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David L. Armstrong
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James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

August 16, 2010

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Lexington, Kentucky 40507

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Lexington, Kentucky 40507-1801

A.W. Turner, Esq.
Kentucky-American Water Company
2300 Richmond Road
Lexington, Kentucky 40502

Iris G. Skidmore, Esq.
415 West Main Street, Suite 2
Frankfort, Kentucky 40601

Re: Case No. 2010-00036
Kentucky-American Water Company

Ladies and Gentlemen:

The enclosed memorandum has been filed in the record of the above-referenced case. Any comments regarding this memorandum's contents should be submitted to the Commission within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Gerald Wuetcher, Attorney/Executive Advisor, at (502) 564-3940, Extension 259.

Sincerely,

Jeff Derouen
Executive Director

gw
Enclosure
cc: Parties of Record

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2010-00036

FROM: Gerald Wuetcher **GEW**
Executive Advisor

DATE: August 16, 2010

RE: Public Hearing of July 28, 2010

On July 28, 2010, the Commission held a hearing at Norsworthy Auditorium, 701 E. Main Street, Lexington, Kentucky, to take public comment on Kentucky-American Water Company's ("KAWC") proposed rate adjustment. All Commissioners were present. At the request of Chairman David Armstrong, Vice Chairman James Gardner presided.

Commissioner Gardner called the hearing to order at 6:01 p.m. He recognized Commission Staff members and counsel for the parties who were present. (A listing of all members of the public present at the hearing is set forth in Attachment 1.) He set forth the purpose for the hearing and the procedure that would be followed.

At 6:08 p.m. Commissioner Gardner recognized Mayor James Newberry. Mayor Newberry spoke in opposition to the proposed adjustment. He noted that, while KAWC is entitled to recoup its investment on its Kentucky River Station II plant, the proposed adjustment is excessive. He noted that his office had launched the "Just Too Much" Petition Drive to collect signatures of customers opposed to the proposed adjustment. He noted that several thousand signatures had already been collected and requested that Lexington-Fayette Urban County Government be permitted to file these petitions at the scheduled evidentiary hearing. Commissioner Gardner agreed. Mayor Newberry stated that the proposed adjustment, in addition to being unreasonable and excessive, would create an undue hardship on ratepayers and should be significantly reduced.

At 6:15 p.m. Vice Mayor Jim Gray spoke in opposition to the proposed adjustment. He stated that KAWC, by choosing to construct the Kentucky River Station II plant, had made a poor decision. He further stated that KAWC misrepresented the project when it was being considered, failed to consider other, more economically viable and less costly alternatives, and now seeks to impose the full cost of its decision on Lexington's residents. He stated that KAWC should bear the full cost of this decision and that no increase in KAWC's rates should be permitted. (A copy of Vice Mayor Gray's statement is attached as Attachment 2.)

At 6:22 Mr. Troy Lacefield stated his opposition to the proposed adjustment. He stated that the proposed increase is the result of the construction of an unneeded water treatment plant. He urged the Commission to reject the proposed increase.

At 6:24 p.m. Mr. Paul A. Cook, on behalf of AARP Chapter 345, read an open letter to KAWC and the Kentucky Public Service Commission. (A copy of this letter is attached as Attachment 3.)

At 6:28 p.m. Mr. Don Pratt spoke in opposition to the proposed rate adjustment. He stated that the proposed rate adjustment is the result of the approval of the construction of Kentucky River Station II. He further stated that the water treatment plant was not needed and that KAWC had misrepresented the need for the plant.

At 6:31 p.m. Mr. Alan Lynch spoke in opposition to the proposed rate adjustment. He stated that the proposed rate adjustment is due to the Commission's acceptance of KAWC's proposed sale of water to Toyota Motor Manufacturing's Georgetown automobile plant in 1986. As a result of supplying this customer, KAWC's excess capacity was depleted and the need for a new water treatment plant created. He stated that the cost of the water treatment plant should be allocated primarily to Toyota Motor Manufacturing. He also requested changes to the proposed meter charge and suggested that all bills should be based solely on the quantity of water consumed as a means of encouraging conservation.

