

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

AUG 27 2007

THE APPLICATION OF KENTUCKY-)
AMERICAN WATER COMPANY FOR A)
CERTIFICATE OF CONVENIENCE AND)
NECESSITY AUTHORIZING THE)
CONSTRUCTION OF KENTUCKY RIVER)
STATION II, ASSOCIATED FACILITIES)
AND TRANSMISSION MAIN)

PUBLIC SERVICE
COMMISSION

CASE No. 2007-00134

*** ** **

**RESPONSES OF
BLUEGRASS WATER SUPPLY COMMISSION
TO LOUISVILLE WATER COMPANY'S
INITIAL REQUESTS FOR INFORMATION**

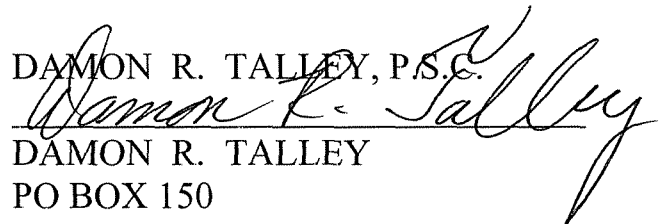
*** ** **

Comes the Bluegrass Water Supply Commission (the "BWSC"), and
for its Responses to the Initial Requests for Information propounded by the
Louisville Water Company (the "LWC"), states as shown on the following
pages.

**GENERAL OBJECTION
AND NON-WAIVER**

As a matter of procedure, an Intervenor, such as BWSC, has no obligation nor duty to file Intervenor Testimony. The deadline for submitting Intervenor Testimony was July 30, 2007. Having elected not to file Intervenor Testimony, BWSC does not have an obligation or duty to produce any witnesses at the Formal Hearing before the Commission for cross examination by the other parties.

In the interest of providing the Commission and the public with as much information as possible, BWSC is responding to the Discovery Requests of Louisville Water Company (the "LWC") and producing all relevant documents. Some of the documents contain opinions and analyses of engineers and other experts. By producing these documents and responding to LWC's Discovery Requests, BWSC is not obligating itself to produce these expert witnesses at the Formal Hearing. BWSC hereby places all parties on notice that it has no intention of producing these witnesses at the Formal Hearing.


DAMON R. TALLEY, P.S.C.
DAMON R. TALLEY
PO BOX 150
HODGENVILLE, KY 42748
ATTORNEY FOR BWSC

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

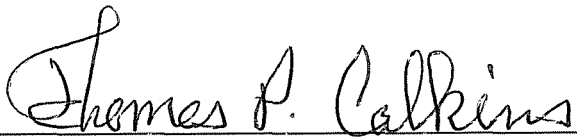
In the Matter of:

THE APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY AUTHORIZING) CASE NO. 2007-00134
THE CONSTRUCTION OF KENTUCKY RIVER)
STATION II, ASSOCIATED FACILITIES AND)
TRANSMISSION MAIN)

**CERTIFICATION OF RESPONSES TO LOUISVILLE WATER
COMPANY'S INITIAL REQUESTS FOR INFORMATION**

This is to certify that I have supervised the preparation of the Bluegrass Water Supply Commission's Responses to the Louisville Water Company's Initial Requests for Information. The responses are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

Date: 8-27-07



Thomas P. Calkins, Chair
Bluegrass Water Supply Commission

CERTIFICATE OF SERVICE

This is to certify that a true copy of the attached document has been served by first class U.S. Mail, postage prepaid, this 27th day of August, 2007, to the following:

Hon. A. W. Turner, Jr., Gen.
Counsel

Kentucky –American Water Co.
2300 Richmond Road
Lexington, Kentucky 40502

Hon. Lindsey W. Ingram, Jr.
Stoll Keenon Ogden PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-
1801

Hon. David E. Spenard
Assistant Attorney General
1024 Capital Center Drive, Suite
200
Frankfort, KY 40601-8204

Hon. David J. Barberie
Lexington-Fayette Urban Co.
Gov.
Department of Law
200 East Main Street
Lexington, KY 40507

Hon. David F. Boehm
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite
2110

Cincinnati, Ohio 45202

Hon. Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 2110
Cincinnati, Ohio 45202

Hon. Thomas J. FitzGerald
Kentucky Resources Council, Inc.
PO Box 1070
Frankfort, KY 40602

Hon. Stephen Reeder
Kentucky River Authority
70 Wilkinson Blvd.
Frankfort, KY 40601

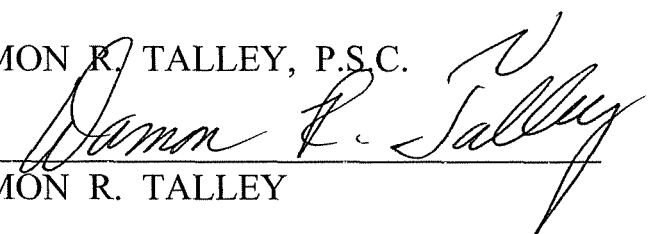
Hon. John E. Selent
Dinsmore & Shohl LLP
1400 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202

Hon. Barbara K. Dickens
Louisville Water Company
550 South Third Street
Louisville, KY 40202

DAMON R. TALLEY, P.S.C.

