

RECEIVED

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00134
CITIZENS FOR ALTERNATIVE WATER SOLUTIONS' PUBLIC SERVICE
FIRST DATA REQUEST COMMISSION
Item 1 of 14

Witness: Linda C. Bridwell

1. Concerning the application filed with the Commission by KAWC on March 30, 2007:
 - a. In Numerical Paragraph 7, the 1986 Least Cost/Comprehensive Planning Study of KAW is quoted. Please identify and provide any Least Cost/Comprehensive Planning Study that has been prepared or any supplements to the 1986 study prepared since that time, and indicate why the 1986 study was used in lieu of any more recent study.
 - b. In numerical paragraph 9, the December 1999 Lexington Fayette Urban County Council resolution is referenced as "urging a Kentucky River solution to Kentucky American Water's source of supply." Is the current proposal before the PSC the first phase of a two-phase plan that would ultimately bring raw water from the Ohio River to the proposed water treatment plant on Pool 3 of the Kentucky River?
 - c. Please identify the anticipated cost of Phases I (the current application) and II (a pipeline to the Ohio River) of the proposed plan, and the anticipated cost of each of these Phases to each class of customers expressed in additional cost and as a percentage of current average bills for each class of customer.
 - d. Please identify any study or studies indicating that the proposed treatment plant and transmission main project to Pool 3 of the Kentucky River is the most cost-effective water supply option for KAWC, and provide a copy of such study or studies.
 - e. Please explain whether KAWC agrees or disagrees with the conclusion reached in the "Water System Regionalization Feasibility Study" prepared by O'Brien and Gere Engineers, Inc. (2004) and in the "KAW Least Cost/Comprehensive Planning Study-1992" (at page 3-24, 25) that the most cost effective option is a connection to the Louisville Water Company, and provide in detail the basis for KAWC's agreement or disagreement with that conclusion.
 - f. In Numerical Paragraph 11 the application indicates that "Kentucky American Water has concluded that the most cost effective and feasible solution to the source of supply deficit is the construction of a raw water intake, raw water pumping station and water treatment plant located adjacent to Pool 3 on the KY

River with and associated transmission main and required booster station and water storage tank.”

- (i) Please identify the criteria or decision matrix utilized to support the conclusion expressed in this paragraph.
 - (ii) Would the purchase of treated water from the Louisville Water Company eliminate the need for additional investments in plant capacity to overcome the treatment plant deficit identified by KAWC?
 - (iii) In the June 1998 Bluegrass Water Project Update published by KAWC, it was indicated that the company “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 Water has identified the construction of a 52.5 pipeline to the Ohio River as the best alternative to Lexington and surrounding county water needs.” Please indicate whether any additional options have been evaluated since that time, and for each option evaluates, indicate whether there are studies, reports or other documents describing the nature of that exploration. Please indicate what circumstances have changed since 1998 that would require KAWC to shift from the alternative of purchasing treated water from Louisville to a two-phase approach of creating a new treatment plant at Pool 3 on the Kentucky River and then a new raw water pipeline to the Ohio River?
- g. In numerical paragraph 13 of the application, KAWC describes the Bluegrass Water Supply Commission (BWSC) as “a regional alliance of government agencies and water utilities that has been working cooperatively, with KAW, to address the raw water source of supply deficit in Central Kentucky.” The Commission members are Frankfort Electric and Water Plant Board, Georgetown Municipal Water and Sewer Services, Paris, Cynthiana, Nicholasville, Mt. Sterling, Lancaster, Berea, Winchester Municipal Utilities and Lexington-Fayette Urban County Government.
 - (i) The Bluegrass Water Supply Consortium, a precursor to the BWSC, commissioned a study released in 2004 entitled “Water System Regionalization Feasibility Study” prepared by O’Brien and Gere Engineers, Inc. This study recommended that a Regional Water Commission be established under Chapter 74 of the Kentucky Revised Statutes to construct, own, operate and maintain the proposed waterworks facilities. As a partner on the Consortium, why did KAW decide to proceed instead with a plan on its own?
 - (ii) In Numerical paragraph 13, a cooperative agreement between KAW and the BWSC is referenced that would increase the capacity of the Water Treatment Plant on Pool 3 from 20 mgd to 25 mgd. Footnote 6 states that

the additional 5 mgd has been allocated to Winchester, Frankfort, Georgetown and Nicholasville. Which of these four communities have signed a contract to purchase additional water from the BWSC? When is the deadline for each community to respond to this offer? How much will each of these communities pay for this water?

- (iii) Where is the source of revenue for payments for the site work (including drilling) and property acquisition that is being done at the site of the proposed water treatment plant in Owen County?
- h. In Numerical paragraph 14(2), KAWC mentions receiving a water withdrawal permit from the Kentucky Division of Water, Water Withdrawal Permit 1572. To your knowledge, was the Kentucky River Authority consulted under KRS 224.70-140? Please provide any documentation indicating whether such consultation occurred.
- i. In numerical paragraph 12, KAWC asks the Commission to deviate from any requirement that all permits required be filed with the Application. Please describe and provide supporting documentation on the basis for the company's claim of necessity for exemption from this requirement? Please identify when the company first became aware of the exigencies or circumstances relied upon to support the need for such exemption.
- j. In numerical paragraph 15, KAWC indicates that approval is requested as expeditiously as possible so the water facilities will become operational by the summer of 2010.
 - (i) Why is it important to have these facilities in operation by the summer of 2010?
 - (ii) Has KAWC calculated the amount of additional capacity that will be needed by 2010?
 - (iii) What contingency plans has KAWC developed to provide the additional water needed in 2010 should this proposal not be approved in that timeframe.

