

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

ELECTRONIC TARIFF FILLING OF HENDERSON)	CASE No.
WATER UTILITY REVISING ITS WHOLESALE)	2021-00067
WATER SERVICE RATES)	

**DIRECT TESTIMONY OF HENDERSON WATER UTILITY
IN RESPONSE TO
COMMISSION STAFF'S REQUESTS FOR INFORMATION**

FILED: May 19, 2021

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WATER UTILITY REVISING ITS WHOLESALE
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CERTIFICATION OF RESPONSE OF HENDERSON WATER UTILITY TO
COMMISSION'S REQUEST FOR INFORMATION

This is to certify that I have supervised the preparation of Henderson Water Utility's responses to the Commission's requests for information. The responses submitted on behalf of Henderson Water Utility are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

5.18.2021
Date 

Tom Williams, General Manager, Henderson Water Utility

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DIRECT TESTIMONY OF HENDERSON WATER UTILITY
AS REQUESTED BY COMMISSION STAFF

Q. 1: Please state the name, address, position and experience of all persons involved in the below testimony.

A.

Tom Williams, P.E., 111 Fifth Street, Henderson, KY 42420 – General Manager of HWU since October 2013. Prior to that, HWU Director of Engineering from June 2010 to October 2013.

BS Civil Engineering, University of Kentucky, 1979; Masters in Business Administration, Murray State University, 1989.

Employed in Civil Engineering related fields since 1978, most recent prior position was with a subsidiary of American Water from 2003 to 2010.

Todd Bowley, 111 Fifth Street, Henderson, KY 42420- Chief Financial Officer of HWU since June 2016.

BS Accounting, University of Southern Indiana, 2003.

Employed in Public Accounting field January 2003 to June 2016, with experience in accounting and auditing of governmental entities including Utility operations.

Q. 2: What is the purpose of your testimony?

A. To provide general and detailed information on the operations of the Utility, specifically contract negotiations and day-to-day relationship management with the Henderson County Water District and the City of Beech Grove.

Respondent: Tom Williams

Q. 3: Please provide a brief history of the relationship and contracts between HWU and the Henderson County Water District (HCWD)?

A. The first “Water Contract” between HWU and HCWD was dated May 3, 1966, but the copy we have only has signatures from one or two parties, other names are penciled in. This established the relationship between the parties, set rates at 25 cents per 1,000 gallons, froze those rates for 5 years, and provided for adjustments based on actual cost increases beyond that point. It didn’t mention a markup percentage.

Subsequently, on June 1, 1989, the first formal and fully executed contract was entered into between HWU and HCWD. This agreement references HCWD purchasing water from HWU since the District was formed in 1966, but does not reference a contract prior to 1989 version. This 1989 agreement provides for 6 connection points, and that HCWD will own the meters at these points. The agreement also sets initial rates for the parties and provides for adjustments to those rates based on the actual costs of producing the same to the HWU, and for the 25% mark up of said water. This agreement also contains a legal description and map showing the HWU/HCWD service area boundaries. A copy of this contract was provided with HWU’s 1st set of responses to the Commission - #31 – 1989 contract.

Then, on February 11, 1997, the parties executed an amendment to the 1989 agreement, which specifically deals with South Water Plant, and provides for a point of connection to the District near the intersection of U.S. 41 and KY 2097. This agreement added the new point of connection and set forth the terms of service, adjustments for costs for the water coming from the South Plant, and the 25% markup for this water. A copy of this contract was provided with HWU’s 1st set of responses to the Commission - #31 – 1997 Amendment.

Agreement titled “Service to Four Star Industrial Park” dated 20 December 2000, gives HWU right to serve any customers in 4-Star Industrial Park as it existed on that date, but did not include a map or drawing showing those extents.

HWU proposed a new HCWD/HWU Agreement in October 2012, but it did not progress.

