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April 27, 2006

PARTIES OF RECORD

Re: Case No. 2001-00117
Kentucky-American Water Company

Attached is a copy of the memorandum which is being filed in the record of the above referenced case. If you would like to make comments regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. If you have any questions, please contact Gerald E. Wuetcher at 502/564-3940, Extension 259.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

vh/

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2001-00117

FROM: Gerald Wuetcher *GW*
Assistant General Counsel

DATE: April 27, 2006

RE: Conference of March 14, 2006

On March 14, 2006, the Commission held a conference in this case in the Commission's offices in Frankfort, Kentucky. Present were:

Vernon Azevedo	-	Bluegrass Water Supply Commission
Damon Talley	-	Bluegrass Water Supply Commission
David Boehm	-	Kentucky Industrial Utility Consumers
Mike Green	-	Kentucky Industrial Utility Consumers
Carl Kurz	-	Kentucky Industrial Utility Consumers
Bill Grier	-	Kentucky River Authority
David Barberie	-	Lexington-Fayette County Urban Government
Anthony Martin	-	Lexington-Fayette County Urban Government
Charles Martin	-	Lexington-Fayette County Urban Government
Andrew Mead	-	Lexington Herald-Leader
David Spenard	-	Office of Attorney General
Linda Bridwell	-	Kentucky-American Water Company
Lindsey Ingram, Jr.	-	Kentucky-American Water Company
Lindsey Ingram III	-	Kentucky-American Water Company
Susan Lancho	-	Kentucky-American Water Company
Mike Miller	-	Kentucky-American Water Company
Nick Rowe	-	Kentucky-American Water Company
Robert Amato	-	Commission Staff
Robert Cowan	-	Commission Staff
Mark Frost	-	Commission Staff
Scott Lawless	-	Commission Staff
Andrew Melnykovych	-	Commission Staff
James Rice	-	Commission Staff
Gerald Wuetcher	-	Commission Staff

Upon the motion of Kentucky-American Water Company ("KAWC"), the Commission, on January 19, 2006, ordered that the conference be convened. A copy of the proposed agenda is attached as Attachment A.

Beginning the conference, Mr. Wuetcher stated that Commission Staff would prepare minutes of the conference for the case record, that a copy of these minutes would be provided to all parties, and that all parties would be given an opportunity to submit written comments upon those minutes.

Mr. Wuetcher noted that although the conference is not a "public meeting" within the meaning of the Kentucky Open Meetings Act, the Commission has permitted non-parties to attend the conference. He further noted that only persons representing parties to this proceeding or Commission Staff may participate in the conference. All others present may observe the conference, but may not participate. If the conference leads to the discussion of any matter that relates to confidential or proprietary information or to settlement discussions, only the parties and appropriate members of Commission Staff will be permitted to remain.

Mr. Wuetcher then presented a brief history of the current proceeding and identified its stated purpose.

Raising the issue of the size of KAWC's supply deficit as of 2020, Mr. Wuetcher inquired whether all parties could agree that, regardless of their position on the exact magnitude of the supply deficit, the size of the supply deficit is of such magnitude that it requires the construction of new facilities to produce additional water. All parties stated their agreement on this point, but Mr. Spenard and Mr. Martin noted the exact size of the deficiency is important and cannot be divorced from this proceeding.

Mr. Spenard inquired whether the Commission would consider the total requirements and facilities of all water suppliers in the central Kentucky area in reviewing this issue. Mr. Wuetcher stated that the Commission's jurisdiction extends only to KAWC and that the Commission's primary concern must be KAWC's ability to provide adequate service to its customers. He also stated that the Commission cannot ignore non-jurisdictional facilities that may be available to meet the needs of jurisdictional utilities and non-jurisdictional utility demands that jurisdictional utilities may possibly serve.

Mr. Wuetcher asked if the parties agreed with the projections contained in the Bluegrass Water Supply Consortium's report. The consultant had projected a KAWC supply deficit of approximately 22.67 million gallons per day ("MGD") and a regional supply deficit of 134 MGD. Mr. Talley stated that the Bluegrass Water Supply Commission ("BWSC") had reviewed the projections contained in its consultant's report and had adopted their findings. Mr. Spenard stated that the Attorney General ("AG") would not accept those projections without further review. Mr. Ingram and Mr. Rowe stated that KAWC had not revised its projections of the supply deficit.