Response:

- a) The 1986 Least Cost/Comprehensive Planning Study was updated in 1992 and filed with the PSC first in Case No. 92-452. The 1992 study incorporated the 1986 findings with regard to source of supply and did not restate the need for a supplemental water supply. The 1992 Study is one and one-quarter inches thick, is hard bound, contains some colored charts and maps, and some pages larger than normal size paper. KAWC does not have an electronic copy of it. It will be made available for inspection at a time and place to be agreed upon.
- b) No. KAW has received a water withdrawal permit from the Kentucky Division of

Water for up to 20 mgd with no restrictions and conversations with the Division of Water have indicated that up to 25 mgd may be available from Pool 3 without restrictions. The most likely option for the next increment of water supply would be construction on the Kentucky River but a raw water line to the Ohio River could be an option.

- c) Please see the response and attachments to Commission Staff First Set of Interrogatories, Question 31. The schedules and workpapers attached to that response contain a calculation of the estimated overall rate increase related to the source of supply project. It is not practicable or possible to determine how those estimated, potential rate increases will be spread to the various customer classes at this time. The Company has filed a cost of service study in its current rate case and it will be the cost of service allocation approved in the current rate case or future rate cases that determines the ultimate allocation of the proposed rate increases to the various customer classifications.
- d) Please refer to the response to Item 6 of the PSC Staff's First Data Request in this case.
- e) KAW disagrees. At the time the report was written, it was believed to be the most cost effective solution. However, in a November 2005 letter, O'Brien and Gere clarified its analysis that the selected project was the least cost project. Additionally, in its report for KAW, Gannett-Fleming completed an updated analysis of the Louisville project compared to the proposed new water treatment plant and the Louisville project was not the least cost solution on a present worth analysis.
- f)
 - i) Please refer to 2004 Water System Regionalization Feasibility Study prepared by O'Brien and Gere for the Bluegrass Water Supply Consortium and the information provided in response to Item 6 of the PSC First Data Request in this case.
 - ii) The purchase of treated water in sufficient quantity could eliminate the need for the new water treatment plant, booster station and water main.
 - iii) Please refer to the 2004 Water System Regionalization Feasibility Study prepared by O'Brien and Gere for the Bluegrass Water Supply Consortium. KAW has not shifted to a two-phase plan as explained in response to Item 1b of this same data request. Linda Bridwell's testimony, from page 13 line 12 to page 28 line 9, is an attempt to summarize the changes in circumstances from 1998 to the present.
- g)
 - i) Please refer to Linda C. Bridwell's testimony at page 26, line 6 through page 28, line 9.
 - ii) We are unaware of any contracts. The rest of these requests should be directed to the BGWSC.

- iii) The source of the funds for the payments for the site work and property acquisition for the proposed water treatment plant in Owen County is through short-term financing arrangements by Kentucky American Water with American Water Capital Corp.
- h) Please refer to the attached correspondence from the Kentucky Division of Water.
- i) This project must come on line as soon as possible because there is an existing raw water source of supply deficit for the Central Kentucky region and the consequences of a recurrence of a severe drought event need to be minimized. Additionally, the Alltech FEI World Equestrian Games 2010 sponsors expect 500,000 people to come to Central Kentucky during the games that are scheduled for September 25 to October 10, 2010. We must be authorized to proceed with building the facilities before the end of this year so the contractor(s) will have time for completion of the construction prior to the summer of 2010. To meet that schedule, we needed to file this application in early Spring 2007, but we were unable to have the construction plans in a form suitable to seek and receive all of the required permits by then. We therefore asked for, and received, a deviation from any initial filing requirement that we have all unissued permits in hand before filing an application under KRS 278.020.

We have been aware of the necessity to compress the review period as much as possible since we announced our plans to go forward with the design of a facility to solve the region's source of supply problem.

- j)
 - i) KAW has already exceeded its treatment plant rated capacity, even with the temporary re-rating. It is imperative that KAW have new facilities operational as quickly as possible and early 2010 was the soonest that it could reasonably be accomplished. Additionally, it is possible that new drinking water regulations regarding disinfection byproducts may go into effect by 2010 that will reduce KAW's ability to meet the regulations and operate above the rated capacity. Finally, with the announcement of the World Equestrian Games in late summer 2010, KAW does not want to be in a position of severe restrictions while hundreds of thousands of guests are in Central Kentucky because of a drought when the solution has been worked on for decades.
 - ii) Please refer to the testimony of Linda C. Bridwell at 27.
 - iii) KAW has undertaken short-term hydraulic improvements to increase the operational capability and reliability of both treatment plants to meet customer demands above the rated capacity of both treatment facilities. KAW would need to utilize those facilities for the maximum amount as long as possible. If a drought were to occur prior to having a solution in place, some restrictions would need to be implemented.



ENVIRONMENTAL AND PUBLIC PROTECTION CABINET
DEPARTMENT FOR ENVIRONMENTAL PROTECTION

Ernie Fletcher
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Teresa J. Hill
Secretary

April 10, 2007

APR 12 2007

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

RE: KAWC Water Withdrawal Permit # 1572

Dear Mr. Spenard:

I am in receipt of your letter of March 27, 2007 addressed to Director David Morgan inquiring as to the Division of Water's (DOW) compliance with KRS 224.70-140 in its recent issuance of a water withdrawal permit (Permit # 1572) to Kentucky American Water Company. The statute requires that certain permits issued by the Environmental and Public Protection Cabinet (Cabinet) be consistent with the administrative regulations and the long-range water resource and drought response plans developed by the Kentucky River Authority (KRA).

The KRA has promulgated administrative regulation 420 KAR 1:030, providing for the development by KRA of a long-range water resource plan and a drought response plan for the Kentucky River basin. DOW has participated actively with the KRA in the preparation of those plans, which DOW then uses as reference material in the issuance of water withdrawal permits. This programmatic alignment provides for the consistency referenced in KRS 224.70-140.

420 KAR 1:030 also establishes a procedure to coordinate Cabinet permit actions with the administrative regulations and plans of the KRA. Section 6 of that regulation provides as follows:


While the cabinet is reviewing applications for permits, the authority may also review those applications and may offer to the cabinet comments on whether those permit applications comply with the requirements of KRS 151.700 through 151.730 and 405 KAR Chapter 1.

