

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT made and entered into this 16th day of March, 2000, by and between the City of Cynthiana ("Cynthiana") and the Harrison County Water Association ("HCWA");

WITNESSETH:

THAT, WHEREAS, Cynthiana and the HCWA are currently parties to a Water Purchase Contract dated October 21, 1987, under which Cynthiana is obligated to sell water to the HCWA at certain rates; and

WHEREAS, as a result of the Kentucky Supreme Court case in Simpson County Water District v. City of Franklin, Ky., 872 S.W.2d 460 (1994), the water rates charged by city municipalities under contracts with regulated water utilities were found to be subject to the jurisdiction and approval of the Kentucky Public Service Commission ("PSC") and Chapter 278 of the Kentucky Revised Statutes; and

WHEREAS, in June of 1999, Cynthiana filed with the PSC a proposed increase in its water rate to HCWA; and

WHEREAS, HCWA requested that the PSC suspend and investigate Cynthiana's proposed rate adjustment and intervened in the proceedings, docketed as PSC Case No. 99-300; and

WHEREAS, the parties hereto, having participated in the administrative rate proceeding in Case No. 99-300, being desirous of settling their water rate dispute without further administrative litigation;

NOW, THEREFORE, in complete and full settlement of the issues raised in Case No. 99-300, styled "In the Matter of: Proposed Adjustment of the Wholesale Water Service Rates of the City of Cynthiana, Kentucky," the parties stipulate and agree as follows:

(1) Cynthiana shall establish and charge HCWA for all water purchased by HCWA the rate of \$1.85 per 1,000 gallons.

(2) The effective date of the water rate of \$1.85 referred to in Paragraph 1 above shall be March 1, 2000.

(3) HCWA shall further pay to Cynthiana in a lump sum \$35,481.60, said amount being HCWA's proportionate share (45%) of the costs incurred by Cynthiana associated with the drought of 1999. This amount shall be paid within seven (7) days of the PSC's approval of this Settlement Agreement.

(4) This Settlement Agreement shall be submitted to the PSC for approval, which approval shall be sought on an expedited basis by both parties. In the event the PSC does not approve the Settlement Agreement, including the March 1st effective date for the implementation of the new wholesale rate of \$1.85 per 1,000 gallons, this Settlement Agreement shall be null and void and of no effect.

(5) Cynthiana shall not seek further recovery or rate relief for any expenses or costs incurred by Cynthiana in connection with Case No. 99-300, the rate proceeding to be concluded by this Settlement Agreement; nor shall HCWA seek recovery of their costs from Cynthiana.

(6) In the future, HCWA shall not raise, assert or rely on the rate provisions contained in the Water Purchase Contract; which contract provisions shall be deemed to have been superseded by the PSC's regulatory authority over rates charged by non-regulated utilities to regulated utilities.

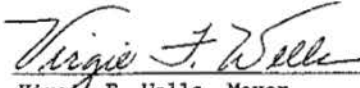
(7) Cynthiana shall and does hereby release HCWA from any claims under the Water Purchase Contract with reference to HCWA's water rates, the terms and agreements contained herein constituting full satisfaction of such claims.

(8) HCWA shall and does hereby release Cynthiana from any claims under the Water Purchase Contract with reference to HCWA's water rates, the terms and agreements contained herein constituting full satisfaction of such claims.

(9) HCWA agrees that, in the future, should an extraordinary condition (e.g., drought, floods, regulatory changes) cause an incremental and identifiable increase in the cost of water produced by Cynthiana for supply to Cynthiana retail customers, as well as to HCWA, HCWA shall reimburse Cynthiana for such costs within sixty (60) days after submission by Cynthiana, of an itemization of the costs incurred. The reimbursement shall be calculated by multiplying the amount of the submitted emergency costs times a fraction, the numerator of which is the wholesale water purchases by HCWA in the most recent 12 month period preceding the emergency, and the denominator of which shall be the total water production for the Cynthiana plant over the same period. Any disputes over the amount to be paid by HCWA, or the manner of such payment, shall be submitted to the PSC for resolution; provided that any payment ultimately made by HCWA shall include interest at eight percent (8%) per annum commencing after sixty (60) days following submission of the emergency costs to HCWA by Cynthiana.


(10) This Settlement Agreement has been duly executed by the lawful representatives of the City of Cynthiana and the HCWA, after full disclosure of the terms hereof, after consultation with counsel, and after appropriate resolution and/or ordinance approving the Settlement Agreement by the City Commission of the City of Cynthiana and the Board of the HCWA respectively.

CITY OF CYNTHIANA



Virgie F. Wells, Mayor

HARRISON COUNTY WATER ASSOCIATION, INC.



William R. Toadvine, President

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