[12] The services performed by Whitehead did not benefit Classic Construction's operations in the Ridgewood Subdivision or Circle Subdivision. Classic Construction's current customers should not bear the financial responsibility for the payment of these services. Staff removed this expenditure from Classic Construction's test-year operations.

(H) Billing and Collection Fee. On August 25, 2008, Classic Construction entered into a contract with Peaks Mill Water District ("Peaks Mill") pursuant to which Peaks Mill provides billing and collection services to Classic Construction in return for 15 percent of Classic Construction's revenues that are generated from its monthly service rate. The billing and collection fee reported for the test year was $5,398. Because the fee is based on Classic Construction's revenues, the rate increase authorized by the Commission in this case will increase the billing and collection fee by

[12] The Commission authorized Classic Construction, Inc. to transfer control of its wastewater collection and treatment facilities located in Coolbrook Subdivision to Coolbrook Utilities, LLC in Case No. 2008-00257, *Joint Application of Classic Construction, Inc. and Coolbrook Utilities, LLC for Approval of the Transfer of Wastewater Treatment Plant to Coolbrook Utilities, LLC* (Ky. PSC Oct. 21, 2008).

a proportionate amount. If the Commission approves the $45 monthly rate requested by Classic Construction, the annual billing and collection fee will increase to $8,667.[13]

As part of the contractual agreement, Peaks Mill amended its tariff on file with the Commission to include a provision for the disconnection of its water service when a customer does not pay Classic Construction for sewer service. The threat of water disconnection has drastically reduced Classic Construction uncollectable accounts. It reported no bad debt expense for the test year.

Classic Construction argues that the Peaks Mill billing and collection services are vital to the collection of its monthly sewer service fee and that the 15 percent charge is therefore reasonable. In support of its position, Classic Construction stated that 62 of its 107 customers are renters that reside in multiple-family dwellings and that 51 of these rental accounts had past-due balances that totaled $8,525 as of June, 2007. This amount did not include unpaid account balances for renters that had moved and could not be located. It stated that it experienced this level of uncollectibles because the Commission would not allow the property's owner to be held responsible for the payment of sewer service that was used by a renter.[14]

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Requested Monthly Rate	$	45
Times: Number of Customers		107
12 Months		12
Pro forma Annual Revenue at Requested Rates		57,780
Times: 15 Percent		15%
Pro Forma Billing and Collection Fee at Requested Rates	$	8,667

[14] Addendum to Cover Letter of Application.

The Commission has long found that billing and collection fees that are set equal to 15 percent of revenues are unreasonable. Specifically, the Commission has found that such fees result in a high level of expense and that the level of the expense will grow with revenues. The Commission found it unreasonable that, with each additional increase in the monthly sewer rate, a concurrent 15 percent of billing and collection expense would be incurred with no new service being provided.[15]

In the earliest cases, the Commission found that a billing and collection fee assessed by a water district to a privately owned sewer utility should be based on the actual costs incurred by the district to perform the billing and collection service, rather than on a percentage of the sewer utility's revenues. Unable to calculate the water district's actual costs, the Commission limited the wastewater utility's rate recovery for billing and collection costs to $1 per customer. This per customer charge was calculated using the average billing and collection costs, adjusted for inflation, that were reported by 40 small wastewater systems using account 903, Customer Records and Collection Expense, in their 1980 Annual Reports.[16]

In more recent cases, the Commission allowed rate recovery of either the billing and collection expense calculated as a percentage of normalized test-year revenues;[17]

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[15] Case No. 2007-00436, *Application of Farmdale Development Corporation for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC July 30, 2008).

[16] Case No. 8102, *Application and Petition of the Farmdale Development Corporation, Inc., for an Order Authorizing Said Corporation to Revise Rates* (Ky. PSC Aug. 5, 1981); Case No. 8493, *Notice of Adjustment of Rates of 4-Way Enterprises, Inc., D/B/A Coolbrook Sewage Treatment Plant to Become Effective April 20, 1982* (Ky. PSC Nov. 4, 1982).

[17] Case No. 91-394, *Application of Four-Way Enterprises, Inc. for Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Feb. 18, 1992).

the amount awarded to the company in its previous rate case;[18] or the actual billing and collection expense reported for the test year.[19] In every case, the Commission disallowed rate recovery of the increase to the billing and collection expense that would result from the rate increase that was authorized by the Commission in the proceeding. The Commission also instructed each wastewater utility to take efforts to determine whether more economical billing and collection alternatives were available than those provided by the water district.

This is the first rate case filed by Classic Construction since the Peaks Mill contract was executed. To follow one of the methods most recently accepted by the Commission, Staff allowed rate recovery of Classic Construction's test-year expense. If, when responding to this report, Classic Construction argues that a higher fee should be allowed, it should support its position with bids from at least three independent billing and collection agents.