As no other speakers appeared, Commissioner Gardner closed the hearing at 6:33 p.m.

cc: Parties of Record

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PUBLIC MEETING - SIGN-IN SHEET
Kentucky-American Water Co. – Case No. 2010-00036
Lexington – July 28, 2010

PLEASE PRINT LEGIBLY

Name	Address	DO YOU WISH TO SPEAK?
1 <u>A.W. Turner Jr.</u>	<u>KAW</u>	YES <u>NO</u>
2 <u>Louisa Mason</u>	<u>3369 Hibernia Park, Lex.</u>	YES <u>NO</u>
3 <u>Donna Barts</u>	<u>1144 Wyndham Hills Dr Lex</u>	YES <u>NO</u>
4 <u>Patricia Lee</u>	<u>111 Charlotte Ave G-Town, KY</u>	YES <u>NO</u>
5 <u>Doug Brock</u>	<u>1033 Cedar Ridge Ln Versailles</u>	YES <u>NO</u>
6 <u>Deborah Sparks</u>	<u>513 Park Ave, Lex</u>	YES <u>NO</u>
7 <u>Lucas Conley</u>	<u>486 Plymouth Dr</u>	YES <u>NO</u>
8 <u>John D. Davis</u>	<u>3113 Hemingway Lane Lex. KY 40513</u>	YES <u>NO</u>
9 <u>Deb Degillio</u>	<u>3285 Sebastian Ln Lex 40513</u>	YES <u>NO</u>
10 <u>Jim Jordan</u>	<u>717 Rosslyn Oaks Lex 40514</u>	YES <u>NO</u>

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Name	Address	DO YOU WISH TO SPEAK?
1 Pam Buelher	3645 Deer Park Ct Lex	YES <input checked="" type="radio"/> NO
2 Kurtis Stravel	605 Clover Meadows	YES <input checked="" type="radio"/> NO
3 Glenna Reed	719 Spring Meadow 40504	YES <input checked="" type="radio"/> NO
4 Jamie Thomas	1651 Maywick View Lane ^{APT 17}	YES <input checked="" type="radio"/> NO
5 Lindsey Ingran	2204 Silktree Ct Lex 40513	YES <input checked="" type="radio"/> NO
6 MICHAEL GILMAN	3601 PROXYMERE CIR LEX 40509	YES <input checked="" type="radio"/> NO
7 Takista Walker	1208 WYNDHAM FOREST CIRCLE 40514	YES <input checked="" type="radio"/> NO
8 LANCE WILLIAMS	670 GINGERMILL LANE LEX 40509	YES <input checked="" type="radio"/> NO
9 Jim Gray	216 Market St, Lex 40507	<input checked="" type="radio"/> YES <input checked="" type="radio"/> NO
10 Gine Money	333 Lakeshore Dr, Lex 40502	YES <input checked="" type="radio"/> NO

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Name	Address	DO YOU WISH TO SPEAK?
1 Dale Emmons	101 Karla Drive Richmond, Ky	YES <input checked="" type="radio"/> NO
2 Paul Cook	2864 2864 MAJESTIC VIEW WALK Lex	YES <input checked="" type="radio"/> NO
3 Cheryl Cook	2864 Majestic View Walk, Lex 011	YES <input checked="" type="radio"/> NO
4 Keith Carter	KAW Richmond Rd. Lexington	YES <input checked="" type="radio"/> NO
5 Kevin Kuchinski	KAW Lexington	YES <input checked="" type="radio"/> NO
6 SAMANTHA VILLEGAS	AMERICAN WATER LEX	YES <input checked="" type="radio"/> NO
7 TONY LACEFIELD	210 Walton Ave Lex	YES <input checked="" type="radio"/> NO
8 Cheryl Taylor	2560 Sungale Ct Lex Ky	YES <input checked="" type="radio"/> NO
9 HUDSON DIBBLE		YES <input checked="" type="radio"/> NO
10 Mitzi Combs	2300 Richmond Rd Lex Ky	YES <input checked="" type="radio"/> NO

