

CASE NO. 2018-00208
WATER SERVICE CORPORATION OF KENTUCKY
RESPONSES TO ATTORNEY GENERAL'S SECOND INFORMATION REQUEST

1. Refer to WSCK's response to AG 1-3(b).
 - a. Explain fully the extent of the GIS mapping initiative. How much of the system is currently mapped through GIS? How much remains to be mapped?
 - b. Provide a projected timeline for the completion of GIS mapping of the system.
 - c. If possible, provide an estimate of how much savings may be achieved by the GIS mapping of the system.
 - d. Explain how much of the system is already tied into the referenced Asset Management plan.
 - e. Explain how the Asset Management plan relates to the Company's overall capital improvement plan

Response:

- a. The GIS mapping initiative is an attempt to create a completely digital asset registry for all Utilities, Inc., water and wastewater systems. This digital registry will maintain a uniform schema, allowing for assets from all regions to be compared. It will also allow for systems and system assets to be easily and readily mapped for projects or data requests. It lessens the dependency on paper maps, which can be lost or damaged. It also provides a platform for updating data in which all can see, which often is not possible with paper maps. The GIS initiative will also provide the mapping backbone in our new OMS software that has been deployed in the Midwest

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region. Currently, all of Clinton has been converted from paper to digital maps. All utility assets and service connections have been created on the GIS Platform.

Middlesboro is near completion in its conversion, with all utility assets created and about 1/3 of the service connections. Issues with addresses in the Middlesboro area have put a stall on the completion of this aspect. With that, about 2/3 of the Middlesboro service connections (~3,500 addresses) have yet to be mapped in the GIS database.

- b. With just the service connections in Middlesboro remaining to be digitized, the timeline for completion is hard to establish. If an address point layer can be obtained or a parcel layer with addresses, this could be completed in under a week. However, if these remaining service connections are required to be investigated individually, this process could take upwards of a few weeks to complete and confirm. We are actively trying to obtain this data in order to expedite the completion.
- c. We have not completed a cost analysis, however the response to question (a) above clearly spells out the direct advantages to the mapping system.
- d. The mapping system was generated from our Asset Management Plan (AMP). The AMP will help generate maintenance and asset replacement needs.
- e. The AMP is a tool to generate the overall capital plan based on a level of risk and consequence of failure. In addition, the current condition of the asset.

Witness: Mike Miller

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2. Refer to WSCK's response to AG 1-41 and the referenced Outside Service Expense (Cost Center) Excel sheet. Explain fully the various allocated costs in cells G5 and G21.

Response:

Cell G5, which shows a cost of \$3,253.48, is driven by WSCK's portion of a cost allocated out of the RVP – President cost center of \$26,300.00 incurred for recruiting fees to hire an FP&A Manager. This cost is not included in WSCK's revenue requirement. Cell G21, which shows a cost of \$1,074.85, is driven by legal expenses incurred for the following activity:

- review the PSCs order regarding a purchased water adjustment
- communication with PSC Staff regarding purchased water adjustment case, processing, and anticipated date of final order
- draft notice for filing affidavit of publications required by regulations
- communicate with company regarding outlook for final order in purchased water adjustment case
- communicate with company personnel regarding pass through for purchased water
- review PWA application, tariffs, and notice and draft revisions based on Commission regulations
- review revised notice and provide comments as of ensure compliance with new regulations
- draft revisions for PWA application, including request for waiver from regulation requirements for certain filing disclosures
- file purchased water applications with PSC

None of this work is included in the test year or WSCK's revenue requirement as it occurred in early 2014.

Witness: Rob Guttormsen

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3. Refer to WSCK's response to Staff DR 2-11(a)(1).
 - a. Confirm that although the response only provided a reference to previous testimony regarding Accumulated Deferred Income Taxes ("ADIT"), that the Commission Staff's request specifically discussed the reduction in the federal corporate tax rate, thus implicating a lower federal income tax expense level.
 - b. Confirm or deny that WSCK calculated the difference in its federal income tax expense following the passage of the TCJA and booked that difference to a deferred liability pursuant to the Commission's order in Case No. 2017-00481.
 - i. If denied, explain in complete detail why WSCK willfully ignored a Commission order.
 - c. Confirm that although deferred assets and liabilities are not included in the calculation of the Company's revenue requirement, they nevertheless represent future federal taxes owed to or owed from WSCK customers. If denied, explain in complete detail your response.