BY:

DAMON R. TALLEY



1. Identify each person who participated in the consideration and preparation of your answers to these Discovery Requests and identify to which particular Discovery Request each person was involved in answering.

ANSWER:

The appropriate person or persons is listed following the Response to each Discovery Request.

2. Please explain whether (and why) the BWSC would/would not support a proposal such as that attached as Exhibit 2 to the prefiled direct testimony of Greg Heitzman.

ANSWER:

The “proposal” referred to is more aptly identified as a “presentation” or a “concept” than as a definitive proposal. Exhibit 2 of Greg Heitzman’s prefiled direct testimony is the marketing presentation made by the Louisville Water Company (the “LWC”) to the Lexington-Fayette Urban County Council on July 21, 2007. It is nothing more than that! It lacks sufficient detail to be called a “proposal.” Indeed, the first page of Exhibit 2 is a PowerPoint image that contains the word “Presentation” in the caption rather than the word “Proposal.”

No responsible utility can properly evaluate Exhibit 2 because it lacks basic, fundamental details. BWSC, through its First Set of Interrogatories and Request for Production of Documents propounded to LWC on August 13, 2007, is seeking to obtain some of these necessary details. Until this information is received, reviewed and evaluated, it is inappropriate to comment on the relative merits of Exhibit 2.

WITNESS: Thomas P. Calkins, Chair of BWSC

3. Please identify all studies, evaluations, or other analyses that BWSC has performed (or had others perform at its request) to evaluate the cost of the project for which KAWC seeks a CCPN in this matter.

ANSWER:

There have been no such studies performed by BWSC nor by anyone on BWSC's behalf.

The 2004 Water System Regionalization Feasibility Study (the "Regional Study") prepared by O'Brien and Gere Engineers, Inc. for the Bluegrass Area Development District in association with the Bluegrass Water Supply Consortium may contain relevant information. The Regional Study was filed with the Commission on June 28, 2004 in Case No. 2001-00117. The Commission has incorporated by reference all records from Case No. 2001-00117 into the record of this case.

WITNESS: Thomas P. Calkins

4. What is BWSC's current approved engineer's estimate of the cost of the project for which KAWC seeks a CCPN in this matter?

ANSWER:

The BWSC has no such engineering estimate.

WITNESS: Thomas P. Calkins

5. Based on your latest current assumptions, what is the minimum quantity of water that you will use or take from KAWC if KAWC's application for a CCPN is approved in this matter?

ANSWER:

The BWSC does not plan to purchase any water from KAWC. If BWSC is successful in its efforts, then it will own an undivided 20% interest in a 25 million gallons per day ("MGD") water treatment plant. KAWC will own the other 80%.

BWSC estimates its minimum usage to be approximately one (1) MGD based on using approximately 20% of the plant capacity that it will own ($25 \text{ MGD} \times 20\% = 5 \text{ MGD} \times 20\% = 1 \text{ MGD}$).

WITNESS: Thomas P. Calkins

6. Based on your latest current assumptions, what is the minimum quantity of water that KAWC will use or take from its capacity created from the project for which the CCPN is sought in this matter?

ANSWER:

This question should be directed to KAWC.

WITNESS: Thomas P. Calkins

7. What is the basis for your request that LWC supply you with water at a 5-to-1 demand reserve ratio?

ANSWER:

Your use of the term “demand reserve ratio” is puzzling. BWSC assumes you mean “reserved plant capacity to minimum usage ratio.” The 5 to 1 ratio was used to maintain water quality in the pipeline.

WITNESS: Thomas P. Calkins

8. Please describe in detail the nature and content of all discussions or negotiations that have occurred to date with respect to BWSC's interest in or ability to receive water from the treatment plant, associated facilities, and transmission line for which KAWC seeks a CCPN in this matter.

ANSWER:

See KAWC's Response to Item 11 of the Attorney General's First Request for Information filed by KAWC with the Commission on May 21, 2007.

There have been no formal Negotiating Sessions since December 12, 2006. Nevertheless, informal discussions and negotiations between officials and representatives of both parties are ongoing.

BWSC has requested that the water treatment plant to be constructed by KAWC on Pool 3 of the Kentucky River be expanded by 5 MGD (from 20 to 25 MGD) to include capacity for BWSC. BWSC plans to acquire an undivided 20% ownership interest in the 25 MGD water treatment plant, associated facilities and the 42-inch transmission main.

