

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WATER SERVICE )  
CORPORATION OF KENTUCKY FOR A ) CASE NO.  
GENERAL ADJUSTMENT OF EXISTING ) 2015-00382  
RATES )

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

Water Service Corporation of Kentucky ("WSKY"), pursuant to 807 KAR 5:001, is to file with the Commission the original in paper medium and an electronic version of the following information. The information requested herein is due on or before February 10, 2016. Responses to requests for information in paper medium shall be appropriately bound, tabbed and indexed. WSKY shall, in accordance with 807 KAR 5:001, Section 7(2)(c), file each paper in type no smaller than twelve (12) point, except footnotes, which may be in type no smaller than ten (10) point. WSKY shall, in accordance with 807 KAR 5:001, Section 8(7)(a), certify that the electronic version of the paper is a true and accurate copy of each paper filed in paper medium. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and

accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

WSKY shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which WSKY fails or refuses to furnish all or part of the requested information, WSKY shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, WSKY shall, in accordance with 807 KAR 5:001, Section 10(4), encrypt or redact the paper so that personal information cannot be read.

1. Refer to WSKY's response to Commission Staff's Second Request for Information ("Staff's Second Request"), Item 3.b. WSKY was requested to discuss the details of the acquisition made by WSKY that required the recording of the acquisition adjustment. Explain in detail why it is appropriate to remove the amortization of this plant acquisition adjustment from test-year operations.

2. Refer to WSKY's response to Staff's Second Request, Item 4.a. For each deferred charge identified in Item 4.a., provide invoices or direct time reporting to support the deferred costs.

3. Refer to WSKY's responses to Staff's Second Request, Item 7.

a. In response to Item 7.c., WSKY provided information that suggested an average annual “conservation” effect of 0.72 percent per year. Provide copies of any analysis, study, or any other form of evidence to support that this trend will continue into the years that the rates in this proceeding will be in effect.

b. For Item 7.d., Commission Staff requested that WSKY provide the work papers that show the derivation of the \$13,737 adjustment using the results of the consumption analysis. Using the results provided in the consumption analysis work papers, recalculate the usage normalization adjustment by customer class, showing all formulas and assumptions used to calculate each adjustment.

c. In response to Item 7.e., WSKY provided the order for Utility Services of Illinois, Inc.’s most recent rate application.

(1) As was mentioned in the order, provide any industry studies, reports, executive orders, and other governmental policies that indicate a trend toward lower water usage.

(2) Confirm that none of Utilities, Inc.’s other regulated subsidiaries have requested adjustments similar to the “Usage Normalization Adjustment” in rate applications filed with other state regulatory commissions. If this fact cannot be confirmed, identify each regulated subsidiary that has requested a similar adjustment and the status or disposition of the adjustment.

(3) If there are cases as described above, provide the case number and, if applicable, the final order in each instance where this has occurred.

d. For Item 7.f., provide evidence that the purchased water price is a fixed cost with no variable component. If the costs related to purchased water are fixed

because of a contractual agreement, provide the agreement(s) and explain the benefits to the customers of WSKY in having a contractual agreement where WSKY does not exceed the minimum billings for each month

4. With regard to the Clinton Detention Center, provide the following:

a. State at what rate the office building at the detention center is currently being billed and whether a minimum bill is being issued.

b. Explain why WSKY did not propose to remove from the \$8,809, the amounts that are being billed for the office building.

5. Refer to WSKY's responses to Staff's Second Request, Item 9.c.

a. Provide the location and amounts that were paid to temporary employees for vacant positions within Utilities, Inc. and WSKY.

b. For any amounts that were paid for temporary services, but for positions that have been, or will be filled, does WSKY propose to include both the amounts for the temporary services in addition to the annualized salary for those vacant positions?

c. If the response to 5.b. is yes, explain why it is appropriate to include both the temporary employee(s) and the full-time employee(s).

6. Refer to the Excel spreadsheet that was provided in WSKY's response to Commission Staff's First Request for Information ("Staff's First Request"), Item 3, labeled Staff\_DR\_1.3\_wp\_j, and provide the following:

a. For each item included in Current Deferred Assets, provide the invoice that includes the date the work was performed, a description of what work was performed, and the date it was paid. The total for all invoices should equal \$20,106.

b. For each item included in Pro Forma Deferred Assets, provide the invoice that includes the date the work was performed, a description of the work that was performed, and the date it was paid. The total for all invoices should equal \$14,027.

c. Provide a reconciliation of the difference between Deferred Maintenance Expense and Current Deferred Assets.

