

**Kentucky-American Water Company**

**Bluegrass Station Division**



**Bid for Operation and Maintenance  
of Water/Wastewater Facilities  
at Bluegrass Station**



# Kentucky-American Water Company

2300 Richmond Road - Lexington, Kentucky 40502 - (859) 268-6318 - Fax: (859) 335-3314

September 30, 2002

Bid Clerk  
Division of Material and Procurement Services  
Room 367, Capital Annex  
Frankfort, KY 40601

**Re: Solicitation No. S-02179395-2**  
***Bid for Operation and Maintenance of Water/Wastewater/Stormwater***  
***Facilities at Bluegrass Station***

Dear Sir or Madam:

Kentucky-American Water Company (KAWC) is pleased to provide the enclosed proposal for operation and maintenance of the water, wastewater, and stormwater facilities at Bluegrass Station Division in response to Commonwealth of Kentucky Solicitation No. S-02179395-2. KAWC is committed providing reliable, efficient, and complete water, wastewater and stormwater operations and management to Bluegrass Station Division.

KAWC is the largest private water utility in Kentucky, and the second largest water supplier in the Commonwealth of Kentucky. The Company is a regional water supplier providing water service to approximately 290,000 people in the Lexington-Fayette Urban County area including parts of Bourbon, Clark, Gallatin, Grant, Harrison, Jessamine, Owen, Scott and Woodford counties. This prominence in the Bluegrass region and in the water industry makes us an excellent choice as contract operator for Bluegrass Station Division.

We look forward to the opportunity to respond to any questions or concerns that you may have regarding this proposal. Please contact Bill Bunch at (859) 268-6318 for a prompt response.

Sincerely,

Roy W. Mundy II  
President



## SOLICITATION MODIFICATION

**TITLE:** Water Plant Operation

<b>DATE ISSUED</b> Sep 19, 2002	<b>SOLICITATION CLOSES</b> <b>Date:</b> Sep 30, 2002 <b>Time:</b> 1:30 PM	<b>SOLICITATION NO.</b> S-02179395-2	<b>COMMODITY CATEGORY</b> Environmental Services
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<p>I FAC DIV MAT AND PROC SVCS S GREG HUGHES INTERNAL POLICY ANALYST S II U 702 CAPITOL AVE RM367 E FRANKFORT KY 40601 D B <b>Phone:</b>(502)564-4510 (244) Y <b>FAX:</b>(502)564-7209 Y <b>EMAIL:</b>Greg.Hughes@mail.state.ky.us</p>	<p>A D FAC DIV MAT AND PROC SVCS D BID CLERK R 702 CAPITOL AVE RM 367 E FRANKFORT KY 40601 S S <b>Phone:</b> T <b>FAX:</b> O <b>EMAIL:</b></p>
<p>R V ROY W. MUNDY II E KENTUCKY-AMERICAN WATER COMPANY N 2300 RICHMOND ROAD D LEXINGTON, KY 40502 O <b>Phone:</b> (859) 268-6320 R <b>FAX:</b> (859) 268-6327 E <b>EMAIL:</b> rwmundy@kawc.com</p>	<p>R E RACHEL COLE M KENTUCKY-AMERICAN WATER COMPANY I 2300 RICHMOND ROAD T LEXINGTON, KY 40502 T <b>Phone:</b> (859) 268-6307 O <b>FAX:</b> (859) 335-3428 O <b>EMAIL:</b> rcole@kawc.com</p>

**FOR INFORMATION CALL:**  
GREG HUGHES INTERNAL POLICY  
ANALYST II  
(502)564-4510 (244)

**ELECTRONIC BID PERMITTED:**  
[ ]

**OWNERSHIP TYPE:**  
[ ] Sole Proprietorship  
[ ] Partnership  
[X] Corporation

**ADDITIONAL VENDOR INFORMATION:**

**SIGNATURE OF AUTHORIZED AGENT IS REQUIRED UNLESS RESPONSE IS SUBMITTED ELECTRONICALLY, FAILURE TO SIGN SHALL RENDER THE BID INVALID**

Signature

FEIN# 61-0485002

Date 9-30-02

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*All offers are subject to all terms and conditions contained in this solicitation.*

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(x)	SEC.	DESCRIPTION
X	M	Finance- Division of Material and Procurement Services

The Commonwealth of Kentucky conducts business in different time zones. It is the vendor's responsibility to be aware of the current time zone for the solicitation they are responding to. This will be indicated in the solicitation.  
NOTE: All times entered must be Eastern Time.

## Line Group: Water Plant Operation

Line	Description	Due Date	Qty	Unit Price	Unit Issue	Total Price
0001	OPERATION OF WATER PLANT		1		Year	

**Extended Description:**  
Contract operations and maintenance for water, wastewater and storm water systems at Bluegrass Station Division, 5751 Briar Hill Road, Lexington, Kentucky 40516.

See attached for specifications.

B DMA DIV OF ADMIN SERVICES I ATTN: LESLIE STAMPER L 100 MINUTEMAN PARKWAY L FRANKFORT KY 40601 Phone: (502)607-1510 T Fax: (502)607-1240 O < This address is applicable to all line items. >	S DMA BLUEGRASS STATION DIVISION H ATTN: JOE BARRETT I 5751 BRIAR HILL ROAD P LEXINGTON KY 40516-9721 Phone: (859)293-4224 T Fax: O < This address is applicable to all line items. >
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**Discount/Markup:**

**Manufacturer:**

**Model:**

**Exceptions to Specifications:**

Code	Criteria Description	Weight	Vendor Response (DO NOT LIST PRICES IN THIS SECTION. UNIT PRICES AND TOTAL PRICES MUST BE FILLED IN ADJACENT TO THEIR LINE ITEMS.)

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**Responses to Request for Information**

**Request for Proposals  
Bluegrass Station  
Fayette County, Kentucky**

Responses are provided below to questions which were submitted in writing or asked at the Pre-Bid Conference held on September 3, 2002.

**Questions Submitted in Writing**

1. What scope of services is currently provided by the contract operator?

**Response: The current contract operator is responsible for the operation of the wastewater treatment plant along with required sampling for water, wastewater and storm water operations. The current operator also flushes the water system, undertakes some emergency repairs, and provides consultation on regulatory issues. A contract was established for these services on July 11, 1995, and is attached to this document.**

2. What rates or fees are currently paid by Bluegrass Station to its current operator?

**Response: Fees paid to the current operator were distributed at the Pre-Bid meeting.**

3. In total, what amount of annual rate or fee has been paid by Bluegrass Station to its current contract operator for operations and maintenance services?

**Response: 100% of the payments to the current operator were for operations and maintenance services.**

4. What level and qualification of staffing has the current contract operator provided?

**Response: The current operator provides a licensed Wastewater Plant Operator and a licensed Water Distribution Operator.**

5. What capital improvements or system expansions have been performed on the water, wastewater, and storm water systems during the last five years? Please list, by year, utility, description of improvement and the capital cost incurred.

Date	Utility	Description	Amount
1998	Water/Sewer	UV System Added to WWTP, Fire Suppression System Added, Water Tower Removed and Minor Pump Repairs.	\$1,300,000

6. What repairs, replacements or improvements of materials and/or equipment have been made to the system during the last five years? Please list by year, utility, description of improvement, and capital cost incurred.

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**Response: No major repairs, replacements or improvements have been undertaken in the last 5 years. There have been a few waterline breaks, small pump repairs and other routine maintenance during the period.**

7. What capital improvements, system expansions, repairs, replacements, or improvements of materials and/or equipment have been recommended by any engineering study and/or current contract operator but have not been initiated or completed as recommended over the last five years?

**Response: Bluegrass Station is not aware of any recommended improvements that were not initiated.**

8. The solicitation does not mention the existence of an Industrial Pretreatment Program at Bluegrass Station. Does Bluegrass Station currently contain any categorical industries. Should current or future regulations require the establishment of such a program, will the cost of such a program be considered as an Addendum to the operating contract with an associated additional fee?

**Response: Quest Engineers is currently developing an IPT for Bluegrass Station. At this time, no categorical industries have been identified. This program will be administered by Bluegrass Station staff. If the contract operator were asked to include this service in his scope, an Addendum to the contract would be written and additional compensation negotiated.**

9. Are there any current, pending or threatened claims, litigation or administrative proceedings that would impact the operation and/or maintenance of the facilities?

**Response: No.**

10. Have there been any violations of regulatory requirements as they relate to drinking water, wastewater or storm water operations of the facility? If so, list the pertinent details.

**Response: Bluegrass Station had a minor reporting notice of violation in February 2001. No other violations have occurred in the last three years.**

11. Is the facility under any type of agreed order or other enforcement action with regard to its water, wastewater, or storm water facilities or operations?

**Response: No.**

12. Is the facility operating under current permits, including KPDES and waste disposal permits?

**Response: Bluegrass Station has a KPDES permit for WWTP outfall and for storm water runoff. A copy of the permit can be obtained by contacting the commonwealth buyer. Waste disposal is currently done by hauling to the Lexington-Fayette Urban County Government's West Hickman WWTP. The continuation of this service is not guaranteed with the selection of a new contract operator.**

#### Questions Asked at Pre-Bid

13. What is the volume of purchased water for the last 12 months?

**Response: 23,408,250 gallons between August 31, 2001, and August 30, 2002.**

14. Would the contract operator be responsible for improvements such as new laboratory equipment, etc?

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**Response: No, any capital improvement of that type will be paid for by Bluegrass Station. However, the purchase of such an item must also be approved by Bluegrass Station.**

15. Will the contract operator have to pay for utilities (i.e. water, electricity, etc)?

**Response: No, Bluegrass Station will continue to pay directly for all the utilities.**

16. How many backflow preventers are in the Bluegrass Station system?

**Response: Bluegrass Station has identified 20 backflow preventers in the water system.**

17. Will the proposal date be changed?

**Yes, the date and time for the receipt of proposals has been changed to 1:30 PM, local time, September 30, 2002. The location for submission is still Room 367 in the Capitol Annex, 702 Capitol Avenue, Frankfort, KY 40601**

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**Bluegrass Station Contract Operations  
Water and Wastewater Services**

**Bidders are cautioned to be aware of increased security in the Capitol Annex. Effective immediately in-person or courier delivered bids/proposals in response to a Commonwealth Solicitation should be delivered a minimum of thirty minutes to an hour earlier than the published closing time to allow for a security check-in. Delays due to building security checks shall not be justification for acceptance of a late bid or proposal.**

**Pre-Bid Conference**

The Finance and Administration Cabinet, Division of Material and Procurement Services has set a Pre-Bid Conference for September 3, 2002 at 1:00 PM to allow prospective bidders an opportunity to ask questions. This conference provides the bidder the only opportunity to ask oral questions. Attendance is optional however, **attendance is highly encouraged**. Bidders are also encouraged to submit written questions prior to the conference. Questions must be submitted by 4:30 p.m. August 26, 2002 to be answered at the conference. Oral answers given at the conference are not binding.

The Commonwealth will respond as completely as possible to each germane question. Answers to germane questions will be published in the form of an Addendum to this Solicitation and will be posted on the Division of Material and Procurement Services webpage at <https://ky-purchases.com>.

Pre-Bid Conference: Building 18, Bluegrass Station, Avon, Kentucky. This conference will include a walking tour of water and wastewater facilities at the site. For Directions call David Marshall @ 859-293-3611

**Restriction On Communications**

The Commonwealth Buyer listed below shall be the **sole point** of contact throughout the procurement process. Bidders **SHALL NOT** communicate with any Commonwealth staff concerning this Solicitation except The Commonwealth Buyer of the Finance and Administration Cabinet or his designee.

For violation of this restriction on communications to the Commonwealth Buyer, the Commonwealth **shall reserve the right to reject the bid** of the offending bidder.

All communications concerning this procurement shall be in writing and regular or express mail, E-mailed or faxed to the Commonwealth Buyer.

Greg Hughes  
Finance and Administration Cabinet  
Division of Material and Procurement Services  
Rm. 367, Capitol Annex  
Frankfort, Kentucky 40601  
E-mail: [Greg.Hughes@mail.state.ky.us](mailto:Greg.Hughes@mail.state.ky.us)  
Telephone: 502-564-4510 Fax:502-564-7209

**This provision does not preclude Bidders who presently hold contracts with the Commonwealth from communicating with state agencies regarding existing contracts.**

To view the awards and Vendors receiving awards for Commonwealth of Kentucky Solicitations; please access our E-Commerce Web Site at <https://ky-purchases.com/>. The award data can be viewed under the Procurement Area link "View Awards". It is the vendor's responsibility to review this information. No other notification of the results of an Award of Contract will be provided except to the successful vendor.



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**Bluegrass Station Contract Operations**  
**Water and Wastewater Services**  
**Section 1 - Overview**

**Background**

Located in northeastern Fayette County, Bluegrass Station is a development with five major organizations that employ over 1,350 people. This development is part of the former Bluegrass Army Depot at Avon.

This facility is currently owned by the Commonwealth of Kentucky Finance and Administration Cabinet (FAC). However, the Commonwealth of Kentucky Department of Military Affairs (DMA) is the primary user agency at the site. This means that DMA is responsible for day-to-day management and oversight of the facility and the utility system. Currently, the Bluegrass Station water, wastewater and storm water systems are operated and maintained by contract with the Lexington-Fayette Urban County Government (LFUCG). LFUCG provides Bluegrass Station with a licensed wastewater plant operator who also holds a water distribution license. This individual is responsible for all utility operation and maintenance (O&M). All costs associated with O&M are passed along to the tenants at Bluegrass Station. At present, the contract with LFUCG is available for renewal. However, FAC and DMA are interested in soliciting proposals from any interested party for the provision of services outlined in this Solicitation.

**Authorization**

This Solicitation is authorized by the FAC and DMA for the purpose of establishing the conditions under which a contract for the O&M of water distribution, wastewater collection, and wastewater treatment systems (utility) will be developed.

**Objectives**

FAC and DMA recognize that contract O&M services are cost-effective and that the current market to provide these services is very competitive. Accordingly, they want to solicit proposals from qualified organizations to provide the services outline in this Solicitation.

**Bids**

FAC and DMA are asking bidders to submit proposals on the forms provided to be considered responsive. The selection criteria and conditions are detailed herein.

**Required Contents of Proposals**

The proposals submitted in response to this Solicitation should be organized as detailed herein.

**Type/Term of Contract**

FAC and DMA are interested in a contract for the operation and maintenance of the water, wastewater and storm water systems at Bluegrass Station. The contract shall have a fixed term of two years from the Date of Award. This contract may be extended on an annual basis at the completion of the initial contract term for four additional one year periods. The annual renewal

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of the contract is subject to the approval of the Division of Material and Procurement Services and DMA.

