

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WATER)	
SERVICE CORPORATION OF KENTUCKY)	CASE NO
FOR A GENERAL ADJUSTMENT IN)	2018-00208
EXISTING RATES)	

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION
TO WATER SERVICE CORPORATION OF KENTUCKY

Water Service Corporation of Kentucky (Water Service Kentucky), pursuant to 807 KAR 5:001, is to file with the Commission the original and an electronic version of the following information. The information requested herein is due on September 21, 2018. Responses to requests for information in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable and shall be appropriately bookmarked.

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 Kentucky shall make timely amendment to any prior response if Water Service Kentucky 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 Kentucky fails or refuses to furnish all or part of the requested information, Water Service Kentucky 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. When filing a paper containing personal information, Water Service Kentucky shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Water Service Kentucky's response to Commission Staff's Second Request for Information (Staff's Second Request), Item 5.b. which included an attached file labeled "Captive GL Detail".

a. State the nature of the work of the amounts included in tab "2017 345 UE 6165 Direct Captive".

b. State the nature of the work of the amounts included in tab "2017 345 UE 6165 Alloc Captive."

c. Reconcile the amounts included in this file with the proposed adjustment of \$103,218 in Water Service Kentucky's Operating Income Statement, Schedule B, that was included in its Application.

2. Refer to Water Service Kentucky's response to Staff's Second Request, Item 5.c., in which Steve Lubertozi states that Water Service Kentucky's position is that salaries should be capitalized when employees are engaged in construction for project work.

a. State whether Water Service Kentucky has proposed an adjustment of this nature before in any of its prior rate cases that were before the Kentucky Public Service Commission.

b. If so, identify which case the adjustment was proposed. If not, indicate why Water Service of Kentucky has never proposed the adjustment before.

3. Refer to the responses to Staff's Second Request, Item 7.b. Provide all calculations that were used in developing the meter cost justifications in an Excel spreadsheet format with all rows and columns unprotected and accessible.

4. Refer to the responses to Staff's Second Request, Items 9.a. and 9.b.

a. Identify each affiliate of Water Service Kentucky's that used the services of Guastella Associates, LLC (Guastella Associates), to perform a depreciation analysis.

b. For those affiliates identified in Item 4.a. above, provide copies of the Depreciation Report, of the Direct Testimony filed in the proceeding, and the regulatory final decision

c. In Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible, provide copies of all workpapers, calculations, an assumption used by Guastella Associates in developing each depreciation analysis identified in Item 4.a. above.

5. Refer to the responses to Staff's Second Request, Item 10.
 - a. Provide all calculations that were used in developing these consumption charges in Excel spreadsheet format with all rows and columns unprotected and accessible.
 - b. Explain in detail how Water Service Kentucky used judgment in determining the increases to the tier 1 and tier 2 rates. Provide support for this judgment for each rate class and tier. Refer to the responses to the Commission Staff's Second Request, Item 11.a.(1).
6. In its January 30, 2018 Order establishing Case No. 2018-0043, the Commission ordered Water Service Kentucky to continue to record a deferred liability to reflect the reduction in the current income tax expense that resulted from the enactment of the Tax Cuts and Jobs Act's (TCJA) decrease in the FIT rate from 35 percent to 21 percent. Explain why Water Service Kentucky has not complied with the Commission's directive in the January 30, 2018 Order.
7. Provide Water Service Kentucky's income statement for the 12-month period ending September 30, 2017.
8.
 - a. Using Water Service Kentucky's income statement provided in the response to Item 7. above, and the table below, provide the revenue reduction resulting from the decrease in the federal income tax (FIT) rate from 35 percent to 21 percent.
 - b. Provide all workpapers, calculations and assumptions that were used in developing this response in Excel spreadsheet format with all rows and columns unprotected and accessible.

