

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – January  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

<i>Month of January</i>					
Item	Actual Results	Plan	Variance vs. Plan	Most Recent Forecast	Variance vs. Forecast
Revenues	\$2,207	\$2,578	\$-371	\$2,578	\$-371
Operating Result (EBITA)	\$134	\$442	\$-308	\$442	\$-308
PBT (Pre-Tax Income)	\$-155	\$142	\$-297	\$142	\$-297
Distributable Profit (Net to Common)	\$-127	\$41	\$-168	\$41	\$-168
Capital Expenditures	\$486	\$568	\$-82	\$568	\$-82

  

<i>Year to Date</i>					
item	Actual Results	Plan	Variance vs. Plan	Most Recent Forecast	Variance vs. Forecast
Revenues	\$2,207	\$2,578	\$-371	\$2,578	\$-371
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Distributable Profit (Net to Common)	\$-127	\$41	\$-168	\$41	\$-168
Capital Expenditures	\$486	\$568	\$-82	\$568	\$-82

**Comments:**

Revenues are under Plan by \$371,000 due to a one-time correction of unbilled revenue that places January revenue \$223,000 below the preliminary Forecast. This reduction equates to lower than expected EBITA and PBT, although a portion of the reduced revenues have been offset by expense savings. Net income will be \$168,000 below Plan. The Plan for 4-4-5 has been revised since the preliminary report.

## 2. OPERATIONAL ISSUES

KAWC remained in compliance with all applicable drinking water and environmental regulations through January. KAWC's water sources were ample in quantity in January and are expected to remain that way at least through spring based on recent precipitation

In 2002, KAWC received a 2002 overall satisfaction rate of 86.85% with American Water System, which was above the 2002 goal of 85.24% and was the highest ranking among American Water subsidiaries.

Security efforts are at a heightened state of alert. Access to facilities continues to be minimized while appropriate intrusion and security devices have been installed. No significant capital expenditures are expected during 2003 for security efforts. Ongoing O&M cost for security is approximately \$1.0 million per year. The Company will seek rate coverage for both its ongoing and deferred security cost in the rate case expected to be filed in March 2004 as ordered in the RWE case.

The current 12-month sales to delivery ratio is 84.7%. More effort is being directed toward Central Kentucky operations by the leak detection crew(s) to elevate this percentage.

KAWC continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. The Consortium has initiated a 10-month study of alternatives for regional water supply to be completed in August 2003. Two workshops and one public meeting have already been held. KAWC participated in a joint update on water supply to the LFUCG Council on January 14. The Kentucky River Authority voted in December to direct the U.S. Army Corps of Engineers to raise Dam 10 permanently by six feet with an attached cellular dam and close the lock structure. Dam 10 is directly upstream of KAWC's intake. The Public Service Commission had established an investigative proceeding to review KAWC's efforts in resolving the deficit in March 2001, but the case has been delayed by the PSC pending the proceedings in the RWE case. Indications from the Commission are that the Case will be resumed in the near future.

Hydraulic improvements to the Richmond Road Station treatment plant were initially delayed by the Division of Water review process, but are currently underway and should be completed by spring 2003, which would increase production capability at the Richmond Road Station during a peak day event. While these improvements do not expand the reliable rated capacity of the treatment facilities, they do provide the operational ability to exceed the rated capacity, if needed to meet peak day demands. This project will reduce the risk of the vulnerability identified with the treatment capacity deficit in the short term.

KAWC's capital expenditures for January are \$486,000 and below Plan by \$82,000 due to construction delays from cold weather. The 2003 capital expenditures are below internally generated fund levels and projected to be at planned amounts for the year.

#### LEGAL

The Raffelis Report on valuation of KAWC could be submitted as early as the end of January 2003. The Lexington-Fayette Urban County Government (LFUCG) recently formally requested the Company to provide certain financial data and projections to assist in the valuation. The Company will decline appropriately. After the Raffelis Report is submitted, the Urban County Council will consider whether to make an offer to the Company and may ultimately vote on whether to file condemnation proceedings. The Public Service Commission excluded the issue of local government ownership from its consideration of the RWE/Thames/TWUS ("TWUS) merger case, which it approved on December 20, 2002. The three interveners (Attorney General, LFUCG, and the group For Local Ownership of Water (FLOW)) have made motions to the PSC for a Rehearing to reconsider its Order. The interveners will have 20 days from a denial to appeal to Franklin Circuit Court. If the PSC does not rule on their motions for a rehearing within 20 days from January 9, 2003, the motions will be deemed to be denied.

In 2002, FLOW challenged the validity of KAWC's franchise from the LFUCG, but lost at the trial court level. The case is on appeal to the Kentucky Court of Appeals, but no hearing date has been.

#### REGULATORY

KAWC is under an Agreed Order to decommission its Boonesboro package sewer plant at Rockwell Village and connect the small sewer distribution system to the Winchester municipal system. All parties, including the Commonwealth of Kentucky, have agreed to an extension of time to implement a revised plan, but have not yet amended the original Court Order to extend the time. The plant has stayed in compliance with discharge requirements while operating during the process.

The Commonwealth of Kentucky awarded the Company the operating contract for a governmental/commercial development called Bluegrass Station. Under the two-year arrangement, KAWC will operate the water, sewer and storm water systems and will receive \$86,000 per year. An O&M contract will have to be negotiated.

### 3. MANAGEMENT FOCUS

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The closing of the RWE/American merger went smoothly and media contacts were made as outlined in the corporate communications rollout plan. No further media communications are anticipated

KAWC is a member of the Bluegrass Water Supply Consortium, which is pursuing a regional solution to the water supply deficits in Central Kentucky. KAWC is the largest water utility in the region and will have an opportunity to distribute water to other Consortium members once the preferred operational solution is identified, designed and implemented. Additionally, KAWC will have the opportunity to serve as a financing partner to the Consortium. This project provides the opportunity to solve the source of supply deficit projected for KAWC in a manner that creates consensus with the surrounding public water providers and political entities.

KAWC exceeded its rated treatment capacity of 70 mgd on August 5, 2002 with system delivery of 71.82 mgd during a moderately hot, dry period. Because resolution of the treatment capacity deficit is integrally fixed in the resolution of the source of supply deficit, the preferred solution for resolving the treatment capacity deficit will be delayed until a long-term water supply solution is identified. KAWC is completing a project that will increase the operational capability during a peak day event, but will not expand reliable treatment capacity. Until long-term solutions for source of supply and treatment capacity are identified and implemented, KAWC is at risk of going to mandatory restrictions during periods of extreme hot, dry weather or periods of prolonged drought conditions. Normal precipitation through early winter is projected to sustain adequate water supply through spring.

On November 27, 2000, the Kentucky PSC ordered the Company to formally apply to the Commission for approval to defer expenses as a regulatory asset. KAWC has requested PSC approval to defer expenses associated with security improvements, and the allocated costs of the transition to the call center and the shared services operation. To date, there has been no response from the PSC. These costs are projected to exceed \$4.16 million by the end of 2003. Since the PSC ordered on May 30, 2002 that KAWC address the security costs in the next rate case, KAWC believes that deferral of \$2.7 million will be approved. The Company is currently amortizing the transition costs of the shared services operations based on the savings experienced in on-going expenses and expects to do the same for the call center costs once the Company makes the move to the call center this year.

### 4. NEW BUSINESS

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1. City of Owenton – Proposals have been made to the City for consideration of purchase of the water and waste water systems. The water system has experienced some source of supply and water quality problems. The City has recently been awarded a grant to partially fund improvements for water supply problems. The City is the supplier of water for the Tri-Village operations owned by the Company, and would be a strategic expansion for KAWC. The Mayor and the County Judge Executive strongly support the proposal. KAWC met again with the City Council on December 3, 2002. KAWC will make another proposal to the City Council in February 2003.
2. South Shore Water Company – KAWC negotiated a preliminary contract, but further due diligence indicated more capital improvements than originally anticipated were necessary. The Company will be renegotiating the preliminary purchase price
3. Bluegrass Station – On October 31, 2002, KAWC was notified that it was the successful bidder on an O&M contract for water, storm water and waste water services to the former Army Depot located within Lexington-Fayette County. The Lexington-Fayette Urban County Government formerly held the contract. The contract is expected to be executed around February 1, 2003 and will produce \$86,000 of revenue annually.
4. City of Jackson – The Mayor of the City of Jackson has approached KAWC about presenting a proposal for a potential purchase of the water system or long-term O&M contract, but asked that efforts be delayed until after the November 2002 election, which was successful for the Mayor. The contact was a direct result of the KRA leak detection contract and detailed discussions are expected to begin in January 2003.
5. City of Stamping Ground in western Scott County - KAWC has been approached about a possible purchase of its water system. A preliminary financial review has indicated that an agreement may not be possible with the City's current rate structure.
6. Green Hills Water District -The District approached KAWC to tour the facilities on November 18, 2002, and expressed interest in selling the assets based on the contract with the City of Pineville. As of December 31, 2001, the District served 500 customers and had \$147,480 in water operating revenues, which did not cover expenses. The District is currently preparing for a rate increase. On evaluation, the best alternative appears to be for the Pineville Utilities Commission to purchase the assets and extend the O&M

contract to KAWC. On January 16, KAWC met with the District Manager and three District Commissioners. The Commissioners confirmed their desire to sell the assets to Pineville. KAWC will need to facilitate this issue with Pineville.

7. Berea College Water Utility Department - The City of Berea is 40 miles south of Lexington adjacent to Interstate 75. Berea College owns both the water and electric companies that serve the City and has recently expressed interest in selling both utilities, which are PSC regulated. KAWC has been in contact with the manager, who indicates a plan to issue an RFP in 2003, and has asked KAWC to assist in the design of the RFP. On December 9, KAWC sent an initial due diligence list to Berea. The District serves 3,834 customers and had annual water operating revenues of \$2,244,791, which provided an appropriate return on investment. A significant portion of their revenues is derived from one wholesale customer, Southern Madison Water District. KAWC has been advised that the utility board will decide on issuing an RFP by mid-February.

ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl. #	Price
Written offers made	Owenton	2/1/2002	1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1,450

**5. HUMAN RESOURCES**

There are eight vacancies at KAWC. Several of these positions have been posted on the System Wide Network. Several good candidates have applied and it is expected that the Company will be able to fill these positions in a timely manner.

One position at Kentucky-American Water Company was filled by a minority. This position was the Manager Loss Control. Two additional positions are expected to be filled by minority candidates, Lab Analyst and Meter Reader. The Lab Analyst is also a female.

The training needs are being evaluated by the Manager of Associate and Organizational Development with focus on the Diversity Initiative. Meetings are being conducted with Senior Management and Management. In addition, the Company are working to create a Regional Training Database to ensure accurate tracking of associate development across the Southeast Region.

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – February  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

<b>Month of February</b>					
Item	Actual Results	Plan	Variance vs. Plan	Most Recent Forecast	Variance vs. Forecast
Revenues	\$3,961	\$3,637	\$324	\$3,734	\$227
Operating Result (EBITA)	\$1,671	\$1,274	\$397	\$1,435	\$236
PBT (Pre-Tax Income)	\$1,330	\$921	\$409	\$1,082	\$248
Distributable Profit (Net to Common)	\$751	\$507	\$244	\$604	\$147
Capital Expenditures	\$757	\$854	\$-97	\$854	\$-97
<b>Year to Date</b>					
Item	Actual Results	Plan	Variance vs. Plan	Most Recent Forecast	Variance vs. Forecast
Revenues	\$6,167	\$6,215	\$-48	\$5,941	\$226
Operating Result (EBITA)	\$1,769	\$1,695	\$74	\$1,569	\$200
PBT (Pre-Tax Income)	\$1,175	\$1,063	\$112	\$927	\$248
Distributable Profit (Net to Common)	\$624	\$548	\$76	\$477	\$147
Capital Expenditures	\$1,429	\$1,422	\$7	\$1,422	\$7

### Comments:

Revenues for the month are over Plan by \$324,000 and the most recent Forecast by \$227,000. The revenue is up due to a positive unbilled adjustment of approximately \$400,000. The unbilled revenue adjustment have been reforecasted and the Company anticipates a negative unbilled adjustment of approximately \$500,000 for March. The unbilled adjustments to be reforecasted for the remainder of the year, but there will be no effect the Annual Plan. Net income to common is \$244,000 over Plan and \$147,000 over the most recent Forecast because of the positive unbilled adjustment and a delay in some miscellaneous expenses that will not be incurred until later months.

## 2. OPERATIONAL ISSUES

KAWC remained in compliance with all applicable drinking water and environmental regulations through February. Water sources were ample in quantity in February and are expected to remain that way at least through spring based on recent precipitation.

On February 15 -16, central Kentucky experienced a catastrophic ice storm which knocked out power service to over 115,000 customers including the Richmond Road Station treatment plant and numerous booster and tank sites. The Kentucky River Station treatment plant continued to operate normally, although turbidity levels were extremely elevated which complicated treatment. KAWC experienced no service problems and met with the news media and City officials repeatedly to assure customers of water

quality. Power was restored to the Richmond Road Station by 3:30 Monday afternoon, February 17th, and to all booster stations by February 24th. The Company provided all of the water needs to the City of Versailles through February 19th as their treatment plant also experienced loss of power. The increased costs for clean-up of property will be reflected in March and April as work continues and are expected to be \$55,000 above planned amounts.

Security efforts have moved to Code "Orange". Access to facilities has been further reduced while appropriate intrusion and security devices have been installed. No significant capital expenditures are expected during 2003 for security efforts. Ongoing O&M costs for security is approximately \$1.0 million per year. The Company will seek rate coverage for both its ongoing and deferred security cost in the rate case expected to be filed in March 2004 as ordered in the RWE case.

The current 12-month sales to delivery ratio is 84.7%. More effort is being directed toward Central Kentucky operations by the leak detection crew(s) to elevate this percentage.

KAWC continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. The Consortium has initiated a 10-month study of alternatives for regional water supply to be completed in August 2003. Three workshops and one public meeting have already been held. A meeting is scheduled February 17-18th in Frankfort during the Kentucky legislative session. The Kentucky River Authority voted in December 2002 to direct the U.S. Army Corps of Engineers (USACE) to raise Dam 10 permanently by six feet with an attached cellular dam and close the lock structure. Dam 10 is directly upstream of KAWC's intake. The USACE is now initiating temporary stability efforts on the dam until the construction of the new dam can begin. The Public Service Commission had established an investigative proceeding to review KAWC's efforts in resolving the deficit in March 2001, but the case has been delayed by the PSC pending the proceedings in the RWE case. Indications from the Commission are that the Case will be resumed in the near future.

Hydraulic improvements to the Richmond Road Station treatment plant were initially delayed by the Division of Water review process, but are currently underway and should be completed by spring 2003, which would increase production capability at the Richmond Road Station during a peak day event. While these improvements do not expand the reliable rated capacity of the treatment facilities, they do provide the operational ability to exceed the rated capacity, if needed to meet peak day demands. This project will reduce the risk of the vulnerability identified with the treatment capacity deficit in the short term.

