



Kentucky-American Water Company

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

David Baker
Director— Business Development

February 10, 1999

Board of Commissioners
Tri-Village Water District
3700 Highway 127 North
Owenton, Kentucky 40359

Dear Board Member:

Thank you for allowing me to speak to you and introduce Kentucky-American Water Company to you. I certainly appreciate the opportunity to get to know my fellow water professionals in Kentucky.

Please find enclosed some basic facts about KAWC and the American Water Works Company. Included also is information relating to the potential KAWC business partnerships that are available to the Tri-Village Water District. When you determine it is appropriate, a detailed outline of these partnerships can be prepared and presented to you at no cost or obligation. All information and communications are held in the strictest of confidence.

Again, thanks for the opportunity to meet you.

Sincerely,

David Baker

DKB/jad
Enclosures

David K. Baker
Director Business Development



**Kentucky-American
Water Company**

2300 Richmond Road
Lexington, KY 40502
(606) 268-6318
Fax (606) 268-6327
E-mail dbaker@kawc.com
Toll Free: 1-800-678-6301 Ext 318



Kentucky-American Water Company

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

Kentucky American Water Company helps communities meet their Water and Wastewater System needs:

- Public/Private Partnerships that can be customized to meet your system's needs
- Water and Wastewater System Contract Operations
- System sale/acquisition
- Water and wastewater system management contract
- System Lease, Manage and Operate Contract

Advantages to a Business Partnership with KAWC:

- Security for employees, excellent wages and benefits
- KAWC has in-house engineering, operations, finance, service staff expertise
- Ready capital for system improvements and expansions
- Customers may enjoy lower rates
- Excellent customer service
- Regulation by PSC or continued Board Control
- Long-term contracts can guarantee costs
- Assurance of Award-winning Water Quality
- Assurance of Source of Supply
- Potential infusion of cash to City
- Employees who live and work in the communities they serve
- Over 100 years of experience in Kentucky

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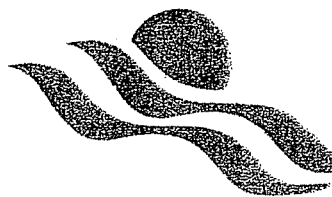
How can Leaders learn specifics about the possibilities of a Business Partnership with Kentucky-American Water Company?

- KAWC can provide a no-cost, no-obligation review of systems
- Specific, current needs and objectives can be addressed and reviewed
- "Best-Options" will be prepared for recommendation to the Board, including:
 - a) Operations concepts
 - b) Customer rate/service impact
 - c) Financial package for the System

● **All discussions, plans and information exchanged are handled with strict confidence.**



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.

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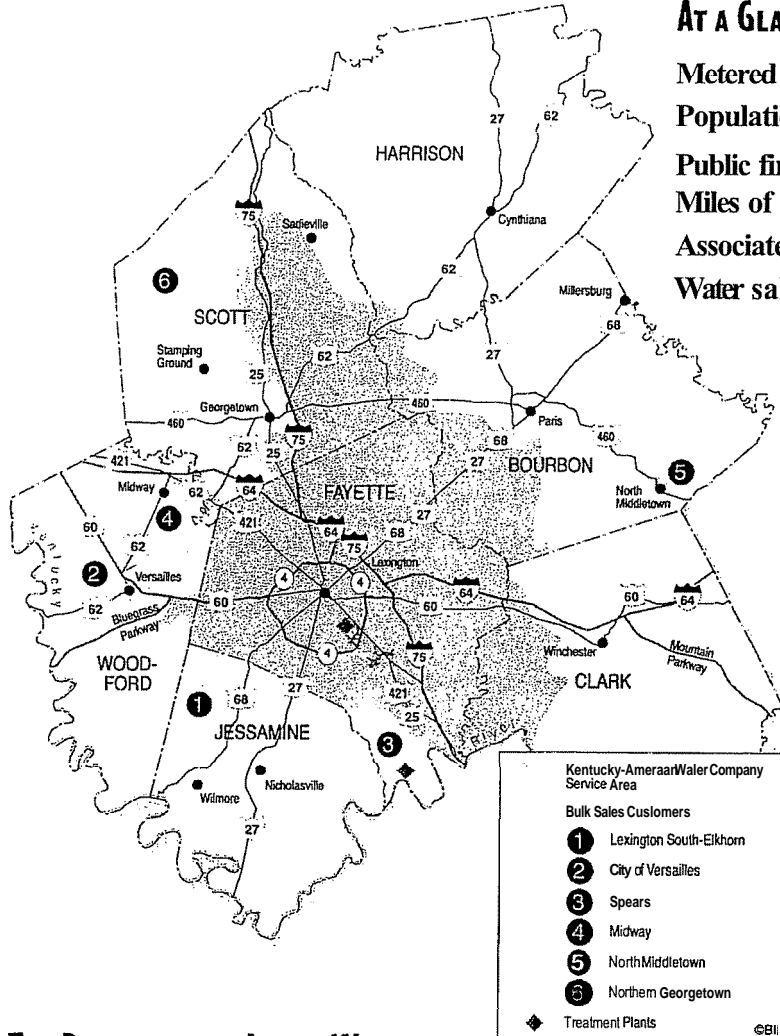


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AT A GLANCE

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



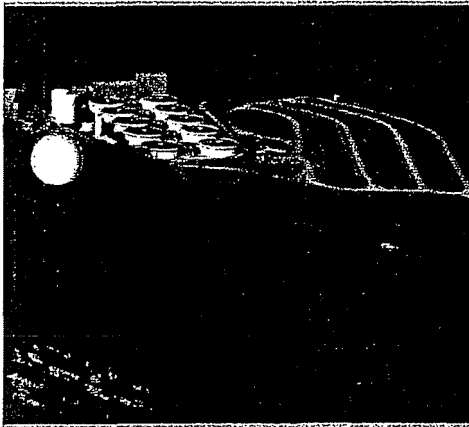
THE BENEFITS OF A LARGE WATER SYSTEM

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 facilities are capable of treating up to 65 million gallons of water per day.

