



Warren County
Water District

July 12, 2019

MS GWEN PINSON
EXECUTIVE DIRECTOR
PUBLIC SERVICE COMMISSION
P O BOX 615
FRANKFORT KY 40602

RE: Tariff – Warren County Water District
Purchase Water Adjustment
PSC Case 2019-00214

Dear Ms. Pinson:

This letter is in response to a request for additional information regarding the Purchase Water Adjustment requested in Case 2019-00214.

Warren County Water District (WCWD) and Bowling Green Municipal Utilities (BGMU) has been working together in accordance to PSC Case 95-044 since 1996. In accordance with this case, the utilities established the Joint Engineering, Planning, and Finance Committee (Committee) consisting of two board members from each utility to oversee the development and implementation of long-range plans for the development and expansion of water and sewer service from BGMU to WCWD. The Committee meets quarterly and the staffs of each utility meet monthly to develop the capital needs of the utilities.

Warren County is currently the fastest growing county in the Commonwealth. Growth in the region has required both utilities to develop and implement an expansion of BGMU's water treatment plant. The Committee approved a Memorandum of Agreement (attached as Exhibit A) on December 4, 2018, and subsequent wholesale rates were negotiated and established on March 26, 2019 (attached as Exhibit B).

It is our opinion that the level of cooperation that WCWD and BGMU has established through the years is a model for other utilities in the Commonwealth. Both utilities continually work together to provide our customers the highest quality product and service at the most economical cost possible. Please let us know if we need to provide any additional information.

Sincerely,

/s/ John M. Dix

John M. Dix, P.E.
General Manager

Attachments

EXHIBIT A

MEMORANDUM OF AGREEMENT


December 4, 2018

1. BGMU will design, finance and construct a project to upgrade its water treatment plant (WTP) to a capacity of 15 million gallons per day (mgd). This project is composed of work primarily involving added (new) capacity. Upon further review, renovation-related work may be identified as part of the project.
2. WCWD will pay its share of the debt service for renovation work in accordance with the WTP Use Factor as computed for the fiscal year of each future rate study. WCWD will pay its share of the debt service for new capacity at a fixed rate of 68%.
3. The construction contractor shall provide its as-bid estimate for each of the major components of the WTP work to facilitate allocations of renovation and new capacity costs. The final as-built costs of each component shall be used in all future rate studies and shall include adjustments to the contractor's as-bid estimates which reflect unit price items and approved contract change orders. Final approved engineering expenses shall also be used.
4. In order to expedite administration of the WTP project, construction contract change orders may be considered and approved on behalf of WCWD by the WCWD staff on a case by case basis. WCWD approval of change orders will be documented by letter(s) in a timely fashion and reported to the Joint Engineering, Planning and Finance Committee.

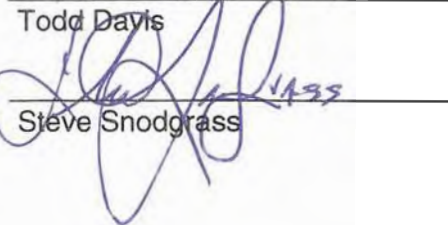
Agreed to by mutual agreement of the parties on December 4, 2018, subject to the approval of the respective Boards of Directors.

JOINT ENGINEERING, PLANNING AND FINANCE COMMITTEE

Bowling Green Municipal Utilities




Todd Davis

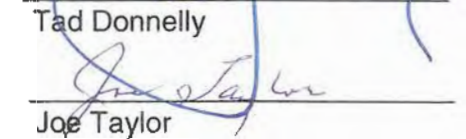


Steve Snodgrass

Warren County Water District



Tad Donnelly



Joe Taylor

EXHIBIT B



**BOWLING GREEN MUNICIPAL UTILITIES
P.O. BOX 10300
BOWLING GREEN, KY 42102-0300**

**WARREN COUNTY WATER DISTRICT
P.O. BOX 10180
BOWLING GREEN, KY 42102-4780**

March 26, 2019

**BOWLING GREEN MUNICIPAL UTILITIES/WARREN COUNTY WATER DISTRICT JOINT ENGINEERING
PLANNING AND FINANCE COMMITTEE**

Mr. Joe Taylor, Sr.
618 Lovers Lane Apt. 222
Bowling Green, KY 42104

Mr. Tad Donnelly
1344 Garvin Lane
Bowling Green, KY 42101

Mr. Steve Snodgrass
1006 South Park Drive
Bowling Green, KY 42103

Mr. Todd Davis
1001 Pepperidge Drive
Bowling Green, KY 42103

Gentlemen:

