

Henderson Water Utility
PSC Case #2021-00067
Commission Staff's First Request for Information to Henderson Water Utility

1. *Provide in written verified form the direct testimony of each witness that Henderson Water intends to rely on in this matter.*

Response

Witness Testimony List

Tom Williams	HWU General Manager
Todd Bowley	HWU CFO
Kevin Roberts	HWU Director of Operations
Kevin Sturgill	HWU GIS Manager
Connie Galloway	City Director of Human Resources
Karla Beckgerd	City Human Resources Specialist

2. *Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 2, the Independent Auditor's Report for Fiscal Year ending June 30, 2020, Schedule of Revenues, Expenses, and Changes in Net Position by Division and Item 15, Depreciation Schedule. Provide separate depreciation schedules to support the assets and depreciation reported in column 1 (North Water) and in column 4 (South Water). The depreciation schedules should be in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.*

Response

Refer to enclosed Excel files:

#2 HWU Depreciation Schedule- North Water

#2 HWU Depreciation Schedule- South Water

Refer to Files included in Original request for items #5 and #8 for support of cost allocation percentages.

3. *Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 11, Excel Spreadsheet: _11_Historical_Benefit_Costs; Tab 2020.*
 - a. *Provide a schedule containing the monthly health insurance premium paid by Henderson Water for each employee listed on the schedule. The employee health insurance premium schedule should be in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.*
 - b. *Provide a schedule containing the monthly health insurance premium contribution made by each Henderson Water employee listed on the schedule. The employee health insurance contribution schedule should be in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.*
 - c. *Provide a detailed explanation as to why some employees listed on the schedule did not make any contributions towards their health insurance premium.*

Response

Refer to enclosed Excel files:

#3 HWU- 2020 Health Coverage by Month

Henderson Water Utility participates in the City of Henderson's self-insured health insurance plan. Employer monthly contribution is determined annually based on claim history and experience and allocated per employee per month for budgetary purposes. Employee contribution/withholding are set by the City of Henderson and rates vary based on Plan selected (EE, EE+1, Family). Additionally, discounts can be earned for meeting wellness initiatives and a surcharge can be assessed for smoking.

As part of the benefits package, the City offers a HRA program for its employees and contributes annually to this account on the employee's behalf based on plan type selected. Employees can elect to have a portion of this HRA contribution cover the withholding amount of the employee, thus employees who elect this would not have a health insurance payroll withholding.

4. *Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 15, Depreciation Schedule, and to the National Association of Regulatory Commissioners (NARUC) Depreciation Practices for Small Water Utilities, August 15, 1979, Figure 1, Typical Service Lives, Salvage Rates, and Depreciation Rates, Small Water Utilities (NARUC Survey). A copy is hereby attached as an Appendix.*
 - a. *Provide a schedule, in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible, that compares the depreciation lives in Henderson Water's schedule to the average service life ranges in the NARUC Survey.*

- b. Using the midpoint depreciation life of the average service life ranges in the NARUC Survey, recalculate Henderson Water's pro forma depreciation expense. Provide the recalculation of pro forma depreciation expense in Excel spreadsheet format with formulas, rows, and columns unprotected and fully accessible.*

Response

Please refer to enclosed Excel file:

#4 HWU Depreciation Schedule- NARUC Life Compare

Compared used lives to NARUC schedule (to most readily identifiable group noted, if one) and estimated calculation of fiscal year 2020 assets that would still be depreciable based on revised NARUC life. Calculate projected change in annual depreciation expense as requested for both North and South Water systems and allocated Admin and SOC assets.

- 5. Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 15, Depreciation Schedule. Provide any analysis or study prepared by Henderson or its auditors showing that Henderson Water's Capitalization Policy and depreciation lives are reasonable.*

Response

Please refer to enclosed pdf file:

#5 HWU Depreciation Schedule- RH Auditor workpaper

This workpaper notes auditors, Riney Hancock CPAs PSC, opinion that lives and methods used are reasonable and all schedules agree to audit financial statements. Utility has relied on no other outside party regarding lives or methods and has used annual audit and corresponding auditor's opinion to support lives, methods and amounts reported.

- 6. Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 33.a., Excel Spreadsheet: _33a_Beech_Grove_South_Water_Contract_FY_2020; Tabs: 2020 and 2019. Between fiscal years 2019 and 2020 the reported operating expenses for the South Water system increased from \$2,005,557 to \$2,493,588, an increase of \$488,031 or 24.3 percent. Provide a detailed explanation for the 24.3 percent increase in the operating expenses for the South Water system.*

Response

The increase in South Water system from fiscal year 2019 to 2020 was driven mainly by increases in three expenses, chemicals, electric utilities, and professional services.

