

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF WATER)	
SERVICE CORPORATION OF KENTUCKY FOR)	
A GENERAL ADJUSTMENT IN EXISTING RATES)	CASE NO.
AND A CERTIFICATE OF PUBLIC)	2022-00147
CONVENIENCE AND NECESSITY TO DEPLOY)	
ADVANCED METERING INFRASTRUCTURE)	

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 an electronic version of the following information. The information requested is due on September 29, 2022. The Commission directs Water Service Kentucky to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and 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

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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 that indicates 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 2. The Commission's past precedent regarding the issue of Allowance for Funds Used During Construction (AFUDC) is to calculate AFUDC by using the requested/allowed WCC and to include the

calculated AFUDC in the utilities Operating Revenues.² Provide the calculation of Water Service Kentucky's AFUDC using its requested WCC and the impact including AFUDC in forecasted Operating Revenue would have on its requested revenue requirement. Provide Water Service Kentucky's calculations in an Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

2. Refer to Water Service Kentucky's response to Staff's Second Request, Item 7. Explain whether Water Service Kentucky made an adjustment to the forecasted test year to remove expenses associated with the termination of the wastewater service for Clinton.

3. Refer to Water Service Kentucky's response to Staff's Second Request, Item 9 and 9.a.

a. For each year, the variance has been more than the budget. Provide a thorough explanation and documentation to support why annual increases are larger than those budgeted for each year.

b. For each year the President and Senior Vice President received a bonus, confirm that the annual bonuses paid to the President and Senior Vice President are not included in Water Service Kentucky's pro forma Salaries and Wages expense. If the bonuses are included, identify the amounts and include a detailed explanation as to why Water Service Kentucky should be allowed to recover the payment of the bonuses in its base water rates.

² See Case No. 2012-00520, *Application of Kentucky-American Water Company for an Adjustment of Rates Supported by a Fully Forecasted Test Year* (Ky. PSC Oct. 25, 2013) at 31-32; and Case No. 2018-00358, *Electronic Application of Kentucky-American Water Company for an Adjustment of Rates* (Ky. PSC June 27, 2019) at 21.

4. Refer to Water Service Kentucky's response to Staff's Second Request, Item 11. Provide an itemized list of the Project Fusion implementation and Support Costs that Water Service Kentucky is requesting to be treated as a regulatory asset. Include the date each item in the list was incurred.

5. Refer to Water Service Kentucky's response to Staff's Second Request, Item 18.c. In response to Item 18.c. the list of projects based upon the replacement or upgrades, only one project, the Queensbury Heights Project is listed at a cost of \$54,548. Refer to the Application, Exhibit 10. For the forecasted test year, \$236,528 is budgeted for general replacement and upgrades. Provide support as to how Water Service Kentucky expects to spend over ten times more in the forecasted test year for ongoing replacement or upgrades to its system.

6. Refer to Water Service Kentucky's response to Staff's Second Request, Item 19a, the 2022 AMR/AMI Cost-Benefit Analysis.

a. Provide copies of the workpapers used by Water Service Kentucky used to develop its Cost-Benefit Analysis in an Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

b. On page 3 of the Cost-Benefit Analysis is the statement that Water Service Kentucky based its Net Present Values on a 20-year term life, and a two percent inflation rate.

i. Given that the inflation rate for calendar year 2021 was 7 percent and the inflation rate for the 12 months ended July 31, 2022, was 8.5 percent,³ explain why Water Service Kentucky's proposed two percent inflation rate is appropriate.

³ <https://www.usinflationcalculator.com>

ii. Provide the Net Present Value discount rate used by Water Service Kentucky and provide a detailed explanation of how the discount rate was selected.

iii. Explain why it would not be appropriate to use either Water Service Kentucky's requested weighted average cost of capital or projected cost of debt.

c. Refer to Exhibit H, Labor Savings. The analysis states that staff will transition from meter reading to other work activities such as collections, field maintenance, and data analysis. Explain who performs these activities currently and if those positions will be eliminated.

d. Refer to Exhibit I, Carbon Footprint Reduction. Provide support for the gallons used, the annual cost reduction of \$4,416, the annual reduction in vehicle maintenance and annual reduction in vehicle replacement.

e. Refer to Exhibit J, Revenue Gained from Meter Accuracy. Provide support that the current meters are inaccurate to the point that 3 percent of annual revenue is lost.

7. Refer to Water Service Kentucky's response to Staff's Second Request, Item 19.d.

a. Regarding the misread meters,

(1) Explain how over 7300 meters were misread in 2021.

(2) Explain whether the same meters are misread month to

month.

b. Regarding the reread meters,

(1) Explain why the number of reread meters doubled between 2020 and 2021.

(2) Explain whether the same meters are reread month to month.

(3) Explain what initiates a reason to reread a meter.

