

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WATER)	CASE NO.
SERVICE CORPORATION OF KENTUCKY FOR A)	2020-00160
GENERAL ADJUSTMENT IN EXISTING RATES)	

COMMISSION STAFF'S SECOND 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 responses to the following information, with a copy to all parties of record. The information requested herein is due on or before August 19, 2020. Pursuant to the Commission's Orders in Case No. 2020-00085,¹ issued March 16, 2020, and March 24, 2020, Water Service Kentucky SHALL NOT FILE the original paper copy of all requested information at this time, but rather shall file original paper copies within 30 days of the lifting of the current state of emergency. All responses 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

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

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 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 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. Provide an Excel spreadsheet that lists the following information for the distribution and supply mains in the Middlesboro service territory: (1) Pipe Material (i.e.; asbestos, Polyvinyl Chloride (PVC), cast iron, galvanized steel, etc.); (2) Pipe Diameter; (3) Expected Life of Pipe Material; (4) Average Life Pipe Material has been In Service; (5) the Main Break History over the Past 10 Calendar Years; (6) the Length of Each Type of Pipe in the System; (7) the Repair Cost Incurred over the Past 10 Calendar Years; (8) the

Replacement Cost Incurred over the Past 10 Calendar Years; and (9) the Estimated Replacement Cost for each Material Type.

2. Provide an Excel spreadsheet that lists the following information for the distribution and supply mains in the Clinton service territory: (1) Pipe Material (i.e.; asbestos, PVC, cast iron, galvanized steel, etc.); (2) Pipe Diameter; (3) Expected Life of Pipe Material; (4) Average Life Pipe Material has been In Service; (5) the Main Break History over the Past 10 Calendar Years; (6) the Length of Each Type of Pipe in the System; (7) the Repair Cost Incurred over the Past 10 Calendar Years; (8) the Replacement Cost Incurred over the Past 10 Calendar Years; and (9) the Estimated Replacement Cost for each Material Type.

3. In Case No. 2020-00027,² the Commission stated that the primary reason it approved the Kentucky-American Water Company's (Kentucky-American Water) Qualified Infrastructure Program (QIP) was to replace aging water main that has or will be reaching the end of its service life and contributes to unaccounted-for water loss.³ For each of the following categories, explain in detail how it is reasonably related to the Commission's stated purpose of the QIP:

- a. Distribution and Transmission System Structures and Improvements;
- b. Mains and Valves;
- c. Hydrants;

² See, Case No. 2020-00027, *Electronic Application of Kentucky-American Water Company to Amend Tariff for the Establishment of Qualified Infrastructure Program Charge* (Ky. PSC June 17, 2020) page 15.

³ HVT at 9:51.

- d. Distribution Tanks;
- e. Services, Meters and Meter Installations;
- f. Power Generation and Pumping Equipment;
- g. Unreimbursed Funds Related to Capital Projects to Relocate Facilities Required by Governmental Infrastructure Projects;
- h. Source of Supply and Water Treatment Structures, Pipe and Equipment Including Sampling Equipment;
- i. SCADA Equipment; and
- j. Power Generation and Pumping Equipment.

4. Explain how the Commission’s finding in Case No. 2020-00027, which limits Kentucky-American’s QIP Tariff Rider to Mains Replaced/Restored; Mains Unscheduled; and incidental or appurtenance projects necessary to support Mains Replaced/Restored and Mains Unscheduled, impacts Water Service Kentucky’s proposed QIP.

5. Provide Water Service Kentucky’s water statistical information for the calendar years 2010-2019 using the table below:

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Water Produced/Purchased										
Total Water Sales										
Other Water Used:										
Utility/Water Treatment Plant										
Wastewater Plant										
System Flushing										
Fire Department										
Other Water Used:										
Total Other Water Used										
Total Water Loss										
Water Loss Percentage										

6. Using Water Service Kentucky's response to Item 5 above, provide the following information:

a. A detailed explanation as to how Water Service Kentucky calculated the amounts of each of the category listed as Other Water Used;

b. Copies of all documents Water Service Kentucky relied upon to support the amounts of water usage category listed as Other Water Used; and

c. In the event that any of the usage is estimated, the basis for the Water Service Kentucky's estimates.

