

Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (606)269-2386 • Fax (606)268-6327

David Baker
Director - Business Development

February 29, 2000

Mr. Carl Stitch, Administrator
Elk Lake Water Company
445 Elk Lake Resort Road
Owenton, Ky 40359

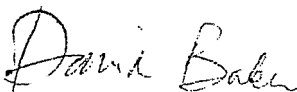
Dear Mr. Stitch:

Thanks to you and your staff for your assistance as we have worked together to prepare the enclosed conceptual proposal to purchase the water distribution system of Elk Lake Water Company. We have enjoyed our association with Elk Lake and appreciate your consideration.

This conceptual proposal outlines a method for KAWC to purchase the water distribution system assets of ELWC and provide water services to your customers under Public Service Commission Jurisdiction. American Water Works Co., Inc. is Kentucky's and the nation's largest investor-owned water utility company, operating in 23 states. In Kentucky we lead our industry, serving over 95,000 customers in 7 counties. Should you elect to pursue this partnership option, you can be assured that your customers will receive state of the art service and water quality, and be assured of the greatest economies of scale that the industry can offer. Your customers will be served from the KAWC Owenton Facilities.

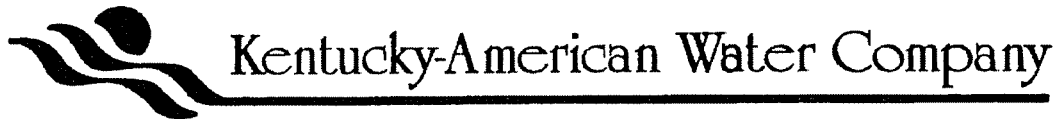
Thanks again for your cooperation and assistance.

Sincerely,



David Baker

C: Roy W. Mundy, II, President



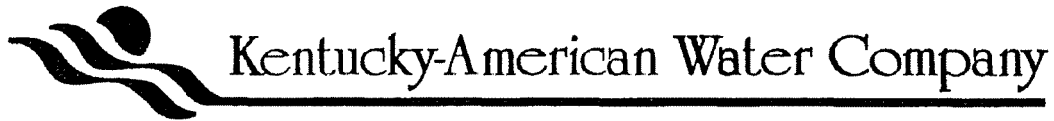
Discussion of Potential

Business Partnerships

Elk Lake Water Co., Inc.

Kentucky-American Water Company

February, 2000



Discussion of Potential Business Partnerships:

1. Background Information – Kentucky-American and American Water Works Co., Inc.
2. Partnership Option – Water System Sale

This conceptual proposal is presented to Elk Lake Water Company for its consideration of possible business partnerships with Kentucky-American Water Company. Should Elk Lake Water Co. decide to pursue this option, Kentucky-American reserves the right to further negotiate this proposal. All proposals and subsequent offers and closings are subject to all due diligence and approvals by all legal authorities including but not limited to the Public Service Commission and the Kentucky-American board of directors. Additionally, this proposal and/or any subsequent contracts that both parties enter into will be subject to the successful closing of the KAWC acquisition of the Tri-Village Water District.

All costs are estimates based on existing KAWC information. Final cost figures are subject to further inspection and other due diligence. Statements made herein are for initial discussion purposes only. Such statements should not be relied upon by any person or entity at this time until after complete due diligence by KAWC. No relationship between Elk Lake Water Co. (ELWC) and KAWC is created by the statements herein. This is not an offer and should not be relied upon as such. If ELWC indicates that it intends to participate in the partnership option discussed, KAWC will prepare and submit for approval the appropriate offers, contracts or other documents.



I. Background Information, Kentucky-American and American Water Works Co., Inc.

Incorporated in Kentucky in 1882 under the name of Lexington Hydraulic and Manufacturing Corporation, the company's name was changed to Lexington Water Company in 1922 and to **Kentucky-American Water Company** in 1973. KAWC is a regional water supplier which withdraws, treats and distributes water in Fayette, Scott, Clark, Bourbon, Harrison, Jessamine and **Woodford** Counties. In addition, KAWC is a bulk supplier to the Cities of Georgetown, North Middletown, Midway, Versailles, Jessamine South Elkhorn Water District and Spears Water Company. KAWC is Kentucky's largest investor-owned water utility. Traded on the NYSE, AWW is the nation's largest investor owned water utility.

