COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

Application of Water Service Corporation	)	
of Kentucky for a General Adjustment	)	Case No. 2020-00160
in Existing Rates	)	

INITIAL 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 tariff amendments, including the addition of a qualified infrastructure plan, a leak adjustment policy, a low-income rate, and a wholesale rate. The following brief provides information in support of WSCK's position in this case.

I. Background

On June 1, 2020, WSCK filed the application for a general adjustment in rates that is the subject matter of this proceeding. In its application, WSCK sought an overall increase over present annualized levels of $1,080,300 per year.[1] WSCK calculated this revenue requirement based on the operating-ratio methodology that the Commission has approved in the last four WSCK rate cases.[2]

[1] Guttormsen Direct Testimony at A12.
[2] *Id.*

WSCK also proposes a few changes to its tariff. First, WSCK seeks a qualified infrastructure plan ("QIP"). WSCK's proposed QIP is based on a similar plan proposed by Kentucky-American Water Company ("Kentucky-American") and approved by the Commission.[3] The primary difference between the two plans is that Kentucky-American's plan is based on a rate base/rate of return approach on which Kentucky-American's rates have been approved while WSCK's proposed plan is based on an operating-ratio approach on which WSCK's rates have been approved.

Second, WSCK seeks approval of a leak adjustment policy. WSCK is concerned with the burden that a hidden leak may cause a given customer. WSCK is proposing that customers be responsible for only 25% of the rate which would have been applied to volumes ascribed to a hidden underground leak.[4] The proposed policy is based on Kentucky-American's policy that has been approved by this Commission.[5]

Third, WSCK seeks approval of a low-income rate. It proposes a low-income rate design based on a rate that is 78.51% of the tier 1 rate for the first 3,000 gallons.[6] This proposed rate would apply to the first 3,000 of consumption for customers who qualify for the program.[7] WSCK will utilize a third party to verify customer eligibility.

Fourth, WSCK seeks approval for a wholesale rate. WSCK has an emergency connection with the City of Pineville's water system. To the extent that Pineville needs an emergency supply of water, WSCK proposes a wholesale rate that is based on the marginal cost of each kilogallon of water by documenting the electric costs, purchased water costs, and chemical costs incurred in a given year by WSCK.

[3] *See Kentucky-American Water Co.*, Case No. 2018-00358 (Ky. PSC June 27, 2019).
[4] Dickson Direct Testimony at A11.
[5] *See* Kentucky-American Water Co. Tariff, No. 9 First Sheet 44.
[6] *Id.* at A9.
[7] *Id.*

The Intervenors—Attorney General and City of Clinton—filed the joint testimony of Lane Kollen, who provided an opinion only on the method of calculating the annual revenue requirement. Kollen recommends that the Commission calculate WSK's revenue requirement based on a rate base/rate of return methodology, as opposed to the operating-ratio methodology that the Commission (and Attorney General) encouraged to be used in Case No. 2008-00563 and that the Commission has approved in WSCK's last four rate cases. The City of Clinton also filed the written testimony of City Clerk Shannon Payne, who discussed the relationship between the City and WSCK.

At the evidentiary hearing held on November 12, 2020, WSCK presented the following witnesses: Shawn Elicegui, Patrick Baryenbruch, Robert Guttormsen, Perry Brown, Andrew Dickson, Stephen Vaughn, and Steven Lubertozzi. The Intervenors presented Kollen and Payne as witnesses.

II. Analysis

WSCK proposes to use a 12-month period ending March 31, 2020, as the test period to determine the reasonableness of rates. WSCK has made adjustments for known and measurable changes, as permitted by regulations.[8] The following discussion addresses issues raised at the evidentiary hearing held on December 19, 2018, and elsewhere in the record.

