

**Case No. 2013-00237**  
**Water Service Corporation of Kentucky**  
**Responses to Attorney General's**  
**Second Information Request**

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1. Do Corix Utilities or UI have any subsidiaries that have experienced losses in the past five years?

a. If so, has WSCK in any way been allocated costs to cover the loss sustained by the other subsidiary?

b. What is the total cost to WSCK to cover other subsidiary losses?

RESPONSE: Yes

a. Utilities, Inc., ("UI") and its subsidiaries file its Federal Income Tax return on a consolidated basis. Any federal tax liability or net operating loss is calculated for each subsidiary.

b. Please refer to the attached 2012 SE-3 workpaper which calculates WSCK's federal tax liability.

WITNESS: Lowell Yap

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2. Does the Company have interconnections with other water companies? If so, please identify all other water systems with which WSCK is interconnected.

RESPONSE: Yes, the Company has a connection with Pineville Utility Commission.

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3. Please state if any bonuses (as opposed to incentive compensation) have been included in the Company's claim in this case. If so, then please identify, by employee, the amount of bonuses included in the claim and explain how the amount of bonuses paid is determined.

RESPONSE: No bonuses have been included in the Company's claim in this case.

WITNESS: Lowell Yap

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4. Regarding the Excel file "PSC DR 2-2b" provided in response to PSC DR 2-2b, please:
- a. Describe what is meant by the "Retention Factor" and
  - b. Provide all calculations supporting the two Retention Factors shown in the referenced file.

RESPONSE:

- a. The retention factor is a "gross up" factor used to calculate the pro forma adjustment to income taxes and regulatory fee (costs that vary in direct proportion to changes in revenues) in determining the overall revenue requirement.
- b. Retention factor of 0.9984170 for the regulatory fee is calculated from  $(1 - 0.001583)$ . Retention factor of 0.6194179 state and federal income taxes is calculated from  $(0.9984170 * (1 - 0.06) * (1 - 0.34))$ .

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5. Regarding the Company's response to PSC DR 2-3, please:
- a. Itemize the operating expenses of \$1,840,500,
  - b. Reconcile the operating expenses of \$1,840,500 to the operating expenses shown in Schedule B.

RESPONSE:

- a. \$1,501,519 = Pro Forma Present Maintenance and General Expenses.  
\$38,028 = Pro Forma Present Uncollectibles Expense. \$300,953 = Pro  
Forma Present Depreciation, Amortization, TOTI, and Expense Reduction  
relating to Clinton.  $\$1,501,519 + \$38,028 + \$300,953 = \$1,840,500$ .
- b. Please see the response to a. above. These amounts match the figures  
presented in Schedule B.

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6. Regarding the response to PSC DR 2-7a, is the Company proposing to change depreciation rates? If so, when does WSKY plan to file testimony supporting the proposed new depreciation rates?

RESPONSE: In lieu of the initially proposed composite depreciation rate of 2.0% for its water plant (*see* Application, Exhibit 12), WSCK is proposing to recover expenses for depreciation that is consistent with the 1979 NARUC Study as suggested by Commission Staff or depreciation rates approved by the North Carolina Utilities Commission where no depreciation rates were presented in the 1979 NARUC Study. Support for these expenses is contained in response to Item 9 of the Commission Staff's Third Information Request.

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7. Regarding the work-paper "w/p-r Expense Reports" referenced in response to PSC DR 2-14d, for each "Company" identified please itemize all costs that are included in the total of \$180,442.66.

RESPONSE: Please see the attached file ("AG DR 2-7") that contains multiple tabs including detailed general ledger entries itemizing the costs.

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8. Regarding the response to PSC DR 2-15 and the statement that "WSCK is able to provide a sample of invoices from the general ledgers provided in the attachment", have these invoices been provided?

- a. If yes, please state where these invoices can be found.
- b. If no, please provide the referenced invoices.

