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Jane Connell Young
Of Counsel

April 20, 2007

2007 - 00218

Ms. Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED

APR 23 2007

**PUBLIC SERVICE
COMMISSION**

Re: Wholesale Water Contract
Prestonsburg City's Utilities Commission

Dear Ms. O'Donnell:

Please find enclosed a signed copy of an Emergency Water Supply Agreement between Prestonsburg City's Utilities Commission ("Prestonsburg") and Southern Water and Sewer District dated the 25th day of July, 2005.

Prestonsburg is filing this Wholesale Supply Agreement pursuant to the jurisdiction of the Public Service Commission ("Commission") set forth by the Kentucky Supreme Court in Simpson County Water District vs. City of Franklin, Ky., 872 S.W. 2d 460 1994). In Administrative Case No. 351, the Commission notified the Municipal Utilities of the Commission's assertion of jurisdiction of their wholesale rates and services of Municipal Utilities which provided utilities service to any public utility. This filing is made pursuant to Administrative Case No. 351.

Prestonsburg offers its full cooperation and assistance to the Commission and its Staff in fulfilling these responsibilities. If you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,

Kipley J. McNally

KJM:jlr
Enclosures
cc: Mr. David Ellis, Superintendent

EMERGENCY WATER SUPPLY AGREEMENT

THIS AGREEMENT, made and entered into this 25th day of July, 2005, by and between the PRESTONSBURG CITY'S UTILITIES COMMISSION ("Prestonsburg") and SOUTHERN WATER AND SEWER DISTRICT ("Southern").

WITNESSETH:

WHEREAS, Southern is currently underserving its water customers during periods of peak demand and needs a supplemental supply of potable water.

That the parties hereto, for and in consideration of the covenants of this Agreement hereinafter set out, to be paid, kept and performed, hereby agree as follows:

1. Water Delivery Points. Prestonsburg agrees to furnish emergency water supply service to Southern during the term of this contract at a newly constructed point of delivery located at Martin, Kentucky ("New Delivery Point") and at existing delivery points at Prater Creek, Kentucky and David, Kentucky (intersection of KY highways 404 and 850 (collectively, the "Delivery Points"), and Southern agrees to purchase potable treated water meeting applicable purity standards of the Kentucky Department of Health.
2. Maximum and Minimum Quantities of Water. Prestonsburg shall deliver and Southern shall purchase quantities of water not to exceed 200,000 gallons per day of twenty-four hours, and not to exceed 6,000,000 gallons per month in the aggregate through the Delivery Points. Prestonsburg shall have the right to install equipment to restrict the flow of water on an hourly basis or establish temporary shut-offs to restrict the flow so that the quantities can be limited to the contract maximums set forth herein. It shall be the sole responsibility of Southern to control its customer load so that the water

flow at the Delivery Points need not be restricted. Southern shall not be required to take a minimum quantity at any time.

3. Metering Equipment and Testing. Southern agrees to furnish, install, operate and maintain at its own expense at the New Delivery Point, the necessary metering equipment, including a meter house or pit and required devices of standard type for properly measuring the quantity of water delivered to Southern. Southern shall calibrate the metering equipment at the Delivery Points whenever requested by Prestonsburg, but not more frequently than four times every twelve (12) months. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate. The previous readings of any meter disclosed by test to be inaccurate shall be corrected for the three (3) months previous to such test in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of water delivered shall be adjusted to the amount delivered in the corresponding period immediately prior to the failure. An appropriate official of Southern, at all reasonable times, shall have access to the meters for the purpose of verifying its readings. Likewise, an appropriate official of Prestonsburg, at all reasonable times, shall have access to meters for the purpose of verifying its readings. Upon installation, the ownership of the meter and related equipment at the New Delivery Point shall be transferred to Prestonsburg. After the transfer, Southern shall pay all expenses to maintain said meter and related equipment.

4. Statement of Water Supplied. Prestonsburg agrees to furnish Southern, once each month, a statement of the quantity of water furnished Southern during the applicable billing period.

5. Payment Policy. Payment shall be made in accordance with Prestonsburg's customer payment policy ("Payment Policy"), as it may be modified pursuant to public notice from time to time, which currently is as follows:

Customer's bills will be mailed on the last business day of each month. Payment is due when bills are mailed. Prestonsburg City's Utilities Commission is not responsible for mail delivery. If payment is not received in our office by the 15th of the following month, a 25% penalty will be added to the accounts of customers who have not paid their bill in full. On the 16th day of the month, Prestonsburg City's Utilities Commission will mail a disconnect notice to customers who have not paid their bills in full. The disconnect notice, mailed on the 16th, will be the only notice sent to delinquent customers before their utilities services will be subject to disconnection for non-payment. Customers receiving disconnect notices will have five calendar days to deliver their payments to our office located at 2560 South Lake Drive, Prestonsburg, Kentucky. Our office hours are Monday through Friday, 8:00 A.M. to 5:00 P.M. For the convenience of our customers, we have a night deposit box located at the front of our building. If a customer has a dispute with a bill, the customer may contact a customer service representative by calling (606) 886-6871. Meters will be scheduled for removal if payment is not received in our office within five calendar days of the date of the disconnect notice. If it is necessary to send a service representative to collect a bill, a \$20.00 collection fee will be charged. If it is necessary to remove the meter for non-payment, customers will be required to pay their bills in full, plus a \$45.00 reconnection fee before service is restored. If utility service has been disconnected for non-payment, Prestonsburg City's Utilities cannot guarantee that service will be restored the same day. If customers' bills and/or notices are mailed late by Prestonsburg City's Utilities Commission, the payment period will be extended the same amount of time the bill and/or notices were mailed late.

REVISED August 19, 2004

6. Rate Schedule. Southern agrees to pay Prestonsburg, according to Prestonsburg's Payment Policy, for water delivered in accordance with this Agreement at the following rates for each metered delivery point:

- (a) the rate for all gallons of water delivered monthly hereunder shall be \$3.05 per \$1,000 gallons; and

(b) service which requires booster pump service for delivery of the water also shall include a surcharge of \$.10 per booster pump per 1,000 gallons.

7. Rate Schedule Modifications. All rates set forth in this Agreement shall be adjusted annually on the anniversary date of this Agreement to correspond with the Consumer Price Index ("CPI"), but no such increase under this provision shall increase rates by more than four percent (4%) per year.

8. Termination. This contract shall commence on the date hereof and continue for a period of ten (10) years. This Agreement may be extended or renewed by the parties, if they mutually agree, upon such terms and conditions as agreed upon by the Parties.

9. Fire Protection and System Reliability. Prestonsburg shall not be responsible in any way for the failure of Southern to furnish sufficient water for fire protection purposes, or sufficient water storage tanks for system reliability purposes, and Southern shall indemnify Prestonsburg from any such claims related thereto.

10. Indemnification. Each party shall indemnify the other party, its employees, and agents from all claims, demands, and liabilities of any kind relating to or arising out of this Agreement, except to the extent such claims, demands, or liabilities result from or arise out of the negligence of party being indemnified.

11. Chlorination. Southern shall be responsible for any chlorination of the water furnished by Prestonsburg if such chlorination is required by the Floyd County Department of Health or any other Federal or State governmental policy.

12. Interruptible Service. If Prestonsburg does not have a sufficient supply of water to supply its customers, then Prestonsburg at its sole discretion, may reduce or terminate service hereunder at any time.

13. Force Majeure. All obligations of either party with respect to service hereunder shall be excused without liability during the pendency of any condition of force majeure. Force majeure shall include any act, event or condition beyond the reasonable control of the party claiming force majeure, and shall include, but not be limited to, any act of God, fire, storm, earthquake, freezing condition, wind, flood, drought, snow, water used to fight fires, line breaks, environmental release, breakage of or delay in receiving parts, equipment or supplies, or shortage thereof, strike or lockout, or any act, event or requirement of any governmental law, regulation or entity. Force majeure shall not include routine line leakage or financial inability to pay, and shall not excuse payment for services rendered by Prestonsburg, including the payment of Southern's minimum bill, if any.

14. Notices. All notices and other communications provided hereunder shall be in writing and shall be delivered personally or transmitted by registered or certified mail, return receipt requested or by a recognized overnight courier service. Such notice shall be deemed to have been given at the time of personal delivery or upon receipt thereof, as reflected on the signed certificate or delivery statement of the courier service. Notice must be delivered or sent to the party at

the following address or to such other address as a party may have designated by notice:

TO PRESTONSBURG: Prestonsburg City's Utilities Commission
2560 South Lake Drive
Prestonsburg, Kentucky 41653

TO SOUTHERN: Southern Water + Sewer District
P.O. Box 610
McDowell, Ky. 41047

15. Amendment. This Agreement may be amended in writing only, duly signed by both parties, and will be governed by and construed in accordance with Kentucky law.

16. Binding Effect and Benefit. Upon execution, the Agreement will inure to the benefit of and be binding upon the parties hereto and their respective heirs, personal representatives, successors and assigns, subject to regulatory approval as set forth below; provided, however, neither this Agreement nor any rights and obligations hereunder may be assigned by Southern without the written consent of Prestonsburg.

17. Severability. The terms and provisions of this Agreement shall not be severable, and in the event that any term or provisions hereof is held to be invalid or unenforceable, the remaining terms or provisions hereof shall be invalid and unenforceable, and Prestonsburg shall have no further obligation hereunder.

18. Regulatory Jurisdiction. Nothing in this Agreement shall subject this Agreement or Prestonsburg to regulation by the Kentucky Public Service Commission ("KY PSC"). To the extent the KY PSC exercises jurisdiction over any aspect of this Agreement, Prestonsburg shall remain free to withdraw without

penalty or other obligation from this Agreement upon providing thirty (30) days written notice to Southern.

19. Wholesale Services Prohibited. Southern shall not resell at wholesale water supplied hereunder so as to make Prestonsburg, directly or indirectly, a wholesale supplier to any other water system.

20. Non-Waiver. Prestonsburg's failure to exercise any of its rights hereunder at any time will not operate as a waiver of its right to exercise same at any other time(s).

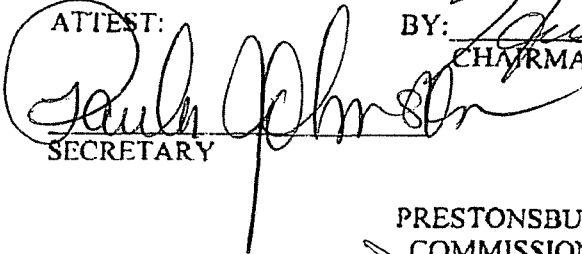
21. Right of First Refusal. Prestonsburg shall have a right of first refusal to acquire all or a portion of Southern's entire water or sewer systems and related facilities, if offered by Southern to any third party, on the same terms and conditions as the offer to such third party.

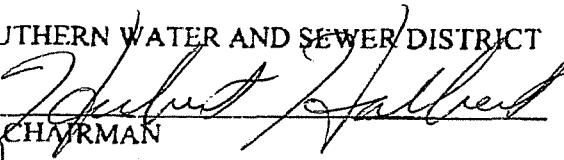
22. Take-Over Option. If at any time, Southern takes in excess of 500,000 gallons of water per day of twenty-four hours, Prestonsburg shall have the option to take over the operation and ownership of the entire water system of Southern upon giving of a thirty (30) day notice. In the event of such take-over, Prestonsburg shall continue to operate Southern as a separate system until such time as Southern's debts as of the time of the take-over are satisfied from the revenues of Southern and the maintenance costs of the system on a per customer basis are within ten percent (10%) of the per customer maintenance cost of Prestonsburg's system.

23. Counterparts. This Agreement may be executed in several counterparts with the same effect as if the parties executing the several counterparts had all executed one counterpart.


IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers or agents to execute this Agreement the day and year first above written.

SOUTHERN WATER AND SEWER DISTRICT


ATTEST:  SECRETARY

BY:  CHAIRMAN

PRESTONSBURG CITY'S UTILITIES COMMISSION

BY:  DAVID ELLIS, SUPERINTENDENT

ATTEST:

 JIM CALHOUN, CHAIRMAN