A. Revenue Requirement Based on an Operating Ratio

In this case, WSCK proposes to base its revenue requirements on an operating ratio, which has been encouraged and approved by this Commission in prior cases. In its final order of WSCK's 2008 rate case, Case No. 2008-00563, the Commission accepted the use of a return-on-equity approach in calculating revenue requirement as proposed by WSCK, but the Commission

[8] 807 KAR 5:001, Section 16(1)(a)(1).

encouraged WSCK to utilize the operating margin methodology in future cases.[9] WSCK followed the Commission's guidance and proposed a revenue requirement based on the operating margin methodology in the 2010 rate case and all subsequent cases.

In the 2010 rate case, the Commission reviewed this issue and stated:

> WSKY proposes the use of an operating ratio methodology to determine its revenue requirement. Its proposal follows our comments in WSKY's last rate adjustment proceeding that suggested that the use of return-on-equity approaches is problematic and that an operating ratio methodology is more appropriate. We noted several problems associated with the use of return-on-equity approaches. The Commission has historically used an operating ratio approach to determine the revenue requirement for small, privately-owned utilities. This approach is used primarily when no basis exists for a rate-of-return determination or the cost of the utility has fully or largely been funded through contributions. For these reasons, the Commission finds that the operating ratio method should be used to determine WSKY's revenue requirement and that an operating ratio of 88 percent will allow WSKY sufficient revenues to cover its reasonable operating expenses and to provide for reasonable equity growth.[10]

The Commission made a similar statement the final order of the 2013 rate case, stating:

> WSKY is proposing to use an 88 percent operating ratio to calculate its requested revenue requirement. In Case No. 2008-00563, we stated that the use of an operating ratio is preferred to the return-on-equity approach for a utility of WSKY's size. The Commission explained that it has historically used an operating ratio approach for privately owned utilities when no basis exists for a rate-of-return determination or the cost of the utility has fully or largely been funded through contributions. For these reasons the Commission used the operating ratio method to calculate WSKY's revenue requirement in Case No. 2010-00476, finding that an 88

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[9] *See* Lubertozzi Rebuttal Testimony at A6 and Exhibit 1.
[10] *Water Serv. Corp. of Kentucky*, Case No. 2010-00476 (Ky. PSC Nov. 23, 2011).

> percent ratio would allow WSKY "sufficient revenues to cover its reasonable operating expenses and to provide for reasonable equity growth." The AG adopted an 88 percent operating ratio when calculating his recommended revenue requirement for WSKY. Commission Staff recommends that the Commission use an 88 percent operating ratio to calculate WSKY's revenue requirement.[11]

In WSCK's 2015 rate case, the parties reached a black-box settlement, but WSCK's application was based on an 88-percent operating margin. Similarly, WSCK proposed the same methodology in the 2018 rate case, and the Commission approved the method, stating:

> Water Service Kentucky is proposing to use an 88.00 percent operating ratio to calculate its requested revenue requirement. In Case No. 2008-00563, the Commission found that the use of an operating ratio is preferred to the return-on-equity approach for a utility of Water Service Kentucky's size. The Commission explained that it has historically used an operating ratio approach for privately owned utilities when no basis exists for a rate-of-return determination or the cost of the utility has fully or largely been funded through contributions. For these reasons, the Commission used the operating ratio method to calculate Water Service Kentucky's revenue requirement in Case No. 2010-00476, again finding that an 88.00 percent operating ratio would allow Water Service Kentucky sufficient revenues to cover its reasonable operating expenses and to provide for reasonable equity growth. Therefore, this Commission concurs with Water Service Kentucky's proposed to use an 88.00 percent operating ratio to calculate its requested revenue requirement.

The Commission has routinely determined that an 88-percent operating ratio is an appropriate methodology for determining what a utility's revenue requirement should be. It has issued hundreds of decisions approving rates that are based on that operating ratio.[12] The

[11] *Water Serv. Corp. of Kentucky*, Case No. 2013-00237 (Ky. PSC July 24, 2014).