BWSC contracted with KAWC for KAWC's engineers to design the water treatment plant to include an additional 5 MGD module for BWSC. KAWC's engineers have completed the design. Plans,

specifications and the bid documents were prepared to accommodate the needs of BWSC. The bid documents require prospective bidders to submit both a Base Bid to construct a 20 MGD plant and a Supplemental Bid to construct the 5 MGD module. Failure of a bidder to submit both a Base Bid and a Supplemental Bid will be cause for rejection of the bid.

The amount of the additional engineering design cost incurred by KAWC for the 5 MGD module is \$171,000. BWSC will reimburse KAWC for this expense pursuant to the terms of the Agreement for Payment of Engineering Expenses between KAWC and BWSC dated February 27, 2007 (A copy of the Agreement was filed by KAWC as Exhibit E to its Application in this case).

WITNESS: Tomas P. Calkins

9. Please identify all documents related to any discussions or negotiations identified in answer to the immediately preceding interrogatory.

ANSWER:

a. Linda Bridwell's Presentation to the September 25, 2006 BWSC Meeting held in Cynthiana, Kentucky (This document was filed by KAWC as its Response to Item 23 of the Attorney General's First Request for Information);

b. Tom Calkins' October 31, 2006 letter to Nick Rowe with attached Discussion Topics (A copy of the letter and Discussion Topics are attached); and

c. Minutes of BWSC Meeting dated January 22, 2007 (See attached copy).

WITNESS: Thomas P. Calkins

Bluegrass Water Supply Commission



Water, Our Future

699 PERIMETER DR. • LEXINGTON, KENTUCKY 40517-4120

PHONE: (859) 269-8021 • FAX: (859) 269-7917

CYNTHIANA • FRANKFORT • GEORGETOWN • LANCASTER • LEXINGTON • FAYETTE • MT. STERLING • NICHOLASVILLE • PARIS • WINCHESTER

October 31, 2006

Mr. Nick O. Rowe
President
Kentucky American Water
2300 Richmond Road
Lexington, Kentucky 40502

Re: Bluegrass Water Supply Commission/
Kentucky American Water
Public-Private Partnership

Dear Mr. Rowe;

On behalf of the Bluegrass Water Supply Commission (BWSC), I am pleased to respond to Kentucky American's (KAW) Partnership Proposal, as described in the presentation made by Ms. Linda Bridwell at BWSC's September 25, 2006 meeting in Cynthiana. BWSC continues to be keenly interested in pursuing this opportunity. We understand that KAW requires additional time to provide requested details involving costs, connections, etc. While the requested details are important, BWSC is prepared to enter into exploratory discussions immediately.

To maintain momentum toward a regional solution, BWSC requests a meeting as soon as possible to discuss the key issues involved in the proposed Partnership. Attached is a list of Discussion Points which we trust will serve as an effective agenda for this meeting. BWSC looks forward to an open and productive discussion. Please call me with some dates and times that are convenient for you.

Very Truly Yours,
Bluegrass Water Supply Commission

Thomas P. Calkins
Chairman

c: Linda Bridwell, KAW
BWSC Commissioners
Don Hassall, BWSC
Bryan Lovan, O'Brien & Gere
George Rest, O'Brien & Gere
Damon Talley, Esq.

Our Mission

THE BLUEGRASS WATER SUPPLY COMMISSION WILL ENSURE ADEQUATE POTABLE WATER SUPPLY AND TREATMENT RELIABILITY UNDER ANY CONDITIONS TO UTILITY CUSTOMERS AND CONTRACTUAL PARTNERS. BWSC WILL MAXIMIZE UTILIZATION OF THE KENTUCKY RIVER AS A RAW WATER SOURCE, MAINTAIN REASONABLE RATES, AND ENSURE COMPLIANCE WITH ALL WATER QUALITY AND OTHER REGULATIONS.

BWSC/KAW PUBLIC – PRIVATE PARTNERSHIP Discussion Topics

- 1. BWSC Level of Participation**
 - a. Initially: between 5 and 9 MGD
 - b. Future Expansions: water treatment plant capacity can be added at Pool 3 in the future for BWSC's sole use, for KAW's sole use, or joint expansion by KAW and BWSC
- 2. Delivery Points**
 - a. Multiple points of connection to KAW's system, including metered connections at locations intended to serve: Nicholasville and points south; Winchester and points east; Paris; Georgetown and points west; Cynthiana; and possibly others
 - b. Location of each delivery point, the capacity and the hydraulic gradient at which water will be provided
 - c. No wheeling charge
 - d. Responsibility for improvements within KAW service area
- 3. Capital Contributions**
 - a. Each co-owner responsible for providing its share of capital costs
 - b. Capital contribution based on a pro-rated capacity formula that recognizes BWSC's dedicated capacity and the design capacity of each facility component
 - c. Grant funds secured by BWSC will be credited toward BWSC's capital contribution
 - d. Contracted construction cost
 - e. Contracted engineering cost
 - f. Other costs
- 4. KAW to Design and Operate Jointly Owned Facilities**
 - a. Develop Operating Agreement
 - b. KAW and BWSC to collaborate on key decisions involving the Pool 3 supply and Phase 1 transmission system such as those affecting water quality, regulatory compliance, delivery points, future investments, treatment process, major equipment changes, etc.
 - c. BWSC to have meaningful input

