

Hardin County Water District No. 1

Serving Radcliff and Hardin County for Over 50 Years

1400 Rogersville Road
Radcliff, KY. 40160

June 7, 2012

Mr. Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

RECEIVED

JUN 13 2012

PUBLIC SERVICE
COMMISSION

**SUBJECT: Newly Executed Wholesale Water Purchase Agreement
Louisville Water Company to Hardin County Water District No. 1**

Dear Mr. Derouen;

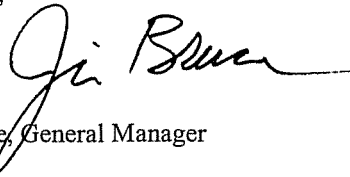
If required by KRS 278.200, we are herein filing four (4) copies of a new Water Purchase Agreement between our District and the Louisville Water Company (LWC). Our two Boards began working together in July, 2008 when a Partnership Agreement was signed which envisioned LWC providing a wholesale supply to HCWD1, and, the two parties jointly working to pursue the Department of Defense Utility Privatization effort, to privatize the Fort Knox Potable Water System (FKWS). As you know, this effort was successful and HCWD1 took over the FKWS this February (PSC Case 2011-00416).

The LWC purchased source will replace our current wholesale supply with the U.S. Government (supplied by the FKWS) which agreement was approved by the Commission in 1997 (Case No. 97-388). The new contract with LWC will provide 30% more quantity, at a rate about 7% less than the current U.S. Government wholesale supply.

Before we can actually begin purchasing LWC water, a new interconnect facility and pump station must be designed and constructed. We intend to begin the process immediately to select an engineer and complete final design and bidding for these facilities. Also if required by KRS 278.020, we will file for a Certificate of Public Convenience & Necessity in the future before constructing this facility. It may be between one and two years before we actually begin purchasing LWC water.

Please let us know if you have any questions.

Sincerely,



Jim Bruce, General Manager

Cf; Mr. David Wilson II, Attorney, HCWD1
Ms. Barbara K. Dickens, Vice President - General Counsel, LWC

Enclosures 4 Copies of Executed Contract / Agreement

WATER PURCHASE AGREEMENT

This Water Purchase Agreement (hereinafter "Agreement") is entered this 15 day of May, 2012 by and between:

LOUISVILLE WATER COMPANY ("LWC")

A Municipally-owned Corporation

Governed by the Board of Water Works

Operating pursuant to KRS Chapter 96

550 South Third Street

Louisville, KY 40202

And

HARDIN COUNTY WATER DISTRICT No. 1 ("HCWD1")

A Water District

Operating Pursuant to KRS Chapter 74

1400 Rogersville Rd.

Radcliff, KY 40160

WITNESSETH:

WHEREAS, HCWD1 is a water district operating pursuant to KRS Chapter 74 and owns and operates the public water supply system for a portions of Hardin, Meade and Breckinridge Counties, in Kentucky; and

WHEREAS, LWC is a municipally-owned water company operating pursuant to KRS Chapter 96 and owns and operates the public water system throughout Jefferson County and in part of Oldham and Bullitt Counties; and

WHEREAS, LWC and HCWD1 have entered into a Partnership Agreement dated July 15, 2008 whereby both Parties cooperatively agreed to pursue a contract with the United States Government to take over ownership and operations of the Ft. Knox Water System and also to pursue a wholesale water supply contract for LWC to supply water to HCWD1; and

WHEREAS, HCWD1 was awarded a contract with the United States Government to assume ownership and control of operations of the Ft. Knox Water System on September 30, 2011, and thereafter, on January 17, 2012, HCWD1 and LWC entered into a contract for LWC to provide plant operations of the Ft. Knox Water System commencing on February 1, 2012; and

WHEREAS, LWC has procured the development of engineering plans pertaining to the construction of a water supply main, master meter and pump station and related facilities for the mutual benefit of the Parties hereto.

