

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

EXAMINATION OF THE OPERATION AND)
REASONABLENESS OF THE OFFSETTING) CASE NO. 2006-00191
IMPROVEMENT CHARGE OF HENRY COUNTY)
WATER DISTRICT NO. 2)

SUPPLEMENTAL INFORMATION FILED PURSUANT
TO REQUEST OF PSC STAFF MADE AT HEARING CONDUCTED
SEPTEMBER 13, 2007

Comes the Henry County Water District No. 2. (hereinafter "Henry District"), by Counsel, pursuant to the request of PSC staff made on September 13, 2007 filed herein the following Supplemental Information:

Costs Excluded from Offsetting Improvement Charge

In response to the Commission's request for calculations of the growth costs excluded from the Henry District's Offsetting Improvement Charge, we have done a more precise revision to earlier estimates. The total of these excluded growth costs is approximately \$710 per new customer, higher than we had previously projected.

We have disaggregated raw water intake costs and water treatment plant costs, which are both based on as-constructed projects. Water storage tanks costs are based on information provided to us by project estimators at Phoenix/Pittsburg Tanks, 1329 Hwy 41 North, Sebree, Kentucky, 42455, and at Caldwell Tanks, 4000 Tower Road, Louisville, Kentucky, 40219.

The raw water intake well and 20" raw water line from the well-field to the plant were constructed at a project cost of about \$973,000, and these improvements increased raw

water supply capacity to the plant by 1.92 MGD. The treatment of 190 gallons at the plant is necessary to provide the average daily residential consumption of 170 gallons, due to water losses in the distribution system. The 1.92 MGD of raw water supply can provide to the plant 190 gallons per day for 10,100 residential customers. The cost per residential customer of raw intake supply is therefore $\$973,000 / 10,100$, or about \$95.

Work at the new treatment plant itself cost \$6.1 million and resulted in total capacity of 4MGD, for a cost per 190 gallons per day of about \$290. The combined total for intake and plant costs per new customer is therefore about \$385.

The ten storage tanks located in the Henry District's distribution system have a total capacity of about 2 million gallons. It is the District's goal that this total storage volume keep pace with the system's average daily usage, also currently at about 2 MGD. So, unlike the reserves of raw intake and treatment plant capacity, expanding system tank storage capacity to accommodate growth will involve the construction of new tanks, such as the two which are currently anticipated to be built in the next few years.

To further refine our earlier estimate of storage tank capacity costs, we contacted estimators at the two primary companies building tanks in Kentucky. We used the low end of the ranges they provided for the two sizes most likely to be built in Henry District, 300,000 gallons and 500,000 gallons.

According to estimators at both Phoenix and Caldwell, the 300,000 gallon tank would cost at least \$500,000, assuming good subsurface conditions, a standard foundation, and a standard concrete vault. We estimate that vault piping, control, valves, and telemetry would add about \$40,000, and that site acquisition, access, site piping and valves, electrical service, lighting, fencing, etc. would add another \$40,000, for a total

construction cost of \$580,000. Other project costs for engineering, legal expenses, bidding, contract administration, and resident inspection would add about 12%, resulting in a total project cost of about \$650,000. A 300,000 gallon tank, which provides the required one day's storage for 1765 residential customers, therefore costs about \$368 per customer.

Phoenix and Caldwell differed slightly on the minimum cost of a 500,000 gallon tank, estimating \$700,000 and \$680,000 respectively. Using the lower figure, and adding to it the same vault, site, and project expenses as listed for the 300,000 gallon tank, we estimate a total project cost of about \$850,000. Therefore a 500,000 gallon tank provides daily storage for 2941 customers at a cost of about \$289 each.

Since the likelihood is good that new HCWD2 tanks will, in equal proportion, be either 300,000 or 500,000, we have averaged the two estimates to arrive at a storage cost per new residential customer of about \$325. When combined with raw intake and treatment plant costs, the total of growth costs excluded from the OIC becomes \$710.

Our first projections of these excluded costs were in the range of \$550 to \$600, but, like many of the costs which are included in the OIC, were conservative.

Existing Lines Paralleled by OIC-Funded Projects

In response to the Commission's request for the age and useful life of existing lines in Appendix C of our responses to May, 22, 2006 interrogatories, we have discussed the age of lines with HCWD2 personnel, reviewed as-built plans where available, and contacted our accounting firm, Raisor, Zapp, & Woods, PSC, to request that they review the District's fixed asset schedule.

We were unable to locate the pre-merger Henry District No. 1 records for the

existing 6" line which is paralleled by the OIC project "US 421 West of Pleasureville." However, according to the estimation of our personnel, the line was probably installed about 1958, around the time HCWD1 first came into existence. Judging from useful life listings of early lines in Henry District No. 2, the "US 421" line would have probably been assigned a useful life of 60 years.

The existing lines being paralleled by upscale OIC projects in the areas of "KY 153," "KY 1861 & KY 22," "KY 146," "KY 193," and "KY 202" are among the initial lines installed by Henry District No. 2. Although as-built plans indicate that they were put in service in 1969, the District's fixed asset schedule lists the earliest group of "Transmission and Distribution Mains" as going in service in 1974 with a useful life of 60 years. The District's accountant from that time period is deceased, and we cannot explain this five year discrepancy.

The "Martini-Webb" existing line went into service in 1973 according to as-builts. However it also was evidently among lines listed in the fixed asset schedule as going into service in 1974 with a useful life of 60 years.

The "KY 1360 Bullitt Rd to Pennywinkle Rd" existing line is listed in the fixed asset schedule as "Franklinton" with an in service date of 1989, which our personnel confirm. The useful life is listed as 33 years.

The aforesaid information is believed to be responsive to the requests made at the public hearing conducted on September 13, 2007. Should the Commission, staff of the Attorney General require additional information or clarification, the District will respond as quickly as possible in order to expedite the process.