

November 20, 2007

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PUBLIC SERVICE
COMMISSION

Kentucky Public Service Commission
PO Box 615
211 Sower Boulevard
Frankfort, KY 40602-0615

Dear Chairman Goss, Commissioner Clay and Commissioner Clark,

Thank you for hosting the three public hearings back in September on Kentucky American Water Company's proposed pipeline, case 2007-00134. I was most impressed with the level of understanding and by the passion shown by the speakers opposing KAW's plan. After considering the citizens comments, it certainly seems like Kentucky American has chosen a route that is both unpopular with the citizens and is not the least-cost alternative.

I hope it is within your power under the laws and regulations of the Commonwealth to direct Kentucky American to scrap their Pool 3 proposal in favor of the more cost effective alternative to solve the water supply deficit in Central Kentucky. That is, of course, a connection of Lexington and Louisville's water grids with a pipeline alongside I-64, an already busy and developed corridor.

Background

Over the past 11 months, I have delved into this case with great intensity, and as such, I have sacrificed much—time with family, friends, and my own personal interests. I did so because I believe the KAW proposal is bad public policy. Unlike most of the parties that have been directly involved with this case, I receive no remuneration for services, only the satisfaction of seeing the fruits of my labor being utilized in the debate before your Commission and in the public. But as I conclude my research, I most certainly think I made the right decision as there has been a very high level of interest shown by many. This is evidenced by many editorials, op-ed pieces, and articles in the Lexington Herald Leader, the Courier Journal, and the State Journal. Please see Exhibits 1-5 attached.

Through the following narrative and attached exhibits, I hope you can begin to understand this case from the perspective of the ratepayers and the residents of Central Kentucky—the common man, not the corporate voice. Much like many of the cases you hear at the PSC, this one is very complex involving many entities with varying levels of power within their community. My goal is to lay-out the facts in logical “pieces” so that the reader will be able to understand this most complex case.

I am a founding member of Citizens for Alternative Water Solutions, but I write this not as a member but as a voter, taxpayer and resident of Franklin County Kentucky.

This saga began for me in the summer of 2006 when I read that both the Bluegrass Water Supply Commission (BWSC) and Kentucky American Water (KAW) had applied for water withdrawal permits on the Kentucky River just a couple of miles from my house in northern Franklin County. Through some basic research of newspaper articles and minutes to BWSC meetings in January 2007, I put together the chain of events that lead up to this current “hollow” partnership between the BWSC and KAW.

Because of the PSC’s ten year-old Order requiring KAW to increase their water supply and the plea from many “thirsty” Central Kentucky communities, these two entities sat at the planning table for years trying to create a regional solution for Central Kentucky’s water supply deficit and jointly produced a report in 2004 authored by O’Brien and Gere. This report cost approximately \$540,000 and was funded largely with taxpayer money. The consortium, which later morphed into a commission subject to KRS 74, was made up of approximately 15 or so municipalities and one private-for-profit water supplier, Kentucky American Water Company. Back in the summer of 2006, KAW turned their backs on the BWSC and announced that they would “go it alone” and pursue the project outside of this public-private partnership. BWSC cried foul, but with few assets and no way to prevent KAW from commandeering their plan, their protests fell largely on deaf corporate ears. There was little the BWSC could do.

Incidentally, and as you know, RWE has cleared all the regulatory hurdles and has filed the necessary paperwork to sell American Water through an IPO. American Water owns Kentucky American. It is my sense that decisions coming from KAW are decisions that are in the interest of RWE/AWW/KAW stockholders, not their ratepayers. They have a fiduciary responsibility to their stockholders to maximize profit. With this arrangement in mind, how could KAW “look out for” the ratepayer? I suppose that is the job of the Kentucky PSC and the Attorney General, and of course our elected officials.

Therefore, with few options available to the members of the BWSC and after many weeks of an angry standoff, KAW and BWSC concocted an equity partnership plan, that would allow the BWSC to buy-in to their Pool 3 proposal. The problem with this plan is that the BWSC is at the mercy of their members, the Kentucky General Assembly, the Executive Branch of the Commonwealth of Kentucky and the Congress of the United States for its funding. Without substantial state or federal assistance, the BWSC’s viability is uncertain at best.

I think it is important for you to know that at the time of this writing, there are several key BWSC members wavering in their support of the KAW/BWSC Pool 3 partnership. KAW in its effort to gain public support of their plan continues to tout this “public – private partnership” in their run-up to the PSC hearing on November 26. Having mayors, city water engineers and other elected officials publicly backing a proposal is a powerful tool KAW is using. Through open records requests, I have personally seen internal BWSC memos indicating some members’ fears that “KAW will drop the BWSC like a lead balloon once PSC approval is granted.” That does not sound like much of a partnership to me.

The Frankfort Plant Board recently adopted a resolution opposing the KAW Pool 3 proposal in favor of a connection to the Louisville Water Company. It is the Board's intent to enter this resolution into the record at the PSC. At a previous special board meeting, the Frankfort Plant Board received public comment as well as presentations from the Louisville Water Company and KAW. See attached news account of this resolution.

Least-Cost Option:

There are 2 documents in the PSC case file that are very important to this discussion of the least-cost option. One is this 2004 Water Supply Feasibility Study authored by O'Brien and Gere and the other is the direct testimony provided to the PSC by the LWC and its consultant, RW Beck. Both reports show a connection to the LWC alongside I-64 as the least-cost option. I believe the PSC and the Attorney General should consider this as they hear testimony and in the AG's case, provide testimony to the PSC. The report can be found here: [http://psc.ky.gov/pscscf/2007%20cases/2007-00134/LWC Response 092707.pdf](http://psc.ky.gov/pscscf/2007%20cases/2007-00134/LWC%20Response%20092707.pdf).)

