

CASE NO. 2013-00237
WATER SERVICE CORPORATION OF KENTUCKY
RESPONSES TO COMMISSION STAFF'S SECOND INFORMATION REQUEST

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

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

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

RESPONSE: The Company is no longer pursuing the Distribution System Infrastructure Charge Rider and the Purchased Power and Chemical Charge Rider.

Witness – Lowell Yap

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

a. WSKY reports miscellaneous test-year revenues of \$78,995, but in its 2012 Annual Report, WSKY recorded a total other water revenue of \$226,479.¹ Provide a detailed reconciliation between the two reported revenue amounts.

RESPONSE: The \$226,479 is the combined miscellaneous test-year revenues of \$78,995 (Account 7680: Rental Income \$1,300, Account 7765: Sale of Utility Property \$4,500, Account 5270: Misc. Service Revenue \$2,004 and Account 5285: Other W/S Revenues \$71,191) plus the \$153,284 of Account 5405: Revenue from Management Services.

b. The calculation of WSKY's revenue requirement shown on Schedule E does not support WSKY's proposed increase of \$228,789 or its pro forma service revenues — water of \$2,332,602. Provide a revised Schedule E showing how WSKY calculated its proposed increase and pro forma service revenues — water.

RESPONSE: Please see the Excel file "PSC DR 2-2b" filed electronically herewith for how WSKY calculated its proposed increase and pro forma service revenues — water.

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

RESPONSE: WSKY has historically shown Bad Debt Expenses, or uncollectibles, as a reduction to revenues in its rate case filings with the Kentucky Commission.

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

(1) Income Taxes — Federal \$ 54,491 – wp/g.

(2) Income Taxes — State \$ (10,683)

(3) Taxes Other Than Income \$ 143,894

(4) Income Taxes — Federal \$ 126,345

(5) Income Taxes — State \$ 23,719

RESPONSE: Please refer to workpaper [g], Calculation of State and Federal Income Tax, filed in response to the Staff's Initial Request for Information, Item 3.

Witness: Lowell Yap

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

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

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

Table 1

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

RESPONSE: Please refer to the Excel file "PSC DR 2-3" filed electronically herewith.

Witness: Lowell Yap

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

RESPONSE:

	<u>12/31/2012</u>	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
Test Year / Present Revenues	<u>\$ 2,066,451</u>	<u>\$ 2,021,058</u>	<u>\$ 1,638,198</u>	<u>\$ 1,638,198</u>	<u>\$ 1,526,818</u>
Uncollectible Accounts	\$ 37,353	\$ 38,099	\$ 93,761	\$ 93,682	\$ 25,918
WSKY Bad Debt	<u>\$ 37,353</u>	<u>\$ 38,099</u>	<u>\$ 93,761</u>	<u>\$ 93,682</u>	<u>\$ 25,918</u>
Uncollectible %	<u>1.81%</u>	<u>1.89%</u>	<u>5.72%</u>	<u>5.72%</u>	<u>1.70%</u>

Witness: Lowell Yap

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5. Refer to the Application, Exhibit 4, w/p [b], Calculation of Salary and Benefits.
- a. WSKY uses an allocation factor of 6.98 percent for the Regional Vice President; Executive Assistant; Regional Finance Manager; and Regional Compliance and Safety Manager, but uses a 21.68 percent factor for its Regional Director. Explain why a higher allocation factor is used for the Regional Director.

RESPONSE: Please refer to the ERC allocation calculation.

WSCK: 7,362.4 divided by the Atlantic/Midwest Region: 105,516.79 = 6.98%

WSCK: 7,362.4 divided by the Midwest Region: 33,962.6 = 21.68%.

Atlantic Region: 71,554.19

Midwest Region: 33,962.6

Atlantic and Midwest Region = 105,516.79

The Regional Vice President, Executive Assistant, Regional Finance Manager, and Regional Compliance and Safety Manager work in both the Atlantic and Midwest Region.

The Regional Director of the Midwest Region only works in the Midwest Region.

- b. Is any of the supervisory staff time directly charged to WSKY?

RESPONSE: No, but supervisors may book capitalized time directly to an asset or a rate case, which then offsets their salaries as shown on w/p [b-2] filed in response to Staff's Initial Request for Information, Item 3.

- c. If the response to 5(b) is no, explain in detail why none of the supervisory staff time is directly charged to WSKY.