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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

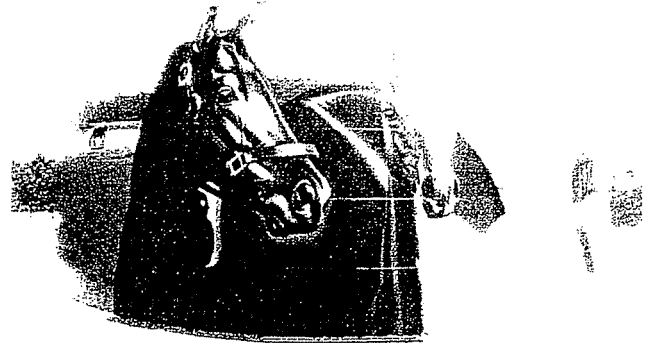
Kentucky-American Water Company customers can be confident that they receive quality water. The company's in-house team of water quality experts oversees the water treatment process and manages Kentucky-American's water quality research programs. Kentucky-American stays abreast of proposed state and 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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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 wastewater 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 Ernest E. 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"

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KENTUCKY-AMERICAN'S VISION

We envision an environment where every member of our team is 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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Kentucky-American Water Company

UPDATE

Hotline 1-877-24-WATER

- Why conservation is not the answer.
- How will construction be handled?
- Bluegrass Water Supply Project Team & Preliminary Plan

"LOOK FOR THIS IDENTIFYING LOGO WORN BY BWP TEAM MEMBERS WORKING IN YOUR AREA"

What are you experiencing with your water supply deficit?

than September. This would have triggered a far more serious crisis resulting in extreme measures to supply our

community with adequate water supply.

Following the 22-year drought of 1988, the Kentucky River Basin Steering Committee began exploring the water supply issues in our region. Since 1988, numerous groups have studied the issue of a water supply deficit in our community and, without a doubt, the accepted opinion in 1998 states that a deficit of over 20 million gallons per day would be experienced in the Central Kentucky region if a drought the magnitude of the one experienced in 1930 hits this area again.

Kentucky-American estimates that the Kentucky River will fail to meet our community's water needs, creating a shortage of up to 23 million gallons per day over 183 consecutive days during a major drought. *Keep* in mind that current summertime average usage is approximately 48 million gallons per day. In September 1998, a new one-day high pumpage record was set - 64.67 million gallons per day. In simple terms, our community would come up short 23 of the 48 million gallons needed to sustain our current quality of life.



What is the Solution?

Kentucky-American Water Company's greatest concern is for the health and safety of all customers. In 1988, the Central Kentucky region experienced a drought severe enough to require mandatory restrictions of all watering practices for customers. Engineering methodologies refer to the 1988 drought as a 22-year drought. The drought that we project **recurring** is referred to as the "drought of record" (estimated as a 120-year drought), which

occurred in the 1930s in this region. This means that **each year there is a one (1) in one hundred twenty (120) chance that it will recur.**

A critical factor to keep in mind is the fact that Kentucky-American Water Company's customer base has grown by 15,000 new customers since the drought of 1988 occurred in this region.

The issues relating to the water supply deficit inevitably create

continued



PIPELINE STATISTICS

Construction Details

- Cost: \$48.5 million, projected cost.
- Pipeline Capacity: Minimum 2 million, maximum 23 million gallons per day.
- Pipeline Diameter: 36-inch.
- Pipeline Composition: Ductile iron, concrete, or steel.
- Pipeline length: 44.9 miles (237,000 feet).
- Booster Stations: 2 (Pressure from 30-200 PSI).
- Construction Method: Directional drilling in environmentally sensitive areas.

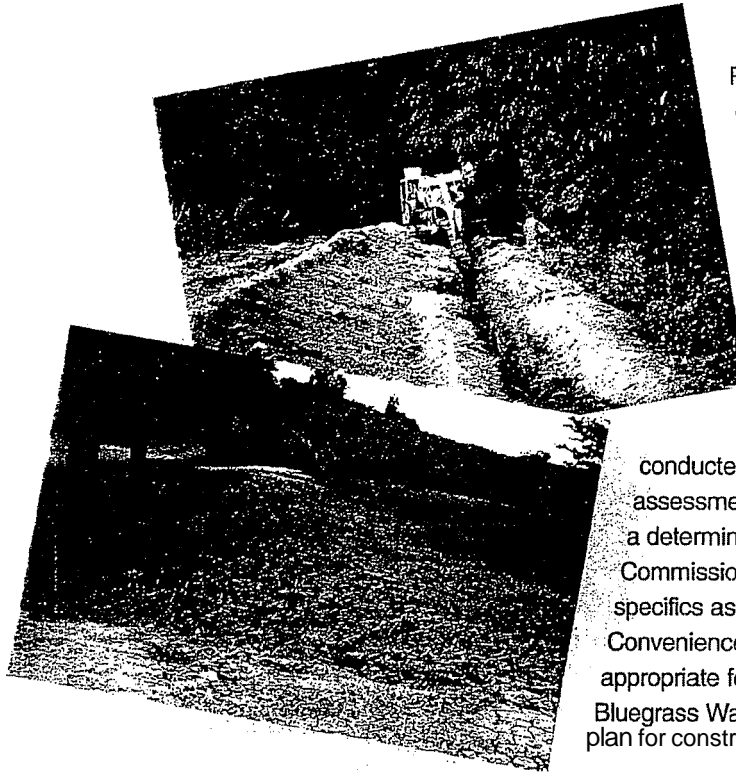
Financial Details

- Average residential customer monthly increase: \$4.00
- Cost increase based on total consumption (customers using an average of 5,700 gallons per month).

Miscellaneous Details

- Louisville Water Company water source: Ohio River.
- Kentucky-American Water Company water source: Kentucky River.
- University of Kentucky Water Resources Research Institute Study results:
 - Total deficit 9.7 billion gallons. (can be reduced but not eliminated with valves on Kentucky River).
 - Over 20 million gallon per day deficit.
 - Drought of Record: Last occurred in 1930, projected 120-year drought.
 - Study stated community will be without water for 53 days during drought of record based on existing facilities in Kentucky River at time of study. Certain modifications on River may now lessen impact but not eliminate deficit.

How will construction be handled?



