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NEWS RELEASE

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Kentucky-American Water Pays \$10,000 Fine to PSC *Company repeatedly violated PSC order on filing requirement*

FRANKFORT, Ky. (Aug. 11, 2010) – Kentucky-American Water Co. has agreed to pay a \$10,000 penalty to settle charges that it repeatedly violated an order of the Kentucky Public Service Commission (PSC) regarding reporting dividends it pays to its parent company.

The agreement comes after the PSC in May rejected as inadequate an earlier offer in which Kentucky-American offered to pay between \$25 and \$2,500 and argued for a penalty at the lower end of that scale.

In an order issued today, the PSC said it “did not view (Kentucky-American’s) original offer of settlement as adequately addressing our concerns or reflecting the gravity with which we viewed (Kentucky-American’s) actions.”

Kentucky-American’s revised offer included an “acknowledgement of responsibility for the violation and the commitment not to seek rate recovery of the settlement payment,” the PSC said. That indicated that the company better recognized the seriousness of the PSC’s concerns, the PSC said.

The violations stem from the PSC order in the 2002 purchase of Kentucky-American’s parent company by a German firm. The 2002 order directed Kentucky-American to seek PSC approval prior to paying any quarterly dividends to the parent company, American Water Works Co. Inc., that exceed five percent of Kentucky-American’s earning for that quarter.

The provision still applies, even though the German firm no longer owns either Kentucky-American or the parent company.*

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*** CLARIFICATION: The provision applied at the time of the violations, but no longer does. The requirement was lifted with the completion of a stock offering that re-established American Water Works as an independent company in November 2009.**

Kentucky-American paid out dividends during the first two quarters of 2009 without seeking PSC approval. The violations came to light when Kentucky-American filed for approval of the third-quarter dividend for 2009.

The violations were inadvertent, Kentucky-American said in arguing for a light penalty. The company also explained the steps it had taken to prevent future violations.

But the PSC noted in May that Kentucky-American had violated the pre-approval provision in 2005. The PSC did not assess a penalty at the time, but warned the company that future violations could lead to sanctions.

In its May 14 order rejecting Kentucky-American's initial settlement offer, the PSC said the violations in 2009 indicated that Kentucky-American had been "extremely lax and negligent in exercising proper management responsibility." Accepting the earlier offer would have sent the wrong message to both regulated utilities and the public about the PSC's commitment to enforcing its orders, the PSC said in May.

The subsequent revised settlement offer "represents a reasonable and appropriate resolution of this matter," the PSC said in today's order.

Today's order, the earlier order and other documents in the case are available on the PSC website, psc.ky.gov. The case number is 2009-00359.

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.