

Case No. 2013-00237

Exhibit 5

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

Application of Water Service Corporation)
of Kentucky for a General Adjustment)
in Existing Rates)

Case No. 2013-00237

DIRECT TESTIMONY OF PATRICK L. BARYENBRUCH

Q. Please state your name and business address.

A. Patrick L. Baryenbruch, 2832 Claremont Road, Raleigh, North Carolina 27608.

Q. Please describe your educational and professional background.

A. I received a Bachelor of Arts degree in accounting from the University of Wisconsin-Oshkosh in 1974 and a Master in Business Administration degree from the University of Michigan in 1979.

I am a certified public accountant and am a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants.

I began my career as a senior accountant with Arthur Andersen & Company, where I performed financial audits of utilities, banks and finance companies. After three years I left to pursue an M.B.A. degree. Upon graduation from business school, I worked with the consulting firms of Theodore Barry & Associates and Scott, Madden & Associates.

During my consulting career, I have performed consulting assignments for approximately 50 utilities and 10 public service commissions. I have participated as project manager, lead or staff consultant for 24 commission-ordered management and prudence audits of public utilities.

Q. What are your duties and responsibilities in your current position?

A. I am the President of my own consulting practice, Baryenbruch & Company, LLC, which was established in 1985. In that capacity, I provide financial and management and consulting services to utilities and their regulators.

Q. What experience do you have with information technology (IT)?

A. For the past 20 years, much of my consulting practice has been focused on helping my utility clients improve the management of their IT organizations. My practice areas cover the following aspects of managing an IT function:

1. IT Governance – strategic planning, business unit alignment, evaluation and selection of IT projects, risk identification and management, customer relationship management, performance metrics and balanced scorecard and benchmarking
2. IT Business Management – budgeting, cost control, cost recovery and business process improvement
3. IT Project Management – establishment of project management office (PMO), development and implementation of project management methodology and management of major IT projects

Since 2006, I have been a member of a utility client's management team for 15 major IT projects involving a total of over 800,000 hours of work that was performed by hundreds of employee and contract personnel.

For another client, I evaluated the effectiveness of its process for identifying, evaluating and selecting IT projects that provide the greatest benefit. I also assessed project management practices and the systems development methodology applied during the implementation of several of this client's major IT projects.

Q. Please describe the reason for your testimony in this case.

A. I am presenting my assessment of the Phoenix Project, which was undertaken by Utilities, Inc., (UI) for the benefit of its operating utilities, including Water Service Corporation of Kentucky (WSCK). This study was undertaken in conjunction with

WCK's rate case for the test year ending December 31, 2012 and is true to the best of my knowledge and belief.

Q. What were the objectives of your assessment?

A. I undertook to answer the following questions concerning Project Phoenix:

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 WCK customers receive from Project Phoenix?
4. Are the costs of Project Phoenix appropriate?

Q. What was Project Phoenix's scope?

A. Project Phoenix involved the implementation of new financial and customer systems, including the installation of IT hardware and software necessary to run these systems and establish network connections to IU locations, and changes to financial and customer service processes aligned with the new systems. The project was comprehensive in terms of the number of functions affected. The project's planning and analysis work began in 2006. The financial system went live on December 3, 2007 and the customer system went live on June 2, 2008.

Q. Was Project Phoenix necessary?

A. Yes. The condition of UI's old financial and customer systems presented serious operability and reliability risks. The customer system had been custom developed and the financial system was being run unsupported by its vendor. All of my utility clients chose vendor-developed and supported applications for their critical financial and customer processes. They also perform regular vendor upgrades to ensure their

applications remain under warranty and that vendor support is available when needed. These are best practices that help utilities maintain the quality of service to their customers.

Beyond the operational risk associated with the old applications, UI faced internal control issues due to fragmented, non-standardized and manually intensive processes. Spreadsheets were heavily used to maintain such key information as fixed assets, depreciation, time entry and allocations. The fragmentation of data made it a challenge to produce accurate financial, operational and regulatory reports on a timely basis. The new applications of Project Phoenix remediated many of these issues because critical information is centrally maintained and more easily accessible by UI personnel. Also, controls are incorporated into each system's automated financial and customer processes which can be performed more efficiently than in the past.

I believe UI definitely made the right decision to undertake Project Phoenix.

Q. Do other utilities use systems similar to those selected and implemented in connection with Project Phoenix?

A. Yes. The new financial system UI chose is Oracle JD Edwards EnterpriseOne (JDE) and until last year was used by American Water Company. The new customer system is Oracle Utilities Customer Care and Billing System (CC&B), a version of which is used by Duke Energy for its wholesale and joint owner billings. Oracle is one of the world's largest software vendors and a leading supplier to the utility industry. You will find over 100 applications in the utility solutions section of its website (<http://www.oracle.com/us/industries/utilities/solutions/index.html>).

Q. What benefits do Project Phoenix's improvements provide to WSCK customers?

A. WSCK's customers benefit directly and indirectly from Project Phoenix. Direct benefits experienced by customers include the following:

- Reduction in time to handle customer inquiries
- Increased availability of information
- More payment options, including electronic billing and bill payment via the internet
- Online access to customer information (e.g., payment history)
- Reduction in the number of service order errors
- Easier to read and interpret invoices
- More consistent billing cycles

From an indirect standpoint, WSCK customers benefit from the strengthened business applications that are the foundation for running UI's utility business and delivering high quality and consistent service.

Q. Was the cost of Project Phoenix appropriate?

A. Project Phoenix cost approximately \$80 per WSCK customer [$\$21,122,468 / (7,362.4 \text{ WSCK customers} / 265,278.5 \text{ total UI customers})$]. That amount recovered over 8 years is around \$0.83 per customer per month [$\$80 / (8 \text{ years} \times 12 \text{ months})$]. However, it is my understanding that WSCK customers' bills do not reflect the cost of JDE and CC&B and therefore do not reflect the true cost of service. There are no external benchmarks available against which to compare these amounts. However, I believe the direct and indirect benefits customers receive from Project Phoenix's new systems and processes are definitely worth \$0.83 per month per customer.

I have reviewed the project management practices and development methodology that UI employed during the course of the project and found them to be well executed. The project started off with a sufficient amount of time for planning and identifying requirements. That was followed by a thorough evaluation and selection of vendors. The design, build and testing work was performed in an appropriate manner. Important governance practices were applied to the Phoenix Project including a Management Steering Committee made up of members of UI's senior management team, regular status reporting, and an issues identification, tracking and resolution process.

Q. Does this complete your testimony?

A. Yes.

AFFIDAVIT

The undersigned, Patrick L. Baryenbruch, being duly sworn, deposes and says that he the President of Baryenbruch & Company, LLC, and is authorized to submit this testimony on behalf of Water Service Corporation of Kentucky, and that the information contained in the testimony is true and accurate to the best of his knowledge, information and belief, after reasonable inquiry, and as to those matters that are based on information provided to him, he believes to be true and correct.

Patrick Baryenbruch

Patrick L. Baryenbruch, Affiant

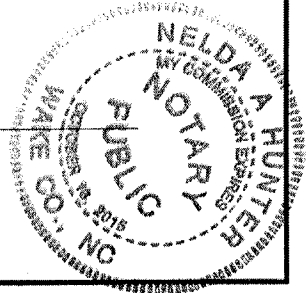
NOTARY CERTIFICATE

STATE OF NORTH CAROLINA

COUNTY OF Wake

Subscribed, acknowledged and sworn to before me by Patrick L. Baryenbruch on
this 27th day of September, 2013.

My commission expires: 10-10-2015
Nelda A Hunter
NOTARY PUBLIC



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

Application of Water Service Corporation)
of Kentucky for a General Adjustment)
in Existing Rates)

Case No. 2013-00237

DIRECT TESTIMONY OF LOWELL YAP

**DIRECT TESTIMONY OF
LOWELL YAP
ON BEHALF OF WATER SERVICE CORPORATION OF KENTUCKY**

1 **Q. Please state your name, occupation and business address for the record.**

2 A. My name is Lowell Yap. I am employed as a Regulatory Accountant at
3 Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062.

4 **Q. Please summarize your professional background?**

5 A. I have been employed by Utilities, Inc. ("UI") since June of 2006. Since that time I have
6 been involved in several phases of rate-making in many regulatory jurisdictions. I
7 graduated from DePaul University in 2004. I have successfully completed the utility
8 regulation seminar sponsored by NARUC.

9 **Q. Please explain your job responsibilities at UI.**

10 A. My responsibilities include financial analysis of individual subsidiaries of UI, preparation
11 of rate applications, facilitation of regulatory audits, and the submission of testimony and
12 exhibits to support rate applications.

13 **Q. Please describe Water Service Corporation of Kentucky.**

14 A. Water Service Corporation of Kentucky ("WSCK") is a wholly owned subsidiary of UI.
15 WSCK was incorporated in 2002 for the purpose of owning and operating water utility
16 systems. Currently, WSCK serves approximately 7,362 customers. These customers are
17 located in Hickman and Bell counties. WSCK maintains an operations office in both
18 Clinton and Middlesboro. Meter readings, are handled by our local offices, and service
19 orders are processed from our three national call centers. Customer payments can either
20 be mailed to our lockbox or paid at the Clinton or Middlesboro city halls. Administrative
21 functions such as management, accounting, data processing, and human resources are
22 performed from the UI office in Northbrook, Illinois.

**DIRECT TESTIMONY OF
LOWELL YAP
ON BEHALF OF WATER SERVICE CORPORATION OF KENTUCKY**

1 **Q. Please describe UI.**

2 A. UI is unique within the water and sewer industry in many respects. From its inception
3 almost 40 years ago UI has concentrated on the purchase, formation and expansion of
4 smaller water and/or sewer utility systems. At the present time, UI has over 70 systems
5 that provide service to approximately 270,000 customers in 15 states. In March, 2002, UI
6 was purchased by Nuon, and in February 2006, Nuon sold its interest in UI to Hydro Star.
7 In December 2012, Hydro Star sold its interest to Corix.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to sponsor WSCK's application for an adjustment of
10 certain rates and charges for the provision of water and sewer services.