RESPONSE: No

- a. N/A
- b. It was the Company's intention for Commission Staff to choose a specific sample from the general ledgers provided in PSC DR 2-15. The general ledgers provided in PSC DR 2-15 contain in excess of 700 invoices entries (Column Label "TY" in each tab lists the type of entry: JE's are Journal Entries, PV's and OV's are Invoices, and JA's are Journal Allocations.) If you would like to receive a sampling of invoices, please identify to WSCK's counsel which sample that you would like to review and the invoices will be provided.

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9. Regarding the response to PSC DR 2-19b, please identify the "...following 4 questions..."

RESPONSE: The four questions Mr. Baryenbruch answered in his review of Project Phoenix are as follows:

1. What was Project Phoenix's scope and was it in line with IT systems projects implemented by other utility companies?
2. Was Project Phoenix necessary?
3. What benefits do WSCK customers receive from Project Phoenix?
4. Are the costs of Project Phoenix appropriate?

These questions are also listed on page three of Mr. Baryenbruch's testimony, which was attached as Exhibit 5 of the WSCK's Application.

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10. Regarding the re-designed customer bills identified in the response to PSC DR 2-20d, provide examples of the old and new customer billing formats.

RESPONSE: Please see the following examples of bills pre- and post- Customer Care & Billing (CC&B).

WITNESS: Lowell Yap

ALAFAYA UTILITIES INC  
PO BOX 160609  
ALTAMONTE SPG FL 32716-0609



Acct # [REDACTED]  
Due Date 01/06/08 Amount Paid  
Please Pay CREDIT BALANCE \$



ALAFAYA UTILITIES INC  
PO BOX 160609  
ALTAMONTE SPG FL 32716-0609

Service Address Telephone # \_\_\_\_\_ Current # : (407) 706-0221

To insure proper credit, return this portion. Please do not staple, clip, or tape.

\*\*\*\* PLEASE VISIT OUR WEBSITE AT www.uiwater.com \*\*\*\*

Remittance Address:  
ALAFAYA UTILITIES INC  
PO BOX 160609  
ALTAMONTE SPG FL 32716-0609

For Service or Billing Inquiries Call:  
407-869-1919  
To Pay By Credit or Debit Card, Call 1-877-527-7852.  
A Convenience Fee Will Be Charged.

Account Information

Description of Charges

Account # [REDACTED]  
Service Addr. [REDACTED]  
Bill Date 12/17/07 Due Date 01/06/08  
Prior Read 11/16/07 1600  
Current Read 12/03/07 1780  
Usage FINAL BILL 180  
# of days this period 17  
Average daily usage 11  
Average daily water cost \$0.00  
Average daily sewer cost \$1.26  
Last Payment

PRIOR BALANCE \$32.45  
SEWER \$12.80  
6% CITY FRANCHISE TAX \$1.29  
REUSE WATER-FLAT FEE \$8.69  
APPLY DEPOSIT \$-45.00  
DEPOSIT INTEREST \$-2.57  
CUSTOMER REFUND (GAL ADJ=0) \$24.79  
PAYMENT \$-7.66  
PAYMENT \$-32.45

THIS BILL IS DUE UPON RECEIPT. PAYMENT IS REQUIRED BY THE DUE DATE.

CREDIT BALANCE DO NOT PAY \$-7.66

\*\*\*\*\* IMPORTANT - THIS IS AN ADJUSTED BILL. \*\*\*\*\*

\*\*\*\*\* THE ADJUSTED AMOUNT MAY REFLECT A CREDIT OR AN AMOUNT DUE. \*\*\*\*\*

\*\*\* PLEASE REMIT THE "PLEASE PAY" AMOUNT BY THE DUE DATE. \*\*\*

\*\*\*\*\* IF YOUR ACCOUNT HAS BEEN ADJUSTED TO CORRECT A READ, \*\*\*\*\*  
\*\*\*\*\* THE UPDATED READ WILL BE USED TO CALCULATE YOUR NEXT BILL. \*\*\*\*\*

\*\*\*\*\*



Water Service Corp of Kentucky  
 Phone: (800) 272-1919  
 Collections: (800) 272-1919  
 Customer Service: (800) 272-1919  
 www.uiwater.com

