



**PIONEER RURAL WATER
DISTRICT OF OCONEE AND
ANDERSON COUNTIES**

UPDATE TO THE POTENTIAL IMPACT OF THE
CONSTRUCTION AND OPERATION OF A LAKE
HARTWELL WATER TREATMENT PLANT TO THE
RATEPAYERS

Evaluation by the South Carolina Office of Regulatory Staff

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PIONEER RURAL WATER DISTRICT OF OCONEE AND ANDERSON COUNTIES

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I. Introduction

Pioneer Rural Water District (“Pioneer”) has approximately 7,000 customers located in southern Oconee County as well as northwestern Anderson County. The service area is bound to the east and south by Lake Hartwell and to the north by Highway 76. See Figure 1. To meet current water demands, Pioneer purchases supply water from the City of Westminster (“Westminster”) and Seneca Light and Water (“Seneca”) for distribution to its customers. Westminster’s treated water comes from the Chauga River. Seneca’s water is obtained from Lake Keowee.

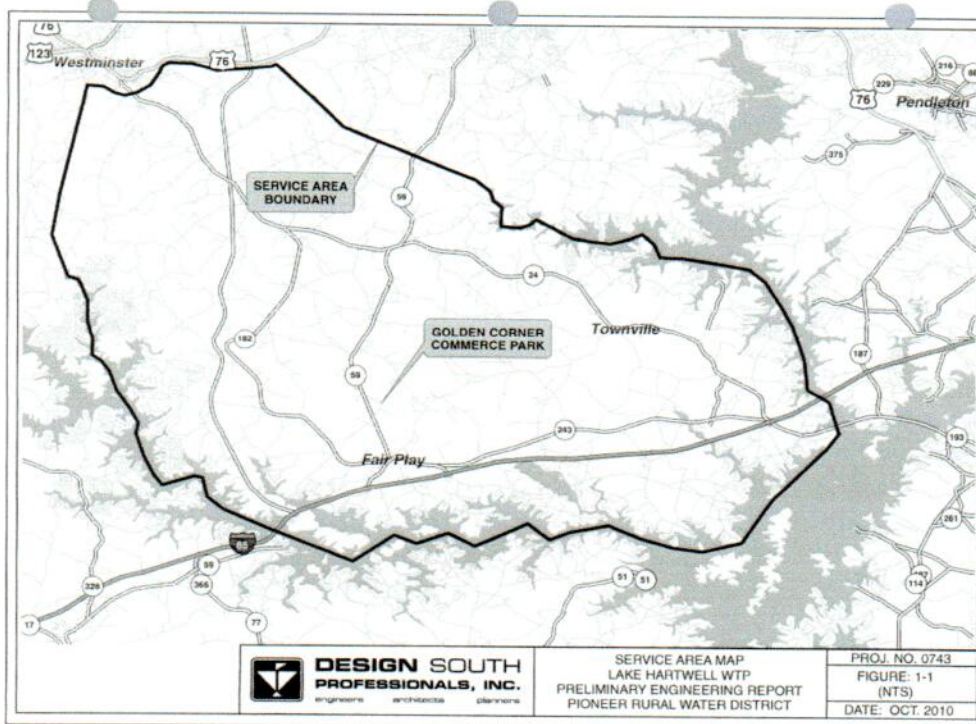


Figure 1

In an effort to meet future water demand and address the increasing cost of purchasing water, Pioneer requested an engineering study to analyze the feasibility and cost of constructing and operating a water treatment plant on Lake Hartwell.

On June 26, 2012, Governor Nikki Haley signed into law R322, H.4801. This bill requires that before the Pioneer Board makes an investment in a facility, or takes any other action that obligates the utility for \$1 million or more, it must provide for an independent audit by a certified public accountant or public accountant or firm where the accountant(s) have no personal interest in the fiscal affairs of the district or personal interest in an entity which may benefit financially from the transaction to be audited. The bill also provides for (1) how the audit must be conducted, (2) a meeting with the Pioneer’s customers about the audit’s findings, (3) submission of the audit to the Office of Regulatory Staff (“ORS”) for comment, and (4) schedules showing all rates, service rules and regulations, and forms of service contracts established by the board to be submitted to ORS by July 1 of each year.

