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PUBLIC SERVICE
COMMISSION

October 1, 2007

Via Hand Delivery

Hon. Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

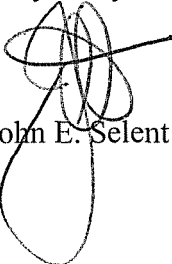
Re: *Application of Kentucky-American Water Company, a/k/a Kentucky American Water for Certificate of Convenience and Public Necessity Authorizing Construction of Kentucky River Station II ("KRS II"), Associated Facilities, and Transmission Line; Case No. 2007-00134.*

Dear Ms. O'Donnell:

We have enclosed for filing an original and eleven copies of the prefiled rebuttal testimony of Gregory C. Heitzman, President of Louisville Water Company.

Thank you, and if you have any questions, please call me.

Very Truly Yours,



John E. Selent

JES/ki

Enclosures

cc: All Parties of Record (w/encl.)
 Barbara K. Dickens (w/encl.)
 Edward T. Depp, Esq. (w/o encl.)

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**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

**Application of Kentucky-American Water)
Company, a/k/a Kentucky American Water)
for Certificate of Convenience and Public)
Necessity Authorizing Construction of Kentucky)
River Station II ("KRS II"), Associated)
Facilities, and Transmission Line)**

Case No. 2007-00134

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COMMISSION

**PREFILED REBUTTAL TESTIMONY OF GREGORY C. HEITZMAN
ON BEHALF OF
LOUISVILLE WATER COMPANY**

October 1, 2007

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**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

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Application of Kentucky-American Water)	
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Facilities, and Transmission Line)	

**PREFILED REBUTTAL TESTIMONY OF GREGORY C. HEITZMAN
ON BEHALF OF
LOUISVILLE WATER COMPANY**

1 **Q. WHAT IS YOUR NAME?**

2 A. My name is Gregory C. Heitzman.

3 **Q. WHO IS YOUR EMPLOYER?**

4 A. My employer is the Louisville Water Company ("LWC").

5 **Q. WHAT IS YOUR POSITION AT LOUISVILLE WATER COMPANY?**

6 A. I am the President of LWC.

7 **Q. HAVE YOU PREVIOUSLY CAUSED TESTIMONY TO BE PREFILED IN THIS**
8 **CASE?**

9 A. Yes, I have. That testimony was filed on or about July 30, 2007, and it sets forth my
10 educational and professional background, as well as my duties and responsibilities at LWC. I would
11 like to add that I have managed the construction of over one thousand miles of water mains in my
12 career and have consistently done so timely and on budget.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?**

14 A. I am here to provide rebuttal testimony to the testimony of the witness of the Attorney
15 General of the Commonwealth of Kentucky. That witness is Scott J. Rubin.

1 **Q. AT THIS POINT IN YOUR TESTIMONY, WHAT PART OF MR. RUBIN'S**
2 **TESTIMONY WOULD YOU LIKE TO RESPOND TO?**

3 A. Mr. Rubin testifies at page 16 of his testimony as follows.

4 Third, and by far the most important, LWC has not made a
5 current proposal to KAWC. At this point, it is unknown whether a
6 pipeline connecting the two systems could be sited and constructed in
7 a reasonable period of time. KAWC had tried several years ago to
8 obtain approval to run a pipeline within the interstate highway right-
9 of-way, and that permission was denied. Thus, it is not clear whether
10 and how such a pipeline could be built in a cost-effective manner at
11 the present time. Also, as I mentioned, it is far from clear what LWC
12 would charge in purchased water costs for a firm reservation of
13 capacity for KAWC, in addition to production costs.

14
15 I conclude, therefore, that it is not possible to accurately
16 assess whether the Pool 3 Project is more expensive than the LWC
17 pipeline option. There is a great deal of uncertainty about the actual
18 cost and feasibility of an LWC pipeline. It appears, however, that the
19 Pool 3 Project and LWC pipeline are likely to be fairly close in cost
20 in the early years, with the LWC pipeline becoming more expensive
21 as KAWC needs more water. Given the need for KAWC to do
22 something immediately, it is my opinion that it is reasonable for
23 KAWC to undertake the Pool 3 Project, so long as certain conditions
24 are met.