<b>Bill Date</b>	<b>Account Number</b>	<b>Due Date</b>	<b>Please Pay:</b>
12/18/2013	[REDACTED]	1/13/2014	\$111.86

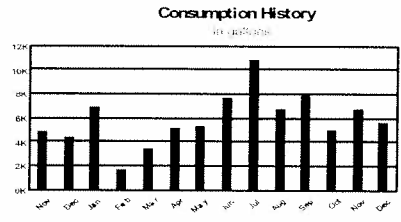
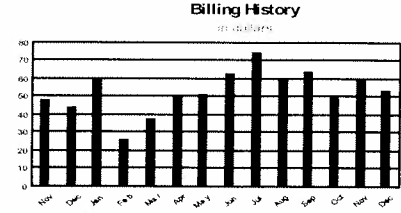
Name [REDACTED] Primary Telephone # [REDACTED]  
 Service Address [REDACTED]

**Activity Since Last Bill**

Previous Balance	\$58.93
Payments received as of 12/18/2013	\$0.00
Balance as of 12/18/2013	\$58.93
<b>Residential Water Service</b>	
Residential Minimum Usage Charge	\$8.96
Next 4,600 gallons at \$3.61 per 1,000 gallons	\$16.61
City School Tax at 3%	\$0.77
Total Residential Water Service	\$26.34
<b>City of Middlesboro Sewer and Sanitation</b>	
Sewer Usage Charge @ \$3.23 per 1,000 gallons	\$18.09
Garbage Service	\$8.50
Total City of Middlesboro Sewer and Sanitation	\$26.59
<b>Total Amount Due</b>	<b>\$111.86</b>

**Summary of Service**

<b>Meter Reading</b>	<b>Meter #</b>	35820421
Current	387900	12/16/2013
Previous	382300	11/15/2013
Usage	5,600 Gallons	
Number of Days:	31	
Average Daily Use:	181 Gallons	
Average Daily Cost:	\$1.71	



The payment for this bill is due upon receipt.  
 Rate Schedules are available upon request. Make check payable to: Water Service Corp of Kentucky

**Messages**  
 Our records indicate the prior balance remains unpaid and your account may be subject to disconnection. Please note the due date on this bill refers to the current bill amount and does not extend the time allowed for payment of the prior balance.

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**Utilities, Inc.**  
 PO BOX 160609  
 Altamonte Springs, FL 32716



Account Number: [REDACTED] Amount Paid:   
 Due Date: 1/13/2014  
 Please Pay: \$111.86



Water Service Corp of Kentucky  
 PO Box 11025  
 Lewiston ME 04243-9476

Address correction requested on back

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11. Regarding the Project Phoenix cost per customer identified in the response to PSC DR 2-21, please provide the following:

- a. Identify all of the component systems of Project Phoenix,
- b. For each component, please provide the total cost per component,
- c. For each component, please provide the cost per customer per component.

Please include all workpapers with cells intact and supporting calculations with your response.

**RESPONSE:**

- a. Project Phoenix involved the implementation of the following two major application systems that support the indicated business processes. Project Phoenix also involved the development of reporting capabilities associated with data maintained in these systems.
  1. Oracle JD Edwards EnterpriseOne (JDE) – general ledger, budgeting and forecasting, requisitioning, accounts payable, fixed assets, repairs and maintenance, capital projects, accounts receivable and human resources
  2. Oracle Utilities Customer Care and Billing System (CC&B) – customer service, service orders, meter reading, compliance and operations
- b. The total cost of Project Phoenix was \$21,122,468. The cost for each major application system is shown below.
  1. Oracle JD Edwards EnterpriseOne (JDE) – \$13,995,789
  2. Oracle Utilities Customer Care and Billing System (CC&B) – \$7,126,679
- c. The total cost of Project Phoenix per WSCK customer is \$79.62. The cost per customer for each major application system is shown below.
  1. Oracle JD Edwards EnterpriseOne (JDE) – \$52.76
  2. Oracle Utilities Customer Care and Billing System (CC&B) – \$26.86

WSCK is proposing the recovery of Project Phoenix costs over the course of 8 years. That equates to a monthly cost per WSCK customer of \$0.83.

