

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WATER SERVICE)	
CORPORATION OF KENTUCKY)	CASE NO. 2013-00237
FOR AN ADJUSTMENT OF RATES)	

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION
TO WATER SERVICE CORPORATION OF KENTUCKY

Water Service Corporation of Kentucky ("WSKY") is requested, pursuant to 807 KAR 5:001, to electronically file with the Commission the original and one copy of the following information, with a copy to all parties of record. The information requested herein is due on or before January 24, 2014. Spreadsheets may be electronically transmitted in Excel format. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

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.

WSKY 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. For any request to which WSKY fails or refuses to furnish all or part of the requested information, WSKY shall

provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to WSKY's Response to the Attorney General's Initial Request for Information ("AG's First Request"), Item 3.

a. State whether revisions have been made to the Water Purchase Contract the Utilities of Kentucky and the Pineville Utility Commission executed on November 30, 1998, or whether a new water purchase contract superseding this contract has been executed. If the contract has been revised or a superseding contract has been executed, provide all water purchase contracts executed since November 30, 1998.

b. Did WSKY provide notice of the rate increase to Pineville Utility Commission?

c. If the answer to 1(b) is yes, provide proof of the notice as required by 807 KAR 5:001, Section 16(5), and explain why the required proof of notice was not previously filed.

d. If the answer to 1(b) is no, explain why WSKY failed to provide notice of the rate increase to Pineville Utility Commission.

2. Refer to WSKY's Response to the AG's First Request, Item 11. Quantify the cost savings WSKY has experienced due to Project Phoenix.

3. Refer to WSKY's Response to the AG's First Request, Item 12.
 - a. State the amount of depreciation expense included on Exhibit 4, Schedule B, of the application that is attributable to Project Phoenix. Provide the calculations made to derive this amount.
 - b. Identify all expenses, other than depreciation, associated with Project Phoenix that are included on Exhibit 4, Schedule B.
4. Refer to WSKY's Response to the AG's First Request, Item 21. Is the comparison of budgeted to actual expenses the only analysis performed by Water Service Corporation's management of the expenses that it allocates to WSKY?
5. Refer to WSKY's Response to the AG's First Request, Item 46. Provide documentation to support the salary allocations included on this schedule.
6. Refer to WSKY's Responses to the Commission Staff's Second Request for Information ("Commission's Second Request"), Item 2, and to Commission Staff's First Request for Information ("Commission's First Request"), Item 3, Workpaper Wp q - city of Clinton.
 - a. In the test period WSKY reports that it received \$153,285¹ from the city of Clinton ("Clinton") for the management of Clinton's sewer operations. Provide a breakdown of the test-period fee of \$153,285 into the major components as shown on workpaper Wp q - City of Clinton.
 - b. Provide the current contract between WSKY or WSKY affiliate and Clinton regarding the management of Clinton's sewer operations. If no contract exists, explain the lack of a written agreement.

¹ See WSKY's Response to the Commission Staff's Second Request for Information, Item 12(a).

c. Explain in detail why there is a \$32,576 decrease in the cost to manage Clinton's sewer operations, as shown on Exhibit 4, Schedule B, of the Application.

d. Does WSKY provide customer billing and collection services to Clinton for its sewer operations?

(1) If the response to Item 6(d) is yes, identify the actual test period and pro forma cost of providing this service. Show where this cost is included in workpaper Wp q - City of Clinton.

(2) If the response to Item 6(d) is no, identify who provides this service.

7. Refer to WSKY's Response to the Commission's Second Request, Item 2(d). As originally requested, provide the calculations WSKY used to arrive at Taxes Other than Income of \$143,894.²

8. Refer to WSKY's Response to the Commission's Second Request, Item 5.

a. Provide a copy of any time-study analysis or any other empirical study performed by WSKY or Water Service Corporation showing that allocation of Water Service Corporation salaries using the Equivalent Residential Connections formula results in a reasonable cost allocation to WSKY.

b. Explain in detail why the Water Service Corporation employees do not track their time to directly charge salaries to the appropriate subsidiary.

9. Refer to WSKY's responses to the Commission's Second Request, Item 7.

² The calculation is not on workpaper g filed in response to Commission's First Request, Item 3.

a. Confirm that the file PSC DR 2-7 referenced in response to 7(a) contains WSKY's current proposed depreciation schedule.

b. If the file PSC DR 2-7 does not contain WSKY's current proposed depreciation schedule, provide WSKY's current proposed depreciation schedule with specific verifiable evidence for service lives that are outside the range identified in the NARUC Study.³

c. If the file PSC DR 2-7 does contain WSKY's current proposed depreciation schedule, provide specific verifiable evidence for the service life of each asset group that lists a service life outside the range stated in the NARUC Study.

d. If WSKY cannot provide specific verifiable evidence to justify the service life of an asset group outside the range identified in the NARUC Study as requested in 9(b) or 9(c), provide the service life for that asset group using the NARUC Study.

e. Provide specific verifiable evidence to justify the service life of each asset listed in response to 7(c), 7(d), 7(e), 7(f), and 7(g) of Commission's Second Request. Reference to depreciation rates accepted in another jurisdiction is not specific verifiable evidence justifying the service life of an asset.