25
26 *(Id.)*

27
28 **Q. WHAT IS YOUR RESPONSE TO MR. RUBIN'S TESTIMONY IN THIS REGARD?**

29 A. LWC is committed to working with KAWC, Central Kentucky water providers, and local
30 governing bodies to ensure the delivery of a sufficient capacity of high-quality potable water from
31 LWC's water treatment facilities in Jefferson County to the water systems of Central Kentucky.
32 KAWC has not once in this decade approached LWC about the feasibility of the Louisville Pipeline;
33 accordingly, LWC wants to ensure that KAWC's failure to investigate this alternative is not
34 attributed to a disinterest or inability on the part of LWC. LWC would very much like to be a
35 regional partner in solving the water supply deficit of Central Kentucky.

36 Moreover, to this end, I have been authorized by the Board of Water Works (the governing
37 body of the LWC), in my capacity as President of LWC, to make the following proposal to address

1 the water supply deficit of Central Kentucky. As this proposal reflects, LWC is committed to the
2 timely and cost-efficient (both in terms of capital costs and rates) solution to the water supply deficit
3 of Central Kentucky.

4 Specifically, the proposal which I am authorized to make, and which I do hereby make on
5 behalf of LWC is as follows.

6 **LOUISVILLE WATER COMPANY PROPOSAL**
7 **FOR A**
8 **LOUISVILLE TO LEXINGTON PIPELINE**
9 **ALONG I-64**

10 **October 1, 2007**

11
12
13 Purpose – LWC submits this proposal to supply Central Kentucky with potable water that will meet
14 all state and federal drinking water regulations. A 25 MGD potable water supply will be delivered to
15 Central Kentucky through a 36-inch water transmission main, pumping stations, and storage
16 facilities, collectively referred to as the Louisville Pipeline. The Louisville Pipeline will serve as the
17 “backbone” of a water transmission grid in Central Kentucky. LWC believes that this coordinated
18 investment in water infrastructure will fulfill the mission of participating utilities at the lowest cost to
19 the communities they serve.

20
21 Project Scope - LWC proposes a 36-inch transmission main be installed along the I-64 corridor from
22 I-265 in Jefferson County to Newtown Pike in Fayette County. This 58 mile transmission main will
23 connect LWC’s existing 60-inch water main in English Station Road to KAWC’s 24-inch water
24 main in Newtown Pike (and future sections of the proposed Bluegrass Water Supply Commission
25 (BWSC) transmission grid). The design capacity of the Louisville Pipeline facilities will be 25 MGD
26 with a maximum capacity up to 30 MGD. The Louisville Pipeline will include 3 pumping stations in
27 Jefferson, Shelby and Franklin Counties. Initially, a 3 MG storage facility will be constructed in
28 Shelby County and a 3 MG storage facility in Franklin County. The transmission main will be
29 installed within a 50 foot permanent easement parallel to the I-64 right-of-way. The pipeline will be
30 located in the permanent easement to allow the construction of a future parallel transmission main
31 for either replacement or expansion of capacity. The Louisville Pipeline route and facilities are
32 shown in Exhibit 1 and submitted as part of my testimony.

33
34 The final design of the Louisville Pipeline facilities will be subject to the approval of the Kentucky
35 Division of Water.

36
37 Project Funding and Ownership Components – The Louisville Pipeline will include two sections
38 along I-64.

39
40 Section 1 – from I-265 in Jefferson County to Highway 53 in Shelby County (the delivery
41 point). This section includes 16 miles of 36-inch transmission main, one pump station and a
42 3 MG storage facility. Storage can be expanded up to 5 MG when water demand exceeds 20
43 MGD. The project cost estimate of Section 1 is \$35.1 million. Section 1 will also provide
44 opportunity for water service to Shelby County water providers. LWC will design, build,

own and operate the Louisville Pipeline facilities identified in Section 1. LWC will contribute the required capital to fully fund the construction of these facilities, providing 25 MGD capacity at the delivery point. Section 1 will be available for service by July 2010.