- d. KAW to coordinate operation and maintenance of the Pool 3 supply and Phase 1 transmission system with KAW's other facilities to minimize costs for both KAW and BWSC
- e. Minimize taxes (sales taxes, property taxes, corporate income taxes, etc.) in the costs shared by BWSC
- f. O & M cost to be based on a pro-rated capacity formula that recognizes BWSC's capacity or usage or an agreed amount per 1,000 gallons

5. Joint Ownership

- a. KAW and BWSC will jointly own the real property, intake structure, water treatment plant and other facilities located at Pool 3 and the Phase I transmission facilities
- b. Ownership interest based upon capital contribution
- c. Ownership interest documented by Deed, Bill of Sale, etc.

6. Governance

- a. BWSC to have meaningful input
- b. Voting rights
- c. Coordination Committee

7. Cooperation

- a. BWSC will garner public support for project
- b. BWSC will assist KAW in obtaining PSC and other regulatory approvals

8. Schedule

- a. Notification of BWSC's level of participation
- b. Timing for capital contribution
- c. Public – Private Partnership Agreement (Participation Agreement)
- d. Operating Agreement

9. Miscellaneous

- a. BWSC reserves right to obtain additional sources of supply
- b. KAW to furnish BWSC 1.6 MGD by 7-1-09 for use by Winchester
- c. Other matters

MINUTES
of the
BLUEGRASS WATER SUPPLY COMMISSION

January 22, 2007

The Board of Commissioners of the Bluegrass Water Supply Commission (BWSC) held its regular meeting on Monday, January 22, 2007. Chair Calkins convened the meeting at 9:40 a.m. in the Fellowship Hall of Broadway Baptist Church in Lexington, Kentucky.

The following commissioners were present:

<u>Commissioners</u>	<u>Representing</u>
Vernon Azevedo	Winchester
David Billings	Frankfort
Thomas P. Calkins	Nicholasville
Kevin Crump	Paris
Bill Grier	KRA ex-officio member
Jody Hughes	KIA ex-officio member
Charles Martin	LFUCG
David Pearce	Mt. Sterling
Donna Powell	Lancaster
Bob Riddle	Georgetown
Virgie Wells	Cynthiana

Commissioners absent:

None

Staff, associates and contractors who were present included:

Donald Blackburn	Berea Utilities
Don Hassall	General Manager, BWSC
Bryan Lovan	O'Brien & Gere Engineers
Damon Talley	Legal Counsel, BWSC

Others present included:

Bob Blankenship	HMB Engineers and Greater Fleming County Regional Water Commission
Linda Bridwell	Kentucky American Water Company
Solitha Dharman	KY Division of Water
Stan Galbraith	Paris City Commissioner
Michael Galovotti	Kentucky American Water
Joe Gormley	Woodford County citizen
Laura Hackney	MSE Engineers
John Martin	KY River Authority
Andy Mead	Lexington Herald-Leader
Beth Nordurft	Quest Engineers
Mike Redmon	ACIPCO
Jim Smith	Louisville Water Company
John Steinmetz	CDP Engineers
Tim Wells	Harrison County citizen
Mark Willis	Burgess & Niple Engineers
Nancy Wiser	Wiser, Hemlepp & Assoc.
Mike Woolum	Strand Associates

Consideration of the Minutes of the Previous Meeting

Minutes of the December 4, 2006 regular BWSC Meeting were then considered. Upon a motion by Mr. Crump and a second by Mr. Martin, and, by unanimous vote, the Commission approved the minutes as presented.

Consideration of the Financial Report

Mr. Hassall presented the November and December financial reports, which included the accounts payable. Following a motion by Mr. Martin and a second by Mr. Pearce, the accounts payable listing was approved unanimously. The second page of the financial reports was discovered to have errors. As such, staff was directed to correct the errors and to bring both reports to the February meeting.

Accounts Payable approved were as follows:

November

Bluegrass ADD – administrative services for November	\$ 3,448.84
--	-------------

December

Damon Talley – legal service July-December	\$32,346.75
--	-------------

Bluegrass ADD – administrative services for December	\$ 3,831.40
--	-------------

O’Brien & Gere – Task Order 2 for November and December	\$ 3,112.14
---	-------------

O’Brien & Gere – Task Order 5 for November and December	\$10,810.15
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Note: As of January 22, 2007, BWSC continued to owe O’Brien & Gere \$5,501.79 for Task Order 5 work undertaken in October. The invoice had been approved, but the check had not been issued.