Details	35% Fed Tax Rate		21% Fed Tax Rate	
	Rates	Amount (\$)	Rates	Amount (\$)
Operating Revenues		\$ _____		\$ _____
Operating Expense				
Maintenance				
Operations				
Sewer Allocation				
Depreciation Expense				
Property and Payroll Taxes		_____		_____
Total Operating Expenses		_____		_____
Net Operating Income before Interest and Taxers				
Interest Charges		_____		_____
State Taxable Income				
State Income Tax	6%	_____	5%	_____
Federal Taxable Income				
Federal Income Tax	34%	_____	21%	_____
Net Income		=====		=====
Federal Taxes @21%				
Federal Taxes @35%		_____		_____
Difference				
Gross-up Factor @21%		_____		_____
Revenue Decrease		=====		=====

9. Provide Water Service Kentucky's income statement for the calendar year ending December 31, 2017.

10. a. Using Water Service Kentucky's income statement provided in the response to Item 9. above, and the table provided in Item 8 Miller states that the tank-painting projects are anticipated to begin in early April 2019 and take approximately four months to complete. Identify an example in which the Kentucky Public Service Commission has allowed an adjustment for a capital project of this nature that has yet to be started or completed in a historical test-year rate case.

11. Refer to the responses to Staff's Second Request, Item 23.a., in which Mr. Miller states that "The reduction from 2016 to 2017 was based on switching from a type of carbon, to a more effective type" State what the previous type of carbon Water

Service of Kentucky was using and what type that they switched to, to realize a cost-savings.

12. In the responses to Item 25.a. of Staff's Second Request John Guastella states that Guastella Associates has performed similar studies for clients in other jurisdictions that were approved.

a. Identify those state regulatory bodies where Guastella Associates presented a Depreciation Report and provided testimony for studies similar to Water Service Kentucky.

b. For those jurisdictions identified in Item 7.a. above, provide copies of the Depreciation Report, of the Direct Testimony filed in the proceeding, and the regulatory final decision

c. In Excel spreadsheet format with formulas intact and unprotected, and all rows and columns fully accessible, provide copies of all workpapers, calculations, and assumptions used by Guastella Associates in developing each depreciation analysis identified in Item 7.a. above.

13. In preparing Water Service Kentucky's depreciation analysis, did Mr. Guastella review any recent Commission decisions regarding the issue of depreciation rates for small water utilities?

a. If the response to Item 7. above is yes, identify the decisions Mr. Guastella reviewed and explain how the review of those prior decisions impacted Water Service Kentucky's analysis.

b. If the response to Item 7. above is no, explain why Mr. Guastella does not believe the Commission's opinions on the depreciation practices of small water utilities relevant.

14. Provide the information requested below for all mains that Water Service Kentucky has retired in the last ten years.

a. The date the main was placed into service and the original cost that was recorded in Utility Plant In Service.

b. The date the main was retired.

c. Whether the main was removed from the ground and the cost that Water Service Kentucky incurred to remove the main.

15. Refer to the Application, Exhibit 5, the Direct Testimony of Constance E. Heppenstall, page 11, lines 7–17.

a. The testimony states that the service charges as calculated by the cost-of-service study would only recover approximately 27 percent of the proposed revenue from its fixed costs. At present, Water Service Kentucky is recovering 35 percent of its revenue from its service charges. If the cost-of-service study calculates a service charge of \$9.53 to recover its fixed costs, provide support for increasing Water Service Kentucky's service charges to \$12.50 in order to recover 35 percent of its overall revenue.

b. Provide the volumetric rates for Tier 1 and Tier 2 if the Commission were to disallow any increase in Water Service Kentucky's current service charges. Provide all calculations that were used in arriving at these volumetric rates.

16. For each of Water Service Kentucky's service areas, provide the source of supply and rate at which water is purchased.

17. Refer to the Application, Exhibit CEH-1, Schedule B, page 4. Provide support for any allocation of the costs associated with office furniture and equipment, computers, and communication equipment to anywhere other than Water Service Kentucky's fixed costs.



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Public Service Commission
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DATED SEP 10 2018

cc: Parties of Record

Case No. 2018-00208

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