

**Dinsmore & Shohl** LLP  
ATTORNEYS

Edward T. Depp  
502-540-2347  
tip.depp@dinslaw.com

RECEIVED

OCT 29 2007

PUBLIC SERVICE  
COMMISSION

October 29, 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 with the Public Service Commission of the Commonwealth of Kentucky ("Commission"), an original and ten (10) copies, of the Louisville Water Company's Responses to The Commission Staff's Supplemental Data Requests.

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

Very truly yours,

**DINSMORE & SHOHL LLP**

  
Edward T. Depp

ETD/bmt  
Enclosures

cc: All Parties of Record (w/enclosures)  
Barbara K. Dickens, Esq. (w/enclosures)  
John E. Selent, Esq. (w/o enclosures)

126449\_1  
38306-1

1400 PNC Plaza, 500 West Jefferson Street Louisville, KY 40202  
502.540.2300 502.585.2207 fax www.dinslaw.com

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

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

**LOUISVILLE WATER COMPANY’S RESPONSES TO  
THE COMMISSION STAFF'S  
SUPPLEMENTAL DATA REQUESTS**

For its responses to the supplemental data requests of the Staff of the Public Service Commission of the Commonwealth of Kentucky ("Commission"), Louisville Water Company ("LWC"), by counsel hereby states as follows.

**REQUESTS FOR INFORMATION**

1. Refer to the Final Report, Comparison of the Louisville Pipeline and Pool 3 Options to Serve Central Kentucky Water Customers (“Beck Report”), Table 3-1.
  - a. State the basis for the estimate that the cost of permitting and easements will equal 5 percent of construction cost. Provide all studies and analyses that the Beck Report’s authors used to derive this estimate.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** The R.W. Beck report assumed the same percentages for engineering, legal, administrative and permitting costs as those used by Gannett Fleming in their report to KAWC entitled “Water Supply Study” dated March 2007 and the O’Brien and Gere report to the BWSC entitled “Final Report for the Water System Regionalization Feasibility Study” dated February 27, 2004. Easement costs were not specifically called out in either the Gannett Fleming or O’Brien and Gere report, but we are comfortable that the 5% assumption used for permitting would be adequate to obtain the necessary permits and easements for the Louisville Pipeline.

b. State the basis for the estimate that engineering, legal, and administrative costs will equal 20 percent of construction costs. Provide all studies and analyses that the Beck Report's authors used to derive this estimate.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** The R.W. Beck report assumed the same percentages for engineering, legal, administrative and permitting costs as those used by Gannett Fleming in their report to KAWC entitled "Water Supply Study" dated March 2007 and the O'Brien and Gere report to the BWSC entitled "Final Report for the Water System Regionalization Feasibility Study" dated February 27, 2004.

c. State whether the authors of the Beck Report reviewed and considered Ms. Linda Bridwell's written testimony in this matter when developing his estimate of easement costs and legal costs. If yes, state the weight given to this testimony.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** No; the authors of that report did not consider Ms. Bridwell's written testimony on this matter when developing the estimate of easement costs and legal costs.

d. Provide a detailed calculation of the construction cost estimate of \$73,023 for the pipeline from KY 53 to Lexington as shown at Table 3-1.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** The estimated construction cost of \$73.023 million is based on the following:

42 miles of 42" pipe @ \$300/ft	=	\$66.528 M
Ky pipeline crossing (2007 \$)	=	\$ 1.753 M
Booster pump station/storage tank (2007 \$)	=	<u>\$ 4.742 M</u>
Total		=\$73.023 M

2. Refer to the Beck Report, Section 1.2.

a. Explain why the Beck Report's authors assume that the Louisville Pipeline Option ("LWC Pipeline") will have 100 percent public ownership.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** Please refer to the response to BWSC Supplemental Request No. 1(a).

