

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF WESTERN LEWIS)
RECTORVILLE WATER AND GAS DISTRICT)
OF MASON AND LEWIS COUNTIES,) CASE NO. 9642
KENTUCKY, FOR A REVISION OF GAS)
RATES APPLICATION)

O R D E R

IT IS ORDERED that:

1. The Staff Audit Report for Western Lewis Rectorville Water and Gas District ("Western Lewis Gas") attached hereto as Appendix A shall be included as a part of the record in this proceeding. In the event a public hearing is held, staff preparing the Staff Report will be available for cross-examination.

2. Western Lewis Gas shall also have until the close of business on November 25, 1986, to file written comments concerning the staff report in Appendix A. In the event Western Lewis Gas desires a public hearing, it shall file a Motion requesting such hearing, with a copy to all parties of record.

Done at Frankfort, Kentucky, this 11th day of November, 1986.

PUBLIC SERVICE COMMISSION

ATTEST:

Richard D. Hemmelf
For the Commission

Executive Director

APPENDIX A

**APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 9642 DATED 11/11/86**

**COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION**

**REPORT ON
THE LIMITED SCOPE AUDIT
OF
WESTERN LEWIS RECTORVILLE GAS DISTRICT**

Prepared By:

**Tom Wells
Public Utilities Financial
Analyst Principal
Electric and Gas Revenue
Requirements Branch
Rates and Tariffs Division**

REPORT ON THE
LIMITED SCOPE AUDIT
OF
WESTERN LEWIS RECTORVILLE GAS DISTRICT

PREFACE

On July 17, 1986, Western Lewis Rectorville Gas District ("Western Lewis Gas") filed an application requesting authority to increase its rates charged for furnishing gas. The proposed rates would generate \$50,289 annually in additional revenues.

In order to expedite the processing of this case and substantially reduce the need for written data requests, the Commission staff chose to perform an audit, limited in scope, on the operations of Western Lewis Gas. The audit was conducted by Tom Wells of the Commission's Rates and Tariffs Division on September 8-11, 1986, at the offices of Western Lewis Gas, Maysville, Kentucky.

SCOPE

The scope of this audit was limited to ascertaining whether the operating expenses for the test period ended December 31, 1985, were accounted for in accordance with the Uniform System of Accounts for Gas Utilities ("USoA") and were properly allocated.

FINDINGS

Following is a discussion of the findings of the audit and recommended adjustments to the test-year operating expenses:

Associated Companies

Western Lewis Gas is operated from the same office as Western Lewis Rectorville Water District. Some costs are allocated on a 50-percent basis such as most of administrative and general costs. Other costs are specifically identified as belonging to either the gas or water operation. The only allocation method observed was the 50-percent allocation of certain administrative and general expenses.


CONCLUSION

The effect of all operating expenses on net operating income is materially as reported by Western Lewis Gas in its application for a rate increase. Minor exceptions representing a net indifferent impact on net operating income were noted. The exceptions were in Account Nos. 903--Supplies and Expenses, 923--Outside Services Employed, and 931--Rents. These exceptions resulted from misidentification of expenses charged to the water district which belonged to the gas district or the converse. It is fortuitous that these charges did not materially affect net operating income. Therefore, in future preparation of its financial statements, Western Lewis Gas should determine with a higher degree of certainty which expenses belong to gas operations.

Nonetheless, the operating expenses as reported by Western Lewis Gas are materially correct and are as follows:

<u>Acct.</u> <u>No.</u>	<u>Account Name</u>	<u>Reported</u> <u>Test Period</u>
	<u>Total Gas Revenues</u>	\$309,429
736	Gas Supply Expenses	254,540
761	Mains and Services Labor	4,078
762	Mains and House Regulators	188
767	Maintenance of Lines	1,672
768	Maintenance of Meters	3,896
901	Meter Reading Labor	1,993
902	Accounting and Collection	2,583
903	Supplies and Expenses	1,572
920	Administrative and General Salaries	6,111
921	Office Supplies and Expenses	3,539
923	Outside Services Employed	1,830
924	Property Insurance	294
926	Employee Pensions and Benefits	127
931	Rents	2,400
933	Transportation Expense	388
403	Depreciation Expenses	6,895
408.1	Other Taxes	<u>473</u>
	Total Operating Expenses	\$293,867
	NET OPERATING INCOME	<u>\$ 15,562</u>

Respectfully Submitted,



 Tom Wells, Public Utilities Financial
 Analyst Principal
 Electric and Gas Revenue Requirements
 Branch
 Rates and Tariffs Division