Mr. Spenard noted that the Commission determined the size of the supply deficit in Case No. 93-434. He further noted that the Commission had ordered KAWC to supply the deficit. The solution, Mr. Spenard noted, is KAWC's responsibility. He suggested that KAWC join with BWSC to obtain a solution to the deficit.

Mr. Wuetcher asked KAWC's representatives to describe KAWC's proposed solution. Mr. Rowe stated that KAWC has participated in discussions with BWSC to develop a regional solution. While noting that progress has been made, Mr. Rowe stated that no plan has been developed. He further noted that BWSC's proposal for the Frankfort Water and Electric Board to provide 5 MGD to KAWC eventually resulted in the provision of only 1 MGD. Mr. Rowe noted KAWC's concerns about meeting the needs of its customers, especially its large industrial customers such as Toyota, and indicated KAWC's willingness to provide assistance to other regional water suppliers that are also experiencing supply deficits. Mr. Rowe further stated that KAWC believes that the solution is the construction of a water treatment plant on the Kentucky River below Dam 4. While KAWC will continue to discuss the issue with BWSC, it is prepared to construct the new treatment plant on its own. Mr. Rowe and Mr. Ingram indicated that construction of the new treatment plant would begin as soon as possible.

Mr. Ingram suggested that some issues, including the size of the deficit, should be addressed prior to the filing of KAWC's application for a certificate of public convenience and necessity ("CPCN"). He noted that demand projections should be updated and suggested that the supply deficit be based upon expected customer demand in 2025.

The participants discussed whether, in light of KAWC's announced intentions, this proceeding should continue. Mr. Ingram suggested that several issues needed to be resolved in this proceeding. These issues included: the size of the supply deficit; the size of the regional deficit; the appropriate methodology for determining the size of these deficits; the available capacity in Pool 9 of the Kentucky River; and, the Kentucky River Authority's ("KRA") plans regarding Pools 9 and 10. Mr. Wuetcher stated that completion of the current investigation is not a prerequisite for KAWC's filing of an application for a CPCN. He noted that an application could be filed and the listed issues addressed in the CPCN proceeding. Mr. Boehm stated Kentucky Industrial Utility Customer's ("KIUC") preference for immediately concluding the investigation and addressing all issues in the CPCN proceeding. Mr. Spenard stated that the AG did not object to addressing the listed issues in the current investigation.

Mr. Talley briefly reviewed BWSC's efforts to resolve the regional supply deficit. He noted that BWSC believes that the long-term solution to the regional supply deficit is the construction of a water treatment intake facility and treatment plant at Pool 3 of the Kentucky River. He noted that funding has been a problem. Mr. Talley stated that BWSC's principal goal is to acquire more water for the central Kentucky region. BWSC

is of the opinion that the best and most efficient means to achieve this goal is a regional supplier partnership of which KAWC is a member. Mr. Talley noted that the unilateral application of KAWC for a CPCN will reduce the likelihood of a regional partnership. In response to questions regarding when BWSC could begin construction of a water intake and treatment plant, Mr. Talley stated that all plans were dependent upon obtaining financing.

Mr. Wuetcher asked if a regional solution involving KAWC and BWSC was dependent upon BWSC constructing the water intake and treatment plant. He inquired whether a joint arrangement was possible with KAWC as the owner of a new treatment plant and BWSC purchasing a portion of the plant's capacity. Mr. Ingram stated that KAWC is willing to consider any partnership. He further stated that financial considerations were not an impediment but that differences in philosophy were. Concurring with Mr. Ingram's comments, Mr. Rowe stated that KAWC is willing to enter a regional partnership to resolve the supply deficit, but it must address its customers' needs. He noted a sense of urgency to solve this problem, especially among KAWC's large industrial customers, and stated that immediate action needs to be taken.