f. If WSKY cannot provide specific verifiable evidence to justify the service life of an asset as requested in 9(e), provide the service life for that asset using the NARUC Study.

g. Recalculate accumulated depreciation, depreciation expense, amortization of contributions in aid of construction and advances in aid of

³ A copy of the NARUC Study was provided with the Commission's Second Request.

construction, and deferred income taxes using service lives within the range identified in the NARUC Study or using specific verifiable evidence justifying the service life of an asset that is outside the range identified in the NARUC Study.

h. Identify the effect of the recalculations in 9(g) on WSKY's pro forma operating expenses and requested revenue requirement.

i. Provide all workpapers, show all calculations, and state all assumptions that WSKY used in response to 9(g) and 9(h).

10. Refer to WSKY's Responses to the Commission's Second Request, Item 9, and the Commission's First Request, Item 3, Workpaper Wp b - Salary.

a. The workpaper lists ten maintenance employees and uses an employee identification number, while the response to Item 9 lists 11 maintenance employees and identifies each employee by name. Explain the difference in the number of employees listed in the two responses and provide the employee identification number for the employees in Item 9.

b. For each maintenance employee listed in the response to Item 9, explain in detail why he or she worked over 2,080 regular hours in calendar 2012.

c. Provide a schedule listing the regular and overtime hours each maintenance employee worked for the calendar years 2009, 2010, and 2011. Provide hours for 2013 when they become available.

11. Refer to WSKY's Responses to the Commission's Second Request, Item 10.

a. Confirm that a study of the prevailing hourly wage rates was not conducted in the Clinton region, the Middlesboro region, or in the state of Kentucky.

b. Explain how a per-customer cost analysis that divides total salary expense by the number of customers served shows that the employee hourly wage rates are reasonable.⁴

c. In its salary analysis WSKY selected 12 water utilities⁵ that are regulated by the Commission. For each utility selected, indicate whether it purchases or produces its water and identify the region of the state in which it operates.

d. WSKY analyzed the management and office staff costs contained in four Commission rate decisions. For each utility selected, indicate whether it purchases or produces its water and identify the region of the state in which it operates.

e. Provide documentation to support WSKY's statement that "[s]alary increases are necessary to enable WSCK to maintain a skilled and competent workforce"

12. Refer to WSKY's Responses to the Commission's Second Request, Item 12(d). Explain in detail how the Agreement between Water Service Corporation and WSKY would affect the allocation of costs incurred to operate or manage Clinton's sewer operations.

13. Refer to WSKY's Responses to the Commission's Second Request, Item 14.

a. Provide evidence to support WSKY's statement that the 2007 Affiliate Agreement ensures that the expenses incurred by the Service Company allocated to WSKY are reasonable and appropriate.

⁴ Application, Direct Testimony of Gary D. Shambaugh, Exhibit D.

⁵ Application, Direct Testimony of Gary D. Shambaugh at 7.

b. WSKY states that the “company regularly reviews costs from various cost centers” to ensure that “all costs are reasonable and appropriate.” Identify the corporate level at which the referenced review occurs.

c. In Case No. 2008-00563,⁶ the Commission noted that the 2007 Affiliate Agreement was the product of a less-than-arm’s-length transaction and that it lacked a review clause “that would serve as a check and balance system to allow only those reasonable costs that relate to the Water Service operations to be allocated to Water Service.” Identify the new procedures that Utilities, Inc. or Water Service Corporation have implemented since November 9, 2009, to address the Commission’s concerns.

14. Refer to WSKY’s Responses to the Commission’s Second Request, Item 19. In its decision in Case No. 2008-00563, the Commission noted that Utilities, Inc. did not perform a cost-benefit analysis of Project Phoenix’s impact on WSKY.⁷ Did Patrick Baryenbruch perform a cost-benefit analysis of the Project Phoenix’s impact on WSKY?

15. Refer to WSKY’s Responses to the Commission’s Second Request, Item 22. Provide the documentation⁸ as requested to support the benefits of Project Phoenix that are outlined in the response.

⁶ See Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009) at 15.

⁷ *Id.* at 6.

⁸ The documentation should include what Patrick L. Baryenbruch used to support his conclusions.

16. In Case No. 2012-00133,⁹ Croix Infrastructure, Croix Utilities, Utilities, Inc., and Water Service Corporation accepted the following condition: "Water Service Corporation will have a meaningful process to monitor all allocations from corporate parents or affiliates to ensure the appropriateness of the allocations." Provide a complete description of the monitoring process that was implemented by Water Service Corporation to comply with this merger condition.



Jeff R. Derouen
Executive Director
Public Service Commission
P.O. Box 615
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DATED **JAN 03 2014**

cc: Parties of Record

⁹ See Case No. 2012-00133, *Joint Application of Corix Utilities (Illinois) LLC; Hydro Star, LLC; Utilities, Inc.; and Water Service Corporation of Kentucky for the Transfer and Acquisition of Control Pursuant to KRS 278.020* (Ky. PSC Aug. 13, 2012) Appendix, Item 4.

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