

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WATER	)	
SERVICE CORPORATION OF KENTUCKY	)	CASE NO
FOR A GENERAL ADJUSTMENT IN	)	2018-00208
EXISTING RATES	)	

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

Water Service Corporation of Kentucky (Water Service Kentucky), pursuant to 807 KAR 5:001, is to file with the Commission the original and an electronic version of the following information. The information requested herein is due on August 28, 2018. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable and shall be appropriately bookmarked.

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 the 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.

Water Service Kentucky shall make timely amendment to any prior response if Water Service Kentucky 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 Water Service Kentucky fails or refuses to furnish all or part of the requested information, Water Service Kentucky shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall 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 applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Water Service Kentucky shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Application, paragraph 10. Confirm that the referenced tariff sheet is indeed number 14. If not, then specify which tariff sheet is undergoing revision.
2. Refer to the Application, Exhibit 2, Tariff Sheet No. 13, items (f) and (g).
  - a. Explain why the additional tariff language was included under number 6, Street Service Connections, and not number 7, Customer's Service Pipes.
  - b. Describe the differences between having to relocate versus raising a water service line. Explain why these two items are listed separately in the revised tariff sheet.
3. Refer to the Application, Exhibit 2, Tariff Sheet No. 38.
  - a. For the Clinton Service Area the tariff lists two rates, one for all usage and one for all over 100,000 gallons. Reconcile this discrepancy.

b. Explain why Water Service Kentucky chose to keep the rates for the Middlesboro and Clinton Service Areas separate in its revised tariff sheet instead of consolidating under one rate design.

c. For each meter size monthly charge that increased more than 50 percent, provide a cost justification and explanation for the increase.

4. Refer to the Application, Exhibit 2, Tariff Sheet No. 39. Explain whether the Clinton municipal service area has any hydrants served by Water Service Kentucky. If so, provide the rate charged.

5. Refer to the Application, Exhibit 5, Direct Testimony of Mr. Lubertozi (Lubertozi Testimony), pages 5 and 6 in which Mr. Lubertozi states “Water Service Kentucky made an adjustment to remove capitalized time not associated with capital projects, as without this adjustment Water Service Kentucky was not fully recovering its annual salary expense.”

a. State why Water Service Kentucky would capitalize time that was not associated with capital projects.

b. Provide a list of employees whose capitalized time was removed and the calculations of the amounts. Provide a detailed discussion of the nature of each amount and the reasons that each amount was removed from test-year operations.

c. Refer to the Uniform System of Accounts (USoA) accounting instructions 19 and 33, which state that costs such as employee wages, wage overhead charges, materials and supplies, transportation costs, etc., are costs required to be capitalized as Utility Plant in Service and depreciated over their estimated useful lives.

Explain why Water Service Kentucky should be allowed to deviate from the USoA accounting instructions.

6. Refer to the Application, Exhibit 5, Lubertozzi Testimony, pages 6 through 10.

a. For each employee listed, provide a detailed explanation of why each position was necessary.

b. Provide the date that each position was filled or will be filled.

7. Refer to the Application, Exhibit 5, Lubertozzi Testimony, page 9, lines 197–198.

a. Explain how often the Automated Meters are tested.

b. Explain whether the cost of this field technician was included in the cost justification of the meters.

8. Refer to the responses to the Commission Staff's First Request for Information, Item 12.a., Staff DR 1.12 – WSKY Capital Plan. Water Service Kentucky included in its 2018 capital budget, \$134,054 for its Middlesboro "AMI project." Explain whether Water Service of Kentucky has requested a Certificate of Public Convenience and Necessity for its AMI project and, if not, explain why.

