

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE)
FEASIBILITY AND ADVISABILITY OF)
KENTUCKY-AMERICAN WATER) CASE NO. 2001-117
COMPANY'S PROPOSED SOLUTION TO)
ITS WATER SUPPLY DEFICIT)

** **

WRITTEN COMMENTS OF
BLUEGRASS WATER SUPPLY COMMISSION
FILED PURSUANT TO THE COMMISSION'S
FEBRUARY 14, 2005 ORDER

Comes the Bluegrass Water Supply Commission (the "BWSC"), by
counsel, and submits these written comments as directed by the
Commission's February 14, 2005 Order (the "Order").

BACKGROUND AND PROGRESS OF BWSC

The BWSC is a statutory water commission created on August 24, 2004 by an Order of the Lexington-Fayette Urban County Government under the authority of KRS 74.420 through 74.520. The BWSC was created at the request of the following legal entities:

- City of Cynthiana
- City of Frankfort
- City of Georgetown
- City of Lancaster
- City of Mt. Sterling
- City of Nicholasville
- City of Paris
- City of Winchester
- Lexington-Fayette Urban County Government

The BWSC is a public body corporate and politic. Its governing body is its Board of Commissioners, which is comprised of one (1) representative from each of the nine (9) entities listed above. The BWSC was formed to develop and implement a solution to the potable water supply deficit in central Kentucky.

The 2004 “Water Supply Regionalization Feasibility Study” prepared by O’Brien & Gere Engineers, Inc. (the “Regional Study”) recommended the creation of a water commission to acquire and develop the sources of supply of potable water and to own, operate and manage the proposed

waterworks facilities. The first major milestone recommended by the Regional Study was accomplished with the formation of the BWSC.

Since the BWSC was created on August 24, 2004, it has made significant progress, including the following:

- **September & October 2004.** Each of the nine (9) organizing entities appointed a commissioner to serve on the Board of Commissioners of the BWSC.
- **October 25, 2004.** Organizational meeting of the BWSC was held with all nine (9) commissioners present and officers were elected.
- **November 22, 2004.** Bylaws were adopted by the BWSC, and a regular meeting schedule was established.
- **December 15, 2004.** The Kentucky River Authority approved the BWSC's grant proposal and awarded a \$30,000 grant to the BWSC.
- **December 20, 2004.** The BWSC engaged the services of Damon R. Talley, P.S.C. to serve as legal counsel and O'Brien & Gere Engineers, Inc. to provide master planning and program management services. It also contracted with the Bluegrass Area Development District to provide certain administrative and support services.
- **January 24, 2005.** Committee assignments were made and committee chairs were appointed. The BWSC welcomed William Grier as an ex-officio, non-voting member of the board representing the Kentucky River Authority. The BWSC also authorized the Finance Committee to prepare and distribute a Request for Loan Proposals for a line of credit up to \$330,000.

- **February 21, 2005.** The BWSC accepted the proposal from the Kentucky League of Cities for a \$330,000 operating loan. The BWSC also announced that its Phase I Construction Project will consist of the construction of a large water transmission main from the Frankfort area to a location along the Fayette-Scott County line southeast of Georgetown. This will enable the BWSC to purchase treated water from the Frankfort Electric and Water Plant Board (the “FEWPB”) and wholesale it to Kentucky-American. Initially, all the water delivered through this transmission main would be sold to Kentucky-American. Eventually, as other components of the proposed grid of water pipelines are constructed, water will be sold by the BWSC to other utilities.
- **March 10, 2005.** The BWSC adopted a budget for the fiscal year commencing July 1, 2005. It also finalized the Request for Engineering Proposals for a water pipeline routing and pump station siting study for its Phase I Construction Project.
- **March 2005.** The Kentucky General Assembly adopted a budget which included a \$900,000 grant to the BWSC to help fund its Phase I Construction Project.

The BWSC will now address the specific issues outlined in the Commission’s Order

1. THE CURRENT ESTIMATE OF THE SIZE OF KENTUCKY-AMERICAN’S WATER SUPPLY DEFICIT AS OF 2020.

The Regional Study prepared by O’Brien & Gere and previously filed with the Commission identified Kentucky-American’s water supply deficit as of 2020 as 29.8 million gallons per day. This amount is generally consistent with the amount estimated by Kentucky-American in its Source of Supply Report of November 8, 2004.

2. THE BLUEGRASS WATER SUPPLY COMMISSION'S ROLE IN RESOLVING KENTUCKY-AMERICAN'S WATER SUPPLY DEFICIT.

The potable water supply shortage in central Kentucky is a regional problem. History has demonstrated that this regional problem cannot be solved by individual cities and utilities working alone. They must work together. The Regional Study was a successful first step.

By forming the BWSC, the cities and utilities in central Kentucky have taken another step. Indeed, they have taken a giant step toward solving the water supply deficit.

The BWSC intends to construct a regional water treatment plant, water transmission mains and other facilities of adequate capacity to resolve the water supply deficit for central Kentucky, including that of Kentucky-American and the nine (9) organizing entities of the BWSC.

In the near term, however, the BWSC has already commenced actions to help resolve the short term water supply deficit of Kentucky-American. Currently, the FEWPB has excess water treatment plant capacity and has expressed a willingness to provide water to the BWSC. The BWSC plans, in turn, to wholesale the water to Kentucky-American. Unfortunately, there are no adequately sized water transmission lines connecting the FEWPB's system with Kentucky-American's system.