Chemical costs can vary annually based on river conditions. Cost increased approximately \$124,000 over the two years. Chemical costs were last bid in June 2018 and costs have remained unchanged since then (will be bid again in June 2021). Fiscal year 2019 had seen a decrease from the prior two years of about 15%, but based on conditions and operations, additional carbon began being needed in late 2019 and continues currently. Fiscal year 2021 expense is projected to decrease from 2020, again mostly all driven by river conditions.

Electricity costs are the main driver of the overall increase in South Water costs and account for approximately \$301,000 of the total \$488,000 increase. This increase is due to the location of the South Treatment facility in relation to Big Rivers Electric Corporation's Sebree facility and our contract with them. When the South facilities were built in 1996 for economic development of the now Tyson chicken processing facility in Robards, KY, the intake line for the water plant was fed from the power plant's large cooling tower lines. This enabled Utility facility to be fed with adequate pressure etc., while not incurring any intake or pumping costs. Big Rivers intake and pumps exceeded capacity needs and what Utility "drew" off their line was inconsequential to Big Rivers operations. This agreement remained unchanged until January 2019, when the Big Rivers facility was shut down. Based on the original contract terms, in this event, the Utility would then become responsible for the power costs to run the large intake pumps to maintain feed to South facilities. These pumps far exceed size and volume needed but must run to feed plant as needed. This resulted in an additional \$30,000 per month power cost beginning in February 2019. Cost is based on Big Rivers cost per kwh and adjust annually in January. Cost for 2020 increased to approx. \$43,000 per month and 2021 increased again to approx. \$61,000. Utility is currently in process of designing an approx. \$8-9 million dollar capital project to construct our own intake and pumping structure to supply the South facilities, but these significantly increased power costs will continue for immediate future. Fiscal year 2021 costs are projected to increase an additional \$100,000 from 2020 levels.

Professional fee increase of \$82,000 was also related to the Big Rivers issues. Utility began design of a project for lines to and pumps in the existing Big Rivers intake structure. Due to changes in relations with Big Rivers and the City of Henderson, this project had to be abandoned and thus the costs expensed. Began the design of the separate intake structure etc. noted above at that time.

These three expenses accounted for an increase in approx. \$507,000. All other direct expenses of the South Water facility and its share of allocated Administration and System Operation Center (SOC) costs decreased by approx. \$19,000 for the periods in review.

7. *Refer to Henderson's responses to the Commission's February 23, 2021 Order, Appendix B, Item 33.a., Excel Spreadsheet: _33a_Beech_Grove_South_water_contract_FY2020.*
 - a. *Provide a detailed explanation of how the amount of 861,372,839, labeled as billable volumes in gallons, was determined. Include in the explanation the adjustments to total gallons billed, that were made and a description of why the adjustments were made.*
 - b. *Provide an explanation of why this volume is appropriate to use when calculating a rate for Beech Grove District.*

Response

The volume of billable gallons of 861,372,839 was determined based on the contract terms with Beech Grove Water System as defined in the October 1, 2014 agreement. Agreement states that costs "shall be based on the net total number of gallons of water billed to all customers of the South System by the Commission." South system billable consumption is tracked and recorded monthly. Amounts are taken from actual billings and consumption reports monthly.

Total consumption of all South system customers for fiscal year 2020 was 871,912,968 which includes 10,540,129 gals of unbilled consumption (which is thus subtracted) to Big River Electric Corporation (which is at no cost to them based on terms of their contract with the Utility for providing pumping).

This volume is appropriate when calculating the rate for Beech Grove since it meets the agreed upon defined terms of the contract.

Refer to Files included in Original request for items #33 for support of Beech Grove calculation and auditor's work of those calculations.

8. *Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 34.a., Excel Spreadsheet: _34a_HCWD_North_Water_Contract_FY2020.*
 - a. *Provide a detailed explanation of how the amount of 2,234,826,585, labeled as volumes in gallons, was determined. Include in the explanation why no adjustments to total gallons distributed were made compared to the other wholesale rate calculations.*
 - b. *Provide an explanation of why this volume is appropriate to use when calculating a rate for Henderson District North.*

Response

The amount referenced of 2,234,826,585 is the distributed volume of gallons for fiscal year 2019, which was included in 2020 excel spreadsheet on a different tab. The distributed volume of gallons for the 2020 calculation was 2,123,351,260. Both amounts were obtained in the exact same manner, no changes from prior year.

The amount of distributed volume of 2,123,351,260 gallons was determined based on the contract terms with Henderson County Water District as defined in the June 1, 1989 agreement. Agreement states that "Such costs of treating and distributing water shall be based on the net total number of gallons of water pumped into the distribution system by the Seller, excluding the amount of water used directly by the Seller in the operation of the water and sewage treatment plant facilities." North system billings and consumption is tracked monthly. As part of this monthly tracking, our Water Information Management System (WIMS) in conjunction with SCADA, generates reports on treated and pumped/distributed volumes. The distributed amount only includes water volumes that leave the plant, thus exclude any volumes used in process and requiring no adjustment. North wastewater facility uses recirculated water in process so has minimal usage primarily in offices, not process related.

