



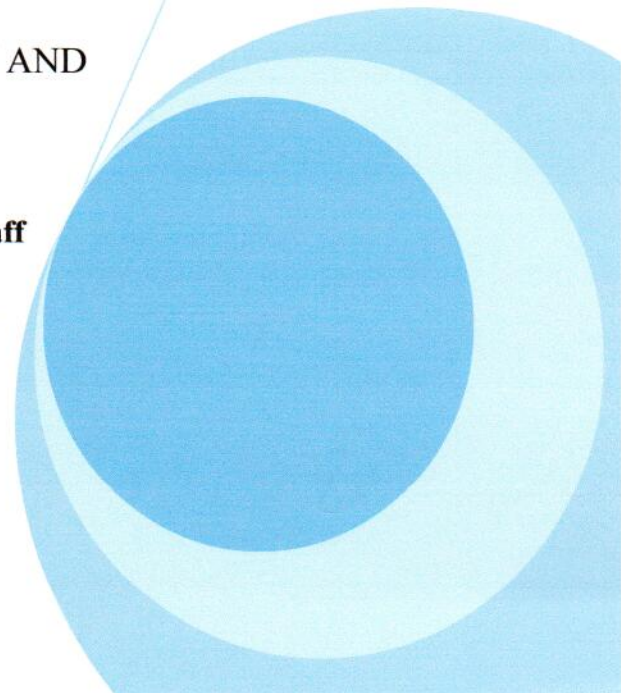
**PIONEER RURAL WATER
DISTRICT OF OCONEE AND
ANDERSON COUNTIES**

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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I. Introduction

Pioneer Rural Water District (“Pioneer”) has approximately 6,400 customers located in southern Oconee County as well as northwestern Anderson County. The service area is bound to the east and southern part 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.

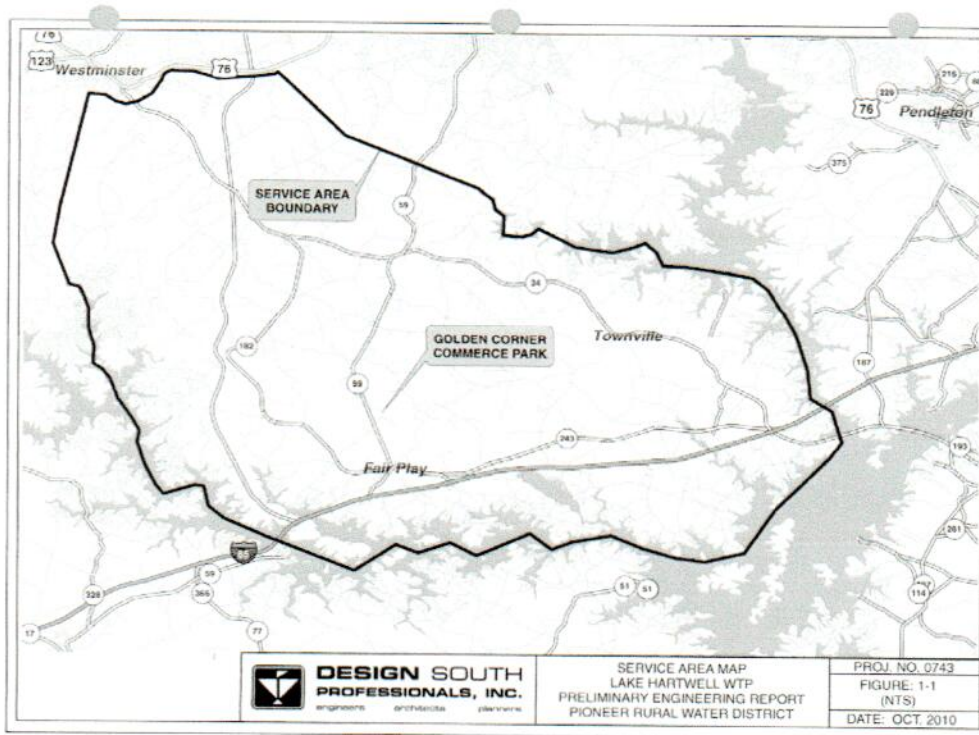


Figure 1

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 one million dollars or more, it must provide for an independent audit by a certified public accountant or public accountant or firm of these accountants who have no personal interest in the fiscal affairs of the district or in an entity which may benefit financially from the transaction to be audited. The bill also provides for how the audit must be conducted, a meeting with the Pioneer's customers about the audit's findings, submission of the audit to the Office of Regulatory Staff ("ORS") for comment, and that the board must provide to the ORS by July 1st of each year schedules showing all rates, service rules and regulations, and forms of service contracts established by the board.

This review evaluates the accountant's report on the potential impact of the construction and operation of a Lake Hartwell Water Treatment Plant ("WTP") to supply the water demands of Pioneer ratepayers.