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Name	Address	DO YOU WISH TO SPEAK?	
1	Dennis Howard Attorney General's Office	YES	NO
2	Jim Newberry	YES	NO
3	Peter Yuan	YES	NO
4	John-Mark Hark Ky America Water	YES	NO
5	Nick Rowe Ky American Waters	YES	NO
6	Gerald Reynolds	YES	NO
7	Dillard Griffin Ky Am H ₂ O Co	YES	NO
8	Tom Joyce Lex	YES	NO
9	Shaye Robold Lexington	YES	NO
10	Susan Sanchez Ky. Am. Water	YES	NO

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Name	Address	DO YOU WISH TO SPEAK?
1. Sharon Price	3784 Ridge View Way 40509	YES <input checked="" type="radio"/> NO
2. Jack Bruce	POB 11610 Lexington 40511	YES <input checked="" type="radio"/> NO
3. Jim McWilliams ^{McWilliams}	Frankfort 40601	YES NO Maybe
4. Jay Dennis	569 Bellcastle Hwy, 1 40505	YES <input checked="" type="radio"/> NO
5. Holly Conte	3311 Cove Lake Dr, Apt 623 40515	YES <input checked="" type="radio"/> NO
6. Lance Blanford	183 S. Eagle Creek Dr 40515	YES <input checked="" type="radio"/> NO
7. Roy Woods	1169 Winburn Dr 40671	YES <input checked="" type="radio"/> NO
8. Jamie Luche	100 Midland Ave. Lexington 40508	YES <input checked="" type="radio"/> NO
9.		YES NO
10.		YES NO

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PUBLIC MEETING - SIGN-IN SHEET
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Lexington – July 28, 2010

PLEASE PRINT LEGIBLY

Name	Address	DO YOU WISH TO SPEAK?	
1 DAN KISER	658 GINGERHILL 40507	YES	<input checked="" type="radio"/> NO
2 Catrens Lewis	3800	YES	<input checked="" type="radio"/> NO
3 Patricia Shobe		YES	NO
4 Linda Broadbent	2901 Tabor Oaks Ln, Lex 40502	YES	<input checked="" type="radio"/> NO
5 Rachel Cole		YES	<input checked="" type="radio"/> NO
6 Don Pratt	216 WAGON LEX 40502	<input checked="" type="radio"/> YES	NO
7 Tom Ogden	2521 Southview Dr Lex	YES	<input checked="" type="radio"/> NO
8		YES	NO
9		YES	NO
10		YES	NO

PUBLIC MEETING - SIGN-IN SHEET
Kentucky-American Water Co. – Case No. 2010-00036
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PLEASE PRINT LEGIBLY

Name	Address	DO YOU WISH TO SPEAK?	
1	Alan Lynch 629 N. Limestone	<input checked="" type="radio"/> YES	NO
2		YES	NO
3		YES	NO
4		YES	NO
5		YES	NO
6		YES	NO
7		YES	NO
8		YES	NO
9		YES	NO
10		YES	NO

Remarks to Kentucky PSC

Thank you for holding this public hearing to allow the citizens of Lexington to appear before you tonight.

My name is Jim Gray, I am a citizen of Lexington, a business owner and employer, and Vice-Mayor of the Lexington Fayette Urban County Government. I am here tonight to urge you to carefully consider the issue of a rate increase and appeal to you that any increase in water rates is a loss for Lexington.

Why?

Our citizens should not be forced to pay for a project which was advertised, promoted, and encouraged as something it is not.

This \$160 million project was sold to us with the promise that it would be a regional solution. But no other cities or counties are co-investing or buying-in. The burden of this rate increase will not be shared by others, but instead is on your back, my back and the back of every Lexington citizen. That is not right.