7. Refer to WSKY's response to Staff's Second Request, Item 12, and WSKY's response to Staff's First Request, Item 3. In response to the Staff's First Request, WSKY states that it expected to expense \$111,103 for a tank-painting project. In its response to Staff's Second Request, WSKY provided bids from Curren's, Central Tank Painting, and Wet or Dry Tank Inspection.

a. The quotes provided from Curren's and Central Tank Painting are quoted as below the \$111,103 that WSKY states will be the cost to complete this project. Explain why the contract was awarded to Wet or Dry Tank Inspection, rather than to one of the bidders offering a lower price.

b. The quote that was provided in response to Staff's Second Request for Wet or Dry Tank Inspection only lists the Contract Support and Painting Inspection fee of \$12,000 and provides no other details about the tank-painting project. Provide the full quote from Wet or Dry Tank Inspection.

c. In response to Staff's Second Request, Item 12.a.(5), WSKY stated that a copy of the advertisement for contractor bids to paint the tank are not available. State whether WSKY advertised for contractor bids for this project. If not, explain why not. If so, explain why documentation is not available.

d. In response to Staff's Second Request, Item 12.a.(4), WSKY stated that the last time the tank was painted was in 2002. Explain why a ten-year amortization rate is proposed, given that it has been 13 years since the tank was last painted.

8. In response to Staff's Second Request, Item 13.g., explain why WSKY did not use Net Utility Plant rather than Total Utility Plant, as is generally used by the Commission,<sup>1</sup> in its determination of whether the Plate Settler Project's construction required the Commission's approval.

9. In response to Staff's Second Request, Item 13.i., WSKY provided information regarding the amount of chemicals for the 24 months prior to the completion of the Plate Settler Project and for all of the months thereafter. Using the information in that response, provide a calculation that shows that the amount of calcium hypochlorite and powder activated carbon used at the plant has been reduced by 40 percent since the completion of the project.

10. Refer to WSKY's response to Staff's Second Request, Item 15.a. Provide copies of each work order, or other internal document, that supports the amount recorded for each asset account for June 2015. The information provided in the response to this request should clearly show the name of each employee, the employee's time expended on the work order, and the wage rate.

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<sup>1</sup> See Case No. 2011-00452, *Application of Duke Energy Kentucky, Inc. Regarding the Acquisition of Generation Step-Up Transformers and for a Declaration Order that It is an Ordinary Extension in the Usual Course of Business* (Ky. PSC Feb. 14, 2012), Order at 5 and 6.

11. Refer to WSKY's response to Staff's Second Request, Item 39.a.

a. For each listed subsidiary, provide a detailed narrative description of all regulated and non-regulated operations. This description should include the number of customers served by each regulated and non-regulated water and wastewater division.

b. Provide the calculation of the ERC Count for each listed subsidiary showing the number of water and wastewater customers served by each regulated and non-regulated division separately.

c. State whether "Water Serv Corp Kentucky" is the only member of Utilities, Inc. that provides service pursuant to a management service contract. If "Water Serv Corp Kentucky" is not the only member, list all other management service contracts.

d. The "ERC Count" for "Water Serv Corp Kentucky" is stated at 7,204. State whether the ERC Count includes only water customers served through regulated operations, or if it also includes wastewater customers that are served through the management contract with the city of Clinton. If the "ERC Count" does not include wastewater customers, explain where in WSKY's test-year expenses that Water Service Company wages for employees that are not local to Kentucky's operations were allocated to the management contract. These costs do not appear to be included in the \$154,344 that is shown in the Application, Exhibit 4, Schedule B, page 1 of 2, line 38.

e. Discuss in detail the process used by Water Service Corporation to respond to billing questions, service complaints, or other inquiries submitted by a

wastewater customer of the city of Clinton. The discussion should include the identification of the Water Service Corporation customer service center that would receive the customer's initial telephone call.

12. Refer to WSKY's response to Staff's Second Request, Item 27.d.

a. Confirm that the four employees listed are the only employees that have salaries and wages allocated to the City of Clinton Sewer expense that is listed in response to Item 27.a.

b. If no other wages are allocated, explain why no employee wages for customer service or regional management employees are allocated towards the operation of the city of Clinton Management Contract.

13. Refer to the Excel spreadsheet WSKY provided in its response to Staff's First Request, Item 3, wp\_b-Salary, Tab wp-b1 – Allocation of Staff, and the Excel spreadsheet WSKY provided in its response to Staff's Second Request, Item 9.a, Tab Paychecks 7.3.14–7.31.15. Given that the position titles for Wendell Mills and Michael Partin are water-wastewater operators,<sup>2</sup> explain why WSKY is not allocating any of their salaries to the city of Clinton Management Contract.

14. Refer to the Excel Spreadsheet WSKY provided in WSKY's response to Staff's First Request, Item 3, wp\_b-Salary, Tab wp-b1 – Allocation of Staff. The employment of the following maintenance employee positions were terminated in September of 2015.