The initial two-year contract shall be fixed-cost for a defined scope of services. Any repairs, replacement and improvement work on system materials and equipment that fall outside the scope would be compensated for with a time and materials arrangement, based on approved labor and equipment rates agreed upon by both parties. Negotiations would take place prior to the beginning of work. FAC and DMA may solicit proposals from other contractors if they deem it to be in their best interest.

**Basis of Price Quotations/Revisions – Price Firm for Initial Period**

Prices quoted in response to this Solicitation shall remain firm for the initial period of the resulting contract. After this time prices are subject to revision which may be either increases or decreases. Such revisions may be requested by either of the contracting parties and must be requested in writing. The requesting party must furnish documented evidence substantiating the validity of the request. The party to whom the request is presented must notify the requesting party of the decision within 30 days after receipt of the request or satisfactory supporting documentation whichever occurs later. In the event the requested revision is refused, the requesting party shall have the right to withdraw from the contract, without prejudice. Provided, however, that the vendor must continue service, at the contract prices, until a new contract can be established (usually about 60 days).

**Optional Renewal Period**

The Commonwealth of Kentucky reserves the right to renegotiate any terms and/or conditions as may be necessary to meet requirements for the extended period. The vendor will be advised of any proposed revisions prior to the renewal periods. In the event proposed revisions cannot be agreed upon, either party shall have the right to withdraw without prejudice from either exercising the option or continuing the contract in an extended period.

**Owners' Declarations**

- Owners will furnish utility maps to the successful Bidder.
- If the contractor finds utilities located differently than indicated on maps, it is his responsibility to inform DMA of the discrepancy in writing or through drawings.
- If the contractor causes damage to any structure, utility line or other item due to a lack of reasonable care during operation, maintenance or construction, the contractor shall bear the responsibility of any remedial measures required and no compensation shall be requested of FAC or DMA.

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**Bluegrass Station Contract Operations**  
**Water and Wastewater Services**  
**Section 2 - General Conditions**

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**Solicitation Process and Timeline**

All proposals submitted for consideration by the Commonwealth of Kentucky Finance and Administration Cabinet (FAC) and Commonwealth of Kentucky Department of Military Affairs (DMA) must comply with these instructions in order to be considered responsive. These instructions establish minimum requirements as to the terms and conditions of the Solicitation process.

***Question Period***

The Cabinet understands that prospective bidders may have questions. All questions should be in written form and received by the Commonwealth Buyer via fax, e-mail or mail.

Questions and answers will be distributed to all registered contractors in writing at least seven days prior to the deadline for submitting proposals.

**Pre-Bid Conference**

The Finance and Administration Cabinet, Division of Material and Procurement Services has set a Pre-Bid Conference for September 3, 2002 at 1:00 p.m. to allow prospective bidders an opportunity to ask questions. This conference provides the bidder the only opportunity to ask oral questions. Attendance is optional however, **attendance is highly encouraged**. Bidders are also encouraged to submit written questions prior to the conference. Questions must be submitted by 4:30 p.m. August 26, 2002 to be answered at the conference. Oral answers given at the conference are not binding.

The Commonwealth will respond as completely as possible to each germane question. Answers to germane questions will be published in the form of an Addendum to this Solicitation and will be posted on the Division of Material and Procurement Services webpage at <https://Ky-purchases.com>.

The date, time and location of the conference is as follow:

Pre-Bid Conference: Building 18, Bluegrass Station, Avon, Kentucky. This conference will include a walking tour of water and wastewater facilities at the site. For Directions call David Marshall @ 859-293-3611

***Additional Tours***

A facility tour has already been scheduled during the pre-proposal conference. If prospective bidders wish additional access to the site, FAC and DMA will consider individual requests on a case by case basis and may choose to limit the total number of visits by any individual bidder. Additional visits to the site should be coordinated at least 48 hours in advance. Please contact Greg Hughes at (502) 564-4510 or email [Greg.Hughes@mail.state.ky.us](mailto:Greg.Hughes@mail.state.ky.us) to schedule a tour. DMA will attempt to be flexible if timing conflicts arise. **Additional facility tours will be for visual inspection of the facilities only.** Should prospective bidders have questions resulting from an additional tour of the facility they should address those questions, in writing, to the commonwealth buyer after the tour.

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### ***Access to Written Documentation***

A data room will be established at Bluegrass Station, Building 18, where prospective bidders will be allowed to access and copy relevant documents. Prospective bidders may be charged a fee for photocopying.

### ***Signing Solicitation***

An authorized representative shall complete and sign where indicated on the Solicitation sheet that is the front page of this Solicitation and elsewhere as identified in this solicitation. **Failure to do so shall result in the vendor's proposal being rejected.**

### ***Solicitation Submission Requirements***

Vendors shall submit one (1) marked original and four (4) copies of the bid proposal under sealed cover, which shall be received **no later than the date and time indicated on the face of this Solicitation.**

Proposals shall be submitted to:

Bid Clerk  
Division of Material and Procurement Services  
Room 367, Capitol Annex  
Frankfort, Kentucky 40601

The outside cover of the package containing the bid proposal shall be marked with the Solicitation number and Bid for Operation and Maintenance of Water/Wastewater Facilities at Bluegrass Station.

### ***Basis for Proposal***

The price proposal submitted by a prospective bidder shall constitute the full offer for providing O&M services for the water, wastewater and storm water systems at Bluegrass Station. These services cover several different areas and include the following:

#### ***Water System O&M***

- Provide all personnel and associated wages, salaries, and benefits; material, including chemicals, fuel and vehicle expense, utilities and other consumables; and services necessary to operate the water distribution system in accordance with all applicable laws, regulations, statutes and guidelines. The water distribution system shall be operated in a manner to ensure that the system satisfies legal and regulatory requirements. The contractor shall assume responsibility for payment of any fines resulting from faulty operation or operation not in conformance with applicable law.
- Provide all personnel, materials and services necessary to support the operation of the water distribution system, including but not limited to management, administration, engineering, purchasing, reporting and laboratory testing.
- Provide all personnel, materials and services necessary to maintain the water distribution system, equipment, mechanical, electrical, HVAC, instrumentation, communication and computer systems adequately to ensure efficiency, long-term

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reliability and conservation of capital investment. Prudent maintenance must be provided in accordance with industry standards, equipment manufacturers' instructions, and the operating and maintenance manuals. Provisions shall be made for enforcing existing equipment warranties and guarantees, and for maintaining all warranties on new equipment purchased after the effective date of the contract. Provisions shall be made to employ a state-of-the-art maintenance program including predictive, preventive, routine, and, as needed, corrective maintenance elements. Within 120 days of start-up, the contractor will have completed a full review of the existing maintenance management and work order management system and made appropriate recommendations to DMA regarding the adequacy of such system.

- Provide comprehensive monthly recording and reporting to DMA of water distribution system parameters, maintenance activities, equipment and parts inventories, manpower utilization and other relevant information.
- Respond to all telephone calls involving complaints or requests for service, including new service. Attend to all work orders including repair orders generated as a result of such telephone calls.
- Perform all activities related to monthly meter reading as necessary. Currently, there are 63 meters within Bluegrass Station.
- Prepare detailed annual expenditure estimates and report actual amounts to DMA on a monthly basis.
- Meet with representatives of DMA at least twice yearly to review operations, reports and costs. Also, conduct an annual comprehensive water distribution system inspection with representatives of DMA to evaluate and document conditions, safety, or other concerns.
- Provide assistance to DMA in the development and implementation of a capital improvement program for the water distribution system. Participate in capital program strategic planning meetings. At least annually and upon request by DMA, evaluate all water distribution system equipment and buildings and notify DMA of specific capital expenditure needs for replacing or upgrading of structures, equipment, mechanical, electrical, HVAC, instrumentation, computer and communication system.
- Provide a minimum of one qualified and experienced operator on site at least five days a week for a period of time not less than one hour per day or the time required to adequately fulfill the water systems' O&M requirements of the contract, whichever is greater. In addition, the contractor **shall** provide a staffed office with personnel available to assist DMA during regular business hours and provide a 24-hour/7-day-a-week "on call" contact point for emergency activities.

#### *Wastewater Collection/Treatment System and Storm Water System O&M*

- Provide all personnel and associated wages, salaries, and benefits; material, including chemicals, fuel and vehicle expense, utilities and other consumables, and services necessary to operate the wastewater and storm water collection systems, lift stations and treatment facilities in accordance with all applicable laws, regulations, statutes and guidelines and the facility's KPDES permit. The

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contractor shall assume responsibility for payment of any fines resulting from faulty operation or operation not in conformance with applicable law.

- Provide all personnel, materials and services necessary to support the operation of the wastewater and storm water collection systems, lift stations and treatment facilities including, but not limited to, management, sample collection, laboratory testing, computer control system operation and maintenance, administration, purchasing, reporting, janitorial, security, residuals disposal and building upkeep.
- Provide all personnel, materials and services necessary to maintain the lift stations and wastewater treatment structures, equipment, mechanical, electrical, HVAC, instrumentation, communication and computer systems adequately to ensure efficiency, long-term reliability and conservation of capital investment. Maintenance must be provided in accordance with industry standards, equipment manufacturers' instructions, and the operating and maintenance manuals. Provisions shall be made for enforcing existing equipment warranties and guarantees, and for maintaining all warranties on new equipment purchased after the effective date of the contract.
- Administer the transportation, handling and disposal of sludge, grit, screenings and other wastes in accordance with applicable regulations and requirements.
- Provide comprehensive annual recording and reporting to DMA on plant operating parameters, laboratory analysis, maintenance plans and activities, treatment results, equipment and parts inventories, manpower utilization and other relevant information in accordance with all applicable laws, regulations, ordinances, permits and guidelines.
- Assist DMA by providing all information requested for the preparation of reports and permit renewals related to the operation and maintenance of the wastewater treatment facilities to other regulatory bodies.
- Prepare detailed annual expenditure estimates and report actual monthly amounts to DMA monthly.
- Meet with representatives of DMA at least twice yearly to review operations, reports and costs. Also, conduct annual comprehensive plant inspections with representatives of DMA to evaluate and document condition, safety, or other concerns.
- Provide assistance to DMA in the development and implementation of a capital improvement program for the wastewater and storm water collection systems, lift stations and treatment facilities at their request. Participate in capital program strategic planning meetings. At least annually and upon request, evaluate all lift stations, plant equipment and buildings and notify DMA of specific capital expenditure needs for replacing or upgrading structures, equipment, mechanical, electrical, HVAC, instrumentation, computer and communication systems.
- Provide a minimum of one qualified and experienced operator on site at least five days a week for a period of time not less than one hour per day or the time required to adequately fulfill the wastewater and storm water systems' O&M requirements of the contract, whichever is greater. In addition, the contractor **shall** provide a staffed office with personnel available to assist DMA during

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regular business hours and provide a 24-hour/7-day-a-week "on call" contact point for emergency activities.

#### *Systems Repair/Improvements*

- Perform justifiable repairs, replacements or improvements of materials and/or equipment up to a reimbursable limit of \$1,000 per incident. If the amount of the identified work is expected to exceed that threshold, the contractor is required to get authorization from DMA. The contractor will be compensated or reimbursed separately for all repairs or improvements made on the systems based on a time and materials structure which would be agreed upon by both parties. The contractor is specifically not granted exclusive rights to all work on the water, wastewater and storm water systems at Bluegrass Station. FAC and DMA may solicit proposals from other contractors if they deem it to be in their best interest.

#### **Additional Requirements/Conditions**

##### ***Agreement Between Parties***

**By submitting a bid, the bidder acknowledges and agrees to be bound by the terms and conditions of the Solicitation.**

The bidder agrees that a resulting contract is the complete and exclusive statement of the agreement between the parties, which supersedes all prior agreements, oral or written, and all other communications between the parties relating to the subject matter of this Solicitation. It is further agreed between the parties, that any valid modification of contractual agreement must be formalized by issuance of a Contract Modification from the Division of Material and Procurement Services.

**The only terms and conditions acceptable to the Commonwealth of Kentucky are as outlined in the Solicitation. Bids not conforming may be considered as non-responsive.**

##### ***Service Performance***

All services performed under contract shall be in accordance with the terms and provisions of the contract. It will be the agency's responsibility to ensure that such services rendered are performed and are acceptable.

Major deviations of services performed will not be made without the written approval of the Division of Material and Procurement Services. Problems, which arise under any aspect of performance, should first be resolved between the vendor and the agency. Either party should refer in writing any such problems and/or disagreements that cannot be resolved to the Division of Material and Procurement Services for settlement.

##### ***Addition or Deletion of Items or Services***

The Division of Material and Procurement Services reserves the right to add new and similar services, with the consent of the vendor, to any contract awarded from this Solicitation. A Contract Modification will be issued by the Division of Material and Procurement Services to effect this change.

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### ***Rejection of Proposals***

FAC and DMA reserve the right to reject any and all proposals, to waive any informalities in the RFP process, to accept any proposal which it deems to be in their best interest and to hold proposals for a period of thirty (30) days before awarding a contract.

### ***Proposal Duration***

All prices included in a proposal must remain unchanged for a period of one hundred twenty (120) days after the date of the proposal opening.

### ***Obligations of Bidder***

At the time of the opening of proposal, it is expected that each bidder has reviewed the specifications to resolve any questions. The failure of any bidder to examine any proposal requirement shall in no way relieve the bidder of any obligation or condition regarding the Solicitation process.

### ***Bidder Qualifications***

FAC and DMA reserve the right to conduct any investigations and meetings as it deems necessary after receipt of proposals to assist in the evaluation of any proposal and to establish the responsibility, qualification and financial ability of the bidders and other persons and organizations to do the work in accordance with the Solicitation to their satisfaction within the prescribed time limits. The bidder shall furnish FAC and DMA any and all such information, documents and data that they may request for this purpose. FAC and DMA also reserve the right to reject any proposal should the information submitted by the bidder or the investigation of said bidder fail to satisfy FAC and DMA that the bidder is sufficiently qualified to fulfill all obligations of the proposed contract.

### ***Insurance/Indemnity***

The contract between the FAC and the successful bidder (or contractor) will require the contractor to provide a comprehensive liability insurance policy with limits of \$1,000,000 per occurrence and \$2,000,000 annual aggregate. This policy will name the FAC, DMA and the contractor as co-insureds for personal injury and property damage. Additionally, the contractor will be required to provide auto insurance covering all vehicles used on Bluegrass Station premises.

The contract will also contain provisions to indemnify and hold harmless the FAC, DMA and their agents, officers, assigns, attorneys and employees from any loss or liability from claims, damages or lawsuits for reasons resulting from acts or omissions by the contractor or its agents during the term of contract.

