

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

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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)

**LWC'S RESPONSES TO THE DATA REQUESTS OF THE
BLUEGRASS WATER SUPPLY COMMISSION**

Louisville Water Company ("LWC"), by counsel, hereby responds to the data requests of the Bluegrass Water Supply Commission ("BWSC") as follows.

1. Refer to Heitzman Prefiled Direct Testimony, page 3.
 - a. Mr. Heitzman refers to a 36 inch pipeline to be built from Jefferson County, Kentucky to Fayette County, Kentucky. Where, in Fayette County, is the proposed termination point?
 - b. If the proposed termination point is not at the same location as the termination point of KAWC's proposed 42 inch pipeline (i.e. near the Kentucky Horse Park near the intersection of Newtown Pike and Ironworks Pike), please explain why a different termination point was selected.

RESPONSE:

a) LWC has not conducted a detailed, final design of the Louisville Pipeline. Such a design would include a route analysis and final route selection. LWC anticipates that the Louisville Pipeline will terminate at KAWC's 24 inch line in Newtown Pike, near the juncture of I-64 and Newtown Pike in Fayette County.

b) This route was selected to parallel the I-64 corridor and connect with the same pipeline to which KAWC proposes to connect.

2. Refer to Heitzman Prefiled Direct Testimony, page 5, where he states that the current standard LWC wholesale rate is \$1.71 per thousand.
- a. List the LWC standard wholesale rate for each of the last five (5) years (2002 through 2006).
 - b. What has been the percentage increase in the LWC standard wholesale rate for each of the last five (5) years (2003 through 2007)?
 - c. What is the amount of LWC's standard wholesale rate projected to be in 2010 if the proposed 36 inch pipeline is constructed and placed into service in 2010?
 - d. What is the amount of LWC's standard wholesale rate projected to be in 2011 if the proposed 36 inch pipeline is constructed and placed into service in 2011?
 - e. Is LWC proposing to sell water to wholesale customers located in central Kentucky at its standard wholesale rate of \$1.71 per thousand gallons?
 - f. If so, under what conditions or limitations?

RESPONSE:

a) and b)

| Year | Wholesale Rate | Percent Change |
|------|----------------|----------------|
| 1998 | \$1.35 | 0.00% |
| 1999 | \$1.35 | 0.00% |
| 2000 | \$1.35 | 0.00% |
| 2001 | \$1.35 | 0.00% |
| 2002 | \$1.35 | 0.00% |
| 2003 | \$1.35 | 0.00% |
| 2004 | \$1.49 | 10.37% |
| 2005 | \$1.56 | 4.70% |
| 2006 | \$1.63 | 4.49% |
| 2007 | \$1.71 | 4.91% |

c) LWC has not yet conducted the detailed cost of service study that would be necessary to project the wholesale rate in 2010.

d) LWC has not yet conducted the detailed cost of service study that would be necessary to project the wholesale rate in 2011.

e-f) LWC is willing to sell water to the Bluegrass Region at a delivery point at the intersection of I-64 and Kentucky Highway 53 at its standard wholesale rate, which is currently \$1.71 per 1000 gallons, under the terms of the existing LWC tariff for wholesale customers, or under terms mutually agreeable to both parties. Depending upon who the expected wholesale customer is, such arrangements may be subject to approval by the Public Service Commission of the Commonwealth of Kentucky (“Commission”).

3. Refer to Heitzman Prefiled Direct Testimony, Exhibit 2, page 8, where he states, “LWC will provide alternative wholesale rates based upon minimum purchase, duration of contract, capacity reserved, and contributed capital.” Assume the point of delivery for LWC is in Shelby County at the intersection of Interstate 64 and Kentucky Highway 53.

- a. What will be the wholesale rate if one or more wholesale customers in central Kentucky collectively contract to “reserve” LWC plant capacity in the amount of 25 million gallons of water per day (“MGD”)?
- b. To achieve the lowest wholesale rate possible, will it be necessary for the wholesale customers to contract to purchase, at a minimum, 12.5 MGD, which is one half (1/2) of the “reserved capacity” (i.e. $25 \text{ MGD} \times \frac{1}{2} = 12.5 \text{ MGD}$)?
- c. What impact will it have on the wholesale rate if the wholesale customers contract to purchase, at a minimum, only 5 MGD, which represents 20% of the “reserved capacity” of 25 MGD rather than 50% of the “reserved capacity”?

RESPONSE:

a) If one or more wholesale customers in Central Kentucky collectively contract to “reserve” LWC plant capacity in the amount of 25 million gallons of water per day through a contract negotiated to obtain a rate lower than the standard LWC wholesale rate, the wholesale rate would depend upon the amount of water provided to the wholesale customer(s). This question does not provide the adequate information needed to provide a complete answer.

b) A wholesale customer seeking the lowest wholesale rate possible would enter into a long-term contract with LWC to reserve the quantity desired and would then draw that same amount at a constant rate. In effect, if the BWSC members were seeking the lowest wholesale rate possible from LWC for 25 million gallons per day, then it would reserve and draw 25 million gallons per day.

c) LWC has already provided this information to BWSC in presentations dated July 9, 2003 and August 8, 2003. These presentations were also provided in LWC's responses to the open records request of the Public Service Commission of the Commonwealth of Kentucky ("Commission").

4. Refer to Heitzman Prefiled Direct Testimony, Exhibit 2, page 10. If LWC finances the portion of the pipeline from Kentucky Highway 53 to Fayette County, will LWC expect to recoup this capital investment by either adding a surcharge or increasing the wholesale rate?

RESPONSE:

Several entities could finance the portion of the Louisville Pipeline from Kentucky Highway 53 to Fayette County, but if the participating utilities request that LWC finance this portion of the project, LWC would expect to recoup the full amount of this capital investment, plus a return on this investment, as part of the terms and conditions negotiated with utilities buying wholesale water delivered through the pipeline.

5. Refer to Heitzman Prefiled Direct Testimony, Exhibit 2, page 11.

a. In order for a 36 inch pipeline to provide 30 MGD of supply capacity as represented by Mr. Heitzman in LWC's presentation to the Lexington- Fayette Urban County Council on July 10, 2007, what will be the velocity (in feet per second) of the water moving through the pipeline?

- b. In previous proposals to BWSC, the LWC has indicated that a 36 inch pipeline would only provide 20 MGD. Please explain why LWC is now promoting the construction of a 36 inch pipeline to supply 30 MGD.

RESPONSE:

- a) Velocity will be approximately 6.6 feet per second in a 36 inch main for a 30 MGD flow rate. LWC's understanding is that KAWC and BWSC are interested in a 25 MGD capacity solution to their water supply needs as reflected in a recent request for a proposal from LWC to BWSC. (*See attached.*) The velocity for a 25 MGD flow in a 36 inch main is approximately 5.5 feet per second.

- b) LWC utilizes a conservative estimate of pipeline design capacity for transmission lines equivalent to velocities of 5 feet per second. Velocities of 5 feet per second for a 36 inch pipeline are equivalent to flow rates of 23 MGD. Transmission systems can be designed and operated at higher velocities.

6. Refer to Heitzman Prefiled Direct Testimony, Exhibit 2, page 11. LWC states that the estimated cost of a 36 inch pipeline from Jefferson County to Fayette County is \$82 million.

- a. Does LWC have an Opinion of Probable Cost from a professional engineer licensed in Kentucky to support this estimate? If so, please provide this Opinion.
- b. If not, please provide the basis for this cost estimate.
- c. Are any facilities other than the pipeline itself (e.g. booster pump stations, water storage tanks, etc.) included in this cost estimate?
- d. If the answer to 6c is yes, please describe, in detail, these additional facilities.

RESPONSE:

- a) Not at this time, but please refer to LWC's response to subpart-b), below.

b) LWC's initial construction cost estimates of \$82 million were developed using customary conceptual level costs for capital budget planning purposes. LWC has retained R. W. Beck to conduct an independent analysis to update estimates of the Louisville Pipeline alternative to 2007 cost levels. It will also compare the estimated cost of the Louisville Pipeline to the KAWC Pool 3 proposal described in KAWC's application for a certificate of public convenience and necessity ("CPCN"). The final R. W. Beck analysis and report is expected to be completed in September, and a complete copy will be produced to the Commission and the parties at that time.

c-d) Yes, the estimates include costs for a 25 MGD booster pump station and a 4 MG storage facility at Highway 53.

7. Refer to Heitzman Prefiled Direct Testimony, Exhibit 2, page 11. According to Mr. Heitzman's presentation to the Lexington-Fayette Urban County Council on July 10, 2007, the estimated cost of the 36 inch pipeline from Kentucky Highway 53 in Shelby County to Fayette County is \$56 million (\$82 million less \$26 million = \$56 million). Presumably, this is the portion of the pipeline that would be constructed, paid for, and operated by the water providers in central Kentucky which contract to purchase wholesale water service from LWC.

- a. Does LWC have an Opinion of Probable Cost from a professional engineer licensed in Kentucky to support this estimate? If so, please provide this Opinion.
- b. If not, please provide the basis for this cost estimate.
- c. Are any facilities other than the pipeline itself (e.g. booster pump stations, water storage tanks, etc.) included in this cost estimate?
- d. Constructing a 36 inch pipeline in Franklin County along Interstate 64 will require crossing the Kentucky River, drilling and blasting solid limestone rock, handling the demands of the challenging physical terrain, and managing other construction challenges likely to be encountered. Were these factors considered by LWC in arriving at the \$56 million estimate for the entire cost of the pipeline from Shelbyville to Fayette County?

- e. If so, what is the estimated cost for the Franklin County portion of the pipeline?
- f. If LWC did not consider the factors included in 7d, please explain why they were not considered?

RESPONSE:

- a) Please refer to LWC's response to data request 6(a).
- b) Please refer to LWC's response to data request 6(b).
- c) Please refer to LWC's response to data request 6(c).
- d) LWC objects to this interrogatory insofar as it assumes that it is not possible to cross the Kentucky River by constructing pipeline beneath the existing bridge. Without waiving its objection, please refer to LWC's response to data request 6(b). Further, the R.W. Beck analysis will include a premium cost, in addition to the base cost already included, for crossing the Kentucky River.

- e) Not applicable. LWC refers BWSC to LWC's responses to data requests 6(b) and 6(d).

- f) LWC refers BWSC to LWC's response to data request 6(b).

8. Please identify the amount of each of the following project costs which are included in the \$56 million estimated cost of constructing the proposed 36 inch pipeline from Kentucky Highway 53 in Shelby County to Fayette County:

- a. Engineering Design fees;
- b. Construction Inspection fees;
- c. Regulatory and Permitting approval costs;
- d. Legal fees;
- e. Real property and right-of-way acquisition costs; and

f. Construction contingencies.

RESPONSE:

LWC's initial construction cost estimates of \$56 million for a 36 inch pipeline from Highway 53 to Fayette County were developed using customary conceptual level costs for capital budget planning purposes. This estimate was based on \$250 per foot of 36 inch water main, which includes the estimated costs of materials, construction, and the items described in (a), (b), (c), and (e), above; the estimate does not (and would not customarily) address the items described in (d) and (f), above. As noted elsewhere, however, LWC has retained R. W. Beck to conduct an independent analysis to update estimates of the Louisville Pipeline alternative to 2007 cost levels. It will also compare the estimated cost of the Louisville Pipeline to the KAWC Pool 3 proposal described in KAWC's application for a certificate of public convenience and necessity ("CPCN"). The final R. W. Beck analysis and report is expected to be completed in September, and a complete copy will be produced to the Commission and the parties at that time.

9. If any of the project costs enumerated in question 8 were not included in the \$56 million cost estimate, please explain why that cost was omitted.

RESPONSE:

Please refer to LWC's response to data request 8.

10. Various engineers have publicly stated and advised BWSC that in order to deliver 25 MGD from a LWC pipeline to Fayette County at a point near the intersection of Newtown Pike and Ironworks Road, the following additional facilities will be required: (1) a booster pump station and water storage facilities located in Shelby County; (2) a booster pump station and water storage facilities located on the east side of Frankfort; and (3) water storage facilities located in Fayette County near the terminus of the pipeline (the "Additional Facilities").

- a. Under the proposal made by LWC to the Lexington-Fayette Urban County Council on July 10, 2007, would LWC pay for the design, construction, operation and maintenance of these Additional Facilities as well as the 36 inch pipeline from Louisville to Fayette County and still sell water at its standard wholesale rate of \$1.71 per thousand gallons?
- b. If so, under what conditions or limitations?
- c. If not, please explain.
- d. If the cost of constructing the pipeline from Shelby County to Fayette County and the Additional Facilities exceeds \$56 million, will LWC still provide wholesale water service at the rate of \$1.71 per thousand gallons or will it expect to recoup the additional costs by charging a higher rate?

RESPONSE:

LWC objects to this data request insofar as it assumes that the referenced Additional Facilities will actually be required in connection with the Louisville Pipeline. Without waiving its objection, LWC states as follows.

a) LWC has repeatedly indicated a willingness to build the Louisville Pipeline to Highway 53. Beyond that delivery point at the intersection of I-64 and Highway 53, several entities could finance the referenced Additional Facilities, but if the participating utilities request that LWC finance this portion of the project, LWC would expect to recoup the full amount of this capital investment, plus a return on this investment, as part of the terms and conditions negotiated with utilities buying wholesale water delivered through the pipeline. LWC is willing to assist utilities with financing for any additional facilities that may be necessary to connect their system(s) to LWC's system in order to facilitate wholesale water delivery.

b) Please refer to LWC's response to data requests 2(e) and 2(f).

c) Not applicable.

d) Subject to its responses to data requests 10(a) and 10(b), LWC is willing to sell wholesale water at the delivery point (at the intersection of I-64 and Kentucky Highway 53) at its


standard wholesale rate. Beyond the delivery point (at I-64 and Kentucky Highway 53), the cost to design, construct, operate and maintain the Additional Facilities will be the responsibility of the participating utility(ies) that benefit from the supply of water.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by was served via first-class United States mail, sufficient postage prepaid, on the following individuals this 21st day of August, 2007:

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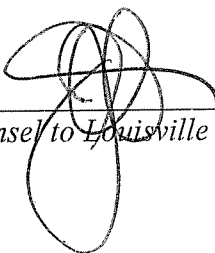
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