KAWC's capital expenditures for February are \$775,000 and below Plan by \$75,000 but are Year-to-date \$1,503,000 and \$81,000 over plan. The 2003 capital expenditures are below internally generated fund levels and projected to be at planned amounts for the year.

#### LEGAL

The Raffelis Report on valuation of KAWC is now projected to be submitted early March 2003. The Company declined to provide additional information sought by the Lexington-Fayette Urban County Government (LFUCG). After the Raffelis Report is submitted, the Urban County Council will consider whether to make an offer to the Company and may ultimately vote on whether to file condemnation proceedings.

#### REGULATORY

KAWC is under an Agreed Order to decommission its Boonesboro package sewer plant at Rockwell Village and connect the small sewer distribution system to the Winchester municipal system. All parties, including the Commonwealth of Kentucky, have agreed to an extension of time to implement a revised plan, but have not yet amended the original Court Order to extend the time. The plant has stayed in compliance with discharge requirements while operating during the process. Significant capital costs will be required to connect to Winchester that are not currently in the 2003 Annual Business Plan. KAWC is in the process of finalizing the costs to identify the financial impact for the 95 customers to regulatory officials at the Division of Water.

The Commonwealth of Kentucky awarded the Company the operating contract for a governmental/commercial development called Bluegrass Station. Under the two-year arrangement the Company will operate the water, sewer and storm water systems and will receive \$86,000 per year.

### 3. MANAGEMENT FOCUS

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KAWC is a member of the Bluegrass Water Supply Consortium, which is pursuing a regional solution to the water supply deficits in Central Kentucky. KAWC is the largest water utility in the region and will have an opportunity to distribute water to other Consortium members once the preferred operational solution is identified, designed and implemented. Additionally, KAWC will have the opportunity to serve as a financing partner to the Consortium. This project provides the opportunity to solve the source of supply deficit projected for KAWC in a manner that creates consensus with the surrounding public water providers and political entities. On February 6, representatives of KAWC and two of the consultants with the Consortium met with West Virginia-American Water Company representatives in Charleston to learn more about the potential partnering arrangements already used by WVAWC.

KAWC exceeded its rated treatment capacity of 70 mgd on August 5, 2002 with system delivery of 71.82 mgd during a moderately hot, dry period. Because resolution of the treatment capacity deficit is integrally fixed in the resolution of the source of supply deficit, the preferred solution for resolving the treatment capacity deficit will be delayed until a long-term water supply solution is identified. KAWC is completing a project that will increase the operational capability during a peak day event, but will not expand reliable treatment capacity. Until long-term solutions for source of supply and treatment capacity are identified and implemented, KAWC is at risk of going to mandatory restrictions during periods of extreme hot, dry weather or periods of prolonged drought conditions. Normal precipitation through early winter is projected to sustain adequate water supply through spring.

On November 27, 2000, the Kentucky PSC ordered the Company to formally apply to the Commission for approval to defer expenses as a regulatory asset. KAWC has requested PSC approval to defer expenses associated with security improvements, and the allocated costs of the transition to the call center and the shared services operation. To date, there has been no response from the PSC. These costs are projected to exceed \$4.16 million by the end of 2003. Since the PSC ordered on May 30, 2002 that KAWC address the security costs in the next rate case, KAWC believes that deferral of \$2.7 million will be approved. The Company is currently amortizing the transition costs of the shared services operations based on the savings experienced in on-going expenses and expects to do the same for the call center costs once the Company makes the move to the call center this year.

### 4. NEW BUSINESS

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1. City of Owenton – Proposals have been made to the City for consideration of purchase of the water and wastewater systems. The water system has experienced some source of supply and water quality problems. The City has recently been awarded a grant to partially fund improvements for water supply problems. The City is the supplier of water for the Tri-Village operations owned by the Company, and would be a strategic expansion for KAWC. The Mayor and the County Judge Executive strongly support the proposal. On February 4, 2003 KAWC representatives again met with the City Council and submitted an updated proposal of \$2.85 million for the purchase of both systems. A joint meeting with the Utilities' Board is planned for the end of February, with a public meeting to follow.

2. South Shore Water Company – KAWC negotiated a preliminary contract, but further due diligence indicated more capital improvements than originally anticipated were necessary. The Company will be renegotiating the preliminary purchase price.

3. Bluegrass Station – On October 31, 2002, KAWC was notified that it was the successful bidder on an O&M contract for water, storm water and wastewater services to the former Army Depot located within Lexington-Fayette County. The Lexington-Fayette Urban County Government formerly held the contract. The contract was executed February 1, 2003 and will produce \$86,000 of revenue annually. KAWC has made significant improvements already in cleanliness and organization of the operation. Bluegrass Station officials have praised KAWC for the immediate impact on operation and appearance of facilities. Other work with the Bluegrass Station may result from this contract, including the incorporation of 68 customers of the Bluegrass Station under the tariffs of KAWC.

4. City of Jackson – The Mayor of the City of Jackson has approached KAWC about presenting a proposal for a potential purchase of the water system or long-term O&M contract, but asked that efforts be delayed until after the November 2002 election, which was successful for the Mayor. The contact was a direct result of the KRA leak detection contract and detailed discussions are expected to begin in early 2003. On February 6, 2003 KAWC representatives met with the Mayor. A facilities tour in Jackson will follow shortly.

5. City of Stamping Ground in western Scott County - KAWC has been approached about a possible purchase of its water system. A preliminary financial review has indicated that an agreement may not be possible with the City's current rate structure.

6. Green Hills Water District - The District approached KAWC to tour the facilities on November 18, 2002, and expressed interest in selling the assets based on the contract with the City of Pineville. As of December 31, 2001, the District served 500 customers and had \$147,480 in water operating revenues, which did not cover expenses. The District is currently preparing for a rate increase. On evaluation, the best alternative appears to be for the Pineville Utilities Commission to purchase the assets and extend the O&M contract to KAWC. On January 16, KAWC met with the District Manager and three District Commissioners. The Commissioners confirmed their desire to sell the assets to Pineville. After the meeting with Green Hills, KAWC approached the Pineville Utility Commission regarding a possible purchase of the assets. Pineville has expressed a strong desire to purchase these assets, but wants to wait until the Public Service Commission issues and their rate case is final.

7. Berea College Water Utility Department - The City of Berea is 40 miles south of Lexington adjacent to Interstate 75. Berea College owns both the water and electric companies that serve the City and has recently expressed interest in selling both utilities, which are PSC regulated. KAWC has been in contact with the manager, who indicates a plan to issue an RFP in 2003, and has asked KAWC to assist in the design of the RFP. On December 9, KAWC sent an initial due diligence list to Berea. The District serves 3,834 customers and had annual water operating revenues of \$2,244,791, which provided an appropriate return on investment. A significant portion of their revenues is derived from one wholesale customer, Southern Madison Water District. The process has stalled due to the resignation of the Utilities' Manager, who joined the Kentucky League of Cities. The former manager recently advised a final decision is pending a meeting in May 2003 by Berea College officials.

ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl. #	Price
Written offers made	Owenton	2/1/2002	1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1.450

## 5. HUMAN RESOURCES

There are six vacancies at KAWC. Several of these positions have been posted on the System Wide Network.

Training needs are being evaluated by the Manager of Employee and Organizational Development with continued focus on Diversity, as well as Management Development. In addition, the Company is continuing to work to create a Regional Training Database to ensure accurate tracking of employee participation and costs across the Southeast Region. Work continues with the management team to determine current staffing trends and future staffing needs.



# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – March  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

Month of March					
Item	Actual Results	Plan	Variance vs. Plan	Most Recent Forecast	Variance vs. Forecast
Revenues	\$3,302	\$2,772	\$530	\$3,201	\$101
Operating Result (EBITA)	\$427	\$0	\$427	\$480	\$-53
PBT (Pre-Tax Income)	\$47	\$-445	\$492	\$89	\$-42
Distributable Profit (Net to Common)	\$-16	\$-311	\$295	\$8	\$-24
Capital Expenditures	\$943	\$1,230	\$-287	\$1,230	\$-287
Year to Date					
Item	Actual Results	Plan	Variance vs. Plan	Most Recent Forecast	Variance vs. Forecast
Revenues	\$9,470	\$8,987	\$483	\$9,369	\$101
Operating Result (EBITA)	\$2,267	\$1,739	\$528	\$2,320	\$-53
PBT (Pre-Tax Income)	\$1,222	\$617	\$605	\$1,264	\$-42
Distributable Profit (Net to Common)	\$607	\$236	\$371	\$631	\$-24
Capital Expenditures	\$2,429	\$2,652	\$-223	\$2,652	\$-223

### Comments:

Revenues are over Forecast for the month and year-to-date by \$101,000. Billed revenues are over Forecast due to increased sales to the residential and commercial classifications. March pump age increases also point to increased sales and revenue in April

Operating Result is under Forecast by \$53,000 due to several increases in expenses. Water production expenses are over Forecast by \$107,000 due to very high turbidities due to rainfall and river conditions. In addition, group insurance is over Forecast due to a problem with the capitalized offset which the SSC is attempting to correct, and increased FAS-87 pension expense based on the latest actuarial evaluation.

PBT - lower net debt resulted in lower ST interest expense of \$12,000.

**Capex** - net to common is below Forecast by \$24,000 after income taxes are applied to the PBT variances described above

Net Debt is under Forecast by \$19 million due to delays in the Capex spending forecast and a favorable beginning balance due to adjustments instituted in 2002.

Security **Cost** - The Company deferred \$130,000 for security in March versus a Forecast of \$115,000. The Company expects to spend \$3,000 per week above Forecast for each week code "orange" stays in effect.

## **2. OPERATIONAL ISSUES**

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KAWC remained in compliance with all applicable drinking water and environmental regulations through March. Continued levels of raw water turbidity more than double the historical levels are increasing chemical usage, but are not causing water quality concerns. Turbidity levels are beginning to drop with more recent normal rainfall and should return to normal within four to six weeks if the weather holds. Water sources were ample in quantity in March and are expected to remain that way at least through early summer based on recent precipitation.

Increased costs that are expected to be \$55,000 above planned amounts will be reflected in March and April due to clean-up of property damage caused by the catastrophic ice storm in February. Kentucky Utilities has been directed by the Public Service Commission to prepare an internal assessment of its emergency response to the storm, which has generated significant public criticism and may have some impact on the condemnation issue.

Security efforts remain at Code "Orange". Access to facilities has been further reduced. No significant capital expenditures are expected during 2003 for security efforts. Ongoing O&M costs for security is approximately \$1.0 million per year. The Company will seek rate coverage for both its ongoing and deferred security cost in the rate case expected to be filed in March 2004 as ordered in the RWE case.

The current 12-month sales to delivery ratio is 84.37%, which is a continued decline from 86.7% last year. More effort continues to be directed toward Central Kentucky operations by the leak detection crew(s) to reverse this trend and elevate this percentage, which has resulted in the discovery and repair of two large leaks in March.

KAWC continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. The Consortium has initiated a 10-month study of alternatives for regional water supply. Three workshops and one public meeting have already been held. A meeting was held on March 14th that was originally scheduled February 17-18th in Frankfort during the Kentucky legislative session. The Kentucky River Authority voted in December 2002 to direct the U.S. Army Corps of Engineers (USACE) to raise Dam 10, directly upstream of KAWC's intake, permanently by six feet with an attached cellular dam and close the lock structure. The USACE is now initiating temporary stability efforts on the dam until the construction of the new dam can begin. The Public Service Commission had established an investigative proceeding to review KAWC's efforts in resolving the deficit in March 2001, but the case has been delayed by the PSC pending the proceedings in the RWE case. Indications from the Commission are that the case will be resumed in conjunction with the Consortium study completion in August 2003.

Hydraulic improvements to the Richmond Road Station treatment plant should be completed by spring 2003, which would increase production capability at the Richmond Road Station during a peak day event. Work is continuing during the continued heightened security level, but has been slowed slightly by the additional precautions.

KAWC's capital expenditures for March are \$943,000 and below Forecast by \$286,000. Year-to-date expenditures of \$2,428,500 are \$223,350 under plan due largely to the severe weather in late February that slowed construction of new mains and services. The 2003 capital expenditures are below internally generated fund levels and projected to be at planned amounts for the year.

### **LEGAL**

The Raffleis Report on valuation of KAWC was presented to the Lexington-Fayette Urban County Government (LFUCG) on March 4. The "valuations" ranged from \$157.7 million to nearly \$355 million. The Urban County Council voted 12-3 to consider a resolution granting the Mayor the power to negotiate to purchase all of the assets of KAWC. On March 13th, the PSC determined that the merger on January 10, 2003 was not inappropriate in light of the pending rehearing requests, and denied the motions of the LFUCG, Attorney General and Bluegrass FLOW asking the PSC to declare the RWE closing invalid.

KAWC has submitted the appropriate filings to the Public Service Commission due March 31 as required in the conditions of the PSC approval of the change in control to RWE.

## REGULATORY

KAWC is under an Agreed Order of the Franklin Circuit Court to decommission its Boonesboro package sewer plant at Rockwell Village and connect the small sewer distribution system to the Winchester municipal system. All parties, including the Commonwealth of Kentucky, have agreed to an extension of time to implement a revised plan, but have not yet amended the original Court Order to extend the time. The plant has stayed in compliance with discharge requirements while operating during the process. Significant capital costs will be required to connect to Winchester that are not currently in the 2003 Annual Business Plan. KAWC is in the process of finalizing the costs to identify the financial impact for the 95 customers to regulatory officials at the Division of Water.

The Commonwealth of Kentucky awarded the Company the operating contract for a governmental/commercial development called Bluegrass Station, which began February 1, 2003. Under the two-year arrangement the Company will operate the water, sewer and storm water systems and will receive \$86,000 per year.

## 3. MANAGEMENT FOCUS

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KAWC is a member of the Bluegrass Water Supply Consortium, which is pursuing a regional solution to the water supply deficits in Central Kentucky. KAWC is the largest water utility in the region and will have an opportunity to distribute water to other Consortium members once the preferred operational solution is identified, designed and implemented. Additionally, KAWC will have the opportunity to serve as a financing partner to the Consortium. In February, KAWC initiated discussions with the group about potential partnering arrangements already used by WVAWC that are continuing to be considered.

The Richmond Road Station project should be completed within 8 weeks, which will alleviate the potential for restrictions due to treatment capacity in the immediate future. Until long-term solutions for source of supply and treatment capacity are identified and implemented, KAWC is at risk of going to mandatory restrictions during periods of extreme hot, dry weather or periods of prolonged drought conditions. Normal precipitation through winter is projected to sustain adequate water supply through early summer.

On November 27, 2000, the Kentucky PSC ordered the Company to formally apply to the Commission for approval to defer certain expenses as regulatory assets. These costs are projected to exceed \$4.16 million by the end of 2003. The Company is currently amortizing the transition costs of the shared services operations based on the savings experienced in on-going expenses and expects to do the same for the call center costs once the Company makes the move to the call center this year.