Revenues: KAWC – 1998 annual revenues: \$36.9 million
AWW: \$1 Billion

Taxes Paid: Federal, State Income Taxes: \$4,526,093
General Taxes: \$1,577,515

Number of Employees: KAWC: 155
AWW: 4000 +

Statistics: 93,391 Customers served
1998 1364 miles of main
over 157,000 water quality tests run annually
aver 16 million gallons of storage

AWW Serves over 7,000,000 in 22 states



Kentucky-American Water Company

KAWC

Management:

Roy W. Mundy, II, President
Coleman Bush, Vice-president and Treasurer
Nick Rowe, Vice-president – Operations
Herb Miller, Secretary – Corporate Counsel
Edward J. Grubb – Comptroller
David Baker – Director – Business Development
Barbara Brown – Director – Communications
Donna Braxton – Director - Loss Control
Linda Bridwell – Director – Engineering
Larry Burns – Director – Customer Service
Phil McConathy – Director – Employee Relations
Jan Routt – Director – Water Quality
David Whitehouse – Director – Gov. Relations

Advantages of Business Partnership with KAWC/AWW:

KAWC and AWW have the highest level of Expertise:

- In Kentucky, KAWC has a staff of 5 chemists/biologists and 2 certified labs to insure the highest water quality. Our national laboratory facility in Belleville, Illinois and our water quality team assist in developing the latest industry technologies and regulatory measures
- We have 4 professional engineers on staff in Kentucky
- We have a complete rate, financial, accounting and management staff in Kentucky



- We have over 100 years experience in Kentucky and well established relationships with regulatory agencies
- We have the ability to finance projects internally without the delay and uncertainty of federal funding, and the resources of a corporation with over \$1 billion in revenues
- We have the experience of facilitating over 75 water and wastewater system acquisitions within the American System over the past 10 years
- Kentucky American employees live and are actively involved in the Communities in which they work
- We are helping to lead the process in regionalization/consolidation within Kentucky, serving on the Governor's Water Resources Development Commission
- Kentucky-American is an active and responsible corporate citizen, supporting projects within the communities we serve.
- Rate Regulation under the Public Service Commission (for acquisition options only) – PSC controls rates and the KAWC rate of return



2. Partnership Option – Systems Sale

AWW has successfully facilitated over 75 value added water system acquisition/partnerships over the past 10 years ranging in size from 50 to 500,000 customers. Kentucky-American proposes to purchase the water distribution system, with the following details: (all figures estimated from the 12131198 ELWC PSC Report – subject to further update, negotiation and verification by KAWC and all due diligence and approvals)

**Estimated System
Purchase Price** **\$115,427**
(Book Value less AID,
Contributed Capital=
PSC Allowable price,
plus \$95,777 premium)

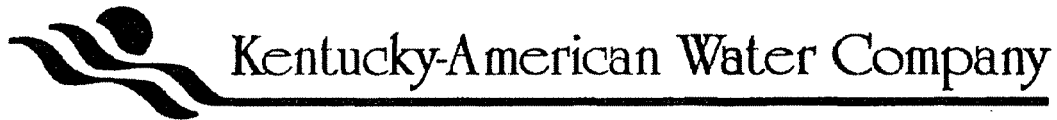
**Est. Proceeds/Residual to
ELWC, after**
Payoff of debt and: **\$ 39,247**
Collection of receivables

- KAWC could purchase the assets of the distribution system and completely own and manage in the future