7. Identify the number of Blue Max tubing service lines that are currently in the Middlesboro service territory and explain if the Blue Max tubing in the Middlesboro service area has a higher failure rate than the other service line types.

8. Identify the number of Blue Max tubing service lines that are currently in the Clinton service territory, and explain whether the Blue Max tubing has a higher failure rate in the Clinton service area than the other service line types.

9. Refer to Water Service Kentucky's response to the June 26, 2020 Order, Appendix B, Item 35. Water Service Kentucky refers to a file attached to its response entitled "Response to Staff DR 1.35a - GUI-WSC-Maintenance Guidelines," item 9. Provide a copy of the referenced file in Excel spreadsheet format with all columns and rows accessible and all formulas unprotected.

10. Refer to Water Service Kentucky's response to the June 26, 2020 Order, Appendix B, Item 3, Filing Template Pro Forma.

a. In prior decisions, the Commission found that Water Service Kentucky failed to demonstrate that the allocated Project Phoenix and JD Edwards costs

were reasonable and therefore disallowed rate recovery of the associated depreciation expense.⁴ Explain in detail the reason Water Service Kentucky is proposing to restate the accumulated depreciation of Project Phoenix and JD Edwards and request rate recovery costs that had been disallowed in prior Commission decisions.

b. Given that the depreciation of its computer investment has been recovered from the ratepayers through the revenues collected in prior periods, explain why the restatement of accumulated depreciation of computer capital costs would not be considered double recovery of depreciation.

c. Given that the depreciation of the computers has been included in net income and retained earnings, explain why the restatement of accumulated depreciation as proposed by Water Service Kentucky will not require it to restate retained earnings.

d. In prior decisions, the Commission has found that the utility should reflect the depreciation life revisions when calculating and reporting depreciation for all reporting periods after the date of the Commission decision; however, it directs the utilities to make no retroactive adjustment to its books to account for the cumulative effect of this change in accounting estimate. Explain why Water Service Kentucky should be allowed to deviate from this Commission requirement.

⁴ See Case No. 2008-00563, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 9, 2009) page 6; Case No. 2010-00476, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC Nov. 23, 2011) page 13; and Case No. 2013-00237, *Application of Water Service Corporation of Kentucky for an Adjustment of Rates* (Ky. PSC July 24, 2014) page 22.

e. Provide a detailed description of Water Service Kentucky's computer investments listed in the table below. For each asset in the table, identify the amount allocated to Water Service Kentucky.

	Asset No.	Asset Description	Costs per Books
a.	1012399	Mini Computers Wtr	832,688
b.	5000569	Data Center Relocation Project	732,003
c.	5000570	Data Center Relocation Project	312,941
d.	2019099	Fusion	14,290,000
e.	BI-BE	Bi Publisher Bill Enhancement	242,778
f.	SEW-Ph II	Sew Phase 2 - (Start Stop Automation)	501,000
g.	2019155	Canadian Migration	300,000

f. Recalculate Water Service Kentucky's depreciation of computer equipment and software contained on Tab wp-l-Computers to reflect the elimination of Project Phoenix, JD Edwards, and the accumulated depreciation restatement. Also, revise the Excel workbook Filing Template Pro Forma to reflect the impact of the recalculated computer depreciation.

11. a. Explain when Corix Infrastructure Inc. (Corix) began to provide corporate services to Water Service Corporation.

b. Explain when Water Service Corporation began allocating the corporate services provided by Corix to Water Service Kentucky.

c. Identify the corporate entity that provided those services to Water Service Kentucky prior to Corix.

12. Refer to Water Service Kentucky's response to the June 26, 2020 Order, Appendix B, Item 3, Filing Template Pro Forma, wp-o-Corporate Costs. Provide a similar Excel spreadsheet for the Corix cost allocated in calendar years 2015-2019.

