

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WATER)	
SERVICE CORPORATION OF KENTUCKY FOR)	
A GENERAL ADJUSTMENT IN EXISTING RATES)	CASE NO.
AND A CERTIFICATE OF PUBLIC)	2022-00147
CONVENIENCE AND NECESSITY TO DEPLOY)	
ADVANCED METERING INFRASTRUCTURE)	

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 an electronic version of the following information. The information requested is due on July 28, 2022. The Commission directs Water Service Kentucky to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and 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

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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 that indicates 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, Exhibit 7, Water Service Kentucky Notice. Water Service Kentucky proposes to raise its monthly water service rates by an across-the-board percentage amount.

- a. Provide an explanation of how the across-the-board percentage method to increase monthly water service rates was chosen.

b. Provide a list of alternative methods Water Service Kentucky considered and an explanation as to why each alternative was not chosen to increase its monthly water service rates.

2. Refer to Water Service Kentucky's responses to Commission Staff's First Request for Information (Staff's First Request) filed June 28, 2022, Item 27.

a. Confirm that Water Service Kentucky used its proposed Weighted Cost of Capital to calculate its forecasted Allowance for Funds Used During Construction (AFUDC).

b. Provide the calculations of Water Service Kentucky's Allowance for Funds Used During Construction for the based period and the forecasted test-year.

c. Is Water Service Kentucky including AFUDC in its forecasted operating revenues.

3. Refer to Water Service Kentucky's response to Staff's First Request, Item 49, PSC_DR_1-49_Exhibit_31_Details_of_Dues_Contributions.xlsx, tab 629100. For each expense or credit listed, provide the vendor name, a description of the organization's purpose, and, if a credit, why Water Service Kentucky was credited.

4. Refer to Water Service Kentucky's response to Staff's First Request, Item 49, PSC_DR_1-49_Exhibit_35_-_Schedule A_-_Cost_of_Capital_Summary_v2.xlsx.

a. Explain why the capital structure excludes any short-term debt.

b. Provide the amount and cost rate of any short-term debt in the base and test year.

5. Refer to the Direct Testimony of Seth Whitney (Whitney Testimony), page 10. Regarding the "good, showing improvement" areas, provide the following:

- a. Driver safety issues.
 - b. The number of late meter reads for 2017, 2018, 2019, 2020, and 2021.
 - c. The number of inaccurate meter reads for 2017, 2018, 2019, 2020, and 2021.
6. Refer to the Whitney Testimony, page 12. Provide the NPS Survey.
7. Refer to the Whitney Testimony, page 13.
 - a. Provide the loss revenue from the termination of the wastewater services for Clinton.
 - b. Provide an itemized list of reduced expenses that resulted from the termination for the wastewater services for Clinton.
8. Refer to the Direct Testimony of James Kilbane (Kilbane Testimony), page 8. Provide what the initials CAGR represent.
9. Refer to the Kilbane Testimony at 10. Mr. Kilbane explains how Water Service Kentucky developed its forecasted Salaries and Wages expense.
 - a. Provide comparisons of the average annual raises that Water Service Kentucky budgeted and actually gave to its employees in the calendar years 2017–2021. Identify the location of each employee that received an annual raise in the calendar years listed.
 - b. Provide comparisons of the minimum and the maximum wage increases that Water Service Kentucky budgeted and actually gave to its employees in the calendar years 2017–2021. Identify the location of each employee that received a minimum raise and maximum raise in the calendar years listed.

c. Explain whether the annual employee raises was directly connected to an employee performance review.

d. Identify all bonuses that Water Service Kentucky provided to its employees for the calendar years 2017–2021.

e. Provide a copy of each incentive compensation plan that will be in effect during the base period and the forecasted test year. Further, provide the incentive compensation target metrics for Water Service Kentucky, and each affiliate allocating costs to Water Service Kentucky applicable to the base period and the forecasted test year. Further, describe how the incentive compensation target metrics are calculated and the source of the data used for the calculations. Also, provide Water Service Kentucky and each affiliate's projected performance against each of these metrics in the base period and the forecasted test year.

f. Provide the amount of incentive compensation expense pursuant to each incentive compensation plan included in the base period and the forecasted test year operating expenses for each target metric used for this plan. Separately, provide the costs directly incurred by the Water Service Kentucky and the costs incurred through affiliate charges from each affiliate. In addition, provide these amounts by Operations & Maintenance (O&M) and/or Administrative & General expense account and/or capital account.

10. Refer to the Kilbane Testimony at 9–25. Mr. Kilbane describes the forecasting/budgeting methods used by Water Service Kentucky to develop its forecasted test year operating expenses.

a. Explain if the methods used by Water Service Kentucky to create its annual budgets is the same methodology that it used to generate the forecasted test year revenues and expenses.

b. If the response to Item 2.a, is no, explain why Water Service Kentucky used a different methodology to generate its forecasted test year operations. Provide a comparison of the two budgeting/forecasting methods used by Water Service Kentucky.