The Bluegrass Water Project pipeline will be constructed under the same guidelines used nationwide in other areas served by the American Water Works Company, Inc. The construction of the proposed pipeline will begin only after extensive environmental impact studies have been

conducted, including archeological site assessments, geological surveys, and a determination by the Public Service Commission that the engineering specifics as filed in the Certificate of Convenience and Necessity case are appropriate for construction of the Bluegrass Water Project. The preliminary plan for construction includes:

- Crews will open a ditch approximately four feet wide, and five and one-half feet deep.
- The ditch will be opened using a trencher, which is about the size of a backhoe.
- The pipe will be installed using a track hoe.
- For much of the ditch line, a total width of about 20 feet of grass will be disturbed by the equipment and pipe construction.
- The vegetation will be completely restored following all construction.
- Kentucky-American Water Company does not anticipate the need for blasting during the pipeline construction, and will specifically prohibit its use in environmentally sensitive areas or close to existing structures.
- Kentucky-American Water Company will not disturb any existing structures or stone fences, and will work to avoid large, established trees. (Tree removal significantly increases the cost of construction.)
- Kentucky-American Water Company will provide temporary fencing during construction and cleanup and will replace all disturbed fencing.

CREST GATES ON KENTUCKY RIVER BASIN

The Kentucky Water Resources Research Institute at the University of Kentucky completed a report in December 1996 which concluded that the addition of four-foot crest gates could reduce the deficit at Pool #9 by 3.038 billion gallons. This would require that the crest gates be placed on six dams, 9-14. The report relied on a study completed by HARZA engineers that described the cost and feasibility of the crest gate placements.

According to a Kentucky River Authority document, the dams in use today were constructed between 1888-1917. Several are constructed of rock-filled timber cribbing. In reviewing the study by HARZA, Kentucky-American Water Company (KAWC) determined that the dams were not adequate to support the crest gates. The consultant retained by KAWC did not agree with the structural stability assumptions made by HARZA for dams that are over 80 years old and have not been significantly upgraded. The consultant estimated that the cost of dam reinforcement and crest gates was somewhere between \$31 million and \$63 million, depending on the conditions of the dams. HARZA had estimated only \$16.8 million based on a 50-year life cycle.

Additionally, KAWC is concerned about the impacts of crest gates in areas with frequent flooding and the continued maintenance of the remote operations.

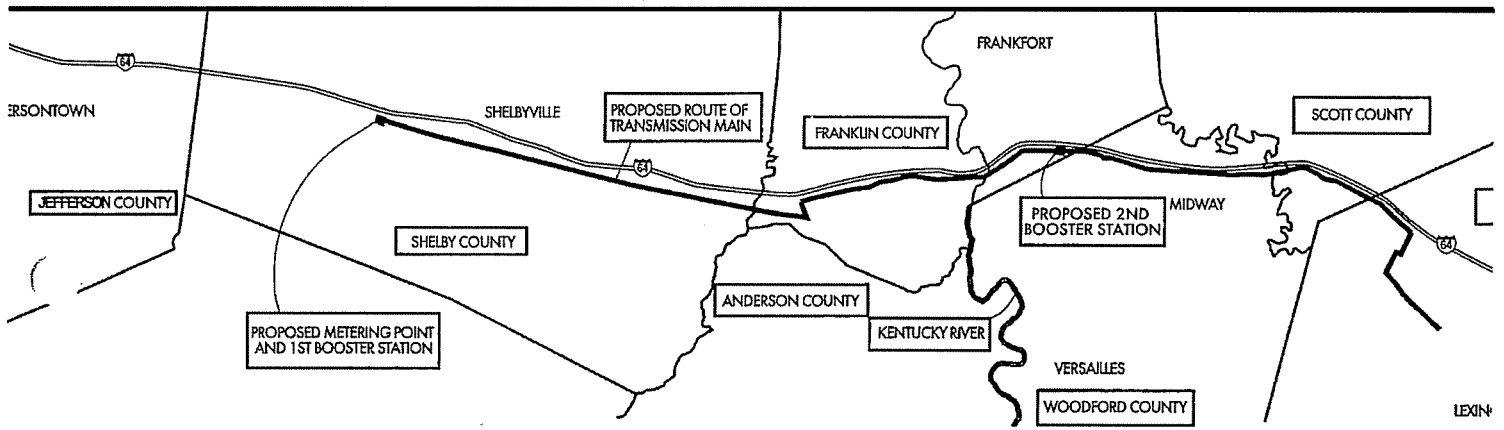
Route Selection for the Bluegrass Water Project Pipeline



Kentucky-American has partnered with [unintelligible] for the planning phase of the Bluegrass Water Project Pipeline.

Kentucky-American Water Company has selected the proposed pipeline route based on optimal construction feasibility and hydraulic considerations from topographical maps, aerial photographs, and field observations. The route generally parallels existing utility easements and road right-of-ways.

Kentucky-American Water Company consultants are currently engaged in detailed field work to survey and assess the route for environmental, archeological and other significant issues. The route may be adjusted if any potential problems are uncovered. The detailed design of the pipeline is being conducted concurrent to the field work.



