

Henderson Water Utility  
PSC Case #2021-00067  
Additional Request for Information to Henderson Water Utility

1. *Refer to Henderson Water’s response to Commission Staff’s First Request for Information (Staff’s First Request) Item 6. Provide a detailed explanation of the agreement with Big Rivers Electric Corporation (BREC) and the circumstances that have led to the significant increase in electricity costs. Include in the explanation Henderson Water’s plans to mitigate this in the future.*

**Response**

*Please refer to enclosed pdf file:  
#1 Big River Contract Sep 2015 Amendment*

In the 1995-1998 timeframe, when Henderson’s South Plants complex was constructed to service the Tyson Foods (then Hudson Foods) poultry processing plant, Big Rivers and HWU entered an “Agreement” dated March 14, 1995, where the parties agreed that in the interest of economic development, HWU would utilize the BREC water intake and discharge facilities rather than constructing new facilities of their own.

The point of connection for raw water was on the BREC’s 84” diameter circulating water inlet line (which was used as cooling water for the power plants), and the discharge point was on a similar 84” diameter discharge line. This are massive water lines, and BREC had more than sufficient capacity to serve the South Plant, and guaranteed HWU a minimum of 5 million gallons per day of flow.

In exchange for BREC allowing HWU to use the existing intake and discharge facilities, HWU agreed to provide up to 20,000 gallons per day of water and wastewater service to the BREC complex, at no charge to them.



That exchange of services worked well for HWU and its customers, including HCWD and Beech Grove for several years. Then, in 2014, HWU performed a study of capital needs and system reliability at the South Water Treatment Plant. Several new projects were generated by that study, and it was revealed at time that Big Rivers might be shutting down some or all of their power making complexes at some point in the near future. Because of this new information, and the study of our other capital needs at the South Plant, HWU envisioned two projects related to that. One project was to install new, smaller, HWU-owned pumps and controls in the existing BREC intake, should BREC abandon the Circulating Water system. This would allow HWU to continue to have a source of raw water. A second project involved extending HWU's influent and effluent lines to points more proximate to the Green River, which would facilitate using temporary pumps for raw water, should the aging BREC intake pumps be sidelined, damaged, or otherwise become unusable.

To allow the construction of these new water lines, HWU and BREC renegotiated their Agreement, formalizing easements for existing and proposed lines, and setting up a system where BREC would charge HWU for the costs of power for the pumps, if the pumps were being run solely for HWU's benefits, i.e., if the power plants were taken out of service.

Then, in January of 2019, BREC informed HWU that the power plant was indeed being shut down, and that the contract provision for charging power costs to HWU was being invoked.

HWU immediately began detailed plans and specifications for a "HWU Dedicated Raw Water Pumps in BREC Intake" project, and had progressed those plans to a 50% milestone, when BREC informed HWU that the option to site HWU-owned pumps in the BREC intake was no longer on the table. Costs of planning for this project, amounting to \$ 85,000, were subsequently expensed as a "sunk cost", and that expense had an impact on the rates for customers in the South system in the 2019-2020 fiscal year.

HWU then shelved the Dedicated Raw Water Pumps project, and began an accelerated, detailed planning for a new South Raw Water Intake project, along with a new Raw Water Main. The location of this new structure is planned to be near the KY 56 highway bridge across the Green River, east of Sebree. In addition to the future cost savings the project will bring, by being so located, the new intake is being moved upstream of the leaking coal ash landfill on the Big Rivers property, removing a large potential liability of contamination of the HWU raw water source.

The other, and more significant cost increases at the South Plant are the costs of electric power for operating the BREC pumps. These pumps are significantly larger than what we need, but they are the pumps BREC is permitting us to use. Right now we're spending between of \$58,000 to \$62,000 per month (approximate range) to power these massive pumps. This cost is a significant increase from the \$0.00 we were paying prior to 2019, and increases every year. The quicker we can get the new lines constructed and new pumps put into place, the more savings will come to all of our customers utilizing the South system. Those costs will the go down to an estimated \$5,000 per month range, as opposed to the current BREC charges of \$ 58,000 to 62,000 per month (approximate range). This will act to reduce rates charged to South system customers. The current schedule for the new South Raw Water Intake and Water Main project is to bid these projects in Spring 2022, with construction lasting about 1 year.

