BEFORE THE OFFICE OF ADMINISTRATIVE HEARINGS

STATE OF KANSAS

IN THE MATTER OF

THE APPLICATION OF THE CITIES OF)HAYS, KANSAS AND RUSSELL, KANSAS)FOR APPROVAL TO TRANSFER WATER)FROM EDWARDS COUNTY, KANSAS)PURSUANT TO THE KANSAS WATER)TRANSFER ACT.)

OAH NO. 23AG0003 AG

Pursuant to K.S.A. Chapter 77.

REBUTTAL TESTIMONY OF STEPHEN F. HAMILTON, Ph.D.

ON BEHALF OF

THE CITIES OF HAYS AND RUSSELL, KANSAS

1	Q.	Please state your name and present position.
2	А.	My name is Stephen F. Hamilton, Ph.D., Professor of Economics at California
3	Polytechnic State University, San Luis Obispo.	
4	Q.	On whose behalf are you submitting testimony?
5	А.	The City of Hays, Kansas and the City of Russell, Kansas (the "Cities").
6	Q.	Have you previously provided pre-filed testimony in this proceeding?
7	А.	Yes, I have. I submitted Direct Testimony on behalf of the Cities, which included
8	and incorpora	ted my written expert report (the "Hamilton Report") relating to the economic impact
9	to the State of Kansas of the proposed water transfer.	
10	Q.	What is the purpose of your rebuttal testimony?
11	А.	I will respond to portions of testimony submitted by Edward Harvey and his
12	associated rep	port (the "HE Report"), who testifies on behalf of Intervenors, the Water Protection
13	Association of Central Kansas and Edwards County, Kansas.	
14	Q.	Please provide a summary of your rebuttals to the methodology and
15	conclusions	contained within Mr. Harvey's pre-filed testimony and attachments to same.
16	А.	Certainly. Below are my point-by-point responses to Mr. Harvey's methodology
17	and opinions,	which are summarized on page 30 of the HE Report.
18 19	"13 .	The gpcd water demand projection method (population times gallons per capita per day or gpcd) is appropriate in this instance."
20	Rebut	ttal: My Report projects future water demand by growing a city's current water use
21	at the rate of	its projected population growth. ¹ Qualitatively, this is equivalent to the so-called
22	"demand proj	jection" method the HE Report endorses because a city's water use is the product of

¹ Hamilton Report **P** 97.

1 the city's water use per capita (i.e., GPCD) and its population. Future water demand is therefore 2 equal to a city's current GPCD multiplied by its future population.

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Quantitatively, the two reports use different values for (i) current GPCD; and (ii) population growth. For current GPCD, my Report is based on actual water consumption by water 5 use sector in each city for the period 2018-2020. In contrast, the HE Report uses aggregate water 6 consumption over the period 2008-2021 for Hays and does not utilize Russell's actual water use data in its calculation.² 7

8 Importantly, the values for GPCD are more conservative in my Report compared to the HE 9 Report (see bullet point 19 below for details).

10 For population, the HE Report relies on county-level population projections published by 11 the University of Kansas, while my Report uses population projections developed in each city's comprehensive plan.³ The values for population growth are higher in my Report compared to the 12 13 HE Report (see bullet point 20 below for details).

14 Table 1 below tabulates how using the assumptions in the HE Report would affect the 15 economic loss calculation in my Report. It considers three scenarios: (i) using only the current 16 GPCD assumption in the HE Report (which are higher than in my Report); (ii) using only the 17 population growth assumption in the HE Report (which are lower than in my Report); and (iii) 18 using both assumptions in the HE Report together. The latter scenario corresponds to replacing the 19 assumptions in my Report with the values for GPCD and population growth from the HE Report 20 in my model.

² HE Report at 27.

³ HE Report citing the Kansas Statistical Abstract at 14-17, 26-27.