So, why would KAW choose a proposal that is not the least cost option? My guess is that since KAW is guaranteed a fixed Return on Investment, they have no real incentive to choose an option based on cost. In this case, KAW is a monopoly. The ratepayers will pay the debt service on the loans. The more money lodged on KAW's balance sheet, the more cash coming into their coffers. I would bet that RWE or American Water would want KAW to invest more rather than less on their capital improvements. After all, the ratepayers will pay the freight. Wouldn't American Water Works look more attractive to a potential buyer if KAW had approval to invest \$170 million on the Pool 3 proposal, or approximately another \$100 million on their second raw-water line to the Ohio River in their required second phase after 10-20 years upon completion of their first phase? This fact is documented in the 2004 Feasibility Study. It seems to me there is no incentive for KAW to be frugal and choose the least-cost option.

The Water Solution that went nowhere:

Almost ten years ago, KAW and the LWC had agreed in principle to connect their water systems to solve the Central Kentucky water supply deficit. Because of public outcry and in part because of the actions of the Lexington Fayette Urban County Council, the deal was put on hold. Feeling pressure from many concerned citizens along the pipeline path, the LFUCC passed a resolution stating that it preferred a Kentucky River solution to Lexington's water supply deficit. The resolution also stated that the Council preferred the least-cost option as well. It also said that the dams that hold water for Lexington in the upper pools of the Kentucky River should be reinforced to capture more water and by employing crest-gates to actually raise the dam levels. To date, no dams have been raised. There were other measures listed in this resolution. In a public meeting I attended of the Lexington Fayette Urban County Council, their staff attorney informed the Council that, in his opinion, the resolution is moot or unenforceable because nothing has been accomplished to capture additional supply on the Kentucky River.

I think the most important fact that I discovered while researching the deal that went nowhere is this: back in the late 1990's, KAW proposed that the pipeline path diverge from the already developed I-64 corridor and follow a gas transmission line. This line crosses US 60 half-way between Frankfort and Versailles. The drawings on the attached KAW literature from 1998 (see Exhibit 6) show the pipeline path very clearly. The problem with this proposal is that the pipeline path ripped right through some of Central Kentucky's most beautiful farmland. I just cannot figure out why KAW cut corners nearly a decade ago and piggybacked onto the existing gas pipeline right-of-way instead of avoiding all the citizen backlash and stay alongside the existing, developed I-64 corridor.

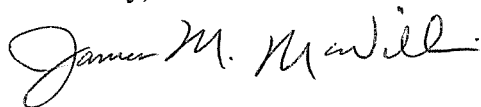
A Case for an Immediate Connection to the LWC:

- Kentucky American's plan will not meet the region's long-term needs. If the Pool 3 option is selected, a second pipeline to the Ohio River will be required in only 20-25 years upon completion of their proposed treatment plant and pipeline.
- The KAW plan will not "drought-proof" the region, whereas the LWC connection will "drought-proof" Central Kentucky for generations to come. In times of severe, prolonged drought, the Kentucky River will NOT support Central Kentucky's demand for water. KAW said as much in their bid to build a Lexington to Louisville pipeline a decade ago. See attachment 6.
- The KAW plan will provide no protection against catastrophic events. A connection to the Ohio River alongside I-64 will provide redundancy in the event of a spill or an act of terrorism on the Kentucky River.

Summary:

I urge you to deny Kentucky American Water Company's request to go forward with their plan to build a water treatment plant on the Kentucky River and pipeline through Owen, Franklin, Scott and Fayette counties. There is a better way. There is a lower cost option.

Sincerely,



James M. McWilliams

615 Indian Gap Road
Frankfort, KY 40601

Attachments

From the Lexington Herald

Water solution

Mayor leaving Lexington residents adrift

This year's drought has Georgia and Florida fighting over how much water booming Atlanta can use without leaving Apalachicola's famed oysters high and dry.

Other crises around the country reinforce the view that water could be the next oil. They also remind us that protecting and enhancing water resources, something that Kentucky could do much better, should be a top priority.

Back home in the Bluegrass, the fight is over whether future water supplies should come from the Kentucky River via a new treatment plant in Owen County or from the Ohio River via the Louisville Water Co.

The Frankfort Plant Board will consider both proposals at a special meeting tonight, which brings to mind two things:

- Lexington would be much better off if, like Frankfort and most cities, its water utility was under the control of a public entity accountable to local citizens, not distant stockholders, and subject to open meetings and open records laws.
- We hope that, unlike Lexington's government, the Frankfort board will employ the resources needed to sort out the proposals and determine what's best for the people it serves.

While some on the Urban County Council have tried to drill down into the long-term costs, they can't get very far without being able to hire consultants.

Mayor Jim Newberry has shown a stunning lack of interest even though Lexington residents will be paying for whichever approach is finally approved. And the water rate hike will come in addition to an expected increase in sewer fees for bringing the city into compliance with the Clean Water Act. In other words, Lexington is looking at a major jump in water bills.

Louisville Water Co. is presenting a pipeline proposal that on the surface appears to be cheaper. But without any apparent research, Newberry, who received campaign contributions from Kentucky American Water executives, has supported the private utility's plans to build a treatment plant in Owen County north of Frankfort and build a 31-mile transmission line to bring water to Lexington.

This plan has obvious advantages for Kentucky American's stockholders: a guaranteed rate of return on investment in a new plant and the potential to expand into new territory at current ratepayers' expense.

