

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WATER)
SERVICE CORPORATION OF) CASE NO. 2008-00563
KENTUCKY FOR AN)
ADJUSTMENT OF RATES)

O R D E R

Water Service Corporation of Kentucky ("Water Service") has applied for approval to adjust its rates for water service. It proposes to increase its rates on April 15, 2009. Finding that further proceedings are necessary to investigate the reasonableness of the proposed rates, the Commission suspends the operation of the proposed rates for a period of five months and establishes a schedule for review of the proposed rates.

IT IS HEREBY ORDERED that:

1. The proposed rates set forth in Water Service's application are suspended up to and including September 14, 2009.
2. The procedural schedule set forth in Appendix A to this Order shall be followed.
3. Water Service shall, no later than April 15, 2009, file with the Commission the original and six copies of the information listed in Appendix B, with a copy to all parties of record.

a. Responses to requests for information shall be appropriately bound, tabbed, and indexed and shall include the name of the witness responsible for responding to the questions related to the information provided.

b. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

c. Any party shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect.

d. For any request to which a party fails or refuses to furnish all or part of the requested information, that party shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

4. At any hearing in this matter, neither opening statements nor summarization of direct testimony shall be permitted.

5. 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.

6. All documents that this Order requires to be filed with the Commission shall be served upon all other parties.

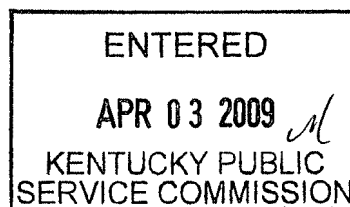
7. To be timely filed with the Commission, a document must be received by the Commission within the specified time for filing, except that any document shall be

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.

8. 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.

9. Nothing contained herein shall prevent the Commission from entering further Orders in this matter.

By the Commission



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-00563 DATED **APR 03 2009**

Water Service shall file with the Commission and serve upon all parties of record its responses to the Commission's initial information request no later than..... 04/15/2009

All requests for information to Water Service shall be served upon Water Service no later than..... 04/30/2009

Water Service shall file with the Commission and serve upon all parties of record its responses to the requests for information no later than..... 05/15/2009

All supplemental requests for information to Water Service shall be served upon Water Service no later than 05/29/2009

Water Service shall file with the Commission and serve upon all parties of record its responses to supplemental requests for information no later than..... 06/12/2009

Intervenor testimony, if any, shall be filed with the Commission in verified prepared form no later than 06/26/2009

All requests for information to any Intervenor shall be served upon that Intervenor no later than..... 07/10/2009

Intervenors shall file with the Commission and serve upon all parties of record their responses to the requests for information no later than..... 07/24/2009

Water Service may file with the Commission the testimony of its rebuttal witnesses in written verified form no later than 08/03/2009

An informal conference will be held at the Commission's offices in Frankfort, Kentucky on.....To be announced

Public Hearing for the purpose of cross-examination of witnesses of Water Service and Intervenors beginning at 10:00 a.m., Eastern Daylight Time, onTo be announced

Briefs, if any, shall be filed To be announced

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2008-00563 DATED **APR 03 2009**

1. Provide monthly usage data for each customer in gallons for the test period, fiscal year ending June 30, 2008. The usage data should be on a computer disc in Microsoft Excel format.
2. Provide the current organization chart showing the relationship between Water Service and any affiliated companies. Include the relative positions of all entities and affiliates with which Water Service routinely has business transactions.
3. Provide a complete copy of the workpapers, calculations, and assumptions Water Service used to develop its pro forma test-period financial information.
4. Provide a complete copy of all of Water Service's internal accounting manuals, directives, and policies and procedures.
5. Provide a reconciliation and detailed explanation of each difference, if any, in the capital structure and the net investment rate base of Water Service for the test period.
6. List all business activities of Water Service aside from its regulated utility activities. For each activity listed, describe the accounting policies and procedures in place to ensure that those activities are not subsidized by regulated rates or vice versa.
7. Provide a schedule listing each project included in the test period Construction Work in Progress ("CWIP"). Include a detailed description of each project included in the schedule.

