

Lexington, Kentucky - April 30, 2004

## Kentucky American Water Proposes \$2.85 Increase in Average Monthly Water Bill

After four years without a rate increase, Kentucky American Water today asked the Kentucky Public Service Commission to raise the average residential water bill by \$2.85 per month, or 10 cents a day.

"No business likes to raise prices, but this is the right thing to do for the future of water service in Central Kentucky," said Roy Mundy, president of Kentucky American Water. "Delivering quality water service requires continued investment. After four years and nearly \$58 million in investment, it is reasonable to ask the PSC to review rates for water service."

The general rate case filing is the first since April of 2000. It requests an overall revenue increase of \$7.297 million, or 16.8 percent. The \$2.85 per month increase in the average residential water bill (5,075 gallons) represents a 15.3 percent increase over existing rates. The balance of the proposal reflects a new service activation fee, which is one of three new tariffs requested as part of the filing. The new tariffs include:

□ A new low-income tariff that would provide a 25 percent discount on the monthly service charge portion of the bill for customers at or below the federal poverty level.

□ A new \$24 service activation fee. This fee will generate revenue from customers requesting service activation, resulting in a smaller increase in general water rates for customers who never use the service.

□ A new emergency pricing tariff that would be effective in the final stages of a severe drought. The tariff has a two-step increase in rates for customers who violate the restrictions and will help conserve water for the overall system. Kentucky American Water has never reached this extreme condition, but came close in 1999.

The filing comes in the 25th month of the efforts by Mayor Teresa Isaac and the Urban County Council to take over the assets of Kentucky American Water through condemnation.

"The easy thing to do would have been to postpone the rate case because of the attempted takeover," said Mundy, "but that would have been the wrong thing to do for the integrity of the water system. We have said for two years that we would continue to run this company in a way that lives up to our legacy of excellent customer service in Central Kentucky. That is what we intend to do because that is what our customers expect and deserve."

In a survey conducted on April 18-19, 88% of customers said they were satisfied with their existing water rates. Mundy said the company wanted to know what its customers believed as the rate case was being developed.

"We realize there will be some who were satisfied a couple of weeks ago who will have questions about the proposal today," said Mundy. "We will answer those questions and believe our customers will continue to believe they are getting good value for what they pay for water."

The major drivers in the rate increase are:

- \$57.8 million of investment in facilities, including pipe, water treatment plants and storage facilities.
- Increases in operating costs, including increased security costs since Sept. 11, 2001.

<http://www.kawc.com/awpr/kyaw/news/news3788.html>

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Mundy said the company has done a good job of managing its expenses. Over the past decade, the operations and maintenance expenses at Kentucky American Water have increased an average of only 1.75 percent per customer each year. By comparison, the Consumer Price Index has increased at an average of 2.45 percent per year. At the same time, Mundy said, the company has continued to invest annually in the improvement and maintenance of the system.

"The fact that we have continued to invest in the system each year while managing our expenses efficiently is the reason our customers enjoy trusted, quality water service and why the water bill is the lowest utility bill paid each month for most families," said Mundy. Water bills in Lexington also include sewer charges established by the Urban County Government that are collected by Kentucky American Water each month.

Mundy said the 25 percent discount will help those who have difficulty paying their water bills. In addition, the \$24 activation charge every time water service is started will now be paid by those creating the cost, and not all customers.

"The people of Central Kentucky have come to expect Kentucky American Water to be a good corporate citizen and to help the community," said Mundy. "Last year, the shareholders of our company gave more than \$163,000 to more than 133 different charities and community initiatives, the most recent being a \$16,000 donation to help keep swimming pools open for the summer."

Kentucky American Water's rates are set by the Kentucky PSC, which will now take the request under review. The PSC, as well as others who intervene in the case, will scrutinize information provided by the company in an open and thorough process. The Kentucky PSC will conduct public hearings on the rate case and a final decision is expected in December of this year. Rates will not be adjusted until a final decision from the Kentucky PSC is issued.

"We believe Kentucky American Water's track record demonstrates a strong commitment to service and operational efficiency in managing costs," said Mundy. "At the same time, regulation by the PSC is an excellent way to set rates that are fair to both the customers and the company in a way that ensures quality water continues to be the only priority."

Mundy pointed to the recent survey done by the water company with a nationally recognized research firm that indicated a strong recognition and support for the PSC process.

"Based on recent research, our customers believe their water is reasonably priced," said Mundy, "and they trust the PSC process to be the right and fair way to establish water rates."

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