NOW, THEREFORE, in consideration of the terms set forth herein, the receipt and sufficiency of which is hereby acknowledged, LWC and HCWD1 ("Parties") agree as follows:

1. FACILITIES TO BE CONSTRUCTED:

- a. For the mutual benefit of the Parties hereto, it is agreed that the Project includes a 16" finished water transmission main, a master meter, a pump station, and related facilities and any applicable fees and charges (the "Project"), which shall be designed and constructed along Dixie Highway (US 31W) from LWC's existing 16" transmission main at Kathryn Station Road to HCWD1's existing 14" transmission main at the base of Muldraugh Hill, south of the railroad tracks, as shown in Exhibit A dated May 1, 2012, which is attached hereto and incorporated herein by reference. The design will also include an alternate scope to construct a 20" or 24" transmission main, considering the potential future water supply to supply Ft. Knox, with the additional costs, if any, of design work to be divided by future agreement of the Parties.
- b. HCWD1 agrees to fund the Project out of the proceeds of a \$4.5 million grant awarded to it by the Kentucky Cabinet for Economic Development (the "Grant").
- c. HCWD1 agrees to reimburse LWC up to \$42,000 (FORTY-TWO THOUSAND DOLLARS) for prior payments of preliminary engineering for the Project, but said reimbursement would only occur if same amount will be reimbursed from Grant proceeds to HCWD1, and only after LWC submits invoice to HCWD1 with evidence of prior payments to engineers for the preliminary design work.
- d. The maximum investment that HCWD1 agrees to expend for the Project shall not exceed \$4,500,000 (FOUR MILLION FIVE HUNDRED THOUSAND DOLLARS). It is also agreed that final engineering and design plans for the construction of the Project will require the mutual consent of LWC and HCWD1.
- e. Point of Service: LWC agrees to furnish water to HCWD1 through a newly installed master meter located as close as practical to the southwest bank of the Salt River in Hardin County. This master meter will serve as the Point of Service to HCWD1.
- f. Facility Ownership: LWC will own the transmission main from Kathryn Station Rd to the Point of Service and the master meter and vault at the Point of Service. HCWD1 will own the transmission main and pump station from the Point of Service to the connection with existing HCWD1 14" transmission main.

2. RESPONSIBILITY FOR REPAIR AND MAINTENANCE OF FACILITIES:

- a. LWC will be responsible for all repairs and maintenance of the newly installed transmission main to the Point of Service including a newly installed master meter, and the equipment, valves and vault associated with the new master meter.
- b. HCWD1 will be solely responsible for the repairs, maintenance and upkeep of the newly installed transmission main from the Point of Service to the newly installed pump station. Furthermore, HCWD1 will be solely responsible for the repair, maintenance and upkeep of said newly installed pump station, and any existing water mains downstream of said pump station.

3. SERVICE LEVELS:

- a. Quantity of Water to be Supplied: It is agreed that LWC will provide up to 3.5 million gallons per day (mgd) of potable water at the aforementioned Point of Service. This amount may be increased upon mutual written agreement by both Parties, but may require additional capital investment, which amount or funding source has not yet been determined.
- b. Quality and Pressure of Water to be Supplied: Water furnished at the Point of Service shall be treated potable water that complies with all applicable Kentucky Division of Water and U.S. Environment Protection water quality standards. LWC's water pressure at the Point of Service will be no less than the regulatory minimum and at least 30 psi, measured on the discharge side of the meter, as dynamic pressure, while HCWD1 is drawing its maximum agreed amount of volume of 3.5 mgd.
- c. Disinfection of Water: LWC uses chloramines as a disinfectant residual for the distribution of its potable water supply. HCWD1 uses free chlorine as a residual disinfectant and will begin converting to chloramines. Both Parties acknowledge that, at the sole discretion of HCWD1, a portion of the Grant funds may be allocated to HCWD1's conversion of its system to chloramine disinfection to assure the water delivered by this Project meets all water quality requirements of the Kentucky Division of Water and the quality of water does not cause any adverse impact to customers of LWC or HCWD1.
- d. Failure of Pressure or Supply: Emergency failures of pressure or failures of supply due to main breaks, power failure, flood, fires and/or use of water to fight fires, labor unrest, earthquake, tornado and/or other extraordinary circumstances shall excuse LWC from any failure to comply with this Section for such reasonable period of time as may be necessary to resolve the emergency situation.
- e. Reduction in Water Supply: In the event of an extended shortage of water, or in the event that the overall supply of water available from LWC is diminished over an extended period of time, water service to HCWD1 shall be reduced or diminished in the same ratio or proportion as the reduction of water service to LWC's other wholesale customers.

