

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN	)	
WATER COMPANY FOR AN ADJUSTMENT OF	)	CASE NO. 2012-00520
RATES SUPPORTED BY A FULLY FORECASTED	)	
TEST YEAR	)	

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**DIRECT TESTIMONY OF WILLIAM O'MARA**  
**March 26, 2013**

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is William O'Mara and my business address is Government Center, Department  
3 of Finance 200 East Main Street, Lexington, Kentucky 40507.

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5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am currently employed as the Commissioner of Finance for the Lexington-Fayette  
7 Urban County Government ("Lexington"), a position I have held since March 7, 2013.  
8 From July 31, 1995 until that time, I was employed as the Director of the Division of  
9 Revenue for Lexington.

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11 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?**

12 A. No.

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14 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.**

15 A. I graduated with a degree in history from the University of Kentucky in 1975 and a  
16 Master in Business Administration from the University of Kentucky in 1984. Prior to my  
17 employment with Lexington I was employed as the director of Finance, Sports Marketing  
18 Division with Host Communications. Before that I as employed with Jerrico, Inc., a  
19 restaurant company, in various positions in accounting and budgeting.

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21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

22 A. The purpose of my testimony is to provide additional information regarding Kentucky-  
23 American Water Company's ("KAW") decision to end its billing services arrangement  
24 with Lexington.

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**Q. PLEASE EXPLAIN THE BILLING SERVICES THAT KAW PREVIOUSLY PROVIDED TO LEXINGTON.**

A. Over a period of time the company eventually provided Lexington with billing services related to Lexington's sanitary sewer fees, landfill user fees, and water quality management fees. These services included billing and collecting these fees on behalf Lexington, and included all of the related services such as customer service and printing and mailing the bills.

**Q. FOR APPROXIMATELY WHAT PERIOD OF TIME DID KAW PROVIDE BILLING SERVICES TO LEXINGTON?**

A. I am only familiar with the period of time since I started working for Lexington. In 1995, Lexington had an agreement with KAW to provide billing services for sanitary sewer fees. In 1997, a separate agreement was entered into with the company to provide billing services for landfill user fees, and in 2009 a separate agreement was entered into to bill for water quality fees. All of these agreements were eventually terminated by KAW effective August 31, 2012.

**Q. WHEN WAS A DECISION MADE TO END THE BILLING RELATIONSHIP?**

A. On October 3, 2011 Lexington was provided official notification that the company intended to end the 3 billing agreements with Lexington 180 days later, which was the notice of termination period provided in the agreements. KAW ultimately agreed to continue to provide the billing services to Lexington until August 31, 2012 in order for us to find another entity to provide the services.

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**Q. WAS IT LEXINGTON'S DECISION TO END THE BILLING RELATIONSHIP?**

A. No. The decision to discontinue the billing services was solely that of KAW.

**Q. WHAT IS YOUR UNDERSTANDING OF THE BASIS FOR KAW'S DECISION TO END THIS BILLING RELATIONSHIP?**

A. It was my understanding based upon what KAW told me and other Lexington officials or employees that they needed to end the relationship for business reasons and that the same thing was being done throughout the American Water Company system. We were also told that this decision should benefit Lexington, the company, and the citizens of Fayette County by giving us more control over our bills and simplifying KAW's bills.

**Q. DID LEXINGTON WANT THE KAW RECONSIDER ITS DECISION TO END THE BILLING SERVICES?**

A. Yes, but we were advised by the Company that there was nothing we could do that could make them reconsider their decision.

**Q. HOW MUCH WAS LEXINGTON PAYING KAW TO PROVIDE BILLING SERVICES?**

A. The average monthly payment to the company for the 3 agreements was \$135,570 for the 12 months immediately preceding the termination of the agreements.

**Q. DOES KAW PROVIDE ANY SERVICES TO LEXINGTON AT THIS TIME WHICH ARE BILLING-RELATED?**

1 A. Yes. Lexington still needs the company to provide it with information related to water  
2 usage as Lexington's sanitary sewer fees are based upon water usage. In addition, the  
3 company has agreed to provide limited shutoff services in the event that the sanitary  
4 sewer fees are not paid.

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6 **Q. HOW MUCH DOES LEXINGTON PAY FOR THESE SERVICES?**

7 A. Lexington pays the company three cents (\$.03) for each monthly billing record it uses  
8 for billing any of its fees and additional amounts in the event that it requests water shut-  
9 offs for nonpayment of the sanitary sewer fees. Lexington has been paying the  
10 company approximately \$3,300 a month for the billing record information. Lexington  
11 has yet to request the shut off of anyone's water service so there have been no costs  
12 incurred for those services.

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14 **Q. HOW DOES LEXINGTON CURRENTLY HANDLE THE BILLING SERVICES WHICH**  
15 **USED TO BE PROVIDED BY KAW?**

16 A. Lexington has a multi-year agreement with Greater Cincinnati Water Works to provide  
17 the billing, collection, and customer service functions which used to be provided by  
18 KAW. There is a separate contract with another vendor for the printing and mailing  
19 expenses associated with the billings.

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21 **Q. HOW MUCH DOES LEXINGTON PAY FOR THESE SERVICES?**

22 A. The monthly average to date has been approximately \$124,000 for the services  
23 provided by Cincinnati Water. The printing and mailing costs have been in excess of a  
24 monthly average of \$52,000.

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**Q. SO HOW MUCH MORE A YEAR DO YOU ANTICIPATE LEXINGTON HAVING TO PAY FOR THE SAME SERVICES KAW USED TO BILL FOR?**

A. Based upon the limited information that we have available to date it appears that Lexington will pay at least \$500,000 more a year for the same billing services that the company used to provide.

**Q. DO THE CUSTOMERS WHO UTILIZE THESE SERVICES END UP PAYING FOR THESE ADDITIONAL COSTS?**

A. It is my opinion that Lexington will eventually have to recover these additional costs from its citizens, in all likelihood through an increase to one or more of the fees.

**Q. IS IT YOUR UNDERSTANDING THAT KAW IS ATTEMPTING TO RECOVER THE REVENUES FROM THE BILLING CONTRACTS IT USED TO HAVE WITH LEXINGTON FROM THE RATEPAYERS IN THIS CASE?**

A. Yes. It is my understanding that the company wants to recover more than \$1 million a year in revenue because it no longer has the revenue stream from these billings agreements.

**Q. IS THE ADDITIONAL \$500,00 OR MORE A YEAR WHICH LEXINGTON IS PAYING FOR THE BILLING SERVICES A PART OF THE AMOUNT THAT KAW IS CLAIMING IT SHOULD RECEIVE THROUGH ITS REQUESTED RATE INCREASE IN THIS CASE?**

1 A. No. All of the costs that I have talked about are the additional costs that Lexington will  
2 have to bear as a result of KAW's decision to end the billing relationship. Any increased  
3 amount the company is requesting in the case would be additional to these costs.

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5 **Q. DO YOU AGREE WITH KAW'S ASSERTION THAT THE DECISION TO END**  
6 **BILLING AND COLLECTION SERVICES WOULD BE OF BENEFIT TO LEXINGTON**  
7 **AND ITS CITIZENS?**

8 No. I think this decision has not resulted in any benefit to Lexington or its citizens. To  
9 the contrary, it has a direct increase in cost to Lexington of at least \$500,000 a year and  
10 will likely result in the fees for these services being increased.

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

13 A. Yes.

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