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PUBLIC SERVICE
COMMISSION

Kentucky Public Service Commission
Sower Blvd.
Frankfort, KY 40601

Dear Commissioners,

I am writing in regards to Kentucky American Water Company's (KAW) proposal to build a water treatment plant at Pool 3 of the Kentucky River and an associated pipeline from there to Fayette County. I have previously offered verbal public comments at three public hearings organized by the PSC. I am opposed to KAW's proposal and urge you to deny approval to this project.

I understand that KAW has been under an order from the PSC to develop a solution to its short and long-term water supply deficits and that the Pool 3 proposal was developed in response to this order. This proposal does not meet the needs of the residents of Central Kentucky in the most cost-effective nor socially responsible manner. This project would be excessively costly to the ratepayers and residents of Central Kentucky and would require a wasteful and unnecessary duplication of facilities.

This project presents unacceptable financial risks to all KAW ratepayers and wholesale customers. The *Water System Regionalization Feasibility Study* of 2004 prepared by the Bluegrass Water Supply Consortium has been presented as the primary justification for the selection of the Pool 3 option for meeting Central Kentucky's water needs. This report explains in detail the process that led to the selection of Pool 3 as the preferred option, among 40 alternatives. A significant difference between the project proposed by KAW in this case and the preferred alternative identified in the 2004 study is that KAW's proposal only covers half of the project. The 2004 study clearly describes the Pool 3 option as a two phase project. Phase I involved the water treatment plant at Pool 3 and a 31 mile pipeline to Fayette County. Phase II entailed a pipeline from Pool 3 north to the Ohio River in Carrollton, which would transport raw water from the Ohio River to Pool 3 for treatment.

The 2004 study states, "*It was apparent that Pool No. 3 could not be relied upon to satisfy the target supply of 45 mgd in 2020*, even considering the proposed water credits. However, KDOW estimated that the drought events occurred so infrequently that the target supply would be available for a large majority of the time. *The Pool 3 alternative was therefore modified to include supplemental flow from the Ohio River to offset any shortfalls associated with permitted withdrawals from the Kentucky River*" (page 21, emphasis added).

The proposal before the PSC, addressing only Phase I of this project, (1) does not meet the instructions KAW has from the PSC to provide a long-term solution to the utility's water supply deficit; (2) does not address the full costs for the project, because only Phase I is described in the proposal; and (3) therefore presents unreasonable financial risks to KAW's customers, because the full costs of the project are unaccounted

for. The costs of Phase II will be substantial. The 2004 study estimates that Phase II will cost \$100 million.

I do not understand how the PSC could even evaluate the cost of KAW's proposal to its ratepayers and assess its reasonableness, because the costs are unknown. How can you calculate the effect on rates if you don't know the cost of the project? How can you say that this project is more cost-effective than another alternative, if the second phase of the project is undisclosed and its costs a mystery?

This is why this project represents an unacceptable financial risk to KAW's customers. The 2004 study is one of numerous sources which state that the Kentucky River is a limited water resource and threatens to fall short of meeting the region's water needs during times of severe drought. The Pool 3 project (Phase I from the 2004 study), does not provide long-term drought protection for KAW's customers nor the region. This is clear and generally accepted. A second phase will be required. Even if it's not a \$100 million pipeline to Carrolton, an additional major investment will be required. Perhaps it will involve improvements to infrastructure along the Kentucky River. Perhaps a pipeline to Louisville. Who knows? How can the PSC grant approval to this project without knowing?

The second element of risk involves the quality and quantity of the water supply at Pool 3. As I have noted, Pool 3 does not provide long-term drought protection to the region. As early as 2020 – within 10 years of completing Phase I – KAW's customers will again be at risk of water shortages should a severe drought occur. Dependence on a single water source also presents risks should the Kentucky River ever become contaminated, through a chemical spill or other event.

The shortcomings of KAW's proposal are especially glaring because there is a viable alternative on the table. If there were no alternative, we might just have to accept all the risks inherent in KAW's plan, but this is not the case. The Louisville Water Company (LWC) has presented an alternative proposal which is superior to KAW's and represents a better option for KAW's customers and the people of Central Kentucky.

The LWC's proposal presents much less risk to the region's water users, while providing a much larger water supply. While KAW's proposal will require two phases, likely spread out over a decade or more, at a very large yet undefined cost, LWC's proposal would satisfy the region's long-term water needs in one step. The LWC has clearly presented the full costs of its proposal, including the rates it would charge its wholesale customers and the method for calculating future rate increases. These costs would provide for the region's long-term water needs, including protection from severe droughts, as soon as the project is complete. There would be no need to build a Phase II in ten years, as with the KAW plan. The LWC option provides a back-up water source, protecting water users in case the Kentucky River should ever become contaminated or otherwise interrupted.

