

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WATER SERVICE	)	CASE NO.
CORPORATION OF KENTUCKY FOR	)	2013-00237
AN ADJUSTMENT OF RATES	)	

COMMISSION STAFF'S SECOND 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 an electronic copy and a paper original of the following information no later than November 8, 2013. Responses to requests for information shall be filed in accordance with the electronic filing procedures set forth in 807 KAR 5:001, Section 8. Spreadsheets may be electronically transmitted in an excel format. 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.

1. The notice published by WSKY in *The Hickman County Gazette* indicates a new Distribution System Infrastructure Charge Rider and a Purchased Power and Chemical Charge Rider, but these charges are not mentioned in the application.

a. What is WSKY's intention regarding the Distribution System Infrastructure Charge Rider?

b. What is WSKY's intention regarding the Purchased Power and Chemical Charge Rider?

2. Refer to the Application, Exhibit 4, Schedule B, Combined Operations Test Year 12/31/2012 and Schedule E, Calculation of Revenue Requirement.

a. WSKY reports miscellaneous test-year revenues of \$78,995, but in its 2012 Annual Report, WSKY recorded a total other water revenue of \$226,479.<sup>1</sup> Provide a detailed reconciliation between the two reported revenue amounts.

b. The calculation of WSKY's revenue requirement shown on Schedule E does not support WSKY's proposed increase of \$228,789 or its pro forma

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<sup>1</sup> *Annual Report of Water Service of Kentucky to the Public Service Commission for the Calendar Year Ended December 31, 2012* at 30 ("2012 Annual Report"). \$155,289 (Miscellaneous Service Revenues) + \$71,190 (Other Water Revenues) = \$226,479.

service revenues – water of \$2,332,602. Provide a revised Schedule E showing how WSKY calculated its proposed increase and pro forma service revenues – water.

c. In the 2012 Annual Report, bad debt expense of \$37,353 is reported as an operating expense. Explain why WSKY lists this expense as a debit to operating revenues.

d. Provide the calculations WSKY used to arrive at the following expenses listed on Schedule B.

(1)	Income Taxes – Federal	\$	54,491
(2)	Income Taxes – State	\$	(10,683)
(3)	Taxes Other Than Income	\$	143,894
(4)	Income Taxes – Federal	\$	126,345
(5)	Income Taxes – State	\$	23,719

3. Refer to the Application, Exhibit 4, Schedule E, Calculation of Revenue Requirement. Table 1 below contains the methodology the Commission used in Case No. 2010-00476 to calculate WSKY's revenue requirement.

Table 1

Operating Expenses	\$ 1,734,881
Less: State & Federal Income Taxes	(120,027)
Operating Expenses Net of Income Taxes	<u>1,614,854</u>
Divide by: Operating Ratio	88.00%
Revenue to Cover Operating Ratio	<u>1,835,062</u>
Less: Operating Expenses Net of Income Taxes	(1,614,854)
Net Operating Income After Income Taxes	<u>220,208</u>
Multiplied by: Gross-up Factor	<u>1.6822813</u>
Net Operating Income Before Income Taxes	370,451
Add: Operating Expenses Net of Income Taxes	1,614,854
Interest on Long-Term Debt	<u>178,169</u>
Total Revenue Requirement	2,163,474
Less: Other Operating Revenues	<u>(52,887)</u>
Revenue Requirement from Water Sales	2,110,587
Less: Normalized Revenue - Water Sales	<u>(2,048,689)</u>
Revenue Requirement Increase	<u>\$ 61,898</u>
Percentage Increase	<u>3.021%</u>

a. Using the Commission’s methodology in the table above, calculate WSKY’s revenue requirement using the reported miscellaneous revenues of \$78,995 reported on Exhibit 4, Schedule B of the Application.

b. Using the Commission’s methodology in the table above, calculate WSKY’s revenue requirement if the other water revenues of \$226,479 is used.

4. Refer to the Application, Exhibit 4, w/p [a]. WSKY uses an uncollectible rate of 1.81 percent. Provide a table comparing WSKY’s uncollectible rates for the calendar years 2008 through 2012.

5. Refer to the Application, Exhibit 4, w/p [b], Calculation of Salary and Benefits.

a. WSKY uses an allocation factor of 6.98 percent for the Regional Vice President; Executive Assistant; Regional Finance Manager; and Regional Compliance and Safety Manager, but uses a 21.68 percent factor for its Regional Director. Explain why a higher allocation factor is used for the Regional Director.

- b. Is any of the supervisory staff time directly charged to WSKY?
- c. If the response to 5(b) is no, explain in detail why none of the supervisory staff time is directly charged to WSKY.
- d. Identify the supervisory positions that have participation or will participate in preparing WSKY's rate case and the amount of their salaries that are included in rate case expense.

