COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

Electronic Application of Water Service	)	
Corporation of Kentucky for a General	)	Case No. 2018-00208
Adjustment in Existing Rates	)	

BRIEF OF
WATER SERVICE CORPORATION OF KENTUCKY

In this case, Water Service Corporation of Kentucky ("WSCK") seeks an increase in rates for water service. It also seeks approval of certain amendments to its tariff and approval of the depreciation rates identified by John Guastella in his depreciation study.

I. Background

WSCK provides potable water service to approximately 6,164 customers[1] located in and near the cities of Middlesboro and Clinton, Kentucky, in Bell and Hickman counties.

On July 5, 2018, WSCK filed its application in this matter, in which it sought an increase in annual revenue of $852,743. WSCK proposes to generate its revenue requirement through a uniform rate structure, in which customers of Middlesboro and Clinton are charged the same rates.

WSCK also proposes a few changes to its tariff. First, it is proposing to add provisions to ensure that it can recover actual costs for the movement of service lines at a customer's request. Second, the utility is proposing a correction to a tariff provision on Sheet 19 that ensures the intent of the provision is effectuated. Third, WSCK proposes a provision that allows the Company to require an encasement pipe on a customer's service line. And fourth, it proposes a

[1] Cost of Service Study, Schedule C at 14 of 18.

provision permitting the Company to recover costs when a customer tampers with meters and facilities.

As a result of the settlement agreement in WSCK's last rate case (Case No. 2015-00382), the utility retained two companies to assist in the development of fair, just, and reasonable rates. Gannett Fleming Valuation and Rate Consultants, LLC, was engaged to prepare a cost-of-service study. The rates on which WSCK seeks approval are based on this cost-of-service study. Guastella Associates, LLC, was engaged to analyze and recommend depreciation rates that are consistent with the National Association of Regulatory Utility Commissioners Study of Depreciation Practices for Small Water Utilities ("NARUC manual"). As a result of Guastella's study, WSCK requests Commission approval in this case of the depreciation rates and to change the depreciation rates to be consistent with that study.

The Commission determined that there were no filing deficiencies with the application and so advised the parties by letter on July 16, 2018. Three days later, it entered an order suspending the effective date of proposed rates for approximately five months.

On July 25, 2018, the Attorney General filed a motion to intervene, and the Commission granted that motion by Order dated July 30, 2018. The City of Clinton filed a motion to intervene on September 28, 2018, but the Commission denied its motion on October 22, 2018. No party other than the Attorney General was granted intervention in this matter. WSCK is the only party to file testimony in this matter.

WSCK's proposed rates were calculated using the reduced 21-percent federal corporate income tax codified in the Tax Cut and Jobs Act ("TCJA"). Prior to the filing of this case, the Commission established Case No. 2017-00481 to review the impacts of TCJA on gas and water investor-owned utilities in the state. The Commission later established an individual TCJA case for each utility and docketed WSCK's case as Case No. 2018-00043. By Order dated August 30, 2018, the Commission consolidated WSCK's TCJA case into this rate case in order to achieve administrative efficiencies and reduce the expenditure of resources.[2]

Following the conclusion of discovery, the Commission scheduled an evidentiary hearing for November 7, 2018. Unforeseen and unfortunate circumstances dictated WSCK to request a continuance of that hearing when the manager of their Clinton operations, John Turner, passed away on Saturday, November 3, 2018. The Commission rescheduled the hearing for December 19, 2018.

At the evidentiary hearing, WSCK presented the following witnesses: Robert Guttormsen, Perry Brown, Andrian Dmitrenko, Michael Miller, Constance Heppenstall, and Steven Lubertozzi. The Commission had previously excused John Guastella from attendance at the hearing. No other party presented testimony.

II. Analysis

WSCK proposes to use a 12-month period ending December 31, 2017, as the test period to determine the reasonableness of rates. WSCK has made adjustments for known and measurable changes, as permitted by regulations.[3] The following discussion pertains to topics addressed at the evidentiary hearing held on December 19, 2018, and elsewhere in the record.