### ***Contract Performance Review***

The contract shall provide for a performance review at the end of the initial two-year period. If the FAC and DMA determine that contract performance has not been in full compliance, it may choose to establish remedial measures for the contractor or terminate the contract. Performance review will also be done at the end of each renewal period, during the final three years of the contract term. Based on these reviews, FAC and DMA will determine whether or not to exercise the contract option for the next year.



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***Subcontracting***

Bidder is made aware that no part of the work described in this RFP may be assigned, transferred, conveyed, subcontracted or otherwise disposed of, without the written consent of the FAC and DMA.

***Expense of Proposed Preparation***

The FAC and DMA assume no responsibility for the costs and expenses incurred by the proposers in conducting due diligence responding to this Solicitation, preparing responses to requests for clarification, or attending meetings and presentations associated with the procurement process. Prospective bidders who enter into the procurement process will prepare the required materials and submittals at their own expense and with the express understanding that they cannot make any claims whatsoever for reimbursement from the FAC or DMA for the costs and expenses associated with the procurement process.

***Availability of Proposals to Public***

Prospective bidders are also reminded that the proposal submitted in response to this Solicitation may be made available to the public after award.

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**Bluegrass Station Contract Operations**  
**Water and Wastewater Services**  
**Section 3 - Scope of Proposal**

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**Proposal Format**

The proposal format will be broken into two sections. The first section will consist exclusively of the price offered by the bidder to perform the operation and maintenance of the water and wastewater systems at Bluegrass Station. The second section will consist of the qualifications and proximity information of the bidder. Failure to submit all information requested will result in the proposal being declared non-responsive. The bidder's responses will be reviewed as part of the overall proposal evaluation process.

***Price Proposal***                    ***(Reference Proposal, Page 1 of 5)***

The bidder will provide the Commonwealth of Kentucky Finance and Administration Cabinet (FAC) and Commonwealth of Kentucky Department of Military Affairs (DMA) with a price proposal for the operation and ordinary maintenance of the water, wastewater and storm water systems at Bluegrass Station. This price proposal will be broken into the initial two-year contract. In addition, the price proposal submitted is the total cost to be charged to the FAC for these services. Therefore, the bidder should include all inflationary factors for wages, materials and equipment necessary. In addition, the bidder should include in his price proposal the following items related to the ordinary maintenance of the systems:

***Water Distribution System***

- Flushing of system twice annually.
- Flow test master meter within two years (issue written report).
- Flow test 40 percent of the meters within the initial contract period and 20 percent of the meters during each renewal period (issue written report).
- Exercise and perform routine maintenance on all valves and hydrants annually.
- Test all backflow preventers annually.

**Wastewater Collection System/Treatment Facilities**

- Clean 40 percent of the sewer system within the initial contract period and 20 percent of the sewer during each renewal period (issue written report).
- Inspect all manholes within two-year period (issue written report).
- Provide and maintain a rain gauge.

As a separate item in the price proposal, the bidder shall submit current labor and equipment rates by classification for work that might be done outside the scope outlined in the Solicitation.

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***Audited Financial Strength*** (Reference Supplemental Information)

The FAC and DMA are interested in contracting with an organization that has the financial strength to effectively operate and maintain the Bluegrass Station systems. In accordance with this, the FAC and DMA may require bidder to submit the most recent two years' audited financial statements.

***Relevant Experience*** (Reference Proposal, Page 2 of 5)

The FAC and DMA want to learn about the relevant experience, technical capability and management philosophy of the bidder. The bidder must respond to specific questions about the bidder's organization and team leader. Responses to these questions are required in order for the bid to be declared responsive.

***Proximity Information*** (Reference Proposal, Page 4 of 5)

The FAC and DMA are interested in information on each bidder's organization, including operations headquarters, location of management and other relevant questions. Responses to these questions are required in order for the bid to be declared responsive.

***Bid Bond/Certified Check*** (Reference Bid Bond)

The bidder is required to provide a bid bond or certified check in the amount of \$25,000 in order to be considered a responsive bidder.

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**Bluegrass Station Contract Operations**  
**Water and Wastewater Services**  
**Section 4 - Proposal Evaluation Process**

**Evaluation Process**

At the established date and time, all proposals that have been received will be opened by a designated official of the Commonwealth of Kentucky Finance and Administration Cabinet (FAC). Each proposal will be reviewed to determine if all applicable supplements to the proposal form are present. If the supplements are present, the price proposal will be declared responsive. If they are not present, the proposal will be set aside and declared non-responsive. All responsive proposals will then be evaluated by a selection committee comprised of members from FAC and the Commonwealth of Kentucky Department of Military Affairs (DMA).

**Best Value - Ranking Approach**

The Commonwealth intends to award a contract to the vendor, whose offer, conforming to the solicitation, is the most advantageous on the basis of "best value" for all services and requirements contained herein.

With the ranking approach price is one of the measurable criteria components of the solicitation. The measurable criteria are added together to determine the vendor's total score. The vendor with the highest score has the highest ranking. Award is made to the vendor with the highest ranking. If there is only one best value response to the solicitation, the evaluation process may be waived and award may be made to the only responsive, responsible vendor.

For example, if vendor "A" is evaluated by one evaluator and received a total score of 95 points then that vendor would have a 95 ranking. And if vendor "B" (responding to the same solicitation) received a total score of 90 points then he would have a 90 ranking. If more than one evaluator is used then the combined score of all evaluators for each vendor is the score to be used to determine the ranking for the vendor. Again, award will be made to the vendor with the highest ranking.

Measurable Criteria:

<b>Price</b>	<b>60 points</b>
<b>Bidder Experience</b>	<b>20 points</b>
<b>References</b>	<b>5 points</b>
<b>Qualifications</b>	<b>5 points</b>
<b>Bidder Proximity</b>	<b>10 points</b>
<b>Service</b>	<b>5 points</b>

**Each vendor is responsible for submitting all relevant, factual and correct information with their offer to enable the evaluator(s) to afford each vendor the maximum score based on the available data submitted by the vendor. The information will be furnished in the spaces provided below. If adequate space is not available, the vendor will attach additional information that clearly cross-references the appropriate location in the solicitation (i.e. page number, paragraph, subject, etc.).**

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**Price Proposal**                    **(Reference Proposal, Page 1 of 5)**

The price proposal amount shall be submitted on the appropriate form found in Attachment A. As stated previously, the price proposal constitutes the full offer by the bidder for providing operations and maintenance services outlined in this Solicitation for the water and wastewater systems at Bluegrass Station.

The bidder's base price proposal amount will then be compared with others submitted. The price proposal will be scored based on its proportion to the lowest price proposal amount. This proportion will then be multiplied by the maximum points available to determine the score of the individual proposal for this section of the evaluation.

**Example**

The amount of Price Proposal A is \$150,000. The lowest amount of any price proposal submitted is \$100,000. Price Proposal A would receive 40 points ( $\$100,000/\$150,000 \times 60$  points) and the lowest price proposal in the example would receive the maximum points available, which is 60 in this section ( $\$100,000/\$100,000 \times 60$  points).

**Vendor Responsibility**

**Bidder Experience**                    **(Reference Proposal, Page 2 of 5)**

As part of the proposal, bidders are required to respond to specific questions regarding the relevant experience of their organization. The responses will be evaluated and scored by the selection committee based on comparison with other responsive bidders. **The maximum points that could be obtained in this section is 20.**

1. How many employees does your organization have? Please provide a brief organizational chart.
2. How many years has your company been operating water systems?
3. How many systems do you currently own, manage or provide contract operation? Do you own, manage or operate any systems in the Commonwealth of Kentucky?
4. How many total customers are in the systems that your organization owns, manages or operates?
5. Please list any and all notices of violation from any agency of the local, state or federal government that a system owned or operated by your organization has received in the last five years.

**References – 5 Points**                    **(Reference Proposal, Page 3 of 5)**

Bidders are to submit contact information for at least 3 major accounts to demonstrate the ability to service an account the size of the Bluegrass Station. All references will be asked identical questions regarding, water and wastewater operations, and be provided with multiple choice answers with points assigned to each answer. Points will be awarded based on reference response.

**Qualifications**                    **(Reference Proposal, Page 3 of 5)**

**Operator/Project Manager Experience – 5 Points**

The vendor's operator, to be on site at least 5 days per week for no less than 1 hour per day, with the greatest number of years experience in operation of water distribution systems

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receives the maximum points. Assume vendor "A" has an operator with 20 years experience in the required business, then  $20/20 = 1.00 \times 10 = 10$  points and assume vendor "B" has an operator with 10 years experience in the required business, then  $10/20 = .5 \times 10 = 5$  points, etc.)

Operators/Project Manager years of experience: **Vendor: Over 120 years**  
**Project Manager: Over 33 years**

**Bidder Proximity** (Reference Proposal, Page 4 of 5)

The bidder should respond to questions about organizational location. **The maximum points available under this section is 10.**

1. Is the proposed point of contact for your organization located within a 30-mile radius of Bluegrass Station? Please supply the name and address for this individual or office.
2. Please provide the location of your organization's support staff as it relates to construction personnel that would be used at Bluegrass Station for emergency repairs, etc.
3. Please provide any information on response times for emergency calls that your organization might have for other systems your organization operates.

**Response Times** (Reference Proposal, Page 4 of 5)

The bidder shall acknowledge their commitment to an average response time of 30 minutes or less to calls, emergency or otherwise, from FAC or DMA regarding operations or maintenance of the Bluegrass Station water and wastewater system. For the purposes of this proposed commitment, a "response" is defined as a positive acknowledgement to DMA personnel that the contractor is aware of the situation and is taking steps to assist the DMA personnel or remedy the situation, as necessary.

Bidder commits to a response time of 30 minutes or less:  Yes  No

**New Service – 5 Points**

Maximum response time of seven days is required for new service but sooner is requested. The vendor with the fastest response time will receive the maximum points. The vendor with the next fastest response time will receive points by dividing that vendor's response time into the fastest vendor's response time. Then multiply that percentage by the available points to determine the points to be assigned the vendor.

**Presentations** (Reference Proposal, Page 5 of 5)

Prior to completion of final scoring of the proposals, the selection committee may ask one or more organizations to appear before the committee to discuss or clarify their proposal and answer any questions.

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**Contract Billing, Operations and Maintenance for  
Water and Wastewater Services at  
Bluegrass Station**

**Commonwealth of Kentucky  
Finance and Administration Cabinet**

Proposal of **Kentucky-American Water Company** (hereinafter called "BIDDER"), organized and existing under the laws of the State of **Kentucky**, doing business as a corporation, ~~partnership or an individual~~ is submitted to the Commonwealth of Kentucky Finance and Administration Cabinet (hereinafter called "CABINET").

In compliance with the Advertisement for Bids, the BIDDER hereby proposes to provide the billing, operations and maintenance services in accordance with the Scope and Conditions established in the Solicitation. BIDDER further acknowledges that the information contained in the Solicitation and the responses/proposals will constitute the basis for the development of a contract if the proposal is accepted.

BIDDER agrees that this proposal shall be valid and not withdrawn for a period of one hundred twenty (120) calendar days.

In accordance with the requirements detailed above, the BIDDER submits the following price proposal for providing contract operations and maintenance for water and wastewater services at Bluegrass Station.

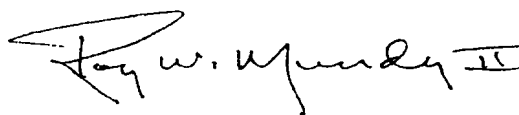
**Price Proposal**

Item	Amount
<ul style="list-style-type: none"> <li>Contract Operations and Maintenance for two (2) years</li> </ul>	<p>\$ 172,000.00</p>

BIDDER acknowledges that the CABINET reserves the right to reject any or all proposals.

BIDDER(Company): Kentucky-American Water Company

BY (Signature):



NAME (Type): Roy W. Mundy II

TITLE: President

ADDRESS: 2300 Richmond Road  
Lexington, KY 40502

DATE: September 30, 2002

PHONE NUMBER: (859) 268-6320

FAX NUMBER: (859) 268-6327

E-MAIL (if applicable): [rwmundy@kawc.com](mailto:rwmundy@kawc.com)

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**FINANCE- DIVISION OF MATERIAL AND PROCUREMENT SERVICES**

Rev. (01-98)

**INVITATION FOR BID (IFB) SOLICITATION INSTRUCTIONS**

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**SUBJECT: SOLICITATION INSTRUCTIONS AND CONDITIONS**

**I. DEFINITIONS: As used herein:**

- a. The term "solicitation" means Invitations For Bids (IFB) and Requests For Proposals (RFP).
- b. The term "offer" means bid or "proposal".

**II. PREPARATION OF OFFERS:**

- a. Offerors shall examine the drawings, specifications, schedule, and all instructions. Failure to do so shall be at the offeror's risk.
- b. Offers shall set forth full, accurate, and complete information as required by the solicitation. Offers that contain an offeror's own special terms and conditions in conflict with the terms of the solicitation or state statutes and regulations may be rejected.
- c. Each offeror shall furnish the information required by the solicitation. The offeror shall sign the solicitation in ink and type or print in ink his name, firm, address, telephone number, and date. Erasures or other changes shall be initialed in ink by the person signing the offer. Approved electronic format may also be accepted.
- d. Unit price for each unit offered shall be shown and such price shall include packing unless otherwise specified. A total shall be entered in the amount column of the schedule for each item offered. In case of discrepancy between a unit price and extended price, the unit price shall govern.
- e. Cash discounts shall not be considered in making the award of the contract.
- f. Trade discounts shall be deducted by the vendor in calculating the unit price quoted, unless otherwise stated.
- g. Quantity discounts shall be included in the price of the item. The unit price shown on the contract shall be the net price less the discount unless otherwise stated.
- h. Time discounts may be considered if the Division of Material & Procurement Services or the purchasing agency deems it in the Commonwealth's best interest.
- i. Offers for supplies or services other than those specified shall not be considered unless authorized by the solicitation.
- j. Offerors shall state a definite time for delivery of supplies or performance of services unless otherwise specified in the solicitation.
- k. Time, if stated as a number of days, shall include Saturdays, Sundays, and Holidays.

**III. OFFEROR CLARIFICATION - REQUEST AND RESPONSE:**

Any explanation desired by an offeror regarding the meaning or interpretation of the solicitation drawings, specifications, etc., shall be requested in writing and not less than seven (7) calendar days prior to the bid opening date. Oral explanations or instructions given before the award of the contract shall not be binding. Any information given to a prospective offeror concerning a



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solicitation shall be furnished to all prospective offerors as an amendment of the solicitation, if such information is necessary to offerors in submitting offers on the solicitation, or if the lack of such information would be prejudicial to uninformed offerors.

