

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. 2022-00147
in Existing Rates and a Certificate Of Public)	
Convenience and Necessity to Deploy)	
Advanced Metering Infrastructure and Approval)	
Of Certain Regulatory Accounting Treatment)	

REBUTTAL TESTIMONY OF JAMES KILBANE

1 **Q. Please state your name and business address.**

2 A. My name is James Kilbane. I am the Financial Planning & Analysis Manager of Water
3 Service Corporation of Kentucky (“WSCK” or “Company” or “Petitioner”) as well as
4 WSCK’s affiliate, Cleveland Thermal, which combined constitute the Ohio/Kentucky
5 Business Unit within the North Region. My WSCK business address is 102 Water Plant
6 Road, Middlesboro, KY 40965.

7 **Q. Did you previously provide Direct Testimony in this proceeding?**

8 A. Yes. I did.

9 **Q. What is the purpose of your Rebuttal Testimony?**

10 A. The purpose of my Rebuttal Testimony is to respond to the Direct Testimony of Randy A.
11 Futral on issues related to various expense adjustments proposed by Mr. Futral on behalf
12 of the Office of the Attorney General of the Commonwealth of Kentucky (“OAG”) and the
13 City of Clinton.

14 **Q. What is Mr. Futral’s recommendation on payroll expenses and payroll taxes?**

15 A. Mr. Futral recommends a decrease of payroll expenses of \$49,716 and correspondingly a
16 reduction of payroll taxes of \$3,803. He recommends this based on stating the Company
17 already increased salaries and wages approximately \$100,000 in 2021 and stating that the
18 market midpoint comparison is based on skewed results from non-Kentucky personnel.
19 His assessment that the mid-market comparison is skewed and the Kentucky personnel
20 have already had sizeable wage increases in the past leads him to conclude that using a
21 merit increase of 3% is appropriate.

22 **Q. Do you agree with Mr. Futral’s assessment that in 2021 the approximately \$100,000**
23 **is from a large pay increase?**

1 A. No. Our response to AG DR 1-80 states that the \$100,000 increase in salaries was
2 associated with reorganization and accounting of certain personnel, as well as standard
3 merit increases. The merit increase for the 13 direct personnel and the 6 allocated personnel
4 from 2020 to 2021 was \$45,762 as stated in PSC DR 3-3, which was a 3.1% increase from
5 2020. The other dollars were related to the reorganization changes of allocations and
6 personnel changes.

7 **Q. What is Mr. Futral’s recommendation for 401k Expenses?**

8 A. Mr. Futral recommends using historic 401k participation rates to calculate the 401k cost in
9 the Forecast Period. He recommends removing \$15,815 in expense related to this
10 adjustment.

11 **Q. Do you agree with Mr. Futral’s recommendation regarding 401k Expense?**

12 A. Yes, the Company agrees Mr. Futral’s recommendation reasonable and agrees with the
13 \$15,815 dollar expense to be removed related to 401k costs.

14 **Q. What is Mr. Futral’s recommendation on health insurance expense?**

15 A. Mr. Futral recommends that health insurance expense be reduced by \$28,944. He’s
16 recommendation is based on participation levels and vacancies from certain positions. He
17 also states that the percentage increase forecasted by the Company is too high.

18 **Q. Do you agree with Mr. Futral’s recommendation regarding participation levels and
19 vacancies?**

20 A. No. Currently, every employee participates in the health insurance program and therefore
21 the Company incurs applicable costs. The Company forecasted any open positions with
22 the lowest cost health insurance participation in order to not overstate possible participation
23 in an unfilled position.

1 **Q. Are Mr Futral's assertions about the vacancies in regards to health insurance**
2 **expense reasonable?**

3 A. No. All the current and forecasted 19 positions included in this rate case (or their successor
4 or comparable position) were included for recovery in the 2020-00160 case. To exclude
5 the health insurance expense related to these positions in this case would be unreasonable.

6 **Q. What positions are currently vacant?**

7 A. The Director of Engineering & Asset Management is currently the only position vacant
8 which the Company is actively recruiting.

9 **Q. What financial impact does the Director of Engineering & Asset Management have**
10 **on 2023 health expense?**

11 A. The health insurance expense for this position, is \$1,045. The Company is agreeable to
12 removing this amount for revenue requirement purposes.

13 **Q. Is Mr. Futral's assessment that a 21% increase in 2023 on the total health insurance**
14 **dollars unreasonable?**

15 A. Yes. The 21% is based on year over year increases from the Base Period trial balance
16 accounts to the Forecast Period of 2023. The Base Period cost for health insurance for the
17 six allocated employees are not reflected in the same accounts as non-allocated employees.
18 The total cost of these allocated dollars would instead have been captured in Salaries and
19 Wages Expense accounts based on how the Company allocates. The understatement to
20 Base Period health insurance not captured by Mr. Futral is \$15,991. Accounting for this
21 allocation reduces the 21% to 10% based on the table Mr. Futral references from AG DR
22 1-84. The difference between the 10% and the Company's health insurance expense
23 increase of 6% is the reflection of the vacancies incurred during the Base Period.