2. *Refer to Henderson Water's responses to Staff's First Request, Item 6. Henderson Water explains that in Fiscal Year 2020 it began the design of lines to and depreciation reported in column 1 (North Water) and in column 4 (South Water). The depreciation schedules should be pumps in the existing BREC intake structure at a cost of \$82,000. This project was abandoned, and Henderson Water began design of a separate intake structure. Henderson Water expended the \$82,000 spent on the abandoned project in Fiscal Year 2020.*
  - a. *Provide an itemized breakdown of the \$82,000 abandoned design costs.*
  - b. *Explain whether any of the design work for the exiting BREC intake can be utilized in the design of the separate intake structure.*
  - c. *Given that the design work for the existing BREC intake is a nonrecurring expenditure, explain why it should be expensed in one year rather than to be amortized.*
  - d. *In Case No. 1989-00348,2 the Commission allowed Kentucky-American Water Company to amortize the abandoned design costs for Kentucky River Station II over five years finding they were reasonable and prudent costs under the circumstances. Provide documentation to show that Henderson Water's abandoned design costs for the BREC intake were reasonable and prudent costs and that they should be recovered from the wholesale customers.*
  - e. *If the Commission finds the abandoned design costs were reasonable and prudent, identify a reasonable amortization period to recover the abandoned design costs over. Provide documentation to support Henderson Water's proposed amortization period.in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.*

## **Response**

Please refer to enclosed pdf file:  
#2 Abandoned Costs Detail- SWTP Big Rivers Intake

The costs associated with the abandoned project consisted entirely of design costs incurred by JR Wauford & Company. Consulting Engineers, Inc. and related to the design of intake pumps and related infrastructure inside the existing BREC intake structure and related lines across BREC property to these new pumps to connect to the existing South Water Treatment Plant. When BREC notified HWU that this project would not be allowed, HWU management began design for a completely new intake structure and related pumps and influent lines completely off of BREC property which involved going upstream of an existing coal ash pond/landfill. Because to the complete change in scope, location and size of project, all project costs associated with original plan were deemed useless and thus abandoned.

HWU CFO discussed with auditors, Riney Hancock CPAs PSC, regarding proper accounting for these abandoned project costs. CFO was instructed that based on governmental accounting standards it was allowable for those costs to be expensed in current year since project was properly deemed abandoned and expenses were all incurred in the current fiscal year.

HWU deemed this costs to be reasonable since they were solely associated with a potential project for the South Water system, they were fully incurred within FY2020 and related to the early design of a project that was properly deemed abandoned upon the decision of outside parties (BREC no longer allowing us access to there property). Being that all costs were incurred in one fiscal year and project was abandoned in same year, any period longer than expensing in one year seems unreasonable.

**3. Refer to Henderson Water's response to the Commission's February 23, 2021 Order, Appendix B, Item 34.a., Excel Spreadsheet: 34a-HCWD\_North\_Water\_Contract\_FY2020.**

- a. Provide a breakdown of the expenses included in the City Overhead Allocation.*
- b. Provide an explanation of the 35 percent that was used to determine the amount of the City Overhead Allocation.*

**Response**

Please refer to enclosed pdf file:  
#3 FY20 Cost Allocation Admin Fee

The City Admin Fee that HWU incurs annually represents HWU's share of allocated costs from various departments of the City of Henderson. These costs include share of IT departments costs related to shared software, Human Resource costs related to those services, Accounting/Treasury services related to the billing and collection of revenues

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(all City utilities are billed on one bill and collected by City and remitted to separate entities, i.e. HWU or HMPL, or transferred to correct fund, i.e. Gas). This fee is based on long-standing percentage allocations and is calculated annually based on budgeted expense costs of the various departments. Refer to noted file for the FY2020 amount which was rounded down to \$650,000 for HWU.