	Average Loss Scenario ⁴	Adverse Scenario ⁵
Hamilton Report	\$42 Million	\$117 Million
Using HE Report Assumptions		
Only Current GPCD	\$114 Million	\$293 Million
Only Population Growth	\$10 Million	\$18 Million
Both Current GPCD & Population	\$20 Million	\$52 Million
Growth	\$30 MIIIIOII	\$32 WIIIIOII

²

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The values in Table 1 illustrate that even if I were to adopt the assumptions in the HE Report (which are unsupported), the qualitative conclusion in my Report remains the same. Absent the water transfer, future droughts put the Cities at risk of tens of millions of dollars in economic losses. The economic losses are larger when water conditions in the future mirror drier periods in the historic water record (e.g., the adverse scenario). Such periods of prolonged drought are projected to occur more frequently in the future.

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"14. The water demands projected by the Cities have been mischaracterized as equating to future water needs, which require that existing supplies be subtracted from future water demands."

Rebuttal: Conclusion 14 on page 30 of the HE Report is simply alluding to a different definition of "water needs." In the Master Order, "reasonable needs" may be more appropriately interpreted as the upper limit of likely future demand; whereas in the HE Report, they appear to be interpreted as excess demand, i.e., the demand remaining after netting out existing supply. My Report also nets existing water supplies from future water needs, so this comment has no bearing on my analysis.

18 More troublesome, however, is that application of the methodology proposed by the HE 19 Report would not improve the Cities' water problems; in fact, it would make their circumstances

⁴ See Hamilton Report at pp. 33-34.

⁵ See Hamilton Report at pp. 33-34.

even worse than they are now. The HE Report takes the Cities' conservation measures, which were
enacted *because* of their lack of drought-resistant water sources, and then caps the Cities' available
quantity based on GPCD values that are unheard of anywhere in the State of Kansas. The HE
Report then uses that number as the basis for setting a purported *maximum* quantity of water the
Cities should be permitted to divert.

6 Such analysis in the HE Report ignores the inevitable occurrence of serious drought and 7 the fact that municipalities require more water during drought than in times of normal precipitation. 8 As concluded by Dr. Layzell, there is ample evidence in the tree-ring fossil record of historical conditions "where drought conditions exceeded the severity of the 1930s and 1950s droughts."⁶ 9 10 And Dr. Basara concludes that the risk of a decadal drought striking the Smoky Hill Watershed region during the 2055–2099 time period exceeds 80%, and could occur at any time.⁷ In such an 11 event, the sustainable yield from Hays' *existing* sources would decrease to 840 acre-feet.⁸ And in 12 13 a 20-year drought, Hays would have just 480 acre-feet of water available per year-a quantity insufficient to support even basic needs of Hays' *current* population.⁹ This problem is exacerbated 14 15 by the unsupported population projection the HE Report applies to the Cities. (See also bullet point 16 20, below.)

Moreover, it is unclear, and the HE Report fails to address, why any municipality with a lack of access to drought-resistant water sources would go through the time and expense of acquiring new water supplies and navigating the regulatory hurdles of the Water Transfer Act if the end result of the process leaves the Cities in a worse situation than before initiating the

⁶ Hamilton Report ¶ 76.

⁷ Hamilton Report ¶ 115.

⁸ Hamilton Report ¶ 115.

⁹ Hamilton Report ¶ 119.

proceeding. That is particularly true in a case such as this in which the Cities purchased the R9
 Ranch water rights—real property rights—on the open market.

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"15. More project planning is required to determine the net future water needs to evaluate the need for this Project."

5 **Rebuttal:** The HE Report provides no basis, proposed methodology, or supported opinions 6 as to what "additional planning" "is required." The HE Report also ignores the fact that the Cities' 7 existing sources are inadequate to meet even their current demand even in the event of a 2- or 3-8 year "flash" drought as clearly demonstrated by the 2012–13 droughts which caused the Smoky 9 Hill River and Big Creek—the Cities' principal water resources—to run dry. And in the event of 10 a 5-year or longer drought, the Cities will face existential water-shortage crises—scenarios that 11 were clearly precipitating factors behind the Cities' Water Transfer Application, but that are 12 entirely ignored by the HE Report.

13 14 15

"16. The long term, minimal growth or declining population trends for Hays and Russell are not unique for western Kansas, and these trends are not solely attributable to a lack of water."