Calculations of these per customer costs are included in the attached spreadsheet.

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12. Regarding the response to AG 1-3, please:
- a. Clarify that Pineville Utility Commission is the only wholesale customer WSCCK has had in the past five years.
  - b. Confirm that the January and February 2012 sales to Pineville Utility Commission were the only wholesale sales made by the Company over the past five years.

RESPONSE:

- a. Yes, this is true.
- b. Yes, this is true.

WITNESS: Lowell Yap

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13. Regarding the response to AG 1-12, please quantify the total amount of the revenue requirement included in the Company's claim for Project Phoenix, and itemize the components included in the revenue requirement associated with the project (e.g. quantify separately amounts for depreciation, return, operating costs, etc.). Please do not reference another response but instead provide the information requested.

RESPONSE: Please see the attached file ("AG DR 2-13") containing Project Phoenix related items taken from Exhibit 4, Schedule B of the application for gross plant in service, accumulated depreciation, and depreciation expense. The only operating expense related to Project Phoenix claimed is \$76,685 of depreciation expense. The Company's calculation of revenue requirement uses an operating margin of 88%.

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14. Regarding the response to AG 1-23, please explain why there are no meeting minutes for “meetings where discussion and approval of the application to seek a rate increase” was discussed.

- a. If there were no meetings held, please:
  - i. Explain why the board of directors did not meet to discuss and approve the application to seek a rate increase; and
  - ii. Describe the process by which the decision was made to seek a rate increase.
- b. If the board of directors met to discuss approval of the application to seek a rate increase but no meeting minutes were kept, please explain why.

RESPONSE:

- a. i. The Company’s rate application filing process does not include the approval by the Board of Directors.
- a.ii. The Company’s regulatory personnel performs analyses on a regular basis to verify that the Company is operating at the appropriate income level so that it can satisfy the needs of its customers by delivering clean water and reliable service at the lowest reasonable cost. Once it is determined that the Company requires rate relief, the executive team approves the filing of the rate application.
- b. N/A

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15. Regarding the response to AG 1-33, please categorize the customer complaints that were received in Middlesboro and Clinton.

RESPONSE:

**Middlesboro**

7 customer complaints were from dirty water, from a main on Alpine Road that was replaced in 2012.

2 customer complaints were from concerns related to the smell of chlorine in water.

**Clinton**

2 customer complaints related to water line breaks.

1 customer complaint related to discolored water.

1 customer complaint related to a storm drain that was unrelated to the water system.

1 customer complaint related to water pressure.

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16. Responses to AG 1-40 and AG 1-41 state “Neither Utilities, Inc., nor any other affiliated entity charges costs directly to WSCK.” Please reconcile this statement with the direct charges of individuals providing rate case services to WSCK listed in Workpaper D of the response to PSC DR 1-3.

RESPONSE: The question for AG 1-40 specifically addressed “. . . costs charged to WSCK by the Service Company . . .” The Service Company does not charge costs “directly” to any operating subsidiary. It allocates these costs. In the example regarding capitalized time related to the rate case, these individuals “directly” and appropriately book their time to a capital or deferred asset related to a specific company.

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17. Regarding the response to AG DR 1-43, please break out the amounts paid in 2012 W2 Wages into the components of base salary, bonus, overtime, and other.

RESPONSE: The information be requested is contained in file "AG DR 2-17" and additional documents filed contemporaneously herewith in conjunction with a petition for confidentiality.

WITNESS: Lowell Yap

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18. Regarding the response to AG 1-46, please explain how the percentages shown in the table were determined. Please include all workpapers with cells intact and supporting calculations with your response.

RESPONSE: Allocations are based on the number of ERCs in each system. Please see the attached file ("AG DR 2-18") that calculates the percentages for each WSKY operator.

