 The image cannot be displayed. Your computer may not have enough memory to open the image, or the image may have been corrupted. Restart your computer, and then open the file again. If the red x still appears, you may have to delete the image and then insert it again.

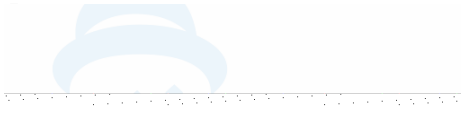
Solving Today's Management Challenges in the New Economy

Greg C. Heitzman
President & CEO
Louisville Water Company

AMWA

October 22, 2011

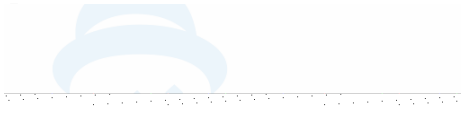
Portland, Oregon



The Robust Economy: 1991-2007

Utilities Leveraged Business Operations Through:

- Healthy annual growth rates (2 to 15%)
- Technology enablers (mainframe to desktop to mobile)
- Productivity and efficiency gains reduced O&M costs
- Slow and manageable regulatory environment (19 years for LT2)
- Easy access to cost capital (<5%)
- Low inflation (< 3%)
- Annualized rate increases of 1.5 to 2X CPI
- Comfortable consumer base
- Predictable political environment
- Media reports on events (main breaks, water outages, etc)