Hon. David Spenard
April 10, 2007
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The Cabinet has received no comments from the KRA that would indicate any inconsistency between water withdrawal permit #1572 and the administrative regulations and plans of KRA.

I hope that this information is of assistance to you.

Sincerely,

A handwritten signature in black ink, appearing to read "Sandy Gruzesky", written over the printed name.

Sandy Gruzesky, Assistant Director
Division of Water

cc: Stephen Reeder, KRA

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Witness: **Linda C. Bridwell**

2. In the June 1998 "Bluegrass Water Project Update" it is stated that "[r]eports from the Army Corps of Engineers, a study performed by the Kentucky River Basin Steering Committee, a Comprehensive Planning Study conducted by KAWC and a recently completed study by the University of Kentucky Water Research Institute acknowledge the dramatic deficit existing in the Kentucky River."
 - a. Please provide a copy of each study.
 - b. In the "Least Cost/Comprehensive Planning Study-1992" at pp. 3-23, it is stated that "[a]nother set of alternatives studied involved transmission of raw water from the Ohio River for treatment at Kentucky American Water's Richmond Road Station. An expansion would be needed for this purpose. However, there are several significant drawbacks to this approach including the operational, maintenance and water quality concerns regarding a raw water pipeline of this length. Also, this approach would severely hinder Kentucky American Water's ability to provide regionalized service to potential customers or to provide any water sales to public water suppliers anywhere along the entire pipeline route." Would these same water quality concerns and the inability to provide regionalized service apply to Phase II of the current plan—a raw water pipeline from the Ohio River to your proposed water treatment plant on Pool 3? If no, why?
 - c. Please explain when Phase II (the raw water pipeline from the Ohio River is anticipated to be completed, and what contingencies KAWC has in the event that it is not completed by that time.

Response:

- a) The 1992 Least Cost/Comprehensive Planning Study was filed with the PSC in July 1992. Please see the response to Question 1 a herein. The other three documents were filed in Case No. 93-454.
- b) These water quality concerns would apply to any raw water transmission main of significant length.
- c) Please refer to the response to Item 1b of this same data request.

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Witness: Linda C. Bridwell

3. Please provide, in terms of percentage and quantity, data on project and actual sales by KAWC of water to each class of customers at retail and wholesale for each year from 2000 to 2006. To the extent that there has been a decline or an increase, please explain the factors that caused such a change. What is your projected sales volume for 2007, and what are the actual sales in 2007 thus far? Do you anticipate producing and selling less in 2008?

Response:

Please see the attached. While KAW has seen an overall growth in retail and wholesale water sales, there has been a fairly steady decline in per customer usage over time. This is readily seen in the estimated decline in estimated per capita usage in the demand model attached to the response to Item 24 of the Attorney General's First Data Request in this same case.

Classification	2000			2001		
	Actual Volume (1000 gal)	% of each class to total	Plan Volume (1000 gal)	Actual Volume (1000 gal)	% of each class to total	Plan Volume (1000 gal)
Residential	5,825,337	45.32%	5,954,349	5,915,629	45.94%	6,134,976
Commercial	4,233,602	32.94%	4,355,552	4,255,261	33.06%	4,421,913
Industrial	972,970	7.57%	1,095,967	900,513	6.99%	974,186
Other Public Authority	1,314,688	10.23%	1,342,944	1,317,093	10.23%	1,371,274
Sales for Resale	506,982	3.94%	517,879	486,059	3.78%	506,054
Total	12,863,579	100.00%	13,216,711	12,875,555	100.00%	13,408,403

Kentucky American Water
Water Sales by Customer Class
Plan versus Actual

2002				2003				2004			
Actual		Plan		Actual		Plan		Actual		Plan	
Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total
6,261,734	46.53%	6,317,481	46.55%	5,681,624	45.28%	6,435,512	47.23%	5,728,797	46.58%	6,731,275	47.86%
4,308,792	32.02%	4,425,930	32.61%	4,060,398	32.36%	4,397,771	32.22%	4,011,647	32.62%	4,383,458	31.17%
900,829	6.69%	942,969	6.95%	819,065	6.53%	900,509	6.60%	755,945	6.15%	890,115	6.33%
1,505,702	11.19%	1,429,800	10.53%	1,585,153	12.63%	1,412,013	10.35%	1,403,584	11.41%	1,526,586	10.85%
480,869	3.57%	456,628	3.36%	401,401	3.20%	492,357	3.61%	398,384	3.24%	533,584	3.79%
13,457,926	100.00%	13,572,808	100.00%	12,547,641	100.00%	13,648,162	100.00%	12,298,357	100.00%	14,065,018	100.00%

Kentucky American Water
Water Sales by Customer Class
Plan versus Actual

2005				2006			
Actual		Plan		Actual		Plan	
Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total
6,531,909	47.75%	6,692,368	47.66%	6,440,529	48.53%	6,427,687	45.87%
4,327,340	31.63%	4,389,361	31.26%	4,225,322	31.84%	4,485,083	32.02%
808,194	5.91%	903,619	6.43%	748,978	5.64%	898,999	6.42%
1,568,574	11.47%	1,402,350	9.99%	1,466,824	11.05%	1,548,455	11.05%
444,438	3.25%	664,794	4.66%	388,879	2.93%	650,918	4.65%
13,680,455	100.00%	14,042,492	100.00%	13,270,532	100.00%	14,012,140	100.00%