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<u>EMP ID</u>	<u>LAST NAME</u>	<u>FIRST NAME</u>	<u>TITLE</u>
98825	MILLS	WENDELL G.	LEAD WATER-WASTEWATE
98942	PARTIN	MICHAEL W.	WATER-WASTEWATER OPE



<u>Employee Name</u>	<u>Position Title</u>	<u>Termination Date</u>
Bolt, Gregory C.	Field Technician III	September 17, 2015
Johnston, Joseph A	Field Technician III	September 25, 2015

a. If the positions have been filled, identify the employee currently in the position, provide the date on which the employee(s) were hired, the current hourly wage rate and the actual benefit information. Separately identify the salary and employee benefit costs that are included in WSKY's pro forma operating expenses for Gregory Bolt and Joseph Johnston.

b. If either or both of the positions remain vacant, explain why.

c. State the current status of WSKY's efforts to fill the position and the anticipated hire date for each position.

d. Provide the entry-level hourly wage rate for the position Field Technician III.

15. Refer to WSKY's response to the Staff's Second Request, Item 9.a., Excel Spread Sheet Staff DR 2.9a-Test Year Salaries Detail.

a. Provide schedules for each employee listed on the following worksheet tabs listing the regular hours each employee worked for the calendar year 2013, 2014, 2015, and the test year:

- (1) Wp-b Salary;
- (2) Wp-b4 office salaries; and
- (3) WSC Salaries 2015.

b. Provide schedules for each employee listed on the following worksheet tabs listing the overtime hours each employee worked for the calendar year 2013, 2014, 2015, and the test year:

- (1) Wp-b Salary;
- (2) Wp-b4 office salaries; and
- (3) WSC Salaries 2015.

c. Provide schedules for each employee listed on the following worksheet tabs that lists the end of year wage rate for the calendar year 2013, 2014, 2015, and the test-year. Also, provide the percentage wage change between years.

- (1) Wp-b Salary;
- (2) Wp-b4 office salaries; and
- (3) WSC Salaries 2015.

d. For each employee listed in the schedules provided in WSKY's response to Item 3.a., explain in detail why he or she worked over 2,080 hours in the test year.

e. For each employee listed in the schedules provided in WSKY's response to Item 3.c., explain in detail any annual percentage change in an employee wage rate that is greater than 3 percent.

f. In addition to providing the schedules requested in WSKY's responses to Item 3 in PDF, provide the schedules in Excel Worksheet formats.

16. In its response to Staff's Second Request, Item 9.b.(2), WSKY states that "it is the Company's position that wage increases are reasonable and appropriate in order to retain a skilled and qualified workforce in any environment." Provide an analysis, study, or another form of documentation to support WSKY's position regarding employee wage increases.

17. In its response to Staff's Second Request, Item 9.d., WSKY states that "ERC is the most appropriate and practical way to allocate customer service facilities wage costs because the Company operates in 15 states with 3 facilities that serve all utilities customer that span 3 time zones."

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

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

18. In Case No. 2010-00476, the Commission found that WSKY had "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."<sup>3</sup>

a. In light of the Commission's finding in Case No. 2010-00476, demonstrate and explain how the American Water Works Association 2014 Compensation Survey or the Mercer Custom Compensation Survey supports Water Service Corporation's compensation levels.

b. Provide an analysis that compares the Water Service Employee wage rates to the prevailing hourly wage rates in the Clinton region, the Middlesboro region, and the Commonwealth of Kentucky.

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<sup>3</sup> Case No. 2010-00476, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 23, 2011), Order at 7.

19. Refer to WSKY's response to Staff's First Request, Item 3, wp\_b\_Salary, and tab labelled Wp-b Salary. Column L of this tab states that it included "Other" benefits that were paid on behalf of employees. Provide a detailed description of any benefits that are included in this column.

20. Refer to WSKY's response to Staff's Second Request, Item 23.

a. In its response to Item 23.c., WSKY states that it has expended \$160,580 in additional plant spending from 7/1/2015–11/30/2015. Provide the invoices and an itemized list to support this amount.

b. Additionally, in its response, WSKY states that it has expended \$114,286 in additional vehicle spending from 7/1/2015–11/30/2015. Provide the invoices and an itemized list to support this amount.

c. Given that the Commission has historically found that for the utilities under its jurisdiction, adjustments for post-test-period additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions,<sup>4</sup> provide any additional justification that WSKY has to request recovery for post-test-period plant additions.