Mr. Hassall informed the Commission that Draw 5 of KIA Grant 1 was submitted to the Kentucky Infrastructure Authority on January 8, 2007. The draw request was in the amount of \$249,864.62. Electronic payment on the draw request is expected by month’s end.

Comments from the Public

There were no comments from the public.

Chairman Calkins recognized former Cynthiana Mayor Virgie Wells for her tireless efforts on behalf of her community and the region to deal with water supply issues. Ms. Wells was presented with a *certificate of appreciation* signed by all commissioners, ex-officio members, and associates. Further, Mr. Calkins presented Ms. Wells with a plaque as a symbol of the high regard in which she is held by the BWSC. Ms. Wells responded with kind words. A copy of the text of Ms. Wells’s *certification of appreciation* and her plaque are appended as *Attachment A*.

Committee Report and Recommendations

Administrative Guidelines Committee

Committee Chair Azevedo reported on a recent committee meeting at which an *Attorney Conflict of Interest Waiver* letter was discussed. One attorney who has offered and continues to offer advice to the BWSC is now a member of a large law firm that includes Kentucky American Water’s attorney. The waiver letter, if

approved and signed, would permit both attorneys to function in their capacities. The waiver letter would be revocable, said Mr. Azevedo.

Further, Mr. Azevedo reported that it was time to contact those firms that had competed—more than a year ago—for the engineering design work and for easement and property acquisition work associated with projects that had, at that time, been identified as the BWSC's Phase 1 Project. The contacts would officially notify the competing firms that the effort would not proceed further under the auspices of the BWSC. Further, also to be notified is the contractor on the nearly completed Phase 1 Project Routing Study. That contractor should be informed that work on the last three or four percent of that project would not be pursued.

Mr. Calkins suggested that the committee soon turn its attention to the Lexington-to-Winchester water line connector that needed to be in place by 2009.

Financial Guidelines Committee

To Mr. Riddle's report, Mr. Talley added that several conference calls and one-on-one telephone calls to the BWSC's financial advisor, Public Financial Management (PFM) had been productive. Expected from PFM within the next month are the following:

- projections of cost of water per 1,000 gallons under various scenarios, and
- the draft of a business plan for the BWSC.

Master Planning and Capital Construction Committee

Committee Chair Martin said that the committee had met twice since the December 4, 2006 BWSC meeting and he would defer the committee report until the Program Manager had made his report.

Operations and Maintenance Committee

Committee Chair Crump reported that the Operations and Maintenance Committee had not met and that he had nothing to report.

Program Manager's Report

Mr. Lovan of O'Brien & Gere Engineers presented the Program Manager's report which is appended as *Attachment B*.

The appended report is significant, because, from its findings, crucial decisions concerning the direction of the BWSC effort are expected to be made. Attention is directed to the interim findings on water supply alternatives as listed on page 3 of the Program Manager's report where a discussion of the possible BWSC / KAW business relationship appears. Following that discussion is the conclusions segment on page 4 followed by the recommendations on page 5.

The recommendations of the Program Manager are considered to be of such importance that those five sentences are replicated below:

- *It is recommended that BWSC negotiate with KAW for cost sharing of a 25 MGD facility.*
- *If KAW accepts the 5 MGD initial share in Pool 3, then this will allow for lesser unit cost to BWSC for the initial phase and explore further the possibility to combine that with a supplemental supply from the Ohio River for the remainder of the 4MGD.*
- *Based on an estimated minimum purchase amount of 5 MGD, the calculated unit cost to the Commission would be in the range of \$2.45 to \$2.55 per 1,000 gallons.*
- *It should be noted that the costs per 1,000 gallons are dependent on several factors (terms of borrowing, interest rates, rate coverage, daily withdrawal rates, etc.) which should be common to all options.*
- *Both O'Brien & Gere and PFM will work together to conduct additional analysis to provide a more detailed cost analysis of the rates and will look for guidance on using the appropriate factors for the purpose of projecting wholesale rates.*

At the conclusion of the Program Manager's report, Mr. Martin again addressed the commission in his capacity of Master Planning and Capital Construction Committee chair.

Several attempts were made to word a motion to address the Program Manager's conclusions. After several false starts, Mr. Martin offered the following motion that was seconded by Mr. Billings:

--that the Commission instruct its Negotiating Committee to continue negotiating with KAW toward a joint equity ownership of a 25 MGD project with KAW owning 20MGD and BWSC owning 5 MGD.

The motion was approved unanimously.

Mr. Martin then moved with Mr. Riddle seconding that the Commission authorize the reimbursement to KAW, at a time to be determined later, the sum of \$171,000 for engineering design costs associated in upsizing the regional water treatment plant from 20 MGD to a new daily capacity of 25 MGD.

The motion was approved unanimously.