There are benefits realized by Classic Construction from the Peaks Mill contract that would be lost if another agent were to replace Peaks Mill. Peaks Mill has agreed to disconnect water service to any Classic Construction customer that does not timely pay its wastewater bill. Also, all Classic Construction customers are Peaks Mill water customers, allowing Peaks Mill to provide Classic Construction with instantaneous

[18] Case No. 2007-00436, *Application of Farmdale Development Corporation for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC July 30, 2008).

[19] Case No. 98-284, *Application of 4-Way Enterprises, Inc., Coolbrook Sanitation Division for a Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Mar. 25, 1999); Case No. 2010-00314, *Alternative Rate Filing of Coolbrook Utilities, LLC* (Ky. PSC June 6, 2011); and Case No. 2011-00433, *Alternative Rate Filing of Coolbrook Utilities, LLC* (Ky. PSC Aug. 30, 2012). In Case No. 2011-00433, Coolbrook reported test-year fees of $17,534. In its report, Commission Staff recommended this amount be increased by $71 to allow recovery of the amount agreed to in Coolbrook's previous rate case, but Staff did not include the adjustment in Coolbrook's pro forma financial statements. The Commission accepted the financial statements prepared by Staff without the $71 adjustment.

changes to its customer base for billing and other purposes. A loss of these benefits would likely result in a return to the high level of uncollectible accounts that Classic Construction experienced prior to the execution of the Peaks Mill contract. The independent bids would provide the Commission with cost information with which it could evaluate the reasonableness of the fees paid to Peaks Mill. If the Peaks Mill contract fee exceeds these bids, the Commission could determine whether the value of the extra benefits provided by the Peaks Mill contract warrant the higher fee. Based on the information provided by Classic Construction, Staff estimates these benefits to be worth at least $1,860 on an annual basis, or 5.17 percent of test-year sales revenue.[20]

Staff's estimate is conservative. In its Application, Classic Construction noted that as of June, 2007, it had $8,525 in past-due accounts from renters that were customers at that time. Assuming Classic Construction first began billing these customers for service in December, 2002,[21] the average annual allowance for uncollectible accounts to be accrued to account for these past-due balances would be

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Past Due Accounts as of June, 2007	$ 8,525
Divide by: Number of Months Owned by Classic Construction	55
Monthly Accrual for Allowance for Uncollectible Accounts	155
Times: 12 Months	12
Annual Accrual for Allowance for Uncollectible Accounts	1,860
Divide by: Annual Test-Year Sales	35,984
Percentage of Uncollectibles to Revenues	5.17%

21 Classic Construction was authorized by the Commission to accept ownership of the wastewater treatment facilities that serve the Ridgewood and Circle Subdivisions on November 18, 2002 (*See* Case No. 2002-00320, *Transfer of Ridgewood Sewage Treatment Plant to Classic Construction, Inc.*).

$1,860 as calculated above. This amount does not account for all past-due accounts. It does not include past-due accounts from renters that were no longer customers as of June, 2007, nor does it include past-due accounts from nonrenters.

(I) Office Supplies and Other Expenses. Classic Construction incurred a $197 expense for the Limited Liability Entity ("LLE") tax paid to the Kentucky State Treasurer. It reported this amount as Office Supplies and Other Expenses. Staff reclassified this amount to the Income Taxes account to comply with the accounting requirements of the USoA.[22] Discussion of the LLE tax appears in the Income Taxes section of this report.

(J) Transportation Expense. Classic Construction reported $379 for test-year transportation expense. This amount was paid to reimburse Classic Construction's sole stockholder for use of his personal vehicle. The amount was determined by applying the 2012 mileage reimbursement rate approved by the Internal Revenue Service to the stockholder's estimated mileage driven in the performance of Classic Construction's business activities.

Staff removed the test-year Transportation Expense to calculate pro forma operations. Classic Construction's stockholder did not maintain a mileage log documenting the business use of his personal vehicle. Absent this log, there is no documentation supporting the test-year expense.

(K) Amortization Expense – KPDES Discharge Permit. During the test year, Classic Construction paid a fee of $3,700 to renew its KPDES permit. The renewed

[22] USoA for Class C and D Sewer Utilities at 86.

permit expires five years from its origination date. Classic Construction recorded the renewal fee in account 408, Taxes Other Than Income.

The KPDES permit renewal fee is a regulatory asset that should be amortized over the five-year life of the permit. Accordingly, Staff removed $3,700 from test-year Taxes Other Than Income and increased Amortization Expense by $740.[23]

(L) Depreciation Expense. Classic Construction reported three assets on its depreciation schedule upon which it accrued $796 for test-year depreciation expense.[24] Staff made several adjustments to the plant schedule that increased the test-year amount by $1,499.