Section 2 – from Highway 53 in Shelby County (the delivery point) to Newtown Pike in Fayette County. This section includes 42 miles of 36-inch transmission main, two pump stations, and a 3 MG storage facility. Storage can be expanded up to 5 MG when water demand exceeds 20 MGD. The project cost estimate of Section 2 is \$88.1 million. This section is proposed to be designed, built, financed, and owned by a public-private partnership involving Central Kentucky water providers, appropriate state and local governing bodies, and potentially LWC. Public participation in this section will make this project very attractive for State and Federal grants, as well as low interest loans from the Kentucky League of Cities, the Kentucky Association of Counties, and the Kentucky Infrastructure Authority.

Supplementary Sections – In addition to Sections 1 and 2, the BWSC (or its members) may construct the necessary grid connections to supply other members of the BWSC. This may include a requirement that KAWC allow water to be wheeled (transmitted) through the KAWC distribution system to supply members of the BWSC.

Project Cost Estimates - For the purpose of this proposal, project cost estimates include: construction costs, contingency, permitting, easements, engineering, legal, administrative, land, capitalized interest during construction and the cost of debt issuance. These project costs are preliminary estimates and were developed from various sources including LWC budgets, the R. W. Beck Report, the Gannet Fleming Report, and the O'Brien & Gere Report (all submitted to the PSC under separate cover). Upon acceptance of this proposal, a final design and route selection will be prepared to validate the project cost estimates. The project cost estimates do not include the benefits of state and local grants or low interest loans, which will further reduce the project cost and associated water rate increases.

Construction Phasing – The Louisville Pipeline facilities are proposed to be built in two phases over the next 5 years (2008 to 2012), as follows:

Phase I includes construction of Section 1 from the Snyder Freeway (I-265) in Jefferson County to Highway 53 in Shelby County. In addition Phase I includes construction of portions of Section 2, specifically the portion from Highway 53 to Highway 420 in Franklin County and the portion from US Highway 60 in Franklin County to Newtown Pike in Fayette County. Phase I will have a design capacity of 10 MGD and be completed by July 2010. This is achievable by providing up to 10 MGD to Frankfort on the west side of the Kentucky River, thereby making up to 6 MGD capacity available from Frankfort's existing 18 MGD treatment plant on Pool 4 of the Kentucky River.

Phase II includes construction of the Louisville Pipeline facilities from Highway 420 in Franklin County, across the Kentucky River to US Highway 60 in Franklin County. Upon completion of Phase II, the design capacity of the Louisville Pipeline facilities will be 25 MGD with the ability to provide a maximum capacity up to 30 MGD. Note that Phase II does not need to be immediately constructed, since Phase 1 can provide up to 6 MGD to Central Kentucky by July 2010. This phased approach provides a lower cost alternative, having the benefits of using existing water infrastructure. In the event Frankfort cannot

1 provide access to its water facilities on an interim basis, Phase II would be built concurrently
2 with Phase I, with an estimated completion date of 2012.

3
4 Water Rates – The water rate will be \$1.71 per 1000 gallons for a reserve capacity ratio of 2:1 (i.e.
5 for a reservation of 10 MGD a minimum purchase of 5 MGD is required). LWC will guarantee the
6 rate of \$1.71 at the delivery point through December 31, 2015. On January 1, 2016, the water rate
7 will be adjusted by the cumulative change in the Consumer Price Index - All Urban Consumers
8 (CPI-U) from December 31, 2007 to December 31, 2015. After December 31, 2016, the water rates
9 will be reviewed and adjusted annually by the Louisville Board of Water Works to reflect the cost of
10 service and in no case will the rate increases exceed the annual CPI-U plus 2 percent.