6. Refer to the Application, Exhibit 11, Utility, Inc.'s ("UI") Consolidated Financial Statement December 31, 2012 and 2011 at 10 and 14. There is a reference on page 10 to the sale of four of UI's subsidiaries in 2012 and at page 14, UI states that the dividends paid in August 2011, February 2012 and July 2012 were funded "by the proceeds from the sale of one of the Company's utility systems."

- a. Provide a detailed explanation of UI's sale of its utility systems in 2011 and 2012.
- b. Identify all sales of UI's operating subsidiaries in 2013 and all impending sales of UI's operating subsidiaries in 2013 or 2014.
- c. Provide the impact the sale of the utility systems had on allocated Water Service Corp.'s ("Service Company") costs in 2012.

7. WSKY indicates in its application that it did not perform a depreciation study. In Exhibit 12 to the Application, WSKY provided a generic explanation of its proposed depreciation rates. Attached as an Appendix to this Request for Information is a copy of the National Association of Regulatory Commissioners ("NARUC") 1979 "Depreciation Practices for Small Water Utilities."

a. WSKY depreciates its water plant over a 50-year service life; however, the 1979 NARUC study separates water treatment plant assets into two asset groups and assigns a service life of less than 50 years for both asset groups. The structures and improvements asset group has a 35-40 average service life and the water treatment equipment asset group has a 20-35 average service life. Explain why WSKY is depreciating water plant over a 50-year service life.

b. Describe WSKY's water plant and list the water plant assets in either the structures and improvements asset group or the water treatment equipment asset group.

c. WSKY depreciates vehicles over a four-year service life; however, the 1979 NARUC study assigns a seven-year service life for transportation equipment. Explain why WSKY is depreciating vehicles over a four-year service life.

d. Describe the mainframe computer and explain why it should be depreciated over a five-year service life.

e. Describe the mini-computers and explain why they should be depreciated over a three-year service life.

f. Describe the computer systems and explain why they should be depreciated over an eight-year service life.

g. Describe each software system and explain why all software systems are being depreciated over a three-year service life.

8. Refer to the Application, Exhibit 13. Provide a description of what is included in the "Common" asset group and explain the service life for each "Common" asset.

9. Refer to WSKY's Response to the Commission Staff's First Request for Information ("Commission's First Request"), Item 3, w/p [b], Salary.

a. WSKY references an estimated 3 percent wage increase that became effective on April 1, 2013. For each employee/position listed on the work paper, provide the actual wage rate that became effective on April 1, 2013.

b. On the work paper, WSKY used 2,080 regular hours for each maintenance employee/position. Provide the actual hours for each employee/position in 2012.

c. Are the overtime hours listed actual or budgeted hours?

10. a. Provide all studies and analysis that WSKY or UI have conducted or commissioned on prevailing wages in the Clinton region, the Middlesboro region, or in the state of Kentucky.

b. If no studies or analysis have been conducted or commissioned, explain why not.

c. Explain why, in light of the present economic conditions, both locally and nationally, the 2013 wage increases are reasonable and appropriate.

11. Refer to the WSKY's Response to the Commission's First Request, Item 3, w/p [h], Capital Structure.

a. In the calculation of UI's interest expense of \$11,886,434, WSKY adds \$42,434 without including an explanation. Explain what the additional \$42,434 represents and how it was calculated.

b. In its Consolidated Financial Statement December 31, 2012 and 2011 (Application, Exhibit H), UI reports "Interest expense, net" of \$12,232,000.

Reconcile the interest expense of \$11,886,434 calculated by WSKY and the interest expense reported by UI of \$12,232,000.

c. For the calendar years 2008 through 2012, provide UI's reported long-term interest expense, the effective interest rate, and the long-term interest expense that would be allocated to WSKY. Include work papers, calculations, and assumptions used to develop WSKY's response.

12. Refer to WSKY's Response to the Commission's First Request, Item 8.

a. In its response to Item 6 of the Commission's First Request, the only nonregulated activity identified by WSKY is "performing sewer operations for the City of Clinton." WSKY recorded \$153,285 of revenues in Account No. 5290 - Non-Regulated Revenue (Revenue from Management Services). Does the \$153,285 represent the fee paid to WSKY by the City of Clinton for the management of its sewer operations? If the response is no, identify the source of this revenue, state its purpose, and identify the account where the Clinton sewer management fee is recorded.

b. Is the \$153,285 in revenues identified in 12(a) reported in Account No. 471 – Miscellaneous Service Revenues in the 2012 Annual Report? If the response is no, identify the account in the 2012 Annual Report where the Clinton sewer management fee is recorded.

