

**CASE NO. 2018-00208**  
**WATER SERVICE CORPORATION OF KENTUCKY**  
**RESPONSES TO COMMISSION STAFF'S REHEARING INFORMATION REQUEST**

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1. Refer to the responses to the Commission Staff's First Request for Information (Staff's First Request), Item 3, Excel workbook "Filing Template", Tab "wp-1-Computers" and to the responses to the Commission Staff's Second Request for Information (Staff's Second Request), Item 24.d, Excel workbook "Response to PSC DR 2-24 (D&A Summary)", Tab "ID&A 24d".
  - a. Provide a schedule reconciling the allocated utility plant in service as of December 31, 2017, in Tab "wp-1-Computers" to the amounts listed for computers in Account No. 340 in the depreciation calculation in Tab "ID&A 24d".
  - b. Confirm that the recalculation of depreciation expense in Tab "ID&A 24d," using the mid-point depreciation life of the average service life ranges and the net salvage values in the National Association of Regulatory Utility Commissions (NARUC) survey includes the cost of computers that had been fully depreciated.
  - c. Using the mid-point depreciation life of the average service life ranges and the net salvage values in the NARUC survey and eliminating the cost of the computers that have been fully depreciated, recalculate Water Service Kentucky's pro forma depreciation expense for the allocated computers. Provide the recalculation in an Excel spreadsheet format with all formulas unprotected and with all rows and columns accessible.
  - d. Provide the estimated impact the depreciation recalculation, made in the response to Item 1.c above, has on Water Service Kentucky's revenue requirement that was authorized in the February 11, 2019 Order. Provide the calculation of the revenue requirement impact in an Excel spreadsheet format with all formulas unprotected and with all rows and columns accessible.

Response:

- a. The Company objects to this data request as it is outside the scope of the subject matter included in the Company's Petition for Rehearing. Without waiving this objection, the Company provides the following response:  
The Company is unaware of any reconciling amounts between the total allocated computers listed in wp-1-Computers and the total listed for computers in NARUC account 340 in Item 24.d.
  1. The allocated plant amounts for computers listed in account 340 (total of cells E50:E55) total \$965,754 in the response to the Commission

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Staff's Second Request for Information (Staff's Second Request), Item 24.d, Excel workbook "Response to PSC DR 2-24 (D&A Summary)", Tab "ID&A 24d".

2. The amounts for computers listed in the response to the Commission Staff's First Request for Information (Staff's First Request), Item 3, Excel workbook "Filing Template", Tab "wp-1-Computers" also total \$965,754 (cells D21, D682, D789, D826, D845, D851, and D857).
- b. The Company objects to this data request as it is outside the scope of the subject matter included in the Company's Petition for Rehearing. Without waiving this objection, the Company provides the following response:

The recalculation of depreciation expense in Tab "ID&A 24d" appropriately includes the cost of computers that had been fully depreciated based on the group method of depreciation set forth by the NARUC survey from 1979 which the Commission used in setting WSCK's average service lives for all plant accounts in the Final Order of this case.

In the February 11, 2019 Order, the Commission found that WSCK, "should be allowed to adjust its current depreciation rates based on the average life range for each asset group found appropriate in the NARUC Study". Under the group method, depreciation should continue until all amounts in a primary plant account reach zero, because the cost of assets is recovered over the average service life of all assets in an account. This recognizes that some assets will be retired before the average service life and others will survive longer than the average service life. When an individual asset within an account is retired sooner than the average, its cost is obviously not fully recovered. That shortfall, however, is offset by continuing to depreciate individual assets that are fully depreciated within that account. The utility will not recover more than the actual cost of all assets because depreciation will stop when the total dollars in the account are fully recovered. By denying depreciation on fully depreciated individual assets within an account, the utility will be deprived of recovering the total cost of all assets.

There are two other noteworthy considerations on this issue. First, the Commission commonly depreciates computer equipment and software contained in NARUC account 340 over a 5-year service life. For example, Rattlesnake Ridge Water District submitted an application for alternate rate adjustment with documentation showing it utilized a 5-year service life for computers, printers, and related equipment. In its report, Commission Staff also utilized a 5-year service life for computers associated with a water treatment plant expansion for the Water District. Staff did not recommend any changes to the 5-year service

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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. The Commission approved the Rattlesnake Ridge's use of a 5-year service life for computers and other modern technologies in Case No. 2013-00366.

The Commission's approval of a 5-year service life for computer equipment and related software is logical. Modern technology evolves significantly over a 5-year period, and those assets must be replaced in order to maintain usefulness. In addition, computers were not utilized by small utilities in 1979 when NARUC published its Study of Depreciation Practices for Small Water Utilities. NARUC would not have included computers in its analysis.

The Commission's February 11, 2019, Order in the present case sets the service life of the Company's computers and related software and equipment at 22.5 years. This is well beyond the useful life of these assets. The Commission has recently acknowledged that 5-year service lives for these types of assets are appropriate.

The second noteworthy consideration also relates to service life. If the Company's computer assets had been depreciated over 22.5 years, there would currently be a residual balance in the Plant-in-Service account for these assets because those assets have been placed in service over the last 22.5 years.

- c. The Company objects to this data request as it is outside the scope of the subject matter included in the Company's Petition for Rehearing. Without waiving this objection, the Company provides the following response:

Please see the response to item b. See the attached file "Response to RHDR 1(c. d.) (Exhibit 1 - Workpaper WSCK)" tab "Resp to RHDR 1(c.) - D&A 24d".

- d. The Company objects to this data request as it is outside the scope of the subject matter included in the Company's Petition for Rehearing. Without waiving this objection, the Company provides the following response:

Please see the response to items b. and c. See the attached file "Response to RHDR 1(c. d.) (Exhibit 1 - Workpaper WSCK)" tab "Resp to RHDR 1(d.) - Rev Req".

Witness: Rob Guttormsen

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2. Refer to the responses to the Commission Staff's First Request for Information (Staff's First Request), Item 3, Excel workbook "Filing Template", Tab "wp-f depr new rates." Provide a separate itemized schedule for each contribution listed below that reports the date the Water Service Kentucky recorded each contribution.

a. CIAC-METERS	\$83,141
b. CIAC-OTHER TANGIBLE PLT W	\$104,819
c. CIAC-WATER-TAP	\$189,326

Response:

Please see the attached file "Response to PSC Rehearing (Items 2 and 3)".

Witness:      Rob Guttormsen

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3. For each separate Contribution In Aid of Construction (CIAC) listed in the schedule provided in the response to Item 2 above, provide the accumulated amortization and the net CIAC balance's as of December 31, 2018.

Response:

Please see the attachment provided in response to item 2 above.

Witness:      Rob Guttormsen

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4. Provide documentation to show that Water Service Kentucky did not claim a federal income tax deduction for depreciation of its utility plant in service that was funded by the contributions listed Item 2 above.

Response:

Please see the attached affidavit of Company witness Donald Hong, Senior Tax Manager for WSCK attesting to the fact that WSCK did not claim a federal income tax deduction for depreciation of its utility plant in service that was funded by the contributions listed in Item 2 above.

Witness:       Donald Hong

## AFFIDAVIT

Comes the affiant, Donald Hong, and after first being duly sworn, for his Affidavit, states as follows:

1. My name is Donald Hong.
2. I am the Senior Tax Manager for Utilities, Inc. ("UI") and provide services to its subsidiaries, including Water Service Corporation of Kentucky ("WSCK"). I have reviewed the data requests issued by the Public Service Commission of Kentucky on March 15, 2019.
3. I am aware that the Commission has requested "documentation to show that Water Service Kentucky did not claim a federal income tax deduction for depreciation of its utility plant in service that was funded by the contributions listed Item 2" of the requests.
4. I have personal knowledge of the Company's federal income taxes.
5. UI files one consolidated tax return for all its subsidiaries, including WSCK.
6. I can confirm that WSCK has not claimed a federal income tax deduction for depreciation of its utility plant in service that was funded by the contributions listed in Item 2 of the Commission's request issued on March 15, 2019 as the cash CIAC were treated as non-shareholder contributions to capital as described in Internal Revenue Code Section 118(c).

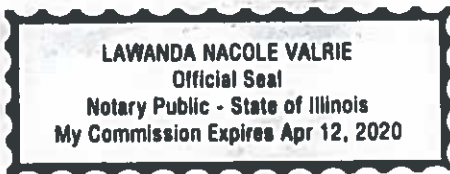
Further, the Affiant sayeth naught.

D Hong  
DONALD HONG,  
AFFIANT

STATE OF ILLINOIS  
COUNTY OF COOK

Subscribed, acknowledged and sworn to before me by Donald Hong on this 29<sup>th</sup> day of March, 2019.

My Commission Expires: April 12<sup>th</sup>, 2020



Lawanda Nicole Valrie  
NOTARY PUBLIC

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5. Explain whether the inclusion of the CIAC amortization in the income tax calculation removes the depreciation on plant funded by the CIAC from the calculation.

Response:

The inclusion of CIAC amortization in the calculation of taxable income would offset the depreciation expense on plant funded by the CIAC provided the amortization rate for the related CIAC account is the same, which is what the Company is proposing.

By approving the CIAC amortization rates requested in the Company's request for reconsideration, it will ensure that amortization offsets the depreciation on plant funded by CIAC in the calculation of taxable income.

Witness:      Rob Guttormsen

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6. Water Service Kentucky requests that a true-up of the TCJA surcredit be refunded if the refund exceeds a 5 percent variance of the \$54,199 ordered to be refunded. Explain whether Water Service Kentucky considered establishing a regulatory asset or liability for any over or under collection of this refund.

Response:

No, the Company does not believe that creating a regulatory asset or liability will be necessary. The Company anticipates any variance would be relatively small and this small amount would be credited or billed via a onetime true up for a variance in the surcredit of greater or less than 5% of the \$54,199 ordered by the Commission. Since the final order compels the Company to refund historical TCJA amounts through future unknown volumetric billings, the Company would prefer to have a mechanism approved that makes ratepayers or Company whole in the event of a significant deviation from test year gallonage over the refund billing period.

Witness:        Rob Guttormsen