13. Provide a table comparing the services provided to Water Service Kentucky by Corix to the services provided by Water Service Corporation. In the comparative schedule specify which costs are allocated or direct.

14. Provide the costs allocated to Water Service Kentucky for calendar years 2014-2015, as well as the costs directly billed to Water Service Corporation.

15. Since Corix is the parent company of Water Service Kentucky, explain why Corix provides services to Water Service Corporation instead of providing the services to Water Service Kentucky directly.

16. Refer to Application, page 603. Provide a list of the costs incurred to receive information about federal law and requirements.

17. Provide the cost that Corix charges to Water Service Corporation to provide corporate services

18. Explain to whom Corix actually provides services: Water Service Corporation or Water Service Kentucky?

19. List the Business Development projects Corix provided Water Service Kentucky calendar years 2014-2019 and the test-year. In addition, the costs incurred by Corix for each project.

20. Provide a copy of the Cost Allocation Manual that outlines where the cost charged from Corix are specified at the allocation rates.

21. Refer to WSCK Responses to PSC initial data request, DR 1.3 Filing Template, Tab wp-o-Corporate Costs, Tier 2 Allocation. For each Corix Cost Center listed on the Tier 2 allocation spreadsheet, provide an itemized list of the costs and services

included in column G, the Less: Excluded Costs, and column I, the Net amount to be Allocated.

22. Refer to Water Service Kentucky's response the Staff's Initial Request for Information (Staff's Initial Request), Excel spreadsheet 1.3, Filing Template Tier 1 calculations.

a. Provide the Source for the TTM Q1 2020 Actuals.

b. Provide the source for the Tribus Allocation percentage.

c. Provide the source for the Tier 1 Allocation percentage Contract Utilities. In addition, provide the 2020 Tier 1 Allocation percent Contract Utilities.

d. Provide the source for the Tier 1 Allocation Alaska percentage. In addition, provide the 2020 Tier 1 Allocation percent Contract Utilities.

23. Refer to Water Service Kentucky's response the Staff's Initial Request, Excel spreadsheet 1.3, Filing Template. Provide the calculation used to generate the Amount Allocated to Contract Utilities and the Amount Allocated to Alaska.

24. Explain what Tribus is and why an allocation needs to be calculated.

25. Refer to Water Service Kentucky's response the Staff's Initial Request, Excel spreadsheet 1.3, Filing Template Tier 2 calculations. Provide the source for the Tier 2 Allocation percentage to Water Service Kentucky.

26. Refer to the Application, Exhibit 5, Direct Testimony of Robert Guttormsen, (Guttormsen Testimony) pages 18–20.

a. List each business development project in Kentucky that the Water Service Corporation employee Vice President of Regulatory Affairs & Business

Development was involved. Quantify the benefits the ratepayers received from these projects.

b. List each business development project in Kentucky that the Water Service Corporation employee Business Development Manager was involved. Quantify the benefits the ratepayers received from these projects.

c. Identify any acquisition project that has been undertaken by Corix or by Water Service Kentucky in the calendar year 2015-2019.

27. Refer to the Application, Exhibit 5, Guttormsen Testimony pages 19-21. Identify any major construction project occurring in calendar years 2015-2019 at either Clinton or Middlesboro that would require the involvement of either Water Service Corporation's Director of Engineering & Asset Management or Midwest Project Manager.

28. Refer to the Application, Exhibit 5, Direct Testimony of Stephen R. Vaughn, pages 9-12, and to Water Service Kentucky's response to the June 26, 2020 Order, Appendix B, Item 3, Filing Template Pro Forma, wp-j-Def Maint. Mr. Vaughn refers to the tank-painting projects listed in the table below:

<u>Asset No.</u>	<u>Description</u>	<u>Start Date</u>	<u>Life (Months)</u>	<u>Cost</u>	<u>Amortization</u>
KY12-1	Interior Tank #1 (Middlesboro)	6/30/2020	120	\$ 410,237	\$ 41,024
KY12-2	Interior Tank #2 (Middlesboro)	6/30/2020	120	\$ 431,994	\$ 43,199
KY12-3	Interior Grubbs Tank (Clinton)	6/30/2020	120	\$ 147,976	\$ 14,798
KY12-4	Interior Tank 15K (Middlesboro)	6/30/2020	120	\$ 50,087	\$ 5,009
KY12-5	Exterior/Interior Tank 30K (Clinton)	6/30/2020	120	\$ 22,597	\$ 2,260

a. State the dates that the tanks were first placed into service.

b. State the tanks' anticipated remaining lives.

c. Provide copies of the advertisements for contractor bids to paint the tanks.

