

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

FEB 09 2012

by
State Corporation Commission
of Kansas

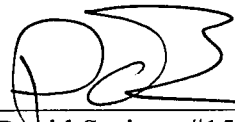
In the Matter of the Application of Howison)
Heights, Inc., for Approval of Certain) Docket No. 12-HHIW-382-RTS
Changes in its Charges for Water Service.)

Notice of Filing of CURB Report and Recommendation

COMES NOW, the Citizens' Utility Ratepayer Board (CURB), and pursuant to the January 18, 2012, Kansas Corporation Commission (Commission) Order Granting Joint Motions and Authorizing Rate Case Filing to Proceed Under K.A.R. 82-1-231B, hereby files its Report and Recommendation in the above captioned docket, which is attached as hereto "Attachment A".

WHEREFORE, CURB respectfully requests the Commission accept and give due consideration to the attached CURB Report and Recommendation.

Respectfully submitted,



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ATTACHMENT A

Citizens' Utility Ratepayer Board

Board Members:

Nancy Jackson, Chair
Stephanie Kelton, Vice-Chair
Kenneth Baker, Member
Robert L. Harvey, Member
Ellen K. Janoski, Member



State of Kansas
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REPORT AND RECOMMENDATION

TO: Chairman Mark Sievers
Commissioner Ward Loyd
Commissioner Thomas E. Wright

FROM: Stacey Harden

DATE: February 9, 2012

SUBJECT: In the Matter of the Application of Howison Heights, Inc., for Approval of Certain Changes in its Charges for Water Service; KCC Docket No. 12-HHIW-382-RTS.

STATEMENT OF QUALIFICATIONS

Ms. Stacey Harden joined the Citizens' Utility Ratepayer Board as a Regulatory Analyst in February 2008. Prior to joining CURB, she was the manager of a rural water district in Shawnee County, Kansas for five years. This prior experience provides valuable insights into water utility management, including the day-to-day operations and tax requirements. Ms. Harden received a Bachelor's Degree in Business Administration from Baker University in 2001 and a Masters Degree in Business Administration from Baker University in 2004.

SUMMARY OF APPLICATION

Howison Heights, Inc. is requesting Commission approval to raise its retail water rates \$41,652, a 101% increase over the current rates. CURB recommends the Commission deny Howison Heights's application because the company has not provided sufficient evidence to determine if the requested rates are just and reasonable. CURB further recommends that the Commission provide Howison with a list of information it will need to collect and provide during 2012.

BACKGROUND

Howison Heights, Inc. ("Howison" or "company") is a regulated water utility company located in Saline County, Kansas, that currently provides water to 62 retail customers. Howison Heights, Inc. is owned and solely operated by Mr. Tim Howison. Mr. Howison also owns and operates

rental properties in Saline County and is a real estate agent employed by Remax, as well as a real estate developer.

Howison initially filed a rate case application on April 29, 2011, Docket No. 11-HHIW-742-RTS. Howison withdrew that application on July 5, 2011. Howison then submitted to Staff a packet of schedules and other information which contained the draft of the current application on October 26, 2011. On November 22, 2011, Howison Heights, Inc. filed its current application requesting Commission approval to raise its retail water rates \$41,652. Howison's proposed rates would increase the bill for a customer using 5,000 gallons of water each month from \$29.00 to \$65.16 – a 125% increase.

On January 11, 2012, Staff's Bill Baldry and John Bell, and CURB's analyst Stacey Harden attended a meeting with Howison's owner and operator, Mr. Tim Howison. Ms. Harden attended this meeting in order to collect evidence supporting Howison's actual revenues and expenses for the calendar year 2010 that Howison failed to include in its application.

ANALYSIS

A. Income Statement Approach

Howison is not using the rate base/rate of return method for calculating its revenue requirement. Instead, Howison is using an income statement approach, which does not include an operating margin. CURB agrees that utilizing an income statement approach best suits the needs of this small utility and is using this approach to predict what Howison's 2012 Income Statement will look like, based upon information provided from 2010.