Rebuttal: The HE Report provides no real analysis to support this opinion. Instead, the
 HE Report includes a laundry list of factors that purportedly influence commercial and residential
 development,,¹⁰ without identifying whether any of these factors (other than a lack of water) are
 applicable to Hays or Russell.

HE's analysis of eight cities in western Kansas (Exhibit 3-4) suggests that water is important for economic growth in that region. Dodge City and Garden City—the only cities in Exhibit 3-4 with a similar population to Hays—have "become meat packing and agri-business centers, and also benefit from tourism,"¹¹ all of which require an abundant water supply. Moreover,

¹⁰ HE Report at 18.

¹¹ HE Report at 17.

1	the Dodge City and Garden City populations each grew at a rate of 1.1% over the period 1980-		
2	2020, which is larger than the 1% population growth projection used in my Report.		
3 4	"17. There is no justification for assuming that Hays and Russell will have the same growth rate going forward."		
5	Rebuttal: My Report does not make this assumption.		
6 7	"18. The two percent annual growth rate through 2040 which the Cities adopted for project planning purposes is excessive and unsupportable."		
8	<i>Rebuttal:</i> My Report does not make this assumption.		
9 10	"19. The gpcd assumptions which the Cities applied are flawed and unreliable."		
11	Rebuttal: This criticism does not apply to my Report. My Report uses the Cities' actual		
12	water use by sector to estimate GPCD. Moreover, the calculation of initial water use is more		
13	conservative in my Report than in the HE Report. Specifically, for Hays the initial water use is set		
14	at 1,792 acre-feet in my Report, compared to 2,009 acre-feet in the HE Report. ¹² For Russell, the		
15	initial water use is set at 974 acre-feet in my Report, compared to 1,078 acre-feet in the HE		
16	Report. ¹³ As shown in Table 1, using GPCD values from the HE Report would produce even larger		
17	economic losses than in my Report, which would make the water transfer more valuable to the		
18	State of Kansas.		
19	Furthermore, the Cities should not be punished for their previous conservation efforts.		
20	Doing so would disincentivize municipalities, irrigators, and other Kansas water users from ever		

¹² This is calculated using two pieces of information from the HE Report: (i) Hays' 2040 water demand is estimated at 2,136acre-feet; and (ii) Hays' 2040 population increases by about 6.3 percent from its 2021 population. HE Report at 26.

¹³ This is calculated using two pieces of information from the HE Report: (i) Russell's 2040 water demand is estimated at 1,090 acre-feet; and (ii) Russell's 2040 population increases by about 1.2 percent from its 2021 population. HE Report at 27.

voluntarily implementing measures that would cause their water use to decrease. The Cities should
 be rewarded, not punished, for their commendable conservation efforts.

3 4

"20. The Cities' individual water use and population data should have been used as the source for determining gpcd assumptions."

5 **Rebuttal:** The HE Report's attempt to conflate the reasonable needs limitation in the 6 Master Order with the statewide impacts of the Water Transfer reveals a fundamental 7 misunderstanding made by the HE Report relating to the nature and scope of this proceeding. The 8 reasonable needs limitation included in the Master Order constitutes a cap on the quantities 9 available to the Cities based on the upper limits of their likely population growth using an equitable 10 allocation of quantity of water in accordance with the water use of comparable communities in 11 Kansas. Notwithstanding that fact, my Report indeed uses the Cities' individual water use as the 12 sources for determining water demand as a highly conservative method of measuring and 13 comparing the statewide economic impacts of approving the water transfer with the statewide 14 economic impacts of denying the water transfer. See bullet point 19 above.

My Report also relies on population projections developed in each city's own comprehensive plan (1 percent for Hays and 0.25 percent for Russell). The HE Report instead relies on county-level population projection published by a third-party¹⁴ and assumes a growth rate of 0.34 percent for Hays and 0.06 percent for Russell.

19 The use of county population growth rates in the HE Report is unreliable. To see this, note 20 that the population growth in Hays has surpassed the population growth rate for Ellis County more 21 than twofold over the period 1980-2020 (see HE Report Exhibit 3-1): Ellis County population 22 grew at 0.26 percent vs. 0.65 percent for Hays over this period, and the Kansas Statistical Abstract

¹⁴ HE Report at 14-17, 26-27.

