

# Hardin County Water District No. 1

*Serving Radcliff and Hardin County for Over 50 Years*

1400 Rogersville Road  
Radcliff, KY. 40160

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November 15, 2004

Ms. Beth A. O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40602-0615

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**SUBJECT: Response to Requested Information - Case No. 2004-0422**

Dear Director O'Donnell;

The enclosed information is in response to my phone conversation with Mr. Jack Kaninberg on November 12<sup>th</sup> at around 11:00AM. Further explanation of each attachment and answers to Mr. Kaninberg's inquiries are as follows;

1. District cost coverage and final fee ability to cover costs: The District retained Black & Veatch, Management Consulting Division ("B&V") to review the initial price proposal to be submitted to the Government and which was developed primarily by Veolia (formerly U.S. Filter Operating Services). We also asked B&V to look at the specific requirements of the Government's RFP and comment as to whether our proposal addressed each requirement. Mr. Sandy Gutner, P.E., with B&V has extensive experience evaluating operating contracts for cities considering privatizing utility operations. Mr. Gutner requested and received detailed cost calculations and estimates from Veolia and used these in his analysis. Since our initial proposal was submitted to the Government (which was the bid Mr. Gutner evaluated), we were requested on two occasions to revise our bid price.

Our second revised proposal was increased by 36% (See enclosed comparison table). We then were able to submit a second and final revision which was lowered slightly from our second proposal. Our final proposal, which was accepted by the Government, was still 27% higher (over the first 24 month period) than our original proposal which B&V evaluated. Copies of two reports from B&V are enclosed. As part of our partnership agreement with Veolia, the cost of this and other legal and accounting analyses requested by and carried out by the District were paid for in full by Veolia. At the end of this letter, I provide certification that the submitted fee does cover our costs for the first 36 months of the contract period with the Government. After the 36 months, we will be able to adjust our tariff rate with the government, after review and approval by the Public Service Commission, based on a Cost of Service analysis.

2. Financing of Required Capital Improvements: Within the first 24 months, the District has agreed to complete \$1,415,876 of capital improvements (See Schedule B-2 in final contract) which will be funded through the monthly capital surcharge for the first 24 months. The

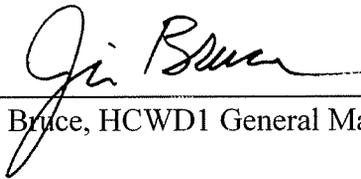
Government also accepted an alternate bid proposal to install a UV Disinfection system at the wastewater treatment plant. This project also adds \$460,080 as a capital improvement. Of the total CIP improvements required (\$1,875,956), \$563,350 or 30% is actually design and engineering studies. Our District has obtained an operating line of credit of \$300,000 which can be used to sustain cash needs to pay expenses of the CIP. Our operating partner, Veolia Water, will also have access to capital during this period.

The District also has other reserves which could be loaned to the sewer utility (for a short term with specific terms and payback period) if needed to fund the CIP programs. As the agreed surcharges will develop \$78,165 monthly in revenues to the District, and these projects will require a certain amount of lead time for design and approval by the Division of Water, we and our partner, Veolia, are confident that we will have adequate cash flow to fund the CIP projects in the first 24 months. The timing of the completion of the projects is not specific to a certain month in the contract, but are required to be completed by the 24<sup>th</sup> month. This position and assurance is also certified at the end of this letter.

I have also enclosed a slide show summary which Veolia prepared for a recent Board meeting which may be informative. We will also be forwarding shortly some photographs of the Ft. Knox Wastewater Treatment Plant which may be useful to your engineering staff. If you should need any additional information, please do not hesitate to call me.

CERTIFICATION:

The above information and statements are factually correct and accurate to the best of my knowledge and represents the District's response to questions by the staff of the Kentucky Public Service Commission's Case No. 2004-0422 related to the Hardin County Water District No. 1's contract with the federal government to own and operate the Ft. Knox Sanitary and Storm Water Utility Systems



Mr. James Bruce, HCWD1 General Manager

November 14, 2004  
Date

Cf; Mr. David Wilson, Attorney, HCWD1  
Ms. Portia Petties, HCWD1 Chairperson  
Mr. Rob Nicholas, Veolia Water North America  
Mr. Jack Kaninberg, Financial Analysis Division, Kentucky Public Service Commission

Encl; B&V Proposal Evaluation - May 21, 2002 & May 23, 2002  
Table Summary of Proposal Amounts  
Original Proposal Documents, May, 2002  
Final Revised Proposal Document, August, 2004  
Slide Presentation Summary - (October 19, 2004 Board Meeting)