

**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**

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

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Water Service Corporation of Kentucky (“WSCK”) respectfully submits the following responses to the Commission Staff’s first request for information. WSCK President Steven Lubertozzi is responsible for responding to questions related to the information presented.

Respectfully submitted,



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STURGILL, TURNER, BARKER & MOLONEY, PLLC  
M. Todd Osterloh  
James W. Gardner  
333 W. Vine Street, Suite 1500  
Lexington, Kentucky 40507  
Telephone No.: (859) 255-8581  
tosterloh@sturgillturner.com

ATTORNEYS FOR WSCK

CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that the April 20, 2018, electronic filing of this Response is a true and accurate copy of the same document being filed in paper medium; that the electronic filing will be transmitted to the Commission on April 20, 2018; 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 Response will be delivered to the Commission within two business days.



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Counsel for the WSCK

**1. Refer to WSCK's responses to Commission Staff First Request for Information, Item 1.**

- a. Explain if WSCK agrees that the calculation it provided is an appropriate method for calculating the impact of the decrease in the federal income tax rate from 35 percent to 21 percent on WSCK's revenue requirements.**

Response:

The information WSCK provided in response to the Commission Staff's First Request for Information, Item No. 1 was WSCK's Income Statement, Balance Sheet and Statement of Retained Earning. The Income Statement, Balance Sheet and Statement of Retained Earning are not true calculations and should not be used as a method to calculate the impact of the decrease in the federal corporate income tax rate from 35% to 21%.

Presuming the Commission Staff is referring to WSCK's response to Items 3, 4 and 5 of the First Request for Information, WSCK responds as follows: WSCK agrees that the calculations provided in response to the Commission Staff's First Request for Information, Items 3, 4 and 5 appropriately calculate the Income Tax Gross-Up Factor. However, WSCK disagrees that the above-mentioned calculation would or should result in a refund to customers. WSCK anticipates filing a rate case by June 30, 2018, which will generate rates using the reduced federal corporate income tax rate of 21%. The upcoming rate case will afford a comprehensive review of all components of rates and will be the best mechanism to incorporate the new federal corporate income tax rate. Additionally, see the Direct Testimony of Steven M. Lubertozi filed in this matter.

- b. If WSCK does not agree, explain why WSCK does not believe the method is appropriate, any alternative method proposed by WSCK, and WSCK's full reasoning for use of an alternative method.**

Response:

See Response to 1a.

- c. Explain if WSCK agrees that the total reduction in revenue requirements WSCK calculated in this response, as a result of the decrease in the federal income tax rate from 35 percent to 21 percent, should reduce WSCK's rates to customers from January 1, 2018, forward.**

Response:

See Response to 1a. No WSCK does not agree that the calculations should reduce WSCK's rates to customers. In addition, even if any reduction in rates was warranted, statutes and Commission precedent would prohibit a reduction of rates being effective on January 1, 2018. KRS 278.270 states that the Commission must make a finding that a utility's rates are

“unjust, unreasonable, insufficient, unjustly discriminatory or otherwise in violation” of KRS Chapter 278 before setting “a just and reasonable rate to be followed *in the future*.” (Emphasis added.) KRS 278.180 requires that the Commission give a utility 30 days’ notice of a change in rates. Likewise, the Commission explained in Case No. 1995-00011:

The rule against retroactive ratemaking is a ‘generally accepted principle of public utility law which recognizes the prospective nature of utility ratemaking and prohibits regulatory commissions from rolling back rates which have already been approved and become final.’ . . . It further prohibits regulatory commissions when setting utility rates, from adjusting for past losses or gains to either the utility consumers, or particular classes of consumers.

Kentucky Industrial Utility Customers, Inc. v. Big Rivers Electric Corporation, Case No. 1995-00011 at 7 (Ky. PSC April 1, 1997). Thus, no rates could be ordered to be effective as of January 1, 2018.

- d. If the response to Item 1.c. is no, explain whether there is any other calculation method that reflects a total reduction in revenue requirements for WSCK, as a result of the decrease in the federal income tax rate from 35 percent to 21 percent, that WSCK agrees should reduce WSCK’s rates to customers from January 1, 2018, forward, or explain why WSCK believes the decrease in the federal income tax rate should not be reflected in WSCK’s rates.**

Response:

See Response to 1a. WSCK does not believe that any reduction to WSCK’s rates to customers from January 1, 2018 forward is warranted. WSCK must have the ability to generate the level of revenues contemplated in its most recent rate case. In Case No. 2015-00382, the Commission authorized WSCK adjust its rates to permit WSCK to recover \$2,462,154 in annual revenues, which was calculated using the 35% federal corporate income tax rate. For the calendar year 2017, WSCK’s financials show that WSCK generated \$2,414,588 in revenue, which is \$47,565 below the expected revenue requirement contained in the Commission’s order in Case No. 2015-00382. If any reduction to rates is warranted, it should be based on the Direct Testimony of Steven M. Lubertozzi filed in this matter, Page 6, Table 1: Hypothetical Revenue.

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VERIFICATION

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This is to certify that I have supervised the preparation of Water Service Corporation of Kentucky's ("WSCK") responses to the Commission Staff's Second Request for Information and that the responses are true and accurate to the best of my knowledge, information, and belief after reasonable inquiry.

Date: \_\_\_\_\_

4/17/18



Steven M. Lubertozi  
President, WSCK