

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SHADOW WOOD )  
SUBDIVISION SEWER SERVICE, A JOINT )  
VENTURE OF FOURTH AVENUE )  
CORPORATION AND LONG CORPORATION ) CASE NO. 2001-00423  
D/B/A SHADOW WOOD SUBDIVISION SEWER )  
SERVICE FOR AN ADJUSTMENT OF RATES )  
PURSUANT TO THE ALTERNATIVE RATE )  
FILING PROCEDURE FOR SMALL UTILITIES )

ORDER

Finding that a procedural schedule should be established to ensure the orderly review of the application of Shadow Wood Subdivision Sewer Service ( Shadow Wood ), the Commission, on its own motion, HEREBY ORDERS that:

1. Shadow Wood shall, no later than March 11, 2002, file with the Commission the original and 3 copies of the information listed in Appendix A. Each copy of the requested information shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Shadow Wood shall include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention shall be given to copied material to ensure its legibility.

2. Commission Staff shall review Shadow Wood s records and shall, no later than April 1, 2002, file with the Commission a written report of its findings and recommendations on the proposed rate adjustment.

3. Within 14 days of the date of the filing of the Commission Staff Report, all parties shall carefully review the report and file with the Commission their written comments on the report. In these comments, each party shall specifically identify those findings and/or recommendations to which it objects. Failure to object to a finding shall be considered as an admission of that finding.

4. If no requests for a hearing in this matter are filed with the Commission by April 15, 2002, this matter shall be submitted to the Commission based upon the record that exists as of April 15, 2002.

5. If a request for a hearing is submitted, then:

a. Any party may on or after April 16, 2002, but no later than April 23, 2002, serve upon Shadow Wood a request for production of documents and written interrogatories to be answered by Shadow Wood within 14 days of service.

b. Each party shall file, no later than May 14, 2002, an original and 8 copies of the following with the Commission and serve a copy upon each party of record:

(1) A list of the names and addresses of all persons that it intends to call as witnesses at the formal hearing.

(2) A summary of the each witness s expected testimony.

(3) A copy of all documents and exhibits that it intends to introduce into evidence at the scheduled hearing.

c. A formal hearing in this matter shall be held on May 21, 2002 at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, and continuing until completed.

6. Copies of all documents served upon any party shall be served upon all other parties and filed with the Commission.

7. Motions for extensions of time with respect to the schedule herein shall be made in writing and will be granted only upon a showing of good cause.

8. To be timely filed with the Commission, a document must be received by the Secretary of the Commission within the specified time for filing except that any document shall be deemed timely filed if it has been transmitted by United States express mail, or by other recognized mail carriers, with the date the transmitting agency received said document from the sender noted by the transmitting agency on the outside of the container used for transmitting, within the time allowed for filing.

9. Service of any document or pleading shall be made in accordance with Administrative Regulation 807 KAR 5:001, Section 3(7), and Kentucky Civil Rule 5.02.

10. Shadow Wood shall make available to Commission Staff for inspection all books, accounts, papers and records of its operations.

11. Shadow Wood shall, upon the request of Commission Staff, produce at its own expense and provide to Commission Staff verified copies of any books, accounts, papers and records of its operations.

Done at Frankfort, Kentucky, this 25<sup>th</sup> day of February, 2002.

By the Commission

ATTEST:

  
Executive Director

## APPENDIX A

### APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2001-00423 DATED February 25, 2002

1. At Attachment A of its Application, Shadow Wood provides an operating statement that lists a pro forma administrative salary of \$30,000. In its Explanation of Adjustments to Test Year Operations, however, Shadow Wood lists administrative salary as \$26,000. Explain the discrepancy.

2. In its Application, Shadow Wood refers to salary studies and a staff advertisement, but failed to include these materials. Provide these materials.

3. Provide all time records that Shadow Wood or its owner/manager has maintained regarding time worked by the owner/manager on Shadow Wood's behalf.

4. At Attachment A of its Application, Shadow Wood proposes a Bookkeeping Fees expense of \$6,000 and states that this amount is based on actual year 2000 fees paid by the utility.

a. Is the invoice of September 5, 2001 from Buetow, Lemastus & Dick in the amount of \$6,000 submitted in support of the proposed Bookkeeping Fees expense?

b. If the response to Item 4(a) is yes,

(1) Explain how the invoice represents actual year 2000 fees paid by the utility since the invoice states that the billed fees are for accounting assistance, preparation of property tax returns and PSC audit rendered from March 17, 2001 through September 5, 2001.

