

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

APPLICATION OF KENTUCKY WATER)
SERVICE COMPANY, INC., TO CON-)
TINUE SHORT TERM FINANCING OF) CASE NO. 7867
\$2,300,000; AND NOTICE OF AD-)
JUSTMENT OF RATES.)

O R D E R

IT IS ORDERED that Kentucky Water Service Company, Inc., shall file with the Commission by July 3, 1980, the following information. Each copy of the data requested should be placed in a bound volume with each item tabbed. Where a number of sheets are requested for an item, each sheet should be appropriately indexed, for example, Item 1A, Sheet 3 of 5. Careful attention should be given to copied material to insure that it is legible.

Staff Request No. 1

- 1- A copy of the auditor's report from your most recent audit.
- 2- The detailed work papers showing calculations supporting all revenue, expense and tax adjustments (Exhibit 10D) in the rate application, together with a complete detailed narrative explanation of each component used in each calculation. Index each calculation and related explanation to the proforma adjustment it supports.
- 3- The following tax data for the test year:
 - A. Income Taxes:
 - (1) Federal operating income taxes deferred - accelerated tax depreciation
 - (2) Federal operating income taxes deferred - other (explain)
 - (3) Federal income taxes - operating provision for current year liability
 - (4) Income credit resulting from prior deferrals of Federal income taxes.
 - (5) Investment tax credit net
 - (I) Investment credit realized
 - (II) Investment credit amortized - Pre-Revenue Act of 1971
 - (III) Investment credit amortized - Revenue Act of 1971

- (6) Provide the information in 3A(1) through 3A(4) for state income tax.
 - (7) Reconciliation of net income per book to book taxable income and taxable income per tax return as shown in Format 1A attached and a calculation of each component of Federal and state income tax expense for the test year.
 - (8) A copy of Federal and state income tax returns for the taxable year ended during the test year including supporting schedules (three copies required).
- B. An analysis of Kentucky other operating taxes as shown in Format 2A attached.
- 4- A schedule of total company salaries and wages for the test year and each of the five calendar years preceding the test year as shown in Format 3B attached.
 - 5- A schedule of the utility plant showing the depreciation rate applied to each account.
 - 6- An analysis of all advertising programs during the test year-media used, total cost, accounts charged, and purpose and expected benefit of each program.
 - 7- What is the date of the last depreciation study prepared by or for the company? Date _____
 - 8- What was the interval between the last depreciation study and the next planned study? Interval _____
 - 9- Were the latest depreciation study findings and recommendations:
 - (a) adopted completely?
 - (b) adopted with minor exceptions?
 - (c) unaccepted?
 - (d) if not fully adopted, state the recommendations not adopted and furnish reasons.
 - 10- When were the latest depreciation study findings and recommendations implemented? Date _____
 - 11- For purposes of booking depreciation expenses to what depreciable plant base does the company apply accrual rates?
 - (a) average of beginning and end-of-year estimated balances.
 - (b) average of January 1 and July 1 balances.
 - (c) end-of-month plant balances.
 - (d) Other. Explain.
 - 12- If averages of beginning and end-of-year estimated balances are used, are estimated additions revised when actual amounts are known?

- 13- How is estimated net salvage treated?
- (a) The depreciable plant-base is increased or decreased as appropriate.
 - (b) The accrual rate is adjusted to reflect the net salvage percentage of plant original cost.
- 14- What method is used to allocate total depreciation requirements to accounting periods falling within the asset life span?
- (a) Straight-line method
 - (b) Compound interest or sinking fund method
 - (c) Unit of Production
 - (d) Combination of methods. Explain.
- 15- How are mass property units priced for retirement purposes?
- (a) Actual cost
 - (b) First in - first out
 - (c) Moving average cost
 - (d) Yearly average cost
 - (e) Average costs for each year or bands of years (State band of years used)
 - (f) Other. Explain.
- 16- Are company estimates of service life and net salvage determined:
- (a) for each unit of property (unit summation for plant groupings (i.e. an entire transmissions and distribution main or by plant locations (i.e. a specific pumping station or structure. Explain.
 - (b) for each primary plant account or subaccount?
 - (c) for plant functional classification only?
 - (d) for all system depreciable plant (i.e. a single composite estimate)?
- 17- Are accrual rates based on estimates of:
- (a) total service period of the asset(s)?
 - (b) total remaining service period of the asset(s)?
 - (c) average service life for a plant group?
 - (d) average remaining life for a plant group?
 - (e) Other? Specify.

-18- Are accrual rates based on estimates of:

- (a) Historical gross salvage?
- (b) Future gross salvage?
- (c) Average of historical and future gross salvage?
- (d) Historical cost of removal?
- (e) Future cost of removal?
- (f) Average of historical and future cost of removal?

Done at Frankfort, Kentucky, this 20th day of June, 1980.