The current rates would remain in place initially

All rates and service will be regulated by the Public Service Commission

- Customer service will be maintained at the highest possible level

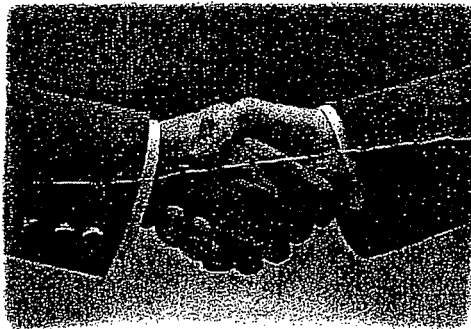


- State of the Art procedures for water quality, distribution and production will be used under the AWW Company Standards
- A representative from Elk Lake Water Co. may serve on the Owen County Advisory Council, established to provide input into system issues to KAWC
- Preliminary estimates indicate that the existing Tri-Village system connection will serve as the supply
- Proposal includes approximately \$10,000 for tank improvements (altitude valve vault to control the draw/fill dynamics of the existing tank) at KAWC expense
- Proposal assumes that KAWC will pay ELWC not take ownership of the water treatment plant, buildings, land or equipment; all equipment, lines, tanks, hydrants, etc. associated with the distribution and storage systems will be purchased.
- An environmental assessment of the facilities may need to be conducted
- 24 hour emergency customer response will be provided
- Customers billed monthly, with the convenience of paying bill at the Owenton Office, by mail or by automatic bank draft
- Customers will be served by Kentucky-American's Owen County Staff



Kentucky-American Water Company

- Employees of Elk Lake will be offered employment at Tri-Village Water District (dependent upon closing and qualifications) with excellent benefits, including medical/dental insurance, 401k, pension, vacations, etc.



**Proposal For Water System
Asset Purchase**

Elk Lake Water Co., Inc.

Kentucky-American Water Company

May, 2000



Proposal for Asset Purchase:

1. Background Information – Kentucky-American and American Water Works Co., Inc.
2. Partnership Option – Water System Sale
3. Purchase Contingencies
4. Procedures to Close Transaction

This proposal is presented to Elk Lake Water Company for its consideration of possible business partnerships with Kentucky-American Water Company. Should Elk Lake Water Co. decide to pursue this proposal, Kentucky-American reserves the right to further negotiate to reach a contract for purchase of certain water system assets. All proposals and subsequent offers and closings are subject to all due diligence and approvals by all legal authorities including but not limited to the Public Service Commission and the Kentucky-American board of directors. Additionally, this proposal **and/or** any subsequent contracts that both parties enter into will be subject to the successful closing of the KAWC acquisition of the Tri-Village Water District.

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- We have 4 professional engineers on staff in Kentucky
- We have a complete rate, financial, accounting and management staff in Kentucky



Kentucky-American Water Company

- We have over 100 years experience in Kentucky, and well established relationships with regulatory agencies
- We have the ability to finance projects internally without the delay and uncertainty of federal funding, and the resources of a corporation with over \$1 billion in revenues
- We have the experience of facilitating over 75 water and wastewater system acquisitions within the American System over the past 10 years
- Kentucky American employees live and are actively involved in the Communities in which they work
- We are helping to lead the process in regionalization/consolidation within Kentucky, serving on the Governor's Water Resources Development Commission
- Kentucky-American is an active and responsible corporate citizen, supporting projects within the communities we serve.
- Rate Regulation under the Public Service Commission (for acquisition options only) – PSC controls rates and the KAWC rate of return



2. Proposal to Purchase Water System Assets

AWW has successfully facilitated over 75 value added water system acquisition/partnerships over the past 10 years ranging in size from 50 to 500,000 customers. Kentucky-American proposes to purchase the water distribution system, excluding the plant, cash in bank, accounts receivables, water resources and the majority of the land, with the following details: (all figures estimated from the 12/31/99 ELWC PSC Report – subject to further update, negotiation and verification by KAWC and all due diligence and approvals)

Proposed Purchase Price:

Book Value of Water Distribution, Storage systems, related land And easements:	\$379,075
Less: Accumulated Depreciation	(177,103)
Plant and Land, exc. \$5000	(74,843)
Contributions in Aid of Const.	<u>(102,719)</u>
 PSC Purchase Price Indicated :	 \$ 24,410
Plus: Purchase Price Premium	64,674
 Total Purchase Price Offered	 \$ 89,084
Less: Debt Payoff at Closing	(65,603)
Plus: Current Assets	<u>16,519</u>
Estimated Remaining Funds:	\$ 40,000**

** KAWC will not purchase nor collect Elk Lake's AIR, but will remit any funds belonging to Elk Lake after closing that are submitted with KAWC payments



