

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

NOTICE OF FILING

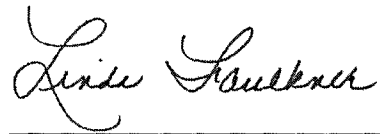
Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on April 9, 2014 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on April 9, 2014 in this proceeding;
- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on April 9, 2014.

A copy of this Notice, the certification of the digital video record, hearing log, exhibit list, and exhibits have been electronically served upon all persons listed at the end of this Notice. Parties desiring an electronic copy of the digital video recording of the hearing in Windows Media format may download a copy at: http://psc.ky.gov/av_broadcast/2013-00237/2013-00237_09Apr14_Inter.aspx. Parties

wishing an annotated digital video recording may submit a written request by electronic mail to pscfilings@ky.gov. A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 5th day of May 2014.

A handwritten signature in cursive script, reading "Linda Faulkner".

Linda Faulkner
Director, Filings Division
Public Service Commission of Kentucky

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

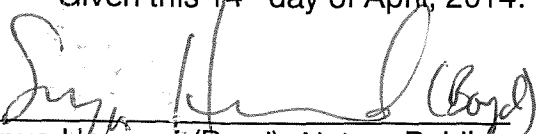
APPLICATION OF WATER SERVICE CORPORATION) CASE NO. 2013-00237
OF KENTUCKY FOR AN ADJUSTMENT OF RATES)

CERTIFICATE

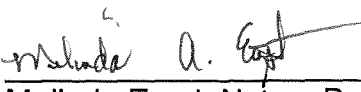
We, Sonya Harward and Melinda Ernst, hereby certify that:

1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on April 9, 2014 (excluding confidential segments, which were recorded on a separate DVD and will be maintained in the non-public records of the Commission, along with the Confidential Exhibits and Hearing Log). Hearing Log, Exhibits, Exhibit List, and Witness List are included with the recording on April 9, 2014 (excluding confidential segments and Confidential Exhibits).
2. We are responsible for the preparation of the digital recording.
3. The digital recording accurately and correctly depicts the Hearing of April 9, 2014 (excluding confidential segments).
4. The "Exhibit List" attached to this Certificate correctly lists all Exhibits introduced at the Hearing of April 9, 2014 (excluding Confidential Exhibits).
5. The "Hearing Log" attached to this Certificate accurately and correctly states the events that occurred at the Hearing of April 9, 2014 (excluding confidential segments) and the time at which each occurred.

Given this 14th day of April, 2014.



Sonya Harward (Boyd), Notary Public
State at Large
My commission expires: August 27, 2017



Melinda Ernst, Notary Public
State at Large
My commission expires: February 4, 2016



Session Report - Detail

2013-00237_09April2014

Water Service Corp. of Kentucky

Date:	Type:	Location:	Department:
4/9/2014	General Rates	Public Service Commission	Hearing Room 1 (HR 1)

Judge: David Armstrong; Linda Breathitt; Jim Gardner

Witness: Patrick Baryenbruch - for Water Service Corp. of Kentucky; Bruce Haas - for Water Service Corp. of Kentucky; Andrea Crane - for the Attorney General; Steven Lubertozzi - for Water Service Corp. of Kentucky; Helen Lupton - for Water Service Corp. of Kentucky; Dimitry Neyzelman - for Water Service Corp. of Kentucky; Gary Shambaugh - for Water Service Corp. of Kentucky

Clerk: Melinda Ernst; Sonya Harward

Event Time	Log Event
9:53:10 AM	Session Started
9:53:12 AM	Session Paused
10:08:04 AM	Session Resumed
10:08:05 AM	[Sonya Harward - Clerk]
10:08:11 AM	Camera Lock Deactivated
10:08:13 AM	Chairman Armstrong Introductions and Preliminary Remarks Note: Harward, Sonya Also on the bench are Vice Chairman Gardner and Commissioner Breathitt.
10:08:40 AM	Atty. Todd Osterloh for Water Service Corporation of Kentucky
10:08:46 AM	Atty. Leanna Wilkerson for City of Clinton
10:08:52 AM	Atty. Sue Ellen Morris for Hickman County Fiscal Court
10:08:56 AM	Attys Greg Dutton, Jennifer Black Hans, and Angela Goad
10:09:07 AM	Atty. Ann Ramser for the Public Service Commission
10:09:18 AM	Public Notice has been given.
10:09:31 AM	Chariman Armstrong, Opened the floor for Public Comments
10:09:54 AM	Greg Pruitt - Public Comments Note: Harward, Sonya County Judge Executive of Hickman County
10:15:04 AM	Allen Poole - Public Comments Note: Harward, Sonya City Administrator for City of Clinton
10:16:22 AM	Public - Exhibit 01 Note: Harward, Sonya Letter dated April 8, 2014 to Kentucky Public Service Commission from R. Allen Poole
10:16:48 AM	Witness Dimitry Neyzelman takes the stand and is sworn in. Note: Harward, Sonya Financial Planning and Analysis Manager; Adopts the testimony of Lowell Yap (with a few changes).
10:17:43 AM	Atty. Osterloh Direct Exam. of Witness Neyzelman
10:18:20 AM	Witness Neyzelman - Changes to Mr. Yap's Testimony Note: Harward, Sonya 1-Mr. Yap no longer an employee. Note: Harward, Sonya 2- Yap Rebuttal Testimony, page 4, line 5, Dec. 13, 2013 should read Dec. 31, 2013. Note: Harward, Sonya 3-Yap Rebuttal Testimony, page 7, question related to PWA in CN 2014-00065...based on Commission's latest Order, company would like to include the PWA in this case.
10:21:36 AM	Atty. Dutton Cross Exam. of Witness Neyzelman
10:22:57 AM	Atty. Osterloh - Objection Note: Harward, Sonya Does not see the relavance to this line of questioning.
10:23:12 AM	Atty. Dutton's Response to Objection Note: Harward, Sonya This line of questioning is about who prepared this rate case.
10:23:25 AM	Chairman Armstrong Overruled Objection

10:24:17 AM	Atty. Osterloh - Objection Note: Harward, Sonya	The employment of Mr. Yap has nothing to do with this rate case.
10:24:44 AM	Chariman Armstrong Overruled Objection	
10:24:52 AM	Witness Neyzelman Responds per Chairman Armstrong's Request	
10:25:31 AM	Atty. Dutton to Witness Neyzelman Note: Harward, Sonya	Wants to know if Mr. Yap was fired or left the company on his own.
10:25:48 AM	Chariman Armstrong Overruled Objection and Instructs Witness to Respond	
10:25:56 AM	Witness Neyzelman's Responds Note: Harward, Sonya	Mr. Yap was fired on April 2, 2014.
10:26:45 AM	AG - Exhibit 01 Note: Harward, Sonya	Appendix A, Schedule LY-R1, Revenue Requirement Summary
10:28:29 AM	Atty. Dutton to Witness Neyzelman Note: Harward, Sonya	Asking if Witness has knowledge of Case Nos. 2010-00476 and 2008-00563.
10:28:52 AM	AG - Exhibit 02 Note: Harward, Sonya	Final Order in Case No. 2010-00476
10:29:36 AM	AG - Exhibit 03 Note: Harward, Sonya	Final Order in Case No. 2008-00563
10:30:24 AM	Commissioner Breathitt interjects a question. Note: Harward, Sonya	Asks if Mr. Nazelman's bio has been provided in this case.
10:31:58 AM	Atty. Dutton to Witness Neyzelman Note: Harward, Sonya	Referencing page 5 of 2010-00476 Final Order, AG - Exhibit 02 to this Hearing.
10:32:55 AM	AG - Exhibit 04 Note: Harward, Sonya	Calculation of Salary and Benefits, Test Year 12/31/2012
10:33:26 AM	Atty. Dutton to Witness Neyzelman Note: Harward, Sonya	Referencing AG - Exhibit 04 to this Hearing, footnote 1, asking about 3 percent raise for all employees
10:35:05 AM	Atty. Dutton to Witness Neyzelman Note: Harward, Sonya	Referencing page 6 of the 2010-00476 Final Order, AG - Exhibit 02 to this Hearing.
10:36:02 AM	Atty. Dutton to Witness Neyzelman Note: Harward, Sonya	Referencing page 7 of the 2010-00476 Final Order, AG - Exhibit 02 to this Hearing, paragraph starting with "The Commission..."
10:37:36 AM	AG - Exhibit 05 Note: Harward, Sonya	Response to Commission Staff's Second Information Request, Item 10, Case No. 2013-00237
10:39:23 AM	AG - Exhibit 06 Note: Harward, Sonya	Response to Commission Staff's Third Request for Information, Item 11, Case No. 2013-00237
10:41:55 AM	AG - Exhibit 07 Note: Harward, Sonya	Response to the Attorney General's Initial Request for Information, Item 1, Case No. 2013-00237
10:43:02 AM	Atty. Dutton to Witness Neyzelman Note: Harward, Sonya	Referencing page 14 of the 2010-00476 Final Order, AG - Exhibit 02 to this Hearing.
10:48:21 AM	Atty. Dutton to Witness Neyzelman Note: Harward, Sonya	Referencing page 13 of Case No. 2010-00476, AG - Exhibit 02 to this Hearing.
10:48:51 AM	Atty. Dutton to Witness Neyzelman Note: Harward, Sonya	Referencing Yap Rebuttal Testimony, page 6, lines 20-22.
10:50:14 AM	AG - Exhibit 08 Note: Harward, Sonya	Appendix A, Schedule LY-R1 Revised

10:51:19 AM AG - Exhibit 09
Note: Harward, Sonya Response to the Attorney General's Initial Request for Information, Item 24, Case No. 2013-00237

10:52:35 AM POST HEARING REQUEST by Att. Dutton
Note: Harward, Sonya Provide the current positions of Lisa Sparrow and John Stover.

10:53:48 AM AG - Exhibit 10
Note: Harward, Sonya Response to the Attorney General's Initial Request for Information, Item 22, Case No. 2013-00237

10:54:12 AM Atty. Dutton to Witness Neyzelman
Note: Harward, Sonya Questioning continuing about all of the positions Lisa Sparrow and John Stover hold with Water Service Corp. of Kentucky.

10:54:57 AM Atty. Dutton to Witness Neyzelman
Note: Harward, Sonya Referencing page 9 of CN 2010-00476 Final Order, AG - Exhibit 02 to this Hearing, at the line that begins, "Moreover...."

10:58:44 AM Atty. Dutton to Witness Neyzelman
Note: Harward, Sonya Referencing page 12 of Case No. 2010-00476, AG - Exhibit 02 to this Hearing.

11:00:23 AM Atty. Ramser Cross Exam. of Witness Neyzelman

11:06:25 AM PSC - Exhibit 01
Note: Harward, Sonya Various Workpapers filed by Water Service Corp. of Kentucky in CN 2013-00237: q-2; b; q-3; q; b-4; and b-3.

11:10:57 AM POST HEARING DATA REQUEST by Atty. Ramser
Note: Harward, Sonya Provide the calculations which derived the percentages for the salary allocations on workpaper q-2, or cite where they have been provided previously.

11:11:49 AM Atty. Ramser to Witness Neyzelman
Note: Harward, Sonya Referencing PSC - Exhibit 1 to this Hearing, workpapers b and q-3.

11:16:17 AM POST HEARING DATA REQUEST by Atty. Ramser
Note: Harward, Sonya Review the City of Clinton contracts to see why Water Service Corp. of Kentucky is not allocating any of the depreciation expense of Project Phoenix to the City of Clinton Sanitary Sewer.

11:17:29 AM Atty. Ramser to Witness Neyzelman
Note: Harward, Sonya Referencing PSC - Exhibit 01 to this Hearing, workpaper q.

11:17:52 AM POST HEARING DATA REQUEST by Atty. Ramser
Note: Harward, Sonya Provide a detailed breakdown the \$5269 expense and identify where on the Water Service Corp.'s expense accounts the direct City of Clinton expenses are reported.

11:19:49 AM POST HEARING DATA REQUEST by Atty. Ramser
Note: Harward, Sonya Provide detailed breakdown of the schedule on workpaper b-4, by employee position.

11:20:47 AM Atty. Ramser to Witness Neyzelman
Note: Harward, Sonya Asking about salaries being allocated to the City of Clinton's sewer operations.

11:23:35 AM Vice Chairman asked Witness Neyzelman for clarification of his answer.

11:24:52 AM POST HEARING DATA REQUEST by Atty. Ramser
Note: Harward, Sonya If not already in the record...Utility will provide the computation of issue begin discussed.

11:25:33 AM Commissioner Breathitt injected a clarifying question.

11:28:09 AM Atty. Ramser to Witness Neyzelman
Note: Harward, Sonya Asking about allocations of costs of customer service to the City of Clinton.

11:29:59 AM POST HEARING DATA REQUEST by Atty. Ramser
Note: Harward, Sonya Provide the detailed breakdown of the \$4,851,000.

11:30:37 AM	PSC - Exhibit 02 Note: Harward, Sonya	Schedule B, page 1 of 2, Combined Operations Test Year 12/31/2012
11:32:24 AM	PSC - Exhibit 03 Note: Harward, Sonya	Addendum to Wastewater Privatization Contract Including Service Agreement
11:33:08 AM	Atty. Ramser to Witness Neyzelman Note: Harward, Sonya	Asking Witness to identify the clause that shows how Water Service Corp. of Kentucky calculates the fee that is billed to the City of Clinton.
11:35:32 AM	POST HEARING DATA REQUEST by Atty. Ramser Note: Harward, Sonya	Provide detailed breakdown of how the \$153,000 is calculated for Water Service Corporation of Kentucky.
11:36:32 AM	Atty. Ramser to Witness Neyzelman Note: Harward, Sonya	Asking about 15 percent profit margin in the City of Clinton Contract.
11:38:52 AM	Atty. Ramser to Witness Neyzelman Note: Harward, Sonya	Referencing PSC - Exhibit 01 to this Hearing, last two sheets.
11:41:20 AM	POST HEARING DATA REQUEST by Atty. Ramser Note: Harward, Sonya	Are the three employees listed on workpaper b-3 still employed?
11:42:26 AM	Vice Chairman Gardner to Atty. Osterloh Note: Harward, Sonya	Asking if qualifications of Witness Neyzelman have been provided.
11:43:03 AM	Vice Chairman Gardner Cross Exam. of Witness Neyzelman Note: Harward, Sonya	Begins by asking about previous testimony at Hearings, etc.
11:44:20 AM	Vice Chairman Gardner to Witness Neyzelman Note: Harward, Sonya	Asking about Witness's supervisor, etc.
11:48:00 AM	Vice Chairman Gardner to Witness Neyzelman Note: Harward, Sonya	Asking if Witness keeps detailed records of his time.
11:49:40 AM	Vice Chairman Gardner to Witness Neyzelman Note: Harward, Sonya	Referencing AG - Exhibit 08 to this Hearing.
11:51:31 AM	Vice Chairman Gardner to Witness Neyzelman Note: Harward, Sonya	Asking about changes to Mr.Yap's testimony made at the beginning of Witness's direct examination. They seemed minor, but then the AG asked questions about other information that is not currently accurate.
11:53:24 AM	Vice Chairman Gardner to Witness Neyzelman Note: Harward, Sonya	Asking about Witness's knowledge of the Final Orders in Case Nos. 2008-00563 and 2010-00476, regarding the use of the customer count.
11:55:41 AM	Vice Chairman Gardner to Witness Neyzelman Note: Harward, Sonya	Asking about what is accurate and what is not accurate in the Yap Rebuttal Testimony.
11:59:36 AM	Chairman Armstrong Cross Exam. of Witness Neyzelman Note: Harward, Sonya	Asking Witness about his place of work, his having ever been to Clinton, and the operations personnel in Clinton.
12:02:11 PM	Commissioner Breathitt Cross Exam.of Witness Neyzelman	
12:03:42 PM	Commissioner Breathitt to Witness Neyzelman Note: Harward, Sonya	Asking how many different service company's Utilities, Inc. has in the 15 states where they provide service.
12:04:36 PM	Atty. Wilkerson Cross Exam. of Witness Neyzelman Note: Harward, Sonya	Asking about employees in Clinton.
12:05:52 PM	Atty. Wilkerson to Witness Neyzelman Note: Harward, Sonya	Referencing page 13 of PSC - Exhibit 03 to this Hearing.
12:06:26 PM	Atty. Osterloh Objection Note: Harward, Sonya	Legal document calls for a legal conclusion.
12:07:00 PM	Chairman Armstrong Overrules Objection	

12:07:48 PM Atty. Wilkerson to Witness Neyzelman
Note: Harward, Sonya Asking operational questions.

12:08:05 PM Atty. Morris Cross Exam. of Witness Neyzelman
Note: Harward, Sonya Asking what four positions are classified as maintenance positions.

12:09:07 PM Atty. Osterloh Re-Direct Exam. of Witness Neyzelman
Note: Harward, Sonya Referencing AG - Exhibit 04 to this Hearing.

12:10:23 PM Atty. Osterloh to Witness Neyzelman
Note: Harward, Sonya Asking who reviews expenses for Water Service Corp. of Kentucky.

12:11:00 PM Atty. Osterloh to Witness Neyzelman
Note: Harward, Sonya Asking clarifying questions about ERCs.

12:11:57 PM Atty. Osterloh to Witness Neyzelman
Note: Harward, Sonya Referencing PSC - Exhibit 03, page 16, and the previous page.

12:13:50 PM Atty. Wilkerson Objection
Note: Harward, Sonya Asking for interpretation of a legal document.

12:14:06 PM Atty. Osterloh to Chairman Armstrong
Note: Harward, Sonya Asks if he can get Witness's option.

12:14:19 PM Atty. Dutton Re-Cross. Exam of Witness Neyzelman

12:15:02 PM Atty. Dutton to Witness Neyzelman
Note: Harward, Sonya Suggests a change be made to Yap Rebuttal Testimony, page 2, line 13.

12:16:58 PM AG - Exhibit 11
Note: Harward, Sonya Appendix A, Schedule LY-R7

12:19:07 PM Atty. Ramser Re-Cross Exam. of Witness Neyzelman
Note: Harward, Sonya Referencing AG - Exhibit 04 to this Hearing.

12:20:06 PM Atty. Ramser to Witness Neyzelman
Note: Harward, Sonya Asking if the Clinton maintenance employees are employed by Water Service Corporation or Water Service Corporation of Kentucky.

12:22:22 PM Vice Chairman Re-Cross Exam. of Witness Neyzelman
Note: Harward, Sonya Asking about Witness's time allocation.

12:24:38 PM Atty. Morris Re-Cross Exam. to Witness Neyzelman
Note: Harward, Sonya Referencing PSC - Exhibit 01 to this Hearing.

12:25:16 PM Atty. Osterloh suggests the question be asked to Witness Haas

12:25:45 PM Atty. Osterloh Re-Direct Exam of Witness Neyzelman
Note: Harward, Sonya Referencing PSC - Exhibit 03 to this Hearing.

12:26:26 PM Chairman Armstrong asking about the Video Conference Testimony of Witness Lupton.
Note: Harward, Sonya Witness Lupton's testimony will start around 1:30pm.

12:27:09 PM Break for Lunch

12:28:11 PM Session Paused

1:33:19 PM Session Resumed

1:33:38 PM Video Conference Activated

1:33:41 PM Witness Helen Lupton is sworn in, Testimony via Video Conferencing
Note: Harward, Sonya Financial Planning and Analysis Manager

1:35:01 PM Atty. Osterloh Direct Exam. of Witness Lupton
Note: Harward, Sonya Accepts her testimony with change in job title and duties.

1:36:31 PM Atty. Dutton Cross Exam. of Witness Lupton

1:36:57 PM Atty. Dutton to Witness Lupton
Note: Harward, Sonya Asking about unreasonable or inappropriate expenses that were not allowed, therefore, not allocated to Water Service Corp. of Kentucky.

1:40:22 PM Atty. Ramser Cross Exam of Witness Lupton

1:40:43 PM Atty. Ramser to Witness Lupton
Note: Harward, Sonya Asking about the review process for expenses.

1:43:44 PM	Atty. Ramser to Witness Lupton Note: Harward, Sonya	Asking about the authority of Atlantic and Midwest Regional Executives to reject any of the allocations of Water Service Corp. of Kentucky.
1:44:57 PM	Commissioner Breathitt asks clarifying question of Witness Lupton	
1:46:44 PM	Atty. Ramser to Witness Lupton Note: Harward, Sonya	Asking about the distribution of expenses and the information system and it's calibration, etc.
1:47:31 PM	Vice Chairman Gardner Cross Exam of Witness Lupton Note: Harward, Sonya	Referencing Witness's Rebuttal Testimony, lines 13, 14, and 15, regarding the reference to "another" water utility and its name.
1:48:45 PM	Atty. Osterloh Re-Direct Exam of Witness Lupton	
1:49:42 PM	Witness Lupton is dismissed.	
1:49:59 PM	Video Conference Deactivated	
1:50:25 PM	Witness Gary Shambaugh takes the stand and is sworn in. Note: Harward, Sonya	Financial Consultant; Principal and Director of AUS Constulants; and Executive Vice President of AUS Consultants, Inc.
1:51:49 PM	Atty. Osterloh Direct Exam of Witness Shambaugh Note: Harward, Sonya	Witness adopts his previous testimony as still accurate.
1:52:16 PM	Atty. Dutton Cross Exam of Witness Shambaugh	
1:52:38 PM	AG - Exhibit 12 Note: Harward, Sonya	Response to the Attorney General's Initial Response for Information, Item 81, in Case No. 2013-00237
1:55:21 PM	AG - Exhibit 13 Note: Harward, Sonya	Exhibit C of the Shambaugh Direct Testimony
1:56:44 PM	AG - Exhibit 14 Note: Harward, Sonya	26000 Muhlenburg County Water District #3 01/01/2001 - 12/31/2011, Water Operating Revenue (Ref Page: 27), pages 48-49
1:58:21 PM	Atty. Osterloh Interjection Note: Harward, Sonya	Notes that two different utilities are being referenced, Muhlenberg Co. WD vs. Muhlenberg Co. WD #3.
1:58:40 PM	Atty. Dutton to Witness Shambaugh Note: Harward, Sonya	Continues questioning about analysis on AG - Exhibit 13 to this Hearing.
2:02:51 PM	AG - Exhibit 15 Note: Harward, Sonya	Exhibit D of the Shambaugh Direct Testimony
2:05:57 PM	Atty. Dutton to Witness Shambaugh Note: Harward, Sonya	Asking if Witness reviewed the annual reports and who provided the number of customers to use.
2:06:36 PM	Atty. Ramser Cross Exam to Witness Shambaugh Note: Harward, Sonya	Referencing an AG Exhibit to this Hearing.
2:08:06 PM	Atty. Ramser to Witness Shambaugh Note: Harward, Sonya	Asking about familiarity with the Bureau of Labor and Statistics in regards to wage and salary information.
2:10:25 PM	Atty. Ramser to Witness Shambaugh Note: Harward, Sonya	Asking about salary being one of the largest expenses of the operating expenses.
2:14:38 PM	Atty. Ramser to Witness Shambaugh Note: Harward, Sonya	Asking if Witness is aware that with some of the utilities the Legal and Engineerring expenses would be capitalized rather than expensed.
2:15:23 PM	Atty. Ramser to Witness Shambaugh (check time) Note: Harward, Sonya	Asking if Witness compared certain aspects of each utility in the group.
2:17:21 PM	Witness Shambaugh is dismissed.	

2:17:32 PM Witness Patrick Baryenbruch takes the stand and is sworn in.
Note: Harward, Sonya President of Baryenbruch & Company, LLC

2:18:41 PM Atty. Osterloh Direct Exam of Witness Baryenbruch
Note: Harward, Sonya Accepts his testimony with corrections.
Note: Harward, Sonya 1-Direct Testimony, page 3, at very bottom, change the word "study" to "review".
Note: Harward, Sonya 2-Rebuttal Testimony, page 2, the words "Draft Discussion Only" need to be removed.
Note: Harward, Sonya 3-Rebuttal Testimony, page 13, starting on line 13, numbering is off, should be 1, 2, 3, 4, 5.

2:20:34 PM Atty. Dutton Cross Exam of Witness Baryenbruch
Note: Harward, Sonya Referencing AG - Exhibits 2 and 3 to this Hearing, regarding Project Phoenix

2:27:17 PM AG - Exhibit 16
Note: Harward, Sonya Response to Commission Staff's Second Information Request, Item 20, Case No. 2013-00237

2:28:40 PM Atty. Dutton to Witness Baryenbruch
Note: Harward, Sonya Referencing Baryenbruch Rebuttal Testimony, page 16, lines 3-5.

2:34:15 PM Atty. Dutton to Witness Baryenbruch
Note: Harward, Sonya Asking if Witness considers himself an IT expert.

2:38:46 PM Atty. Dutton to Witness Baryenbruch
Note: Harward, Sonya Referencing Baryenbruch Rebuttal Testimony, page 5, lines 11-20.

2:42:36 PM Atty. Dutton to Witness Baryenbruch
Note: Harward, Sonya Referencing Baryenbruch Rebuttal Testimony, page 13.

2:46:49 PM Break

2:46:51 PM [Changing Clerks]

2:47:00 PM Session Paused

3:00:33 PM Session Resumed

3:00:58 PM Session Note Entry
Note: Harward, Sonya Clerk is now Melinda Ernst

3:01:32 PM PSC - Exhibit 04
Note: Harward, Sonya Case No. 2012-00520, page 12 of the Final Order.

3:02:37 PM Session Note Entry
Note: Harward, Sonya Atty. Ramser questioned Witness Baryenbruch regarding the different systems that were evaluated for comparison of cost and applicability to WSKY's current system.

3:09:21 PM Atty. Ramser to Witness Baryenbruch
Note: Harward, Sonya Witness Baryenbruch was questioned regarding the Steering Committee referenced in his rebuttal testimony. The steering committee represented the interests of employees of WSKY.

3:13:40 PM Vice Chairman Gardner
Note: Harward, Sonya Questioned Witness Baryenbruch regarding his memberships in other Project Management teams/organizations. He is currently working from home on project management.

3:16:13 PM Atty. Wilkerson to Witness Baryenbruch
Note: Harward, Sonya Questioned witness regarding assessment of Project Phoenix, which was not included in the audit(s) of WSKY. Witness Baryenbruch testified that the project has performed exceptionally. Atty. Wilkerson further questioned the witness about how Project Phoenix benefits rate payers, including her father.

3:20:26 PM	Witness Baryenbruch Note: Harward, Sonya	Testified that a cost analysis was performed. He further explained that the customer system control over calls is much tighter at the call centers, work orders are now carried out much more effectively and their status can be tracked and managed more effectively, a reduction in the billing numbers as well as the processing and security of information.
3:25:03 PM	Atty. Wilkerson to Witness Baryenbruch Note: Harward, Sonya	Questioned whether Project Phoenix is currently being used in Clinton. She also asked about a specific issue and how it would be solved.
3:27:35 PM	Atty. Morris to Witness Baryenbruch Note: Harward, Sonya	Questioned whether Project Phoenix has been fully implemented. Atty. Morris further questioned the witness regarding upgrades and changes to the Project Phoenix system.
3:34:18 PM	Atty. Osterloh to Witness Baryenbruch Note: Harward, Sonya	Questioned witness on redirect regarding the systems used by WSKY prior to adoption of Project Phoenix and the costs associated with the project.
3:37:35 PM	Witness Baryenbruch Note: Harward, Sonya	Witness is dismissed.
3:38:10 PM	Witness Bruce T. Haas Note: Harward, Sonya	Representing WSKY. Witness was sworn and voiced two changes to his testimony regarding his title and number of customers.
3:39:27 PM	Atty. Dutton to Witness Haas Note: Harward, Sonya	Questioned witness regarding his current working location and duties. Witness is a senior officer in the regional office. Atty. Dutton introduced AG Exhibit 17, Case No. 2013-00237 and AG Exhibit 18, Case No. 2012-00133
3:44:47 PM	AG - Exhibit 17 Note: Harward, Sonya	WSKY, Responses to the OAG's Initial Request for Information, Question 30
3:48:11 PM	AG - Exhibit 18 Note: Harward, Sonya	Case No. 2012-00133, Final Order
3:48:39 PM	Atty. Morris to Witness Haas Note: Harward, Sonya	Questioned witness about a budget line item regarding a salary of approximately \$74,000 for maintenance 4 on PSC - Exhibit 01. Atty. Morris questioned why the salary was so high.
3:53:39 PM	Witness Haas to Atty. Morris Note: Harward, Sonya	Stated the maintenance position to which she was referring is a regional manager's position and covers both Clinton and Middlesboro operations.
3:54:54 PM	Atty. Wilkerson to Witness Haas Note: Harward, Sonya	Questioned the witness regarding payment of employees of WSKY.
3:55:11 PM	Atty. Ramser to Witness Haas Note: Harward, Sonya	Questioned witness regarding the home locations of specific employees .
4:08:07 PM	Session Paused	
4:10:30 PM	Session Resumed	
4:10:43 PM	Atty. Ramser to Witness Haas Note: Harward, Sonya	Questioned witness regarding the salary list. AG - Exhibit 01 and the total salary and benefits of employees.
4:20:00 PM	Witness Haas Note: Harward, Sonya	Dismissed by the Chairman.

4:20:29 PM	Witness Steven Lubertozi Note: Harward, Sonya	Called and sworn in by Chairman Armstrong.
4:21:12 PM	Atty. Dutton to Witness Lubertozi Note: Harward, Sonya	Questioned the witness regarding the number of customers in Middlesboro and how many complaints had been received regarding this case.
4:22:03 PM	AG - Exhibit 19 Note: Harward, Sonya	Letter from Mayor of the City of Middlesborough.
4:23:20 PM	POST HEARING DATA REQUEST by Atty. Ramser Note: Harward, Sonya	Updated organizational chart for Utilities, Inc.
4:24:24 PM	PSC - Exhibit 05 Note: Harward, Sonya	Employee salary calculations
4:27:31 PM	Atty. Ramser Note: Harward, Sonya	Questioned witness regarding salary calculations and if the PSC could obtain an updated organizational outline. She further questioned the witness regarding whether facilities were added in 2012-2013.
4:30:05 PM	Witness Lubertozi Note: Harward, Sonya	Testified that WSKY has completed one million in upgrades and renovations.
4:30:53 PM	Vice Chairman Gardner to Witness Lubertozi Note: Harward, Sonya	Questioned witness regarding his current duties and titles and whether he received a raise at the time of the reorganization. Further questioned the witness regarding PSC - Exhibit 05 and the similarity of categories outlined on the salary calculations.
4:35:13 PM	Commissioner Breathitt to Witness Lubertozi Note: Harward, Sonya	Questioned witness regarding the total number of customers for Utilities, Inc. and the salary calculations included in PSC - Exhibit 05.
4:39:44 PM	Vice Chairman Gardner to Witness Lubertozi Note: Harward, Sonya	Further questioned witness regarding the salary calculations in PSC - Exhibit 05.
4:40:59 PM	Commissioner Breathitt to Witness Lubertozi Note: Harward, Sonya	Questioned about PSC - Exhibit 05.
4:42:11 PM	Atty. Ramser to Witness Lubertozi Note: Harward, Sonya	Questioned witness whether salaries will be reallocated to specific companies within Utilities, Inc. following the reorganization.
4:43:32 PM	Atty. Dutton to Witness Lubertozi Note: Harward, Sonya	Questioned witness regarding PSC - Exhibit 02 regarding net income of WSKY.
4:46:25 PM	Vice Chairman Gardner Note: Harward, Sonya	Questioned witness regarding the employee who receives \$73,000. He just receives this amount in salary not including taxes or benefits.
4:47:42 PM	Atty. Osterloh to Witness Lubertozi Note: Harward, Sonya	Questioned the witness on stock returns that WSKY receives.
4:50:00 PM	Atty. Dutton Note: Harward, Sonya	Moved to have all exhibits placed in the record. Chairman Armstrong so moved.
4:50:06 PM	Witness Lubertozi Note: Harward, Sonya	Dismissed by Chairman.
4:50:27 PM	Witness Andrea C. Crane Note: Harward, Sonya	Took the oath and was sworn in by Chairman Armstrong.