1 projects faster growth for Ellis County in the future. A growth rate of 0.34 percent for Hays is

2 therefore unreliable.

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The assumed population growth rates in my Report are justified based on a variety of

- 4 factors, including:
- 5 1) A city's comprehensive plan is built upon the unified vision of the 6 community. Development strategies formulated in the comprehensive plan, 7 including population projection, best reflect the city's unique socio-8 economic circumstances and the collective aspiration of its citizens.
- 9 2) Other cities in Western Kansas, which are similar to Hays in size but have 10 sufficient water supply, have managed to sustain population growth above 11 one percent. As noted in the HE Report, two cities with comparable 12 populations to Hays (Dodge City and Garden City) have managed to 13 achieve a growth rate of 1.09 percent over the period 1980-2020.¹⁵ Both 14 cities have had significantly higher water use than Hays.¹⁶
- 153)Hays is home to a major regional university, which provides an additional16source of population growth not available in either Garden City or Dodge17City.
- 18
 "21. The C

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. The Cities have robust conservation and drought emergency programs similar to many municipal programs throughout the western U.S."

20 *Rebuttal:* My Report acknowledges the commendable conservation efforts by the Cities 21 and also notes that there are limits to water conservation. Absent the water transfer, when the Cities 22 are forced to deal with insufficient water supply by restricting water use beyond what they have 23 already accomplished, achieving further reductions in water use per capita is more costly because 24 the most economical methods of conservation have already been exhausted.¹⁷ This is an effect

¹⁵ HE Report at Exhibit 3-4.

¹⁶ Over the period 2013-2017, average GPCD was 185 for Garden City and 134 for Dodge City, compared to just 84 for Hays. "Municipal Water Use in Kansas, 2017." *Kansas Department of Agriculture, Division of Water Resources*. .

¹⁷ Hamilton Report **P** 41.

1	known as "demand hardening" in the water economics literature, wherein past conservation efforts
2	make water demand less elastic (i.e., less able to respond to future droughts).

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"22. A re-calculation of future water demand for the Cities, however preliminary, indicates that net future water needs for the Cities will be much less than the Cities have indicated in their KWTA Application and supporting information."

7 **Rebuttal:** The unsupported assumptions underlying the water demand notwithstanding 8 (see responses to bullet points 13-14 and 19-20), the analysis in the HE Report completely ignores 9 variability in water supply due to droughts and the Cities' limited water supplies. Instead, it applies 10 a simplistic assumption of a constant "safe yield" for all future periods. This assumption is not 11 used in the water economics literature and is unreliable because water projects are designed for 12 storage and conjunctive use of surface and groundwater that respond to variations in rainfall 13 patterns over time. The assumption in the HE Report of constant water supply in every year of the 14 Cities future is clearly unrealistic and unsupported.

15 The HE Report cites a 2003 Burns and McDonnell report as the basis for Hays' yield from its existing water sources, which the HE Report refers to as the "safe yield."¹⁸ In contrast, I relied 16 17 on the more recent 2023 Burns & McDonnell report to discuss the Cities' wellfield yield based on 18 updated data derived from aquifer health index and monitoring tools developed and implemented 19 by Hays after the 2003 report utilized by the HE Report. The 2023 report I rely on in my Report 20 for water supply is drought-specific and incorporates updated water conditions (see Table 1 in my 21 Report). The 2003 report utilized by the HE Report also predates the Cities' drought experience in 22 2012–13, which revealed more than ever before how extremely vulnerable the Smoky Hill River 23 and Big Creek are to flash droughts. (See, e.g., Figure 2 on page 11 of my Report showing a dry

¹⁸ At 27 and footnote 32.

Big Creek riverbed in July 2012.) There is no valid justification for selecting the reported 2003
 "safe yield" for every year in the future when more current and accurate information is available.

The HE Report assumption amounts to a scenario in which the Cities experience no droughts in the future and receive exactly the historical average water supply every year. This assumption does not track with the real world, as evidenced by historic water records for the State of Kansas, a fact underscored in the Basara and Layzell Reports. It makes no sense to model a future without droughts as the basis for future water needs when evaluating a transfer application that is premised on resolving the Cities' drought-susceptible water supplies.