The BWSC has developed, in conceptual form, a plan for constructing a large water transmission main approximately 18 to 20 miles in length. The west end of the proposed water main will connect with the FEWPB's system east of Frankfort in Franklin County. The east end of the proposed water main will connect with Kentucky –American's system near the Fayette-Scott County line southeast of Georgetown. This proposed project has been previously identified as the Phase I Construction Project (the "Phase I Project").

Completion of the Phase I Project will enable the BWSC to purchase potable water from the FEWPB and wholesale it to Kentucky-American. Initially, all the water will be sold to Kentucky-American. This water main will be located and sized so it can become part of the pipeline grid that will be constructed by the BWSC in the future. As other components of the grid system are constructed, water will be sold by the BWSC to other utilities.

Preliminary discussions have already commenced with representatives of both the FEWPB and Kentucky-American. As previously stated, the BWSC has obtained a \$900,000 grant to help fund a portion of the Phase I Project. Additional funds are being sought. Wholesale water supply contracts with both the FEWPB and Kentucky-American must be negotiated and consummated before detailed engineering design of the project can

commence.

In the meantime, the BWSC is moving forward to select an engineering firm to perform a water pipeline routing and pump station siting study (the “Routing Study”) for the Phase I Project. Request for Proposals has been advertised and the deadline for submission is April 20, 2005. The engineering firm selected by the BWSC to perform the Routing Study will present at least three (3) preferred routes for the water transmission main and at least three (3) preferred sites for the pump station.

As noted above, the BWSC will play a key role in resolving the water supply deficit of not only Kentucky-American but also the water supply deficit of the central Kentucky communities that formed the BWSC.

3. KENTUCKY-AMERICAN’S PLANNED INVOLVEMENT WITH THE BWSC.

Kentucky-American has been an active participant in the regional water planning effort since 1999. Under current law, however, investor owned utilities such as Kentucky-American cannot appoint a commissioner to serve on the Board of Commissioners of a water commission such as the BWSC. Nevertheless, representatives of Kentucky-American continue to be actively involved in the affairs of the BWSC by attending committee meetings, planning sessions and monthly board meetings.

Both the BWSC and Kentucky-American anticipate that Kentucky-American will become a contractual partner with the BWSC. In addition, once the BWSC and Kentucky-American enter into a long term wholesale water supply agreement the BWSC Bylaws provide that Kentucky-American will automatically become an ex-officio, non-voting member of the BWSC.

4. THE FEASIBILITY AND ADEQUACY OF THE BWSC'S PROPOSED SOLUTION.

The BWSC is confident that the proposed solution described in the Regional Study, recommended by O'Brien & Gere, and adopted by the BWSC is both a feasible and adequate solution. The proposed solution is also flexible enough to enable the BWSC to respond to future demands. The plan is supported by the Division of Water, the member communities, and has generally received wide spread support from the members of the public who participated in the planning process.

5. WHETHER THIS PROCEEDING SHOULD BE SUSPENDED FOR ONE YEAR OR CLOSED.

The BWSC respectfully requests the Commission to suspend this proceeding for a period of one year. This will enable the BWSC to undertake additional planning efforts and pursue additional funding sources.

It should also provide adequate time for the Commission, the other parties to this proceeding, and the general public to evaluate the progress made by the BWSC.

If requested by the Commission, the BWSC will file, in approximately one year, a status report summarizing its progress toward implementing its plan to solve the water supply deficit of central Kentucky.

This 31st day of March, 2005.

Respectfully submitted,
DAMON R. TALLEY, P.S.C.

DAMON R. TALLEY
112 NORTH LINCOLN BLVD
P. O. BOX 150
HODGENVILLE, KY 42748
(270) 358-3187 FAX (270) 358-9560
ATTORNEY FOR BLUEGRASS
WATER SUPPLY COMMISSION

INSTRUCTION 10 CERTIFICATION

Per Instruction 10 of the Commission's May 15, 2001, procedural Order, the undersigned counsel certifies that the electronic version of this document is a true and accurate copy of the document filed in paper medium; the electronic version of this document has been transmitted to the Commission; and the Commission and other parties have been notified by electronic mail that the electronic version of this document has been transmitted to the Commission.

DAMON R. TALLEY, P.S.C.

BY: _____
DAMON R. TALLEY

CERTIFICATE OF SERVICE

This is to certify that a true copy of the foregoing document has been served by first class U.S. Mail, postage prepaid, this 1st day of April, 2005, to the following:

Hon. Lindsey W. Ingram, Jr.
Stoll, Keenon & Park, LLP
300 West Vine Street, Suite 2100
Lexington, KY 40507-1801

Nick Rowe
Kentucky-American Water Co.
2300 Richmond Road
Lexington, KY 40502

Hon. David Edward Spenard
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Hon. David J. Barberie
Lexington-Fayette Urban County Gov.
Department of Law
200 East Main Street
Lexington, KY 40507

Hon. Robert M. Watt, III
Stoll, Keenon & Park, LLP
300 West Vine Street, Suite 2100
Lexington, KY 40507-1801

Hon. David F. Boehm
Boehm, Kurtz & Lowry
2100 CBLD Center
36 East Seventh Street
Cincinnati, OH 45202

Hon. Joe F. Childers
201 West Short Street, Suite 310
Lexington, KY 40507

Hon. Phillip J. Shepherd
307 West Main Street
P.O. Box 782
Frankfort, KY 40602

Gerard J. Edelen
Project Manager
Department of the Army
Corps of Engineers
P.O. Box 59
Louisville, KY 40201

Hon. Anthony G. Martin
P.O. Box 1812
Lexington, KY 40588

DAMON R. TALLEY, P.S.C.