RESPONSE: The supervisory staff work with other UI subsidiaries within their respective region(s) in the Atlantic and/or Midwest regions, and their salaries are allocated to those other companies.

- d. Identify the supervisory positions that have participation or will participate in preparing WSKY's rate case and the amount of their salaries that are included in rate case expense.

RESPONSE: The Regional Director of the Midwest Region, The Regional Vice President of the Atlantic/Midwest Regions, the Executive Assistant, the Regional Finance Manager, and Regional Compliance & Safety Manager. No amounts of their salaries are included in the rate case expense.

Witness: Lowell Yap

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

a. Provide a detailed explanation of UI's sale of its utility systems in 2011 and 2012.

RESPONSE: Please refer to the attachment provided in response to the Attorney General's Initial Request for Information, Item 27.

b. Identify all sales of UI's operating subsidiaries in 2013 and all impending sales of UI's operating subsidiaries in 2013 or 2014.

RESPONSE: No sales of UI's operating subsidiaries in 2013 and no impending sales of UI's operating subsidiaries in 2013 or 2014.

c. Provide the impact the sale of the utility systems had on allocated Water Service Corp.'s ("Service Company") costs in 2012.

RESPONSE: A divestiture would result in a lower total denominator for the Utilities, Inc. This would reduce the denominator in the allocation calculation which would result in an increase of the allocation percentage.

Witness: Lowell Yap

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

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

RESPONSE: WSCK has been historically depreciating water plant at 2% but agree that the depreciation rates should change and based on Class of Assets depreciation rates. Attached are the depreciation rates recently approved in an affiliated subsidiary's rate case in North Carolina. The attached file (Excel file "PSC DR 2-7") contains the service lives and their respective percentages for WSCK plant.

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

RESPONSE: Please refer to the response provided in 7a.

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

RESPONSE: The Company feels that a five-year service life is appropriate and has been allowed in other jurisdictions. Please refer to the response provided in 7a.

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

RESPONSE: Mainframe Computers are the servers that contain the necessary files, software, and operating systems to maintain the company. The Company feels that a five-year service life is appropriate and has been allowed in other jurisdictions. Please refer to the response provided in 7a.

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

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RESPONSE: Mini-Computers are the employees laptops, desktop computers, keyboards, mouse, etc. The Company feels that a three-year service life is appropriate and has been allowed in other jurisdictions. Please refer to the response provided in 7a.

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

RESPONSE: Computer Systems is the operating system software for the company, i.e. JD Edwards and Customer Care Billing systems. The Company feels that a eight-year service life is appropriate and has been allowed in other jurisdictions. Please refer to the response provided in 7a.

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

RESPONSE: Software System are software such as Adobe Acrobat and Microsoft Office. The Company feels that a three-year service life is appropriate and has been allowed in other jurisdictions. Please refer to the response provided in 7a.

Witness – Lowell Yap

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

RESPONSE: The Common asset group is any plant that is not Land, Organization, Vehicle, or Computers. Please refer to WSCK's response to Item 7 of the Staff's Second Information Request for the service life for each "Common" asset.

Witness: Lowell Yap

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

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

RESPONSE: Please refer to the response provided in AG DR 1-50.

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

RESPONSE:

LAST NAME	FIRST NAME	Total # of Hours
BOLT	GREGORY C.	2,598.00
JOHNSON	HARVEY H.	2,205.50
JOHNSTON	JOSEPH A	2,328.00
LEONARD	JAMES R.	2,161.41
MILLS	WENDELL G.	2,245.50
ONKST	JAMES H.	2,279.50
PARTIN	MICHAEL W.	2,223.00
RUSHING	RONALD	790.00 [1]
SANDEFUR	BRYAN K.	2,340.00
TURNER	JOHN R.	2,567.00
VAUGHN	STEPHEN R.	2,291.50

[1] Ronald Rushing was hired on 8/22/2012

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

RESPONSE: Actual Hours.

Witness: Lowell Yap

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

RESPONSE: Please refer to Mr. Shambaugh's Testimony, which was attached to the Application in Exhibit 5.

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

RESPONSE: Please refer to the response provided in 10(a).

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

RESPONSE: Salary increases are necessary to enable WSCK to maintain a skilled and competent workforce so as to continue to provide safe and reliable drinking water to its customers at fair, just, and reasonable rates.

