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NEWS RELEASE

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PSC Accepts Settlement in Kentucky-American Water Rate Case *Typical monthly residential bill will increase by about \$3.90*

FRANKFORT, Ky. (June 1, 2009) – The Kentucky Public Service Commission (PSC) has accepted a settlement that permits Kentucky-American Water Co. (KAWC) to increase annual revenue by \$10.3 million, or about 17.3 percent.

The proposed settlement was agreed to by KAWC, the Kentucky Office of Attorney General, Lexington-Fayette Urban County Government and Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties, Inc., which represents low-income consumers.

Under the rates contained in the settlement, a residential customer using 5,000 gallons per month would see an increase of about \$3.90 in the monthly bill. The monthly customer charge will increase from \$7.95 to \$8.60. The cost per 1,000 gallons of water will go from \$3.12 to \$3.77. The new rates take effect today.

KAWC had sought to increase annual revenue by about \$18.5 million, or about 31 percent. That would have increased the average monthly residential bill by about \$7.

In a 2-1 decision issued today, the PSC said the settlement is a “reasonable compromise.” Chairman David Armstrong and Commissioner John Clay voted to accept the settlement; Vice Chairman James Gardner dissented.

KAWC applied for the rate increase in October 2008. During the course of the PSC’s examination of the application, the utility and the Attorney General began settlement negotiations. The settlement was submitted to the PSC for review on April 1.

A meeting to take public comment on the settlement was held in Lexington on April 7. The PSC’s formal hearing to consider the proposed settlement was held April 14.

In its application, KAWC said it needs additional revenue to meet increased operating costs and to pay for system improvements, particularly the water treatment plant it is building on the Kentucky River in Owen County and the pipeline from that plant to Fayette County.

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In today's order, the PSC cautioned that its acceptance of the revenue increase in the settlement does not indicate its endorsement of the methods used by KAWC and the Attorney General to arrive at the agreed-upon amount.

The applicability of those methods should be decided only in the context of "a rate adjustment proceeding in which those issues are fully explored and argued," the PSC said.

The PSC also stated that, although the parties to the settlement agreed that they would not raise certain issues related to the cost of the new treatment plant in KAWC's next rate case, "this Commission has not."

The next time it asks for a rate increase, KAWC should be prepared to answer the PSC's questions "related to the possible balancing of shareholder and ratepayer interests to prevent the occurrence of 'rate shock,' " the PSC said.

In his dissent, Gardner noted that the PSC has only two choices when presented with a settlement – to accept it or reject it. In this case, KAWC failed to prove the settlement is reasonable, he said.

Gardner questioned the settlement's allocation of revenue to the cost of the new treatment plant and its failure to address savings from KAWC's "long-overdue implementation" of a water conservation program. The settlement also does not justify the 21% increase in the water usage charge, especially given that KAWC last increased its rates in December 2007 and has announced it will ask for another, larger rate increase next year, Gardner said.

Today's order, KAWC's application, the proposed settlement and related documents are available on the PSC Web site, psc.ky.gov. The case number is 2008-00427.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 100 employees.