Kentucky American Water
Water Sales by Customer Class
Plan versus Actual

2007 Plan				YTD April 2007				Forecasted Test Year 12/07 - 11/08			
Actual		Plan		Actual		Plan		Actual		Plan	
Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total	Volume (1000 gal)	% of each class to total
#DIV/0!	48.43%	6,700,091	48.43%	1,858,788	48.68%	1,795,622	48.56%	#DIV/0!	#DIV/0!	6,405,289	46.84%
#DIV/0!	31.46%	4,352,093	31.46%	1,216,597	31.86%	1,135,967	32.07%	#DIV/0!	#DIV/0!	4,499,629	32.91%
#DIV/0!	5.76%	796,707	5.76%	238,132	6.24%	233,075	6.30%	#DIV/0!	#DIV/0!	794,874	5.81%
#DIV/0!	10.97%	1,517,508	10.97%	390,941	10.24%	367,561	9.94%	#DIV/0!	#DIV/0!	1,522,040	11.13%
#DIV/0!	3.38%	468,194	3.38%	114,129	2.99%	115,368	3.12%	#DIV/0!	#DIV/0!	452,432	3.31%
#DIV/0!	100.00%	13,834,593	100.00%	3,818,557	100.00%	3,697,593	100.00%	#DIV/0!	#DIV/0!	13,674,263	100.00%

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Witness: **Linda C. Bridwell**

4. Regarding permits and authorizations required for the proposed treatment plant or transmission main:
- (i) Please identify the maximum allowed water withdrawal during the summer months under KAWC's water withdrawal permits by location of withdrawal point.
 - (ii) What are the special wastes for which KAWC must receive a permit from the Division of Waste Management? What are the constituents of concern and the typical concentration of such constituents in such waste, and the basis for that estimate?
 - (iii) Does KAW currently beneficially reuse the special wastes from its other two water treatment plants in Fayette County, and if so, how?
 - (iv) Will material, including solid or sediments, be deposited in Pool 3 as a result of the construction and operation of the new treatment plant? What is the anticipated quantity, and who will be responsible for dredging the material? What consideration has been given to whether that discharge will affect the operation of the lock at dam #3 or the dam.

Response:

- i) Permit number 0200 – Kentucky River at Pool 9 – 63 mgd; Permit number 201 – Jacobson Reservoir, 16 mgd.
- ii) Solids removed during the water treatment process for beneficial re-use. The Division of Waste Management requires testing twice annually for radiologicals, hazardous wastes, and PCB's for KAW's existing permits and to date none have been found.
- iii) Yes. KAW currently beneficially re-uses solids at each of its existing treatment facilities to develop a material and equipment storage area that is also used for parking and storage/staging during improvements, construction and maintenance at the existing facilities.
- iv) No. KAW has applied for a KPDES permit for the supernatant from its residuals process to be returned to the Kentucky River at Pool 3 during operations similar

to the Pool 9 plant. KAW would abide by the terms of the permit which allow up to 30 ntu of solids in the discharge at Pool 9. Considering the raw water of the Kentucky River averages over 100 ntu, KAW does not anticipate any need for dredging to impact the operation of the lock at Dam 3 or the dam.

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Witness: **Linda C. Bridwell**

5. Has KAWC applied for or received any federal funding, permit or authorization? Will any such funding, permit or authorization be necessary for either or both of Phase I or II of the project? Has an environmental assessment or environmental impact statement been developed? If so, please provide a copy of that document.

Response:

KAW has not applied for any federal funding. KAW has submitted to the U.S. Army Corps of Engineers a Department of Army Section 404 permit application for review. No other federal permit or authorization has been applied for. This permit is required for the facilities proposed in this Certificate application. Neither an environmental assessment nor environmental impact statement has been developed. For a copy of the permit application refer to the response to Item 30 of the PSC Staff's First Data Request of this case.

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Witness: Richard Svindland

6. Please provide in detail the plans for construction, restoration and revegetation of areas to be disturbed in support of the transmission main. Please provide a description of the current plan and proposed plan for assessment, maintenance and repair of such lines.

Response:

6. Refer to Exhibit B-Plans, Contract A & Contract B drawings EC-1 through EC-6 and EC-1 through EC-8 respectively for the erosion prevention and sediment control notes and details for the areas disturbed in support of the transmission main. Also, refer to Exhibit B-Specifications, Section 01120 Environmental Protection, Section 01563 Dust Control, Section 01565 Erosion and Sediment Control, Section 02505 Crushed Stone Paving, 02520 Portland Cement Concrete Paving, Section 02930 Restoration of Lawns and Grasses for specified detailed plans for construction, restoration and re-vegetation of areas to be disturbed in support of the transmission main.

KAW currently owns, operates, maintains and repairs over 1600 miles of water main varying in size from ¾-inch to 48-inches in diameter. The proposed water main is designed to have an 80 year design life and as such is not envisioned to need repairs for a number of years except when the main would be damaged by others. The main is assessed hydraulically every day because operation parameters will be continually monitored. The main will be leak sounded annually, and all valves will be operated annually as part of transmission main preventative maintenance. The main will be assessed, maintained and repair as required by all state regulations.

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Witness: **Linda C. Bridwell**

7. The Lexington resolution included a recommendation that KAWC should implement conservation practices and consider demand management options.
- a. Please describe in detail the measures that KAWC has taken to educate customers concerning demand management, the funds that have been spent on conservation and demand management by category, and the benchmarks used by KAWC to assess whether those programs are effective.
 - b. Please indicate the percentage of water usage by category and explain how conservation measures are addressed with each category of users.

Response:

- a. Kentucky American Water has an ongoing consumer education program comprised of a variety of activities and programs. In fact, since 2001, the company has consistently spent approximately \$150,000 annually on conservation-related programs, activities and premium items. The overall theme of the educational program is "Water. It's Worth Using Wisely."

Media campaign

The company's efforts have included the placement of print, radio, TV and outdoor (billboard and transit) advertisements as well as cinema messaging designed to raise awareness of wise water use and provide practical tips for doing so. The majority of the media campaign is placed in May through September, but other smaller media efforts such as periodic print ads are also placed during the fall and winter months. In 2007, for example, approximately \$63,000 is budgeted for print, radio and TV advertising, with another \$73,000 allocated for the rental of three billboards located along heavily traveled roads in Fayette County. In 2007, the imagery for the billboards was refreshed.

In 2006, a new component of the media campaign was implemented: small signage with basic conservation tips regarding indoor water use installed in Rupp Arena restrooms in Lexington. The arena seats 23,000 people and is for University of Kentucky basketball games, concerts, indoor professional football games, and other community performances and events throughout the year.