Witness: Lowell Yap

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

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

RESPONSE: The \$42,434 is the additional Interest Expense from Fees to acquire long-term debt from UI Workpapers. Please refer to the corresponding attachment (Excel file "PSC DR 2-11(a) Debt Expenses") for the calculations.

b. In its Consolidated Financial Statement December 31, 2012 and 2011 (Application, Exhibit H), UI reports "Interest expense, net" of \$12,232,000. Reconcile the interest expense of \$11,886,434 calculated by WSKY and the interest expense reported by UI of \$12,232,000.

RESPONSE: The interest expense from the Consolidated Financials are per book numbers. The Company recalculated its interest expense based on its long-term debt of \$180,000,000 at 6.58% plus the costs of acquiring the debt as explained in part "a" above.

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

RESPONSE: Please see the document that was filed electronically with the Commission on November 22, 2013, and that is labeled as Excel file "PSC DR2-18 Capitalization."

Witness: Lowell Yap

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

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

RESPONSE: The \$153,285 represents the fee paid to WSCK by the City of Clinton for the management of its sewer operations.

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

RESPONSE: It is included in the Other Water Revenue of \$226,479, please refer to the response provided in Item 2 above.

c. KRS 278.2203 states that if a utility engages in a nonregulated activity it shall identify all costs of the nonregulated activity and shall utilize one of the following cost allocation methods: "(a) The fully distributed cost method; or (b) A cost allocation method recognized or mandated by the rules of the SEC promulgated pursuant to 15 U.S.C. sec. 79, et seq., or promulgated by the FERC or by the USDA."² Identify the cost allocation method being used by WSKY.

RESPONSE: WSCK utilizes the fully distributed cost method.

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

RESPONSE: The Agreement between Water Service Corporation and WSCK governs the relationship and cost allocation procedures of WSCK. This document has been provided in response to Staff's Initial Request for Information, Item 25. A critical component of the cost

² KRS 278.2203(2).

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allocation procedure for WSCK and all of UI's subsidiaries is the Equivalent Residential Connections ("ERCs"), which is described in the testimony of Helen Lupton. In addition, WSCK retained Gary Shambaugh to perform an independent evaluation on the direct and indirect expense allocations of salaries, wages, and operating costs incurred by the service company on behalf of WSCK. This documentation, along with the numerous other responses to information requests related to this topic, supports the fact that WSCK's cost allocation procedures and affiliate transaction pricing are consistent with the provisions of KRS Chapter 278. It is also significant to note that all services provided by Water Service Corporation are provided at cost with no mark up to WSCK and other affiliated companies.

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

RESPONSE: Weather/Hurricane Costs is Company Account # 6390 which is a sub account for 6350: Maintenance – Water & Sewer Plant. Account #6390: Weather/Hurricane Costs is used for all off road fuel purchases for equipment and generators. It would also be used for any extreme weather related costs associated with hurricanes, storms, and tornadoes, etc.

Witnesses: Lowell Yap, Helen Lupton, and Gary Shambaugh

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

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

RESPONSE: A project is planned for the second and third quarter of 2014 to replace the water mains on 24th Street and Dorchester Avenue in Middlesboro. This project is anticipated to cost \$80,000 and will be funded by Utilities, Inc.

A project is planned for the second and third quarter of 2014 to replace the water mains on 45th Street in Middlesboro. This project is anticipated to cost \$70,000 and will be funded by Utilities, Inc.

A project is planned to install plate settlers at the Middlesboro Water Treatment Plant. It is anticipated that the total cost of this project will be \$300,000 (\$100,000 which will be spent in 2014 and \$200,000 which will be spent in 2015) and will be funded by Utilities, Inc.

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

RESPONSE: WSCK is in the process at this time of getting final quotes from engineers, contractors, and other professionals. No finalized documents exist.

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

RESPONSE: Each project will have engineering plans submitted to the Kentucky Division of Water, by a Licensed Engineer in Kentucky. Each set of approved plans from Kentucky Division of Water will be submitted to the Commission. The distribution system water mains will not be entering any State Highway jurisdiction and will not require any state permits. It has not been determined whether other governmental permits, licenses, or approvals will be necessary.

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

RESPONSE: For the water mains project on 24th Street and 45th Street in Middlesboro, it is anticipated that the engineer will submit plans to Division of Water in January or February 2014.

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The Division of Water approvals are typically received within 30 to 45 days. For the plate settlers project, it is anticipated that the engineer will submit plans to the Division of Water during the third quarter of 2014, with anticipated approval in the following quarter.