11
12 LWC proposes two alternatives for pricing water rates when the peak monthly water demand is more
13 than the reservation quantity:

14
15 a) the minimum purchase quantity will be adjusted to maintain the reserve capacity ratio of
16 2:1 (i.e. if the current reserve capacity is 10 MGD, and the most recent monthly
17 consumption averages 12 MGD, the new minimum purchase quantity for the next 24
18 months will be 6 MGD to maintain the 2:1 reserve capacity ratio);

19
20 or

21
22 b) an additional demand charge will be applied for a period of 24 months after the 2:1
23 reserve capacity ratio is exceeded. The additional demand charge will be calculated using
24 the ratio of maximum monthly consumption of the current year over the minimum
25 monthly purchase quantity. (i.e. if the current reserve capacity is 10 MGD, and the most
26 recent monthly consumption averages 12 MGD, the water rate for the next 24 months
27 will be the standard rate times a factor of 1.2 -- the ratio of 12 MGD to 10 MGD)

28
29 These rates are subject to any required approvals of the Commission.

30
31 Reserve Capacity - The reserve capacity is defined as the pipeline capacity set aside for use by a
32 specified customer. LWC will allow a pipeline reserve capacity up to the design capacity of the
33 pipeline (25 MGD for a 36-inch transmission main). Any capacity above the reserve capacity will be
34 made available to water suppliers along the Louisville Pipeline route, at a water rate to be
35 determined at the time of use, using a cost of service rate methodology. In addition, up to 40 percent
36 additional capacity (above the design capacity) may be available for use under emergency
37 conditions.

38
39 LWC will also maintain an available production capacity that is 15 percent above the maximum
40 daily system demand to meet the Kentucky Division of Water standards and future growth needs.
41 The current maximum day demand of record is 205 MGD, set on June 25, 2005. The current
42 available production capacity of LWC is 240 MGD. LWC's August 2007 Water Treatment Plant
43 Capacity Study conducted by CH2MHILL confirms the feasibility of expanding of the B. E. Payne
44 Water Treatment Plant (up to 120 MGD) and the Crescent Hill Water Treatment Plant (up to 240
45 MGD), for a total production capacity of up to 360 MGD.

46
47 Minimum Water Purchase – A minimum purchase of 5 MGD will be required for LWC to build and
48 pay for the 36-inch transmission main, booster pump station and storage facilities included in
49 Section 1 of this Proposal. LWC will allow a phase-in of the minimum water purchase beginning

1 with 3 MGD in 2010, 4 MGD in 2011, and 5 MGD in 2012. The water purchase will be determined
2 on a monthly basis (i.e. 5 MGD will be equivalent to 150 million gallons per month).

3
4 Meter Service Charge - LWC will charge the standard monthly meter fee as approved by the Board
5 of Water Works. This meter service charge is based on the size of meter(s) used in supply of the
6 reserve quantity of water. (i.e. the 2007 monthly meter service charge for a 8-inch meter with a
7 capacity of 4000 gpm is \$706.25).

8
9 System Development Charge - LWC will waive the System Development Charge for this delivery
10 point.

11
12 Water Availability under Emergency Conditions – LWC will provide the same availability of water
13 to this pipeline as to customers similarly situated within the retail service area. In the event of an
14 emergency, the water supply to the Louisville Pipeline facilities will be reduced in a quantity that is
15 consistent with reduction to retail customers.

16
17 Delivery Point – The delivery point from Louisville Water Company will be near the intersection of
18 I-64 and Highway 53 in Shelby County.

19
20 Contract Term – The term of the contract will be 50 years.

21
22 Grants and Low Interest Loans – LWC and other public entities will jointly apply for grants and low
23 interest loans to assist in the funding of the Louisville Pipeline facilities.

24
25 Proposal Time Line - This proposal contemplates a contract being signed by March 1, 2008. The
26 projected schedules and cost estimates for delivery of service are based upon execution of such a
27 contract by March 1, 2008.

28
29 **Q. MR. RUBIN STATES THAT "IT APPEARS THAT THE POOL 3 PROJECT IS THE**
30 **ONLY FEASIBLE OPTION AVAILABLE TO KAWC AT THIS TIME." (Test. of S. Rubin**
31 **at 14:4-5.) DO YOU AGREE WITH THIS STATEMENT?**

32 A. No. While it may be true that KAWC did not provide Mr. Rubin, the Commission, or the
33 parties with information regarding the Louisville Pipeline, it is not true that the Pool 3 Project is the
34 only feasible option available to KAWC at this time. LWC and KAWC have previously entered into
35 a water supply agreement (dated as of December 1998), and KAWC's failure to consider the
36 possibility of a Louisville Pipeline within or along the I-64 corridor does not make the project
37 infeasible. Throughout the past several years, LWC has made multiple presentations to local
38 governing bodies regarding our proposal.

1 **Q. ARE YOU SAYING THAT LWC WOULD AGREE TO AN ARRANGEMENT**
2 **INVOLVING THESE TERMS?**

3 A. Yes, , subject to the negotiation of a definitive agreement among the interested parties that
4 includes but is not limited to the terms and conditions of the proposal that I have detailed in my
5 testimony here today and other standard legal terms and conditions.

6 **Q. IS THERE ANYTHING ELSE THAT YOU WOULD LIKE TO SAY ABOUT THE**
7 **LOUISVILLE PIPELINE?**

8 A. Yes. This proposal is based upon R. W. Beck's study (previously filed with the Commission)
9 and upon a thorough analysis by LWC's expert staff and me. We are committed to the Louisville
10 Pipeline and to making it happen. And, we have the technical, managerial and financial capacity and
11 expertise to make it happen as demonstrated by our 150 plus years in the water industry.

12 **Q. IN LIGHT OF LWC'S PROPOSAL, I WOULD LIKE TO ASK YOU A FEW MORE**
13 **QUESTIONS ABOUT MR. RUBIN'S TESTIMONY. FIRST, DO YOU AGREE WITH HIS**
14 **STATEMENT THAT "IT IS UNCLEAR EXACTLY WHERE A PIPELINE TO LWC**
15 **WOULD BE LOCATED, AND THEREFORE HOW TO EVALUATE THE COST OF THE**
16 **PIPELINE?" (Test. of S. Rubin at 14:11-12.)**

17 A. No; it is not unclear where a pipeline would be located. As the proposal I have outlined
18 above explains, the Louisville Pipeline would be installed along the I-64 corridor from the I-
19 64/Highway 53 intersection in Shelby County to the I-64/Newtown Pike intersection in Fayette
20 County. While it is true that LWC has not completed a final route design analysis for the Louisville
21 Pipeline, this stems largely from the fact that KAWC has avoided any discussion with LWC about a
22 possible Louisville Pipeline. In any event, LWC believes that its proposal for a pipeline along the I-
23 64 corridor mitigates the risk of easement acquisition delay. In comparison, KAWC's proposal to
24 cut through scenic, historic land, is more likely to encounter difficult condemnation actions.

1 In addition, Mr. Rubin states that "[s]eemingly small deviations in the route of a pipeline can
2 translate into significant increases in cost." (Test. of S. Rubin at 14:15-16.) Although he does not
3 acknowledge it, the opposite is also true; seemingly small deviations in the route of a pipeline can
4 translate into significant decreases in cost. These risks are typically accounted for in the project cost
5 estimate, which includes a contingency.

6 **Q. MR. RUBIN ALSO STATES THAT "IT IS NOT AT ALL CLEAR THAT LWC**
7 **COULD EITHER CONSTRUCT THE PIPELINE OR SELL WATER AT THE PRICE OF**
8 **\$1.71 PER 1000 GALLONS." (Test. of S. Rubin at 16:7-8.) DO YOU AGREE WITH THAT**
9 **STATEMENT?**

10 A. No. First, I believe that the proposal that I have made in this testimony should remove any
11 doubts as to whether LWC is willing to sell water at the rate of \$1.71 per 1000 gallons. It is ready,
12 willing, and able. (The four-year old proposal he discusses at page 16, lines 8-13, of his testimony is
13 based upon a non-standard request for proposal that BWSC had made at that time, but it has no
14 relation to the proposal we are making today.)

15 Second, there is no doubt in my mind that the Louisville Pipeline can be constructed.
16 Mr. Rubin states that "it is unknown whether a pipeline connecting the two systems could be sited
17 and constructed in a reasonable period of time." (Test. of S. Rubin at 16:19-20.) LWC was founded
18 more than 150 years ago, and successful pipeline construction and maintenance has been a core
19 component of its longevity. LWC presently maintains nearly 4000 miles of pipeline, and the
20 construction of a 36" transmission main is well within the company's technical and managerial
21 expertise. Mr. Rubin does not define what a "reasonable" period of time is, and in any event, he fails
22 to account for the real possibility (as became apparent at the public comment hearings) that KAWC
23 may face significant opposition from property owners to easement acquisition throughout the scenic,
24 historic land where KAWC hopes to build its treatment plant and pipeline. Given this difficulty,
25 LWC believes that either alternative could be completed in approximately the same time. Further, in

1 light of the challenges attendant to either of these public works projects, the water suppliers of
2 Central Kentucky should work together to address interim solutions to provide water to Central
3 Kentucky until such time as a permanent solution is implemented.

4 **Q. GIVEN MR. RUBIN'S ALLEGED LACK OF CERTAINTY WITH RESPECT TO**
5 **THE LOUISVILLE PIPELINE, ARE THERE ADVANTAGES THAT YOU BELIEVE HE**
6 **MAY HAVE OVERLOOKED?**

7 A. Mr. Rubin does not note the scalability advantages that the Louisville Pipeline alternative
8 would have over the KAWC Pool 3 alternative. Once the capacity of KAWC's proposed water
9 treatment plant is reached, it cannot supply any more water to Central Kentucky without a significant
10 investment in facilities to access the Ohio River. LWC, conversely, already has a greater reserve
11 capacity than KAWC proposes to construct. In addition, LWC can readily expand its existing
12 reserve capacity in order to respond to water supply deficits beyond 2030 or earlier, as the water
13 supply of Pool 3 is depleted.

14 In the event of a water emergency, LWC could actually pump more water (that is, up to an
15 additional fifty percent of the capacity of LWC's proposed 36" transmission main) to Central
16 Kentucky than KAWC's Pool 3 alternative would allow. This is possible with no significant
17 additional capital investment. This would not necessarily present a long-term solution to demand
18 that exceeds existing capacity, but it does allow more flexibility than the fixed ceiling of the KAWC
19 Pool 3 alternative and the limits of the Pool 3 water supply.

20 **Q. ARE THERE ANY OTHER ADVANTAGES THAT YOU BELIEVE HE MAY HAVE**
21 **OVERLOOKED AS A RESULT OF KAWC'S FAILURE TO INVESTIGATE THE**
22 **LOUISVILLE PIPELINE?**

23 A. I do. There are several advantages that we believe he should have considered.

24 First, the Louisville Pipeline proposal is timely. We are committed to implementing the
25 proposal immediately, and it will provide a solution to the water supply deficit of Central Kentucky.

1 I would note, for example, that it is quicker to construct a pipeline than it is to construct both a
2 treatment plant and a pipeline. The Louisville Pipeline proposal does not require the construction of
3 a treatment plant or the expansion of existing water treatment facilities. LWC already has a
4 treatment plant capacity that is more than adequate to address Central Kentucky's water supply
5 deficit.

6 Second, the capital and present worth costs associated with building a 42 mile pipeline are
7 significantly less expensive than those associated with building both a 30 mile pipeline and a 25
8 MGD treatment plant, as KAWC proposes to do.

9 Third, the Louisville Pipeline will be installed along an interstate right-of-way, in an area that
10 is already largely developed and already encumbered with other utility facilities.

11 Fourth, the Louisville Pipeline would provide a redundant source of water supply to Central
12 Kentucky. In other words, it provides access to a second source, in addition to the Kentucky River,
13 to meet the water needs of Central Kentucky. This redundancy is a significant advantage in the
14 event of natural or manmade disaster. That second source is, of course, the abundant supply of the
15 Ohio River which is the watershed for a 14-state region and (with an average flow of nearly ninety
16 billion gallons of water per day) the largest river in the United States east of the Mississippi.

17 Fifth, the Kentucky River simply lacks the reliable water supply of the Ohio River. There is
18 no guarantee that KAWC's proposed water treatment plant will always be able to meet peak demand.
19 Condition T-1 (p. 5 of 6) of the water withdrawal permit attached as Exhibit G to KAWC's
20 application in this matter clearly states that "In times of drought or emergency, the Cabinet may
21 temporarily alter the conditions of the permit." (*Id.*) This is a standard condition under Kentucky
22 law, but it emphasizes that discussions of capacity cannot be intelligently evaluated simply by
23 reference to proposed plant capacity. There must, instead, always be consideration of whether there
24 will be sufficient treatable water in the proposed source, as plant capacity is meaningless in the
25 absence of sufficient source water capacity. In contrast, we believe the abundant supply of water in

1 the Ohio River (nearly ninety billions gallons per day) should have weighed on his evaluation of the
2 KAWC Pool 3 alternative. This is particularly true given the curtailments that have occurred this
3 summer.

4 Sixth, LWC has already committed to meet 2012 drinking water regulations, including the
5 Long-Term 2 Enhanced Surface Water Treatment Rule.

6 Finally, the Louisville Pipeline is the best solution for the Commonwealth as a whole. It
7 optimizes the use of existing infrastructure through regional cooperation, and it discourages
8 unnecessary duplication of, and excessive investment in, water facilities. It represents a coordinated
9 capital investment that will provide Central Kentucky with access to an abundant water supply.

10 **Q. WHAT CONCLUSIONS DO YOU DRAW WITH RESPECT TO MR. RUBIN'S**
11 **RECOMMENDED CONDITIONS TO THE APPROVAL OF KAWC'S POOL 3**
12 **ALTERNATIVE?**

13 A. First, I want to reiterate that LWC disagrees that the KAWC Pool 3 alternative should be
14 approved. KAWC did not adequately investigate or consider the Louisville Pipeline alternative. It
15 failed to do so, even though the 1998 Bluegrass Pipeline concept was KAWC's previously favored
16 solution to the water supply deficit in Central Kentucky. The Louisville Pipeline proposal that I
17 have outlined today is even more attractive than that Bluegrass Pipeline because: (a) the present
18 proposal would involve pipeline installation along the already encumbered I-64 corridor; and (b)
19 LWC has agreed to fund the cost of the Louisville Pipeline from its existing water facilities to the
20 intersection of I-64 and Highway 53 in Shelby County. Therefore, we are hopeful that Mr. Rubin
21 will reevaluate his previous conclusions in light of the advantages of the Louisville Pipeline.

22 If Mr. Rubin is unwilling to modify his previous conclusions regarding the Louisville
23 Pipeline, however, LWC agrees that KAWC should be required to implement the conservation
24 measures proposed by Mr. Rubin. As Mr. Rubin testified, KAWC has "a significant problem with
25 what is characterized as 'non-revenue water' -- that is, water that does not make it to a customer's

1 water meter." (Test. of S. Rubin at 11:15-16.) If KAWC were to address this problem, it would
2 have more water available to meet summer drought conditions. In short, it would appear that an
3 incremental solution (such as water conservation and water loss control programs) would better
4 serve the Commonwealth's citizens than the massive capital outlay proposed by KAWC, which will
5 factor into higher water rates for years to come.

6 Finally, LWC believes that Mr. Rubin's recommendation that KAWC abide by a new supply
7 and demand management plan speaks beyond its words. In fact, this recommendation underscores
8 that even the proposed KRS II water treatment plant is not an end-game solution. It is certainly a
9 good idea to institute a plan whereby the Commission has sufficient advance notice that any new
10 facilities are about to be exhausted. No one wants Central Kentucky to find itself in the midst of
11 another water supply deficit. However, I do note that the implementation of such a plan should
12 frame the unavoidable issue of how those future water needs will be met, and LWC encourages the
13 Commission to review, in that context, the R. W. Beck study attached as an exhibit to Ed Wetzel's
14 testimony.


15 The ability of KAWC's KRS II water treatment plant to meet future water demand beyond
16 2030 once any proposed facilities are exhausted should weigh prominently in any consideration of
17 the long-term water needs of Central Kentucky. KAWC has remained generally silent on this issue.
18 Mr. Rubin acknowledges the issue. LWC has studied the attendant costs (and they are significant)
19 associated with resolving that issue. R. W. Beck's analysis of the additional capital investments
20 required to meet growing water demand over the long term (beyond 2030) show that KAWC has
21 ignored the significant capital outlay (which, again, the ratepayers will absorb) that is looming on the
22 horizon. This issue will have a lasting impact on the Commonwealth, and LWC encourages the
23 Commission to consider this information as it evaluates the Louisville Pipeline alternative. In the
24 end, LWC simply does not agree that Central Kentucky should be forced to foot the bill for the
25 significant cost premiums imposed by KAWC's Pool 3 alternative.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 A. Yes, but I would like to add that LWC is ready to meet with all interested parties (whether
3 party to this proceeding or not), as well as the Commission and its staff, to discuss the Louisville
4 Pipeline and all other pertinent issues. Central Kentucky's water supply deficit is without question a
5 significant issue, and the Commission's decision in this matter will have long-reaching implications.
6 The Louisville Pipeline is the least cost solution; it empowers greater regional cooperation among
7 water suppliers; it avoids excessive investment in duplicative water treatment facilities; it ensures a
8 more reliable supply of water; and it better addresses public safety and health concerns (such as
9 9/11) by providing Central Kentucky with a diversified "two river solution" to its water supply
10 needs.

VERIFICATION


I hereby verify that the foregoing testimony is true and accurate to the best of my knowledge and belief.


Gregory C. Heitzman,
President of Louisville Water Company

COMMONWEALTH OF KENTUCKY)
)SS
COUNTY OF JEFFERSON)

SUBSCRIBED, SWORN TO AND ACKNOWLEDGED before me by GREGORY C. HEITZMAN, to me known, in his capacity as President of Louisville Water Company, this 1st day of October, 2007.

My commission expires: 2-29-08


Notary Public

CERTIFICATE OF SERVICE

It is hereby certified that the Prefiled Rebuttal Testimony of Gregory C. Heitzman on behalf of Louisville Water Company was served via first-class United States mail, sufficient postage prepaid, on the following individuals this 1st day of October, 2007:

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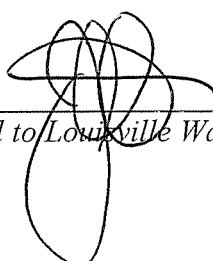
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Counsel to Louisville Water Company

LOUISVILLE PIPELINE

**ENGLISH STATION
10 MG RESERVOIR**

**SEC
16 MILES**

30 MILES OF 42" MAIN

GEORGETOWN

JEFFERSON
Louisville Water Company

West Shelby
Water District

Day Municipal Water

FAYETTE

Woodford County
Water District

LEXINGTON

TAYLORSVILLE

SPENCE
City of

Jessamine-South Elkhorn
Water District

JESSAMINE



DATE: 10/01/07

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Location - CITY OF TAYLORSVILLE, Kentucky, August 14, 2007

Legend

- 12" Mains
- 14" Mains
- 16" Mains
- 18" Mains
- 20" Mains
- 22" Mains
- 24" Mains
- 26" Mains
- 30" Mains
- 34" Mains
- 36" Mains
- 38" Mains
- 42" Mains
- 48" Mains
- 60" Mains
- County Boundaries
- Interstate 64
- Major Streams

Data Sources: KIA, WRIS, OGIS, and LWC Databases.