



Ernie Fletcher
Governor

Mark David Goss
Chairman

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Teresa J. Hill
Vice Chairman

Christopher L. Lilly
Commissioner
Department of Public Protection

Gregory Coker
Commissioner

May 5, 2006

Honorable John N. Hughes
Attorney at Law
124 West Todd Street
Frankfort, KY 40601

RE: Case No. 2005-00325

Please see enclosed data request from Commission Staff in the above case.

If you need further assistance, please contact Mark Frost at (502) 564-3940 ext. 274.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

BOD/sh
Enclosure



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

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Honorable Damon R. Talley
Attorney at Law
112 N. Lincoln Blvd.
P. O. Box 150
Hodgenville, KY 42748-0150

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WATER SERVICE)
CORPORATION OF KENTUCKY FOR AN) CASE NO. 2005-00325
ADJUSTMENT OF RATES)

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

Water Service Corporation of Kentucky ("Water Service") is requested, pursuant to 807 KAR 5:001, to file with the Commission no later than May 25, 2006, the original and 8 copies of the following information, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to Water Service's supplemental response to Commission Staff's Second Data Request, Item 4, Schedules B and C.

a. Water Service increases depreciation expense by \$62,165 but proposes to decrease accumulated depreciation by \$529,625. Provide a detailed explanation for the difference between the two depreciation adjustments.

b. Using the depreciation lives filed on November 3, 2004, Water Service recalculated accumulated depreciation and depreciation expense. Provide a similar schedule supporting the \$62,165 increase to depreciation expense and the \$529,625 reduction to accumulated depreciation.

2. Refer to Water Service's supplemental response to Commission Staff's Second Data Request, Item 10.

a. Provide an estimated date that the audited capital structure for the calendar year 2005 will be completed.

b. Calculate the impact the unaudited capital structure will have upon Water Service's requested rate of return of 9.12 percent and the revenue requirement. Include all calculations, workpapers, and assumptions used in this response.

3. Refer to Water Service's supplemental response to Commission Staff's Second Data Request, Item 11. According to the General Ledger pages provided in this response the following are the annual employee benefits: 2003 - \$121,711; 2004 - \$103,251; and 2005 - \$119,351. Provide a detailed explanation for the fluctuations occurring in employee benefits between calendar years 2003 and 2005.

4. Refer to Water Service's supplemental response to Commission Staff's Second Data Request, Item 2.

a. Explain why the following employees listed on the schedule received a pay raise on October 15, 2005 that was greater than 4 percent.

	Employee	Wage Rate Eff 01/01/05	Wage Rate Imp 10/15/05	Increase	% Inc.
(1)	Travis Heck	\$ 10.89	\$ 12.72	\$ 1.83	16.804%
(2)	Wendell Mills	\$ 16.15	\$ 17.36	\$ 1.21	7.492%
(3)	Carl Daniel	\$ 68.75	\$ 74.52	\$ 5.77	8.393%
(4)	Reba Standifer	\$ 17.55	\$ 18.60	\$ 1.05	5.983%
(5)	Pamela Thomas	\$ 12.69	\$ 13.58	\$ 0.89	7.013%

b. Several of the employees listed on the schedule are no longer employed by Water Service.

(1) Identify any employee positions that are currently vacant. Include the annual pro forma salary, the pro forma benefits, and the expected date the positions will be filled.

(2) Identify any employee positions that were reported as vacant in the schedule that have been filled. Include the annual pro forma salary, the pro forma benefits, and the date the positions were filled.

5. Refer to Water Service's response to Commission Staff's Second Data Request, Item 16. Explain why it is reasonable and not retroactive rate-making for Water Service to adjust its calendar year 2004 operating expenses to reflect estimated price increases occurring in prior periods.

6. Refer to Water Service's response to Commission Staff's Second Data Request, Item 22.

a. In the response Water Service states, "These organizational costs should be included in Water Service's rate base because they represent an additional benefit received by customers." Identify the benefit the current customer base receives from an expenditure that was incurred over 10 years ago.

b. Provide documentation to support Water Service's claim that the organizational costs were not recorded when they were incurred.

c. Provide the proposed depreciation life over which Water Service proposes to recover the organizational costs.

7. Refer to Water Service's response to Commission Staff's Second Data Request, Item 28. Are you aware of any instances where this Commission has accepted Consumer Price Index ("CPI") adjustments in a rate case using a historical test period? If the response is yes, provide cites to the Commission Orders approving CPI adjustments.

8. Refer to Water Service's response to Commission Staff's Second Data Request, Item 32.

a. Explain why Water Service is seeking to recover from its customers an allocation of the Service Company's rate base.

b. Are you aware of any instances where this Commission has allowed a utility to recover the allocation of the Service Company's rate base? If the response is yes, provide cites to the Commission Orders approving the inclusion of the allocation of the Service Company's rate base.

9. Refer to Water Service's response to Commission Staff's Second Data Request, Item 33. If the \$1,702,742 adjustment reduced retained earnings of Utilities of Kentucky, Inc, explain why it would not have an impact on Water Service's reported retained earnings?

10. Refer to Water Service's response to Commission Staff's Second Data Request, Item 27(a) and 34.

a. In its response to Item 27(a), Water Service states that capital items have been updated to the same period as the plant additions; however, in response to Item 34 Water Service states that the pro forma adjustments of \$1,224,299 inflate rate base to \$5,205,581 and does not compare to the capitalization. Explain the apparent discrepancy between the two responses.

b. In its response, Water Service states that the December 31, 2004 Rate Base of \$3,981,283 exceeds the total assets. Explain why this has any bearing on the relationship between Water Service's rate base and capital structure/capitalization.

11. In response to Item 39 of the Commission Staff's Second Data, Water Service states, "that based on the average consumption for 5/8" meters, 40% of the average bill comes from the base charge, while the remaining 60% comes from the usage charge."

- a. Define base charge.
- b. Provide what costs are included in the base charge.
- c. Why is an average bill used to calculate rates?
- d. How is the average bill calculated? Provide all calculations, workpapers and assumptions. Provide in Excel Spreadsheet format if possible.
- e. What was used in determining the average bill?
- f. How is the average bill used to calculate the rates? Provide all calculations, workpapers and assumptions. Provide in Excel Spreadsheet format if possible.
- g. How was the 40/60 split determined to be fair just and reasonable?


h. The factors that are provided are industry standards in that they are ratios of rated meter capacity for each meter size relative to a 5/8" meter in regards to water flow. Provide the documentation of these ratios as industry standards.

i. How is this ratio used to calculate the base charge?

j. Why would it not be more appropriate to use the Equivalent Meter Cost Ratio to calculate the rate for the base charge?

12. In response to Item 42 of the Commission Staff's Second Data, Water Service states, "that WSC is working on a way to convert the consumption reports to an electronic format." If this has been completed, provide the reports. If this has not been completed, when do you anticipate completion of this conversion?

13. Refer to the Application. Provide Schedule D and Schedule E in Excel Spreadsheet format if possible.



Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Dated: May 5, 2006

cc: Parties of Record