The property described on the depreciation schedule as "Jetter" was removed from service during the test year. Staff removed this asset from Classic Construction's pro forma plant schedule. Classic Construction's depreciation schedule includes a fence surrounding its treatment plant with an original cost of $5,518 that was installed in 2011. Classic Construction calculated depreciation on this asset using the double-declining-balance method. Staff recalculated depreciation on this asset using the straight-line method as required by the USoA.[25]

Lastly, subsequent to the test year, Classic Construction performed a complete overhaul of the pumping equipment located at the Ridgewood lift-station at a cost of

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[23]

Renewal Fee	$	3,700
Divide by: Five Years		5
Annual Amortization Expense	$	740

[24] Application at 20.

[25] USoA for Class C and D Sewer Utilities at 83.

$11,585. Staff depreciated the cost of this improvement over seven years. Inclusion of depreciation accrued on this post-test-period plant addition is appropriate when calculating Classic Construction's pro forma depreciation expense. Its construction was complete and it was operational as of the date of Staff's field work. No other test-year revenues or expenses will be affected by this plant addition. As discussed in the section of this report dedicated to Interest Expense, this capital addition may also impact Classic Construction's cost of capital as determined appropriate by the Commission.

Plant Description	Year In Service	Original Cost	Service Life	Pro Forma Depreciation
Original Plant, Fully Depreciated	1979	$ 88,880	-	
Sewage Treatment Plant	2003	5,434	20	$ 272
Fencing	2011	5,518	15	368
Pump Overhaul at Lift Station	2013	11,585	7	1,655
Total		$ 111,417		2,295
Less: Test Year				(796)
Increase				$ 1,499

(M) Taxes Other Than Income. During the test year, Classic Construction paid $360 in state property taxes and $205 in late-payment penalties and interest on those taxes. Both amounts were reported in Taxes Other Than Income. Staff removed the late-payment penalty and interest. Classic Construction's customers should not bear the financial burden for the company's failure to pay property taxes in a timely manner.

Overall Revenue Requirement, Required Revenue Increase, and Rate for Service to Produce Increase

Using the operating ratio method[26] as historically accepted by the Commission, Classic Construction calculated its Overall Revenue Requirement to be $51,627 and determined that a $15,643 revenue increase is necessary to generate the overall requirement.[27] Classic Construction's calculation is shown below.

Pro Forma Operating Expenses Before Taxes	$ 44,479
Operation Ratio	88%
Sub-Total	50,544
Less: Operating Expenses Before Taxes	(44,479)
Net Margin Allowed for Working Capital	6,065
Add: State Limited Liability Entity Tax	175
Interest Expense	908
Pro Forma Operating Expenses	44,479
Overall Revenue Requirement	51,627
Less: Pro Forma Present Rate Revenue	(35,984)
Required Revenue Increase	$ 15,643
Percentage Increase	43.47%

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[26] Operating Ratio is defined as the ratio of expenses, including depreciation and taxes other than income taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operation \& Maintenance Exp.} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

[27] Application, ARF FORM 1 – Attachment RR-OR. Also, in its Application at ARF-FORM 1 – ATTACHMENT RR-DC, Classic Construction supported the Overall Revenue Requirement and Revenue Increase using the Debt Service Coverage Method.

As shown below, the Overall Revenue Requirement calculated by Classic Construction results in an 86.49 percent operating ratio:

Operating Expenses	$	44,654
Divided by: Operating Revenues		51,627
Operating Ratio		86.49%

As shown below, Staff also followed the Commission's historic application of the operating ratio method to calculate Classic Construction's Overall Revenue Requirement to be $38,903.

			Ref.
Pro Forma Operating Expenses Before Income Taxes	$	33,871	
Divide by: Operating Ratio		88%	
Allowable Revenues Before Taxes and Interest Expense		38,490	
Less: Pro Forma Operating Expenses Before Income Taxes		33,871	
Net Margin Allowed for Working Capital		4,619	
Add: LLE Tax		175	(A)
Interest Expense		238	(B)
Pro Forma Operating Expenses Before Income Taxes		33,871	
Overall Revenue Requirement	$	38,903	

This Overall Revenue Requirement requires a revenue increase of $935, which produces an 87.52 percent operating ratio. These calculations are shown below:

Overall Revenue Requirement	$	38,903
Less: Pro Forma Present Rate Revenues		(37,968)
Required Increase	$	935
Percentage Increase		2.46%