11 **Q. Why is WSCK requesting rate relief at this time?**

12 A. Under present rates, WSCK is not able to meet its operating costs and earn a reasonable
13 return on its investment in the WSCK system. The utility's current income statement is
14 shown in Applicant's General Rate Case Application, Exhibit 4, Schedule B. For the test
15 year ended December 31, 2012, WSCK had a 121% operating ratio, which is 33% higher
16 than the 88% ratio generally allowed by the commission. Without satisfactory rate relief,
17 WSCK ability to continue to provide safe, reliable and efficient water and sewer utility
18 services to its customers will be placed in jeopardy, and WSCK will be unable to meet its
19 financial obligations. In addition, capital will become more costly.

20 **Q. What increase in revenues is required to get WSCK to an 88% operating ratio?**

21 A. WSCK would need \$228,789 in additional revenues. This translates into a 10.87%
22 increase to rates.

**DIRECT TESTIMONY OF
LOWELL YAP
ON BEHALF OF WATER SERVICE CORPORATION OF KENTUCKY**

1 **Q. Did WSCK cause a notice of rate increase of its petition to its customers?**

2 A. Yes. WSCK is publishing a notice of rate increase in the local newspapers for three
3 consecutive weeks, pursuant to 807 KAR 5:001, Section 16.

4 **Q. What are WSCK customers currently charged for water utility service?**

5 A. The current charges for WSCK customers have been attached as WSCK's Exhibit 2,
6 Present Rates.

7 **Q. What rates are you proposing?**

8 A. The proposed charges for WSCK customers have been attached as WSCK's Exhibit 2,
9 Proposed Rates.

10 **Q. Were the financial schedules attached to WSCK application for rate relief prepared
11 by you and/or under your direction?**

12 A. Yes, I prepared the schedules attached to the General Rate Case Application.

13 **Q. Are they incorporated herein by reference?**

14 A. Yes.

15 **Q. Please describe these schedules.**

16 A. The General Rate Case Application includes the financial statements for WSCK in
17 Exhibit 4. The subsections are as follows:

18 Schedule A - Balance Sheet

19 Schedule B - Income Statement

20 Schedule C - Rate Base and Rate of Return

21 Schedule D - Test Year / Present Revenues / Proposed Revenues

22 **Q. Please explain how test year expenses were adjusted.**

**DIRECT TESTIMONY OF
LOWELL YAP
ON BEHALF OF WATER SERVICE CORPORATION OF KENTUCKY**

1 A. Pro forma adjustments were made to the test year expenses based on known and
2 measurable changes to actual expenses.

3 **Q. What are the known and measurable pro forma adjustments made to the income**
4 **statement Schedule B?**

5 A. The following adjustments have been made to the income statement:

- 6 • Uncollectible Accounts are adjusted based on the percentage of uncollectible accounts to
7 revenues in the test year applied to pro forma proposed revenues: \$(675) Pro Forma
8 Present adjustment and \$(4,136) Pro Forma Proposed adjustment;
- 9 • Salaries, Wages and Benefits are adjusted to annualize as of the end of the year: \$58,761
10 Maintenance – Salaries and Wages Pro Forma Present adjustment, \$(55,671) General –
11 Salaries and Wages Pro Forma Present adjustment, and \$38,575 General – Pension &
12 Other Benefits Pro Forma Present adjustment;
- 13 • Regulatory Commission Expense has been adjusted to reflect the cost of the current rate
14 case over 3 years: \$(25,903) Pro Forma Present adjustment;
- 15 • Depreciation and Amortization Expense are annualized. Depreciation expense represents
16 gross depreciable plant at the end of the year multiplied by their respective depreciation
17 rates: \$(34,242) Depreciation Pro Forma Present adjustment, \$3,660 Amortization of
18 PAA Pro Forma Present adjustment, and \$(2,312) Amortization of CIAC Pro Forma
19 Present adjustment;
- 20 • Taxes other than Income is adjusted for annualized payroll taxes and Utility Commission
21 Taxes: \$8,297 Pro Forma Present adjustment and \$(169) Pro Forma Proposed
22 Adjustment;

**DIRECT TESTIMONY OF
LOWELL YAP
ON BEHALF OF WATER SERVICE CORPORATION OF KENTUCKY**

- 1 • Income Taxes are computed on taxable income at current rates: \$31,042 Income Taxes –
2 Federal Pro Forma Present adjustment, \$71,853 Income Taxes – Federal Pro Forma
3 Proposed Adjustment, \$(10,683) Income Taxes- State Pro Forma Present adjustment, and
4 \$13,489 Income Taxes – State Pro Forma Proposed adjustment;
- 5 • Interest on debt is computed using a 52.44 % / 47.56% debt/equity ratio and a 6.60% cost
6 of debt: \$(8,312) Pro Forma Present adjustment;
- 7 • Operating expense charged to plant has been adjusted for projected increases in salaries,
8 taxes, and benefits for operators: \$(31,659) Pro Forma Present adjustment; and
- 9 • Expenses for Clinton sewer operations have been reduced to actual expense reductions:
10 \$32,576 Pro Forma Present adjustment.

11 **Q. What are the pro forma adjustments made to the rate base statement (Schedule C)?**

12 A. The following adjustments were made to the rate base statement:

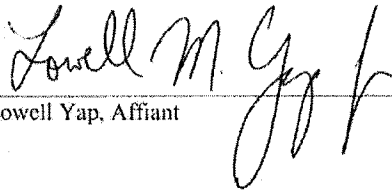
- 13 • Gross plant in service has been restated to account for an asset that was not booked at the
14 time of acquisition;
- 15 • Accumulated depreciation, CIAC, and AIAC have been restated to reflect a 2%
16 depreciation rate from the year they were recorded;
- 17 • Working capital has been calculated based on pro forma expenses; and
- 18 • Transportation equipment has been reduced due to operator time for Clinton sewer
19 operations.

20 **Q. Does this conclude your testimony?**

21 A. Yes it does.

AFFIDAVIT

The undersigned, Lowell Yap, being duly sworn, deposes and says that he is the Regulatory Accountant of Utilities, Inc., that is authorized to submit this testimony on behalf of Water Service Corporation of Kentucky, and that the information contained in the testimony is true and accurate to the best of his knowledge, information and belief, after reasonable inquiry, and as to those matters that are based on information provided to him, he believes to be true and correct.



Lowell Yap, Affiant

NOTARY CERTIFICATE

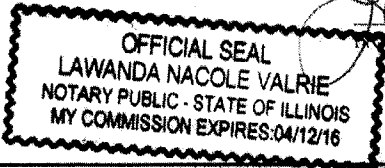
STATE OF ILLINOIS

COUNTY OF COOK

Subscribed, acknowledged and sworn to before me by Lowell M. Yap Jr. on
this 26 day of September, 2013.

My commission expires: 04/12/2016


NOTARY PUBLIC



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

Application of Water Service Corporation)
of Kentucky for a General Adjustment) Case No. 2013-00237
in Existing Rates)

DIRECT TESTIMONY OF BRUCE T. HAAS

Q. PLEASE STATE YOUR NAME, PRESENT POSITION AND BUSINESS ADDRESS.

A. My name is Bruce T. Haas, and I am the Regional Director of Operations for the Midwest Region of Utilities, Inc. ("UI"), which includes Illinois, Indiana, Kentucky and Tennessee. My business address is 151 Old Wire Rd., West Columbia, South Carolina 29172.

Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?

A. In my current position, I am responsible for making sure our customers receive adequate, efficient, reliable, environmentally safe and least-cost water and wastewater (where applicable) utility service. As such, I am responsible for all operations personnel, facilities, maintenance and capital projects as well as other operational issues. I also review the progress of monthly spending in my region along with the Regional Finance Manager to ensure conformity to projected budgetary goals. In addition, I am responsible for communications with state and federal regulators, including state utility commissions, public staffs in the states that have them, and environmental authorities.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.

A. I first began my employment as a meter reader and maintenance worker in 1978 for Lake Holiday Utilities Corp., a subsidiary of Lake Wildwood Utilities Corporation's parent, Utilities, Inc. ("UI"). During the next several years, I was promoted to Operator and Operating Manager positions for a number of Utilities, Inc. subsidiary systems, while earning various water and wastewater licenses in Illinois and Ohio, including the highest levels of water treatment and wastewater treatment licenses from the Illinois EPA. I eventually became the Area Manager for the Peoria, Illinois region, overseeing the water and wastewater facilities in this area. In 1989, I relocated to Charlotte, North Carolina

taking on the position of Area Manager for several areas for Carolina Water Service, Inc. of North Carolina, a sister subsidiary under UI, along with the operations of two large UI-subsubsidiary systems located in York County, South Carolina. While in Charlotte, I was promoted to Regional Manager, during which time I also obtained various water and wastewater licenses in Water Treatment, Water Distribution, Wastewater Collection, and Backflow/Cross-Connection certifications from the State of North Carolina while taking night courses towards a degree in Civil Engineering Technology. I also earned the highest levels of water and wastewater certifications for Water Treatment, Water Distribution, Wastewater Treatment and Wastewater Collection from the State of South Carolina. Additionally, I have successfully completed the utility regulation seminar sponsored by NARUC. In 2002, I was promoted to my current position of Regional Director and given responsibility for the Company's systems in South Carolina and Georgia. Following a reorganization of various Regions within UI in mid-2010, I accepted the position as Regional Director for the Midwest Region. I most recently attended and completed in December, 2012 the North Carolina Rural Water Association "Utility Management Certification School".

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE KENTUCKY COMMISSION ("COMMISSION")?

A. Yes, I testified in WSCK's last rate case, Case No. 2010-00476.

Q. HAVE YOU TESTIFIED BEFORE ANY OTHER PUBLIC UTILITY COMMISSIONS?

A. Yes. I have testified before the commissions in North Carolina, South Carolina, Illinois and Indiana during my tenure with UI.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to provide the Commission with a brief overview of our Kentucky operations, along with support for WSCK's request to adjust water rates.