II. Review

The ORS reviewed the report prepared by Byerley, Payne & White, CPA, PA to determine the potential impact of constructing and operating a Lake Hartwell WTP to the ratepayers. The analytical information showed that over the ten year period from 2003 through 2012, the demand for water has risen at an approximate rate of 1.9% per year. See Figure 2. In addition, 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 and amended. Approval of the amended PER was granted on March 14, 2013. DHEC is awaiting the submission of detailed plans and specifications for review before it can grant approval to construct.

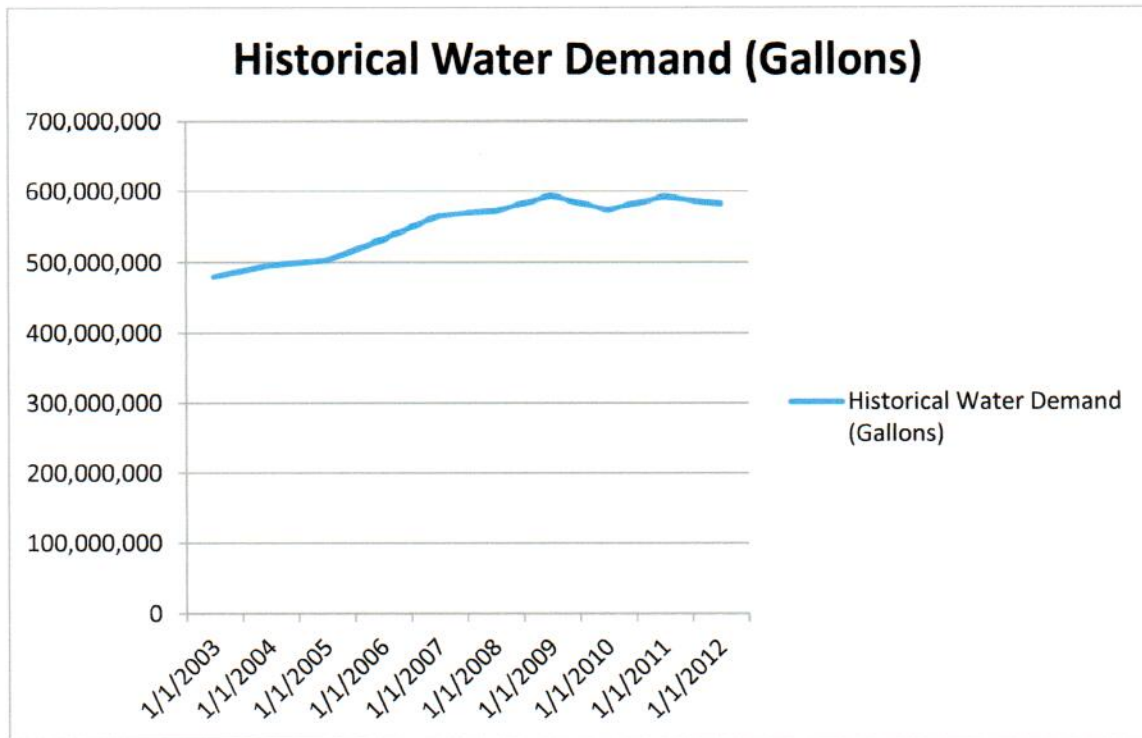


Figure 2

The cost to purchase water from the existing providers has risen approximately 4.5% per year. 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 \$1.75 per thousand gallons. The projected cost for the first year of the WTP operations and debt service payment will average approximately \$1.72 per thousand gallons. The total estimated cost for the new WTP is \$15 million dollars with \$12.9 million being spent on Phase 1 and \$2.1 million for Phase 2, respectively. 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.

III. Executive Summary

A review of the study found that the water demand over the past several years (since 2008) has stabilized. See Figure 2. This most recent trend should be considered when analyzing the cost and size for the new WTP and the impact it would have on the ratepayers. There are many factors that may be causing this slowdown in the use of water by the customers. These factors may involve the state of the economy for the area being served, limited lake access, and/or Pioneer’s limited service area. Before plans are finalized and construction contracts signed, an examination of this new 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. Further, shortly before Phase 2 is

initiated, Pioneer should complete another evaluation to determine the need for any expansion. The results from this evaluation should be used to decide whether to proceed with Phase 2 at that time.

It should be noted that the ORS's review found that a WTP would allow Pioneer to permanently have its own source of water supply. This would enable it to end the practice of being subject to rate increases to support expansion of other water utilities when the expansion program provides no or very little benefit to Pioneer's ratepayers.

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 during each phase before contracts are signed to determine the appropriate size WTP. The cost analysis methodology appears reasonable. In addition, the life cycle analysis for the alternatives considered were thoroughly presented and evaluated to formulate the conclusions. A new WTP may allow Pioneer to maintain reasonable rates for its customers and provide adequate water service while gaining greater control of the cost to provide water service.