A. Depreciation

The Commission should approve WSCK's proposed depreciation rates because they are consistent with the 1979 NARUC manual and because they produce a lower depreciation expense—and therefore a lower rate—than other methodologies.

In the settlement agreement in WSCK's last rate case, Case No. 2015-00382, WSCK advised the parties and Commission that it "anticipate[d] requesting Commission approval in its next rate case seeking a general adjustment of rates to use depreciation rates that are ***consistent***

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[2] Order dated August 30, 2018, at 3.
[3] 807 KAR 5:001, Section 16(1)(a)(1).

with the National Association of Regulatory Utility Commissioners Study of Depreciation Practices for Small Water Utilities." (Emphasis added.)[4] In anticipation of the current rate case, WSCK retained Guastella Associates, LLC, ("Guastella")[5] to analyze and recommend depreciation rates that are consistent with the NARUC manual.

The 1979 NARUC manual recognizes that depreciation rates are calculated by factoring in average service lives of asset groups and net salvage percentages. On page 9 of the manual, it states that a small utility may not have sufficient records to develop its own survivor curves to estimate average service life of an asset, and in such a case, the utility can use an average service life based on engineering judgment or by using the forecast or life span being used by other utilities.[6] This is precisely what Guastella did.

Guastella performed a comparative analysis to establish appropriate average service lives and depreciation rates.[7] Through this analysis, Guastella recommended average service lives for WSCK's assets that fall within the range of data compiled from the following entities and organizations: Utilities & Industries Corp., Long Island Water Corporation, Elizabethtown Water Company, Citizens Water Company, Artesian Water Company, Illinois American Water Company, Middlesex Water Company, Citizens Water Company, the New Jersey American utilities, Pennichuck Water Company, Aqua Illinois, Inc. divisions known as Candlewick, Fairhaven Estates, Hawthorn Woods, Ivanhoe, Oak Run, Ravenna, University Park, Vermilion, Willowbrook, Elwood Green, Kankakee and Corporate, NARUC guideline depreciation rates found in the NARUC manual, California Public Utilities Commission Standard Practice

[4] *See* WSCK's Response to Staff's Post-Hearing Data Request, Item 6.
[5] Because Guastella Associates' President John Guastella performed the analysis on behalf of the consulting company, we use the term "Guastella" interchangeably.
[6] *See* Testimony of John Guastella at 7-8.
[7] *Id.* at 6.

depreciation rates, and Florida Public Service Commission rules and regulations on depreciation rates.[8]

Questions arose in this case about the similarities and differences between Guastella's analysis and a depreciation benchmarking study that was introduced in Case No. 2006-00398 on behalf of Northern Kentucky Water District ("NKWD"). Although both studies used comparative data to determine average service lives and depreciation rates to be applied to primary plant accounts when there is insufficient data for actuarial studies,[9] there are stark differences. The methodologies and much of the information used by Guastella to establish the comparable depreciation data were not only verified by Guastella, he was directly involved in the preparation of many of the depreciation studies. As a result, Guastella was able to describe the methodology of many of the depreciation rates used within the analysis.[10] In addition, Guastella provided evidence in the form of testimony and an exhibit in support of his recommended negative net salvage values that reflect a sound basis for cost of removal applicable to the average service lives of various primary plant accounts in the Kentucky region using the Hany-Whitman Construction Cost Indices.[11]

In addition to being based on the sound principles espoused within the 1979 NARUC manual, WSCK's proposed depreciation rates produce a lower depreciation expense than if the utility were to apply the mid-point service life of figure 1 from the 1979 NARUC manual and include Commission-approved depreciation rates that recognize the manual's inability to consider present-day technology.