[12] *See, e.g.*, *Farmdale Water Dist*., Case No. 2020-00021 (Ky. PSC July 7, 2020); *Dexter-Almo Heights Water Dist*., Case No. 2019-00354 (Ky. PSC May 21, 2020); *CitiPower*, LLC, Case No. 2019-00109 (Ky. PSC Mar. 25, 2020); *Nixutil Sanitation Ass'n*, Case No. 2019-00024 (Ky. PSC Dec. 2, 2019); *Cannonsburg Water Dist*., Case No. 2018-00376 (Ky. PSC May 13, 2019); *Elkhorn Water Dist*., Case No. 2018-00145 (Ky. PSC Apr. 2, 2019), *North*

Commission has used this approach for more than forty years. Accordingly, it is hard to imagine that the approach is unreasonable.

Joint Intervenor's witness Lane Kollen recommends that the Commission reject WSCK's request to continue using an operating ratio approach.[13] Kollen does not appear to argue that an operating-ratio methodology is *per se* unreasonable, but instead argues that the resulting return on equity ("ROE") as calculated from WSCK's application is excessive.[14]

In addition to ignoring the PSC's approval of the operating methodology for Water Service in its last four cases, there is no evidence in this case on which Kollen or anyone else can determine what a reasonable ROE would be. WSCK did not propose rate base/rate of return methodology, and therefore, did not submit evidence to support a specific return on equity. A return on equity must be determined on a case-by-case basis with sufficient evidence in the record to support the percentage deemed reasonable. In this case, there is no analysis from any expert that could be used to support an ROE, such as the discounted cash flow model (DCF), the capital asset pricing model (CAPM), the empirical CAPM (ECAPM), or risk premium (RP) models. Moreover, courts have held that it is insufficient to merely rely on prior Commission decisions in determining an appropriate ROE without providing additional evidence linking the similarity of situations.[15] Accordingly, Kollen's reliance on cases involving Duke Energy or

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McClean Water Dist., Case No. 2018-00260 (Ky. PSC Dec. 20, 2018); *Kentucky-American Water Co*., Case No. 2014-00390 (Ky. PSC July 2, 2015); *Airview Utilities, LLC*, Case No. 2014-00215 (Ky. PSC Dec. 22, 2014); *Southeast Daviess Cnty. Water Dist*., Case No. 2011-00481 (Ky. PSC Feb. 21, 2012) ; *W. Daviess Cnty. Water Dist*., Case No. 2011-00459 (Ky. PSC Feb. 21, 2012); *Auxier Road Gas Co., Inc*., Case No. 2008-00156 (Ky. PSC Jan. 8, 2009); *Mt. Olivet Natural Gas Co., Inc*., Case No. 97-389 (Ky. PSC Ap. 2, 1998); *Martin Gas, Inc*., Case No. 90-402 (Ky. PSC Sept. 30, 1991); *Willabrook Sanitation, Inc.*, Case No. 90-389 (Ky. PSC Apr. 24, 1991); *Cardinal Utilities, Inc*., Case No. 89-336 (Ky. PSC Aug. 31, 1990); *A & B Sanitation Co., Inc.*, Case No. 10391 (Ky. PSC Sept. 7, 1989); B & H Gas Co., Case No. 8735 (Ky. PSC May 31, 1983); *Eri-Gek Sewer Treatment Plant,* Case No. 7899 (Apr. 27, 1981); *Lee Angle Co., Inc*., Case No. 7658 (May 30, 1980).

[13] Kollen Direct Testimony at 3.

[14] *Id.*

[15] *See State ex rel. Utilities Com'n v. Attorney General Cooper*, 443, 758 S.E.2d 635, 643 (N.C. 2014)(" the Commission's reliance on past ROE determinations authorized for other utilities, without evidence tying those

Blue Granite Water Company is insufficient to form the basis of a determination in this case. In fact, Kollen admitted the South Carolina Commission's decision for the Blue Granite Water Company was unreasonable, stating: "I wouldn't advocate [for] that" specific ROE.[16]

In his testimony, Kollen also suggests that there could be a 0.5% decrement to an ROE determination. But notably, Kollen did not have any quantifiable data for that suggestion. He indicated that it was simply a "judgment call."[17] He also confirmed that there was no "firm-specific or sector-specific information underlying the 50 basis point decrement," stating "I didn't actually do a study."[18]