The City of Henderson sets this fee annually for HWU and other entities and departments, to recover the share of services it provides to these groups. HWU management has no ability to negotiate this cost, nor the Payment In Lieu of Taxes (a non-operating expense charged to HWU annually) since it is set by the City of Henderson.

The City Admin Fee is a long-standing annual expense of HWU. HWU management and former CFO, determined the allocation of these fee to the various divisions based on general size and operations of HWU entity. Allocation of this expense has been as follows:

North Water	35%
North Wastewater	35%
Stormwater	10%
South Water	10%
South Wastewater	<u>10%</u>
	100%

This allocation was based on number of customers, volume of transactions etc. There has been no changes in the allocation of this admin fee or any change in methodology of any cost allocations involving the contracts of HCWD, Beech Grove or any other contract customer.

4. *Refer to Henderson Water’s response to the Commission’s February 23, 2021 Order, Appendix B, Item 34.a., Excel Spreadsheet: 34a-HCWD\_South\_Water\_Contract\_FY2020. Provide an explanation of the 10 percent that was used to determine the amount of the City Overhead allocation.*

**Response**

Please refer to response #3 above. Based on historically determined allocation percentage, 10% of City Admin fee is allocated to South divisions. This is based on limited number of South customers and transactions, along with overall division of Admin and SOC work loads.

- 5. Provide an explanation why it is reasonable to reduce the expenses using 35 percent for the City Overhead Allocation for the Henderson County District North rate, 10 percent for the City Overhead Allocation for the Henderson County District South rate, and no adjustment for the Beech Grove District rate.*

**Response**

As previous response in Supplement Request from 4-9-21 stated, The City Overhead Allocation consists of the Utility's portion of joint costs for services provided by the City that are billed to the Utility and other City departments and organizations. Originally, it consisted of only billing and collection costs associated with utility billings. This cost is excluded from the Henderson Water District due to a specific exclusion as noted in paragraph 13 of the original June 1, 1989 contract with the District. It states, "based on the percentage of the total direct cost of operations for the water and sewer systems which is associated with the water treatment plant and water distribution system, exclusive of the cost of collecting its charges." Thus, total audited costs are reduced by the North's 35% and South's 10% of these overhead charges. Contract with Beech Grove was written and agreed to without that specific exclusion, thus as with any other differences (mark up percentage, gallon volume used in calc, etc.) the calculations of the two entities differ.

Refer to Files included in Original request for items #31 for copies of the contracts with both Henderson County Water District and Beech Grove Water System.

- 6. Provide an explanation why it is reasonable to charge Beech Grove District and Henderson County District South differing rates when the water system facilities used to provide service are the same.*

**Response**

The contracts were entered into of free will by both parties and terms were agreed upon by HWU management and elected/appointed officials at the time. They have been on file with the PSC since they were signed, and are presumed to be fair, reasonable and valid.

Both HCWD and Beech Grove once maintained the same 25% markup as agreed upon by each. Then, in 2014, during negotiations for the new Agreement with Beech Grove, the McLean County Commission was attempting to form a county-wide water district. The County Judge asked Beech Grove to join in said water district, and Beech Grove informed HWU about the proposed terms of the new water district. HWU had already invested in the water main to Beech Grove and worked out the room for them in our system, and so

rather than losing our existing customer, HWU offered a lower markup to Beech Grove as an inducement to remain HWU's wholesale customer.

7. *Provide the total gallons of water billed for all customers being served by Henderson Water's North system.*

**Response**

Total gallons billed for all customers of the North system totaled 1,770,999,814 gallons for the fiscal year ended June 30, 2020.

8. *Provide the total number of customers for each customer classification for Henderson Water.*

**Response**

As of June 30, 2020 (end of FY 2020), total number of customers by classification across entire system was as follows:

Residential	9,554
Apartments	355
Churches & Schools	102
Commercial	1,135
Industrial	63
Wholesale	11
City/HWU Free	73