This volume is appropriate when calculating the rate for the Water District since it meets the agreed upon defined terms of the contract.

Refer to Files included in Original request for items #34 for support of Water District's North calculation and auditor's work of those calculations.

9. *Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 34.a., Excel Spreadsheet: _34a_HCWD_South_Water_Contract_FY2020.*
 - a. *Provide a detailed explanation of how the amount of 950,741,456, labeled as volumes in gallons, was determined. Include in the explanation the adjustments to total gallons distributed that were made and a description of why the adjustments were made.*
 - b. *Provide an explanation of why this volume is appropriate to use when calculating a rate for Henderson District South.*

Response

The amount of distributed volume of 950,741,456 gallons was determined based on the contract terms with Henderson County Water District as defined in the June 1, 1989 agreement. Agreement states that "Such costs of treating and distributing water shall be based on the net total number of gallons of water pumped into the distribution system

by the Seller, excluding the amount of water used directly by the Seller in the operation of the water and sewage treatment plant facilities." South system billings and consumption is tracked monthly. As part of this monthly tracking, our Water Information Management System (WIMS) in conjunction with SCADA, generates reports on treated and pumped/distributed volumes. The distributed amount only includes water volumes that leave the plant, thus exclude any volumes used in process. South wastewater facility uses metered water in process thus an adjustment is made to distributed water to exclude the processed water used at sewer plant. For 2020 total distributed at South plant was 1,019,545,297 gallons less the 68,803,841 gallons used internally at wastewater plant.

This volume is appropriate when calculating the rate for the Water District since it meets the agreed upon defined terms of the contract.

Refer to Files included in Original request for items #34 for support of Water District's South calculation and auditor's work of those calculations.

- 10.** *Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 33.a., Excel Spreadsheet: _33a_Beech_Grove_South_Water_Contract_FY_2020; Tabs: 2020 and 2019. Between fiscal years 2019 and 2020 the reported operating expenses for the South Water system increased from \$2,005,557 to \$2,493,588, an increase of \$488,031, or 24.3 percent. Provide a detailed explanation for the 24.3 percent increase.*

Response

Refer to Response for Item #6 above, which was requesting the same explanation.

- 11.** *Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 34.a., Excel Spreadsheet: _34a_HCWD_North_Water_Contract_FY_2020; Tabs: 2020 and 2019. Between fiscal years 2019 and 2020 the reported operating expenses for the North Water system increased from \$5,479,289 to \$6,075,926, an increase of \$596,637, or 10.9 percent. Provide a detailed explanation for the 10.9 percent increase.*

Response

Due to the costs associated with Administration and the System Operation Center (SOC) being allocated annually across all North and South divisions, water, wastewater and stormwater, variations can occur annually based on work loads in that given fiscal year. Refer to Files included in Original request for items #5 and #8 for support of cost allocation percentages.

Based on size and age of our system, North system (based on where work is performed) receives most of these allocated costs. Administration costs are allocated 35% to North Water, with variation in individual North departments but total not changing. Overall complete North system gets 80% of Admin costs. SOC costs are based purely on work hours and has averaged 91.07% over last 4 fiscal years to North system (ranging from 89.31% to 92.17%). However, within that the breakdown between North Water, Wastewater and Stormwater has varied somewhat. Allocated North Water SOC costs for 2020 were 41.24% up from 34.51% in 2019, (but comparable to the 41.27% allocated in 2017 for example).

Based on above noted percentages, allocated costs increased by \$624,828 whereas direct costs decreased by approximately \$28,000 resulting in overall increase of \$596,000 as noted.

- 12.** *Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 35. Confirm that the 15 percent markup in the Beech Grove Agreement and the 25 percent markup in the Henderson District Contract are the product of contractually negotiated terms and they were not designed to recover any specific operating costs.*

Response

As noted in the original response, the markup percentages were contractually negotiated terms agreed to by both parties, the HWU management and appointed officials of Beech Grove Water and HCWD at the time of the agreements. The basis of the rate calculation (before the markup) is that contract customers pay for their share of the total operating costs to provide service. All Utility contracts are based on same premise, rate is calculated to recover that customer's share of cost plus a contractual agreed to markup.

- 13.** *Refer to Henderson Water's responses to the Commission's February 23, 2021 Order, Appendix B, Item 33.a., Beech Grove Calculation of South Water Cost per Contract, and Item 34.a., Henderson County Water District Calculation of North Water Cost per Contract. Provide a detailed explanation as to why the rate calculations for the Henderson District includes reductions for the City Overhead Allocations but the rate calculation for Beech Grove Water does not include an overhead cost reduction.*

Response

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

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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.