21. Staff's Second Request, Item 31.a., required that for each net increase shown in the comparison of gross plant in service balances reported by WSKY in its annual reports for the three previous years and in its Application, WSKY provide a list of each plant addition project and each plant retirement project and include a description of each project and state each project's total cost. Provide invoices and any other

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<sup>4</sup> See Case No. 10481, *Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989* (Ky. PSC Aug. 22, 1989), Order at 5.

source documentation to support the amounts of plant additions for each of the increases in the years requested. Separate this information by the categories requested in Item 31.b.

22. Refer to WSKY's response to the Second Request, Item 40. The general ledger provided in this response, while sorted by account title, does not have totals to demonstrate that the account balances on the general ledger are the same balances that appear on the trial balance. Provide a revised general ledger that includes the total dollar amount of transactions for each account and the grand total for that account.

23. Refer to WSKY's response to the Staff's Second Request, Item 41. In its response, WSKY provided a redacted version of the Mercer Customer Compensation Survey (UI) that was previously filed with a petition for confidentiality in response to Staff's First Request, Item 13. Provide any and all survey information compiled by Mercer that was used on WSKY's or Utilities Inc's behalf to generate the spreadsheet provided in its response.

24. Refer to WSKY's response to Staff's Second Request, Item 6.b.

a. Provide a copy of this historical service agreement.

b. Explain in detail how it is consistent with what was approved in the last rate case for fire protection services.

25. Refer to WSKY's response to Staff's Second Request, Item 37.

a. Did WSKY consider other rate design structures that would send a conservation signal to its customers?

b. Would WSKY consider such a change in rate design in the future?

Explain why or why not?

26. a. Explain why the Commission should consider it appropriate to set fire protection rates using an across-the-board increase of approximately 24.62 percent when WSKY did not include in the rate study, provided in the Application, an analysis of the cost of providing fire protection services.

b. Explain why increasing these fees is appropriate without the true cost of service for fire protection being determined.

27. Refer to WSKY's response to Staff's Second Request, Item 22.f.

a. Explain why Backflow Prevention Devices should not be treated under NARUC Account Number 345 – Services with a depreciation rate range of 2.0 percent to 3.3 percent

b. Explain why Transportation Equipment should not be treated under NARUC Account Number 392 – Transportation Equipment with a depreciation rate range of 12.9 percent

c. Provide documentation for the depreciation rates for the Mainframe Computer, Mini Computers, Computer System Cost, and Micro System Cost.

28. Refer to WSKY's Application, Exhibit 4, Workpaper d, and its response to Staff's First Request, Item 9.a. As detailed in Item 9.a. and summarized in the table below, WSKY has requested rate recovery of \$226,041 for its allocated share of the total pro forma wages of 90 centralized Water Service Corp. employees.

<u>Centralized Division</u>	<u>Pro forma Wages</u>	<u>WSKY Allocation Factor</u>	<u>Pro forma Allocated to WSKY</u>	<u>Pro forma Allocated to Others</u>
Northbrook	\$3,274,986	0.0264	\$ 86,437	\$3,188,549
Regional Management	780,273	0.1394	108,759	671,514
Customer Service	<u>1,168,676</u>	0.0264	<u>30,845</u>	<u>1,137,831</u>
Total	<u>\$5,223,935</u>		<u>\$226,041</u>	<u>\$4,997,894</u>

In Workpaper d, WSKY requests recovery, as a part of the rate case expense of this proceeding, \$79,387 for wages of nine centralized employees whose wages are also included in the pro forma wage allocation shown in the table above. Considering the table above accounts for 100 percent of all of Water Service Corp.'s pro forma centralized wages, explain why it is necessary and appropriate for the pro forma wages of the nine employees to also be included as a part of rate case expense.

29. Refer to WSKY's response to Staff's First Request, Item 9.a. In the schedule that was provided for this response, the pro forma salaries were divided into four categories that are specific to WSKY operations: Maintenance Employees, Customer Service Personnel, Northbrook Employees, and Regional Management. Provide the Pro Forma Wages for the other employees who represent regional management for the other subsidiaries of Water Service Corporation. This information should include the wages, which subsidiary that the employees have wages allocated to, and the allocation percentages that are used by Water Service Corporation to these subsidiaries.

30. Refer to WSKY's response to the Attorney General's Initial Request for Information, Item 9, and the response to Staff's Second Request, Item 36.

a. Explain how this study was developed and who within Utilities, Inc. developed this study.

b. Will the individual who developed the study be available at the hearing to explain the development of the study?

31. Refer to WSKY's response to Staff's Second Request, Item 7, Exhibit 2.07. The order from Illinois Commerce Commission for docket 14-0741, page 25, states, "The Company indicated that it will provide a COSS consistent with the American Water Works Association's Water Rate Manual M1, Sixth Edition." Will WSKY commit the same to the Kentucky Public Service Commission, a full COSS, including fire protection, for its next rate case?



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DATED JAN 29 2016

cc: Parties of Record



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