

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	)	

ORDER

On February 27, 2019, Water Service Corporation of Kentucky (Water Service Kentucky) filed a petition for rehearing on the Commission's February 11, 2019 Order, pursuant to KRS 278.400. Water Service Kentucky requested the Commission modify its February 11, 2019 Order on the following issues: (1) the Contribution-in-Aid of Construction (CIAC) amortization; (2) proposed tariff amendments; (3) the Tax Cuts and Jobs Act (TCJA) refund reconciliation; (4) correction to reflect the correct test year in ordering paragraph 1; (5) grant additional rate case expense for rehearing; and (6) include CIAC amortization and rate case expense as a component of taxable income.

On March 15, 2019, the Commission granted Water Service Kentucky's petition for rehearing in part on the following issues: (1) CIAC Amortization; (2) Tariff Amendments; (3) TJCA Refund Reconciliation; (4) correction of the test year end date in paragraph 1 on page 24 of the February 11, 2019 Order; and (5) Amortization of CIAC for Income Tax Purposes. The Commission denied rehearing on the issue of rate case expense and amortization of same.

The Commission sought more information to allow the record to be more fully developed on whether a TCJA refund reconciliation should be included in the final order on rehearing and on the issue of amortization of CIAC tax impact. These remaining issues are addressed herein. Water Service Kentucky filed responses to Commission Staff's requests for information on March 29, 2019. The Attorney General of the Commonwealth of Kentucky, by and through the Office of Rate Intervention (Attorney General), did not file a response to Water Service Kentucky's petition.

## DISCUSSION AND FINDINGS

### CIAC Amortization

Water Service Kentucky claims that when the Commission revised its current depreciation rates to reflect the mid-point depreciation life of the average service life ranges and the net salvage values in the National Association of Regulatory Utility Commissions (NARUC) there was no corresponding adjustment to the amortization period for CIAC. The Commission has determined that modifying the CIAC amortization period to be consistent with its prior practice results in a decrease to operating expenses of \$5,028<sup>1</sup> for a revenue requirement increase of \$7,752.<sup>2</sup>

### TCJA Refund Reconciliation

The Commission determined that Water Service Kentucky should refund \$54,199 to customers, in order to account for the impact of the TCJA. Water Service Kentucky is requesting a true up at the end of the refund period (February 11, 2020) if the amount

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<sup>1</sup> (\$9,599) (CIAC Amortization Rehearing) – (\$14,627) (CIAC Amortization Order) = \$5,028.

<sup>2</sup> \$5,028 (Increase to Operating Expenses) ÷ 88% (Operating Ratio) = \$5,714 x 1.356621985 (Gross-up) = \$7,752.

that it refunds to its customers is above or below a five percent variance from the \$54,199 amount. Water Service Kentucky requests that the true-up amount be collected or refunded in one billing cycle and will provide documentation to verify the amount of the true up and refund. Having reviewed the petition, and being otherwise sufficiently advised, the Commission will allow Water Service Kentucky's requested TCJA refund reconciliation.

#### Amortization of CIAC Expense Tax Impacts

Water Service Kentucky argues expenses arising from the amortization of the CIAC expense should be included in taxation calculation. Having reviewed the petition and responses to the Requests for Information, the Commission finds that Water Service is correct. Including the CIAC amortization in the calculation of Water Service Kentucky's income taxes results in an increase to the revenue requirement of \$3,248.<sup>3</sup>

#### Depreciation Expense of Computers

During the investigation of the issues on rehearing, Commission Staff discovered the depreciation expense calculated by Water Service Kentucky in its response to Commission Staff's Second Request for Information, Item 24, Excel Spreadsheet Tab "ID&A 24d," included the cost of computers that had been fully depreciated. Using the mid-point depreciation life of the average service life ranges and the net salvage values in the NARUC survey and eliminating the cost of the computers that have been fully depreciated, Water Service Kentucky calculated a reduction to its pro forma depreciation

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<sup>3</sup>  $(\$9,599) \text{ (CIAC Amortization Rehearing)} \times 24.9514\% \text{ (Composite Income Tax Rate)} = \$2,394 \times 1.356621985 \text{ (Gross-up)} = \$3,248.$

expense of \$22,386.<sup>4</sup> This depreciation expense reduction results in a decrease to revenue requirement of \$35,887.<sup>5</sup> Upon its review of Water Service Kentucky's response, the Commission finds it to be accurate and, accordingly, that the revenue requirement should be decreased by \$35,887.

#### SUMMARY

In its February 11, 2019 Order, the Commission authorized rates that produced an increase in present rate revenues of \$535,327. The adjustments determined reasonable herein results in a revenue requirement decrease of \$24,887 as shown below.

CIAC Amortization	\$ 7,752
CIAC Amortization Tax Impact	3,248
Depreciation – Computers	+ (35,887)
Revenue Requirement Decrease	<u>\$ (24,887)</u>

IT IS THEREFORE ORDERED that:

1. The rates and charges set forth in the Appendix of this Order are approved for the water service that Water Service Kentucky renders on and after the date of this Order.
2. Within 20 days of the date of entry of this Order, Water Service Kentucky shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rate approved herein and reflecting that it was approved pursuant to this Order.

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<sup>4</sup> Response to Item 1.d of the Appendix to the March 15, 2019 Order, [https://psc.ky.gov/pscecf/201800208/tosterloh%40sturgillturner.com/03292019044535/Response\\_to\\_RH\\_DR\\_1%28c. d.%29\\_ Exhibit\\_1\\_-Workpaper\\_WSCK\\_%2801097636xA9D25%29.xlsx](https://psc.ky.gov/pscecf/201800208/tosterloh%40sturgillturner.com/03292019044535/Response_to_RH_DR_1%28c. d.%29_ Exhibit_1_-Workpaper_WSCK_%2801097636xA9D25%29.xlsx)

<sup>5</sup> *Id.*

3. Within 20 days of the TCJA reconciliation or no later than twelve months from the date of this order, Water Service Kentucky shall provide documentation including calculations verifying the amount of the true up and any resulting collection or refund.

4. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED  
JUN 18 2019  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2018-00208

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2018-00208 DATED **JUN 18 2019**

The following rates and charges are prescribed for the customers in the area served by Water Service Corporation of Kentucky. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Service Charge Rates  
For All Service Areas

<u>Meter Size</u>		
5/8-Inch	\$ 11.45	per month
3/4-Inch	11.45	per month
1-Inch	28.63	per month
1 1/2-Inch	57.25	per month
2-Inch	91.60	per month
3-Inch	171.75	per month
4-Inch	286.25	per month
6-Inch	572.50	per month

Volumetric Rates

Middlesboro Service Area

First 100,000 Gallons	\$ 5.000	per 1,000 Gallons
Over 100,000 Gallons	\$ 3.350	per 1,000 Gallons

Clinton Service Area

First 100,000 Gallons	\$ 5.000	per 1,000 Gallons
Over 100,000 Gallons	\$ 3.350	per 1,000 Gallons

Monthly Fire Protection Charges  
For All Service Areas

Fire Protection Charges

Municipally Owned Hydrants	\$ 7.40	per hydrant
Private Hydrants or Sprinkler Systems	33.50	per hydrant or sprinkler
Ambleside Private Fire Surcharge*	3.33	per customer

TCJA Surcredit

February 12, 2019 – February 11, 2020 \$ (0.133) per 1,000 Gallons

\* Surcharge is only applicable to those customers residing in the Ambleside subdivision in Middlesboro, KY

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