Annual bill inserts

The company distributes a bill insert annually to all customers that highlights wise water use. This is distributed to more than 100,000 customers through bills, but in addition, extras are printed so that these brochures can be distributed through the company lobbies, community events and meetings, and other venues.

Youth education

The company makes a concerted effort to reach out to school-age children about wise water use. Water quality and communications staff members are periodically contacted by area schools, scouting groups, childcare centers and other youth-related organizations to conduct presentations about conservation. The company is able to share with the students a comprehensive program that includes a 10-minute video on wise water use produced by the company, insights from a water industry professional, and an interactive question and answer period about water use. The children and teachers also receive premium items at the end of the presentation which may include all or a combination of the following items: a conservation-themed activity and coloring book, bookmark, silly straw, stickers, litter bag, ruler, pencil pouch, water bottle or other age-appropriate item.

Website messaging

The company includes conservation information on its website, www.kawc.com.

Toll-free conservation hotline

The company has promoted 1-877-24WATER for several years as a toll-free number to call for more information on conservation or to request conservation items such as leak detection dye tablets. The hotline is also currently used for receiving calls from individuals inquiring about the company's proposed water supply project.

Wise-water gardening and lawn care programs

Kentucky American Water has also sponsored and or assisted in the coordination of a variety of programs since 2001 that highlight wise-water gardening and lawn care practices. Most recently, in 2006, the company sponsored a program coordinated by Bluegrass PRIDE titled "Love Your Lawn." The program included a variety of educational materials regarding wise and environmentally friendly lawn care practices as well as an online audit to assess one's knowledge of such practices.

Conservation premium items

The company periodically purchases and distributes through special events, special programs and other venues a variety of premium items to further promote the "Water. It's Worth Using Wisely" theme among the general public. Items have included water bottles, umbrellas, golf towels, pencils, pens, litter bags, silly straws, bookmarks, pencil pouches, rulers, book covers, Frisbees, shower timers, rain gauges, and other items. These items are distributed at meetings, through

special events, through media promotions, though school presentations and at community festivals such as Arbor Day, Earth Day, Founders' Day at McConnell Springs, Reforest the Bluegrass and others. The company also purchases and produces a variety of brochures highlighting practical tips for wise water use.

Low-flow and leak detection items

The company purchases and distributes a variety of items to the general public to help reduce residential water use. These items include toilet tank water displacement items, low-flow showerheads, faucet aerators and leak detection dye tablets.

Surveys and other research

The company has commissioned periodic research on conservation awareness, which includes focus groups and other surveying techniques.

- b. Please refer to the demand project model filed in response to Item 2e of the Attorney General's First Data Request in this case for the water usage by category. Following the drought of 1999, most of KAW's larger industrial customers indicated they had implemented significant conservation measures and KAW has not included efforts in its conservation program specifically for commercial and industrial customers. Please refer to the response to part a above.

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Witness: **Linda C. Bridwell**

8. On page 27 of Ms. Bridwell's testimony, projections for water needs are indicated to include "unaccounted for amounts" - is that water leakage from the KAWC system? How much water is lost from leakage in existing pipelines owned by KAWC, and what is the incremental cost of inspection and maintenance to reduce leakage?

Response:

Please refer to the response to Item 3 of the LFUCG's First Data Request of this case. KAW has focused on an aggressive leak detection program since 1988 and sponsors a comprehensive program that utilizes cutting edge technology. KAW has begun to be recognized as an expert in leak detection, being asked to assist other water utilities and customers. Over the last five years KAW conducted 86,463 manual soundings and, using permaloggers, conducted an additional 120,876 mobile soundings. Unaccounted-for water continues to be a challenge despite these efforts with a 14.9 % level in 2006. Over the same time period we have added 194 miles of main. In 2001, KAW submitted a bid to the Kentucky River Authority ("KRA") to provide leak detection services on an as-needed basis to other utilities within the Kentucky River Basin, paid for by the KRA. The Kentucky Rural Water Association had previously conducted this effort. Under those efforts KAW successfully assisted the City of Hazard, the City of Jackson, Georgetown Municipal Water and Sewer Services, and the City of Versailles with leak detection efforts. The KRA has now gone to an as-needed program and still periodically asks KAW for assistance. Additionally, KAW continues to assist utilities that periodically contact us, including a recent trip to the City of Wilmore to assist in finding a leak near a building at Asbury College that local officials had been unable to find after two days of searching.

As part of the ongoing efforts, KAW continually reviews its program. During 2006, a trend of increasing unaccounted-for water seemed to be occurring. KAW undertook a thorough review of the program and revised it, including more aggressive system soundings. KAW continues to look for ways to integrate improved technology into the program, including the use of permaloggers that are attached throughout the system and read every three months. These readings are much more frequent than previous sounding efforts, which may sound a zone every five years.

In 2006 KAW spent \$59,130 of its operating expenses on leak detection efforts and does not currently have an incremental cost for additional reduction of leakage.

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Witness: Richard C. Svindland

9. It appears that KAWC based the treatment requirements for the water to be withdrawn from Pool 3 on the standards it uses at Pool 9 and somewhat at lock and dam #2. Why was raw water quality in Pool 3 not used, specifically below the mouth of the Elkhorn Creek?

Is it accurate to state that the water quality in Pool 3 is different from Pool 9 in that approximately 2/3 of the water in Pool 3 is "water return" flow that includes the discharges from sewage treatment plants in Lexington and several other communities? Please provide any qualitative sampling results of the water quality at various river flow conditions in Pool 3.

Response:

KAW has been sampling raw water in pool 3 at the location and depth of the proposed intake since it optioned the intake and water treatment plant property in 2006. The sampling results are attached in response to CAWS question 10 vi. The results of the sampling have been good, but in our opinion have not accurately reflected the extent of turbidity in the river during and after upstream rain events. It is for this reason that Pool 9 data, in addition to existing pool 2 data was used as the design basis for the new plant. In addition, when KAW met with the Division of Water in late March of 2006, KAW indicated that it would likely use pool 9 data as the basis of design for the new plant and DOW concurred with this assessment indicating they had extensive data from all parts of the river and pool 9 data would suffice for turbidity and organic loadings.