True to form, the German-owned utility is rolling out its PR machine in hopes of overcoming opposition.

Kentucky American is playing up its partnership with the Bluegrass Water Supply Commission, even though it all but dumped the commission last year until renewing the partnership for its political and PR value to Kentucky American. The commission, made up of 10 municipalities, would be an equity partner in the new treatment plant.

If Frankfort pulls out of that partnership, it could be a blow to the commission and regional water planning. It also could nudge other Central Kentucky municipalities toward the Louisville solution. With their government on the sidelines, Lexington residents can only hope that other local governments will provide sound leadership and that the state Public Service Commission can fashion the most sensible solution.

Spencer County, Kentucky
Resolution No. 4
Fiscal Year 2008 Series

WHEREAS, Spencer County Fiscal Court desires for the residents of the County to be provided a safe, secure, stable and quality water supply; and

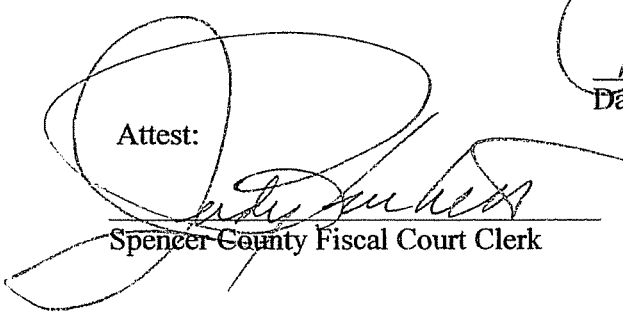
WHEREAS, to this end Spencer County Fiscal Court has been presented various proposals to ensure that the County residents are provided a continuing safe, secure, stable and quality water supply, and the Spencer County Fiscal Court has reviewed the proposals submitted to the Court and being fully apprised there from,

NOW, THEREFORE, BE IT RESOLVED that:

1. The Spencer County Fiscal Court supports a water supply strategy that includes access to water from the Ohio River, the largest river east of the Mississippi, for the reason that this access will provide protection against drought, and will protect against interruption of the public water supply due to circumstances that may make the Kentucky River unusable or unavailable for periods of time.
2. The Spencer County Fiscal Court opposes the construction by Kentucky American Water Company of a large pipeline through western portions of Scott County and the northern portions of Franklin County, and the associated water production facilities along Pool 3 of the Kentucky River, under the terms of that pipeline proposal currently under application with the Kentucky Public Service Commission in Case No.2007-00134. The Fiscal Court is of the position that the proposed construction will be unnecessarily burdensome on citizens of Central Kentucky, and will unnecessarily duplicate available water supply facilities that the Louisville Water Company has indicated it can supply to Central Kentucky at a rate of ninety-five (95) million gallons per day of treated water.
3. The Spencer County Fiscal Court supports and urges discussions between all interested parties, including Kentucky-American Water Company, the Lexington Fayette Urban County Government and Louisville Water Company, regarding a connection between these two major regional water supplies so that there will be ample, reliable, safe and quality water supplied in a timely manner to Spencer County, Kentucky and the central Kentucky region.

DONE this 15th day of October, 2007, at Taylorsville, Kentucky.

Attest:


Spencer County Fiscal Court Clerk


David Jenkins, County Judge/Executive

State-Journal.com

Louisville plan is the best

November 15, 2007

It came as no surprise that those who attended a public meeting Tuesday by the Frankfort Plant Board were opposed to the Kentucky American Water Co. plan to run a water pipeline from a new treatment plant on the Kentucky River through more than 15 miles of northern Franklin County to serve Lexington.

Just about everyone here with an opinion on the pipeline opposes it in favor of an alternative presented by the Louisville Water Co. that would connect with Lexington by way of a pipeline running along I-64 through Shelby and Franklin counties.

Franklin Fiscal Court has voted against Kentucky American. Frankfort Mayor Bill May Jr. sent a letter to the Plant Board opposing the Kentucky American pipeline. Certainly, the people who live along the proposed pipeline's route don't want it and are working vigilantly against it.

And from the available evidence, they're correct.

From an economic standpoint, there's no question the pipeline from the Ohio River is a far better idea. In fact, it's a bargain. The Louisville Water Co. proposal costs an estimated \$88 million. The Kentucky American plan's cost is estimated at \$160 million, including the enormous cost of a treatment plan on the Franklin-Owen County line.

At nearly half the cost, the Louisville Water Co. would deliver 30 million gallons of treated water a day to Lexington for less cost to Lexington customers. And that water would follow the interstate right of way instead of a massive swath through one of this county's loveliest rural areas.

The Plant Board is a key component in the Louisville plan because its pipelines will serve as an intermediate connection while the total pipeline project is completed. The Kentucky Public Service Commission has the final say on which proposal is approved.

Frankfort has been blessed with ample water supplies from the Kentucky River, even in

times of severe drought like we experienced this summer. That does not mean the river will be a never-ending source of water for this community either because of a catastrophic drought such as Georgia is now experiencing or through an enormous growth in demand for water.

Having a pipeline through Franklin County to the virtually unlimited water from the Ohio River would serve as a valuable backup should that source ever need to be tapped.

That alone is reason for the Plant Board to endorse the Louisville Water Co. pipeline and oppose Kentucky American before the Public Service Commission.

Plant Board member Ann Wingrove also made a good point at the Tuesday meeting: "We are a public utility and I think certain things should be publicly owned and I think water is one of them."

Exactly.

The voters of Lexington don't agree, however, and that's their problem.