The company continues to defer its security expenses until covered in the next general rate case filing. For the month of March the company spent \$130,000 for security versus a plan level of \$115,000. This overrun is primarily due to the elevation of the company's security condition to Orange. The company will spend \$3,000 per week additional for each week that security condition Orange stays in effect.

## 4. NEW BUSINESS

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1. City of Owenton - Proposals have been made to the City for consideration of purchase of the water and wastewater systems. The water system has experienced some source of supply and water quality problems. The City has recently been awarded a grant to partially fund improvements to solve water supply problems. The City is the supplier of water for the Tri-Village operations owned by the Company, and would be a strategic expansion for KAWC. The Mayor and the County Judge Executive strongly support the proposal. On March 17, KAWC representatives joined the City Council in a public meeting to discuss an updated proposal of \$2.85 million for the purchase of both systems. The next steps are for the mayor to appoint a negotiating committee at the April council meeting with a vote to enter into a purchase agreement planned for the May council meeting.
2. South Shore Water Company - KAWC negotiated a preliminary contract, but further due diligence indicated more capital improvements than originally anticipated were necessary. The Company will be renegotiating the preliminary purchase price.
3. Bluegrass Station - On October 31, 2002, KAWC was notified that it was the successful bidder on an O&M contract for water, storm water and wastewater services to the former Army Depot located within Lexington-Fayette County. The Lexington-Fayette Urban County Government formerly held the contract. The contract was executed February 1, 2003 and will produce \$86,000 of revenue annually. KAWC has made significant improvements already in cleanliness and organization of the operation. Bluegrass Station officials have praised KAWC for the immediate impact on operation and appearance of facilities. Other work with the

Bluegrass Station may result from this contract, including the incorporation of 68 customers of the Bluegrass Station under the tariffs of KAWC.

4. City of Jackson – The Mayor of the City of Jackson has approached KAWC about presenting a proposal for a potential purchase of the water system or long-term O&M contract, but asked that efforts be delayed until after the November 2002 election, which was successful for the Mayor. The contact was a direct result of the KRA leak detection contract and detailed discussions are expected to begin in early 2003. On February 6, 2003 KAWC representatives met with the Mayor. A facilities tour in Jackson will follow shortly.

5. City of Stamping Ground in western Scott County - KAWC has been approached about a possible purchase of its water system. A preliminary financial review has indicated that an agreement may not be possible with the City's current rate structure.

6. Green Hills Water District - The District approached KAWC to tour the facilities on November 18, 2002, and expressed interest in selling the assets based on the contract with the City of Pineville. As of December 31, 2001, the District served 500 customers and had \$147,480 in water operating revenues, which did not cover expenses. The District is currently preparing for a rate increase. On evaluation, the best alternative appears to be for the Pineville Utilities Commission to purchase the assets and extend the O&M contract to KAWC. On January 16, KAWC met with the District Manager and three District Commissioners. The Commissioners confirmed their desire to sell the assets to Pineville. After the meeting with Green Hills, KAWC approached the Pineville Utility Commission regarding a possible purchase of the assets. Pineville has expressed a strong desire to purchase these assets, but wants to wait until the Public Service Commission issues and their rate case is final. The rate case has been linked to another matter before the Commission, which is a complaint filed by a customer over a wholesale tariff. This may delay a decision on general rates, and thus delay acquisition discussions.

7. Berea College Water Utility Department - The City of Berea is 40 miles south of Lexington adjacent to Interstate 75. Berea College owns both the water and electric companies that serve the City and has recently expressed interest in selling both utilities, which are PSC regulated. KAWC has been in contact with the manager, who indicates a plan to issue an RFP in 2003, and has asked KAWC to assist in the design of the RFP. On December 9, KAWC sent an initial due diligence list to Berea. The District serves 3,834 customers and had annual water operating revenues of \$2,244,791, which provided an appropriate return on investment. A significant portion of their revenues is derived from one wholesale customer, Southern Madison Water District. The process has stalled due to the resignation of the Utilities' Manager, who joined the Kentucky League of Cities. Our most recent contact with the former manager for the utility indicates that Berea has put any further activity on hold until June 2003. The former manager recently advised a final decision is pending a meeting in May 2003 by Berea College officials.

ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl. #	Price
Written offers made	Owenton	2/1/2002	1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1,450

## 5. HUMAN RESOURCES

The current take-over talks in the community make operations and employee's duties open for public criticism. The Company has made a concerted effort to have regular meetings with employees insure that they are aware of the status of events within the community. The most recent meeting was held on March 6. A separate meeting with the leadership team was held on March 12. As a result of the volatility in the community, a decision has been made to leave the customer service department in place for the time being.

Current labor relations at the Company are very good. The Company conducted a meeting with the bargaining unit leadership on March 6. During the meeting, the Company requested that the parties meet every couple of months to keep the lines of communication open and to address situations before they become a problem. Since the Company is not going to close customer service at this time, the Company requested to meet with the Union business manager for the inside bargaining unit and their

leadership to discuss the potential for extending the current contract through December 2003, which would be in line with the original contract period.

An OFCCP EO Survey was completed for and submitted to the Corporate Office

The American Red Cross recently conducted two first aid/CPR classes for employees, which was held on site in the office complex. Monies are budgeted to conduct some classes each month. Company staff will also be conducting fork-lift training for employees during the month of April. Arrangements are underway with the IS department to arrange for computers in the training room to provide access to the internet to encourage better utilization of the American On-line system. Employees accessing the system away from their normal workstation will be able to learn without work distractions.

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – April  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

Month of April					
Item	Actual Results	Plan	Variance vs. Plan	Most Recent Forecast	Variance vs. Forecast
Revenues	\$3,386	\$3,827	\$-441	\$4,112	\$-726
Operating Result (EBITA)	\$998	\$1,435	\$-437	\$1,645	\$-647
PBT (Pre-Tax Income)	\$595	\$1,064	\$-469	\$1,238	\$-643
Distributable Profit (Net to Common)	\$311	\$592	\$-281	\$697	\$-386
Capital Expenditures	\$839	\$1,275	\$-436	\$1,275	\$-436
Year to Date					
Item	Actual Results	Plan	Variance vs. Plan	Most Recent Forecast	Variance vs. Forecast
Revenues	\$12,856	\$12,814	\$42	\$13,481	\$-625
Operating Result (EBITA)	\$3,115	\$3,095	\$20	\$3,798	\$-683
PBT (Pre-Tax Income)	\$1,625	\$1,568	\$57	\$2,309	\$-684
Distributable Profit (Net to Common)	\$804	\$761	\$43	\$1,213	\$-409
Capital Expenditures	\$3,267	\$3,926	\$-659	\$3,926	\$-659

### Comments:

Revenues are under forecast for both the month and year-to-date due to timing variances in unbilled revenue calculations related to allocations in the 4-4-5 process. The Company has revised its Forecast, which will correct the unbilled variance in subsequent months and will include those adjustments in its Q2RF. This will have no impact on the annual results. Billed revenues for April are on Forecast.

Operating Result for the month is under forecast due primarily to the previously mentioned unbilled revenue variance which will self adjust in subsequent periods. In addition, the production costs have exceeded forecast due to turbidity levels above historical averages, and the latest OPEB actuarial analysis has significantly increased those costs above Forecast. These issues will be addressed in the Q2RF.

PBT for the month is under due to the previously mentioned items

Capex for April is \$436,000 under Forecast and below YTD forecast by \$658,000. Extreme winter weather in February delayed the scheduled start of several projects. CAPEX is expected to be in line with Forecast for the year.

Net Debt is over Plan by \$632,000 due to timing differences for several payments. The Company still expects net debt for the year to be under Plan.

Security **Cost** - The Company deferred security expense of approximately \$110,000 in April compared to a forecast of \$110,000. The Company has been able to maintain at forecast levels even at code "orange" and should be able to maintain forecast levels now that the level has returned to "yellow."

## **2. OPERATIONAL ISSUES**

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KAWC remained in compliance with all applicable drinking water and environmental regulations through April. Turbidity levels have returned to normal. Water sources were ample in quantity in April and are expected to remain that way at least through mid summer based on recent precipitation.

Security efforts have remained at Code "Orange," but recently were lowered to "yellow," which will return expenses to forecast levels.

The current 12-month sales to delivery ratio remains at 84.3%, which continues to be down from 86.9% last year. More effort continues to be directed toward Central Kentucky operations by the leak detection crew(s) to reverse this trend and elevate this percentage.

KAWC continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. The study efforts are still on track for an August 2003 completion. The core utilities met on April 1 to further discuss the organizational structure. Representatives of the Lexington-Fayette Urban County Government indicated that the elected officials may expect to have a seat at the governing body, even if they are not contributing capital to a project. This issue may need to be resolved for the LFUCG to remain a member of the Consortium group, which would not necessarily prevent the Consortium from going forward with a project. The fourth public workshop will be held in May. Indications from the Public Service Commission continue to be that the investigation case into KAWC's efforts to resolve the source of supply deficit will be resumed in conjunction with the Consortium study completion.

The Kentucky River Authority (KRA) held its annual planning session April 16-17. There appears to be no change in immediate plans, but is continuing to pursue Dam 9 improvements following Dam 10 improvements. This would greatly stabilize the pool which Kentucky-American draws from, but funding is questionable. The new chairman of the KRA has proposed a project to construct a new 60-foot dam in Pool 8, which would flood Dam 9 by 5 feet. The KRA was encouraged, during the meeting, by KAWC and the Bluegrass Water Supply Consortium to not begin pursuing this project which would likely have environmental concerns.

Hydraulic improvements to the Richmond Road Station treatment plant should be completed by May 2003, which would increase production capability at the Richmond Road Station during a peak day event.

On April 10, a contractor working for Kentucky-American released a small amount of water because of a failure during sterilization of a new main. The release was made to an intermittent-flow stream that was full due to recent rainfall. Kentucky-American notified local and state authorities while still investigating the incident. It appears that no environmental impact occurred, and Kentucky-American will file a follow-up written incident report with the appropriate agencies.

KAWC's capital expenditures for April are \$839,000 and below Forecast by \$435,000. Year-to-date expenditures of \$3,267,500 are \$685,350 under Forecast due largely to the severe weather in late February and March that slowed construction of new mains and services. The 2003 capital expenditures are below internally generated fund levels and projected to be at planned amounts for the year.

### **LEGAL**

The Urban County Council voted on April 17 at a second reading in favor of a resolution granting the Mayor the power to negotiate to purchase all of the assets of KAWC.

There is no change in the case where FLOW challenged the validity of KAWC's franchise from the LFUCG, but lost at the trial court level. Both the Attorney General and the LFUCG have appealed the Public Service Commission final approval of the RWE Merger to the Franklin Circuit Court.

The LFUCG has issued a Request for Proposals from bond counsels in case of successful negotiations with RWE.

REGULATORY

There is no change in the elimination of the Rockwell Village Sewer plant

**3. MANAGEMENT FOCUS**

There have been no changes in KAWC's status as a member of the Bluegrass Water Supply Consortium or its efforts to provide partnering arrangements. KAWC is working with the other Consortium members to review alternatives for partnering.

No changes have been made on the issue of deferred expenses. On November 27, 2000, the Kentucky PSC ordered the Company to formally apply to the Commission for approval to defer certain expenses as regulatory assets. These costs are projected to exceed \$4.16 million by the end of 2003. The Company is currently amortizing the transition costs of the shared services operations based on the savings experienced in on-going expenses and expects to do the same for the call center costs once the Company makes the move to the call center.

The company continues to defer its security expenses until covered in the next general rate case filing. For the month of April the company spent the budgeted \$110,000 for security.

**4. NEW BUSINESS**

1. City of Owenton – The Mayor of Owenton has appointed a negotiating committee to meet with KAWC and to bring a recommendation to the May 6 City Council meeting.
2. South Shore Water Company – No change in status -- on hold.
3. Bluegrass Station – Operations running smoothly.
4. City of Jackson – No change in status. A facilities tour will occur this Spring
5. City of Stamping Ground in western Scott County - No change in status. KAWC is not actively pursuing.
6. Green Hills Water District - On April 14, 2003, the PSC approved a 27.25% rate increase for Green Hills. KAWC will be working with Pineville to prepare an offer for the assets of the Green Hills Water District.
7. Berea College Water Utility Department - KAWC awaiting a May 2003 meeting by Berea College officials to determine status.

ACQUISITION ACTIVITY						
Status	Project Name	Date	Cust. #	Empl. #	Price	
Written offers made	Owenton	2/1/2002	1700	10	\$3,200	
Written offers made	South Shore	9/1/2000	2315	6	\$1,450	

**5. HUMAN RESOURCES**

There are seven vacancies at Kentucky-American Water Company. Due to budget constraints and an effort to reduce expenses, the hiring of four of these positions is being delayed until the fourth quarter of 2003 or the first quarter of 2004.

The current take-over talks in the community make our operation and everything that our employees do, open for public criticism. The company continues to make a concerted effort to have regular meetings with our team to ensure that they are aware of the status of events within the community. A meeting was held on April 22 with employees and Warren Rogers, President of the Coalition Against Government Takeover. This meeting enabled employees to stay updated on the current events associated with the initiative of a possible take-over of KAWC.



As a result of the volatility in our community, a decision has been made to leave the customer service department in place for the current time, although it appears the conversion to ORCOM will occur in September.

Current labor relations at the Company are very good. The company conducted a meeting with bargaining unit leadership on March 6, 2003. Since the company is not going to close customer service at this time, the company met with the union business manager for the inside bargaining unit and their leadership to discuss the potential for extending the current contract through December, 2003, which would be in line with the original contract period. An answer from the union is expected by the end of April.

The Affirmative Action Program was updated for 2003.

The company has continued to conduct first aid/CPR classes for its employees. American Red Cross provides the instruction for these classes which are held in a training room at the office complex. Frank Ross, Loss Control Manager, will also be conducting forklift training and excavation/competent person training for our employees during the next couple of months. Arrangements have also been made to conduct the hearing tests and respirator fit tests for the employees in the distribution, production and water quality departments. The company has conducted the non-harassment training with the employees at the Pineville Water Company.

