

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF ELAM UTILITY)
COMPANY FOR A GENERAL INCREASE) CASE NO. 9375
IN RATES)

O R D E R

IT IS ORDERED that Elam Utility Company ("Elam") shall file an original and seven copies of the following information with this Commission by August 28, 1985, or within 2 weeks of the date of this Order with a copy to all parties of record. In the event the requested information is not available, Elam shall state explicitly why the information cannot be furnished. Include within the response to each item the witness who will be available at the public hearing to testify on that particular issue. If neither the response nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

1. Please provide copies of all indentures to include amortization schedules with dates of payment.

2. It is apparent that the financial statements for the test period as presented in Exhibit No. 1 are not in agreement. The balance sheet ending March 1985 shows a net income of \$50,315, yet, the income statement shows net income of only \$8,922. Please restate the balance sheet and/or the income statement to produce agreement. Please also provide a schedule showing reconciling amounts between the originally submitted statements and the restated financial statements.

3. Please provide for each month during the test period the Mcf volumes purchased from each supplier. Please also provide for each month during the test period the Mcf volumes sold. Additionally, please provide copies of all test-period billings for gas purchases.

4. In a review of Elam's financial records on file with the Commission, bad debts expense was .72 percent of revenues in 1982; .57 percent of revenues in 1983; .73 percent of revenues in 1984, and .93 percent of revenues during the test period. Generally, the Commission seeks to determine a normal percentage relationship between uncollectibles and gas revenues to determine a reasonable amount of bad debts expense for rate-making purposes. Please provide any support for including the test-period actual relationship for rate-making purposes rather than a normalized amount.

5. Please provide a breakdown of all rate case expenses included in the test period. This breakdown should include the payee, the amount, the date incurred, and the rate case to which it was associated.

6. Please provide a breakdown of expenses incurred on this rate case for each month as these amounts became available. Please break down the rate case expenses into legal, accounting, consulting, travel, meals, and lodging, - to include the amount, the payee, and the date incurred.

7. Elam has proposed a 252 percent increase in test-period rent expense to \$7,740 annually. Please provide copies of contracts or lease agreements which contain a description of the

property to include square footage and the terms, including costs to support the \$5,540 increase.

8. Please provide for each employee during the test period a job description, the average number of weekly hours worked performing duties, the annual salary, and the accounts, according to the Uniform System of Accounts, that each salary was charged.

9. Please provide copies of insurance policies in support of the \$1,674 proposed increase in property insurance. Please also provide documented evidence of efforts to obtain bids for similar coverage to assure the best price. Include terms and prices of bids rejected and a copy of written bids.

10. The proposed test-period adjustment of \$28,807 associated with past-due gas purchases owed Columbia of Kentucky is usually only considered as a temporary surcharge separately identifiable in the utility's tariff and billings. Additionally, the Commission generally does not allow for rate-making purposes adjustments of this kind on the basis of retroactive rate-making. Please provide any evidence why the \$28,807 extraordinary amortization is an on-going cost of service. Please also provide any support why the allowance of the adjustment for rate-making purposes is not retroactive rate-making.

11. Please provide a schedule of all amounts expensed during the test period for interest associated with past-due gas purchase costs.

12. According to Exhibit No. 2, page 1, Elam is seeking a return on an unamortized balance of \$34,924 due to extraordinary

property losses. Case No. 8178 disallowed the inclusion in rate base of this extraordinary property loss on the basis that the property loss was not used and useful. Please provide any evidence you deem appropriate which supports the inclusion in rate base of the extraordinary property loss.

13. According to Exhibit No. 2, page 1, Elam is seeking an after-tax rate of return of 10 percent. Case No. 8929 allowed a rate of return of 9.85 percent, citing a trend to lower costs of capital. Furthermore, a review of Elam's statement of financial position will show that the equity of Elam is a negative \$189,499, suggesting little or no risk remains for the stockholders. Additionally, the major source of long-term funding is a subsidized loan from the Department of Local Government. Consequently, the only capital "at risk" is supplied by non-proprietary sources. Therefore, the consideration of a cost of capital that includes a risk premium may be unwarranted. Please provide any testimony or evidence you deem appropriate to support a rate of return greater than the risk-free rate of return on 3-month Treasury Bills.

14. A review of Case No. 8929 revealed that Elam depreciates mains and services over a 30-year useful life. It is a general industry standard that steel pipe has a useful life of 33 years. Furthermore, it is generally accepted that coated steel and plastic pipe have longer useful lives. Has Elam conducted a depreciation study of the useful lives of its mains and services? If so, please provide a copy of this study. Also, please provide

any additional evidence which supports the 30-year useful life for these assets.

15. Please provide a breakdown of Account No. 376, Mains, and Account No. 380, Services. This breakdown should include the dollar amounts and corresponding feet of line included in each account that is comprised of steel, coated steel and plastic pipe. Please also provide the depreciation rates utilized for each kind of pipe.

16. The income tax adjustment contained in Exhibit No. 3, page 1, does not consider amortization of investment tax credits. Please provide a schedule of utility plant additions since 1979 to include a description of the asset, the in-service date, the dollar amount, and the useful life, so that pro forma amount of investment tax credit can be determined.

17. Reconcile the difference in normalized revenue. Exhibit 3, page 1, yields \$394,756 ($\$389,481 + \$5,275$) compared to \$396,077 shown in Exhibit 4, page 1.

18. Explain why pro forma gas sales income shown in Exhibit 3, page 1, is less than total proposed revenue in Exhibit 4, page 1.

19. Why has Elam proposed to increase its residential customer charge 25 percent and its industrial customer charge 20 percent when the overall increase is 9 percent?

Done at Frankfort, Kentucky, this 21st day of August, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Hemmings
For the Commission

ATTEST:

Secretary