4:51:06 PM	AG - Exhibit 20 Note: Harward, Sonya	Updates to Schedules of Witness Crane's Testimony. Included are the following Schedules from Appendix B: ACC-1, ACC-2, ACC-3, ACC-4, ACC-5, ACC-6, ACC-7, ACC-8, ACC-9, ACC-10, ACC-11, ACC-12, ACC-13, and ACC-14.
4:51:52 PM	Atty. Dutton to Witness Crane Note: Harward, Sonya	Questioned the witness regarding approval of her testimony. Witness advised of two corrections to her testimony. She then discussed the updates provided.
4:58:46 PM	Atty. Osterloh to Witness Crane Note: Harward, Sonya	Questioned the witness regarding who charged her with this case and what she has analyzed and concluded. Further questioned the services a water utility provides to its customers and the resources used to provide those services. Witness was questioned regarding the agreement of WSKY with the city of Clinton.
5:07:27 PM	WSKY - Exhibit 01 Note: Harward, Sonya	Addendum to Wastewater Privatization Contract including Service Agreement
5:08:23 PM	Atty. Osterloh to Witness Crane Note: Harward, Sonya	Questioned witness regarding WSKY - Exhibit 01 and the type of information she relied upon to analyze information provided for WSKY.
5:17:07 PM	Witness Crane Note: Harward, Sonya	Testified WSKY and Utilities, Inc. is partially to blame for difficulties in review and decision-making on this case.
5:24:15 PM	Session Paused	
5:44:46 PM	Session Resumed	
5:45:02 PM	WSKY - Withdrawn Document Note: Harward, Sonya	Initial discussed as WSKY - Exhibit 02, but was withdrawn by Atty. Osterloh.
5:47:22 PM	Camera Lock Deactivated	
5:47:29 PM	Private Recording Activated	
6:03:31 PM	Public Recording Activated	
6:03:36 PM	Session Ended	



Exhibit List Report

2013-00237_09April2014

Water Service Corp. of Kentucky

Name:	Description:
AG - Exhibit 01	Appendix A, Schedule LY-R1, Revenue Requirement Summary
AG - Exhibit 02	Final Order in Case No. 2010-00476
AG - Exhibit 03	Final Order in Case No. 2008-00563
AG - Exhibit 04	Calculation of Salary and Benefits, Test Year 12/31/2012
AG - Exhibit 05	Response to Commission Staff's Second Information Request, Item 10, Case No. 2013-00237
AG - Exhibit 06	Response to Commission Staff's Third Request for Information, Item 11, Case No. 2013-00237
AG - Exhibit 07	Response to the Attorney General's Initial Request for Information, Item 1, Case No. 2013-00237
AG - Exhibit 08	Appendix A, Schedule LY-R1 Revised
AG - Exhibit 09	Response to the Attorney General's Initial Request for Information, Item 22, Case No. 2013-00237
AG - Exhibit 10	Response to the Attorney General's Initial Request for Information, Item 22, Case No. 2013-00237
AG - Exhibit 11	Appendix A, Schedule LY-R7
AG - Exhibit 12	Response to the Attorney General's Initial Response for Information, Item 81, in Case No. 2013-00237
AG - Exhibit 13	Exhibit C of the Shambaugh Direct Testimony
AG - Exhibit 14	26000 Muhlenburg County Water District #3 01/01/2001 - 12/31/2011, Water Operating Revenue (Ref Page: 27), pages 48-49
AG - Exhibit 15	Exhibit D of the Shambaugh Direct Testimony
AG - Exhibit 16	Response to Commission Staff's Second Information Request, Item 20, Case No. 2013-00237
AG - Exhibit 17	WSKY's Responses to the Attorney General's Initial Request for Information, Item 30, Case No. 2013-00237.
AG - Exhibit 18	Case No. 2012-00133, Final Order, dated Aug. 13, 2012.
AG - Exhibit 19	Letter from Mayor of the City of Middlesborough, William Kelley, to the Kentucky Public Service Commission, dated 3/4/14.
AG - Exhibit 20	Updates to Schedules of Witness Crane's Testimony. Included are the following Schedules from Appendix B: ACC-1, ACC-2, ACC-3, ACC-4, ACC-5, ACC-6, ACC-7, ACC-8, ACC-9, ACC-10, ACC-11, ACC-12, ACC-13, and ACC-14.
PSC - Exhibit 01	Various Workpapers filed by Water Service Corp. of Kentucky in CN 2013-00237: q-2; b; q-3; q; b-4; and b-3.
PSC - Exhibit 02	Schedule B, page 1 of 2, Combined Operations Test Year 12/31/2012
PSC - Exhibit 03	Addendum to Wastewater Privatization Contract Including Service Agreement
PSC - Exhibit 04	Case No. 2012-00520, page 12 of the Final Order.
PSC - Exhibit 05	Employee salary calculation, taken from page 3 of Steven Lubertozzi Rebuttal Testimony.
Public - Exhibit 01	Letter dated April 8, 2014 to Kentucky Public Service Commission from R. Allen Poole
WSKY - Exhibit 01	Addendum to Wastewater Privatization Contract Including Service Agreement
WSKY - Exhibit 02 - CONFIDENTIAL	Utilities, Inc. Finance Operations Assessment, Business Case, September 15, 2006

WSKY - Exhibit 03 -
CONFIDENTIAL

Utilities, Inc. Financial, Customer Information System and Business Intelligence Vendor
Evaluation, September 26, 2006

WSKY - Withdrawn Document

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Revenue Requirement Summary

Appendix A
Schedule LY-R1

	WSSCK Pro Forma <u>Present Rates</u>	WSSCK Rebuttal Pro Forma <u>Adjustment</u>	WSSCK Rebuttal Pro Forma <u>Present</u>	WSSCK Rebuttal Proposed <u>Adjustment</u>	WSSCK Rebuttal Pro Forma <u>Proposed</u>
Operating Revenues					
Service Revenues - Water	\$2,103,813		\$2,103,813	\$184,952 (J)	\$2,288,765
Service Revenues - Sewer					
Miscellaneous Revenues	78,995		78,995		78,995
Uncollectible Accounts	(38,028)	38,028 (A)	0		0
Total Operating Revenues	\$2,144,780	\$38,028	\$2,182,808	\$184,952	\$2,367,760
Maintenance Expenses					
Salaries and Wages	519,099	(\$1,133) (B)	517,966		517,966
Purchase Water/Sewer	85,200		85,200		85,200
Purchased Power	95,111		95,111		95,111
Maintenance and Repair	98,163		98,163		98,163
Maintenance testing	34,092		34,092		34,092
Meter Reading	0		0		0
Chemicals	145,421		145,421		145,421
Transportation	34,774		34,774		34,774
Operating Exp. Charged to Plant	(163,869)		(163,869)		(163,869)
Outside Services - Other	30,001		30,001		30,001
Total	\$877,992	(\$1,133)	\$876,859	\$0	\$876,859
General Expenses					
Salaries and Wages	\$173,648	\$0 (B)	\$173,648		\$173,648
Office Supplies & Other Office Exp.	79,610		79,610		79,610
Regulatory Commission Exp.	73,660	(16,656) (C)	57,004		57,004
Pension & Other Benefits	160,716	(79) (D)	160,637		160,637
Rent	6,254		6,254		6,254
Insurance	63,192		63,192		63,192
Office Utilities	54,273		54,273		54,273
Bad Debt Expense	0	38,028 (A)	38,028	3,348	41,376
Service Company - Allocated Expenses	0	(12,904) (E)	(12,904)		(12,904)
Miscellaneous	12,173	(500) (F)	11,673		11,673
Total	\$623,526	\$7,888	\$631,414	\$3,348	\$634,762
Depreciation	\$281,828		\$281,828		\$281,828
Amortization of PAA	0		0		0
Taxes Other Than Income	144,063	(87) (G)	143,976	293	144,269
Expense Reduction Related to Clinton Sewer Ops	(120,708)	(9,583) (H)	(130,291)		(130,291)
Income Taxes - Federal	54,491	13,086 (I)	67,577	57,947	125,524
Income Taxes - State	10,230	2,456 (I)	12,686	10,879	23,565
Amortization of CIAC	(4,229)		(4,229)		(4,229)
Total	\$365,675	\$5,872	\$371,547	\$69,119	\$440,666
Total Operating Expenses	\$1,867,193	\$12,628	\$1,879,821	\$72,466	\$1,952,287
Net Operating Income	\$277,587	\$25,400	\$302,987	\$112,486	\$415,473
Other Income	0		0		0
Interest During Construction	(1,730)		(1,730)		(1,730)
Interest on Debt	171,809		171,809		171,809
Net Income	\$ 107,508	\$ 25,400	\$ 132,908	\$ 112,486	\$ 245,394

Sources:

- (A) Bad Debt Expenses transferred from revenue reduction to expense increase.
- (B) Schedule LY-R2
- (C) Schedule ACC-4.
- (D) Schedule LY-R3
- (E) Schedule LY-R4

- (F) Schedule ACC-7.
- (G) Schedule LY-R5.
- (H) Schedule ACC-10.
- (I) Schedule ACC-11.
- (J) Schedule LY-R6

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WATER SERVICE)
CORPORATION OF KENTUCKY FOR AN) CASE NO. 2010-00476
ADJUSTMENT OF RATES)

O R D E R

Water Service Corporation of Kentucky ("WSKY") has applied to adjust its rates for water service to produce additional revenues from water sales of \$448,723, or 22 percent above normalized revenues from such sales. By this Order, the Commission establishes rates that will produce additional annual revenues of \$68,898. For a customer who uses 5,000 gallons of water monthly, these rates will result in an increase of \$0.70 in his monthly bill if he resides in Bell County or \$1.15 if he resides in Hickman County.

BACKGROUND

WSKY, a Kentucky corporation, owns and operates facilities that treat and distribute water to approximately 7,376 customers in Hickman and Bell Counties, Kentucky.¹ WSKY is a wholly-owned subsidiary of Utilities, Inc. ("UI"), an Illinois corporation that indirectly owns over 70 water and wastewater systems in 15 states throughout the United States. Water Service Corporation, an Illinois corporation that is also a wholly-owned subsidiary of UI, provides various management, administrative,

¹ *Annual Report of WSKY Corporation of Kentucky to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2010 ("2010 Annual Report") at 5 and 30.*

and technical services for WSKY as well as all other UI water and wastewater systems. Water Service Corporation, not WSKY, employs all persons who are responsible for the WSKY's provision of water service in Kentucky.² WSKY has no employees. WSKY's most recent rate adjustment occurred on November 9, 2009.³

PROCEDURE

On December 3, 2010, WSKY notified the Commission in writing of its intent to apply for an adjustment of rates using a historical test period. On January 24, 2011, it filed its application with the Commission. In its application, WSKY submitted tariff sheets containing a proposed effective date of February 24, 2011. The Commission subsequently advised WSKY that, because the submitted tariff sheets failed to comply with 807 KAR 5:011, Section 4, its notice was defective and the rates could not become effective on the proposed date. The Commission subsequently established a procedural schedule for this proceeding.

The Commission has granted the Attorney General of Kentucky ("AG") and Hickman County Fiscal Court leave to intervene in this matter. Following discovery by Commission Staff and the parties, the Commission conducted an evidentiary hearing in this matter on July 14, 2011. Testifying at this hearing were: Patrick L. Baryenbruch, President, Baryenbruch & Company, LLC; Bruce T. Haas, Regional Director of Operations for UI's Midwest Region; Steven M. Lubertozi, UI's Executive Director of Regulatory Accounting and Affairs; and Brian Shrake, Senior Regulatory Accountant at

² WSKY's Response to Attorney General's Request for Information, Item 16(c). In its annual report, WSKY reports having 11 full-time employees. See *2010 Annual Report* at 5. The Commission assumes that the references in WSKY's annual report are to Water Service Corporation employees who are stationed or residing in Kentucky and working directly on WSKY facilities or operations.

³ Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009).

UI. We also held public hearings to receive public comment on the proposed rate adjustment in Middlesboro, Kentucky on June 8, 2011 and in Clinton, Kentucky on June 22, 2011. On August 22, 2011, this matter stood submitted for decision following the parties' submission of written briefs.

TEST PERIOD

WSKY proposes to use the 12-month period ending September 30, 2010 as the test period to determine the reasonableness of its proposed rates. The Commission finds the use of this period reasonable. In using a historical test period, we give full consideration to appropriate, known, and measurable changes.

INCOME STATEMENT

For the test period, WSKY reports actual operating revenues and expenses of \$1,907,162 and \$1,667,143, respectively.⁴ WSKY proposes several adjustments to revenues and expenses to reflect current and anticipated operating conditions, resulting in pro forma operating revenue of \$2,009,847 and pro forma operating expenses of \$1,832,663.⁵ The Commission's review of these proposed adjustments is set forth below.

Operating Revenues from Water Sales

WSKY reports test-period operating revenues from water sales of \$1,980,475.⁶ Because its current rates became effective after the start of the test period and thus were not assessed throughout the test period, WSKY proposes to increase its revenues

⁴ Application, Exhibit 4, Schedule B at 1.

⁵ *Id.*

⁶ *Id.*

from water sales by \$68,214 to reflect the annualization of its current rates.⁷ Finding that WSKY's proposal to annualize its rates is reasonable and meets the ratemaking criteria of known and measurable, we accept the proposed adjustment and have increased operating revenues from water sales by \$68,214.

Uncollectibles

WSKY reports a test-period uncollectible expense of \$126,200 as a credit to operating revenues and proposes to decrease this amount by \$34,473 to a pro forma level of \$91,727.⁸ This adjustment reportedly reflects the percentage of the uncollectible accounts to the test-period revenues applied to the normalized revenues from water sales.⁹

In calculating its uncollectible expense, WSKY uses an uncollectible rate of 4.48 percent, which is significantly higher than the rate of 1.11 percent that the utility used in its previous general rate adjustment application. This increase is due in part to the use of a different methodology to calculate the rate. WSKY Witness Shrake testified that WSKY's previous methodology only included the "availability customers" in its aging schedule to calculate the uncollectible allowance.¹⁰ The new methodology includes all customers WSKY bills and, therefore, "more accurately reflects [the] actual amount of

⁷ Application, Exhibit 4, Schedule B at 1 (filed Jan. 24, 2011). See also WSKY's Response to Commission Staff's First Information Request, Item 1 (filed Mar. 8, 2011).

⁸ WSKY's Response to Commission Staff's First Information Request, Item 1 (filed Mar 8, 2011).

⁹ *Id.*, Direct Testimony of Brian Shrake at 5 (filed Jan. 24, 2011).

¹⁰ WSKY's Response to Commission Staff's Third Information Request, Item 10(a) (filed May 20, 2011).

collectibles.”¹¹ WSKY also contends the uncollectible rate of 1.11 percent is less accurate because it is a three-year average.¹²

The Commission finds insufficient evidence in the record to support WSKY’s use of an uncollectible rate of 4.48 percent for ratemaking purposes. For the calendar year ending December 31, 2010, WSKY’s uncollectible rate was 2.55 percent.¹³ During the same period, the uncollectible rate for UI’s water and wastewater system was 1.12 percent.¹⁴ Because WSKY implemented its new methodology in December 2009, the 2010 uncollectible rate of 2.55 percent is the most current rate. The most current rate is the more reasonable uncollectible rate to use for establishing rates.

Using that rate and the normalized operating revenues from water sales of \$2,048,689, the Commission calculates an uncollectible expense of \$52,243, which is \$73,957 below the amount reported. Accordingly, we increase operating revenues by \$126,200 and operating expenses by \$52,243 to reflect application of the 2010 uncollectible rate.

¹¹ *Id.*

¹² *Id.* Item 10(b).

¹³ WSKY’s Response to Hearing Data Request, Tab 3 (filed Aug. 5, 2011); WSKY’s Response to Commission Staff’s Third Information Request, Item 11. Although WSKY stated in its response to Commission Staff’s Hearing Data Request that the uncollectible rate of 2.55 percent applies for the calendar year ending December 31, 2009, this rate appears to apply to the calendar year ending December 31, 2010. WSKY reports total uncollectibles of \$51,666 for the calendar year ending December 31, 2010. It reported service revenues of \$2,022,768 for the same period. As shown below, this information results in an uncollectible rate of 2.55 percent.

$$\$51,666 \text{ (2010 Uncollectibles)} \div \$2,022,768 \text{ (2010 Service Revenues)} = 2.55 \text{ percent.}$$

¹⁴ WSKY’s Response to Hearing Information Requests, Tab 3.

Salaries and Wages – Employee

WSKY proposes to increase test-period operating expenses by \$34,608¹⁵ to annualize employee wages¹⁶ as of the end of the test period.¹⁷ The proposed adjustment, however, is based projected employee wage increases that became effective April 1, 2011, seven months after the end of the test-period.¹⁸ WSKY applied the 2011 wage rates to the end-of-period employee level and the actual test-period overtime hours worked to arrive at its pro forma Salaries and Wages – Employees expense of \$667,529.¹⁹ It projects a 3.5 percent wage increase for each employee, but the actual wage increases varied from 0.0 percent to 12.5 percent²⁰ due to individual performance, promotions, and other factors.²¹

In support of the reasonableness of its current employee wage levels, WSKY states that it must offer competitive compensation and provide merit pay increases to

¹⁵ \$73,324 (Salaries and Wages – Operations) - \$38,716 (Salaries and Wages – Non-Operations) = \$34,608.

¹⁶ WSKY has no employees. The wages and salaries at issue are those of employees of Water Service Corporation who perform services for WSKY. *See, e.g.*, WSKY's Response to AG's Request for Information, Item 16. Water Service Corporation employs 11 persons within the state of Kentucky to operate and administer its facilities in Bell and Hickman Counties. It charges WSKY the total amount of these persons' salaries and wages. Additionally, employees at Water Service Corporation's offices outside of Kentucky provide administrative and management services to WSKY. Water Service Corporation has allocated 2.63 percent of their salaries and wages to WSKY. The allocation factor of 2.63 is based upon the proportion of WSKY's equivalent customer connections to UI's total equivalent customer connections.

¹⁷ Direct Testimony of Brian Shrake at 5.

¹⁸ WSKY's Response to Commission Staff's Third Information Request, Item 5(a) (filed May 20, 2011).

¹⁹ \$516,265 (Salaries and Wages – Operations) + \$151,264 (Salaries and Wages – Non-Operations) = \$667,529.

²⁰ WSKY's Response to Commission Staff's Second Information Request, Item 7 (filed Apr. 20, 2011).

²¹ WSKY's Response to Commission Staff's Third Information Request, Item 5(a) (filed May 20, 2011).

compete with municipalities and other utilities. Its studies of its own compensation packages and those offered by other utilities suggest that the current level of compensation for its employees is comparable to or below industry benchmarks.²²

The Commission finds insufficient evidence to support the reasonableness of the proposed adjustment to the test-year expense. Although WSKY asserts that local wage information was incorporated into the benchmarks used to develop its 2010 and 2011 wage increases,²³ it failed to produce any studies or documentary evidence to support its assertion.²⁴ It has offered no evidence to compare the 2011 wage increases with local, regional or state wage trends or to suggest that the 2011 increase was necessary or reasonable. Accordingly, we deny WSKY's proposed adjustment to Salaries and Wages – Employees expense and allow an increase of only \$11,209²⁵ for a pro forma level of \$644,130.²⁶

Operating Expenses Charged to Plant

WSKY proposes to increase its operating expenses charged to plant of (\$50,427) by (\$44,689). Having reviewed WSKY's supporting calculations, the Commission finds that they are reasonable and has increased expenses charged to plant by (\$44,689).

²² *Id.*

²³ WSKY's Response to Hearing Data Request, Tab 2.

²⁴ See, e.g., WSKY's Response to Commission Staff's Third Information Request, Item 6(a) (filed May 20, 2011); WSKY's Response to Hearing Information Requests, Tab 2 (filed Aug. 5, 2011).

²⁵ \$55,865 (Salaries and Wages – Operations) - \$44,656 (Salaries and Wages – Non Operations) = \$11,209.

²⁶ \$498,806 (Salaries and Wages – Operations) + \$145,324 (Salaries and Wages – Non Operations) = \$644,130.

Rate Case Expense

WSKY proposes to increase test-period rate case amortization of \$55,885 by \$26,960 to reflect the amortization over three years of the estimated cost of this current case of \$147,422 and the unamortized rate case expense from its prior rate proceeding of \$101,114. Based upon our review of submitted invoices, we find that WSKY incurred rate case expense of \$141,408 in this proceeding. We further find that \$56,624 of WSKY's rate case expenses from its last rate case proceeding have yet to be amortized. Amortizing the sum of these expenses²⁷ over three years results in a pro forma rate case amortization expense of \$66,011, which is \$10,126 above the actual test-period expense. Accordingly, the Commission finds that WSKY's proposed adjustment should be denied and that Rate Case Amortization expense should be increased by \$10,126.

Employee Pensions and Other Benefits

WSKY proposes to increase Employee Pension and Benefit expense by \$39,523 to a pro forma level of \$162,867 to reflect the effect of the April 2011 wage increases on WSKY's contributions for employee retirement and current employee insurance premiums. Eliminating the effects of the April 2011 wage increases and including the current premiums results in a pro forma Employee Pension and Benefit expense of \$161,338, which is \$37,994 above actual test-period expense. Accordingly, the Commission denies WSKY's proposed adjustment and increases Employee Pension and Benefit expense by \$37,994 for ratemaking purposes.

²⁷ \$141,408 (Actual Rate Case Cost Current Case) + \$56,624 (Unamortized Cost of Case No. 2008-00563) = \$198,032.

Indirect Expense Allocations

Water Service Corporation, a UI subsidiary, manages WSKY's water operations. Those costs that Water Service Corporation incurs and that cannot be directly assignable to a specific UI subsidiary are booked to Water Service Corporation and then allocated to UI subsidiaries at year-end, based on the proportion of active Equivalent Residential Customers ("ERCs") served by an operating company to the total number of active ERCs the UI affiliates serve. Water Service Corporation charged approximately \$169,886 of these allocated indirect charges to WSKY during the test period. These charges are part of its pro forma operating expenses.

The AG requests the disallowance and removal of these charges from pro forma operating expenses. He argues that WSKY bears the burden of demonstrating not only the reasonableness of its proposed rates, but also the reasonableness of each component upon which those rates are based. He asserts that WSKY has failed to demonstrate their reasonableness.

The AG's position centers upon the lack of any independent review of allocated indirect expenses. The agreement between Water Service Corporation and WSKY contains no provisions for WSKY to monitor and challenge assignments of indirect expenses. Moreover, the members of WSKY's Board of Directors also serve as directors of other UI subsidiaries, including Water Service Corporation. On its face, this arrangement presents an apparent conflict of interest and raises questions about WSKY's willingness to question transactions with Water Service Corporation. "In that Water Service Corporation has virtually no compunction when it comes to allocating amounts to Kentucky which have no discernable connection with the provision of

reasonable utility service,” the AG argues, “the lack of independence works to the material detriment of . . . [WSKY’s] ratepayers.”²⁸

Responding to these arguments, WSKY notes that Water Service Corporation actually provided services for the expenses in question. “Rather than depriving . . . [Water Service Corporation of Kentucky] of an actual expense reasonably incurred, actually used for the benefit of the customers, and actually used to comply with Commission regulations as to certain service standards such as billing, record keeping, regulatory reporting and other aspects of utility operations,” WSKY asserts, “the Commission is obligated to allow . . . [Water Service Corporation of Kentucky] to recover its costs of operations.”²⁹

WSKY also presented testimony on the reasonableness of the proposed charges. WSKY Witness Baryenbruch conducted a study of the services that Water Service Corporation provided to WSKY. He concluded that, based upon comparisons with costs of electric utility service companies, the cost of Water Service Corporation’s services were reasonable. He further concluded that Water Service Corporation’s charges for these services were at the lower of cost or market and that the services provided were necessary.³⁰

The AG asserts that no weight should be afforded to Mr. Baryenbruch’s study. He contends that Mr. Baryenbruch’s comparison group does not involve comparable utilities. The study group did not contain any water utility and the utilities studied were

²⁸ AG Brief at 5 (filed Aug. 22, 2011).

²⁹ WSKY Brief at 17 (filed Aug. 22, 2011).

³⁰ Supplemental Testimony of Patrick L. Baryenbruch at 3-4 (filed Jan. 31, 2011).

much larger than IU and its subsidiaries. He describes the study as merely a “device by which . . . [Mr. Baryenbruch] seeks to discuss whether . . . [Water Service Corporation’s] costs allocations are in ‘the ballpark’ with amounts on the FERC Form 60.”³¹ The AG asserts that the standard of reasonableness requires a “far more exacting and demanding than an ‘in the ballpark’ standard.”³²

An applicant for a rate adjustment generally has the burden to demonstrate the reasonableness of its proposed rates.³³ Management decisions are generally presumed to be reasonable.³⁴ When costs, however, are not the product of an arms-length transaction, the presumption of reasonableness does not follow.³⁵ The applicant must demonstrate the reasonableness of the charges for the services provided by the affiliate. “[I]f there is an absence of data and information from which the reasonableness and propriety of the services rendered and the reasonable cost of rendering such services can be ascertained by the Commission, allowance is properly refused.”³⁶

Based upon our review of the record, we find that WSKY has failed to demonstrate the reasonableness of the charges for indirect services. We agree with the AG’s criticism of Mr. Baryenbruch’s study as failing to involve similar type and sized

³¹ AG Brief at 6.

³² *Id.*

³³ KRS 278.190(3).

³⁴ *Pa Pub. Util. Comm’n v. Phila. Elec. Co.*, 561 A.2d 1224 (Pa. 1989); *West Ohio Gas Co. v. Ohio Pub. Util. Comm’n*, 294 U.S. 63 (1935).

³⁵ *See, e.g., Hilton Head Plantation Utilities, Inc. v. Pub. Serv. Com’n*, 441 S.E.2d 321 (S.C. 1994); *Boise Water Corp. v. Idaho Pub. Util. Com’n*, 555 P.2d 163 (Idaho 1976); *State ex rel. Util. Com’n v. General Tel. Co.*, 189 S.E.2d 705 (N.C. 1972).

³⁶ *Hilton Head Plantation Utilities, Inc.*, 441 S.E.2d at 323.

utilities and, therefore, decline to afford it any weight. Moreover, the record indicates an absence of any independent review of the cost allocations by WSKY's management. In the absence of adequate support for the charges, the Commission disallows allocated indirect costs of \$169,886 from pro forma operating expenses.³⁷

Depreciation

WSKY proposes to decrease depreciation expense by \$14,075³⁸ to reflect the gross depreciable plant at the end of the test period multiplied by the appropriate depreciation rates.³⁹ WSKY's proposed pro forma depreciation expense includes depreciation on accounting and financial systems that UI placed into service as a result of its Project Phoenix study.⁴⁰

Asserting that WSKY has failed to demonstrate the purchase and implementation of the Project Phoenix systems was reasonable or that the project costs were reasonable, the AG urges the Commission to exclude any depreciation expense associated with the Project from rate recovery.⁴¹ He argues that WSKY has failed to demonstrate that a "reasonable utility of comparable size would spend in excess of a half-million dollars on software similar to that contained in Project Phoenix." He refers

³⁷ For a listing of these expenses, see Appendix B to this Order.

³⁸ Application, Exhibit 4, Schedule B at 1.

³⁹ Direct Testimony of Brian Shrake at 5.

⁴⁰ In 2006, UI began Project Phoenix, an internal and external evaluation of its accounting and billing software and computer system. After evaluating the potential solutions, UI selected J.D. Edwards Enterprise One as the financial system and Oracle's Customer Care and Billing System as the customer information system. On December 3, 2007, UI placed the J.D. Edwards system into service at a total cost of \$13,955,789. It placed the Oracle system into operation on June 2, 2008, at a total cost of \$7,126,679. Using an allocation factor based upon the equivalent residential connections, UI allocated \$368,069 of the total cost of the JD Edwards system and \$178,432 of the Oracle cost to WSKY. See Direct Testimony of Steven M. Lubertozzi at 5-11.

⁴¹ AG Brief at 3.

to the Commission's decision in WSKY's last rate case proceeding⁴² to deny rate recovery to such an expense as a basis for similar action in the present proceeding. Responding to these arguments, WSKY contends that the testimony of WSKY Witnesses Lubertozi and Baryenbruch provided ample support to demonstrate the reasonableness of Project Phoenix.

Our review of the record in this proceeding and in WSKY's last rate proceeding indicates no new evidence that requires us to alter our earlier findings. In the last proceeding, we expressly noted the failure of UI to perform an analysis to show that Project Phoenix benefited WSKY's ratepayers.⁴³ While Mr. Baryenbruch did not testify in the earlier proceeding, we note that his written testimony did not address Project Phoenix and his testimony at hearing did not expressly address the prudence of Project Phoenix.

We find WSKY's depreciation calculations are reasonable and accept them. We further accept WSKY's proposed adjustment to decrease Depreciation expense by \$14,075. In light of WSKY's failure to provide convincing evidence as to the reasonableness or need of Project Phoenix, however, we have decreased Depreciation expense by an additional \$69,565⁴⁴ to eliminate the Depreciation expense associated with Project Phoenix.

⁴² Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009) at 3-6.

⁴³ *Id.* at 6.

⁴⁴ $\$368,089$ (Allocated – JD Edward Costs) + $\$188,432$ (Allocated – Oracle Costs) = $\$556,521$ x 12.5% (Depreciation Rate – Computers) = $\$69,565$.

Amortization of Contributions In Aid of Construction ("CIAC")

WSKY proposes to increase Amortization of CIAC expense of (\$1,536) by (\$2,814)⁴⁵ to reflect CIAC at the end of the test period multiplied by the appropriate depreciation rates.⁴⁶ Based upon our review of WSKY's calculations and workpapers, we find that the proposed adjustment is reasonable and we accept it.

Plant Acquisition Adjustment ("PAA")

WSKY proposes to increase pro forma operating expenses by \$3,660 to reflect removal of the Amortization PAA.⁴⁷ Based upon our review of WSKY's calculations and workpapers, we find that the proposed adjustment is reasonable and we accept it.

General Taxes

WSKY proposes to increase test-period General Tax expense of \$145,450 by \$3,255 to annualize payroll taxes and utility commission taxes.⁴⁸ Eliminating the effect on payroll taxes of the April 2011 wage increases results in a pro forma General Tax expense of \$146,279. This amount is \$829 greater than actual test-period General Tax expense. Accordingly, we deny WSKY's proposed adjustment and increase General Tax expense by \$829.

Expense Reduction – Clinton Sewer

WSKY proposes to decrease its sewer expense allocation by \$34,206 from (\$137,459) to (\$103,253). This adjustment reflects the requested pro forma operating expenses' effect on the allocation of costs to the city of Clinton's sewer operations. The

⁴⁵ Application, Exhibit 4, Schedule B at 1.

⁴⁶ Direct Testimony of Brian Shrake at 5.

⁴⁷ Application, Exhibit 4, Schedule B at 1.

⁴⁸ Direct Testimony of Brian Shrake at 5.

Commission calculates a revised decrease of \$35,243 based upon the pro forma operating expenses determined reasonable herein, which results in expense allocation of (\$102,216).

Interest Expense

WSKY proposes to increase Interest expense of \$179,640 to \$191,934, an increase of \$12,294. WSKY is adjusting interest expense using a debt-to-equity ratio of 50.11 percent to 48.89 percent and a cost of debt of 6.58 percent. The elimination of interest expense associated with the debt incurred to finance Project Phoenix results in a decrease of \$1,471 to Interest Expense. The Commission denies WSKY's proposed adjustment and decreases interest expense by \$1,471 to eliminate interest on debt related to Project Phoenix.

Income Tax

Based upon its pro forma operating revenues and expenses, WSKY calculates an income tax expense credit of (\$8,350). Using the pro forma operating revenues and expenses determined reasonable herein, the Commission calculates a pro forma income tax expense of \$120,027 as shown in Table I. The Commission finds that Income Tax expense should be increased by \$217,463 to reflect its pro forma level.

Table I: Income Tax		
Account Titles	Revenues & Expenses	Taxes
<u>OPERATING REVENUES</u>		
Operating Revenues	\$ 2,101,576	
<u>OPERATING EXPENSES</u>		
Maintenance Expenses	\$ 1,368,284	
Depreciation	206,857	
General Taxes	146,279	
Exp. Reduction - Clinton Sewer	(102,216)	
Amortization CIAC & AIAC	+ (4,350)	
Total Operating Expenses	\$ 1,614,854	
State Taxable Income before Interest Exp.	\$ 486,722	
Less: Interest Expense	- 178,169	
State Taxable Income	\$ 308,553	
Multiplied by: State Income Rate	x 6%	
Total State Income Tax Exp.		\$ 18,513
State Taxable Income	\$ 308,553	
Less: State Income Tax Exp.	- 18,513	
Federal Taxable Income	\$ 290,040	
Federal Tax Rate	x 35.00%	
Total Federal Tax Exp.		+ 101,514
Total Income Tax		\$ 120,027

Based on the accepted adjustments to operating revenues and expenses, the Commission finds WSKY's net operating income at present rates to be \$366,695 as shown in Table II.

Table II: Income Statement Comparison

Account Titles	Test Period Operations	Pro Forma Adjustments	Pro Forma Operations
<u>OPERATING REVENUES</u>			
Service Revenues - Water	\$ 1,980,475	\$ 68,214	\$ 2,048,689
Miscellaneous Revenues	52,887	0	52,887
Uncollectible Accounts	(126,200)	126,200	0
Operating Revenues	\$ 1,907,162	\$ 194,414	\$ 2,101,576
<u>OPERATING EXPENSES</u>			
<u>Maintenance Expenses:</u>			
Salaries & Wages	\$ 442,941	\$ 55,865	\$ 498,806
Purchased Power	78,100	0	78,100
Purchased Water	79,635	0	79,635
Maintenance & Repair	87,087	0	87,087
Maintenance Testing	24,880	0	24,880
Meter Reading	345	0	345
Chemicals	101,313	0	101,313
Transportation	47,173	0	47,173
Operating Exp. Charged to Plant	(50,427)	(44,689)	(95,116)
Outside Services - Other	30,721	0	30,721
Total Maintenance Exp.	\$ 841,768	\$ 11,176	\$ 852,944
<u>General Expenses:</u>			
Salaries & Wages	\$ 189,980	\$ (44,656)	\$ 145,324
Office Supplies & Other Exp.	102,242	0	102,242
Regulatory Commission Exp.	55,885	10,126	66,011
Pension & Other Benefits	123,344	37,994	161,338
Rent	18,906	0	18,906
Insurance	59,054	0	59,054
Office Utilities	53,825	0	53,825
Bad Debt Expense	0	52,243	52,243
Service Company - Allocated Exp.	0	(169,886)	(169,886)
Miscellaneous	26,283	0	26,283
Total General Exp.	\$ 629,519	\$ (114,179)	\$ 515,340
Total Operation & Maint. Exp	\$ 1,471,287	\$ (103,003)	\$ 1,368,284
Depreciation	290,497	(83,640)	206,857
Amortization PAA	(3,660)	3,660	0
General Taxes	145,450	829	146,279
Exp Reduction - Clinton Sewer	(137,459)	35,243	(102,216)
Amortization CIAC & AIAC	(1,536)	(2,814)	(4,350)
Income Tax Exp - Federal	(97,436)	217,463	120,027
Total Operating Expenses	\$ 1,667,143	\$ 67,738	\$ 1,734,881
Net Operating Income	\$ 240,019	\$ 126,676	\$ 366,695

OPERATING RATIO

WSKY proposes the use of an operating ratio methodology to determine its revenue requirement. Its proposal follows our comments in WSKY's last rate adjustment proceeding that suggested that the use of return-on-equity approaches is problematic and that an operating ratio methodology is more appropriate.⁴⁹ We noted several problems associated with the use of return-on-equity approaches. The Commission has historically used an operating ratio approach⁵⁰ to determine the revenue requirement for small, privately-owned utilities. This approach is used primarily when no basis exists for a rate-of-return determination or the cost of the utility has fully or largely been funded through contributions. For these reasons, the Commission finds that the operating ratio method should be used to determine WSKY's revenue requirement and that an operating ratio of 88 percent will allow WSKY sufficient revenues to cover its reasonable operating expenses and to provide for reasonable equity growth.

AUTHORIZED INCREASE

The Commission finds that WSKY's net operating income for ratemaking purposes is \$366,695. We further find that this level of net operating income and an 88

⁴⁹ Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009) at 23-24 ("the operating ratio is the most commonly used methodology in determining the return of a company the size of Water Service, and is highly preferable to a full ROE analysis such as the company has presented").

⁵⁰ Operating Ratio is the ratio of expenses, including depreciation and taxes, to gross revenues. It is expressed mathematically by the following formula:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

percent operating ratio requires an increase in present rate revenues of \$61,898, as shown in Table III.

Operating Expenses	\$ 1,734,881
Less: State & Federal Income Taxes	- 120,027
Operating Expenses Net of Income Taxes	\$ 1,614,854
Divide by: Operating Ratio	÷ 88.00%
Revenue to Cover Operating Ratio	\$ 1,835,062
Less: Operating Expenses Net of Income Taxes	- 1,614,854
Net Operating Income After Income Taxes	\$ 220,208
Multiplied by: Gross-up Factor	x 1.6822813
Net Operating Income Before Income Taxes	\$ 370,451
Add: Operating Expenses Net of Income Taxes	1,614,854
Interest on Long-Term Debt	+ 178,169
Total Revenue Requirement	\$ 2,163,474
Less: Other Operating Revenues	- 52,887
Revenue Requirement from Water Sales	\$ 2,110,587
Less: Normalized Revenue - Water Sales	- 2,048,689
Revenue Requirement Increase	\$ 61,898
Percentage Increase	3.021%

RATE DETERMINATION

WSKY has requested that its monthly water service rates be increased across-the-board by approximately 21.9 percent. The Commission has generally accepted this method for allocating required revenue increases. Nothing in the record of this proceeding indicates that such methodology would be inappropriate in the current case. The revenue requirement determined reasonable herein is an approximate 3.021 percent increase over WSKY's normalized operating revenues. The Commission uses this percentage increase to calculate WSKY's monthly water service rates.

SUMMARY

Having considered the evidence of record and being sufficiently advised, the Commission finds that:

1. The 12-month period ending September 30, 2010 should be used as the test period to determine the reasonableness of WSKY's current and proposed rates.

2. Based upon pro forma test-period operations, WSKY's pro forma total operating expenses, after adjusting for known and measurable changes, are \$1,734,881.

