

I point these out to you only to reiterate the rationale for us continuing our process of adding new customers to our system on an annual basis. I do believe we have the responsibility as a water purveyor to provide service to those new customers. With the improvements we're proposing at RRS, the Division of Water is well aware of our short-term initiatives as well as our long-term commitment to solve the treatment and source issues for Kentucky-American Water Company.

Based upon this correspondence and a review of our current Demand Management Plan, I feel comfortable from an operational standpoint that we should continue to follow our Demand Management Plan as filed with the Commission and the Division of Water that has worked remarkably well over the past several years. This process has given us the flexibility to roll back phases if rainfall occurred and allow watering for a two to three week period, then return to a more strict demand management process. Customers have responded and seemed to appreciate the flexibility that our current plan allows.

As you are aware, the current Demand Management Plan has an initial preliminary watch phase that we usually initiate in May of each year to monitor the river flows, drought indexes, rainfall patterns, etc. The actual first phase of restrictions, when solely referring to treatment, is triggered when we have customer demands that exceed 65 mgd for three consecutive days. By following this process, we have an inherent 7% margin in demand before we reach the 70 mgd permitted amount, and a 15% margin before we reach the 76 mgd operation ability of our facilities. Of course, this is all contingent upon the actual water availability of the river, and the supply situation could take priority as the river flows may be at a level that would cause us to move well into our Demand Management Plan prior to the treatment issue becoming a concern.

I hope this helps clarify some issues that have arisen over the past several weeks on capabilities within our facilities. The correspondence from the Division of Water and our relationship with them speaks for itself regarding their understanding of our predicament, and their willingness to work with us through these challenging times with the understanding that Kentucky-American is committed to solving the problem long-term. Please let me know if you have any questions.

NOR:ps

Attachment

cc (w/attachments):

Chris Jarrett
Linda Bridwell
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Gary Naumick
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