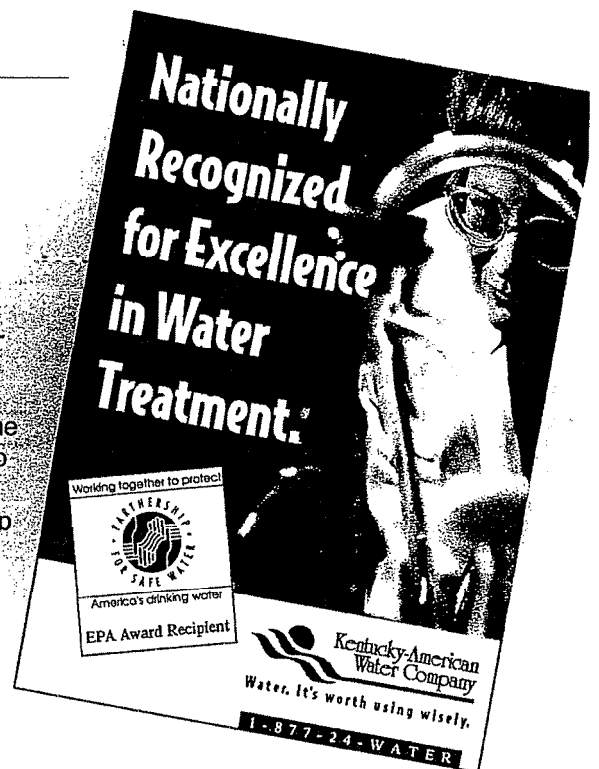
Kentucky-American Receives Top Honors

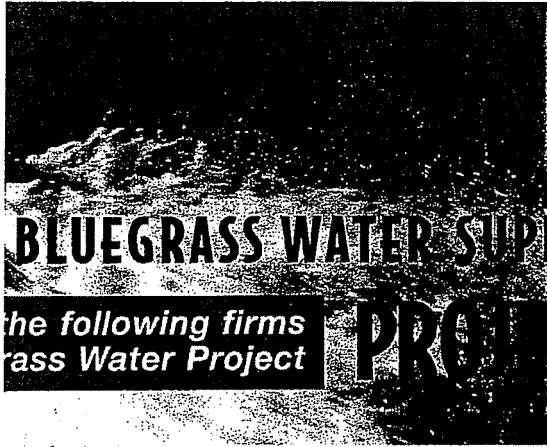
As a result of Kentucky-American Water Company's rigorous efforts to meet, and in fact exceed, national quality standards, the company recently received two distinguished awards from the U.S. Environmental Protection Agency, Office of Groundwater and Drinking Water.

The EPA presented the two Director's Awards to Kentucky-American Water Company at the annual American Water Works Association International Conference in Dallas. The awards were given to Kentucky-American Water Company for its distinction as one of the few

companies in the United States that has completed for all of its treatment plants the Phase III Self-Assessment requirements of the EPA's Partnership For Safe Water program. (Kentucky-American is the only water company in Kentucky to complete these requirements.)

The EPA formed the Partnership For Safe Water in 1995 to help water suppliers improve water treatment and water quality. Kentucky-American Water Company has participated in the program since January 1996.





the following firms
ass Water Project

PROJECT TEAM

PROJECT TEAM

Gannett Fleming— Design consultant. Gannett Fleming, an international consulting engineering company, is one of the nation's most prestigious engineering firms. The company's headquarters are located in Harrisburg, Pennsylvania, with staff at 27 regional offices throughout the U.S. and abroad.



PDR Engineers, Inc. — Primary subconsultant. This firm is ranked in the top 500 firms in the nation with locations in Lexington and Louisville, Kentucky. PDR will be handling the initial surveying.



Fuller, Mossbarger, Scott, and May Engineering, Inc. This firm will provide soil and rock borings at the Kentucky River, road, and railroad crossings.



Cultural Resources Analysts, Inc. will conduct archeological site assessments.



Law Engineering and Environmental Services, Inc. — A national environmental services and geotechnical firm with offices in Louisville, Kentucky, will conduct environmental wetland assessments.



Scott R. Smith Environmental Management Consultants, Inc. will provide environmental permitting services in conjunction with PDR.

Kentucky-American has been pursuing survey and design work on options for the Bluegrass Water Project pipeline.

It has always been our plan to review alternate routes for the Bluegrass Water Project in addition to the primary route to assure cost effectiveness and address all environmental issues. Kentucky-American Water Company has identified and is in the process of mapping the planned route that the proposed Bluegrass Water Project pipeline will take from Shelby County to Fayette County.

Initial studies, conducted several years ago, recommended that the route of the pipeline follow the path of an existing gas pipeline, paralleling the existing gas line to the point where Kentucky-American Water Company infrastructure is in place, then running parallel to the water company's existing mains into Lexington.

Multiple factors including potential environmental issues and concerns of property owners along the initial proposed route brought to light by preliminary surveying of the initial proposed route have resulted in a decision to pursue the design route of the Bluegrass Water Project in the following manner:

- The route of the proposed Bluegrass Water Project pipeline will follow the southern boundary of Interstate 64, entering Lexington from a point in proximity to the Blackburn Correctional Facility, and connecting to existing infrastructure near Leestown Road.

Preliminary indications are favorable that this alternate route will be equally as cost efficient as the first proposed route, and ultimately the best alternative for Kentucky-American Water Company and its customers.

This revised route is subject to engineering design studies currently being conducted. If this alternative route proves to be the most cost effective and feasible location, the next step will be to file a Certificate of Convenience and Necessity with

the Public Service Commission which will occur after all design elements necessary for this submittal have been completed.



How will customers not currently served by Kentucky-American Water Company have accessibility to the Bluegrass Water Project pipeline?

The Bluegrass Water Project pipeline is essentially a transmission main to potentially move a large volume of water over a long distance to alleviate a water supply deficit in the Central Kentucky area (Bluegrass region). To preserve the integrity of the pipe, Kentucky-American will not make individual taps on the main. Kentucky-American is sensitive to the situations of individual property owners who do not have public water service for existing homes along the route. In those instances, Kentucky-American will work with the property owner in an attempt to accommodate their water service needs.

If requested, Kentucky-American will also work with local water providers to provide additional supplies to areas currently served

by local water districts, associations, or municipalities. For new development, Kentucky-American can only provide service if the development has been approved by the local planning agency, and is unable to receive water from a local water district.

Kentucky-American may also potentially provide fire protection service in areas that currently have some domestic service, but would benefit from an increased availability of water service. If requested, Kentucky-American will work with the local authorities to boost fire protection, including upgrading fire hydrants.

The sole objective of this project is to supplement the water needs for existing and future customers in the area currently served by Kentucky-American Water Company.

Why are we experiencing a water supply deficit?