3. The use of an operating ratio is the most appropriate means to determine WSKY's total revenue requirement.

4. An operating ratio of 0.88 will permit WSKY to meet its reasonable operating expenses and provide a fair and reasonable return for equity growth and should be used to determine WSKY's total revenue requirements.

5. Applying an operating ratio of 0.88 to WSKY's pro forma total operating expenses of \$1,734,881 and adjusting for the effects of state and federal taxes produces a total revenue requirement from water sales of \$2,110,587, or \$61,898 greater than the annual revenue from water sales that WSKY's current rates produce.

6. WSKY's proposed rates would produce revenue from water sales in excess of \$2,110,587 and should be denied.

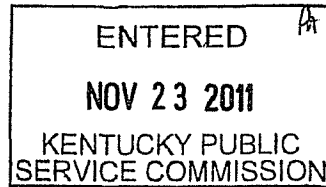
7. The rates set forth in Appendix A to this Order will produce revenue from water sales of \$2,110,587.

IT IS THEREFORE ORDERED that:

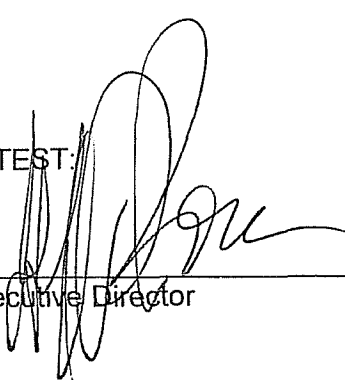
1. WSKY's proposed rates are denied.
2. The rates set forth in Appendix A to this Order are approved for service rendered by WSKY on and after the date of this Order.

3. Within 20 days of the date of this Order, WSKY shall file revised tariff sheets setting forth the rates approved herein and reflecting their effective date as authorized by this Order.

By the Commission



ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2010-00476 DATED **NOV 23 2011**

The following rates and charges are prescribed for the customers in the area served by Water Service Corporation of Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

CLINTON

5/8-inch x 3/4-inch Meter:

First	1,000 gallons	\$ 11.99	Minimum bill
Next	9,000 gallons	6.79	per 1,000 gallons
Next	15,000 gallons	6.23	per 1,000 gallons
Next	25,000 gallons	5.68	per 1,000 gallons
Next	50,000 gallons	5.04	per 1,000 gallons
All Over	100,000 gallons	4.40	per 1,000 gallons

1-inch Meter:

First	5,300 gallons	\$ 41.19	Minimum bill
Next	3,700 gallons	6.79	per 1,000 gallons
Next	15,000 gallons	6.23	per 1,000 gallons
Next	25,000 gallons	5.68	per 1,000 gallons
Next	50,000 gallons	5.04	per 1,000 gallons
All Over	100,000 gallons	4.40	per 1,000 gallons

1 1/2-inch Meter:

First	11,200 gallons	\$ 80.59	Minimum bill
Next	13,800 gallons	6.23	per 1,000 gallons
Next	25,000 gallons	5.68	per 1,000 gallons
Next	50,000 gallons	5.04	per 1,000 gallons
All Over	100,000 gallons	4.40	per 1,000 gallons

2-inch Meter:

First	17,600 gallons	\$ 120.48	Minimum bill
Next	7,400 gallons	6.23	per 1,000 gallons
Next	25,000 gallons	5.68	per 1,000 gallons
Next	50,000 gallons	5.04	per 1,000 gallons
All Over	100,000 gallons	4.40	per 1,000 gallons

6-inch Meter:

First	250,500 gallons	\$ 1222.45	Minimum bill
All Over	250,500 gallons	4.40	per 1,000 gallons

MIDDLESBORO

5/8-inch x 3/4-inch Meter:

First	1,000	gallons	\$ 8.96	Minimum bill
Next	9,000	gallons	3.61	per 1,000 gallons
Next	15,000	gallons	3.29	per 1,000 gallons
Next	25,000	gallons	3.12	per 1,000 gallons
Next	50,000	gallons	2.79	per 1,000 gallons
All Over	100,000	gallons	2.55	per 1,000 gallons

1-inch Meter:

First	6,000	gallons	\$ 26.97	Minimum bill
Next	4,000	gallons	3.61	per 1,000 gallons
Next	15,000	gallons	3.29	per 1,000 gallons
Next	25,000	gallons	3.12	per 1,000 gallons
Next	50,000	gallons	2.79	per 1,000 gallons
All Over	100,000	gallons	2.55	per 1,000 gallons

1 1/2-inch Meter:

First	13,000	gallons	\$ 51.22	Minimum bill
Next	12,000	gallons	3.29	per 1,000 gallons
Next	25,000	gallons	3.12	per 1,000 gallons
Next	50,000	gallons	2.79	per 1,000 gallons
All Over	100,000	gallons	2.55	per 1,000 gallons

2-inch Meter:

First	21,400	gallons	\$ 78.80	Minimum bill
Next	3,600	gallons	3.29	per 1,000 gallons
Next	25,000	gallons	3.12	per 1,000 gallons
Next	50,000	gallons	2.79	per 1,000 gallons
All Over	100,000	gallons	2.55	per 1,000 gallons

3-inch Meter:

First	68,400	gallons	\$ 220.05	Minimum bill
Next	31,600	gallons	2.79	per 1,000 gallons
All Over	100,000	gallons	2.55	per 1,000 gallons

4-inch Meter:

First	127,500	gallons	\$ 378.43	Minimum bill
All Over	127,500	gallons	2.55	per 1,000 gallons

6-inch Meter:

First	281,500	gallons	\$ 771.41	Minimum bill
All Over	281,500	gallons	2.55	per 1,000 gallons

Monthly Fire Protection Rates

Private Sprinkler	\$ 19.93	per sprinkler
Private Hydrant	\$ 19.93	per hydrant
Municipal Hydrant	\$ 4.43	per hydrant

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2010-00476 DATED **NOV 23 2011**

DISALLOWED ALLOCATED INDIRECT EXPENSES

<u>Account</u>	<u>Schedule B Category</u>	<u>Adjustment</u>
<u>Direct Expenses:</u>		
5810 MEMBERSHIPS	Miscellaneous	\$ (5,630.68)
5890 PUBL SUBSCRIPTI	Office Supplies & Other Office Exp.	(395.66)
6185 TRAVEL LODGING	Miscellaneous	(1,480.85)
6190 TRAVEL AIRFARE	Miscellaneous	(408.40)
6195 TRAVEL TRANSPOR	Miscellaneous	(140.00)
6200 TRAVEL MEALS	Miscellaneous	(949.11)
<u>Allocated Expenses:</u>		
5810 MEMBERSHIPS	Miscellaneous	(225.00)
5815 PENALTIES/FINES	Miscellaneous	(27.00)
5825 OTHER MISC EXPE	Miscellaneous	(6,816.00)
5870 HOLIDAY EVENTS/	Office Supplies & Other Office Exp.	(78.00)
5890 PUBL SUBSCRIPTI	Office Supplies & Other Office Exp.	(787.00)
6015 EMPLOY FINDER F	Outside Services - Other	(2,323.00)
6045 TEMP EMPLOY - C	Outside Services - Other	(4,272.00)
6185 TRAVEL LODGING	Miscellaneous	(1,871.00)
6190 TRAVEL AIRFARE	Miscellaneous	(961.00)
6195 TRAVEL TRANSPOR	Miscellaneous	(229.00)
6200 TRAVEL MEALS	Miscellaneous	(609.00)
6205 TRAVEL ENTERTAI	Miscellaneous	(237.00)
6207 TRAVEL OTHER	Miscellaneous	-
Subtotal		\$ (27,439.70)
Add: Corporate Salaries		(142,446.00)
Total Adjustment		\$ (169,885.70)

Honorable John N Hughes
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1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

	W5CK Pro Forma Present Rates	W5CK Rebuttal Pro Forma Adjustment	W5CK Rebuttal Pro Forma Present Rates	W5CK Rebuttal Proposed Adjustment	W5CK Rebuttal Pro Forma Proposed
Operating Revenues					
Service Revenues - Water	\$2,103,813		\$2,103,813	\$236,802 (J)	\$2,340,615
Service Revenues - Sewer					
Miscellaneous Revenues	78,995		78,995		78,995
Uncollectible Accounts	(38,028)	38,028 (A)	0		0
Total Operating Revenues	\$2,144,780	\$38,028	\$2,182,808	\$236,802	\$2,419,610
Maintenance Expenses					
Salaries and Wages	519,099	(\$1,133) (B)	517,966		517,966
Purchase Water/Sewer	85,200		85,200		85,200
Purchased Power	95,111		95,111		95,111
Maintenance and Repair	98,163		98,163		98,163
Maintenance testing	34,092		34,092		34,092
Meter Reading	0		0		0
Chemicals	145,421		145,421		145,421
Transportation	34,774		34,774		34,774
Operating Exp. Charged to Plant	(163,869)	- (K)	(163,869)		(163,869)
Outside Services - Other	30,001		30,001		30,001
Total	\$877,992	(\$1,133)	\$876,859	\$0	\$876,859
General Expenses					
Salaries and Wages	\$173,648	\$0 (B)	\$173,648		\$173,648
Office Supplies & Other Office Exp.	79,610		79,610		79,610
Regulatory Commission Exp.	73,660	15,430 (C)	89,090		89,090
Pension & Other Benefits	160,716	(79) (D)	160,637		160,637
Rent	6,254		6,254		6,254
Insurance	63,192		63,192		63,192
Office Utilities	54,273		54,273		54,273
Bad Debt Expense	0	38,028 (A)	38,028	4,286	42,314
Service Company - Allocated Expenses	0	(12,904) (E)	(12,904)		(12,904)
Miscellaneous	12,173	(500) (F)	11,673		11,673
Total	\$623,526	\$39,975	\$663,501	\$4,286	\$667,787
Depreciation	\$281,828	\$0 (L)	\$281,828		\$281,828
Amortization of PAA	0		0		0
Taxes Other Than Income	144,063	(87) (G)	143,976	375	144,351
Expense Reduction Related to Clinton Sewer Ops	(120,708)	0 (H)	(120,708)		(120,708)
Income Taxes - Federal	54,491	(232) (I)	54,259	74,192	128,451
Income Taxes - State	10,230	(44) (I)	10,186	13,928	24,115
Amortization of CIAC	(4,229)		(4,229)		(4,229)
Total	\$365,675	(\$362)	\$365,313	\$88,495	\$453,808
Total Operating Expenses	\$1,867,193	\$38,480	\$1,905,673	\$92,782	\$1,998,454
Net Operating Income	\$277,587	(\$452)	\$277,135	\$144,020	\$421,155
Other Income	0		0		0
Interest During Construction	(1,730)		(1,730)		(1,730)
Interest on Debt	171,809	0 (M)	171,809		171,809
Net Income	\$ 107,508	\$ (452)	\$ 107,056	\$ 144,020	\$ 251,076

Sources:

(A) Bad Debt Expenses transferred from revenue reduction to expense increase.

(B) Schedule LY-R2

(C) Schedule LY-R7 [NEW SCHEDULE]

(D) Schedule LY-R3

(E) Schedule LY-R4

(F) Schedule ACC-7

(G) Schedule LY-R5

(H) Adjustment not necessary since Company is not accepting AG adjustment related to Clinton Sewer Operations. The Commission accepted this methodology in Case No. 2010-00476.

(I) Schedule LY-R8 [NEW SCHEDULE]

(J) Schedule LY-R6 Revised

(K) Adjustment not necessary since Company is not accepting AG adjustment to remove 3% salary increase.

(L) Adjustment not necessary since Company is not accepting AG adjustment related to Project Phoenix costs. In order to expedite this case, the Company is reverting back to original position using composite rates.

(M) Adjustment not necessary since Company is not accepting AG adjustment related to Project Phoenix costs.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

Water Service Corporation of Kentucky ("Water Service") filed an application requesting approval to increase its water rates, to establish several new nonrecurring charges, and to make changes to certain existing nonrecurring charges. Water Service proposes to adjust its water rates to increase its operating revenues from \$1,631,079 to \$2,438,085, an increase of 50.08 percent increase or \$807,006.¹ By this Order, the Commission modifies the proposed tap-on fee, approves the remaining nonrecurring charges, and establishes water rates that will produce annual revenues of \$2,104,261. The increase will impact a customer's monthly bill, using an average of 5,000 gallons, in Middlesboro by \$5.12 (from \$17.58 to \$22.70) and in Clinton by \$8.54 (from \$29.46 to \$38.00).

BACKGROUND

Water Service, a Kentucky corporation, is a utility subject to Commission jurisdiction.² It owns and operates facilities that treat and distribute water to

¹ Application, Exhibit 9, Calculation of Revenue Requirement (filed Mar. 5, 2009).

² KRS 278.010(3)(d).

approximately 7,305 residential customers in Bell and Hickman counties.³ Water Service last applied for a rate adjustment in 2005.⁴

Water Service is a wholly-owned subsidiary of Utilities, Inc. ("Utilities"), which owns approximately 90 other water and sewer utilities in 15 states.⁵ Utilities also owns a service company named Water Service Corporation.⁶ The service company manages the water and sewer operations for Utilities subsidiaries and operates without profit.

PROCEDURE

On December 30, 2008, Water Service notified the Commission in writing of its intent to apply for an adjustment of rates using a historical test period. It subsequently filed its application on March 5, 2009. Finding that further proceedings were necessary to determine the reasonableness of the request, the Commission suspended the proposed rates for five months, from April 14, 2009 up to and including September 14, 2009, and initiated this proceeding.⁷ We granted the Attorney General, through his Utility and Rate Intervention Division ("AG") leave to intervene in this proceeding.

After the parties engaged in extensive discovery, the Commission held an evidentiary hearing in this matter on August 19, 2009 in Frankfort, Kentucky. The

³ Annual Report of Water Service to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2008 at 5 and 30.

⁴ Case No. 2005-00325, Application of Water Service Corporation of Kentucky for an Adjustment of Rates (Ky. PSC Feb. 28, 2007).

⁵ Application, Testimony of Lena Georgiev, at 1.

⁶ Confusion is likely to occur based on the similarities of names. Throughout this order, we refer to the Kentucky utility as "Water Service" and Utilities' service company as Water Service Corporation.

⁷ See KRS 278.190(2).

following persons pre-filed Direct Testimony and testified at the hearing on behalf of Water Service: Pauline M. Ahern, Principal of AUS Consultants; John D. Williams, Director of Governmental Affairs at Utilities; Martin Lashua, Regional Director of Operations at Utilities; and Lena Georgiev, Manager of Regulatory Affairs at Utilities. Following the hearing, all parties submitted written briefs.

The Commission held local public meetings in Middlesboro on August 12, 2009 and Clinton on August 13, 2009. Approximately 40 individuals attended the public meeting in Middlesboro, and over 100 individuals attended the meeting in Clinton. At both locations, community residents spoke respectfully and eloquently as to their concerns about a water rate increase.

ANALYSIS AND DETERMINATION

Test Period

Water Service proposes to use the 12-month period ending June 30, 2008 as the test period to determine the reasonableness of its proposed rates. The Commission finds the use of this test period to be reasonable. In using a historic test period, the Commission gives full consideration to appropriate known and measurable changes.

Rate Base

Water Service proposed a net investment rate base of \$6,139,342.⁸ This net investment rate base is accepted with the following exceptions:

Project Phoenix. In 2006, Utilities began Project Phoenix, an internal and external evaluation of its accounting and billing software and computer systems.⁹ The

⁸ Application, Exhibit 4, Schedule C, Rate Base and Rate of Return.

⁹ Id., Exhibit 5, Prepared Direct Testimony of John D. Williams, at 5.

evaluation culminated in a business case presentation by Deloitte to Utilities in September 2006.¹⁰ After evaluating the potential solutions identified by Deloitte, Utilities selected JD Edwards as the financial system and Oracle's Customer Care and Billing System ("Oracle") as the customer information system.¹¹

On December 3, 2007, Utilities placed the JD Edwards system into service at a total cost of \$14,544,020.¹² Utilities placed the Oracle system into operation on June 2, 2008, at a total cost of \$7,077,652.¹³ Using an allocation factor based upon the equivalent residential connections, Utilities allocated \$367,498¹⁴ of the total cost of the JD Edwards system and \$178,715¹⁵ of the Oracle cost to Water Service. The allocated cost of JD Edwards is included in Utility Plant In Service ("UPIS"), and the Oracle allocation is reported as a separate item in Water Service's pro forma rate base.

Water Service describes JD Edwards as "a web-based software system that allows easy access from multiple locations."¹⁶ According to Water Service, the JD Edwards system includes enhanced tracking and integration components that will improve Utilities' ability to record and retrieve data.¹⁷ Water Service claims that

¹⁰ Id.

¹¹ Id.

¹² Id. at 8.

¹³ Id. at 14.

¹⁴ Id. at 9.

¹⁵ Id. at 14.

¹⁶ Id. at 6.

¹⁷ Id. at 7.

enhanced record keeping and retrieval functions will simplify the production of financial and regulatory reports.¹⁸ Water Service adds that JD Edward's enhanced functions coupled with the reduction in manual effort and the reliance on spreadsheets will result in improved report accuracy.¹⁹

According to Water Service, the previously-used Legacy customer care and billing system was a customized program for Utilities that had become unsupported.²⁰ The Oracle software is a web-based system that allows for a quicker return of information and speedier fixes if the system goes down voluntarily or goes down for routine maintenance.²¹

The AG states that "[c]entral to understanding the Project Phoenix cost allocation is the fact that the focus of Project Phoenix was the needs of Utilities, Inc., including its non-regulated operations."²² According to the AG, Water Service failed to produce evidence to show that Utilities examined the potential benefits Project Phoenix would have for Water Service.²³ The AG argues that Utilities was concerned with its needs and not whether a system of comparable size to Water Service would require an information technology package that cost \$367,498.²⁴ The AG contends that Water

¹⁸ Id.

¹⁹ Id.

²⁰ Id. at 10.

²¹ Id. at 9.

²² AG's Post-Hearing Brief, at 3 (filed August 31, 2009).

²³ Id.

²⁴ Id. at 4.

Service failed to show that Project Phoenix is cost-effective and also failed to “carry its burden of proof that the allocation of project Phoenix costs are reasonable.”²⁵

Based upon the evidence of record, it is apparent that Utilities did not perform a benefit analysis of Project Phoenix to ascertain the potential financial impact or to identify any benefits Project Phoenix would provide to each of its operating subsidiaries, in particular Water Service. As pointed out by the AG, it is Water Service's burden to document that the cost of Project Phoenix is reasonable and to identify the benefits the computer software will provide to the ratepayers of Water Service. The Commission believes that Water Service failed to meet this burden. Further, John Williams, a Water Service witness with 30 years of experience working for the Florida Public Service Commission, testified that he was not aware of any utility of comparable size to Water Service in Florida that would have spent a half-million dollars on software similar to JD Edwards and Oracle.²⁶

For these reasons, the Commission finds that Water Service has failed to demonstrate that the allocated Project Phoenix costs are reasonable and, therefore, has reduced UPIS by \$389,537,²⁷ the cost of JD Edwards, and has reduced rate base by \$178,715 to remove the allocation of Oracle costs.

Post-Test Period Plant Additions. Water Service proposed in its filing to increase UPIS by \$103,527 to reflect post-test period plant additions. Water Service argues that the post-test year plant additions are known and measurable and that their completion

²⁵ Id. at 3, 4.

²⁶ Transcript of Evidence (“TE”) at 52.

²⁷ Application, Exhibit 4, Depreciation Expense, w/p(f). \$425,915 (Computers) - \$36,378 (WSC/Regional Rate Base Adjustment) = \$389,537.

so near the end of the test period makes them more appropriate for inclusion in this historical case, even though some of the additions were completed almost a year after the test period.

In a prior decision, the Commission found that, for utilities under its jurisdiction, “[a]djustments for post test-period additions to utility plant in service should not be requested unless all revenues, expenses, rate base and capital have been updated to the same period as the plant additions.”²⁸

In addition, 807 KAR 5:001, Section 10(1), provides that all applications for a general rate adjustment shall be supported by either a 12-month historical test period, which may include adjustments for known and measurable changes, or a fully forecasted test period.

Water Service had the option of filing a forecasted test period if it wanted to include plant additions beyond the test period, as well as other inflationary adjustments. Water Service made vague statements that it had appropriately adjusted revenues, expenses, rate base, and capital to the same period as the plant additions. Nevertheless, in reviewing Water Service’s pro forma adjustments, the Commission is unable to identify any adjustments that complied with the prior Commission finding regarding post-test period plant additions. Accordingly, the Commission denies Water Service’s proposed adjustment for the post-test year plant additions and has reduced

²⁸ See Case No. 10481, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989, at 5 (KY. PSC Aug. 22, 1989).

pro forma UPIS by an additional \$103,527, for a combined UPIS reduction of \$493,064.²⁹

Accumulated Depreciation. The Commission has decreased Water Service's forecasted accumulated depreciation of \$3,334,993³⁰ by \$45,120³¹ to remove the depreciation for JD Edwards.

Cash Working Capital Allowance. Water Service determined its cash working capital allowance using the 45 day or 1/8th formula methodology, reflecting the impacts of Water Service's proposed adjustments to operation and maintenance expenses. While the Commission finds that approach is reasonable and should be permitted, the cash working capital allowance included in the Commission's determination of net investment rate base has been adjusted to reflect the accepted pro forma adjustments to operation and maintenance expenses, as discussed later in this Order.

Based on the aforementioned adjustments, the Commission has determined Water Service's net investment rate base to be as shown in Table I below.

Table I: Net Investment Rate Base			
	Water Service	Commission	
	Pro Forma Rate Base	Pro Forma Adjustments	Pro Forma Rate Base
Utility Plant In Service	\$ 9,683,927	\$ (493,064)	\$ 9,190,863
Deduct:			
Accumulated Depreciation	(3,334,994)	45,120	(3,289,874)
Net Utility Plant In Service	\$ 6,348,933	\$ (447,944)	\$ 5,900,989
Construction Work In Progress	0	0	0
Working Capital Allowance	207,275	(26,932)	180,343
Contributions In Aid of Construction	(45,090)	0	(45,090)
Customer Advances	(84,684)	0	(84,684)

²⁹ \$389,537 (JD Edwards) + \$103,527 (Post-Test Period Plant Additions) = \$493,064.

³⁰ Application, Exhibit 4, Schedule C, Rate Base and Rate of Return.

³¹ Id., Plant Restatement through Complete Rate Case.

Deferred Income Taxes	(313,316)	0	(313,316)
Customer Deposits	(109,546)	0	(109,546)
Capitalized Time	0	0	0
Reduction - Transportation Equipment	(6,036)	0	(6,036)
Regional Rate Base Adjustment	(36,911)	0	(36,911)
Oracle - Billing System	178,715	(178,715)	0
Net Original Cost Rate Base	\$ 6,139,340	\$ (653,591)	\$ 5,485,749

Income Statement

For the test period, Water Service reported operating revenues and expenses of \$1,666,792 and \$1,635,642, respectively.³² Water Service proposed revenues and expenses to reflect current and expected operating conditions, resulting in pro forma operating revenues and expenses of \$1,667,522 and \$1,609,731, respectively.³³ The Commission makes the following modifications to Water Service's pro forma operating revenues and expenses:

Service Revenues - Sewer. Water Service included service revenues from sewer operations of \$404 in its pro forma operating revenues. The Commission is reducing operating revenues by that amount to remove the misclassified sewer revenues.

Consumer Price Index ("CPI"). Water Service proposed approximately 12 separate CPI adjustments to its operating expenses that totaled \$22,592.³⁴ According to Water Service, its adjustments are based upon a 3.514 percent CPI that is to

³² Id., Schedule B, Income Statement.

³³ Id.

³⁴ Id.

"account for the increase in the consumer price index since acquisition."³⁵ Water Service's CPI adjustments are listed in Table II below.

Purchased Power	\$	2,526
Purchased Water	\$	3,026
Maintenance & Repair	\$	4,530
Maintenance Testing	\$	1,806
Meter Reading	\$	148
Chemicals	\$	4,114
Transportation	\$	1,252
Outside Services - Other	\$	145
Office Supplies & Other Office Exp.	\$	2,993
Rent	\$	609
Office Utilities	\$	1,399
Miscellaneous	\$	44

Water Service states that the change in the purchasing power of the dollar measured by the CPI is a reasonable estimate of the changes in the cost of providing water service to its ratepayers.³⁶ According to Water Service, the cumulative increase in its operational costs that occurred from 2006 through 2008 was in excess of 8 percent.³⁷ Water Service argues that it is reasonable for it to use a general, publicly-available measure because its operating expenses and ratepayers are subject to the purchasing power fluctuations measured by the CPI.³⁸ Water Service further argues

³⁵ Id., Explanation of Adjustments to Income Statement, Adjustments J.

³⁶ Water Service's Response to the Commission Staff's Second Information Request item 4 (filed May 15, 2009).

³⁷ Id.

³⁸ Id.

that, because of the widely accepted use of the CPI, it can be considered a “known and measurable” change in expenses that will occur from year to year.³⁹

The AG states that the Commission should reject Water Service’s adjustments using the CPI.⁴⁰ The AG contends that the use of the CPI is contrary to Kentucky’s regulatory scheme and past Commission practice.⁴¹ According to the AG, Water Service did not offer a compelling basis or justification to support its proposed CPI adjustments.⁴²

In a prior decision, this Commission disallowed any adjustments based on the CPI finding that:

The CPI is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. This basket contains 8 major categories of goods and services: food and beverages; housing; apparel; transportation; medical care; recreation; education and communication; and other goods and services. Several of these categories are unrelated to the provision of water service. Their presence in the basket limits the CPI’s accuracy as an adjustment mechanism. For example, increases in the cost of food and beverages, apparel and education would produce a positive increase in the CPI but have no effect on the cost of goods and services that are used to provide water service. An automatic adjustment mechanism must provide an accurate measurement of changes in the cost of providing water service. It, therefore, should be based principally on those goods and services that are reasonably likely to be used to provide water service.⁴³

³⁹ Id.

⁴⁰ AG’s Post-Hearing Brief, at 10 (filed August 31, 2009).

⁴¹ Id.

⁴² Id.

⁴³ See Case No. 2006-00067, Proposed Adjustment of the Wholesale Water Service Rate of the City of Lawrenceburg, Kentucky, at 3-4 (KY. PSC Nov. 21, 2006).

Administrative Regulation 807 KAR 5:001, Section 10(1), provides that all applications for a general rate adjustment shall be supported by either a “twelve (12) month historical test period which may include adjustments for known and measurable changes” or a “fully forecasted test period.” When an applicant bases its application upon a historical test period, it must provide a “complete description and quantified explanation for all proposed adjustments with proper support for any proposed changes in price or activity levels, and any other factors which may affect the adjustment.”⁴⁴ That support should, at a minimum, include some documentary evidence to demonstrate the certainty of some expected change or event.

Revenue and expense adjustments based upon the CPI are widely used by utilities when they are preparing annual budgets or rate applications that use forecasted test periods. Regarding budgetary adjustments, the Commission has previously found that “[w]hile such projections may be acceptable when an applicant bases its application upon a forecasted test period, they are not when the basis for the proposed rate adjustment is a historical test period.”⁴⁵

Water Service has not presented any evidence in this proceeding that would persuade the Commission to reverse its prior findings regarding pro forma adjustments based upon the CPI or the disallowance of budgetary projections in a historical test

⁴⁴ 807 KAR 5:001, Section 10(6).

⁴⁵ See Case No. 2001-00211, The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff, at 8 (KY. PSC Mar. 1, 2002).

period. Accordingly, we find that the pro forma adjustments contained in Table II should be denied.

Indirect Expense Allocations. Water Service Corporation, Utilities' service company affiliate, manages the water and sewer operations for Utilities' subsidiaries. Water Service Corporation costs that are not directly assignable to a specific subsidiary are booked to Water Service Corporation and are allocated to the Utilities' subsidiaries at year-end, based on the proportion of active Equivalent Residential Customers ("ERCs") served by an operating company to the total number of active ERCs served by Utilities and its affiliates.⁴⁶

The AG points to the fact that Water Service's agreement with Water Service Corporation, the service company affiliate, does not allow Water Service the authority to contest the reasonableness of any expense allocated to it by Water Service Corporation.⁴⁷ For this reason, the AG claims that the agreement with Water Service Corporation is not an arm's-length transaction and that it enables Water Service Corporation to "spend and allocate at will [and] is *per se* unreasonable."⁴⁸ The AG cites the following indirect expense allocations as examples of costs that either have no connection to providing water service or are excessive:

An Expense Report Form (Doc 50130) reflects charges for drinks after Leadership meeting as well as other charges for which there is no description of the business purpose of the expense (Appendix 1).

Business Expense Reports (Larry Schumacher, 4/01/07 to 6/20/07) reflects before dinner drinks (Appendix Item 5) as well as a dinner in which

⁴⁶ Application, Testimony of Lena Georgiev, at 8-9.

⁴⁷ AG's Post-Hearing Brief, at 4 (filed August 31, 2009).

⁴⁸ Id. at 4-5.

Mr. Schumacher apparently paid for the meal of a person's spouse and a separate charge of \$3,625 for "Dinner/appetizers for entire group BOD, HS" (Appendix Item 6).

The Business Expense Report (John Williams, 5/12/07 to 5/20/07) includes expenses for picking up multiple dinners for "other NARUC faculty and NAWC executives (Appendix Item 8).

The Business Expense Report (Steven M. Lubertozi, 7/08/07 to 8/31/07) contains numerous charges for drinks and appetizers (and these are not modest charges) as well as lunches for which there is no indication of the purpose for the lunch Appendix Item 9).

A Business Expense Report (Larry Schumacher, 9/07/07 to 12/14/07) reflects a Board of Directors' meeting held in Las Vegas, Nevada (a meeting that lasted less than 3 hours (WSCK Response to OAG 1 - 24) and a Board dinner costing \$2,433.89 (Appendix Item 11).

A Business Expense Report (Steven M. Lubertozi, 9/01/07 to 10/09/07) shows the purchase of tickets to see the Chicago Bears (Appendix Item 13).⁴⁹

The AG argues that the above expenses show "an unmistakable pattern of excessive charges in tandem with a lack of documentation necessary to conclude that the expenses were reasonably related or beneficial to WSCK's provision of water service."⁵⁰ The position of the AG is that Water Service has the burden of proof, that there is no presumption of benefit or reasonableness, and that the agreement between Water Service and Water Service Corporation shows that there is an abuse of discretion.⁵¹ Accordingly, the AG requests the Commission disallow for rate-making

⁴⁹ Id. at 5-6.

⁵⁰ Id. at 6.

⁵¹ Id. at 7-8.

purposes all of the allocated indirect costs from Water Service Corporation to Water Service.⁵²

Water Service agrees with the AG, in that the review and rejection power of allocated costs is not included in the Allocation Manual.⁵³ According to Water Service, if each operating unit of Utilities was able to reject the allocation of expenses that it believed to be unrelated to its operations, the system of allocations would be self-defeating.⁵⁴ Water Service concludes that "each operating company benefits from the economies of scale of UI and each must share in the costs."⁵⁵

The Commission agrees with Water Service in that there is a benefit derived from the economies of scale of being associated with a larger corporation such as Utilities. Nevertheless, Water Service should only share in those costs incurred by Water Service Corporation that are reasonable and that provide a benefit to Water Service's rate payers. At the onset, the Commission recognizes that the Allocation Manual is the product of a less-than-arm's-length transaction that allocates all of the indirect costs incurred by Water Service Corporation without 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.

Other jurisdictional water systems note the importance of the ability of the water subsidiaries to review and question costs that are being charged by related subsidiaries.

⁵² Id. at 8.

⁵³ Water Service's Post-Hearing Brief, at 20 (filed August 31, 2009).

⁵⁴ Id.

⁵⁵ Id.

The following is an example of the oversight clauses contained in the agreement between Kentucky-American Water Company and the American Water Works Service Company, Inc.:

4.2 Service Company agrees to keep its books and records available at all times for inspection by representatives of Water Company or by regulatory bodies having jurisdiction over Water Company.

4.3 Service Company shall at any time, upon request of Water Company, furnish any and all information required by Water Company with respect to the services rendered by Service Company hereunder, the costs thereof, and the allocation of such costs among Water Companies.⁵⁶

The Commission finds that Water Service has failed to meet its burden of proof that the indirect cost allocations from Water Service Corporation are reasonable, are directly related to providing water service, or benefit the ratepayers of Water Service. The Commission further finds that the indirect cost allocations from Water Service Corporation should be eliminated from Water Service's pro forma operating expenses. In the last two quarters of 2007, Water Service was allocated \$65,484, of indirect costs from Water Service Corporation. Water Service presented the expenses for the first two quarters of 2008 in such a manner that it was difficult for the Commission to determine the indirect expense allocations for this period. The allocation agreement was revised in 2008 and the cost allocation schedules were presented in a different format. Given that Water Service did not provide adequate documentation for the Commission to determine the correct allocations for the second half of the test period, the Commission will annualize the first half allocations of the test period to determine the full year test-

⁵⁶ See Kentucky-American Water Company's Response to the Commission's November 15, 1991 Order, Item 49, Case No. 1991-00361, Notice of Adjustment of the Rates of Kentucky-American Company, at 11 (filed Nov. 27, 1991).

period allocations. The annualization results in a test-period allocation of indirect expenses of \$130,968, which results in an expense reduction of that amount.

Rate Case Expense. Water Service proposed to increase its pro forma operating expenses by \$39,379 to reflect amortizing its projected rate case cost of \$118,137 over three years.⁵⁷ In responding to the post-hearing information requests, Water Service provided invoices showing the actual cost of this current case to be \$145,604. Amortizing the actual rate case cost of \$145,604 over three years, the Commission calculates a pro forma rate case amortization expense of \$48,535. Accordingly, the Commission has increased Water Service's pro forma operating expenses by \$9,156 to reflect the actual rate case amortization.

Depreciation Expense. Water Service proposed a pro forma depreciation expense of \$258,932 based upon UPIS in service as of June 31, 2008 and post test-period plant additions. The Commission finds that depreciation expense should be decreased by \$48,692 to eliminate depreciation on Project Phoenix.

Bad Debt Expense. Water Service reported a test-period bad debt expense of \$18,156.⁵⁸ Using Water Service's uncollectible rate of 1.11 percent and operating revenues from water sales of \$1,631,079, the Commission calculates a bad debt expense of \$18,105, which is \$51 below the amount reported. Accordingly, the Commission finds that bad debt expense should be decreased by \$51.⁵⁹

⁵⁷ Application, Exhibit 4, Rate Case Expense, w/p(d).

⁵⁸ Id., Schedule B, Income Statement.

⁵⁹ Water Service reported bad debt expense as a reduction to operating expenses. Therefore, the Commission's adjustment is an increase to operating revenues.

General Taxes. Water Service reported a pro forma general tax expense of \$77,751.⁶⁰ Using the current millage rate of \$0.001538 and water service revenues of \$1,631,079, the Commission calculates a "PSC Assessment" of \$2,509, which is \$178 above the amount reported. Accordingly, the Commission finds that the pro forma general tax expense should be increased by \$178.