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – May  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

<b>Month of May</b>					
Item	Actual Results	Plan	Variance vs. Plan	Most Recent Forecast	Variance vs. Forecast
Revenues	\$3,549	\$3,820	\$-271	\$4,015	\$-466
Operating Result (EBITA)	\$938	\$1,406	\$-468	\$1,566	\$-628
PBT (Pre-Tax Income)	\$551	\$1,050	\$-499	\$1,174	\$-623
Distributable Profit (Net to Common)	\$285	\$583	\$-298	\$658	\$-373
Capital Expenditures	\$1,268	\$1,337	\$-69	\$1,337	\$-69
<b>Year to Date</b>					
Item	Actual Results	Plan	Variance vs. Plan	Most Recent Forecast	Variance vs. Forecast
Revenues	\$16,404	\$16,635	\$-231	\$16,499	\$-95
Operating Result (EBITA)	\$4,061	\$4,714	\$-653	\$4,474	\$-413
PBT (Pre-Tax Income)	\$2,175	\$2,856	\$-681	\$2,603	\$-428
Distributable Profit (Net to Common)	\$1,088	\$1,487	\$-399	\$1,339	\$-251
Capital Expenditures	\$4,590	\$5,304	\$-714	\$5,304	\$-714

### Comments:

Revenues are under forecast for the month and under Forecast YTD due to timing variances in unbilled revenue calculations related to allocations in the 4-4-5 process. The Company will revise its Forecast, which will correct the unbilled variance in subsequent months and will include those adjustments in its Q2RF. This will have no impact on the annual results.

Operating Result for the month is under forecast due primarily to the previously mentioned unbilled revenue variance which will self adjust in subsequent periods. In addition, the latest OPEB actuarial analysis has significantly increased those costs above Forecast, and maintenance scheduled for later in 2003 was preformed in May. The maintenance will have no impact on the annual operating result and will be reflected in the Q2RF.

**PBT** for the month is under due to the previously mentioned items

**Capex** for May is \$69,000 under Forecast and below YTD Forecast by \$714,000. Extreme winter weather in February delayed the scheduled start of several projects while continued wet weather has prevented construction catching up to planned levels. CAPEX is expected to be in line with Forecast for the year.

Net Debt is over Forecast by \$127,000 due to timing differences for several payments. The Company still expects net debt for the year to be under Plan.

Security Cost - The Company deferred security expense of approximately \$110,000 in May compared to a forecast of \$110,000. The Company has been able to maintain at forecast levels even at code "orange" and should be able to maintain forecast levels now that the level has returned to "yellow." The Company's security alert status was elevated to "orange" on May 21.

## **2. OPERATIONAL ISSUES**

KAWC remained in compliance with all applicable drinking water and environmental regulations through May. Turbidity levels returned to normal through the end of April but rose again at the beginning of May. This, combined with a need to apply copper sulfate to the Jacobson Reservoir causes a projected chemical cost overage of \$68,000 for May. Water sources were ample in quantity in May and are expected to remain that way at least through mid summer based on recent precipitation.

On May 8, Kentucky-American experienced mechanical failures at the Kentucky River Station and increased pumpage from the Richmond Road Station, withdrawing water from Jacobson Reservoir water contained algae with strong taste and odor, affecting a portion of the Lexington system which was not detected during the initial treatment process. Reservoir use was halted on the morning of May 9th. Affected water was flushed and calls had dissipated by the 12th. KAWC is further increasing reservoir testing and treatment in an effort to minimize potential for reoccurrence of such episodes.

Distribution system flushing was begun in late April, along with the seasonal conversion to free chlorine from chloramines. Minimal customer calls were received related to odors or discoloration. Free chlorination was extended into mid-May to enable nitrification control at system extremities.

KAWC received a qualifying letter from AWWA notifying that the Company's two treatment facilities will receive Partnership for Safe Water 5-year Director's Awards in June.

The current 12-month sales to delivery ratio remains at 84.3%, which continues to be down from 86.9% last year

KAWC continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. The study efforts are still on track for a fall 2003 completion. The core utilities met with potential providers of finished water alternatives, including Cincinnati Water Works, Louisville Water Company, Northern Kentucky Water District, Carrollton Utilities, and Greater Fleming Water Commission. A fourth public workshop will be held on May 28th in Nicholasville to determine the 6-8 most viable alternative solutions for cost analysis.

The Kentucky River Authority (KRA) has completed its assessments and action plans in the event of failure of any of the dams along the Kentucky River. Representatives met with Kentucky-American on May 7 to review the plan for Dam 9. This effort is significant in Kentucky-American's heightened security work, and emergency response plan development. The plans will be generally presented to the KRA at its next meeting on May 28. The KRA has elected not to start Dam 10 stabilization other than reinforcement of the lock gates, but hopes to start work this fall..

Hydraulic improvements to the Richmond Road Station treatment plant were completed in May with final clean-up to be completed by the end of June. This work will increase production capability at the Richmond Road Station during a peak day event for 2003.

KAWC's capital expenditures for May are \$1,268,000 and below Forecast by \$69,000. Year-to-date expenditures of \$4,590,000 are \$714,000 under Forecast due largely to the severe weather in late February and March that slowed construction of new mains and services. Continued wet weather in May has prevented construction from returning to plan levels. The 2003 capital expenditures are below internally generated fund levels and projected to be at planned amounts for the year.

### **LEGAL**

Jim McGivern and Mayor Teresa Isaac met on May 23 to hear whatever proposals she may have regarding the future of the Company. A public hearing is tentatively set for June 5th.

There is no change in the case where FLOW challenged the validity of KAWC's franchise from the LFUCG, but lost at the trial court level. The case is on appeal to the Kentucky Court of Appeals and the case will be decided on the submitted briefs

Both the Attorney General and the LFUCG have appealed the Public Service Commission's final approval of the RWE Merger to the Franklin Circuit Court. KAWC has moved the dismissal of FLOW's appeal as not being filed timely.

The LFUCG has tentatively selected a bond counsel in case of successful negotiations with RWE

**REGULATORY**

Plans to close the Rockwell Village Sewer plant have been submitted to the Kentucky Division of Water. The cost of connection to the Winchester municipal system is about \$100,000 plus retirement costs. Off-site improvements to be required by Winchester may approach \$400,000 and are currently subject to negotiation and potential legal resolution.

**3. MANAGEMENT FOCUS**

There have been no changes in KAWC's status as a member of the Bluegrass Water Supply Consortium or its efforts to provide partnering arrangements. KAWC is working with the other Consortium members to review alternatives for partnering.

No changes have been made on the issue of deferred expenses.

The Company continues to defer its security expenses until covered in the next general rate case filing. For the month of May the Company spent the budgeted \$110,000 for security.

**4. NEW BUSINESS**

1. City of Owenton – The Mayor of Owenton has appointed a negotiating committee to meet with KAWC. Due to questions about grants raised by the city attorney and employee pay methods discovered during due diligence, the negotiating committee has asked to extend negotiations beyond the previous date of May 6.
2. South Shore Water Company – No change in status -- on hold.
3. Bluegrass Station –Operations running smoothly. KAWC is pursuing an additional contract with Bluegrass Station to assume all responsibility for reading and billing customers.
4. Bluegrass Army Depot – Richmond, KY – KAWC has learned that the contract, currently held with TetraTech, may be up for bid this summer. KAWC is using resources at the Bluegrass Station (formerly affiliated with the Depot) to research this question.
5. City of Jackson – No change in status. A facilities tour will occur this spring.
6. City of Stamping Ground in western Scott County - No change is status. KAWC is not actively pursuing.
7. Green Hills Water District - The PSC approved a 27.25% rate increase for Green Hills. KAWC will be working with Pineville to prepare an offer for the assets of the Green Hills Water District.
8. Berea College Water Utility Department - KAWC awaiting a May 2003 meeting by Berea College officials to determine status.

ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl. #	Price
Written offers made	Owenton	2/1/2002	1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1,450

## 5. HUMAN RESOURCES

There are currently seven vacancies - Communications Specialist, Senior Secretary, Utility, Meter Reader (2 positions), Operations Engineer, and Operations Superintendent/Pineville. The Company plans to fill the meter reader and utility position in the next month.

Labor relations are good. An initial meeting with the Inside Bargaining Unit was held on April 28 to discuss the current contract, which is scheduled to expire on June 16. Since the customer service department will not be closed this year, the Company asked the group to consider moving the contract date back to the original expiration date of December 2004. In the initial meeting, the Union had requested that the raise be provided in June rather than waiting until December. Their last increase was effective December 2002.

There are currently 14 employees enrolled in college courses. It appears that there is a renewed interest in obtaining a college degree; therefore, the budget has been increased for 2004 to accommodate those individuals who want to enroll. Next month the Company will reactivate the E.A.R.N (Educating Associates to Reach New heights) classes. In this program employee instructors conduct classes on a variety of issues related to the business. Any employee may attend and receive points toward gift certificates and logo items.

A team has been established to develop Breakthrough initiatives and address the best way to reach all levels of the organization. During these meetings the Company will also utilize the time to address vulnerabilities within the community and provide an update to employees regarding the take-over issues.

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – June  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky  
US GAAP

June-2003 Month to Date						
Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net		
				Operating Assets	Net Debt	Capex
4,015	1,217	860	2,805	152,186	(88,044)	5,719
3,611	854	517	1,993	151,978	(81,122)	6,118
(404)	(363)	(343)	(812)	(208)	6,922	399
<b>Variance Explanations</b>						
<b>Revenue</b>						
Residential Demand	(399)	(399)	(399)			
Industrial Demand	(26)	(26)	(26)			
Unbilled Revenue Issues	217	217	217			
Wastewater						
Other 1	(196)	(196)	(196)			
<b>Operating Result</b>						
Production Casts (revenue related)	(2)	(2)	(2)			
Management fees: central	(5)	(5)	(5)			
Management fees: local						
Main breaks						
Insurance	32	32	32			
Miscellaneous Oper. Expenses	(41)	(41)	(41)			
Pension Casts	11	11	11			
Security Casts						
Labor Costs	(46)	(46)	(46)			
Uncollectibles	(11)	(11)	(11)			
Depreciation						
Other 2	103	103	103			
Other 3						
<b>Profit Before Tax</b>						
AFUDC		12	12			
Interest (rates)		8	8			
Interest (increase/decrease borrowing)						
Amortization						
Other 4						
<b>Operating Cash Flow</b>						
Working Capital <sup>1</sup>			(674)	(674)	674	
Change in Provisions			225	225	(225)	
Other 5			(20)	(20)	20	
<b>Net Op. Assets/Net Debt/CapEx</b>						
CapEx: Weather Delays				399	(399)	399
CapEx: Efficiencies						
CapEx: Project 1						
CapEx: Project 2						
Other 6				(138)	(58)	
Other 7					6,910	
Unexplained Variance - month to date						

<sup>1</sup> Please explain in variance analysis narrative of MD report

**Kentucky  
US GAAP**

<b>June-2003 Year to Date</b>							
	<b>Operating</b>	<b>Profit</b>	<b>Operating</b>	<b>Net</b>			
	<b>Turnover</b>	<b>Result</b>	<b>Before Tax</b>	<b>Cash Flow</b>	<b>Operating</b>	<b>Net Debt</b>	
					<b>Assets</b>	<b>Capex</b>	
<b>Q3RF</b>	20,419	5,408	<b>3,443</b>	10,421	152,185	(88,044)	5,719
Enter <b>Estimate of Actuals</b> here							
<b>Actuals</b> (will auto-populate when available)	20,015	5,045	310	9,609	151,978	(81,122)	5,118
Variance	(404)	<b>(363)</b>	<b>(343)</b>	<b>(812)</b>	(208)	6,922	<b>399</b>
<b>Variance Explanations</b>							
Revenue							
Residential Demand	(399)	(399)	(399)	(399)	-	-	-
Industrial Demand	(26)	(26)	(26)	(26)	-	-	-
Unbilled Revenue Issues	217	217	217	217	-	-	-
wastewater	-	-	-	-	-	-	-
Other 1	(196)	(196)	(196)	(196)	-	-	-
Operating Result							
Production Costs (revenue related)		(2)	(2)	(2)	-	-	-
Management fees: central		(5)	(5)	(5)	-	-	-
Management fees: local		-	-	-	-	-	-
Main breaks		-	-	-	-	-	-
Insurance		32	32	32	-	-	-
Miscellaneous Oper. Expenses		(41)	(41)	(41)	-	-	-
Pension Costs		11	11	11	-	-	-
Security Costs		-	-	-	-	-	-
Labor Costs		(46)	(46)	(46)	-	-	-
Uncollectibles		(11)	(11)	(11)	-	-	-
Depreciation		-	-	-	-	-	-
Other 2		103	103	103	-	-	-
Other 3		-	-	-	-	-	-
<b>Profit Before Tax</b>							
AFUOC			12	12	-	-	-
Interest (rates)			8	8	-	-	-
Interest (increase/decrease borrowing)			-	-	-	-	-
Amortization			-	-	-	-	-
Other 4			-	-	-	-	-
Operating Cash Flow							
Working Capital <sup>1</sup>				(674)	(674)	(674)	-
Change in Provisions				225	225	(225)	-
Other 5				(20)	(20)	20	-
<b>Net Op. Assets/Net Debt/CapEx</b>							
CapEx: Weather Delays					399	(399)	399
CapEx: Efficiencies					-	-	-
CapEx: Project 1					-	-	-
CapEx: Project 2					-	-	-
Other 6					(138)	(58)	-
Other 7					-	6,910	-
<b>Unexplained</b> Variance - year to date							

<sup>1</sup> Please explain in variance analysis narrative of MD report

**Comments:**

Revenues - Due to the heavy June rain and cool temperatures, system delivery is 150 MG behind Plan and Forecast. June revenues are down in all classes due to the wet weather.

Operating Result is under forecast by \$363,000 due to lower revenues. The Company has been able to offset approximately \$40,000 from lower maintenance and other miscellaneous costs. Further erosion occurred due to adjustments for security and an adjustment made to the Q2RF for programmed maintenance.

PBT = See operating result explanation above.

Capex is slightly over the forecast by \$399,000 due to timing.

Net Debt is under \$6.922 million due to operating result variances, changes in working capital and preferred stock classification.

Security Costs are in line with the forecast.

## **2. OPERATIONAL ISSUES**

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Turbidity levels remained above normal through June due to heavy precipitation. Based on recent precipitation, water sources have remained ample in quantity and are expected to remain that way at least through mid-summer. KAWC remained in compliance with all applicable drinking water and environmental regulations through June.

The current 12-month sales to delivery ratio remains at 84.6%, which continues to be down from 87.0% last year. KAWC team members met to review a comprehensive report on unaccounted for water and to coordinate new, interdepartmental strategies for improving the sales/delivery ration.

KAWC continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. The study efforts are still on track for a fall 2003 completion. A fourth public workshop was held in late May in Nicholasville to determine the 6-8 most viable alternative solutions for cost analysis. These included Kentucky River (new treatment facilities at pool 3), Ohio River (Cincinnati purchased water, Louisville purchased water or new treatment facilities on the Ohio), and groundwater alternatives (Fleming County purchased water or Carrollton purchased water). The group met on June 9th in Frankfort with regulators from the Division of Water, the Kentucky Infrastructure Authority, and Rural Development. The Public Service Commission declined to attend based on the outstanding Administrative Case to address Kentucky American's source of supply issue.

The Kentucky River Authority (KRA) has completed its assessments and action plans in the event of failure of any of the dams along the Kentucky River. The plan has been presented to the Kentucky River Authority. Originally, the plan specifics were not released publicly for security purposes at Kentucky American's request. After internal legal review, the KRA chose to release the plan publicly. KAWC made every effort to secure the KRA plans prior to their release.