4. METERING:

- a. LWC will test the master meter(s) located at the Point of Service once every year. Additional testing may be performed by LWC at its sole discretion, at any time. A meter registering within the acceptable limits as identified by AWWA standards shall be deemed to be accurate. A meter not registering accurately will be replaced and shall cause billings for at least one, and up to three months previous to such test, to be adjusted by the percentage of inaccuracy found by such test. If any meter shall fail to register usage for any regular billing period, the amount of water furnished during such billing period shall be considered to be the same as the amount of water furnished during the corresponding billing period immediately prior to the failure, unless the parties agree in writing to determine the amount of water furnished by some other method. LWC may make adjustments in the next billing period should the next reading be substantially higher than the previous billing period prior to the one in which usage did not register.
- b. An appropriate official or agent designated by HCWD1 shall have access to the meter at reasonable times for the purpose of verifying the meter's readings and LWC agrees to provide meter test data and reports to HCWD1 upon request.

5. RATES AND PAYMENTS:

- a. LWC agrees to charge and HCWD1 agrees to pay LWC's current standard wholesale water rate, (currently \$1.69 per thousand gallons as identified in the Board of Water Works (BOWW) 2012 Rate Schedule). The Parties further agree and acknowledge that LWC's wholesale water rate will be reviewed and periodically adjusted by the Board of Water Works. Further, LWC agrees to provide HCWD1 advance notice as soon as practical of any rate increases but in no case less advance notice than required by Kentucky Public Service Commission ("PSC") regulations.
- b. LWC agrees to charge and HCWD1 agrees to pay LWC's current service charge based, as may be amended from time to time by the BOWW. For reference purposes only, the 2012 schedule of service charges, based on meter size are as follows:

<u>Meter Size</u>	<u>Monthly Service Charge</u>
5/8", 5/8" x 3/4"	\$7.74
3/4"	\$7.74
1"	\$19.35
1 1/2"	\$38.70
2"	\$61.92
3"	\$135.45
4"	\$232.20
6"	\$541.80
8"	\$967.50
10"	\$1,470.60
12"	\$2,244.60
16"	\$4,450.50

LWC agrees to provide HCWD1 advance notice as soon as practical of any increase to its service charge, but in no case less advance notice than is required by the PSC regulations.

- c. For each meter, HCWD1 agrees to pay the System Development Charge (SDC) in effect at the time the construction of the Project begins. For reference, the current SDC charge is as follows:

<u>Meter Size</u>	<u>System Development Charge</u>
5/8", 5/8" x 3/4"	\$350.00
3/4"	\$350.00
1"	\$600.00
1 1/2"	\$1,200.00
2"	\$1,900.00
3"	\$3,700.00
4"	\$6,000.00
6"	\$12,000.00
8"	\$19,200.00
10"	\$27,600.00
12"	\$44,400.00
16"	\$79,100.00

- d. LWC agrees that in determining future rates, it will use cost-based, industry standard ratemaking methods, which would include allocating certain costs to wholesale customers. LWC also agrees that any rate changes to HCWD1 will require and be subject to PSC review and approval.

6. EXCLUSIVE RELATIONSHIP IN HARDIN COUNTY:

For the duration of this Agreement, the parties agree that, other than the wholesale water covered by this Agreement and a separate future agreement to wholesale water to Hardin County Water District No. 2, LWC will not sell wholesale water in Hardin County without the written approval of HCWD1. Further, HCWD1 will supply Ft. Knox exclusively with water from LWC and will not replace the supply of water to Ft. Knox without approval of LWC. HCWD1 and LWC will partner to expand water service in Hardin County using LWC as the source of supply where economically feasible for both parties.

7. WARRANTIES:

- a. HCWD1 covenants and warrants as follows:

HCWD1 shall be responsible for the management and safety of water quality within its water system as a result of any mixing of waters purchased from LWC.

- b. LWC covenants and warrants as follows:

LWC will communicate as soon as practical with HCWD1 as soon as LWC becomes aware of an event within LWC's system that will result in interruption of

service to HCWD1 and, further, that LWC will restore full service to HCWD1 as soon as reasonably possible.