Kentucky-American Water Company

- KAWC is offering to purchase certain assets of the distribution system and completely own and manage in the future
- Absent unexpected events, the current Rates would remain in place initially
- All rates and service will be regulated by the Public Service Commission
- Customer service will be maintained at the highest possible level
- State of the Art procedures for water quality, distribution, production will be used under the AWW Company Standards
- A representative from Elk Lake Water Co. may serve on the Owen County Advisory Council, established to provide input into system issues to KAWC
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- Proposal assumes that KAWC will not take ownership of the water treatment plant and related buildings, land and equipment. However, all equipment, lines, tanks, hydrants, etc. associated with the distribution and storage systems will be purchased.
- An environmental assessment of the facilities may need to be conducted
- Elk Lake will be responsible for collecting all Elk Lake AIR



Kentucky-American Water Company

- 24 hour emergency customer response system will be provided
- customers billed monthly with the convenience of paying bill at the Owenton Office or by mail, or by automatic bank draft
- customers will be served by Kentucky-American's Owen County Staff
- Employee of Elk Lake will be offered employment (dependent upon closing and qualifications) with competitive wages and excellent benefits, including medical/dental insurance, 401k, pension, vacations, etc.



KAWC Contingencies Relating to Purchase of Elk Lake Water Company:

- Verification and approval of financial, water sales and all other information
- Updating and KAWC approval of this proposal at the time of closing to reflect changes in financial position
- Public Service Commission Approval
- Approval by KAWC's Board of Directors
- Closure of the Tri-Village Water District Asset Purchase
- This proposal assumes that KAWC will not be responsible for repayment of any grant monies, other contributed capital and liabilities. Transfer of assets and rights to future revenue streams (except AIR) must be unencumbered
- All other appropriate due diligence regarding the quality of assets to be purchased, business and legal risks, accuracy and approval of financial condition, execution of an asset purchase agreement, etc., all of which are subject to KAWC approval
- No material changes in the financial condition and in the assets to be purchased or obligations to be incurred without KAWC approval
- Recommendation and support of the KAWC asset purchase agreement, and all legal, regulatory and other requirements necessary to effect this transaction
- KAWC approval of any Environmental Assessment Conducted



Procedural Steps to Closure:

1. Elk Lake Board Votes to negotiate with the intent to reach a final purchase agreement
2. KAWC begins detailed due diligence
3. KAWC drafts agreement, presents to Elk Lake for execution
4. KAWC assists Elk Lake in member education, public information sessions
5. Agreement submitted to KAWC Board for approval
6. Agreement then submitted to PSC for approval
7. Closure of Tri-Village Asset Purchase
8. Closure of contract following final due diligence



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Director – Business Development

February 29, 2000

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445 Elk Lake Resort Road
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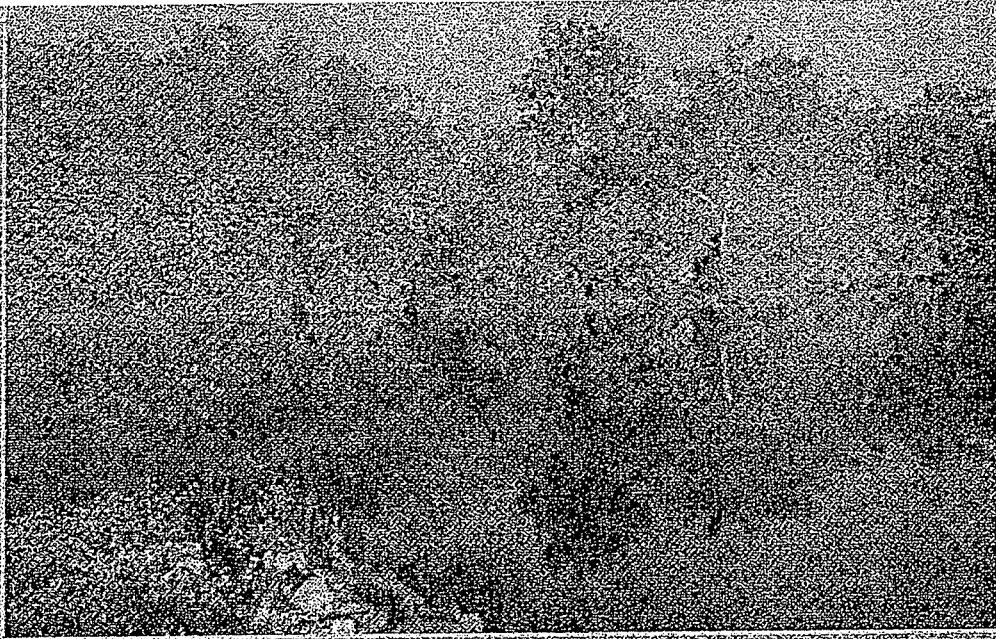
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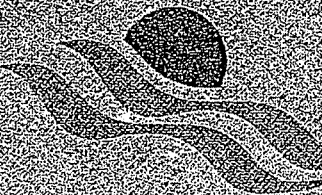
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David Baker

C: Roy W. Mundy, II, President



Water for Life



Kentucky-American Water Company

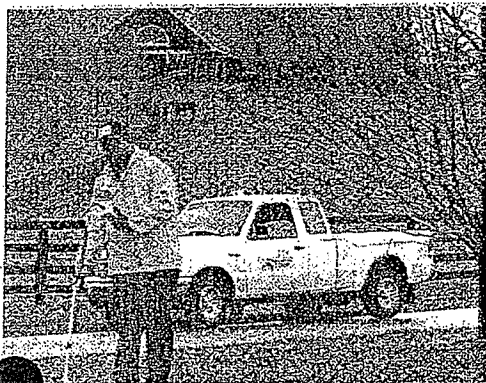
Kentucky-American Water

WHO IS KENTUCKY-AMERICAN WATER COMPANY?

Kentucky-American Water Company, based in Lexington, provides water service to approximately 280,000 people. Our service area includes most of Fayette County (including Lexington), the eastern half of Scott County (including Sadieville and the Toyota Motor Manufacturing plant), and portions of Bourbon, Clark, Harrison, Jessamine, and Woodford counties. Kentucky-American provides water for drinking, cooking, cleaning, and performing numerous other daily activities. Kentucky-American also provides water for businesses and manufacturers as well as for fire protection. In fact, the company maintains more than 5,700 fire hydrants for the city of Lexington.

Kentucky-American Water Company was incorporated under the laws of the Commonwealth of Kentucky in 1882 as Lexington Hydraulic and Manufacturing Company. The company's name was changed to the Lexington Water Company in 1922, and to Kentucky-American Water Company in 1973.

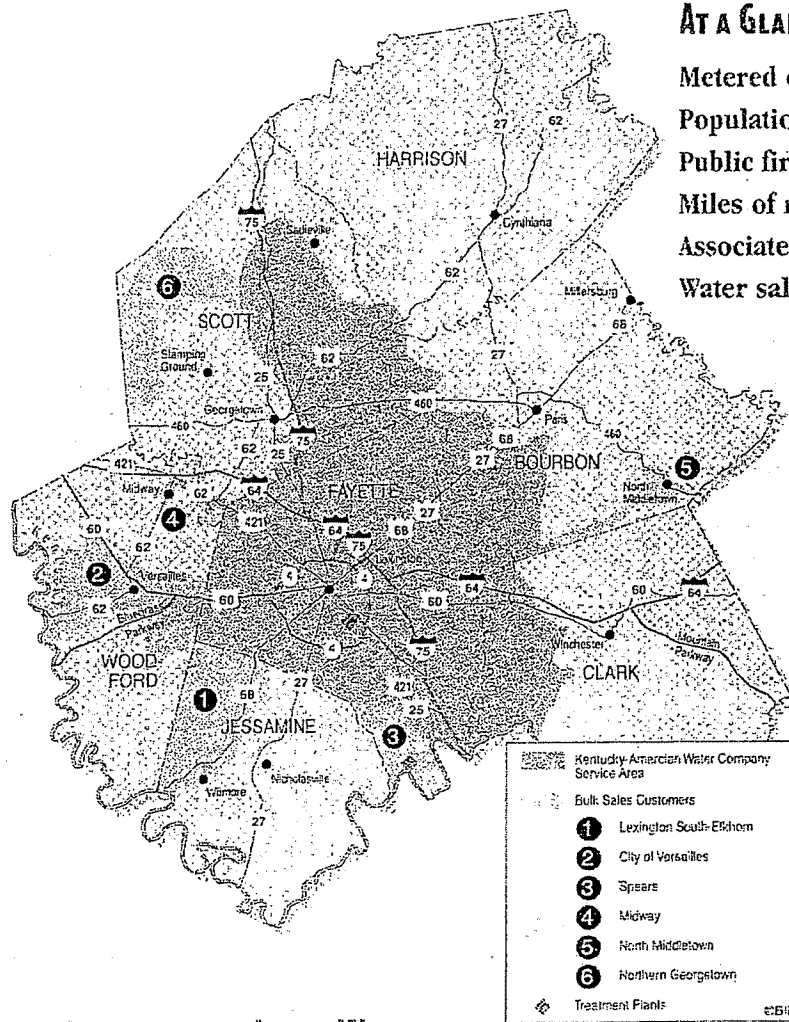
Kentucky-American Water Company is a wholly-owned subsidiary of American Water Works Company, Inc., the nation's largest and most geographically diversified investor-owned water system. American Water Works Company's 23 utility subsidiaries serve more than seven million people in over 870 communities in 22 states. American Water System stock is traded under the symbol "AWK" on the New York Stock Exchange.



