

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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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'S
SUPPLEMENTAL POST-HEARING REQUESTS FOR INFORMATION**

The Louisville Water Company ("LWC"), by counsel, hereby responds to the questions set forth in Appendix "C" of the December 21, 2007 order of the Public Service Commission of the Commonwealth of Kentucky (the "Commission") in the above-captioned matter.

REQUESTS FOR INFORMATION

Request No. 1

Provide in narrative form a summary of any and all contacts with Kentucky-American regarding the future supply of water to Kentucky-American customers.

Responsible Witness: Greg Heitzman

RESPONSE: Since 1999, KAWC has never requested a formal or informal proposal from LWC regarding water supply to Central Kentucky. Since 1999, LWC has not had any formal communication with KAWC officials regarding the water supply issue in Central Kentucky. LWC has communicated with KAWC officials on an informal or indirect basis, including the following discussions.

1. Greg Heitzman and Linda Bridwell had informal communications regarding the Louisville Pipeline supply for Central Kentucky on various occasions since 2005. These discussions occurred before or after meetings unrelated to the Central Kentucky water supply issues. Generally, these occurred at meetings of the Board of Directors of the Kentucky Infrastructure Authority, but also may have included other meetings at which both individuals were present.

2. Individuals at LWC, namely Greg Heitzman and Jim Smith, had communications with the Bluegrass Water Supply Consortium (“the Consortium”) and the Bluegrass Water Supply Commission (“the BWSC”) regarding LWC’s proposals that were offered in response to the specific requests of those entities. These indirect communications, which occurred at various times from 2003 through 2007, were during presentations to those two entities. KAWC officials were usually present for the meetings, although KAWC was not a member of the BWSC.

3. On May 21, 2007, following a presentation by the BWSC to Central Kentucky elected officials at High Bridge Park in Wilmore, Kentucky, Mr. Heitzman contacted Mr. Rowe by telephone to advise Mr. Rowe of the content and discussions at the public information meeting. Specifically, Mr. Heitzman discussed with Mr. Rowe the content of the BWSC presentation and questions from elected officials and the media regarding the feasibility of a pipeline supply from Louisville to serve Central Kentucky. The BWSC Power Point presentation included a reference to the Louisville Pipeline as Phase 2 of the Central Kentucky water supply solution. Mr. Rowe advised Mr. Heitzman that the Pool 3 treatment plant option was KAWC’s preferred solution. He advised Mr. Heitzman that KAWC was not considering the Louisville option due to the considerable opposition in the late 1990’s from Woodford County residents and the adoption of the 1999 LFUCG Resolution to use the Kentucky River. Mr. Rowe also advised Mr. Heitzman that KAWC was proceeding as quickly as possible to complete design and bid the project and to proceed with the hearings before the Commission. Mr. Heitzman relayed LWC’s continued interest in providing water to Central Kentucky through some agreement among LWC and other regional partners, including KAWC.

4. On August 15th, 2007, staff at the Frankfort Plant Board facilitated a meeting among members of the BWSC, KAWC, and LWC in an effort to explore a “hybrid” solution, involving the Pool 3 Treatment Plant and a pipeline supply from Louisville. Linda Bridwell represented KAWC at the meeting. Greg Heitzman, and Vince Guenther represented LWC. The meeting included discussions regarding the benefits of a hybrid/twin rivers solution that would provide connectivity between water systems, promote regionalization and provide a redundant unlimited source of supply from the Ohio River.

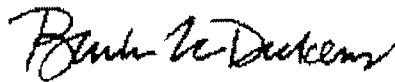
Request No. 2

Provide all correspondence and electronic mail messages with Kentucky-American officials regarding possible solutions to Kentucky-American's water supply needs, including the construction of a new water treatment facility and water transmission mains.

Responsible Witness: Greg Heitzman

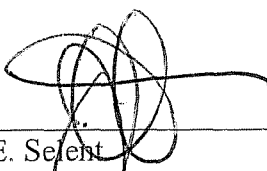
RESPONSE: Please see the attached e-mail and the Bluegrass Water Project communications already produced in response to Kentucky-American's initial data request number 117.