In its application, Howison provided four different versions of its income statement (or projected profit and loss statement). Two statements were reflective of actual 2010 revenues and expenses and the other two statements are considered prospective or projected for calendar year 2012. Each of these statements results in a different net income or loss result. CURB recognizes some inconsistencies likely exist because Howison's financial statements are based on an income tax basis or a cash accounting method. However, the lack of consistency in the income statement presentations and results makes it difficult for CURB to determine their accuracy and which statement is most representative of the company's actual revenues and expenses.

Howison Heights Income Statements included in application	Exhibit No. 2	Exhibit No. 6	Exhibit No. 8	Exhibit No. 10
	Income Tax Basis 2010	Accrual Basis 2010	Fixed Costs Projected	Projected Costs for 2012
Income				
Water Income	\$ 28,493.78	\$ 25,863.00	\$ 25,863.00	\$ -
Hookup Fee Income	\$ 12,600.00	\$ 12,600.00	\$ 12,600.00	\$ -
Total Income	\$ 41,093.78	\$ 38,463.00	\$ 38,463.00	\$ 38,463.00
Expense				
Auto	\$ 918.12	\$ 918.00	\$ 674.00	\$ 918.00
Bank Fees	\$ 566.47	\$ 566.00	\$ 465.00	\$ 566.00
Contractor Labor	\$ 7,566.45	\$ 7,566.00	\$ 4,139.00	\$ 7,566.00
Depreciation	\$ 9,829.41	\$ 9,829.00	\$ 10,337.00	\$ 9,829.00
Interest	\$ 25,163.15	\$ 25,163.00	\$ -	\$ -
Projected Loan	\$ -	\$ -	\$ 41,400.00	\$ 41,400.00
Legal & Accounting	\$ 575.00	\$ 575.00	\$ 575.00	\$ 575.00
Meals	\$ -	\$ -	\$ -	\$ -
Mowing Expense	\$ 200.00	\$ 200.00	\$ 300.00	\$ 200.00
Permits & Fees	\$ 2,030.22	\$ 2,030.00	\$ 1,978.00	\$ 2,030.00
Postage	\$ 300.45	\$ 300.00	\$ 300.00	\$ 300.00
Repairs & Maint.	\$ 5,746.73	\$ 5,747.00	\$ 5,832.00	\$ 5,747.00
Supplies	\$ 5,758.53	\$ 5,759.00	\$ 5,077.00	\$ -
Taxes	\$ 8,865.15	\$ 8,865.00	\$ 4,488.00	\$ 8,865.00
Utilities	\$ 4,551.00	\$ 4,551.00	\$ 4,551.00	\$ 4,551.00
Total Expense	\$ 72,070.68	\$ 72,069.00	\$ 80,116.00	\$ 82,547.00
Net Ordinary Income	\$ (30,976.90)	\$ (33,606.00)	\$ (41,653.00)	\$ (44,084.00)
Net Income	\$ (30,976.90)	\$ (33,606.00)	\$ (41,653.00)	\$ (44,084.00)

B. 2010 Test Year Data

i. Gallons of Water Sold

Howison's billing register indicates that in 2010, Howison sold 5,934,000 gallons of water. There were 87 billings made during the year in which the customer's water consumption was zero gallons. It is important to classify the number of gallons Howison sold by blocks because of the new block rate structure proposed in its application. The chart below shows how the 5,934,000 gallons were sold to Howison's retail customers.

2010 Gallons Sold

1,000 - 9,000	2,426,000
10,000 - 16,000	862,000
17,000 - 25,000	635,000
over 25,000	2,011,000
Gallons Sold	5,934,000

ii. Income/Revenues for 2010

During the meeting with Howison on January 11, 2012, Mr. Tim Howison provided a copy of a customer payment register for each month of 2010, as well as a revenue history for 2010. According to the payment register, actual receipts for 2010 totaled \$27,433.93. This is \$1,059.85 less than the water income listed in the company's Exhibit No. 2, and \$1,570.93 more than recorded in its Exhibit No. 6. The 2010 revenue history shows \$28,375.96 in water sales, which does not agree with the payment register or either Exhibit No. 2 or No. 6 included in the company's application. Ms. Harden is unable to determine why the sales recorded on the payment register would be different from the water sales recorded in the revenue history, which are both different from the amounts recorded on the company's income statement.

