

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:


**ELECTRONIC INVESTIGATION OF
THE IMPACT OF THE TAX CUTS
AND JOB ACT ON THE RATES OF
WATER SERVICE CORPORATION
OF KENTUCKY**

CASE NO 2018-00043

**WATER SERVICE CORPORATION OF KENTUCKY RESPONSES TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

Water Service Corporation of Kentucky ("WSCK") respectfully submits the following responses to the Commission Staff's first request for information.

Respectfully submitted,



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ATTORNEYS FOR WSCK

1. Provide WSCK's income statement, balance sheet, and statement of retained earnings for the calendar year ending December 31, 2017.

Response: Please see attached "Response to Staff's DRs Set No 1 (DR No 1,2,3 & 4)".

Prepared by: Steve Lubertozi
President

2. Using the table below, provide the calculation of the gross revenue conversion factor ("GRCF") including a 35 percent Federal Income Tax ("FIT") rate.

<u>Line #</u>	<u>Description</u>	<u>Rates</u>	<u>State</u>	<u>Federal</u>
1	Operating Revenue		100.000000%	100.000000%
2	Less: Uncollectible Expense			
3	Less: PSC Assessment			
4	Less: Production Activities Deduction State			
5				
6	Income before State Income Tax		100.000000%	100.000000%
7	State Income Tax		0.000000%	0.000000%
8				
9	Income before Federal Income Tax			100.000000%
10	Federal Income Tax			0.000000%
11				
12	Operating Income Percentage (Line 9 - Line 10)			100.000000%
13				
14	Gross Revenue Conversion FACTOR (Line 1 / Line 12)			1.000000
15				
16	Composite Income Tax Rate (Line 7 + Line 10)			0.000000%
17				
18	Common Equity Gross-up (Line 16 / (1 - Line 16))			0.000000%

Response: Please see attached "Response to Staff's DRs Set No 1 (DR No 1,2,3 & 4)".

Prepared by: Steve Lubertozzi
President

3. Using the table in Item 2, provide the calculation of the GRCF including a 21 percent FIT rate.

Response: Please see attached "Response to Staff's DRs Set No 1 (DR No 1,2,3 & 4)".

Prepared by: Steve Lubertozzi
President

4. Using WSCK's responses to this Request for Information and the table below, provide the revenue reduction resulting from the decrease in the FIT rate from 35 percent to 21 percent.

Line No.	Description	35% Federal Income Tax Rate	21% Federal Income Tax Rate	Revenue Impact
1	Operating Expenses Net of Income Taxes			
2	Divide by: 88% Operating Ratio			
3				
4	Required Annual Operating Income Before Taxes (Line 1 / Line 2)			
5	Multiplied by: Income Tax Gross-up Factor			
6				
7	Required Operating Income After Taxes (Line 4 x Line 5)	\$ -	\$ -	
8				
9	Amortization Of Excess ADIT (Protected) - Using ARAM			
10	Amortization Of Excess ADIT (Unprotected)			
11				
12	Total Amortization Of Excess ADIT (Line 9 + Line 10)		-	
13	Gross-Up Factor Using 21% Federal Tax Rate			
14				
15	Total Reduction In Deferred Income Tax Expense (Line 12 x Line 13)			-
16				
17	Total Reduction In Revenue Requirements (Line 7 + Line 15)			\$ -

If WSCK lacks sufficient information to apply the average rate assumption ("ARAM") method, instead use the Reverse South Georgia Method to calculate the amortization of excess protected accumulated deferred income taxes ("ADIT") in Line 6 of the above table. If estimates and assumptions were made to calculate the amounts identified in response to this Request, identify and describe any estimates and assumptions.

Response: Please see attached "Response to Staff's DRs Set No 1 (DR No 1,2,3 & 4)". Since ADIT was not included as a component of customer's rates, WSCK was not required to set up a regulatory liability for the excess accumulated deferred income taxes. Therefore, neither ARAM or the Reverse South Georgia Method applies. Likewise, because ADIT was not included as a component of customer's rates, WSCK does not agree that the amount calculated should be a reduction to WSCK's revenue requirement.

Prepared by: Steve Lubertozzi
President

5. Explain whether any of the expenses charged to WSCK by its affiliates in 2017 contain any FIT implications. If so, state whether WSCK addressed the impacts on its revenue requirements. If not, provide the impact of the FIT implications on WSCK's 2017 expense and revenue requirement.