Operating Expenses	$	34,046
Divide by: Operating Revenues		38,903
Operating Ratio		87.52%

A monthly rate of $30.30 assessed to Classic Construction's 107 customers will produce the required operating revenues. This represents a 2.46 percent increase to Classic Construction's current $29.57 rate.[28]

(A) State Limited Liability Entity Tax. When first organized, Classic Construction elected to be taxed under Subchapter S of Chapter 1 of the Internal Revenue Code. A Subchapter S Corporation ("S-Corp") is a pass-through entity that has no federal income tax liability. Its annual earnings are automatically passed through to its stockholders and recognized as taxable income on the stockholder's individual federal income tax returns. This tax treatment is drastically different than taxes levied pursuant to Subchapter C of Chapter 1 of the Internal Revenue Code.

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Overall Revenue Requirement	$	38,903
Divide by: 107 Customers		107
12 Months		12
New Rate		30.30
Less: Current Rate		(29.57)
Increase	$	0.73
Percentage Increase		2.46%

A Subchapter C Corporation ("C-Corp") accrues and pays federal income taxes that are calculated on its reported earnings. Earnings that remain after deducting income tax expense do not automatically pass through to stockholders. Instead, these earnings may be distributed to stockholders through dividend payments at the discretion of the C-Corp's Board of Directors. Dividends are recognized as taxable income by the stockholder in the year they are received. This results in double taxation of the C-Corp's earnings. First, taxes accrue to the C-Corp when income is recognized. Taxes again accrue on these earnings when they are distributed as stockholder dividends. Double taxation is a distinct disadvantage when compared to the single taxation of S-Corps.

Kentucky State Income Tax Statutes for pass-through entities, including S-Corps, are currently different from Federal Statutes, but were not always. For tax years that began prior to January 1, 2005, the Kentucky Department of Revenue's taxation of S-Corps conformed with the federal tax treatment. All earnings were passed through to stockholders for state income tax purposes. No income taxes were accrued or paid by the corporate body. This changed when the 2005 General Assembly passed House Bill 272. House Bill 272 made pass-through entities, including S-Corps, subject to state corporate income taxes. This meant double taxation at the state level on pass-through entities for tax years beginning on or after January 1, 2005.

The effects of House Bill 272 were short-lived. On June 28, 2006, during a Special Legislative Session, the General Assembly enacted House Bill 1 that included "Income Tax Relief for Small Businesses." House Bill 1 reversed House Bill 272. After this reversal, state taxation on pass-through entities again conformed with federal tax law. But, House Bill 1 created a new Limited Liability Entity ("LLE") tax to be imposed on C-Corps and pass-through entities.

The LLE tax became effective for all taxable years beginning on or after January 1, 2007. The minimum annual LLE tax by all LLE's is $175. An additional LLE tax is required for entities reporting annual gross receipts or gross profits that are greater than $3 million.[29] The additional LLE tax may be used by the LLE's owner as a personal income tax credit, reducing the owner's income tax liability by the amount of the additional LLE tax. The $175 minimum LLE tax may not be used as a credit.

The Commission has long recognized the different tax treatments of pass-through entities and C-Corps when determining their overall revenue requirements. Generally, the Commission has found that federal and state income tax expense reported by a C-Corp is an annual, recurring operating expense of the C-Corp for which rate recovery is necessary to allow the utility a reasonable opportunity to earn its authorized rate of return. Conversely, the Commission has not allowed recovery of federal or state income taxes for S-Corps, finding that there is no double taxation on the earnings of S-Corps and that the only income tax that is accrued on an S-Corp's earnings is a tax liability of the S-Corp's stockholder.[30]

When determining the revenue requirement of an S-Corp, the Commission has not distinguished the LLE tax from state income tax. Accepting Staff's findings, the Commission has identified the LLE tax as a state income tax for which rate recovery is

[29] The additional tax is equal to the lesser of $0.095 per $100 of Kentucky gross receipts or $0.75 per $100 of Kentucky gross profits. The amount of the additional tax is decreased using a formula for entities reporting annual gross receipts or gross profits that are less than $6,000,000.

[30] *See* Case No. 2012-00375, *Alternative Rate Adjustment Filing of Middletown Waste Disposal, Inc.* (Ky. PSC Apr. 2, 2013).

not appropriate.[31] In this instance, Classic Construction is requesting recovery of the $175 minimum LLE tax and a $22 late payment penalty on the tax.

After reexamining the LLE tax, Staff finds that its recovery is appropriate. The minimum LLE tax is a state tax liability of a pass-through entity. It is not a tax liability accruing to the LLE's owner. Also, the minimum tax represents double taxation. The minimum LLE tax liability is calculated on the same gross receipts and gross profits that are passed through to the personal state income tax return of the LLE's owner.