The Plant Board's responsibility is to its customers here, and clearly the Louisville Water Co. pipeline is best for Franklin County. That it also provides Lexington with ample water in times of shortage and at considerably less expense than Lexington's privately-owned water company is something Kentucky American can explain to its customers.

State-Journal.com

Mayor backs Louisville pipeline

BY CHARLIE PEARL
November 14, 2007

Mayor Bill May didn't attend the Frankfort Plant Board's public hearing on future water options Tuesday. But his letter supporting the Louisville Water Co. option " read by board member Michael Dudgeon " received a huge applause from the crowd.

May's letter said, in part, "After much thought and discussion, I have concluded that the Kentucky American Water Co. (KAWC) proposal is not in the best interest of Franklin County citizens or for that matter the citizens of Kentucky.

"I have learned the KAWC proposal is not the least cost option available. The 2004 report issued by O'Brien and Gere for the Bluegrass Water Supply Consortium pointed to a connection between Lexington and Louisville as the most cost-effective solution to Central Kentucky's water supply deficit."

May's letter said RW Beck Consulting Engineers, a consultant for the Louisville Water Co., recently issued a report confirming the cost-effectiveness of a Louisville pipeline. That report is on file with the Kentucky Public Service Commission.

The cost differential between the two proposals " Kentucky American Water's and Louisville Water Co.'s "is substantial," May's letter said. "These costs will be borne by plant board customers and residents throughout Central Kentucky."

Besides the cost advantage of a connection to the Louisville Water Co. in Shelby County, "it makes much more sense to situate these large utility easements alongside major thoroughfares " in this case I-64," May's letter said. "It is poor public policy to stray from these already developed corridors when there are other viable options.

"As residents of northern Franklin County have made clear to me, it makes no sense to cut an 8-foot deep trench through rural Franklin County when there is a better way."

Since the city of Frankfort is a member of the Bluegrass Water Supply Commission, May said he felt a responsibility to "take a position on this issue." He said he would submit his comments to the Public Service Commission opposing Kentucky American's plan and supporting Louisville Water Co.'s plan.

"I encourage the plant board to do so as well, in the best interests of our community," his letter said.

About 30 citizens spoke at the hearing and almost all of them voiced opposition to Kentucky American Water's plan and support for the Louisville Water Co. plan.

Frankfort Plant Board members didn't vote on the issue Tuesday but are expected to vote at a meeting before Nov. 26 when the Public Service Commission (PSC) hears testimony regarding Kentucky American Water's proposal.

The Plant Board's next meeting is 1 p.m. on Nov. 20.

Plant Board member Ann Wingrove wouldn't say specifically how she would vote, but gave a hint by saying, "We are a public utility and I think certain things should be publicly owned and I think water is one of them. We will have a decision before the Public Service Commission hearing. We want to weigh in before that hearing."

Louisville Water Co. is a publicly owned utility and Kentucky American Water is a privately owned company.

Dudgeon said he's glad the Plant Board decided to have the public meeting "to hear from our customers how they feel about this issue. Speaking for myself, I have not made a decision about whether or not to support one plan over the other.

"We are fortunate that we have some other alternatives that may be out there as well. But obviously this is the one we are going to have to face coming up pretty soon. It's a complicated deal. For a lot of folks, and rightly so, it's an emotional one. We want to take all of that into consideration. But ultimately, what we have to do is what is best for our customers."

Joe Smith, chairman of the Plant Board, said he knows where he's leaning, "but I don't want to say anything publicly yet." After the Nov. 20 Plant Board meeting, Smith said he "suspects we may be having a second meeting shortly thereafter."

Before the board votes on the issue, the Plant Board staff "has to do some analytical work that we have to look at," Smith said. "I'm not really sure where that is in the process. Making an informed decision is more important than a quick decision.

"The thing we have to grapple with, this is not a decision for today, tomorrow or 10 years out. We're looking at making a decision that will affect people for 50 years. As the group pointed out, the Frankfort Plant Board is in a key position to affect not only our immediate customers but the whole Central Kentucky region."

In June, Franklin County Fiscal Court voted 4-2 to oppose Kentucky American's plan. Magistrates Don Sturgeon and Lambert Moore spoke Tuesday against Kentucky American's plan and for Louisville Water Co.'s plan.

Kentucky American plans to build a water treatment plant on Pool 3 of the Kentucky River in Owen County and construct a 42-inch, 31-mile pipeline to Fayette County that would run 15.3 miles through northern Franklin County.

The estimated cost is \$160 million, according to Kentucky American's Engineering Director Linda Bridwell.

The Louisville Water Co. proposed an alternative to the PSC, which will ultimately decide whether to approve the Lexington water company's plan.

Louisville Water would finance a 16-mile pipeline from Interstate 265 (Gene Snyder Freeway) in Jefferson County to Ky. 53 in Shelby County.

From there, a 36-inch pipeline would run parallel to I-64 for 42 miles before intersecting Newtown Pike in Fayette County. The project would cost \$88 million and could deliver up to 30 million gallons of water a day.

The price would be fixed at \$1.71 for 1,000 gallons until 2016, and after that, rate hikes would be tied to increases in the Consumer Price Index.

After the meeting, Susan Lancho, spokeswoman for Kentucky American Water, said, "We appreciated the opportunity to share information about our water supply project with the Frankfort Plant Board members. Many options have been carefully evaluated over the years for addressing this important issue " including Louisville options. But we remain confident the new water treatment plant on Pool 3 of the Kentucky River is the right thing to do for the future of our region."