UTILITY REGULATORY COMMISSION


For the Commission

ATTEST:

Acting Secretary

RECONCILIATION OF BOOK NET INCOME AND FEDERAL TAXABLE INCOME

12 Months Ended March 31, 1980

Line No.	Item (a)	Total Company (b)	Total Company Non-operating (c)
1.	Net income per books		
2.	Add income taxes		
3.	A. Federal income tax - Current		
4.	B. Federal income tax deferred- depreciation		
5.	C. Federal income tax deferred- Other		
6.	D. Investment tax credit adjustment		
7.	E. Federal income taxes charged to other income and deductions		
8.	F. State income taxes		
9.	G. State income taxes charged to other income and deductions		
10.	Total		
11.	Flow through items:		
12.	Add (itemize)		
13.	Deduct (itemize)		
14.	Book taxable income		
15.	Difference between book taxable income and taxable income per tax return:		
16.	Add (itemize)		
17.	Deduct (itemize)		
18.	Taxable income per return		

- NOTE: (1) Provide a calculation of the amounts shown on Lines 3 through 7 above.
 (2) Provide work papers showing the calculation of straight-line tax depreciation and accelerated tax depreciation and all other work papers in support of the calculation of Federal Income tax expense.
 (3) Provide a schedule setting forth the basis of allocation of each item of revenue or cost allocated above.

Kentucky Water Service Company, Inc.

Case Number 7867

RECONCILIATION OF BOOK NET INCOME AND STATE TAXABLE INCOME

12 Months Ended March 31, 1980

Line No.	Item (a)	Total	
		Company (b)	Company Non-operating (c)
1.	Net income per books		
2.	Add income taxes		
3.	A. Federal income tax - Current		
4.	B. Federal income tax deferred - depreciation		
5.	C. Federal income tax deferred - Other		
6.	D. Investment tax credit adjustment		
7.	E. Federal income taxes charged to other income and deductions		
8.	F. State income taxes		
9.	G. State income taxes charged to other income and deductions		
10.	Total		
11.	Flow through items:		
12.	Add (itemize)		
13.	Deduct (itemize)		
14.	Book taxable income		
15.	Difference between book taxable income and taxable income per tax return:		
16.	Add (itemize)		
17.	Deduct (itemize)		
18.	Taxable income per return		

NOTE: (1) Provide a calculation of the amounts shown on lines 8 and 9 above.
 (2) Provide work papers showing the calculation of straight-line tax depreciation and accelerated tax depreciation and all other work papers in support of the calculation of State income tax expense.
 (3) Provide a schedule setting forth the basis of allocation of each item of revenue or cost allocated above.

Kentucky Water Service Company

Commonwealth of Kentucky
Case No. 7867

ANALYSIS OF OTHER OPERATING TAXES

For the 12 Months Ended March 31, 1980

(000's)

	<u>Charged Expense</u>	<u>Charged to Construction</u>	<u>Charged to Other Accounts 1/</u>	<u>Amount Accrued</u>	<u>Amount Paid</u>
<u>Other Operating Taxes</u>					
Kentucky	\$	\$	\$	\$	\$
State Income					
Ad Valorem					
Payroll (Employer's Portion)					
Other Taxes					

Total per Books

\$	\$	\$	\$	\$	\$
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

1/ Explain items in this column

Kentucky Water Service Company

Commonwealth of Kentucky

Case No. 7867

NUMBER OF EMPLOYEES*
TEST YEAR ENDING MARCH 31, 1980

<u>Period</u>	<u>Total</u> (a)	<u>Source of Supply & Pumping</u> (b)	<u>Water Treatment</u> (c)	<u>Transmission & Distribution</u> (d)	<u>Consumer Accounts & Sales</u> (e)	<u>Administrative & General</u> (f)
Month prior to Test Year						
1st Month of Test Year						
2nd Month						
3rd Month						
4th Month						
5th Month						
6th Month						
7th Month						
8th Month						
9th Month						
10th Month						
11th Month						
12th Month						
A 13-Month Average For Calendar Years Prior to Test Year						
5th Year						
4th Year						
3rd Year						
2nd Year						
1st Year						
Test Year						

*Employees whose salaries are allocated to more than one function should be included under Administrative and General.

Kentucky Water Service Company

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ANAYLSIS OF SALARIES AND WAGES CHARGED TO EXPENSE
TEST YEAR ENDING MARCH 31, 1980

Line No.	Item (a)	12 Months Ended					Test Year (g)
		Calendar Years Prior to Test Year					
		5th (b)	4th (c)	3rd (d)	2nd (e)	1st (f)	
1.	Source of Supply (a) Operation (b) Maintenance	\$	\$	\$	\$	\$	\$
2.	Pumping (a) Operation (b) Maintenance						
3.	Water Treatment (a) Operation (b) Maintenance						
4.	Transmission and Distribution (a) Operation (b) Maintenance						
5.	Customer Accounts						
6.	Sales						
7.	Administrative and General						
8.	Total Salaries and Wages Charged Expense (1 thru 7)						
9.	Construction						
10.	Total Salaries and Wages	\$	\$	\$	\$	\$	\$