- d. Provide a copy of all contractor bids that were received by Water Service Kentucky in response to the bid advertisements.
- e. Indicate which contractor bids have been accepted.
- f. State the dates that the tank paintings are expected to begin and when they are expected to be completed.
- g. State the type of paint used for the interior and exterior paintings.
- h. State the basis for the 10-year amortization period proposed for the tank-painting costs, and explain why Water Service Kentucky believes this amortization period is reasonable.

29. Refer to the Application, Exhibit 5, the Direct Testimony of Perry Brown (Brown Testimony), page 3. Mr. Brown explains that in preparing his salary analysis Mr. Brown sampled 25 water utility companies, similar in size and operating within Kentucky, and used 2012-2018 historical data that was reported in Kentucky Annual Reports to project 2019 and 2020 salary levels.

- a. Explain if the information used by Mr. Brown to prepare his salary analysis was obtained strictly from the Annual Reports on file with the Commission or did he contact the individual utilities.
- b. Explain if Mr. Brown factored into his analysis any changes in staffing levels that might have occurred at the water utilities.
- c. Provide a completed description of the methodology employed by Mr. Brown to project the 2019 and 2020 salary levels for the water utilities used in his salary analysis.

d. Explain whether, prior to making any adjustments to wages, salaries, benefits, and other compensation in the base rate case; Water Service Kentucky, through an outside consultant or otherwise, performed a study or survey to compare its wages, salaries, benefits and other compensation to other local or regional enterprises.

(1) If comparisons were made, provide and discuss the results of such comparisons. Include the results of the study or survey with your response, including all workpapers.

(2) If comparisons were not made, explain why such comparisons were not performed.

30. Refer to the Application, Exhibit 5, Brown Testimony, Exhibit PB-2. Provide copies of the Water Service Kentucky's salary analysis schedules in an Excel spreadsheet format with all columns and rows accessible and all formulas unprotected.

31. Explain whether, prior to making any adjustments to wages, salaries, benefits, and other compensation in the base rate case; Water Service Kentucky, through an outside consultant or otherwise, performed a study or survey to compare its wages, salaries, benefits and other compensation to other local or regional businesses that are not utilities.

a. If comparisons were made, provide and discuss the results of such comparisons. Include the results of the study or survey with your response, including all workpapers.

b. If comparisons were not made, explain why such comparisons were not performed.

32. Refer to Water Service Kentucky's 2016 through 2018 Annual Reports⁵ and to Water Service Kentucky's Response to the June 26, 2020 Order, Appendix B, Item 3, Filing Template Pro Forma, Tab: wp.a-uncoll. Provide a detailed explanation for the test-year increase in uncollectible accounts expense over the 3 previous calendar years⁶. Also, provide an explanation of the basis used to compute Water Service Kentucky's test-year uncollectible accounts expense and provide an aging of receivables analysis as of test-year end.

33. Identify the methodology Water Service Kentucky used to calculate its test-year uncollectible accounts expense. State if Water Service Kentucky changed its methodology during the period of Calendar Year 2016 through the test-year, and if so, explain the reason for the change in methodologies.

34. Generally, the Commission seeks to determine a normal percentage relationship between uncollectibles accounts expense and water revenues to determine a reasonable amount of bad debt expense for ratemaking purposes. Provide any support for including the test-period actual relationship for ratemaking purposes rather than a normalized amount.