Exhibit 4

From the Lexington Herald, November 19, 2007

Op-ed from former Vice Mayor, Ann Ross

City officials must jump into water-plan debate

By Ann Ross

When it comes to dealing with long-term water supply issues, the drought continues at the Urban County Government. Lexington's ship of state is cruising toward a critical decision that will set the course for our water supply for decades to come, and the mayor and some members of the Urban County Council didn't even book passage.

One council member has even taken the stunning position that city should defer to the state Public Service Commission and not be involved at all. To suggest that the city should not be involved in a decision that will set an irreversible course for our most critical natural resource and cost millions of dollars -- 90 percent of which will be paid for by ratepayers in Lexington -- is an unimaginable dereliction of duty.

If there ever was an issue that begged for leadership from city hall, the future of our water supply would seem to be the one. The stakes for Central Kentucky water customers are enormous, but they are highest for Lexington.

That is reason enough to expect Lexington officials to take a more active and energetic role in the outcome. Individually or collectively, the mayor and council speak with a powerful voice. It needs to be heard.

But given the chance to make a difference, they have shown nothing but indifference, content to let the PSC tell us what the answer to our supply issue will be rather than playing a leadership role in determining what it should be.

There are two options on the table: RWE/Kentucky American Water's proposal to build a new treatment plant on the Kentucky River in Owen County and connect it via a new pipeline through private property in Franklin, Scott and Fayette counties; and Louisville Water Co.'s proposal to sell us water it draws from the Ohio River and deliver it via a pipeline from Shelby County that would follow the route of Interstate 64.

It is a complex issue that the mayor and council should be helping unravel. Instead, while a lot of people are engaged in a high-stakes effort to influence the decision, the people who are supposed to be representing us are not among them.

The issue is made more complicated by a number of other factors:

- Kentucky American is a private entity whose primary responsibility is to maximize profits for its shareholders, not to find a solution that is best for the

region at the lowest cost to ratepayers. In fact, utility companies are provided profits on the basis of capital investment; the bigger the investment, the more they can charge and the more money they can make.

- Louisville Water's proposal to extend its existing pipeline from Shelby County was introduced after a lot of people had decided Kentucky American's plan was the best solution, even though at the time it was the only solution being offered.
- The PSC is driving the decision-making process even though its role is limited. The PSC's job is to determine whether Kentucky American's proposal makes sense for it, not to determine whether it is the best solution for Lexington.
- The PSC's policy is not to consider the impact on rates when ruling on Kentucky American's proposal. Only after receiving approval for the project will the utility present a rate increase request -- and it will be a big one.

Kentucky American last requested an increase of 29 percent to cover \$60 million in capital expenditures. After negotiations, the state attorney general and the utility scaled that back to 17 percent, which the PSC is considering.

The cost of the project now before the PSC is estimated at \$160 million. You do the math.

Within two years, the company will be back asking for another increase.

- Kentucky American's proposal is not intended to be a long-term solution. The proposal has a Phase 2 that would cost even more and involves, among other things, building a separate pipeline to the Ohio River.
- There are other stakeholders involved. Water systems serving other communities in the region are current or potential customers for water. The Bluegrass Water Supply Commission, whose members include Lexington, recommended the Kentucky American plan before Louisville Water made its proposal, but Lexington's leaders have not asked the commission to reconsider.

And the issue is made needlessly more complicated by the fact that the mayor and council should be the ones leading the discussion, but they are not. Rather than control our destiny, we are allowing others to control it for us.

The mayor and council should raise their voices and make sure all of the options are thoroughly considered.

State-Journal.com

Plant Board rejects Kentucky American Water plan

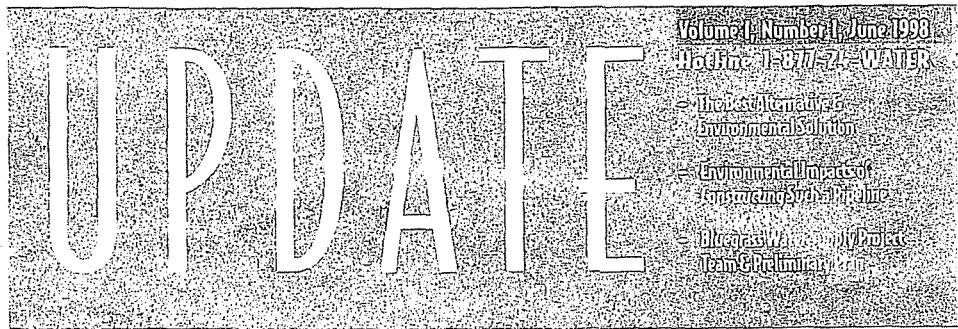
The Frankfort Plant Board has rejected a plan by Kentucky American Water to build a water plant on pool 3 of the Kentucky River and a 15-mile pipeline through northern Franklin County.

The board of directors unanimously approved a resolution that favors an alternative plan proposed by the Louisville Water Company. According to the resolution, the Kentucky American proposal "will not best meet the long term needs of plant board customers."

The Kentucky American plan would have included a 42-inch pipeline from Owen County to Fayette County, cutting through northern Franklin County for 15 miles.

The Louisville Water Company has offered to finance a 15-mile pipeline from Interstate 265 in Jefferson County to KY 53 in Shelby County. From there a pipeline would run parallel to Interstate 64 for 42 miles before intersecting Newtown Pike in Lexington.

At the meeting today, Magistrates Don Sturgeon, Jill Robinson and Ira Fannin said they are glad the plant board rejected the Kentucky American plan.



"LOOK FOR THIS IDENTIFYING LOGO WORN BY BWP TEAM MEMBERS WORKING IN YOUR AREA"

The Best Alternative & Environmental Solution.