© H. Mark Weidman

AT A GLANCE

- Metered customers
- Population served . . .
- Public fire hydrants . . .
- Miles of main
- Associates
- Water sales (1997) . . .



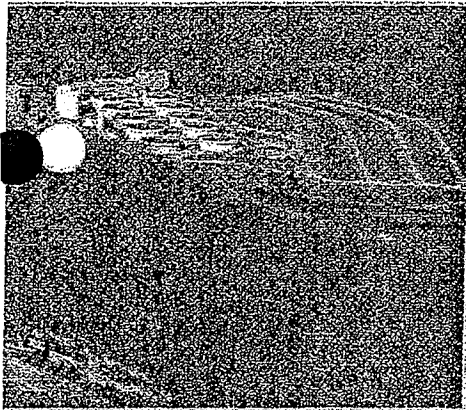
THE BENEFITS OF A LARGE WATER SYSTEM

Kentucky-American Water Company and its customers benefit from its affiliation with American Water Works Company, Inc. The American system's purchasing power translates into lower prices for pipes, valves, hydrants, meters, brass goods, treatment chemicals, liability and workers compensation insurance, and group health insurance. Its centralized quality control and research laboratory in Belleville, Illinois, which is totally dedicated to drinking water analysis, provides valuable information for all subsidiaries of the American system. Members of the American Water Works family also benefit from valuable, system-wide educational programs coordinated at the company's corporate center in Voorhees, New Jersey.



Company - Water For Life

.....	89,669
.....	280,000
.....	5,768
.....	1,365
.....	152
.....	12.3 billion gallons



SOURCE OF WATER SUPPLY

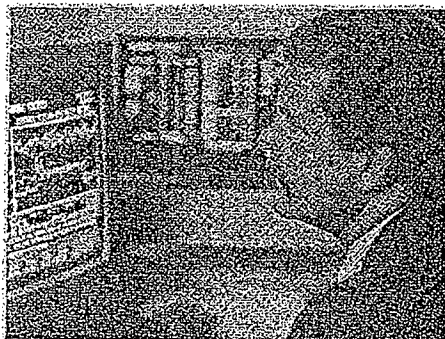
Lexington is one of the largest cities in the United States located away from a major source of water. The majority of its water supply, 80% in fact, is withdrawn 12 miles from the city at the Kentucky River. The remaining supply comes from Jacobson Reservoir. Kentucky-American customers use an average of approximately 40 million gallons of water daily. The company treats the water supply at its two treatment plants, one of which is located at the Kentucky River and the other behind the company's headquarters on Richmond Road. These plants are capable of treating up to 65 million gallons of water per day.

PLANNING FOR THE FUTURE

Kentucky-American Water Company is working today to make sure that quality water service continues to be available for Central Kentucky's future generations. The city of Lexington and many surrounding communities have experienced significant growth during the past 20 years, and continue to grow. In fact, the U.S. Census Bureau projects that Lexington may be Kentucky's largest city by the year 2000, a distinction that has been held by the city of Louisville for more than 150 years.

To ensure that an ample water supply is available for residential and commercial use as well as for adequate fire protection in the community, Kentucky-American has proposed to augment the community's water supply through the Bluegrass Water Project, a \$48.5 million dollar endeavor that involves constructing a 52.5-mile pipeline. The pipeline will link Kentucky-American customers to an auxiliary treated water source from the Ohio River. The Bluegrass Water Project is the most cost-effective, environmentally safe, and feasible solution to the water supply deficit that the ever-growing Central Kentucky region faces. Pending approval by Kentucky's Public Service Commission, this pipeline could be operational by 2001.

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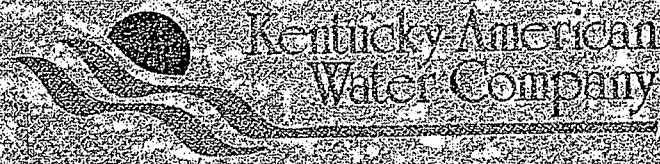


A QUALITY PRODUCT

Kentucky-American Water Company customers can be confident that they receive quality water. The company's in-house team of water quality experts oversees the water treatment process and manages Kentucky-American's water quality research programs. Kentucky-American stays abreast of proposed state and federal drinking water regulations to ensure that the company's water systems comply with current standards. In fact, Kentucky-American goes beyond what is required and routinely tests its water for the presence of regulated as well as non-regulated contaminants.

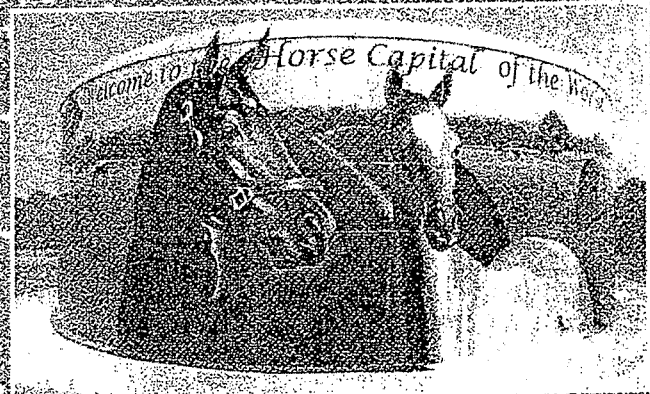
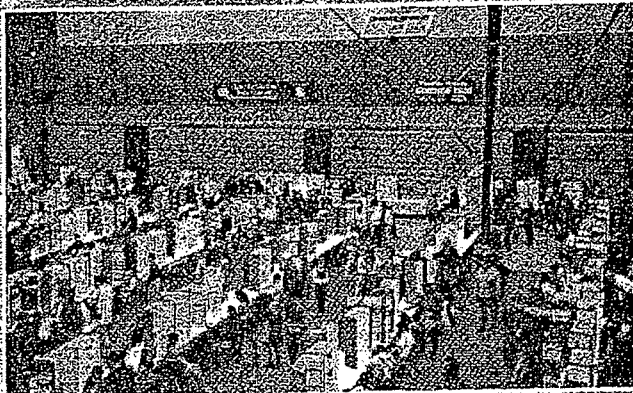
Kentucky-American Water Company is a voluntary member of the U.S. Environmental Protection Agency's Partnership for Safe Water program, which was formed in 1995 to help water suppliers improve water treatment and water quality. In 1998 the company received two Director's Awards for its distinction as one of the few companies in the United States to complete — for all of its treatment plants — the Phase III Self-Assessment requirements of this program.

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2300 Richmond Road
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Lexington, Kentucky 40502
www.kawc.com



A GOOD NEIGHBOR

Kentucky American Water Company believes in being an active member of the community it serves. In addition to providing a quality product and service, being a good employer and paying taxes, the company is committed to enhancing education, providing and fostering leadership, protecting the environment, and encouraging volunteerism.

Kentucky American is especially committed to promoting science education, which is most apparent by the company's extensive involvement in the annual Kentucky American Water Company Science Fair. This event is solely sponsored by the company and coordinated by Fayette County Public Schools.