This document is ORS’s evaluation or comment to the certified public accountant’s report received by ORS on December 9, 2016.

II. Review

The ORS reviewed the report prepared by Payne, White & Schmutz, CPA, PA (“Report”) to determine the potential impact to ratepayers of constructing and operating a Lake Hartwell Water Treatment Plant (“WTP”). Analytical information showed that over the ten (10) year period from 2007 through 2016, the demand for water has risen at an approximate rate of 0.17% per year. See Figure 2.

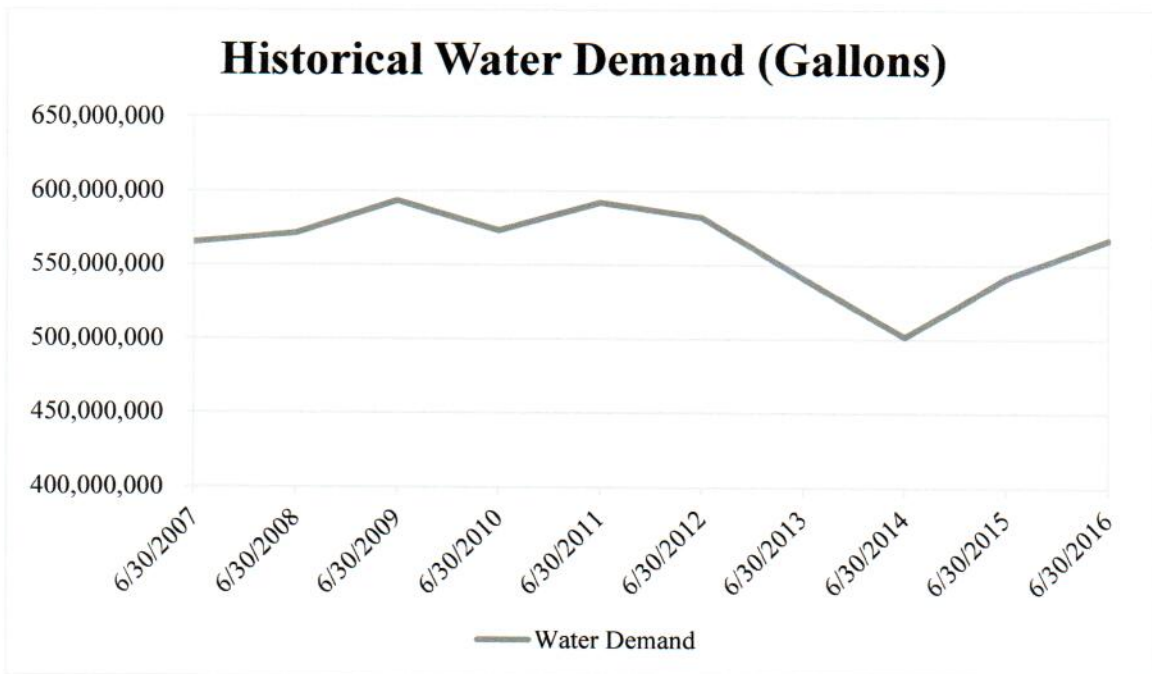


Figure 2

Over this same ten (10) year period, water billing revenues for Pioneer have risen from approximately \$2.8 million to \$3.9 million, or an average of 4.93% per year. See Figure 3.

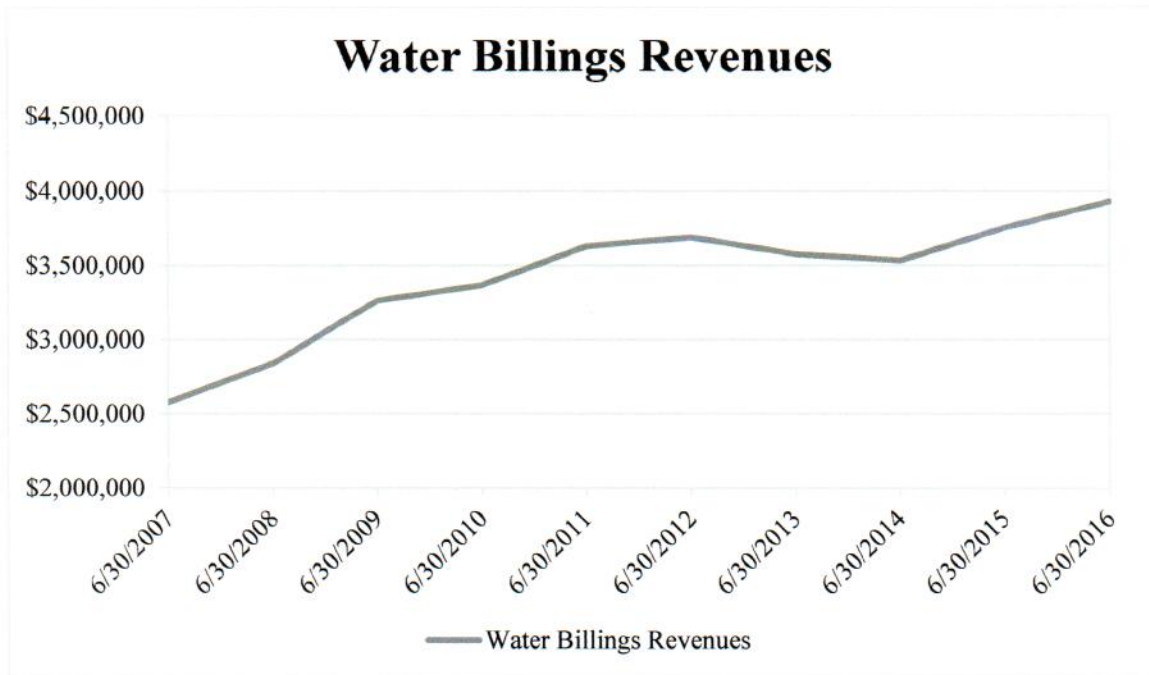


Figure 3

According to the Report, the cost to purchase water from the existing providers has risen an average of 4.55% per year over this ten (10) year period. The Report assumes that the service area population, water supply demand, and existing providers cost will continue increasing at the same rate in the future.

The Report calculates Pioneer’s current cost to buy wholesale water at \$1.83 per thousand gallons. The projected cost for the first year of the WTP operations and debt service payment will average approximately \$2.90 per thousand gallons. By comparison, if Pioneer were to continue to purchase water and implement the necessary supply system improvement option, the approximate cost of water will be \$3.27 per thousand gallons. The total estimated cost for the new WTP is \$27.6 million dollars with approximately \$6 million already completed for total costs of approximately \$21.6 million. The Report concludes that the construction and operation of a Lake Hartwell WTP would not add to the cost of supplying water to Pioneer ratepayers.

The ORS obtained updated information from the South Carolina Department of Health and Environmental Control (“DHEC”) on the current status of the project. According to DHEC, the preliminary engineering report (“PER”) submitted for the new WTP was amended. Approval of the amended PER was granted on March 14, 2013. A permit to construct was revised and approved by DHEC on December 10, 2015.

III. Summary

A review of the study found that the water demand over the past several years (since 2007) has stabilized. See Figure 2. This stabilization should be considered when analyzing the cost and size for the new WTP and the impact it would have on ratepayers. There are many factors that may be causing this slowdown in the use of water by the customers. These factors likely include the economy for the area being served, limited lake access, and/or Pioneer's limited service area.

Further, as shown in Figure 3 Water Billing Revenues have grown alongside the increased costs to purchase water over the same time period with Water Billings Revenue increasing by 4.93% per year and Water Costs increasing by 4.55% per year. It appears that most revenue increases are associated with increased water pass through costs versus an increase in customer driven consumption or growth.

Due to the aforementioned, an examination of this trend should be undertaken to determine if a different WTP size should be considered. As shown in Figure 1, the service area is restricted in size along with the geographical boundary of Lake Hartwell and its tributaries.

IV. Conclusion

The assumptions used in the Report reviewed by the ORS appear just and reasonable and within the range for a project of this nature. A thorough examination should be undertaken before contracts are signed to determine the appropriate size WTP. The Report's cost analysis methodology appears reasonable. In addition, the life cycle analysis for the alternatives considered were thoroughly presented and evaluated to formulate the conclusions.