Recovery of the $22 late payment penalty is not appropriate. Classic Construction customers should not be required to pay the cost of Classic Construction's untimely payment of the tax.

(B) Interest Expense / Cost of Capital. Historically, the Commission has found that the operating ratio is a reasonable and necessary alternative to the rate of return method[32] for calculating the revenue requirements for small sewer investor-owned utilities ("IOU"). Specifically, it has found that the rate of return method cannot be used

[31] *Id.*

[32] The rate of return method is used for large IOUs whose stocks are either publicly traded or held by parent companies whose stocks are publicly traded. Through this method, the Commission authorizes a rate of return to calculate the IOUs allowable net operating income ("NOI"). The rate of return is set equal to the weighted cost of capital, which includes the cost of common equity and the cost of debt.

When applying the rate of return method, either the rate base approach or the capital cost recovery approach is used. These approaches are very similar and often result in NOIs that have no material difference. When using the rate base approach, the NOI is determined by multiplying the rate of return by the utility's net investment rate base. Net investment rate base is the net book balance of all assets dedicated to providing utility service that was funded with either debt or equity.

Through the capital cost recovery approach, a utility's allowable NOI is set equal to the cost of debt plus the cost of equity. Generally, the Commission applies the rate base approach when the net rate base investment is less than the total debt and equity capital investment. When rate base exceeds the debt and equity capital investment, the capital cost recovery method is applied.

because there is "no basis" upon which to determine a rate of return for these utilities[33] and that they often do not maintain adequate records for rate base accounts or capital investment accounts. Further, it has found that the operating ratio method is appropriate when plant investment is low and operating expenses are high.[34] The Commission made its position most clear when it stated:

> While the Commission has traditionally considered the original cost of utility plant, the net investment, the capital structure and the cost of reproduction as a going concern in the determination of fair, just, and reasonable rates, its experience in the establishment or adjustment of rates for sewer utilities has indicated that these valuation methods are not always appropriate. Sewage utilities are unique to the extent that the cost of facilities has usually been included in the cost of the individual lot. The owner and/or operator of the utility is, in many instances, the developer of the real estate and title may have changed hands prior to the effective date of the Commission jurisdiction (January 1, 1975). Further, the Commission has found that the books, records, and accounts of these utilities are, for the most part, incomplete, so as to make impossible the fixing of rates on the above mentioned methods of valuation. Therefore, the Commission is of the opinion that for the purpose of making rate determinations for sewage utilities, the operating ratio method should be utilized, although it is recognized that there may be instances where this method or procedure would not be valid.[35]

The Commission's findings are well supported. For large IOUs, the Commission sets the cost of common equity at a level that is commensurate with the financial risk assumed by its stockholders. This is accomplished through analysis of financial

[33] Case No. 95-236, *Application of Thelma Waste Control, Inc. for a Rate Adjustment Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC. Apr. 15, 1996) at 6.

[34] Case No. 7982, I *Notice of Application of Fern Lake Company* (Ky. PSC. Aug. 27, 1981) at 3.

[35] Case No. 7553, *McKnight Utilities, Inc. and Maple Oak Development Company Application and Petition for an Order of Certificate of Convenience and Necessity Immediately Following the Hearing, and for an Order Approving Uniform Rates for a Sewage Treatment Plant with Tertiary Treatment Facilities Located in Maple Oaks Trails Subdivision, Campbell, Kentucky* (Ky. PSC. Nov. 13, 1979) at 2.

information for proxies that can consist of both regulated and non-regulated companies that expose investors to risks similar to those of the regulated IOU. The financial information for these public entities is published by reliable sources and is readily available. Similar financial information for small IOUs is not available, making the creation of a reliable proxy difficult. Absent this information, the Commission has found that there is no reasonable basis upon which to determine a fair rate of return on common equity.

Further, the stocks of these small IOUs are not publically traded and they are, therefore, not required by the Security and Exchange Commission to have an audit performed in accordance with Generally Accepted Auditing Standards. Records of the small sewer utilities were generally comingled with those of the development company that constructed the sewer assets. Often, records were not maintained in a manner that allowed proper separation of rate base accounts and capital investment accounts of the comingled companies. Absent an audit report or proper records, it was difficult to verify that the amounts reported for these accounts were properly stated.

Most importantly, the Commission has recognized that many of these small IOUs have no, or low, capital investment upon which to calculate a return. Generally, their original capital was contributed by developers. Since the Commission will not allow a return on contributed property, there would be no rate base or capital investment upon which a rate of return could be applied. NOI would be set to zero and there would be no working capital available for the utility to continue operations if revenues decrease or expenses increase. Recognizing that a regulated utility must be allowed an NOI to provide working capital, the Commission adopted the operating ratio method. When this working capital is realized, it is available for stockholder dividend payment, even though stockholders have no equity investment.