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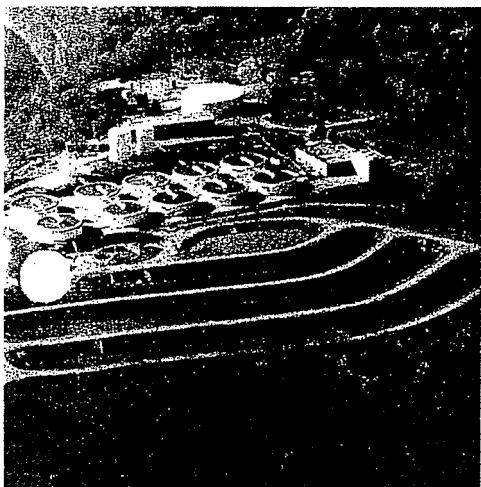
Controversy regarding ways to solve the deficit. One issue remains a constant: the community has grown by 15,000 customers since 1988, and will continue to grow based on statewide projections for Central Kentucky. The Central Kentucky region is projected to become larger even than the Louisville area, perhaps by the year 2000.

113 years ago when Kentucky-American Water Company began providing water service to this community, the Lake Ellerslie Reservoir met all of our water needs. This was supplemented after the turn of the century by Jacobson Reservoir. With the drought of 1930 came the need to provide a greater water source, which resulted in the construction of a pipeline to supplement the reservoir with water pumped from the Kentucky River.

Although hard to believe, with today's current water demands, Jacobson Reservoir would be totally dry in seven to ten days if it were used to supply all of the water to Kentucky-American customers during a drought period. Central Kentuckians served

by Kentucky-American Water Company receive 80% of their water pumped directly from the Kentucky River to treatment plants for purification. The Kentucky River is a small river with a small watershed, and because of its size, flow fluctuations occur. Even minor periods of little rain will impact the river flows to the point of crisis.

Kentucky-American has determined that construction of a pipeline to purchase treated water from Louisville Water Company is the least-cost alternative to obtaining a supplemental water source from the Ohio River. It is the most cost effective, feasible solution to supply all of our community's water needs.



Why is conservation not the answer?

Although Kentucky-American Water Company encourages wise water use to preserve our most precious natural resource, even strict conservation measures will not solve the problem. The only way to prevent a water shortage is to plan for one. Planning a solution is what Kentucky-American Water Company is doing. Kentucky-American has researched solutions for over 25 years. As a major provider of water service to Fayette and portions of Scott, Bourbon, Clark, Woodford, Jessamine, and Harrison counties, Kentucky-American has been seeking solutions to ensure the health and safety of our customers, guarantee fire protection, and ensure the continuation of economic development and quality of life known throughout the region.

Is there a no-cost solution?

As our community has grown, our needs for water have grown. Kentucky-American Water Company's treatment capacity is rated at 65 million gallons a day. Customers of Kentucky-American Water Company on September 14, 1998, used a record 64.67 million gallons in one day. This high pumpage during the off-season in September is cause for concern. Kentucky-American engineers recognize that customers will likely be using more than the rated treatment capacity during dry spells that occur early in the summer months. What could happen? Unfortunately, customers would begin to find themselves without water for periods of time, which potentially could trigger health and safety concerns throughout our community. Kentucky-American Water Company has explored developing additional plant capacity at the Kentucky River Station, located 12 miles from the corporate office at 2300 Richmond Road on the Kentucky River. Kentucky-American recognizes the shortsightedness of designing an increase in treatment plant capacity and passing those charges on to its customers, with little hope of having a sufficient water supply in the Kentucky River to maximize the treatment capacity. In other words, what good would an increased treatment capacity be if there is no water available in the river from which



to draw to treat and distribute for our customers?

Issues such as treatment capacity and the magnitude of the water supply deficit continue to lead

Kentucky-American to the Bluegrass Water Project alternative. The cost of the pipeline is estimated to be \$48.5 million, which would increase the average customer bill approximately \$4 per month. The cost to upgrade the treatment facilities to meet current and future needs is approximately \$39 million. The pipeline will eliminate the treatment plant deficit and the water supply deficit, guaranteeing a reliable water source for generations to come. An important point to keep in mind is the fact that the per-customer cost will go down as more customers along the pipeline route benefit from the readily available water source originating in the Ohio River and treated by Louisville Water Company. This increase in the customer base will help to decrease per-customer cost.

Will Kentucky-American abandon the Kentucky River if the pipeline is built?

Kentucky-American Water Company's commitment of over \$50 million in treatment plants, laboratories, pumping stations, and water lines related to our treatment facility on the Kentucky River demonstrates our investment in the future of the river. The Kentucky River has been our community's primary source of water for over 65 years, and will continue to be the major source of water for our customers. We respect the beauty of the river, and have deep-rooted beliefs in the value of the Kentucky River and its vitality in our region. However, the fact remains that the Kentucky River is subject to increasing demands that will jeopardize the continuation of quality of life we experience in our community. The importance of our Kentucky River treatment plant will not diminish when the pipeline to the Ohio River is constructed. The pipeline is an insurance policy to protect the health and safety of our customers.

J U S T I C E

How much would my water bill increase?

- Customers of Kentucky-American Water Company will see an increase in their water bill when the Bluegrass Water Project pipeline begins providing water. But the increase may not be as large as you are expecting. Only the water portion of your bill – not the sewer or garbage removal charges – will increase, probably by about 20 percent.

How serious is our water supply deficit?

- As Lexington continues to grow, its citizens will need more water than the Kentucky River can currently provide. *All* possible alternative water sources have been thoroughly explored, and the least expensive long-term solution is to build a pipeline to provide Kentucky-American Water Company with purified water from the Louisville Water Company.

Can't crest gates or dams on the Kentucky River obtain more water?

- Questions have been raised about whether additional water can be obtained by crest gates on Kentucky River dams. The Kentucky Water Resources Research Institute has determined that crest gates would only partially eliminate the water supply deficit, and the U.S. Army Corps of Engineers has raised questions about whether the current dams could support crest gates without substantial construction work. Even if such a program was undertaken, construction, land taking and environmental-impact costs would be substantial – and have not currently been factored into estimates of crest gates.

Could the Ohio River provide quality water?

- The Ohio River is currently the source of drinking water for nearly 3 million people; approximately 120 species of fish live in the Ohio and the lower reaches of its tributaries. The Ohio is carefully monitored by a watchdog organization, and the river's water quality has improved significantly over the past 50 years. In 1995, a particular milestone was reached – all communities discharging to the water were providing not only primary treatment, but advanced secondary treatment.