Kentucky-American has deliberately and responsibly reviewed over 50 options available for development of an additional source of supply. Recognizing the practical and emotional issues that surround the damming of the Kentucky River, as well as the reliability of the river, Kentucky-American has identified the construction of a 52.5-mile pipeline to the Ohio River as the best alternative to Lexington and surrounding counties' water needs. Reports from the Army Corps of Engineers, a study performed by the Kentucky River Basin Steering Committee, a Comprehensive Planning Study conducted by Kentucky-American Water Company, and a recently completed study by the University of Kentucky Water Resources Research Institute acknowledges the dramatic deficit existing in the Kentucky River. The unpredictability of the river flows continues to be a serious concern to those living in Central Kentucky.

Focusing on costs, Kentucky-American emphasizes cost containment in the construction of the 52.5-mile pipeline. Current projections for the pipeline cost are \$48.5 million. The initial expense of the pipeline will be absorbed by Kentucky-American

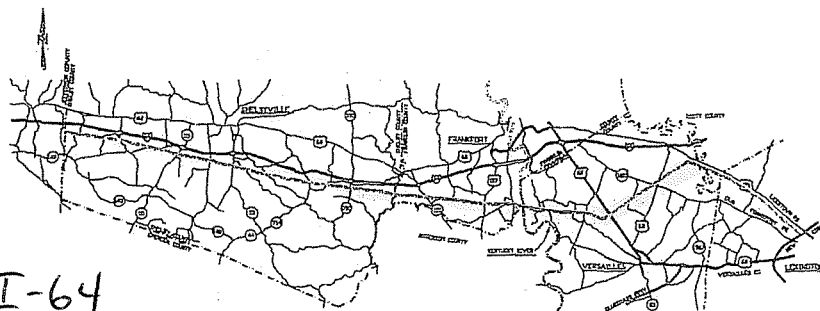
Water Company. The average cost per residential customer of \$4.00 per month will decrease if additional cities along the pipeline route tie on. Additionally, Kentucky-American Water Company currently has a treatment plant deficit as well as a raw water supply deficit. The option to purchase treated water from Louisville Water Company will eliminate the need for additional investments in plant capacity to overcome the treatment plant deficit. Cost studies show increasing Kentucky-American Water Company's plant capacity would run \$38 million. The pipeline will provide the treated product to existing and new customers without requiring additional construction to increase plant capacity. A plant capacity upgrade would incur costs of up to \$38 million without resolving the water deficit issue.

The environmental solution to protect our water source (the Kentucky River) and provide Central Kentucky with an adequate water supply is the development of a pipeline to the Ohio River. Water quality issues regarding the Ohio River can be answered by reviewing studies conducted,



indicating that of the 146 parameters tested, the Kentucky River and the Ohio River were virtually the same. The public is demanding elimination of pollution and the efficient use of natural resources in protection of the environment. This watchful environmental climate has been beneficial to the water quality of the Ohio River and contributed to its high marks on the issue of health and safety. The Ohio River continues to be a major supplier of water for the state of Kentucky with over 1.7 million of our citizens using Ohio River water to meet all of their daily water needs. In 1994, Kentuckians withdrew 176.8 million gallons per day of water from the Ohio River. The Ohio River is a limitless source of water, providing communities existing along the banks of the Ohio with a continual source of supply. The Ohio River Basin Sanitation Commission is a watchdog organization that carefully monitors the Ohio River. The Kentucky River is not monitored to the level of the Ohio and does not presently have such a sophisticated protection system.

Proposed Pipeline



- I-64

- Proposed Pipeline

PIPELINE STATISTICS

Construction Timeline

- April 1998 – Planning process begins (year-end completion).
- May 1998 – Land surveys (May – August).
- Summer 1998 – Wetlands & Archeological site assessments.
- Fall 1999 – Construction begins subject to PSC approval. (18 months construction.)
- June 2001 – Pipeline Operational.

Planning Phase

- April 1998 – Planning/design consultant confirmed, preparation for Certificate of Convenience and Necessity – (easements, design, contract arrangements – Louisville Water, community meetings).
- December 1998 – Filing Application for Certificate Case.
- Summer 1999 – Certificate Case Hearing. – Public Service Commission.
- Fall 1999 – Construction begins subject to PSC approval.

Construction Details

- Cost: \$48.5 million, projected cost.
- Pipeline Capacity: Minimum 2, maximum 23 million gallons per day.
- Pipeline Diameter: 36-inch.
- Pipeline Composition: Ductile iron, concrete, or steel.
- Pipeline length: 52.5 miles (277,000 feet).
- Booster Stations: 2 (Pressure from 30-200 PSI).
- Construction Method: Directional drilling in environmentally sensitive areas. Paralleling existing utility easements along I-64, across Kentucky River, to Lexington via Leestown Road.

WHAT ARE THE ENVIRONMENTAL IMPACTS OF CONSTRUCTING SUCH A PIPELINE?

The construction of the pipeline and booster stations over 52.5 miles would contribute a much-needed water supply and cause no environmental impact to the region. The pipeline will lie entirely underground in private easements, paralleling an existing utility right-of-way. Construction of the pipeline will include cleanup, regrading, and vegetation reseeding as the pipe is installed. Revolutionary techniques such as directional drilling may be used to lessen the impact of laying the pipe underground, and is being considered for crossing of the Kentucky River so as not to disturb the stream flow. The Central Kentucky region is not the first to consider a transmission pipeline to maintain the community's water needs. Similar pipelines are successfully meeting the needs of providing water service to people all over the United States, such as the Metropolitan Water District serving a large part of Southern California. Hundreds of miles of pipeline provide communities in the Los Angeles region with water.