Response: WSCK is not charged expenses from any of its affiliates. WSCK does get costs allocated from its shared services organization Water Service Corporation. See response to No.

4.

Prepared by: Steve Lubertozzi
President

6. Have any of WSCK's affiliates resolved or are in process of settling the impact of the Tax Cuts and Job Act on rates in other states. If so, provide the amortization period(s) established for the unprotected excess ADIT.

Response: No.

Prepared by: Steve Lubertozi
President

7. State whether WSCK has received any letter or written opinion from the Internal Revenue Service since January 1, 2010, regarding the treatment of WSCK's excess ADIT and, if so, provide a copy of the letter or written opinion.

Response: WSCK is unaware of any letter or written opinion from the IRS regarding excess ADIT.

Prepared by: Steve Lubertozi
President

8. Provide any and all letters or written opinions prepared by the Internal Revenue Service and relied on by WSCK or its agents to calculate WSCK's excess ADIT or to determine how the excess ADIT may be reimbursed to ratepayers under federal tax law, regardless of whether those letters or written opinions were prepared for or at the request of WSCK.

Response: No such document exists.

Prepared by: Steve Lubertozzi
President

9. If WSCK's fiscal year is different from the calendar year ending December 31, 2017, provide the fiscal year and identify and describe any effect that a non-calendar fiscal year has on the calculation of excess ADIT or the rate at which it may be reimbursed pursuant to the Tax Cut and Jobs Act.

Response: WSCK's fiscal year ends December 31, and see response to No. 4.

Prepared by: Steve Lubertozzi
President

10. Provide the maximum total amount of excess protected ADIT that WSCK contends may be reimbursed to ratepayers annually in 2018 and for each year thereafter through 2033 using the ARAM method. If WSCK is not able to apply the ARAM method because it lacks the relevant information, separately provide the maximum total amount of excess protected ADIT that WSCK contends may be reimbursed to ratepayers annually in 2018 and for each year thereafter through 2033 using the Reverse South Georgia Method.

Response: See response to No. 4.

Prepared by: Steve Lubertozzi
President

11. Identify any and all assets, property and accounts the depreciation of which gave rise to protected excess ADIT and:

a. Provide the extent to which such assets, property, and accounts were depreciated as of December 31, 2017, in terms of percentage and total value;

b. Provide the annual depreciation schedule for each such asset, piece of property, and account for tax and regulatory purposes through 2034;

c. Provide the excess ADIT that arose from the depreciation of each such assets, property, and account as of January 1, 2018;

d. Provide the total ADIT, including excess ADIT and ADIT that is not excess, attributable to each such asset, property, or account as of December 31, 2017;

e. Identify and provide any other information used by you to calculate the maximum protected excess ADIT that may be reimbursed to ratepayers in 2018 through 2033 using the ARAM method;

f. If the information necessary to use the ARAM method is not available, explain the method and basis for your calculation in response to the preceding Item;

g. If estimates and presumptions were made to calculate the response to the preceding Item, please identify and describe any estimates and assumptions.

Response: See response to No. 4.

Prepared by: Steve Lubertozzi
President

12. Identify and describe the source of all unprotected excess ADIT, and if any excess unprotected ADIT arose from the depreciation of any asset, property, or account, state the extent to which such asset, property, or account was depreciated as of December 31, 2017, in percentage terms and total value; identify the date on which each would be fully depreciated based on the current regulatory depreciation schedule; and identify the excess unprotected ADIT attributable to each such asset, property, or account as of January 1, 2018.

Response: See response to No. 4.

Prepared by: Steve Lubertozzi
President

13. Provide monthly sales and revenues recorded in 2017, by customer class.

Response: Please see attached "Response to Staff's DRs Set No 1-13."

Prepared by: Steve Lubertozi
President

14. Provide schedules reflecting both a 5-year and a 15-year amortization period for WSCK's unprotected excess ADIT and the impact each amortization period would have on Columbia Gas's revenue requirement.

Response: We presume this item requests information related to WSCK. See response to No. 4.

Prepared by: Steve Lubertozi
President

15. Provide all supporting schedules, calculations, and documentation in Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible.

Response: Please see attached files “Response to Staff’s DRs Set No 1 (DR No 1,2,3 & 4)” and “Response to Staff’s DRs Set No 1-13.”

Prepared by: Steve Lubertozzi
President