

Sunday, December 09, 2007

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Chairman Mark David Goss:
Kentucky Public Service Commission
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PUBLIC SERVICE
COMMISSION

SUBJECT: TESTIMONY FOR INCLUSION IN CASE 2007-00134

People who discuss the Kentucky-American (KAW)/Louisville Water Company (LWC) proposals tell us that:

1. Timing is critical because we will need additional water for the 2010 Equestrian Games and KAW is far ahead.
2. The high cost of purchasing water from Louisville makes the Louisville proposal more expense.
3. Kentucky-American has done the planning and Louisville has not.
4. The Bluegrass Water Supply Consortium has endorsed the Kentucky-American proposal.

BUT

1. Kentucky-American believes that it can finish its project in time for the Equestrian Games in 2010. Louisville Water believes it can temporarily pipe water through Frankfort and thus can accommodate our needs for water for the Games as well. But let's face it. Nobody knows whether either of these claims is valid.

The fact is that almost all very large projects like these turn out to be more costly and take more time than first anticipated. This is because large projects face huge numbers of uncertainties that cannot be determined until well into the actual implementation phase. Some major, potential delays can occur due to funding, historic sites, wetlands, endangered species, right-of-ways and engineering issues. Thus neither project is immune from delays or cost overruns.

In addition, here is what one water expert says:

"First of all, I believe it is very disingenuous on KAW's part to claim to be in such a hurry. This generational decision should not be hurried [because] testimony from KAW officials revealed these interesting facts: For a very limited capital investment (\$200-500 K) Kentucky-American can upgrade a valve near Versailles and purchase up to 5 mgd from Versailles at the standard wholesale rate. I would ask the LFUCC demand an explanation from KAW as to why they have not made this offer public and why they have not take advantage of this option as a short-term boost to their supply. If KAW fixed their leaky pipes and met

the national average for leakage, they could "save" almost 3 mgd. Five plus 3 equal 8 mgd. Do you know the total mgd KAW proposes to pump in year one - that is 2010-2011? A grand total of 6 mgd. I find this outrageous. The point is that there are many ways to minimize the importance of this mythical drop-dead date of 2010.

2. The spreadsheet below demonstrates that, even though acquiring raw, untreated water from the Kentucky River costs less than purchasing treated water from Louisville, the cost of building a new \$160 million treatment plant with a \$6 million per year operating cost, appears to make the LWC proposal more attractive than that of KAW.
3. Kentucky-American has been working on an alternative source of water for years. After there was so much dissent and opposition to the present KAW plan, Louisville Water put together a proposal. And while Louisville has a great deal of planning to do yet, we should not rush to judgment, but instead, allow more time to explore Louisville's plan that could save Lexington water customers millions of dollars over the next 25 years.
4. All of the other members of the Bluegrass Water Supply Consortium (BWSC) are small water customers, whereas Lexington is different. While the KAW proposal might be best for these smaller cities, it may well be a different story for Lexington.

Yet, serious concerns and outright opposition to the KAW proposal have erupted even before PSC action. The few I know of have already come from Representative Charlie Hoffman, former Governor Julian Carroll, the Franklin County Fiscal Court, Frankfort Mayor Bill May, Electric and Water Plant Board of the City of Frankfort, the Frankfort/Franklin County Planning Commission, the city of Simpsonville, the Spencer County Fiscal Court, Envision Franklin County, the Board of Commissioners of the U.S. 60 Water District of Shelby and Franklin Counties and Elizabeth C. Felgendreher of Holly Oak Farm in Midway.

One person who is expert on the Bluegrass Water Supply Commission, and was a liaison to the Commission, had this to say as late as October, 2007 about the Louisville Water proposal and BWSC's rush to endorse KAW:

"This [the Louisville Water Proposal] is by far the most responsive information that BWSC or anyone else has seen. How can BWSC be in support of KAW at PSC when we have never seen any terms and conditions for a water purchase agreement or equity agreement? The LWC proposal addresses timeframe, costs, construction phasing, price adjustments, reserve capacity, and ownership! BWSC has been waiting for over two years to see a proposal such as this from KAW. Haven't seen anything yet! But now that someone places a legitimate contract on the table, KAW runs to bring not one but two attorneys to meet with BWSC and quickly hammer out some details of an agreement."

So I urge you to reject the Kentucky-American proposal and to ask them to come back with a more cost effective proposal. Incidentally, I just heard today that the cost of the KAW treatment plant and lines is now estimated to be even more expensive than the original \$160 million estimate.

25 Year Analysis: Kentucky-American Proposal vs. A Partnership with Louisville Water

Kentucky-American Scenario 25 yrs	Present Value@6%
Treatment Plant	160,000,000
Treatment Plant Operations *	106,000,000
Allowed Profit	24,000,000
Total 25 yr cost for the Kentucky-American Scenario	290,000,000
Louisville Water Company Scenario 25 yrs	Present Value@6%
Pipeline to Shelbyville	88,000,000
Water purchase yrs 1-8 **	43,800,000
Water purchase yrs 9-25 ***	97,800,000
Total 25 yr cost for the Louisville Water Scenario	229,600,000
Cost savings of the Louisville Water Proposal	60,400,000
<p>* Plant operations cost starts at \$6 million/year and increases by 2.5% each year.</p> <p>** The quantity of purchased water starts at 6mgd in year 1 and increases to 12.75mgd in year 8 at \$1.71 per 1,000 gallons</p> <p>*** The quantity of purchased water starts at 13.3mgd@ \$1.78 per 1,000 gallons in year 9 and increases to 22mgd@ \$3.33 in year 25</p>	