As an alternative to moving to a return-on-rate-base methodology, Kollen indicates that the Commission could continue using an operating ratio but adjust the ratio to reflect a certain ROE. This alternative, however, likewise cannot be used because there is no evidence in this case to determine what the appropriate ROE would be. If there is no evidentiary support to determine what an appropriate ROE would be, there would be no evidentiary support to determine what an operating ratio based on an ROE should be. Moreover, such an approach would defeat one of the primary advantages to utilization of an operating ratio—namely, each operating-ratio case would still require additional rate-case expense for the presentation of testimony on what an appropriate ROE would be.

As WSCK President Steven Lubertozzi indicated in his answers to the Vice Chairman's questions, WSCK does not object to moving to a rate base/rate of return methodology in future cases.[19] If the Commission encourages WSCK's future use of rate base/rate of return

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determinations to the facts of the case sub judice, prevented the Commission from fairly considering current economic conditions").

[16] VR: Nov. 12, 2020 at 18:38:10.

[17] VR: Nov. 12, 2020 at 18:37:45.

[18] VR: Nov. 12, 2020 at 18:39:50.

[19] *See also* Lubertozzi Rebuttal at Q23.

methodology, WSCK will have the opportunity to present adequate evidence to support an appropriate rate of return. And because there is insufficient evidence in the record of this case to support a specific ROE, Kollen's recommendations must be rejected.

B. City of Clinton's Testimony

The City of Clinton also submitted written testimony in this matter. It does not appear that the City Clerk's testimony has a direct impact on the rates that will be approved in this case. WSCK would like to emphasize, however, that WSCK believes that the monthly reporting information is being provided to the City on a timely basis, and if the City would like additional or more detailed reports, WSCK will provide those reports. WSCK simply asks that the City provide a specific list of monthly reports it would like to see.

C. Other Issues

Several other issues have been addressed in WSCK's testimony and information requests, but the intervening parties have not filed any testimony related to those issues. In a recent case, the Commission explained that when intervening parties submit data requests to parties but offer no evidence or testimony on those issues, the Commission has no evidentiary basis to support the intervening parties' proposed adjustments to the utility's case.[20] In such a situation, the Commission has approved the utility's proposals.[21] Accordingly, it would be consistent with Commission precedent to do so in this case. Even without such precedent, the intervenors' arguments must be rejected, because the following aspects of WSCK's case are reasonable.

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[20] *See Kentucky-American Water Co.*, Case No. 2018-00358 (Ky. PSC June 27, 2019)("The Commission notes that the Attorney General and LFUCG submitted data requests to Kentucky-American regarding the chemical complex but offered no evidence or testimony regarding the ratemaking treatment of the chemical complex. The Commission's findings must be supported by sufficient evidence. Here, with no evidentiary support in the record regarding the proposed adjustment, the Commission is without any basis, much less sufficient evidence, to justify an adjustment, and therefore we deny LFUCG's proposed adjustment to remove expenses related to constructing the chemical complex.")

[21] *Id.*

1. Qualified Infrastructure Plan

The Commission fully supports the implementation of qualified infrastructure plans for water utilities. In its comprehensive investigative report on water utilities that was issued last year, the Commission stated: "Each water district and association should be required to develop a comprehensive Qualified Infrastructure Improvement Plan that must be filed with and approved by the Commission."[22] Consistent with that guidance, WSCK has proposed a QIP in this case that is based on the Commission-approved QIP established for Kentucky-American. The primary difference between the two plans is that Kentucky-American's plan is based on a rate base/rate of return approach on which Kentucky-American's rates have been approved and WSCK's proposed plan is based on an operating-ratio approach on which WSCK's rates have been approved.

A qualified infrastructure plan will help WSCK fund necessary infrastructure replacements. As WSCK witness Stephen Vaughn testified, some of WSCK's mains are more than 100 years old. These mains (and others) have outlived their service lives and should be replaced. An approved QIP would assist the utility in continuing to maintain its system that provides reliable service to its customers.

It would be inappropriate for the Commission to consider WSCK's water loss percentage in determining whether WSCK should receive approval for a QIP. If the Commission were to deny a QIP on the grounds that a utility does not have excessive water loss, it would send the wrong signal to water utilities across the Commonwealth. Those water utilities may become complacent and allow their water loss to creep above the 15-percent threshold identified in 807 KAR 5:066, Section 6(3).

[22] Kentucky Public Service Commission, "Confronting the Problems Plaguing Kentucky's Water Utilites" at 24 (Nov. 2019).

Accordingly, the Commission should approve WSCK's proposed QIP.

2. Leak Adjustment Policy

WSCK proposes a leak adjustment policy because it is concerned with the burden that a hidden leak may cause a given customer. WSCK is proposing that customers be responsible for only 25% of the rate which would have been applied to volumes ascribed to a hidden underground leak. The proposed policy is based on Kentucky-American's policy that has been approved by this Commission.

WSCK did not adjust its test-year revenues to account for customers' use of this policy.[23] If there were an estimate of water sold under this policy applied to the test year, anticipated revenues would decrease, thereby requiring a larger increase in rates.

3. Low-Income Rate

WSCK seeks approval of a low-income rate. It proposes a low-income rate design based on a rate that is 78.51% of the tier 1 rate for the first 3,000 gallons.[24] This proposed rate would apply to only the first 3,000 of consumption for customers who qualify for the program.[25] WSCK will utilize a third party to verify customer eligibility so that the utility does not have access to personally sensitive information such as income.

WSCK acknowledges that the Commission has previously stated that KRS 278.170(1) would prohibit the Commission from considering the affordability of rates.[26] Although WSCK agrees that it would be inappropriate to factor affordability into determining the appropriate revenue requirement for a utility, WSCK submits that the Kentucky Supreme Court has concluded otherwise.

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[23] WSCK Response to Post-Hearing Data Request No. 5.
[24] *Id.* at A9.
[25] *Id.*
[26] *See, e.g.*, *Kentucky-American Water Co.*, Case No. 2018-00358 (Ky. PSC Jan. 3, 2019).

In *Public Service Com'n of Kentucky v. Commonwealth*, 320 S.W.3d 660, 667 (Ky. 2010), the Court determined that the Commission's approval of an economic development rate, under which customers receive a discount to cost-based rates, was both reasonable and lawful. The Court directly rejected the argument that KRS 278.170(1) prohibited utility customers from receiving reduced rates, so long as those customers fit within a reasonable classification. "To conclude otherwise would involve rendering both KRS 278.170(1) and KRS 278.030 largely meaningless."[27]

Moreover, WSCK's proposed low-income rate is consistent with concerns raised in recent Commission decisions. In considering a non-recurring charge for an eastern Kentucky water district, the Commission determined that the charge "disproportionately affects those customers who already struggle to pay for service." WSCK's is proposing a modest low-income rate in order to address the same concern identified by the Commission. It seeks to positively affect those customers who already struggle to pay for service. Accordingly, WSCK requests that the Commission approve its low-income rate.

4. Wholesale Rate

WSCK seeks approval for its wholesale rate. WSCK has an emergency connection with the City of Pineville's water system. To the extent that Pineville needs an emergency supply of water, WSCK proposes a wholesale rate that is based on the marginal cost of each kilogallon of water by documenting the electric costs, purchased water costs, and chemical costs incurred in a given year by WSCK.

WSCK submits that it is appropriate to set the wholesale rate at the marginal cost of water in this instance. WSCK's connection with the City of Pineville is merely an emergency connection, whereby WSCK is able to provide wholesale water to Pineville in the event that

[27] *Public Service Com'n of Kentucky v. Commonwealth*, 320 S.W.3d 660, 668 (Ky. 2010).

Pineville's system is in short-term duress. WSCK has no reason to believe that it will sell any amount of water to Pineville in any given year, nor is there any wholesale usage reflected in WSCK's proposed rates.

The wholesale rates should not be set at a rate below the marginal costs because such rates would result in revenue lower than expenses if Pineville needed assistance from WSCK. And if the Commission were to determine that the wholesale rate should be higher than WSCK's proposal, there would be no impact on other WSCK rates because there is no usage in the test-year or any other reasonable and reliable anticipation of sales in the future.

5. Corix Corporate Services

WSCK has included expenses related to Corix Corporate Services in this case. These services allow the Company to fulfill its obligations to deliver water service to its customers.[28] They include functions related to governance, compliance, economies of scope and scale, continuity of service, and standards.[29] These Corporate Services are essential to WSCK's operations.

WSCK seeks to recover these expenses going forward. Historically, Corix Infrastructure Inc., ("CII") had taken a conservative approach, and its subsidiaries did not request recovery of these expenses. CII recently completed a strategic transformation, whereby it shed two other business lines (water products and water services). Following this divestiture, CII is laser focused on regulated and quasi-regulated businesses, and the services provided by CII exclusively benefit those operations, including WSCK.

WSCK has also demonstrated the reasonableness of these expenses. As WSCK witness Patrick Baryenbruch determined, CII's and Water Service Corporation's costs were below

[28] Elicegui Direct Testimony at A13.
[29] Baryenbruch Direct Testimony Exhibit PLB-2 at 17.

comparison group averages. Moreover, those expenses are provided without any mark up. Accordingly, it is reasonable that WSCK be permitted to include these expenses in rates.

6. Reasonableness of Salaries

In WSCK's last rate case, Case No. 2018-00208, the Commission approved recovery of WSCK's salary expenses. WSCK prepared and submitted an analysis of the reasonableness of salaries in that 2018 case. Because the Commission signaled its satisfaction with WSCK's proof on this issue in that case, WSCK prepared an identical analysis for this case that is updated with more current data. That analysis was prepared by WSCK witness Perry Brown. First, as Andrian Dmitrenko did in the last case, Brown 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, Brown provided a comparison of WSCK's salary levels to market cost of services available by service providers outside the utility industry. This analysis demonstrates that WSCK's salaries are reasonable, and therefore, should be recovered in rates.

7. New Positions

WSCK has included salary expense for the following new positions: Vice President of Regulatory Affairs and Business Development, Business Development Manager, Director of Engineering and Asset Management, and Midwest Project Manager. Both the Business Development Manager and Director of Engineering and Asset Management were filled in February 2020.[30] It is anticipated that the other two positions will be filled by the end of the year. Accordingly, it is appropriate to include these salaries in WSCK's rates.[31]

[30] WSCK Responses to Post-Hearing Data Request No. 2.
[31] *Id.*

8. Business Intelligence, including FUSION

WSCK has included expenses related to its business intelligence assets. This includes FUSION, an Oracle cloud-based multi-functional platform which integrates payroll, time entry, recruiting, onboarding, performance management, benefits administration, human capital management, health and safety incident tracking, accounting, procurement, expense management, payment processing, vendor management and project management systems into a single, integrated platform.[32] Each of these functions directly benefits WSCK's customers.[33]

Following the Commission's order in WSCK's last rate case, WSCK set a depreciation rate on this technology platform based on a service life of 22.5 years. This lengthy period grossly overestimates the anticipated service life of FUSION and nearly all other modern computer technology. The result is that customers in 20 years who do not directly benefit from the asset will be required to pay a portion of the cost of that asset. A more appropriate depreciation rate would be based on a service life of 8 years. But in order to be consistent with the Commission's decision in Case No. 2018-00208, WSCK has included depreciation expense for these assets based on a 22.5-year service life.

9. Tank Rehabilitation

WSCK proposes to include known and measurable expenses for tank rehabilitation projects for storage facilities in both Middlesboro and Clinton.[34] Following the receipt of bids, WSCK has entered into contracts for these projects.[35] The Commission has indicated that pro forma adjustments are appropriate when the utility submits "negotiated contractor bids that

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[32] Guttormsen Direct Testimony at 11-13.
[33] *Id.*
[34] Vaughn Direct Testimony at 9-12.
[35] Vaughn Supplemental Testimony and Exhibits.

secure the cost and timing of such major repairs."[36] WSCK proposes to recover these expenses over a 10-year amortization period, which is consistent with Commission precedent.[37] Accordingly, it is appropriate for WSCK to recover these expenses in rates.