11. Refer to the Kilbane Testimony at 9–25. Water Service Kentucky is requesting regulatory asset treatment for costs associated with its Fusion implementation project that were not capitalized.

a. Explain if Water Service Kentucky submitted an application pursuant to KRS 278.220 requesting prior Commission authorization permitting Water Service Kentucky to establish a regulatory asset for the recovery of the Fusion implementation costs.

b. Explain if Water Service Kentucky's Fusion implementation costs meets the following long-standing Commission precedent:

(1) The Fusion implementation cost is an extraordinary, nonrecurring expense that could not have been reasonably anticipated or included in the utility's planning.

(2) Fusion implementation cost is an expense resulting from a statutory or administrative directive.

(3) The Fusion implementation cost is an expense in relation to an industry-sponsored initiative.

(4) The Fusion implementation cost is an extraordinary or nonrecurring expense that, over time, will result in a savings that fully offsets the cost.

12. Refer to the Kilbane Testimony, page 11. Confirm that the base period Captive amount reflects an average of 2020 and 2021.

13. Refer to the Kilbane Testimony, page 14. Confirm that the base period legal expense amount reflects an average of 2020 and 2021.

14. Refer to the Kilbane Testimony, in general. Explain why the base period expense amounts represent a two-year average and not a five-year average.

15. Refer to the Kilbane Testimony, page 28.

a. State the last time Water Service Kentucky performed a cost of service study (COSS) to review the appropriateness of its current rates and rate design.

b. Explain whether Water Service Kentucky considered filing a COSS with the current rate application and the reasoning for not filing one.

c. Explain whether any material changes to Water Service Kentucky's system would cause a new COSS to be prepared since the last time it has completed one.

d. Provide a copy of the most recent COSS that has been performed for Water Service Kentucky's system in Excel spreadsheet format with all formulas, rows, and columns fully accessible and unprotected.

16. Refer to the Direct Testimony of Patrick L. Baryenbruch (Baryenbruch Testimony), page 16. Explain why the producer price index was used as the escalation rate for the comparison group's costs.

17. Refer to the Direct Testimony of Colby Wilson (Wilson Testimony), page 5. Provide the unaccounted-for-water loss for Middlesboro, Clinton, and WSKC for 2016, 2017, 2018, 2019, and 2020.

18. Refer to the Colby Testimony, page 8.

a. Regarding the Clinton Main Replacement.

(1) Provide the study used to support the need to this project.

(2) Explain whether Water Service Kentucky is requesting a Certificate of Public Convenience and Necessity for this project. If not, explain why.

(3) Provide the request for proposal (RFP) and the responses for this project.

b. Regarding the New Vehicles:

(1) Explain whether Water Service Kentucky examined whether it would be more beneficial to finance the two vehicles.

(2) Explain whether the vehicle Water Service Kentucky is expecting to purchase in 2022 has been purchased or not. If so, provide the purchase agreement.

(3) Provide the depreciation balance of the vehicles being replaced.

c. Provide a list of projects and the associated costs of any replacement and/or upgrading to the existing assets for years 2019, 2020, and 2021.

19. Refer to the Wilson Testimony, pages 9–13 regarding the proposed automated meter infrastructure (AMI) project.

- a. Provide the cost/benefit analysis employed in the analysis of the proposed AMI project.
- b. Itemize all cost savings Water Service Kentucky expects to incur as a result of the proposed AMI implementation.
- c. Refer to page 10. Explain how understanding community usage patterns benefits Water Service Kentucky and quantify any savings that could result from this understanding.
- d. Refer to page 10. Regarding the meter reads,
 - (1) Provide the number of mis-read meters annual for the last 5 years
 - (2) Provide the number of re-readings for the last 5 years.
- e. Provide the RFP and bids associated with the proposed AMI project.
- f. Refer to page 12. Provide the tasks that current meter readers will be reassigned to do.
- g. Explain whether a customer can opt out of an AMI meter.
 - (1) If a customer can opt out, explain whether an opt out fee will be assessed.
 - (2) If an opt out fee is to be assessed, provide this fee and supporting documentation.
- h. Provide the depreciable life Water Service Kentucky intends to apply to the AMI meters. Provide documentation to support Water Service Kentucky's estimated depreciation life.
- i. Provide the depreciable life and balance of the current meters.

20. Refer to the Direct Testimony of Dylan W. D'Ascendis (D'Ascendis Testimony). Provide all exhibits and work papers in Excel spreadsheet format with all rows and columns accessible and unprotected.

