

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

**THE INVESTIGATION INTO THE FEASIBILITY
AND ADVISABILITY OF KENTUCKY-AMERICAN
WATER COMPANY'S PROPOSED SOLUTION
TO ITS WATER SUPPLY DEFICIT**

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CASE NO. 2001-117

NOTICE

Notice is hereby given that Kentucky-American Water Company attaches hereto its report in response to the Commission's Order dated February 15, 2005.

Lindsey W. Ingram, Jr.
Hanly A. Ingram
STOLL, KEENON & PARK, LLP
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507
859-231-3000

BY: _____


Counsel for Kentucky-American Water Company

CERTIFICATION

In conformity with paragraph 10 of the Commission's Order dated May 15, 2001 herein, this is to certify that the electronic version of this pleading is a true and accurate copy of this pleading filed in paper medium; that Kentucky-American Water Company has notified the Commission, the Attorney General, N.O.P.E., Inc., the Bluegrass Water Supply Consortium, the Lexington-Fayette Urban County Government and Bluegrass FLOW, Inc. by electronic mail that the electronic version of this pleading has been transmitted to the Commission; that a copy has been served by mail upon:

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Lexington, Kentucky 40504

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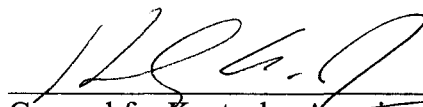
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and that the original and three (3) copies have been filed with the Public Service Commission in paper medium, all on this 31st day of March, 2005.


Counsel for Kentucky-American Water Company

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RESPONSE

On November 8, 2004 Kentucky American Water ("KAW") filed with the Commission a report on its efforts since March 19, 2001 to ensure adequate sources of supply to meet customer demand through 2020. As part of that report, KAW updated the Commission on the status of the Bluegrass Water Supply Commission ("BWSC").

Since that filing, the BWSC has received a \$30,000 grant from the Kentucky River Authority ("KRA"), a \$330,000 line of credit from the Kentucky Association of Counties, and \$900,000 through the KRA from the General Fund of the budget of the Commonwealth of Kentucky as a recent line item. The BWSC has met five times, adopted by-laws, and established a number of committees that are working out financial, administrative and master planning issues. The BWSC has made considerable progress in a short time frame.

The BWSC has identified a first phase project to connect Frankfort Electric and Water Plant Board with KAW. This would allow KAW to access an additional 5 mgd in current plant capacity at Frankfort via the BWSC. Construction would be completed before the summer of 2007. The next scheduled milestone will be for the BWSC to negotiate agreements with KAW and Frankfort. The agreement between the BWSC and KAW will clearly need to be approved by the Commission. The second phase of work will include the construction of the treatment

plant and the rest of the grid system. At its March 9-10, 2005 meeting, the BWSC reviewed a draft schedule that had construction of the treatment plant completed in 2012. KAW indicated at that time that the schedule needed to be compressed for potential completion in 2010. The consultant for the BWSC is reviewing the schedule for possible reductions in time.

However, before the agreement for even just the first phase project can be finalized, a number of operational and technical issues will need to be resolved. The efforts to resolve these issues could still cause significant changes to the overall make-up of the BWSC. These issues include:

- Should excess capacity be built into the first phase pipeline between KAW and Frankfort to accommodate the future delivery of water from the treatment plant?
- If so, how much capacity and how will that capacity be cost allocated?
- Is the route of the first phase project the most cost effective route for delivery of water to KAW from the BWSC treatment plant at Kentucky River Pool 3 as well?
- Who will own and maintain the pipeline, and necessary booster stations or storage facilities?

Other operational and technical issues that may need to be resolved before the first phase include:

- How much reliability needs to be built into the system?
- How should two different types of disinfectant utilized by members and KAW be accommodated?
- How will those accommodations be cost allocated?

- How will the Division of Water handle responsibility for water quality as water passes from one system to another, or does a separate transmission system need to be constructed?

Obviously the answers to these questions will have a potential significant impact on the costs to KAW customers and this first agreement may set a precedent for addressing these issues for future construction. Because this effort is so unique in the water industry in Kentucky and timing of construction continues to be critical to meeting KAW customers demand, it will be appropriate to have timely guidance from the Commission and input from other stakeholders. KAW believes that the most timely and effective method for Commission guidance, as well as input from other stakeholders is to leave the present case open without a determined schedule until a potential agreement between KAW and the BWSC for the first phase project has been finalized for approval by the Commission.

Respectfully submitted,

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BY: 
Counsel for Kentucky-American Water Company

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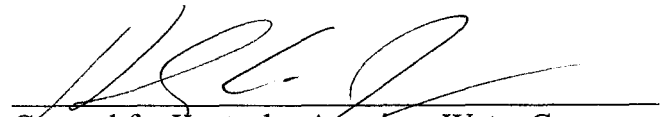
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