Year-to-date investment expenditures are \$5,933,000. The investment budget forecast reflects the Q2RF update. There are no significant changes to report this month regarding deviations from forecasted investment cash flows.

### LEGAL

On June 24, the Lexington-Fayette Urban County Council rejected (10-5 vote) KAWC's offer of settlement to avoid condemnation proceedings. The Council then voted 9-6 to authorize condemnation. A second (and final) reading is expected on July 1.

### REGULATORY

There is no change in efforts to close the Rockwell Village Sewer Plant. Plans have been submitted to the Kentucky Division of Water. The cost of connection to the Winchester Municipal system is about \$100,000, plus retirement costs. Off-site improvements to be required by Winchester may approach \$400,000 and are currently subject to negotiation and potential legal resolution.

## **3. MANAGEMENT FOCUS**

---

For the month of June, the Company spent the budgeted \$110,000 for security. The Company continues to defer its security expenses until covered in the next general rate case filing.

## **4. NEW BUSINESS**

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1. City of Owenton – The City has not provided all information on the grants. Vote of the City Council has been delayed until at least the July 2003 meeting.
2. South Shore Water Company – No change in status -- on hold
3. Bluegrass Station – No change
4. Bluegrass Army Depot – Richmond, KY – KAWC contacted the Rock Island, IL, headquarters and discovered that the bid was actually due in April 2003. The Company's contact, Ken Flowers, advised that there were no bidders. On June 16, the Company send a letter to the Bluegrass Army Depot expressing interest in managing their water and wastewater facilities.



5. City of Jackson – KAWC officials met with the Mayor of Jackson on June 12. The Mayor requested a range of O & M proposals and would like to have them in 3-4 months to coincide with Jackson receiving bids on the construction of a new water treatment plant.

ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl #	Price
Written offers made	Owenton	2/11/2002	1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1,450

## 5. HUMAN RESOURCES

There are currently eight vacancies; Communications Specialist, Senior secretary, Field Service Representative, Utility, meter Reader (2 positions), Operations Engineer and Operations Superintendent/Pineville. The Company is waiting on the results from background checks for the 2 meter reader positions.

Labor relations are good. The Company concluded an agreement with the Inside Bargaining Unit. The new contract will expire on December 17, 2004 or when the customer service department closes. The performance incentive program for the customer service group has been modified.

A financial seminar for all employees was held on June 18 & 19.

A team has been established to develop breakthrough initiatives and address ways to reach all levels of the organization. An internal employee survey was conducted in each department. The breakthrough team will utilize information from the internal survey to address deficiencies that exist within the departments. Seventy-nine surveys were returned, which represent 58% of the workforce. On June 10, Kentucky American and West Virginia American held a joint breakthrough validation meeting. Nine employees attended from Kentucky American.

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – July  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky  
US GAAP

July-2004 Month to Date						
Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex
3,779	1,400	1,038	2,499	151,368	(86,592)	1,297
3,280	867	543	252	152,829	(81,644)	1,037
(499)	(533)	(495)	(2,247)	1,461	4,948	(260)
<b>Variance Explanations</b>						
Revenue						
Residential Demand	(256)	(256)	(256)	(256)	(256)	-
Industrial Demand	(19)	(19)	(19)	(19)	(19)	-
Unbilled Revenue Issues	(16)	(16)	(16)	(16)	(16)	-
Wastewater	-	-	-	-	-	-
Other t	(208)	(208)	(208)	(208)	(208)	-
Operating Result						
Production Cans (revenue related)	-	-	-	-	-	-
Management fees: central	32	32	32	32	32	-
Management fees: local	-	-	-	-	-	-
Main breaks	-	-	-	-	-	-
Insurance	(7)	(7)	(7)	(7)	(7)	-
Miscellaneous Oper. Expenses	(87)	(87)	(87)	(87)	(87)	-
Pension Costs	-	-	-	-	-	-
Security Costs	-	-	-	-	-	-
Labor Cons	100	100	100	100	100	-
Uncollectibles	-	-	-	-	-	-
Depreciation	7	7	7	7	7	-
Other 2	(79)	(79)	(79)	(79)	(79)	-
Other 3	-	-	-	-	-	-
Profit Before Tax						
AFUOC	-	4	4	4	4	-
Interest (rates)	-	-	-	-	-	-
Interest (increase/decrease borrowing)	-	14	14	14	14	-
Amortization	-	-	-	-	-	-
Other 4	-	20	20	20	20	-
Operating Cash Flow						
Working Capital <sup>1</sup>	-	-	(1,600)	-	-	-
Change in Provisions	-	-	(125)	-	-	-
Other 5	-	-	(27)	1,696	5,183	-
Net Op. Assets/Net Debt/CapEx						
CapEx: Weather Delays	-	-	-	-	-	-
CapEx: Efficiencies	-	-	-	260	260	(260)
CapEx: Project 1	-	-	-	-	-	-
CapEx: Project 2	-	-	-	-	-	-
Other 6	-	-	-	-	-	-
Other 7	-	-	-	-	-	-
Unexplained Variance - month to date						

<sup>1</sup> Please explain in variance analysis narrative of MD report

Kentucky  
US GAAP

Q3RF  
Enter Estimate of Actuals here  
Actuals (will auto-populate when available)  
Variance

Variance Explanations

**Revenue**

Residential Demand  
Industrial Demand  
Unbilled Revenue Issues  
Wastewater  
Other 1

**Operating Result**

Production Costs (revenue related)  
Management fees: central  
Management fees: local  
Main breaks  
Insurance  
Miscellaneous Oper. Expenses  
Pension Costs  
Security Costs  
Labor Costs  
Uncollectibles  
Depreciation  
Other 2  
Other 3

**Profit Before Tax**

AFUOC  
Interest (rates)  
Interest (increase/decrease borrowing)  
Amortization  
Other 4

**Operating Cash Flow**

Working Capital <sup>1</sup>  
Change in Provisions  
Other 5

**Net Op. Assets/Net Debt/CapEx**

CapEx: Weather Delays  
CapEx: Efficiencies  
CapEx: Project 1  
CapEx: Project 2  
Other 6  
Other 7

Unexplained Variance - year to date

July-2004 Year to Date						
Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net		Capex
				Operating Assets	Net Debt	
24,198	6,808	4,481	12,920	151,368	(86,592)	7,016
-	-	-	-	-	-	-
23,295	5,912	3,643	9,861	152,829	(81,644)	7,155
(903)	(896)	(838)	(3,059)	1,461	4,948	139
	(655)	(655)	(655)	(655)	(655)	-
	(45)	(45)	(45)	(45)	(45)	-
	201	201	201	201	201	-
	-	-	-	-	-	-
	(404)	(404)	(404)	(404)	(404)	-
	-	-	-	-	-	-
	27	27	27	27	27	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	25	25	25	25	25	-
	(128)	(128)	(128)	(128)	(128)	-
	-	-	-	-	-	-
	54	54	54	54	54	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	29	29	29	29	29	-
	-	-	-	-	-	-
	-	16	16	16	16	-
	-	-	-	-	-	-
	-	22	22	22	22	-
	-	-	-	-	-	-
	-	20	20	20	20	-
	-	-	(2,274)	-	-	-
	-	-	100	-	-	-
	-	-	(47)	2,160	5,925	-
	-	-	-	-	-	-
	-	-	-	139	(139)	139
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-

<sup>1</sup> Please explain in variance analysis narrative of MD report

**Comments:**

Revenues for July are \$499,000 under Forecast as last June and July have had near record rainfalls. M D revenues are \$903,000 under Forecast due to continued wet weather in the second quarter.

Operating Result for July is under Forecast by \$553,000 due to revenues and deferred maintenance, which was not included in the Q2RF. YTD operating result is under Forecast by \$896,000 due to revenues and additional expenses for maintenance.

Net Debt is over Forecast \$4.948 million due to lower operating result, and the continual issue of preferred stock classification

Security Costs are over forecast by 37,000.

**2 OPERATIONAL ISSUES**

Turbidity levels remained above normal through July due to continued precipitation. Based on recent precipitation, water sources have remained ample in quantity and are expected to remain that way through fall. KAWC remained in compliance with all applicable drinking water and environmental regulations through July.

Year-to-date investment expenditures are \$7,025,000. The investment budget forecast reflects the Q2RF update. There are no significant changes to report this month regarding deviations from forecasted investment cash flows.

**LEGAL**

After the Lexington-Fayette Urban County Council rejected KAWC's offer of settlement to avoid condemnation proceedings and voted to authorize condemnation, the Government filed its legal action on July 3, 2003. The Judge, a cousin of Mayor Isaac, recused herself and a new Judge was appointed.

**REGULATORY**

There is no change in efforts to close the Rockwell Village Sewer Plant. Plans have been submitted to the Kentucky Division of Water. The cost of connection to the Winchester Municipal system is about \$100,000, plus retirement costs. Off-site improvements to be required by Winchester may approach \$400,000 and are currently subject to negotiation and potential legal resolution.

**3. MANAGEMENT FOCUS**

KAWC continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. The study efforts are still on track for a fall 2003 completion. A fifth public workshop was held July 22-23 in Winchester to narrow the decision for the preferred solution to the water supply deficit. The final alternatives included Kentucky River (new treatment facilities at pool 3), Ohio River (Cincinnati purchased water, Louisville purchased water or new treatment facilities on the Ohio), and groundwater alternatives (Fleming County purchased water or Carrollton purchased water). The group met July 21 in Frankfort with regulators from the Division of Water to discuss water quality issues with an extensive grid network.

For the month of July, the Company spent the budgeted \$110,000 for security. The Company continues to defer its security expenses until covered in the next general rate case filing.

**4. NEW BUSINESS**

1. City of Owenton – The Business Development Package will be submitted to the July 2003 board meeting for approval. A conference call on July 2 with Executive Management resulted in a series of questions and requests for additional information, Responses sent on July 9. The Owenton City Council is prepared to vote on a resolution of intent to sell the assets.
2. South Shore Water Company – No change in status -- on hold. South Shore has recently requested an adjustment of rates, which KAWC is monitoring.
3. Bluegrass Station – No change. KAWC officials met with Bluegrass Station representatives on June 25 regarding addition O & M agreements, including assumption of reading and billing for water use. This would provide 70 additional customers and would provide \$30,000 of additional operating result.
4. Bluegrass Army Depot – Richmond, KY – Received "closed solicitation response from Rock Island, IL headquarters, but because of our interest, the solicitation may be reopened.
5. City of Jackson – KAWC officials are assisting the City with some services including meter testing and leak detection.
6. Green Hills Water District – KAWC met with the Board on July 14, 2003 to confirm interest in selling system to Pineville. A presentation will be made to the Pineville Utility Commission at its next regularly scheduled meeting.

ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl. #	Price
Written offers made	Owenton	2/11/2002	1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1,450

## **5. HUMAN RESOURCES**

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Labor relations at the Company are positive. The productive labor/management meeting was conducted on July 9. It was decided to continue to conduct these meetings every other month in order to maintain lines of communications and to reduce the potential for grievances.

The Company conducted a First Aid/CPR and an excavation/competent person training class. The cascading of the "Ideas into Action" program is currently taking place and is being well received by employees.

The Company received notice of an OFFCP audit. Donna Braxton attended a training session in Louisville to help prepare for the submittal of appropriate materials. Stan Smith, Corporate HR was notified and provided assistance in preparing the documents, which were submitted to the OFFCP office in Louisville on July 10.

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – August  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky  
US GAAP

August-2003 Month to Date						
	Operating Turnover	Operating Result	Pmfit Before Tax	Operating Cash Flow	Net	
					Operating Assets	Net Debt Capex
Q2RF	4,785	2,387	2,023	2,927	151,526	(85,522) 1,374
Enter Estimate of Actuals here	-	-	-	-	-	-
Actuals (will auto-populate when available)	4,756	2,230	1,899	2,999	152,788	(80,538) 1,183
Variance	(29)	(157)	(124)	72	1,262	4,984 (191)
<b>Variance Explanations</b>						
<b>Revenue</b>						
Residential Demand	(106)	(106)	(106)	(106)	(106)	-
Industrial Demand	-	-	-	-	-	-
Unbilled Revenue Issues	190	190	190	190	190	-
Wastewater	-	-	-	-	-	-
Other 1	(113)	(114)	(114)	(114)	(114)	-
<b>Operating Result</b>						
Production Costs (revenue-related)	-	(47)	(47)	(47)	(47)	-
Management fees: central	-	2	2	2	2	-
Management fees: local	-	-	-	-	-	-
Main breaks	-	-	-	-	-	-
Insurance	-	13	13	13	13	-
Miscellaneous Oper. Expenses	-	(70)	(70)	(70)	(70)	-
Pension Costs	-	(3)	(3)	(3)	(3)	-
Security Cans	-	-	-	-	-	-
Labor Costs	-	6	6	6	6	-
Uncollectibles	-	-	-	-	-	-
Depreciation	-	7	7	7	7	-
Other 2	-	(35)	(35)	(35)	(35)	-
Other 3	-	-	-	-	-	-
<b>Profit Before Tax</b>						
AFUDC	-	-	17	17	17	-
Interest (rates)	-	-	-	-	-	-
Interest (increase/decrease borrowing)	-	-	12	12	12	-
Amortization	-	-	-	-	-	-
Other 4	-	-	4	4	4	-
<b>Operating Cash Flow</b>						
Working Capital <sup>1</sup>	-	-	-	210	-	-
Change in Provisions	-	-	-	23	-	-
Other 5	-	-	-	(37)	1,577	4,917
<b>Net Op. Assets/Net Debt/CapEx</b>						
CapEx: Weather Delays	-	-	-	-	-	-
CapEx: Efficiencies	-	-	-	-	(191)	(191)
CapEx: Project 1	-	-	-	-	-	-
CapEx: Project 2	-	-	-	-	-	-
Other 6	-	-	-	-	-	-
Other 7	-	-	-	-	-	-
<b>Unexplained Variance - month to date</b>						
Please explain in variance analysis narrative of MD report						

**Kentucky  
US GAAP**

August 2003 Year to Date							
	Operating	Profit	Operating	Net			
Turnover	Result	Before Tax	Cash Flow	Operating Assets	Net Debt	Capex	
<b>Q2RF</b>	<b>28,983</b>	<b>9,195</b>	<b>6,504</b>	<b>15,847</b>	<b>151,526</b>	<b>(85,522)</b>	<b>8,390</b>
Enter Estimate of Actuals here							
Actuals (will auto-populate when available)	<b>28,051</b>	<b>8,142</b>	<b>5,542</b>	<b>12,860</b>	<b>152,788</b>	<b>(80,538)</b>	<b>8,338</b>
Variance	(932)	(1,053)	(962)	(2,987)	1,262	4,984	(52)
Variance Explanations							
Revenue							
Residential Demand	(761)	(761)	(761)	(761)	(761)	(761)	-
Industrial Demand	(45)	(45)	(45)	(45)	(45)	(45)	-
Unbilled Revenue issues	391	391	391	391	391	391	-
Wastewater	-	-	-	-	-	-	-
Other 1	(517)	(518)	(518)	(518)	(518)	(518)	-
Operating Result							
Production Costs (revenue related)		(237)	(237)	(237)	(237)	(237)	-
Management fees: central		29	29	29	29	29	-
Management fees: local		-	-	-	-	-	-
Main breaks		-	-	-	-	-	-
Insurance		38	38	38	38	38	-
Miscellaneous Oper. Expenses		(198)	(198)	(198)	(198)	(198)	-
Pension Costs		-	-	-	-	-	-
Security Costs		-	-	-	-	-	-
Labor Costs		60	60	60	60	60	-
Uncollectibles		-	-	-	-	-	-
Depreciation		-	-	-	-	-	-
Other 2		188	188	188	188	188	-
Other 3		-	-	-	-	-	-
<b>Profit Before Tax</b>							
AFUDC			33	33	33	33	-
interest (rates)			-	-	-	-	-
Interest (increase/decrease borrowing)			34	34	34	34	-
Amortization			-	-	-	-	-
Other 4			24	24	24	24	-
<b>Operating Cash Flow</b>							
Working Capital <sup>1</sup>			(2,064)	-	-	-	-
Change in Provisions			123	-	-	-	-
Other 5			(84)	2,276	5,894	-	-
<b>Net Op. Assets/Net Debt/CapEx</b>							
CapEx: Weather Delays							-
CapEx: Efficiencies				(52)	52	(52)	-
CapEx: Project 1				-	-	-	-
CapEx: Project 2				-	-	-	-
Other 6				-	-	-	-
Other 7				-	-	-	-
Unexplained Variance - year to date							

<sup>1</sup> Please explain in variance analysis narrative of MD report

**Comments:**

Revenues for August are \$29,000 under Forecast and under Forecast \$932,00 YTD. The period of April thru July was one of the wettest and coolest on record and influenced significant reductions in usage for residential and commercial customers. August continued the dismal trend of lower sales.