To the respondent’s knowledge, HWU has never received a formal complaint from HCWD, or any of its customers, regarding its rate structure or the terms of the agreements discussed herein.

Respondent: Tom Williams

Q. 4: Please provide a brief history of the relationship and contracts between HWU and Beech Grove?

A. A “Water Purchase Contract” dated April 14, 1997, was entered into between HWU and Beech Grove. Said agreement sets out the initial rates, the process for future adjustments based on costs, plus a 30% markup. The parties then entered into an “Agreement for the Construction and Installation of Water Main” signed in March/April 1998 to extend HWU’s existing water main from its current location to Beech Grove.

Later, a “Revised Agreement for the construction and Installation of Water Main” was signed in September/October 1998. It set new rates and replaced those included in the previous “Water Purchase Contract”. It also provided for Henderson to purchase and move Beech Grove’s 100,000-gallon water tank to a “more serviceable location.”

A subsequent letter agreement dated 6/27/02 included an agreement for Henderson to return unused water main construction funds to Beech Grove, and the parties agreed that the water tank would not be

moved, since the PSC had agreed to allow Beech Grove to count a portion of HWU's storage in the 4-Star Tank as belonging to Beech Grove, so Beech Grove was allowed by the PSC to forego having to construct a storage tank of their own.

The parties entered into the existing agreement on October 14, 2014, which replaced all the agreements and understandings listed above. The new Agreement has a term of 25 years. This agreement sets forth the parties obligations to each other, the adjustments to the rates based on the costs of HWU, and the 15% markup Beech Grove is currently paying.

In addition, under this agreement HWU reserved 100,000 gallons of storage in the 4-Star Tank for Beech Grove's benefit, HWU agreed to allow Beech Grove to service customers within their service territory off the HWU-owned main that serves the Hatchery, allows HWU to provide sewer service within the Beech Grove service territory, and that Beech Grove will bill, collect, and remit any sewer charges to HWU. However, no sewer services are provided to Beech Grove at this time.

To the respondent's knowledge, HWU has never received a formal complaint from Beech Grove, or any of its customers, regarding its rate structure or the terms of the agreements discussed herein.

Respondent: Tom Williams

Q. 5: Please explain why Beech Grove has a 15% markup, but HCWD has a 25% markup.

A. 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.

Respondent: Tom Williams

Q. 6: Please detail more thoroughly where the significant cost increases at the South Plant have come from this past year, causing the rates to increase at the high rate which they did?

A. A large component of the cost increase has been the billing for power costs from the Circulating Water Pumps at the Big Rivers Electric Corp (BREC) river intake.

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 \$ 82,000, 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 Seabee. 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.

Respondent: Tom Williams and Todd Bowley

Q. 7: What mitigation efforts were/have been made to reduce these costs going forward?

A. As previously stated, the construction of the new South Water Intake and Raw Water Main will reduce monthly power costs from approximately \$ 62,000 per month to \$5,000 per month. Interest on any debt issued to pay for the new Intake and Main will offset a portion of these savings.

Respondent: Tom Williams and Todd Bowley

Q. 8: Are the contracts and adjustments in place with HCWD and Beech Grove fair and reasonable? Please explain.

A. The contracts were entered into of free will by both parties. They have been on file with the PSC since they were signed, and are fair, reasonable and valid. The rates do NOT always increase; there have been years in which the rates have decreased. The rates are adjusted based on the agreements, our auditors check the numbers, and the customers auditors check the numbers, and neither customer has ever claimed them to be otherwise.

Respondent: Tom Williams

Q. 9: Do the rates always increase under the contractual changes to the rates? Please explain.

A. No. Per contract terms, rates are adjusted annually based on audited costs. As noted per rates filed via approved tariffs with PSC, HCWD and Beech Grove have had both increases and decreases over the previous 10 year period.

See following table for rates per 1,000 gals for HCWD and Beech Grove over last 10 years.