c. KRS 278.2203 states that if a utility engages in a nonregulated activity it shall identify all costs of the nonregulated activity and shall utilize one of the following cost allocation methods: "(a) The fully distributed cost method; or (b) A cost allocation method recognized or mandated by the rules of the SEC promulgated

pursuant to 15 U.S.C. sec. 79, et seq., or promulgated by the FERC or by the USDA.”<sup>2</sup>  
Identify the cost allocation method being used by WSKY.

d. KRS 278.2209 requires that: “In any formal commission proceeding in which cost allocation is at issue, a utility shall provide sufficient information to document that its cost allocation procedures and affiliate transaction pricing are consistent with the provisions of this chapter.” Provide the documentation of WSKY cost allocations as required by this statute.

e. In Account No. 6350 – Maintenance – Water & Sewer Plant, WSKY recorded expenses of \$2,326 described as Weather/Hurricane Costs. Provide a detailed description of these expenses.

13. Refer to WSKY’s response to the Commission’s First Request, Item 14. Provide the following information for each proposed capital project:

a. Identify the project, the approximate cost of the project, and the source of funding.

b. For each project, provide all documents and work papers related to the project.

c. For each project, identify all required governmental permits, licenses, and other approvals.

d. For each project, indicate when applications for each governmental permit, license, or other approval were submitted or will be submitted; which required governmental permits, licenses, and other approvals have been obtained; and the date WSKY anticipates receiving each remaining governmental permit, license, or other approvals.

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<sup>2</sup> KRS 278.2203(2).

14. Refer to WSKY's Responses to the Commission's First Request, Item 25.
- a. Has the December 19, 2007 Agreement been modified to allow WSKY to contest the reasonableness of any expense that the Service Company allocates to WSKY?
  - b. If the response to 14(a) is yes, provide a copy of the revised agreement.
  - c. If the response to 14(a) is no, describe the safeguards in place to ensure that unreasonable or inappropriate expenses incurred by the Service Company are not allocated to WSKY.
  - d. Provide examples of expenses that were deemed either unreasonable or inappropriate and were not allocated to WSKY. Describe the process used to make that decision.
  - e. In its response to Item 28 of the Commission's First Request, WSKY states that the Service Company does not issue an invoice to WSKY. If invoices are not issued, explain how WSKY is aware of what is being allocated to it by the Service Company or the dollar amount of the allocations.

15. Refer to WSKY's Response to the Commission's First Request, Item 27(a). List each expenditure included in each expense account listed in Table 2 and provide a detailed description of that expenditure and copies of all invoices related to that expenditure.

	<u>Account #</u>	<u>Account Title</u>	<u>Total</u>
a.	5795	Contributions	340
b.	5810	Memberships	243
c.	6185	Travel Lodging	1,880
d.	6190	Travel Airfare	1,417
e.	6195	Travel Transportation	476
f.	6200	Travel Meals	1,410
g.	6205	Travel Entertainment	558
h.	6207	Travel Other	133

16. Refer to WSKY's Response to the Commission's First Request, Item 27(b). List each expenditure included in each expense account listed in Table 3 and provide a detailed description of that expenditure and copies of all invoices related to that expenditure.

	<u>Account #</u>	<u>Account Title</u>	<u>Total</u>
a.	5810	Memberships	5,1312
b.	5870	Holiday Events	55
c.	6065	Rate Case Amortization	91,717
d.	6070	Misc. Regulatory Matter	7,846
e.	6185	Travel Lodging	3,499
f.	6195	Travel Transportation	886
g.	6200	Travel Meals	2,339
h.	6207	Travel Other	36
i.	6285	Water – Maintenance. Sup.	7,387
j.	6290	Water – Maintenance. Rep.	14,057
k.	6295	Water – Main Break	10,495
l.	6310	Water – Other Maintenance	42,183
m.	6355	Deferred Maintenance	7,162
n.	6370	Operator Contracted	3,600

17. Refer to WSKY's Response to the Commission's First Request, Item 27. Provide the schedules on an electronic storage medium that is capable of being read and manipulated using Microsoft Excel.

18. At page 6 of his direct testimony, Lowell Yap states, "Interest on debt is computed using a 52.44%/47.56% debt/equity ratio." Provide a schedule comparing

UI's end-of-period capital structures for the calendar years 2008 through 2012 and UI's capital structure for August 31, 2013. Also, include the debt-to-equity ratio for each capital structure provided.

19. At pages 3 and 4 of his direct testimony, Patrick Baryenbruch states that his "study was undertaken in conjunction with WSCK's rate case for the test year ending December 31, 2012 and is true to the best of my knowledge and belief."

- a. Provide a complete copy of Mr. Baryenbruch's study.
- b. Describe in detail the process Mr. Baryenbruch used in performing his study.

20. Refer to page 6 of Mr. Baryenbruch's Direct Testimony.

- a. Provide documentation to show that the implementation of Project Phoenix directly resulted in a reduction in time to handle customer inquiries.
- b. Provide a detailed list of the increase in the information that is available to the WSKY customer as a result of Project Phoenix.
- c. Document that Project Phoenix resulted in a reduction to the number of WSKY's service order errors.
- d. Document that Project Phoenix resulted in "easier to read and interpret invoices."
- e. Explain the phrase "More consistent billing cycle" and its benefit to the WSKY customer.

21. At page 6 of his direct testimony, Mr. Baryenbruch states that Project Phoenix cost approximately \$80 per WSKY customer. Given that Louisville Gas and Electric and Kentucky Utilities' customer software cost has a per customer cost of \$68

and Kentucky-American Water's per customer cost of its "BT Program" was \$30, explain how WSKY's per customer cost of \$80 is reasonable.

22. a. State whether WSKY or UI has since November 9, 2009, performed any studies or analysis of the financial effects on WSKY of Project Phoenix or of the benefits that Project Phoenix provides to WSKY.

b. If the response to 22(a) is yes, provide the results of each study or analysis.

c. If the Response to 22(a) is no, provide detailed documentation in addition to the Direct Testimony of Mr. Baryenbruch, to support the benefits of Project Phoenix to the customers of WSKY.

23. A utility can file a rate application under 807 KAR 5:076, alternative rate adjustment procedure for small utilities ("ARF"), if it meets the following conditions:

(1) Had gross annual revenue in the immediate past calendar year of \$5,000,000 or less;

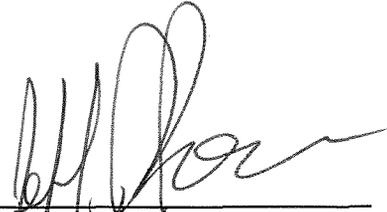
(2) Maintained adequate financial records fully separated from a commonly-owned enterprise; and

(3) Filed with the commission fully completed annual reports for the immediate past year and for the two (2) prior years if the utility has been in existence that long.<sup>3</sup>

Given that WSKY meets the listed conditions to file an ARF application, explain why it chose to file under 807 KAR 5:001, Section 16, Applications for General Adjustments of Existing Rates.

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<sup>3</sup> 807 KAR 5:076.



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DATED OCT 25 2013

cc: Parties of Record

Case No. 2013-00237

APPENDIX

APPENDIX TO COMMISSION STAFF'S SECOND REQUEST FOR  
INFORMATION IN CASE NO. 2013-00237 DATED OCT 25 2013

**Typical Average Service Lives, Salvage Rates, and Depreciation Rates  
for  
Small Water Utilities**

NARUC Account Number	Class of Plant	Average Service Life (yrs)	Net Salvage (%)	Depreciation Rate (%)
<b><u>Source of Supply Plant</u></b>				
311	Structures and Improvements	35-40		2.9-2.5
312	Collecting & Impounding Reservoirs	50-75		2.0-1.3
313	Lake, River and Other Intakes	35-45		2.9-2.2
314	Wells and Springs	25-35		4.0-2.9
315	Galleries and Tunnels	25-50		4.0-2.0
316	Supply Mains	50-75		2.0-1.3
317	Other Source of Water Supply Plant	30-40		3.3-2.5
<b><u>Pumping Plant</u></b>				
321	Structures and Improvements	35-40		2.9-2.5
324-7	Pumping Equipment	20		5.0
328	Other Pumping Plant	25		4.0
<b><u>Water Treatment Plant</u></b>				
331	Structures and Improvements	35-40		2.9-2.5
332	Water Treatment Equipment	20-35		5.0-2.9
<b><u>Transmission and Distribution Plant</u></b>				
341	Structures and Improvements	35-40		2.9-2.5
342	Reservoirs and Tanks	30-60		3.3-1.7
343	Transmission and Distribution Mains	50-75		2.0-1.3
344	Fire Mains	50-75		2.0-1.3
345	Services	30-50		3.3-2.0
346	Meters	35-45	10	2.6-2.0
347	Meter Installations	40-50		2.5-2.0
348	Hydrants	40-60	5	2.4-1.6
<b><u>General Plant</u></b>				
390	Structures and Improvements	35-40		2.9-2.5
391	Office Furniture and Equipment	20-25	5	4.8-3.8
392	Transportation Equipment	7	10	12.9
393	Stores Equipment	20		5.0
394	Tools, Shop & Garage Equipment	15-20	5	6.3-4.
395	Laboratory Equipment	15-20		6.7-5.0
396	Power Operated Equipment	10-15	10	9.0-6.0
397	Communication Equipment	10	10	9.0

Note: These lives are intended as a guide; longer or shorter lives should be used where conditions warrant.

Source: NATIONAL ASSOCIATION OF REGULATORY COMMISSIONERS  
Depreciation Practices for Small Water Utilities, Figure 1, p. 11, 1979

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