

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

BRIEF OF INTERVENOR HENDERSON WATER UTILITY
IN SUPPORT OF PROPOSED ADJUSTMENT OF RATES AND TARIFF CHANGES

PRELIMINARY STATEMENT

On January 26, 2021, Henderson Water Utility (HWU) filed with the Commission a revised tariff sheet setting forth a proposed adjustment to its existing rates for wholesale water service to Henderson County Water District (Henderson County Water) and Beech Grove Water System (Beech Grove). HWU's current monthly wholesale water rates to Henderson County Water consists of a usage charge for the North System of \$3.0029 per 1,000 gallons and for the South System of \$2.6818 per 1,000 gallons. HWU's proposal increases the usage charge to Henderson County Water for the North System by \$0.50 per 1,000 gallons, or 16.65 percent, to \$3.5029 per 1,000 gallons and for the South System by \$0.5731 per 1,000 gallons, or 21.37 percent, to \$3.2549 per 1,000 gallons. HWU's current monthly wholesale water rate to Beech Grove consists of a usage charge of \$2.7470 per 1,000 gallons. HWU's proposal increases the usage charge to Beech Grove by \$0.6449 per 1,000 gallons, or 23.48 percent, to \$3.3919 per 1,000 gallons.

These rate increases were done in accordance with the agreements executed between HWU and Henderson County Water, and HWU and Beech Grove, respectively, all of which has been agreed to by each party to this action. The Commission filed the present action in February

2021 by its own action, without complaint of any of the parties hereto, or any of their represented constituents. The processes and procedures which resulted in the current rate increase request were done so in accordance with long standing contractual arrangements between all of the parties hereto, and were done openly and after audits by both HWU and Henderson County Water's accountants to verify the accuracy of the proposed increases.

The parties all agreed to the rates as they are by contract, the mechanism for their increase or decrease, as the case may be, and are just and reasonable, and are necessary to provide the quality of water which the parties all expect. The Commission should find the increases are appropriate, just and reasonable, and permit them to go into effect immediately.

1. What is the reason for the larger than usual increase in this year's request?

As stated in previous filings, along with the usual increased costs of supplies, labor and chemicals required to provide the high-quality water HWU provides to its customers, there have been significant increased electric costs at its South Water Treatment Plant which have increased the costs of running said plant. Since that plant's initial construction, HWU and Big Rivers Electric Cooperative (Big Rivers) had an agreement in which Big Rivers was supplying all of the water to the South Plant at no cost to HWU (or it's customers), and HWU provided Big Rivers up to 75,000 gallons of water per day, as well as waste water service. Big Rivers has a very large pump and influent line (84" line) which it utilized to cool its power plants along the Green River, and the volume of water HWU needed was easily set aside by Big Rivers and diverted to the South Water Treatment Facility. All of HWU's customers who utilize water from the South Plant benefited greatly from this agreement for many years (1995 to 2019). Then, in 2019, Big Rivers shut down

the Station Two power plant and notified HWU it would no longer need to run their massive water pumps, but they would continue to operate them at cost for HWU. As was previously discussed, these pumps are much larger than what is needed for HWU, but they are the pumps available and connected to our system. Because of their size, they require significant amounts of power, and that annual increase in power costs is the single largest increase in the South Plant's system. In 2019, the monthly electric costs for pumping the water went from \$0.00 to \$30,000.00 monthly, then to approximately \$43,000.00 a month in 2020, and again to \$61,000.00 per month in 2021. The costs of this monthly expense are expected to continue to rise at a similar growth rate. Plans are in the works for a new pump in the Green River away from the Big Rivers line which, once completed, will dramatically decrease the monthly expenses at the South Plant, and which will likely result in a decrease in the rate to both Henderson County Water and Beech Grove. But until that project is complete, it is necessary, just and reasonable, for all parties to the agreements to share in the increased costs of obtaining the water.

In addition to the higher than usual electricity costs, due to the conditions of the Green River the last two years, the costs of the chemicals to combat the river's conditions have increased by \$124,000.00 in those two years. This number fluctuates up and down, and will hopefully decrease in the near future, but this is something well outside of the control of HWU, and is again, a necessary, just, and reasonable cost increase.

2. Why do Henderson County Water District and Beech Grove Water System have different rates and factors with HWU?

The Commission seems conflicted by the fact that HWU has different rate mark ups with different wholesale customers – namely Henderson County Water District and Beech Grove Water System, but the answer to why that is the case is a rather simple one. Henderson County Water District has always had a 25% markup, and continues to have the same to this day. Beech Grove originally had a 30% mark up when the parties originally contracted, but in 2014, Beech Grove approached HWU about another option they had to provide them water. At that time, McLean County was putting together a county water commission, and were courting Beech Grove to utilize their system. HWU already had infrastructure, money, and time invested in the Beech Grove water system, and so in order to keep Beech Grove as a water customer, HWU had to negotiate a new contract with them, which provided for a better rate, as well as sewer service to Beech Grove. As a result of the negotiation, Beech Grove ended up with a markup of 15%, rather than the 30% they previously had, or the 25% of Henderson County Water.