Mr. Azevedo discussed the public sector investments that have been made by the Commission in planning and engineering beginning in year 2000. He suggested that KAW be asked to reimburse the BWSC for those costs since KAW was utilizing much of those results in its own project apart from the BWSC. Mr. Billings suggested that the BWSC Negotiating Committee make this line of thought one of its issues as it negotiates with KAW.

New Business

Mr. Talley offered additional information covering the waiver of conflict issue subject that had been initially discussed under the Administrative Guidelines Committee report. Upon a motion by Mr. Azevedo, seconded by Ms. Powell, and unanimously approved, the BWSC chairman was authorized to sign the *attorney conflict of interest waiver* letter.

There was no other new business.

Commissioners' and General Manager's Comments / Business

Mr. Hassall reported upon a meeting held on January 18, 2007 at the GOLD office in Frankfort. Attendees were Tom Calkins, Damon Talley, Don Hassall, Jody Hughes, and three GOLD officials. The meeting related to the \$250,000 Community Economic Growth Grant (CEGG) commitment for lands and right-of-way acquisition along the Phase 1 pipeline route. Since the particular task is

defined in the project description is, according to present plans, to be a KAW effort, various options were explored as to how the CEG grant could be retained and expended. Mr. Hughes offered a scenario at that January 18 meeting under which the grant funds could be drawn down under the grant scope as it was originally defined. Mr. Talley will assist Mr. Hassall as together they work with KAW to that end. All CEG grant funds need to be expended prior to June 30, 2007.

Mr. Riddle announced to the Commission his retirement from the Georgetown Municipal Water and Sewer Services as of January 31, 2007. He will be able to continue as a BWSC commissioner.

Mr. Talley announced that documents have been prepared and forwarded to the City of Berea would likely lead to Berea's officially joining the BWSC. Mr. Martin will work with Mayor Jim Newberry and the LFUCG Department of Law to the end that such a public hearing on this issue could be held by Mayor Newberry within 30 to 45 days.

Ms. Powell related that while she continues to represent the City of Lancaster in the BWSC, she is no longer affiliated with Lancaster city government. Rather, she is now serving as Garrard County Judge-executive John Wilson's special assistant.

Mr. Calkins called for a recess at 11:14 a.m. The Commission reconvened the meeting at 11:28 a.m. Mr. Azevedo made a motion, seconded by Mr. Martin that the Commission go in to Executive Session for the discussion of the acquisition of lands and rights-of-way. The motion was unanimously approved.

The Commission later returned to public session. No action was taken as a result of the Executive Session.


Designation of Time/Place for the next Meeting

Monday, February 26 was selected as the date of the next regular meeting of the BWSC. Winchester would host the meeting at a site in Winchester yet to be selected. The meeting will begin at 9:30 a.m.

ADJOURNMENT

There being no further business, and upon a motion by Mr. Billings, seconded by Mr. Riddle, and unanimous action, the January 22, 2007 meeting was adjourned.

Respectfully Submitted,



Don R. Hassall, General Manager

BLUEGRASS WATER SUPPLY COMMISSION

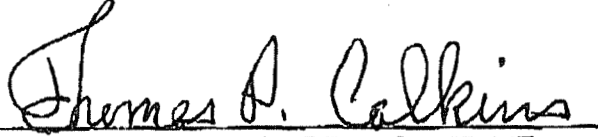
BY: 
ROBERT L. RIDDLE, SECRETARY

Attachments A-B

APPROVAL OF MINUTES

I hereby certify that the foregoing Minutes were duly approved by the Board of Commissioners of the Bluegrass Water Supply Commission at a meeting held on the date shown below:

BLUEGRASS WATER SUPPLY COMMISSION

BY: 
THOMAS P. CALKINS, CHAIR

DATE APPROVED: January 26, 2007

Appreciation to MAYOR VIRGIE WELLS

WHEREAS, the mission of the Bluegrass Water Supply Commission is to ensure adequate potable water supply and treatment reliability under any conditions to utility customers and contractual partners, and

WHEREAS, the members and associates of the Bluegrass Water Supply Consortium and its successor organization, the Bluegrass Water Supply Commission, have been at work since 1999 to cooperatively and collaboratively deal with the water supply deficit in the Bluegrass Region, and

WHEREAS, Mayor Virgie Wells has been a founding member of these groups and has offered perseverance and outstanding leadership in those ongoing efforts to deal with the regional water supply deficit, and

WHEREAS, Mayor Virgie Wells has served as a commissioner of the Bluegrass Water Supply Commission from 2004 to 2007 and

WHEREAS, the Board of Commissioners of the Bluegrass Water Supply Commission together with the Commission's associates recognize the outstanding service of our friend and associate, Mayor Virgie Wells in this ongoing effort to serve our fellowmen,

NOW THEREFORE, on this 22nd day of January, 2007, we the undersigned register our thanks and appreciation to Mayor Wells and choose by this means to recognize her service to multiple water utilities within the region and to the hundreds of thousands of water customers that those utilities serve.