Q. PLEASE GENERALLY DESCRIBE WSCK'S SERVICE TERRITORY AND WATER SYSTEM.

A. WSCK provides water service to approximately 7,362 customers in two locations within the state. We deliver safe and reliable water service to our customers' homes and businesses by way of drilled wells in our Clinton operations, and by way of surface treatment facility in our Middlesboro operations.

Q. PLEASE DESCRIBE THE DUTIES OF THE STAFF AT WSCK.

A. Staff collects and tests water samples at the point of entry and distribution system on a daily basis. The staff also completes daily operations, equipment repairs and maintenance of assets. They are responsible for submitting complete and accurate monthly reports to the Kentucky Department of Environmental Protection ("KDEP") and maintain compliance with all KDEP, local, state, and federal regulations. Our operations staff maintains the distribution system, purchase and safely store and identify necessary chemicals, and complete field activities as well as respond to customer inquiries. The staff is also responsible for reading water meters on a monthly basis.

Q. DOES WSCK CURRENTLY HAVE ANY ISSUES REGARDING ITS WATER QUALITY?

A. No. The water at WSCK is compliant with all KDEP, Local, State and Federal standards for safe drinking water and WSCK staff is dedicated to providing its customers with safe and reliable drinking water. WSCK has recently been recognized and will receive this

year's "2013 Award of Excellence for Water Treatment Plant Operation" for our Middlesboro, Kentucky, surface water treatment facility from the Kentucky/Tennessee Section of the American Water Works Association.

Q. PLEASE SUMMARIZE ANY CUSTOMER COMPLAINTS RECEIVED WITHIN THE LAST 18 MONTHS.

A. During the last 18 months, WSCK has received 17 water quality complaints. 7 of these complaints came from Alpine road area, due to aging cast iron water mains. The other 10 were general taste and order complaints, in which no problems were found. All WSCK water quality complaints are responded to immediately.

Q. OF THE WATER QUALITY COMPLAINTS FROM ALPINE ROAD AREA, WHAT WAS DONE TO RECTIFY THIS SITUATION?

A. In 2012, a Capital Project was initiated for the replacement of approx. 1,000 feet of the aging 4" cast iron water mains and replacing/upgrading with 6" PVC water mains in the Alpine Road area. This project was completed on August 15, 2012. Since that time, follow-up with the customers have yielded no additional complaints and no further water quality complaints have been received from this area.

Q. OF THE OTHER WATER QUALITY COMPLAINTS, WHAT WAS DONE TO RECTIFY THESE SITUATIONS?

A. Each of the identified was responded to immediately. Once the call was received, staff immediately initiated contact with the customer. Staff either visited the site, or scheduled a meeting on site. During on-site visits, water samples were collected and analysis was conducted on each sample. In each instance, all water quality parameters were within applicable guidelines and no objectionable tastes or odors were noted. Approximately

seven of the complaints were not geographically related, and several of these problems were immediately identified as not being from water, but attributable to other outside sources. In all instances, water treatment plant personnel tested the source water to see what additional steps could be taken, and no water quality issues were observed. However, during this time of year, water turnover in the surface water reservoir (Fern Lake) is usually attributed to potential taste and odor complaints. Adjustments would be made to the chemical treatment process, including the adjustment or increase in dosages of powdered activated carbon, which is continually monitored.

The remaining three complaints were related to dirty water complaints. These occurred immediately prior to the week of scheduled bi-annual system flushing and all occurred in the same geographic location. It was determined that this area will be monitored and more frequent flushing may occur in the future.

Q. PLEASE EXPLAIN HOW YOUR JOB RESPONSIBILITIES RELATE TO THE MONTHLY REVIEW OF ALLOCATED COSTS AND THE BUDGETING PROCESS.

A. As previously mentioned, I review the progress of monthly spending in my region along with the Regional Finance Manager to ensure conformity to projected budgetary goals.

Q. DOES THIS CONCLUDE YOUR PREPARED DIRECT TESTIMONY?

A. Yes, it does.

AFFIDAVIT

The undersigned, Bruce T. Haas, being duly sworn, deposes and says that he is the Regional Director of Operations for the Midwest Region of Utilities, Inc., that is authorized to submit this testimony on behalf of Water Service Corporation of Kentucky, and that the information contained in the testimony is true and accurate to the best of his knowledge, information and belief, after reasonable inquiry, and as to those matters that are based on information provided to him, he believes to be true and correct.

Bruce T. Haas

Bruce T. Haas, Affiant

NOTARY CERTIFICATE

STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

Subscribed, acknowledged and sworn to before me by Bruce T. Haas on
this 15 day of July, 2013.

My commission expires: October 23, 2015
Martin J. Lashua

NOTARY PUBLIC



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

Application of Water Service Corporation)
of Kentucky for a General Adjustment) Case No. 2013-00237
in Existing Rates)

DIRECT TESTIMONY OF HELEN LUPTON

Q. Please state your name, present position and business address.

A. My name is Helen Lupton, and I am the Regional Finance Manager for the Atlantic and Midwest Regions of Utilities, Inc. ("UI"), which includes North Carolina, Maryland, Pennsylvania, New Jersey, Virginia, Illinois, Indiana, Kentucky and Tennessee. My business address is 5701 Westpark Drive, Suite 101, Charlotte, NC 28217.

Q. What are the duties of your current position.

A. In my current position, I report directly to the Regional Vice President and indirectly to the Financial Planning & Analysis Manager based in Northbrook, Illinois. I provide analytical, financial and business support to the Regional Vice President and Regional Directors and work closely with all levels of Regional and Corporate staff. I direct the annual regional financial budgeting process, including an array of excel-based statistical and financial reports, which are used internally and for distribution to the Corporate office. I review the progress of monthly spending to ensure conformity to projected budgetary goals, including the investigation of any variances and communicating results across many levels of management. I coordinate the annual regional capital project planning efforts and any subsequent reforecasts. I also assist on an ad hoc basis, with any miscellaneous initiatives assigned to the region, including data requests for rate cases, cost-benefits analyses of various proposals and projects, etc.

Q. Please describe your professional background.

A. I have been employed by UI as a Regional Finance Manager since May 2010. I graduated with a BS from the University of Warwick, England in 1995 and immediately commenced work as an auditor for Deloitte & Touche in Manchester England. I qualified as a Chartered Accountant (equivalent to Certified Public Accountant) in 1998

and have been a member in good standing of the Institute of Chartered Accountants in England and Wales since that time. In 1999 I took advantage of an opportunity to transfer to the Tampa, Florida office of Deloitte. In 2001 I was hired by a client, Taylor Woodrow (now Taylor Morrison) as Controller for Financial Reporting. Within this company I held various positions moving into a lead finance role as a Senior Business Systems Analyst within their IT Department. Immediately prior to my position with UI, I spent 18 months working as a Budget and Control Supervisor for a non-profit organization in Charlotte, North Carolina. In November 2012 I attended the National Association of Regulatory Utility Commissioners (NARUC) Utility Rate School. In July 2013 I attended the North Carolina Biological Wastewater Treatment Plant Operators Grade 1 School, and have applied to take the certification test in September 2013.

Q. Have you testified previously before the Public Service Commission of Kentucky?

A. No.

Q. Have you testified before any other public utility commissions?

A. No.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide the Commission with information to support Water Service Corporation of Kentucky's ("WSCK") request to adjust water rates with a focus on the expenses that are allocated from Water Service Corporation ("WSC").

Q. What costs are allocated to WSCK and where do they originate?

A. Costs allocated to WSCK are from UI's shared services organization, WSC.

Q. Please describe WSC and the type of services it provides to WSCK.

A. WSC is a wholly owned subsidiary of UI. WSC manages the operation of all of UI's water and wastewater systems, including WSCK. WSC provides management, administration, engineering, accounting, billing, customer relations, data processing, and regulatory services for its subsidiaries. WSC's expenses and rate base items are assigned directly to a utility, when applicable, or distributed to the various companies pursuant to a formula. The formula is the number of Equivalent Residential Connections ("ERCs") for the specific subsidiary divided by the total number of ERC's served by WSC. Expenses specific to the Atlantic and Midwest RVP, and Midwest Regional, and state cost centers are allocated to WSCK using the same methodology. The distribution of expenses and rate base is automatically calculated by WSC's accounting information system (JDE) on a monthly basis.

Q. How does WSCK and WSC account for these transactions, and does WSC charge a fee for these services?

A. These allocated costs are accounted for via intercompany transactions, and services provided by WSC to WSCK do not include any markup for profit.

Q. Are the services that WSC provides to WSCK directly related to providing water service?

A. Yes. For example, WSC provides accounts payable ("AP") and accounts receivable ("AR") services to WSCK. If the AP function of WSC was not providing services to WSCK, the vendors that provide critical services (e.g., purchased power and chemicals) would not be paid for their services, and would be unwilling and/or unable to provide service. Without their services WSCK would be unable to provide water service to its customers.

Q. How do the services that WSC provides benefit the ratepayers of WSCK?

A. There are many benefits, but primarily all of WSCK's operators are employed by WSC and without these operators WSCK would not be able to function. In addition, the customer service function that WSC provides to WSCK is used directly by WSCK's customers.

Q. How do WSCK customers use the customer service function that WSC provides?

A. WSCK customers call WSC customer service representatives to inquire about their bills, payment options, consumption questions and other billing related issues.

Q. If WSC did not provide customer service functionality to WSCK, do you know who would provide these services?

A. No, I do not. These services would nevertheless have to be provided in order for WSCK to operate as a water utility. It is my understanding that WSCK would have to obtain these services from third parties, if WSC did not provide them directly.

Q. Do you have any other examples of services that WSC provides that benefit the ratepayers of WSCK?

A. Another example would be the accounting services that WSC provide. Without these accounting services, WSCK would not be able to pay vendors, accept customer payments, pay income taxes, pay property taxes, pay gross receipts taxes, or file an annual report, which are vital to WSCK's operations and its customers.

Q. If WSC did not provide any services to WSCK, how would WSCK continue to operate?

A. If WSC did not provide any services to WSCK, WSCK would be required to obtain and provide management, administration, engineering, accounting, billing, customer

relations, data processing, and regulatory services through its in-house operations or third-party vendors.

Q. Please explain how your job responsibilities relate to the monthly review of allocated costs and the budgeting process.

A. As previously mentioned, I review the progress of monthly spending to ensure conformity to projected budgetary goals, including the investigation of any variances and communicating results across many levels of management.

Q. Have you performed any additional review of expenses specifically related to WSC?

A. Yes. In addition to my normal monthly review of expenses, I specifically reviewed the expenses allocated from WSC incurred during the test year. My examination consisted of a detailed review of the top 50 invoices (largest dollar amount).

Q. Do you believe that the indirect cost allocations from WSCK are reasonable?

A. Yes, I do. These costs are necessary and critical to the overall operation of WSCK, and without these services, WSCK would cease to be a viable utility company.

Q. Have you reviewed the testimony of Gary D. Shambaugh that is being filed in this case?

A. Yes, I have reviewed Mr. Shambaugh's testimony and the underlying factual information provided in the exhibits to his testimony.

Q. Do you agree with Mr. Shambaugh's conclusions?

A. Yes, I agree with Mr. Shambaugh's findings. Mr. Shambaugh has demonstrated the reasonableness of WSC's allocations based on similarly situated water utilities in Kentucky.

In addition, based on my experience in the utility industry, the WSC's allocations to its subsidiaries, and specifically WSCK, are reasonable, and those expenses should be recovered through rates.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

AFFIDAVIT

The undersigned, Helen Lupton, being duly sworn, deposes and says that she is the Regional Finance Manager for the Atlantic and Midwest Regions of Utilities, Inc., that is authorized to submit this testimony on behalf of Water Service Corporation of Kentucky, and that the information contained in the testimony is true and accurate to the best of her knowledge, information and belief, after reasonable inquiry, and as to those matters that are based on information provided to her, she believes to be true and correct.

H. Lupton
Helen Lupton, Affiant

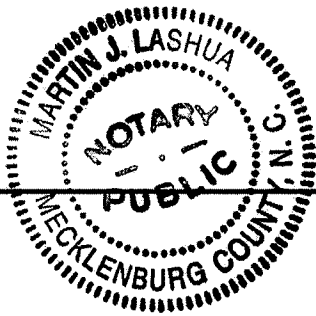
NOTARY CERTIFICATE

STATE OF NORTH CAROLINA

COUNTY OF Mecklenburg

Subscribed, acknowledged and sworn to before me by Helen Lupton on this 27 day of September, 2013.

My commission expires: October 23, 2015
Martin J. Lashua
NOTARY PUBLIC



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

Application of Water Service Corporation)
of Kentucky for a General Adjustment) Case No. 2013-00237
In Existing Rates)

DIRECT TESTIMONY OF GARY D. SHAMBAUGH

Principal & Director
AUS Consultants
275 Grandview Avenue, Suite 100
Camp Hill, PA 17011

**AFFILIATE CHARGES -
ALLOCATION OF CORPORATE COSTS**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS AFFILIATION.**

2 A. My name is Gary D. Shambaugh. I am a Principal and Director of AUS
3 Consultants with offices located in Camp Hill, Pennsylvania; Mt. Laurel, New
4 Jersey; Greenfield, Wisconsin; and Albuquerque, New Mexico. I am also an
5 Executive Vice President of AUS Consultants, Inc. My primary business focus is
6 providing traditional rate making services and valuations to all types of utilities.

7 **Q. PLEASE DESCRIBE THE SERVICES PROVIDED BY AUS**
8 **CONSULTANTS.**

9 A. AUS Consultants provides financial consulting services to the
10 telecommunications, electric power, natural gas transmission and distribution,
11 water steam heat and chilled water, wastewater resource recovery, solid waste
12 disposal, and transportation industries. We also provide independent counsel to
13 governmental and regulatory bodies and numerous industrial clients.

14 Our areas of expertise include economic and financial analysis, business
15 planning, rate of return, cost of service, tariff design, ratemaking accounting, cash
16 working capital, assistance in raising financing, capital recovery and valuation of
17 tangible and intangible assets. AUS Consultants is a nationally and
18 internationally recognized financial consulting firm.

19 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
20 **BACKGROUND.**

21 A. I have an associate in arts degree in accounting from the Harrisburg Area
22 Community College and further studies in cost of service, customer tariff design,
23 and depreciation. I have over 40 years' experience in preparing various financial

1 studies, including rate studies, for electric, gas, water, wastewater, steam heat,
2 chilled water, and telephone utilities. I have provided service to and have testified
3 before regulatory agencies regarding both municipal and investor-owned utilities
4 in many jurisdictions including commonwealth courts, county courts, and federal
5 bankruptcy courts. I have been qualified as an expert and have provided expert
6 testimony relative to utility financial matters in, but not limited to, Connecticut,
7 Florida, Louisiana, Pennsylvania, Massachusetts, Michigan, Mississippi, New
8 Jersey, North Carolina, Rhode Island, South Carolina, Tennessee and West
9 Virginia. I have also provided consulting services to utilities in other states,
10 including, California, Hawaii, Illinois, Indiana, Maryland, New York, New
11 Mexico, Ohio, and Virginia, AUS Consultants is currently under contract to
12 provide advisory services to the Regulatory Commission of Alaska (RCA). I
13 have provided utility financial services to the RCA under that contract. Over the
14 years, I have presented numerous papers relating to utility management for
15 various industry trade associations and the University of Maine's Margaret Chase
16 Smith Center for Public Policy. I also teach the advanced regulatory training in
17 financial planning, strategies and accounting issues for water and wastewater
18 systems for the New Mexico State University's Center for Public Utilities.
19 Additional information relating to my background and experience is contained in
20 Appendix A to this testimony.

21 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KENTUCKY**
22 **PUBLIC SERVICE COMMISSION?**

23 A. No. I have not testified before this Commission.

1 **Q. MR. SHAMBAUGH WHAT IS THE NATURE OF YOUR TESTIMONY IN**
2 **THIS PROCEEDING?**

3 A. Water Service Corporation of Kentucky (the “WSCK”) retained AUS Consultants
4 to perform an independent review of the reasonableness of the direct and indirect
5 expense allocations of salaries, wages and operating costs incurred by Water
6 Service Corporation (the “WSC”) on behalf of the water system.

7 **Q. MR. SHAMBAUGH, HAVE YOU EVER COMPLETED AN AFFILIATE**
8 **CHARGES STUDY WHERE INDIRECT COSTS OF A PARENT**
9 **COMPANY ARE ALLOCATED TO OPERATING SUBSIDIARIES?**

10 A. Yes. The study encompassed a holding company, operating parent company and
11 operating water and sewer systems in six (6) states. The study was incorporated
12 in rate filings on behalf of Total Environmental Solutions, Inc. before regulatory
13 commissions in North Carolina, Pennsylvania, South Carolina, Louisiana and
14 Mississippi. A rate filing was never completed for the water utility located in
15 Tennessee. Total Environmental Solutions Inc. is a wholly owned subsidiary of
16 the South Louisiana Electric Cooperative Association.

17 **ALLOCATION – INDIRECT MANAGEMENT COSTS**

18 **Q. WHAT ARE WSCK CLAIMS FOR INDIRECT COST ALLOCATIONS IN**
19 **THIS PROCEEDING?**

20 The operating costs allocated in this proceeding amounts to \$158,220 of which
21 \$136,880 is related to corporate salaries.

1 **Q. HAS WSC AND WSCK ENTERED INTO AN AGREEMENT FOR THE**
2 **PROVISION OF MANAGEMENT SERVICES?**

3 A. Yes. A copy of the December 19, 2007 agreement is attached to my direct
4 testimony as Exhibit A.

5 **Q. IN GENERAL TERMS, WILL YOU PLEASE PROVIDE AN OVERVIEW**
6 **OF THE AGREEMENT.**

7 A. The agreement provides a basis for management services, by function, to be
8 provided to WSC. The cost of these services, primarily salaries and wages, are
9 allocated monthly to WSC on the basis of the proportion of active Equivalent
10 Residential Customers (ERC's) served by the parent operating company.

11 **Q. IS THIS AN ACCEPTABLE METHODOLOGY TO ALLOCATE PARENT**
12 **COMPANY MANAGEMENT COSTS?**

13 A. Yes. It would be very difficult, if not impossible for corporate executive,
14 management and office personnel to record time sheets. The nature of the
15 employee positions and systems served would require excessive effort and
16 expense to record and maintain the hours for each operating unit of the Company.

17 **Q. MR. SHAMBAUGH, DID YOU REVIEW THE ALLOCATION PROCESS**
18 **AS PERFORMED BY WSC CORPORATE ACCOUNTING STAFF?**

19 A. Yes. I reviewed the cost allocation process and was provided with work papers in
20 support of the allocation methodology.

1 **Q. IN THIS PROCEEDING, WHAT ARE THE FUNCTIONAL CORPORATE**
2 **SALARY AND WAGE CATEGORIES AND THE AMOUNTS BEING**
3 **CLAIMED BY WSCK?**

4 **A.** Exhibit B sets forth the salaries and wages by functional categories of service
5 claimed by WSCK in this proceeding. Total corporate salaries and wages
6 amounted to \$6,054,446 of which \$168,032 or 2.7753% was allocated to WSCK.
7 Of the \$168,032, capitalized salaries and wages amounted to \$31,152 and
8 \$136,880 is being claimed as an operating expense.

9 **Q. WHAT IS THE ANNUAL AND MONTHLY COST PER WSCK**
10 **CUSTOMER FOR THE ALLOCATION OF CORPORATE SALARIES**
11 **AND WAGES?**

12 **A.** Based on 7,362 equivalent residential customers, the average amount of
13 allocation for these services amounts to approximately \$18.60 annually or \$1.55
14 monthly per customer.

15 **Q. DOES WSC RECEIVE ANY PROFIT MARGIN ON THE INDIRECT**
16 **COST ALLOCATIONS TO WSCK?**

17 **A.** No. WSC provides services under the agreement to WSCK at cost.

18 **Q. BASED UPON YOUR EXPERIENCE, DO YOU FIND THE ANNUAL**
19 **(\$18.60) AND MONTHLY (\$1.55) COSTS PER CUSTOMER TO BE**
20 **REASONABLE FOR THE SERVICES PROVIDED?**

21 **A.** Yes. Based on my experience, many of the services listed in Exhibit B could not
22 be provided on a standalone basis for the level of allocated cost to WSCK. In

1 addition, evidence from other similar Kentucky water systems demonstrates that
2 the WSCK allocations for these services are reasonable.

3 **Q. MR. SHAMBAUGH, WILL YOU PLEASE DESCRIBE THE NEXT STEP**
4 **IN YOUR INDEPENDENT REVIEW PROCESS?**

5 **A.** Yes. The comparison of the allocated WSC management costs with other similar
6 sized Kentucky water systems will provide the Commission with a reasonable
7 basis for their review of the services provided and the cost to WSCK customers.

8 However, there are no two (2) water systems with identical operating and
9 financial characteristics. Therefore, I selected twelve (12) Kentucky water
10 systems regulated by the Commission with customer numbers similar to WSCK,
11 ranging from approximately 6,000 to 8,000 customers. Information for these
12 systems was taken from the Commission's website. Those systems, number of
13 customers and their respective 2011 or 2012 annual revenues are contained in
14 Exhibit C. I utilized the most recent annual reports available on the
15 Commission's website at the time I performed this review. No inflation
16 adjustment was made to the 2011 data. Based upon my analysis, I found that
17 WSCK's annual revenues and monthly cost per customer at \$25.41 to be in the
18 low range as compared to the study group.

19 **Q. MR. SHAMBAUGH, DID YOU REVIEW TOTAL SALARIES AND**
20 **WAGES OF THE COMPARABLE GROUP WITH THOSE OF WSCK?**

21 **A.** Yes. My review included the separate analysis of reported total salaries and
22 wages, Officers and Directors salaries and a consolidation of those costs. WSCK
23 annual cost per customer is in the range of \$13 less than the average for the

1 comparable group. The results of this comparison are set forth on Exhibit D,
2 Pages 1 through 3.

3 **Q. DID YOU REVIEW ANY SPECIFIC COMMISSION ORDERS WITH**
4 **RESPECT APPROVED LEVELS OF MANAGEMENT SALARIES AND**
5 **WAGES?**

6 **A.** Yes. It was difficult to find orders that contained the necessary data for a
7 comparable study group due to the filing processes and the resultant data included
8 in the orders. I selected four (4) Commission orders for the following systems:

9 Muhlenberg County Water District
10 Jackson County Water Association
11 Henry County Water District
12 Bullock Pen Water District

13 Exhibit E, Pages 1 through 4 contain the Commission case numbers, test
14 year expenses for management and office staff salaries and wages as approved by
15 commission order. For each water system, the approved office salaries and wages
16 were restated to 2012 levels for inflation.

17 **Q. WHAT ARE THE MONTHLY INFLATION ADJUSTED COSTS FOR**
18 **MANAGEMENT SALARIES AND WAGES TO THE CUSTOMERS FOR**
19 **THOSE SYSTEMS AT 2012?**

20 A.	<u>Monthly Cost</u>
21	
22 Muhlenberg County Water District	\$3.29
23 Jackson County Water Association	2.87
24 Henry County Water District	1.92
25 Bullock Pen Water District	2.06

1 **Q. HOW DO THESE RESULTS COMPARE WITH WSCK'S CLAIM FOR**
2 **INDIRECT ALLOCATED SALARIES AND WAGES IN THIS**
3 **PROCEEDING?**

4 **A.** WSCK's claim in this proceeding amount to \$1.55 per customer per month or at
5 the low end of the range when compared to the inflation adjusted 2012 rates listed
6 above.

7 It is also important to compare the services provided for the fees charged
8 to customers. In the comparable group the salaries and wages included the
9 following, positions and job functions:

- 10 • Clerical,
- 11 • Office Manager,
- 12 • Bookkeeper,
- 13 • Accounting and
- 14 • Commissioner's Salaries.

15 In comparison, WSC provides more in depth services such as information
16 technologies, finance, legal and regulatory support. These services would likely
17 be provided to the comparison group by outside vendors which would increase the
18 annual cost per customer for those systems.

19 **ALLOCATION – DIRECT AND INDIRECT OPERATING COSTS**

20 **Q. DOES WSC ALLOCATE OTHER DIRECT AND INDIRECT COSTS FOR**
21 **SERVICES RENDERED TO WSCK?**

22 **A.** Yes. Operating costs incurred on behalf of WSCK are allocated based upon the
23 proportion of active ERC's served by the parent operating company to those
24 served by WSCK.

1 **Q. IN YOUR OPINION IS THIS METHOD ACCEPTABLE TO ALLOCATE**
2 **DIRECT AND INDIRECT OPERATING COSTS?**

3 **A.** Yes. The cost of the services provided by WSC are lower than the market cost
4 due to the economics of scale and synergies provided by the parent company
5 services available to operating subsidiaries. The cost of the required services on a
6 stand-alone-basis would have a significant and detrimental impact on the
7 customer rates.

8 **Q. WILL YOU GENERALLY DESCRIBE THE CATEGORIES OF**
9 **INDIRECT OPERATING COSTS AS ALLOCATED IN THIS**
10 **PROCEEDING?**

11 **A.** Yes. As an example, those costs would include, but not limited to, the following
12 general categories:

- 13 • Memberships Industry Organizations,
- 14 • Travel and
- 15 • Other Miscellaneous Expenses.

16 A full detailed description of the various expense categories are included
17 in Exhibit A to my testimony.

18 **Q. WHAT IS THE MONTHLY IMPACT TO WSCK CUSTOMER RATES?**

19 **A.** WSCK has claimed \$11,856 as a direct charge of corporate operating costs. In
20 addition, WSCK has claimed \$9,484 as an allocation of indirect corporate
21 operating expenses in this proceeding. The monthly impact to WSCK customers
22 is \$0.24.

1 **Q. MR. SHAMBAUGH, WILL YOU PLEASE EXPLAIN THE DIFFERENCE**
2 **BETWEEN A DIRECT CHARGE OF A CORPORATE OPERATING**
3 **COST AND THE INDIRECT ALLOCATION OF A CORPORATE**
4 **OPERATING EXPENSE?**

5 **A.** Yes. A direct corporate cost would include salary and operating expenses that are
6 attributable to the Operating Company, such as costs incurred for, but not limited
7 to, legal proceedings, industry membership costs, and rate cases. Allocated, or
8 indirect costs would include costs not directly assignable to the Operating
9 Company but do provide a benefit and thus should be allocated based upon the
10 agreement between the parties.

11 **Q. MR. SHAMBAUGH, DO YOU HAVE ANY COMMENTS WITH**
12 **RESPECT TO THE OPERATING COMPANY'S ABILITY TO ACCEPT**
13 **OR REJECT ALLOCATED EXPENSES FROM THE PARENT**
14 **COMPANY?**

15 **A.** Yes. The basis for the operating agreement between the parties is to provide
16 benefits to WSCK at reasonable costs which would be below the costs if obtained
17 on a standalone basis. The agreement allows both parties the ability to terminate
18 the relationship upon ninety day notice. Without this agreement in place for
19 critical financial and managerial services as provided by the parent company, the
20 financial impact would result in significantly higher customer rates for standalone
21 corporate services.

1 The corporate structure currently in place between the parties is a
2 reasonable approach to providing services to WSCK which allows the operating
3 subsidiary the opportunity to receive the cost savings and synergies from this type
4 of management arrangement. The allocation process set forth in the agreement is
5 fairly typical and accepted in the water industry. This cost sharing approach
6 results in customer rates that are fair, just and reasonable as I have demonstrated
7 previously in my direct testimony and exhibits.

8 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE WSC**
9 **ALLOCATION OF DIRECT AND INDIRECT SALARIES, WAGES AND**
10 **OPERATING COSTS?**

11 **A.** Based upon the results of my study and my experience in the utility industry, I
12 find the WSC allocation of direct and indirect salaries, wages and operating costs
13 to be fair, just and reasonable and provides value to the WSCK customers for the
14 services rendered.

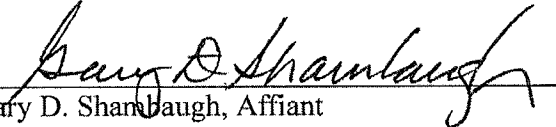
15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

16 **A.** Yes.

17

AFFIDAVIT

The undersigned, Gary D. Shambaugh, being duly sworn, deposes and says that he is a Principal and Director of AUS Consultants and an Executive Vice President of AUS Consultants, Inc., and is authorized to submit this testimony on behalf of Water Service Corporation of Kentucky, and that the information contained in the testimony is true and accurate to the best of his knowledge, information and belief, after reasonable inquiry, and as to those matters that are based on information provided to him, he believes to be true and correct.



Gary D. Shambaugh, Affiant


NOTARY CERTIFICATE

STATE OF PENNSYLVANIA

COUNTY OF Cumberland

Subscribed, acknowledged and sworn to before me by Gary D. Shambaugh on
this 26th day of September, 2013.

My commission expires: October 28, 2013.



NOTARY PUBLIC

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Susan M. Macchia, Notary Public
East Pennsboro Twp., Cumberland County
My Commission Expires Oct. 28, 2013

AGREEMENT

Agreement dated December 19, 2007 between Water Service Corp., a Delaware corporation (hereinafter called the "**Service Company**") and Water Service Corporation of Kentucky (hereinafter called the "**Operating Company**");

WHEREAS, both the Service Company and the Operating Company are subsidiaries of or affiliated with Utilities, Inc., an Illinois corporation (hereinafter called the "**Parent**"); and

WHEREAS, the Service Company maintains an organization which includes among its officers and employees, persons who are familiar with the development, business and property of the Operating Company and are experienced in the conduct, management, financing, construction, accounting and operation of water and sewer properties and are qualified to be of great aid and assistance to the Operating Company through the services to be performed under this Agreement; and

WHEREAS, the Service Company has or proposes to enter into agreements similar to this Agreement with certain affiliated water and/or sewer companies (hereinafter referred to collectively as the "**Operating Companies**"); and

WHEREAS, the services to be rendered under this Agreement are to be rendered at cost and without profit to the Service Company;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto agree as follows:

The Service Company will furnish to the Operating Company, upon the terms and conditions hereinafter set forth, the following services:

- A. EXECUTIVE: The principal executive officers of the Service Company, such as the Chairman of the Board, President and Vice Presidents, and Treasurer will assist and advise the Operating Company in respect to corporate, financial, operating, engineering, organization, regulatory, and other

problems. They will keep themselves informed in regard to the operation, maintenance and financial condition of, and other matters relating to, the Operating Company through contacts with the officers, directors and other representatives of the Operating Company. Such officers of the Service Company will visit the property of the Operating Company when necessary to the proper furnishing of the services provided for in this Agreement. They will also supervise the personnel of the Service Company to the end that services under this Agreement shall be performed efficiently, economically and satisfactorily to the Operating Company.

- B. **ENGINEERING:** The Service Company will supply engineering services as required in all areas of design, construction, operation and management of the Operating Company.
- C. **OPERATING:** The Service Company will furnish competent personnel to perform and/or control all normal operating functions, including pumping, treatment, and distribution as well as maintenance of all equipment and facilities. These responsibilities will include testing and record keeping to insure compliance with all state and local regulatory agency requirements.
- D. **ACCOUNTING:** The Service Company will provide total accounting service, including bookkeeping, payroll, tax determination, financial statement preparation, budgets, credit, P.S.C. annual reports, etc. Periodic analyses will be made for purposes of planning and measurement of efficiency.
- E. **LEGAL:** The Service Company will employ general counsel as necessary to advise and assist it in the performance of the services herein provided for and to aid the operating company in all matters where such assistance may be desired.
- F. **BILLING AND CUSTOMER RELATIONS:** The Service Company will handle all billing and collections. It will serve as the link between the customer and

the Operating Company in all areas such as new accounts, deposits, meter reading, inquiries, and complaints.

G. CONSTRUCTION: The Service Company will perform directly or supervise all construction, including customer connections, meter installations, main extensions, plant expansions, or capital additions of any nature as required by the Operating Company.

H. ALL OTHER SERVICES AS PROVIDED FOR IN APPENDIX A: In addition to items (A) through (G), the Service Company will employ or provide personnel to perform the attached services, or in the instance of assets. Liabilities, and associated non-cash items, has incurred costs associated with providing service to the corporate headquarters, regional areas, or to all operating companies as a whole. The allocated costs from these services will be for costs attributable to all operating companies, costs attributable to the Service Company, or for costs that cannot, without excessive effort and expense, be directly identified and related to services rendered to a particular operating company.

In consideration for the services to be rendered by the Service Company as hereinabove provided, the Operating Company agrees to pay to the Service Company the cost of said services. Said cost shall not include a markup for profit. In addition, the investment in the Service Company rate base, including depreciation, amortization, interest on debt and a return on the equity invested.

All costs of the Service Company, including salaries and other expenses, incurred in connection with services rendered by the Service Company for the Operating Companies which can, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be charged directly to such company. Examples of such costs to be directly allocated include salary and other expenses incurred for specific projects such as rate cases, construction projects, legal proceedings, etc. Similarly, all such costs which may be identified and related to

services rendered to a particular group of the Operating Companies shall be charged directly to such group of the Operating Companies.

All such costs which, because of their nature, cannot, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be allocated among all the Operating Companies, in the manner hereinafter set forth.

First, the allocable costs shall be distributed on a monthly basis, unless the Parent should elect to make a supplementary analysis for a special purpose.

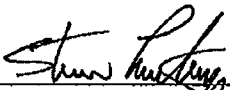
Secondly, these costs will be prorated on the basis of the proportion of active Equivalent Residential Customers ("ERCs") served by the Operating Company to the total number of active ERCs served by the Parent and its affiliates (including, without limitation, the Operating Company), determined as of the end of each month. For purposes of this Agreement, the number of ERCs attributable to each water and sewer connection maintained by the Parent and its affiliates (including, without limitation, the Operating Company) will be determined by applying the formulae set forth in Appendix B.

The Service Company will also at any time, upon request of the Operating Company, furnish to it any and all information required by the Operating Company or by any governmental authorities having jurisdiction over the Operating Company with respect to the services rendered by the Service Company hereunder, the cost thereof and the allocation of such cost among the Operating Companies. In the case of services in connection with construction, the Service Company will, to the extent practicable, furnish to the Operating Company such information as shall be necessary to permit the allocation of charges for such services to particular work orders.

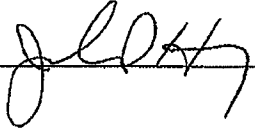
This Agreement shall be in full force and effect from the date as hereinabove mentioned and shall continue in full force and effect until termination by either of the parties hereto upon ninety days notice in writing.

IN WITNESS WHEREOF, the Service Company and the Operating Company have caused these presence to be signed in their respective corporate names by their respective Presidents or Vice Presidents, and attest by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

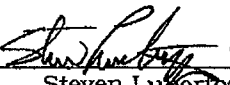
Water Service Corporation

BY  _____
Steven Lubertozzi
Vice President and Chief Financial
Officer

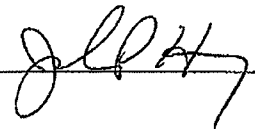
Attest

 _____

Water Service Corporation of Kentucky

BY  _____
Steven Lubertozzi
Vice President and Chief Financial
Officer

Attest

 _____

**AFFILIATE AGREEMENT
APPENDIX A**

The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies at a business unit level.

JDE Object Number	Account Description
5505	Agency Expense
5525	Bill Stock
5530	Billing Computer Supplies
5535	Billing Envelopes
5540	Billing Postage
5545	Customer Service Printing
5625	401K/ESOP Contributions
5630	Dental Premiums
5635	Dental Ins Reimbursements
5640	Emp Pensions & Benefits
5645	Employee Ins Deductions
5650	Health Costs & Other
5655	Health Ins Reimbursements
5660	Other Emp Pensions/Benefits
5665	Pension Contributions
5670	Term Life Ins
5675	Term Life Ins - Opt
5680	Depend Life Ins - Opt
5685	Supplemental Life Ins
5690	Tuition
5700	Insurance - Vehicle
5705	Insurance - Gen Liab
5710	Insurance - Workers Comp
5715	Insurance - Other
5735	Computer Maintenance
5740	Computer Supplies
5745	Computer Amort & Prog Cost
5750	Internet Supplier
5755	Microfilming
5760	Website Development
5785	Advertising/Marketing
5790	Bank Service Charges
5795	Contributions
5800	Letter of Credit Fee
5805	License Fees
5810	Memberships
5815	Penalties/Fines
5820	Training Expense
5825	Other Misc Expense
5855	Answering Service
5855	Answering Service
5860	Cleaning Supplies
5865	Copy Machine
5870	Holiday Events/Picnics
5875	Kitchen Supplies
5880	Office Supply Stores
5885	Printing/Blueprints
5890	Publ Subscriptions/Tapes
5895	Shipping Charges
5900	Other Office Expenses
5930	Office Electric
5935	Office Gas
5940	Office Water
5945	Office Telecom
5950	Office Garbage Removal
5955	Office Landscape / Mow / Plow
5960	Office Alarm Sys Phone Exp
5965	Office Maintenance
5970	Office Cleaning Service
5975	Office Machine/Heat/Cool
5980	Other Office Utilities
5985	Telemetering Phone Expense
6005	Accounting Studies
6010	Audit Fees
6015	Employ Finder Fees
6020	Engineering Fees
6025	Legal Fees
6030	Management Fees
6035	Payroll Services
6040	Tax Return Review
6045	Temp Employ - Cleri
6050	Other Outside Serv
6075	Water Resource Conserve Exp
6090	Rent
6105	Salaries - System Project
6110	Salaries - Acctg/Finance
6115	Salaries - Admin
6120	Salaries - Officers/Stkholder
6125	Salaries - HR
6130	Salaries - MIS

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies:

JDE Object Number	Subsidiary Number	Account Description
1030		Land & Land Rights Pump
1035		Land & Land Rights Wtr Tr
1040		Land & Land Rights Trans Dist
1045		Land & Land Rights Gen Plt
1175		Office Struct & Imprv
1180		Office Furn & Eqpt
1190		Tool Shop & Misc Eqpt
1205		Communication Eqpt
1260		Land & Land Rights Intang Plt
1265		Land & Land Rights Coll Plt
1270		Land & Land Rights Trnsm Plt
1275		Land & Land Rights Reclaim Wtp
1280		Land & Land Rights Ref Dst Plt
1285		Land & Land Rights Gen Plt
1455		Office Struct & Imprv
1460		Office Furn & Eqpt
1470		Tool Shop & Misc Eqpt
1485		Communication Eqpt
1575		Desktop Computer Wtr
1580		Mainframe Computer Wtr
1585		Mini Computers Wtr
1590		Comp Sys Cost Wtr
1595		Micro Sys Cost Wtr
1605		Desktop Computer Swr
1610		Mainframe Computer Swr
1615		Mini Computers Swr
1620		Comp Sys Cost Swr
1625		Micro Sys Cost Swr
1741		Other Plant In Process History
1745	00301	Wip-Cap Time Office Renovation
1745	00302	Wip-Cap Time Electrical
1745	00303	Wip-Cap Time Lab Expansion
1745	00304	Wip-Cap Time Computer Equipm
1745	00305	Wip-Cap Time Computer Software
1745	00306	Wip-Cap Time Radio Equipment
1746	00301	Wip - Interest During Constr
1746	00302	Wip - Interest During Constr
1746	00303	Wip - Interest During Constr
1746	00304	Wip - Interest During Constr
1746	00305	Wip - Interest During Constr
1746	00306	Wip - Interest During Constr
1747	00303	Wip - Labor/Installation
1747	00304	Wip - Labor/Installation
1747	00305	Wip - Labor/Installation
1748	00302	Wip - Equipment
1748	00303	Wip - Equipment
1748	00304	Wip - Equipment
1748	00306	Wip - Equipment
1749	00301	Wip - Material
1749	00302	Wip - Material
1749	00303	Wip - Material
1749	00304	Wip - Material
1749	00305	Wip - Material
1749	00306	Wip - Material
1750	00301	Wip - Electrical
1751	00301	Wip - Site Work
1752	00301	Wip - Contractor/Labor
1752	00302	Wip - Contractor/Labor
1753	00301	Wip - Architect/Designer
1753	00302	Wip - Architect/Designer
1753	00303	Wip - Architect/Designer
1754	00303	Wip - Building Addition
1755	00301	Wip - Furniture
1755	00302	Wip - Furniture
1756	00301	Wip - Heating/Air Condition
1756	00302	Wip - Heating/Air Condition
1757	00301	Wip - Interior Finish
1757	00302	Wip - Interior Finish
1758	00305	Wip - Modification/Convert
1759	00304	Wip - Remodeling
1769	00301	Wip - Transfer To Fixed Assets
1769	00302	Wip - Transfer To Fixed Assets
1769	00303	Wip - Transfer To Fixed Assets
1769	00304	Wip - Transfer To Fixed Assets
1769	00305	Wip - Transfer To Fixed Assets
1769	00306	Wip - Transfer To Fixed Assets
1771		Deferred Plant In Process History
1775	00401	Wip-Cap Time Water Tower Paint
1775	00402	Wip-Cap Time W/S Plt Paint
1775	00403	Wip-Cap Time Water Tank Paint
1775	00404	Wip-Cap Time Clean Sewer Line

AFFILIATE AGREEMENT
APPENDIX A

The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies at a business unit level)

JDE Object Number	Account Description
6135	Salaries - Leadership Ops
6140	Salaries - Regulatory
6145	Salaries - Customer Service
6185	Travel Lodging
6190	Travel Airfare
6195	Travel Transportation
6200	Travel Meals
6205	Travel Entertainment
6207	Travel Other
6355	Deferred Maint Expense
6360	Communication Expense
6365	Equipment Rentals
6385	Uniforms
6390	Weather/Hurricane Costs
6580	Deprec-Office Structure
6585	Deprec-Office Furn/Eqpt
6610	Deprec-Communication Eqpt
6615	Deprec-Misc Equipment
6820	Deprec-Office Structure
6825	Deprec-Office Furn/Eqpt
6850	Deprec-Communication Eqpt
6855	Deprec-Misc Equipment
6920	Deprec-Computer
7510	FICA Expense
7515	Federal Unemployment Tax
7520	State Unemployment Tax
7535	Franchise Tax
7540	Gross Receipts Tax
7545	Personal Property/VICT Tax
7550	Property/Other General Tax
7555	Real Estate Tax
7560	Sales/Use Tax Expense
7565	Special Assessments
7665	Extraordinary Gain/Loss
7670	Extraordinary Deductions
7680	Rental Income
7685	Interest Income
7690	Sale of Equipment

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies:

JDE Object Number	Subsidiary Number	Account Description
1030		Land & Land Rights Pump
1775	00405	Wip-Cap Time Chng Filter Media
1775	00406	Wip-Cap Time Tv Sewer Main
1775	00407	Wip-Cap Time Sludge & Hauling
1775	00408	Wip-Cap Time W/S Ph Landscap
1776	00401	Wip - Interest During Constr
1776	00402	Wip - Interest During Constr
1776	00403	Wip - Interest During Constr
1776	00404	Wip - Interest During Constr
1776	00405	Wip - Interest During Constr
1776	00406	Wip - Interest During Constr
1776	00407	Wip - Interest During Constr
1776	00408	Wip - Interest During Constr
1777	00408	Wip - Engineering
1778	00401	Wip - Labor/Installation
1779	00401	Wip - Equipment
1779	00404	Wip - Equipment
1779	00406	Wip - Equipment
1780	00401	Wip - Material
1780	00402	Wip - Material
1780	00403	Wip - Material
1780	00404	Wip - Material
1780	00405	Wip - Material
1780	00406	Wip - Material
1780	00407	Wip - Material
1780	00408	Wip - Material
1781	00408	Wip - Site Work
1782	00401	Wip - Contractor/Labor
1782	00402	Wip - Contractor/Labor
1782	00403	Wip - Contractor/Labor
1782	00405	Wip - Contractor/Labor
1782	00406	Wip - Contractor/Labor
1783	00404	Wip - Grouting/Sealing
1784	00404	Wip - Jet Cleaning
1785	00407	Wip - Pump & Haul Sludge
1786	00404	Wip - Rental/Machine
1786	00405	Wip - Rental/Machine
1787	00402	Wip - Repair
1787	00403	Wip - Repair
1799	00401	Wip - Transfer To Fixed Assets
1799	00402	Wip - Transfer To Fixed Assets
1799	00403	Wip - Transfer To Fixed Assets
1799	00404	Wip - Transfer To Fixed Assets
1799	00405	Wip - Transfer To Fixed Assets
1799	00406	Wip - Transfer To Fixed Assets
1799	00407	Wip - Transfer To Fixed Assets
1799	00408	Wip - Transfer To Fixed Assets
1970		Acc Depr-Office Structure
1975		Acc Depr-Office Furn/Eqpt
1985		Acc Depr-Tool Shop & Misc Eqpt
2000		Acc Depr-Communication Eqpt
2215		Acc Depr-Office Structure
2220		Acc Depr-Office Furn/Eqpt
2230		Acc Depr-Tool Shop & Misc Eqpt
2245		Acc Depr-Communication Eqpt
2315		Acc Depr-Desktop Computer Wtr
2320		Acc Depr-Mainframe Comp Wtr
2325		Acc Depr-Mini Comp Wtr
2330		Comp Sys Amortization Wtr
2335		Micro Sys Amortization Wtr
2345		Acc Depr-Desktop Computer Swr
2350		Acc Depr-Mainframe Comp Swr
2355		Acc Depr-Mini Comp Swr
2360		Comp Sys Amortization Swr
2365		Micro Sys Amortization Swr
2950		Def Chgs-Landscaping
2955		Def Chgs-Customer Complaints
2960		Def Chgs-Tank Maint&Rep Wtr
2965		Def Chgs-Relocation Expenses
2970		Def Chgs-Attorney Fee
2975		Def Chgs-Hurricane/Storms Cost
2980		Def Chgs-Emp Fees
2985		Def Chgs-Other
3000		Def Chgs-Other Wtr & Swr
3005		Def Chgs-Voc Testing
3020		Def Chgs-Sludge Hauling
3025		Def Chgs-Pr Wash/Jet Swr Mains
3030		Def Chgs-Tv Sewer Mains
3040		Def Chgs-Tank Maint&Rep Swr
3050		Amort - Landscaping
3090		Amort - Customer Complaints

**AFFILIATE AGREEMENT
APPENDIX A**

The following list includes expense accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies at a business unit level:

JDE Object Number Account Description

The following list includes asset and liability accounts at the Water Service Corporation level which have dollars booked to them and allocated to all Utilities, Inc. operating companies:

<u>JDE Object Number</u>	<u>Subsidiary Number</u>	<u>Account Description</u>
1030		Land & Land Rights Pump
3110		Amort - Tank Maint&Rep Wtr
3120		Amort - Relocation Exp
3125		Amort - Attorney Fee
3130		Amort - Hurricane/Storms
3135		Amort - Employee Fees
3140		Amort - Other
3155		Amort - Other Wtr & Swr
3160		Amort - Voe Testing
3175		Amort - Sludge Hauling
3180		Amort - Pr Wash/JeI Swr Mains
3185		Amort - TV Sewer Mains
3195		Amort - Tank Maint&Rep Swr
4367		Accum Def Income Tax-Fed
4369		Def Fed Tax - Ciac Pre 1987
4371		Def Fed Tax - Tap Fee Post 2000
4373		Def Fed Tax - Idc
4375		Def Fed Tax - Rate Case
4377		Def Fed Tax - Def Maint
4379		Def Fed Tax - Other Operation
4381		Def Fed Tax - Sold Co
4383		Def Fed Tax - Orgn Exp
4385		Def Fed Tax - Bad Debt
4387		Def Fed Tax - Depreciation
4389		Def Fed Tax - Nol
4391		Def Fed Tax - Cont Prop
4393		Def Fed Tax - Amt
4395		Def Fed Tax - Pre Acrs
4397		Def Fed Tax - Res Cap Fee
4417		Accum Def Income Tax - St
4419		Def St Tax - Ciac Pre 1987
4421		Def St Tax - Tap Fee Post 2000
4423		Def St Tax - Idc
4425		Def St Tax - Rate Case
4427		Def St Tax - Def Maint
4429		Def St Tax - Other Operation
4431		Def St Tax - Sold Co
4433		Def St Tax - Orgn Exp
4435		Def St Tax - Bud Debt
4437		Def St Tax - Depreciation
4439		Def St Tax - Nol
4441		Def St Tax - Cont Prop
4443		Def St Tax - Amt
4445		Def St Tax - Res Cap Fee

**AFFILIATE AGREEMENT
APPENDIX B**

The formula used to calculate all allocations is as follows:

Expenses:

Active ERC count for business unit/Active ERC count for all UI operating business units

Assets/Liabilities:

Active ERC count for company/Active ERC count for all UI operating companies

Water Service Corporation of Kentucky

Water Service Corporation - Affiliate Charges

**Office Salaries and Wages by Functional Category
at December 31, 2012**

	Annualized Salaries	Allocation % to WSCK	Allocated Amount
Functional Cost:			
Accounting	\$705,811	2.7753%	\$19,589
Administration	259,973	2.7753%	7,215
Accounts Payable	263,293	2.7753%	7,307
Customer Billing & Collection	210,297	2.7753%	5,836
Finance	425,001	2.7753%	11,795
Human Resources	294,625	2.7753%	8,177
Information Technologies	357,140	2.7753%	9,912
Legal	310,986	2.7753%	8,631
Management	784,793	2.7753%	21,781
Regulatory	1,100,967	2.7753%	30,556
Customer Service	1,341,560	2.7753%	37,233
Total Functional Salaries & Wages	\$6,054,446		\$168,032
Deduct:			
Capitalized Salaries & Wages			\$31,152
Total WSCK Allocated Salaries & Wages			\$136,880
Percent of Total Functional Costs			2.2608%
Monthly Cost Per Customer			\$1.55