#### **IV. ACKNOWLEDGMENT OF ADDENDA TO SOLICITATIONS:**

Receipt of an addendum to a solicitation shall be acknowledged by the offeror. Such acknowledgment shall be received prior to the hour and date specified for receipt of offers. Verbal acknowledgment shall not be accepted. Failure to acknowledge addenda may cause the bid to be considered non-responsive.

#### **V. SUBMISSION OF OFFERS:**

a. Offers and modifications thereof shall be enclosed in sealed envelopes and addressed to the office specified in the solicitation. The offeror shall show the opening hour and date specified in the solicitation, the solicitation number, and the name and address of the offeror on the face of the envelope(s).

b. Telegraphic or facsimile offers shall not be considered unless authorized by the solicitation; however, offers may be modified by telegraphic or facsimile notice, if such notice is received prior to the hour and date specified for receipt. Telegraphic or facsimile modifications shall not mention unit prices or total price; but shall only refer to percentage change or numerical change (i.e., reduce unit price of item 1 by \$1.00).

c. Samples of items, if required, shall be submitted within the time specified, and unless otherwise specified, at no expense to the Commonwealth of Kentucky. If not destroyed by testing, samples shall be returned at offeror's request and expense, unless otherwise specified by the solicitation. Unless a request for their return is made within thirty (30) days of award of contract, all samples shall become property of the state.

#### **VI. MODIFICATION OR WITHDRAWAL OF OFFERS:**

Offers may be modified or withdrawn by written notice received prior to the exact hour and date specified for receipt of offers. An offer may also be withdrawn in person by an offeror or his authorized representative, if his identity is made known and he signs a receipt for the offer, but only if the withdrawal is made prior to the exact hour and date set for receipt of offers.

#### **VII. LATE OFFERS AND MODIFICATIONS:**

Offers and modifications of offerors received at the office designated in the solicitation after the exact hour and date specified for receipt shall not be considered for an award of contract, UNLESS:

- a. No bids are received other than the late bid; and
- b. For morning bid openings, the bid is postmarked on or before the day before the bid opening. For afternoon bid openings, the bid is postmarked on or before the a.m. hours of the day of the bid opening; and
- c. The need of an agency is determined to preclude the re-solicitation of bids; and
- d. The Division of Material & Procurement Services is assured that the specifications and the selection of bidders by the buyer were not the cause for the late offer being the only bid available for consideration; and
- e. The offer is evaluated and found to serve the best interest of the Commonwealth of Kentucky.

#### **VIII. MULTIPLE AND ALTERNATE BIDS:**

Bidders shall submit one response only to the solicitation and shall not propose more than one price, model, and brand for each bid item. Multiple or alternate bids offering more than one bid

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price in total (or by line-item) shall be cause for rejection unless specifically called for in special provisions provided elsewhere in the solicitation.

**IX. AWARD OF CONTRACT:**

a. The contract shall be awarded to that responsible offeror whose offer conforming to the solicitation provides the best value.

b. The state reserves the right to reject any offers and to waive informalities and minor irregularities in offers received.

c. A written award (or acceptance of offer) mailed (or otherwise furnished) to the successful offeror within the time for acceptance specified in the offer shall be deemed to result in a binding contract without further actions by either party.

**X. KENTUCKY SALES AND USE TAXES:**

Sales of tangible personal property or services to the State of Kentucky and its constitutional agencies are not subject to state sales or use taxes.

**XI. COMPLIANCE WITH STATE LAWS:**

Any contracts or orders placed as a result of the offer shall be governed by the laws of the Commonwealth of Kentucky. The rights and obligations of the parties thereto shall be determined in accordance with these laws. Any offer conditioned upon governance by the laws of a state other than Kentucky shall not be considered.

**XII. CONTRACT MODIFICATIONS:**

During the period of the contract, no modification shall be permitted in any of its conditions and specifications unless the contractor receives written approval from the Division of Material & Procurement Services.

If the contractor finds at any time that existing conditions make modification in requirements necessary, he shall promptly report such matter to the Division of Material & Procurement Services for consideration and decision. All contract modifications shall be subject to the provisions of 200 KAR 5:311.

**XIII. SELLER'S INVOICES:**

Invoices, if required, shall be prepared and transmitted to the agency receiving the goods or services. One copy shall be marked "original" unless otherwise specified. Invoices shall contain, at a minimum, the following information: Contract and order number (if any), item numbers, description of supplies or services, sizes, quantities, unit prices, and extended totals.

**XIV. PRECEDENCE OF PROVISIONS:**

In the event of an inconsistency between provisions of the solicitation, the inconsistency shall be resolved by giving precedence in the following order: (a) Special Conditions; (b) Solicitation Instructions and Conditions; (c) General Conditions; (d) other provisions of the contract, whether incorporated by reference or otherwise and (e) the specifications.

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**\*\*\* GENERAL PROVISIONS \*\*\***

**TERMINATION FOR CONVENIENCE**

The Commonwealth shall be authorized to terminate for its own convenience all contracts for the procurement of supplies and services when the purchasing official has determined that such termination will be in the Commonwealth's best interests. When it has been determined that a contract should be terminated for the convenience of the Commonwealth, the purchasing agency shall be authorized to negotiate a settlement with the contractor according to terms deemed just

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and equitable by the purchasing agency.

Compensation to a contractor for lost profits on a contract terminated for convenience of the Commonwealth shall not exceed an amount proportionate to the sum that the contractor's total expected margin of profit on the contract bore to the contract price, based on the total out of pocket expense incurred by the contractor as of the date of termination of the contract. Whenever a contract is terminated for the convenience of the Commonwealth, the contractor shall have the burden of establishing the amount of compensation to which he believes himself to be entitled by the submission of complete and accurate cost data employed in submitting his bid or proposal for the contract, and evidence of expenses paid or incurred in performance of the contract from the date of award through the date of termination. Payment of the sum agreed to in settlement of a contract terminated for convenience of the Commonwealth shall be made from the same source of funds or accounts as the original contract.

#### **FILING OF PROTEST (DECISION BY SECRETARY)**

(1) The Secretary of the Finance and Administration Cabinet, or his designee shall have authority to determine protests and other controversies of actual or prospective bidders or offerors in connection with the solicitation or selection for award of a contract.

(2) Any actual or prospective bidder, offeror, or contractor who is aggrieved in connection with solicitation or selection for award of a contract may file a protest with the Secretary of the Finance and Administration Cabinet. A protest or notice of other controversy must be filed promptly and in any event within two (2) calendar weeks after such aggrieved person knows or should have known of the facts giving rise thereto. All protests or notices of other controversies must be in writing.

(3) The Secretary of the Finance and Administration Cabinet shall promptly issue a decision in writing. A copy of that decision shall be mailed or otherwise furnished to the aggrieved party and shall state the reasons for the action taken.

(4) The decision by the Secretary of the Finance and Administration Cabinet shall be final and conclusive. (KRS 45A.285).

#### **CONTRACT PROVISIONS BY REFERENCE**

It is mutually agreed by and between the Commonwealth of Kentucky and the bidder that the Commonwealth's acceptance of the bidder's offer by the issuance of a contract shall create a contract between the parties thereto containing the following:

(1) All specifications, terms and conditions in the Invitation for Bid and the Bid Form; except as amended in the contract.

(2) The provisions of the awarded contract to include all terms, special conditions and specifications.

(3) The Kentucky General Conditions issued to bidders on State contracts.

(4) It is agreed further that no contract shall be binding on the Commonwealth of Kentucky until an encumbrance of funds has been made for the payment of the sums due under the provisions of the contract.

#### **COMPLIANCE WITH FEDERAL REQUIREMENTS**

Where this procurement involves the expenditure of federal assistance or contract grant funds, the awarded contractor shall comply with such federal law and authorized regulations which are mandatorily applicable and which are not presently set forth elsewhere in this solicitation. Office of Management and Budget Circular A-102, Appendix "O" requires but is not limited to, compliance with the following provisions;

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(1) All contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees require compliance with Executive Order 11246, entitled "Equal Employment Opportunity", as amended by Executive Order 11375, and as supplemented in Department of Labor regulations (41 CFR Part 60).

(2) All negotiated contracts (except those awarded by small purchase procedures) awarded by grantees provide that the grantee, the Federal grantor agency, the Comptroller General of the United States, or any of their duly authorized representatives, shall have access to any books, documents, papers and records of the contractor which are directly pertinent to this specific contract, for the purpose of making audit, examination excerpts and transcriptions. Contractors are to maintain all required records for three years after grantees make final payments and all other pending matters are closed.

(3) Contracts, subcontracts and subgrants of amounts in excess of \$100,000 requires compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act (42 U.S.C. 1857 (h), Section 508 of the Clean Water Act 33 U.S.C. 1368), Executive Order 11738 and Environmental Protection Agency regulations (40 CFR Part 15), which prohibit the use under non-exempt Federal contracts, grants or loans of facilities included on the EPA List of Violating Facilities. This provision requires reporting of violations to the grantor agency and to the U.S.E.P.A. Assistant Administrator for Enforcement.

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**\*\*\* CURRENT OR FORMER STATE EMPLOYEE SEEKING \*\*\***  
**\*\*\* TO DO BUSINESS WITH THE STATE? \*\*\***

**\* YOU SHOULD KNOW ABOUT THESE LAWS. \***

In the 1992 regular legislative session, the General Assembly passed Senate Bill 63 (codified as KRS 11A), the Executive Branch Code of Ethics, which applies, in part, to current and former state officials and employees of the executive branch. The Code was amended during the 1994 Legislative Session.

**1. Current State Employees Seeking to Do Business With the State**

KRS 11A.040(4) Provides:

(4) No public servant shall knowingly himself or through any business in which he owns or controls an interest of more than five percent (5%), or by any other person for his use or benefit or on his account, undertake, execute, hold, or enjoy, in whole or in part, any contract, agreement, lease, sale, or purchase made, entered into, awarded, or granted by any state agency. This provision shall not apply to a contract, purchase, or good faith negotiation made pursuant to KRS Chapter 416 relating to eminent domain or to agreements, which may directly or indirectly involve public funds disbursed through entitlement programs.

**2. Former State Officers and Elected Officials Seeking Employment From Entities Who Do Business With the State**

KRS 11A.040(6) Provides:

No present or former officer or public servant listed in KRS 11A.010(9) (a) to (i) shall, within six (6) months following termination of his office or employment, accept employment, compensation, or other economic benefit from any person or business that contracts or does business with the state in matters in which he was directly involved during the last 36 months of his tenure. This provision shall not prohibit an individual from returning to the same business, firm, occupation, or profession in which he was involved prior to taking office or beginning his term of employment, provided that, for a period of six (6) months, he personally refrains from working on any matter in which he was directly involved during the last 36 months of his tenure in state government. This subsection shall not prohibit the performance of ministerial functions including, but not limited to, filing tax returns, filing applications for permits or licenses, or filing incorporation papers.

**3. FORMER STATE EMPLOYEES WHO SEEK TO REGISTER AS LOBBYISTS.**

KRS 11A.040(7) provides:

A former public servant shall not act as a lobbyist or lobbyist's principal for a period of one (1) year after the latter of:

- A) The date of leaving office or termination of employment; or
- B) The date the term of office expires to which the public servant was elected.

**4. FORMER STATE EMPLOYEES CONTEMPLATING REPRESENTATION OF ANOTHER BEFORE A STATE AGENCY**

KRS 11A.040(8) provides:

A former public servant shall not represent a person in a matter before a state agency in which

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the former public servant was directly involved, for a period of one (1) year after the latter of:

(A) The date of leaving office or termination of employment; or (B) The date the term of office expires to which the public servant was elected. "OR BY ANY OTHER PERSONS FOR HIS USE OR BENEFIT" includes spouse.

**\*\*\* DEFINITIONS \*\*\***

"OR BY ANY OTHER PERSON FOR HIS USE OR BENEFIT" includes spouse.

"DOES BUSINESS WITH" also includes any regulatory relationship between a state agency and a business, utility or person regulated by the state.

"MATTERS IN WHICH HE WAS DIRECTLY INVOLVED" applies only to matters on which the former employee personally worked or over which the employee had some authority.

"LOBBYIST" also includes executive agency lobbyists--those persons attempting to influence a decision of an executive agency official concerning state expenditures.

"REPRESENT" means to attend an agency proceeding, write a letter, or communicate with an employee of an agency on behalf of someone else.

"IN WHICH HE WAS DIRECTLY INVOLVED" modifies the word "matter" and not the words "state agency". In other words the prohibition operates to prohibit employees from representing individuals in matters in which the employee was directly involved while the employee was at the state agency. The employee would be permitted to represent individuals before the state agency so long as the subject matter of the representation was not something in which the employee was directly involved while at the state agency.

These laws are intended to promote public confidence in the integrity of state government and to declare as public policy the idea that state employees should view their work as a public trust and not a way to obtain private benefits.

If you worked for the executive branch of state government within the past year, or were elected to an executive branch term of office, which expired within the past year, you may be subject to the prohibitions of the law.

IN CASE OF DOUBT, THE LAW PERMITS YOU TO REQUEST AN ADVISORY OPINION FROM

THE EXECUTIVE BRANCH ETHICS COMMISSION  
CAPITOL ANNEX, FRANKFORT, KENTUCKY 40601 (502) 564-7954.

Prepared by Kentucky'  
EXECUTIVE BRANCH ETHICS COMMISSION  
October 1994

<p align="center"><b>Solicitation Modification</b> S-02179395-2</p>	<p align="center"><b>Document Title</b> Water Plant Operation</p>	<p align="right">Page 29 of 29</p>
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Rev. (01-98)

**REPORT OF PRIOR VIOLATIONS OF TAX AND EMPLOYMENT LAWS**

1. KRS 45A.485 Requires Vendor To Report Prior Violations:

KRS 45A.485 requires the bidder to reveal to the Commonwealth, prior to the award of a contract, any final determination of a violation by the contractor within the previous five (5) year period of the provisions of KRS Chapters 136, 139, 141, 337, 338, 341, and 342. These statutes relate to the state sales and use tax, corporate and utility tax, income tax, wages and hours laws, occupational safety and health laws, unemployment insurance laws, and workers compensation insurance laws, respectively.

To comply with the provisions of KRS 45A.485, each bidder shall report any, if any, such final determination(s) of violation(s) by listing below the KRS violated, the date of the final determination, and the state agency which issued the final determination. This form shall be submitted with the bid if any final determinations were issued during the applicable 5-year period.

KRS VIOLATED	DATE of FINAL DETERMINATION	STATE AGENCY
338	2001, KOSHRC #3644-01	KY Labor Cabinet

**This violation consisted of the following OSHA violations: (1) a fixed ladder violation and (2) a guarding violation related to an incline car. Both violations occurred at KAWC's Kentucky River Station and both were rectified immediately.**

KRS 45A.485 also requires that, for the duration of any contract, the contractor shall be in continuous compliance with the provisions of the above statutes that apply to the contractor's operations. The contractor's failure to reveal a final determination as described above or failure to comply with the above cited statutes for the duration of the contract shall be grounds for the Commonwealth's cancellation of the contract and the contractor's disqualification from eligibility to bid or submit proposals to the Commonwealth for a period of two (2) years.