9 To see this, consider that minimum water needs for sanitation are roughly 1 gallon per 10 person per day. Suppose a person faces variable water supply conditions throughout the year of 11 0.5 gallon per day half the time and 2.5 gallons per day half the time. On average, the person has 12 1.5 gallons of water available per day, which is enough to meet basic sanitation needs. But in 13 reality, half of the time, basic sanitation needs would not be met. The HE Report essentially argues 14 that there is no economic loss in this instance based on the average outcome, which is not a valid 15 methodology.

Similarly, my Report shows that severe droughts, even if short-lived, can generate substantial economic losses to the State. As in the sanitation example above, losses in my Report do not occur every year and tend not to occur at all under average water supply conditions with the current population; however, this does not mean there is no economic loss over a 50-year period. Economic losses occur as the population grows and during drought periods, which are inevitable in Northwest Kansas. Variability in water supplies during wet periods and droughts cannot be ignored in reliable economic analyses.

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1 The HE Report recalculation also relies on outdated or otherwise incorrect wellfield yield 2 data. For Hays, the HE Report relies on a 2003 Burns & McDonnell report. Not only are the yield 3 numbers in the 2003 report outdated, the HE Report also ignores drought restrictions in the report 4 when considering yields from the Cities' existing sources under varying hydrological conditions. 5 Moreover, contrary to the claim in the HE Report that its analysis focuses on water supplies 6 available in dry years, 2003 was a year with average precipitation for Hays.¹⁹

7 For Russell, the HE Report assumes a safe yield of 1,840 acre-feet, which is based on notto-exceed limits set by the DWR,²⁰ but fails to recognize additional restrictions that limit maximum 8 9 withdrawals to 881 acre-feet from existing wellfields and 767 acre-feet from surface water rights (for a combined 1,648 acre-feet).²¹ More importantly, it ignores the fact that Russell's existing 10 sources will not reliably yield 1,648 acre-feet every year over time. For example, over the period 11 12 2012-2022, Russell has diverted no more than 1,250 acre-feet of water and as little as 783 acrefeet.²² My Report models Russell's water supply based on drought-contingent supplies analyzed 13 by Burns & McDonnell,²³ which is consistent with observed patterns of historical use. Specifically, 14 15 my Report considers annual supply of 1,648 acre-feet for Russell absent drought, 1,152 acre-feet 16 under moderate drought, and 789 acre-feet under exceptional drought, which reflects the fact that periodic droughts are part of the water future in the State of Kansas.²⁴ 17

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Taken together, the HE Report recalculation is uninformative and unreliable.

¹⁹ In 2003, Ellis County has 22.8 inch of precipitation. Hays' average precipitation is between 22-24 inches. "Monthly Precipitation Map." *Kansas State university*. https://climate.k-state.edu/precip/county/.

²⁰ HE Report at 28.

²¹ Hamilton Report **P** 30.

²² See, e.g., Water Use Reports for DWR File Nos. RS 008, 1,267, 1,861, and 17,586.

²³ Paul A. McCormick to David Traster and Daniel Buller. *Wellfield Yield for the City of Hays* (Mar 9, 2023).

²⁴ Hamilton Report n. 103.

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"23. Because of the R9 Ranch project costs, existing water customers in the two Cities will experience much higher water rates for the water they are presently consuming, yielding a cost to them without offsetting benefit."

5 **Rebuttal:** The HE Report provides no analysis whatsoever to support the claims that the 6 project would lead to higher water rates and fails to address offsetting benefits. There is no valid 7 basis for assuming that all (or any) of the costs relating to the water transfer project will be passed 8 through to the Cities' rate base. My understanding is that the City Manager for the City of Hays 9 recently testified in his deposition that it was his intent to develop and deliver the project to the City without raising rates at all.²⁵ Moreover, the "costs" identified by the HE Report are not 10 specific to transferring water from the R9 Ranch. Any water transfer project, regardless of the 11 12 source, will have costs associated with completing the regulatory, design, and construction projects 13 necessary to finalize the project. The R9 Ranch is the most economically feasible water supply 14 available to meet the Cities' long-term needs and will, unlike other alternatives, provide the Cities with a drought-resistant source of water.²⁶ 15