Water Service Corporation of Kentucky

Comparison of Annual Operating Revenues with Similar Sized
Kentucky Water Utilities

Water System	Total Operating Revenues 2011	2012	Number of Customers	Annual Cost Per Customer	Monthly Cost Per Customer
Muhlenberg County Water District	\$3,003,131		5,983	\$501.94	\$41.83
McCreary County Water District	2,878,024		6,192	464.80	38.73
Grayson County Water District		\$3,239,287	6,389	507.01	42.25
Henderson County Water District		2,827,068	6,384	442.84	36.90
Henry County Water District	3,383,411		6,261	540.39	45.03
Southeast Daviess County Water District	1,840,663		6,568	280.25	23.35
Bullock Pen Water District		3,966,563	6,742	588.34	49.03
Green River Valley Water District	4,265,256		6,791	628.07	52.34
Rowan Water, Inc.		2,587,625	6,855	377.48	31.46
South Eastern Water Association	3,689,670		7,781	474.19	39.52
Oldham County Water District		4,897,917	7,797	628.18	52.35
Western Pulaski County Water District	2,344,308		8,046	291.36	24.28
Totals	\$21,404,463	\$17,518,460	81,789	\$475.89	\$39.66
Water Service Corporation of Kentucky	\$2,252,368		7,388	\$304.87	\$25.41

Water Service Corporation of Kentucky

Comparison of Annual Salaries & Wages with Similar Sized
Kentucky Water Utilities

Water System	Total Salaries & Wages 2011	2012	Number of Customers	Annual Cost Per Customer	Monthly Cost Per Customer
Muhlenberg County Water District	\$686,497		5,983	\$114.74	\$9.56
McCreary County Water District	726,214		6,192	117.28	9.77
Grayson County Water District		\$0	6,389	0.00	0.00
Henderson County Water District		685,938	6,384	107.45	8.95
Henry County Water District	654,313		6,261	104.51	8.71
Southeast Daviess County Water District	256,385		6,568	39.04	3.25
Bullock Pen Water District		656,865	6,742	97.43	8.12
Green River Valley Water District	818,725		6,791	120.56	10.05
Rowan Water, Inc.		514,079	6,855	74.99	6.25
South Eastern Water Association	298,205		7,781	38.32	3.19
Oldham County Water District		802,357	7,797	102.91	8.58
Western Pulaski County Water District	258,657		8,046	32.15	2.68
Totals	\$3,698,996	\$2,659,239	81,789	\$77.74	\$6.48
Less:					
Grayson County Water District		\$0	6,389		
	\$3,698,996	\$2,659,239	75,400	\$84.33	\$7.03
Water Service Corporation of Kentucky	\$491,593		7,388	\$66.54	\$5.54

Water Service Corporation of Kentucky

*Comparison of Annual Salaries & Wages - Officers and Directors with Similar Sized
Kentucky Water Utilities*

Water System	Officers & Directors Total Salaries & Wages		Number of Customers	Annual Cost Per Customer	Monthly Cost Per Customer
	2011	2012			
Muhlenberg County Water District	\$18,000		5,983	\$3.01	\$0.25
McCreary County Water District	15,100		6,192	2.44	0.20
Grayson County Water District		\$0	6,389	0.00	0.00
Henderson County Water District		10,500	6,384	1.64	0.14
Henry County Water District	28,800		6,261	4.60	0.38
Southeast Daviess County Water District	59,378		6,568	9.04	0.75
Bullock Pen Water District		13,000	6,742	1.93	0.16
Green River Valley Water District	14,600		6,791	2.15	0.18
Rowan Water, Inc.		20,211	6,855	2.95	0.25
South Eastern Water Association	43,000		7,781	5.53	0.46
Oldham County Water District		30,000	7,797	3.85	0.32
Western Pulaski County Water District	12,200		8,046	1.52	0.13
Totals	<u>\$191,078</u>	<u>\$73,711</u>	<u>81,789</u>	<u>\$3.24</u>	<u>\$0.27</u>
Less:					
Grayson County Water District		\$0	6,389		
	<u>\$191,078</u>	<u>\$73,711</u>	<u>75,400</u>	<u>\$3.51</u>	<u>\$0.29</u>
Water Service Corporation of Kentucky	\$59,748		7,588	\$8.09	\$0.67

Water Service Corporation of Kentucky

Comparison of Annual Salaries & Wages - Combined Reporting of Costs For Similar Sized
Kentucky Water Utilities

Water System	Officers & Directors Total Salaries & Wages		Number of Customers	Annual Cost Per Customer	Monthly Cost Per Customer
	2011	2012			
Muhlenberg County Water District	\$704,497		5,983	\$117.75	\$9.81
McCreary County Water District	741,314		6,192	119.72	9.98
Grayson County Water District		\$0	6,389	0.00	0.00
Henderson County Water District		696,438	6,384	109.09	9.09
Henry County Water District	683,113		6,261	109.11	9.09
Southeast Daviess County Water District	315,763		6,568	48.08	4.01
Bullock Pen Water District		669,865	6,742	99.36	8.28
Green River Valley Water District	833,325		6,791	122.71	10.23
Rowan Water, Inc.		534,290	6,855	77.94	6.50
South Eastern Water Association	341,205		7,781	43.85	3.65
Oldham County Water District		832,357	7,797	106.75	8.90
Western Pulaski County Water District	270,857		8,046	33.66	2.81
Totals	\$3,890,074	\$2,732,950	81,789	\$80.98	\$6.75
Less:					
Grayson County Water District		\$0	6,389		
	\$3,890,074	\$2,732,950	75,400	\$87.84	\$7.32
Water Service Corporation of Kentucky	\$551,341		7,388	\$74.63	\$6.22

Water Service Corporation of Kentucky

Muhlenberg County Water District - Case No. 2006-00248

*Staff Recommended And Commission Approved Office Salaries & Wages
Order Entered April 17, 2007*

December 31, 2005 Test Year Expenses:

	2005	2006	2007	2008	2009	2010	2011	2012
Superintendent	\$46,009	\$47,481	\$48,811	\$50,666	\$50,463	\$51,270	\$52,911	\$54,022
Asst. Superintendent	39,342	40,601	41,738	43,324	43,150.5	43,841	45,244	46,194
Office Manager	31,096	32,091	32,990	34,243	34,106.3	34,652	35,761	36,512
Clerical	24,170	24,943	25,642	26,616	26,509.8	26,934	27,796	28,380
Clerical	24,170	24,943	25,642	26,616	26,509.8	26,934	27,796	28,380
Clerical	12,085	12,472	12,821	13,308	13,254.9	13,467	13,898	14,190
Total	\$201,042	\$207,475	\$213,285	\$221,389	\$220,504	\$224,032	\$231,201	\$236,056

Annual Cost Per Customer
Monthly Cost Per Customer

\$39.45
\$3.29

CPIU:

2006	3.20%
2007	2.80%
2008	3.80%
2009	-0.40%
2010	1.60%
2011	3.20%
2012	2.10%

Number of Customers 5,983

Water Service Corporation of Kentucky

Jackson County Water Association - Case No. 2006-00467

*Staff Recommended And Commission Approved Office Salaries & Wages
Order Entered April 13, 2007*

December 31, 2005 Test Year Expenses:

	2005	2006	2007	2008	2009	2010	2011	2012
Office Manager	\$28,926	\$29,852	\$30,687	\$31,854	\$31,726.19	\$32,234	\$33,265	\$33,964
General Manager	51,952	53,614	55,116	57,210	\$56,981.22	57,893	59,745	61,000
Office	22,889	23,621	24,283	25,206	\$25,104.77	25,506	26,323	26,875
Bookkeeper	14,618	15,086	15,508	16,097	\$16,033.10	16,290	16,811	17,164
Billing Clerk	15,676	16,178	16,631	17,263	\$17,193.52	17,469	18,028	18,406
Total	\$134,061	\$138,351	\$142,225	\$147,629	\$147,039	\$149,391	\$154,172	\$157,410

Annual Cost Per Customer
Monthly Cost Per Customer

\$34.38
\$2.87

CPIU:

2006	3.20%
2007	2.80%
2008	3.80%
2009	-0.40%
2010	1.60%
2011	3.20%
2012	2.10%

Number of Customers

4,578

Water Service Corporation of Kentucky

Henry County Water District - Case No. 2009-00370

Audited Financial Statements in Support of the District's
Rate Filing - November 2009

December 31, 2008 Test Year Expenses:

	2008	2009	Inflation Adjusted Costs		
	2008	2009	2010	2011	2012
Accounting and Collecting Expense	\$109,294	\$108,857	\$110,599	\$114,138	\$116,535
Commissioner Salaries	26,100	25,996	26,412	27,257	27,829
Total	\$135,394	\$134,852	\$137,010	\$141,394	\$144,364

Annual Cost Per Customer
Monthly Cost Per Customer

\$23.06
\$1.92

CPIU:

2008	3.80%
2009	-0.40%
2010	1.60%
2011	3.20%
2012	2.10%

Number of Customers

6,251

Water Service Corporation of Kentucky

Bullock Pen Water District - Case No. 2008-00170

Staff Recommended And Commission Approved Office Salaries & Wages
Order Entered April 13, 2007

December 31, 2008 Test Year Expenses:

	Inflation Adjusted Costs				
	2008	2009	2010	2011	2012
Clerical	\$27,637	\$27,526	\$27,967	\$28,862	\$29,468
Clerical	33,027	32,895	33,421	34,491	35,215
Clerical	20,800	20,717	21,048	21,722	22,178
Clerical	38,334	38,181	38,792	40,033	40,874
Asst. Office Manager	15,676	15,613	15,863	16,371	16,715
Clerical	20,800	20,717	21,048	21,722	22,178

Total \$156,274 \$155,649 \$158,139 \$163,200 \$166,627

Annual Cost Per Customer
Monthly Cost Per Customer

\$24.71
\$2.06

Number of Customers

CPIU:

2008	3.80%
2009	-0.40%
2010	1.60%
2011	3.20%
2012	2.10%

Number of Customers

6,742