**PROPOSAL FOR CONTRACT OPERATIONS AND MANAGEMENT  
FOR BLUEGRASS STATION DIVISION  
WATER, WASTEWATER AND STORMWATER FACILITIES**

**SECTION 1: PRICE (Reference Solicitation, Pages 16 and 19 of 29)**

KAWC proposes to provide contract operations and management services for Bluegrass Station Division as specified in Solicitation No. S-02179395-2 at a cost of \$172,000 for the initial two-year contract period (\$86,000 per year).

KAWC proposes to provide repair, replacement and improvement services and other work outside the scope of services stated in the solicitation at the hourly rates provided below:

Labor Rates

Engineering	\$44
Distribution	\$32
Maintenance	\$52
Water Quality	\$36

Equipment Rates

Backhoe	\$45
Dump Truck	\$45

**SECTION 2: QUALIFICATIONS, PROXIMITY and OTHER INFORMATION**

**BIDDER EXPERIENCE (Reference Solicitation, Pages 17 and 19 of 29)**

KAWC is the largest private water utility in Kentucky, and the second largest water supplier in the Commonwealth of Kentucky. The Company is a regional water supplier providing water service to approximately 290,000 people in the Lexington-Fayette Urban County area including parts of Bourbon, Clark, Gallatin, Grant, Harrison, Jessamine, Owen, Scott and Woodford counties.



KAWC provides wastewater collection and treatment services for residents of Rockwell Village in Clark County. Under contract with the City of Pineville, Kentucky and the Pineville Utilities Commission, KAWC operates and manages water and wastewater facilities for the city of Pineville and much of Bell County.

KAWC owns and operates two water treatment facilities in Fayette County and maintains over 1,500 miles of water main and maintains over 6,100 fire hydrants. The Company regularly meets or exceeds all water quality regulations on state and federal levels.

KAWC is part of the American Water Works Company (AWW), the nation's largest investor-owned water utility. AWW has successfully facilitated over 80 value-added water and wastewater system business partnerships over the past 10 years ranging in size from 50 to 500,000 customers. This wealth of experience is available to Bluegrass Station Division through contract management.

KAWC employs 150 associates in its Kentucky operations. KAWC and AWW have the highest level of expertise in Kentucky including a local staff of five chemists/biologists and two certified labs to ensure the highest water quality and regulatory compliance. The Company employs four professional engineers and has access to complete rate, financial and management expertise locally.

KAWC has over 120 years progressive experience in providing quality water utility services to Lexington and Fayette County. A summary organizational chart is attached.

KAWC has an excellent record with regard to operation and management of its facilities. Over the past five years, KAWC has only received three notices of violation (NOV). In 1999, the Company received a notice of violation regarding its failure to submit plans for approval by the Division of Water prior to initiating construction of a water main. Plans were later submitted and approved for this project. In 2001, KAWC received a notice of violation related to a discharge at its Rockwell Village package water treatment facility. The facility was immediately returned to compliance. Also in 2001, the Company received a notice of violation related to its newly acquired Tri-Village Water District in Owen County. This NOV was a monitoring violation due to a contract lab's failure to notify KAWC of unsatisfactory sample results in the Tri-Village system. The contract lab was discharged and KAWC staff assumed monitoring responsibility.

**REFERENCES (Reference Solicitation, Page 19 of 29)**

KAWC provides the following individuals as professional references as to our proven track record in providing quality utility management and services:

Mayor Pam Miller  
Lexington-Fayette Urban County Government  
200 East Main Street  
Lexington, KY 40507  
Phone: (859) 258-3105

Judge William P. O'Banion  
Owen County Judge Executive  
100 North Thomas  
PO Box 465  
Owenton, KY 40359  
Phone: (502) 484-3405

Mayor David Wotier  
City of Owenton  
102 North Main Street  
PO Box 280  
Owenton, KY 40359

Mayor Robert L. Madon  
City of Pineville  
PO Box 688  
Pineville, KY 40977

Patricia Bingham, Chairperson  
Pineville Utilities Commission  
104 West Park Avenue  
Pineville, KY 40977

**QUALIFICATIONS (Reference Solicitation, Page 19 of 29)**

KAWC as an organization has over 120 years experience in providing quality utility services. Pertinent to this agreement, its staff is functionally organized to provide services in the areas of engineering, loss control, water quality, distribution operations, distribution maintenance, leak detection, and administrative support. All staff are fully certified and licensed in the area in which they work. Many are recognized as leaders in their respective fields.

Dillard Griffin will be the project manager for Bluegrass Station Division. Dillard has been with KAWC since 1970 and currently serves as Operations Superintendent. He has extensive experience in the operation, maintenance and management of water and wastewater utility systems. His overall experience and knowledge in the field has resulted in his appointment to various state and industry committees and boards and in his teaching of various water treatment and water system operation courses throughout the state. Mr. Griffin will be Bluegrass Station Division's point of contact with KAWC and will dispatch appropriate resources to provide quality service to the facility.

**BIDDER PROXIMITY** (Reference Solicitation, Pages 17 and 20 of 29)

KAWC is headquartered on Richmond Road in Lexington, Kentucky. Its water service territory completely surrounds Bluegrass Station and it currently provides 100% of the water requirements of Bluegrass Station.

KAWC dispatches its operations, maintenance and construction personnel from its headquarters office in Lexington, less than 10 miles from Bluegrass Station.

The primary point of contact for Bluegrass Station will be Dillard Griffin. His contact information is listed below. Bluegrass Station will also be provided with alternate after-hours and emergency contact information to ensure 24-hour availability and immediate response to Bluegrass Station needs and concerns.

Dillard Griffin  
Operations Superintendent  
Kentucky-American Water Company  
2300 Richmond Road  
Lexington, KY 40502  
Office Phone: (859) 268-6340  
Cell Phone: (859) 339-6823  
E-mail: [dgriffin@kawc.com](mailto:dgriffin@kawc.com)

**RESPONSE TIMES** (Reference Solicitation, Page 20 of 29)

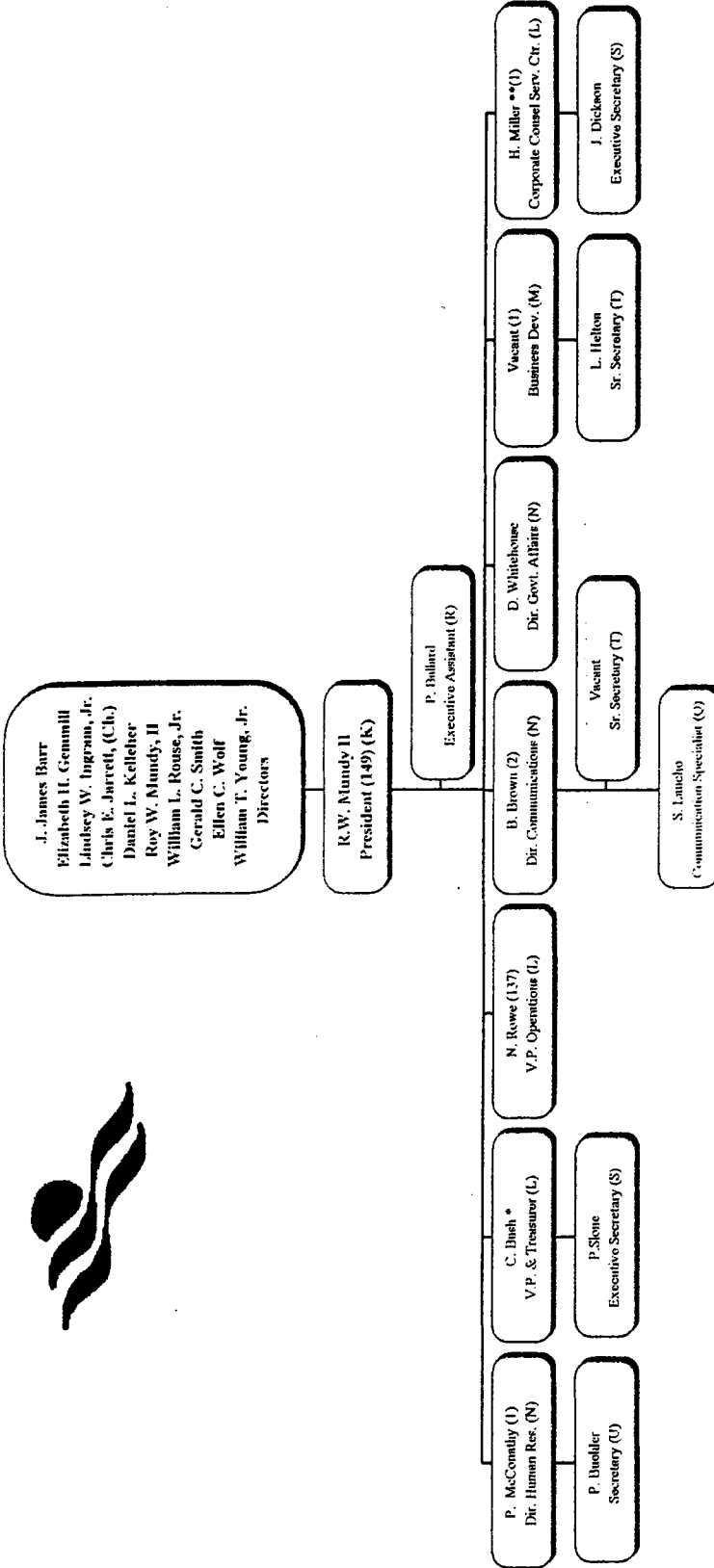
KAWC provides immediate response to all emergency situations. An appropriate response is dispatched from the Richmond Road office based on severity of need. KAWC commits to a response time of thirty minutes or less to Bluegrass Station with response being defined as a positive acknowledgement that KAWC is aware of the situation or problem and is taking steps to assist Bluegrass Station personnel or remedy the situation.

QUESTIONS OR CONCERNS (Reference Solicitation, Page 20 of 29)

KAWC looks forward to the opportunity to respond to any questions or concerns that you may have regarding this proposal. Please contact Bill Bunch as noted below for a prompt response.

Bill Bunch  
Business Development  
Kentucky-American Water Company  
2300 Richmond Road  
Lexington, KY 40502  
Office Phone: (859) 268-6318  
Cell Phone: (859) 749-3086  
E-Mail: [bbunch@kawc.com](mailto:bbunch@kawc.com)

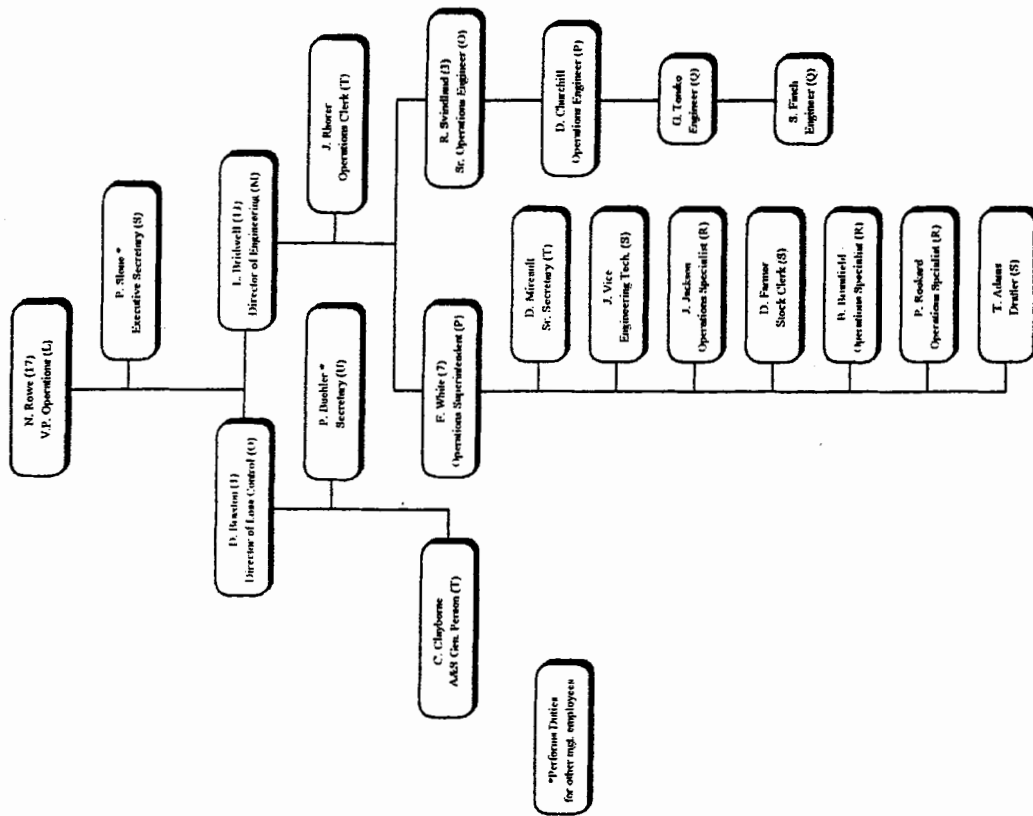
# Kentucky-American Water Company



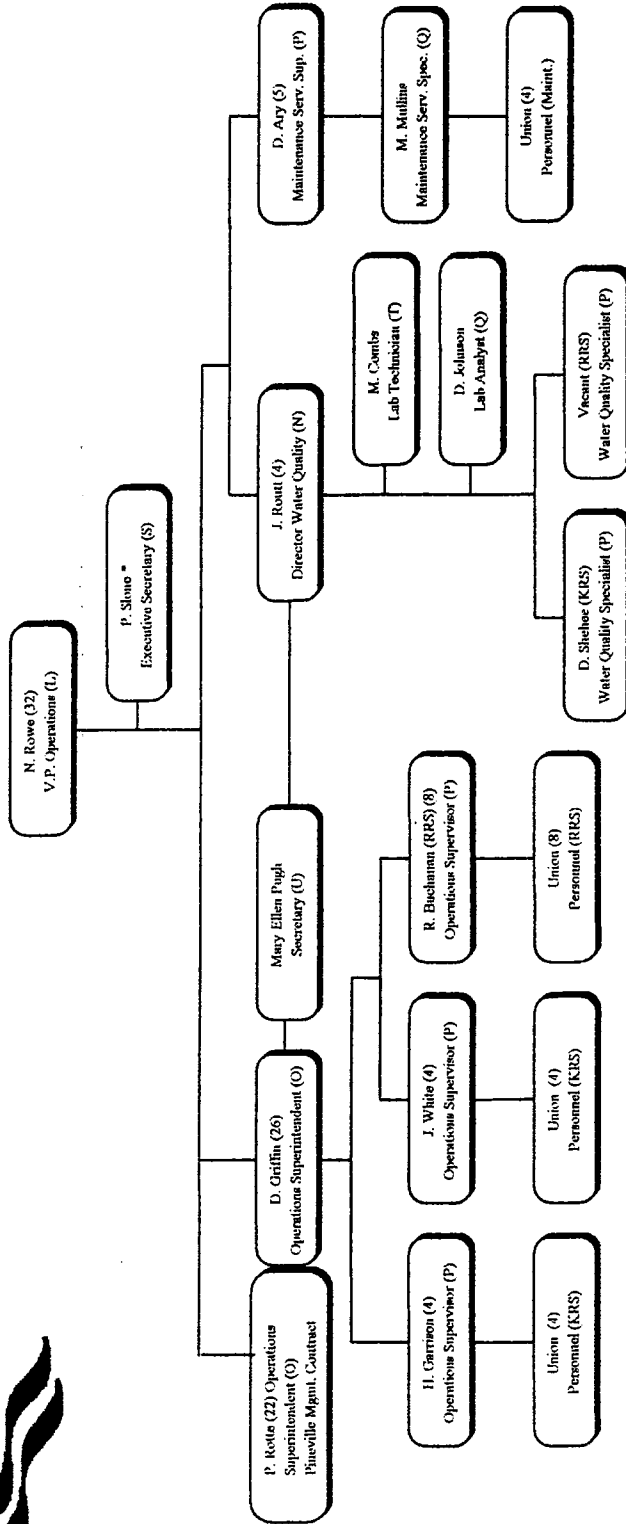
\* C. Bush, V.P. and Treasurer is on special assignment to the Call Center.  
\*\* Corporate Counsel not included in KAWC headcount.

# Kentucky-American Water Company

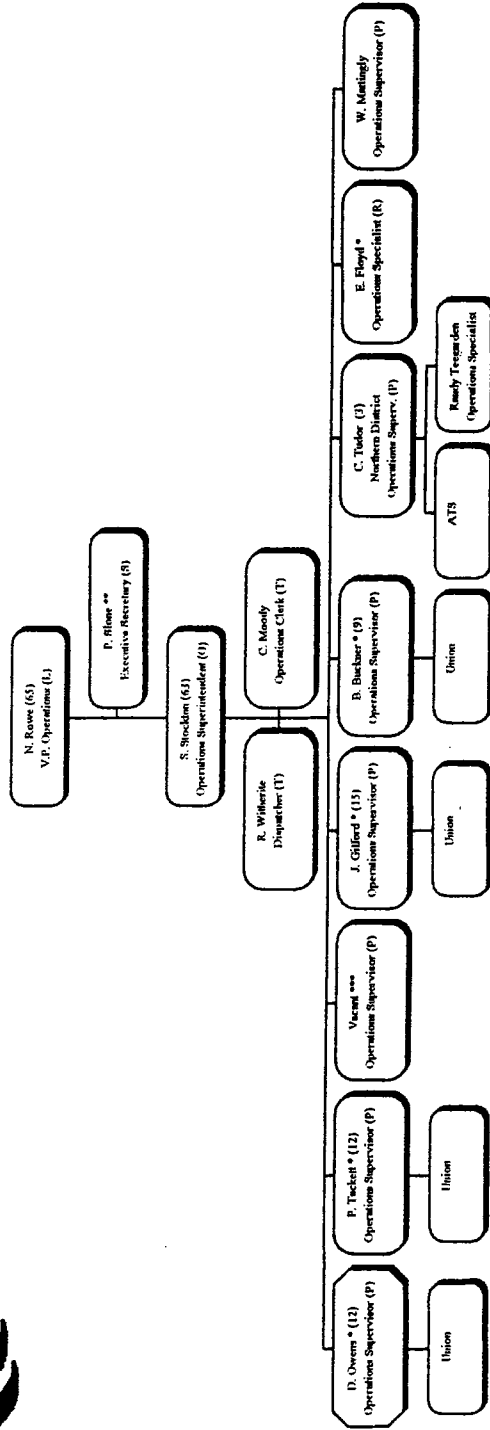
## Loss Control/Engineering



# Kentucky-American Water Company Production/Water Quality



\*Performs duties for other management employees.

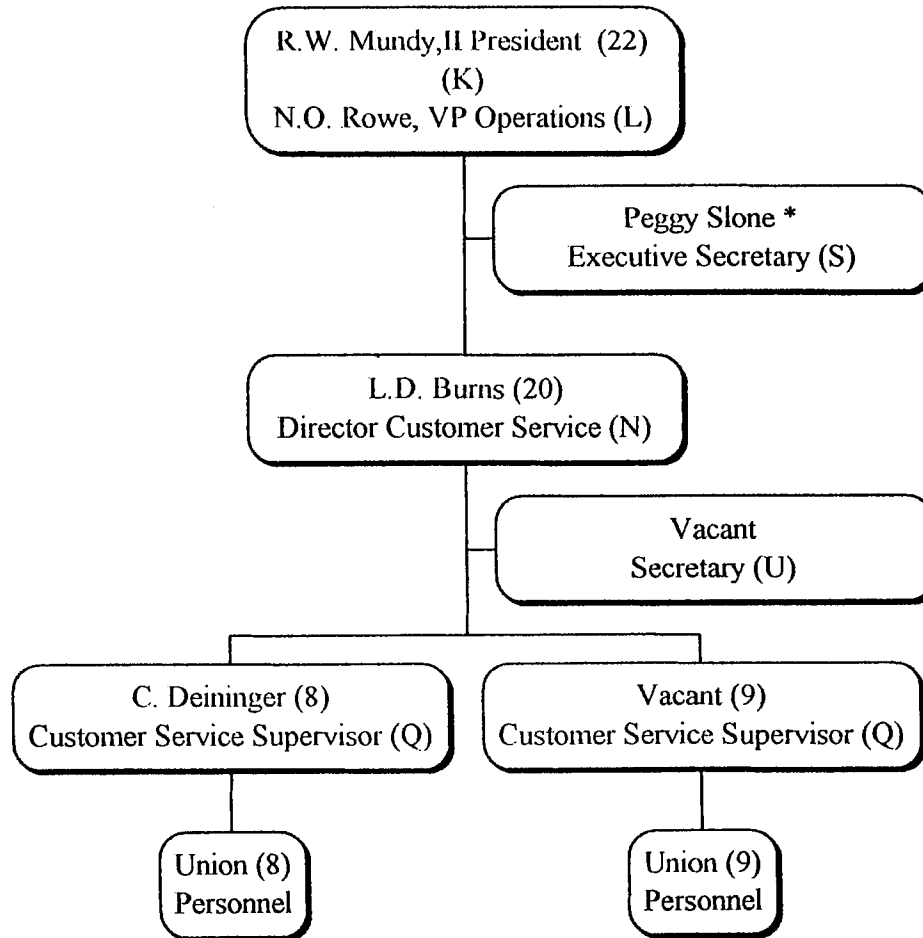


\* All Operations Supervisors interchange responsibilities between operations and maintenance of distribution system, meter reading, outside commercial service work, and new construction of pipeline and services installed by contractor.  
 \*\* Performs duties for other management employees.  
 \*\*\* This vacancy will be filled by our current Director Customer Service effective 01-01-03.



# Kentucky-American Water Company

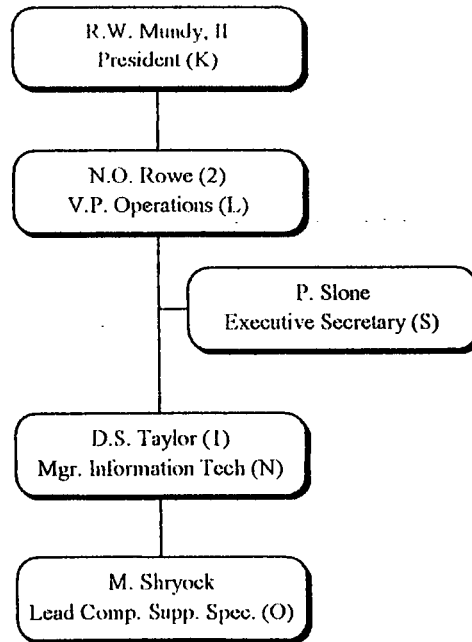
## Customer Service



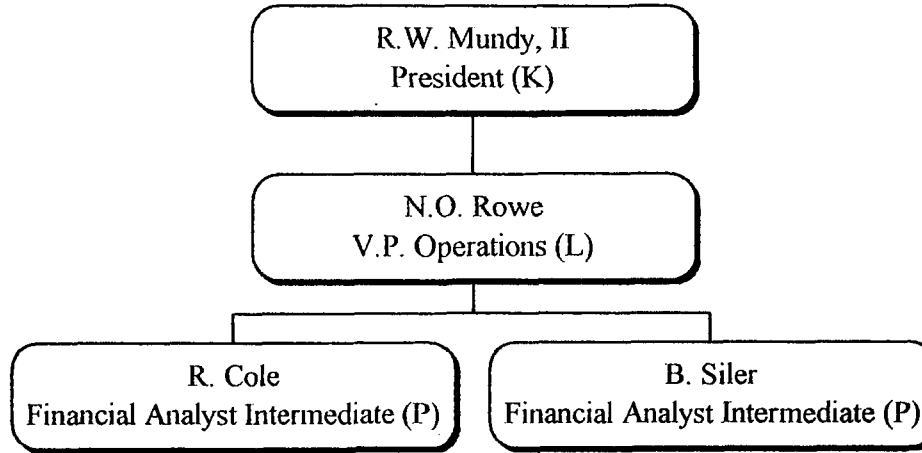
\* Performs Duties for  
Other Management Employees

# Kentucky-American Water Company

Information Systems



Kentucky-American Water Company  
Accounting



**KENTUCKY-AMERICAN  
WATER COMPANY**

**Financial Statements**

**December 31, 2001 and 2000**

## KENTUCKY-AMERICAN WATER COMPANY

An American Water System Company  
2300 Richmond Road  
Lexington, Kentucky 40502

### Board of Directors

J. James Barr, President & Chief Executive Officer  
American Water Works Company, Inc.

G. C. Smith, Director  
American Water Works Company, Inc.

Ellen C. Wolf, Vice President & Chief Financial Officer  
American Water Works Company, Inc.

Daniel L. Kelleher, Senior Vice President  
American Water Works Service Company, Inc.

Chris E. Jarrett, Chairman of the Board  
Kentucky-American Water Company

R. W. Mundy, II, President  
Kentucky-American Water Company

W. L. Rouse, Jr.  
Rouse Companies

W. T. Young, Jr.  
W. T. Young, Inc.

Elizabeth H. Gemmill, Esq., Managing Trustee  
Warwick Foundation

Lindsey W. Ingram, Jr., Esq.  
Stoll, Keenon and Park LLP

### Officers

President .....Roy W. Mundy II  
Vice President.....Nick O. Rowe  
Vice President, Treasurer and Comptroller .....Michael A. Miller  
Vice President and Secretary .....Herbert A. Miller, Jr.  
Assistant Treasurer .....Roy L. Ferrell, Sr.  
Assistant Treasurer .....James R. Hamilton  
Assistant Treasurer and Assistant Secretary .....Nancy M. Strickland  
Assistant Secretary .....Stephen N. Chambers  
Assistant Comptroller.....Thomas R. Bailey  
Assistant Comptroller.....Rachel S. Cole  
Assistant Comptroller.....Jonathan G. Easlick  
Assistant Comptroller.....Doneen S. Hobbs  
Assistant Comptroller.....Frank S. Impagliazzo  
Assistant Comptroller.....Benjamin J. Tartaglia, Jr.  
Assistant Comptroller.....Robin N. Quinn



PricewaterhouseCoopers LLP  
Two Commerce Square, Suite 1700  
2001 Market Street  
Philadelphia PA 19103-7042  
Telephone (267) 330 3000  
Facsimile (267) 330 3300

## Report of Independent Accountants

To the Board of Directors and Stockholder of  
Kentucky-American Water Company

In our opinion, the accompanying balance sheet and the related statement of income, of retained earnings, of cash flows, of capitalization and of common stockholder's equity present fairly, in all material respects, the financial position of Kentucky-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

February 1, 2002

## KENTUCKY-AMERICAN WATER COMPANY

Statement of Income  
(Dollars in thousands)

	Years Ended December 31,	
	2001	2000
<b>Operating revenues</b>	<u>\$ 41,478</u>	<u>\$ 38,720</u>
<b>Operating expenses</b>		
Operation and maintenance	17,800	15,467
Depreciation and amortization	5,981	5,184
General Taxes	<u>1,831</u>	<u>1,762</u>
	<u>25,612</u>	<u>22,413</u>
<b>Utility operating income</b>	15,866	16,307
<b>Other income (deductions)</b>		
Allowance for other funds used during construction	300	397
Miscellaneous other income	785	12
Miscellaneous other deductions	<u>-</u>	<u>(1,786)</u>
<b>Income before interest charges and income taxes</b>	<u>16,951</u>	<u>14,930</u>
<b>Interest charges</b>		
Interest on long-term debt	4,767	5,123
Interest on bank debt	486	538
Amortization of debt expense	79	42
Other interest	55	30
Allowance for borrowed funds used during construction	<u>(149)</u>	<u>(210)</u>
<b>Income before income taxes</b>	11,713	9,407
<b>Provision for income taxes</b>		
Federal income taxes	3,711	3,374
State income taxes	<u>992</u>	<u>374</u>
<b>Net income</b>	<u>\$ 7,010</u>	<u>\$ 5,659</u>

Consolidated Statement of Retained Earnings  
(Dollars in thousands)

<b>Retained earnings at beginning of year</b>	\$ 22,730	\$ 21,686
Net income	<u>7,010</u>	<u>5,659</u>
	<u>29,740</u>	<u>27,345</u>
<b>Dividends</b>		
Preferred stock	537	540
Common stock	<u>4,796</u>	<u>4,075</u>
	<u>5,333</u>	<u>4,615</u>
<b>Retained earnings at end of year</b>	<u>\$ 24,407</u>	<u>\$ 22,730</u>

The accompanying notes are an integral part of these financial statements.