9. Refer to the Application, Exhibit 5, the Lubertozzi Testimony, page 11, lines 238–239.

a. In selecting a firm to perform a depreciation study, did Water Service Kentucky issue a request for proposal (RFP)?

b. If Water Service Kentucky issued an RFP, provide a copy of the RFP that was issued, identify the firms to which the RFP was sent, identify the firms that responded, and explain why Guastella Associates was chosen.

c. If Water Service Kentucky did not issue an RFP, explain how Water Service Kentucky choose Guastella Associates to perform the Depreciation Analysis

10. Refer to the Application, Exhibit 5, the Lubertozi Testimony, page 12, lines 250–259. Explain how the consolidated consumption chargers for both Middlesboro and Clinton service areas were calculated. Provide all calculations that were used in developing these consumption charges.

11. Refer to the Application, Exhibit 5, the Lubertozi Testimony, page 13.

a. On December 27, 2016, the Commission-initiated Case No. 2017-00481,<sup>1</sup> to investigate the effect the Tax Cuts and Jobs Act (TCJA) would have on Water Service Kentucky's rates. The Order required Water Service Kentucky to begin recording on January 1, 2018, deferred liabilities on its books to reflect the reduction in the federal corporate tax rate to 21 percent. The Order initiating Case No. 2018-00043<sup>2</sup> required Water Service Kentucky to continue to record deferred liabilities as Ordered in Case No. 2017-00481.

(1) Provide the deferred federal income tax (FIT) and the associated savings in excess deferred taxes liability that Water Service Kentucky

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<sup>1</sup> Case No. 2017-00481, *Electronic Investigation of the Impact of the Tax Cuts and Job Act on the Rates of Atmos Energy Corporation, Delta Natural Gas Company, Inc., Columbia Gas of Kentucky, Inc., Kentucky-American Water Company, and Water Service Corporation of Kentucky* (filed Jan. 26, 2018).

<sup>2</sup> Case No. 2018-00043, *Electronic Investigation of the Impact of the Tax Cuts and Job Act on the Rates Water Service Corporation of Kentucky* (Ky. PSC Jan. 30, 2018).

recorded for the six-month period of January 1, 2018, through June 30, 2018. Provide monthly updates for this tax liability. Consider this an ongoing request.

(2) Explain whether Water Service Kentucky included this deferred liability in its revenue requirement estimation.

b. Provide Water Service Kentucky's plan for returning the recorded deferred FIT liabilities to its ratepayers.

c. Explain in detail how the inclusion of Contributions In Aid of Construction as taxable income and the elimination of bonus depreciation will affect the Water Service Kentucky ratepayers.

d. Explain how the two TCJA changes identified in a(2) have been factored into Water Service Kentucky's revenue requirement calculated in this current case.

e. Confirm that Water Service Kentucky applied all new rules and regulations regarding the TCJA.

12. Refer to the Application, Exhibit 5, the Lubertozzi Testimony, Page 12, lines 267–270 and continuing onto page 13, Lines 271–274.

a. Describe the initial billing process for the Ambleside area private fire hydrants. Include who currently pays for the installation and monthly charges for the Ambleside area private fire hydrants.

b. Explain how Water Service Kentucky currently charges for the private fire hydrants.

c. Explain why the Ambleside area fire hydrants do not qualify under the Private Hydrants charge and instead require their own charge.

13. Refer to the Application, Exhibit 5, the Direct Testimony of Robert Guttormsen (Guttormsen Testimony), page 5, lines 7–14.

a. Provide the referred to wage and salary analysis and report.

b. Explain whether, prior to making any adjustments to wages, salaries, benefits, and other compensation in the base rate case; Water Service Kentucky, through an outside consultant or otherwise, performed a study or survey to compare its wages, salaries, benefits and other compensation to other local or regional enterprises.

(1) If comparisons were made, provide and discuss the results of such comparisons. Include the results of the study or survey with your response, including all workpapers.

(2) If comparisons were not made, explain why such comparisons were not performed.

14. Refer to the Application, Exhibit 5, Guttormsen Testimony, page 6, lines 7–8.

a. Provide any other Commission approved adjustment for a projected increase of fuel when using a historical test year.

b. Explain whether Water Service Kentucky believes this is a known and measurable expense applicable to a historical test year.