An example of the Commission's approval of a depreciation rate not found in the 1979 manual comes from Case No. 2013-00366. In that case, Rattlesnake Ridge Water District

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[8] *Id.* at 7.
[9] *See* WSCK Response to Staff's Post-Hearing Data Request, Item 7.
[10] *See id.* at Item 7(b); WSCK Response to Staff's Second Request for Information, Item 25(e),
[11] *See* WSCK Response to Staff's Post-Hearing Data Request, Item 7(b). Here again, Guastella's analysis on net salvage values is consistent with the 1979 NARUC manual, which acknowledges on page 12 that the net salvage value can be a negative value when the cost of removal is expected to exceed gross salvage value .

submitted an application for alternate rate adjustment with documentation showing it utilized a 5-year service life for computers, printers, and related equipment.[12] In their report, Commission Staff also utilized a 5-year service life for computers associated with a water treatment plant expansion for the Water District.[13] Staff did not recommend any changes to the 5-year service life used by the utility in Appendix B of its report. The Commission agreed with Staff that the Water District should revise its assignment of service lives for four groups of assets identified in Appendix B to the Staff Report, but it did not make any other changes.[14] The Commission effectively approved the utility's use of a 5-year service life for computers and other modern technologies.

If the Commission were to find that WSCK should have simply calculated the depreciation off of figure 1 of the 1979 NARUC manual and appropriate adjustments recognizing 5-year live span for computers and related equipment, WSCK's depreciation expense in this case would increase by $32,865.[15]

WSCK Plant in Service	WSCK Guastella Study Rate	WSCK Guastella Study Expense	1979 NARUC Survey (A) Rate	1979 NARUC Survey (A) Expense	1979 NARUC Survey (A) Variance
$ 12,723,289	4.18%	$ 531,746	4.44%	$ 564,611	$ (32,865)

Similarly, if WSCK were to utilize comparative analysis from Kentucky water utilities that have developed depreciation rates, WSCK's depreciation expense would also increase.[16]

WSCK Plant in Service	WSCK Guastella Study Rate	WSCK Guastella Study Expense	Commission Decision Case No. 2006-00398 NKWD Rate	Commission Decision Case No. 2006-00398 NKWD Expense	Commission Decision Case No. 2006-00398 NKWD Variance	Case No. 2015-00418 Kentucky American Water Company Study Rate	Case No. 2015-00418 Kentucky American Water Company Study Expense	Case No. 2015-00418 Kentucky American Water Company Study Variance
$ 12,723,289	4.18%	$ 531,746	4.51%	$ 574,370	$ (42,630)	4.25%	$ 540,903	$ (9,157)

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[12] *See* Application, Case No. 2013-00366, filed as Exhibit 6 to WSCK Response to Post-Hearing Data Requests.
[13] *See* Staff Report, Case No. 2013-00366 at 15, filed as Exhibit 6 to WSCK Response to Post-Hearing Data Requests.
[14] *See* Order dated Feb. 7, 2014, Case No. 2013-00366 at ¶¶ 13-14, filed as Exhibit 6 to WSCK Response to Post-Hearing Data Requests.
[15] *See* WSCK Response to Staff's Post-Hearing Data Request, Item 7(b)(3).
[16] *Id.*

Therefore, any other methodology for calculating WSCK's depreciation expense would result in higher depreciation expense and higher rates to consumers. Accordingly, because Guastella's methodology is consistent with the 1979 NARUC manual and because it presents the lowest depreciation rate of others suggested, the Commission should approve WSCK's proposed depreciation expense and proposed depreciation rates.

B. Ambleside Private Fire Surcharge

WSCK seeks to implement a Private Fire Surcharge rate for the homeowners in the Ambleside area. Ambleside Subdivision near Middlesboro was initially developed in 1982, and Ambleside, Ltd., assumed responsibility for the fire-hydrant charges at the time of the initial development.[17] Ambleside, Ltd., stopped paying the fire-hydrant charges in 2008 and has not paid since.[18] In order to recoup the cost of providing fire protection in that area, WSCK now proposes to create a surcharge to be paid for by the individuals who benefit from the service.

The Ambleside Private Fire Surcharge is proposed to be $3.63 per month for each of the approximately 221 customer accounts in the subdivision. This rate was determined by multiplying the proposed Private Fire Hydrant rate ($36.50) by the number of hydrants in the subdivision (22) and dividing that number by the number of customers (221).