35. Refer to Water Service Kentucky's Response to the June 26, 2020 Order, Appendix B, Item 3, Filing Template Pro Forma, Tab: wp.a-uncoll and to Case No. 2018-

5 Annual Report of Water Service Corporation of Kentucky to the Public Service Commission for the Calendar Year Ended December 31, 2016 at pp. 55 of 73; Annual Report of Water Service Corporation of Kentucky to the Public Service Commission for the Calendar Year Ended December 31, 2017 at pp. 55 of 72; and Annual Report of Water Service Corporation of Kentucky to the Public Service Commission for the Calendar Year Ended December 31, 2018 at pp. 55 of 74.

⁶ 2016 - \$28,238; 2017 - \$45,687; 2018 - \$48,619; Test Year - \$65,664

00208.⁷ In this current case Water Service Kentucky calculates its uncollectible accounts expense using a rate of 2.35 percent. However, in Case No. 2018-00208 Water Service Kentucky reported an uncollectible rate of 1.63 percent.

- a. State the reason(s) for the increase in uncollectibles.
- b. Explain why it is appropriate and reasonable for the Commission to use an uncollectibles rate in this case that is significantly higher than the rate used in WSKY's last rate case proceeding.

36. For each Water Service subsidiary that provides retail water service, provide for the calendar year ended December 31, 2020:

- a. The subsidiary's total uncollectibles;
- b. The subsidiary's total water sales; and
- c. The subsidiary's uncollectibles stated as a percentage of total water sales.

37. Provide the total uncollectable rate for all of Utilities Incorporated (Utilities) operating companies for the calendar year ended December 31, 2020.

38. Refer to Water Service Kentucky's Response to the June 26, 2020 Order, Appendix B, Item 3, Filing Template Pro Forma, Tab: Sch.B-I.S, and to Case No. 2018-00208, Water Service Kentucky's Response to the June 26, 2020 Order, Appendix B, Item 3, Filing Template Pro Forma, Tab: Sch.B-I.S. Provide a detailed description of the differences noted between the actual operating expenses reported by Water Service

⁷ Case No. 2018-0028, *Electronic Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates* (Ky. PSC Feb. 11, 2019; Order on Rehearing June 18, 2019).

Kentucky for the 12 months ending December 31, 2017, to the actual expenses reported for the 12 months ending March 31, 2020.

Expense Category	Expense Account	12/31/17	Differences		03/31/20
		Test Year Actual	Dollar	Percentage	Test Year Actual
a. Maintenance Exp.	Salaries and Wages	\$ 653,429	\$ 98,351	15.052%	\$ 751,780
b. Maintenance Exp.	Purchased Power	\$ 101,367	\$ 20,415	20.140%	\$ 121,782
c. Maintenance Exp.	Maintenance and Repair	\$ 127,934	\$ 54,408	42.528%	\$ 182,342
d. Maintenance Exp.	Transportation	\$ 28,507	\$ 9,557	33.525%	\$ 38,064
e. Maintenance Exp.	Outside Services - Other	\$ 39,770	\$ 143,941	361.934%	\$ 183,711
f. General Exp.	Salaries and Wages	\$ 137,409	\$ 28,120	20.464%	\$ 165,529
g. General Exp.	Office Supplies & Other Office Exp.	\$ 63,578	\$ 33,688	52.987%	\$ 97,266
h. General Exp.	Pension & Other Benefits	\$ 183,280	\$ 47,971	26.174%	\$ 231,250
i. General Exp.	Rent	\$ 12,269	\$ 23,248	189.480%	\$ 35,517

39. In Case No. 2012-00133, the Commission Ordered that in order “To provide a forum for customers to communicate with utility management, Corix Utilities and Utilities, Inc. shall host annual public meetings in Clinton and Middlesboro, Kentucky, at which the senior officers from the regional office of Utilities, Inc. that oversees Water Service Corporation’s operations will attend and participate.”⁸

a. For the annual meetings occurring in Middlesboro during the period from calendar years 2015 through 2019 provide (1) the date the meeting occurred; (2) a list of the participants Croix Utilities, Utilities, and Water Service Kentucky; (3) a list on the Middlesboro customers in attendance; and (4) the written transcript of the meeting.

b. For the annual meetings occurring in Clinton during calendar years 2015 through 2019 provide (1) the date the meeting occurred; (2) a list of the participants Croix Utilities, Utilities, and Water Service Kentucky; (3) a list on the Clinton customers in attendance; and (4) the written transcript of the meeting.

