

Schedule of Rates for Inside- and Outside-City of Little Rock Customers

Central Arkansas Water's new rate schedule represents the transition from a Declining Block Rate Structure to a Flat Rate Structure. With the former, the more water a customer used the lower the per unit rate. Consequently, the higher use customers in some classes will see a larger increase. The new schedule of rates is based on the cost-of-service rate-setting method, which takes into account how much it actually costs the utility to serve a particular type of customer class and assigns costs accordingly.

Under the Flat Rate Structure, customers are grouped by class - Domestic (residential), Commercial, Industrial, Sprinkling, Master-metered, and Raw Water - and by whether the customers are inside or outside the city limits.

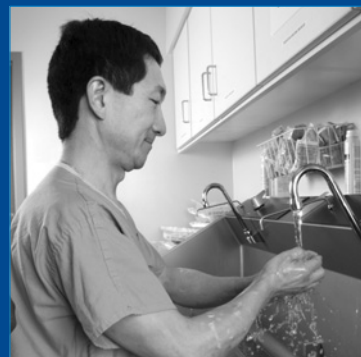
The new rate structure keeps the two components of your water bill: A Minimum Monthly Charge that covers service availability, free inspection services, meter reading, billing, customer services, emergency response, and 200 cubic feet of water; and an Additional Monthly Charge for usage in excess of 200 cubic feet per month. Usage above 200 cubic feet is charged at the appropriate flat rate for the respective customer class.

For 2004 and 2005, the rates for Master-metered Customers, Raw Water Customers, and private fire services will remain at the 2003 levels.

The following schedule of rates are established by Central Arkansas Water for Domestic, Commercial, Industrial, and Sprinkler customers classes inside or outside of the corporate limits of the City of Little Rock, and whose water service meters are located south of the Arkansas River.

Effective Dates

The Board of Commissioners, Central Arkansas Water, adopted the 2004 and 2005 schedule of rates as Resolution 2003-08 on September 4, 2003. This schedule shall become effective for water billed on or after January 1, 2004, and January 1, 2005, as hereinafter set forth.



Minimum Monthly Charge

The Minimum Monthly Charge includes payment for the first 200 cubic feet (cf) of water used.

METER SIZE (diameter)	2004 — LITTLE ROCK MINIMUM MONTHLY CHARGE		2005 — LITTLE ROCK MINIMUM MONTHLY CHARGE	
	INSIDE	OUTSIDE	INSIDE	OUTSIDE
5/8"	\$ 4.00	\$ 5.80	\$ 4.40	\$ 6.20
3/4"	\$ 5.17	\$ 7.52	\$ 5.68	\$ 8.04
1"	\$ 7.33	\$ 10.63	\$ 8.07	\$ 11.37
1 1/2"	\$ 12.44	\$ 18.04	\$ 13.69	\$ 19.29
2"	\$ 20.11	\$ 29.21	\$ 22.12	\$ 31.23
3"	\$ 37.22	\$ 54.24	\$ 40.94	\$ 57.98
4"	\$ 60.56	\$ 88.07	\$ 66.61	\$ 94.15
6"	\$119.44	\$173.46	\$131.39	\$185.43
8"	\$190.00	\$276.04	\$209.00	\$295.07
10"	\$272.22	\$395.26	\$299.44	\$422.52
12"	\$496.67	\$720.70	\$546.33	\$770.41

Meter Measurement

Except for public and private fire services, all water used shall be measured through meters. The size of each meter shall be determined by Central Arkansas Water commensurate with its estimate of the amount of water to be used for the premises. One cubic foot of water is equal to 7.48 gallons weighing 62.5 pounds avoirdupois.

Understanding Your UBS Customer Billing Statement

Your monthly charges for water service account for approximately one-third of your monthly bill. All charges for water service are indicated in the WATER column of your billing statement. The other charges are for sewer and, if applicable, solid waste (garbage) collection services.