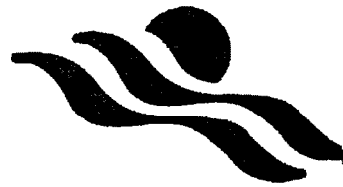
What effect could another drought have?

- In addition to Lexington's explosive growth reducing available water, a summer drought always remains a possibility. In 1998, water levels dipped to dangerously low levels, and each year's blisteringly hot weather poses a hazard.

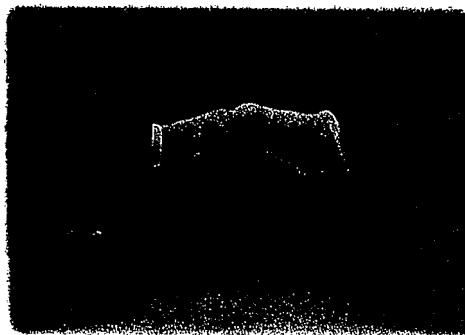
IF YOU ARE INTERESTED IN LEARNING MORE ABOUT THE BLUEGRASS WATER PROJECT AND WATER ISSUES FACING CENTRAL KENTUCKY, CONTACT BARBARA BROWN, DIRECTOR-COMMUNICATIONS, AT 268-6332, OR E-MAIL US AT WWW.KAWC.COM



2300 Richmond Rd.
Lexington, KY 40502

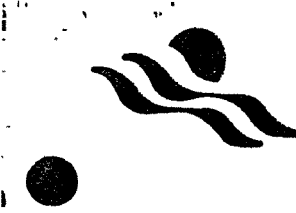


Kentucky-American Water Company



**Proposal to Purchase the Assets of
Tri-Village Water District**

April, 1999



Kentucky-American Water Company

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

Roy W. Mundy, II
President

April 8, 1999

Tri-Village Water District
Board of Commissioners
3700 Hwy. 127 North
Owenton, Kentucky 40359

Dear Board of Commissioners:

Many thanks to you and your Manager, Carol Tudor for the fine relationship that has been afforded Kentucky-American Water Company since we first had the opportunity to meet with you in February, 1999. We certainly appreciate the information that has been shared with KAWC as we formulated this proposal. We recognize and appreciate the professional commitment that you and Ms. Tudor have made to provide excellent service to your customers.

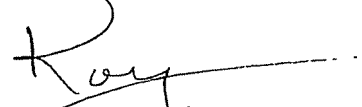
We are most pleased to present to you the enclosed proposal. We truly believe that a business partnership between Tri-Village Water District and KAWC presents many advantages to your customers. These advantages include lower rates, top quality service, and the resources of the nation's leading water utility, American Water Works Co., Inc. These resources include our in-house engineering, financial, service and technical staff that are onboard in Kentucky to serve your customers. KAWC also will offer employment to all current Tri-Village employees.

We understand the hard work and commitment that the Board has given to the Tri-Village customers. Kentucky-American Water Company certainly will honor and continue that commitment to excellence— we stake our reputation on it.

Tri-Village Proposal Letter
April 8, 1999
Page 2

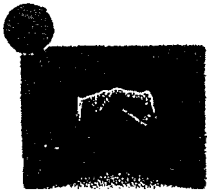
We look forward to bringing this important and beneficial transaction to a closing and will facilitate this process with the Board of Tri-Village Water District. Thank you again for consideration and assistance.

Sincerely,



Roy W. Mundy, II
president

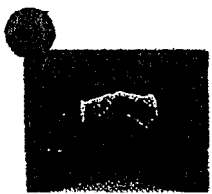
C: Hon. Billy O'Banion



PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

Summary of Proposal Contents:

1. Background Information about Kentucky-American Water Company
2. Acquisition outline – structure
3. Purchase price calculations
4. Employee Issues
5. Customer Rates
6. Customer Service
7. Future System Expansion
8. Purchased Water
9. Board Involvement
10. Corporate Citizenship
11. Water Quality
12. Purchase Contingencies



PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

1. Background Information - Kentucky American Water Company

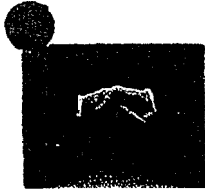
Incorporated in Kentucky in 1882 under the name of Lexington Hydraulic and Manufacturing Corporation, the company's name was changed to Lexington Water Company in 1922 and to Kentucky-American Water Company in 1973. KAWC is a regional water supplier which withdraws, treats and distributes water in Fayette, Scott, Clark, Bourbon, Harrison, Jessamine and Woodford Counties. In addition, KAWC is a bulk supplier to the Cities of Sadieville, North Middletown, Midway, 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 nations leading investor owned water utility.

Revenues: KAWC - 1998 annual revenues: \$36.9 million
American Water Works, Inc.: \$1 Billion

Taxes Paid: Federal, State, General Taxes: \$6,141,811
Property Taxes: \$1,089,228

Number of Employees: KAWC: 155
AWW: 4000 +

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

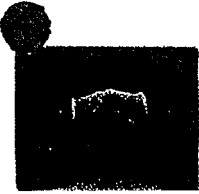


PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

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 – Government Relations



PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

2. Proposed Acquisition Structure

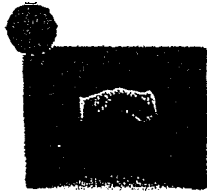
This proposal is subject to the approval of the Tri-Village board and all legal requirements therein, the approval of the Public Service Commission, the approval of the KAWC Board of Directors and all appropriate due diligence, and all other contingencies listed in this proposal. This proposal is structured as an acquisition of the Assets of the Tri-Village Water district by KAWC. The district will be dissolved according to law. KAWC will pay a purchase price to Tri-Village to purchase all long term assets of the District; the District will use that purchase price, along with a portion of its disposable current assets to pay off the debt and settle the accounts of the of the district.