The contributed property of these small systems has aged since the early days of the Commission's regulation of the small sewer IOUs. Many systems have either already performed major construction projects to improve or replace their original systems or are in the planning process of improving these assets. These capital improvement projects will require significant capital investment. Because these systems are built out, developer contributions are generally not available to fund these capital improvements. Their funding must come from either equity invested by the stockholder, customer contributions, long-term debts, or a combination of the three.

In previous cases where capital investment has been made, the Commission continues application of the operating ratio method. This is appropriate. The operating ratio is recognized as a method for allowing recovery of the cost of capital that includes the cost of debt and the cost of equity.[36] The Commission adjusts the level of the allowable operating ratio to account for interest costs when debt is used to fund investment, but does not make an adjustment to the ratio when capital is funded with equity investment.

In this case, Classic Construction requests an adjustment to the operating ratio for $908 in interest accrued on two loans that have a combined outstanding principal

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> It has been observed that revenues must be adequate to offset the operating costs of the system plus the cost of capital required to support the system. Since operating costs can be identified for the period of operation under review, it is possible to use a target operating ratio result in fixing total revenue requirements by dividing the operating costs by the target operating ratio.

Accounting for Public Utilities § 3.06 (1991).

balance of $17,931. The first loan with an original balance of $5,000 is a one-year note payable from Classic Construction to Farmers Bank and Capital Trust ("Farmers") that accrues interest annually at 6 percent. The note originated on May 24, 2012, and matured on May 24, 2013. At the time of Staff's field visit, the note had a past-due principal balance of $3,958 upon which $238 in annual interest will accrue. Classic Construction does not have the financial ability to repay the past-due balance and is expected to refund this amount with a new one-year note that accrues interest at 6 percent annually.

The second loan was from Classic Construction's sole stockholder, Russell Givens. There is no formal document memorializing this related party loan. The loan balance was stated in the application at $13,973.[37] Mr. Givens could not identify the terms or conditions under which repayment of the loan would be made by Classic Construction. He simply stated that Classic Construction would make repayment as funds become available. Classic Construction requested recovery of annual interest accrued on this loan at 4.8 percent, or $670.

At the time of its field work, Staff determined that Classic Construction had $23,839 in capital investment upon which the cost of capital may be included for rate recovery.[38] Following the Commission's historic application of the operating ratio method, Staff adjusted Classic Construction's operating ratio to include interest costs on

[37] Application at 21.

[38]

Restated Equity and Liabilities as of December 31, 2012	$	12,254
Plus: Post-Test-Period Capital Improvement, Pumping Station		11,585
Total Capital Investment	$	23,839

loans up to this amount; however, Classic Construction has shown only formal documentation for the Farmers loan.

An adjustment to the operating ratio to allow rate recovery of $238 in interest accrued on the Farmers loan is appropriate. A new loan that has a one-year term and accrues annual interest at 6 percent will refund the past-due balance of the current Farmers loan. The original balance of the past-due loan was used to refund a like note that originated in 2011 that was used to install a new security fence surrounding the wastewater treatment facility. Photographical images of the old fence taken during the Commission's 2010 inspection of Classic Construction facilities demonstrate that the fence replacement was appropriate. Neither the original loan, the past-due loan, nor the new loan has a term longer than two years, and the original loan was assumed less than six years ago, exempting each from the requirements of KRS 278.300.[39] Classic Construction must be mindful that Commission approval is required for any loan used to refund the Farmers' loan that has a term exceeding two years or when the aggregate term of the original 2011 loan and all refunding loans exceeds six years.

Classic Construction did not provide formal loan documents for the loan from Russell Givens. Absent formal loan documents, Staff cannot evaluate the terms of the loan to determine whether it requires Commission approval or whether rate recovery of interest on the loan is appropriate. Staff did not adjust the operating ratio to allow

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[39] KRS 278.300 (1) states that "[n]o utility shall issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person until it has been authorized to do so by order of the Commission." KRS 278.300 (8) states that subsection (1) "does not apply to notes issued by a utility, for proper purposes and not in violation of law, that are payable at periods of not more than two (2) years from the date thereof, or to like notes, payable at a period of not more than two (2) years from date thereof, that are issued to pay or refund in whole or in part any such notes, or to renewals of such notes from time to time not exceeding in the aggregate six (6) years from the date of the issue of the original notes so renewed or refunded."