	HCWD North			HCWD South			Beech Grove		
	Rate	Change		Rate	Change		Rate	Change	
FY2020	3.5029	16.65%		3.2549	21.37%		3.3919	23.48%	
FY2019	3.0029	-4.70%		2.6818	7.10%		2.7470	9.74%	
FY2018	3.1509	-1.73%		2.5039	-2.60%		2.5031	-4.33%	
FY2017	3.2064	17.37%		2.5708	8.76%		2.6165	3.74%	
FY2016	2.7319	11.47%		2.3638	3.93%		2.5222	5.90%	
FY2015	2.4507	-1.18%		2.2745	-27.12%		2.3816	-23.85%	
FY2014	2.4800	9.13%		3.1209	7.09%		3.1275	6.57%	
FY2013	2.2726	2.86%		2.9142	5.54%		2.9346	-8.86%	
FY2012	2.2094	-0.11%		2.7613	-9.96%		3.22	0.94%	
FY2011	2.2118			3.0668			3.19		

Respondent: Tom Williams and Todd Bowley

Q. 10: What type of communication do you have with HCWD and Beech Grove regarding your annual rate changes?

A. Annually, at the conclusion and presentation of the HWU audit, contract rates are calculated for all contract customers (all contract rates are based on audit costs). Rate calculations, including HCWD and Beech Grove, are then examined by HWU's auditors who provide an opinion that rates have been calculated based on contract terms. Letters detailing rates and including copies of examination reports are mailed to contract customers annually, usually in December. HWU then files required tariffs forms with the PSC in January. Annually, HCWD auditors contact HWU and obtain consumption information perform an independent review/recalculation of rates to verify their accuracy.

HWU's CFO will have occasional phone calls with Pete Conrad, Superintendent of HCWD, concerning rates during this time to answer HCWD questions if needed. Beech Grove has historically not contacted HWU regarding rate change, so no communication outside of mailings is done, but any such communication is welcome.

Respondent: Todd Bowley

Q. 11: Please explain, in detail, how electrical costs being paid to Big Rivers has affected the rates paid by HWU, HCWD, and Beech Grove at the South Water Treatment Plant.

A. The electrical charges from BREC for circulating water pumps was \$467,434 for FY2020. This expense, which had until January 2019 been at no cost to the Utility, significantly increased operating costs of the South Water System. Refer to Supplemental Info Request from 4-9-21 #6 for detailed explanation of South Water cost increase. This overall increase in operating costs, which was primarily due to the BREC electric costs, resulted in increased rates for HCWD and Beech Grove per the terms of our longstanding contracts.

Respondent: Todd Bowley

Q. 12: Please explain the process each year for changing the rates based on the contractual formula. Who reviews it?

A. HWU CFO prepares rate calculations annually upon completion of fiscal year audit and presentation/approval by Board. After rate calculations are prepared, HWU auditor's then perform an examination of those calculations and provide an opinion on the calculation in regards to the terms of the contract.

Once calculations have been verified by the auditors, letters are prepared stating the new rate and effective dates and copies of the auditor's examination reports and the calculations are provided to contract customers.

Additionally, HCWD auditor's contact CFO annually to obtain supporting documents for consumption/usage totals used in calculations during their independent review of rates. Rates can increase or decrease based on audited costs and usage/consumption amounts and both increases and

decreases are communicated to contract customers annually on same schedule. Rates are calculated and reviewed in December, and customers are notified. Rates become effective with the March/April billings and all required PSC filings are filed in January annually.

Respondent: Todd Bowley

Q. 13: What effect, if any, will the PSC's decision have on HWU, should it modify the rate as proposed by HWU?

A. HWU has suffered lost revenue to date based on the new proposed rates not going into effect. This lost revenue will continue if the contractually determined rates proposed are postponed additionally or modified by the PSC. Additionally, legal fees have been and will continue to be incurred by HWU to respond to the PSC case.

Respondent: Tom Williams and Todd Bowley