1 **Q. What is Mr. Futral's recommendation on legal fees?**

2 A. Mr. Futral recommends removing \$15,773 in legal expenses. His recommendation is based
3 on the removal of the non-recurring legal expenses incurred in 2021 and 2022, particularly
4 the termination of the Clinton Wastewater Contact and a personal injury lawsuit.

5 **Q. Do you think removing these non-recurring legal costs are reasonable?**

6 A. No. These particular costs will not be recurring but were actually incurred. It is impossible
7 to forecast when the next non-recurring legal issue may come about and how much it will
8 cost. Legal costs for the Company are almost always non-recurring, but they happen
9 frequently and should be accounted for. It is unreasonable to exclude non-recurring
10 charges in an account that is always going to incur non-recurring charges as a normal
11 course of business. While these particular legal issues may not recur, other legal issues
12 requiring legal costs will take their place. Some level of ongoing legal expense is simply a
13 fact of operating a business.

14 **Q. Is the method the Company used to calculate legal cost expense reasonable?**

15 A. Yes, the Company made efforts to use an average of 2020 and 2021 so as not to
16 unreasonably skew the legal cost higher as opposed to using just 2021 or 2022 legal
17 expenses.

18 **Q. What is Mr. Futral's recommendation on Clinton Wastewater expenses that were
19 included in the initial revenue requirement filing?**

20 A. Mr. Futral stated that \$11,541 dollars should be removed that were Clinton Wastewater
21 related expenses.

22 **Q. Does the Company agree with the Clinton Wastewater expense being removed?**

23 A. Yes.

1 **Q. What is Mr. Futral's recommendation for fuel expense?**

2 A. He recommends that the Company reduce fuel expenses based on September 21st gas
3 prices, thus reducing fuel expenses by \$5,067. He also states that the average price of fuel
4 is fluid and volatile.

5 **Q. Does the Company agree with Mr. Futral about the recommendation of reducing
6 fuel expenses based on the Sept 21st gas price?**

7 A. No, the Company does not agree that the September 21st gas price should be used. The
8 Company does agree with Mr. Futral that prices of fuel are fluid and volatile and the most
9 current market price should be used to determine the fuel cost.

10 **Q. What is the Company's recommendation on fuel cost?**

11 A. The Company recommends using the most recent data. As of November 15, 2022, the
12 price of diesel in Kentucky is \$5.29 and the price of regular fuel is \$3.43 per
13 gasprices.aaa.com. This converts into an average cost for the Company based on the mix
14 of diesel engines vs non-diesel of \$3.80. This results in a Forecast Period expense of
15 \$32,449 (8530 Gal * \$3.80) expense for fuel cost, or a reduction of \$989 to the as-filed
16 expense.

17 **Q. What is Mr. Futral's recommendation for depreciation expense?**

18 A. Mr. Futral recommends to remove \$50,838 in expenses due to a depreciation calculation
19 error in the initial filing.

20 **Q. Does the Company agree with this recommendation for the depreciation expense
21 error?**

22 A. Yes

23 **Q. What is Mr. Futral's recommendation for bad debt expense?**

1 A. Mr. Futral recommends that bad debt expense be calculated by using years 2017, 2018, and
2 2019 as well as the first 6 months of 2022, resulting in a 2.12% instead of the requested
3 3.93%, which reflected the 2019, 2020, and 2021 data. The dollar amount will be fluid
4 based on all other recommendations and revenue requirement components.

5 **Q. Does the Company agree with the use of Mr. Futral’s bad debt expense calculation?**

6 A. No. Using largely pre-Covid years skews the current actual impact of bad debt expense
7 the Company is incurring. The Company started returning to pre-Covid collections
8 operations in October of 2021. The Company has only seen a slight reduction of bad debt
9 expense from what it recommended in the original revenue requirement of 3.93%. The
10 2022 activity up to September as shown in the table below shows a 3.7% bad debt expense.
11 Simply put, the Company has not seen a significant improvement in bad debt since it
12 resumed collections processes. Therefore, the Company believes its methods, which
13 includes both pre-COVID and COVID impacted periods, is a reasonable estimation of
14 future bad debt expenses.

Accounts	Jan-Sept 2022
Revenue	\$ 2,432,287
Bad debt expense	\$ 90,108
Bad debt percentage	3.70%

15
16 **Q. Has Mr. Futral made an adjustment to the Company's estimated rate case expenses
17 incurred in this rate case?**

18 A. Yes. Mr. Futral proposes removing the legal expenses estimated for the Ice Miller law
19 firm.

20 **Q. Do you agree with this adjustment?**

21 A. No. Mr. Futral makes a comparison to rate case expenses from prior WSCK cases, but as
22 he is aware, the current rate case is significantly different - and importantly, more complex