Witness: James Leonard

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14. Refer to WSKY's Responses to the Commission's First Request, Item 25.

a. Has the December 19, 2007 Agreement been modified to allow WSKY to contest the reasonableness of any expense that the Service Company allocates to WSKY?

RESPONSE: The December 19, 2007 Agreement has not been modified.

b. If the response to 14(a) is yes, provide a copy of the revised agreement.

RESPONSE: N/A

c. If the response to 14(a) is no, describe the safeguards in place to ensure that unreasonable or inappropriate expenses incurred by the Service Company are not allocated to WSKY.

RESPONSE: Please refer to Response to Staff's Initial Request for Information Item 25, Water Service Company of Kentucky Affiliate Agreement. The Affiliate Agreement in 2007 was put into place to insure that expenses incurred by the Service Company allocated to WSKY are reasonable and appropriate.

d. Provide examples of expenses that were deemed either unreasonable or inappropriate and were not allocated to WSKY. Describe the process used to make that decision.

RESPONSE: Although there were no examples of service company expenses that were deemed unreasonable or inappropriate and were not allocated to WSCK, there are expenses which WSCK is not seeking recovery in rates, as shown in w/p-r Expense Reports, which was filed in response to Item 3 of the Staff's Initial Request for Information.

e. In its response to Item 28 of the Commission's First Request, WSKY states that the Service Company does not issue an invoice to WSKY. If invoices are not issued, explain how WSKY is aware of what is being allocated to it by the Service Company or the dollar amount of the allocations.

RESPONSE: Please refer to Helen Lupton's Testimony provided with the application of WSKY. The company regularly reviews costs from various cost centers to insure all costs are reasonable and appropriate.

Witnesses: Lowell Yap and Helen Lupton

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

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

RESPONSE: Please refer to the attachment (Excel file "PSC DR2-15") that was electronically filed with the Commission on November 22, 2013. WSCK is able to provide a sample of invoices from the general ledgers provided in the attachment.

Please note that the columns labeling the months in WSCK's Response to the Commission's First Request, Item 27(a) should have been labeled as (from left to right) January to December and not (from left to right) October thru September.

Note that in Column F of each general ledger, under the heading of "TY," refers to what type of transaction was performed. PV (or OV) is the designation for an invoice transaction and JE is the designation of a journal entry transaction.

WSCKY Allocated GL – General ledger of transactions allocated to WSCK from the various cost centers.

WSC CC GL – General ledger of the Water Service Corporation Cost Center.

State of Kentucky CC GL – General ledger of the State of Kentucky Cost Center.

RVP CC GL – General ledger of the Regional Vice President Cost Center.

Midwest CC GL – General ledger of the Midwest Region Cost Center.

Corporate Project CC GL – General ledger of the Corporate Project Cost Center.

Witness – Lowell Yap

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

Table 3

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

RESPONSE: Please see corresponding attachments (Excel files "PSC DR 2-16 General Ledger," "PSC DR 2-16 Standard Entry 5," and "PSC DR 2-16 Journal Entry" and pdf files "PSC DR 2-16 a, b, d Invoices," "PSC DR 2-16 #6185," "PSC DR 2-16 #6195," "PSC DR 2-16 #6200," "PSC DR 2-16 h, i, j Invoices," "PSC DR 2-16 #6310," and "PSC DR 2-16 #6370." Due to the size of some of these pdf files, they are being uploaded separately.

Witness – Lowell Yap

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

RESPONSE: Please see the corresponding electronic documents for WSCK's Response to the Commission's First Request, Item 27. They are labeled as Excel files "PSC DR2-17 DR-27a" and "PSC DR2-17 DR-27b" and were filed electronically with the Commission on November 22, 2013.

Witness – Lowell Yap

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18. At page 6 of his direct testimony, Lowell Yap states, "Interest on debt is computed using a 52.44%/47.56% debt/equity ratio." Provide a schedule comparing UI's end-of-period capital structures for the calendar years 2008 through 2012 and UI's capital structure for August 31, 2013. Also, include the debt-to-equity ratio for each capital structure provided.

RESPONSE: Please see corresponding document that is labeled as Excel file "PSC DR2-18 Capitalization" and that was filed electronically with the Commission on November 22, 2013.