3. Purchase price Calculation/Cash distribution to Close out Tri-Village Accounts (to be adjusted to date of closing):

Cash Purchase Price: \$1,659,233

Cash Distribution to Close out Tri-Village Accounts: (to be adjusted to date of closing)

Debt Obligations:	Long Term Debt	\$1,510,500
	Wheatly Project	\$ 225,500
	Current Liabilities	\$ 38,275
	Current Asset	
	Disposal:	<u>\$(115,042)</u>
Purchase Price:		<u>\$1,659,233</u>



PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

4. Employment Issues:

Current Employees of Tri-Village Water District will be offered employment with KAWC at Tri-Village's rates of pay currently in effect. Employees will be offered the KAWC employment benefit package as outlined in appendix A including health insurance, term life insurance, paid vacations, 401k, company funded pension plan, 11 paid holidays, educational assistance. KAWC will keep the office and maintenance facilities at Tri-Village for the foreseeable future with the structure of the work changed to reflect the KAWC structure.

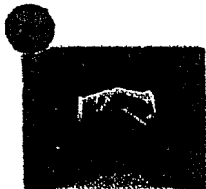
5. Customer Rates:

This proposal assumes that Tri-Village will have implemented the 30% proposed rate increase for all customers as of the time of closing of the acquisition. Upon closing, the customers of Tri-Village will receive an immediate 10% rate decrease from the TV rate tariff. In addition, KAWC will make application to the public service commission for application of the KAWC rate tariff under the concept of Single Tariff Pricing. These rate cuts are demonstrated as follows:

(Examples based upon avg. customer monthly consumption of 4700 gallons)

Tri-Village Monthly Bill following 30% increase:	\$	34.09/mo.
Less: 10% immediate KAWC Rate Cut:	\$	(3.41/mo.)
Avg. monthly bill after rate cut:	\$	30.68/month

If Single Tariff Pricing approved by PSC, at KAWC rates: \$ 16.57/month



PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

6. Customer Service

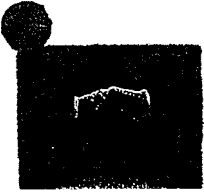
Tri-Village customers will continue to receive the same high level of service. Customers will receive high quality phone and field service during normal business hours, plus the option of using the Interactive Voice Response system, via a toll free number, that allows them access to billing and usage information on their accounts, 24 hours per day, 7 days per week. The office at Tri-Village will remain open for the foreseeable future to deal with in-person inquiries. Customer bills will be produced and mailed once per month, following monthly meter readings, and include a return envelope. Customers also have the option to pay by automated bank draft.

7. Future System Expansion:

This proposal includes the financial data provided for the Wheatly project and assumes that project will be underway or completed at the time of closing, and depending on the time factor, can be adjusted to include the New Columbus Project. KAWC will provide water service to new customers based upon the existing KAWC tariff. This tariff allows for KAWC to extend mains into areas in which the total of revenues to be received from the new customers for the first 3 years equals or exceeds the amount of expense for the main extension.

8. Purchased Water:

KAWC will assume the Purchase water contract that is currently in effect between Tri-Village Water District and the City of Owenton. This proposal is contingent upon verification and approval of said contract and upon Tri-Village's implementation of any rate increases called for by **Owenton** and approved by PSC.



PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

9. Board Involvement:

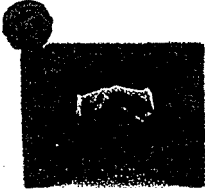
The Board of Commissioners will be invited to assist KAWC during the transition period, up to 6 months after closing. Any board member who commits to assisting in this period will be compensated at their present annual rate (prorated to a monthly amount) by KAWC. Following the transition period, the Board may select one representative to serve as the Owen County representative to the KAWC Consumer Advisory Council. The Tri-Village Water District will legally dissolve itself following the satisfaction of all appropriate legal requirements.

10. Corporate Citizenship:

KAWC is a responsible corporate citizen committed to strong community involvement. KAWC uses local vendors and services whenever products and services can be purchased at comparable prices. KAWC employees reside and are actively involved in the communities they serve.

■ - Water Quality:

KAWC is a recognized leader in the water utility industry and is a member of the EPA's partnership for Safe Drinking Water, receiving 2 director's Awards in 1998 for completion of the Phase II self assessment requirements. We utilize state of the art laboratory equipment, employing our own Chemists and Biologists to monitor water quality at every stage, insuring compliance with state and federal standards.



PROPOSAL FOR TRI-VILLAGE WATER DISTRICT

12. KAWC Contingencies relating to Purchase of Tri-Village Water District:

- Verification of Financial and water sales information
- Updating this proposal to time of closing to reflect changes in TV financial position
- Public Service Commission Approval
- Approval by KAWC's Board of Directors
- This proposal assumes that KAWC will not be responsible for repayment of any grant monies or other contributed capital and liabilities and transfer of assets and rights to future revenue streams 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, purchase water agreement, etc.
- 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 for the KAWC asset purchase agreement, and all legal, regulatory and other requirements necessary to effect this transaction.

ASSOCIATE BENEFITS'

*Kentucky-American Water Company
offers many benefits to its full-time associate. . . .*

Holidays

Associates of the Company receive eleven paid holidays each year, beginning after 90 days of continuous service. The eleven holidays are:

New Year's Day	Thanksgiving Day
Good Friday	Friday after Thanksgiving
Memorial Day	Christmas Eve
Fourth of July	Christmas Day
Labor Day	Personal Floating Days*
	(*refer to Union Contract)

Vacation

Vacation benefits begin when you have been with Kentucky-American Water Company for one year of continuous service. The vacation period is the calendar year beginning January 1 and ending on December 31. You are entitled to the following weeks of vacation upon completion of the corresponding year's service:

1 WEEK VACATION	1 YEAR OF SERVICE
2 WEEKS VACATION	2 OR MORE YEARS OF SERVICE
3 WEEKS VACATION	8 OR MORE YEARS OF SERVICE
4 WEEKS VACATION	15 OR MORE YEARS OF SERVICE
5 WEEKS VACATION	25 OR MORE YEARS OF SERVICE

Vacations are scheduled according to Company seniority.

Death in the Family

When death occurs in the immediate family of an associate and in a locality where it is reasonably possible for the associate to attend the funeral, the Company shall grant said associate up to three (3) consecutive scheduled working days at straight time for the purpose of making necessary arrangements and attending the funeral. The associate shall report to work no later than the second scheduled work day following the funeral. The Company should be advised when the associate plans to return to work. Within the meaning of this section, immediate family includes husband and wife, children, mother or father, brother, sister and immediate mother-in-law or father-in-law, stepfather or stepmother only. The Company shall grant two (2) scheduled work days with pay at straight time for the purpose of attending the funeral of a grandchild, grandmother and grandfather and one (1) scheduled work day with pay (providing the funeral occurs on a scheduled work day) at straight time for the purpose of attending the funeral of an immediate brother-in-law, sister-in-law, grandmother and grandfather of spouse.