(2) For each service included in the invoiced amount, state:

(i) The nature of the service.

- (ii) The need for the service.
- (iii) The number of hours worked.
- (iv) Total amount billed.
- (v) Whether Shadow Wood solicited bids for the service

from other accounting or bookkeeping services.

(vi) If Shadow Wood did not solicit bids from other accounting or bookkeeping services, the reasons why no solicitation was made.

(vii) Whether Shadow Wood required the same service prior to 2000.

(viii) Whether Shadow Wood expects the need for service to recur in future years.

(ix) Whether the service is related to Shadow Wood's application for rate adjustment or its defense in Case No. 2000-00379.<sup>1</sup>

c. If the response to Item 4(a) is no,

(1) Explain how Shadow Wood determined the expense level.

(2) Provide detailed invoices that support the proposed expense level.

(3) State when the payment was made and expensed.

(4) Explain why the expense is not reflected in Shadow Wood's disbursements for 2000.

(5) For each service received for the payment of \$6,000, state:

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<sup>1</sup> Case No. 2000-00379, The Harbor at Harrods Creek Condominium Association v. Fourth Avenue Corp. Long Corp., Joint Venture d/b/a Shadow Wood Subdivision Sewer Service.

- (i) The nature of the service.
- (ii) The need for the service.
- (iii) The number of hours worked.
- (iv) Total amount billed.
- (v) Whether Shadow Wood solicited bids for the service

from other accounting or bookkeeping services.

(vi) If Shadow Wood did not solicit bids from other accounting or bookkeeping services, the reasons why no solicitation was made.

(vii) Whether Shadow Wood required the same service prior to 2000.

(viii) Whether Shadow Wood expects the need for service to recur in future years.

(ix) Whether the service is related to Shadow Wood's application for rate adjustment or its defense in Case No. 2000-00379.

5. a. List all services that Buetow, Lemastus & Dick provided to Fourth Avenue Corporation, Long Corporation and Shadow Wood for the years 2000 and 2001.

b. For each service listed in Item 5(a), state the fee charged and the method of allocating the fee between the three entities. This response shall list each service separately and shall not include annual totals only.

6. a. List all services that Buetow, Lemastus & Dick is expected to provide to Fourth Avenue Corporation, Long Corporation and Shadow Wood in 2002.

b. For each service listed in Item 6(a),

(1) State the expected fee.

(2) Describe the method of allocating the fee between the three entities.

(3) Explain how the estimates were derived.

(4) Provide all bids received regarding these services. If bids for these accounting services were not solicited, then explain why not.

7. Provide the 2000 and 2001 federal and state income tax returns for Fourth Avenue Corporation and Long Corporation.

8. a. Explain why the test year allocation of rent expense of \$1,832 is not reasonable.

b. Explain why Shadow Wood and its operating partners must maintain office space solely to operate Shadow Wood's sewer system.

c. State the number of occasions since 1996 that a customer has visited Shadow Wood's offices for a purpose related to Shadow Wood's sewer operations.

d. Explain how Shadow Wood determined that it required 600 square feet of office space.

e. List and describe all activities related to Shadow Wood's sewer operations, other than bookkeeping and record retention, that are currently performed in Shadow Wood's current office location.

f. Describe the alternatives, other than the acquisition of separate office space, that Shadow Wood considered to meet its office space needs. For each alternative, state the reasons why this alternative is not economical or feasible.

g. (1) State whether Fourth Avenue Corporation intends to close its office at 2036 Bashford Manor Lane.

(2) If Fourth Avenue Corporation intends to close its office, state the expected date of and the reasons for the closure.

h. If Fourth Avenue Corporation intends to keep its current offices open, explain why is not reasonable to manage Shadow Wood s operations from that office and to allocate a portion of the office rent to Shadow Wood.

i. Explain why the building located at Shadow Wood s treatment plant facilities is not a suitable location for record retention and to serve as Shadow Wood s headquarters.

9. a. Provide a copy of the insurance policy for which Shadow Wood incurred test year expense of \$767.

b. Provide the invoice for the insurance premiums related to the insurance policy referred to in Item 9(a).

c. Provide evidence of payment of the insurance premiums related to the insurance policy referred to in Item 9(a).

d. Describe how the cost of the insurance premiums is allocated between Shadow Wood, Fourth Avenue Corporation, and Long Corporation. Show all calculations and state all assumptions used to make the allocation.