Bluegrass Water Supply Commission letterhead logo

In Recognition
of
Mayor Virgie F. Wells

The Board of Commissioners of the Bluegrass Water Supply Commission recognizes the outstanding service of our friend and associate, Mayor Virgie Wells, in the ongoing effort to develop and to secure a reliable, affordable supplemental source of potable water for the citizens of the City of Cynthia and for the Bluegrass Region.

Presented this 22nd day of January, 2007



Program Manager's Agenda
Bluegrass Water Supply Commission
January 22, 2007

1. Review of Program Manager Budget
2. Status Report
 - Task Order #2
 - Kentucky River Pool #3 – Water Withdrawal Application – On Hold
 - Phase I Pipeline Routing Study Amendment – On Hold
 - Task Order #4 & Task Order #5
 - Review of Alternatives and Update on Least Cost Alternatives – Executive Summary of Analysis



**Program Manager Status Report
Bluegrass Water Supply Commission
January 22, 2007 Board Meeting**

SUMMARY OF PROGRAM MANAGER BUDGET

	Budget	Effort Spent to Date	Remaining Budget
Task Order #2	\$ 94,000.00	\$ 88,012.88	\$ 5,987.12
Task Order #3	\$ 79,000.00	\$ 77,041.16	\$ 1,958.84
Task Order #4	\$ 59,500.00	\$ 18,987.57	\$ 40,512.43
Task Order #5	\$ 63,730.00	\$ 56,476.70	\$ 7,253.30
Total	\$ 311,230.00	\$ 255,515.75	\$ 55,714.25

TASK ORDER #2

• **KENTUCKY RIVER POOL 3 – WATER WITHDRAWAL APPLICATION**

This item has been placed on hold pending the final outcome of the alternative evaluation in Task Order #5.

• **AMENDING PHASE I ROUTING STUDY**

This item has been placed on hold by the Master Planning and Capital Construction Committee with the recommendation that the selection of the final route be tabled until the completion of Task Order No. 5's alternative evaluation.

TASK ORDER #4

• **LOUISVILLE WATER COMPANY PROPOSAL**

BWSC has received several proposals from Louisville Water Company (LWC) for wholesale supply of finished water. The latest proposal was focused on a water supply alternative to meet the needs of BWSC members only (9 MGD or less). If BWSC agreed to a long term contract with minimum purchase provisions, LWC would contribute the required capital to fully fund construction of a 24-inch main with a 10 MGD capacity terminating at KY Highway 53 for all of the supply options specified.

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The various options specified either design or reserved capacity with minimum daily purchases and a variety of rate options. The latest option presented by LWC was to have a maximum day to minimum purchase ratio of 2:1 with the standard wholesale water rate of \$1.63 per one thousand gallons.

Based on an estimated purchase amount of 2 MGD to 3 MGD, the calculated unit cost to the Commission would be greater than \$4.00 per 1,000 gallons.

- **CITY OF VERSAILLES PROPOSAL**

The City of Versailles recently completed construction of a WTP with capacity in excess of their near term demands. Since KAW service area abuts Versailles, it is plausible that KAW could receive water from Versailles to address current deficits, and in turn, convey water to Winchester to address their near term deficit. In reviewing this information, all of the flow rates from the City of Versailles would require additional pumping on BWSC's behalf in order to deliver the water into KAW's system on a short-term basis. (This analysis is based on a five-year term.)

Preliminary estimates of these booster pump options and the City of Versailles' improvements are in the range of \$185,000 to \$400,000.

Based on an estimated purchase amount of 2 MGD to 3 MGD, the calculated unit cost to the Commission would be in the range of \$2.40 to \$2.50 per 1,000 gallons.

- **FPB WATER TREATMENT PLANT EVALUATION**

Frankfort Plant Board (FPB), in cooperation with BWSC, retained GRW Engineers to evaluate the existing FPB WTP for the possibility to meet the short-term needs of Kentucky American Water (KAW). The study also looked at expanding FPB's capacity to meet the needs of BWSC, or to meet the partial needs of both KAW and BWSC.

In summary, the report by GRW Engineers indicates that the historical raw water pumping demands during peak days and the 3-day running annual average has approached 16 MGD on a few occasions and was recommended that the 16 MGD demand be used as the critical present day peak demand. As a result, there is no reliable treatment plant capacity available for BWSC without substantial improvements to expand the water treatment plant and distribution system in the range of \$17 to \$32 million.

Based on an estimated purchase amount of 2 MGD to 3 MGD, the calculated unit cost to the Commission would be greater than \$3.00 per 1,000 gallons.

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TASK ORDER #5

• SUMMARY OF WATER SUPPLY ALTERNATIVES

A Master Planning and Capital Construction Committee meeting was held on January 3rd and January 12th, 2007 to present the conclusion of Task Orders No. 4 & No. 5. A presentation and draft copy of the report has been given to the Master Planning and Capital Construction Committee for review and comments. The following is a summary of these conclusions.