recovery of interest on this loan. Staff assumed that Classic Construction's $19,881 capital investment that is above the amount funded by the Farmers' loan represents stockholder Paid-In-Capital upon which the 88 percent operating ratio, after adjusting for interest costs on the Farmers loan, provides a rate of return. Classic Construction's capital structure and cost of capital, as determined by Staff, appears below:

	Account Balance	Cost Rate	Cost of Capital
Debt	$ 3,958	6%	$ 237
Common Equity	19,881	23%	4,619
	$ 23,839		$ 4,856

If when responding to this report, Classic Construction presents formal documents to the Commission supporting up to $19,881 in additional loan funds, following the Commission's historic application of the operating ratio method, Staff would make an adjustment to the operating ratio to include the interest accruing on the additional loan funds. If interest accrued on the additional loan at 6 percent annually, Staff would adjust the operating ratio to 84.91 percent as calculated below to include recovery of $1,193 in additional interest costs.

Net Margin Allowed for Working Capital	$	4,619
Add: LLE Tax		175
Interest Expense, Farmers Loan		238
Interest Expense, Additional Loan Funds		1,193
Pro Forma Operating Expenses Before Income Taxes		33,871
Overall Revenue Requirement	$	40,096
Operating Expenses	$	34,046
Divide by: Operating Revenues		40,096
Operating Ratio		84.91%

Classic Construction's capital structure and cost of capital would appear as shown below:

	Account Balance	Cost Rate	Cost of Capital
Debt	$ 23,839	6%	$ 1,430
Common Equity	-	Undefined	4,619
	$ 23,839		$ 6,049

Signatures:

Prepared by: Daryl Parks
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Sam Reid
Rates and Tariffs Branch Manager
Division of Financial Analysis

Jack Scott Lawless, CPA
Rates and Tariffs Branch Manager
Division of Financial Analysis

ATTACHMENT A
STAFF REPORT, CASE NO. 2013-00258
EXPENDITURES NOT REMOVED FROM TEST-YEAR OPERATIONS

Check No.	Date	Payee	Amount	Account
1725	1/14	Chris Keffer	$ 800.00	Collection System
1728	1/16	McCoy & McCoy Labs	280.00	Routine Maintenance Fees
1729	1/16	Peaks Mill Water	45.48	Treatment System - Water Cost
1736	1/31	Perry's Septic Service	205.00	Treatment System - Sludge Hauling
1739	2/6	Perry's Septic Service	205.00	Treatment System - Sludge Hauling
1743	2/15	USPS	58.00	Maintenance of Treatment and Disposal Plant
1744	2/17	Chris Keffer	525.00	Collection System
1747	2/20	Peaks Mill Water	23.00	Treatment System - Water Cost
1748	2/28	Perry's Septic Service	205.00	Treatment System - Sludge Hauling
1749	2/29	Perry's Septic Service	205.00	Treatment System - Sludge Hauling
1753	3/13	Perry's Septic Service	350.00	Treatment System - Sludge Hauling
1754	3/14	Perry's Septic Service	205.00	Treatment System - Sludge Hauling
1756	3/19	Perry's Septic Service	205.00	Treatment System - Sludge Hauling
1757	3/19	Perry's Septic Service	205.00	Treatment System - Sludge Hauling
1758	3/19	Chris Keffer	646.00	Collection System
1761	4/4	Perry's Septic Service	205.00	Treatment System - Sludge Hauling
1763	4/14	Chris Keffer	800.00	Collection System
1765	4/17	Peaks Mill Water	45.20	Treatment System - Water Cost
1769	4/20	Leslie Pools	92.34	Chemicals
1773	5/15	Peaks Mill Water	25.39	Treatment System - Water Cost
1776	5/16	Chris Keffer	650.00	Collection System
1785	5/30	Perry's Septic Service	205.00	Treatment System - Sludge Hauling
1791	6/15	Chris Keffer	800.00	Collection System
1792	6/18	Peaks Mill Water	23.08	Treatment System - Water Cost
1795	6/18	AT&T	151.83	Office Supplies and Expenses
1796	6/18	Ky State Treasurer	15.00	Taxes Other Than Income
1806	7/17	Chris Keffer	740.00	Collection System
1808	7/19	AT&T	199.52	Office Supplies and Expenses
1809	7/20	McCoy & McCoy Labs	20.00	Routine Maintenance Fees
1814	7/30	USPS	43.00	Maintenance of Treatment and Disposal Plant
1817	8/14	AT&T	152.01	Office Supplies and Expenses
1818	8/17	Chris Keffer	850.00	Collection System
1823	8/31	McCoy & McCoy Labs	277.00	Routine Maintenance Fees
1824	8/31	Peaks Mill Water	57.86	Treatment System - Water Cost
1826	9/5	Juett Pools	95.35	Chemicals
1831	9/17	Chris Keffer	650.00	Collection System
1832	9/18	McCoy & McCoy Labs	42.16	Routine Maintenance Fees
1834	10/6	Leslie Pools	96.08	Chemicals
1838	10/17	Peaks Mill Water	28.67	Treatment System - Water Cost
1841	10/18	Chris Keffer	800.00	Collection System
1847	11/3	McCoy & McCoy Labs	277.00	Routine Maintenance Fees
1849	11/18	Chris Keffer	668.00	Collection System
1851	11/24	Peaks Mill Water	55.30	Treatment System - Water Cost
1855	12/7	Chris Keffer	320.00	Collection System
1858	12/18	Chris Keffer	800.00	Collection System
1862	12/31	McCoy & McCoy Labs	277.00	Routine Maintenance Fees
Total			$13,624.27	

