

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. 2015-00382  
in Existing Rates )

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**NOTICE OF FILING**

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Water Service Corporation of Kentucky (“WSCK”), by counsel, hereby files an attachment labeled “*Staff DR 3.10 – Capitalized Time Guidelines*” that was referenced in response to Item 10 of the Commission Staff’s Third Request for Information but was inadvertently omitted from the filing.

Respectfully submitted,



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CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that the February 12, 2016, electronic filing of this Notice of Filing is a true and accurate copy of the same document being filed in paper medium; that the electronic filing has been transmitted to the Commission on February 12, 2016; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that an original paper medium of the Notice of Filing will be delivered to the Commission within two business days.



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Counsel for WSCK

# *Staff DR 3.10*

## *Capitalized Time Guidelines*

The purpose of these guidelines is to ensure that all employees are fully aware of the overall concept of capitalized time and to assist employees on the proper recording of capitalized time. Please contact Steve Lubertozi, Jim Andrejko or Christine Kim with any questions or for assistance with items not specifically covered in this guide.

**Capitalized time** refers to internal labor costs directly related to a capital expenditure or a capital project. The “cost” of your salary and benefits associated with the time you worked on a capital item is allocated to that item and becomes part of its overall cost basis. Capitalized time adds to rate base or our investment basis and improves our net income. Any missed capitalized time artificially inflates our expenses and reduces our rate base.

For example, if an operator earns \$40,000 in salary and benefits and records 50 hours of capitalized time related to a capital item, the amount of capitalized time would be \$961 calculated as follows:

|                                |           |
|--------------------------------|-----------|
| Annual salaries and benefits   | \$ 40,000 |
| Total hours worked in one year | ÷ 2,080   |
| Hourly cap time rate           | 19.58     |
| Capitalized time recorded      | × 50      |
| Capitalized time               | \$ 961    |

Using the above example, by capturing 50 hours of capitalized time the operator reduced our salary and benefits expense by \$961 and increased our asset base by \$961. These hours are typically project specific, charged to a specific capital project or asset and tracked for each employee.

**Capital expenditures** refer to costs incurred to acquire physical assets which have a useful life that extends beyond one year. All costs incurred to bring an asset to the condition and location necessary for its intended use are capitalized. Also, costs incurred to upgrade an existing asset which extends its original estimated useful life are capitalized. Costs include contracted labor, internal direct labor (in the form of capitalized time), materials and indirect costs.

**Operating expenses** refer to ongoing costs incurred in the day-to-day operations of the business. Typical operating expenses are for items such as chemicals, office supplies, permits and maintenance. In addition, costs incurred to keep a capital asset in its normal operating

condition that do not extend the useful life of the asset or increase the assets future service potential or functionality are expensed as incurred.

**Regulatory assets** primarily consist of costs related to the rate filing process, including capitalized time, for which we have received or expect to receive prospective rate recovery. These costs are deferred and amortized over the period of rate recovery.

**Deferred expenses** primarily consist of repair and maintenance costs incurred in jurisdictions where these expenditures may be deferred and amortized over the period of rate recovery.

## Following are Frequently Asked Questions and Answers Regarding Capitalized Time

Q: Can travel time be capitalized if you are working on a capital item (e.g.: to attend a new construction meeting)?

A: *Yes, but only if it is directly related to the project. Professional judgment must be used when recording travel time that may be considered excessive by a regulator.*

Q: Do I capitalize the time spent in transit to a meeting with someone to discuss a development in addition to the time in the meeting?

A: *If it is to discuss general development plans with no specific build out in mind (not yet considered to be a capital project), then no. However, if we are working with a developer who is preparing or currently working on a development or contiguous extension (considered to be a capital project) and you are working in connection with that development then, yes it should be capitalized.*

Q: If I replace a control panel or motor starter only, does that qualify as cap time?

A: *Yes.*

Q: Is changing out an existing meter or meter pit considered cap time?

A: *Yes.*

Q: Is the time spent designing automated answering trees and voicemail architecture for a new phone system considered cap time?

A: *No.*

Q: How many feet of replacement pipe are required before time can be capitalized?

A: *The cost of replacing pipe, regardless of length, is generally capitalized (including the cost of surface repair such as paving and landscaping) and therefore, time related to this effort can be capitalized. When pipe is replaced, it typically requires two clamps, one at each end of the new pipe. A repair, on the other hand, would require only a single clamp. The costs of repairs are expensed as incurred and cap time would not be recorded.*

Q: If you spend several hours doing paperwork (POs) for a cap (such as a major main break or where you replaced a section of main), is this time also capped?