This proposal ensures that the individuals who benefit from the service pay for the service. It would eliminate unnecessary bad debt expense. And, similarly, it would eliminate the need to incur litigation costs and attorneys' fees for collection efforts in the appropriate judicial forum. Those expenses would later be socialized and borne by all customers in WSCK's service area. Accordingly, WSCK's proposed surcharge should be approved.

WSCK proposed rates include a pro forma adjustment to reduce the amount of bad debt expense related to nonpayment of the Ambleside hydrants. If the Commission determines that

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[17] *See* PSC Staff Opinion Letter 2010-00016, attached to WSCK Response to the Staff's Post Hearing Data Responses, Exhibit 1.
[18] WSCK Response to the Staff's Post Hearing Data Responses, Exhibit 1(e).

the Surcharge is unreasonable, the pro forma adjustment to bad debt must be reversed, which would ultimately increase rates for all other customers.[19]

C. Reasonableness of salary expenses

WSCK is aware of the Commission's position regarding the demonstration of the reasonableness of salaries. In order to satisfy the Commission, Andrian Dmitrenko prepared an analysis to show the reasonableness of WSCK's salaries. First, Dmitrenko completed an analysis that compares WSCK salary expense per customer to a similarly-sized water utility company's salary expense per customer in Kentucky. Second, Dmitrenko provided a comparison of WSCK's salary levels to market cost of services available by service providers outside the utility industry.

WSCK has explained that one reason for its salary expense to increase is the addition of new positions that are necessary and beneficial to WSCK's provision of safe, reliable service to its customers.[20] WSCK has acknowledged that salary expense should be reduced due to the elimination of the position of Director of Capital Planning & Asset Management, whose salary was allocated 13.55% to WSCK.[21] With this adjustment, WSCK's salary expense is reasonable and should be included in rates.

D. Capitalized Time Adjustment

WSCK made an adjustment to remove capitalized time not associated with capital projects, as without this adjustment WSCK was not fully recovering its annual salary expense.[22]

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[19] *See, e.g.,* WSCK Response to the Attorney General's First Request for Information, Item 23(a).
[20] *See* Direct Testimony of Steven Lubertozzi, Case No. 2018-00208, at 6-10; WSCK Response to Staff's Second Request for Information, Item 6.
[21] WSCK Response to Staff's Second Request for Information, Item 6. In the file submitted with WSCK's response to Item 3 of the Staff's First Request for Information, line 18 of "Wp-b Salary" shows the annual salary of Director of Capital Planning & Asset Management before the allocation percentage of 13.55 is applied.
[22] Direct Testimony of Steven Lubertozzi, Case No. 2018-00208, at 6.

On a going forward basis, WSCK will only record capitalized time for capital and deferred maintenance projects.[23]

This adjustment is necessary because the current practice is not a reasonable business practice. There is an incongruence of capitalizing salary expense and recovering those expenses over the useful lives of the assets being depreciated, while not earning a return on that investment because WSCK's rates are based on an operating margin (and not a return on rate base).[24] No prudent investor would elect to recover an annual level of salaries expense over 50 years without earning a return on that investment.[25] Accordingly, WSCK's proposed adjustment to remove capitalized time not associated with capital projects under the operating margin method is reasonable and should be approved.

E. Rate Case Expense

WSCK seeks to recover actual rate case expense in rates. The Company was able to keep rate case expense significantly lower than estimated. The original estimate projected total rate case expense at $195,410, and the final total at the close of evidence was only $125,007, a difference of approximately $64,000. The actual rate case expense is proposed to be amortized over two-and-a-half years. This 30-month amortization period is reasonable because it causes the Company's expenses to be more in line with its revenues. On average, over the past five base rate cases, WSCK has filed a base rate application every 27 months,[26] three months quicker than the proposed amortization period in this case. Accordingly, WSCK requests the Commission approve the proposed amortization period for rate case expense in this case as a result of the case history of WSCK.

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[23] Direct Testimony of Robert Guttormsen, Case No. 2018-00208, at 6; WSCK Response to Staff's Second Request for Information, Item 5(c).
[24] WSCK Response to Staff's Third Request for Information, Item 2.
[25] *See* Direct Testimony of Steven Lubertozzi, Case No. 2018-00208, at 6.
[26] *See* WSCK Response to the Staff's Second Request for Information, Item 15.