21. Refer to the D'Ascendis Testimony, page 10, lines 1-5.

a. Explain whether Water Service Kentucky's depreciation rates are low.

b. Explain whether coming in for more frequent rate cases compensates for low depreciation rates, keeps the company's rates more in line with its capital spending, and helps keep pace with any inflationary pressure.

22. Refer to the D'Ascendis Testimony, page 12, lines 3–5. Provide a list of Water Service regulated affiliates, the state where located and explain whether any have size adjustments approved by the associated regulatory authority and, if so, what the adjustment was.

23. Refer to the D'Ascendis Testimony, page 12, lines 9–11.

a. Provide a customer count for Corix Regulated Utilities, Inc's. (Corix) regulated utilities and identify whether the type of regulated industry in which each subsidiary participates.

b. Explain whether any Corix subsidiaries are non-regulated and, if so, the nature of those businesses and the percentage of total operating income or total assets is attributable to non-regulated utilities.

24. Refer to the D'Ascendis Testimony, page 12, lines 17–18. Explain Water Service Kentucky's percentage of total operating income and total assets attributable to regulated water operations.

25. Refer to the D'Ascendis Testimony, Table 1, page 3 and Table 3, page 25.
- a. Explain how often Corix / Water Service Kentucky goes to the market for additional long term debt, when Corix / Water Service Kentucky incurred its long term debt at a rate of 4.71 percent and when it expects to go back to the market for additional long term debt` .
 - b. Explain what cost of long-term debt Water Service Kentucky's other regulated affiliates have incurred and when that debt was incurred.
 - c. Since 4.71 percent is Corix's and hence Water Service Kentucky's actual cost of long-term debt, explain why that could not be used in the risk premium model instead of the 4.85 percent.
26. Refer to the D'Ascendis Testimony, pages 28–29 and Exhibit DWD-4, page 9, footnotes 4–6.
- a. Explain for the total market approach, why narrowing the analysis from the group of companies used in the analysis in footnote 4 (1,700 companies) to the much smaller S&P 500 companies used in the analyses in footnotes 5 and 6 is appropriate. Include in the response an explanation of the added value to the overall analysis of narrowing the companies down to the S&P 500.
 - b. On page 28, lines 17–21 and Exhibit 9.5 Schedule DWD-3, page 4, shows the calculation for California Water. For the calculation explained on lines 17–21, explain why median values, as opposed to average values were used.
27. Refer to the D'Ascendis Testimony, pages 30, lines 7-9, page 36, lines 2–5 and Exhibit 9.5, Schedule DWD-5, page 1.

a. Explain the difference, if any, between Value Line and Bloomberg Betas other than the time periods used in their respective derivation.

b. Explain why the use of the 2-year Bloomberg Beta does not reflect short-term volatility that is avoided in the use of the Value Line Beta.

28. Refer to the D'Ascendis Testimony, page 36, lines 7–11. If markets are efficient, explain why the current 30-year treasury is not used in the analysis.

29. Explain whether there is a representative for Water Service Kentucky who understands the allocation of expenses, is familiar with profit and loss, and is familiar with the cost allocations that Corix has approved and if so, whether this representative thoroughly reviews costs allocated to Water Service Kentucky on a recurring basis.

30. Provide Water Service Kentucky's nonrecurring charges, a schedule listing the number of occurrences during the test year for each of the charges, and the total dollar amount billed and the total dollar amount collected during the test year.

31. Provide revised cost justification sheets to support any changes to the Meter/Connect/Tap-on Fee.

32. Provide cost justification sheets for each nonrecurring charge.

33. Describe the procedures used by Water Service Kentucky in planning and approving construction projects. Provide the long-term construction planning program.

34. For each operating expense category listed below, provide comparisons of the annual budgeted amounts to actual results for the period 2017–2021. Include detailed explanations for all variances between the actual and budgeted amounts.

a. Fuel and Utility

b. Chemicals

- c. Employee Benefits
- d. Insurance
- e. Miscellaneous Expense
- f. Office Expense
- g. Consulting/Outside Services
- h. Travel
- i. Fleet/Vehicles
- j. Testing
- k. Regulatory Expenses
- l. Rent
- m. Salaries & Wages
- n. Capitalized Time
- o. Plant & System Maintenance.

35. Identify the salary allocation for the Vice President of Regulatory Affairs & Business Development employee included in Water Service Kentucky's base year and forecasted test year operating expenses. Include the allocated benefits and payroll taxes for the Vice President of Regulatory Affairs & Business Development employee.

36. Provide the specific service that will be provided to Water Service Kentucky by the Vice President of Regulatory Affairs & Business Development employee during the base year and the forecasted test-year.



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DATED JUL 13 2022

cc: Parties of Record

Case No. 2022-00147

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