A: *General paperwork would not qualify as cap time, unless you are engaged in construction related activities (i.e., engineering, supervision, or construction) then yes.*

Q: Spending an hour procuring a pump for a well (whether a replacement for one that burned out, or new) - is that time capped?

A: *Yes.*

Q: Time spent purchasing tools that are considered capital assets (which could be a specialty pump) - is that time capped?

A: *Yes.*

Q: Cross Connection personnel: If they spend time in the field inspecting facilities or to confirm proper equipment has been installed in order to protect our facilities from possible contamination or backflow, etc., is this time capped?

A: *Inspection of previously installed assets should not be capitalized.*

Q: Should time be capitalized when installing or replacing water meters at a service point?

A: *Yes.*

Q: Should time be capitalized when replacing a chemical feed mixer motor (from time purchasing, removing and replacing with a new one)?

A: *Yes.*

Q: Should time be capitalized when installing an elder valve?

A: *Yes.*

Q: Should time be capitalized when taking video of a sewer main to locate a tap in order to install an elder valve?

A: *Yes.*

Q: At a new house under construction it is necessary to video the line in order to locate the sewer tap. Can we cap this time spent, and the contractor's expense?

A: *Yes.*

Q: Taking video of a sewer line (as a follow-up from a previous sewer blockage):

A: *If no problems are found no time is capitalized. If we do find a problem and have it fixed then yes.*

Q: An operator exchanges a meter. Is the time to input the meter exchange data into CC&B capped?

A: *Yes, regardless of who inputs the data.*

Q: Should time related to rate cases be capitalized?

A: *Yes.*

Q: Can I capitalize time related to divestments and acquisitions?

A: *No.*

Q: Can I capitalize time spent associated while a vendor is on-site performing work related to a capital project?

A: *It depends. If you are supervising or inspecting the work, then yes. If the vendor is working independent, then no.*

Q: Should time be capitalized if I paint a tank?

A: *Only if it is related to a capital project.*

Q: Can I capitalize time related to developer agreements?

A: *Yes because it would be related to a construction project.*

Q: What if I work on a capital project but a project code hasn't been set up in JDE?

A: *Record this capitalized time in JDE using Pay Type 5 – Capital Suspense. Include the project name or other relevant information in the "Member Description" field.*

Q: What types of items are not capitalized?

A: *Services performed that are incidental to your work, such as general overhead costs that would have been incurred without the capital. Work not directly related to the development or construction of the project, and time related to non-capital repairs and maintenance.*

Examples of items that qualify for capitalization include the following, which is not an exhaustive list:

Installing or replacing:

1. Water supply / wells - Actual drilling of new well, testing new wells, install new or replace drop pipe, well casing, clearing land for new well, acidizing or shocking well, fracking well and capping an abandoned well.
2. Water electrical equipment - Well pumps; booster pumps; motors; well meters (turbo); piping within pumping station, recording, switching, measuring equipment, telemetry and generators.
3. Water storage - Water towers, storage tanks, pneumatic tanks, pressure control valves, quick tap on tanks, chemical tanks, check valves, anti- siphon valves and backflow preventer major maintenance on tanks.
4. Water mains/construction - Blow offs, valve boxes; section of main replaced, major main breaks.
5. Water hydrants - Hydrants, manholes, valves for hydrants and tees at main for hydrants.
6. Water buildings - Water treatment building: fences, building, well houses, locks, storage buildings, pole barns, driveways and reroofing or siding building.
7. Water treatment - Chlorinator, mixers, chemical pumps, air compressors, filter system, chemical scales and softeners.
8. Meters - original installations and replacements.
9. Sewer treatment plant/construction - Weir boxes, pumps, contact basin, piping within station, blowers, flow meter/box, clarifier, chlorinator, travel bridge, rewind/rebuild motor, surge tank impellor replacement is a rebuild to a

- pump/motor, generator, electrical work building, fences, locks, storage buildings, driveways and reroofing or siding building.
10. Sewer mains/construction - Section of main replaced and major main breaks.
  11. Sewer manholes/construction - Sealing of manhole covers and raising of manholes.
  12. Sewer lift stations/construction - Pumping station, wet well and lift stations.
  13. Sewer Refuse - Transmission, distribution, pump stations, storage.
  14. Reuse - treatment, storage and transmission.
  15. Road or landscape restoration as it relates to an above activity.
  16. Master agreements.
  17. Costs associated with the administration of water rights.