I understand what it takes to be in business, and as a businessman, I have to make business decisions. If my company makes a bad decision, I have to pay for it. The facts are clear, Kentucky American made a bad business decision. They should have to pay for it. This is not Lexington's bill.

Instead of shared costs Lexington citizens are being asked to bear the full cost; a 37% rate hike is coming on the heels of an 18% rate hike last year. We find ourselves in the middle of huge rate increases because Kentucky American pushed to produce water for which there is no market.

Let me say that again: I am here today to advocate for our citizens, to ensure that we will not pay huge rate increases because Kentucky American pushed to produce water for which they have no market. I fought for the citizens, and pushed for the proper examination of demands and costs before the project was cast in concrete. When I asked to examine these very basic business issues, I was told no, it's a done deal. Let it go. Full throttle ahead.

So just where is the industrial demand today in Fayette County? Anyone familiar with these issues knows industrial demand is what drives water consumption. Why would we increase and "inventory" capacity when all across the country, even as close to us as Louisville, industrial demand and consumption are declining, conservation is the key strategy, and Louisville itself is trying hard to sell excess capacity. They overbuilt. And Lexington, no Kentucky American, is now doing the same thing.

As Commissioners, you know this new plant is what is called a peaking plant. Lexington did not need this plant and pipeline - we aren't using this facility today, why should we be forced to pay for it? There is no market for this water. With this and other rate hikes, we will pay for a plant that is and will continue to be grossly underutilized. It is being built on the backs of Lexington's citizens.

I have to wonder, as a businessman, and as an elected official representing all the citizens and not just special interests, was this really about providing water to the ordinary citizens and the industrial market, or was it about a massive new investment that would result in a guaranteed profit to Kentucky American? In fact, wasn't it really about keeping Louisville Water Company out of Kentucky American's backyard and discouraging competition?

Just how many millions of dollars will Kentucky American make off this decision?

As a businessman who has built hundreds of manufacturing plants across this region, Kentucky, and the Country, I question whether these massive costs should have been incurred at all! We are in the toughest economic times of my lifetime, and I have been through three recessions, this is the fourth. I know hard times. These are hard times. And now, our citizens face another extraordinary rate hike, which could have been prevented.

With all due respect, Commissioners, please do not allow Kentucky American to receive a bailout at the expense of our citizens.



July 27, 2010

To: Kentucky American Water Company and the Kentucky Public Service Commission

From: AARP Lexington Chapter 345 Members

Subject: Comments on the proposed water rate increase.

This letter is written on behalf of the enclosed signatures of AARP Chapter 345 members as well as many of the other 500,000 AARP members in the state of Kentucky.

The proposed 37% rate increase for residential customers is unaffordable for senior citizens even if the PSC negotiated value becomes 20%. These year to year double digit increases for water, gas, and electricity make it more difficult for us to stay in our own homes every year. As Kentucky's population ages an increased number of us have lower incomes that are fixed by pensions and social security, so ballooning utility rates affect us more than people with higher income.

Classically, higher-end users of a utility get lower rates than small users. This does not encourage conservation of resources, and utilities are encouraged to expand production which adds to the cost for the small user. Therefore we propose a sliding rate scale that requires high-end users to pay more than low-end users. This should be based on usage rates as well as ability to pay so that low income, low quantity users are better protected.

Respectfully Submitted by the following AARP Chapter 345 Members:
Contact: Paul Cook 859 797-4736 Legislative Committee Chairman

Elsie Jasper	Robert Koegel	Paul A. Cook
Mari Boynton	John H. Ewing	
Martha Shaw	Lillian Hentry	
Betty M. Slater	Greg Frost	
Margaret M. Long	James H. Wilkerson	
Stella Green	Lawrence Williams	
Ethel Hanna	Mary Gullett	
Dorothy Molony	Gloria J. Griffith	
Cheryl Cook	(Retired)	
Robert Boynton	Prudence D. Swartz	
Ann Riddle	Robert Marking	