



A water supply problem? In central Kentucky?



A REGIONAL SOLUTION TO A REGIONAL NEED

THE DAY-TO-DAY DEMAND FOR WATER IS INCREASING WITH THE PHENOMENAL GROWTH OF THE ENTIRE REGION AND WE NEED AN ADDITIONAL SOURCE OF WATER SUPPLY.



Water supply dwindles as demand grows

AN ABUNDANT WATER SUPPLY is sometimes taken for granted in many parts of the country. The Bluegrass area is fortunate to have ample rainfall most months, which is evident through the lush green landscapes the region is internationally known for. But, there have been years in which water was not so plentiful, and the options for new sources of water were few.

"There are several serious threats to the supply of clean water brought to the homes and businesses in central Kentucky," Linda Bridwell, P.E., Kentucky American Water's manager of Engineering. "The day-to-day demand for water is increasing with the phenomenal growth of the entire region and we need an additional source of water supply."

Kentucky American Water first identified the need for an additional source of water more than 20 years ago. The three greatest concerns regarding water supply for the region are a severe drought, increased demand and an unreliable source of water supply.

There have been a number of technical studies conducted by governmental bodies, water utilities, and other groups about the water supply over the years. Recently William E. Grier, PE, of the Kentucky

River Authority, wrote a three-part series about the water supply issue for *Business Lexington* that provides an overview of the threats to our supply by drought and unreliable sources.

But perhaps the greatest evidence of the need for a better water supply is the extraordinary efforts taken by water utilities throughout central Kentucky to unite in 1999 to study and resolve this issue. All have a mandate of providing water for the customers they serve, and all share concerns that alternate water sources are needed for a reliable supply.

Kentucky American Water has actively participated in and helped fund the Bluegrass Water Supply Commission (BWSC), as the regional group is now known. In 2004, BWSC released its Water System Regionalization Feasibility Study, which outlined the need for a new system to improve access to and treatment and distribution of water for central Kentucky water districts. The report detailed the need for additional treated water for the central Kentucky region and options for creating a regional solution to the problem. Based on this and other extensive research, it is clear that a major deficit in water supply

currently exists and steps to address it must be taken.

"Kentucky American Water received a mandate from the Public Service Commission, which regulates and oversees publicly owned utilities, to develop a solution to the water supply situation," Bridwell said. "In accordance with that directive, we filed a plan in late March with the PSC to build an additional water treatment plant to provide customers with ample water supplies for the next several years."

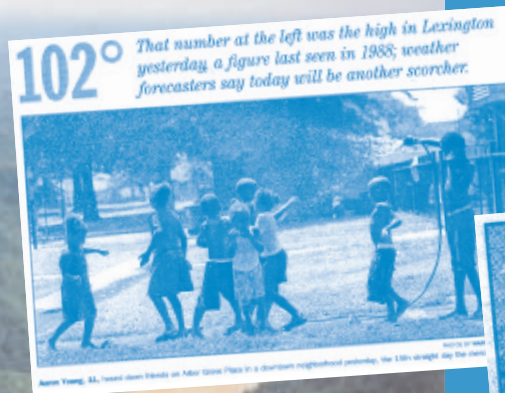
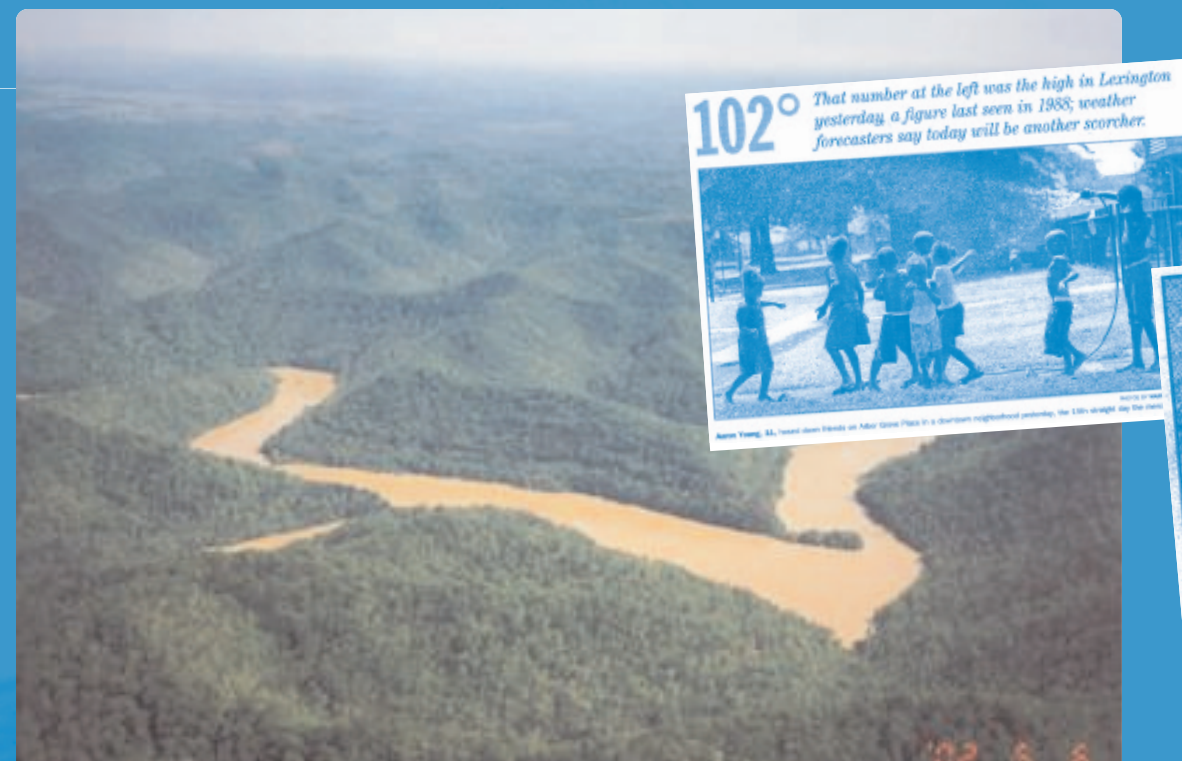
Kentucky American Water meets slightly more than half of the water demand for central Kentucky water districts. The service area includes a portion of Bourbon, Clark, Fayette, Gallatin, Grant, Harrison, Jessamine, Owen, Scott, and Woodford counties.

In addition, ample supplies of water help fuel the jobs and services that people throughout the region rely on. For instance, Fayette County serves as the workplace for nearly 50,000 out-of-county residents. Toyota, in Scott County, has approximately 7,000 team members who live in about 75 counties. The plant has 90 suppliers based in Kentucky and has generated 35,000 jobs in the state.

Sixty-four percent of the adults and children needing care at Lexington's hospitals live outside the county. Additionally, Kentucky American Water serves more than 2.6 million visitors who spend at least one night at an area hotel, shop in local stores, eat in local restaurants and attend sporting events throughout the year. All of these economic initiatives will be in jeopardy if the water supply issue is not addressed.

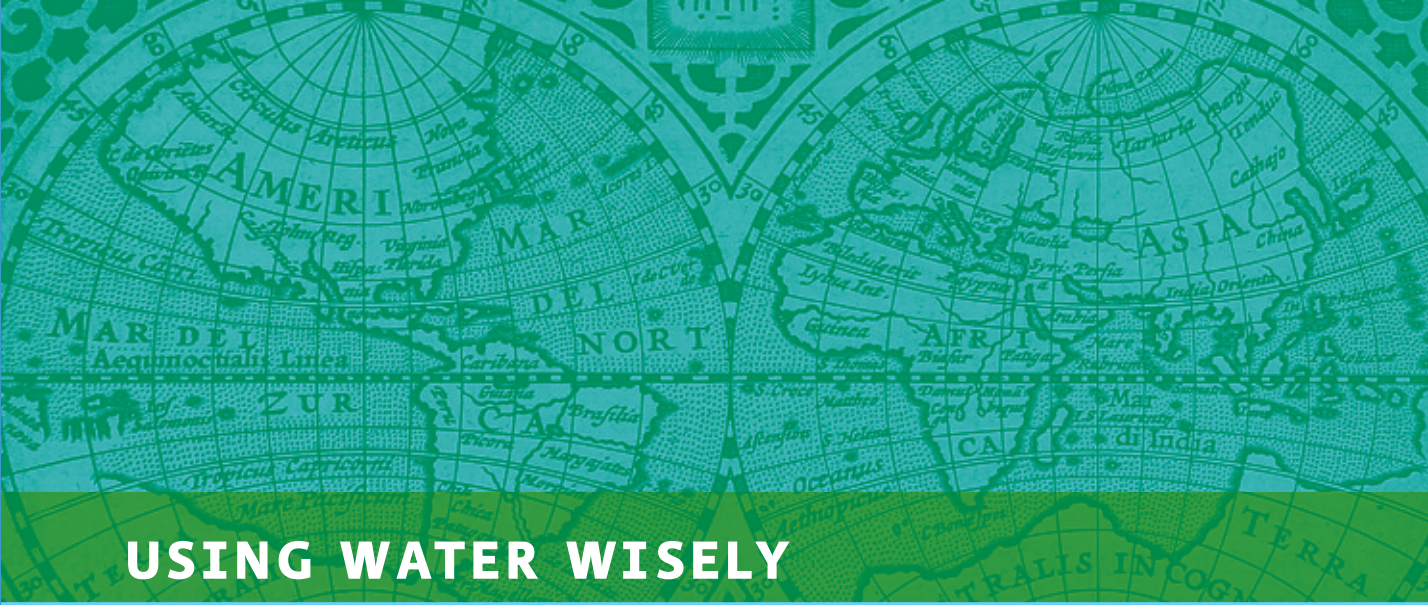
As a result of growing interdependence, the water supply issue is a regional one that requires cooperation and support of many in this part of the state to assure the quality of life we enjoy is maintained or enhanced for generations to come.

The three greatest concerns regarding water supply for the region are a severe drought, increased demand and an unreliable source of water supply.



Ponds and streams are drying up all across Kentucky. While the state could see some rain this weekend, it probably won't be enough to put a dent in the drought. Page A8

Water-shortage watch grows by 24 counties
The state Division of Water yesterday added 24 counties to a "water-shortage watch" area that now covers all but about the western fifth of the state. The area stretches as far west as Magertown in Butler County. The 24-county region newly covered by the water-shortage watch slipped from mild drought into moderate drought under a widely used drought index.



USING WATER WISELY

FROM THE GREAT LAKES TO the Great Barrier Reef and from California to Calcutta, people are facing the scary reality that their water supply is in trouble. Residents have taken to the streets in India to protest water cutbacks, and in Australia, severe water restrictions are in place. In the U.S., the problem is not quite as dire as it is abroad, but there are many areas that face major challenges.

In the Great Lakes area, lawmakers from eight states are reviewing a compact that prevents others from staking a claim to their water. It also requires each state to adopt a conservation plan and regulate water use.

Out West, lack of water is a major source of concern. The Colorado River supplies water to seven states, but scientists have concluded that demand is exceeding supply. They've also determined that conservation, although important and necessary, can't do the job alone.

In California's Santa Clarita Valley, water officials say it's not just conservation, but using water more efficiently that will help the area maintain its precious resource. Every May the local water agency participates in California Water Awareness Month, where it offers demonstrations on water pollution, landscaping workshops and information on water saving tips.

Here in central Kentucky the issue is not as severe as in some places, but it could be in a few years if steps are not taken now. As in the western part of the country, conservation alone won't cure our water supply ills, but it is important to conserve as much as possible.



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Per person water use among Kentucky American Water customers is down, thanks in part to people being more aware of conservation measures. At the same time, demand all across the Blue Grass region is continuing to increase as our population and economy grow and more people depend on this area for jobs, education and health care.

Research shows that 84 percent of Kentucky American Water's customers practice some type of water conservation, and one quarter said they are more aware of conservation measures now than they were just one year ago.

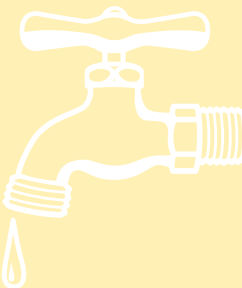
The last significant drought in this region was as recent as 1999. Kentucky American Water's demand management plan, designed to encourage reduction of water use during emergency times, was in effect for 18 weeks - from June 23 through October 25. The company has 15,000 more customers today than it did in 1999, so it is vitally important to be aware of the role conservation can play.

"Although they might sound like small steps, it is still important to do the little things like running the dishwasher and washing machine only when they are full or using low-flow toilets and shower heads," Susan Lancho, Kentucky American Water's manager of Communications and Corporate Social Responsibility, said. "If we all pay attention to how we use our water, we can make a difference. We know that conservation alone can't replace the need for an additional source of water, but in the long run, conservation measures will help."



A few suggestions to help conserve:

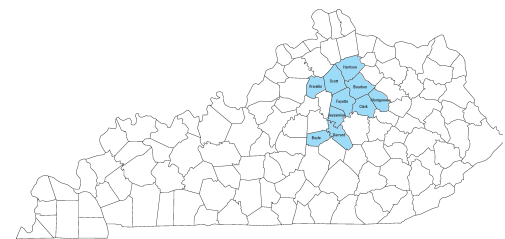
- When washing dishes by hand, fill up one side of your sink with soapy water and the other side with rinse water.
- Water flowers in the early morning to minimize evaporation.
- Use low-flow toilets and showerheads.
- Keep showers to less than five minutes.
- Turn off the water while brushing your teeth.
- Track water usage from month to month, and call Kentucky American Water immediately if you suspect you have a leak.
- Fix leaky faucets and toilets. Don't forget outside faucets.
- Know where your master shut off valve is located so you can turn off water quickly if a problem arises.
- Use organic mulch to keep water around your plants longer.
- Clean your driveway and sidewalks with a broom instead of a water hose.
- Collect rain water and use it to water plants.





Regional cooperation: a clear solution

Communities all across the country are discovering the many advantages of working together to bring in new businesses, consolidate services and solve problems. Central Kentucky is no exception, and our water supply clearly is a regional issue that requires a regional solution.



Today the members of the Bluegrass Water Supply Commission (BWSC) are Berea, Cynthiana, Frankfort, Georgetown, Lancaster, Lexington-Fayette, Mt. Sterling, Nicholasville, Paris and Winchester. Kentucky American Water participates as a non-voting member, as do the Kentucky Infrastructure Authority and the Kentucky River Authority.

Kentucky American Water is a regional company serving customers in 10 counties — Fayette, Clark, Scott, Woodford, Jessamine, Bourbon, Harrison, Owen, Gallatin and Grant — with a population of approximately 326,000. The average residential customer pays less than \$22 a month for water service.

Since 1999 Kentucky American Water has been working with a group of municipal water utilities seeking a regional solution, and in 2004, the Bluegrass Water Supply Commission

(BWSC) was officially created. Today the members are Berea, Cynthiana, Frankfort, Georgetown, Lancaster, Lexington-Fayette, Mt. Sterling, Nicholasville, Paris and Winchester. Kentucky American Water participates as a non-voting member, as do the Kentucky Infrastructure Authority and the Kentucky River Authority.

"This group has looked at many, many solutions to our region's water supply problem as have other agencies," said Linda Bridwell, Kentucky American Water's representative on the

BWSC. "We all agree that building a new treatment plant near pool three offers many advantages and is the most cost effective solution.

"The members of the BWSC understand that it is in everyone's interest to work toward a regional solution because we all face the same problem," she said. "Anyone who thinks this is only a Lexington issue might be surprised to learn how crucial the problem is to all of our surrounding counties."

The BWSC's mission is to solve Central Kentucky's long-standing lack of dependable water supply—particularly during dry times. Although it is imperative that residents of the region have a dependable source of water, BWSC's effort is linked to economic development as well. Without a safe, dependable, affordable supply of potable water, the region's economic vitality cannot be sustained over time. The financial impact of one drought, where business is curtailed or even shut down, or the failure to attract just one new industry far exceeds the cost of the new water supply project.

"The Central Kentucky economy is very much connected to all local communities," said Tom Calkins, Nicholasville's representative on the BWSC and the group's chair. "We all



need photo of Tom Calkins and Nick Rowe

Cutline for photo of Tom Calkins and Nick Rowe to come. Key member either at site or at own company or city. Cutline for photo of Tom Calkins and Nick Rowe to come. Key member either at site or at own company or city.

benefit from having new employers locate in the region, and we all depend on our local universities and technical colleges for workforce development. It's imperative that we have a water supply that makes our area attractive to new employers or existing businesses that want to expand."

Winchester Mayor Ed Burtner is looking at the Kentucky American Water-BWSC supply solution to fulfill the commitment his community made

District, local chambers of commerce, Bluegrass Tomorrow and several other groups meet frequently to discuss how to improve the Blue Grass area.

Regionalism is working in other parts of the country as well. For example, a group of local business leaders recently learned how cities in the Denver metropolitan area have joined forces for a number of different projects that save money and increase efficiency. In fact, Boulder leaders said they missed a

THE GROUP HAS LOOKED AT MANY, MANY SOLUTIONS TO OUR REGION'S WATER SUPPLY PROBLEM ... WE ALL AGREE THAT BUILDING A NEW TREATMENT PLANT NEAR POOL THREE OFFERS MANY ADVANTAGES AND IS THE MOST COST EFFECTIVE SOLUTION.

to provide 1.6 million gallons more water a day for a new plant that will create 100 new jobs.

He summed up what many have been trying to communicate, "If we can't cooperate on this, we can't cooperate on anything. I implore all of us to work in common cause..."

Because of the interconnectivity of the economy, the region's leaders meet regularly to discuss water issues and a number of other important matters. The Blue Grass Area Development

good opportunity to help another community solve a water problem. By not working with that community, the final solution was not as positive as it could have been.

It is likely more Central Kentucky issues will be solved in a regional manner in the future. Although it's important for each community to retain its identity and those things that make each one special, the region can't overlook the positive outcomes for all by working together.

Preserving Our Way of Life

Kentucky American Water is dedicated to preserving and protecting the environment of central Kentucky. The company is involved in a wide variety of programs that promote clean water, reforestation and wildlife preservation. Here are a few examples.

- First utility in the state to join the Kentucky Department of Environmental Protection's Kentucky EXCEL environmental leadership program.
- Leading corporate sponsor of the Lexington-Fayette Urban County Government's Reforest the Bluegrass project since its inception in 1999
- Annual sponsor of Arbor Day at the Arboretum, the state's official botanical garden
- 2007 title sponsor of the Downtown Lexington Corporation's Downtown Sweepstakes cleanup event
- Long-time leading supporter of McConnell Springs, commonly regarded as the place where Lexington was named
- Corporate property in Fayette County is deemed wildlife friendly by the Kentucky Department of Fish and Wildlife's Business Conservation Partnership program
- Provides funding annually to watershed protection causes and organizations through the American Water Environmental Grant Program
- Sponsors an annual scholarship for high school seniors focused on environmental stewardship - the Ripple Effect Scholarship Program, as well as an annual watershed protection poster contest.
- Helps sponsor a bird blind at the Clyde E. Buckley Wildlife Sanctuary & Audubon Center
- One of the first donors to HealthWay Trail, a biking trail under construction throughout Lexington



THE WONDER OF WATER QUIZ

<p>1. What percentage of the earth's water is fresh?</p> <p>a. 10 b. 3 c. 20</p>	<p>2. What is the source of energy for the hydrologic or water cycle?</p> <p>a. wind b. rain c. sun</p>	<p>3. What is not one of the three largest oceans?</p> <p>a. Pacific b. Indian c. Atlantic d. Arctic</p>	<p>4. What is the capacity of porous materials, such as sand and gravel, to transmit water?</p> <p>a. Portability b. Potability c. Permeability</p>	<p>5. What is the term used to describe the area drained by a river and its tributaries?</p> <p>a. Watershed b. Aquifer c. Forest</p>	<p>6. What is a water saturated land where aquatic plants and animals live?</p> <p>a. Aqueduct b. River c. Wetland</p>	<p>7. What uses on average 26% of the water in a home?</p> <p>a. Shower b. Dishwasher c. Toilet flushing</p>	<p>8. What percentage of the human body is composed of water?</p> <p>a. 66% b. 50% c. 40%</p>	<p>9. What is the percentage of water that covers the earth?</p> <p>a. 70% b. 80% c. 50%</p>	<p>10. What is the average number of gallons of water treated in the U.S. for each person every day?</p> <p>a. 160 gallons b. 150 gallons c. 180 gallons</p>	<p>11. How much water on average do people use taking a shower?</p> <p>a. 15-30 gallons b. 20-40 gallons c. 25-45 gallons</p>	<p>12. How much water does it take on average to brush our teeth?</p> <p>a. 2 gallons of water b. 3 gallons of water c. 1 gallon of water</p>
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Kentucky American Water one of first to receive EPA award

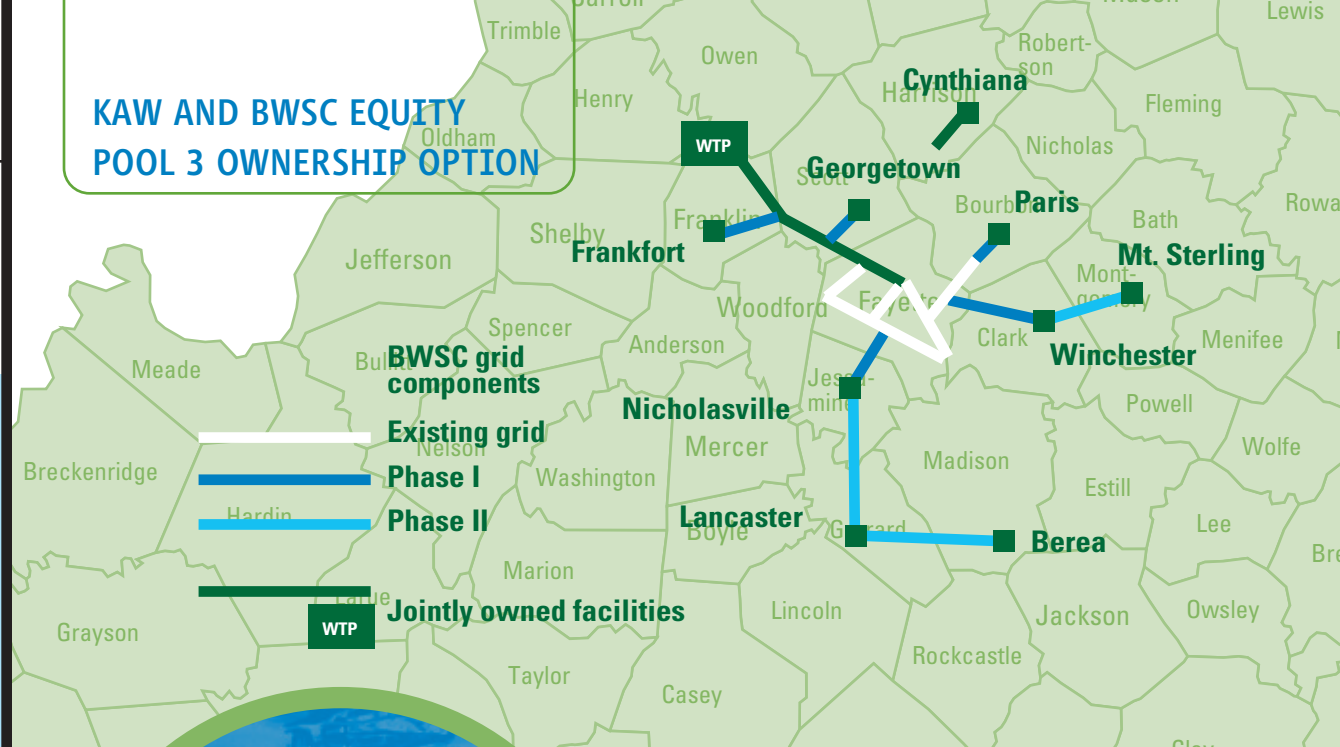
Kentucky American Water is a member of the national Partnership for Safe Water, which was developed jointly by the U.S. Environmental Protection Agency (EPA), American Water Works Association, and other national drinking water organizations. The Partnership's members make voluntary commitments to continued improvement that is designed to help utilities provide safer water to millions of Americans by implementing prevention programs more stringent than those required by law. These preventive measures focus on optimizing treatment plant performance, thereby increasing protection against microbial contamination.

Kentucky American Water began participating in the Partnership for Safe Water in 1996, and by 1998 became one of the first utilities in the country to receive the U.S. EPA's Directors Award. This award is given to facilities that successfully complete the Phase III Self-Assessment requirements of this program. In 2003 both Kentucky American Water treatment facilities in Lexington were awarded the prestigious "Five-Year Director's Award," recognizing the company's continued participation and overall excellence in treatment optimization.

Although many other facilities have now obtained the Director's Award, Kentucky American Water is proud that it remains one of only three water systems in Kentucky to have this distinguished honor. The company also is very proud that through diligence and commitment to excellence by the operational and technical support staff, along with advances in technology application, Kentucky American Water continues to provide excellent filtered water quality and remains in good standing with the Partnership for Safe Water. Kentucky American Water continues to participate in the Partnership for Safe Water and is committed to providing its customers with safe water 100% of the time.

Kentucky American Water sponsors an exhibit at the Explorium that teaches children about the community's precious water resources.

KAW AND BWSC EQUITY POOL 3 OWNERSHIP OPTION



Solving the water supply shortage

Kentucky American Water filed an application on March 30 for Kentucky Public Service Commission (PSC) approval to construct a new 20 million-gallon-a-day (mgd) water treatment plant and an approximately 30-mile underground water transmission line. The amount of treated water will increase to 25 mgd if a potential business agreement with the Blue Grass Water Supply Commission proceeds as planned.

The PSC regulates Kentucky American Water's rates and service and must approve expansion projects. This will be the most significant water utility project built in Kentucky — in terms of size and cost — in 30 years. Cost of the project is \$160 million.

Here are some of the most often asked questions about the project.

Where will the treatment plant and water line be located?

The proposed water treatment plant will be located near Monterey, in Owen County, and the water transmission line will run from the water treatment plant site through Franklin and Scott counties, then tie into Kentucky American Water's existing distribution system in Fayette County.

The treatment plant will draw water from pool 3 of the Kentucky River.

Why is this project important?

More than 20 years of substantial research by multiple organizations clearly indicates that a sufficient supply of water is not currently available to meet the needs of Kentucky American Water's customers during a drought of record. In fact, the company is currently under mandate by the PSC to address the problem. PSC Order No. 93-434, dated August 21, 1997, states:

"Kentucky-American shall take the necessary and appropriate measures to obtain sources of supply so that the quantity and quality of water delivered to its distribution system shall be sufficient to adequately, dependably, and safely supply the total reasonable requirements of its customers under maximum consumption through the year 2020."

The new water treatment plant and underground water transmission line will address this need through 2030, which is Kentucky American's current planning horizon, and can be connected with additional water sources if needed. This project is not being built for a future need. It is being constructed for an existing need.



Kentucky American Water is careful to maintain the original landscape when water transmission lines are installed. This photo shows an area on Parkers Mill Road in Lexington.

What will happen if this project doesn't occur?

Many Kentuckians depend on the Central Kentucky region for jobs, health care, education and other services. If a lack of sufficient water supply occurs, businesses and organizations may be required to curtail services, reduce operations, or even shut down temporarily — all of which could have long-term effects.

Is this a project to benefit Lexington/Fayette County only?

The water supply problem is a regional issue, not a "Lexington" issue. Kentucky American Water serves customers in portions of 10 counties, and this project will initially help meet the needs of customers in seven of those counties, including Fayette, Bourbon, Clark, Harrison, Jessamine, Scott and Woodford.

An agreement with the Bluegrass Water Supply Commission means several other communities also will depend on this water treatment plant and water line, including Berea, Cynthiana, Frankfort, Georgetown, Lancaster, Mount Sterling, Nicholasville, Paris and Winchester.

Why not add a pipeline from the Ohio River to the plant as well?

At this time, there is no need to construct a pipeline to the Ohio River, and it would not be appropriate to ask customers to pay for this additional cost.

When will construction begin?

Construction will begin as soon as the PSC approves it. Kentucky American Water would like to begin construction in January of 2008, which would allow completion by early summer 2010, several months before the Alltech FEI World Equestrian Games.

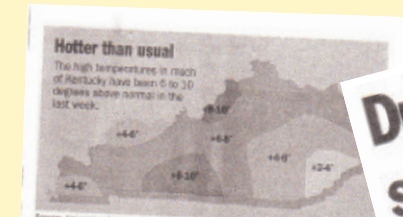
Won't the new water line impact private property or natural areas?

Kentucky American Water reviewed several potential routes for the 30-mile underground water transmission line, and then selected a route after reviewing a variety of factors including environmental and cultural concerns, feasibility of construction and operation, and cost. The company also solicited feedback from property owners in the area.

There will be some short-term disruption during construction. However, the impact to the area will be minimized as much as feasible by laying the line in existing roadways wherever possible, diverting the

route around sensitive areas, etc. Kentucky American will work to quickly restore disrupted areas so there will be little evidence of the construction. The company has been communicating with property owners along the route since December, and will continue to remain in close contact with them to answer questions and address their concerns.

Kentucky American Water is sensitive to property owners' concerns and is an environmentally friendly company.



Board grants three watering exemptions

By Stephanie Rausch... Ask and you shall receive. That was the case for three Lexington businesses who appeared before the first meeting of the Water Conservation Board in...

Their wishes were granted. They will now be able to water the fairways from 7 p.m. to 6 a.m. every day if necessary. Although the Lexington Country Club plans to water every day to serve its fairways, the parks department will follow an every-other-day watering schedule. The members on the board Mayor Pam Miller, Roy...



Kentucky American Water Company has served central Kentucky since 1885. Our service area has grown as communities have asked us to provide residents and other water companies with tap water, wastewater treatment and related services. We take great pride in the quality and dependability of our water, our work ethic, and our role as a corporate citizen.

Communities Served	10 counties: Fayette, Clark, Scott, Woodford, Jessamine, Bourbon, Harrison, Owen, Gallatin, Grant
Customers Served	Central Division: 113,362 water customers; 711 wastewater customers Northern Division: 1,133 water customers; 622 wastewater customers
Population Served	Approximately 326,000; 20,000 through bulk water sales
Avg. Annual Water Bill	\$259.78 (residential), an average of \$21.65 per month
Employees	118 – Kentucky only

Bluegrass Water Supply Commission

MEMBERS

Tom Calkins, Nicholasville
Dave Pearce, Mt. Sterling
Vernon Azevedo, Winchester
Bob Riddle, Georgetown
Kevin Crump, Paris
Donna Powell, Lancaster
Jim Brown, Cynthiana
Charlie Martin, Lexington-Fayette County
David Billings, Frankfort
Don Hassell, Blue Grass Area Development District

EX-OFFICIO

Bill Grier, Kentucky River Authority
Jody Hughes, Kentucky Infrastructure Authority
Bunk Sullivan, Frankfort (retired)

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