F. Deferred maintenance

Test-year maintenance and repair expense has been adjusted to include deferred maintenance projects. The largest drivers of pro forma maintenance expense are two tank painting projects that will be undertaken in Middlesboro, for which WSCK has received cost estimates of $605,000. WSCK has had the tanks evaluated by an engineering firm and it is their recommendation the work be performed in the next 1-2 years. The interior coating is failing and a delay in performing the necessary work may result in additional repair and replacement costs as the tanks corrode.[27] The Company expects to incur approximately $6,100 in internal captime related to these two projects. These two deferred projects will be amortized over 12 years and will result in an increase of approximately $51,000 over test-year maintenance expenses. WSCK also anticipates increased costs if the projects are delayed for lack of funding.[28]

WSCK's deferred maintenance expense adjustments include costs associated with compliance with the UCMR4 testing requirements from the EPA.[29] UCMR4 requires monitoring for 30 chemical contaminants between 2018 and 2020 using analytical methods developed by EPA and consensus organizations.

WSCK acknowledges that an annual level of inspection costs included in the actual test year expenses for the Clinton - Grubbs Subdivision and Clinton Water Treatment Plant Clearwell tanks. Accordingly, a downward adjustment to operating expense in the amount of $1,240 is necessary. With this exception, the disallowance of the other deferred maintenance expenses will result in an understated operating expense.

G. Operating Lease Expense

WSCK included a pro forma adjustment to reflect operating lease expenses for which WSCK has agreements in place of $48,332. This adjustment includes the annual leasing cost for

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[27] WSCK Response to the Staff's Third Request for Information, Item 11.
[28] *Id.*
[29] WSCK Response to the Staff's Post-Hearing Data Request, Item 3.

two backhoes totaling $36,966. Each backhoe has an annual lease expense of $16,959, and annual insurance expense of $1,525. WSCK verified the cost-benefit of leasing these backhoes, as it calculated the estimated annual cost to own a backhoe to be $49,190 in comparison to the cost to lease at $43,755.[30] The Company also included a pro forma adjustment of $11,365 for known future railroad lease agreements. The pro forma adjustments to lease expenses should be approved.

H. Tax Cut and Jobs Act

WSCK's new rates will reflect the 21% federal corporate income tax rate (and 5% Kentucky corporate income tax rate). Prior to the initiation of this rate case, the Commission opened an investigatory case to review the impacts of the TCJA on WSCK and other utilities. The two primary issues that were to be addressed on the implementation of the TCJA were the appropriate level of deferred liabilities to be recorded to reflect the reduced federal corporate tax rate and the appropriate level of reductions in utility rates to reflect the reduced federal corporate tax rate.

WSCK has identified the two bases for establishing a deferred liability: excess accumulated deferred taxes due and reduction in federal-income-tax expense included in rates. It would be inappropriate for WSCK to create the regulatory liability for the excess deferred income taxes because WSCK's rates are determined through an operating-ratio methodology. Under this method, a utility may recover its costs plus a return or margin on certain expenses. In contrast, a rate-base rate-of-return rate case allows a utility to earn a return on and of its investment, and this investment would include reduction to rate base with a credit journal entry to Accumulated Deferred Income Taxes (ADIT). Without this reduction in reduction to rate

[30] WSCK Response to the Attorney General's First Request for Information, Item 4 (attachment Response to AG DR 1-4 (KY Backhoe Analysis)).

base with the credit journal entry to ADIT, then there is no regulatory liability for excess deferred income taxes.[31]

It would also be inappropriate for WSCK to create a regulatory liability for the reduction in federal-income-tax expense included in rates because there was no determination of the tax expense in WSCK's last rate case, Case No. 2015-00382. With no determination of the federal corporate income tax expense included in customer's rates, WSCK was not in a position to record a regulatory liability. Even if there was a way to calculate a regulatory liability, WSCK's revenue was deficient to cover all of its operating expenses including the authorized operating ratio, regardless of the federal income tax rate.[32]