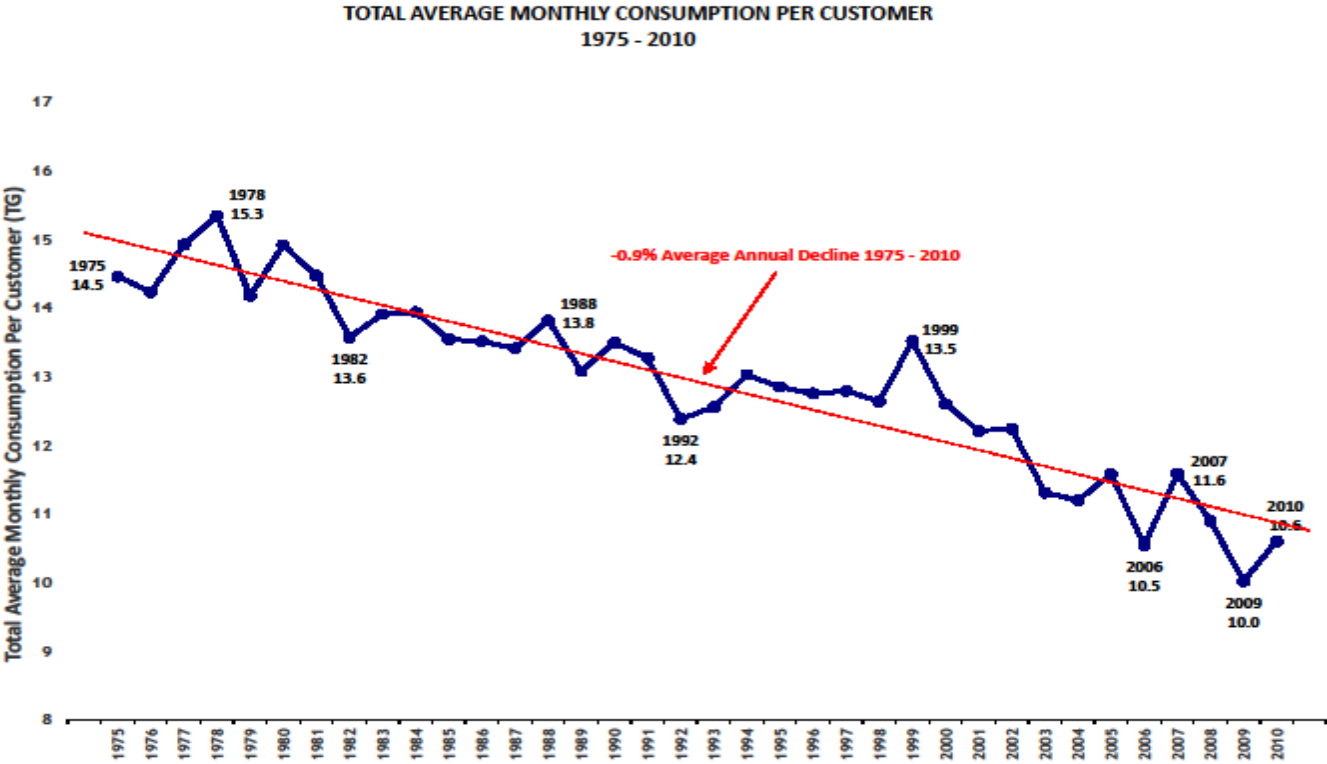
The New Age of Water: 2008 to 2020

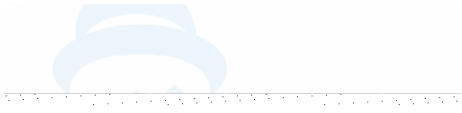
A New Economy and a New Business Environment:

- Economic Collapse of August 2008
- Slow or No Growth for 4 + years
- Weather extremes (2011 was wettest year on record)
- Declining per Capita Consumption
 - Average annual decline of 1% per year since 1975
 - 6,000 gallons per month to 4,500 gallons per month (25% reduction)
- Stagnant or Declining Revenues
- Rising Health and Pension costs
- Baby Boomer retirement wave is beginning
- Media coverage expand from events to investigative