8. DURATION AND TERMINATION OF AGREEMENT:

- a. This Agreement commences effective immediately once both LWC and HCWD1 have executed it and shall expire 40 years from the date of execution of this Agreement. At the natural expiration of the Agreement, HCWD1 shall have the unilateral option to renew the Agreement at then current rates for the same term as the original Agreement. HCWD1 will advise LWC of its intent to renew the Agreement twelve (12) months prior to the natural expiration of the original Agreement.
- b. The rights and duties outlined in this Agreement are contingent upon the Grant referenced in Section 1(b) being fully funded. Therefore, this Agreement shall be null and void if the Grant referenced in Section 1(b) is not fully funded.
- c. Either party may terminate this Agreement with twelve (12) months' advance written notice to the other party, in the event of any of the following:
 - i. For HCWD1 to terminate:
 - (1) Repeated failure of LWC to meet water delivery requirements stated herein (except for failures related to the temporary interruptions described herein in Sections 3(d) and/or 7(b), above); or,
 - (2) Final revocation of LWC's authority to operate water system by one or more governmental authorities having jurisdiction over such matters; or,
 - (3) Repeated failure of LWC to meet water quality requirements of the Environmental and Public Protection Cabinet of Kentucky (except for failures related to the temporary interruptions described herein in Sections 3(d) and/or 7(b) above); or,
 - (4) The breach of any other duty, warranty or covenant contained in this Agreement by LWC.
 - ii. For LWC to terminate:
 - (1) Repeated failure of HCWD1 to pay within forty-five (45) days of the due date for monthly wholesale water service described in this agreement; or,
 - (2) Final revocation of HCWD1's authority to operate a water system by one or more governmental authorities having jurisdiction over such matters; or,

- (3) Multiple findings against HCWD1 by the Environmental and Public Protection Cabinet of Kentucky or its successors, that HCWD1 has been classified as a significant non-complier resulting in LWC's being in violation of any drinking water regulations; or,
- (4) The breach of any other duty, warranty or covenant contained in this Agreement by HCWD1.

iii. Prior to termination of this Agreement as a result of the breach of the conditions and obligations set forth herein, the non-breaching party shall provide written notice of its intention to terminate the Agreement to the Parties identified in Section 12 below. Thereafter, the party alleged to have breached the Agreement shall have sixty (60) days in which to endeavor to remedy the alleged breach. Said Agreement may not be terminated until the sixty (60) day period allowed for the cure of the breach has expired and the alleged breach has not been remedied to the reasonable satisfaction of the non-breaching party.

9. AUTHORIZATION TO ENTER INTO AGREEMENT:

The Parties affirm that they have obtained all required approvals, with the exception of the PSC as required by law and stated in Section 14, and have the necessary authority to enter into the Agreement.

10. WAIVER AND SEVERABILITY OF PROVISIONS:

- a. The Parties' failure to assert its rights under any provisions or term of this Agreement shall not be construed as a waiver of that right or any other right at any time in the future.
- b. Should any provision or paragraph in this Agreement be held to be invalid or unlawful, the remaining provisions or paragraphs in the Agreement shall be fully enforceable and shall remain in full effect.

11. BINDING AGREEMENT; ASSIGNMENT:

This Agreement shall inure to the benefit of and shall be binding upon the parties, their respective assigns, and successors in interest. Without the written consent of the other party to this Agreement, such consent not to be unreasonably withheld, neither LWC nor HCWD1 may assign this Agreement to a third party.

12. NOTICES:

All notices required under the Agreement, shall be in writing addressed as follows and sent Certified Mail, Return Receipt Requested.

- a. If to LWC: President and CEO
Louisville Water Company
550 S. Third St.
Louisville, KY 40202

b. If to HCWD1: General Manager
Hardin County Water District No. 1
1400 Rogersville Rd.
Radcliff, KY 40160

13. ENTIRE AGREEMENT:

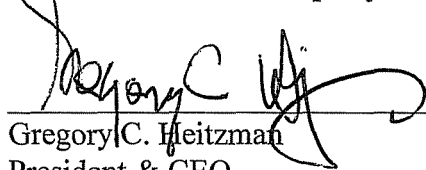
This Agreement represents the entire agreement by the Parties regarding wholesale water sales by LWC to HCWD1 and supersedes any and all other agreements regarding this matter, whether written or oral.

14. AGREEMENT SUBJECT TO PSC APPROVAL:

All terms, conditions, and provisions set forth herein shall not be binding on the Parties until such time as this Agreement has been approved by the PSC.

IN TESTIMONY WHEREOF, witness the signatures of the Parties by their duly authorized officers as of the day and year first above written, it being understood and agreed that this Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

Louisville Water Company

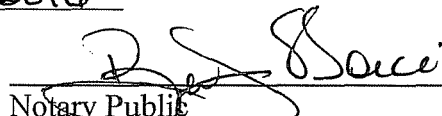


Gregory C. