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Feb 4, 2013

PSC

Frankfort, Ky

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PUBLIC SERVICE
COMMISSION

Do the people working for KAWC not get a salary, benefits, retirement plans, cars furnished, any bonuses, parties, etc.

nothing is mentioned in this letter in the Lexington Herald-Leader on Feb 3, 2013 about the things above.

About the only thing they might not get is a water bill to pay.

Request this article be presented into the hearing and brought to the attention of KAWC for attempting to mislead the paying public.

Thank you

Stanley Houston

Investments in the water system reason for proposed rate increase

LOWER WATER USE, LESS MONEY FOR UPGRADES

By Cheryl Norton

In December, Kentucky American Water filed a request with its regulator, the Kentucky Public Service Commission, for an increase in customer rates — the first time in three years that we have done so.

Kentucky American Water may change its rates only after completing a formal, legal rate request process through the PSC that typically takes between seven and eight months to complete. This transparent, public process involves

submitting thousands of pages of detailed financial and operational information as well as sworn testimony from company leaders, including me.

It also includes opportunities for public comment at community venues as well as formal hearings in a courtroomlike setting at the PSC in Frankfort that are open to the public and available for viewing online. At the end of the process, the PSC determines if a change in rates is just and reasonable.

A recent editorial covered our rate filing, but it never mentioned the primary reason for our rate increase request: \$58 million in capital investments. These investments include upgrades to

our 2,000-mile system of water mains and to valves, water meters and pumps; refurbishment of water storage tanks; upgrades to equipment at our water treatment plants and for use in the field; and upgrades to technology used in the same.

These investments help us continue providing quality, reliable water service that meets or exceeds all applicable regulations.

In its 2007 report to Congress, the U.S. Environmental Protection Agency estimated that the nation's drinking water utilities needed \$334.8 billion in infrastructure investments over the next 20 years.

Similarly, in 2009 the American Society of Civil Engineers gave our nation's drinking water systems a D- grade because so many water utilities across the country are behind on making upgrades to aging, failing systems. Kentucky American Water is proud to be ahead of the national curve due to our commitment to ongoing infrastructure investment.

The editorial suggested that American Water shareholders do not bear any risk with capital investment decisions. On the contrary, our company and our shareholders — some of whom live and work in Kentucky and have chosen to purchase our

stock as part of their investment portfolios — absolutely bear financial risk for capital projects.

Their financial investment for construction happens first, and the request to the PSC for a fair return on that investment comes later, with no guarantee on the size of the return on their investment, if any.

It is true that declining water usage on an individual customer

basis is also a factor in our rate case application. Less water use on an individual basis means less revenue to

cover costs of the existing system and make necessary upgrades. This trend is not a surprise to us, and it is by no means the dominant reason for our rate increase request. And the editorial's suggestion that, because of declining usage, the water treatment plant we completed in 2010 was not needed or was overbuilt, is inaccurate.

The driver for needing the new plant was 20 years of projected population growth which more than offsets declining use on an individual basis. As water service experts, we have tracked declining usage for years — as have others — and we included such data in the comprehensive analysis that revealed more water supply was still needed to meet customers' water needs today and in the future.

When it comes to water, a

community should never be put in the position where it has "just enough" to get through today; you must plan for future needs (including projected population) as prudently as possible, too. And you must plan for severe drought.

The rates our customers pay reflect the true cost of water service. This includes the cost of making necessary infrastructure investments, operating and maintaining our plants and distribution systems, and paying all applicable taxes. In fact, about 17 percent of the water service portion of a customer's bill goes to taxes that stay here in the commonwealth.

With the economic realities of the past several years, we all continue to feel the pinch. Like our customers, we learned to do more with less. We are streamlining operations without sacrificing service and keeping expenses flat.

Eventually, though, especially due to the criticality of making necessary water infrastructure investments, rate adjustments become necessary, and when they are requested, we have no doubt that the PSC — with its staff of financial experts, engineers, attorneys and other professionals — will give full and public scrutiny to our case before taking action.

Such scrutiny of utilities is appropriate and, while it is demanding, it is a review process that we welcome and understand as being necessary in the interest of ensuring fair and reasonable rates for our customers.



Cheryl Norton is president of Kentucky American Water.

At issue: Jan. 20 Herald-Leader editorial, "Who'll pay: investors or ratepayers? Kentucky American pushed through costly plant as demand declined"