1 - than prior cases of the Company. The current case includes the following variations and
2 additions from prior cases: 1) filing a rate base/rate of return case compared to the operating
3 margin method, 2) filing and supporting all of the minimum filing requirements needed for
4 a forecast period case, 3) filing and supporting a CPCN request, 4) filing and supporting
5 an expert compensation study. In addition, the Company does not have an internal legal
6 counsel dedicated to regulatory support, as larger utilities such as Kentucky-American
7 Water and Duke Energy do, and thus must rely on external counsel to assist in preparing,
8 supporting, and adjudicating rate case filings. The Company also notes that, despite the
9 significantly more complex and detailed filing that is required for a rate base/rate of return
10 and Forecast Period case, the Company only had one small, non-substantive filing
11 deficiency (a typo on the customer notice) and has filed all discovery responses and updates
12 on time, if not in advance of deadlines. The Company notes that the AG asked no questions
13 in discovery to probe the potential redundancy or need for these costs. The Company
14 confirms, for the PSC and intervenor's benefit, that the estimated costs are not reflective of
15 redundant legal efforts. Rather, the Ice Miller staff work collaborative with Sturgill Turner
16 to assist the Company in presenting a high-quality case. Moreover, Ice Miller staff work
17 on rate cases for many of WSCK's sister companies affiliated with Corix, as well, and
18 therefore is familiar with Corix companies, their operations and witnesses. The Company
19 would assert that, therefore, Mr. Futral's claims that the local firm's costs should
20 accordingly decrease and the Company should bear the full responsibility of the Ice Miller
21 costs to support the filings are not supported by the record in this case.

22 **Q. Is there a comparable rate case to support the reasonableness of the Company's**
23 **estimated rate case expense?**

1 A. No two rate cases are identical, but there are comparable cases. The last investor-owned-
 2 water-utility rate case utilizing a forecasted test year was Kentucky-American Water
 3 Company’s Case No. 2018-00358. In addition to the forecasted test year, it included expert
 4 testimony on rate base/rate of return, a compensation study, and costs were significantly
 5 more than the total estimated legal expense associated with WSCK’s case.

6 **Q. Does the Company have an updated estimate for the legal costs supporting this rate**
 7 **case filing?**

8 A. Yes. After reviewing Ice Miller’s efforts in assisting with the preparation and processing
 9 of the filing through the rebuttal testimony phase, the Company is agreeable to reflecting
 10 the following balances for the Forecast Period for Rate Case Expense and Rate Case
 11 Expense Deferral.

<u>Category</u>	<u>Case No.</u> <u>2022-00147</u>
Sturgill Turner	\$ 158,875
IceMiller	100,000
Consulting Fees	87,850
Administration	8,579
Travel	<u>4,012</u>
Total Estimated Cost	<u>\$ 359,316</u>
Annual Amortization	\$ 119,772
13-Mo. Avg. Rate Base	\$ 299,430

13 **Q. If AMI was rejected, what does Mr. Futral recommend regarding the capitalized**
 14 **labor (“capttime”) associated with AMI?**

15 A. Mr. Futral makes the claim that if AMI was removed, the \$79,676 of capttime, that is a
 16 credit or offset against salaries and benefits expenses in the Forecast Period, should not be
 17 added back into the revenue requirement. He reasons that the vacancies adjustments

1 discussed above would account for this dollar amount. Mr Futral does not present a
2 calculation to support the \$79,676 removal in regards to the vacancies adjustment.

3 **Q. Does the Company agree with this captime treatment?**


4 A. No. As the Company disagrees that any position is currently vacant besides the Director
5 of Engineering and Asset Management, only that position's expenses would be reduced,
6 and the full captime removal impact should be reflected. This position's Salary and Wages
7 Expense level, as allocated and provided by the Company in its August 11, 2022 update,
8 is \$18,810, with related Payroll Taxes of \$1,467. As the Company noted in discovery, if
9 the AMI project is not approved by the Commission, the Company will not implement the
10 improvements. Therefore, the captime would be removed and the revenue requirement
11 would likewise increase.

12 **Q. Does this conclude your prepared rebuttal testimony?**

13 A. Yes.

AFFIDAVIT

The undersigned, JAMES KILBANE, being duly sworn, deposes and says that he is the Financial Planning & Analysis Manager for the Water Service Corporation of Kentucky, that he is authorized to submit this testimony on behalf of Water Service Corporation of Kentucky, and that the information contained in the testimony is true and accurate to the best of his knowledge, information and belief, after reasonable inquiry, and as to those matters that are based on information provided to him, he believes to be true and correct.



James Kilbane, Affiant

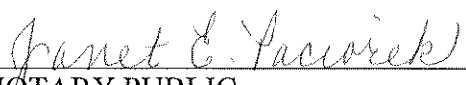
NOTARY CERTIFICATE

STATE OF OHIO

COUNTY OF CUYAHOGA

Subscribed, acknowledged and sworn to before me by JAMES KILBANE on
this 21 day of NOVEMBER, 2022.

My commission expires: 10-26-2027.



NOTARY PUBLIC



JANET E PACIOREK
Notary Public
State of Ohio
My Comm. Expires
October 26, 2027