Response: a. and b.

Due to the TCJA there are two types of possible regulatory liabilities that could be created, see below:

1. Excess Accumulated Deferred Income Taxes Due: As stated in the Direct Testimony of Steven M. Lubertozi in Case No. 2017-00481, WSCK's customer's rates are set using the Operating Ratio ("OR") methodology. An OR case allows a utility to recover its costs plus a return or margin on certain expenses. A rate base rate of return rate case allows a

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utility to earn a return on and of its investment, and this investment would typically include reduction (liability) from Accumulated Deferred Income Taxes. Absent this liability, it would not be appropriate to WSCK to create the regulatory liability for the excess deferred income taxes contemplated in the Commission's December 27, 2017 order. Therefore, WSCK did not set up a regulatory liability as it relates to the Excess Accumulated Deferred Income Taxes.

2. Reduction of the federal corporate income tax expense included in rates: In WSCK's most recent rate case, Case No. 2015-00382, there was no determination as to the amount of federal corporate income tax expenses included in rates. With no determination of the federal corporate income tax expense included in customer's rates there is no refund due to customers. Therefore, WSCK would not be in a position to record a regulatory liability and none were recorded. 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. See WSCK's Response to Item 8 of the Staff's Third Information Request.

Response: c.

Deferred tax assets and liabilities represent book to tax timing differences related to Utility Plant in Service depreciation lives.

Witness: Steve Lubertozi

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4. Refer to WSCK's response to Staff 1-13. Did WSCK conduct any studies or analyses comparing the salaries, wages, benefits and other compensation of its affiliate employees for whom WSCK contributes, such as through shared services? If so, provide evidence, a citation, or reference to same in native Excel spreadsheet format with all formulas intact and cells unprotected with all rows and columns fully accessible. If not, explain in complete detail why the Commission should approve such shared services costs being reflected in rates.

Response:

Yes, Shared Service salaries & wages, benefits, and payroll taxes are included in the comprehensive statistical analysis put forth in witness Dmitrenko's direct testimony and exhibits comparing the total salaries included in the Company's rate case with similarly sized utilities operating in Kentucky which were supplied in "Staff DR 1.13 - Employees Salary and Benefits Studies". The workbook provided in response to Staff DR 1-13 entitled "Staff DR 1.13 - Employees Salary and Benefits Studies" is responsive to this inquiry in that its sole purpose demonstrates that the allocated salaries & wages, benefits, and payroll taxes are provided at a cost far less than what customers would incur from customers, tab "WSC Comparison" shows that the services provided are approximately 60% less than what it would be if WSCK sourced the same services from outside providers.

Witness: Rob Guttormsen

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5. Refer to WSCK's response to AG 1-19. Fully explain the projects included in the Deferred Maintenance category for the 2019 capital budget and detail the projected expenses.

Response:

The projects were (1) Interior Tank Painting #1 (Middlesboro) for \$267,698 and (2) Interior Tank Painting #2 (Middlesboro) for \$264,531. These budgeted costs were an internally generated estimate prior to having the tanks fully inspected. Upon completion of full tank inspections, the Company included updated amounts as known and measurable adjustments in its application.

Witness: Mike Miller

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6. Refer to the Application, Mr. Guttormsen's Testimony, page 4, lines 18-19.

Explain the overtime expense by employees which were included in salary expense and how they were calculated.

Response:

Below are the employees and the dollar amount included in the test year for each employee. These amounts that were included in Overtime is paid out at time and a half of an employee's hourly rate for all employees who work over 40 hours and any hours worked on a holiday.

<u>Employee</u>	<u>Overtime</u>
Operator II	\$ 1,140
Field Tech I	\$ 729
Lead Operator	\$ 1,672
Field Tech II	\$ 2,925
Lead Operator	\$ 5,819
Field Tech I	\$ 952
Field Tech I	\$ 3,393
Operator II	\$ 5,072
Field Tech I	\$ 841
Field Tech I	\$ 841
Operator I	\$ 1,847
Area Manager	\$ 2,814
Administrative Assistant	\$ 115
	<u>\$ 28,608</u>

Witness: Rob Guttormsen

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7. Refer to WSCK's response to AG 1-2(b). Confirm that even if WSCK is earning its fully authorized rates as set by the Commission, it plans to continue to file rate cases every two years on average.