Income Tax Expense. Based upon its pro forma operating revenues and expenses, Water Service calculated a current income tax expense credit of \$(168,782).⁶¹ Using Water Service's pro forma operating revenues and expenses, the Commission calculates a current income tax expense credit of \$(93,107) as shown in Table III below. Accordingly, the Commission has increased income tax expense by \$75,675 to reflect its pro forma level.

⁶⁰ Id.

⁶¹ Id. \$(150,356) (Fed. Income Tax Exp.) + \$(18,426) = \$(168,782).

Table III: Income Taxes

Account Titles	Amount	Taxes
Operating Revenues	\$ 1,667,169	
<u>Operating Expenses and Interest Expense:</u>		
Operation and Maintenance Expenses	\$ 1,436,049	
Depreciation & Amortization	210,240	
CIAC Amortization	(3,181)	
General Taxes	77,928	
Interest Expense	191,409	
Total Expenses Net of Income Taxes	\$ 1,912,445	
State Taxable Income	\$ (245,276)	
Multiplied by the State Tax Rate ⁶²	6.00%	
State Income Tax	\$ (14,717)	\$ (14,717)
Federal Taxable Income	\$ (230,559)	
Multiplied by the Federal Tax Rate	34.00%	
Federal Income Tax	\$ (78,390)	(78,390)
Total Income Taxes		\$ (93,107)

Interest Expense. To reflect interest synchronization, Water Service proposed a pro forma interest expense of \$214,217 based on forecasted rate base and weighted cost of debt. The Commission has recalculated this expense to be \$191,352⁶³ based on the rate base and weighted cost of debt found reasonable herein.

Based on the aforementioned adjustments to Water Service's pro forma revenues and expenses, the Commission has determined Water Service's pro forma net operating income at present rates to be \$174,681 as shown in Table IV.

⁶² The Commission's past practice has been to use the highest tax rate applicable. Citing KRS 141.040(1), Water Service claimed that the applicable state tax was a graduated rate from 4% to 8%. The tax rates identified by Water Service, however, were for tax years 1990 through 2004. KRS 141.040(3). The tax rate for tax years beginning on or after January 1, 2007 ranges from 4% to 6%. KRS 141.040(6).

⁶³ \$5,484,135 (Commission Approved Rate Base) x 3.4892% (Commission Approved Weighted Cost of Debt) = \$191,352.

Table IV: Pro Forma Income Statement

Account Titles	Water Service	Commission	
	Pro Forma Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues	\$ 1,667,522	\$ (353)	\$ 1,667,169
Operating Expenses			
Operation & Maintenance Expenses	\$ 1,580,453	\$ (144,404)	\$ 1,436,049
Depreciation & Amortization	258,932	(48,692)	210,240
General Taxes	77,750	178	77,928
Income Tax Expense	(168,782)	75,675	(93,107)
Deferred Income Tax Expense	(64,208)	0	(64,208)
Expense Reduction - Clinton Sewer	(71,233)	0	(71,233)
Amortization CIAC & AIAC	(3,181)	0	(3,181)
Total Operating Expenses	\$ 1,609,731	\$ (117,243)	\$ 1,492,488
Net Operating Income	\$ 57,791	\$ 116,890	\$ 174,681
Interest Income/Expense			
Interest Expense - Long-Term Debt	214,217	(22,808)	191,409
Net Income	\$ (156,426)	\$ 139,698	\$ (16,728)

Rate of Return

Capital Structure. Water Service proposes an end-of-test-period capital structure containing 53.03 percent long-term debt, and 46.97 percent common equity.⁶⁴ The AG did not state a position on Water Service's proposed capital structure.

The Commission agrees with Water Service, and finds that the capital structure is as shown in Table V below.

Table V: Capital Structure	
	Percent
Long-Term Debt	53.03
Common Equity	46.97
Total Capital	100.00

⁶⁴ Application, Exhibit 4, w/p [b-1], Capital Structure as of June 30, 2008.

Long-Term Debt. Water Service proposes an embedded long-term debt rate of 6.58 percent.⁶⁵ The AG did not state an opinion on Water Service's long-term debt rate. We find the proposed cost of debt is reasonable and should be accepted.

Return on Equity. When Water Service's application was filed in January 2009, it recommended a return on equity ("ROE") of 11.85 percent, from a range of 11.60 percent to 12.10 percent.

Water Service obtained its results from applying four ROE estimation methodologies to two different proxy groups: a group of seven water companies and a group of ten natural gas transmission and distribution companies. The criteria used for selecting utilities to be included in each group was (1) they are included in the AUS Utility Reports, (2) they have Value Line or Reuters consensus five-year earnings per share growth rate projections, (3) they have a Value Line adjusted Beta, (4) they have not cut or omitted their common dividends during the last five years ending in 2007 or through when the testimony was prepared, (5) they have at least 60 percent of total net operating income derived from and at least 60 percent of total assets devoted to regulated water or regulated gas distribution operations, and (6) they have not publicly announced involvement with merger or acquisition activity.⁶⁶

Water Service applied four different ROE estimation methodologies to both the water utility proxy group and the natural gas distribution proxy group to arrive at its recommendation. The Discounted Cash Flow ("DCF") model uses the current dividend yield on common equity plus a growth component to estimate the total return expected

⁶⁵ Id.

⁶⁶ Application, Direct Testimony of Pauline M. Ahern, at 18-21.

by investors.⁶⁷ The Capital Asset Pricing Model ("CAPM") and the Risk Premium Model ("RPM") models are similar in that both theorize that the return on common equity is equal to the return on long-term debt plus a risk premium to shareholders for being willing to invest in unsecured securities and being behind debt holders for claims on the companies' assets and earnings. For the RPM analysis, the company used expected bond yields for the company proxy groups. Historical risk premium studies and proxy group betas were used to obtain a beta-adjusted market equity risk premium. Beta is a measure of variability of a company's stock relative to the market. Combining the expected bond yields and the risk premium yields the common equity cost rate.⁶⁸ The CAPM model added a beta-adjusted risk premium for the proxy groups to the yield on long-term government bonds to obtain the estimated return on equity.⁶⁹ The Comparable Earnings Model works on the principle that the cost of an investment is equal to the cost of the next-best alternative. In this case, Water Service chose two new proxy groups of domestic non-price-regulated firms using regression analysis to reflect both the systematic and unsystematic risks of the seven water and ten natural gas utilities. Two hundred firms were selected as being similar in risk to the water proxy group and thirty-five companies were selected as being similar to the gas proxy group. The returns on book common equity, net worth, or partner's capital were for the most recent and/or projected five-year period as reported in Value Line.⁷⁰

⁶⁷ Id. at 23-27.

⁶⁸ Id. at 27-33.

⁶⁹ Id. at 33-38.

⁷⁰ Id. at 40-44.

Because Water Service is so much smaller than the companies in either the water or the natural gas distribution proxy groups, size premium is included in the recommended return on equity. The company argues that such a premium is necessary to equalize the business risk between itself and the proxy group companies. The company argues that a size adjustment of 362 basis points (3.62 percent) is justified considering the water utilities proxy group and an adjustment of 432 basis points (4.32 percent) is justified when compared to the natural gas proxy group. The company, however, only adds 35 basis points (0.35 percent) to its cost of equity range.⁷¹

In his brief, the AG argues that Water Service does not demonstrate an understanding of the Kentucky regulatory framework applicable to water utilities.⁷² Moreover, the AG argues that Water Service is not sufficiently similar to the companies in the two proxy groups and that the risks associated with those groups of companies have not been sufficiently reconciled to Water Service's specific situation.⁷³ The AG ultimately argues that the company's ROE evidence is undependable. For a company of Water Service's size, the "operating ratio" methodology is a widely accepted standard and should be used to fairly establish an equity target.⁷⁴

The Commission agrees with the AG that the operating ratio is the most commonly used methodology in determining the return of a company the size of Water

⁷¹ Id. at 13-15, 45-49; Water Service's Post-Hearing Brief, at 9-10 (filed August 31, 2009).

⁷² AG's Post-Hearing Brief, at 13 (filed August 31, 2009)

⁷³ Id. at 13-14.

⁷⁴ Id. at 14.



Service, and is highly preferable to a full ROE analysis such as the company has presented. The Commission will accept the use of ROE analysis in determining Water Service's return in this case, but encourages the company to use the more appropriate operating ratio methodology in the future. Having considered the analysis provided by Water Service, as well as the comments of the AG, the Commission finds a reasonable return on equity range to be 10.1 to 11.1, with a mid-point of 10.6. The approved 10.6 percent ROE includes a size adder as proposed by the company.

Weighted Cost of Capital. Applying the rates of 6.58 percent for long-term, and 10.6 percent for common equity to the adjusted capital structure produces an overall cost of capital of 8.468 percent. We find this cost to be reasonable.

Authorized Increase

The Commission finds that Water Service's net operating income for rate-making purposes is \$464,533. We further find that this level of net operating income requires an increase in forecasted present rate revenues of \$473,182, as shown in Table VI below.

Table VI: Authorized Increase		
Net Investment Rate Base	\$	5,485,749
Multiplied by: Weighted Cost-of-Capital	x	8.468%
Net Operating Income	\$	464,533
Less: Forecasted Operating Income	-	174,681
Operating Income Deficiency	\$	289,852
Multiplied by: Gross-up Factor	x	1.6324947
Revenue Requirement Increase	\$	473,182

Rate Determination

Monthly Water and Fire Protection Rates. Water Service has requested its monthly water rates and monthly fire protection rates be increased across the board by approximately 50.8 percent for all classes of customers. This method of increasing

rates has been accepted by the Commission in the past, and nothing has been demonstrated in this case that would persuade the Commission that this methodology is not appropriate in this instance. Therefore, the Commission accepts Water Service's proposed method of setting the monthly water and fire protection rates.

The revenue requirement determined reasonable herein is an approximate 29.01 percent increase over Water Service's normalized revenues. The Commission finds that this percentage increase should be used to calculate Water Service's monthly water rates and fire protection rates.

Nonrecurring Charges: Water Service has asked to add a charge for New Customer Accounts, Non Sufficient Funds and a Tampering Fee, as well as to increase their charges for Service Connection, Service Charge, and Meter Testing. With one exception, the proposed charges are supported by the expenses being incurred to serve the customer. Accordingly, the Commission approves the new charges for New Customer Accounts, Non Sufficient Funds, Tampering Fee, and the increase in the charge for the Service Charge and Meter Testing. We also approve an increase in the Service Connection charge, but we do not allow the increase requested by Water Service.

Water Service has proposed a new service connection fee of \$1,434 for five-eighths inch and three-quarter inch meters. If approved, this would be the most expensive connection charge for any jurisdictional utility. One reason that the proposed nonrecurring charge is higher than other utilities is because Water Service has included \$486.75 in costs for dense grade gravel, concrete, and asphalt. Martin Lashua testified

at the hearing that most connections required road construction that would necessitate using these materials.

The Commission questions the reliability of this testimony. Other than Mr. Lashua's general statement, Water Service has produced no evidence that demonstrates why Water Service would have to reconstruct roadways for most connections. For new developments, utility infrastructure is generally in place before roadways are constructed, and therefore, there would be no damage to roads when infrastructure is properly placed. In addition, most distribution lines are located next to roadways, and only connections on opposite sides of the road would be likely to require road repair. Moreover, we are unaware of any other utility that adds the cost of gravel, concrete, and asphalt to its connection charges for residential meter sizes. Accordingly, the Commission reduces the Service Connection fee by \$486.75.

The Commission also finds it appropriate to eliminate \$27 from the Service Connection fee for establishing a new account and billing record. Water Service is also proposing (and the Commission is approving) an account set-up, nonrecurring charge of \$27, and therefore, this cost is redundant. Mr. Lashua testified that customers would not be charged the \$27 new account fee in addition to the full \$1,434 Service Connection fee.

Therefore, the proposed connection fee shall be reduced by \$513.75, and we approve a Service Connection fee of \$920.75. The Commission shall permit Water Service to recover gravel, asphalt, and concrete expenses on a case-by-case basis only when those costs are incurred when good engineering practices require it. In order to collect those additional expenses, Water Service must place language in its tariff on the

same page as the Service Connection fee that states that a customer shall be responsible for actual costs of gravel, asphalt, and concrete in addition to the Service Connection fee when good engineering practices require road work in the scope of the service connection.

Credit Card Fee. Water Service proposes to add language to its tariff so that it may collect an additional fee if it permits customers to pay their bills by credit card. The proposed language states:

The Company may allow payments to be made with cash, check, credit/debit card. Customers who choose to pay by credit/debit card or online shall be charged a per transaction fee plus a fee of a percentage of amount to be paid. The fees shall be based on the bank fees billed to the Company for such payments.

The Commission finds that the proposed credit/debit card language is too vague. We have previously allowed utilities to collect an additional fee from its customers that is identical to the fee the utility is being charged by a credit card company or an acquirer bank. We have also required that the utility inform its customers of the formula used to calculate the credit/debit card fee prior to any transaction. Mr. Lashua testified that Water Service would be willing to disclose that information to its customers before each credit/debit card transaction.⁷⁵

Although the Commission does not approve the tariff language proposed by Water Service regarding credit/debit card transactions, we find that Water Service should be allowed to collect an additional fee from its customers that is identical to the fee the utility is being charged by a credit card company or an acquirer bank for

⁷⁵ Transcript of August 19, 2009, Hearing, at 130.

customers paying their bills by credit or debit cards. The utility shall amend its proposed tariff and use the following language:

The Company may allow payments to be made with cash, check, or credit/debit cards. If, on the bill due date, an attempt to pay the credit card or debit card is made and the card is declined for any reason, payment is still due in full on that date and will be considered late after that date. All late charges and penalties will be applied. If a customer is paying on our disconnect day and the card is denied, the same rules as above apply, in addition to service being disconnected.

When a customer makes a payment by credit card, the utility will assess a fee equal to that charged to the utility by the credit or debit card processing company to process the transaction. This fee is generally calculated using a formula applied to the balance of the amount charged to the credit or debit account but may be a flat fee per transaction. Prior to processing the transaction, the customer will be informed of the fee amount and, upon request by the customer, the formula employed to arrive at this fee amount.

City of Clinton - Sewer Rates. The City of Clinton owns sewer facilities, and its city council has set its sewer rates to be 133% of the customer's water bill.⁷⁶ Because KRS 278.010 specifically exempts cities from the definition of public utilities, the Commission has no jurisdiction to regulate Clinton's sewer facilities or operations.

Water Service operates Clinton's wastewater facilities and provides billing services. At the hearing, Mr. Lashua testified that Water Service receives a flat fee from the city for providing those services. He specifically stated that Water Service would not generate additional revenue from its contract with the city if Water Service's water rates were increased.⁷⁷

⁷⁶ Clinton, Ky. Code § 50.20 (2007).

⁷⁷ Transcript of August 19, 2009, Hearing, at 122.

In its post-hearing brief, Water Service corrected Mr. Lasuha's testimony.⁷⁸ Based on the contract, the City of Clinton pays Water Service \$15,000 annually (plus automatic increases based on CPI) and 3 percent of gross revenues plus costs. Based on these provisions, it appears that Water Service would generate additional revenues from Clinton if its water rates increased. These additional revenues, however, are based on operations outside the Commission's jurisdiction and, therefore, do not impact the revenue requirement for Water Service's water operations.

As a governmental agency, the Commission is concerned with the interests of the general public. As an agency specializing in utility regulation, we encourage utilities to set rates that are based on the cost of providing that utility service. In viewing Clinton's sewer rate at a distance, we are concerned that, if Clinton's sewer rate was set at 133 percent of the water bill because those rates were based on the cost of sewer service at that time, an increase in sewer rates resulting from an increase in water rates would produce additional revenues that are not necessarily based on the cost of providing sewer service.

We must make it clear that the Commission has no knowledge as to how the Clinton City Council set its rate or about the costs associated with its sewer facilities. It is entirely possible that the City Council set rates that were lower than the actual cost of

⁷⁸ Water Service's Post-Hearing Brief, at 22 (filed August 31, 2009).

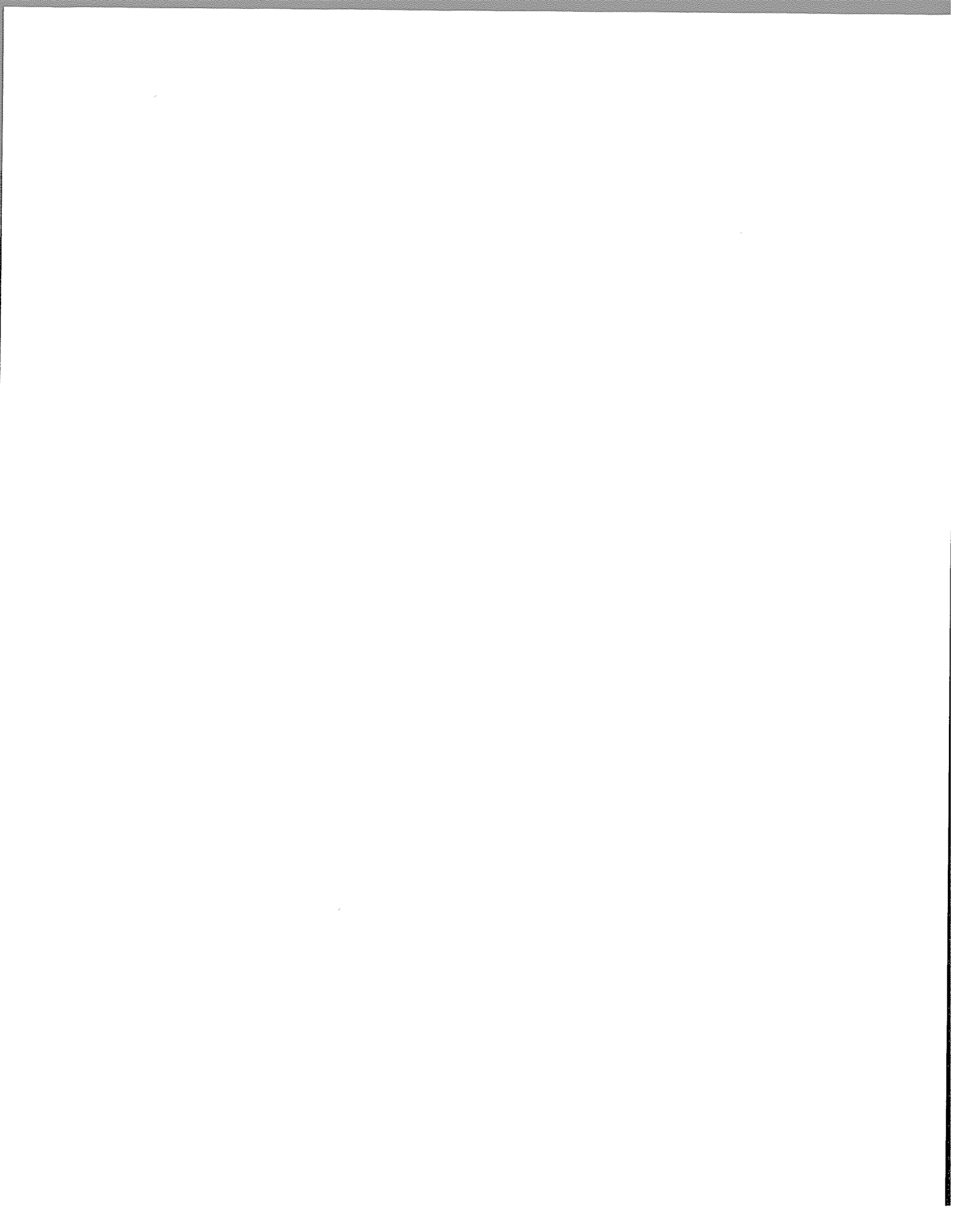
providing sewer service and are subsidizing the sewer operations with other funding. It is also possible that the sewer rate increase that will occur as the water rate increases will no longer be cost-justified. The Commission encourages Clinton's public officials to consider these concerns in the interest of its citizens.

Customer Bills for Average Usage. At the public meetings in Middlesboro and Clinton, numerous customers of Water Service described their high bills and how a rate increase would affect them. The customers also generally commended their local Water Service staff for providing exemplary service. The Commission understands the plight of the two communities that are served by Water Service, particularly in these times of economic distress. As with all rate cases, the Commission must balance the consumer interests of safe, reliable service with reasonable cost, and we believe that we have accomplished that goal in these proceedings.

The Commission typically uses a monthly average of 5,000 gallons of water to reflect the average usage for a residential customer. The increase that the Commission is authorizing Water Service will increase an average residential customer's bill in Middlesboro by \$5.12 (from \$17.58 to \$22.70) and in Clinton by \$8.54 (from \$29.46 to \$38.00). Undoubtedly, some customers will be affected more appreciably. We recognize that this increase is not insignificant; nevertheless, the increase is necessary in order for Water Service to maintain adequate service to all its customers.

SUMMARY

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:



1. Water Service's proposed rates would produce revenue in excess of that found reasonable herein and should be denied.

2. The rates and nonrecurring charges set forth in the Appendix attached to this Order are fair, just, and reasonable rates for Water Service to charge for service rendered on and after the date of this Order.

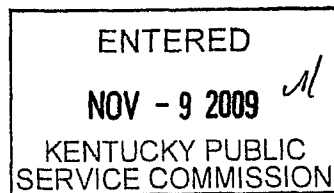
IT IS THEREFORE ORDERED that:

1. The water rates proposed by Water Service are denied.

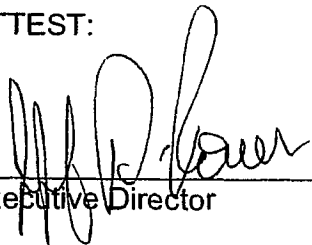
2. The rates and nonrecurring charges in the Appendix to this Order are approved for service rendered by Water Service on and after the date of this Order.

3. Within 20 days of the date of this Order, Water Service shall file new tariff sheets setting forth the rates and charges approved herein and reflecting their effective date and that they were authorized by this Order.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-00563 DATED **NOV - 9 2009**

The following rates and charges are prescribed for the customers in the area served by Water Service Corporation of Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

CLINTON

5/8" x 3/4" Meter:

First	1,000	gallons	\$ 11.64	Minimum bill
Next	9,000	gallons	6.59	per 1,000 gallons
Next	15,000	gallons	6.05	per 1,000 gallons
Next	25,000	gallons	5.51	per 1,000 gallons
Next	50,000	gallons	4.89	per 1,000 gallons
All Over	100,000	gallons	4.27	per 1,000 gallons

1" Meter:

First	5,300	gallons	\$ 39.98	Minimum bill
Next	3,700	gallons	6.59	per 1,000 gallons
Next	15,000	gallons	6.05	per 1,000 gallons
Next	25,000	gallons	5.51	per 1,000 gallons
Next	50,000	gallons	4.89	per 1,000 gallons
All Over	100,000	gallons	4.27	per 1,000 gallons

1 1/2" Meter:

First	11,200	gallons	\$ 78.23	Minimum bill
Next	13,800	gallons	6.05	per 1,000 gallons
Next	25,000	gallons	5.51	per 1,000 gallons
Next	50,000	gallons	4.89	per 1,000 gallons
All Over	100,000	gallons	4.27	per 1,000 gallons

2" Meter:

First	17,600	gallons	\$ 116.95	Minimum bill
Next	7,400	gallons	6.05	per 1,000 gallons
Next	25,000	gallons	5.51	per 1,000 gallons
Next	50,000	gallons	4.89	per 1,000 gallons
All Over	100,000	gallons	4.27	per 1,000 gallons

6" Meter:

First	250,500	gallons	\$1,186.60	Minimum bill
All Over	250,500	gallons	4.27	per 1,000 gallons

MIDDLESBORO

5/8" x 3/4" Meter:

First	1,000	gallons	\$ 8.70	Minimum bill
Next	9,000	gallons	3.50	per 1,000 gallons
Next	15,000	gallons	3.19	per 1,000 gallons
Next	25,000	gallons	3.03	per 1,000 gallons
Next	50,000	gallons	2.71	per 1,000 gallons
All Over	100,000	gallons	2.48	per 1,000 gallons

1" Meter:

First	6,000	gallons	\$ 26.18	Minimum bill
Next	4,000	gallons	3.50	per 1,000 gallons
Next	15,000	gallons	3.19	per 1,000 gallons
Next	25,000	gallons	3.03	per 1,000 gallons
Next	50,000	gallons	2.71	per 1,000 gallons
All Over	100,000	gallons	2.48	per 1,000 gallons

1 1/2" Meter:

First	13,000	gallons	\$ 49.72	Minimum bill
Next	12,000	gallons	3.19	per 1,000 gallons
Next	25,000	gallons	3.03	per 1,000 gallons
Next	50,000	gallons	2.71	per 1,000 gallons
All Over	100,000	gallons	2.48	per 1,000 gallons

2" Meter:

First	21,400	gallons	\$ 76.49	Minimum bill
Next	3,600	gallons	3.19	per 1,000 gallons
Next	25,000	gallons	3.03	per 1,000 gallons
Next	50,000	gallons	2.71	per 1,000 gallons
All Over	100,000	gallons	2.48	per 1,000 gallons

3" Meter:

First	68,400	gallons	\$ 213.60	Minimum bill
Next	31,600	gallons	2.71	per 1,000 gallons
All Over	100,000	gallons	2.48	per 1,000 gallons

4" Meter:

First	127,500	gallons	\$ 367.33	Minimum bill
All Over	127,500	gallons	2.48	per 1,000 gallons

6" Meter:

First	281,500	gallons	\$ 748.79	Minimum bill
All Over	281,500	gallons	2.48	per 1,000 gallons

Monthly Fire Protection Rates for Water Service Corporation

Private Sprinkler	19.35	per sprinkler
Private Hydrant	19.35	per hydrant
Municipal Hydrant	4.30	per hydrant

Nonrecurring Charges for Water Service Corporation

Service Connection/Tap-on Fee	
5/8" x 3/4" Meter	\$920.75
All other meter sizes	Actual Cost
Tampering Fee	\$27.00
Non-Sufficient Funds Charge	\$15.00
Service Reconnection Charge	\$27.00
New Customer Account Setup Fee	\$27.00
Service Charge	\$27.00
Meter Testing Fee	\$20.00
Credit/Debit Card Fee:	

The Company may allow payments to be made with cash, check, or credit/debit cards. If, on the bill due date, an attempt to pay the credit card or debit card is made and the card is declined for any reason, payment is still due in full on that date and will be considered late after that date. All late charges and penalties will be applied. If a customer is paying on our disconnect day and the card is denied, the same rules as above apply, in addition to service being disconnected.

When a customer makes a payment by credit card, the utility will assess a fee equal to that charged to the utility by the credit or debit card processing company to process the transaction. This fee is generally calculated using a formula applied to the balance of the amount charged to the credit or debit account but may be a flat fee per transaction. Prior to processing the transaction, the customer will be informed of the fee amount and, upon request by the customer, the formula employed to arrive at this fee amount.

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WATER SERVICE CORPORATION OF KENTUCKY

Case No. 2013 - 00237

Calculation of Salary and Benefits

Test Year 12/31/2012

w/p [b]

Confidential

	Position	Total Annualized Salary	FICA 7.65%	FUTA 7,000 @ .8%	SUTA 9,300 @ 3.3%	Total Taxes	12/31/2012 Health Insurance	401(k) at 3%	Company Contribution at 4%	12/31/2012 Other	Total Benefits
Maintenance											
Maintenance 1	Field Tech III	50,756	3,883	56	307	4,246	7,482	1,523	2,030	454	11,488
Maintenance 2	Operator II	39,907	3,053	56	307	3,416	7,482	1,197	1,596	454	10,729
Maintenance 3	Field Tech I	32,332	2,473	56	307	2,836	7,482	970	1,293	454	10,199
Maintenance 4	Regional Manager	73,655	5,635	56	307	5,998	7,482	2,210	2,946	454	13,091
Maintenance 5	Lead Operator	51,470	3,937	56	307	4,300	7,482	1,544	2,059	454	11,538
Maintenance 6	Field Tech I	34,134	2,611	56	307	2,974	7,482	1,024	1,365	454	10,325
Maintenance 7	Operator II	40,127	3,070	56	307	3,433	7,482	1,204	1,605	454	10,744
Maintenance 8	Field Tech I	26,858	2,055	56	307	2,418	7,482	806	1,074	454	9,815
Maintenance 9	Field Tech I	33,866	2,591	56	307	2,954	7,482	1,016	1,355	454	10,306
Maintenance 10	Operator II	42,966	3,287	56	307	3,650	7,482	1,289	1,719	454	10,943
Maintenance 11	Administrative Assistant	38,883	2,975	56	307	3,338	7,482	1,166	1,555	454	10,657
Supervisory											
Supervisory 1	Regional Director	124,819	8,859	56	307	9,222	7,482	3,745	4,993	454	16,673
Supervisory 2	Regional Vice President	184,998	9,732	56	307	10,095	7,482	5,550	7,400	454	20,885
Supervisory 3	Executive Assistant	69,913	5,348	56	307	5,711	7,482	2,097	2,797	454	12,829
Supervisory 4	Regional Finance Manager	72,407	5,539	56	307	5,902	7,482	2,172	2,896	454	13,004
Supervisory 5	Regional Compliance & Safety Manager	60,864	4,656	56	307	5,019	7,482	1,826	2,435	454	12,196
Total Operator Salary		977,957	69,704	896	4,910	75,510	119,710	29,339	39,118	7,256	195,423
Operator Allocation											
Maintenance 1	Field Tech III	50,756	3,883	56	307	4,246	7,482	1,523	2,030	454	11,488
Maintenance 2	Operator II	39,907	3,053	56	307	3,416	7,482	1,197	1,596	454	10,729
Maintenance 3	Field Tech I	32,332	2,473	56	307	2,836	7,482	970	1,293	454	10,199
Maintenance 4	Regional Manager	73,655	5,635	56	307	5,998	7,482	2,210	2,946	454	13,091
Maintenance 5	Lead Operator	51,470	3,937	56	307	4,300	7,482	1,544	2,059	454	11,538
Maintenance 6	Field Tech I	34,134	2,611	56	307	2,974	7,482	1,024	1,365	454	10,325
Maintenance 7	Operator II	40,127	3,070	56	307	3,433	7,482	1,204	1,605	454	10,744
Maintenance 8	Field Tech I	26,858	2,055	56	307	2,418	7,482	806	1,074	454	9,815
Maintenance 9	Field Tech I	33,866	2,591	56	307	2,954	7,482	1,016	1,355	454	10,306
Maintenance 10	Operator II	42,966	3,287	56	307	3,650	7,482	1,289	1,719	454	10,943
Maintenance 11	Administrative Assistant	38,883	2,975	56	307	3,338	7,482	1,166	1,555	454	10,657
Supervisory											
Supervisory 1	Regional Director	27,058	1,920	12	67	1,999	1,622	812	1,082	98	3,614
Supervisory 2	Regional Vice President	12,908	679	4	21	704	522	387	516	32	1,457
Supervisory 3	Executive Assistant	4,878	373	4	21	398	522	146	195	32	895
Supervisory 4	Regional Finance Manager	5,052	386	4	21	412	522	152	202	32	907
Supervisory 5	Regional Compliance & Safety Manager	4,247	325	4	21	350	522	127	170	32	851
Total Operator Allocation		519,099	39,254	644	3,528	43,426	86,010	15,573	20,764	5,214	127,561

[1] Salaries Annualized to include an estimated 3.0% raise effective 4/01/2013

CASE No. 2013-00237
WATER SERVICE CORPORATION OF KENTUCKY
RESPONSES TO COMMISSION STAFF'S SECOND INFORMATION REQUEST

10. a. Provide all studies and analysis that WSKY or UI have conducted or commissioned on prevailing wages in the Clinton region, the Middlesboro region, or in the state of Kentucky.

RESPONSE: Please refer to Mr. Shambaugh's Testimony, which was attached to the Application in Exhibit 5.

b. If no studies or analysis have been conducted or commissioned, explain why not.

RESPONSE: Please refer to the response provided in 10(a).

c. Explain why, in light of the present economic conditions, both locally and nationally, the 2013 wage increases are reasonable and appropriate.

RESPONSE: Salary increases are necessary to enable WSCK to maintain a skilled and competent workforce so as to continue to provide safe and reliable drinking water to its customers at fair, just, and reasonable rates.

Witness: Lowell Yap

CASE No. 2013-00237
WATER SERVICE CORPORATION OF KENTUCKY
RESPONSES TO COMMISSION STAFF'S THIRD INFORMATION REQUEST

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.
 - c. In its salary analysis WSKY selected 12 water utilities 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...."

RESPONSE:

- a. Mr. Shambaugh did not perform an analysis specifically addressing the prevailing wage rate as part of the Affiliate Charges study that addresses the allocation of corporate charges related to direct and indirect administrative costs.
- b. The information set forth on Exhibit D of Mr. Shambaugh's testimony was taken from the records on file with the Commission as reported by the various water districts. Exhibit D, Page 1 of 3, was utilized to assess the relative size of the comparable group to WSCK. Mr. Shambaugh utilized the data as factual and representative of those systems total salaries and wages. He had no indications from the documents reviewed that the reported actual salaries and wages for each system were not reasonable.

A per-customer cost analysis can show that employee wage rates are reasonable by demonstrating that customers are paying similar costs for similar services. This type of analysis has the advantage of factoring in productivity where other analyses may not. For example, a company with highly productive workers can have a smaller workforce and pay higher salaries to their efficient workers than a company that has less productive workers and still maintain the same value of its product. A per-customer cost analysis shows that the company's expenses are reasonable because that company is providing the same service at the same price; whereas, a generic comparison of mean salaries in the industry would discourage workplace productivity and salary recognition thereof.

WATER SERVICE CORPORATION OF KENTUCKY
RESPONSES TO THE ATTORNEY GENERAL'S INITIAL REQUEST FOR INFORMATION

1. How many total customers does WSCK serve? For this question and its subparts, please do not reference other documents but do provide the specified number.
 - a. How many in Bell County?
 - b. How many in Hickman County?

RESPONSE: Water Service Corporation of Kentucky ("WSCK") serves 6507 customers total.