In an effort to determine the actual revenue from water sales Howison received in 2010, CURB performed an audit of the Bennington State Bank business checking account register for Howison Heights, Inc. During the course of the audit, CURB was only able to locate \$23,437.51 in deposits attributable to the sale of water.

CURB recognizes that because Howison is not using an accrual method of accounting for revenues, amounts recorded in its register as a payment in one calendar month may not be recorded as a cash deposit until the following month. However, according to CURB's audit of deposits attributable to water sales in 2010, as compared to the payment register provided by the company, nearly \$4,000 in cash receipts from the sale of water is unaccounted for. This discrepancy, which is equal to nearly 15% of Howison's 2010 annual revenues, is too large to be attributed to timing differences that may occur between cash and accrual accounting processes.

	Customer Payment Register	Verified deposits in business checking account	Difference between deposits and register
January	\$1,856.92	\$524.65	(\$1,332.27)
February	\$1,646.08	\$645.41	(\$1,000.67)
March	\$2,082.73	\$1,301.73	(\$781.00)
April	\$1,706.23	\$1,146.48	(\$559.75)
May	\$1,921.28	\$2,506.03	\$584.75
June	\$2,082.10	\$1,144.35	(\$937.75)
July	\$2,749.41	\$3,446.16	\$696.75
August	\$3,074.43	\$1,383.00	(\$1,691.43)
September	\$3,275.32	\$3,555.76	\$280.44
October	\$2,526.89	\$2,799.40	\$272.51
November	\$2,502.40	\$2,484.46	(\$17.94)
December	\$2,010.14	\$2,500.08	\$489.94
Total:	\$27,433.93	\$23,437.51	(\$3,996.42)

During the January 11, 2012, meeting with Mr. Tim Howison, Ms. Harden learned that Mr. Howison occasionally deposits customer's water utility bill payments into his personal checking account. Ms. Harden did not audit Mr. Howison's personal checking account in an effort to determine what amount of water revenues were being inappropriately deposited into Mr. Howison's personal checking account.

iii. Expenses for 2010

Howison's Exhibit Nos. 6 and 10, suggest that Howison Heights, Inc. incurred just over \$72,000 in expenses during 2010. As previously indicated, Howison uses an income tax basis method or cash method of accounting for revenues and expenses. Because Howison utilizes a cash method of accounting, Ms. Harden is unable to determine if the expenses reported by Howison on its 2010 financial statements were actually incurred by the company during the calendar year 2010, or if the expenses are bills from previous years that were simply paid during 2010. For example, Howison's income statement for 2010 shows a tax expense of \$8,865.00. This amount does not accurately represent the annual taxes charged to the company, but rather reflects that the company paid several years' worth of property taxes in 2010. If Howison were utilizing accrual accounting, the amount recorded on its income statement would have been \$1,993.28 – the actual tax assessment for 2010 – as opposed to \$8,865.00, which is the amount of cash the company paid for taxes in 2010.

In the January 11, 2012, meeting with Mr. Tim Howison, Staff requested that the company provide evidence to support expenses during the year 2010. Howison was not able to provide invoices, receipts or other documentation that supported many of the expenses reported in its 2010 income statements. Because of the limited evidence provided, it is impossible for Ms. Harden to verify the accuracy of the expenses claimed by Howison.

In an effort to better understand what types of expenses Howison pays during a typical calendar year, Ms. Harden conducted an audit of the company's Bennington State Bank business checking account statements. Ms. Harden's audit revealed no clarification or justification for expenses detailed by Howison, and instead brought to light several serious concerns regarding the flow of cash in and out of this small water utility company. These specific issues are discussed later in this report.

C. Projecting 2012

i. Revenues from Water Sales

Howison has proposed the following rate structure for its retail customers:

Minimum amount (no water)	\$40.00 per month
1,000 - 9,000	\$5.032 per 1,000
10,000 - 16,000	\$4.032 per 1,000
17,000 - 25,000	\$3.032 per 1,000
over 25,000	\$2.382 per 1,000

Included in Howison's rate per 1,000 gallons is \$0.032 per 1,000 gallons that is payable to the Kansas Department of Revenue for the Kansas Water Protection Fee. It is inappropriate to include this cost in the retail rate charged per 1,000 gallons. The Kansas Water Protection fee should be treated like a tax and added to the customer's bill as an individual line item. Howison should collect and report the amount collected, and then remit it to the Kansas Department of Revenue, separate from revenues received from water sales. Any new water rate approved by the Commission in this proceeding should not include the \$0.032 per 1,000 gallon Water Protection Fee.