15. Refer to the Application, Exhibit 5, Guttormsen Testimony, page 7, Table 2. Cite any other rate case proceeding in which the Commission has approved a rate case amortization period of fewer than three years.

16. Refer to the Application, Exhibit 5, Guttormsen Testimony, page 5, Lines 16-20. Mr. Guttormsen refers to two tank-painting projects for which Water Service Kentucky has received cost estimates that total \$605,000.

a. Provide the geographic location (i.e.; street addresses or other description) of each tank that Water Service Kentucky proposes to paint.

b. State the dates that the tanks were first placed into service.

c. State the tanks' anticipated remaining lives.

d. State the dates that the tanks were sandblasted and last painted.

e. Provide copies of the advertisements for contractor bids to paint the tanks.

f. Provide a copy of all contractor bids that were received by Water Service Kentucky in response to the bid advertisements.

g. Indicate which contractor bids have been accepted.

h. State the dates that the tank paintings are expected to begin and when they are expected to be completed.

i. Provide a complete description of all the work that is necessary to be performed for the tank paintings and state the type of paint used for the interior and exterior paintings.

j. State the basis for the 12-year amortization period proposed for the tank-painting costs and state why this amortization period is reasonable.

k. State how often Water Service Kentucky has their tanks inspected.

17. Refer to the Application, Exhibit 5, Guttormsen Testimony, page 14, line 10. Mr. Guttormsen states that Water Service Kentucky calculated its pro forma state income



taxes (SIT) using the current 6 percent rate. In April 2018, the Commonwealth of Kentucky passed legislation lowering the SIT rate from 6 percent to 5 percent.

a. Provide a revised pro forma income statement and revenue requirement using the current 5 percent SIT rate.

b. Provide revised workpapers and calculations to reflect the current 5 percent state tax rate in Excel spreadsheet format with all rows and columns unprotected and accessible.

18. Refer to the Application, Exhibit 5, the Direct Testimony of Michael A. Miller (Miller Testimony), page 7, lines 7–8.

a. Provide the flushing plan that Water Service Kentucky put in place. Compare this to the previous flushing plan and identify the more stringent procedures that were put in place.

b. Explain if there have been any further issues with the water quality.

19. Refer to the Application, Exhibit 5, Miller Testimony at 7–8. Mr. Miller describes Water Service Kentucky's Geographic Information System (GIS) conversion.

a. If Water Service Kentucky issued an RFP, provide a copy of the RFP that was issued, identify the firms to which the RFP was sent, identify the firms that responded, and identify and explain why the firm was chosen.

b. If Water Service Kentucky did not issue an RFP, explain in detail the bid process used by Water Service Kentucky, identify the firms that responded, and identify and explain the reason for choosing the firm.

c. Provide a detailed breakdown of the \$26,141 bid price and the allocated costs of \$60,900.

d. Identify the other operating affiliates that have incurred a GIS conversion and include an itemization of the allocated GIS costs for each affiliate.

20. Refer to the Application, Exhibit 5, Miller Testimony, page 11, lines 3–8. Explain who performed the administrative assistant position duties prior to the new hire.

21. Refer to the Application, Exhibit 5, Miller Testimony, page 11, lines 14–16. Provide the number of times and associated costs when Water Service Kentucky raised a service line on a customer’s property from 2015 to date.

22. Refer to the Application, Exhibit 5, Miller Testimony, page 13, lines 12–15.

a. Explain a typical situation in which encasement pipe would be required.

b. Explain the process Water Service Kentucky will use to determine if encasement pipe is required.

c. Provide the costs associated with the installation of the encasement pipe and list who would be covering these costs.