Louisville 1975-2010 Consumption Trends

Average Annual Decline of 1% per Year





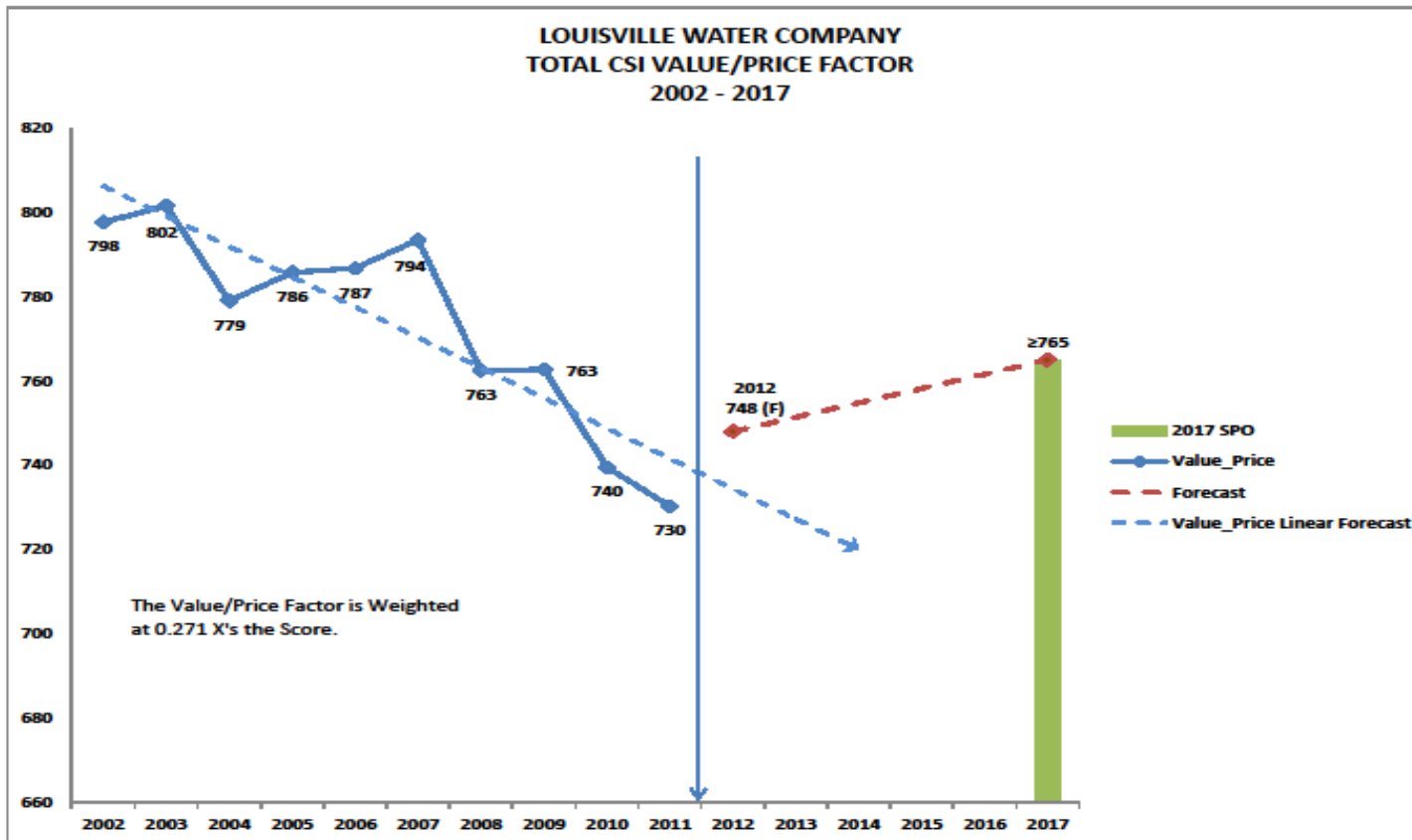
The New Age of Water: 2008 to 2020

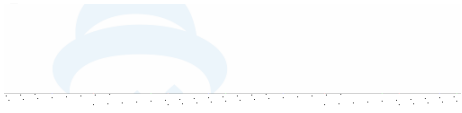
A New Consumer and Political Environment:

- Customer satisfaction down due to overall economic decline
- Customer expect 24/7 for access to information
- Eroding Price/Value (rising rates for less water)
- Rising sewer rates driving combined water/sewer bills above \$100 per month
- Negative media exposure on Pharmaceuticals and Chromium VI
- Unsettled political constituencies (Tea Party)
- State Audits (transparency, ethics, finances)
- Regulatory non-compliance for wastewater (consent decrees)

Price-Value Erosion 2002-2011

798 to 730 (10% decline)



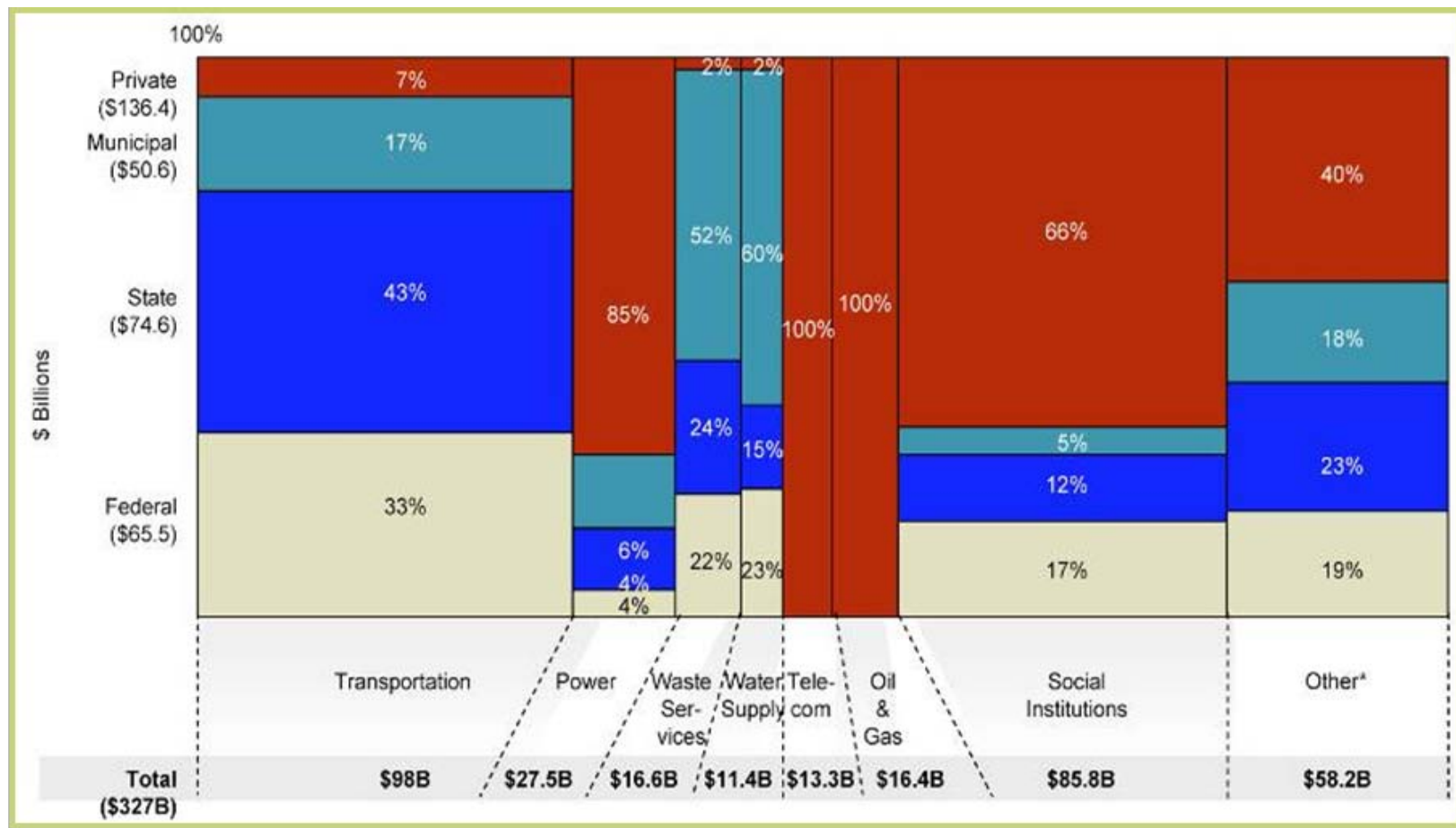


Utility Executives Must Transform the American Water Utility

Six Trends Will Emerge:

1. New utility/business governance models will emerge
2. Regional and business partnerships will develop
3. Business efficiencies will accelerate
4. Utilities must enhance non-water revenue
5. Utilities must build “Rate Capacity”
6. Utilities must deploy “Smart Water”

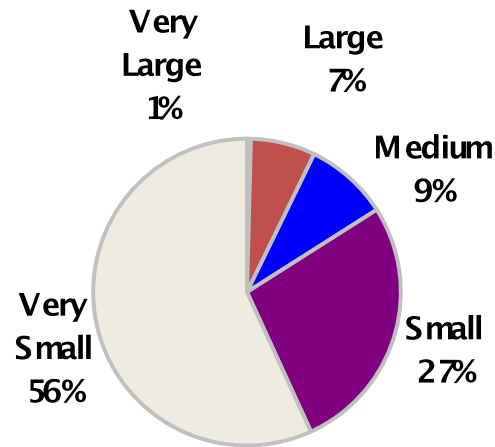
Water and Wastewater a \$28 billion per year Government Dominated Industry



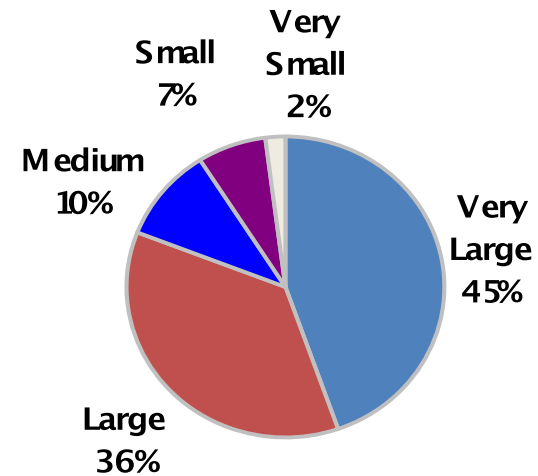
Source: RW Beck Presentation, KY-TN WPC July 20, 2010 by Ed Wetzel

Water Industry is Fragmented by Ownership

Total water systems: 53,000



Total population served: 273 Million



Very Small – 500 or less

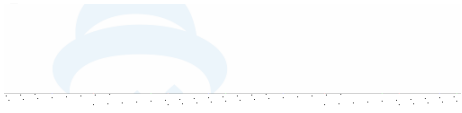
Small – 501 - 3,300

Medium – 3,301- 10,000

Large – 10,001 -100,000

Very Large – 100,001 or more

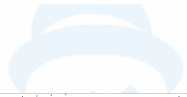
Source: EPA, Drinking and Ground Water Statistics.



Transforming the American Water Utility

1. New Utility Governance & Business Models Emerge

- Regional Authorities (Southern Nevada/Las Vegas)
- Municipal Corporations (Louisville, Orlando, EPCOR)
- Public Trust (Citizens Energy, Water, Sewer)
- Investor Owned Acquisitions (American, Aqua)
- Private Contract Operations (United, Veolia)
- New Consolidated Governance Models (regional districts/commissions/trusts)



The image cannot be displayed. Your computer may not have enough memory to open the image, or the image may have been corrupted. Restart your computer, and then open the file again. If the red x still appears, you may have to delete the image and then insert it again.

Transforming the American Water Utility

Pressure to consolidate utilities (water, sewer, power) for economies of scale (Halifax, Indianapolis, Cincinnati, Louisville, Asheville)

BUSINESS FIRST
President and Publisher
Editor
Managing Editor

OPINION
MAY 25, 2012 BUSINESS FIRST
EDITORIAL

BusinessFirstofLouisville.com

Much to be gained by merger of water company, MSD

It often is said that timing is everything. Well, the time is right to pursue the consolidation of the Louisville Water Co. and the Metropolitan Sewer District and more partnerships between them and the Louisville Metro Department of Public Works.

Last January, Louisville Mayor Greg Fischer formed a task force to examine the operations of MSD, the water company and the public works department. He thought it was important to identify ways the three entities could operate together more efficiently.

The task force, known as the Louisville Utilities and Public Works Advisory Group, hired a consulting firm to research and benchmark data, interview staffs of the three organizations and then make observations to the task force.

■ The savings for rate-payers and efficiencies that would result make the effort worth pursuing.

rate increases that will be necessary to address the community's aging water and sewer systems. So even though MSD and Louisville Water customers will experience annual increases for the foreseeable future, those rates won't be as much as they would be without the merger.

In addition to the monetary savings, the plan makes sense because of similarities and connections in the way the entities operate.

The three already share some resources. For instance, the water company does the billing for MSD, and the water company uses MSD's mapping services.

Additional savings would occur if a merged entity used a joint fuel paving contract, made a joint fuel purchase, combined call centers and eliminated job duplication.

The timing is right for a merger employees in a merged entity.

If all details can be worked out, the task force would like to see the merger completed in five years. Fischer, a get-it-done-now businessman at heart, would like to see it accomplished even sooner.

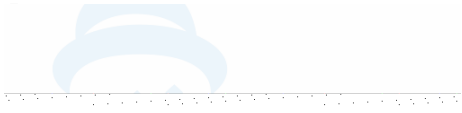
Numerous issues need to be addressed before a consolidation could occur. Bondholders for both the water company and MSD will need to be convinced of the financial stability of a merged entity.

Any plan also cannot have an adverse impact on the federal consent decree to which MSD has agreed, calling for renovating the sewer system to meet wastewater quality standards.

A consolidation plan also would have to be approved by the MSD and water company boards, the Louisville Metro Council, the state legislature, the Kentucky Division of Water and the U.S. Environmental and Protection Agency.

