

**Application of Water Service Corporation of Kentucky
For A General Adjustment in Existing Rates
Case No. 2013-00237
Attorney General's Responses to Data Requests of Kentucky Public Service Commission Staff**

WITNESS RESPONSIBLE:

Andrea C. Crane

QUESTION No. 1

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At page 36 of her direct testimony, Andrea Crane refers to the Wastewater Privatization Contract Including Service Agreement for the City of Clinton ("Agreement") and states that "Under that agreement, WSCK bills Clinton based on its cost plus a profit of 15%."

- a. Cite the Article in the Agreement that supports Ms. Crane's statement regarding the procedure Water Service Corporation of Kentucky ("WSKY") uses to calculate bills for the City of Clinton.
- b. Explain whether Article VII – Service Agreement, 9 (c) and 9(d) describes any profit margin that WSKY receives from the City of Clinton for managing its sewer operations.

RESPONSE:

- a. Assuming that this question requests Ms. Crane's citation for the "profit of 15%" referenced earlier in the question, she relied upon Paragraph 2(b) of the Addendum to Wastewater Privatization Contract Including Service Agreement, dated February 26, 2002 - which amended Article VII, Section 1, Paragraph 1 of the Wastewater Privatization Contract Including Service Agreement - and was provided by WSCK in response to Staff 3-6.
- b. Article VII – Service Agreement, 9(c) and 9(d) do not specifically describe any "profit margin", although these sections do address other compensation to the utility.

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QUESTION No. 2
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At page 31 of her direct testimony, Ms. Crane states that "there is no evidence that depreciation rates from a NARUC study that is 35 years old are relevant today or are appropriate to WSCK."

- a. In Case No. 2006-00398 the Commission made the following statement.

"Historically, the Commission has relied on the National Association of Regulatory Utility Commissioners ("NARUC") Study of Depreciation Practices for Small Water Utilities ("NARUC Study"), dated August 15, 1979, to judge the reasonableness of a utility's depreciation practices. The NARUC Study outlines expected life ranges for asset groups. An adjustment is made when the Commission finds that a utility is using a life that falls outside of this range.

Given this past practice, explain why the NARUC Study is inappropriate in this instance.

- b. For each asset listed in the table below, explain why WSKY's 50- year depreciation life is more appropriate than the mid-range life from the NARUC Study.

	Account Description	Depreciation Lives	
		NARUC	WSKY
a.	Supply Mains	62.50	50
b.	Electric Pumping Equipment	20.00	50
c.	Water Treatment Equipment	27.50	50
d.	Office Furniture and Equipment	22.50	50
e.	Tool Shop and Miscellaneous Equipment	17.50	50
f.	Laboratory Equipment	17.50	50
g.	Power Operated Equipment	12.50	50
h.	Communication Equipment	10.00	50

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QUESTION No. 2

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RESPONSE:

- a. Ms. Crane did not state that the NARUC Study rates are “inappropriate.” Rather, she stated that there is no evidence in this case to support changing the Company’s depreciation rates. As Ms. Crane stated on page 31 of her testimony, no party has proposed changing the Company’s depreciation rates in this case and there is no evidence in this case that the NARUC Study rates would be appropriate for WSC to apply prospectively. Ms. Crane does not believe that depreciation rates should be changed simply because other rates were adopted in another jurisdiction or because rates were recommended by NARUC 35 year ago. Rather, the Company (or another party proposing a change in depreciation rates) should bear the burden of proving that the proposed rates are reasonable for WSC.

- b. Ms. Crane cannot provide the requested information because Ms. Crane did not undertake a depreciation study for this case. No depreciation study was conducted because the Company did not propose new depreciation rates. See also the response to 2a.