b. Identify the public entity or entities that are expected to own the LWC Pipeline. For each public entity listed, list and describe the financial resources that such entity will have available to finance the construction of the LWC Pipeline.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** The public/private ownership would be open to all water providers benefiting from the Louisville Pipeline as well as local and state government entities. This includes existing public entities such as the Bluegrass Water Supply Commission, the Kentucky River Authority, the Kentucky Infrastructure, or others. The financial resources of these entities have not been specifically identified. Each of these entities have resources available to fund the pipeline from various sources including grants, low interest loans, and bonds.

c. Identify the entity that will oversee construction of the LWC Pipeline.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** LWC will own and manage the construction of Section 1 of the Louisville Pipeline. This includes utilizing its consulting engineer for construction management, inspection, and contract administration. If requested by Central Kentucky water providers, LWC is willing to consider similar construction management for Section 2.

d. (1) Provide a revised Phase 1 (2030) Analysis that assumes Kentucky-American Water Company (“Kentucky-American”) will fund 80 percent of the cost of the LWC Pipeline Option and the remaining 20 percent will be publicly financed. Provide all workpapers, show all calculations and state all assumptions used to prepare this revised analysis.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** At the request of LWC, R. W. Beck is analyzing a number of partnership scenarios that will demonstrate variations of public and private ownership interests in Section 2 of the Louisville Pipeline (i.e. 80/20; 50/50; 20/80 public/private ownership percentages). Upon completion, these additional analyses will be made available to the Commission and all parties, no later than Friday, November 9, 2007.

(2) Provide a revised Phase 2 (2050) Analysis that assumes Kentucky-American will fund 80 percent of the cost of the LWC Pipeline Option and the remaining 20 percent will be publicly financed. Provide all workpapers, show all calculations and state all assumptions used to prepare this revised analysis.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** At the request of LWC, R. W. Beck is analyzing a number of partnership scenarios that will demonstrate variations of public and private ownership interests in Section 2 of the Louisville Pipeline (i.e. 80/20; 50/50; 20/80 public/private ownership percentages). Upon completion, these additional analyses will be made available to the Commission and all parties, no later than Friday, November 9, 2007.

e. Identify all public entities with which LWC has discussed construction and ownership of the pipeline from KY 53 to Lexington.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** LWC has had both formal and informal discussions with a variety of public entities through its presentations regarding the Louisville Pipeline. This includes communications with

staff and/or officials of the Bluegrass Water Supply Commission, the Frankfort Plant Board, Capital Community Economic and Industrial Authority of Franklin County, the City of Georgetown, Georgetown Water and Sewer, the Kentucky Association of Counties, the Kentucky Infrastructure Authority, the Lexington Fayette County Urban County Government, the Kentucky River Authority, North Shelby Water Company, Shelbyville Water and Sewer, US 60 Water District, and West Shelby Water District.

f. In his rebuttal testimony, Mr. Heitzman states that the LWC Pipeline will be completed in 2012. State the basis for this anticipated completion date.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** A schedule and basis for completion of the Louisville Pipeline by July 2012 is provided in the responses to LFUCG's Request Nos. 1 and 2.

g. Kentucky-American estimates that the proposed Pool 3 project will be completed in April 2010, approximately 2 years sooner than the LWC Pipeline. Describe the economic effects on Central Kentucky of a 2-year delay in the source of supply project if a drought of record occurs during that time.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** At the outset, LWC notes that, by KAWC's own admission, the Pool 3 project will not be completed by April 2010. KAWC witness Richard Svindland testified that "the time needed to substantially complete the WTP is 900 calendar days." (Test. of R. Svindland at 15:Q36.) In response to the AG's initial data request number 26, KAWC explained that "substantial completion" of its proposed water treatment plant means that "the water treatment plant will be up and running, producing potable water suitable for consumption, but that certain construction items will still be ongoing." (*Id.*) Consequently, assuming a final, nonappealable order in this matter by even January 1, 2008, KAWC's testimony supports substantial completion of the Pool 3 proposal by no sooner than July 1, 2010.

LWC states that both projected completion dates are estimates, and no guarantees have been provided by either party. Neither KAWC nor LWC have acquired all the easements necessary to complete the pipeline, and the proposed KAWC pipeline route has significant public opposition that will impact the schedule. Alternatively, LWC proposes a pipeline route that has no known opposition and that utilizes the existing drinking water infrastructure to provide 6 MGD supply by

July 2010. LWC has not prepared a detailed study of the economic impact, if any, of a July 2012 completion date. Since an additional 6 MGD capacity will be available to Central Kentucky from the Louisville Pipeline by July 2010, the estimated economic impact would be less than the economic impact experienced during 2007 when KAWC issued water restrictions during the drought. Regardless of the water supply solution chosen, the Central Kentucky water suppliers should develop contingency plans: (i) in the event of an emergency prior to July 2010; and (ii) in the event of a delay in construction of either the KAWC or LWC proposals.

- h. Explain why the LWC Pipeline cannot be completed by 2010.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** Section 1 and portions of Section 2 of the Louisville Pipeline are estimated to be complete by July 2010, providing up to 6 MGD to Central Kentucky. The remaining portion of Section 2, from Hwy 420 to US 60 (including the Kentucky River crossing) will be complete by July 2012, providing 25 MGD supply. This portion of Section 2 requires permits from the entities identified in the response to Commission Initial Request No. 9(c), as well as right of way acquisition. The project schedule is included in response to LFUCG Request Nos. 1 and 2.

3. Refer to Kentucky-American's Response to Commission Staff's First Set of Interrogatories and Requests for Production of Documents, Item 6 at 21. State whether the authors of the Beck Report considered any of the non-economic factors considered in the Gannet Flemming Report. If yes, describe the weight given to each listed non-economic factor. If no, explain why these factors were not considered.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** No non-economic factors were considered in the R. W. Beck analysis because the R. W. Beck study provides a present worth cost comparison between two alternatives to deliver water to Fayette County.



4. Refer to the Beck Report, Appendix B-1. Reconcile the amount reported for each operating expense account for the year 2010 in the Pool 3 Option to those included at page 6 of Kentucky-American's Application.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** The KAWC operating expenses were inflated to the year 2010 to reflect the initial year of operation following facility construction.

5. Refer to the Beck Report, Section 3, Phase 1 (2030) Analysis. Provide all workpapers and show all calculations that were made to develop this analysis.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** Please refer to the electronic version of the R. W. Beck study LWC has produced as a supplement to its open records response.

6. Refer to the Beck Report, Section 4, Phase 2 (2050) Analysis. Provide all workpapers and show all calculations that were made to develop this analysis.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** Please refer to the electronic version of the R. W. Beck study LWC has produced as a supplement to its open records response.

7. Refer to the Beck Report, Section 5, Alternative LWC Pipeline Proposal. Provide all workpapers and show all calculations that were made to develop the 36-inch pipeline alternative.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** Table 5-1 outlines the total capital cost estimate for the 36" pipeline alternative for the LWC pipeline. All unit costs are the same as the 42" alternative with the following exceptions:

1. The unit cost of 36" pipe is assumed to be \$250/foot, instead of the \$300/ft. assumed for the 42" pipeline, and
2. Two booster pump stations (rather than one in the 42" alternative) at approximately \$2.6 million each will be required to transport the water through the smaller diameter pipeline.

For additional information, please refer to the electronic version of the R. W. Beck study LWC has produced as a supplement to its open records response.

8. Refer to the Beck Report, Appendices A and B.
  - a. Provide the tables in these appendices in a font size of 12 or greater.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** Please refer to the electronic version of the R. W. Beck study LWC has produced as a supplement to its open records response.

- b. Explain why state and federal income taxes are not included in operating expenses that will result from the return on the capital invested in the new facilities for the Pool 3 Option.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** The state and federal taxes were accounted for in the Revenue Gross-Up, similar to the calculation KAWC made in its rate case filing. The 7.75% after-tax return on rate base was adjusted by 1.654 to arrive at a pre-tax return on rate base of 12.8%.