## KENTUCKY-AMERICAN WATER COMPANY

Statement of Cash Flows  
(Dollars in thousands)

	Years Ended December 31,	
	<u>2001</u>	<u>2000</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 7,010	\$ 5,659
Adjustments		
Depreciation and amortization	5,981	5,184
Amortization, other	1,031	594
Provision for deferred income taxes	899	3,610
Amortization of deferred investment tax credits	(85)	(85)
Provision for losses on accounts receivable	200	201
Allowance for other funds used during construction	(300)	(397)
Pension expense in excess of funding	385	(495)
Deferred regulatory assets	(1,212)	(375)
Other, net	(3,071)	(603)
Changes in current assets and liabilities		
Accounts receivable	2	(548)
Unbilled revenues	(52)	(183)
Materials and supplies	70	93
Other current assets	167	479
Accounts payable	(795)	522
Taxes accrued	69	(98)
Interest accrued	165	(144)
Other current liabilities	1,352	(2,072)
Net cash provided by operating activities	<u>11,816</u>	<u>11,342</u>
<b>Cash flows from investing activities</b>		
Construction expenditures	(13,794)	(11,829)
Allowance for other funds used during construction	300	397
Cost of removal, net of salvage	289	313
Payment for acquisition of public service district assets	(1,686)	-
Net cash used in investing activities	<u>(14,891)</u>	<u>(11,119)</u>
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt issuance	15,500	-
Net borrowings (repayments) under line-of-credit agreement	3,837	15,114
Repayment of long-term debt	(13,000)	(12,000)
Customer advances and contributions, net of refunds	2,878	1,621
Redemption of preferred stock	(40)	(48)
Dividends paid	(5,333)	(4,615)
Debt issuance cost	(117)	-
Net cash provided by financing activities	<u>3,725</u>	<u>72</u>
Net increase (decrease) in cash and cash equivalents	650	295
Cash and cash equivalents at beginning of year	803	508
Cash and cash equivalents at end of year	<u>\$ 1,453</u>	<u>\$ 803</u>
Cash paid during the year for:		
Interest, net of capitalized amount	<u>\$ 5,144</u>	<u>\$ 5,835</u>
Income taxes	<u>\$ 3,240</u>	<u>\$ 704</u>

The accompanying notes are an integral part of these financial statements.

## KENTUCKY-AMERICAN WATER COMPANY

Statement of Capitalization  
(Dollars in thousands)

	Call Price Per Share	December 31,	
		2001	2000
Common stockholder's equity			
Common stock - no par value, authorized			
2,000,000 shares, issued and outstanding 1,567,391 shares			
in 2001 and 2000		\$ 36,569	36,569
Paid in capital		21	21
Retained earnings		24,407	22,730
		<u>60,997</u>	<u>59,320</u>
Preferred stocks - \$100 par value, authorized 25,000 shares			
Without mandatory redemption requirements			
Cumulative preferred stock			
5.75% series, 4,700 shares issued and outstanding	\$ 101.00	470	470
5.5% series, 5,000 shares issued and outstanding	\$ 100.50	500	500
5.% series, 6,000 shares issued and outstanding	\$ 101.00	600	600
		<u>1,570</u>	<u>1,570</u>
With mandatory redemption requirements			
Cumulative preferred stock			
7.9% series, 8,800 and 9,200 shares issued and outstanding			
in 2001 and 2000, respectively	\$ 100.00	880	920
8.47% series, 45,000 shares issued and outstanding	\$ 100.00	4,500	4,500
		<u>5,380</u>	<u>5,420</u>
Long-term debt			
General mortgage bonds			
8.36% series due 2001		-	13,000
7.21% series due 2002		13,000	13,000
6.79% series due 2005		5,500	5,500
6.96% series due 2023		7,000	7,000
7.15% series due 2027		7,500	7,500
6.99% series due 2028		9,000	9,000
Senior notes			
6.87% series due 2011		15,500	-
		<u>57,500</u>	<u>55,000</u>
Less: Current portion of long-term debt and capital lease obligation		<u>13,000</u>	<u>13,000</u>
Long-term debt net of current maturities		<u>44,500</u>	<u>42,000</u>
Total capitalization		<u>\$ 112,447</u>	<u>\$ 108,310</u>

The accompanying notes are an integral part of these financial statements.

## KENTUCKY-AMERICAN WATER COMPANY

Statement of Common Stockholder's Equity  
(Dollars in thousands)

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Stockholder's Equity</u>
	<u>Shares</u>	<u>Par Value</u>			
<b>Balance at December 31, 1999</b>	<u>1,567,391</u>	<u>\$ 36,569</u>	<u>\$ 21</u>	<u>\$ 21,686</u>	<u>\$ 58,276</u>
Net income				5,659	5,659
Sale of common stock					-
Dividends					
Preferred stock				(540)	(540)
Common stock, \$2.60 per share				(4,075)	(4,075)
<b>Balance at December 31, 2000</b>	<u>1,567,391</u>	<u>36,569</u>	<u>21</u>	<u>22,730</u>	<u>59,320</u>
Net income				7,010	7,010
Sale of common stock					-
Dividends					
Preferred stock				(537)	(537)
Common stock, \$3.06 per share				(4,796)	(4,796)
<b>Balance at December 31, 2001</b>	<u>1,567,391</u>	<u>\$ 36,569</u>	<u>\$ 21</u>	<u>\$ 24,407</u>	<u>\$ 60,997</u>

The accompanying notes are an integral part of these financial statements.

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements  
(Dollars in thousands)****Note 1 - Organization and Operation**

Kentucky-American Water Company (the Company) provides water service to approximately 103,000 customers and wastewater service to approximately 88 customers. These services are provided in 10 communities located in 10 counties in the state of Kentucky. As a public utility operating in Kentucky, the Company functions under rules and regulations prescribed by the Kentucky Public Service Commission (the Commission). The Company is a wholly-owned subsidiary of American Water Works Company, Inc. (American).

**Note 2 - Significant Accounting Policies***Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

*Regulation*

The Company has incurred various costs and received various credits, which have been reflected as regulatory assets and liabilities on its balance sheet. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS No. 71, regulated companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate-making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)***Property, Plant and Equipment*

Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. Repairs, maintenance and minor replacements of property are charged to current operations. The cost of property units retired in the ordinary course of business plus removal cost (net of salvage) is charged to accumulated depreciation. The cost of property, plant and equipment is depreciated using the straight-line method. The depreciation rates, based on the average balance of depreciable property, were 2.69% in 2001 and 2.61% in 2000.

In accordance with the Commission's regulations, depreciation on contributed facilities is charged to contributions in aid of construction. Such depreciation amounted to \$642 in 2001 and \$580 in 2000.

*Cash and Cash Equivalents*

Substantially all of the Company's cash is invested in interest bearing accounts. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2001 or 2000.

*Materials and Supplies*

Materials and supplies are stated at average cost.

*Regulatory and Long-Term Assets*

Deferred business services project expenses consist of reengineering and start-up activities for consolidated customer and shared administrative service centers that are being established by American. These costs are being deferred as it is expected that these costs will be recovered in the rates charged for utility service in the future.

The Company has deferred the cost of increased security measures that were implemented to secure facilities after the terrorist attacks on September 11, 2001. These costs are being deferred as it is expected that these costs will be recovered in the rates charged for utility service in the future.

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)**

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for rate-making purposes.

The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from the date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Preliminary survey and investigation charges generally relate to future construction projects. Management believes these costs will ultimately be recovered through rates.

Programmed maintenance costs are deferred and amortized to current operations on a straight-line basis over a period ranging between five and fifteen years, as authorized by the Commission in their determination of rates charged for service.

*Other Current Liabilities*

Other current liabilities at December 31, 2001 and 2000 include payables of \$929 and \$0, respectively, which represent checks issued but not presented to the bank for payment.

*Advances and Contributions in Aid of Construction*

The Company may receive advances and contributions to fund construction necessary to extend service to new areas. As determined by the Commission, advances for construction are refundable for limited periods of time as new customers begin to receive service. Amounts which are no longer refundable are reclassified to contributions in aid of construction.

Utility plant funded by advances and contributions is excluded from rate base and is not depreciated for rate-making purposes. Generally, advances and contributions received during the period of January 1, 1987 through June 12, 1996 have been included in taxable income and the related property is depreciable for tax purposes. As a result of a tax law change, advances and

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)**

contributions received subsequent to June 12, 1996 are excluded from taxable income and the related property is not depreciable for tax purposes.

On January 11, 2001 the Internal Revenue Service issued regulations that excluded lateral service lines from its definition of contributions in aid of construction that are not included in taxable income. These customer connection fees are defined as the cost of installing a connection or service line from the Company's main lines to the lines owned by the customer. The regulations were effective immediately, but the Company does not have customer connection fees.

*Recognition of Revenues*

Water service revenues for financial reporting purposes include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period.

*Income Taxes*

The Company, its parent and affiliates participate in a consolidated federal income tax return. Federal income tax expense for financial reporting purposes is provided on a separate return basis, except that the federal income tax rate applicable to the consolidated group is applied to separate company taxable income and the benefit of net operating losses, if any, is recognized currently.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are expected to reverse. Regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

*Allowance for Funds Used During Construction (AFUDC)*

AFUDC is a non-cash adjustment to income with a corresponding charge to utility plant, which represents the cost of borrowed funds and a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Commission.

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)***Environmental Costs*

Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2001 and 2000.

*Asset Impairment*

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, on a separate entity basis, may not be recoverable. If the sum of the future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss would be based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

*New Accounting Standards*

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 was issued by the Financial Accounting Standards Board (FASB) in June of 1998 and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This new accounting standard did not have any effect on the Company's financial position or results of operations. The Company's contracts that meet the definition of a derivative are for normal purchases and normal sales, are expected to result in a physical delivery, and are of quantities expected to be used or sold over a reasonable period in the normal course of business. The Company has no hedging activities.

In June of 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization



**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)**

provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

Also in June of 2001, the FASB issued Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset.

The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 143 will have on its results of operations and financial position.

In August of 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company is currently evaluating the effect that adoption of the provisions of SFAS 144 will have on its results of operations and financial position.

*Reclassifications*

Certain reclassifications have been made to conform previously reported data to the current presentation.

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)****Note 3 - Utility Plant**

The components of utility plant at December 31 are as follows:

	<u>2001</u>	<u>2000</u>
<b>Water plant</b>		
Sources of supply	\$ 6,926	\$ 6,914
Treatment and pumping	45,017	44,316
Transmission and distribution	125,485	117,374
Services, meters, and fire hydrants	47,024	42,843
General structures and equipment	16,167	15,430
Construction work in progress	8,954	5,309
	<u>249,573</u>	<u>232,186</u>
Less - accumulated depreciation	<u>48,781</u>	<u>42,762</u>
	<u>\$ 200,792</u>	<u>\$ 189,424</u>

**Note 4 - Preferred Stocks**

Preferred stock agreements have annual minimum sinking fund payments of \$40 in 2002 through 2006. The 7.9% series sinking fund payment of \$40 is at the option of the Company.

**Note 5 - Long-Term Debt**

Maturities of long-term debt will amount to \$13,000 in 2002, \$0 in 2003 and 2004, \$5,500 in 2005, and \$0 in 2006.

The general mortgage bond indentures, as supplemented, contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. There were no restrictions at December 31, 2001.

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as the general mortgage bonds are outstanding. The amount of bonds authorized is unlimited as long as long-term debt does not exceed 65% of capitalization. Long-term debt is secured by utility plant.

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)****Note 6 - Affiliate Borrowings**

During 2001, the Company maintained a line of credit through American Water Capital Corp. (AWCC), an affiliate (see Note 13: Related Party Transaction). AWCC is a special purpose corporation that serves as the primary funding vehicle for the Company. AWCC has a 364-day \$500 million revolving credit agreement with a group of 10 domestic and international banks. No compensating balances are required under the agreement. AWCC also issues commercial paper, and the revolving credit agreement also supports these borrowings.

At December 31, 2001 and 2000, there were \$24,668 and \$20,830 of short-term borrowings outstanding, respectively. The weighted average annual interest rate on these borrowings was 5.60% and 6.97% respectively. The unused line of credit at December 31, 2001 was \$0.

**Note 7 - Financings**

During 2001 and 2000 the Company completed the following financings:

<b>Date</b>	<b>Proceeds</b>	<b>Issue</b>
03/29/01	\$15,500	Senior Note, 6.87% due 2011

The senior note is unsecured and was issued to AWCC for the principal amount. AWCC provided the funding for this note by itself issuing \$140 million of senior notes to institutional investors at a price equal to the principal amount.

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)**  
**(Dollars in thousands)****Note 8 - General Taxes**

Components of general tax expense for the years presented in the statement of income are as follows:

	<u>2001</u>	<u>2000</u>
Gross receipts and franchise	\$ 74	\$ 80
Property and capital stock	1,313	1,239
Payroll	<u>444</u>	<u>443</u>
	<u>\$ 1,831</u>	<u>\$ 1,762</u>

**Note 9 - Income Taxes**

Components of income tax expense for the years presented in the statement of income are as follows:

	<u>2001</u>	<u>2000</u>
<b>State income taxes:</b>		
Current	\$ 782	\$ 7
Deferred		
Non-current	<u>210</u>	<u>789</u>
	<u>\$ 992</u>	<u>\$ 796</u>
<b>Federal income taxes:</b>		
Current	\$ 3,107	\$ 216
Deferred		
Non-current	689	2,821
Amortization of deferred investment tax credits	<u>(85)</u>	<u>(85)</u>
	<u>\$ 3,711</u>	<u>\$ 2,952</u>

**KENTUCKY-AMERICAN WATER COMPANY**

**Notes to Financial Statements (continued)**  
**(Dollars in thousands)**

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	<u>2001</u>	<u>2000</u>
Income tax at statutory rate of 35%	\$ 4,100	\$ 3,293
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	645	517
Flow through differences	72	58
Amortization of investment tax credits	(85)	(85)
Other, net	<u>(29)</u>	<u>(35)</u>
Actual income tax expense	<u>\$ 4,703</u>	<u>\$ 3,748</u>

The following table provides the components of the net deferred tax liability at December 31:

	<u>2001</u>	<u>2000</u>
<b>Deferred tax assets:</b>		
Advances and contributions	\$ 14,697	\$ 13,533
Deferred investment credits	697	731
Other	<u>806</u>	<u>648</u>
	<u>\$ 16,200</u>	<u>\$ 14,912</u>
<b>Deferred tax liabilities:</b>		
Utility plant, principally due to depreciation differences	\$ 39,052	\$ 36,791
Income taxes recoverable through rates	1,826	1,778
Other	<u>3,514</u>	<u>3,614</u>
	<u>44,392</u>	<u>42,183</u>
Net deferred tax liability	<u>\$ 28,192</u>	<u>\$ 27,271</u>

No valuation allowances were required on deferred tax assets at December 31, 2001 and 2000.