It's interesting to note that the 2004 study, while it selected the Pool 3 option, actually identified a pipeline to the LWC as the least-cost alternative. The LWC option was cheaper in 2004, and today the LWC's connection point is even closer to Lexington than it was three years ago.

Why would the PSC approve a proposal which has all the risks I have described, while requiring an unnecessary duplication of facilities? The LWC presently has more treated water capacity than Central Kentucky's projected supply deficit. All that's needed

is to deliver that water to Central Kentucky via a pipeline. KAW's proposal, on the other hand, requires a costly new treatment plant (duplicating the facilities LWC already has in operation). LWC's proposal would utilize an existing infrastructure corridor (Interstate 64) while KAW would create a new utility corridor through rural Franklin and Scott Counties. This new corridor is likely to bring a host of incidental (but not inconsequential) costs to the communities and local governments all along the KAW pipeline route. If new subdivisions and other development spring up along the pipeline route, what will be the cost to local governments of providing additional public services?

I have heard it said that KAW's proposal has the advantage because their project is more developed and they expect to begin construction as soon as they receive PSC approval. They claim that they can be finished in time for the 2010 Equestrian Games. I would question this claim because there are hundreds of residents along the pipeline route who are determined to stop this project. KAW has not yet received the easements needed to begin construction and local residents are loathe to sacrifice their land, risk the loss of springs, and suffer damage to their farms and woodlands, for the sake of this ill-conceived and unnecessary project.

I understand that the PSC is not considering impacts on the environment or community as it weighs this decision. However, I do believe the implementability of this project is relevant to your decision. Local citizens organized under the banner of Citizens for Alternative Water Solutions have effectively organized their communities in opposition to this pipeline. In Franklin County, for example, the Fiscal Court, Mayor Bill May, and the Frankfort Electric and Water Plant Board have taken public stands against the KAW project. Many citizens have written to the PSC or spoken at public hearings to ask the Commissioners to deny KAW's request to implement this project. In the event that the PSC grants their approval to this project, I would expect Citizens for Alternative Water Solutions to continue our efforts to stop the project, and many residents to fight efforts to condemn their land.

It is ironic that "implementability" was one of the factors that led the 2004 study to reject the LWC option in favor of the Pool 3 option. My understanding is that this goes back to KAW's efforts in the late 1990's to build a pipeline to Louisville and the citizen opposition which developed to oppose that proposal. A major difference between that earlier proposal and the LWC's current proposal is that their current plan would have their pipeline follow I-64 all the way from Shelbyville to Fayette County, while KAW's proposal from the 1990's brought that pipeline through the middle of private horse farms in Woodford County. Those landowners understandably objected to that proposal. The LWC's present proposal, by contrast, would travel along easements already heavily burdened with infrastructure, presenting much less risk of disturbance to private landowners and the environment.

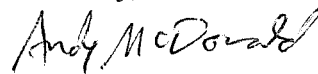
This issue highlights a major flaw in KAW's proposal and the entire study conducted by the Bluegrass Water Supply Consortium in 2004. That study lists the criteria by which it evaluated the many options studied: "Water Supply Capacity", "Water Quality", "Cost", "Implementability/Risk of Delay", and "Flexibility." Notice that impacts on the environment and community are not listed. It boggles my mind that the BWSC would conduct a half million dollar study of solutions to the region's long-term water needs and fail to include "environmental and community impacts" as one of its criteria for evaluating the options. I can't help but think that if they had done so they

might have realized three years ago that a pipeline through northern Franklin and Scott Counties would cause an unacceptable amount of harm to those communities.

In conclusion, I ask you to stand up for the public interest and deny KAW's request for approval for this project. My reading of the numbers indicates to me that the LWC proposal would be less costly to build and less costly to the ratepayers over the long-term, and that's based on a comparison to KAW's Phase I alone. I have difficulty believing that KAW's proposal could be less costly after we add in an additional \$100 million for the Phase II pipeline to Carrolton. Add to this financial risk the fact that KAW's proposal would not satisfy the region's long-term water needs, would not provide drought protection, nor a redundant water source in case of emergency interruption or contamination of the Kentucky River, and the argument for KAW's project simply falls apart. The LWC has presented a proposal which meets Central Kentucky's water needs, drawing on existing water resources and infrastructure, without duplicating facilities, at a reasonable cost.

Thank you for considering my perspective.

Sincerely,

A handwritten signature in cursive script that reads "Andy McDonald".

Andy McDonald