

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WATER SERVICE )  
CORPORATION OF KENTUCKY FOR AN ) CASE NO.  
ADJUSTMENT OF RATES ) 2008-00563

SECOND DATA REQUEST OF COMMISSION STAFF TO  
THE WATER SERVICE CORPORATION OF KENTUCKY

Water Service Corporation of Kentucky ("Water Service"), pursuant to 807 KAR 5:001, is to file with the Commission the original and seven copies of the following information, with a copy to all parties of record. The information requested herein is due on or before May 15, 2009. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Water Service shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Water Service fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. At page 4 of her direct testimony, Lena Georgiev refers to statistics compiled by the United States Department of Labor Bureau and Labor Statistics that state the cost of water and sewer maintenance has increased by approximately 3.514 percent per year since Water Service's last rate case. Provide a copy of the referenced Department of Labor study. Explain in detail how an adjustment based upon this statistic would meet the rate-making criteria of known and measurable.

2. Refer to Distribution of Expenses 4th Quarter Ended December 31, 2008, SE60 at 17.

a. Provide a breakdown of travel and lodging expenses, identify the person the expenses were paid for, the amounts, who received the payments, and the amounts actually spent in Kentucky.

b. State whether the Bank Service Charges allocated to Kentucky are charges assessed by local Clinton and Middlesboro banks. Provide a breakdown of the total of \$66,654.

c. Reference page 18 SE60. Provide a detail of the intercompany interest and explain how the portion of this expense allocated to Kentucky's operations benefited Kentucky rate payers.

3. Refer to Exhibit 4 of the Application, Schedule C, Rate Base.

a. The first column is the restated operations. Provide a revised Rate Base Schedule that includes columns for the actual test-period operations and the restatement adjustments.

b. For each restatement adjustment shown, provide the allocation factor that was used and the calculation of the restatement adjustment.

4. At page six of her direct testimony, Ms. Georgiev states that expenses were adjusted by 3.514 percent to account for the increase in the consumer price index. 807 KAR 5:001, Section 10(7), provides that that "[u]pon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period." Explain how an inflationary expense adjustment based upon a consumer price index is a known and measurable change.

5. At page 10 of her direct testimony, Ms. Georgiev states the filing also includes \$36,282.69 for organizational costs in utility plant in service that was not booked at the time of acquisition. State the purpose of the organizational costs, explain why these costs were not booked at the time of the acquisition and why the organizational costs should be included Water Service's rate base.

6. At page 9 of her direct testimony, Ms. Georgeiv states that Accumulated Depreciation, Contributions In Aid of Construction, and "AIAC" have been restated to

reflect a 2 percent depreciation rate from the date the assets were placed in service. State the effect of Water Service's proposed adjustments on deferred income taxes. State all assumptions, show all calculations, and provide all work papers used to determine these effects.

7. At page 7 of her direct testimony, Ms. Georgeiv lists pro forma adjustments to the rate base. These adjustments include: an adjustment for CC&B closed out after the test-year but before the filing of the rate case, and plant additions for July 2008 to November 2008 prorated to March 2009. The Commission has stated that adjustments for post test-period additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital have been updated to the same period as plant additions.

a. State whether Water Service's application complies with this requirement.

b. Identify each adjustment that Water Service proposes to its revenues, expenses, rate base, and capital that follows this post test-period requirement.

8. 807 KAR 5:001, Section 10(1), provides that all applications for a general rate adjustment shall be supported by either a 12-month historical test period which may include adjustments for known and measurable changes or a fully forecasted test period. Given that Water Service had the option to file a forecasted test period, explain why adjustments to reflect estimated post test-period plant additions and inflationary expense adjustments should be allowed in a rate case with an historical test year.

9. Please provide a copy of the Deloitte case presentation referred to at page 5 of John D. Williams' Direct Testimony.

10. Exhibit 17, the balance sheet for June 30, 2008, is not legible. Provide a legible Balance Sheet.

11. Explain if 100 percent of the security camera referenced in Exhibit 19 is a Kentucky project.

12. State the number of employees Water Service has at its Clinton, Kentucky operation.

13. State the number of employees Water Service has at its Middlesboro, Kentucky operation.

14. On Exhibit 4, at wp(e), Water Service lists real estate tax of \$40,970.

- a. Is this the tax on Kentucky real estate?
- b. If not, how much is the actual tax on Kentucky real estate?
- c. List all other properties whose tax is included in the \$40,970.
- d. Provide property tax statements to support the real estate tax of \$40,970.

15. In its Response to the Commission Order of April 3, 2009, item 13, Water Service states that it has no debt and that all debt is carried at the parent company level.

- a. Provide the requested information during the test-year for the parent company.