WHAT ABOUT WATER QUALITY?

In 1994, Kentucky-American Water Company completed a detailed comparison of the Kentucky River and the Ohio River. Of the 146 parameters tested, only 15 were detected in either source. Three contaminants were found in the Ohio, but not the Kentucky. Three others were found in the Kentucky but not the Ohio. The concentrations of four of the other contaminants were comparable in both waters. Concentrations of four metals (cadmium, chromium, lead, and barium) and bromide were higher in the Kentucky.

Microbially, the Kentucky River is better than the Ohio. This requires additional filtration and disinfection time for Ohio River water.

In other parameters, the water is nearly the same. Total hardness of the finished water from the Louisville Water Company



is 160. Total hardness of finished water from the Kentucky River produced by Kentucky-American Water Company is 158. Total alkalinity from each is 79.9 and 71, respectively.

Because of its size and use as a major industrial waterway, the Ohio River is more likely to be subject to spills. However, the Ohio River has an organization called the Ohio River Valley Sanitation Commission (ORSANCO) established in 1943 to monitor and improve the quality of water in the Ohio River. ORSANCO has a dozen strategic locations of gas chromatographs which operate continuously to monitor for organic chemicals.

Like Kentucky-American Water Company, the Louisville Water Company has consistently met or exceeded all federal drinking water standards, producing high quality water. The Louisville Water Company is experienced in constant monitoring and effective treatment to remove any contaminants. Kentucky-American Water Company will monitor the water prior to the point of entry into its distribution system.

Central Kentucky is at a crossroads in relation to its water supply. As one of the largest inland cities located away from a major source of water, Lexington has faced difficult water decisions since the devastating drought of 1930. The drought of 1930 forced community leaders to be progressive in their water decisions, and resulted in the laying of a pipeline to the Kentucky River with deliberate speed. Since 1930, the community has continued to grow and prosper. This economic growth and development have included the expansion of businesses, industries, infrastructure, and educational institutions, as well as a steady increase in new homes. The unique distinction of Central Kentucky as the horse capital of the world places an expanded need on water resources. Adequate fire protection to ensure the safety of the thoroughbred horses and meeting the maintenance requirements inherent in the horse industry are critical components to the growing water needs in our region.

Although the continued growth has been the key to a unique high quality of life, it does not come without cost. Growth has created the need for expanded services, including an additional raw water supply to supplement existing water sources. As concluded in 1989 by the Kentucky River Basin Steering Committee, by follow-up engineering reports conducted by the region's major water supplier, Kentucky-American Water Company, and recently by the University of Kentucky Water Resources Research Institute, the Central Kentucky area faces a dramatic water supply deficit when the drought of record recurs. This water shortage will extend for a period of six months. Droughts of lesser degree will also adversely affect our area, creating concern for the health and safety

of our customers, the ability to supply fire protection, and the continued economic viability and growth of the area

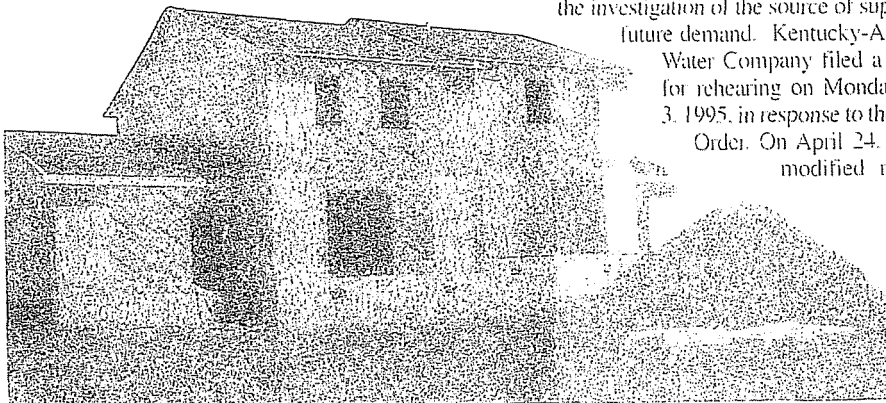
The PSC Order further states:

"The Commission notes that for approximately the past eight years, Kentucky-American has not had sufficient capacity to meet its customers' unrestricted demand during a drought of record, nor would it have the capacity to meet such a demand for at least two to three more years, even if it proceeds with all deliberate speed with the Louisville pipeline project. In addition, the recent history of the 1988 drought conditions demonstrates that such adverse conditions will precipitate governmental action, including water use restrictions designed to reduce significantly customers' discretionary demand."

The PSC Order of March 14, 1995, stated that Kentucky-American continue its cooperative effort with the Kentucky River Authority to obtain a reliable safe-yield analysis of the Kentucky River and continue the investigation of the source of supply and future demand. Kentucky-American Water Company filed a petition for rehearing on Monday, April 3, 1995, in response to the March Order. On April 24, 1995, a modified response

from the PSC was received, stating that the investigation of source of supply remain open to monitor the progress of the reassessment of the Kentucky River, which was conducted by the University of Kentucky in November, 1996.

Kentucky-American's philosophy of a strong responsibility to customers and heightened awareness of environmental concerns has led to the confirmation of the Bluegrass Water Project pipeline as the best environmental solution to our water supply deficit. Kentucky-American has explored the difficulty in attempting to build new dams, increase the existing heights of dams permanently, or using crest gates on the Kentucky River. The objections voiced by our neighbors in Eastern Kentucky, as well as the concerns of individuals and communities along the proposed pipeline route, have been heavily weighed by Kentucky-American Water Company through the decision process. Without question, Kentucky-American Water Company is driven by the same factors our community leaders faced in 1930. Providing customers with a cost-efficient, high quality, abundant supply of water is of primary importance. Kentucky-American continues to support the construction of the pipeline as the environmental solution to the water supply deficit in our community.