Operating Result for August was under Forecast due to the revenue decline and deferred maintenance, which was not included in the Q2RF.

Net Debt is \$4,984,000 under Forecast due to the actual numbers not including preferred stock in the amount of \$6,853,000.

Security Costs were in line with Forecast.

**2 OPERATIONAL ISSUES**

Turbidity levels continue to be above normal due to heavy rainfall throughout the month. This is causing chemical costs to be above planned levels. Water sources are ample in quantity and are expected to remain that way through the end of the year. KAWC remained in compliance with all applicable drinking water and environmental regulations through August.

Construction expenditures are on track to meet Plan levels by year end

## LEGAL

The first Judge in the condemnation suit recused herself in July. The second Judge has been asked by the Lexington-Fayette Urban County Government to recuse herself as her husband is an attorney for the Fraternal Order of Police, which is a member of the Coalition Against A Government Takeover. Judge Overstreet heard arguments on August 13 and is expected to rule on the matter by the end of August.

Kentucky-American has been subpoenaed to supply documents relating to a fire at the University of Kentucky on May 15, 2001. The fire occurred when a construction worker caught the roof on fire during renovations, and the building was completely destroyed. Kentucky-American is meeting with legal counsel to determine the appropriate response.

## REGULATORY

KAWC representatives met with the new Director of the Division of Water to discuss ongoing regulation changes. The DOW has asked for an EPA needs assessment survey in advance of the November deadline.

## **3. MANAGEMENT FOCUS**

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KAWC continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. The group met with area legislators on August 21 and is still on track to have a recommended solution and organizational structure by October 2003.

On August 1, Kentucky-American eliminated one police guard at Dam 9 due to additional monitoring and the completion of an Emergency Response Plan to address damage to Dam 9. Efforts are underway to further reduce the security costs while maintaining the same level of protection. Security costs for the month of August were reduced by \$30,000 below planned amount.

## **4. NEW BUSINESS**

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1. City of Owenton - KAWC reviewed the Owenton proposal with Jim McGivern, Ellen Wolf, Mick Carmedy, Chris Jarrett and Mike Miller. The model has been revised to include a \$300,000 reduction in capital expenditures in the early years as a result of that review. A rate filing will also occur at the time of the acquisition. These changes result in positive value contribution in each of the first five years for the water model. After internal review, the model will be submitted to John Bigelow for review and approval. Unanimous consent of the Board of Directors will be sought. The Owenton City Council is prepared to vote on a resolution of intent to sell the utilities.
2. South Shore Water Company - the PSC approved a rate increase of 8.20 % in July. The PSC granted an 88% operating ratio.
3. Bluegrass Army Depot -Richmond, KY - The Army continues to express interest in receiving a proposal from KAWC.
4. City of Jackson - KAWC is assisting the City of Jackson in resolving system operational problems, one of which left about 500 customers out of water for almost a week. The Mayor has asked KAWC to submit a proposal for a management contract.
5. Green Hills Water District - The District is protesting a recent order from the PSC regarding a wholesale tariff



ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl. #	Price
Written offers made	Owenton	2/1/2002	1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1,450

## 5. HUMAN RESOURCES

Labor relations are positive. The Company conducted a labor management meeting on August 6 to review the effects bargaining agreement concerning the bargaining positions affected by closing the customer call center. The union confirmed the effects bargaining agreement. The union was notified the new positions would be posted and the bargaining members affected by the closure of the customer call center would have the first opportunity to sign-up for these positions. The evaluation process for the new positions would include testing, a panel interview, and an employee attendance review. Eleven employees signed-up for the seven field service records clerk positions.

The Company conducted training associated with Ideas into Action on August 19.

The Company received verbal notice from the OFCCP office that the OFFCP report submitted by the Company was complete and a letter will be mailed confirming the file is closed.

Over the past two years, there has been a great deal of negative issues in the community surrounding the takeover discussions. The constant negative comments by some members of the general public and the media have been difficult for employees in their day-to-day activities, both in the workplace and in the community. In order to boost morale and regenerate excitement in the workplace, especially in light of all of the negative issues, the Company conducted an employee appreciation day.

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – September  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky  
US GAAP

	September-2003 Month to Date						
	Operating Turnover	Operating Result	Pmfit Before Tax	Operating Cash Flow	Operating Assets	Net Net Debt	Capex
03RF	3,939	1,315	943	3,473	152,249	(80,415)	646
Enter Estimate of Actuals here	-	-	-	-	-	-	-
Actuals (will auto-populate when available)	3,502	886	553	2,228	152,737	(86,442)	1,431
Variance	(437)	(429)	(390)	(1,245)	488	(6,027)	785
<b>Variance Explanations</b>							
<b>Revenue</b>							
Residential Demand	(171)	(171)	(171)	(171)	(171)	(171)	-
Industrial Demand	6	6	6	6	6	6	-
Unbilled Revenue Issues	(217)	(217)	(217)	(217)	(217)	(217)	-
Wastewater	1	1	1	1	1	1	-
Other 1	(56)	(56)	(56)	(56)	(56)	(56)	-
<b>Operating Result</b>							
Production Costs (revenue related)		4	4	4	4	4	-
Management fees: central		59	59	59	59	59	-
Management fees: local							-
Main breaks insurance		4	4	4	4	4	-
Miscellaneous Oper. Expenses		24	24	24	24	24	-
Pension Costs		1	1	1	1	1	-
Security Costs							-
Labor Costs		(6)	(6)	(6)	(6)	(6)	-
Uncollectibles		60	60	60	60	60	-
Depreciation		6	6	6	6	6	-
Other 2		(144)	(144)	(144)	(144)	(144)	-
Other 3							-
<b>Profit Before Tax</b>							
AFUDC			12	12	12	12	-
Interest (rates)							-
Interest (increase/decrease borrowing)			17	17	17	17	-
Amortization							-
Other 4			10	10	10	10	-
<b>Operating Cash Flow</b>							
Working Capital <sup>1</sup>				(963)			-
Change in Provisions				135			-
Other 5				(27)	93	(4,852)	-
<b>Net Op. Assets/Net Debt/CapEx</b>							
CapEx: Weather Delays							-
CapEx: Efficiencies							-
CapEx: Project 1							-
CapEx: Project 2					211	(211)	211
Other 6							-
Other 7					574	(574)	574
<b>Unexplained Variance - month to date</b>							

<sup>1</sup> Please explain in variance analysis narrative of MD report

**Kentucky  
US GAAP**

**Q3RF**  
Enter Estimate of Actuals here  
Actuals (will auto-populate when available)  
Variance

**Variance Explanations**

**Revenue**

Residential Demand  
Industrial Demand  
Unbilled Revenue Issues  
Wastewater  
Other 1

**Operating Result**

Production Costs (revenue related)  
Management fees: Central  
Management fees: local  
Main breaks  
Insurance  
Miscellaneous Oper. Expenses  
Pension Costs  
Security Costs  
Labor Costs  
Uncollectibles  
Depreciation  
Other 2  
Other 3

**Profit Before Tax**

AFUDC  
Interest (rates)  
Interest (increase/decrease borrowing)  
Amortization  
Other 4

**Operating Cash Flow**

Working Capital<sup>1</sup>  
Change in Provisions  
Other 5

**Net Op. Assets/Net Debt/CapEx**

CapEx: Weather Delays  
CapEx: Efficiencies  
CapEx: Project 1  
CapEx: Project 2  
Other 6  
Other 7

Unexplained Variance - year to date

Please explain in variance analysis narrative of MD report

September-2003 Year to Date						
Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net		
				Operating Assets	Net Debt	Capex
31,990	9,457	6,485	16,201	152,249	60,415	8,321
<b>31,553</b>	<b>9,028</b>	<b>6,095</b>	<b>14,956</b>	<b>152,737</b>	<b>(86,442)</b>	<b>9,106</b>
(437)	(429)	(390)	(1,245)	488	(6,027)	785
(171)	(171)	(171)	(171)	(171)	(171)	-
6	6	6	6	6	6	-
(217)	(217)	(217)	(217)	(217)	(217)	-
1	1	1	1	1	1	-
(56)	(56)	(56)	(56)	(56)	(56)	-
	4	4	4	4	4	-
	59	59	59	59	59	-
						-
	4	4	4	4	4	-
	24	24	24	24	24	-
	1	1	1	1	1	-
						-
	(6)	(6)	(6)	(6)	(6)	-
	60	60	60	60	60	-
	6	6	6	6	6	-
	(144)	(144)	(144)	(144)	(144)	-
						-
		12	12	12	12	-
						-
		17	17	17	17	-
						-
		10	10	10	10	-
						-
			(963)			-
			135			-
			(27)	93	(4,852)	-
						-
				211	(211)	211
						-
				574	(574)	574
						-
						-

**Comments:**

Revenues for August and YTD are \$437,000 under Forecast due to excessive rainfall and timing of unbilled

Operating Result for August and YTD are under Forecast by \$419,000 due to the previously mentioned revenues.

Net Debt is over Forecast \$6.027 million due to lower operating result, timing and adjusting the Q3RF for the preferred stock of \$5.3 million included in the actual.

CAPX is over Forecast by \$785,000 adjusted for the correct Q3RF addition of \$1.220 million.

**2 OPERATIONAL ISSUES**

Turbidity levels continue to be above normal due to previous heavy rainfall. Chemical costs remain slightly above planned levels. Water sources are ample in quantity and are expected to remain that way throughout the end of the year. KAWC remained in compliance with all applicable drinking water and environmental regulations through September.

In August, the Richmond Road Station successfully pumped 30 mgd to the distribution system in an effort to run a trial on the hydraulic improvements to the plant. While the completion of this project does not increase the rated capacity from 25 mgd to 30 mgd, it does provide Kentucky American with the operational capability to pump 30 mgd during a peak demand scenario while meeting all water quality standards.

#### LEGAL

The Lexington-Fayette Urban County Council has included on its upcoming docket the approval of a \$750,000 loan to be used for the payment of condemnation expenses. The loan is backed by a limited guarantee from 12 local citizens. The vote was 10-5 to put it on the docket.

The Company responded to the subpoenaed documents relating to a fire at the University of Kentucky on May 15, 2001. No further requests have been made.

#### REGULATORY

Meetings with the Public Service Commission have been scheduled for October 23 and December 5, 2003 to coincide with visits from Bill Alexander to meet with the Staff and Commissioners respectively. These visits were part of the Order from the Commission for merger approval.

### **3. MANAGEMENT FOCUS**

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The Company continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. The group will be hosting its second public meeting on September 22, and is still on track to have a recommended solution and organizational structure by October 2003. The Kentucky River Authority hosted a public meeting on September 16 to discuss a proposal to raise Dam 8 by 22 feet below Kentucky American's intake. This new proposal has the potential to distract the Consortium's efforts and divert resources into an unlikely raw water supply effort.

Kentucky American has continued to reduce security costs while maintaining protection by replacing the police guard at the office facility with contract security, and elimination of manned security at the Kentucky River Station. Security costs for 2003 were reduced by approximately \$400,000 from these changes.

### **4. NEW BUSINESS**

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1. City of Owenton - On August 21, the City of Owenton Council voted on and passed a resolution of intent to sell its water and sewer assets. Kentucky American is waiting on Board approval of the business development package before further progress is made.
2. Bluegrass Army Depot (Richmond, KY) - On September 1, a representative from the Department of the Army advised the Company that a site visit will likely be scheduled in early October 2003.
3. City of Jackson - The Company is preparing a proposal for a management contract, as asked by the Mayor. Preparation has been delayed while the potential contract manager for this operation undergoes major surgery.
4. Green Hills Water District - The District met with the PSC, but only received approval for a slight modification on the sale for resale rate of water to Hyden-Leslie. The Pineville Utilities Commission met on September 16 to decide if they want to pursue the acquisition of the Green Hills system. Due to the excessive water loss and the poor financial condition of the system (after just implementing a significant rate increase) the Company's recommendation to the Pineville Utilities Commission is against purchase of the Green Hills system.
5. Kentucky River Authority Leak Detection Contract - The Company was selected for the third consecutive year as the contractor. The contract, in the amount of \$52,283, expires June 30, 2004. This contract has given the Company the opportunity to make new contacts with utilities in the Kentucky River Basin.

ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl. #	Price
Written offers made	Owenton	2/1/2002	1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1,450

## **5. HUMAN RESOURCES**

There are three vacancies. Senior Management is reviewing these vacancies, and only positions critical to the operations will be filled at this time.

The Southeast Region Human Resources Director visited each operating Company and met with various union and nonunion leaders. These meetings allowed discusses regarding Ideas into Action and the Employee Survey. It also provided an open format where the union leadership could express any concerns or opinions they had concerning employee relations.

Communicating the various Breakthrough initiatives continues as a top priority. Ideas into Action Pathfinder and Panel Members are conducting sessions with the work force.