8. Provide a test-period general ledger showing account number, subaccount number, account title, subaccount title, and all entries to each account. For each entry, state the date paid, vendor name, check number used to make payment, and the amount. The general ledger shall include all asset, liability, capital, income, and expense accounts used by Water Service. All accounts should show activity for 12 months. Show the balance in each control and all underlying subaccounts per company books.

9. For each cash account used by Water Service during the test year, provide a cash disbursements ledger that lists all checks in chronological order and the date paid, check number, vendor, and amount of each check.

10. Provide a copy of all audit adjustments made for the test-period financial statements.

11. a. Provide a list of all employees employed during the test period. For each employee listed, provide the following:

- (1) Name;
- (2) Title;
- (3) Length of employment with Water Service;
- (4) Job duties;
- (5) Test-period pay rate and current pay rate;
- (6) Test-period regular time worked and overtime worked;
- (7) Percentage of test-period payroll capitalized;
- (8) Total test-period payroll expenses and capitalized; and

(9) Type of employee benefits (i.e., health insurance, dental insurance, vision insurance, pension, etc.) and amounts paid for each by Water Service.

b. Provide a copy of the employee information requested in Item 1¹~~2~~(a) on a computer disk in Microsoft Excel 97 format.

c. Provide the employer retirement contribution rate(s) that were effective during calendar years 2006, 2007, and 2008, including the date the rate became effective.

d. If the employer retirement contribution rate will be changed in calendar year 2009, provide the rate, the reason for the change, and the date it will become effective.

12. a. Provide a schedule detailing all test-period expenditures related to the application filed in this current proceeding. Provide in the schedule the nature and amounts of all charges along with a copy of vendor invoices. The invoices should contain detailed descriptions of the services, the amount of time billed for each service, and the hourly billing rate. Identify the account number and title to which each amount was charged.

b. Provide the anticipated total cost of the case upon completion. The projected amount should be detailed by type of service and vendor with supporting documentation for each.

c. Provide a monthly update of the schedule requested in Item 12(a) showing all of the costs incurred as of that date. Include the supporting detailed vendor invoices as requested in Item 12(a).

13. For each debt of Water Service currently outstanding or outstanding during the test year:

a. Provide a current amortization schedule that includes the entire life of the loan or bond and that details the payment amounts, principal retirements, interest payments, interest rates, and outstanding balances.

b. Provide a description of the use of the borrowed funds.

14. Provide Water Service's long-term construction planning program.

15. Provide a complete copy of all wage, compensation, and employee benefits studies, analyses, or surveys conducted for or utilized by Water Service.

16. For each water operation employee group, state the amount, percentage increases, and effective dates for general wage increases and, separately, for merit increases granted for the years 2006, 2007, and 2008.

17. Provide complete details of all early retirement plans or other staff reduction programs Water Service intends to offer its employees during 2009 and 2010. Include all cost-benefit analyses associated with these programs.

18. Concerning employee fringe benefits:

a. Provide a detailed list of all fringe benefits available to Water Service employees and the expected cost of each benefit in 2006, 2007, and 2008. Indicate which fringe benefits, if any, are limited to management employees.

b. Provide comparative cost information for 2006, 2007, and 2008. Explain any changes in fringe benefits occurring over this period.

c. Provide the fringe benefit cost for calendar year 2009.

19. List separately the budgeted and actual numbers of full- and part-time employees by employee group, by month, and by year for 2005 through 2008.

20. Provide complete details of Water Service's Other Post-Retirement Employee Benefits package(s).

21. Provide all current labor contracts and the most recent contracts previously in effect.

22. Provide a complete copy of each group medical insurance policy that Water Service currently maintains.

23. List all properties leased to the utility and improvements to leased properties, together with annual lease payments which are capitalized.

24. Provide a calculation of federal and state income tax expense, including a reconciliation of book to taxable income for 2007 and 2008 in the format provided in Schedule 24.

25. Provide copies of all service agreements and contracts that Water Service has with any affiliate company. Include a narrative discussion of the pricing policies of Water Service and its affiliates with regard to affiliate company transactions.