- b. Provide a description of the borrowed funds and the amount directly used at the Kentucky operations.

16. At Sheet 9-10 of its proposed tariff, Water Service lists the service connection fee for a less than 1-inch connection as \$1,434. On its Notice of the proposed rate adjustment, Water Service lists a Tap/Connection Fee of \$1,434 for connections "Less than or equal to 1 inch connection." Explain why these statements differ. State the correct fees to be charged for the appropriate meter size connection. Refer to the application, Exhibit 2, proposed tariff, Sheet 9-10, Section 2(b), Applications for Water Service, tap fee section.

17. Refer to Water Service's Response to the Commission Order of April 3, 2009, item 28. In this response, Water Service states: "[T]he Meter Fee was inadvertently included in the public notice. It is not being requested in this case." Explain why a cost justification page was filed for this charge if the increased fee is not being requested.

18. Refer to the Direct Testimony of Pauline M. Ahern ("Ahern Testimony"). Provide all Schedules in Microsoft Excel 1997-2003 format with all formulas intact and unprotected.

19. Refer to Ahern Testimony. For other water utilities of comparable size to Water Service, the Commission has generally calculated the utility's revenue requirement using an 88 percent operating ratio. Explain why this methodology is not appropriate in this case.

20. Refer to Ahern Testimony at page 8.

a. Provide all documentation and support for the assertion that the water and waste water industry is much more capital-intensive than the electric, natural

gas or telephone industries. Is the assertion also true for regulated utilities across these industries?

b. State how much more capital intensive the regulated water and waste water industries are than each of electric, natural gas and telecommunications industries.

21. Refer to Ahern Testimony at pages 9-10.

a. Provide documentation and support for the assertion that water and waste water utilities' assets have longer lives than that of natural gas utilities.

b. State the depreciation rates for Water Service and for each of Utilities Inc.'s ("UI") regulated subsidiaries. For each set of depreciation rates, state whether the rate is the result of a fully litigated rate case proceeding.

22. Refer to Ahern Testimony at pages 10–11. Increased levels of spending for improving quality of service, infrastructure, main replacement, increased security and complying with federal mandates may lead to increased levels of risk. Explain whether it is Water Service's position that this Commission has acted in such a manner as to place greater risk upon the company.

23. Refer to Ahern Testimony at page 12. List each of the projects and the dollar amounts spent for each year since September 11, 2001 that Water Service has undertaken to mitigate its increased security risk from terrorist attack.

24. Refer to Ahern Testimony at page 18. Explain how Water Service and UI obtain debt financing.

25. Refer to Ahern Testimony Schedule PMA-3 and at pages 18-19.

a. Explain why the year 2008 was not included in the analysis.

b. For each company in the proxy group and for Water Service and UI, provide the percentage of net operating income and the percentage of total assets devoted to regulated water operations.

c. Explain why the benchmark of 60 percent was chosen and state the benchmark percentage sought in Water Service's last rate case.

d. Explain why a company with up to 40 percent of its income and its assets devoted to lines of business that are subject to different levels and types of risk than a small regulated water utility should be included in the proxy group.

26. Refer to Ahern Testimony at Schedule PMA-4 and pages 19-20.

a. Explain why firms with a bond rating below A3 should be included in the proxy group.

b. Explain why the year 2008 was not included in the analysis.

c. Explain why the benchmark of 60 percent was chosen.

d. For each company in the proxy group, provide the percentage of net operating income and the percentage of total assets devoted to regulated gas distribution activity.

27. Refer to Ahern Testimony at Schedule PMA-5. Footnote 2 does not appear to be accurate. Should the second line refer to page 1 of Schedule PMA-8?

28. Refer to Ahern Testimony at Schedule PMA-6 and page 24.

a. State why a spot date was chosen and the significance of the specific date chosen for the analysis.



b. For each company in the water and natural gas proxy groups, provide the three-month average dividend yield for January-March 2009 and the six-month average dividend yield for October 2008-March 2009.

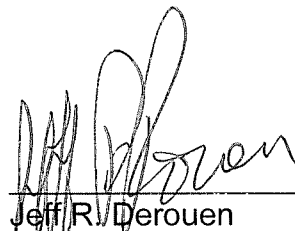
29. Refer to Ahern Testimony at Schedule PMA-8 and page 26.

a. Explain why Water Service's process of averaging various historical and projected growth rates is valid.

b. Explain why a similar process was not used for the natural gas proxy group.

c. Explain what parts of the natural gas distribution business have been deregulated.

d. Provide a historical analysis for the natural gas proxy group similar to that performed for the water proxy group.



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DATED: MAY - 1 2009

cc: Parties of Record

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