Mr. Ingram stated that a critical issue is whether BWSC and KAWC can agree upon a workable solution soon. He noted that no concrete proposals had been presented. Unless KAWC and BWSC can agree upon a solution and its implementation, he stated, KAWC must proceed. Mr. Talley noted that no discussions had yet begun, but BWSC hoped to initiate discussions with KAWC. Mr. A. Martin stated that KAWC and BWSC should be given an opportunity to discuss a proposed regional arrangement and suggested that the Commission establish a deadline for such discussions. If KAWC and BWSC cannot reach an agreed solution by the deadline, Mr. Martin stated, then KAWC would proceed with its own plans. Noting the uncertainty regarding BWSC's ability to obtain financing, Mr. Ingram expressed some concern regarding the imposition of a deadline for developing a regional approach. He suggested that if KAWC proceeds with its own solution to resolve the deficit, BWSC could still be permitted an option to buy into the solution if it obtains the necessary financing.

Mr. Wuetcher stated that the issues before the Commission at this time are whether the current proceeding should continue and, if it continues, the scope of such proceeding. Summarizing the parties' positions, he noted that KAWC would prefer to address the issues of: the amount of the deficit; the availability of additional water from Pools 9 and 10 of the Kentucky River; and KRA's intentions in the current proceeding. He further noted that, while KAWC believed these issues could be addressed in a CPCN proceeding, they are better addressed in advance of that proceeding. Mr. Wuetcher then noted that KIUC preferred termination of the current proceeding and the filing of a CPCN proceeding to address these issues and that the AG did not object to either method of proceeding.

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Mr. Grier then stated that KRA has no intention of increasing the size of the Pools 9 and 10. He stated that KRA's focus is on stabilizing the existing dams and ensuring their viability. He noted that KRA previously had plans to raise Lock 10, but these plans are no longer viable. Mr. Wuetcher asked Mr. Grier if KRA would provide a written statement to that effect to the Commission. Mr. Grier responded that any statement is likely to recognize the existence of plans to raise Lock 10 and the lack of any plans to raise Lock 9.

After a brief recess, the conference reconvened. Mr. Wuetcher noted the two options that the participants had identified: termination of current proceedings or limited evidentiary proceedings regarding deficit amount and the availability of water from Pools 9 and 10. He stated that Commission Staff would brief the Commissioners on this issue and request guidance. Several participants then asked KAWC when an application could be expected. Ms. Bridwell stated that, given the need to design a proposed treatment plant, an application for a CPCN could be filed within 12 months. Mr. Ingram stated that KAWC would file an application for a CPCN as soon as the plant design is completed.

Mr. Spenard requested that the Commission enter an Order requiring KAWC and BWSC to report on their efforts to negotiate a public-private partnership and on KAWC's plans for the operation of the plant if BWSC is not involved. Mr. Ingram responded that such an Order is inappropriate because outside parties should not be interjected into the KAWC-BWSC negotiations and that the negotiations will be dependent upon the success of BWSC's financing efforts. Mr. Talley noted that any partnership would require Commission review. Mr. Wuetcher noted Mr. Spenard's request and stated it would be brought to the Commission's attention for consideration.

The conference then adjourned.

cc: Parties of Record

PROPOSED AGENDA
CASE NO 2001-00117 – INFORMAL CONFERENCE

- I. Overview of Case to Date
 - A. PSC's Stated Scope of Case
 - B. Chronology of Events
- II. Re-Examination of Investigation's Scope/Critical Events
 - A. Extent of Supply Deficit in 2020 – Parties' Position
 - B. Kentucky-American's Proposed Solution to Supply Deficit – 3/2006
 - C. Bluegrass Water Commission Efforts: Current status
 - D. Revisions/Changes to the Initial Scope of Case
 - 1. Overall Scope of the Proceeding: Does the PSC Need to Revise the Scope?
 - 2. Review of the Issues List Contained in PSC's Order of 01/28/2002
 - a. Is the issue in dispute?
 - b. Is the issue still relevant in current environment?
 - E. Short-Term Objectives: What actions can be taken in the near future to increase water supply?
 - F. Long-Term Objectives: What actions in the long term can be taken to increase water supply?
- III. Information Gathering Procedures
 - A. Review of Existing Information in the Record – What information does the PSC currently have?
 - B. Identification of Necessary Information Not in the Record – What information does the PSC need that it does not currently possess?
 - C. Who Possesses or May Possess Necessary Information Not In The Record?
 - D. Procedures for Obtaining Necessary Information Not in the Record
- IV. Need and Timing for Procedural Schedule
- V. Adjourn