Respectfully submitted,



Barbara K. Dickens
Vice President and General Counsel
Louisville Water Company
550 South Third Street
Louisville, KY 40202

-and-

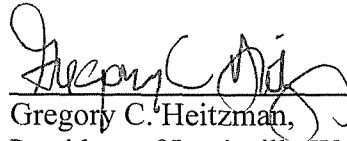


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Counsel to Louisville Water Company

CERTIFICATION

I hereby certify that I have supervised the preparation of Louisville Water Company's responses to the Commission's supplemental post-hearing requests for information and that the responses contained herein 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: 1/9/08

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 9th day of January, 2008:

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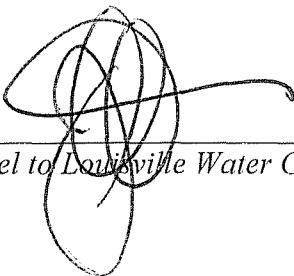
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Frankfort, KY 40601



Counsel to Louisville Water Company

-----Original Message-----

From: Greg Heitzman
Sent: Monday, February 06, 2006 9:38 PM
To: 'bridwell@kawc.com'
Cc: Jim Smith
Subject: RE:

Linda, our proposal is attached. We will review the O&G analysis and get back with you.

Thanks.

Greg C. Heitzman, P.E.
Sr. VP of Operations and Chief Engineer
Louisville Water Company
550 S Third Street
Louisville, KY 40205
e-mail: gheitzman@lwcky.com

-----Original Message-----

From: bridwell@kawc.com [mailto:bridwell@kawc.com]
Sent: Monday, February 06, 2006 10:51 AM
To: Greg Heitzman
Subject:

(See attached file: O & G LWC Analysis 1-06.pdf)

Linda Bridwell, PE
Project Delivery & Developer Services Manager - WV, KY TN Southeast Region 2300 Richmond
Road Lexington, KY 40502
Tel: 859-268-6373
Fax: 859-268-6374



LOUISVILLE WATER COMPANY

550 SOUTH THIRD STREET

LOUISVILLE, KENTUCKY 40202

TEL 502-569-3600

FAX 502-569-0815

December 15, 2005

Mr. Thomas Calkins
Chairman
Bluegrass Water Supply Commission
699 Perimeter Drive
Lexington, KY 40517-4120

Re: Bluegrass Water Supply Commission

Dear Mr. Calkins:

Thank you for your November 14, 2005 letter on behalf of the Bluegrass Water Supply Commission (BWSC). Louisville Water Company (LWC) appreciates the opportunity to update our previous proposals to furnish finished water to the Commission for the residents of Central Kentucky.

As indicated in 2003, LWC continues to anticipate the point of delivery in the vicinity of I-64 and Highway 53. We have prepared our response to the four options outlined in your letter using similar engineering and water rate methodologies as we used before.

LWC submits the enclosed proposal to provide a reliable source of high quality drinking water to central Kentucky based upon the information contained herein and contingent upon an agreement, the terms and conditions of which would be negotiated by the parties. We request the opportunity to present our proposal to the Commission and discuss it further at your convenience. Any such final agreement is subject to approval by the LWC Board of Water Works. Mr. Jim Smith will continue to be our designated contact, and he can be reached at (502) 569-3687. Please feel free to call me if you need additional information.

Sincerely,

John L. Huber
President

C: Mr. Don Hassall, BWSC
Mr. George Rest, O'Brien & Gere
Mr. Bryan Lovan, O'Brien & Gere

enclosure

Supply of Finished Potable Water to the Bluegrass Water Supply Commission (BWSC)

December 15, 2005

Delivery Point, Water Quality and Demand Options: The Louisville Water Company (LWC) desires the point of delivery for finished water to be located in the vicinity of Interstate 64 and Highway 53. LWC's potable, finished water supply could be delivered at a hydraulic grade of 900-950 msl, and working pressure of 40-60 psi (ground elevation 810). The water supply will meet all state and federal drinking water standards. LWC will design, build, own, and operate the water transmission main, pump station and storage facilities to the point of delivery near KY Highway 53.

LWC will contribute the required capital to fully fund construction of a 10 mgd capacity delivery system terminating at KY Highway 53 for all of the supply options specified below. These facilities will consist of a 24-inch water main along Interstate 64 from the Snyder Freeway (Interstate 265) to KY Highway 53, a booster pump station in Jefferson County at Interstate 265 and a 2 million gallon storage facility at Highway 53 in Shelby County. The BWSC will be responsible for any additional costs of upsizing these facilities to meet the required reserved capacities specified. In consideration of such a capital commitment, LWC requires, at a minimum, a 50-year contract with renewal options.