UTILITY BILLING SERVICES		ACCT. NO.	SHRINK ADDRESS		
P.O. Box 8100 Little Rock, AR 72203-8100		700-0000-3339	9900 W 12TH ST		
CUSTOMER SERVICE 501-372-5161		BILLING DATE 8/26/04	CITY LITTLE ROCK		
FOR CUSTOMER SERVICE INFORMATION PLEASE SEE REFLECT SIDE		DUE DATE 9/27/04	CLASS RESIDENTIAL		
			NAME ON ACCOUNT CUSTOMER DOE		
METER NUMBER(S)	BILLING PERIOD FROM TO	PREVIOUS METER READING	PRESENT METER READING	CONSUMPTION 100 CUBIC FEET	DESCRIPTION
04000	2/12/04 03/02/04	25	143	118	WATER
YOUR AVERAGE WINTER CONSUMPTION FOR SEWER IS: 4					
PREVIOUS ACTIVITY					
PREVIOUS BILLING	\$10.35	\$20.88	\$18.91	\$50.00	
PAYMENT 2/14/04 - THANK YOU	10.35	20.88	18.91	50.00	
BALANCE FORWARD	\$0.00	\$0.00	\$0.00	\$0.00	
CURRENT ACTIVITY					
MONTHLY CHARGES	8.50	19.44	18.91	47.61	
FRANCHISE FEE	.65	.44		1.68	
GRUES TAX	.44			.65	
PEEL-SAVE DRINKING WATER ADD	.27			.28	
TOTAL CURRENT CHARGES	\$10.35	\$20.88	\$18.91	\$50.00	

Additional Monthly Charge

In addition to the Minimum Monthly Charge, the following rates shall apply to the amount of water used in excess of 200 cubic feet (cf) per month:

CUSTOMER CLASS	RATES EFFECTIVE JANUARY 1, 2004		RATES EFFECTIVE JANUARY 1, 2005	
	INSIDE LR CHARGES \$ PER 100	OUTSIDE LR CHARGES \$ PER 100 CF	INSIDE LR CHARGES \$ PER 100 CF	OUTSIDE LR CHARGES \$ PER 100 CF
DOMESTIC	\$0.81	\$1.27	\$0.85	\$1.27
COMMERCIAL	\$0.68	\$1.04	\$0.73	\$1.10
INDUSTRIAL	\$0.61	\$0.75	\$0.66	\$0.81
SPRINKLER	\$0.81	\$1.27	\$0.85	\$1.27

Private Fire Service

Private fire service connections for private premises shall pay the following annual fire service charges:

	RATES EFFECTIVE JANUARY 1, 2004		RATES EFFECTIVE JANUARY 1, 2005	
	INSIDE LR	OUTSIDE LR	INSIDE LR	OUTSIDE LR
FIRE HYDRANTS	\$59.50	\$ 89.25	\$59.50	\$ 89.25
FIRE CONNECTION MINIMUM CHARGE	\$69.00	\$103.50	\$69.00	\$103.50
AUTOMATIC SPRINKLER SYSTEM MINIMUM CHARGE (1,000 HEADS)	\$69.00	\$103.50	\$69.00	\$103.50
ADDITIONAL HEADS, EACH AT STANDPIPE 1 1/4" (OR SMALLER) DIAMETER, EACH	\$ 0.07	\$ 0.11	\$ 0.07	\$ 0.11
1 1/2" DIAMETER, EACH	\$21.00	\$ 31.50	\$21.00	\$ 31.50
2" DIAMETER, EACH	\$34.50	\$ 51.75	\$34.50	\$ 51.75
2 1/2" DIAMETER, EACH	\$69.00	\$103.50	\$69.00	\$103.50

Nonresident Consumers

The term "outside-city" used in the foregoing rates refers to any consumer except the City of Little Rock and Master-metered Customers receiving service outside the municipal boundaries and to nonresident consumers and Master-metered Customers who purchase water within the municipal boundaries, which water then is transported to a point outside the municipal boundaries for use or resale.

Actual Calculation of Water Bill, based on 8 ccf consumption

Calculation of Average Monthly Household Water Bill - Little Rock
5/8" diameter Meter with Consumption of 8 ccf

	Inside-city	Outside-city
Minimum Monthly Charge	\$ 4.00 (includes 2 ccf)	\$ 5.80 (includes 2 ccf)
Consumption Charges	\$ 4.86 (6 ccf x \$0.81)	\$ 7.62 (6 ccf x \$1.27)
Taxes, Fees, and Other Charges	\$ 1.49	\$ 1.07
TOTAL Month's Bill	\$10.35	\$14.49

An important provision of the utilities' consolidation agreement is for customers within the same class to pay the same rates for water. Right now, customers north of the river pay more than customers south of the river pay for the same volume of water. The equalization of rates will take place over a period of years but no later than the year 2011.

The new schedule of rates follows an outside rate consultant's review of our costs for operations, maintenance, and capital improvements, as well as anticipated revenues. The Board of Water Commissioners approved the new rates on September 4, 2003.

In accordance with the consolidation agreement, we held a public hearing for customer comments on September 2, 2003, then submitted the rates for consideration by the Little Rock Board of Directors and North Little Rock City Council.

As your water service provider, CAW puts service to you at the top of our priorities. You will be paying a little more and you will be getting more.

We are committed to ensuring that your water service continually meets all federal and state standards for health and safety, keeping the facilities that serve you in good repair, planning ahead for the future, and continuing to offer the personable and convenient service that you expect from a hometown utility.

Sincerely,

Jim Harvey

Jim Harvey
Chief Executive Officer

Household Water Bill Comparison *

City	6,244 Gallons
Memphis, TN	\$ 7.52
CAW - Little Rock, AR	\$ 9.14
Dallas, TX	\$ 10.72
Shreveport, LA	\$ 13.38
St. Louis, MO	\$ 13.49
Oklahoma City, OK	\$ 15.19
Louisville, KY	\$ 15.22
Nashville, TN	\$ 15.46
Tulsa, OK	\$ 16.21
Springfield, MO	\$ 18.43
Jackson, MS	\$ 19.03

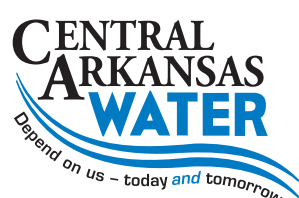
* Based on 2004 Schedule of Rates for Central Arkansas Water Customers. Source: Black & Veatch Corporation of Kansas City, Missouri.

Exceptional Customer Service from Central Arkansas Water

- ✓ Personable and convenient service five days a week through a local Customer Service Center
- ✓ 24-hour water quality monitoring
- ✓ Emergency turn-on service
- ✓ Bill adjustments for leaks
- ✓ Payment arrangements
- ✓ Network of 24 payment agents that puts the bill payment process closer to your home or business
- ✓ Seven options on how to pay the monthly bill (on-line, automatic debit, traditional mail, credit/debit card, payment agent, in-person, and night deposit)
- ✓ Free inspection services for leaks, pressure, and other problems
- ✓ 24-hour telephone access to your basic account information
- ✓ Dependable service from people who treat you like family

Mission Statement

"Providing you with the best water service possible at a fair price"



221 East Capitol Avenue • P.O. Box 1789
Little Rock, AR 72203 • 501-372-5161 • carkw.com



Quality.
Dependability.
Affordability.
Value.

Our commitment to you.

Customer Notification on Rates for 2004 and 2005
Inside- and Outside-City of Little Rock Customers

Dear Customer:

Drinking and cooking. Heating and cooling. Bathing and cleaning. Medical care. Food processing and manufacturing. Waste disposal. Recreation. Irrigation. Fire protection.



Central Arkansas Water's (CAW) commitment to you and other customers is to provide the best water service possible at a fair price. And, the many uses of water easily remind us of just how important having safe, dependable, and affordable water service is to our everyday quality of life.

In the Little Rock-North Little Rock metropolitan area, we are fortunate to enjoy water quality that is among the best in the United States and water service at rates among the lowest in the nation for residential, commercial, and industrial customers.

CAW operates solely on revenues that the utility receives from customers for water usage and special services. We do not receive tax revenues or federal dollars to support operations.

As with the average household or business, the cost of operating and maintaining increases over time. The revenue requirements for operating and maintaining the public water system have changed over the years, as well.

Increasingly stringent federal water quality regulations, the upkeep and repair of existing facilities, expansion of the system to accommodate growth, and planning for a needed future water source all are factors in the increased costs.

Effective January 1, 2004, and January 1, 2005, CAW will increase rates for customers south of the Arkansas River. Your enclosed billing statement reflects the first month of charges at the 2004 rates.

The average household in Little Rock will pay an extra 58 cents more per month in 2004 and 64 cents more per month in 2005.

Residential customers of CAW and the former water service provider, Little Rock Municipal Water Works, have had only two rate adjustments in the past 18 years. The 2004 increase is the third.

On July 1, 2001, the cities of Little Rock and North Little Rock merged their municipal water systems into Central Arkansas Water.