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"24. The R9 Ranch project represents a net cost, not a benefit, for the Cities and the State of Kansas." 17

18 Rebuttal: The conclusion that the R9 Ranch project represents a net cost, not a net benefit, 19 lacks both economic foundation and supporting analysis. First, it ignores the investments in water 20 infrastructure and the associated economic impact to the entire State of Kansas via supply chain 21 and employment effects, which my Report analyzes using IMPLAN models. The relevant inquiry 22 under the Water Transfer Act is whether the "benefits to the state for approving the transfer 23 outweigh the benefits to the state for not approving the transfer." K.S.A. 82a-1502(a). Unlike my

²⁵ See, e.g., Dep. of Toby Dougherty, 56:6–58:11.

²⁶ See Am. Transfer Appl. at 11 and supporting references.

Report, the HE Report does not even attempt to measure the statewide economic impacts of
 approving versus denying the proposed transfer.

Second, the HE Report ignores the benefits to the Cities—and the State—by increasing the economic value of the water through reallocation to urban use. In other words, the HE Report only focuses on purported (albeit unsubstantiated) detriments associated with the water transfer; The HE Report never attempts to measure the beneficial impacts of the water transfer. Weighing costs without accounting for offsetting benefits is not a valid methodology.

8 Third, using a standard economic model of water valuation, my Report shows that 9 approving the water transfer mitigates the risk of economic losses to the Cities from periodic water 10 shortages, providing a direct benefit to water users as well as indirect and induced benefits to the 11 State's economy through supply chain development to support industrial and commercial uses in 12 Kansas.

13 The HE Report is unreliable because it does not consider variable water availability to the 14 Cities. Using annual averages is not appropriate for valuing improvements to water systems, 15 because losses can be small (or even zero) under average hydrologic conditions, but at the same 16 time be large and positive when averaged over long periods of time. My Report considers the entire 17 economic loss distribution (i.e., losses over different draws from the hydrologic record), which is 18 how average losses are calculated in the water economics literature.

19Q.Has this direct testimony been prepared by you or under your direct20supervision?

A. Yes, it has.

22 Q. Does that conclude your testimony?

A. Yes, it does.

14

VERIFICATION

STATE OF _____)
COUNTY OF _____)

I Stephen F. Hamilton, Ph.D., being duly sworn, on oath state that I have read the foregoing and know the contents thereof, and that the facts set forth therein are true and correct to the best of my knowledge and belief.

By:_ Stephen F. Hamilton, Ph.D.

The foregoing was subscribed and sworn to before me this _____ day of ______, 2023.

Notary Public

My Commission Expires:

See Attached Form for Notary Certificate

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

A Notary Public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

	, <u>,</u>
State of California	}
County of <u>AN 1015 051570</u>)
$Dn \underbrace{JUNC27}_{Date} 1023$ before me, \sum	Here Insert Name of Officer, Notary Public,
Personally appeared <u>Stephin F.</u>	Hamilton
viame(s) of Signer(s)	
	,
	Who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.
DESTINEY VILLEGAS Commission # 2399495 Notary Public - California & g San Luis Obispo County My Comm. Expires APR. 3, 2026	I certify under PENALTY OF PERJURY under the laws of the Stat of California that the foregoing paragraph is true and correct. WITNESS my hand and official seal.
Place Notary Seal Above	- OPTIONAL
and could prevent fraudu	ilent removal and reattachment of this form to another document.
Description of Attached Document	
Title or Type of Document: Provide The State Sta	<u>Festimony OF Stopun F. Hamilton, P.H.D. on Behaverof</u> Souri Kansas Number of Pages: 15 (FNO tary Page)
Signer(s) Other Than Named Above:	
Capacity(ies) Claimed by Signer(s)	
Signer's name: Individual Corporate Officer — Title(s): Partner — ILimited IGeneral Attorney in fact Trustee Guardian or Conservator Other:	Signer's name:
Signer is Representing:	Signer is Representing: