

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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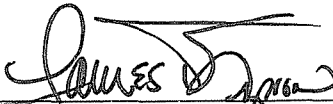
In the Matter of:

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

VERIFICATION OF TESTIMONY OF JAMES SIMPSON

Comes James Simpson, Chief Operating Officer of the Henry County Water District No. 2. (hereinafter "Henry District"), after first being duly sworn and states that he personally prepared the attached testimony in the above captioned matter, that he adopts same as his sworn testimony in this matter and that he verifies its authenticity.

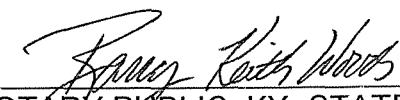
Witness the hand of the undersigned this 10 day of August, 2007.


James Simpson, COO
Henry County Water District #2

STATE OF KENTUCKY)
COUNTY OF HENRY)

The foregoing VERIFICATION OF TESTIMONY was acknowledged and sworn to before me this 10th day of August, 2007, by James Simpson, Chief Operating Officer of Henry County Water District #2.

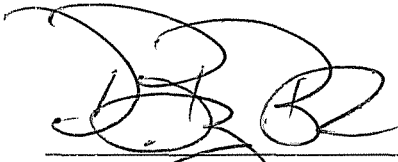
My commission expires: January 23, 2011


NOTARY PUBLIC, KY. STATE AT LARGE

CERTIFICATE OF SERVICE

I certify that prior to the filing of the foregoing a true copy was this 13 day of August, 2007, mailed to:

Hon. David Edward Spenard
Assistant Attorney General
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

A handwritten signature in black ink, appearing to read 'D. Baxter', written over a horizontal line.

D. Berry Baxter
Counsel for Henry District

1 PREFILED TESTIMONY OF

2 JAMES SIMPSON

3

4 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

5 A. My name is James Simpson. My business address is 8955 Main Street,

6 Campbellsburg, Kentucky, 40011.

7

8 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

9 A. I am employed by Henry County Water District No. 2 as Chief Operating Officer.

10

11 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE?**

12 A. I am a high school graduate and have worked for Henry County Water District No. 2

13 since 1980. I have worked in all aspects of the water treatment and distribution system of

14 our district, and I am a Class IV-A Certified Water Treatment Plant Operator and a Class

15 III-D Distribution System Operator. I regularly attend training sessions to maintain my

16 certifications, and other related seminars and conferences offered by the Kentucky

17 Division of Water, the PSC, and the Kentucky Rural Water Association.

18

19 **Q. WHAT ARE YOUR PROFESSIONAL AFFILIATIONS?**

20 A. I am a member of the American Water Works Association. Our district is a member

21 of the KRWA.

22

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A RATE REGULATORY**
2 **BODY?**

3 A. I have not.
4

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. The purpose of my testimony is to discuss the background of our charge, the way it
7 has functioned since 2002, our reasons for wanting it approved, and also to discuss the
8 value of the charge regarding our certifications of service. I would like to make my
9 responses to previous interrogatories in this case part of my testimony by reference.
10

11 **Q. SINCE ITS APPROVAL HAVE YOU BEEN INVOLVED IN THE**
12 **ADMINISTRATION AND OPERATION OF THE OIC PROGRAM?**

13 Yes. I have explained the charge to our planning commission and to many landowners, realtors,
14 developers, and potential customers. Also I have been involved in the use of the proceeds to fund
15 a new large diameter line to accommodate growth.
16

17 **Q. IN YOUR OPINION HOW WELL HAS THE OIC FUNCTIONED?**

18 We are very pleased with the way the charge has functioned. Our existing customers
19 understand that whatever amount we collect in OICs is that much less we have to take
20 from our general rate revenues to expand our capacity for growth. Our developers are
21 naturally not always ecstatic about paying the charge, but they also understand the
22 reasoning behind it and they are willing to pay their fair share. We like the fact that the
23 charge isn't based on estimates of future growth and that it gets recalculated regularly to
24 keep it fair. We also like that we have given our new customers a reasonable adjustment

1 on the charge by not including the costs of raw water intake, water treatment plant, or
2 storage tanks. It seems to us that the OIC is a good commonsense approach, and it's a
3 very good fit for our system. In the initial three year approval period we generated about
4 \$270,000 which we used last year to install a larger line to accommodate growth in an area where
5 the project really did a lot of good.

6

7 **Q. HAVE YOU HAD ANY COMPLAINTS AGAINST YOUR DISTRICT**

8 **BECAUSE OF THE CHARGE?**

9 There was only one, in March 2004. A man wrote the PSC because he intended to use a
10 new tract for agricultural use, and didn't think the charge applied to that. But we
11 explained that even on agricultural tracts the Henry Planning Commission requires us to
12 certify residential service. We heard nothing further on this matter.

13

14 **Q. WHAT KIND OF GROWTH DO YOU EXPECT IN HENRY COUNTY?**

15 I'm not a census expert, but it stands to reason that if Oldham County is under growth
16 pressure from Louisville and we're next in line up I-71, it's coming our way. I saw a
17 state census map from U. of L. that had us in the highest projected population growth
18 category through 2020. We think our OIC is a good way to be responsible and be
19 prepared for growth.

20

21 We have had a preliminary inquiry for a multi-use development at the Campbellsburg
22 interchange including a motel, commercial and industrial acreage, and residential
23 subdivisions. There is also a site selection process going on for the proposed Owen
24 General Aviation Airport, and some of the possible locations are in Henry County. It

1 makes much better sense to us to have an SDC in place before heavy growth hits than
2 after.

3
4 But our growth rate is not our primary reason for the OIC. Our primary reason is
5 fairness. Even if the amount the charge generates per year could be blended into general
6 rates without a big difference, that doesn't mean it would be fair. We charge a separate
7 fee for tapping a meter, even though the total annual revenues from that fee could be
8 included in general rates without a big effect. But we make that separate charge because
9 it is fair. We have a separate charge for using a credit card to pay bills, and a separate
10 charge for processing late payments. These charges don't generate big annual revenues,
11 and recovering those costs through general rates might be doable, but not fair. So we
12 also believe a reasonable share of the cost of growth should be paid for by growth,
13 regardless of the total annual revenue.

14

15 **Q. WHEN THE DISTRICT CERTIFIES A SUBDIVISION PLAT, WHAT DOES**
16 **THIS MEAN IN TERMS OF COMMITMENT OF CAPACITY?**

17

18 We specifically asked for clarification on this from the Henry County Planning
19 Commission and they told us that their required water certification on plats means that
20 we unconditionally commit to serve the platted development, and that the hydraulic
21 capacity is not only available now, but that it will remain available in the future for all
22 the platted lots. This means we are asked to hold our capacity in reserve for the
23 developments we certify. But it may be years, if ever, before homes are built and service

1 is requested by actual customers. Plat certification can therefore be a one-way
2 commitment which may keep us from providing future service to other customers on the
3 same road. Requiring the payment of the OIC when we certify plats is fair way to
4 balance the commitments of the utility and the developer.

5

6 **Q. IF THE OIC IS NOT APPROVED, WHAT DO YOU THINK WILL HAPPEN**
7 **IN YOUR DISTRICT?**

8

9 If our charge is not approved, we think it is likely that a land-rush of subdivision platting
10 will occur in our district, with landowners and developers getting a free commitment of
11 future water service. If this occurs, much of our capacity would then be held in reserve
12 with no assurance of real customers or future revenue. The OIC is also a good way to
13 make sure that our commitments are being made to those with a genuine intent to build
14 homes in the near future and to produce real customers to utilize the capacity that we
15 have committed.

16

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes.

19