It is not accurate to state that the water quality in Pool 3 is different from Pool 9 in that approximately 2/3 of the water in Pool 3 is "water return" flow that includes the discharges from sewage treatment plants in Lexington and several other communities. The average flow in pool 3 since April 1989 to the present is 4.5 billion gallons per day. During that period, flow was 150 MGD or less only 30 days over 6575 days or 0.45% of the time. KAW does not have discharge records into pool 3 for those days. Even during low flow periods, if one considers the volume of pool 3 (approx. 3.8 billion gallons), the wastewater flow would only be minor.

Rivers, by default, have the natural ability to treat and clean a certain amount of waste as it moves downstream. This is the whole premise behind the NPDES program and is why

typical siting criteria for water treatment plants is 10 miles downstream from wastewater treatment plant discharges with significant impact on receiving stream. The proposed intake is approximately 15 miles downstream from Frankfort and 5 miles downstream from Elkhorn Creek. Elkhorn Creek is the receiving stream for LFUCG's Town Branch wastewater effluent which effluent enters Elkhorn Creek over 60 miles upstream from the Kentucky River.

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Witness: **Richard C. Svindland/Linda C. Bridwell**

10. Referencing the testimony of Richard Svindland:

- (i) Please provide the location and the details of the investigation into and negotiations concerning each of the six sites KAWC considered for the proposed water treatment plant on Pool 3?
- (ii) Please provide the criteria used to select the water treatment plant location and to reject the other sites?
- (iii) Has site preparation work begun at the proposed location of the water treatment plant? If yes, please describe what has been done and how much money has been expended on site preparation to date? Please provide a list of all contractors that have performed work and how much has been paid to each.
- (iv) Should the project not move forward, what actions will be required to restore the affected site, what will be the cost and will this cost be paid by the ratepayers?
- (v) Mr. Svindland's testimony indicates that newer technologies in water treatment plants were not selected because of cost. Please provide the cost differences in the technology selected and the newer technologies mentioned.
- (vi) Please provide any report or sampling indicating whether KAWC anticipates that it will be required to install treatment capacity for microbial pollutants (including giardia and Cryptosporidia) at either Pool 9 or Pool 3, and if so, the additional cost for any treatment upgrades to meet those requirements.
- (vii) Regarding the design considerations around upgrading from 20 mgd to 25 mgd, assuming you stay on schedule, when is the deadline for deciding if the plant will be built for 20 or 25 mgd?
- (viii) Mr. Svindland indicates that "riverbank infiltration" was screened for use at Pool 3. Who determined that this location was not suitable for "riverbank infiltration" and what were the bases for that conclusion.
- (ix) Mr. Svindland's testimony indicates that the treatment plant will be "substantially" completed by April 2010. What will not be completed by then,

will the plant be fully operational despite being only “substantially” completed, and when will it be “fully” completed?

- (x) Is the construction cost estimate of a 20 mgd plant still around \$58.3 million dollars? What is the estimated cost to construct a 25 mgd plant?

Response:

- i. Please refer to the report titled “Water Supply Study” dated March 2007 prepared for KAW by Gannett Fleming for a listing of the six water treatment plant sites and five raw water pump station sites. This report is filed in response to Item 6 of the PSC Staff’s First Data Request in this case.
- ii. All six sites listed in Mr. Svindland’s testimony met the site selection criteria provided in his direct testimony question 18. The selected site was ultimately chosen because it was the lowest overall cost and because the property owners were willing to sell at an economical price.
- iii. No. Geotechnical investigation work and surveying work has taken place on site as part of the design of the water treatment plant, intake and raw water pump station. The geotechnical investigation work completed to date on site includes boring, test pits and rock cores. Currently, additional geotechnical investigation work is taking place for the raw water pump station caisson foundation. The cost of the geotechnical work completed to date is part of the overall design fee for the water treatment plant. In order to access the raw water pump station site, equipment was transported down by truck along the future access road location from the water treatment facility and some vegetation removal was required.
- iv. The restoration of the test pits and bore holes is part of the design and included in the design fees paid to Gannett Fleming. The only anticipated cost would be the restoration of vegetation along the proposed access road and plant site. Nominal in cost, it would be up to the PSC to determine if the ratepayer would fund these costs if this project were not to go forward.
- v. Please refer to the Exhibit D of Mr. Svindland’s testimony. That document discusses newer technologies and how a final process was selected.
- vi. KAW has sampled pool 3 and pool 9 for microbial pollutants. Attached are test results for the pool 3 testing. The treatment for the removal of giardia is already a drinking water requirement, as such, pool 9 already has the facilities in place to effectively remove giardia. The design of the pool 3 plant will also meet these same removal requirements. The removal of Cryptosporidia is not currently a regulation although KAW has been monitoring for this at pool 9 for many years and started monitoring for it at pool 2 and pool 3 last August. To date there have no detects for Cryptosporidia in pool 3. The pool 3 facility will have provisions

for the addition of equipment needed to remove Cryptosporidia if required. The cost is not known at this point, due to the fact that the removal of Cryptosporidia is based on how the source is classified and the difference can be considerable from one classification to another.

- vii. The deadline is February 15, 2008 as indicated in Exhibit A-Specifications Section Bid Form page BF-3.
- viii. The determination was made by Mr. Svindland, along with discussions with Gannett Fleming and other engineers at American Water. As soon as geotechnical work was completed on the intake site we knew that we had unsuitable soils for a reliable / effective riverbank infiltration system.
- ix. Please refer to the response to Item 26 of the AG's First Data Request of this case. Substantial completion is scheduled for April 2010. Final completion should occur 6 months later by the end of 2010.
- x. Yes. The estimated construction cost for the 25 MGD plant is \$64.7M

Kentucky American Water
Mar-07
Estimated Property Tax Assessment

Owen County

	Assessed Value Real Estate	Real Estate Per \$100 Value	Tax Due Real Estate	Assessed Value Tangible	Tangible Per \$100 Value	Tax Due Tangible	Total Real and Tangible Tax Due
Real Estate County	\$49,289,540	0.125000	61611.93				\$61,611.93
Real Estate School	\$49,289,540	0.540000	266163.5				\$266,163.52
Real Estate Health	\$49,289,540	0.056000	27602.14				\$27,602.14
Real Estate Library	\$49,289,540	0.080000	39431.63				\$39,431.63
Real Estate Extension	\$49,289,540	0.043000	21194.5				\$21,194.50
Real Estate Soil Conservation	\$49,289,540	0.016000	7886.326	\$5,061,794	0.150000	7592.692	\$7,886.33
Tangible County				\$5,061,794	0.600000	30370.77	\$7,592.69
Tangible School				\$5,061,794	0.056000	2834.605	\$30,370.77
Tangible Health				\$5,061,794	0.198300	10037.54	\$2,834.60
Tangible Library				\$5,061,794	0.075400	3816.593	\$10,037.54
Tangible Extension				\$5,061,794	0.000000	0	\$3,816.59
Tangible Soil Conservation				\$5,061,794	0.000000	0	\$0.00
Total County Tax Estimate							\$478,542.24

Franklin County

Real Estate County	\$55,591,273	0.137000	76160.04				\$76,160.04
Real Estate School	\$55,591,273	0.518000	287962.8				\$287,962.79
Real Estate Health	\$55,591,273	0.040000	22236.51				\$22,236.51
Real Estate Library	\$55,591,273	0.086000	47808.49				\$47,808.49
Real Estate Extension	\$55,591,273	0.012400	6893.318				\$6,893.32
Real Estate Soil Conservation	\$55,591,273	0.008000	4447.302	\$1,586,656	0.203000	3220.912	\$4,447.30
Tangible County				\$1,586,656	0.518000	8218.88	\$3,220.91
Tangible School				\$1,586,656	0.040000	634.6625	\$8,218.88
Tangible Health				\$1,586,656	0.165100	2619.57	\$634.66
Tangible Library				\$1,586,656	0.021000	333.1978	\$2,619.57
Tangible Extension				\$1,586,656	0.000000	0	\$333.20
Tangible Soil Conservation				\$1,586,656	0.000000	0	\$0.00
Total County Tax Estimate							\$480,535.68

Scott County

Real Estate County	\$26,606,672	0.062000	16496.14				\$16,496.14
Real Estate School	\$26,606,672	0.404000	107491				\$107,490.96
Real Estate Health	\$26,606,672	0.032000	8514.135				\$8,514.14
Real Estate Library	\$26,606,672	0.058000	15431.87				\$15,431.87
Real Estate Extension	\$26,606,672	0.014500	3857.967				\$3,857.97
Tangible County				\$0	0.110000	0	\$0.00
Tangible School				\$0	0.419000	0	\$0.00
Tangible Health				\$0	0.032000	0	\$0.00
Tangible Library				\$0	0.110800	0	\$0.00
Tangible Extension				\$0	0.024900	0	\$0.00
Total County Tax Estimate							\$151,791.07

Fayette County

Real Estate County	\$9,546,278	0.080000	7637.022				\$7,637.02
Real Estate School	\$9,546,278	0.541000	51645.38				\$51,645.36
Real Estate Health	\$9,546,278	0.028000	2672.958				\$2,672.96
Real Estate LexTran	\$9,546,278	0.060000	5727.767				\$5,727.77
Real Estate Extension	\$9,546,278	0.003100	285.9346				\$285.93
Real Estate Soil Conservation	\$9,546,278	0.000400	38.16511				\$38.19
Tangible County				\$0	0.099000	0	\$0.00
Tangible School				\$0	0.541000	0	\$0.00
Tangible Health				\$0	0.028000	0	\$0.00
Tangible LexTran				\$0	0.060000	0	\$0.00
Tangible Extension				\$0	0.003400	0	\$0.00
Tangible Soil Conservation				\$0	0.000000	0	\$0.00
Total County Tax Estimate							\$68,017.23

\$1,158,886.22

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Witness: **Linda C. Bridwell**

11. Questions based on Ms. Bridwell's testimony:

- (i) Will KAWC pay property taxes on the water treatment plant and the intake facilities? Can you estimate the amount?
- (ii) Permits for water withdrawal were requested by KAW and the Bluegrass Water Supply Commission. Please explain why both entities applied for withdrawal permits on Pool 3?
- (iii) Is a Ohio River connection necessary in meeting the supply needs of Central Kentucky?
- (iv) Please explain the basis for concluding that the project under consideration is the least cost alternative to meeting the needs of your Central Kentucky customers?
- (v) Will Pool 3 alone provide KAWC customers with adequate water supply in times of severe, prolonged drought?

Response:

- i) Yes. Please refer to the attached schedule.
- ii) A water withdrawal permit application must be filed in order to construct a water treatment facility by the owner of the facility. Because of the ramifications of the terms of the permit on the scope of the project, KAW filed its application early in the design process. KAW was not involved in the discussions or the decision by the BSWC to file a water withdrawal permit application.
- iii) No, not at this time.
- iv) Please refer to the response to Item 6 of the PSC Staff's First Data Request of this same case.
- v) Yes.

Kentucky American Water

Mar-07

Estimated Property Tax Assessment

Owen County

Assessed Value Real Estate	Real Estate Per \$100 Value	Tax Due Real Estate	Assessed Value Tangible	Tangible Per \$100 Value	Tax Due Tangible	Total Real and Tangible Tax Due
\$49,289,540	0.125000	61611.93				\$61,611.93
\$49,289,540	0.540000	266163.5				\$266,163.52
\$49,289,540	0.055000	27602.14				\$27,602.14
\$49,289,540	0.080000	39431.63				\$39,431.63
\$49,289,540	0.043000	21194.5				\$21,194.50
\$49,289,540	0.016000	7886.326				\$7,886.33
			\$5,061,794	0.150000	7592.692	\$7,592.69
			\$5,061,794	0.600000	30370.77	\$30,370.77
			\$5,061,794	0.055000	2834.605	\$2,834.60
			\$5,061,794	0.195300	10037.54	\$10,037.54
			\$5,061,794	0.075400	3816.593	\$3,816.59
			\$5,061,794	0.000000	0	\$0.00
Total County Tax Estimate						\$478,542.24

Franklin County

\$55,591,273	0.137000	76160.04				\$76,160.04
\$55,591,273	0.518000	287962.8				\$287,962.79
\$55,591,273	0.040000	22236.51				\$22,236.51
\$55,591,273	0.086000	47808.49				\$47,808.49
\$55,591,273	0.012400	6893.318				\$6,893.32
\$55,591,273	0.008000	4447.302				\$4,447.30
			\$1,586,656	0.203000	3220.912	\$3,220.91
			\$1,586,656	0.518000	8218.88	\$8,218.88
			\$1,586,656	0.040000	634.6625	\$634.66
			\$1,586,656	0.165100	2619.57	\$2,619.57
			\$1,586,656	0.021000	333.1978	\$333.20
			\$1,586,656	0.000000	0	\$0.00
Total County Tax Estimate						\$460,535.68

Scott County

\$26,606,672	0.062000	16496.14				\$16,496.14
\$26,606,672	0.404000	107491				\$107,490.96
\$26,606,672	0.032000	8514.136				\$8,514.14
\$26,606,672	0.068000	15431.87				\$15,431.87
\$26,606,672	0.014500	3857.967				\$3,857.97
			\$0	0.110000	0	\$0.00
			\$0	0.419000	0	\$0.00
			\$0	0.032000	0	\$0.00
			\$0	0.110800	0	\$0.00
			\$0	0.024900	0	\$0.00
Total County Tax Estimate						\$151,791.07

Fayette County

\$9,546,278	0.080000	7637.022				\$7,637.02
\$9,546,278	0.541000	51645.38				\$51,645.38
\$9,546,278	0.028000	2672.958				\$2,672.96
\$9,546,278	0.060000	5727.767				\$5,727.77
\$9,546,278	0.003100	295.9346				\$295.93
\$9,546,278	0.000400	38.18511				\$38.19
			\$0	0.099000	0	\$0.00
			\$0	0.541000	0	\$0.00
			\$0	0.028000	0	\$0.00
			\$0	0.060000	0	\$0.00
			\$0	0.003400	0	\$0.00
			\$0	0.000000	0	\$0.00
Total County Tax Estimate						\$68,017.23

\$1,158,866.22

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Witness: **Linda C. Bridwell**

12. The 2001 Report indicates that problems were encountered in attempting to use I-64 right-of-way as a pipeline route. Please provide documentation of discussions, correspondence, and engineering or other plans between the KAWC and state or federal transportation officials?

Response:

KAW twice requested permission from the Kentucky Transportation Cabinet to use the right-of-way of Interstate 64 as a pipeline route. Both requests were made to State Highway Engineer J. M. "Mac" Yowell. The request was made on KAW's behalf to the Federal Highway Administration, and both times KAW was told that permission was denied by the FHWA.

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Witness: Nick Rowe/Michael A. Miller

13. Please provide the costs by category and anticipated rate of return expected on the proposal to build treatment plant in Pool 3 as compared with earlier pipeline proposal for treated water from the Ohio River via a connection with the Louisville Water Company?

Response:

13. KAWC is currently authorized an overall rate of return of 7.75% on rate base as approved in Case No. 2004-00103. The authorized rate of return on rate base will not change until such time as the Public Commission does so in a general rate filing.

Please see the schedules attached for a comparison of the costs.

The following costs relate to the treatment plant and the Louisville Pipeline.

<u>Kentucky River Plant</u>	<u>Louisville Pipeline</u>
Return on Rate Base	Return on Rate Base
Depreciation	Depreciation
Deferred Income Tax	Deferred Income Taxes
Labor & Labor Overheads	Purchased Water Expense
Power Costs	Power Costs
Chemical Expense	
Insurance Expense	Insurance Expense
Maintenance Expense	Maintenance Expense
Misc. Operation Expense	Misc. Operation Expense
Property Taxes	

Kentucky-American Water Company
Case No. 2007-00134 - Schedule in Response to CAWS-1-Q013
Estimate of Rate Impact of Source of Supply Project

(000) Omitted

	KAWC Source of Supply Project	Louisville Pipeline Project
13 Month Average Utility Plant	\$159,727	\$169,928
Less: Depreciation Expense	(\$3,594)	(\$3,823)
Deferred Income Tax Exp.	<u>(\$1,118)</u>	<u>(\$1,189)</u>
Rate Base	\$155,015	\$164,915
WCC currently authorized	<u>7.75%</u>	<u>7.75%</u>
UOI	\$12,014	\$12,781
Revenue Gross-up Factor	<u>1.6540077</u>	<u>1.6540077</u>
Revenue Requirement	\$19,871	\$21,140
Add: Depreciation Expense	\$3,594	\$3,823
Deferred Income Tax Expense	\$1,118	\$1,189
O&M Expenses	<u>\$1,185</u>	<u>\$1,404</u>
Rate Impact from SS Project	\$25,768	\$27,557
Going Level Revenues	\$50,867	\$50,867
% Rate Increase	50.66%	54.17%

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Witness: **Linda C. Bridwell**

14. Please provide a copy of any draft or final agreement or contract negotiated with the Louisville Water Company to purchase treated water. Please provide a copy of any correspondence between the two companies concerning the cessation of negotiations on such contract or agreement and the reasons for KAWC determining not to finalize such agreement.

Response:

Please refer to the response to Item 4 of the PSC Staff's First Data Request in this same case.