Witness – Lowell Yap

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

RESPONSE: "Study" is not the correct word Mr. Baryenbruch should have used to describe his work in this case. "Review" more appropriately describes the work performed. Mr. Baryenbruch is amending his testimony to make that change. The word "study" is in the testimony template he uses for case assignments related to benchmarking studies. He missed changing the word from study to review when preparing his testimony in this case.

- a. Provide a complete copy of Mr. Baryenbruch's study.

RESPONSE: Mr. Baryenbruch's testimony is the only work product associated with his review. The scope of his work did not involve a detailed audit. Rather, he performed a review of Project Phoenix information related to its scope of work, benefits and the status of work as the project proceeded through implementation.

- b. Describe in detail the process Mr. Baryenbruch used in performing his study.

RESPONSE: The scope of Mr. Baryenbruch's review was to answer the following 4 questions: To answer these questions, Mr. Baryenbruch reviewed data including the project's scope of work, business case, IT architecture, vendor evaluation, scoping and planning documentation, project kickoff presentation, change requests and project steering committee status reports.

Mr. Baryenbruch was also able to question Steve Lubertozzi, UI's Chief Regulatory Officer, who was a member of Project Phoenix's implementation team. Mr. Lubertozzi provided first-hand knowledge that supplemented the project documentation.

Based on Mr. Baryenbruch's assessment of this information and his professional experience with utility IT systems projects, he was able to answer the four questions in the assignment's scope of work. As he states in his testimony, since 2006, Mr. Baryenbruch has 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 performed by hundreds of employee and contract personnel. This experience well qualifies him to evaluate Project Phoenix.

Witness – Patrick Baryenbruch

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

RESPONSE: Before answering the individual parts of this interrogatory, it should again be made clear that Mr. Baryenbruch's review did not entail an audit or highly detailed data-gathering process. This interrogatory asks for detailed before-and-after Project Phoenix comparative information that would have been prohibitively expensive and unnecessary for him to reach his conclusions. Project Phoenix involved the implementation of applications commonly used by the utility industry, with well-known benefits. Project Phoenix implemented Oracle's JD Edwards EnterpriseOne (JDE) which, until last year, was used by American Water Company. Project Phoenix also implemented Oracle's Utilities Customer Care and Billing (CC&B) System, a module 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. The two industry-standard Oracle applications replaced a customer system developed in-house at UI and a financial system that had run out of warranty with its vendor. UI's two old systems had definitely reached the end of their useful lives and needed to be replaced.

a. Provide documentation to show that the implementation of Project Phoenix directly resulted in a reduction in time to handle customer inquiries.

RESPONSE: The new CC&B system consolidated customer information into one location for call center representatives to access while responding to customer inquiries.

All Customer Service Representatives use the Oracle Customer Care and Billing system on a daily basis to look up customer accounts to answer billing questions. On the home screen, CC&B displays customer information, premise address, meter information, service type, account financial history and premise field activity history to assist customer service representatives with customer inquiries in a quick and efficient manner.

CC&B is a web based software program with numerous links that allow a customer service representative to drill deeper into specific information about specific bills, meter reads, field activities, collection and severance processes that are displayed at a high level on the home screen. A customer service representative can review current and past customer contacts allowing them to answer customer questions that may have arisen previously.

In addition to customer service representatives accessing CC&B, field personnel also utilize CC&B to retrieve and complete field activities in a live environment so that customer service representatives have the information available as soon as the order is completed. This allows the customer service representatives to respond more quickly to customer questions about service related issues.

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b. Provide a detailed list of the increase in the information that is available to the WSKY customer as a result of Project Phoenix.

RESPONSE: Customers now have on-line access to their account history covering usage, billings and payments. They can also see the status of their service orders

Through CC&B Web Self Service, customers have access to their accounts 24 hours a day, 7 days a week. Customers have the ability to access thirteen (13) months of billing history with a direct link to view and print the bills. Account payment information is also displayed in the Account Financial History section. Customers may make payment on their account by clicking on the payment link which directs them to our payment vendor. CC&B Web Self Service allows customers to update personal information such as their email, password, telephone number and mailing address. In addition, customers have the ability to register for paperless billing offering them the ability to access their bill the day it is generated in the system. This option avoids mail delays and provides customers immediate billing information for their account.

c. Document that Project Phoenix resulted in a reduction to the number of WSKY's service order errors.