In order to meet the demand criteria identified in your letter of November 14, 2005, LWC outlines the following options for consideration:

Option 1: Provide 6.2 mgd base rate of flow with maximum day design capacity of 31 mgd. LWC recommends the installation of a 42-inch water main along Interstate 64 from the Snyder Freeway (I-265) to Highway 53, a booster pump station in Jefferson County at Interstate 265 and a 6 million gallon storage facility at Highway 53 in Shelby County. LWC will design, build, own, and operate these facilities to the point of delivery at KY Highway 53. Alternatively, parallel 30-inch transmission facilities are recommended to reduce the higher operating risk and allow future maintenance while maintaining operations to deliver the base rate of flow. To ensure reliable service to meet this demand, improvements in LWC transmission, clear well and finished water pumping facilities will be needed. Costs for these improvements are estimated to be \$10 million.

As noted above, the BWSC will be responsible for the costs of upsizing these facilities from the base 10 mgd option to deliver the 31 MGD reserved capacity requested to KY Highway 53 in addition to the \$10 million required to upgrade LWC plant and core transmission facilities.

Option 2a: Provide 4 mgd base rate of flow with a maximum day design capacity of 20 mgd. LWC recommends the installation of a 36-inch water main along Interstate 64 from the Snyder Freeway (Interstate 265) to KY Highway 53, a booster pump station in Jefferson County at Interstate 265 and a 4 million gallon storage facility at KY Highway 53 in Shelby County. LWC will design, build, own, and operate these facilities to the point of delivery at KY Highway 53. As noted above, the BWSC will be responsible for the costs of upsizing these facilities from the base 10 mgd option to deliver the requested 20 MGD reserved capacity.

Option 2b: Provide 3 mgd base rate of flow with a maximum day design capacity of 15 mgd. LWC recommends the installation of a 30-inch water main along Interstate 64 from the Snyder Freeway (Interstate 265) to KY Highway 53, a booster pump station in Jefferson County at Interstate 265 and a 3 million gallon storage facility at KY Highway 53 in Shelby County. LWC will design, build, own, and operate these facilities to the point of delivery at KY Highway 53. As noted above, the BWSC

will be responsible for the costs of upsizing these facilities from the base 10 mgd option to deliver the requested 15 MGD reserved capacity.

Options 3 & 4: Provide 2 mgd base rate of flow with a maximum day design capacity of 10 mgd. This option requires installation of a 24-inch water main along Interstate 64 from the Snyder Freeway (Interstate 265) to KY Highway 53, a booster pump station in Jefferson County at Interstate 265 and a 2 million gallon storage facility at Highway 53 in Shelby County. LWC will fully fund, design, build own, and operate these facilities to the point of delivery at KY Highway 53.

The above options have been prepared from a preliminary engineering review of the project objectives outlined in your letter of November 14, 2005. We have not performed a detailed engineering or hydraulic analysis of these scenarios. The suggested scope of the project is intended to be a conservative approach to providing the water demand options identified. Further engineering design, hydraulic analysis, property/easement research, and review of construction procurement methods may yield opportunities for additional cost savings in the project. A construction scope of this magnitude will likely yield additional economies of scale, further reducing capital costs.

Water Rate Methodology: In addition to the capital components previously discussed, the rate for volumes of consumption described in your letter will be included in the final agreement, the terms and conditions of which would be negotiated by the parties. Based upon LWC staff's current authorization from the Board of Water Works, any contracted consumption over 1 mgd may be negotiated, based upon certain criteria, including peak demand factors, contract duration, and other terms and conditions. LWC will calculate the rate for this kind of water consumption by taking into consideration four elements: operating expenses, depreciation expenses, return on plant investment, and customer costs.

For the Commission's planning purposes, those rate elements yield the following imputed water rate based upon our most recent 2006 cost of service study:

Option 1 - Reserved capacity of 31 mgd, with minimum daily purchase of 6.2 mgd:

- The rate per thousand gallons for minimum daily purchase up to 6.2 mgd is \$2.70.
- The rate per thousand gallons above 6.2 mgd, but not exceeding the reserved capacity of 31 mgd, is \$0.57.
- The rate per thousand gallons above the reserved capacity of 31 mgd is \$1.63.