The Human Resources staff is implementing a teamwork initiative between local management and union employee units throughout the Southeast Region. The Human Resources department will serve as a consultant throughout the process with local management execution of the initiatives developed. This project is awaiting the divisional survey data breakdowns so that issues can be targeted within each division to focus efforts on priority needs.

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – October  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky  
US GAAP

	October-2003 Month to Date					
	Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt Capex
03RF	3,487	881	531	2,005	151,725	(79,524) 1,031
Enter Estimate of Actuals here	-	-	-	-	-	-
Actuals (will auto-populate when available)	3,173	816	472	3,024	152,526	(85,850) 830
Variance	(314)	(65)	(59)	1,019	801	(6,326) (201)
<b>Variance Explanations</b>						
<b>Revenue</b>						
Residential Demand	(5)	(5)	(5)	(5)	(5)	(5)
Industrial Demand	(13)	(13)	(13)	(13)	(13)	(13)
Unbilled Revenue Issues	(58)	(58)	(58)	(58)	(58)	(58)
Wastewater	-	-	-	-	-	-
Other 1	(238)	(238)	(238)	(238)	(238)	(238)
<b>Operating Result</b>						
Production Costs (revenue related)	-	(73)	(73)	(73)	(73)	(73)
Management fees: central	-	30	30	30	30	30
Management fees: local	-	-	-	-	-	-
Main breaks	-	-	-	-	-	-
Insurance	-	(11)	(11)	(11)	(11)	(11)
Miscellaneous Oper. Expenses	-	24	24	24	24	24
Pension Costs	-	(8)	(8)	(8)	(8)	(8)
Security Costs	-	-	-	-	-	-
Labor Costs	-	(6)	(6)	(6)	(6)	(6)
Uncollectibles	-	15	15	15	15	15
Depreciation	-	11	11	11	11	11
Other 2	-	267	267	267	267	267
Other 3	-	-	-	-	-	-
<b>Profit Before Tax</b>						
AFUDC	-	-	12	12	12	12
Interest (rates)	-	-	-	-	-	-
Interest (increase/decrease borrowing)	-	-	12	12	12	12
Amortization	-	-	-	-	-	-
Other 4	-	-	(18)	(18)	(18)	(18)
<b>Operating Cash Flow</b>						
Working Capital <sup>1</sup>	-	-	-	(217)	-	-
Change in Provisions	-	-	-	590	-	-
Other 5	-	-	-	705	1,061	(6,468)
<b>Net Op. Assets/Net Debt/CapEx</b>						
CapEx: Weather Delays	-	-	-	-	-	-
CapEx: Efficiencies	-	-	-	-	-	-
CapEx: Project 1	-	-	-	-	(201)	201
CapEx: Project 2	-	-	-	-	-	(201)
Other 6	-	-	-	-	-	-
Other 7	-	-	-	-	-	-
<b>Unexplained Variance - month to date</b>						

<sup>1</sup> Please explain in variance analysis narrative of MD report

**Kentucky  
US GAAP**

**Q3RF**

Enter Estimate of **Actuals** here  
**Actuals** (will auto-populate when available)  
Variance

**Variance Explanations**

Revenue

Residential Demand  
Industrial Demand  
Unbilled Revenue Issues  
Wastewater  
Other 1

Operating Result

Production Costs (revenue related)  
Management fees: central  
Management fees: local  
Main breaks  
Insurance  
Miscellaneous Oper. Expenses  
Pension Costs  
Security Costs  
Labor Costs  
Uncollectibles  
Depreciation  
Other 2  
Other 3

Profit Before Tax

AFUDC  
Interest (rates)  
Interest (increase/decrease borrowing)  
Amortization  
Other 4

Operating Cash Flow

Working Capital<sup>1</sup>  
Change in Provisions  
Other 5

Net Op. Assets/Net Debt/CapEx

CapEx: Weather Delays  
Cap&: Efficiencies  
Cap&: Project 1  
CapEx: Project 2  
Other 6  
Other 7

October-2003 Year to Date						
Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net		Capex
				Operating Assets	Net Debt	
35,477	10,338	7,016	18,206	151,725	(79,524)	9,352
34,726	9,844	6,567	17,980	152,526	(85,850)	9,936
(751)	(494)	(449)	(226)	801	(6,326)	584
(176)	(176)	(176)	(176)	(176)	(176)	-
(7)	(7)	(7)	(7)	(7)	(7)	-
(275)	(275)	(275)	(275)	(275)	(275)	-
1	1	1	1	1	1	-
(294)	(294)	(294)	(294)	(294)	(294)	-
	(69)	(69)	(69)	(69)	(69)	-
	89	89	89	89	89	-
						-
	(7)	(7)	(7)	(7)	(7)	-
	48	48	48	48	48	-
	(7)	(7)	(7)	(7)	(7)	-
	(12)	(12)	(12)	(12)	(12)	-
	75	75	75	75	75	-
	17	17	17	17	17	-
	123	123	123	123	123	-
		24	24	24	24	-
						-
		29	29	29	29	-
						-
		(8)	(8)	(8)	(8)	-
			(1,180)			-
			725			-
			678	666	(5,293)	-
				10	(10)	10
						-
				574	(574)	574

**Unexplained Variance** - year to date

<sup>1</sup> Please explain in variance analysis narrative of MD report

**Comments:**

**Revenues** for October are \$314,000 under Forecast primarily due to commercial sales being down. M D revenues are \$751,000 under Forecast due to excessive rainfall and unbilled, along with commercial sales being down.

**Operating Result** for October are under Forecast by \$65,000 due to the revenues offset by delay in property tax payments. YTD operating result is under Forecast by \$474,000 due to the loss of revenues partially offset by management fees and property taxes.

**Net Debt** is over Forecast by \$6.326 million due to lower operating result, timing of payables and adjusting the Q3RF for the preferred stock of \$5.3 million included in the actual.

**CAPX** is under Forecast by \$201,000

## 2 OPERATIONAL ISSUES

Turbidity levels have returned to normal for the year. Chemical costs year-to-date remain slightly above planned levels, but are below plan levels for the month of October. Water sources are ample in quantity and are expected to remain that way throughout the end of the year. KAW remained in compliance with all applicable drinking water environmental regulation through October.

On October 13, the Bluegrass Water Supply Consortium voted to support a consultant's recommendation for a regional water treatment plant on the Kentucky River at Pool 3 with a back-up supply to the Ohio River. KAW has been an active participant in the Consortium. The consultant's draft report is due November 1 with a final report due in December. The Kentucky River treatment plant option was not the cheapest option, but was determined to be the best overall based on the criteria set by the Consortium. The next few months will be critical to getting the Consortium formally established as a Water Commission and continuing progress on a solution.

The current Year-to-date expenditures are \$1,018,000 (8.7%) below planned levels and are expected to be below planned levels by \$125,600 by year-end. Items B-H are currently \$246,407 above planned levels and are projected to exceed planned levels by year-end by \$575,800. Item B expenditures are projected to be above planned levels by year-end due to an increase in capitalized main repairs and a higher than anticipated number of relocation projects required by the Lexington-Fayette Urban County Government. Items C and D are currently \$300,000 above planned levels due to continued customer growth.

The New Columbus project and Richmond Road Station Hydraulic Improvements will exceed originally planned amounts due to a carryover from 2002 expenditures. The New Columbus project, and the SCADA improvements project will now carryover some expenditures into 2004. The Clays Mill tank construction will now carryover an additional \$100,000 in expenditures because of clarification on foundation issues. Additionally, the Russell Cave Road tank land acquisition has been delayed until 2004. The total cash flow carryover from 2003 to 2004 is estimated at \$1,145,000.

### LEGAL

The new judge in the condemnation case combined the case with KAW's lawsuit that countered the Lexington-Fayette Urban County Government ("LFUCG) resolution was not adequate because notice was not provided in all of the counties KAW serves. The judge further determined that the LFUCG's original filing was not adequate and needed to be amended within 30 days.

The LFUCG Council has voted to approve a loan of \$750,000 for payment of condemnation expenses, backed with a limited guarantee by 12 local citizens.

KAW met on October 9 with parties in the lawsuit over the fire at the University of Kentucky on May 15, 2001. KAW has not been made a party to the suit, and assisted in flow testing of hydrants and mains around the university campus.

### REGULATORY

Meetings with the Public Service Commission have been scheduled for October 23 and December 5 to coincide with visits from Bill Alexander to meet with the Staff and Commissioners respectively. These visits were part of the Order from the Commission for merger approval.

KAW has requested that the PSC approve the deferral of expenses for security costs (>\$2.6 million) and the litigation costs of the defense of the condemnation action (undetermined), pending rate treatment in the next rate case. This request is in addition to the pending requests for deferrals for the Company's transition costs of the Call Center and Shared Services. The Commission has indicated in a response to the Company's request for deferral of security and condemnation expense that it will not permit regulatory asset status. The Company will meet with the Staff in the next two weeks to discuss before determining how to pursue this issue.

## 3 MANAGEMENT FOCUS

The Company continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. The group hosted its final Public Workshop on October 13. The group has voted to form a Water Commission, with which KAW would be a partner. The Kentucky River Authority will host a second public meeting on October 21 to discuss a proposal to raise Dam 8 by 22 feet below KAW's intake. The proposal does not appear to be generating much support.



#### 4. NEW BUSINESS

1. City of Owenton - Unanimous consent given by KAW Board for acquisition of Owenton water and wastewater facilities. Due diligence activities are in progress.
2. Bluegrass Army Depot (Richmond, KY) - KAW was advised of an opportunity at this facility by Paul Hicks with Utility Service Company. Instead of the original asset purchase proposal envisioned, the current opportunity is a one-year, with four one-year extensions, operations and maintenance contract. Company representatives toured the facility on October 9. KAW be working with AWS to prepare a proposal, which is due October 24. This opportunity was rejected earlier by AWS because of a lack of current operations in this area.
3. Green Hills Water District - KAW provided leak detection services at KRA leak detection contract prices (Green Hills is not eligible for reimbursement by the KRA) to Green Hills Water District on October 9 – 10. The District continues to experience significant system losses. Although the Pineville Utility Commission earlier rejected an opportunity to purchase this system due to the current financial condition, it does remain a viable purchase opportunity, if the necessary repairs could be made to the system. KAW talked with Roger Recktenwald, from the Kentucky Infrastructure Authority, and grant opportunities do exist, but the probability is more long term.

ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl. #	Price --
Written offers made	Owenton	2/1/2002	1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1,450

#### 5. HLJMANRESOURCES

Kentucky American has six vacancies. The Company has temporaries in place while the Field Service Records Clerks are in training. These temporaries should be released in November when calls are answered by the Alton Call Center. The Company has interviewed some internal candidates for the Operations Supervisor position that will be created by the retirement of David Owens. Stacy Owens has been promoted from a customer Service Clerk to the new Field Service Supervisor position

The condemnation battle continues to be a concern to employees; however, the Company believes that this process has brought the work force closer together. Employees also understand that everything the Company does will be closely scrutinized by its opposition. There is a possibility of more negative media attention with the move of to the customer service operation to the Alton Call Center. Right Management and the unemployment office representatives have met with employees who will be severed.

Labor relations remain positive. The Company will be setting a labor/management meeting in the upcoming weeks to discuss the employee survey and meetings that currently are being conducted in each department.

The closure letter has been received from the OFCCP office to indicate that Kentucky American's affirmative action plan was approved.

The Human Resources staff is implementing a teamwork initiative between local management and union employee units throughout the Southeast Region. The Human Resources department will serve as a consultant throughout the process with local management execution of the initiatives developed. This project is awaiting the divisional survey data breakdowns so that issues can be targeted within each division to focus efforts on priority needs within each.

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – November  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky  
US GAAP

Q3RF  
Enter Estimated Actuals here  
Actuals (will auto-populate when available)  
Variance

**Variance Explanations**

**Revenue**

Residential Demand  
 Industrial Demand  
 Unbilled Revenue Issues  
 Wastewater  
 Other 1  
**Operating Result**  
 Production Costs (revenue related)  
 Management fees: central  
 Management fees: local  
 Main breaks  
 Insurance  
 Miscellaneous Oper Expenses  
 Pension Costs  
 Security Costs  
 Labor Costs  
 Uncollectibles  
 Depreciation  
 Other 2  
 Other 3

**Profit Before Tax**

AFUDC  
 Interest (rater)  
 Interest (increase/decrease borrowing)  
 Amortization  
 Other 4

**Operating Cash Flow**

Working Capital<sup>1</sup>  
 Change in Provisions  
 Other 5

**Net Op. Assets/Net Debt/CapEx**

CapEx: Weather Delays  
 CapEx: Efficiencies  
 CapEx: Project 1  
 CapEx: Project 2  
 Other 6  
 Other 7

November-2003 Month to Date						
Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex
3,153	835	488	2,341	150,654	(78,116)	898
3,622	976	635	1,473	153,140	(86,009)	1,677
469	141	147	(868)	2,486	(7,893)	779
(23)	(23)	(23)	(23)	(23)	(23)	-
4	4	4	4	4	4	-
325	325	325	325	325	325	-
2	2	2	2	2	2	-
161	161	161	161	161	161	-
	(9)	(9)	(9)	(9)	(9)	-
	(47)	(47)	(47)	(47)	(47)	-
	(1)	(1)	(1)	(1)	(1)	-
	(51)	(51)	(51)	(51)	(51)	-
	(7)	(7)	(7)	(7)	(7)	-
	26	26	26	26	26	-
	30	30	30	30	30	-
	(46)	(46)	(46)	(46)	(46)	-
	(223)	(223)	(223)	(223)	(223)	-
		(4)	(4)	(4)	(4)	-
		10	10	10	10	-
						-
			(1,289)			-
			154			-
			120	1,560	(7,261)	-
						-
				779	(779)	779
						-
						-
						-

Unexplained Variance - month to date

<sup>1</sup> Please explain in variance analysis narrative of MD report

**Kentucky  
US GAAP**

November-2003 Year to Date							
	Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex
<b>Q3RF</b>	38,630	11,173	7,504	20,547	154,654	(78,116)	10,254
Enter Estimate of Actuals here							
<b>Actuals (will auto-populate when available)</b>	38,348	10,820	7,202	19,453	153,140	(86,009)	11,613
<b>Variance</b>	(282)	(353)	(302)	(1,094)	2,486	(7,893)	1,363
<b>Variance Explanations</b>							
<b>Revenue</b>							
Residential Demand	(199)	(199)	(199)	(199)	(199)	(199)	-
Industrial Demand	(3)	(3)	(3)	(3)	(3)	(3)	-
Unbilled Revenue Issues	50	50	50	50	50	50	-
Wastewater	3	3	3	3	3	3	-
Other 1	(133)	(133)	(133)	(133)	(133)	(133)	-
<b>Operating Result</b>							
Production Costs (revenue related)		(78)	(78)	(78)	(78)	(78)	-
Management fees: central		42	42	42	42	42	-
Management fees: local							-
Main breaks							-
Insurance		(8)	(8)	(8)	(8)	(8)	-
Miscellaneous Oper. Expenses		(3)	(3)	(3)	(3)	(3)	-
Pension Costs		(14)	(14)	(14)	(14)	(14)	-
Security Costs							-
Labor Costs		14	14	14	14	14	-
Uncollectibles		105	105	105	105	105	-
Depreciation		(29)	(29)	(29)	(29)	(29)	-
Other 2		(100)	(100)	(100)	(100)	(100)	-
Other 3							-
<b>Profit Before Tax</b>							
AFUDC			20	20	20	20	-
Interest (rates)							-
Interest (increase/decrease borrowing)			39	39	39	39	-
Amortization							-
Other 4			(8)	(8)	(8)	(8)	-
<b>Operating Cash Flow</b>							
Working Capital <sup>1</sup>				(2,469)			-
Change in Provisions				879			-
Other 5				798	1,425	(6,228)	-
<b>Net Op. Assets/Net Debt/CapEx</b>							
CapEx: Weather Delays							-
CapEx: Efficiencies							-
CapEx: Project 1					10	(10)	10
CapEx: Project 2							-
Other 6							-
Other 7					1,353	(1,353)	1,353
<b>Unexplained Variance - year to date</b>							

<sup>1</sup> Please explain in variance analysis narrative of MD report

**Comments:**

**Revenues** for November were over the Q3RF by \$469,000. This increase relates to increased commercial sales and a \$325,000 positive unbilled revenue adjustment. The unbilled revenue for the year is still expected to meet the levels included in the Landing Zone projection.