Using the new rate structure proposed by Howison – less the \$0.032 that it included for the Kansas Water Protection Fee – based upon the gallons of water sold in 2010, Howison would receive \$55,117.90 in revenues from water sales. Additionally, Howison should collect \$189.89 for the Kansas Water Protection Fee and should collect \$551.18 for the 1% Saline County Sales Tax.

ii. Hook-up fee Income

Howison collects \$4,200 when an undeveloped lot – or a lot that currently does not have water service – is purchased within the boundaries of his water district. In 2010, Howison received \$12,600 in revenues from three hook-up fees. Because of the number of undeveloped lots currently available within Howison’s water district, it is reasonable to conclude that Howison will continue to receive revenues from three additional hook-ups each year. Accordingly, CURB recommends including \$12,600 as revenue received from hook-up fees.

iii. Expenses

As previously discussed, Howison’s use of income tax basis accounting or cash accounting methods make it nearly impossible to make a reasonable estimate of the company’s annual expenses. Further, the evidence provided by Howison does not provide additional information that is useful in projecting what reasonable expenses would be for the company. While CURB recognizes it is reasonable to expect certain expenses to be incurred during 2012, there is no supporting evidence that would make any estimate of such expenses reliable. Any estimate made would be pure speculation because there is no baseline or evidence to support the basis for such an estimate.

Based upon Howison’s application and information received during the course of Ms. Harden’s review of this case, the expenses listed below have been verified and are reasonable expenses to include in Howison’s 2012 projected income statement:

Reasonably Estimated Expenses for 2012

Bank Fees	\$ 100.00
Depreciation	\$ 9,829.00
Interest Expense	\$ 19,738.63
Postage	\$ 400.00
Water Protection Fee	\$ 189.89
Clean Water Drinking Fee	\$ 178.02
Saline County Sales Tax	\$ 551.18
Lab Testing Fees	\$ 751.00
Chlorine	\$ 550.00
Phosphate	\$ 700.00
Property Taxes	\$ 1,993.28
Utilities	\$ 4,500.00
Reasonable Estimated Expense	\$ 39,481.00

CURB has chosen not to include an estimate for several expense categories. The lack of evidence provided to CURB makes any estimate unreliable and unfounded. It is the responsibility of the company, not CURB, to provide evidence to support estimates made in its rate application. CURB knows of no other rate case for a regulated utility where the Commission has allowed the inclusion in the calculation of the company's revenue requirement of expenses that are not supported by any underlying evidence or that are otherwise based on pure speculation. Therefore, CURB has not included an estimate for the expense categories listed below:

- Auto
- Contractor Labor
- Projected Loan
- Legal & Accounting
- Meals
- Mowing Expense
- Permits & Fees
- Repairs & Maintenance
- Supplies

While Howison provided figures for these categories, there was so supporting data found during the audit. Ms. Harden, who conducted CURB's audit, noted that Howison has incurred actual expenses in each of these categories. However, she found no supporting documentation for Howison's expense claims in each of the listed categories. Therefore CURB must recommend denial of recovery for these expenses claimed by Howison as they are not supported by evidence in the record.

At his current rates, assuming similar water consumption, Howison would receive \$40,043.93 in revenue during 2012. This is based upon the \$27,433.93 of customer payments recorded in Howison's 2010 payment register and the \$12,600 that Howison received during 2010 from new hook-ups. This level of revenues is adequate when compared to the verified or reasonable estimated expenses Howison will incur during 2012.

CURB calculates that at the new rates proposed in its application, as well as the evidence provided by Howison to support its expenses, Howison would receive \$28,977.97 more than its expenses during 2012.