For the calendar year 2017, WSCK's preliminary financials revealed that WSCK generated $2,414,588, which is $47,565 below the expected revenue requirement contained in the Commission order in Case No. 2015-00382.[33] In fact, WSCK's return on equity ("ROE") was 5.92% as of September 2017 and was 5.19% as of December 2017,[34] which is well below the range of ROEs sought by investors and well below ROEs granted by Commissions across the US.[35] WSCK's revenue was deficient to cover all of its operating expenses including the authorized operating ratio regardless of the federal income tax rate. Accordingly, it would be inappropriate to effectively further reduce WSCK's previously deficient revenue. In March and May 2018, the regulatory agencies in Pennsylvania and Illinois, respectively, both ruled that no refund would be owed to customers as a result of the lower tax rate because WSCK's sister corporations in those states were not earning their authorized returns.[36]

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[31] *See* WSCK Response to the Attorney General's Second Request for Information, Item 3 (citing the Direct Testimony of Steven M. Lubertozzi in Case No. 2017-00481).
[32] *Id.*
[33] Direct Testimony of Steven M. Lubertozzi, Case No. 2017-00481 at 4.
[34] *See* WSCK Response to Staff's Third Request for Information, Item 7.
[35] *See, e.g.*, *Kentucky Utils. Co.*, Case No. 2016-00370 (Ky. PSC June 22, 2017) (authorizing a ROE of 9.70 percent); *Kentucky Power Co.*, Case No. 2017-00179 (Ky. PSC January 18, 2018) (authorizing a ROE of 9.70 percent).
[36] *See* WSCK Response to the Attorney General's Post Hearing Data Responses, Exhibit 4.

At the December 19, 2018, hearing, WSCK President Steven Lubertozzi described how accounting principles required a company to consider whether a refund to customers was "probable," "possible," or "remote." He explained that accounting principles dictated that a company should not record a deferred liability unless the refund was "probable." Even if the refund was reasonably possible, the Company should not record that deferred liability on its books.[37] In dialogue with Vice Chairman Cicero, Lubertozzi further explained that if the Commission were to order a refund of $4,281 annualized expense[38] to customers, WSCK would simply book that as an expense and refund over one month period.[39] Ultimately, however, WSCK should not be required to refund customers for the reasons stated above.

I. Merger of Middlesboro and Clinton Rates

WSCK proposes to merge the rates for service in the Middlesboro and Clinton service areas. In the Company's last rate case, Case No. 2015-00382, WSCK initially proposed a consolidated rate design for the two service areas. During the case, the Attorney General's witness, Scott J. Rubin, acknowledged benefits to a consolidated rate structure in response to a Commission Staff data request.[40] Ultimately, the Company reached a settlement agreement in that case with the Attorney General, which the Commission approved, that implemented the increases to the service charges and volumetric rates in a manner that was agreed to by the parties and was based upon the model proposed by Rubin. Although the approved rate structure did not completely consolidate the two rate structures, the rates moved significantly in that direction. On page 13 of his testimony in that case, Rubin specifically stated that he

[37] *See also* WSCK Response to the Attorney General's Post Hearing Data Responses, Exhibit 4.
[38] This amount is derived from a hypothetical calculation contained in the Direct Testimony of Steven M. Lubertozzi, Case No. 2017-00481 at 8.
[39] VR: 12/19/18; 10:38:00-10:41:40.
[40] *See* Direct Testimony of Steven Lubertozzi, Case No. 2018-00208, at 12.

recommended that "the Commission begin moving toward consolidated rates."[41] WSCK's proposal in this case is the next step in that process.

J. Customer Charge

WSCK proposes to increase its monthly customer charge for customers served on 5/8-inch and 3/4-inch meters from $10.00 to $12.50. Schedule F of the Exhibit CEH-1 to Constance Heppenstall's testimony was designed to calculate the absolute minimum customer charge, such that the charge would recover (1) the cost of customer facilities, such as meters and services, and (2) the cost of customer accounting, including billing and collecting and meter reading costs. Schedule F of the Exhibit CEH-1 calculated a minimum customer charge of $9.53.

WSCK, through its witnesses, has explained that customer charge set at $9.53 does not include many fixed costs that are necessary to provide any water to a customer. For example, that customer charge would not include distribution lines by which each customer is served and, accordingly, should be considered in calculating the customer charge. During the hearing, Constance Heppenstall explained how the AWWA's M1 Manual supports the addition of a "readiness to serve" component of the customer service charge.[42] Heppenstall calculated WSCK's "readiness to serve" component to increase the customer charge for a 5/8-inch and 3/4-inch meter by $3.76. When added to the minimum customer charge of $9.53, the justified customer charge is $13.29.

There are other reasons why WSCK should be recovering $12.50 from its small-meter customer charge. Presently, WSCK receives 35% of its revenue from fixed charges including the service charge and the Public and Private Fire charges. If WSCK were to request a service charge of $9.53, only 27% of its proposed revenue would be from fixed charges. The lowering of this percentage puts the utility at risk of not recovering its revenue requirement because much of

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[41] *Id.*

[42] *See also* WSCK Response to the Staff's Post Hearing Data Responses, Exhibit 4(c).

WSCK's costs are fixed.[43] Under proposed rates, the percentage of revenue recovered from fixed charges would be 35%, the same as the current percentage. In addition, any lowering of the proposed customer charge would necessarily increase the volumetric charges over the proposed increase of 37% for the first tier and 26% for the second tier for the Clinton Service Area. Finally, the proposed 5/8-inch service charge of $12.50 puts the Petitioner generally in line with the amount charged by other water companies in Kentucky.[44]

Although WSCK has justified a monthly customer charge for 5/8-inch and 3/4-inch meters to be as high as $13.29, it has not changed its original request to set the charge at $12.50. WSCK requests that the Commission grant the increased service charge from $10.00 to $12.50 for those meters and a corresponding increase to the service charge for other meters based on the AWWA M1 Manual recommended equivalent meter ratios.

K. Tariff Changes

In addition to the proposed rate change, WSCK proposes several changes to the provisions of its tariff. On Sheet 13, WSCK proposes to add two new provisions that authorizes WSCK to recover the costs associated with re-locating or raising WSCK's portion of the service line. These two additional provisions are designed to allow the utility to recoup expenses from the cost-causer, as opposed to socializing costs to the customer base.

WSCK proposes to clarify a provision on Sheet 19 to reflect the intent of the provision. The intent of Rule 14(c) was undoubtedly to provide notice that the Company was authorized to pursue lawful remedies, such as collection actions, in order to recover amounts owed by customers regardless of whether the Company disconnected service. WSCK is inserting the word "not" to reflect the intent of the provision.

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[43] In fact, Heppenstall calculated that only 10.2% of WSCK's costs are truly variable, leaving 89.8% of costs to have some relationship to a fixed cost. *See also* WSCK Response to the Staff's Post Hearing Data Responses, Exhibit 4(d).

[44] *See* WSCK Response to Staff's Second Request for Information, Item 3.

On Sheet 34, WSCK is proposing a provision that allows the Company to require an encasement pipe on a customer's service line. An encasement pipe would typically be required when a customer's line is under vehicle traffic and causes additional external stress and or pressure on the pipe.[45] An encasement pipe is designed protect against unnecessary damage and costs to the utility.

WSCK also seeks to add a provision on Sheet 37 in its tariff that authorizes the utility to recover all costs associated with having to repair and replace meters and fixtures when a customer tampers with the meter. This is another provision that is designed to place responsibility for expenses on the cost-causer of those expenses.

WSCK requests Commission approval for these reasonable tariff provisions.

III. Conclusion

WSCK has met its burden of proof in this case with the appropriate modifications noted above. Accordingly, WSCK requests the Commission approve an increase in rates, authorize it to utilize the depreciation rates recommended by Guastella, and make the identified amendments to its tariff.

Respectfully submitted,

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[45] *See* WSCK Response to Staff's Second Request for Information, Item 22.