8. Refer to Water Service Kentucky's response to Staff's Second Request, Item 19.e.

a. Provide an itemized schedule comparing the AMI bids in an Excel spreadsheet format with all formulas, columns, and rows unprotected and fully accessible.

b. Provide a list of the pro and cons of each AMI system listed in Water Service Kentucky's response to Item 6.a. above.

9. Refer to Water Service Kentucky's response to Staff's Second Request, Item 19.h.

a. Confirm that Water Service of Kentucky is proposing to depreciate each component of its proposed AMI system over a 44.44-year meter depreciation life.

b. If Water Service of Kentucky's response to Item 6.a. above is no, provide the depreciation life for each component of the AMI system separately. Include documentation to support the depreciation life for each AMI component.

10. Refer to Water Service Kentucky's response to Staff's Second Request, Item 19.i. Confirm Water Service Kentucky proposes to recover the remaining net book balance of \$251,420 for the meter assets over the remaining depreciable lives of the meters.

11. Refer to Water Service's response to Staff's Second Request, Item 25b-25c. Since Water Service just established a new debt rate of 3.07523 percent, explain

why this rate should not be used in the risk premium models as opposed to 4.85 percent as the expected cost of debt.

12. Refer to Water Service's response to Staff's Second Request, Item 26.

a. Since S&P 500 (500 companies) is a truncated representation of Value line's larger market representation (1,700 companies), explain why this is a valid representation of the market.

b. Explain whether the S&P 500 calculations should not be given less weight than the Value line market calculations in ROE calculations.

13. Refer to Water Service's response to Staff's Second Request, Item 26. Bloomberg betas values are two-year calculations based on a truncated market representation that "may more readily reflect significant changes in risk that occur over a short period of time than a beta coefficient calculated over a five-year horizon" based on a larger market representation.

a. Explain whether Bloomberg beta values should be given less weight in ROE calculations than the Value Line five-year beta values.

b. Explain whether there are other sources of beta values readily available to investors for consideration, such as Yahoo! Finance, and if so, why these should not be considered in addition to the Value Line and Bloomberg beta values.

14. Refer to Water Service Kentucky's response to Staff's Second Request, Item 28. The current 30-year treasury rate inherently embodies investor's expectations of inflation and other future conditions, and that rate is required to induce investors to lend money for that length of time versus a shorter length of time. Explain why this should not be given at least equal weight to forecasted rates.

15. Refer to Water Service Kentucky's response to Staff's Second Request, Item 30. Provide updated support for the returned check charge.

16. Refer to Water Service Kentucky's Tariff Sheet No. 20, Section 16, Turn-on Charge. In Section 16a, it states that a charge will be made to cover the expense of turning on water. Provide this charge.

17. Explain how Water Service Kentucky obtains equity capital. If all equity capital is obtained from the Corix parent corporation, include in the explanation a discussion on how and when the additional equity is allocated to Water Service Kentucky.

18. Regarding the current meters, used in the Clinton service territory provide the following:

- a. A history detailing the types of meters currently installed.
- b. An explanation detailing how the meters are read.
- c. The capabilities of the current meters regarding data collection and disconnection ability.
- d. The percent nearing the end of their useful life.
- e. Failure rate of current meters.

19. Regarding the current meters, used in the Middlesboro service territory provide the following:

- a. A history detailing the types of meters currently installed.
- b. An explanation detailing how the meters are read.
- c. The capabilities of the current meters regarding data collection and disconnection ability.
- d. The percent nearing the end of their useful life.

- e. Failure rate of current meters.
20. Regarding the proposed automated metering infrastructure (AMI) project.
- a. Provide any alternatives Water Service Kentucky identified in lieu of the proposed AMI system deployments.
 - b. Explain whether or not Water Service Kentucky evaluated retrofitting the current meters.
 - c. Explain whether or not the current meters are obsolete. Provide supporting documentation if they are obsolete.
 - d. Provide support that the proposed AMI project is the least-cost alternative.
 - e. Explain whether or not the vendor proposals were specific to Water Service Kentucky.
21. For any cost containment initiatives since the last base rate case, provide the initiative and a quantification of the savings.
22. In Case No. 2020-00160,⁴ Water Service Kentucky reported a Miscellaneous expense of \$37,623⁵ for the 12-month historical period ending March 31, 2020. Water Service Kentucky's Miscellaneous expense for the forecasted test-year is \$667,561, an increase over the previous rate case of \$629,938, or a 1,674.34 percent increase.
- a. Provide detailed explanation for the increase in forecasted Miscellaneous expense over the amount reported in Case No. 2020-00160.

⁴ See, *Electronic Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates* (Ky. PSC Dec. 8, 2020).

⁵ Application, Exhibit 4, Combined Operations Test Year Ended 03/21/2020, Line Number 32.

b. Provide an itemized list of each item included in Water Service Kentucky's forecasted Miscellaneous expense of \$667,561.



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