10. a. Provide a copy of the insurance policy that currently covers Shadow Wood s facilities.

b. Provide the invoice for the insurance premiums for this policy.

c. Provide evidence of payment of the insurance premiums related to the insurance policy referred to in Item 10(a).



d. Describe how the cost of the insurance premiums is allocated between Shadow Wood, Fourth Avenue Corporation, and Long Corporation. Show all calculations and state all assumptions used to make the allocation.

e. Provide all bids or estimates that Shadow Wood received for insurance coverage on the Shadow Wood facilities for year 2000. If no bids or estimates were solicited, explain why not.

11. a. Identify the officers of Fourth Avenue Corporation.

b. Identify all owners of Fourth Avenue Corporation and state each owner's ownership interest in that entity.

12. a. Identify the officers of Long Corporation.

b. Identify all owners of Long Corporation and state each owner's ownership interest in that entity.

13. Provide all written agreements between Fourth Avenue Corporation and Long Corporation governing the operation, management, and ownership of Shadow Wood.

14. Refer to Shadow Wood's Application, Attachment A, Item G.

a. List all properties that the 1992 capital improvements serve.

b. For each property listed in response to Item 14(a), state the amount of any payment made to Shadow Wood, Fourth Avenue Corporation, or Long Corporation in consideration of being permitted to connect to the improvements, identify the payee, and describe how the payee recorded the payment.

c. Identify each property listed in response to Item 14(a) that Fourth Avenue Corporation or Long Corporation owns.

d. Provide the property tax assessments for 2000 and 2001 for the 1992 capital improvements.

15. Refer to Shadow Wood s Application, Depreciable Assets Not Included in Test Year.

a. For each asset listed, state whether the asset is still in service.

b. For each asset listed, provide the manufacturer model number and serial number.

c. State the number of blowers and blower motors that are required at any one time for Shadow Wood s sewage treatment facility to operate.

d. Invoice number 36265 from Eubank, Hall and Associates, Inc. contains the item Lot of Material for the price of \$1,871.50. Describe the materials purchased, the amount of the materials purchased and their use.

e. Invoice number 39829 from Eubank, Hall and Associates, Inc. contains the items Treatment Plant Repairs Per Quote and Lot of Fencing Supplies.

(1) Provide the written quote for the plant repairs, a description of the repairs, and the reasons why the repairs were needed.

(2) List all the materials included in the item Lot of Fencing Supplies and explain why their purchase was necessary.

16. Refer to Shadow Wood s Application, Attachment A, Item L.

a. Identify the regional facility to which Shadow Wood must connect its lines.

b. Provide a copy of the Agreed Order of Dismissal to which Shadow Wood refers in its application.

c. Provide a copy of Shadow Wood's Kentucky Pollutant Discharge Elimination System ( KPDES ) permit.

d. State whether Shadow Wood will continue to operate as a sewer utility once it connects to a regional facility and abandons its sewage treatment facility.

e. Explain how Shadow Wood determined the cost of constructing facilities to connect to the regional facility. The response shall include a copy of all engineering plans and proposals, bids or price quotes for the construction, and workpapers.

f. List and describe all proceedings with the Kentucky Natural Resources and Environmental Protection Cabinet ( NREPC ) in which Shadow Wood is currently involved.

g. Describe all proceedings with NREPC involving Shadow Wood's connection to a regional facility in which Shadow Wood anticipates participating. The response should explain why Shadow Wood anticipates NREPC will initiate these proceedings.

h. List all regional facilities that border the areas in which Shadow Wood serves.

17. Refer to Shadow Wood's Application, Attachment A, Adjustment M.

a. Explain how Shadow Wood determined that a contribution of 5 percent of income for equipment replacement is appropriate.

b. State whether Shadow Wood has a written plan addressing the replacement of equipment. If yes, provide a copy of this plan.

18. Refer to Shadow Wood's Application, Attachment A, Adjustment M.

a. Provide the assessment statement rendered by the taxing authority for each of the property tax bills listed.

b. Provide the billing statement issued by Jefferson County Government for the health permit and describe the nature of the permit.

19. Shadow Wood has provided invoices to document copying service expenses of \$206.70. These expenses are a part of the expenses that Shadow Wood has labeled Miscellaneous and that are related to on-going litigation. For each invoice provided, identify the document(s) copied and the number of copies made.