10. Hydrant Maintenance

WSCK includes costs related to hydrant maintenance, which is an annual program where a third-party hydrant service firm will be performing flushing, flow testing, service recording compilation, operation and maintenance of each hydrant.[38] In the application, WSCK included $37,750 for this service, but that was the amount for two years of maintenance. Instead, WSCK acknowledges that should have included only $16,427 for the maintenance. Accordingly, it is appropriate to reduce the proposed revenue requirement by $21, 503.[39]

11. Vehicle Depreciation

In its application, WSCK inadvertently included vehicles in the depreciation expense that have already been fully depreciated. The updated revenue requirement should reflect an annual vehicle depreciation expense of $13,452.[40]

12. Rate Case Expense

Through November 20, 2020, WSCK incurred $97,745 in rate case expense.[41] WSCK anticipates incurring $5,000 in additional consulting and legal fees for this matter going forward,

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[36] *Madison Cnty. Utils. Bd.*, Case No. 2002-00184 (Ky. PSC Jan. 27, 2003).
[37] *See, e.g.*, *South Shore Water Works Co.*, Case No. 2003-00044 at 7 (Staff Report filed June 20, 2003) *adopted by the Commission* Case No. 2003-00044 at 2 (Ky. PSC July 7, 2003)(approving a 10-year amortization period for tank painting); *Sedalia Water Dist.,* Case No. 91-462 at 5 (Staff Report filed March 31, 1992) *adopted by the Commission* Case No. 91-462 at 2 (Ky. PSC May 5, 1992) ("According to the Commission's Engineering Division, this expense should be amortized over a period of 10 years."); *see also City of Falmouth*, Case No. 2006-00403 (Staff Report filed May 11, 2007)(" The 10-year period is the anticipated life of the painting and is a standard rate-making methodology."); *South Hopkins Water Dist.*, Case No. 2013-00428 (Ky. PSC June 12, 2014)(approving a 10-year service life for tank painting); *West Daviess Cnty. Water Dist.*, Case No. 1993-00103 at 6 (Staff Report filed June 12, 1993) *adopted by the Commission in* Case No. 1993-00103 at 2 (Ky. PSC Aug. 5, 1993)(approving a 7-year amortization period for tank painting).
[38] Vaughn Direct Testimony at 9.
[39] WSCK Response to AG 1-34.
[40] WSCK Response to AG 1-40.

which includes finalizing the initial brief, reviewing the intervening parties' briefs, drafting a response brief, reviewing subsequent orders, and printing costs for the filing of one copy of the documents after the state of emergency is lifted[42]. Accordingly, WSCK seeks approval to recover $102,745 in rate case expense for this case, plus $61,529 in unamortized rate case expenses, for a total of $164,274.

WSCK is seeking to recover these rate case expenses over a 2.5-year amortization period. It acknowledges that the Commission has previously determined that a 3-year amortization period is reasonable, but the 2.5 year service life would more appropriately reflect the historical need for WSCK to seek a rate adjustment every 2.5 years. As stated in NARUC's Uniform System of Accounts for Class A/B Water Companies that this Commission has adopted, "'Amortization' means the gradual extinguishment of an amount in an account by distributing such amount over a fixed period, over the life of the asset or liability to which it applies, or over the period during which it is anticipated the benefit will be realized." Based on this definition, the appropriate amortization period for WSCK's rate case expense should be set at 2.5 years because that is the life of the liability to which it applies.

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[41] WSCK Response to Post-Hearing Data Request No. 3.
[42] *Id.*

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, as well as approve the qualified infrastructure plan, a leak adjustment policy, a low-income rate, and a wholesale rate.

Respectfully submitted,

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