RESPONSE: WSKY's prior billing system was a customized product which was unsupported. Because, the software's original vendor no longer supported the billing system, the company was left exposed if a critical error occurred. The old system also had several weaknesses. Customer and premise (service address) information were linked in one account. As residents moved, the service order history at the premise was purged and prior service activities eventually became unavailable for viewing by customer service representatives. This resulted in the loss of valuable information. In addition, field personnel were sent daily service orders through either email or fax, but did not have access to the legacy billing system. Upon completion of the service orders, the information was emailed or faxed back to the billing office for closure of the orders. The process was manually intensive and led to untimely responses due to incomplete fax transmissions. Additionally, as residents moved from one premise to another, they were issued a new account number. There was no efficient means of tracking a customer and transferring payment information, service history, and billed services from one account to another.

CC&B offers the ability to focus on either a customer or a premise. Field activity information at a premise is stored in the records indefinitely, allowing field personnel to retain prior history of past service issues at a residence. This allows them to act in a cost effective manner when considering repair or replacement of equipment or lines at a premise. In addition, CC&B automates field activities to the field. A background batch process makes key decisions about assignments and timing of field activities that are generated by customer service representatives and by the system. For example, field activities created by customer service representatives throughout the day are dispatched by the system every two hours. There is also an option

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available in CC&B to the customer service representatives to dispatch field activities to the local operator immediately for emergency quality issues.

In addition to the field activities created by the customer service representatives, the background batch process is also designed to automatically dispatch field activities to the field operators at the close of the business day. The field activity will display in the work queue the next business day for follow up by field personnel.

CC&B also automates the uploading and downloading to meter reading hand-held devices. The meter read upload file allows the meter readers the ability to enter comments entered into a meter reading hand held device and report issues such as a broken meter lid or a stuck water meter. In turn, their comments will generate a field activity that is issued by the system in the nightly batch job. The system allows the field operators to complete field activities directly into CC&B so that customer service representatives have the information available to them as soon as the order is completed.

These interactive features of CC&B have greatly improved WSKYs ability to reduce errors, eliminate service orders that were previously delayed or lost through facsimile transmission and to ultimately respond to customer service issues in a timely fashion.

d. Document that Project Phoenix resulted in "easier to read and interpret invoices."

RESPONSE: Customer bills were re-designed in connection with Project Phoenix so their information would be more readable to customers. Additional information (e.g., usage history) was added to bills because that data was now more readily available from the new CC&B system.

Customer bills were designed to be easier to read and interpret. The information is clear, concise and presented in manner to be easier for customers to read and interpret. The bills contain line item description(s) of all rates and charges such as base facility charges, commodity charges and account adjustments such as late payment charges, reconnect charges and new account charges, as applicable. The bills also contain meter number, prior and current meter readings, consumption and days in the service period. Billing and consumption graphs were added to provide a visual comparison over a 13 month time period of past history. The front of the bills also contains company telephone numbers and important bill messages.

The new bill design allows for additional important information to be included on the back of the bills which was not previously available with the prior outdated system. The back of the bills contains information on security of the local water systems, conservation tips, available payment options and space to update the mailing address and/or telephone number on the account.

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e. Explain the phrase "More consistent billing cycle" and its benefit to the WSKY customer.

RESPONSE: The new CC&B system enabled UI to optimize meter reading/usage estimation and establish the related standard billing cycles. This was not possible with the previous UI customized customer system.

Witness – Patrick Baryenbruch

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21. At page 6 of his direct testimony, Mr. Baryenbruch states that Project Phoenix cost approximately \$80 per WSKY customer. Given that Louisville Gas and Electric and Kentucky Utilities' customer software cost has a per customer cost of \$68 and Kentucky-American Water's per customer cost of its "BT Program" was \$30, explain how WSKY's per customer cost of \$80 is reasonable.

RESPONSE: This question attempts to compare Project Phoenix's cost per customer for two systems—both with the cost of only the customer care and billing systems installed by Louisville Gas and Electric, Kentucky Utilities and American Water.

The correct comparison is to the cost of Project Phoenix's CC&B system only. That aspect of Project Phoenix cost approximately \$7,127,000 when the project went live in June 2008. That cost divided by total UI customers (265,278) equals about \$26.90 per customer. This is less expensive than the per-customer costs for Louisville Gas and Electric/Kentucky Utilities' at \$68 and American Water's at \$30.