**CURB's projected 2012 Income Statement for Howison Heights, Inc.
based on available evidence**

Revenues

Water Sales	\$ 55,117.90
Water Protection Fee	\$ 189.89
Saline County Sales Tax	\$ 551.18
Hook-up Fee Income	\$ 12,600.00
Total Income	\$ 68,458.97

Expense

Bank Fees	\$ 100.00
Depreciation	\$ 9,829.00
Interest	\$ 19,738.63
Postage	\$ 400.00
Water Protection Fee	\$ 189.89
Clean Water Drinking Fee	\$ 178.02
Saline County Sales Tax	\$ 551.18
Lab Testing Fees	\$ 751.00
Chlorine	\$ 550.00
Phosphate	\$ 700.00
Property Taxes	\$ 1,993.28
Utilities	\$ 4,500.00
Total Expense	\$ 39,481.00
Net Ordinary Income	\$ 28,977.97
Net Income	\$ 28,977.97

D. Additional Concerns

During the course of Ms. Harden's audit of Howison's financial statements and its Bennington State Bank business account, I came across several other areas of concern. Before the Commission approves any rate request for Howison, the following items should be addressed:

i. Payment of required taxes

Ms. Harden sought and found no evidence that Howison has been paying Saline County sales tax on the sale of water. She also found no evidence that Howison has been paying the Kansas Department of Revenue for the Kansas Water Protection Fee. She found no evidence that Howison is collecting these taxes from its retail customers. Howison's failure to collect these fees from its retail customers does not relieve its obligation to pay these taxes.

ii. Insurance

Howison Heights, Inc. does not currently carry any type of insurance – liability or otherwise – for its business. During the meeting held on January 11, 2012, Mr. Tim Howison indicated that he had once looked into purchasing liability insurance for the water company, but that he considered it too expensive. Further, Mr. Howison indicated that, on occasion, he hires an individual (Sid Young) to perform repairs to water line breaks and other general maintenance items. Mr. Howison was unsure whether or not Mr. Young was covered by any type of insurance that would provide coverage if he were to be injured while working for Howison Heights, Inc.

iii. Excessive Debt

Exhibit No. 1 of Howison's application is a balance sheet prepared using the income tax basis method of accounting. The balance sheet shows that at the end of 2010, Howison has total assets of \$97,801.65 and total liabilities of \$325,870.12. These amounts indicate that Howison currently has a debt ratio of 3.33, which is excessively high. Additionally, CURB is troubled that Howison's currently held debt is \$46,179.13 more than the company's fixed or long-term assets. Ms. Harden was unable to determine if Howison is current on these debts or if the company is in danger of forfeiting assets in order to pay the debt.

Howison holds two long term loans at Bennington State Bank. As of January 17, 2012, one loan has a principal balance of \$217,810.63 with a current interest rate of 6.0%. The second loan at Bennington State Bank has a principal balance of \$8,939.94 and also holds an interest rate of 6.0%. Based on the evidence provided by Howison, Ms. Harden is unable to determine the payment terms of either loan, the maturity dates of either loan, when the loans were taken out by Howison, or how these loan funds were used by Howison.

Howison also holds a loan term loan with Central National Bank. According to a letter provided by Central National Bank President, Marty G. Redden, on January 17, 2012, the current loan balance at Central National Bank is \$275,000 and has a current interest rate of 6.56%. This loan originated on August 4, 2006, and was renewed on December 15, 2010. Based on the evidence provided by Howison, Ms. Harden is unable to determine the payment terms of this loan or the maturity dates of the loan.

According to Howison's financial statements, only \$93,500 of the \$275,000 Central National Bank loan is included on the company's balance sheet. During the meeting on January 11, 2012, Mr. Tim Howison indicated that this loan was not used solely for water district business, but also for personal use and for the use of his other businesses. Mr. Howison further elaborated that it was determined that 34% of this loan was used for the water district, and therefore it is accounted for based upon a 34% allocation.

Howison provided a transaction register from 2007 in order to support the allocation of the Central National Bank loan. According to these registers, on January 1, 2007, the loan had a balance of \$110,150.00. A total of \$125,000 in loan advances were processed during 2007 – January 17, 2007 (\$40,000), July 20, 2007 (\$30,000), September 26, 2007 (\$30,000) and December 28, 2007 (\$25,000) - which resulted in an ending loan balance of \$235,150.00 on December 31, 2007.

Howison also provided a detailed register of the Central National Bank loan, showing how the funds from each loan advance were used during 2007. According to this register, \$42,236.78 of the \$125,000 in new loan funds was used for the purpose of the water utility. Ms. Harden reviewed these transactions and found that \$10,210.00 was used to purchase a new water pump in January 2007. Additionally, Ms. Harden's audit found that \$5,472.15 was used for the purpose of "BSB-Interest" and \$9,545.25 was used for "BSB Payment". Based upon the evidence provided, Ms. Harden is unable to verify how or if the remaining amount of \$17,009.39 was actually used for the water company.

The audit of Howison's debt is troubling. Evidence from 2007 indicates that the company is utilizing loan funds at one bank (Central National Bank) and using it to make required loan payments at another bank (Bennington State Bank). Additionally, there is no evidence of any significant plant or distribution improvements that were financed with these loan proceeds. There is no evidence that sheds light on where this money went and whether the loan balance is in any way related to providing service to Howison's water customers. If the Commission allowed the inclusion of these debts in the calculation of the company's revenue requirement, water customers are likely paying for debt that is not related to providing service.

iv. Howison Heights, Inc.'s Cash Account

The audit of Howison Heights, Inc.'s business checking account unearthed several major problems with the company's fiscal management. When asked about some of these issues during the January 11, 2012 meeting, Mr. Howison indicated that he previously had three checking accounts and recently closed one of the accounts. Of the two checking accounts that Mr. Howison is still using, one is a personal checking account held at Sunflower State Bank and the other is the Howison Heights, Inc. checking account held at Bennington State Bank. Mr. Howison said that he pays bills out of whichever of the two accounts currently has money in it.

CURB's audit of the Bennington State Bank checking account supports Mr. Howison's statement. Below is a sample of some of the transactions that raise serious concerns:

- (1) Over \$3,700 was withdrawn from the business checking account on over thirty (“30”) occasions, for the purpose of “cash”.
- (2) Checks written to retail businesses such as Dillard’s, Sears, and JC Penney, with “Xmas gift” written in the check memo.
- (3) Checks being written for the payment of utilities – Westar Energy, Cox Communications and Verizon Wireless – that are unrelated to Howison Heights, Inc. and appear to be related to either Mr. Howison’s personal residence or one of the rental properties that Mr. Howison currently owns.
- (4) Recurring payments to Remax, LLC with the memo of “dues”.
- (5) Deposits being made to the account for the purpose of “security deposit”, “Remax”, “rent”, and “homeowners refund”.
- (6) \$225.00 in overdraft charges incurred during 2010.

v. Water Loss Percentage

Howison included a copy of its master meter readings report for each of the wells it operates. This report details the gallons of water used from the well, the number of gallons that were sold and the difference between the two, which is its annual water loss. During 2008, 2009 and 2010, Howison reportedly consumed 20,898,000 gallons of water and sold 16,348,000 gallons to its customers. This leaves 4,550,000 gallons of water – or 21.77% of its consumed water – unaccounted for. Based upon Ms. Harden’s experience managing a small water utility company, this is an exceedingly high water loss percentage which leads to concerns regarding the company’s distribution system.

vi. Clean Water Drinking Fee

The Clean Water Drinking Fee is available to all public water supply systems. By paying the Clean Water Drinking Fee, a public water supply system is exempt from paying Kansas Retailers’ Sales or Compensating Use Tax on their purchase. This fee - \$.03 per 1,000 gallons of water sold – is reported on the same form as the Water Protection Fee and is addition to the Water Protection Fee. Unlike the Water Protection Fee, Howison cannot pass on this fee to its customers. However, based upon the gallons of water Howison sold in 2010, this fee would equal \$178.02 during a calendar year. At the current State of Kansas sales tax rate of 6.3%, Howison would only need to purchase \$2,825.71 worth of goods or services in the State of

Kansas to offset the fee. After his retail purchases exceed \$2,825.71, the water utility would be saving money by avoiding the Kansas State Sales Tax. There is no evidence that Howison is taking advantage of this option.

RECOMMENDATION

CURB recommends that the Commission deny Howison's application. The evidence provided in its application and during the audit conducted by Ms. Harden does not support the rate increase.