So there's much work to be done in the next

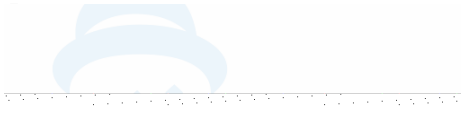
STAFF
President Tom Monal
Senior vice of operati
NEWS
Editor: Car
Managing Carolyn Trib
Associate Judith Berz
News inte
Design and Brooke Tim
Photograp
Research d Allison Stine
Assistant e
Reporters: Eigelbach, Jr



Transforming the American Water Utility

2. Regional and Business Partnerships

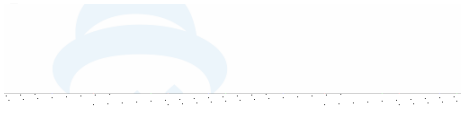
- EPA will continue to promote regional solutions
- Tighter City budgets will promote regional thinking and consolidation of water/sewer
- Utilities will seek business partnerships to share services and resources to enhance utility value
- “Public-Private” and “Public-Public” Business Models
- City leaders will begin to recognize value of water and sewer to enhance economic development and jobs



Transforming the American Water Utility

3. Efficiencies and Innovation will Accelerate

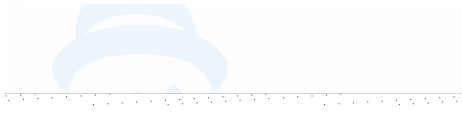
- New Information Technology (CIS, AMR, AMI)
- Mobile Technology will expand (GIS, Work & Asset Management)
- New Human Resourcing Models (Part Time, Temps, Flex)
- Shared Service Models
 - Finance, Accounting, HR, Legal,
 - Procurement
 - Engineering & Planning
 - Operations



Transforming the American Water Utility

4. Utilities Must Enhance Revenue due to Declining Consumption

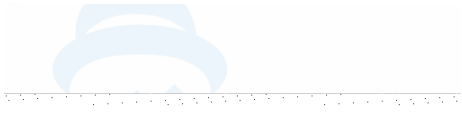
- Promote and Develop a Concept of “Basic Water” for low and fixed income customers (affordability)
- Covert Variable Revenue to Fixed (increase service charge by moving distribution costs to fixed)
- Horizontal Business Growth (regional water service)
- Vertical Business Growth
 - **Contract Operations (lab, meter reading, leak detection, backflow)**
 - **Service Line Protection**
 - **POU/POE devices**



Transforming the American Water Utility

5. Utilities will Build “Rate Capacity” by increasing the “value of water”

- Customer Care & Billing Systems with 24/7 access
- AMR and AMI technology implementation
- Affordability Programs (**Help2O**thers customer assistance)
- Enhanced Customer Communications (social, e-mail, web)
- Education Partnerships (health, environment and science)
- Employee engagement in community (Chamber, Rotary, BBB, etc)
- Global Water Outreach Opportunities (W4P)

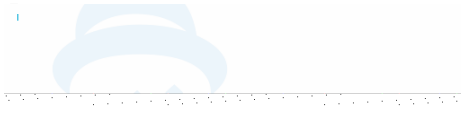



Transforming the American Water Utility

6. Deployment of “Smart Water” Technologies

- Condition Assessment Technology for Infrastructure
- Point-of-Use Treatment to fit consumer needs
- Water Footprints and Customer Flow Signatures
- Advanced Leak Detection
- New mobile technologies for field applications
- Provide various “grades” of water for domestic, special use, recycling/reuse, etc.

Essentially we must become the community water expert in order to compete and survive in the New Economy!



 The image cannot be displayed. Your computer may not have enough memory to open the image, or the image may have been corrupted. Restart your computer, and then open the file again. If the red x still appears, you may have to delete the image and then insert it again.

Questions

Greg C. Heitzman, P.E.

President and CEO

Louisville Water Company

gheitzman@lwcky.com