At Louisville Water Company a new customer system cost \$92 per customer, according to the Kentucky Public Service Commission's order in Kentucky American Water Company recent rate case (2012-00520). The later system is over three times greater than Project Phoenix's customer system cost per customer. Furthermore, Louisville Water Company's customer system cost more per customer than the entire Project Phoenix initiative which implemented both a customer system and a financial system.

Witness – Patrick Baryenbruch

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

RESPONSE: No formal studies or analysis of the financial effects on WSKY of Project Phoenix or of the benefits that Project Phoenix provides to WSKY have been performed.

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

RESPONSE: N/A.

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

RESPONSE: Please refer to Mr. Baryenbruch's testimony that was contained in WSKY's application and contains the support for the benefits of Project Phoenix to the customers of WSKY. In addition, Project Phoenix provides the following benefits:

- The billing estimation function is improved. It now includes a 3-tier process that incorporates:
 - Customer history from last year same period.
 - Customer history for last 3-6 months.
 - Trend data from the customer's trend area (CIS Division) and trend class (Residential and Commercial)
- The system can provide for the automatic proration of billings based on number of days in read period or bill period.
- The system allows for the automated dispatching of Field Orders/Field Activities to Operations Staff for quicker response.
- More efficient means of billing customers who have one account, but more than one premises.
- More history for viewing by Customer Service to answer questions from customers.
 - History of reads
 - Legacy system held only the last 12 readings
 - History of billings
 - Legacy system held only the last 12 billings

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- Field Operations now have access to customer premise and service point information as well as meters and meter readings.
- Account numbers stay with the customer for life. This gives the Company the ability to track a customer from location to location.
 - This gives the company the ability to track a customer from location to location.
 - With the random generated account numbers, a reduction in misapplied payments will be drastically reduced.
- More information displayed on one screen for customer service to assist customers. The legacy system required moving from one screen to another.
- Automatic Collections and Severance process configured which reduces error from input. Accidentally disconnecting a customer for non-payment will be hard to do.
- Updates to the system are real time.
 - Completion of field activities
 - Payments and adjustments
 - Customer information
- Customers will have the ability to view account using the internet
 - View billing information
 - Update Account information

The JDE software provide the following benefits:

The system has enhanced record keeping and retrieval functions, making production of financial and regulatory reports easier. In addition, the report are more detailed, which benefits customers by improving the management decision making process and allowing the Company to more efficiently deliver reliable information to regulators. The system also reduces manual effort and reliance on spreadsheets, which again improves the reliability of reports. The Capital Projects module allows employees to view and track projects in real-time. Employees should be able to manage projects and costs in a more effective manner, which benefits the Company and customers. The JDE software allows for better accruals and a three-way match process, which is standard for accounting systems. The three-way match includes the following:

- 1) Vendor's invoices,
- 2) Internally prepared purchase order, and
- 3) Receipt of goods or services.

The three-way match process improves internal controls, which benefits all parties.

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Witness: Lowell Yap

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23. A utility can file a rate application under 807 KAR 5:076, alternative rate adjustment procedure for small utilities (“ARF”), if it meets the following conditions: (1) Had gross annual revenue in the immediate past calendar year of \$5,000,000 or less; (2) Maintained adequate financial records fully separated from a commonly-owned enterprise; and (3) Filed with the commission fully completed annual reports for the immediate past year and for the two (2) prior years if the utility has been in existence that long.³ Given that WSKY meets the listed conditions to file an ARF application, explain why it chose to file under 807 KAR 5:001, Section 16, Applications for General Adjustments of Existing Rates.

RESPONSE: WSCK is seeking recovery for reasonable expenses, such as Project Phoenix expenses, that had been disallowed in past rate cases. In bearing the burden of proof to demonstrate the reasonableness of its rates, WSCK believed that a more thorough application made pursuant to the general adjustment of existing rates would be the best vehicle in presenting its case to the Commission and potential intervenors.

Prior to the filing of WSCK’s rate case application, Commission Staff issued its first request for information, which requested almost identical information as the first request for information in WSCK last general rate case application, PSC Case No. 2010-00476. This signaled to WSCK that the Commission and Commission Staff expected WSCK to file the same, thorough information as has been filed in previous cases, which were not ARF cases. WSCK believed that it would have been inefficient to file an initial ARF application only to be required to file the remainder of information otherwise required in a general rate case at a later date. Such course of action would have increased rate case expense and lengthened the regulatory process.

Witness – Lowell Yap

³ 807 KAR 5:076.