Kentucky American associates are encouraged to take active roles in their community through participation in numerous projects that focus on

KENTUCKY-AMERICAN'S MISSION

Kentucky American Water Company's mission is to enhance the company's value to customers, associates, shareholders, the communities we serve and the environment which surrounds us by providing the best quality water service at the lowest price to our existing and future customers; providing a corporate environment that maximizes professional development, demanding high expectation and achievement; providing consistent growth in shareholder value by investing in water and waste water utility companies; providing leadership and corporate citizenship in the communities we serve; and providing education and related initiatives to safeguard the environment.

education and environmental awareness, as well as through civic and social memberships.

Kentucky American's civic-mindedness is also demonstrated in other ways, including the company's significant support of McConnell Springs, the site of Lexington's birthplace and the first source of water for the community, Jacobson Park, which Kentucky American leased to the city of Lexington in 1968, for \$10 a year, through 2018 (the park is named after Kentucky American General Manager Eric H. Jacobson), and the use of one of Kentucky American's 10 water storage tanks as a unique canvas for an 18,000 square foot equine mural that welcomes visitors to the "horse capital of the world."

KENTUCKY-AMERICAN'S VISION

We envision an environment where every member of our teams dedicated to a common mission, empowered with the necessary authority, responsibility, and resources to be caring and responsive to the needs of our customers and other team members.

This vision statement reflects the consensus of all Kentucky American Water Company associates, each of whom play a role in charting the company's course for the future.



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- We have over 100 years experience in Kentucky and well established relationships with regulatory agencies
- We have the ability to finance projects internally without the delay and uncertainty of federal funding: and the resources of a corporation with over \$1 billion in revenues
- We have the experience of facilitating over 75 water and wastewater system acquisitions within the American System over the past 10 years
- Kentucky American employees live and are actively involved in the Communities in which they work
- We are helping to lead the process in regionalization/consolidation within Kentucky, serving on the Governor's Water Resources Development Commission
- Kentucky-American is an active and responsible corporate citizen, supporting projects within the communities we serve.
- Rate Regulation under the Public Service Commission (for acquisition options only) – PSC controls rates and the KAWC rate of return



2. Partnership Option – Systems Sale

AWW has successfully facilitated over 75 value added water system acquisition/partnerships over the past 10 years ranging in size from 50 to 500,000 customers. Kentucky-American proposes to purchase the water distribution system, with the following details: (all figures estimated from the 12/31/98 ELWC PSC Report – subject to further update, negotiation and verification by KAWC and all due diligence and approvals)

**Estimated System
Purchase Price** **\$115,427**
**(Book Value less A/D,
Contributed Capital=
PSC Allowable price,
plus \$95,777 premium)**

**Est. Proceeds/Residual to
ELWC, after
Payoff of debt and:** **\$ 39,247**
Collection of receivables

KAWC could purchase the assets of the distribution system and completely own and manage in the future

- The current rates would remain in place initially
- All rates and service will be regulated by the Public Service Commission
- Customer service will be maintained at the highest possible level



Kentucky-American Water Company

- State of the Art procedures for water quality, distribution and production will be used under the AWW Company Standards
- A representative from Elk Lake Water Co. may serve on the Owen County Advisory Council, established to provide input into system issues to KAWC .
- Preliminary estimates indicate that the existing Tri-Village system connection will serve as the supply
- Proposal includes approximately \$10,000 for tank improvements (altitude valve vault to control the draw/fill dynamics of the existing tank) at KAWC expense
- Proposal assumes that KAWC will pay ELWC not take ownership of the water treatment plant, buildings, land or equipment; all equipment, lines, tanks, hydrants, etc. associated with the distribution and storage systems will be purchased.
- An environmental assessment of the facilities may need to be conducted
- 24 hour emergency customer response will be provided
- Customers billed monthly, with the convenience of paying bill at the Owenton Office, by mail or by automatic bank draft
- Customers will be sewed by Kentucky-American's Owen County Staff



Kentucky-American Water Company

- Employees of Elk Lake will be offered employment at Tri-Village Water District (dependent upon closing and qualifications) with excellent benefits, including medical/dental insurance, 401k, pension, vacations, etc.