Ms. Harden does not believe that Mr. Tim Howison, the owner and sole operator of Howison Heights, Inc., is willingly withholding evidence in an effort to purposefully deceive CURB. However, it is apparent to Ms. Harden that Mr. Howison has not managed the finances of Howison Heights, Inc. in an appropriate manner. The audit of Howison's financial condition shows a consistent pattern of late payments on all accounts, including taxes and loans, termination notices for its electric bills, overdraft charges on the company's business checking account, and inappropriate uses of the cash available to Howison.

Further, Ms. Harden does not believe that Mr. Howison's current fiscal management habits will change based upon a Commission order. It is Ms. Harden's opinion that granting Howison's application now and requiring it to change habits later, is a bad policy. Granting the application as presented will ultimately lead to Howison's retail customers paying for the fiscal mismanagement of this utility. Because of this, it is Ms. Harden's opinion and CURB's recommendation that the Commission deny Howison's application for a rate increase.

CURB's review of Howison Heights shows that the company does not appear to be paying its required taxes (local and state), does not have any kind of property insurance for the utility, and is past-due on most all expenses and its required loan payments. Any one of these infractions by a regulated utility should be cause for the Commission to review the company's certificate of service. Therefore, CURB recommends the Commission require Howison to provide the information listed below prior to March 31, 2012. If Howison cannot provide the information required by the Commission by March 31, 2012, then it is CURB's recommendation that the Commission suspend Howison's certificate of service.

- (1) A copy of an insurance policy, along with proof of payment, for Howison Heights, Inc. The policy should include coverage amounts and all policy terms.
- (2) Proof of payment to the Kansas Department of Revenue for payment of its Water Protection Fee. Additionally, Howison should provide a statement from the Kansas Department of Revenue showing positive payment for all delinquent taxes.

- (3) Proof payment of the Kansas Department of Revenue for the 1% Saline County Sales Tax. Additionally, Howison should provide a statement from the Kansas Department of Revenue showing positive payment for all delinquent taxes.
- (4) Proof payment of the Saline County Property Tax. Additionally, Howison should provide a statement from the Saline County treasurer's office showing positive payment for all delinquent property taxes.

CURB is sympathetic to the plight of Howison – which has only 62 customers – likely making it one of the smallest regulated utilities in the State of Kansas. Additionally, Howison is owned and operated by a person who is unfamiliar with the business of utility regulation in Kansas. However, it is irrelevant how big or small Howison Heights, Inc. is – Howison is still a regulated utility and therefore must be regulated in the same manner that other similar utilities are. The records and evidence CURB seeks are those collected in the normal course of operating any business. CURB cannot imagine a scenario in which the Commission would allow a utility to set retail rates based upon financial statements that purport to establish its dire financial condition, without a shred of evidence to support those financial statements or the proposed rate design. There is simply no underlying evidentiary justification for granting recovery from customers on the basis of this application.

CURB further recommends that in order for Howison to be considered for a rate increase, Howison must provide evidence supporting his revenues and expenses for a period of six months. At the end of the six month period, Howison should return to the Commission with evidence, so that the appropriate level of rates can be evaluated. Howison should collect and present the following information, in addition to updating the information provided in this proceeding, at the end of a six month period:

- (1) A copy of invoices – not statements or cancelled checks – for all items purchased for Howison Heights, Inc.
- (2) A copy of tax statements including the remittance advices from invoices or receipts from the agency collecting the taxes.
- (3) A copy of a current insurance policy for Howison Heights, Inc.
- (4) A copy of all terms, conditions, balances, payments on all the loans or debts currently owned by Howison Heights, Inc. as of June 30, 2012.
- (5) A copy of the Howison Heights, Inc., business checking account.

- (6) A copy of Howison's customer water usage report, customer payment history, and its accounts receivable register.
- (7) A copy of Howison's completed election to pay the Clean Water Drinking Fee filed with the Kansas Department of Revenue.

CERTIFICATE OF SERVICE

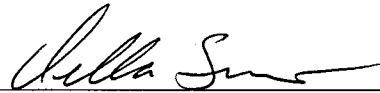
12-HHIW-382-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was placed in the United States mail, postage prepaid, or hand-delivered this 9th day of February, 2012, to the following:

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Della Smith
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