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NEWS RELEASE

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PSC Reduces Kentucky-American Water Rate Increase *Company receives \$7 million less than requested*

FRANKFORT, Ky. (Dec. 14, 2010) – The Kentucky Public Service Commission (PSC) today granted Kentucky-American Water Co. a rate adjustment that will increase its annual revenue by \$18.8 million, or less than three-fourths of the amount requested by the company.

As a result, an average residential customer using 5,000 gallons per month will see the monthly bill rise from \$27.46 to \$35.40, an increase of about 29 percent.

Kentucky-American proposed in February to increase its annual revenue by \$25.85 million. A residential customer using 5,000 gallons per month would have seen the monthly bill increase to \$37.95, or by about 38 percent.

The company said \$23.5 million of the additional revenue – more than 90 percent – was needed to pay for the cost of a new water treatment plant on the Kentucky River in Owen County and the pipeline from the plant to Lexington. The plant went into service in September.

As permitted by Kentucky law, Kentucky-American put its proposed rates into effect on Sept. 28. As a result of today's PSC decision to set lower rates, the company will have to refund the amount it has over-collected, plus interest, to its customers.

Kentucky-American proposed to increase the residential monthly service charge from \$8.60 to \$9.15 and raise the usage charge from \$3.77 per 1,000 gallons to \$5.76 per 1,000 gallons. The PSC set the monthly charge at \$8.90 and the usage fee at \$5.30 per 1,000 gallons.

To arrive at the lower rates, the PSC made several adjustments to Kentucky-American's request. These included reductions in the company's allowable expenses, changes to income projections and granting a lower-than-requested rate of return on shareholder equity.

The rates set by the PSC exclude the cost of scheduled pay raises for Kentucky-American employees, bonuses for non-union employees and stock bonuses for company executives.

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Kentucky-American's last rate increase took effect in June 2009. The company serves about 119,000 customers in 10 counties in central Kentucky.

Other parties to the case included the Kentucky Office of Attorney General, Lexington-Fayette Urban County Government (LFUCG) and the Community Action Council for Lexington-Fayette, Bourbon, Harrison and Nicholas Counties.

In today's order, the PSC also addressed several rate-related issues.

Advocates for low-income ratepayers had asked the PSC to consider ordering Kentucky-American to switch to a rate structure that increases per-gallon costs as a customer uses more water. The PSC denied that request, finding that not enough information had been presented to support such a change. However, the PSC agreed that Kentucky-American now collects too little information on late payments, disconnections and other factors that reflect the effects of increased rates on the ability of its customers to pay their bills. That lack of information in turn makes it difficult to analyze how to best help low-income ratepayers, the PSC said.

The PSC ordered Kentucky-American to begin collecting the needed information and to initiate a collaborative effort with interested parties to examine possible legislative and regulatory solutions to address the effects of increased water costs on low-income customers. A written report on those efforts is to be submitted the PSC no later than Nov. 1, 2011.

The PSC also ordered Kentucky-American to stop disconnecting customers who fail to pay storm water or garbage fees, which the water company collects, along with sewer fees, on behalf of LFUCG. State law permits disconnection of water service for failure to pay sewer fees, but not for other services unrelated to water service.

"We can find no relationship between water service and storm water management or garbage collection," the PSC said in today's order. "Kentucky-American should cease this practice immediately."

Today's order and related documents are available on the PSC website, psc.ky.gov. The case number is 2010-00036.

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.