- a. 5900
- b. 607

Witness: Lowell Yap

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Revenue Requirement Summary

Appendix A
Schedule LY-R1 Revised

	WCK Pro Forma Present Rates	WCK Rebuttal Pro Forma Adjustment	WCK Rebuttal Pro Forma Present	WCK Rebuttal Proposed Adjustment	WCK Rebuttal Pro Forma Proposed
Operating Revenues					
Service Revenues - Water	\$2,103,813		\$2,103,813	\$236,802 (J)	\$2,340,615
Service Revenues - Sewer					
Miscellaneous Revenues	78,995		78,995		78,995
Uncollectible Accounts	(38,028)	38,028 (A)	0		0
Total Operating Revenues	\$2,144,780	\$38,028	\$2,182,808	\$236,802	\$2,419,610
Maintenance Expenses					
Salaries and Wages	519,099	(\$1,133) (B)	517,966		517,966
Purchase Water/Sewer	85,200		85,200		85,200
Purchased Power	95,111		95,111		95,111
Maintenance and Repair	98,163		98,163		98,163
Maintenance testing	34,092		34,092		34,092
Meter Reading	0		0		0
Chemicals	145,421		145,421		145,421
Transportation	34,774		34,774		34,774
Operating Exp. Charged to Plant	(163,869)	(K)	(163,869)		(163,869)
Outside Services - Other	30,001		30,001		30,001
Total	\$877,992	(\$1,133)	\$876,859	\$0	\$876,859
General Expenses					
Salaries and Wages	\$173,648	\$0 (B)	\$173,648		\$173,648
Office Supplies & Other Office Exp.	79,610		79,610		79,610
Regulatory Commission Exp.	73,660	15,430 (C)	89,090		89,090
Pension & Other Benefits	160,716	(79) (D)	160,637		160,637
Rent	6,254		6,254		6,254
Insurance	63,192		63,192		63,192
Office Utilities	54,273		54,273		54,273
Bad Debt Expense	0	38,028 (A)	38,028	4,286	42,314
Service Company - Allocated Expenses	0	(12,904) (E)	(12,904)		(12,904)
Miscellaneous	12,173	(500) (F)	11,673		11,673
Total	\$623,526	\$39,975	\$663,501	\$4,286	\$667,787
Depreciation	\$281,828	\$0 (L)	\$281,828		\$281,828
Amortization of PAA	0		0		0
Taxes Other Than Income	144,063	(87) (G)	143,976	375	144,351
Expense Reduction Related to Clinton Sewer Ops	(120,708)	0 (H)	(120,708)		(120,708)
Income Taxes - Federal	54,491	(232) (I)	54,259	74,192	128,451
Income Taxes - State	10,230	(44) (I)	10,186	13,928	24,115
Amortization of CIAC	(4,229)		(4,229)		(4,229)
Total	\$365,675	(\$362)	\$365,313	\$88,495	\$453,808
Total Operating Expenses	\$1,867,193	\$38,480	\$1,905,673	\$92,782	\$1,998,454
Net Operating Income	\$277,587	(\$452)	\$277,135	\$144,020	\$421,155
Other Income	0		0		0
Interest During Construction	(1,730)		(1,730)		(1,730)
Interest on Debt	171,809	0 (M)	171,809		171,809
Net Income	\$ 107,508	\$ (452)	\$ 107,056	\$ 144,020	\$ 251,076

Sources:

- (A) Bad Debt Expenses transferred from revenue reduction to expense increase.
- (B) Schedule LY-R2
- (C) Schedule LY-R7 [NEW SCHEDULE]
- (D) Schedule LY-R3
- (E) Schedule LY-R4
- (F) Schedule ACC-7
- (G) Schedule LY-R5
- (H) Adjustment not necessary since Company is not accepting AG adjustment related to Clinton Sewer Operations. The Commission accepted this methodology in Case No. 2010-00476.
- (I) Schedule LY-R8 [NEW SCHEDULE]
- (J) Schedule LY-R6 Revised
- (K) Adjustment not necessary since Company is not accepting AG adjustment to remove 3% salary increase.
- (L) Adjustment not necessary since Company is not accepting AG adjustment related to Project Phoenix costs. In order to expedite this case, the Company is reverting back to original position using composite rates.
- (M) Adjustment not necessary since Company is not accepting AG adjustment related to Project Phoenix costs.

CASE NO. 2013-00237
WATER SERVICE CORPORATION OF KENTUCKY
RESPONSES TO THE ATTORNEY GENERAL'S INITIAL REQUEST FOR INFORMATION

24. For each member of the WSCK board of directors
- a. Indicate whether the director also serves as a director or an officer of Utilities, Inc., or a Utilities, Inc., subsidiary; and,
 - b. If applicable, identify the corresponding affiliate and position held.

RESPONSE: They are no Directors of Utilities, Inc., but they are Officers of Utilities, Inc., with the following titles:

- Lisa Sparrow – President and CEO;
- John Stover – Vice President and Secretary.

Ms. Sparrow and Mr. Stover are also directors of, and hold the above described titles in, all other subsidiaries of UI, including WSCK.

Witness: Lowell Yap

CASE No. 2013-00237
WATER SERVICE CORPORATION OF KENTUCKY
RESPONSES TO THE ATTORNEY GENERAL'S INITIAL REQUEST FOR INFORMATION

22. Please identify the members of WSCK's board of directors.

RESPONSE: WSCK's members of the Board of Directors are Lisa Sparrow and John Stover.

Witness: Lowell Yap

	Actual as of 3/31/2014			Estimated Amount to Complete	Actual & Estimated Cost to Complete			
Legal Fees	61,050			18,950	80,000			
Consulting fees								
AUS	35,261			5,000	40,261			
Bayrenbruch	16,120			5,000	21,120			
Customer Notices:								
Newspaper Publications	2,920			1,000	3,920			
Fed Ex, mailings, postage, and miscellaneous costs	355			355	709			
Travel	Personnel	Cost	# of Trips/ Nights					
Airfare	4	500	1	2,000	2,000			
Hotel/Meals	5	200	2	2,000	2,000			
Rental Car		200		200	200			
Water Service Personnel	hours	rate	\$	Revised Estimated Total Hours	Remaining Hours	Current Rate	Remaining \$	Actual and Estimated
Daniel, Carl	49.00	\$ 130.65	\$ 6,402	60	11	\$ 131	\$ 1,437	\$ 7,839
Feathergill, Adam K	97.50	\$ 22.00	2,145	100	3	\$ 22	55	\$ 2,200
Guttormsen, Robert A	231.53	\$ 32.00	7,409	240	8	\$ 32	271	\$ 7,680
Haas, Bruce T.	123.00	\$ 81.00	9,963	160	37	\$ 81	2,997	\$ 12,960
Leonard, James R.	21.00	\$ 37.05	778	50	29	\$ 37	1,074	\$ 1,853
Liskoff, David	109.00	\$ 39.00	4,251	140	31	\$ 39	1,209	\$ 5,460
Lubertozzi, Steven M.	24.78	\$ 103.00	2,552	80	55	\$ 103	5,688	\$ 8,240
Lupton, Helen C.	3.00	\$ 48.00	144	25	22	\$ 48	1,056	\$ 1,200
Neyzelman, Dimltry	216.10	\$ 48.00	10,373	300	84	\$ 48	4,027	\$ 14,400
Valrie, LaWanda N.	44.00	\$ 23.00	1,012	50	6	\$ 23	138	\$ 1,150
Vaughn, Stephen R.	13.00	\$ 37.05	482	25	12	\$ 37	445	\$ 926
Yap Jr., Lowell M.	801.50	\$ 32.00	25,648	802	0	\$ 32	-	\$ 25,648
Total				71,159				89,556
Total Cost of current case				186,864				239,767
Unamortized Rate Case Expense				27,505				27,505
Total Rate Case expense				214,369				267,271
Amortized over 3 years				3				3
Amortization Expense per Rebuttal				\$ 71,456				\$ 89,090
Per Company's Original Filing								\$ 73,660
Rebuttal Adjustment								\$ 15,430

CASE NO. 2013-00237
WATER SERVICE CORPORATION OF KENTUCKY
RESPONSES TO THE ATTORNEY GENERAL'S INITIAL REQUEST FOR INFORMATION

81. Provide a copy of all contracts with consultants or other third parties for rate case services claimed in this filing.

RESPONSE: Please see the attached engagement letter between WSCK and AUS Consulting. There was no specific contract with Mr. Baryenbruch. Please see the Testimony of Mr. Baryenbruch which describes the scope of work performed for this rate case and the response to Item 34 above. There is no written contract with the law firm of Sturgill, Turner, Barker, and Moloney related to legal fees for this rate case.

Witness: Lowell Yap



GARY D. SHAMBAUGH
Principal & Director

AUS CONSULTANTS

275 Grandview Avenue, Suite 100
Camp Hill, PA 17011
717.763.9890 • Tel
717.763.9931 • Fax
gshambaugh@ausinc.com

June 7, 2013

Mr. Steve M. Lubertozi
Exec. Director of Regulatory Acct. & Affairs
Utilities, Inc.
2335 Sanders Road
Northbrook, IL 60062-6196

RE: Water Services Corporation
of Kentucky

Dear Mr. Lubertozi:

We understand that Utilities, Inc. (the "Company") wishes to retain AUS Consultants to prepare the support for the indirect expense allocations to Water Services Corporation of Kentucky ("WSKY") from the parent company, Utilities, Inc.

Scope of the Project

It appears that the Public Service Commission is holding WSKY to a higher standard with regard to affiliated transactions. By virtue of the Attorney General's arguments the Commission disallowed the entire allocation of indirect costs (\$169,886) which are largely composed of corporate salaries. AUS Consultants would propose the following approach to the project:

- A complete review of UI's allocation process including the costs and the basis for the allocations.
- Provide a breakdown of the claimed allocation of salaries and wages relative to the services provided by operating

category such as engineering, accounting, management, etc., and

- Search for accepted costs by category in other Kentucky water cases.

I would suggest that the approaches outlined above will make it difficult for the Attorney General to disallow, in total, all indirect allocation of corporate costs.

We have considered that the Company will assist in providing the affiliated corporate cost allocations, the review of the corporate allocation process and in researching other similar sized Kentucky water utilities for comparative costs.

Cost Estimate

AUS Consultants estimates that the professional fees for ready-to-file work including direct testimony will be approximately \$15,000 to \$18,000. Based upon our projected estimate of hours required to complete the work, our effective hourly rate would be approximately \$200.

Out-of-pocket expenses for clerical, travel, communication and production will be invoiced at cost, in addition to the professional fee quote. Our invoices are due and payable upon receipt. Interest will accrue at the prime rate plus two point on all invoices not paid within 30 days. AUS Consultants reserves the right to cease work on the projects for non-payment on all outstanding invoices.

Post filing work will be invoiced based upon the level of expertise and consultants assigned to the task. The hourly rates for our professional staff are as follows:

	<u>Rate per Hour</u>
Gary D. Shambaugh	\$225
Dylan W. D'Ascendis	160
Selby P. Jones	140

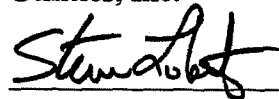
Water Services Corp. of Kentucky
June 7, 2013
Page 3

AUS Consultants appreciates the opportunity to again provide our services to Utilities, Inc. Upon the acceptance of our engagement letter, AUS Consultants will provide an initial data request and set a tentative date for a meeting in the Company's offices.

Respectfully submitted,
AUS Consultants

By: Gary D. Shambaugh

Accepted by:
Utilities, Inc.

 6/18/13

Signature & Title

Date

Water Service Corporation of Kentucky

*Comparison of Annual Operating Revenues with Similar Sized
Kentucky Water Utilities*

Water System	Total Operating Revenues		Number of Customers	Annual Cost Per Customer	Monthly Cost Per Customer
	2011	2012			
Muhlenberg County Water District	\$3,003,131		5,983	\$501.94	\$41.83
McCreary County Water District	2,878,024		6,192	464.80	38.73
Grayson County Water District		\$3,239,287	6,389	507.01	42.25
Henderson County Water District		2,827,068	6,384	442.84	36.90
Henry County Water District	3,383,411		6,261	540.39	45.03
Southeast Daviess County Water District	1,840,663		6,568	280.25	23.35
Bullock Pen Water District		3,966,563	6,742	588.34	49.03
Green River Valley Water District	4,265,256		6,791	628.07	52.34
Rowan Water, Inc.		2,587,625	6,855	377.48	31.46
South Eastern Water Association	3,689,670		7,781	474.19	39.52
Oldham County Water District		4,897,917	7,797	628.18	52.35
Western Pulaski County Water District	2,344,308		8,046	291.36	24.28
Totals	\$21,404,463	\$17,518,460	81,789	\$475.89	\$39.66
Water Service Corporation of Kentucky	\$2,252,368		7,388	\$304.87	\$25.41

26000 Muhlenberg County Water District #3 01/01/2011 - 12/31/2011

Water Operating Revenue (Ref Page: 27)

	Beginning Year Customers	Year End Customers	Amount
Operating Revenues			
Unmetered Water Revenue (460)	0	0	\$0.00
Metered Water Revenue (461)			
Sales to Residential Customers (461.1)	2,056	2,056	\$593,258.61
Sales to Commercial Customers (461.2)	89	92	\$158,817.57
Sales to Industrial Customers (461.3)			
Sales to Public Authorities (461.4)			
Sales to Multiple Family Dwellings (461.5)			
Sales through Bulk Loading Stations (461.6)			
Total Metered Sales	2,145	2,148	\$752,076.18
Fire Protection Revenue (462)			
Public Fire Protection (462.1)			
Private Fire Protection (462.2)			
Total Fire Protection Revenue			
Other Sales to Public Authorities (464)			
Sales to Irrigation Customers (465)			
Sales for Resale (466)	1	1	\$158,541.92
Interdepartmental Sales (467)			
Total Sales of Water	2,146	2,149	\$910,618.10
Other Water Revenues			
Guaranteed Revenues (469)			
Forfeited Discounts (470)			\$16,296.32
Miscellaneous Service Revenues (471)			\$11,446.83
Rents from Water Property (472)			
Interdepartments Rents (473)			
Other Water Revenues (474)			\$278.75
Total Other Water Revenues			\$28,021.90

AG Exhibit 14

26000 Muhlenberg County Water District #3 01/01/2011 - 12/31/2011

Water Operating Revenue (Ref Page: 27)

	Beginning Year Customers	Year End Customers	Amount
Total Water Operating Revenues			\$938,640.00

Water Service Corporation of Kentucky
Comparison of Annual Salaries & Wages with Similar Sized
Kentucky Water Utilities

Water System	Total Salaries & Wages		Number of Customers	Annual Cost Per Customer	Monthly Cost Per Customer
	2011	2012			
Muhlenberg County Water District	\$686,497		5,983	\$114.74	\$9.56
McCreary County Water District	726,214		6,192	117.28	9.77
Grayson County Water District		\$0	6,389	0.00	0.00
Henderson County Water District		685,938	6,384	107.45	8.95
Henry County Water District	654,313		6,261	104.51	8.71
Southeast Daviess County Water District	256,385		6,568	39.04	3.25
Bullock Pen Water District		656,865	6,742	97.43	8.12
Green River Valley Water District	818,725		6,791	120.56	10.05
Rowan Water, Inc.		514,079	6,855	74.99	6.25
South Eastern Water Association	298,205		7,781	38.32	3.19
Oldham County Water District		802,357	7,797	102.91	8.58
Western Pulaski County Water District	258,657		8,046	32.15	2.68
Totals	\$3,698,996	\$2,659,239	81,789	\$77.74	\$6.48
Less:					
Grayson County Water District		\$0	6,389		
	\$3,698,996	\$2,659,239	75,400	\$84.33	\$7.03
Water Service Corporation of Kentucky	\$491,593		7,388	\$66.54	\$5.54

Water Service Corporation of Kentucky

**Comparison of Annual Salaries & Wages - Officers and Directors with Similar Sized
Kentucky Water Utilities**

Water System	Officers & Directors Total Salaries & Wages		Number of Customers	Annual Cost Per Customer	Monthly Cost Per Customer
	2011	2012			
Muhlenberg County Water District	\$18,000		5,983	\$3.01	\$0.25
McCreary County Water District	15,100		6,192	2.44	0.20
Grayson County Water District		\$0	6,389	0.00	0.00
Henderson County Water District		10,500	6,384	1.64	0.14
Henry County Water District	28,800		6,261	4.60	0.38
Southeast Daviess County Water District	59,378		6,568	9.04	0.75
Bullock Pen Water District		13,000	6,742	1.93	0.16
Green River Valley Water District	14,600		6,791	2.15	0.18
Rowan Water, Inc.		20,211	6,855	2.95	0.25
South Eastern Water Association	43,000		7,781	5.53	0.46
Oldham County Water District		30,000	7,797	3.85	0.32
Western Pulaski County Water District	12,200		8,046	1.52	0.13
Totals	\$191,078	\$73,711	81,789	\$3.24	\$0.27
Less:					
Grayson County Water District		\$0	6,389		
	\$191,078	\$73,711	75,400	\$3.51	\$0.29
Water Service Corporation of Kentucky	\$59,748		7,388	\$8.09	\$0.67

Water Service Corporation of Kentucky

**Comparison of Annual Salaries & Wages - Combined Reporting of Costs For Similar Sized
Kentucky Water Utilities**

Water System	Officers & Directors Total Salaries & Wages		Number of Customers	Annual Cost Per Customer	Monthly Cost Per Customer
	2011	2012			
Muhlenberg County Water District	\$704,497		5,983	\$117.75	\$9.81
McCreary County Water District	741,314		6,192	119.72	9.98
Grayson County Water District		\$0	6,389	0.00	0.00
Henderson County Water District		696,438	6,384	109.09	9.09
Henry County Water District	683,113		6,261	109.11	9.09
Southeast Daviess County Water District	315,763		6,568	48.08	4.01
Bullock Pen Water District		669,865	6,742	99.36	8.28
Green River Valley Water District	833,325		6,791	122.71	10.23
Rowan Water, Inc.		534,290	6,855	77.94	6.50
South Eastern Water Association	341,205		7,781	43.85	3.65
Oldham County Water District		832,357	7,797	106.75	8.90
Western Pulaski County Water District	270,857		8,046	33.66	2.81
Totals	\$3,890,074	\$2,732,950	81,789	\$80.98	\$6.75
Less:					
Grayson County Water District		\$0	6,389		
	\$3,890,074	\$2,732,950	75,400	\$87.84	\$7.32
Water Service Corporation of Kentucky	\$551,341		7,388	\$74.63	\$6.22

CASE No. 2013-00237
WATER SERVICE CORPORATION OF KENTUCKY
RESPONSES TO COMMISSION STAFF'S SECOND INFORMATION REQUEST

20. Refer to page 6 of Mr. Baryenbruch's Direct Testimony.

RESPONSE: Before answering the individual parts of this interrogatory, it should again be made clear that Mr. Baryenbruch's review did not entail an audit or highly detailed data-gathering process. This interrogatory asks for detailed before-and-after Project Phoenix comparative information that would have been prohibitively expensive and unnecessary for him to reach his conclusions. Project Phoenix involved the implementation of applications commonly used by the utility industry, with well-known benefits. Project Phoenix implemented Oracle's JD Edwards EnterpriseOne (JDE) which, until last year, was used by American Water Company. Project Phoenix also implemented Oracle's Utilities Customer Care and Billing (CC&B) System, a module of which is used by Duke Energy for its wholesale and joint owner billings. Oracle is one of the world's largest software vendors and a leading supplier to the utility industry. The two industry-standard Oracle applications replaced a customer system developed in-house at UI and a financial system that had run out of warranty with its vendor. UI's two old systems had definitely reached the end of their useful lives and needed to be replaced.

a. Provide documentation to show that the implementation of Project Phoenix directly resulted in a reduction in time to handle customer inquiries.

RESPONSE: The new CC&B system consolidated customer information into one location for call center representatives to access while responding to customer inquiries.

All Customer Service Representatives use the Oracle Customer Care and Billing system on a daily basis to look up customer accounts to answer billing questions. On the home screen, CC&B displays customer information, premise address, meter information, service type, account financial history and premise field activity history to assist customer service representatives with customer inquiries in a quick and efficient manner.

CC&B is a web based software program with numerous links that allow a customer service representative to drill deeper into specific information about specific bills, meter reads, field activities, collection and severance processes that are displayed at a high level on the home screen. A customer service representative can review current and past customer contacts allowing them to answer customer questions that may have arisen previously.

In addition to customer service representatives accessing CC&B, field personnel also utilize CC&B to retrieve and complete field activities in a live environment so that customer service representatives have the information available as soon as the order is completed. This allows the customer service representatives to respond more quickly to customer questions about service related issues.

WATER SERVICE CORPORATION OF KENTUCKY

RESPONSES TO THE ATTORNEY GENERAL'S INITIAL REQUEST FOR INFORMATION

30. Please provide the date(s), location(s), attendance sign-in records, agendas, meeting notes and minutes for any public meetings held by WSCK, Utilities, Inc., and or Corix Utilities for customers in the City of Clinton and the City of Middlesboro for calendar years 2012 and 2013.

RESPONSE: There have been none to date.

Witness – James Leonard and Bruce Haas

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF CORIX UTILITIES
(ILLINOIS) LLC; HYDRO STAR, LLC; UTILITIES,)
INC.; AND WATER SERVICE CORPORATION OF) CASE NO. 2012-00133
KENTUCKY FOR THE TRANSFER AND)
ACQUISITION OF CONTROL PURSUANT TO KRS)
278.020

ORDER

Corix Utilities (Illinois) LLC ("Corix Utilities"); Hydro Star, LLC ("Hydro Star"); Utilities, Inc.; and Water Service Corporation of Kentucky ("Water Service Corporation") (collectively "Joint Applicants") have applied for Commission approval of the indirect transfer of control of Water Service Corporation to Corix Utilities from Highstar Capital Fund II, L.P. and certain of its affiliates and co-investors.¹

Having considered the Application and the evidence of record, the Commission finds that:

1. Water Service Corporation, a Kentucky corporation organized under KRS Chapter 271B, owns and operates facilities used in the treatment, storage,

¹ Joint Applicants filed their application with the Commission on April 16, 2012. The Attorney General ("AG") is the only party who has been granted leave to intervene in this proceeding. Following our receipt of the Application, the Commission established a procedural schedule that provided for discovery and a hearing. At the Joint Applicants' request, Commission Staff convened an informal conference in this matter on July 12, 2012. On July 27, 2012, the Joint Applicants and the AG advised the Commission in writing of certain conditions that they agreed were necessary to render the proposed transfer of control in the public interest. On August 2, 2012, the Commission conducted a hearing in this matter. The only persons present were counsel for the parties. The record indicates that no public comments regarding the proposed transfer have been received.

transmission, and distribution of water to approximately 7,388 customers in Middlesboro and Clinton, Kentucky.²

2. As of December 31, 2011, Water Service Corporation reported net utility plant of \$5,656,367.³

4. As of December 31, 2011, Water Service Corporation reported "Total Assets and Other Debits" of \$6,326,664.⁴

5. As of December 31, 2011, Water Service Corporation's only major liability was an account payable of \$1,667,632 that is owed to Utilities, Inc. Water Service has no long-term indebtedness.⁵

6. Utilities, Inc., a corporation organized under the laws of Illinois, is one of the largest privately owned water utilities in the United States and provides water and wastewater service to more than 290,000 residential customers in 15 states.⁶

7. Utilities, Inc. owns all issued and outstanding capital stock of Water Service Corporation.

8. Hydro Star Holdings Corporation, a corporation organized under the laws of Delaware, owns all of Utilities, Inc.'s issued and outstanding shares.⁷

² *Annual Report of Water Service Corporation of Kentucky to the Public Service Commission of Kentucky for the Year Ended December 31, 2011* at 5, 30; Application at ¶¶ 6.

³ *Annual Report* at 7.

⁴ *Id.* at 7.

⁵ *Id.* at 9.

⁶ App. ¶¶ 8.

⁷ App. ¶¶ 10.

9. Hydro Star, a Delaware limited liability company, owns all of the issued and outstanding shares of Hydro Star Holdings Corporation.⁸

10. The following entities hold the following interests in Hydro Star: Highstar Capital II Prism Fund, L.P. (29.87 percent); Highstar Capital Fund II, L.P. (43.87 percent); Hydro Star Interco L.L.C (8.4 percent); and American General Life Insurance Company (17.86 percent) (collectively "Highstar").⁹

11. Corix Utilities is a Delaware limited liability company that is engaged in the ownership or operation of water, wastewater, and electric utilities and the manufacture, distribution, and sale of utility-related products and services.¹⁰

12. Corix Infrastructure Inc. ("Corix Infrastructure"), a Canadian corporation, holds through intermediate subsidiaries all outstanding membership interests of Corix Utilities. Corix Infrastructure, together with its subsidiaries, is known as "the Corix Group."

13. British Columbia Investment Management Corporation ("bcIMC") and CAI Capital Management, Inc., own approximately 84 percent of Corix Infrastructure's outstanding interest.

14. bcIMC is an independent investment management corporation that manages a globally diversified investment portfolio of \$92.1 billion as of March 31, 2012 and is a long-term institutional investor in several leading utilities.¹¹ CAI Capital

⁸ *Id.*

⁹ App. Ex. 4.

¹⁰ *Id.*

¹¹ See <http://www.bcimc.com> (last visited Aug. 9, 2012).

Management is a private equity firm that has invested or placed with co-investors over \$1.3 billion in equity or equity-related investments in North America.¹²

15. The Corix Group collectively manages over \$750 million in assets, employs over 2,200 employees in North America and generates cumulative revenue of approximately \$540 million.¹³

16. The Corix Group consists of three business segments:

a. The utilities division designs, builds, owns and operates utility facilities. It owns or manages several water and wastewater system operations, including those serving the city of Fairbanks, Alaska, the city of Langford, British Columbia, several U.S. military installations, and the University of Oklahoma. These operations provide water and wastewater service to over 350,000 persons.¹⁴ The operations are primarily conducted through Corix Utilities, Corix Multi-Utility Services Inc., Corix Utilities (Oklahoma) Inc., Fairbanks Sewer and Water, Inc., Doyon Utilities LLC and Corix Water Systems, Inc.

b. The utility services division provides measurement and metering services and other specialized utility field services for municipalities, utilities, and cooperatives throughout North America. The operations are primarily conducted through Corix Utilities (US) Inc.¹⁵

c. The utility products division distributes pipes, valves, meters, pumps, irrigation equipment, service and repair products that are used to transport

¹² See <http://www.caifunds.com/aboutcai.html> (last visited Aug. 9, 2012).

¹³ Joint Applicants' Response to Commission Staff's First Request for Information, Item 3.

¹⁴ App. Ex. 2 at 6-7.

¹⁵ *Id.*

water and wastewater.¹⁶ The operations are conducted primarily through Corix Water Products Limited Partnership, Corix Water Products (East) Inc., Corix Water Products (US), Inc., and Corix Control Solutions, Inc.

17. On February 17, 2012, Corix Utilities and Highstar executed a Purchase and Sale Agreement under which Corix Utilities will acquire 100 percent of the issued and outstanding membership interest of Hydro Star.¹⁷

18. Corix Utilities has no current plans to change either Utilities, Inc.'s or Water Service Corporation's current senior management or officers. If the proposed transaction occurs, the current management of Utilities, Inc. and Water Service Corporation will remain in place to operate and manage Water Service Corporation's operations. No reduction in the current level of service is likely to result from the proposed transaction.

19. Corix Utilities does not anticipate any change to the capital structure of Utilities, Inc. or Water Service Corporation upon completion of the proposed transaction.¹⁸

20. Corix Infrastructure is considering the possible merger of Corix Utilities and Hydro Star after the consummation of the proposed transaction to eliminate one of the intermediate holding companies through which Corix Utilities will hold its interests in Utilities, Inc. and Water Service Corporation.¹⁹

¹⁶ *Id.*

¹⁷ App. Ex. 3.

¹⁸ Joint Applicants' Response to Commission Staff's First Request for Information, Item 5, 24(c).

¹⁹ App. ¶ 17.

21. As part of the Corix Group, Water Service Corporation will have access to a wide spectrum of technical and industry expertise in all facets of sustainable water, wastewater, and energy systems, including innovative technologies, operating tools and regulatory resources required to develop sustainable multi-utility services.

22. Upon completion of the transaction, Utilities, Inc. and Water Service Corporation will have greater access to capital on favorable financing terms and will be in a better position to fund capital improvement projects.

23. The proposed transaction will not result in any change in Water Service Corporation's current rates.

24. The proposed transaction requires the approval of 11 state regulatory commissions²⁰ and certain federal agencies.²¹ As of the date of this Order, three state regulatory commissions²² have approved the proposed transaction.

Having reviewed the evidence of record, the Commission makes the following conclusions of law:

1. Water Service Corporation is a utility that is subject to Commission jurisdiction.²³

²⁰ These are Florida, Illinois, Kentucky, Louisiana, Maryland, Nevada, New Jersey, North Carolina, Pennsylvania, Tennessee, and Virginia.

²¹ The approval of the Committee on Foreign Investment in the United States, an inter-agency committee authorized to review transactions that could result in control of a U.S. business by a foreign person to determine the effect of such transactions on U.S. national security, is also required.

²² *Utilities, Inc. of Louisiana and Louisiana Water Service, Inc.*, Docket No. S-32297 (La. PSC July 5, 2012); *Petition for Authority to Transfer Control of Utilities, Inc. to Corix Utilities (Illinois) LLC*, Docket No. 12-00033 (Tn. Reg. Auth. June 21, 2012); Letter from David J. Collins, Executive Secretary, Maryland Pub. Serv. Comm'n, to Brian M. Quinn, Esq. (June 6, 2012) (advising of approval of transaction).

²³ KRS 278.010(3)(d).

2. Corix Utilities is a "person" for purposes of KRS Chapter 278.²⁴
3. KRS 278.020(5) provides that "[n]o person shall acquire or transfer ownership of, or control, or the right to control, any utility under the jurisdiction of the commission . . . without prior approval by the commission."
4. By its acquisition of 100 percent of the membership interest in Hydro Star, Corix Utilities will acquire ownership and control of Water Service Corporation.
5. As Corix Utilities is a "person" and is acquiring control of Water Service Corporation through its purchase of all membership interest of Hydro Star, KRS 278.020(5) is applicable to and requires Commission approval of the proposed transfer.
6. KRS 278.020(6) provides that "[n]o individual, group, syndicate, general or limited partnership, association, corporation, joint stock company, trust, or other entity (an "acquirer"), whether or not organized under the laws of this state, shall acquire control, either directly or indirectly, of any utility furnishing utility service in this state, without having first obtained the approval of the commission."
7. As Corix Utilities is a "person" and is acquiring control of Water Service Corporation through Corix Utilities' acquisition of all membership interest of Hydro Star, KRS 278.020(6) is applicable to and requires Commission approval of the proposed transfer.
8. Corix Utilities has the financial, technical, and managerial abilities to provide reasonable service to Water Service Corporation's present customers.
9. Corix Utilities' proposed acquisition of Hydro Star and the proposed transfer of control of Water Service Corporation to Corix Utilities are in accordance with law and for a proper purpose.

²⁴ KRS 278.010(2).

10. Provided that the proposed acquisition and transfer are conditioned upon the terms set forth in ordering paragraphs 2 through 27 of this Order, the proposed acquisition and transfer are consistent with the public interest.

IT IS THEREFORE ORDERED that:

1. Subject to the conditions set forth in ordering paragraphs 2 through 27 of this Order, the transfer of control of Water Service Corporation from Hydro Star to Corix Utilities and Corix Infrastructure through Corix Utilities' acquisition of ownership and control of Hydro Star is approved.

2. The chief executive officer of Corix Infrastructure, Corix Utilities, Utilities, Inc., and Water Service Corporation shall each file with the Commission, within seven days of the date of this Order, a written acknowledgement on behalf of his/her entity that the entity accepts and agrees to be bound by the commitments set forth in the Appendix to this Order.

3. The Joint Applicants shall file with the Commission a copy of the final decision or order or other forms of regulatory notification regarding the proposed transaction issued by each state regulatory authority with jurisdiction over the proposed transaction within 14 days of the issuance of such order or notification.

4. Corix Utilities, Utilities, Inc., and Water Service Corporation shall adequately fund, construct, operate, and maintain Water Service Corporation's treatment, transmission, and distribution systems; comply with all applicable Kentucky statutes and administrative regulations; and supply the needs of Water Service Corporation's customers.

5. For 72 months from the date of the proposed transaction, Water Service Corporation shall provide a written report to the Commission if Water Service

Corporation is found in violation of any Federal or state water quality law by any court or administrative agency or is issued a Notice of Violation by the Kentucky Division of Water ("KDOW") for any alleged violation of any law or administrative regulation that KDOW administers or enforces.

6. Water Service Corporation shall maintain a meaningful process to monitor all allocations from corporate parents or affiliates to ensure the appropriateness of the allocations.

7. Water Service Corporation shall not file with the Commission any application for an adjustment of its rates earlier than six months from the date of this Order.

8. Pending completion of review of the proposed transaction by all applicable federal and state agencies, Water Service Corporation shall not prosecute or otherwise advance its claims in Franklin Circuit Court Civil Action No. 2011-CI-1770.²⁵

9. Upon successful completion of all required regulatory reviews of the proposed transaction, Water Service Corporation shall:

a. Dismiss its action for review in Franklin Circuit Court Civil Action No. 2011-CI-1770;

b. Not seek through its rates for water service recovery of any depreciation expense for Project Phoenix that has been, to date, excluded; and

c. Not seek through its rates for water service recovery of any litigation costs related to Franklin Circuit Court Civil Action No. 2011-CI-1770.

²⁵ *Water Service Corp. of Ky. v. Ky. Pub. Serv. Comm'n*, No. 2011-CI-1770 (Franklin Cir. Ct. filed Dec. 16, 2011).

10. Water Service Corporation's books and records shall be maintained and housed in Kentucky or in a manner to be easily accessible to the Commission for inspection at reasonable times upon reasonable notice.

11. Water Service Corporation shall not seek a higher rate of return on equity than would have been sought if the proposed transfer of control had not occurred.

12. Water Service Corporation shall make no change to its current method for accounting for deferred income taxes.

13. Neither Corix Utilities nor Utilities, Inc. shall allocate to or seek recovery from Water Service Corporation or its ratepayers any early termination costs, change-in-control payments, or retention bonuses paid to a Hydro Star or Utilities, Inc. employee as a result of the proposed transaction.

14. Water Service Corporation shall not record any portion of the payment for Hydro Star stock on its books.

15. Neither Corix Utilities nor Utilities, Inc. shall "push down" to Water Service Corporation any transaction-related costs or any premium that Corix Utilities may pay for Hydro Star stock.

16. Water Service Corporation shall not directly or indirectly, incur any additional costs, liabilities, or obligations in conjunction with Corix Utilities' acquisition of Hydro Star to the extent that this does not include obligations that would not otherwise be required by the Commission but for the conditions placed on the transfer.

17. Water Service Corporation shall not incur any additional indebtedness, issue any additional securities, or pledge any assets to finance any part of the acquisition of Hydro Star.

18. Water Service Corporation shall not seek recovery from its ratepayers any transaction-related costs or any premium that Corix Utilities may pay for Hydro Star stock.

19. Representatives of Corix Utilities, Utilities, Inc., and Water Service Corporation shall meet at least once annually with the Commission's representatives at the Commission's offices in Frankfort, Kentucky.

20. To provide a forum for customers to communicate with utility management, Corix Utilities and Utilities, Inc. shall host annual public meetings in Clinton and Middlesboro, Kentucky, at which the senior officers from the regional office of Utilities, Inc. that oversees Water Service Corporation's operations will attend and participate.

21. For two years from the date of Corix Utilities' acquisition of Hydro Star's stock, Corix Utilities, Utilities, Inc., or Water Service Corporation shall notify the Commission in writing within 10 days of any changes in Utilities, Inc.'s or Water Service Corporation's corporate officers and management personnel.

22. Within 10 days of any public announcement of any acquisition by Corix Utilities that will affect the rates of or service provided by Water Service Corporation, Corix Utilities, Utilities, Inc., or Water Service Corporation shall advise the Commission of such acquisition.

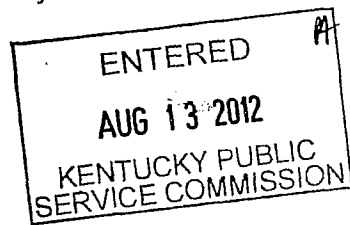
23. Corix Utilities, Utilities, Inc., and Water Service Corporation shall minimize, to the extent possible, any negative effects on levels of customer service and customer satisfaction resulting from any future workforce reductions.