The different “contract factors” and the overhead billing adjustments are also the result of said negotiations. Again, Henderson County Water has maintained has maintained a contractual relationship with HWU since 1966, a similar contract rate/structure since 1989, and to HWU’s knowledge, Henderson County Water has never had any particular issue with said structure and hasn’t filed any brief herein claiming any objection to the current agreement. Part of the negotiations with Beech Grove was regarding the factor being used. As previously stated, to keep Beech Grove as a customer, HWU had to negotiate a better deal with Beech Grove than the competitor was able to provide. This causes no harm to any of HWU’s other customers, as their cost sharing isn’t proportionate, it’s fixed in their contracts. Just because Beech Grove’s deal is better than Henderson County Water’s, doesn’t mean it’s costing Henderson County Water or

their customers any additional funds. The reduction to Beech Grove only costs HWU money, but that was a reduction HWU determined it could tolerate to keep Beech Grove as a customer.

It is worth repeating here, there has never been a claim that the rates and structures of the agreements between HWU and Henderson County Water and/or Beech Grove are not just and reasonable, and it is HWU's position they are and continue to be that, just and reasonable.

3. The adjustments go up and down depending on the variables each year.

The rates for both the North and South Plants vary each year. Accordingly, the rate adjustments increase and decrease proportionately with those changes. Though this year Beech Grove saw a 23.48% increase, in 2015 they had a 23.82% decrease; similarly Henderson County Water's change was an increase of 21.37% at the South plant this year, but in 2015 they saw a 27.12% decrease in their rates. In the last nine years, the rate for Beech Grove and Henderson County Water has increased six times, and has decreased 3 times, at the South Plant, and for Henderson County Water, it has increased five times and decreased four times in that same period of time. At no point during those significant decreases did anyone claim HWU's rate structures were not just and reasonable, and it seems to claim so now with a proportionate increase is improper. Again, the rates are as negotiated by the parties, modified as agreed to, and, as always, continue to be just and reasonable.

Further evidence of the increase being just and reasonable is Henderson County Water and Beech Grove's brief filed herein. In their brief at no point did they agree the current requested increase was unjust or unreasonable. They proposed an alternative payment plan to stretch out the time they have to repay the additional costs, but have acquiesced to the requested increase

of the current rate. HWU rejects the proposed payment plan as suggested, as it is against the parties' current agreements, and would be very difficult to calculate and incorporate over time.

4. HWU makes its best efforts towards efficiency and cost effectiveness.

HWU continuously makes its best efforts to keep the costs down, both for its customers and itself. As a municipally run and owned utility, HWU has a duty to operate and maintain its system in the most efficient and cost effective way possible. Throughout the terms of all of the contracts at issue before the Commission, HWU has made those best efforts to operate and maintain its system in a way to cost its City customers, and its wholesale customers fairly. HWU is under no statutory obligation to provide water to Henderson County Water or to Beech Grove, but does so because of their respective needs, HWU's prior investments, and HWU's capacity to permit said use within their two systems. HWU and Henderson County Water entered into agreements long ago which still control their relationship to this day, which have and which continue to work best for both entities. HWU and Beech Grove were forced to negotiate new terms to meet both entities needs, but did so in a way that permitted the relationship to exist positively for both sides, without losing the infrastructure and other costs already associated with their joint systems. Though the increases seen now are slightly higher than usual, through the efforts of HWU, the South Plant saw ZERO costs for raw water supply for over 20 years. That was not just for the benefit of HWU, the customers received that significant benefit as well for that entire period of time. Since that arrangement has ended, the cost sharing mechanisms built into the agreements for all entities have kicked in, so they can all continue to operate in a positive manner for the benefit of all.

CONCLUSION

HWU works tirelessly to provide quality water to both its city customers, as well as its wholesale customers. In doing so, it has negotiated fair, just and reasonable agreements with Henderson County Water District, as well as Beech Grove Water System. The differences between the two contracts are the result of healthy competition, and the lower rate to one customer has no effect on the rates or costs of the other. The costs that have created the circumstances are beyond the control of HWU, but must be borne by them regardless. All of the parties to this action were aware of this situation when they negotiated their latest rounds of rates and the mechanisms for determining the variations in said rates. Just because the rates are different, doesn't make them unfair, unjust, or unreasonable. HWU makes its best efforts to do all of this efficiently and cost effectively, and to undermine the existing, negotiated agreements between the parties, and fail to permit the proposed increases, will cause a real and lasting detriment to HWU's ability to effectively do its job of providing quality clean water to its customers.

Respectfully submitted,

/s/ Eric A. Shappell

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CERTIFICATE OF SERVICE

In accordance with 807 KAR 5:001, Section 8, I certify that Henderson Water Utility electronic filing of this Motion is a true and accurate copy of the same document being filed in paper medium; that the electronic filing was transmitted to the Public Service Commission on August 20, 2021; that there are currently no parties that the Public Service Commission has excused from participation by electronic means in this proceeding; and that within 30 days following the end of the state of emergency announced in Executive Order 2020-215 this Motion in paper medium will be delivered to the Public Service Commission.

/s/ Eric A. Shappell
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