ATTACHMENT B
STAFF REPORT, CASE NO. 2013-00258
UNSUPPORTED EXPENDITURES THAT WERE REMOVED FROM TEST-YEAR OPERATIONS

Account	Check No.	Date	Vendor	Amount	Total
Fuel and Power	1726	1/16	KU	$ 362.67	
	1745	2/20	KU	215.13	
	1759	3/19	KU	309.90	
	1777	5/16	KU	351.23	
	1800	7/3	KU	614.88	
	1820	8/18	KU	440.44	
	1827	9/6	KU	370.11	
	1835	10/10	KU	413.86	
	Expense for KU for which a check or invoice was not provided			74.00	$ 3,152
Maintenance and Supplies	1724	1/12	Cash	100.00	
	1730	1/16	Ky State Treasurer	122.00	
	1731	1/20	Cash	40.00	
	1732	1/21	Cash	50.00	
	1733	1/26	Cash	50.00	
	1734	1/28	Cash	50.00	
	1735	1/30	Cash	25.00	
	1737	2/1	Cash	80.00	
	1738	2/2	Cash	50.00	
	1740	2/6	Car Wash	16.00	
	1741	2/9	Perry's Septic Service	410.00	
	1750	3/6	Lowes	101.76	
	1751	3/6	Cash	40.00	
	1752	3/12	Cash	275.00	
	1760	4/3	Cash	45.00	
	1771	5/5	Cash	40.00	
	1772	5/11	Cash	40.00	
	1774	5/15	Lowes	46.54	
	1778	5/20	Lyons	25.95	
	1781	5/25	Cash	40.00	
	1783	5/30	Wilson Electric	225.00	
	1784	5/30	Lowes	16.73	
	1790	6/4	Cash	30.00	
	1794	6/18	Wilson Electric	257.30	
	1797	6/23	Cash	50.00	
	1798	6/26	Cash	30.00	
	1799	7/1	Lowes	104.94	
	1801	7/8	Lowes	26.29	
	1802	7/8	Lowes	69.85	
	1803	7/10	Cash	100.00	
	1804	7/14	Lowes	31.79	
	1810	7/25	Cash	75.00	
	1811	7/27	Car Wash	16.95	
	1812	7/27	Lowes	117.82	
	1813	7/30	Cash	75.00	
	1816	8/11	Cash	100.00	
	1819	8/18	Cash	40.00	
	1825	8/31	Cash	60.00	
	1829	9/14	Lowes	21.17	
	1830	9/15	Cash	70.00	
	1833	9/22	Cash	40.00	
	1842	10/20	Cash	40.00	
	1843	10/20	Burch Satellite	70.00	
	1844	10/25	Cash	75.00	
	1848	11/15	Manhole cover & lid	349.80	
	1853	12/1	Edmosson Supply	341.55	
	1857	12/13	Ky Car Wash	18.00	
	1861	12/26	Ky Welding	263.50	4,363
Taxes Other Than Income	1780	5/25	Franklin Co Sheriff	1,024.22	
	1796	6/18	Kentucky License Fee	15.00	
	1852	11/30	Franklin Co Sheriff	868.84	1,908
Total Amount of Checks Written				9,423.22	9,423
Less: Adjustments Shown on Pro Forma Operating Statement for:					
Fuel and Power				(3,152)	
Maintenance of Pumping System				(1,756)	
Maintenance of Treatment and Disposal Plant				(2,203)	
Office Supplies and Other Expenses				(417)	
Taxes Other Than Income Taxes				(1,908)	(9,436)
Irreconciled Difference Between Unsupported Checks and Staff's Adjustment				$ (12.78)	$ (13)

ATTACHMENT C
STAFF REPORT, CASE NO. 2013-00258
RATE CALCULATED BY STAFF

Monthly Sewer Rate	$30.30

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