⁸ See Case No. 2012-00133, *Joint Application Of Corix Utilities (Illinois) LLC; Hydro Star, LLC; Utilities, Inc.; and Water Service Corporation of Kentucky for the Transfer and Acquisition of Control Pursuant to KRS 278.020* (Ky. PSC Aug. 13, 2012) page 11, Ordering Paragraph 20.

40. A common thread in the public comments submitted by the ratepayers of Water Service Kentucky is their inability to talk to a Water Service Corporation customer service representative.⁹ Provide the following annual information for the calendar years 2015 through 2019 for the Water Service Kentucky customers:

- a. The customer service center locations;
- b. The number of service representatives at each location that are responsible for the calls from Water Service Kentucky's service territory;
- c. The average call hold time;
- d. The number of dropped calls; and
- e. The number of ratepayer complaints received regarding their difficulty in reaching a customer service representative.

41. Refer to the Application, Exhibit 5, the Direct Testimony of Andrew Dickson (Dickson Testimony) page 6. Mr. Dickson states that Water Service Kentucky has taken note of the policies of other investor-owned utilities in the state and proposes to make a change in its current leak adjustment policy. Provide the other investor-owned utilities that Water Service Kentucky examined in modeling their proposed leak adjustment policy after.

42. Explain why Water Service Kentucky does not currently have a leak adjustment policy listed in its tariff.

⁹ See July 29, 2020 Public Comment of A.C. Vanover; July 27, 2020 Public Comment of Pauline Partin; July 27, 2020 Public Comment of Gwen Wilson; July 24, 2020 Public Comment of Sandra Gross; and July 20, 2020 Public Comment of Judy Byrd.

43. State whether Water Service Corporation's other subsidiaries currently have leak adjustment policies. Provide the subsidiary, the policy, and a statement to whether it is similar to what Water Service Kentucky is proposing.

44. In developing its proposed leak adjustment policy, explain in detail whether Water Service Kentucky discussed the proposed policy with persons not employed by the utility (e.g., Kentucky Rural Water Association officials, a professional engineer, or Kentucky Division of Water officials). If so, state the input or influence of the outside source.

45. Describe what actions, if any, Water Service Kentucky took to investigate potential customer interest in the proposed leak adjustment policy.

46. Provide the minutes of each meeting of the Water Service Kentucky Executive Board, from the 18 months prior to the filing of the rate application, in which the proposed leak adjustment policy was discussed.

47. Explain whether any Water Service Kentucky customers requested a policy similar to the proposed leak adjustment policy. If so, state the number of customers who have requested such a policy and provide copies of all documents (such as correspondence, internal memos, minutes of meetings, or employee notes) in which these requests are discussed.

48. Provide the number and dollar amounts of annual leak adjustments that Water Service Kentucky allowed in the prior five-year period.

49. Provide a detailed example and sample bill of how Water Service Kentucky's proposed leak adjustment policy would be applied.

50. Provide supporting documentation that 25 percent of the applicable rate for leak adjustments is enough to fully recover the cost of water that Water Service Kentucky purchases.

51. Refer to the Application, Exhibit 5, Dickson Testimony, Exhibits AD-1 through AD-8. Provide copies of each of these Exhibits in an Excel spreadsheet format with all columns and rows accessible and all formulas unprotected.

52. Provide Exhibit AD-7, Schedule F, Revenues at Proposed Rates without the low-income rate included.

53. Explain why Water Service Kentucky did not perform a cost of service study in order to examine the cost allocation and calculation of its proposed rates.

54. Refer to the Application, Exhibit 5, Dickson Testimony, page 6. Water Service Kentucky states that it is proposing a wholesale rate of \$2.214 due to the presence of an interconnect with the city of Pineville.

a. State the last known time that this interconnect was used to sell water to the city of Pineville and the rate that was being charged.

b. Provide the most recent 12-months sales in gallons that were sold to the city of Pineville using this interconnect.