26. Concerning transactions between Water Service and any affiliated companies:

a. Provide a comprehensive list and detailed description of any goods or services that have been provided to Water Service by any affiliated company.

b. Describe the benefits that Water Service derives from having affiliates provide the goods or services identified in part (a).

c. Provide a comprehensive list and detailed description of any goods or services that Water Service has provided to any affiliated companies.

27. Refer to the application, Exhibit 2. The proposed tariff states that there will be an increase in the Meter Reading Re-Check Charge; however, the public notice provided in Exhibit 3 does not state this fee is being increased. Explain and provide a copy of the public notice.

28. Refer to the application, Exhibit 3. In the public notice provided in this exhibit, there is a charge for a Meter Fee; however, there is no correlating fee listed in the proposed tariff provided as Exhibit 2. Explain.

29. Refer to the application, Exhibit 5, Direct Testimony of John D. Williams. In response to Question #31, Mr. Williams states "that a new section has been added for a tap fee of \$1,434 for 1 inch and smaller connections. Larger taps will be billed to the customer at the contractor cost for material and labor. A fee calculation sheet is attached."

a. The cost justification (fee calculation sheet) information for this charge was provided on the incorrect cost justification sheet. The sheet used is normally used for any other nonrecurring charge being increased, excluding the tap fees. Provide the cost justification for the tap fee on the correct cost justification sheet (attached).

b. Additionally, provide the cost justification (attached) for all nonrecurring charges being requested in this application.

- (1) Tampering Fee;
- (2) Non Sufficient Funds Charge;

- (3) Meter Fee;
- (4) Service Reconnection Charge;
- (5) New Customer Account Setup Fee;
- (6) Service Charges; and
- (7) Meter Testing Fee.

Water Service Corporation of Kentucky
 Case No. 2008-00563
 Adjusted Jurisdictional Federal and _____ State Income Taxes*
 For the 12 Months Ended _____

Schedule 24
 Page 1 of 3
 Witness Responsible: _____

Line No.	Description	At Current Rates		At Proposed Rates		
		Unadjusted (1)	Schedule 49 Adjustments (2)	Adjusted (3)	Adjusted (4)	Adjusted (5)
1	Operating Income Before Income Taxes	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
2	Reconciling Items:					
3	Interest Charges					
4	Tax Accelerated Depreciation					
5	Book Depreciation					
6	Excess of Tax Over Book Depreciation					
7	Other Reconciling Items (Specify and List)					
8	Total Reconciling Items					
9	Taxable Income					
10	Income Tax Rates:					
11	\$ _____ @ _____ %					
12	\$ _____ @ _____ %					
13	\$ _____ @ _____ %					
14	\$ _____ @ _____ %					
15	Over \$ _____ @ _____ %					
16	Federal (State) Income Tax Liability					

*Separate Schedules should be completed for the Federal and State calculations.

Water Service Corporation of Kentucky
Case No. 2008-00563
Adjusted Jurisdictional Federal and _____ State Income Taxes*
For the 12 Months Ended _____

Schedule 24
Page 2 of 3
Witness Responsible: _____

Line No.	Description	At Current Rates		At Proposed Rates		
		Unadjusted (1)	Schedule 49 Adjustments (2)	Adjusted (3)	Adjusted (4)	Adjusted (5)
17	Investment Tax Credits	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
18	Federal (State) Income Taxes -- Current	_____	_____	_____	_____	_____
19	Deferred Income Taxes:					
20	Tax Accelerated Depreciation					
21	Tax Straight-Line Depreciation					
22	Excess of Accelerated Over Straight-Line Depreciation					
23	Deferred Income Tax @ _____ %					
24	Amortization of Prior Years Deferred Income Taxes					
25	Net Deferred Income Taxes Resulting from Depreciation					
26	Investment Tax Credit Deferred					
27	Amortization of Prior Year ITC					

*Separate Schedules should be completed for the Federal and State calculations.

Water Service Corporation of Kentucky
Case No. 2008-00563
Adjusted Jurisdictional Federal and _____ State Income Taxes*
For the 12 Months Ended _____

Schedule 24
Page 3 of 3
Witness Responsible: _____

Line No.	Description	At Current Rates		At Proposed Rates	
		Unadjusted (1)	Schedule 49 Adjustments (2)	Adjusted (3)	Adjusted (5)
28	Investment Tax Credit – Net	\$	\$	\$	\$
29	Other Tax Deferrals (Specify and List Separately)				
30	Total Deferred Income Taxes				
31	Total Federal (State) Income Taxes (18 + 30)				

*Separate schedules should be completed for the Federal and State calculations.

Water Service Corporation of Kentucky
Case No. 2008-00563
**AVERAGE METER CONNECTION EXPENSE (TAP FEES)
COST JUSTIFICATION**

The following is an itemization of expenses for providing a metered service connection.

A. Meter Size

5/8-Inch 3/4-Inch 1-Inch 1 1/2 -Inch 2-Inch

Other (specify) _____

B. Materials Expense

		<u>Quantity</u>	<u>Unit Cost</u>	<u>Total Cost</u>
1.	Water Meter	_____	_____	_____
2.	Meter Yoke	_____	_____	_____
3.	Corporation Stop	_____	_____	_____
4.	Meter Box and Top	_____	_____	_____
5.	Miscellaneous Fittings	_____	_____	_____
6.	Other (Itemize)	_____	_____	_____
_____		_____	_____	_____
_____		_____	_____	_____
_____		_____	_____	_____
TOTAL MATERIALS EXPENSE				\$ _____
(add total cost)				

C. Service Pipe Expense

Type of Service Pipe _____ Size of Service Pipe _____

		<u>Quantity</u>	<u>Unit Cost</u>	<u>Total Cost</u>
1.	Short Side Service	_____	_____	_____
2.	Long Side Service	_____	_____	_____
AVERAGE SERVICE PIPE EXPENSE				\$ _____
(add total cost and divide by 2)				

D. Installation Labor Expense

		Total <u>Hours</u>	Hourly <u>Rate</u>	Total <u>Cost</u>
1.	Short Side Service	_____	_____	
2.	Long Side Service	_____	_____	

AVERAGE INSTALLATION LABOR EXPENSE \$ _____
(add total cost and divide by 2)

E. Installation Equipment Expense

		Total <u>Hours</u>	Hourly <u>Rate</u>	Total <u>Cost</u>
1.	Short Side Service	_____	_____	
2.	Long Side Service	_____	_____	

AVERAGE INSTALLATION EQUIPMENT EXPENSE \$ _____
(add total cost and divide by 2)

F. Installation Miscellaneous Expense

		Total <u>Hours</u>	Hourly <u>Rate</u>	Total <u>Cost</u>
1.	Inspection	_____	_____	_____
2.	Site Clean-Up	_____	_____	_____
3.	Other	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____

AVERAGE INSTALLATION MISCELLANEOUS EXPENSE \$ _____
(add total cost)

G. Overhead Expense

1. Installation expense (\$ _____) times
overhead rate (_____ %) \$ _____

H. Administrative Expense

1. Office expense for establishing a new account
and billing record. \$ _____

I. **Total Expenses**

Materials Expense \$ _____

Service Pipe Expense _____

Installation Labor Expense _____

Installation Equipment Expense _____

Installation Miscellaneous Expense _____

Overhead Expense _____

Administrative Expense _____

TOTAL CONNECTION EXPENSE \$ _____

Water Service Corporation of Kentucky
Case No. 2008-00563
NONRECURRING CHARGE COST JUSTIFICATION (NON TAP FEES)

Type of Charge: _____

1. Field Expense:

A. Materials (Itemize)

_____	\$ _____
_____	_____
_____	_____

B. Labor (Time and Wage)

_____	_____
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Total Field Expense \$ _____

2. Clerical and Office Expense

A. Supplies \$ _____

B. Labor _____

Total Clerical and Office Expense \$ _____

3. Miscellaneous Expense

A. Transportation \$ _____

B. Other (Itemize)

_____	_____
_____	_____
_____	_____

Total Miscellaneous Expense \$ _____

Total Nonrecurring Charge Expense \$ _____

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