20. a. List each task performed in return for the fee of \$3,000 paid to Remax Properties East.

b. For each task listed in response to Item 20(a):

(1) State the amount of time expended on the task.

(2) State the hourly rate for this task.

(3) Describe how the task was related to Shadow Wood's defense in Case No. 2000-00379.

(4) State why persons that Shadow Wood, Fourth Avenue Corporation, or Long Corporation employ could not have performed this task.

c. For any task related to research, explain how this task differed from those that Felice Carman performed and why Ms. Carman could not have performed the task.

d. Provide all written agreements with Remax Properties East regarding the performance of these tasks.

e. Describe all personal and business relationships that Shadow Wood, Fourth Avenue Corporation, Long Corporation, their employees or owners have with Remax Properties East and its employees.

21. a. List each task performed in return for the fee of \$1,500 paid to Putney Architecture.

b. For each task listed in response to Item 21(a):

(1) State the amount of time expended on the task.

(2) State the hourly rate for this task.

(3) Describe how the task was related to Shadow Wood's defense in Case No. 2000-00379.

(4) State why persons that Shadow Wood, Fourth Avenue Corporation, or Long Corporation employ could not have performed this task.

c. For any task related to research, explain how this task differed from those that Felice Carman performed and why Ms. Carman could not have performed the task.

d. Provide all written agreements with Putney Architecture regarding the performance of these tasks.

e. Describe all personal and business relationships that Shadow Wood, Fourth Avenue Corporation, Long Corporation, their employees or owners have with Putney Architecture, its owners, and its employees.

f. Describe how Shadow Wood selected Putney Architecture to provide the services in question.

g. Describe the nature of the drafting services that Putney Architecture provided. State whether these services are similar in nature to those for which Clay Long has billed Shadow Wood \$5,930.25.

22. a. List each task performed in return for the fee of \$700 paid Lexus Utilities.

b. For each task listed in response to Item 22(a):

(1) State the amount of time expended on the task.

(2) State the hourly rate for this task.

(3) Describe how the task was related to Shadow Wood's defense in Case No. 2000-00379.

(4) State why persons that Shadow Wood, Fourth Avenue Corporation, or Long Corporation employ could not have performed this task.

c. Provide all written agreements with Lexus Utilities regarding the performance of these tasks.

d. Explain why the services in question did not fall within the operating contract between Shadow Wood and Lexus Utilities.

e. Describe all personal and business relationships that Shadow Wood, Fourth Avenue Corporation, Long Corporation, their employees or owners have with Lexus Utilities, its owners, and its employees.

23. Provide a breakdown of the tasks included in the \$5,930.25 for drafting services which Clay Long has billed Shadow Wood. This breakdown shall list each task that Mr. Long performed, the hourly rate assessed for the task, the date on which Mr. Long performed the task, the total amount charged for the task, any related expenses (e.g., mileage, copying expenses), and an explanation why the task should not be

considered as part of Mr. Long's managerial duties and thus included in the owner/manager fee that Shadow Wood has requested.

24. Describe Clay Long's educational and work experience as a draftsman.

25. Explain why the services of a professional draftsman were required to present Shadow Wood's case in Case No. 2000-00379.

26. List each expense set forth in the \$68.94 of Felice Carman Expenses and state why it was incurred.

27. Refer to Shadow Wood's Application, Attachment B.

a. Describe how Shadow Wood determined its annual legal expenses to be \$25,000. Provide all workpapers, show all calculations and state all assumptions used to derive this amount.

b. List the portion of the \$25,000 related to:

(1) Case No. 2000-00379.

(2) Case No. 2001-00423 (pending rate case).

(3) Other litigation or regulatory matters.

c. For each response to Item 28(b), state how the amount was determined and provide supporting documents.

28. a. Provide all invoices for local and long distance telephone service and cell phone service for the test period.

b. State whether Shadow Wood has a separate telephone directory listing from other Fourth Avenue Corporation and Long Corporation operations.

c. State whether the telephones allocated to Shadow Wood are also used to transact the business of Fourth Avenue Corporation and Long Corporation.

29. a. State whether Shadow Wood added or discovered new customers since filing its application with the Commission.

b. If new customers have been added or discovered, provide the monthly water usage data for each of these customers.

30. a. State whether Shadow Wood expects additional customers to be added to its system within the next four months.

b. If Shadow Wood expects new customers to be added to its system, state the number and expected date of connection.