BLUEGRASS WATER PROJECT TOLL-FREE HOTLINE
1-877-24-WATER



NEWS

For Immediate Release
 Thursday, August 21, 1997
 Contact: Barbara K. Brown
 Communications Manager
 Phone: 268-6332

Public Service Commission Grants Kentucky-American Water Company Authority To Move Ahead To Resolve Water Supply Deficit

Lexington, KY (8/21/97) — Kentucky-American Water Company today received the Public Service Commission's Order in Case No. 93-434 - Investigation of Sources of Supply and Future Demand of Kentucky-American Water Company. In the long awaited Order, the Public Service Commission has validated Kentucky-American Water Company's position that a water supply deficit exists in the Central Kentucky region and entire Kentucky River Basin. Quoting from the Order: "The evidence before this Commission indicates that additional steps must be taken and financial resources will have to be committed to develop an adequate and reliable source of water supply, not only for the customers of Kentucky-American, but for all the citizens served by the Kentucky River. The evidence further indicates that the net effect of the Kentucky River Authority's proposed activities, if implemented, will be insufficient. Anything Kentucky River Authority's withdrawals from the Kentucky River during such an ... which affects its withdrawals from the Kentucky River as a ... on others that depend on the Kentucky River as a ... reliable source of

BLUEGRASS WATER PROJECT OVERVIEW



Public Service Commission Grants Kentucky-American Water Company Authority To Move Ahead To Resolve Water Supply Deficit

The PSC reviewed the University of Kentucky document for several months and responded with an order on August 21, 1997. The following news release was sent to local media in response:

... "The evidence before this Commission indicates that additional steps must be taken and financial resources will have to be committed to develop an adequate and reliable source of water supply, not only for the customers of Kentucky-American, but for all the citizens served by the Kentucky River. The evidence further indicates that the

net effect of the Kentucky River Authority's proposed activities, if implemented, will be insufficient...

... "It is therefore ordered that Kentucky-American shall take the necessary and appropriate measures to obtain sources of supply so that the quantity and quality of water delivered to its distribution system shall be sufficient to adequately, dependably, and safely supply the total reasonable requirements of its customers under maximum consumption through the year 2020." ...

Quoting from the Public Service Commission Order received March 14, 1995:

"The Commission finds that the range of demand projections presented by Kentucky-American and the intervenors is within the realm of reasonableness. Kentucky-American has used reputable sources for data and nationally accepted methodologies in developing its demand projections. Over the years, Kentucky-American has made numerous revisions to its methodology for projecting water demand, resulting in a state-of-the-art dynamic process."

The University of Kentucky Resources Research Institute

completed its study and released its findings to the PSC. The major significant findings from this report:

- 1) A 9.7 billion gallons overall deficit in the Kentucky River Basin.
- 2) A 23 million gallons per day deficit during times of major drought in Central Kentucky if a major drought (1930 drought) occurred today.
- 3) Study stated community will be without water for 53 days during drought of record based on existing facilities in Kentucky River at time of study. Certain modifications on River may now lessen impact but not eliminate deficit.

If you are interested in learning more about the Bluegrass Water Project and water issues facing Central Kentucky, contact Barbara Brown, Director-Communications at 268-6332, or e-mail us at www.kawc.com



FRANKLIN COUNTY FISCAL COURT
RESOLUTION NO- 17 - 2007

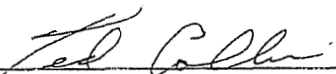
WHEREAS, Franklin County Fiscal Court desires for the residents of the County to be provided a safe, secure, stable and quality water supply; and

WHEREAS, to this end Franklin County Fiscal Court has been presented various proposals to ensure that the County residents are provided a continuing safe, secure, stable and quality water supply, and the Franklin County Fiscal Court has reviewed the proposals submitted to the Court and being fully apprised therefrom,

NOW, THEREFORE, BE IT RESOLVED that:

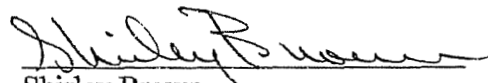
1. The Franklin County Fiscal Court supports a water supply strategy that includes access to water from the Ohio River, the largest river east of the Mississippi, for the reason that this access will provide protection against drought, and will protect against interruption of the public water supply due to circumstances that may make the Kentucky River unusable or unavailable for periods of time.
2. The Franklin County Fiscal Court does not support the construction by Kentucky American Water Company of a large pipeline through eastern and northern portions of Franklin County, and the associated water production facilities along Pool 3 of the Kentucky River, under the terms of that pipeline proposal currently under application with the Kentucky Public Service Commission in Case No.2007-00134. The Fiscal Court is of the position that the proposed construction will be unnecessarily burdensome on citizens of Franklin County and the environment, and will unnecessary duplicate available water supply facilities that the Louisville Water Company has indicated it can supply to Franklin County at a rate of ninety-five (95) million gallons per day of treated water.
3. The Franklin County Fiscal Court supports and urges discussions between all interested parties, including Kentucky-American Water Company and Louisville Water Company, regarding a connection between these two major regional water supplies so that there will be ample, reliable, safe and quality water supplied in a timely manner to Franklin County, Kentucky and the central Kentucky region.

RESOLVED this 1 day of June, 2007.



Ted Collins
Franklin County Judge/Executive

Attest:



Shirley Brown
Fiscal Court Clerk