23. Refer to the Application, Exhibit 5, Miller Testimony, Page 14, lines 3–8.

a. Provide a detailed list explaining all the implemented cost reduction and savings each cost reduction provided for 2016 and 2017.

b. Provide all cost-saving actions Water Service Kentucky underwent for the ratepayers.

24. Refer to the Application, Exhibit 5, Direct Testimony of John Guastella (Guastella Testimony), Schedule JFG-1, Calculation of Depreciation Rates, and the National Association of Regulatory Commissioners (NARUC) Depreciation Practices for

Small Water Utilities, August 15, 1979, Figure 1, Typical Service Lives, Salvage Rates, and Depreciation Rates, Small Water Utilities.

a. Provide a schedule in Excel format that compares the depreciation lives in Water Service Kentucky's schedule to the average service life ranges in the NARUC survey.

b. Provide a schedule in Excel format that compares the salvage values in Water Service Kentucky's schedule to the salvage values in the NARUC survey.

c. Provide a schedule in Excel format that compares the depreciation rates in Water Service Kentucky's schedule to the depreciation rate percentage ranges in the NARUC survey.

d. Using the mid-point depreciation life of the average service life ranges and the net salvage values in the NARUC survey recalculate Water Service Kentucky's pro forma depreciation expense. Provide the recalculation of pro forma depreciation expense in an Excel spreadsheet format with all formulas unprotected and with all rows and columns accessible.

e. Account No. 309 - Supply Mains and Account 331 - T&D Mains lists average service lives of 90 years, but depreciation rates of 1.89 percent. The Commission Staff calculated a depreciation rate for a 90-year life of 1.11 percent. Provide a detailed explanation and calculation to support Water Service Kentucky's 1.89 percent depreciation rate.

f. In Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible, provide copies of all workpapers, calculations, and assumptions used by John Guastella in developing his Depreciation Analysis

25. Refer to the Application, Exhibit 5, the Guastella Testimony, page 7, lines 8–17.

a. Describe the criteria Guastella Associates relied upon in selecting the water utilities used in the Depreciation Analysis.

b. Provide a comparison of Water Service Kentucky to each water utility used by Guastella Associates in its Depreciation Analysis. In this comparison, identify: customers served; sales in gallons; water produced and purchased in gallons; the date the system began operations; the miles of main; a description of the area served; and the routine maintenance practices.

c. Provide any other water utilities considered other than those that are identified. Provide an explanation as to why Guastella Associates did not include those utilities in its Depreciation Analysis.

d. Explain why Guastella Associates did not use a Kentucky water utility in its Depreciation Analysis.

e. Identify the method that each listed utility used in developing its depreciation lives. Provide a copy of the study or analysis used by each water utility.

f. For each utility, state whether Guastella Associates contacted a utility representative. Identify the utility representative(s) Guastella Associates contacted, and provide the data Guastella Associates obtained.

g. For each utility, state whether Guastella Associates used annual report data in the survey. Identify the year of the annual report, explain how the annual report was obtained, and provide the data Guastella Associates relied upon from the annual report.

h. For each utility, state whether Guastella Associates contacted a representative of a regulatory agency. Identify the agency contacted, identify the Staff representative(s) that provided any information used in the survey, and provide the data Guastella Associates obtained.

i. Identify whether any of the utilities used in the analysis uses remaining life depreciation.

(1) Describe the effect this would have on Guastella Associates' depreciation report.

j. State whether Guastella Associates contacted a representative of either the California Public Utilities Commission (California Commission) or the Florida Public Service Commission (Florida Commission). If so, identify the Staff representative(s) that provided any information used in the survey, and provide the data Guastella Associates obtained.

(1) Provide a copy of the California Commission Standard Practice depreciation rates.

(2) Provide a copy(s) of the Florida Commission's rules and regulations on depreciation rates.

26. Refer to the Application, Exhibit 5, the Direct Testimony of Constance E. Heppenstall (Heppenstall Testimony), page 10, lines 9–11. Provide the calculations for the service charges for the larger size meters and the AWWA M1 Manual recommended equivalent meter ratios that are referenced.