55. State whether or not the city of Pineville has approached Water Service Kentucky about the use of this interconnect in order to purchase water from Water Service Kentucky. If so, provide copies of all documents, such as, correspondence, internal memos, minutes of meetings, or employee notes, in which the use of the interconnect is discussed. Explain why Water Service Kentucky is proposing this wholesale rate if they are not expected to use the interconnect to sell water to the city of Pineville.

56. In Case No. 2004-00103,¹⁰ Kentucky-American proposed a low-income rate discount for customers whose annual income was equal to or below the federal poverty level. In its final Order the Commission stated:

Based upon our review of the proposed discount, we find insufficient support to establish a new customer class based solely on customer income. None of the proponents of the proposed discount have provided any convincing empirical data to demonstrate that Kentucky-American's cost of providing water service to residential customers whose annual income is equal to or less than the national poverty level. Discount proponents have also failed to provide any statutory or decisional authority for the proposition that customer income levels may constitute a reasonable basis to distinguish customer for cost-of-service purposes. In the absence of both empirical evidence and statutory or decisional legal authority, we must conclude the proposed discount is a unreasonable preference or advantage to a class of customers for "a like and contemporary service under the same or substantially the same conditions" and is one that KRS 278.170(1) prohibits.

Based on the Commission's previous ruling in this case, explain in detail why Water Service Kentucky should be granted a low-income rate discount.

57. Refer to the Application, Exhibit 5, Direct Testimony of Patrick L. Baryenbruch (Brayenbruch Testimony), PLB – 2, Evaluation of Necessity of Services and Reasonableness of Charges from Water Services Corporation.

a. Provide a detailed explanation as to why Mr. Baryenbruch's analysis did not include Investor Owned Water Utilities.

b. Provide a detailed analysis supporting the assumption that the customer accounts expenses incurred for electric and gas Investor-Owned Utilities are comparable to the costs incurred by an Investor-Owned Water Utility.

¹⁰ See Case No. 2004-00103, *Adjustment of the Rates of Kentucky-American Water Company* (Ky. PSC Feb. 28, 2005) page 82.

58. Refer to the Application, Exhibit 5, Brown Testimony page 3. Mr. Brown explained that in an effort to reduce the rate case expense, the salary and wage analysis was conducted internally rather than hiring an outside consultant to perform the analysis. According to Mr. Brown, this reduced rate case expense by \$30,000. Provide a detailed explanation as to why Water Service Kentucky hired Mr. Brayenbruch to perform the analysis to show that charges of Water Services Corporation are reasonable, rather than to perform the analysis in-house.

59. Refer to Water Service Kentucky's Response to the June 26, 2020 Order, Appendix B, Item 3, Filing Template Pro Forma, Tab: Sch.D-Rev Req and to Tab: wp.h-cap.struc. Using Water Service Kentucky's requested revenue requirement and its capital structure, impute Water Service Kentucky's Weighted Cost of Capital (WCC) and Return on Equity (ROE). Provide the requested calculations in an Excel spreadsheet format with all columns and rows accessible and all formulas unprotected.

60. Given that Water Service of Kentucky's revenue requirement is calculated using the operating ratio method that is directly dependent on the level of operating expenses that is incurred, describe in detail the incentives for Water Service Kentucky to control its operating expenses and to improve its operating efficiencies.

61. Since Water Service Kentucky's revenue requirement is not dependent on rate base explain in detail the motivation for Utilities to increase its investment in the infrastructure of Water Service Kentucky.

62. For each Water Service subsidiary that provides retail water service, provide the following:

a. A cite to the last fully litigated rate case and a copy of the section of the Order discussing the WCC and ROE; and

b. The last authorized Weighted Cost of Capital and ROE.

63. Provide Utilities capital structure, WCC, and ROE for the 12 months ending March 31, 2020.



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DATED AUG 05 2020

cc: Parties of Record

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