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19. Regarding the response to AG 1-51, was the information provided in this response the authorized number of employees or the actual number of employees? Please update to reflect both actual and authorized employees, as originally requested.

RESPONSE: AG 1-51 was actual number of employees. Please see the attached file ("AG DR 2-19"). which is updated to reflect the actual and authorized employees.

WITNESS: Lowell Yap

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20. Regarding the response to AG 1-56, if incentive compensation was not included in the Company's revenue requirement claim, then please explain where and how these costs have been removed. Please include all workpapers with cells intact and supporting calculations with your response.

RESPONSE: There were no costs related to incentive compensation included in the Company's test year. WSCK cannot demonstrate how incentive compensation was removed, as requested by the Office of the Attorney General, because incentive compensation was never included in the allocated expenses sought to be recovered in the Application of this rate case.

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21. The response to AG 1-70 referenced "... the following files that describe changes in benefits for all full time employees from 2011-2014." However, it does not appear that such files were provided. Please provide the referenced files.

RESPONSE: The employee benefit plan packets, which contain a discussion of changes for each year, were contained on pages 97-149 of the file "WSCK Response to AG DR1" that was filed on December 13, 2013. These documents were not uploaded as separate files.

WITNESS: Lowell Yap

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22. Please reconcile test year uncollectibles of \$37,553 shown in Exhibit 4, Schedule B with the response to AG 1-74 that shows 2012 write-offs of \$73,995.

RESPONSE: The difference between the uncollectibles test year amount of \$37,353 and the response to AG 1-74 amount of \$73,995 is \$36,442. This difference includes an accrual amount of \$5,869, agency expense of \$628 and the remaining amount is related to offsetting entries for bad debts expense related to third-party sewer billings. The response to AG 1-74 should have been \$42,595 [ $\$42,595 - \$5,869 + \$628 = \$37,353$ ] instead of \$73,995.

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23. Regarding the response to AG 1-99, please:
- a. Confirm that pro forma revenue is based on actual test year meter counts;
  - b. If pro forma revenue is based on actual test year meter counts, then please state if it reflects average or end of test year meters;
  - c. If pro forma revenue is not based on actual test year meter counts, then please describe how the billing units were determined,
  - d. State if consumption (usage) revenue reflects total actual test year consumption, test year consumption per customer, or some other consumption estimate.

**RESPONSE:**

- a. Pro forma revenue is based on the actual number of billing units or “active meter counts” that were billed.
- b. Pro forma revenue is based on the actual number of bills sent to customers during the test year and is not an average.
- c. N/A
- d. Usage revenue is based on an analysis performed on test year consumption. Due to the nature of the tiered rate structure, this consumption analysis was necessary to determine the proper consumption amounts related to each tier for each meter class and size. This analysis was provided in AG DR 1-99 for Middlesboro and Clinton.

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24. Regarding the "AG DR 1-108 Amortization Schedule" identified in the Company's response to AG 1-108, please:

- a. Provide a brief description for each item that is being amortized, and
- b. Confirm that the "Depreciation Expense" shown on this file is the amortization expense being requested in this case. Note that this question refers only to amortizations associated with the costs on the referenced attachment and is not seeking information about the depreciation of plant assets.

RESPONSE:

- a. Please see the attached schedule ("AG DR 2-24"). from AG DR 1-108 with account descriptions listed in column F.
- b. The "Depreciation Expense" shown in this file is the amortization expense being requested in this case

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25. The Company's response to AG 1-105b references the response provided to AG DR 1-102. AG DR 1-102 references the Company's response to Staff's Initial Request for Information, Item 25. However, the response to Staff 1-25 does not show the amount of any payment made by WSCK to the parent company or other entity relating to the tax sharing agreement over the past five years, as requested in AG 1-105b. Please provide the information requested in AG 1-105b.

RESPONSE: There are no payments made to the parent company. A federal income tax provision is calculated annually for each operating subsidiary. Please see the SE-3 schedule provided in AG DR 2-1 for the calculation of the federal tax provision for WSCK.

WITNESS: Lowell Yap