## KENTUCKY-AMERICAN WATER COMPANY

### Notes to Financial Statements (continued) (Dollars in thousands)

#### Note 10 - Rate Matters

As necessary, the Company applies to the Commission for changes in the rates charged for service. The rate increase request is based on the level of operating expenses and capital costs that are expected to be in effect when the rates become effective. The revenues requested are based on forecasted sales, operating expenses and investments for the test year selected by the Company.

The Company has received approval from the Commission to increase its rates for service as follows:

Effective Dates	Requested Annual Effect on Revenues	Estimated Annual Effect on Revenues Granted	Estimated Revenue Realized in 2001
05/09/01	\$4,685	\$2,568	\$2,368

On April 28, 2000, the Company filed a rate application with the Public Service Commission of the commonwealth of Kentucky ("Commission"), requesting \$5.034 million in additional annual revenues that was subsequently revised to \$4.685 million or 11.69%.

On December 12, 2000, the Commission issued an Order adjusting its original Order dated November 27, 2000. The adjusted order corrected errors in the initial ruling and reduced the allowed revenue increase from \$2.518 million to \$2.171 million to be effective for service rendered on and after November 27, 2000. Revenues realized in 2000 from this increase are estimated at \$.208 million.

On May 9, 2001, a final decision was issued which addressed appeals from reconsideration made by the Company and the State Attorney General. The final decision adjusted the authorized revenue increase from \$2.171 to \$2.568 million or 6.42% of total operating revenues.

#### *Proposed Asset Protection Charge Tariff*

On November 28, 2001, the Company filed an application with the Commission seeking an asset protection charge tariff. The charge is comprised of two elements: (1) the projected annual increase in operating expenses since the last general rate case for the protection of assets, and (2) the revenue recovery of the capital expenditures made for the protection of assets since the last general rate case.

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)****Note 11 - Employee Benefit Plans***Employees' Stock Ownership Plan*

The Company participates in an Employees' Stock Ownership Plan sponsored by American, which provides for beneficial ownership of American common stock by all associates who are not included in a bargaining unit. Each participating associate can elect to contribute an amount that does not exceed 2% of their wages. In addition to the associate's participation, the Company makes a contribution equivalent to ½% of each participant's qualified compensation, and matches 100% of the contribution by each participant. The Company expensed contributions of \$62 for 2001 and \$69 for 2000 that it made to the plan.

*Savings Plan for Employees*

The Company participates in a 401(k) Savings Plan for Employees sponsored by American. All Associates can make contributions that are invested at their direction in one or more funds including a fund consisting entirely of American common stock. The Company matches 50% of the first 4% of each associate's wages contributed to the plan. The company expensed matching contributions to the plan totaling \$85 for 2001 and \$83 for 2000. All of the Company's matching contributions are invested in the fund of American common stock.

**Note 12 - Postretirement Benefits***Pension Benefits*

The Company participates in a noncontributory defined benefit pension plan sponsored by American covering substantially all associates. Benefits under the plan are based on the associate's years of service and average annual compensation for those 60 consecutive months of employment, which yield the highest average. Pension cost of the Company is based on an allocation from American of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made no contribution to the plan in 2001 or 2000.

In addition, during 2000, the Company recognized a settlement gain of \$523 relating to the transfer of annuities from the plan to a separate third-party life insurance company. This settlement gain has been recognized as a decrease in deferred pension costs and accrued pension costs.

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)***Postretirement Benefits Other Than Pensions*

The Company participates in an American plan that provides certain life insurance benefits for retired associates and certain health care benefits for retired associates and their dependents. Substantially all associates may become eligible for these benefits if they reach retirement age while still working for the Company. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO. Associates who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplement plan. Costs of the Company are based on an allocation from American of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company made contributions to trust funds established for these postretirement benefits of \$561 in 2001 and \$499 in 2000. The Company's policy is to fund postretirement benefits costs accrued.

**Note 13 - Related Party Transactions**

American Water Works Service Company, Inc. (AWWS), an affiliate, provides certain management services to the Company (administration, accounting, data processing, engineering, etc.) and other operating water companies in the American Water Works System on an at-cost, not-for-profit basis in accordance with a management and service agreement. Purchases of such services by the Company were accounted for as follows:

	<u>2001</u>	<u>2000</u>
Included in operation and maintenance expense		
as a charge against income	\$ 1,535	\$ 1,185
Capitalized in various balance sheet accounts	<u>765</u>	<u>244</u>
	<u>\$ 2,300</u>	<u>\$ 1,429</u>

The Company provided workspace and information support system support for associates of the Southeast Region of AWWS. Charges for direct costs and indirect overhead costs associated with these associates are billed to AWWS on an at-cost, not for profit basis, which amounted to \$43 in 2001 and \$9 in 2000. At December 31, 2001, net amounts receivable from this affiliate for these services were \$4.



**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)**

Some of the Company's associates have performed services at cost to AWWWS relating to the establishment by American of consolidated customer and shared administrative service centers. The total amount of these services was \$217 in 2001 and \$115 in 2000. At December 31, 2001, net amounts receivable from this affiliate for these services were \$11.

The Company has three operating agreements with American Water Services, (AWS) Inc., an affiliate, for the lease of granular activated carbon (GAC) at one of the Company's water treatment plants. The agreements provide for AWS to regenerate the spent material and return it to the water treatment plant where it originated. Under the terms of the agreements, AWS will provide carbon for a period of thirty-six months beginning in March 1999, 2000, and 2001. The carbon is scheduled for replacement at thirty-six month intervals and is warranted to perform to specific standards during that period. The Company paid \$82 in 2001 and \$75 in 2000 to AWS under these agreements.

The Company maintains a line of credit through American Water Capital Corp. (AWCC), an affiliate. The company paid AWCC fees of \$47 in 2001 and \$39 in 2000, preliminary costs of long-term financings of \$117 in 2001 and \$23 in 2000 and interest on borrowings of \$486 in 2001 and \$443 in 2000.

**Note 14 - Fair Values of Financial Instruments**

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amount reported in the balance sheet for current assets and current liabilities approximates their fair value.

Preferred stocks with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stocks with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

**KENTUCKY-AMERICAN WATER COMPANY****Notes to Financial Statements (continued)  
(Dollars in thousands)**

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Preferred stock with mandatory redemption requirements	\$ 5,380	\$ 5,805	\$ 5,420	\$ 5,504
Long-term debt, including current maturities other than obligations under capital leases	57,500	55,961	55,000	52,135

**Note 15 - Operating Leases**

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were \$134 in 2001 and \$81 for 2000. The operating leases for their equipment expire over the next six years.

At December 31, 2001, the minimum annual future rental commitments under operating leases that have initial or remaining non-cancellable lease terms in excess of one year are \$61 in 2003, \$51 in 2004, \$50 in 2005, and \$34,000 in 2006.

**Note 16 - Commitments and Contingencies**

The Company's construction program for 2002 is estimated to cost approximately \$16,633. Commitments have been made in connection with certain projects included in this program.

The Company is routinely involved in legal actions. In the opinion of management, none of these matters will have a material adverse effect, if any, on the financial position or results of operations of the Company.

**KENTUCKY-AMERICAN  
WATER COMPANY**

**Other Information**



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## Report of Independent Accountants

To the Board of Directors and Stockholder of  
Kentucky-American Water Company

In our opinion, the accompanying Historical Review, except for that portion marked “unaudited”, on which we express no opinion, is fairly stated in all material respects in relation to the financial statements, taken as a whole, of Kentucky-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) for the years ended December 31, 2001 and 2000, which are covered by our reported dated February 1, 2002 presented in the first section of this document. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Historical Review is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked “unaudited” has been subjected to the auditing procedures applied in the audit of the basic financial statements.

*PricewaterhouseCoopers LLP*

February 1, 2002

## KENTUCKY-AMERICAN WATER COMPANY

## Historical Review

(Dollars in thousands, except per customer amounts)

For the years ended December 31,	2001	2000	1999	1998	1997	1991
Utility plant (excluding CWIP)	\$ 240,619	\$ 226,877	\$ 215,556	\$ 201,191	\$ 191,534	\$ 125,976
Accumulated depreciation	(48,781)	(42,762)	(38,597)	(34,972)	(30,895)	(15,913)
Net utility plant	\$ 191,838	\$ 184,115	\$ 176,959	\$ 166,219	\$ 160,639	\$ 110,063
Net plant per customer *	\$ 1,859	\$ 1,860	\$ 1,806	\$ 1,787	\$ 1,785	\$ 1,412
Construction expenditures	\$ 13,794	\$ 11,829	\$ 18,386	\$ 14,137	\$ 12,721	\$ 12,891
Total assets	\$ 223,551	\$ 210,299	\$ 203,600	\$ 189,954	\$ 178,479	\$ 128,602
Capitalization at year end						
Common equity	\$ 60,997	\$ 59,320	\$ 58,276	\$ 56,842	\$ 49,216	\$ 32,307
Preferred stock	6,950	6,990	7,038	7,086	7,134	3,422
Long-term debt - includes current portion	57,500	55,000	67,000	67,000	64,000	42,540
	\$ 125,447	\$ 121,310	\$ 132,314	\$ 130,928	\$ 120,350	\$ 78,269
Customers served						
Residential *	93	89	87	84	81	70
Commercial *	6	6	8	8	7	7
Industrial *	-	-	-	-	1	-
Fire service & Other *	2	2	1	1	1	1
	103	99	96	95	90	78
Water sales (gallons)						
Residential *	5,916	5,825	5,959	5,720	5,357	4,848
Commercial *	4,256	4,234	4,336	4,251	4,075	3,902
Industrial *	901	973	1,067	1,144	1,081	841
Public and other *	1,803	1,822	1,998	1,860	1,759	1,787
	12,876	12,854	13,360	12,975	12,272	11,378
Annual sales per customer (gallons) *	125	130	139	140	136	146
Operating revenues						
Water service						
Residential	\$ 21,512	\$ 19,577	\$ 19,534	\$ 18,866	\$ 17,437	\$ 12,642
Commercial	10,789	10,155	10,302	10,063	9,451	7,671
Industrial	1,587	1,583	1,728	1,844	1,704	1,195
Fire service	2,567	2,519	2,446	2,366	2,281	1,724
Public and other	3,980	3,739	4,050	3,057	2,945	2,821
Wastewater service	31	31	28	29	-	-
Other water revenues	1,012	1,116	1,016	1,513	1,431	163
	\$ 41,478	\$ 38,720	\$ 39,104	\$ 37,744	\$ 35,249	\$ 26,216
Annual revenue per customer *	\$ 402	\$ 391	\$ 407	\$ 406	\$ 392	\$ 336
Net income	\$ 7,010	\$ 5,659	\$ 7,134	\$ 6,856	\$ 6,047	\$ 4,411
Coverage ratios						
On long-term debt interest before income taxes *	3.4	2.9	3.2	3.2	3.0	2.7
On total interest before income taxes *	3.0	2.6	3.1	3.1	2.9	2.3
On total fixed charges including preferred dividends						
Before income taxes *	2.7	2.3	2.8	2.8	2.6	2.2
After income taxes *	2.0	1.7	2.0	2.0	1.9	1.7

\* Unaudited

# American Water Works Company, Inc.

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**2001 Annual Report**

# Fellow Shareholders:

The year 2001 was a study in contrasts at American Water Works. The Company's ability to consistently deliver shareholder value was enhanced by the decision of the Board of Directors in September to accept an offer from RWE AG to purchase the Company's common stock for \$46 a share. The result is a future filled with great promise as the Company anticipates joining RWE AG and becoming part of the North and South American Region of the RWE Thames Water Division, the world's third largest water operation.

Our rigorous pursuit of growth by consolidation continued as we extended our reach domestically in the southeast and northwest, and for the first time beyond US boundaries into three Canadian provinces — growing our water solutions business four-fold in the process.

We also continued our focus on creating efficiencies while improving service through a system-wide Customer Call Center, and through the centralization of common financial functions into one Shared Services Center.

Yet against this backdrop of progress, we were faced with several disappointments and challenges during 2001. Earnings were essentially flat, impacted by increased expenses and dropping sales. Water use by industrial customers was down 5% for the year and 8% in the fourth quarter alone. We have also had to adapt to a new way of operating, where our people and processes must be prepared to defend our facilities against threats few of us would have believed possible just a few months ago.

However, we are pleased to report that there was one constant within the contrasts of the year: The 6,400 men and women of American Water Works remained committed to our goal of becoming the water resource manager of choice.

## Results

Revenues increased by \$88 million to \$1.44 billion, largely through timely rate increases, the expansion of our water solutions business, and the addition of 40,000 new utility customers. Fully diluted earnings per share for the year were \$1.61, including a 10-cent charge related to the expenses associated with the Company's acquisition by RWE AG. This charge was offset by a three-cent gain from the sale of assets to the City of Salisbury, Massachusetts. Net income to common stock including these items totaled \$161 million for the year, compared to \$157 million in 2000. Without these events, net income to common was \$168 million, resulting in earnings per share of \$1.69, up 5% from \$1.61 in 2000.

Water sales during 2001 were more impacted by the economy than the weather. Weak economic conditions caused several of our large industrial customers to file for bankruptcy protection, while others curtailed operations. As a result, water sales in this sector were down by 2.2 billion gallons during the year.

## Operational Consolidation

Our focus on long-term cost containment continued during 2001 with the consolidation of treasury, cash management and accounting functions. By the end of the year, we had centralized all of the utility financial operations across the system into one Shared Services Center in Mt. Laurel, NJ. We also opened our new state-of-the-art Customer Call Center in Alton, IL, and began providing round-the-clock support to the more than 15 million people we now serve.

## Industry Consolidation

In 2001, we purchased the water and wastewater assets of the City of Coatesville PA, for \$48 million. This system serves 8,600 water customers and 6,500 wastewater customers, making this purchase of municipally owned assets the largest privatization project of its kind in the nation. The transaction is expected to generate approximately \$6.5 million in annual revenue for the Company, but the benefits don't end there. The City of Coatesville deposited the proceeds of the sale into a reserve fund and that fund is generating an annual return of \$2.7 million, which the City is using to reduce taxes and support community programs. Nine other small acquisitions were completed by our utility subsidiaries during the year, representing another \$1 million in annual revenues for the Company.

In early January 2002, the Company completed the six-state acquisition of the water and wastewater assets of Citizens Communications for \$979 million. This transaction, which is expected to generate \$140 million a year in additional revenues, increases the Company's service base by more than 300,000 water and wastewater customers, and strengthens our team of associates by an additional 300 new members.

Consistent with the Company's long-standing strategy to take steps that benefit customers and shareholders while advancing industry consolidation, we began the process to divest five subsidiaries in New England. In August, the Company agreed to sell the American Water Works operations in Connecticut, Massachusetts, upstate New York, and New Hampshire to the Kelda Group plc and its Aquarion Company subsidiary. The transaction,