Option 2a: Reserved capacity of 20 mgd, with minimum daily purchase of 4 mgd:

- The rate per thousand gallons for minimum daily purchase up to 4 mgd is \$2.70.
- The rate per thousand gallons above 4 mgd but not exceeding the reserved capacity of 20 mgd is \$0.57.
- The rate per thousand gallons above the reserved capacity of 20 mgd is \$1.63.

Option 2b: Reserved capacity of 15 mgd, with minimum daily purchase of 3 mgd:

- The rate per thousand gallons for minimum daily purchase up to 3 mgd is \$2.70.
- The rate per thousand gallons above 3 mgd, but not exceeding the reserved capacity of 15 mgd, is \$0.57.
- The rate per thousand gallons above the reserved capacity of 15 mgd is \$1.63.

Option 3: Reserved capacity of 10 mgd, with minimum daily purchase of 2 mgd:

- The rate per thousand gallons for minimum daily purchase up to 2 mgd is \$2.70.
- The rate per thousand gallons above 2 mgd but not exceeding the reserved capacity of 10 mgd is \$0.57.
- The rate per thousand gallons above the reserved capacity of 10 mgd is \$1.63.

Option 4: Reserved capacity of 5 mgd, available capacity of 10 mgd, with minimum daily purchase of 2 mgd:

- The rate per thousand gallons for minimum daily purchase up to 2 mgd is \$1.67.
- The rate per thousand gallons above 2 mgd but not exceeding the reserved capacity of 5 mgd is \$0.57.
- The rate per thousand gallons above the reserved capacity of 5 mgd is \$1.63.

For all options, consumption above the requested reserved production capacity will be the new reserved production capacity for the next 60 months. The reserved capacity is the production capacity set aside for the exclusive use of the Bluegrass Water Supply Commission. Available capacity is Louisville Water Company's production capacity in excess of max day demands available equally to all LWC customers. It is the Company's intention to always maintain, at a minimum, a 15% available capacity above maximum day requirements to meet Kentucky Division of Water standards and future growth needs. The current maximum day production demand for LWC was 205 mgd set this summer on June 25, 2005. As a result of this new demand peak, LWC will conduct a production capacity analysis in 2006 to validate our current production capacity of a firm 240 mgd and identify any upgrades necessary to maintain a 15% available capacity above maximum day requirements. Any upgrades necessary will be integrated into LWC's five year capital improvement plan and executed as part of that plan.

Timeline: LWC believes construction of the required supply facilities for all of the options specified can be accomplished within three years of executing of a supply contract. The three year timeframe is based upon one year for facility design and right-of-way acquisition and two years for facility construction. Based on these estimates construction could be accomplished by the summer of 2009.

Further Consideration of Additional Option Alternatives

It is important to note that a lower rate per thousand gallons for the minimum daily purchase can be achieved by increasing the minimum daily purchase quantity or decreasing the amount of capacity reserved for each of the above options. Furthermore, Louisville Water Company would consider additional investment in these facilities based on a larger minimum daily purchase quantity.

Option	Reserved Capacity MGD	Minimum Daily Purchase MGD	Ratio of Reserved Capacity to Minimum Daily Purchase	Rate per Thousand Gallons for Minimum Daily Purchase
Additional Option A	5.0 MGD	2.5 MGD	2.0	\$1.46
Additional Option B	5.0 MGD	3.3 MGD	1.5	\$1.25
Additional Option C	4.0 MGD	2.0 MGD	2.0	\$1.46
Additional Option D	3.0 MGD	2.0 MGD	1.5	\$1.25

Next Steps: LWC staff would appreciate the opportunity to discuss this proposal with BWSC members at their earliest convenience. Future discussions will be needed to further define detailed engineering and construction parameters, among other things. We look forward to the opportunity to begin these discussions, which we believe will result in a mutually beneficial relationship. Any final agreement will need to be approved by the Louisville Water Company Board of Water Works and appropriate regulatory agencies. Mr. Jim Smith is our designated contact, and he can be reached at (502) 569-3687 or (502) 533-5110.