**Operating Result** for November was over the Q3RF \$141,000 due to increased revenue, partially offset by increased management fees and general taxes. November operating result exceeded the Landing Zone forecast as the unbilled revenues self corrects in December.

**Net Debt** is over the Q3RF by \$7.8 million due to an error in the classification of preferred stock in the Q3RF (\$5.9 million), increased CAPEX related to security expenditures and lower operating result.

## **2. OPERATIONAL ISSUES**

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Chemical costs year to date are at planned levels and are expected to remain that way through the rest of the year. Water sources are ample in quantity and should remain that way through early Spring. KAW remained in compliance with all applicable drinking water environmental regulation through November.

KAW completed the EPA Needs Assessment Study and returned it to the Kentucky Division of Water.

A draft Executive Summary of the Bluegrass Water Supply Consortium report was received for comment on November 7, with the draft report expected November 14. A final report will be published in December. The Consortium Technical Group met on November 5 to begin organization of the formal Commission. The Lexington-Fayette Urban County Government will be invited to join even though it is not a water utility.

Capital Expenditures were at planned amounts Year-to-Date. Item A expenditures are behind planned levels and are not expected to increase to planned levels by year end. Items C and D are above planned levels due to continued customer growth and new services. Mild weather in November caused aggressive construction levels above what was projected in October for the Clays Mill Road tank project. This was offset by a lag in Highway relocation work that will be carried over into 2004.

The New Columbus project and Richmond Road Station Hydraulic Improvements will exceed originally planned amounts due to a carryover from 2002 expenditures. The New Columbus project, and the SCADA improvements project will now carryover some expenditures into 2004. The Clays Mill tank construction will not carryover additional expenditures to 2004 and are actually on a more aggressive construction schedule than anticipated at the end of October because of unseasonably mild weather in November.

The Electrical Reliability project has been delayed while focused on completing the RRS and SCADA improvements project but is on schedule for completion in 2004. A consultant has been retained to coordinate design and implementation, and meetings were held with the electric utility for to discuss equipment lead times and costs. The project is on target for substantial completion by June 2004.

### **LEGAL**

KAW met with parties on November 6 for additional testing of fire facilities at the University of Kentucky. This testing is related to a lawsuit over a fire at the University on May 15, 2001. KAW has not been made a party to the suit and continues to provide limited assistance.

### **REGULATORY**

Bill Alexander and Jim McGivern have met with the Public Service Commission Staff. Feedback from the visit was very positive, Specific concerns raised during the meeting are being followed up on with staff.

## **3. MANAGEMENT FOCUS**

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KAW continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit. On November 13, a strategy meeting was held in West Virginia to discuss the ongoing Consortium efforts.

## **4. NEW BUSINESS**

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1. City of Owenton - Due diligence continues. KAW is scheduled to meet with the Owenton negotiating committee as a prelude to contract signing.
2. Bluegrass Army Depot (Richmond, KY) - KAW prepared a preliminary bid for this contract, but with only 3 weeks to prepare the proposal and KAW's first attempt for a Federal Contract, there is some concern with the accuracy of the proposal.
3. Interruptible tariff - Due to some confusion over the viability of this tariff, work stopped on this initiative a few months ago. However, after checking with the client, the potential for sales is there if a more competitive tariff can be introduced. KAW will prepare a draft of this proposal for review by the end of the month.

ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl. #	Price
Written offers made	Owenton	2/1/2002	1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1,450

## 5. HUMAN RESOURCES

Currently, Kentucky American has five vacancies. The Company closed its local Customer Service Department and customers are now calling the Alton Call Center. Temporaries associated with the closing of the local Customer Service Department have been released.

The takeover court battle continues to be a concern to employees; however, the Company believes that this process has brought the work force closer together. Employees understand that everything that the Company does will be closely scrutinized by its opposition.

An Operations Supervisor will retire from the Distribution Department on December 1, 2003.

The union filed a grievance stating that an employee engaged in the repair of AMR meters is not compensated at the rate of pay as a meter technician. Meter readers not assigned to the daily reading schedule are given the task of repairing or replacing damaged AMR meters. This has been a past practice since the spring of 2000 when this technology was put in place. The grievance was therefore denied.

Validation workshops are being conducted around the new performance management process. During this workshop, employees are being introduced to the new business processes (i.e. balanced scorecard, behavior dictionary, and AIP). In addition, employees are given the opportunity to review the new forms and process, and give their feedback.

# Operating Unit Managing Director Report



Report Status: Final +3  
 Year & Month: 2003 – December  
 Operating Unit: Kentucky  
 Business Segment: Regulated Subsidiaries

## 1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky  
US GAAP

December-2003 Month to Date							
	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex	
Q3RF	4,559	1,774	1,323	1,853	151,688	(79,707)	980
Entei Estimate of Actuals here	-	-	-	-	-	-	-
Actuals (will auto-populate when available)	4,452	1,408	960	3,488	154,968	(88,315)	2,297
Variance	(107)	(366)	(363)	1,635	3,280	(8,608)	1,317
<b>Variance Explanations</b>							
<b>Revenue</b>							
Residential Demand	(501)	(501)	(501)	(501)	(501)	(501)	-
Industrial Demand	(18)	(18)	(18)	(18)	(18)	(18)	-
Unbilled Revenue Issues	546	546	546	546	546	546	-
Wastewater	(2)	(2)	(2)	(2)	(2)	(2)	-
Other 1	(132)	(132)	(132)	(132)	(132)	(132)	-
<b>Operating Result</b>							
Production Costs (revenue related)	(54)	(54)	(54)	(54)	(54)	(54)	-
Management fees: central	(107)	(107)	(107)	(107)	(107)	(107)	-
Management fees: local	-	-	-	-	-	-	-
Main breaks insurance	(7)	(7)	(7)	(7)	(7)	(7)	-
Miscellaneous Oper. Expenses	(60)	(60)	(60)	(60)	(60)	(60)	-
Pension Cons	-	-	-	-	-	-	-
Security Costs	-	-	-	-	-	-	-
Labor Costs	22	22	22	22	22	22	-
Uncollectibles	(32)	(32)	(32)	(32)	(32)	(32)	-
Depreciation	(28)	(28)	(28)	(28)	(28)	(28)	-
Other 2	7	7	7	7	7	7	-
Other 3	-	-	-	-	-	-	-
<b>Profit Before Tax</b>							
AFUDC	-	(20)	(20)	(20)	(20)	(20)	-
Interest (rates)	-	-	-	-	-	-	-
Interest (increase/decrease borrowing)	-	23	23	23	23	23	-
Amortization	-	-	-	-	-	-	-
Other 4	-	-	-	-	-	-	-
<b>Operating Cash Flow</b>							
Working Capital <sup>1</sup>	-	-	-	1,736	-	-	-
Change in Provisions	-	-	-	10	-	-	-
Other 5	-	-	-	252	2,326	(6,928)	-
<b>Net Op. Assets/Net Debt/CapEx</b>							
CapEx: Weather Delays	-	-	-	-	-	-	-
CapEx: Efficiencies	-	-	-	-	-	-	-
CapEx: Project 1	-	-	-	1,317	(1,317)	1,317	-
CapEx: Project 2	-	-	-	-	-	-	-
Other 6	-	-	-	-	-	-	-
Other 7	-	-	-	-	-	-	-
<b>Unexplained Variance - month to date</b>							
Please explain in variance analysis narrative of MD report							

**Kentucky  
US GAAP**

December-2003 Year to Date							
	Operating		Profit	Operating	Net		
	Turnover	Result	Before Tax	Cash Flow	Operating Assets	Net Debt	Capex
<b>Q3RF</b>	<b>43,189</b>	<b>12,947</b>	<b>8,827</b>	<b>22,400</b>	<b>151,688</b>	<b>(79,707)</b>	<b>11,230</b>
Enter Estimate of <b>Actuals</b> here							
<b>Actuals</b> (will auto-populate when available)	<b>42,800</b>	<b>12,228</b>	<b>8,162</b>	<b>22,941</b>	<b>154,968</b>	<b>(88,315)</b>	<b>13,910</b>
Variance	<b>(389)</b>	<b>(719)</b>	<b>(665)</b>	<b>541</b>	<b>3,280</b>	<b>(8,608)</b>	<b>2,680</b>
Variance Explanations							
Revenue							
Residential Demand	(700)	(700)	(700)	(700)	(700)	(700)	-
Industrial Demand	(21)	(21)	(21)	(21)	(21)	(21)	-
Unbilled Revenue Issues	596	596	596	596	596	596	-
Wastewater	1	1	1	1	1	1	-
Other 1	(265)	(265)	(265)	(265)	(265)	(265)	-
Operating Result							
Production Costs (revenue related)		(132)	(132)	(132)	(132)	(132)	-
Management fees: central		(65)	(65)	(65)	(65)	(65)	-
Management fees: local							-
Main breaks							-
Insurance		(15)	(15)	(15)	(15)	(15)	-
Miscellaneous Oper. Expenses		(63)	(63)	(63)	(63)	(63)	-
Pension Costs		(14)	(14)	(14)	(14)	(14)	-
Security Costs							-
Labor Costs		36	36	36	36	36	-
Uncollectibles		73	73	73	73	73	-
Depreciation		(57)	(57)	(57)	(57)	(57)	-
Other 2		(93)	(93)	(93)	(93)	(93)	-
Other 3							-
Profit Before Tax							
AFUOC							-
Interest (rates)							-
Interest (increases/decrease borrowing)			62	62	62	62	-
Amortization							-
Other 4			(8)	(8)	(8)	(8)	-
Operating Cash Flow							
Working Capital <sup>1</sup>				(733)			-
Change in Provisions				889			-
Other 5				1,050	1,265	(5,263)	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays							-
CapEx: Efficiencies							-
CapEx: Project 1					2,106	(2,106)	2,106
CapEx: Project 2							-
Other 6							-
Other 7					574	(574)	574
<b>Unexplained Variance - year to date</b>							

<sup>1</sup> Please explain in variance analysis narrative of MD report

**Comments:**

**Revenues** for the month of December were \$107,000 below the Q3RF due to reductions in billed revenues related to the carryover reduced sales levels impacted by abnormal rainfall levels and flooding in November. Year-to-date revenues are \$389,000 under the Q3RF due to abnormal rainfall levels in the September through November time frame.

**Operating Result** for the month of December is \$366,000 under the Q3RF due to the lower revenue mentioned above and property taxes. Operating result for the year is under the Q3RF by \$719,000 due to the previously mentioned revenue, and increases in production cost (weather related turbidity), property taxes, and management fees.

**Capex** is over the Q3RF by \$2.680 million. In reviewing expenditures, the increase in capex is \$896,000 due to additional capex for capitalized main breaks and increased DOH spending. The remaining increase relates to the manner in which balance sheet movements were loaded and reflected in the Q3RF.

**Net Debt** is over the Q3RF by \$8.608 million. Approximately \$6.0 million relates to an incorrect classification of preferred stock in the Q3RF. The remaining increase relates to increased capex.

**2. OPERATIONAL ISSUES**

Chemical costs year-to-date were slightly below planned levels due to low pumpage throughout the year. Water sources are ample in quantity and should remain that way through early Spring. KAW remained in compliance with all applicable drinking water environmental regulation through December

A draft of the Bluegrass Water Supply Consortium report has been received for comment. A final report will be published in January. The Consortium Technical Group met on December 12 to continue organization of the formal Commission. The Lexington-Fayette Urban County Government will be invited to join even though it is not a water utility.

Capital Expenditures were \$2.6 million over Q3RF levels at year-end closing. Investment Projects totals were \$600,000 over planned levels. Recurring Items A-H were \$1 million over planned levels due to higher than anticipated relocations and capitalized main repair in Item B, higher than anticipated levels of replacement services and meters in Items C and D, and emergency capitalized production facility items in Item H.

**LEGAL**

There has been no additional action in the LFUCG condemnation suit; however, the attorney for the LFUCG indicated that the City would be filing an amendment shortly to their complaint listing all of the property to be condemned.

The LFUCG has filed four motions in the suit by KAW and four residents of Lexington against the Lexington-Fayette Urban County Government contesting the validity of the loan it has agreed to accept for \$750,000 for payment on condemnation expenses. The first motion was to transfer the suit to the same judge hearing the condemnation, which was granted on December 12. All other motions are pending while that moves forward.

KAW also filed suit contesting the validity of the resolution by the LFUCG to condemn. The court ordered that while the LFUCG needed to file notice of the resolution in all counties KAW serves, since there is no one in those counties whose property will be condemned except KAW, the resolution was adequate. KAW has until December 19 to amend the complaint or 30 days to file an appeal.

**3. MANAGEMENT FOCUS**

KAW continues to be an active participant in the Bluegrass Water Supply Consortium in its efforts to resolve the water supply deficit.

**4. NEW BUSINESS**

1. City of Owenton - Due diligence continues.

ACQUISITION ACTIVITY					
Status	Project Name	Date	Cust. #	Empl #	Price
Written offers made			1700	10	\$3,200
Written offers made	South Shore	9/1/2000	2315	6	\$1,450

**5. HUMAN RESOURCES**

A "Fish" training, which is a team building session for the new field service employees and the supervisor, was conducted in December. A representative from Worksmart conducted one-on-one training with the new supervisor recently promoted to oversee the field service group.

The EEO 1 report has been completed and submitted to the corporate office.