24. Water Service Corporation shall, for calendar year 2012 and for the next five years thereafter, include with its annual report to the Commission a table that shows each water quality standard imposed by law, the number of water service interruptions, the average employee response time to water service interruptions, the number of customer complaints, and the customer inquiry response time for that calendar year.

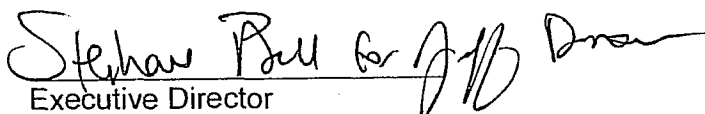
25. Water Service Corporation shall annually file with the Commission its current two-year capital and operation and maintenance budgets and an explanation for any reduction in a budgeted item.

26. Within 10 days of the completion of the proposed transaction, Corix Utilities, Utilities, Inc., and Water Service Corporation shall file a written notice setting forth the date of completion of the proposed transaction.

By the Commission



ATTEST:


Executive Director

Case No. 2012-00133

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2012-00133 DATED **AUG 13 2012**

1. Corix Utilities (Illinois) LLC ("Corix Utilities") has no current intention to transfer control of Water Service Corporation following the consummation of the transaction and acknowledges that Commission approval would be required for any future transfer of control.

2. Corix Utilities, Utilities, Inc., and Water Service Corporation will adequately fund and maintain Water Service Corporation's treatment, transmission, and distribution systems.

3. For 72 months from the date of the proposed transaction, Water Service Corporation will provide a written report to the Commission if Water Service Corporation is found in violation of any Federal or state water quality law by any court or administrative agency or is issued a Notice of Violation by the Kentucky Division of Water ("KDOW") for any alleged violation of any law or administrative regulation that KDOW administers or enforces.

4. Water Service Corporation will have a meaningful process to monitor all allocations from corporate parents or affiliates to ensure the appropriateness of the allocations.

5. Water Service Corporation will not file with the Commission any application for an adjustment of its rates earlier than six months from the date of this Order.

6. Pending completion of review of the proposed transaction by all applicable federal and state agencies, Water Service Corporation will refrain from taking any action to prosecute its claims in Franklin Circuit Court Civil Action No. 2011-CI-1770.

7. Upon successful completion of all required regulatory reviews of the proposed transaction, Water Service Corporation will dismiss its action for review of the Commission's Order of November 23, 2011 in Case No. 2010-00476 and will not seek the recovery of the costs of litigation for Franklin Circuit Civil Action No. 2011-CI-1770 through rates.

8. Water Service Corporation's books and records will be maintained and housed in Kentucky or will otherwise be maintained in a manner to be easily accessible to the Commission for inspection at reasonable times upon reasonable notice.

9. Water Service Corporation will not seek a higher rate of return on equity than would have been sought if the proposed transfer of control had not occurred.

10. The accounting and ratemaking treatments of Water Service Corporation's excess deferred income taxes will not be affected by the proposed transaction.

11. No early termination costs, change in control payments, or retention bonuses paid to a Hydro Star, LLC or Utilities, Inc. employee as a result of the proposed transaction will be allocated to Water Service Corporation or recovered from Water Service Corporation's ratepayers.

12. Neither Water Service Corporation nor its ratepayers, directly or indirectly, will incur any additional costs, liabilities, or obligations in conjunction with Corix Utilities' acquisition of Hydro Star, LLC to the extent that this does not include obligations that

would not otherwise be required by the Commission but for the conditions placed on the transfer.

13. Water Service Corporation will not incur any additional indebtedness, issue any additional securities, or pledge any assets to finance any part of the acquisition of Hydro Star, LLC.

14. Any premium that Corix Utilities pays for Hydro Star, LLC stock, as well as all transaction-related costs, will not be "pushed down" to Water Service Corporation and will not be recovered from Water Service Corporation's ratepayers to the extent that this does not include obligations that would not otherwise be required by the Commission but for the conditions placed on the transfer.

15. Corix Utilities and Utilities, Inc. will take an active and ongoing role in managing and operating Water Service Corporation in the interests of customers, employees, and the Commonwealth of Kentucky, and will take the lead in enhancing Water Service Corporation's relationship with the Commission, with state and local governments, and with other community interests, and to advance these goals shall, among other things, arrange for meetings between Corix Utilities' and Utilities, Inc.'s senior management and the Commission and/or its Staff, at least annually.

16. Corix Utilities and Utilities, Inc. will host annual public meetings in Clinton and Middlesboro to provide a forum for customers to communicate with utility management.

17. For at least two years from the date of Corix Utilities' acquisition of Hydro Star LLC's stock, Corix Utilities, Utilities, Inc., or Water Service Corporation will notify

the Commission in writing within 10 days of any changes in Utilities, Inc.'s or Water Service Corporation's corporate officers and management personnel.

18. Corix Utilities, Utilities, Inc., or Water Service Corporation will advise the Commission following any public announcement of any acquisition by Corix Utilities that will affect the rates of or service provided by Water Service Corporation.

19. Corix Utilities, Utilities, Inc., and Water Service Corporation will comply with all applicable Kentucky statutes and administrative regulations; and supply the service needs of Water Service Corporation's customers.

20. Corix Utilities, Utilities, Inc., and Water Service Corporation will minimize, to the extent possible, any negative effects on levels of customer service and customer satisfaction resulting from workforce reductions.

Jennifer B Hans
Assistant Attorney General's Office
1024 Capital Center Drive, Ste 200
Frankfort, KENTUCKY 40601-8204

Heather Napier
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

M. Todd Osterloh
Sturgill, Turner, Barker & Moloney, PLLC
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Suite 1400
Lexington, KENTUCKY 40507

Honorable David Edward Spenard
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KENTUCKY 40601-8204

	Actual as of 3/31/2014	Estimated Amount to Complete	Actual & Estimated Cost to Complete
Legal Fees	61,050	18,950	80,000
Consulting fees			
AUS	35,261	5,000	40,261
Bayrenbruch	16,120	5,000	21,120
Customer Notices:			
Newspaper Publications	2,920	1,000	3,920
Fed Ex, mailings, postage, and miscellaneous costs	355	355	709
Travel			
Airfare	4	500	1
Hotel/Meals	5	200	2
Rental Car		200	
Water Service Personnel			
	hours	rate	\$
Daniel, Carl	49.00	\$ 130.65	\$ 6,402
Feathergill, Adam K	97.50	\$ 22.00	2,145
Guttormsen, Robert A	231.53	\$ 32.00	7,409
Haas, Bruce T.	123.00	\$ 81.00	9,963
Leonard, James R.	21.00	\$ 37.05	778
Liskoff, David	109.00	\$ 39.00	4,251
Lubertozi, Steven M.	24.78	\$ 103.00	2,552
Lupton, Helen C.	3.00	\$ 48.00	144
Neyzelman, Dimitry	216.10	\$ 48.00	10,373
Valrie, LaWanda N.	44.00	\$ 23.00	1,012
Vaughn, Stephen R.	13.00	\$ 37.05	482
Yap Jr., Lowell M.	801.50	\$ 32.00	25,648
Total			71,159
Total Cost of current case			186,864
Unamortized Rate Case Expense			27,505
Total Rate Case expense			214,369
Amortized over 3 years			3
Amortization Expense per Rebuttal			\$ 71,456
Per Company's Original Filing			\$ 73,660
Rebuttal Adjustment			\$ 15,430

	Revised Estimated Total Hours	Remaining Hours	Current Rate	Remaining \$	Actual and Estimated
	60	11	\$ 131	\$ 1,437	\$ 7,839
	100	3	\$ 22	55	\$ 2,200
	240	8	\$ 32	271	\$ 7,680
	160	37	\$ 81	2,997	\$ 12,960
	50	29	\$ 37	1,074	\$ 1,853
	140	31	\$ 39	1,209	\$ 5,460
	80	55	\$ 103	5,688	\$ 8,240
	25	22	\$ 48	1,056	\$ 1,200
	300	84	\$ 48	4,027	\$ 14,400
	50	6	\$ 23	138	\$ 1,150
	25	12	\$ 37	445	\$ 926
	802	0	\$ 32	-	\$ 25,648

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Revenue Requirement Summary

Appendix A
Schedule LY-R1

	WSSK Pro Forma <u>Present Rates</u>	WSSK Rebuttal Pro Forma <u>Adjustment</u>	WSSK Rebuttal Pro Forma <u>Present Rates</u>	WSSK Rebuttal Proposed <u>Adjustment</u>	WSSK Rebuttal Pro Forma <u>Proposed</u>
Operating Revenues					
Service Revenues - Water	\$2,103,813		\$2,103,813	\$184,952 (J)	\$2,288,765
Service Revenues - Sewer					
Miscellaneous Revenues	78,995		78,995		78,995
Uncollectible Accounts	(38,028)	38,028 (A)	0		0
Total Operating Revenues	\$2,144,780	\$38,028	\$2,182,808	\$184,952	\$2,367,760
Maintenance Expenses					
Salaries and Wages	519,099	(\$1,133) (B)	517,966		517,966
Purchase Water/Sewer	85,200		85,200		85,200
Purchased Power	95,111		95,111		95,111
Maintenance and Repair	98,163		98,163		98,163
Maintenance testing	34,092		34,092		34,092
Meter Reading	0		0		0
Chemicals	145,421		145,421		145,421
Transportation	34,774		34,774		34,774
Operating Exp. Charged to Plant	(163,869)		(163,869)		(163,869)
Outside Services - Other	30,001		30,001		30,001
Total	\$877,992	(\$1,133)	\$876,859	\$0	\$876,859
General Expenses					
Salaries and Wages	\$173,648	\$0 (B)	\$173,648		\$173,648
Office Supplies & Other Office Exp.	79,610		79,610		79,610
Regulatory Commission Exp.	73,660	(16,656) (C)	57,004		57,004
Pension & Other Benefits	160,716	(79) (D)	160,637		160,637
Rent	6,254		6,254		6,254
Insurance	63,192		63,192		63,192
Office Utilities	54,273		54,273		54,273
Bad Debt Expense	0	38,028 (A)	38,028	3,348	41,376
Service Company - Allocated Expenses	0	(12,904) (E)	(12,904)		(12,904)
Miscellaneous	12,173	(500) (F)	11,673		11,673
Total	\$623,526	\$7,888	\$631,414	\$3,348	\$634,762
Depreciation	\$281,828		\$281,828		\$281,828
Amortization of PAA	0		0		0
Taxes Other Than Income	144,063	(87) (G)	143,976	293	144,269
Expense Reduction Related to Clinton Sewer Ops	(120,708)	(9,583) (H)	(130,291)		(130,291)
Income Taxes - Federal	54,491	13,086 (I)	67,577	57,947	125,524
Income Taxes - State	10,230	2,456 (I)	12,686	10,879	23,565
Amortization of CIAC	(4,229)		(4,229)		(4,229)
Total	\$365,675	\$5,872	\$371,547	\$69,119	\$440,666
Total Operating Expenses	\$1,867,193	\$12,628	\$1,879,821	\$72,466	\$1,952,287
Net Operating Income	\$277,587	\$25,400	\$302,987	\$112,486	\$415,473
Other Income	0		0		0
Interest During Construction	(1,730)		(1,730)		(1,730)
Interest on Debt	171,809		171,809		171,809
Net Income	\$ 107,508	\$ 25,400	\$ 132,908	\$ 112,486	\$ 245,394

Sources:

- (A) Bad Debt Expenses transferred from revenue reduction to expense increase.
- (B) Schedule LY-R2
- (C) Schedule ACC-4.
- (D) Schedule LY-R3
- (E) Schedule LY-R4

- (F) Schedule ACC-7.
- (G) Schedule LY-R5.
- (H) Schedule ACC-10.
- (I) Schedule ACC-11.
- (J) Schedule LY-R6

City of Middlesborough

P.O. Box 756
Middlesboro, Kentucky 40965
(606) 248-5670
Fax (606) 248-1202

BILL KELLEY
Mayor

March 20, 2014

RECEIVED

MAR 24 2014

**PUBLIC SERVICE
COMMISSION**

Kentucky Public Service Commission
P.O. Box 615
211 Sower Blvd.
Frankfort, KY 40602

Re: Water Service Corporation request for rate increase
for Middlesborough, Kentucky -Case #2013-00237

Dear Members of Commission:

We are writing to voice our strong opposition to the above referenced request for rate increase by Water Service Corporation of Kentucky. The Middlesborough City Council met in regular session on Tuesday, March 18, 2014, and voted to ask that this letter be written in protest of the proposed increase.

The citizens of Middlesborough simply cannot afford this increase in their water rates at this time. We understand that the Corporation's cost have gone up, but due to the present economic conditions here and other parts of Kentucky our residents are struggling just to pay their utility bills.

Therefore, we respectfully ask that the Commission deny the request for any rate increases at this time.

Sincerely,



William Kelley, Mayor
City of Middlesborough, Kentucky

WK/bre

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Revenue Requirement Summary

	WSCK Pro Forma <u>Present Rates</u>	<u>Adjustment</u> Recommended <u>Adjustment</u>		AG Pro Forma <u>Present Rates</u>	AG Recommended <u>Adjustment</u>	AG Pro Forma <u>Proposed</u>
1 <u>Operating Revenues</u>						
2 Service Revenues - Water	\$2,103,813			\$2,103,813	(\$118,438) (M)	\$1,985,375
3 Service Revenues - Sewer						
4 Miscellaneous Revenues	78,995			78,995		78,995
5 Uncollectible Accounts	0	0 (A)		0		0
6						
7 Total Operating Revenues	<u>\$2,182,808</u>	<u>\$0</u>		<u>\$2,182,808</u>	<u>(\$118,438)</u>	<u>\$2,064,370</u>
8						
9 <u>Maintenance Expenses</u>						
10 Salaries and Wages	517,966	(\$15,086) (B)		502,880		502,880
11 Purchase Water/Sewer	85,200			85,200		85,200
12 Purchased Power	95,111			95,111		95,111
13 Maintenance and Repair	98,163			98,163		98,163
14 Maintenance testing	34,092			34,092		34,092
15 Meter Reading	0			0		0
16 Chemicals	145,421			145,421		145,421
17 Transportation	34,774			34,774		34,774
18 Operating Exp. Charged to Plant	(163,869)	\$3,903 (C)		(159,966)		(159,966)
19 Outside Services - Other	30,001			30,001		30,001
20						
21 Total	<u>\$876,859</u>	<u>(\$11,184)</u>		<u>\$865,675</u>	<u>\$0</u>	<u>\$865,675</u>
22						
23 <u>General Expenses</u>						
24 Salaries and Wages	\$173,648	(\$1,084) (B)		\$172,564		\$172,564
25 Office Supplies & Other Office Exp.	79,610			79,610		79,610
26 Regulatory Commission Exp.	89,090	(32,086) (D)		57,004		57,004
27 Pension & Other Benefits	160,637	(1,132) (E)		159,505		159,505
28 Rent	6,254			6,254		6,254
29 Insurance	63,192			63,192		63,192
30 Office Utilities	54,273			54,273		54,273
31 Bad Debt Expense	38,028	0 (A)		38,028	(2,144)	35,884
32 Service Company - Allocated Expenses	(12,904)	(146,255) (F)		(159,159)		(159,159)
33 Miscellaneous	11,673	0 (G)		11,673		11,673
34						
35 Total	<u>\$663,501</u>	<u>(\$180,558)</u>		<u>\$482,943</u>	<u>(\$2,144)</u>	<u>\$480,799</u>
36						
37 Depreciation	\$281,828	(\$76,685) (H)		\$205,143		\$205,143
38 Amortization of PAA	0			0		0
39 Taxes Other Than Income	143,976	(1,237) (I)		142,739	(187)	142,551
40 Expense Reduction Related to Clinton Sewer Ops	(120,708)	(9,583) (J)		(130,291)		(130,291)
41 Income Taxes - Federal	54,259	91,683 (K)		145,942	(37,108)	108,835
42 Income Taxes - State	10,186	17,212 (K)		27,398	(6,966)	20,432
43 Amortization of CIAC	(4,229)			(4,229)		(4,229)
44						
45 Total	<u>\$365,312</u>	<u>\$21,390</u>		<u>\$386,702</u>	<u>(\$44,262)</u>	<u>\$342,441</u>
46						
47 Total Operating Expenses	<u>\$1,905,672</u>	<u>(\$170,352)</u>		<u>\$1,735,320</u>	<u>(\$46,405)</u>	<u>\$1,688,915</u>
48						
49 <u>Net Operating Income</u>	<u>\$277,136</u>	<u>\$170,352</u>		<u>\$447,488</u>	<u>(\$72,033)</u>	<u>\$375,455</u>
50						
51 Other Income	0			0		0
52 Interest During Construction	(1,730)			(1,730)		(1,730)
53 Interest on Debt	171,809	(7,621) (L)		164,188		164,188
54						
55 Net Income	<u>\$ 107,057</u>	<u>\$ 177,973</u>		<u>\$ 285,030</u>	<u>\$ (72,033)</u>	<u>\$ 212,997</u>

Sources:

(A) Bad Debt Expenses transfer accepted by Company.
(B) Schedule ACC-2, Update.
(C) Schedule ACC-3, Update.
(D) Schedule ACC-4, Update.
(E) Schedule ACC-5, Update.
(F) Schedule ACC-6, Update.

(G) Schedule ACC-7, Update.
(H) Schedule ACC-8, Update.
(I) Schedule ACC-9, Update.
(J) Schedule ACC-10, Update.
(K) Schedule ACC-11, Update.
(L) Schedule ACC-12, Update.
(M) Schedule ACC-13, Update.

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Salaries and Wages

	Maintenance <u>Expenses</u>		General <u>Expenses</u>	
1. Pro Forma Salaries and Wages	\$517,966	(A)	\$37,233	(B)
2. Post Test Year Increase	<u>\$15,086</u>		<u>\$1,084</u>	(C)

Sources:

(A) Company Rebuttal, Schedule LY-R2.

(B) Company Filing, Schedule B, page 1 and w/p [b].

General Expenses only reflect CSR costs.

(C) Line 1 - (Line 1 / 1.03).

Appendix B
Schedule ACC-3
Update

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Operating Expense Charged to Plant

1. Maintenance Expenses (Operator Costs)	\$132,717	(A)
2. General Expenses (CSR Costs)	<u>1,272</u>	(A)
3. Total Excluding Corporate Costs	\$133,989	
4. Adjustment for Salary Increase	<u><u>\$3,903</u></u>	(B)

Sources:

(A) Company Filing, w/p [b-2].

(B) Line 3 - (Line 3 /1.03).

Appendix B
Schedule ACC-4
Update

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Regulatory Commission Expense

1. Average of Last Two Cases	\$143,506	(A)
2. Unamortized Costs from Last Case	<u>27,505</u>	(B)
3. Total Pro Forma Rate Case Costs	\$171,011	
4. Requested Amortization Period (Yrs.)	<u>3</u>	(B)
5. Annual Amortization	\$57,004	
6. Company Claim	<u>89,090</u>	(B)
7. Recommended Adjustment	<u>\$32,086</u>	

Sources:

(A) Response to AG 1-80.

(B) Company Rebuttal, Schedule LY-7R, Revised.

**Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Pension and Other Benefits**

1. Salary and Wage Expense Adjustment	\$16,171	(A)
2. Total 401K Contribution Rate	<u>7.00%</u>	(B)
3. Pension and Other Benefits Adjustment	<u>\$1,132</u>	

Sources:

(A) Schedule ACC-2, Update.

(B) Company Filing, w/p [b].

-

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Service Company - Allocated Expenses

Allocated Expenses:	(A)	
1. 5810 Memberships	\$5,375	
2. 5815 Penalties/Fines	3	
3. 5825 Other Misc. Expenses	1,209	
4. 5870 Holiday Events/Picnics	157	
5. 5890 Public Subscriptions/Tapes	134	
6. 6015 Employment Finder Fees	942	
7. 6045 Temporary Employees - Clerical	1,453	
8. 6185 Travel - Lodging	5,380	
9. 6190 Travel - Airfare	1,417	
10. 6195 Travel - Transportation	1,362	
11. 6200 Travel - Meals	3,749	
12. 6205 Travel - Entertainment	558	
13. 6207 Travel - Other	<u>169</u>	
14. Subtotal	\$21,907	
15. Corporate Labor, Payroll Taxes, Employee Benefits	167,131	(B)
16. Corporate Costs Charged to Plant	(29,879)	(C)
17. Company's Rebuttal Adjustment	<u>(12,904)</u>	(D)
18. Total Adjustment	<u>\$146,255</u>	

Sources:

- (A) Company Filing, Workpapers "Linked TB".
- (B) Company Filing, w/p [b]. Includes salaries, payroll taxes, and related benefits.
- (C) Company Filing, w/p [b-2].
- (D) Company Rebuttal, Schedule LY-R4.

Appendix B
Schedule ACC-7
Update

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Miscellaneous Adjustments

ADJUSTMENT ACCEPTED IN REBUTTAL

Appendix B
Schedule ACC-8
Update

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Depreciation Expense

1. Annual Project Phoenix Depreciation	\$76,685	(A)
2. Recommended Adjustment	<u>\$76,685</u>	

Sources:

(A) Response to AG 2- 13.

Appendix B
Schedule ACC-9
Update

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Payroll Tax Expense

1. Salary and Wage Expense Adjustment	\$16,171	(A)
2. FICA Tax Rate	<u>7.65%</u>	(B)
3. Payroll Tax Adjustment	<u>\$1,237</u>	

Sources:

(A) Schedule ACC-2, Update.

(B) Company Filing, w/p [b].

Appendix B
Schedule ACC-10
Update

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Expense Reduction Relating to Clinton Operations

1. Test Year Actual Clinton Revenues	\$153,284	(A)
2. Margin @15%	<u>22,993</u>	(B)
3. Pro Forma Clinton Costs	\$130,291	
4. Company Claim	<u>120,708</u>	(A)
5. Recommended Adjustment	<u>\$9,583</u>	

Sources:

(A) Response to Staff 2-2.

(B) Reflects terms of the contract provided in response to Staff 3-6.

(C) Company Filing, Schedule B, page 1.

Appendix B
Schedule ACC-11
Update

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Income Tax Expenses

1. Pro Forma Revenue Present Rates	\$2,182,808	(A)
2. Pro Forma Expenses	1,561,980	(A)
3. Pro Forma Interest Expense	<u>164,188</u>	(A)
4. Taxable Income	\$456,641	
5. State Taxes @ 6%	<u>27,398</u>	(B)
6. Federal Taxable Income	\$429,242	
7. Federal Taxes @ 34%	<u>145,942</u>	(B)
8. Total Income Taxes	<u>\$173,341</u>	

Sources:

(A) Schedule ACC-1, Update.

(B) Reflects statutory income tax rate, per Company Filing, w/p [g].

Appendix B
Schedule ACC-12
Update

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Interest Expense

1. Cost of Project Phoenix	\$21,122,468	(A)
2. Allocation to WSCK (%)	<u>2.78%</u>	(B)
3. Allocation to WSCK (\$)	\$587,205	
4. Percent Not Depreciated	<u>37.50%</u>	(C)
5. Accumulated Depreciation	\$220,202	
6. Weighted Cost of Debt	<u>3.46%</u>	(D)
7. Interest Expense Adjustment	<u>\$7,621</u>	

Sources:

(A) Testimony of Mr. Baryenbruch, page 6.

(B) Company Filing, w/p [p-4].

(C) Derived from Company Filing, w/p [p-4].

(D) Company Filing, w/p [h-1]. Reflects 52.44% debt
at cost of 6.6%.

Appendix B
Schedule ACC-13
Update

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Required Revenue Increase

	<u>Updated</u> <u>AG</u> <u>Recommendation</u> (A)		<u>Original</u> <u>AG</u> <u>Recommendation</u> (D)
1. Operating Expenses	\$1,735,320		\$1,736,103
2. Less: State and Federal Income Taxes	<u>173,341</u>		<u>172,862</u>
3. Operating Expenses Net of Income Taxes	\$1,561,980		\$1,563,241
4. Divide by Operating Ratio	<u>0.88</u>	(B)	<u>0.88</u>
5. Revenue to Cover Operating Ratio	\$1,774,977		\$1,776,410
6. Less: Operating Expenses Net of Income Taxes	<u>1,561,980</u>		<u>1,563,241</u>
7. Net Operating Income After Income Taxes	\$212,997		\$213,169
8. Current Net Operating Income After Income Taxes	<u>285,030</u>		<u>284,248</u>
9. Net Operating Income Adjustment	\$72,033		\$71,079
10. Multiplied by Gross Up Factor	<u>1.644227</u>	(C)	<u>1.644227</u>
11. Revenue Adjustment	<u><u>\$118,438</u></u>		<u><u>\$116,870</u></u>

Sources:

- (A) Schedule ACC-1, Update.
- (B) Reflects Commission's 88% Operating Ratio Methodology.
- (C) Schedule ACC-14, Update.
- (D) Schedule ACC-13.

Appendix B
Schedule ACC-14
Update

Water Service Corporation of Kentucky
Case No. 2013 - 00237
Test Year 12/31/2012
Revenue Multiplier

1. Revenue	1.000000	
2. Uncollectible Costs	0.018100	(A)
3. Regulatory Assessment	<u>0.001583</u>	(B)
4. State Taxable Income	0.980317	
5. State Income Taxes @ 6%	<u>0.058819</u>	(B)
6. Federal Taxable Income	0.921498	
7. Federal Income Taxes @ 34%	<u>0.313309</u>	(B)
8. Operating Income	0.608189	
9. Revenue Multiplier	<u><u>1.644227</u></u>	

Sources:

(A) Company Filing, Workpaper [a].

(B) Rate per response to AG 2-4.

WATER SERVICE CORPORATION OF KENTUCKY

w/p [q-2]

Case No. 2013 - 00237

Basis for Salary Allocation

Test Year 12/31/2012

Employee	Total Percentage Allocated to Clinton Sewer Operations Per JDE Salary Allocation Report
<hr/>	
Operator	
Maintenance 4	8.42%
Maintenance 8	47.58%
Maintenance 10	47.58%
Maintenance 11	8.42%

WATER SERVICE CORPORATION OF KENTUCKY

w/p [b]

Case No. 2013 - 00237

Calculation of Salary and Benefits

Test Year 12/31/2012

Confidential

	Total Annualized Salary [1]	FICA 7.65%	FUTA 7,000 @ .8%	SUTA 9,300 @ 3.3%	Total Taxes	12/31/2012 Health Insurance	401(k) at 3%	Company Contribution at 4%	12/31/2012 Other	Total Benefits
Maintenance										
Maintenance 1	50,756	3,883	56	307	4,246	7,482	1,523	2,030	454	11,488
Maintenance 2	39,907	3,053	56	307	3,416	7,482	1,197	1,596	454	10,729
Maintenance 3	32,332	2,473	56	307	2,836	7,482	970	1,293	454	10,199
Maintenance 4	73,655	5,635	56	307	5,998	7,482	2,210	2,946	454	13,091
Maintenance 5	51,470	3,937	56	307	4,300	7,482	1,544	2,059	454	11,538
Maintenance 6	34,134	2,611	56	307	2,974	7,482	1,024	1,365	454	10,325
Maintenance 7	40,127	3,070	56	307	3,433	7,482	1,204	1,605	454	10,744
Maintenance 8	26,858	2,055	56	307	2,418	7,482	806	1,074	454	9,815
Maintenance 9	33,866	2,591	56	307	2,954	7,482	1,016	1,355	454	10,306
Maintenance 10	42,966	3,287	56	307	3,650	7,482	1,289	1,719	454	10,943
Maintenance 11	38,883	2,975	56	307	3,338	7,482	1,166	1,555	454	10,657
Supervisory										
Supervisory 1	124,819	8,859	56	307	9,222	7,482	3,745	4,993	454	16,673
Supervisory 2	184,998	9,732	56	307	10,095	7,482	5,550	7,400	454	20,885
Supervisory 3	69,913	5,348	56	307	5,711	7,482	2,097	2,797	454	12,829
Supervisory 4	72,407	5,539	56	307	5,902	7,482	2,172	2,896	454	13,004
Supervisory 5	60,864	4,656	56	307	5,019	7,482	1,826	2,435	454	12,196
Total Operator Salary	977,957	69,704	896	4,910	75,510	119,710	29,339	39,118	7,256	195,423

WATER SERVICE CORPORATION OF KENTUCKY

Case No. 2013 - 00237

Calculation of Salary and Benefits

Test Year 12/31/2012

w/p [b]

Confidential

WATER SERVICE CORPORATION OF KENTUCKY

w/p [q-3]

Case No. 2013 - 00237

Calculation of Salary and Benefits Allocated to the City of Clinton Sewer Operations

Test Year 12/31/2012

	Confidential									
	Total Annualized Salary	FICA 7.65%	FUTA 7,000 @ .8%	SUTA 8,000 @ 3.2%	Total Taxes	2012 Health Insurance	Pension at 3%	401(k) at 4%	2012 Other	Total Benefits
Maintenance										
Maintenance 4	76,233	5,635 -	56	307	5,998 -	7,482	2,210	2,946	454	13,091
Maintenance 8	27,798	2,055 -	56	307	2,418 -	7,482	806	1,074	454	9,815
Maintenance 10	44,470	3,287 -	56	307	3,650 -	7,482	1,289	1,719	454	10,943
Maintenance 11	39,072	2,975 -	56	307	3,338 -	7,482	1,166	1,555	454	10,657
Total Operator Salary	<u>187,573</u>	<u>13,952</u>	<u>224</u>	<u>1,228</u>	<u>15,404</u>	<u>29,927</u>	<u>5,471</u>	<u>7,295</u>	<u>1,814</u>	<u>44,507</u>
Operator Allocation										
Maintenance 4	6,419	474	5	26	505	650	186	248	38	1,102
Maintenance 8	13,226	978	27	146	1,150	3,560	383	511	216	4,670
Maintenance 10	21,159	1,564	27	146	1,737	3,560	613	818	216	5,207
Maintenance 11	3,290	250	5	26	281	650	98	131	38	897
Total Operator Allocation	<u>44,094 -</u>	<u>3,267 -</u>	<u>63</u>	<u>344 -</u>	<u>3,673 -</u>	<u>8,380</u>	<u>1,281</u>	<u>1,708</u>	<u>508</u>	<u>11,876</u>

WATER SERVICE CORPORATION OF KENTUCKY

w/p [q]

Case No. 2013 - 00237

Expenses & UPIS Allocated to the City of Clinton Sewer Operations

Test Year 12/31/2012

<u>Expense Reductions</u>	<u>Amount</u>
Operator Salaries	\$ (44,094)
Operator Payroll taxes	(3,673)
Operator Benefits	(11,876)
Transportation exp.	(3,663)
Direct Expenses Excluding Salary	(52,069)
Total O & M Expense Reduction	<u>(115,376)</u>
Office Salaries	(2,915)
Office Payroll taxes	(281)
Office Benefits	(894)
Total General Expense Reduction	<u>(4,090)</u>
Vehicle depreciation	(1,243)
Total expense reduction	<u>\$ (120,708)</u>
<u>Rate Base Reductions</u>	<u>Amount</u>
UPIS - Vehicles	44,928
Accum. Dep. - Vehicles	\$ (38,573)
Total rate base reductions	<u>6,355</u>

	Total Annualized Salary	FICA 7.65%	FUTA 7,000 @ .8%	SUTA 12900 @ 8.95%	Total Taxes	4/16/2013 Health Insurance	401k 3%	Company Contribution 4%	4/16/2013 Other	Total Benefits	Check Stub	Annual Salary
Total Northbrook Salary	4,851,704	317,992	3,192	65,809	386,993	418,992	145,230	193,640	25,424	783,285	4,851,704	4,851,704
WSC of KY 2.7753%	134,651.66	8,825.39	88.59	1,826.44	10,740.41	11,628.48	4,030.63	5,374.17	705.60	21,738.89	134,651.66	134,651.66

WATER SERVICE CORPORATION OF KENTUCKY

Case No. 2013 - 00237

Calculation of Customer Service Salary and benefits

Test Year 12/31/2012

Using 05/24/13 Paystub Salaries

w/p [b-3]

Confidential

Line	Customer Service Personnel [A]	State [B]	Total	FICA	FUTA	Total		12/31/2012	Pension	401(k)	12/31/2012	Total
			Annualized Salary [C]	7.65% [D]	7,000 @ .8% [E]	SUTA [F]	Taxes [G]	Health Insurance [E]	at 3% [F]	at 4% [G]	Other [H]	Benefits [I]
1.	CSR 1	FL	31,467	2,407	56	366 [1]	2,829	7,482	944	1,259	454	10,138
2.	CSR 2	NC	25,251	1,932	56	878 [2]	2,866	7,482	758	1,010	454	9,703
3.	CSR 3	FL	35,432	2,711	56	366 [1]	3,133	7,482	1,063	1,417	454	10,416
4.	CSR 4	FL	33,211	2,541	56	366 [1]	2,963	7,482	996	1,328	454	10,260
5.	CSR 5	FL	37,698	2,884	56	366 [1]	3,306	7,482	1,131	1,508	454	10,574
6.	CSR 6	FL	56,347	4,311	56	366 [1]	4,733	7,482	1,690	2,254	454	11,880
7.	CSR 7	NV	25,335	1,938	56	975 [3]	2,969	7,482	760	1,013	454	9,709
8.	CSR 8	NC	26,848	2,054	56	878 [2]	2,988	7,482	805	1,074	454	9,815
9.	CSR 9	NV	39,655	3,034	56	1,036 [3]	4,126	7,482	1,190	1,586	454	10,711
10.	CSR 10	FL	27,587	2,110	56	366 [1]	2,532	7,482	828	1,103	454	9,866
11.	CSR 11	NV	25,997	1,989	56	1,001 [3]	3,046	7,482	780	1,040	454	9,755
12.	CSR 12	NV	28,863	2,208	56	1,036 [3]	3,300	7,482	866	1,155	454	9,956
13.	CSR 13	NV	29,457	2,253	56	1,036 [3]	3,345	7,482	884	1,178	454	9,997
14.	CSR 14	NC	25,376	1,941	56	878 [2]	2,875	7,482	761	1,015	454	9,712
15.	CSR 15	FL	27,189	2,080	56	366 [1]	2,502	7,482	816	1,088	454	9,839
16.	CSR 16	FL	28,046	2,145	56	366 [1]	2,567	7,482	841	1,122	454	9,899
17.	CSR 17	NV	25,299	1,935	56	974 [3]	2,965	7,482	759	1,012	454	9,706
18.	CSR 18	FL	29,032	2,221	56	366 [1]	2,643	7,482	871	1,161	454	9,968
19.	CSR 19	FL	25,828	1,976	56	366 [1]	2,398	7,482	775	1,033	454	9,743
20.	CSR 20	FL	27,554	2,108	56	366 [1]	2,530	7,482	827	1,102	454	9,864
21.	CSR 21	FL	48,299	3,695	56	366 [1]	4,117	7,482	1,449	1,932	454	11,316
22.	CSR 22	FL	26,212	2,005	56	366 [1]	2,427	7,482	786	1,048	454	9,770
23.	CSR 23	NC	35,926	2,748	56	878 [2]	3,682	7,482	1,078	1,437	454	10,450
24.	CSR 24	NC	31,101	2,379	56	878 [2]	3,313	7,482	933	1,244	454	10,112
25.	CSR 25	FL	25,480	1,949	56	366 [1]	2,371	7,482	764	1,019	454	9,719
26.	CSR 26	FL	100,339	7,676	56	366 [1]	8,098	7,482	3,010	4,014	454	14,959
27.	CSR 27	FL	58,240	4,455	56	366 [1]	4,877	7,482	1,747	2,330	454	12,012
28.	CSR 28	NC	46,171	3,532	56	878 [2]	4,466	7,482	1,385	1,847	454	11,167
29.	CSR 29	NC	26,039	1,992	56	878 [2]	2,926	7,482	781	1,042	454	9,758
30.	CSR 30	FL	34,778	2,660	56	366 [1]	3,082	7,482	1,043	1,391	454	10,370
31.	CSR 31	NC	35,292	2,700	56	878 [2]	3,634	7,482	1,059	1,412	454	10,406
32.	CSR 32	FL	26,573	2,033	56	366 [1]	2,455	7,482	797	1,063	454	9,795
33.	CSR 33	FL	25,501	1,951	56	366 [1]	2,373	7,482	765	1,020	454	9,720
34.	CSR 34	NV	33,587	2,569	56	1,036 [3]	3,661	7,482	1,008	1,343	454	10,286
35.	CSR 35	FL	26,550	2,031	56	366 [1]	2,453	7,482	797	1,062	454	9,794
36.	CSR 36	NC	25,675	1,964	56	878 [2]	2,898	7,482	770	1,027	454	9,733
37.	CSR 37	FL	44,804	3,427	56	366 [1]	3,849	7,482	1,344	1,792	454	11,072
38.	CSR 38	FL	28,059	2,147	56	366 [1]	2,569	7,482	842	1,122	454	9,900
39.	CSR 39	FL	25,501	1,951	56	366 [1]	2,373	7,482	765	1,020	454	9,720
40.	CSR 40	NC	25,962	1,986	56	878 [2]	2,920	7,482	779	1,038	454	9,753
	Total		1,341,560	102,628	2,240	24,298	129,166	299,274	40,247	53,662	18,141	411,324
	WSC Allocation Percentage		2.78%	2.78%	2.78%	2.78%	2.78%	2.78%	2.78%	2.78%	2.78%	2.78%
	Total Kentucky Customer Service Allocation		37,233	2,848	62	674	3,585	8,306	1,117	1,489	503	11,416
	Clinton Sewer Allocation Percentage		7.83%	7.83%	7.83%	7.83%	7.83%	7.83%	7.83%	7.83%	7.83%	7.83%
	Clinton Sewer Office expense		2,915	223	5	53	281	650	87	117	39	894