In Accordance with the "Resolution of the Bowling Green Municipal Utilities Board and the Commissioners of the Warren County Water District" dated January 8, 1996, and the "Agreed Order" dated February 27, 1996 in Kentucky Public Service Commission Case No. 95-044, the representatives of BGMU and WCWD have met and have calculated wholesale rate adjustments. It is our joint recommendation that the following charges (FY 2017 Rates) be implemented:

<u>Water Service</u>	<u>Rate per 1,000 Gallons</u>
Southside	\$2.6377
Morgantown Road Areas	\$1.7291
Northside Area	\$1.7162
Cemetery Road	\$1.6455
BMGU purchases on Cemetery Road	\$1.9847
 <u>Sewer Service</u>	
All Connection Points	\$2.8377

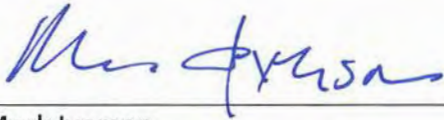
The comments below are pertinent to these rate calculations and have been agreed upon by the respective staffs:

- a. Expenses and operations data for BGMU's fiscal year ending June 30, 2017 are the basis for these rates, except known BGMU wage and salary adjusts subsequent to FY2017.
- b. Added the following capital assets:
 - Aggregate joint-use water and sewer projects completed since the last rate study's base year (2015) not funded through coverage payments during the same period.
- c. Pro forma debt service on the WTP alternate disinfection project was subjected to allocation factors agreed to in a resolution adopting the "Parameters for WTP Final Design and Alternate Disinfection" dated October 20, 2016. One element of the alternate disinfection project's pro forma debt service is a capital asset loan primarily representing the estimated value of the displaced Maintenance Crew building and construction-period interest on the KIA loan.
- d. Pro forma debt service on the WTP expansion project was subjected to allocation factors agreed to in a Memorandum of Agreement dated December 4, 2018. One element of the WTP expansion project's pro forma debt service was a capital asset loan primarily representing the Bale, Hampton and Blanton property purchases, along with the appraised value of the displaced Water Sewer Crews buildings and design-period interest on the KIA loan. Another element of the WTP expansion project's pro forma debt service is a proposed 2019 revenue bond. WCWD's allocated debt service on the proposed bonds has been tiered for the first four years with interest being capitalized.
- e. Pro forma debt service on the Veterans force main project was based on estimated allocation factors. Final agreed allocation factors will be determined at a later date. Adjustments (+/-) between agreed and estimated allocation factors for the period of these new rates will be included in the next wholesale rate. The Veterans force main project's pro forma debt service is based on a proposed 2019 revenue bond. WCWD's allocated debt service on the proposed bonds has been tiered for the first four years with interest being capitalized.
- f. Pro forma debt service included in these rates on the WTP alternate disinfection project, the WTP expansion project, and the Veterans force main project were based on estimated loan amounts and interest rates. Adjustments (+/-) between actual and estimated debt service for the period of these new rates will be included in the next wholesale rate.

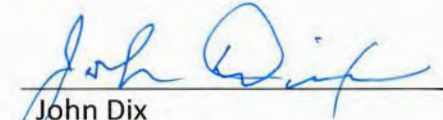
- g. It was noted that annual swings in WWTP pretreatment surcharges related to WTP operations can occur. The pretreatment surcharges, primarily related to the extra treatment costs of the WTP's high-concentrate of total suspended solids (TSS), namely river mud, can create annual deviations in wholesale sewer costs making retail rate management difficult. River mud TSS are caused by the frequency and intensity of rain events which can vary from year to year. Future wholesale rate studies will attempt to develop a process to ensure the proper collection of treatment costs averaged over a period of time.

- h. These rates will be effective no later than July 1, 2019. To implement the tiered debt service as described above, rate adjustments will occur annually through July 1, 2022 and will return to the normal two-year schedule.

Respectively submitted.



Mark Iverson
General Manager
Bowling Green Municipal Utilities



John Dix
General Manager
Warren County Water District