In response to Kentucky American Water's (KAW) offer to construct capacity at Pool 3 for BWSC, BWSC authorized O'Brien & Gere to undertake Task Order No. 5. The intent of Task Order No. 5 is to support BWSC through review of KAW's Preliminary Design Memorandum for a new Water Treatment Plant on Pool 3 of the Kentucky River and to review, update and reassess other alternatives for water supply and grid alternatives to the members of BWSC.

O'Brien & Gere developed initial concept level costs for the several alternatives. Some of the alternatives evaluated included looking at a smaller WTP on Pool #3, purchasing water from Louisville Water Company, increasing the capacity at FPB's WTP, purchasing water from Greater Fleming Regional Water Commission, as well as others, and various combinations.

Interim Findings

- If BWSC develops a 15 MGD Pool 3 water supply independent of KAW, unit costs will be nearly 2-1/2 to 3 times the unit costs if KAW and BWSC worked in partnership, due to loss in economy of scale
- If the BWSC facilities were reduced down to the current 9 MGD committed capacity, the capital costs would be less, but the unit costs would be even higher
- Phasing can defer costs for some members, but is relatively ineffective at reducing unit cost
- Of the other (not Pool 3) BWSC-Only Alternatives, the most preferred, based on cost appear to be :
 - Frankfort Plant Board
 - Greater Fleming, including combinations with FPB & LWC
- The above unit costs are nearly double the BWSC/KAW Pool 3 option, and may not satisfy FPB's desire for a substantial back-up supply

• BWSC/KAW PARTNERSHIP

KAW presented to the BWSC on September 25, 2006, a proposal to construct a 20 MGD facility in Pool 3 of the Kentucky River. O'Brien & Gere has been reviewing the KAW partnership proposal and comparing the costs of the proposed Partnership with other supply options available to BWSC.

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KAW proposes to provide multiple connections to BWSC, in order to reduce the size and cost of the BWSC grid. This approach is consistent with the 2004 Feasibility Study, but different than the "independent grid" approach favored by the Commission.

The project cost as presented in the meetings with KAW and pending any update information from the 30% design submittal is as follows:

Proposed Cost – 20 MGD WTP Facilities (30% Design)

Raw Water Intake Facilities	\$ 18,492,892
WTP Facilities	\$ 42,600,616
WTP Residual Facilities	\$ 12,258,535

Proposed Cost - Transmission Main (30% Design)

Booster Pumping Facility	\$ 3,055,467
Intermediate Storage Facility	\$ 5,101,998
Pipeline – 42-inch	\$ 76,718,778

Total Project Cost – WTP & Transmission Main \$158,228,286

CONCLUSIONS

O'Brien & Gere has re-evaluated the alternatives to KAW's proposal. There are a couple of problems that impact nearly all alternatives:

- **The independent grid is too expensive for BWSC to finance alone, with commitments of 9 MGD.**
- **If BWSC commits to 15 MGD, the unit wholesale costs are more reasonable, but the impact on customer's bills is excessive.**

The estimated cost of the KAW proposal is roughly \$0.20 to \$0.30 per 1,000 gallons more than the "all-in" approach with an independent grid. Assuming that BWSC agrees to using multiple connections to KAW (to avoid cost of the independent grid), the cost could be reduced. It is recommended that BWSC propose to take a smaller share of the Pool 3 facilities (5 MGD out of 25 MGD vs. 9 MGD out of 30 MGD). This allows for a lesser unit cost for the facility and less grid cost to the members.

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RECOMMENDATIONS

It is recommended that BWSC negotiate with KAW for cost sharing of a 25 MGD facility.

If KAW accepts the 5 MGD initial share in Pool 3, then this will allow for lesser unit cost to BWSC for the initial phase and explore further the possibility to combine that with a supplemental supply from the Ohio River for the remainder of the 4 MGD.

Based on an estimated minimum purchase amount of 5 MGD, the calculated unit cost to the Commission would be in the range of \$2.45 to \$2.55 per 1,000 gallons.

It should be noted that the costs per 1,000 gallons are dependent on several factors (terms of borrowing, interest rates, rate coverage, daily withdrawal rates, etc) which should be common to all options.

Both O'Brien & Gere and PFM will work together to conduct additional analysis to provide more detail cost analysis of the rates and will look for guidance on using the appropriate factors for the purpose of projecting wholesale rates.

IV. REQUESTS FOR PRODUCTION OF DOCUMENTS

Please produce all documents referenced, relied upon, or identified in response to the interrogatories set forth above.

RESPONSE:

The documents have either been attached to the appropriate Item of this Discovery Request or reference has been made to the specific response of another party where the document has already been filed as a part of the record in this case.