- c. Explain why the purchased water costs of the LWC option do not reflect the LWC rates included in the proposal included in Mr. Heitzman's Rebuttal Testimony.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** The R. W. Beck analysis addresses cost estimates and present value costs. Results from this analysis were used by LWC to prepare the proposal described in Mr. Heitzman's rebuttal testimony.

- d. Describe how the Beck Report was used to develop the proposal set forth in Mr. Heitzman's Rebuttal Testimony.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** The R. W. Beck analysis addresses cost estimates and present value costs. Results from this analysis were used by LWC to prepare the proposal described in Mr. Heitzman's rebuttal testimony.

9. In Section 4, Phase 2 (2050) Analysis, of the Beck Report, its author states that “LWC has indicated they will increase the capacity of the B.E. Payne Plant by 15 to 30 MGD before 2030, and those costs will be reflected in the wholesale rate.”

- a. Provide a cost estimate for the B.E. Payne Plant expansion.

**Responsible Witness: Greg Heitzman and Ed Wetzel**

**RESPONSE:** LWC objects that the tense of this data request is unduly vague and ambiguous. Without waiving its objection, LWC states as follows.

**Ed Wetzel:** R. W. Beck did not have data with respect to the expected B. E. Payne water treatment plant expansion costs because any such expansion costs were likely to be imbedded in LWC's water rates.

**Greg Heitzman:** Nevertheless, LWC estimates its cost to expand the B. E. Payne water treatment plant from 60 MGD to 90 MGD to be approximately \$5,000,000, which is budgeted for 2010-2012. The cost of this expansion will be included in the cost of service to those customers benefiting from the expanded capacity.

- b. Describe how the LWC wholesale rate was adjusted to reflect the recovery of the B.E. Payne Plant expansion.

**Responsible Witness: Ed Wetzel**

**RESPONSE:** LWC objects that the tense of this data request is unduly vague and ambiguous. Without waiving its objection, LWC states that R. W. Beck did not adjust the LWC water rate to reflect the recovery of the B. E. Payne water treatment plant expansion cost because any such expansion costs were already included in the projection of wholesale water rates in the R. W. Beck report. In addition, LWC refers the Commission to the "Water Rates" section of Mr. Heitzman's rebuttal testimony, at page 6, lines 4 through 29.

10. At page 2 of his rebuttal testimony, Mr. Heitzman states that “LWC will guarantee the rate of \$1.71 at the delivery point through December 31, 2015.”

a. State whether the Beck Report reflects this price guarantee.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** The R. W. Beck Report does not include the guarantee of \$1.71 per 1000 gallons through December 31, 2015. The report is being updated to reflect the assumptions provided in the Louisville Pipeline proposal and will be provided to the Commission and the parties upon completion, no later than Friday, November 9, 2007. These price guarantees as described in the Louisville Pipeline proposal are anticipated to provide additional savings over the KAWC Pool 3 alternative.

b. If the Beck Report does not reflect this price guarantee, state the effect, if any, that the proposed guarantee has upon the Beck Report analysis. Provide all workpapers and show all calculations used to compute the impact.

**Responsible Witness: Greg Heitzman and Ed Wetzel**

**RESPONSE: Ed Wetzel:** The R. W. Beck report does not reflect any price guarantee from LWC, but rather assumes a 3% per year increase in the wholesale rate.

**Greg Heitzman;** Please also refer to the response to Supplemental Request 10(a) above.

c. State whether, in light of the LWC Pipeline’s projected completion of 2012, the proposed price guarantee is effectively limited to a 3-year period.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** The price guarantee is not effectively limited to a 3 year period. A 6 MGD supply will be available by July 2010, and the \$1.71 per 1000 gallon price will provide a guarantee for a period of 5.5 years (July 2010 to December 2015), a significant savings to ratepayers in Central Kentucky.