Sick Leave

The Company provides a sick leave program wherein each associate who has completed six months of continuous service will be eligible for compensation after the first day of illness. **An** associate who is unable to perform his regular duties as a consequence of illness or accident shall be paid as follows during such disability:

LENGTH OF SERVICE	MAXIMUM NUMBER OF WEEKS IN ANY DISABILITY YEAR IN WHICH PAYMENT WILL BE MADE BY THE COMPANY
AT LEAST SIX MONTHS BUT LESS THAN ONE YEAR	ONE WEEK
OVER ONE YEAR	ONE WEEK FOR EACH COMPLETED YEAR OF SERVICE WITH A MINIMUM OF TWO WEEKS AND A MAXIMUM OF TWENTY-SIX WEEKS

An associate will be required to furnish a statement from his physician or the Company may select a medical doctor to examine the associate stating that the associate was ill and unable to perform his regular duties during such absence. Only a doctor's form provided by the Company will be accepted.

An associate shall not be paid for the first day's sick leave unless he has not been absent on sick leave during the previous six months or unless he is hospitalized. The six month period will be reduced to five months for associates with five years of continuous service and be reduced one additional month for each additional year of continuous service until there is no waiting period.

Consult your Union contract for additional details concerning sick leave, including compensation awarded to associates required to leave work due to their illness or injury. For additional details concerning "Disability Year" consult your Union contract or the Accounting Department.

Leave of Absence for Sickness or Accident Disability

Associates will be granted leaves of absence for sickness or accident disability for the maximum periods as follows:

LENGTH OF SERVICE	MAXIMUM PERIOD OF LEAVE OF ABSENCE
UP TO SIX MONTHS	TWO WEEKS
SIX MONTHS BUT LESS THAN TWO YEARS	TWENTY-EIGHT WEEKS
TWO YEARS BUT LESS THAN FIVE YEARS	ONE YEAR
FIVE YEARS BUT LESS THAN TEN YEARS	TWO YEARS

Continuity of Income to a Disabled Associate

Because the Company realizes that delay sometimes occurs in the determination of benefits payable under the Worker's Compensation Law, the Company will pay a disabled associate's normal weekly wages in full for the period indicated under Sick Leave. All the associate need do is to agree that any benefits currently or subsequently received from the Worker's Compensation carrier (other than reimbursement of expenses) with respect to said period of disability, shall be assigned to the Company. The payments assigned from the compensation carrier to the Company include only weekly benefits for temporary disability.

Group Insurance

All full-time associates can participate in one of two liberal insurance plans, beginning on the first day of the month following 30 days of continuous service.

COMPREHENSIVE MEDICAL PLAN that pays most covered medical expenses at 80 percent of reasonable and customary rates, after the deductible, up to an annual out-of-pocket limit of \$1,000.00 Under this plan, you make contributions for dependent and associate coverage. (Please refer to the Comprehensive Medical Plan in the insurance booklet for complete provisions).

MANAGED CHOICE PLAN is coordinated by a primary care physician (PCP). Most covered medical expenses are covered at 100 percent of reasonable and customary rates in the In-Network services. Out-of-Network services can be provided at a reduced coverage of 70 percent of reasonable and customary rates after the deductible is met. (Please refer to Managed Choice Plan in the insurance booklet for complete provisions.)

Information on all Plans are provided.

Upon selection of the group plan you are desiring (annually associates are allowed to choose which plan they want for the upcoming calendar year) the appropriate group plan booklet will be provided. Be sure to read these booklets very closely and if you have any questions, feel free to ask your supervisor about any specific details.

Pension Plan (Retirement)

Realizing the necessity of providing now, during your productive years, for the time when you will reach retirement, the Company has established and maintains a liberal pension plan. This plan covers both early and normal retirement, as well as disability retirement. After five years of continuous service, you have vested rights and will receive retirement benefits even if you leave the Company. For full information, consult "Your Pension Plan" booklet. Copies of this booklet may be borrowed from the Director Human Resources. You may also consult your supervisor concerning pension benefits.

Savings Bonds

The Company encourages associates to participate in the U.S. Savings Bonds payroll deduction plan. Depending upon how much you decide to have deducted from each paycheck, you may receive any number of savings bonds per year. Consult the Accounting Supervisor or your immediate Supervisor for details.

Savings Account Deduction Plan

The Company provides the opportunity for associates to participate in a savings account deduction plan. This plan is similar to a Christmas Club savings account, and associates may join only during the first week of November. Consult the Accounting Supervisor or your immediate Supervisor for details.

401(k) Savings Plan

The Company allows all associates who have at least six (6) months of service to contribute to the 401(k) Savings Plan on a Pre-Tax Basis. The Company will contribute **50 percent (50%)** of the first four percent (**4%**) contributed starting January 1, **1998**. Please refer to the Summary Plan Description Booklet for full details of the Plan.

Credit Union

The Company is a member of the Members Heritage Federal Credit Union. Information on all benefits provided by the Credit Union are included in the associate manual.

Central Kentucky Blood Center Program

Kentucky-American Water Company participates in the Central Kentucky Blood Center drives twice per year. A mobile unit will be stationed at our office complex and associates desirous of donating can schedule a convenient time to give blood during working hours.

Educational Assistance Plan

An educational assistance program was initiated in **1984** (revised in **1991**) to assist associates who wish to continue their education on a voluntary basis, during off-duty hours. All regular associates who have been continuously employed for at least six months are eligible. If you have any questions, see your supervisor.

Fishing Privileges

Kentucky-American Water Company associates and their immediate families are provided free fishing privileges at No. 4 Reservoir. You are required to abide by the rules and regulations set forth by the Lake Ellerslie Fishing Club. A Kentucky State Fishing License is required for anyone **16** years or older. See attached memo.