COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ANALYSIS OF THE "LEAST COST PLANNING EVALUATION" SUBMITTED BY KENTUCKY-AMERICAN WATER COMPANY	)))	CASE NO. 9696

O R D E R

In Case No. 9283, Notice of Adjustment of The Rates of Kentucky-American Water Company ("Kentucky-American"), the Public Service Commission ("Commission") directed Kentucky-American to reevaluate its role in encouraging the efficient use of water resources and to evaluate the role of programs to reduce demand in the system-planning process. The purpose of the study was to evaluate the costs and benefits to the ratepayers of programs to encourage water conservation and to determine the value of incorporating programs to reduce demand into the system planning process.

The Order, issued October 1, 1985, required Kentucky-American to submit a plan detailing the process and schedule for this study within 90 days. The final report was to be filed with Kentucky-American's next rate case.

In response to a petition for rehearing filed by Kentucky-American on October 18, the Commission acknowledged the difficulty of linking the submission of the study with the submission of a general rate application. For this reason, the Commission modified its Order of October 1 to separate the schedule for the

study from the submission of a general rate application. Procedurally, the Commission decided to treat the project as an independent study with Commission participation. Kentucky-American employed a consulting firm, Economic and Engineering Services ("EES") of Bellevue, Washington, to conduct the evaluation.

On May 2, 1986, the Scope of Work for the Least Cost Planning Evaluation was accepted as final. The intervenors in Case No. 9283 were notified and encouraged to participate on an informal basis during the course of the study. On June 30, the intervenors in Case No. 9283 were sent copies of a flow chart that identified the programs being considered by Kentucky-American in the Least Cost Planning Evaluation.

Meetings were held on June 5, August 7, and September 3 with the Commission, representatives of Kentucky-American and EES, and Commission staff to discuss the progress on the Least Cost Planning Evaluation. Kentucky-American also integrated the evaluation with its long range capital investment plan.

During the course of this evaluation Kentucky-American submitted a draft of the Comprehensive Planning Study ("CPS"), its long term plan for capital investment, for review by the Commission. Kentucky-American also decided to combine the recommendations from the Evaluation and CPS into one document.

The Commission has established Case No. 9696 to analyze the initial findings and recommendations presented by EES. A hearing in this case was held on January 6, 1987. The Lexington-Fayette Urban County Government ("Urban County") and the Attorney

General's Office ("AG") intervened in this matter and participated in the hearing.

Witnesses for Kentucky-American prefiling testimony and appearing at the hearing were: Edward W. Limbach, President of Kentucky-American; Robert A. Edens, Vice President and General Manager of Kentucky-American; John S. Young, Jr., Director of Engineering Design for the System Engineering Office of American Water Works Service Company; and Gary S. Saleeba of EES.

The purpose of this case is to assist the Commission in finalizing its recommendations to Kentucky-American on implementation. The Company integrated the least cost planning concept with the traditional capital investment planning. As a result, the Least Cost Planning Study and the Comprehensive Planning Study were presented as one document. The Commission will consider only the Least Cost Planning Study in this Order. Any major capital expenditure must be considered in a Certificate of Convenience and Necessity case.

During the hearing Urban County asked questions about the projected water use of Toyota, the confidence level of demand projections, curtailment plans, rate schedules and rate design. The AG asked questions about the cost to implement the non-conventional options and the timing of future rate cases. The AG was also interested in Kentucky-American's efforts to encourage water recirculation by industrial customers such as Toyota.

In its Order of February 18 the Commission stated that the purpose of Case No. 9696 is to assist it in finalizing its recommendations to Kentucky-American on implementation. The

Commission commended Kentucky-American on its intent to file a 5-year education plan.

On March 19 representatives of Kentucky-American met with the Commission to discuss the 5-year education plan. Following a review of the scope of work and the discussion the Commission finds that the majority of the proposal is cost effective and in the public interest. The Commission recommends that those portions of the plan related to the xeriscape landscape concept be deleted from the 5-year plan. This portion of the proposal does not appear to be feasible for the Urban County nor cost effective.

The depth of the plan indicates a favorable change in Kentucky-American's attitude toward public education. With the exception of xeriscape, the Commission accepts the 5-year plan for public education.

In its Order of February 18 the Commission asked Kentucky-American to submit a proposal for the pilot project concerning retrofit devices. The proposal was to include a scope of work, an estimate of the costs and a timetable for conducting the pilot project.

In response to the Commission's request, Kentucky-American filed a proposal for the pilot project and four scenarios assuming different penetration rates. After a review of the information and additional cost/benefit analysis, the Commission finds that a pilot project to determine the impact of retrofit devices is not cost effective. The Commission finds that the information on the four scenarios was helpful in determining that the pilot project was not cost effective.

Summary

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. Kentucky-American has complied with the Order in Case No. 9696, dated February 18, 1987, by submission of a 5-year education plan and of a proposal for a pilot project on the effectiveness of retrofit devices.

2. With the exception of the xeriscape program, the Commission accepts the 5-year education plan as a cost effective method of encouraging the efficient use of water resources.

3. Based on the four scenarios of implementation of a retrofit program, neither the pilot project nor the implementation of a retrofit program is a cost effective method of encouraging the efficient use of water resources.

IT IS THEREFORE ORDERED that:

1. Kentucky-American shall implement the public education program with the deletion of the xeriscape program.

2. Kentucky-American shall consider non-conventional methods to meet increased water demands in the future.

Done at Frankfort, Kentucky, this 28th day of April, 1987.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director