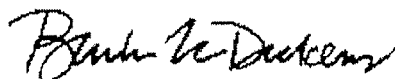


11. State whether LWC has considered assuming ownership of the entire LWC Pipeline from the point of origination in Jefferson County, Kentucky to the point of termination in Fayette County, Kentucky. If yes, explain why LWC has not proposed this option as an alternative. If no, explain why not.

**Responsible Witness: Greg Heitzman**

**RESPONSE:** LWC has not proposed owning the entire pipeline (Section 1 and Section 2) because LWC believes a public/private partnership of Central Kentucky water providers and other government entities would be in the best interest of the Commonwealth. This partnership approach will be attractive for federal and state grants and low interest loans, providing the lowest possible cost to Central Kentucky ratepayers. In addition, Central Kentucky water providers will have the ability to manage this water supply for the benefit of their customers. LWC would consider being a member of such a public/private partnership (for example, the Bluegrass Water Supply Commission).

Respectfully submitted,



---

Barbara K. Dickens  
Vice President and General Counsel  
Louisville Water Company  
550 South Third Street  
Louisville, KY 40202  
tel: (502) 569-0808  
fax: (502) 569-0850

-and-



---

John E. Selent  
Edward T. Depp  
**DINSMORE & SHOHL LLP**  
1400 PNC Plaza  
500 West Jefferson Street  
Louisville, KY 40202  
tel: (502) 540-2300  
fax: (502) 585-2207

*Counsel to Louisville Water Company*

**CERTIFICATION**

I hereby certify that I have supervised the preparation of Louisville Water Company's responses to the initial and supplemental data requests of the Commission Staff and that the responses contained herein (and for which I am designated the responsible witness) are true and accurate to the best of my knowledge, information, and belief formed after reasonable inquiry.

\_\_\_\_\_  
Gregory C. Heitzman,  
President of Louisville Water Company

Date: \_\_\_\_\_

**CERTIFICATION**

I hereby certify that I have supervised the preparation of Louisville Water Company's responses to the supplemental data requests of the Commission Staff and that the responses contained herein (and for which I am designated the responsible witness) are true and accurate to the best of my knowledge, information, and belief formed after reasonable inquiry.

\_\_\_\_\_  
Edward Wetzel,  
Executive Vice President of R. W. Beck

Date: \_\_\_\_\_

**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 29th day of October, 2007:

David Jeffrey Barberie  
Corporate Counsel  
Lexington-Fayette Urban County Government  
Department of Law  
200 East Main Street  
Lexington, KY 40507

David F. Boehm  
Attorney at Law  
Boehm, Kurtz & Lowry  
36 East Seventh Street  
2110 CBLD Building  
Cincinnati, OH 45202

Thomas J. FitzGerald  
Counsel & Director  
Kentucky Resources Council, Inc.  
Post Office Box 1070  
Frankfort, KY 40602

Lindsey W. Ingram, III  
Attorney at Law  
Stoll Keenon Ogden PLLC  
300 West Vine Street  
Suite 2100  
Lexington, KY 40507-1801

Kentucky River Authority  
70 Wilkinson Boulevard  
Frankfort, KY 40601

Michael L. Kurtz  
Attorney at Law  
Boehm, Kurtz & Lowry  
36 East Seventh Street  
2110 CBLD Building  
Cincinnati, OH 45202

David Edward Spenard  
Assistant Attorney General  
Office of the Attorney General Utility & Rate  
1024 Capital Center Drive  
Suite 200  
Frankfort, KY 40601-8204

Damon R. Talley  
Attorney at Law  
P.O. Box 150  
Hodgenville, KY 42748-0150

A.W. Turner, Jr.  
Attorney at Law  
Kentucky-American Water Company aka Kentucky American Water  
2300 Richmond Road  
Lexington, KY 40502

John N. Hughes  
124 West Todd Street  
Frankfort, KY 40601



*Counsel to Louisville Water Company*