Response:

The response to AG 1-2(b) is based on an analysis of the timing of historical rate filings dating back to Case No 2008-00563, not an opinion on exactly when WSCK will need rate relief in the future based on an assumption of what the Commission's decision is regarding what final rates will be in this proceeding.

Witness: Rob Guttormsen

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8. Explain whether WSCK or any of its affiliates perform lead/lag studies in other jurisdictions. If so, provide the average cost of performing such studies.

a. Do any other jurisdictions that WSCK affiliates operate require lead/lag studies?

If so, provide the jurisdiction and the basis of the requirement (i.e. statutory, regulatory, by administrative order, etc.).

Response:

No other jurisdiction that any of WSCK's affiliates operate in require lead/lag studies.

Witness: Rob Guttormsen

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9. Refer to Schedule D of the Application. Provide the calculation for the gross-up factor used to determine the revenue requirement. Provide in native Excel format if available.

Response:

Please see the attached Excel file "Response to AG DR 2-9 (Gross Up Factor Calculation)". The Company was made aware that the KY state tax rate changed in April and provided a modified template in response to Staff's second request for information, question 17. The updated rate is shown in the table.

Witness: Rob Guttormsen

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10. Refer to workpaper j of the Application. Explain in complete detail and itemize the contents of account number 6355, including by project id, if available.

Response:

Please see the attached Excel file "Response to AG DR 2-10 (Deferred Charges Build)".

Witness: Rob Guttormsen

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11. Refer to Schedule B, page 1 of 2, of the Application. Explain in complete detail the \$48,332 total listed under Operating Leases on Line 28 and provide an itemized list of same.

Response:

The \$48,332 is comprised of lease expense from two backhoes and a railroad lease.

Please see attached for the workpapers that develop the lease expenses. Company witness Miller discusses operating leases in his testimony at page 9 and witness Guttormsen discusses leases on page 10 of his direct testimony. The railroad leases are necessary because WSCK has water lines running underneath railroad tracks.

Witness: Rob Guttormsen

WATER SERVICE CORPORATION OF KENTUCKY
Case No. 2018 - 00208
Pro-forma Leases & Insurance - Railroad Management Company, LLC
Test Year Ended 12/31/2017

w/p [p]
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	A	B	C	D
Line	Liscense N	Audit No.	Location	Cost
1.	NS141245	RHN 4001-024	Middlesboro	\$ 1,273.08
2.	NS141252	RHN 4001-012	Middlesboro	515.00
3.	NS141254	RHN 4001-014	Middlesboro	822.20
4.	NS141263	RHN 4001-026	Middlesboro	515.00
5.	NS141267	RHN 4001-022	Arbor	515.00
6.	NS141268	RHN 4001-041	Middlesboro	515.00
7.	NS141277	RHN 4001-037	Arbor	515.00
8.	NS141278	RHN 4001-020	Middlesboro	515.00
9.	NS141281	RHN 4001-016	Middlesboro	515.00
10.	NS141296	RHN 4001-039	Middlesboro	515.00
11.	NS141237	RHN 4001-035	Middlesboro	515.00
12.	NS141239	RHN 4001-033	Fern Lake	515.00
13.	NS141242	RHN 4001-004	Arbor	515.00
14.	NS141244	RHN 4001-031	Stony Fork Junction	515.00
15.	NS141247	RHN 4001-043	Arbor	515.00
16.	NS141250	RHN 4001-029	Arbor	515.00
17.	NS141251	RHN 4001-006	Stony Fork Junction	515.00
18.	NS141255	RHN 4001-001	Stony Fork Junction	515.00
19.	NS141282	RHN 4001-010	Belt Juntion	1,030.00
20.				<u>\$ 11,365</u>

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Pro-forma Leases & Insurance - Caterpillar Financial Services
Test Year Ended 12/31/2017

	A	B	C	D	E	F	G	H	I	K
Line	Model	ADR Code	Annual Hours	Qty	Amount Financed	Monthly Lease	Monthly Insurance	Annual Leases	Annual Insurance	Total Operating Leases Backhoe
1.	416F2	15	1000	2	\$ 178,460	\$ 2,826	\$ 254	\$ 33,917	\$ 3,049	\$ <u>36,966</u>