AG DR 1-50

w/p [6-3]

CSR	2009			2010			2011			2012			2013		
	Amounts	% Increase	Date of Inceas	Amounts	% Increase	Date of Inceas	Amounts	% Increase	Date of Inceas	Amounts	% Increase	Date of Inceas	Amounts	% Increase	Date of Inceas
CSR 1	14.38	2.5	4/1/2010	14.74								1.97	4/1/2013	15.03	
CSR 2												1	4/1/2013	12.14	
CSR 3	14.52	3.03	4/1/2010	14.96	6.68	1/12/2011	15.96	1	4/1/2012	16.12	2.48	4/1/2013	16.52		
CSR 4	14.1	2.98	4/1/2010	14.52	3.03	4/1/2011	14.96	3.01	4/1/2012	15.41	2.99	4/1/2013	15.87		
CSR 5	15.17	3.03	4/1/2010	15.63	3.01	4/1/2011	16.1	2.98	4/1/2012	16.58	9.31	2/28/2013	37698		
CSR 6	24.39	2.62	4/1/2010	25.03	3	10/20/2011	25.78	2.02	4/1/2012	26.3	3	4/1/2013	27.09		
CSR 7															
CSR 8					2	4/1/2011	12.26	2.04	4/1/2012	12.51	3.04	4/1/2013	12.89		
CSR 9	13.86	3.54	4/1/2010	14.35	2.02	4/1/2011	15.15	10.03	4/1/2012	16.67	11.04	2/18/2013	38500.08		
CSR 9		3.48	12/29/2010	14.85							3	4/1/2013	39655.2		
CSR 10								3.49	4/1/2012	12.44	3.54	4/1/2013	12.88		
CSR 11											2	4/1/2013	12.26		
CSR 12					5	4/1/2011	12.61	3.01	4/1/2012	12.99	3	4/1/2013	13.38		
CSR 13	12.5	4	4/1/2010	13	2.54	4/1/2011	13.33	3	4/1/2012	13.73	1.97	4/1/2013	14		
CSR 14											1.5	4/1/2013	12.2		
CSR 15					2	4/1/2011	12.26	3.02	4/1/2012	12.63	3.01	4/1/2013	13.01		
CSR 16					2	4/1/2011	12.26	4	4/1/2012	12.75	4	4/1/2013	13.26		
CSR 17															
CSR 18	12.29	2.52	4/1/2010	12.6	3.02	4/1/2011	12.98	2	4/1/2012	13.24	1.96	4/1/2013	13.5		
CSR 19	0										2.5	4/1/2013	12.32		
CSR 20					2	4/1/2011	12.26	3.59	4/1/2012	12.7	2.99	4/1/2013	13.08		
CSR 21	46041.84	5	4/1/2010	48343.88											
CSR 22											2.5	4/1/2013	12.32		
CSR 23	13.99	3	4/1/2010	14.41	4.51	4/1/2011	15.06	3.98	4/1/2012	15.66	3	4/1/2013	35610		
CSR 23								6.13	9/17/2012	34572.72					
CSR 24	13.17	3.04	4/1/2010	13.57	3.02	4/1/2011	13.98	4.01	4/1/2012	14.54	2.48	4/1/2013	14.9		
CSR 25											1.91	4/1/2013	12.25		
CSR 26	85000.08	6	4/1/2010	90100.08	6	4/1/2011	95506.08	3	4/1/2012	98371.2	2	4/1/2013	100338.7		
CSR 27								3.49	4/1/2012	12.44	4	4/1/2013	58240.08		
CSR 27								15.92	9/17/2012	14.42					
CSR 27								86.67	12/11/2012	55999.92					
CSR 28		2.5	2/10/2010	41000.16	1.94	4/1/2011	43050	5.25	4/1/2012	45310.08	1.9	4/1/2013	46170.96		
CSR 28		3	4/1/2010	42229.92											
CSR 29											3	4/1/2013	12.38		
CSR 30	12.53	3.03	4/1/2010	12.91	4.98	4/1/2011	15.61	3.97	4/1/2012	16.23	3.02	4/1/2013	16.72		
CSR 30		7.44	9/22/2010	13.87											
CSR 30		7.21	12/29/2010	14.87											
CSR 31	14.95	3.00%	4/1/2010	15.4	2.50%	4/1/2011	15.79	3.99%	4/1/2012	16.42	2.99%	4/1/2013	16.91		
CSR 32								19.42%	2/15/2012	12.3	3.01%	4/1/2013	12.67		
CSR 33											2.00%	4/1/2013	12.26		
CSR 34		2.50%	4/1/2010	13.86	2.52%	4/1/2011	14.21	3.03%	4/1/2012	14.64					
CSR 34								6.56%	9/17/2012	32451.12	3.50%	4/1/2013	33586.8		
CSR 35								2.00%	4/1/2012	12.26	2.53%	4/1/2013	12.57		
CSR 36											2.50%	4/1/2013	12.32		
CSR 37	15.91	3.50%	4/1/2010	16.47											
CSR 37		5.80%	8/11/2010	17.43	4.00%	4/1/2011	18.13	4.03%	4/1/2012	18.86					
CSR 37								5.09%	9/17/2012	41228.88					
CSR 37								4.99%	12/1/2012	43288.88	3.50%	4/1/2013	44803.92		
CSR 38					1.99%	4/1/2011	12.26	3.02%	4/1/2012	12.63	3.01%	4/1/2013	13.01		
CSR 39								3.00%	4/1/2012	11.33					
CSR 39								6.09%	12/13/2012	12.02	2.00%	4/1/2013	12.26		
CSR 40											1.91%	3/27/2013	12.25		

25,335

25,299

48,299

	Per Books	Pro Forma Adjustments	Pro Forma Present	Proposed Increase	Pro Forma Proposed
Operating Revenues					
Service Revenues - Water	2,066,451	37,361	2,103,813	228,789 [k]	2,332,602
Service Revenues - Sewer	-	-	-	-	-
Miscellaneous Revenues	78,995	-	78,995	-	78,995
Uncollectible Accounts	(37,353)	(675) [b]	(38,028)	(4,136) [b]	(42,164)
Total Operating Revenues	2,108,093	36,686	2,144,779	224,654	2,369,433
Maintenance Expenses					
Salaries and Wages	460,338	58,761 [c]	519,099	-	519,099
Purchase Water/Sewer	85,200	-	85,200	-	85,200
Purchased Power	95,111	-	95,111	-	95,111
Maintenance and Repair	98,163	-	98,163	-	98,163
Maintenance Testing	34,092	-	34,092	-	34,092
Meter Reading	-	-	-	-	-
Chemicals	145,421	-	145,421	-	145,421
Transportation	46,788	(12,014)	34,774	-	34,774
Operating Exp. Charged to Plant	(132,210)	(31,659) [d]	(163,869)	-	(163,869)
Outside Services - Other	30,001	-	30,001	-	30,001
Total	862,903	15,089	877,992	-	877,992
General Expenses					
Salaries and Wages	229,319	(55,671) [c]	173,648	-	173,648
Office Supplies & Other Office Exp.	79,610	-	79,610	-	79,610
Regulatory Commission Exp.	99,563	(25,903) [e]	73,660	-	73,660
Pension & Other Benefits	122,141	38,575 [c]	160,716	-	160,716
Rent	6,254	-	6,254	-	6,254
Insurance	63,192	-	63,192	-	63,192
Office Utilities	54,273	-	54,273	-	54,273
Miscellaneous	25,119	(12,945)	12,173	-	12,173
Total	679,471	(55,944)	623,526	-	623,526
Depreciation	316,070	(34,242) [f]	281,828	-	281,828
Amortization of PAA	(3,660)	3,660 [f]	-	-	-
Taxes Other Than Income	135,765	8,297 [g]	144,063	(169) [g]	143,894
Expense Reduction Related to Clinton Sewer Operations	(153,285)	32,576 [h]	(120,708)	-	(120,708)
Income Taxes - Federal	23,450	31,042 [i]	54,491	71,853 [i]	126,345
Income Taxes - State	20,913	(10,683) [i]	10,230	13,489 [i]	23,719
Amortization of CIAC	(1,918)	(2,312) [f]	(4,229)	-	(4,229)
Total	337,335	28,339	365,674	85,174	450,848
Total Operating Expenses	1,879,709	(12,516)	1,867,193	85,174	1,952,367
Net Operating Income	228,384	49,202	277,586	139,480	417,066
Other Income	-	-	-	-	-
Interest During Construction	(1,730)	-	(1,730)	-	(1,730)
Interest on Debt	180,121	(8,312) [j]	171,809	-	171,809
Net Income	49,994	57,514	107,508	139,480	246,987

**ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT**

This ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT, made and entered into this 26th day of February
2002 by and between the CITY OF CLINTON, KENTUCKY (the "City"), and AQUA/KWS,
Inc., a Kentucky corporation, formerly Aqua Corporation ("Aqua").

WITNESSETH:

WHEREAS, the parties have previously entered into a certain Wastewater Privatization Contract including Service Agreement dated June 1, 1987 (the "Agreement"), which was amended on February 15, 1991 to extend the term of the Agreement to February 28, 1996, and amended on March 3, 1994 to extend to the term of the Agreement to March 3, 1999, and amended on February 3, 1997 to extend the term of the Agreement to March 3, 2002, and it is now the desire of the parties to amend Article VII, paragraph 1, of the Agreement for the purpose of extending the term of the Agreement to March 3, 2022 and to make other modifications to the Agreement as stated hereafter;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and contained in the Agreement, the City and Aqua agree as follows:

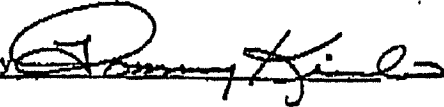
1. Article VII, Section 1, Paragraph 1 of the Agreement is hereby supplemented and amended to the effect that the term of the Agreement shall be extended to March 3, 2022;
2. Article VII, Section 1, Paragraph 1 of the Agreement is hereby amended as follows:
 - (a) Delete - starting at line 6 "Upon completion of the term.....from private operation to municipal operation," ending at line 12.
 - (b) Add - "Upon completion of the term of this Agreement (either by expiration of the term or by early termination) AQUA shall be paid it's cost (labor, overhead, and expenses) plus 15% profit in providing for the demobilization of operation and transition of records, personnel and facilities from private operation to municipal operation."

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Commission Staff
Exhibit 03

- 3. Article VII, Section 9 - This is supplemented as follows: "It is agreed by the parties hereto that Aqua shall not advance capital to the City unless requested by the City as the City anticipates being able to acquire any capital necessary".
- 4. Article VII, Section 9 (d) is deleted in its entirety.
- 5. Article VII, Section 12 - This section is supplemented as follows: "It is agreed by the parties hereto that prior to charging the City for equipment owned by Aqua and used on the City's behalf, the parties shall agree on a rate of charge."
- 6. All other provisions of the Agreement are reaffirmed.

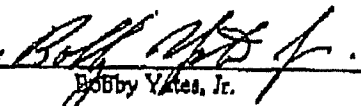
IN TESTIMONY WHEREOF, the City and Aqua have caused this Addendum to be executed each by its proper and duly authorized officer as of the year and date first above written.

CITY OF CLINTON, KENTUCKY

By 

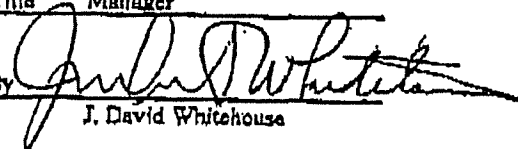
Title Mayor

AQUA/KWS, INC./ U.S. UTILITIES

By 

Bobby Yates, Jr.

Title Manager

By 

J. David Whitehouse

Title Ex. Vice President

**ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT**

This ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT, made and entered into this 2 day of Feb, 1997 by and between the CITY OF CLINTON, KENTUCKY (the "CITY"), and AQUA/KWS, INC., a Kentucky corporation, formerly Aqua Corporation ("Aqua"),

WITNESSETH:

WHEREAS, the parties have previously entered into a certain Wastewater Privatization Contract Including Service Agreement dated June 1, 1987 (the "Agreement"), which was amended on February 15, 1991 to extend the term of the Agreement to February 28, 1996, and amended on March 9, 1994 to extend the term of the Agreement to March 3, 1999, and it is now the desire of the parties to amend Article VII, paragraph 1, of the Agreement for the purpose of extending the term of the Agreement to March 3, 2002;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and contained in the Agreement, the City and Aqua agree as follows:

Section 1. Paragraph 1 of Article VII of the Agreement is hereby supplemented and amended to the effect that the term of the Agreement shall be extended to March 3, 2002; provided, however, that the City may terminate the Agreement on March 3, 2000, and any time thereafter on reasonable notice to Aqua.

Section 2. All other provisions of the Agreement are reaffirmed.

IN TESTIMONY WHEREOF, the City and Aqua have caused this Addendum to be executed each by its proper and duly authorized officer as of the year and date first above written.

CITY OF CLINTON, KENTUCKY

By Jackie Caraway
Jackie Caraway
Title Mayor

AQUA/KWS, INC.

By Bobby Yates, Jr.
Bobby Yates, Jr.
Title Manager

By D. David Whitehouse
D. David Whitehouse
Title President

③

ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT

This ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT, made and entered into this 26th day of February
2002 by and between the CITY OF CLINTON, KENTRUCKY (the "City"), and AQUA/KWS,
Inc., a Kentucky corporation, formerly Aqua Corporation ("Aqua").

WITNESSETH:

WHEREAS, the parties have previously entered into a certain Wastewater Privatization Contract including Service Agreement dated June 1, 1987 (the "Agreement"), which was amended on February 15, 1991 to extend the term of the Agreement to February 28, 1996, and amended on March 3, 1994 to extend to the term of the Agreement to March 3, 1999, and amended on February 3, 1997 to extend the term of the Agreement to March 3, 2002, and it is now the desire of the parties to amend Article VII, paragraph 1, of the Agreement for the purpose of extending the term of the Agreement to March 3, 2022 and to make other modifications to the Agreement as stated hereafter;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and contained in the Agreement, the City and Aqua agree as follows:

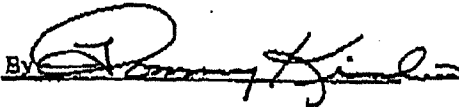
1. Article VII, Section 1, Paragraph 1 of the Agreement is hereby supplemented and amended to the effect that the term of the Agreement shall be extended to March 3, 2022;
2. Article VII, Section 1, Paragraph 1 of the Agreement is hereby amended as follows:
 - (a) Delete - starting at line 6 "Upon completion of the term.....from private operation to municipal operation," ending at line 12.
 - (b) Add - "Upon completion of the term of this Agreement (either by expiration of the term or by early termination) AQUA shall be paid it's cost (labor, overhead, and expenses) plus 15% profit in providing for the demobilization of operation and transition of records, personnel and facilities from private operation to municipal operation."

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- 3. Article VII, Section 9 - This is supplemented as follows: "It is agreed by the parties hereto that Aqua shall not advance capital to the City unless requested by the City as the City anticipates being able to acquire any capital necessary".
- 4. Article VII, Section 9 (d) is deleted in its entirety.
- 5. Article VII, Section 12 - This section is supplemented as follows: "It is agreed by the parties hereto that prior to charging the City for equipment owned by Aqua and used on the City's behalf, the parties shall agree on a rate of charge."
- 6. All other provisions of the Agreement are reaffirmed.

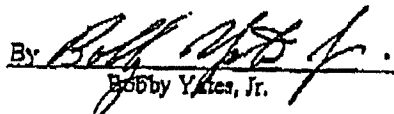
IN TESTIMONY WHEREOF, the City and Aqua have caused this Addendum to be executed each by its proper and duly authorized officer as of the year and date first above written.

CITY OF CLINTON, KENTUCKY

By 

Title Mayor

AQUA/KWS, INC./ U.S. UTILITIES

By 
Bobby Yates, Jr.

Title Manager

By 
J. David Whitehouse

Title Ex. Vice President

Mr Roberts - see
* on Page 6

WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT

THIS WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT, made and entered into this 1st day of June, 1987, as authorized by Kentucky Revised Statutes Chapter 107, Section 700, et seq, by and between the CITY OF CLINTON, Hickman County, Kentucky, a municipal corporation (sometimes hereinafter referred to as the "CITY"), and AQUA CORPORATION, a Kentucky corporation, having a registered office in Lexington, Kentucky and its general offices at 354 Waller Avenue, Lexington, Kentucky 40504 (sometimes hereinafter referred to as "AQUA"),

W I T N E S S E T H:

WHEREAS, it is understood and affirmed by the parties to the within agreement that CITY is a Kentucky municipal corporation of the Fifth Class governed under the mayor-city council form of government pursuant to KRS Chapter 83A; that CITY has full power and authority in law to contract as herein provided and enters into this Wastewater Privatization Contract Including Service Agreement pursuant to authorization of an ordinance duly adopted by its City Council and approved by its Mayor at a regular meeting held on the 1st day of June, 1987, published as provided by KRS Chapter 83A and recorded in the official ordinance book and now in full force and effect; that CITY owns and operates its aged municipal wastewater sewage system which has limited physical capability; that

- 1 -

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said sewer system (the "System") fails to meet the standards of the Environmental Protection Agency (an agency of the United States government commonly referred to as the EPA) and the system is in need of replacements, rehabilitations, reinforcements, and construction to comport with modern day technology for the health and welfare of the public; that funding of the aforementioned project for the improvement of the System (the "Project") is necessary and required and a revenue bond issue (which may be anticipated by the issuance of revenue bond anticipation notes) is the preferred financing mechanism; and

WHEREAS, it is mutually understood and affirmed that CITY does not have personnel possessing the necessary expertise and skill to perform the aforesaid construction or to process and market the required revenue bond issue; that private management of the System would provide desirable expertise and avoid political pressure at any time and thus be in the public interest; that AQUA is recognized as a capable and reliable firm with personnel having wide experience in sewage system design, associated contractual projects, and revenue bond issue procedures and operational management; and

WHEREAS, it is affirmed that under the "Kentucky Privatization Act of 1986", KRS Chapter 107, Section 700, et seq, CITY is authorized (a) to contract for the heretofore generally described construction to its existing sewer system; (b) to contract for the placement of revenue bonds issued under the provisions of KRS 103.200 et seq., or to sell revenue bonds as provided in KRS Chapter 58; and (c) to enter into a service agreement; that

a notice of the within Privatization Contract was duly published pursuant to KRS Chapter 424; that a public hearing was held, all in compliance with KRS 107.730; and that an ordinance authorizing the within Privatization Contract has been enacted and duly recorded as aforesaid;

NOW, THEREFORE, CITY and AQUA mutually agree to the following covenants:

ARTICLE I - RECONSTRUCTION OF SEWER PLANT

AQUA agrees to repair, rehabilitate, reinforce, replace and construct the existing sewer system of the CITY to the full extent necessary for compliance with EPA standards and to provide such capacity as required to meet the present and now reasonably foreseen future needs as mutually estimated and forecasted; AQUA may employ or contract with other parties for any portion of the necessary construction; provided, however, that AQUA will not be liable in any manner whatsoever in event of the inability of the system to meet the volumetric requirements of the CITY for any specific number of years.

ARTICLE II - CITY TO ISSUE REVENUE BONDS

CITY agrees to issue revenue bonds (which may be anticipated by the issuance of revenue bond anticipation notes) in sufficient principal amount to pay AQUA in full for its construction work and to deliver the revenue bonds to AQUA for placement. It is anticipated that the total bond issue including any bond discount and other costs associated with the issuance will not exceed \$1,000,000.00.

(9)

ARTICLE III - SALE OF REVENUE BONDS

AQUA agrees to place or sell CITY'S sewer revenue bonds for financing the reconstruction project by providing the required fiscal agent and as described herein as a part of this Privatization Contract; provided, nevertheless, that such sale or placement of bonds may be postponed by CITY, which shall be permitted to finance the Project upon a temporary basis by the issuance of notes in anticipation of the issuance of revenue bonds, as authorized by statute.

ARTICLE IV - BILLING AND PAYMENT

AQUA shall be paid for completion of the project either by negotiated lump sum contract for the total project improvements prior to construction of the project or, upon completion of the Project by submittal of a standard or customary invoice setting forth the cost of materials used, labor performed, the cost of sublet contracts, supervision, general overheads, negotiated profit, and all other appropriate and customarily charged costs. Upon negotiation of the lump sum contract or acceptance of the aforesaid invoice the CITY (subject to the provisions of Article III hereof) shall deliver to AQUA revenue bonds issued according to law in a principal amount fully sufficient to cover the negotiated lump sum contract or the entire invoice of AQUA and all costs attendant to the bond issue itself.

ARTICLE V - BOND COUNSEL; FISCAL AGENT

A qualified bond counsel and qualified fiscal agent shall be employed in the placement and/or sale of the revenue bonds. The revenue bonds shall be placed at reasonable interest rates under market conditions and circumstances at the time of placement. The cost of bond counsel services and fiscal agent services and their

(1)

respective expenses shall also be paid for from the proceeds of the bond issue which shall be in sufficient principal amount to cover not only the aforementioned AQUA invoice but also to pay for the services of bond counsel and fiscal agent together with their expenses and other costs attendant to the bond issue itself; provided, however, that limitations under federal statutes for payment of such costs from the proceeds of the revenue bonds shall be observed and any excess costs shall be paid as agreed upon between the CITY and AQUA under a separate agreement.

ARTICLE VI - ARBITRATION

In the event of any disagreement between the parties to this contract which cannot be resolved between themselves, the parties may mutually agree to binding arbitration which shall be accomplished by petitioning the Chief Justice of the Supreme Court of Kentucky to designate a panel of three members of the Court of Appeals of Kentucky or three other persons who shall serve as arbitrators. In event the Court does not consent to perform these services, each of the parties shall select one arbitrator and those two arbitrators shall select a third arbitrator, which three persons shall then comprise a final board for binding arbitration. This form of binding arbitration shall apply also to the Service Agreement, a part of the within Wastewater Privatization Contract which is set forth in subsequent Article VII hereof. The cost and expenses of any arbitration, other than the costs and expenses of personnel of the parties themselves, shall be shared equally by the parties hereto.

- 5 -

(11)

ARTICLE VII - SERVICE AGREEMENT

In addition to the foregoing agreements, CITY hereby employs AQUA to manage, operate and maintain the System according to the covenants set forth below.

1. Term of Agreement. The term of this Service Agreement shall commence upon completion of the reconstructed and renovated System, and shall continue for five years; provided, however, that the CITY may terminate the Service Agreement (1) at the end of the third year on reasonable notice, and (2) anytime thereafter on reasonable notice. Upon completion of the term of this Agreement (either by expiration of the term or by early termination under the provisions hereof) AQUA shall be paid a transition fee of \$95,000.00 * . Said fee has been fixed as the agreed estimated amount required to reimburse AQUA for its costs in providing for the demobilization of operation and transition of records, personnel and facilities from private operation to municipal operation.

2. Ownership of the Project and Sewer System. Ownership of the Project and the System shall at all times be vested in the CITY, including the original sewer system, the reconstruction Project, and all future betterments and additions without limitation.

3. All Receipts to Belong to City. All income and revenues arising out of the ownership and operation of the System shall without limitation belong to the CITY and shall constitute special and segregated municipal funds at all times, subject to the provisions of the ordinance authorizing the revenue bond issue" (the "Bond Ordinance"), which shall provide for appropriate operational



disbursements required in the management, operation and maintenance of the system.

4. No Political Influence. CITY agrees that it will not cause or countenance any political influence upon AQUA in its management and operation of the sewer system and AQUA agrees that it will not participate in any political matter appertaining to the CITY or any of its employees. By this provision the parties do not intend to inhibit any person's constitutional right to free speech or the expression of personal views.

5. CITY to Establish all Rates, Rules and Regulations. All rules and regulations relating to rates and charges shall be fixed and established solely by the CITY, provided, however, CITY shall observe and respect all covenants and agreements in the Bond Ordinance, which shall contain a rate covenant requiring the maintenance or establishment of rates designed to produce revenues sufficient to pay the obligations of the System, and all covenants and agreements expressed in the Bond Ordinance and herein.

As provided by KRS 107.730, this Service Agreement, the charges for rates and services, and operation of the System under this Service Agreement shall not be subject to the jurisdiction of the Kentucky Public Service Commission or any successor regulatory agency. CITY grants no franchise. CITY relinquishes no jurisdiction over rates, charges and services.

6. Services to be Rendered by AQUA. The services which AQUA agrees to render relate solely to the System and its various functions as described herein and shall consist of (a) management; (b) operation and maintenance of the plant; (c) billing, collecting

and disbursing funds in accordance with the bond ordinance and this contract; (d) setting up and maintaining an adequate and continuing system of accounting; (e) rendering to the CITY financial and operating statements not less frequently than quarterly and an annual audit report prepared by a Certified Public Accountant; (f) rendering to CITY engineering inspection reports and recommendations not less frequently than annually and as circumstances may warrant; (g) procuring and maintaining, in the name and on behalf of CITY, insurance against such hazards and in such amounts as may be necessary and customary in other comparable sewer systems and operations; (h) the selection, training, employment and discharge of any and all personnel which may be necessary or desirable in AQUA's judgment to the performance by AQUA of its functions under this Contract, including the determination of the compensation paid to such personnel.

All employees having access to or being chargeable with responsibility for the handling of funds shall be bonded with good corporate surety in reasonable amounts under the circumstances as fixed or approved by the CITY. The premiums paid for such surety bonds shall constitute a part of the operating expenses of the sewer system.

7. No Free Service; CITY also to Pay. No wastewater sewer service shall be furnished free. Service rendered to the CITY or any of its departments shall be billed and paid for by CITY from its separate funds the same as any other customer in the same rate classification.

8. Office a Part of Project. CITY may make office space available to AQUA in premises already owned by or available to CITY if the same are adequate and suitably located for that purpose, in which event a fair rental value therefor may be established by the CITY Council and paid for as a part of the expenses of operating the System. If CITY does not have adequate and suitable space for such office, AQUA may make arrangements for the rental of same and the rental thus paid shall constitute a proper expense of operation of the System.

9. Compensation of AQUA Solely from System Revenues; Subject to Bond Requirements. AQUA shall be authorized to cause to be paid solely from the City's Operation and Maintenance Fund established by the Bond Ordinance the costs of operation and maintenance, which costs shall include compensation payable to AQUA for its services under this Service Contract, and for the use of any working capital which it may advance. Payments shall be made solely from the income of the System and solely from the Operation and Maintenance Fund for which provision has been made in the Bond Ordinance. The Bond Ordinance requires that certain payments from revenues be set aside into the Bond Fund as a first charge and lien upon the revenues. Thereafter payments, reimbursement or compensation shall be in four separate categories as follows:

(a) Payments for customary expenses actually incurred in operating and maintaining the System, including all such items as are "operating expenses" under good and accepted accounting.

practices. Specifically, but not by way of limitation, the same may include the salary or wages of the person residing in the CITY or vicinity having immediate day-to-day responsibility for all phases of operation and maintenance, the salary or wages of proper service, repair, billing and collecting personnel; the cost of materials and supplies actually consumed from time to time; premiums on surety bonds and policies of hazard insurance; and office rental and office utilities, but specifically excluding any provision for depreciation of property or for the remuneration of the officers of or persons employed directly by AQUA.

Prior to beginning the Project and operation thereof, AQUA shall make such preparatory action as may be necessary, including the setting up of an accounting system, making arrangements for office facilities, the selection and training of personnel, etc., so that operation of the Project may be commenced in an orderly manner. AQUA shall prepare all proper data relating to construction disbursements, in order that same may be entered upon the books and records of the sewer system. It is understood, however, that payment for the reconstruction of the Project is finally the responsibility of the CITY thru a revenue bond issue, supra.

Payments within this category (a) shall be paid from and to the extent funds are from time to time available from the operation and maintenance fund; and if balances from time to time in the operation and maintenance fund shall be insufficient to pay the same when due, AQUA agrees that it will, nevertheless, advance the same

from its own capital funds which it shall provide for that purpose, to the end that wastewater operations shall be maintained continuously. All sums so advanced by AQUA from its own capital funds shall be entered in detail upon the books and records of the System, so that the amount thereof and the time or times of each advance may be determined accurately therefrom and reimbursement from subsequent System funds may be accurately made.

(b) AQUA shall be reimbursed for payments made by it on behalf of CITY for other proper general expenses, including the expenses of AQUA's officers or employees for work actually performed on behalf of CITY, but in no case shall such reimbursement exceed actual costs for expenses eligible for payment from the Operation and Maintenance Fund, and in no case shall such reimbursements exceed in the aggregate the sum of One Thousand Dollars (\$1000.00) per month.

Reimbursement within this category (b) shall be paid from time to time from the operation and maintenance fund, but only after expenses of the nature described in category (a) have been paid in full, or after provision for the payment thereof when due has been properly made. If and to the extent monies in the operation and maintenance fund shall be insufficient to pay AQUA's reimbursement under this category (b) the same may be accrued upon the books and records and shall constitute proper items for payment from said operation and maintenance fund when, as, and if monies for that purpose become available therein.

(c) Until the date of termination of this Contract compensation to AQUA for its management services, for the use of such working capital as it may advance from time to time under category (a), for the risk assumed by AQUA in making such advances, and for agreeing to deferment, if and to the extent necessary, of compensation to its corporate and professional personnel under category (b), and to make possible the payment of reasonable general compensation, shall be determined annually and shall be (1) the fixed sum of \$15,000.00, plus the CPI inflation rate since the date of this Privatization Contract and (2) an amount equal to three percent (3%) of the gross revenues of the System, which amount shall not exceed an amount equal to fifty percent (50%) of any surplus in the operation and maintenance fund which is declared by the bond ordinance to be available to the CITY "for any lawful purpose"; provided, however, that the total amount payable to AQUA under (1) and (2) hereof shall not exceed twice the amount established in (1) hereof. The foregoing amount shall be accumulative under this category (c) and may be accrued upon the books and records only if and to the extent funds are not available therefor after said prior requirements have been fully met, as shown by the annual audit. Furthermore, as partial compensation for advanced capital, AQUA shall be allowed to accrue on the books and records an interest charge of six percent (6%) annually on such working capital advanced. Upon termination of this Agreement the foregoing amounts, to the extent not yet paid shall be due and owing.

CITY further covenants and agrees that, prior to complete retirement of all bonds and without regard for increased cost in wages or other expenses under category (a), the rates and charges for sewer service will be adjusted from time to time if and to the extent required to provide to AQUA, as a minimum, the reimbursement described in categories (a) and (b) and (c).

(d) In the event of early retirement of all of CITY'S system revenue bonds, AQUA shall receive as its compensation for the duration of the contract term thereafter a sum equal to fifty percent (50%) of the excess of gross income and revenues over and above operation and maintenance expenses, as defined in (a) and (b) above, provided however, that the above compensation shall not be greater than two and one half (2.5) times the fixed compensation component as formulated in Article VII Section 9. CITY covenants and agrees with AQUA that after any such early retirement of said bonds and until expiration of the term of this contract, CITY will not reduce its rates and charges for sewer service below the scale of rates and charges necessary to produce revenues to meet the requirements as herein defined, including the application of the 2.5 factor aforementioned. This subsection shall not be operable or controlling during any period during which the Service Agreement is in effect if any tax-exempt bonds or bond anticipation notes are outstanding.

10. AQUA Not an Obligor or Guarantor With Respect to CITY'S Bonds. It is understood and agreed that AQUA's obligations

hereunder are to provide to CITY the management and operational services herein contemplated, and AQUA is not itself obligated to discharge the CITY's System Revenue Bonds, nor does it guarantee the payment thereof or interest thereon. AQUA shall at all times be accountable and responsible to the CITY and to the holders of said bonds for the faithful and proper receiving, segregation, disbursing and accounting of and for the project revenues, and shall answer for negligence, fraud, or other misconduct of AQUA and its officers, agents, servants, and employees in that connection; but if, when and to the extent AQUA may from time to time make proper segregation, depositing, or setting aside of monies into the bond fund in accordance with the provisions of the bond ordinance and into the custody of the financial institution properly designated by the City to receive the same, AQUA shall be deemed to have discharged its duty in that respect and shall not be responsible for any subsequent misfortune, or for any subsequent misapplication or disappearance thereof.

11. AQUA Does Not Contract to Provide Legal Services to City; AQUA's Attorney Only For Its Own Legal Affairs. References herein to employment by AQUA of an attorney at law are understood to mean such employment as AQUA may desire with respect to its own legal affairs; and AQUA does not hereby agree to provide any legal services to the CITY. Nevertheless AQUA and CITY agree that their cooperation and the cooperation of their attorneys, each in its own interests, is desirable, especially with regard to any litigation

which may affect the rights and interests of both; and it is agreed that such cooperation will be provided in good faith at all times.

If CITY shall be made a party to any litigation concerning the sewer system, its ownership, service, rates, rules, regulations, improvements, additions, or extensions, it shall promptly give full notice thereof to AQUA, and AQUA agrees that it will give similar notice to the CITY under similar circumstances.

12. CITY Consents that AQUA May Enter into Similar Undertakings. The CITY is aware that AQUA is a going concern engaged in various services for various water systems and sewage systems and that AQUA may enter into contracts for the rendering of services to other cities similar to those rendered CITY in connection with sewer or other utility operations; and the CITY hereby gives its consent that AQUA enter into any such undertakings.

AQUA agrees that it will maintain its accounting hereunder separate and distinct from its business or accounting in any other connection; and will never cause or permit any commingling of the CITY's project, or any part thereof, or any income and revenues arising therefrom, with any other properties or revenues.

Notwithstanding the foregoing, it is understood that if AQUA shall be employed by any other city, or cities, for the performance of the same or similar services, AQUA or its affiliates may find it possible to affect savings to all concerned by purchasing in its own name, and retaining title to, machinery, equipment, materials or supplies which may be of common usefulness

(12)

when needed, or in quantities which would be uneconomical or unwise to purchase for any single operation. If AQUA shall see fit, it may invest its own independent capital funds in such manner, but shall not charge to its operations on behalf of CITY under this contract, any portion thereof, unless and until actually used, allocated, or installed in connection with or as a part of its operation of the project hereunder. It is understood and agreed that such charging or allocation may consist of the fair rental value of any commonly useful machinery or equipment of AQUA for such period as the same may actually be used or made available in its operations under this contract.

ARTICLE VIII - NON-SEVERABILITY OF CONTRACT EXCEPT BY
MUTUAL CONSENT

If any essential or substantial portion of the foregoing Wastewater Privatization Contract Including Service Agreement is adjudicated to be void then the entire undertaking shall be moot unless CITY and AQUA mutually agree to proceed under any or all of the remaining provisions; however, in any event AQUA shall be reimbursed for all costs and expenses actually incurred by it for work undertaken but not to include any expenses which AQUA may have incurred in negotiations prior to the execution of the within contract.

IN TESTIMONY WHEREOF, the CITY and AQUA have caused this contract to be executed each by its proper and duly authorized

(2)

officials all in the Commonwealth of Kentucky as of the year and day first above written.

CITY OF CLINTON

BY: *Bob G. Jeter*
MAYOR

ATTEST:

James J. Jeter
CITY CLERK

AQUA CORPORATION

BY: *John W. White*

ATTEST:

Stirling B. Gregory
SECRETARY

(23)

Program costs were not unreasonable or excessive. Accordingly, we deny LFUCG's proposed adjustment to remove BT Program assets from UPIS.⁴⁷

Accumulated Depreciation. Kentucky-American uses a 13-month average of its accumulated depreciation balances for the period from July 1, 2013, through July 31, 2014, to arrive at forecasted accumulated depreciation of \$136,601,885.⁴⁸ The Commission finds that forecasted accumulated depreciation should be increased by \$31,332 to reflect the effect of construction slippages, which results in an adjusted balance of \$136,633,217.⁴⁹

Construction Work in Progress ("CWIP"). Kentucky-American uses capital construction budgets for the period from July 1, 2013, through July 31, 2014, to calculate forecasted CWIP of \$6,851,268.⁵⁰ The Commission finds that Kentucky-American's forecasted CWIP should be decreased by \$554,089 for an adjusted balance of \$6,297,179 to reflect the effect of construction slippages.⁵¹

Working Capital. In its application, Kentucky-American includes a cash working capital allowance of \$3,946,000 in its forecasted rate base.⁵² It subsequently revised its

⁴⁷ As Kentucky-American has demonstrated BT Program's benefits and costs, our decision in this case is easily distinguishable from other proceedings in which applicants have failed to make such showing. See, e.g., Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009).

⁴⁸ Application, Ex. 37, Sch. B-1, at 2.

⁴⁹ Kentucky-American's Response to Commission Staff's Second Request for Information, Item 41 at 38.

⁵⁰ Application Ex. 37, Sch. B-4.1 at 2.

⁵¹ Kentucky-American's Response to Commission Staff's Second Request for Information, Item 41 at 38.

⁵² Application Ex. 37, Sch. B-5.2 at 4.

1 breakout of the \$167,131, which was provided to Ms. Crane during the course of
2 discovery:

Department	Allocated Salary
Accounting	\$ 18,094
Accounts Payable	11,075
Billing	4,352
Clerical	2,602
Executive	38,180
Finance	11,913
HR, Admin & Payroll	19,150
IT	12,608
Legal	10,241
Operations and safety	2,736
Regulatory Accounting	29,914
Tax	6,266
Total	\$ 167,131

3
4 As stated by Ms. Crane, undoubtedly some costs being allocated to Water
5 Service Corporation of Kentucky ("WSCK") are necessary for the provision of
6 safe and reliable water service; however, she has removed all of these costs.
7 These costs are allocated from Water Service Corporation ("WSC") to WSCK
8 and are necessary to safe and reliable utility service. Without these services,
9 WSCK could not operate as a utility. For example, if WSCK did not have the
10 ability to pay vendors through the Accounts Payable Department, vendors would
11 not be paid for their services and would ultimately stop providing services to
12 WSCK. WSC allocated \$11,075 for these services to WSCK. If WSCK were to
13 hire its own Accounts Payable clerk, it would lose out on the benefits of
14 economies of scale available to it through the larger customer base of WSC. The
15 ultimate cost would be greater than \$11,075, which would ultimately lead to



City of Clinton

P.O. Box 303

112 South Jefferson

Clinton, Kentucky 42031

(270) 653-6419

Email: clincity@bellsouth.net

Tommy Kimbro
Mayor

Allen Poole
City Administrator

Donna Byran
City Clerk/Treas.

Snapper Seaton
Police Chief

Shannon Payne
Asst. City Clerk

City Council

Phyllis Campbell

Howard Dillard

Jerome Jenkins

Jeff Morrow

Ivan Potter

Yvett Thomas

April 8, 2014

Kentucky Public Service Commission
P.O. Box 615
211 Sower Blvd.
Frankfort, Ky 40602

Re: Water Service Corporation request for rate increase
For Clinton, Kentucky

Dear Members of the Commission:

I am writing this letter on behalf of the Mayor and Clinton City Council to express our opposition to the requested water rate increase by the Water Service Corporation.

The City of Clinton is unlike most small towns across the state that have felt the effects of the economic downturn. The current unemployment rate in Hickman County is 8.9 percent representing one of the highest rates in our area, and according to recent census data and the median income for a family in Clinton is only \$27,847, with 31 percent of our population living below the federal poverty line. In addition to this 24 percent of our population is 65 years of age or older and this would also be an accurate assessment of the number of seniors living on a fixed income.

The Mayor and Clinton City Council are opposed to the rate increase because we feel that it puts more burden on our residents who are already stretched to their economic limits, and would place a severe hardship on our senior population.

Please take these factors into consideration in this case.

Sincerely,

R. Allen Poole
Clinton City Administrator

**ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT**

This ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT, made and entered into this 26th day of February
2002 by and between the CITY OF CLINTON, KENTUCKY (the "City"), and AQUA/KWS,
Inc., a Kentucky corporation, formerly Aqua Corporation ("Aqua").

WITNESSETH:

WHEREAS, the parties have previously entered into a certain Wastewater Privatization Contract Including Service Agreement dated June 1, 1987 (the "Agreement"), which was amended on February 15, 1991 to extend the term of the Agreement to February 28, 1996, and amended on March 3, 1994 to extend to the term of the Agreement to March 3, 1999, and amended on February 3, 1997 to extend the term of the Agreement to March 3, 2002, and it is now the desire of the parties to amend Article VII, paragraph 1, of the Agreement for the purpose of extending the term of the Agreement to March 3, 2022 and to make other modifications to the Agreement as stated hereafter;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and contained in the Agreement, the City and Aqua agree as follows:

1. Article VII, Section 1, Paragraph 1 of the Agreement is hereby supplemented and amended to the effect that the term of the Agreement shall be extended to March 3, 2022;
2. Article VII, Section 1, Paragraph 1 of the Agreement is hereby amended as follows:
 - (a) Delete - starting at line 6 "Upon completion of the term.....from private operation to municipal operation," ending at line 12.
 - (b) Add - "Upon completion of the term of this Agreement (either by expiration of the term or by early termination) AQUA shall be paid it's cost (labor, overhead, and expenses) plus 15% profit in providing for the demobilization of operation and transition of records, personnel and facilities from private operation to municipal operation."

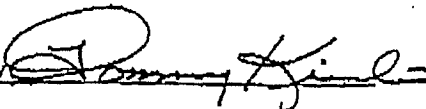
①

Water Service Corp. of KY
Exhibit 01

- 3. Article VII, Section 9 - This is supplemented as follows: "It is agreed by the parties hereto that Aqua shall not advance capital to the City unless requested by the City as the City anticipates being able to acquire any capital necessary".
- 4. Article VII, Section 9 (d) is deleted in its entirety.
- 5. Article VII, Section 12 - This section is supplemented as follows: "It is agreed by the parties hereto that prior to charging the City for equipment owned by Aqua and used on the City's behalf, the parties shall agree on a rate of charge."
- 6. All other provisions of the Agreement are reaffirmed.

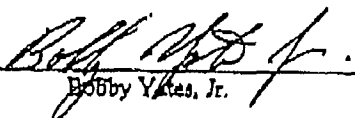
IN TESTIMONY WHEREOF, the City and Aqua have caused this Addendum to be executed each by its proper and duly authorized officer as of the year and date first above written.

CITY OF CLINTON, KENTUCKY

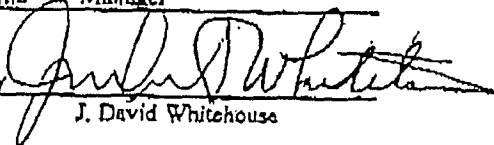
By 

Title Mayor

AQUA/KWS, INC./ U.S. UTILITIES

By 
Bobby Yates, Jr.

Title Manager

By 
J. David Whitehouse

Title Ex. Vice President

**ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT**

This ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT, made and entered into this 2 day of Feb, 1997 by and between the CITY OF CLINTON, KENTUCKY (the "CITY"), and AQUA/KWS, INC., a Kentucky corporation, formerly Aqua Corporation ("Aqua"),

WITNESSETH:

WHEREAS, the parties have previously entered into a certain Wastewater Privatization Contract Including Service Agreement dated June 1, 1987 (the "Agreement"), which was amended on February 15, 1991 to extend the term of the Agreement to February 28, 1996, and amended on March 3, 1994 to extend the term of the Agreement to March 3, 1999, and it is now the desire of the parties to amend Article VII, paragraph 1, of the Agreement for the purpose of extending the term of the Agreement to March 3, 2002;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and contained in the Agreement, the City and Aqua agree as follows:

Section 1. Paragraph 1 of Article VII of the Agreement is hereby supplemented and amended to the effect that the term of the Agreement shall be extended to March 3, 2002; provided, however, that the City may terminate the Agreement on March 3, 2000, and any time thereafter on reasonable notice to Aqua.

Section 2. All other provisions of the Agreement are reaffirmed.

IN TESTIMONY WHEREOF, the City and Aqua have caused this Addendum to be executed each by its proper and duly authorized officer as of the year and date first above written.

CITY OF CLINTON, KENTUCKY

By Jackie Caraway
Jackie Caraway
Title Mayor

AQUA/KWS, INC.

By Bobby Yates, Jr.
Bobby Yates, Jr.

Title Manager

By J. David Whitehouse
J. David Whitehouse

Title President

③

ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT

This ADDENDUM TO WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT, made and entered into this 26th day of February, 2002 by and between the CITY OF CLINTON, KENTRUCKY (the "City"), and AQUA/KWS, Inc., a Kentucky corporation, formerly Aqua Corporation ("Aqua").

WITNESSETH:

WHEREAS, the parties have previously entered into a certain Wastewater Privatization Contract Including Service Agreement dated June 1, 1987 (the "Agreement"), which was amended on February 15, 1991 to extend the term of the Agreement to February 28, 1996, and amended on March 3, 1994 to extend to the term of the Agreement to March 3, 1999, and amended on February 3, 1997 to extend the term of the Agreement to March 3, 2002, and it is now the desire of the parties to amend Article VII, paragraph 1, of the Agreement for the purpose of extending the term of the Agreement to March 3, 2022 and to make other modifications to the Agreement as stated hereafter;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained and contained in the Agreement, the City and Aqua agree as follows:

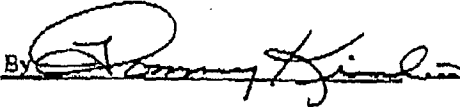
1. Article VII, Section 1, Paragraph 1 of the Agreement is hereby supplemented and amended to the effect that the term of the Agreement shall be extended to March 3, 2022;
2. Article VII, Section 1, Paragraph 1 of the Agreement is hereby amended as follows:
 - (a) Delete - starting at line 6 "Upon completion of the term.....from private operation to municipal operation," ending at line 12.
 - (b) Add - "Upon completion of the term of this Agreement (either by expiration of the term or by early termination) AQUA shall be paid it's cost (labor, overhead, and expenses) plus 15% profit in providing for the demobilization of operation and transition of records, personnel and facilities from private operation to municipal operation."

(4)

- 3. Article VII, Section 9 - This is supplemented as follows: "It is agreed by the parties hereto that Aqua shall not advance capital to the City unless requested by the City as the City anticipates being able to acquire any capital necessary".
- 4. Article VII, Section 9 (d) is deleted in its entirety.
- 5. Article VII, Section 12 - This section is supplemented as follows: "It is agreed by the parties hereto that prior to charging the City for equipment owned by Aqua and used on the City's behalf, the parties shall agree on a rate of charge."
- 6. All other provisions of the Agreement are reaffirmed.

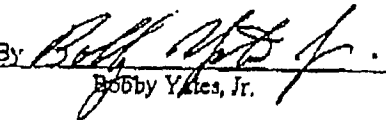
IN TESTIMONY WHEREOF, the City and Aqua have caused this Addendum to be executed each by its proper and duly authorized officer as of the year and date first above written.

CITY OF CLINTON, KENTUCKY

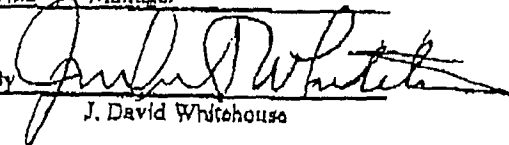
By 

Title Mayor

AQUA/KWS, INC./ U.S. UTILITIES

By 
Bobby Yates, Jr.

Title Manager

By 
J. David Whitehouse

Title Ex. Vice President

Mr Roberts - see
* on page 6

WASTEWATER PRIVATIZATION CONTRACT
INCLUDING SERVICE AGREEMENT

THIS WASTEWATER PRIVATIZATION CONTRACT INCLUDING SERVICE AGREEMENT, made and entered into this 1st day of JUNE, 1987, as authorized by Kentucky Revised Statutes Chapter 107, Section 700, et seq, by and between the CITY OF CLINTON, Hickman County, Kentucky, a municipal corporation (sometimes hereinafter referred to as the "CITY"), and AQUA CORPORATION, a Kentucky corporation, having a registered office in Lexington, Kentucky and its general offices at 354 Waller Avenue, Lexington, Kentucky 40504 (sometimes hereinafter referred to as "AQUA"),

W I T N E S S E T H:

WHEREAS, it is understood and affirmed by the parties to the within agreement that CITY is a Kentucky municipal corporation of the Fifth Class governed under the mayor-city council form of government pursuant to KRS Chapter 83A; that CITY has full power and authority in law to contract as herein provided and enters into this Wastewater Privatization Contract Including Service Agreement pursuant to authorization of an ordinance duly adopted by its City Council and approved by its Mayor at a regular meeting held on the 1st day of JUNE, 1987, published as provided by KRS Chapter 83A and recorded in the official ordinance book and now in full force and effect; that CITY owns and operates its aged municipal wastewater sewage system which has limited physical capability; that

- 1 -

(7)

said sewer system (the "System") fails to meet the standards of the Environmental Protection Agency (an agency of the United States government commonly referred to as the EPA) and the system is in need of replacements, rehabilitations, reinforcements, and construction to comport with modern day technology for the health and welfare of the public; that funding of the aforementioned project for the improvement of the System (the "Project") is necessary and required and a revenue bond issue (which may be anticipated by the issuance of revenue bond anticipation notes) is the preferred financing mechanism; and

WHEREAS, it is mutually understood and affirmed that CITY does not have personnel possessing the necessary expertise and skill to perform the aforesaid construction or to process and market the required revenue bond issue; that private management of the System would provide desirable expertise and avoid political pressure at any time and thus be in the public interest; that AQUA is recognized as a capable and reliable firm with personnel having wide experience in sewage system design, associated contractual projects, and revenue bond issue procedures and operational management; and

WHEREAS, it is affirmed that under the "Kentucky Privatization Act of 1986", KRS Chapter 107, Section 700, et seq, CITY is authorized (a) to contract for the heretofore generally described construction to its existing sewer system; (b) to contract for the placement of revenue bonds issued under the provisions of KRS 103.200 et seq., or to sell revenue bonds as provided in KRS Chapter 58; and (c) to enter into a service agreement; that



a notice of the within Privatization Contract was duly published pursuant to KRS Chapter 424; that a public hearing was held, all in compliance with KRS 107.730; and that an ordinance authorizing the within Privatization Contract has been enacted and duly recorded as aforesaid;

NOW THEREFORE, CITY and AQUA mutually agree to the following covenants:

ARTICLE I - RECONSTRUCTION OF SEWER PLANT

AQUA agrees to repair, rehabilitate, reinforce, replace and construct the existing sewer system of the CITY to the full extent necessary for compliance with EPA standards and to provide such capacity as required to meet the present and now reasonably foreseen future needs as mutually estimated and forecasted; AQUA may employ or contract with other parties for any portion of the necessary construction; provided, however, that AQUA will not be liable in any manner whatsoever in event of the inability of the System to meet the volumetric requirements of the CITY for any specific number of years.

ARTICLE II - CITY TO ISSUE REVENUE BONDS

CITY agrees to issue revenue bonds (which may be anticipated by the issuance of revenue bond anticipation notes) in sufficient principal amount to pay AQUA in full for its construction work and to deliver the revenue bonds to AQUA for placement. It is anticipated that the total bond issue including any bond discount and other costs associated with the issuance will not exceed \$1,000,000.00.

(b)

ARTICLE III - SALE OF REVENUE BONDS

AQUA agrees to place or sell CITY'S sewer revenue bonds for financing the reconstruction project by providing the required fiscal agent and as described herein as a part of this Privatization Contract; provided, nevertheless, that such sale or placement of bonds may be postponed by CITY, which shall be permitted to finance the Project upon a temporary basis by the issuance of notes in anticipation of the issuance of revenue bonds, as authorized by statute.

ARTICLE IV - BILLING AND PAYMENT

AQUA shall be paid for completion of the project either by negotiated lump sum contract for the total project improvements prior to construction of the project or, upon completion of the Project by submittal of a standard or customary invoice setting forth the cost of materials used, labor performed, the cost of sublet contracts, supervision, general overheads, negotiated profit, and all other appropriate and customarily charged costs. Upon negotiation of the lump sum contract or acceptance of the aforesaid invoice the CITY (subject to the provisions of Article III hereof) shall deliver to AQUA revenue bonds issued according to law in a principal amount fully sufficient to cover the negotiated lump sum contract or the entire invoice of AQUA and all costs attendant to the bond issue itself.

ARTICLE V - BOND COUNSEL; FISCAL AGENT

A qualified bond counsel and qualified fiscal agent shall be employed in the placement and/or sale of the revenue bonds. The revenue bonds shall be placed at reasonable interest rates under market conditions and circumstances at the time of placement. The cost of bond counsel services and fiscal agent services and their

- 4 -

(1)

respective expenses shall also be paid for from the proceeds of the bond issue which shall be in sufficient principal amount to cover not only the aforementioned AQUA invoice but also to pay for the services of bond counsel and fiscal agent together with their expenses and other costs attendant to the bond issue itself; provided, however, that limitations under federal statutes for payment of such costs from the proceeds of the revenue bonds shall be observed and any excess costs shall be paid as agreed upon between the CITY and AQUA under a separate agreement.

ARTICLE VI - ARBITRATION

In the event of any disagreement between the parties to this contract which cannot be resolved between themselves, the parties may mutually agree to binding arbitration which shall be accomplished by petitioning the Chief Justice of the Supreme Court of Kentucky to designate a panel of three members of the Court of Appeals of Kentucky or three other persons who shall serve as arbitrators. In event the Court does not consent to perform these services, each of the parties shall select one arbitrator and those two arbitrators shall select a third arbitrator, which three persons shall then comprise a final board for binding arbitration. This form of binding arbitration shall apply also to the Service Agreement, a part of the within Wastewater Privatization Contract which is set forth in subsequent Article VII hereof. The cost and expenses of any arbitration, other than the costs and expenses of personnel of the parties themselves, shall be shared equally by the parties hereto.

ARTICLE VII - SERVICE AGREEMENT

In addition to the foregoing agreements, CITY hereby employs AQUA to manage, operate and maintain the System according to the covenants set forth below.

1. Term of Agreement. The term of this Service Agreement shall commence upon completion of the reconstructed and renovated System, and shall continue for five years; provided, however, that the CITY may terminate the Service Agreement (1) at the end of the third year on reasonable notice, and (2) anytime thereafter on reasonable notice. Upon completion of the term of this Agreement (either by expiration of the term or by early termination under the provisions hereof) AQUA shall be paid a transition fee of \$95,000.00 . Said fee has been fixed as the agreed estimated amount required to reimburse AQUA for its costs in providing for the demobilization of operation and transition of records, personnel and facilities from private operation to municipal operation.



2. Ownership of the Project and Sewer System. Ownership of the Project and the System shall at all times be vested in the CITY, including the original sewer system, the reconstruction Project, and all future betterments and additions without limitation.

3. All Receipts to Belong to City. All income and revenues arising out of the ownership and operation of the System shall without limitation belong to the CITY and shall constitute special and segregated municipal funds at all times, subject to the provisions of the ordinance authorizing the revenue bond issue (the "Bond Ordinance"), which shall provide for appropriate operational



disbursements required in the management, operation and maintenance of the system.

4. No Political Influence. CITY agrees that it will not cause or countenance any political influence upon AQUA in its management and operation of the sewer system and AQUA agrees that it will not participate in any political matter appertaining to the CITY or any of its employees. By this provision the parties do not intend to inhibit any person's constitutional right to free speech or the expression of personal views.

5. CITY to Establish all Rates, Rules and Regulations. All rules and regulations relating to rates and charges shall be fixed and established solely by the CITY; provided, however, CITY shall observe and respect all covenants and agreements in the Bond Ordinance, which shall contain a rate covenant requiring the maintenance or establishment of rates designed to produce revenues sufficient to pay the obligations of the System, and all covenants and agreements expressed in the Bond Ordinance and herein.

As provided by KRS 107.730, this Service Agreement, the charges for rates and services, and operation of the System under this Service Agreement shall not be subject to the jurisdiction of the Kentucky Public Service Commission or any successor regulatory agency. CITY grants no franchise. CITY relinquishes no jurisdiction over rates, charges and services.

6. Services to be Rendered by AQUA. The services which AQUA agrees to render relate solely to the System and its various functions as described herein and shall consist of (a) management; (b) operation and maintenance of the plant; (c) billing, collecting

and disbursing funds in accordance with the bond ordinance and this contract; (d) setting up and maintaining an adequate and continuing system of accounting; (e) rendering to the CITY financial and operating statements not less frequently than quarterly and an annual audit report prepared by a Certified Public Accountant; (f) rendering to CITY engineering inspection reports and recommendations not less frequently than annually and as circumstances may warrant; (g) procuring and maintaining, in the name and on behalf of CITY, insurance against such hazards and in such amounts as may be necessary and customary in other comparable sewer systems and operations; (h) the selection, training, employment and discharge of any and all personnel which may be necessary or desirable in AQUA's judgment to the performance by AQUA of its functions under this Contract, including the determination of the compensation paid to such personnel.

All employees having access to or being chargeable with responsibility for the handling of funds shall be bonded with good corporate surety in reasonable amounts under the circumstances as fixed or approved by the CITY. The premiums paid for such surety bonds shall constitute a part of the operating expenses of the sewer system.

7. No Free Service; CITY also to Pay. No wastewater sewer service shall be furnished free. Service rendered to the CITY or any of its departments shall be billed and paid for by CITY from its separate funds the same as any other customer in the same rate classification.

8. Office a Part of Project. CITY may make office space available to AQUA in premises already owned by or available to CITY if the same are adequate and suitably located for that purpose, in which event a fair rental value therefor may be established by the CITY Council and paid for as a part of the expenses of operating the System. If CITY does not have adequate and suitable space for such office, AQUA may make arrangements for the rental of same and the rental thus paid shall constitute a proper expense of operation of the System.

9. Compensation of AQUA; Solely from System Revenues; Subject to Bond Requirements. AQUA shall be authorized to cause to be paid solely from the City's Operation and Maintenance Fund established by the Bond Ordinance the costs of operation and maintenance, which costs shall include compensation payable to AQUA for its services under this Service Contract, and for the use of any working capital which it may advance. Payments shall be made solely from the income of the System and solely from the Operation and Maintenance Fund for which provision has been made in the Bond Ordinance. The Bond Ordinance requires that certain payments from revenues be set aside into the Bond Fund as a first charge and lien upon the revenues. Thereafter payments, reimbursement or compensation shall be in four separate categories as follows:

(a) Payments for customary expenses actually incurred in operating and maintaining the System, including all such items as are "operating expenses" under good and accepted accounting.

practices. Specifically, but not by way of limitation, the same may include the salary or wages of the person residing in the CITY or vicinity having immediate day-to-day responsibility for all phases of operation and maintenance, the salary or wages of proper service, repair, billing and collecting personnel; the cost of materials and supplies actually consumed from time to time; premiums on surety bonds and policies of hazard insurance; and office rental and office utilities, but specifically excluding any provision for depreciation of property or for the remuneration of the officers of or persons employed directly by AQUA.

Prior to beginning the Project and operation thereof, AQUA shall make such preparatory action as may be necessary, including the setting up of an accounting system, making arrangements for office facilities, the selection and training of personnel, etc., so that operation of the Project may be commenced in an orderly manner. AQUA shall prepare all proper data relating to construction disbursements, in order that same may be entered upon the books and records of the sewer system. It is understood, however, that payment for the reconstruction of the Project is finally the responsibility of the CITY thru a revenue bond issue, supra.

Payments within this category (a) shall be paid from and to the extent funds are from time to time available from the operation and maintenance fund; and if balances from time to time in the operation and maintenance fund shall be insufficient to pay the same when due, AQUA agrees that it will, nevertheless, advance the same

from its own capital funds which it shall provide for that purpose, to the end that wastewater operations shall be maintained continuously. All sums so advanced by AQUA from its own capital funds shall be entered in detail upon the books and records of the System, so that the amount thereof and the time or times of each advance may be determined accurately therefrom and reimbursement from subsequent System funds may be accurately made.

(b) AQUA shall be reimbursed for payments made by it on behalf of CITY for other proper general expenses, including the expenses of AQUA's officers or employees for work actually performed on behalf of CITY, but in no case shall such reimbursement exceed actual costs for expenses eligible for payment from the Operation and Maintenance Fund, and in no case shall such reimbursements exceed in the aggregate the sum of One Thousand Dollars (\$1000.00) per month.

Reimbursement within this category (b) shall be paid from time to time from the operation and maintenance fund, but only after expenses of the nature described in category (a) have been paid in full, or after provision for the payment thereof when due has been properly made. If and to the extent monies in the operation and maintenance fund shall be insufficient to pay AQUA's reimbursement under this category (b) the same may be accrued upon the books and records and shall constitute proper items for payment from said operation and maintenance fund when, as, and if monies for that purpose become available therein.

(c) Until the date of termination of this Contract compensation to AQUA for its management services, for the use of such working capital as it may advance from time to time under category (a), for the risk assumed by AQUA in making such advances, and for agreeing to deferment, if and to the extent necessary, of compensation to its corporate and professional personnel under category (b), and to make possible the payment of reasonable general compensation, shall be determined annually and shall be (1) the fixed sum of \$15,000.00, plus the CPI inflation rate since the date of this Privatization Contract and (2) an amount equal to three percent (3%) of the gross revenues of the System, which amount shall not exceed an amount equal to fifty percent (50%) of any surplus in the operation and maintenance fund which is declared by the bond ordinance to be available to the CITY "for any lawful purpose"; provided, however, that the total amount payable to AQUA under (1) and (2) hereof shall not exceed twice the amount established in (1) hereof. The foregoing amount shall be accumulative under this category (c) and may be accrued upon the books and records only if and to the extent funds are not available therefor after said prior requirements have been fully met, as shown by the annual audit. Furthermore, as partial compensation for advanced capital, AQUA shall be allowed to accrue on the books and records an interest charge of six percent (6%) annually on such working capital advanced. Upon termination of this Agreement the foregoing amounts, to the extent not yet paid shall be due and owing.

CITY further covenants and agrees that, prior to complete retirement of all bonds and without regard for increased cost in wages or other expenses under category (a), the rates and charges for sewer service will be adjusted from time to time if and to the extent required to provide to AQUA, as a minimum, the reimbursement described in categories (a) and (b) and (c).

(d) In the event of early retirement of all of CITY'S System revenue bonds, AQUA shall receive as its compensation for the duration of the contract term thereafter a sum equal to fifty percent (50%) of the excess of gross income and revenues over and above operation and maintenance expenses, as defined in (a) and (b) above, provided however, that the above compensation shall not be greater than two and one half (2.5) times the fixed compensation component as formulated in Article VII Section 9. CITY covenants and agrees with AQUA that after any such early retirement of said bonds and until expiration of the term of this contract, CITY will not reduce its rates and charges for sewer service below the scale of rates and charges necessary to produce revenues to meet the requirements as herein defined, including the application of the 2.5 factor aforementioned. This subsection shall not be operable or controlling during any period during which the Service Agreement is in effect if any tax-exempt bonds or bond anticipation notes are outstanding.

10. AQUA Not an Obligor or Guarantor With Respect to CITY's Bonds. It is understood and agreed that AQUA's obligations

hereunder are to provide to CITY the management and operational services herein contemplated, and AQUA is not itself obligated to discharge the CITY's System Revenue Bonds, nor does it guarantee the payment thereof or interest thereon. AQUA shall at all times be accountable and responsible to the CITY and to the holders of said bonds for the faithful and proper receiving, segregation, disbursing and accounting of and for the project revenues, and shall answer for negligence, fraud, or other misconduct of AQUA and its officers, agents, servants, and employees in that connection; but if, when and to the extent AQUA may from time to time make proper segregation, depositing, or setting aside of monies into the bond fund in accordance with the provisions of the bond ordinance and into the custody of the financial institution properly designated by the City to receive the same, AQUA shall be deemed to have discharged its duty in that respect and shall not be responsible for any subsequent misfortune, or for any subsequent misapplication or disappearance thereof.

11. AQUA Does Not Contract to Provide Legal Services to City; AQUA's Attorney Only For Its Own Legal Affairs. References herein to employment by AQUA of an attorney at law are understood to mean such employment as AQUA may desire with respect to its own legal affairs; and AQUA does not hereby agree to provide any legal services to the CITY. Nevertheless AQUA and CITY agree that their cooperation and the cooperation of their attorneys, each in its own interests, is desirable, especially with regard to any litigation

which may affect the rights and interests of both; and it is agreed that such cooperation will be provided in good faith at all times.

If CITY shall be made a party to any litigation concerning the sewer system, its ownership, service, rates, rules, regulations, improvements, additions, or extensions, it shall promptly give full notice thereof to AQUA, and AQUA agrees that it will give similar notice to the CITY under similar circumstances.

12. CITY Consents that AQUA May Enter into Similar Undertakings. The CITY is aware that AQUA is a going concern engaged in various services for various water systems and sewage systems and that AQUA may enter into contracts for the rendering of services to other cities similar to those rendered CITY in connection with sewer or other utility operations; and the CITY hereby gives its consent that AQUA enter into any such undertakings.

AQUA agrees that it will maintain its accounting hereunder separate and distinct from its business or accounting in any other connection; and will never cause or permit any commingling of the CITY's project, or any part thereof, or any income and revenues arising therefrom, with any other properties or revenues.

Notwithstanding the foregoing, it is understood that if AQUA shall be employed by any other city, or cities, for the performance of the same or similar services, AQUA or its affiliates may find it possible to effect savings to all concerned by purchasing in its own name, and retaining title to, machinery, equipment, materials or supplies which may be of common usefulness

(21)

when needed, or in quantities which would be uneconomical or unwise to purchase for any single operation. If AQUA shall see fit, it may invest its own independent capital funds in such manner, but shall not charge to its operations on behalf of CITY under this contract, any portion thereof, unless and until actually used, allocated, or installed in connection with or as a part of its operation of the project hereunder. It is understood and agreed that such charging or allocation may consist of the fair rental value of any commonly useful machinery or equipment of AQUA for such period as the same may actually be used or made available in its operations under this contract.

ARTICLE VIII - NON-SEVERABILITY OF CONTRACT EXCEPT BY
MUTUAL CONSENT

If any essential or substantial portion of the foregoing Wastewater Privatization Contract Including Service Agreement is adjudicated to be void then the entire undertaking shall be moot unless CITY and AQUA mutually agree to proceed under any or all of the remaining provisions; however, in any event AQUA shall be reimbursed for all costs and expenses actually incurred by it for work undertaken but not to include any expenses which AQUA may have incurred in negotiations prior to the execution of the within contract.

IN TESTIMONY WHEREOF, the CITY and AQUA have caused this contract to be executed each by its proper and duly authorized

officials all in the Commonwealth of Kentucky as of the year and day first above written.

CITY OF CLINTON

BY: Bob E. Yates
MAYOR

ATTEST:

James T. Jones
CITY CLERK

AQUA CORPORATION

BY: J. W. White

ATTEST:

Stalling B. Gregory
SECRETARY

(23)

WSCK EXHIBIT 2
(CONFIDENTIAL)

Maintained on the Confidential Materials DVD

Or

In the Confidential File Materials at PSC

WSCK EXHIBIT 3
(CONFIDENTIAL)

Maintained on the Confidential Materials DVD

Or

In the Confidential File Materials at PSC

Utility #1

4.2 Service Company agrees to keep its books and records available at all times for inspection by representatives of Water Company or by regulatory bodies having jurisdiction over Water Company.

4.3 Service Company shall at any time, upon request of Water Company, furnish any and all information required by Water Company with respect to the services rendered by Service Company hereunder, the costs thereof, and the allocation of such costs among Water Companies.

Utility #2

The Service Company will also at any time, upon request of the Operating Company, furnish to it any and all information required by the Operating Company or by any governmental authorities having jurisdiction over the Operating Company with respect to the services rendered to the Service Company hereunder, the cost thereof, and the allocation of such cost among the Operating Companies.

The utility's books and records will be maintained and housed in Kentucky or will otherwise be maintained in a manner to be easily accessible to the Commission for inspection at reasonable times upon reasonable notice