27. Refer to the Application, Exhibit 5, Heppenstall Testimony, page 11, lines 15–16. Provide a list of the customer charges charged by other water companies in Kentucky.

28. Refer to the Application, Exhibit 5, Heppenstall Testimony, Exhibit CEH-1, Schedule A, Private Fire Service.

a. Explain the criteria for a hydrant to be considered private.

b. Explain whether the Ambleside Residential Area also will pay the monthly private hydrants or sprinkler system charge in addition to the surcharge.

29. Refer to the Application, Exhibit 6.

a. Provide justification for the 62.30 percent increase in rates for the 4” meter.

b. Explain why this meter class has a higher percentage increase as compared to the other meter classes.

30. Using a table format, provide the following full-year salary information for each employee, identified by employee number and job title, for the years 2013 through 2017 (in gross dollars, not hourly or monthly rates). The employee salary information should be provided in a separate table. Provide the requested tables in an Excel spreadsheet format with all columns and rows unprotected and accessible:

a. Regular salary or pay.

b. Overtime pay.

c. Vacation pay.

d. Bonus pay.

e. Any other amounts reported on the employees' W-2 (specify).

- f. Health Benefit cost for each employee:
  - (1) Amount paid by Water Service Kentucky;
  - (2) Amount paid by each individual employee.
- g. Dental Benefits cost for each employee:
  - (1) Amount paid by Water Service Kentucky;
  - (2) Amount paid by each individual employee.
- h. Vision Benefits cost for each employee:
  - (1) Amount paid by Water Service Kentucky;
  - (2) Amount paid by each individual employee.
- i. Life Insurance cost for each employee:
  - (1) Amount paid by Water Service Kentucky;
  - (2) Amount paid by each individual employee.
- j. Accidental Death and Disability Benefits for each employee:
  - (1) Amount paid by Water Service Kentucky;
  - (2) Amount paid by each individual employee.
- k. 401(K) Plan cost for each employee:
  - (1) Amount paid by Water Service Kentucky;
  - (2) Amount paid by each individual employee.
- l. Defined Benefit Retirement cost for each employee:
  - (1) Amount paid by Water Service Kentucky;
  - (2) Amount paid by each individual employee.
- m. Cost of any other benefit available to an employee (specify).

31. For each level of health insurance coverage available to Water Service Kentucky's employees (i.e., single, family, etc.), provide the number of employees covered by Water Service Kentucky's health insurance plan, any applicable employee contribution rate, the associated premiums for the test year, and each of the plans' deductible(s) amounts.

32. Pursuant to 807 KAR 5:001, Section 17, Water Service Kentucky is to post to its website a copy of the public notice and provide a hyperlink to the location of the Commission website where the case documents are available.

a. State whether Water Service Kentucky included this information on its website.

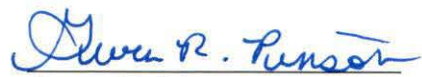
b. If Water Service Kentucky contends this information is included on its website, provide the web address and screenshots of the information along with the web address and screenshots of any hyperlink on other pages of Water Service Kentucky's website directing its customers to the notice. State when notice was posted on Water Service Kentucky's webpage and when each page containing a link to the notice was edited to include the link to the notice.

c. If the notice and link to the Commission's webpage were not included on Water Service Kentucky's webpage in a timely manner, explain why Water Service Kentucky failed to include the information on its website as required by Commission regulations.

33. Provide the average annual number of customers and annual revenue per meter size and hydrants per fire protection charge for years 2013–2017.



34. Refer to the responses to Commission Staff's Request for Information, Item 3, Staff DR 1.3 – Filing Template. The Excel workpaper Water Service Kentucky provided has numerous circular references. Provide a revised Excel workpaper with no circular reference errors.



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DATED     **AUG 13 2018**    

cc: Parties of Record

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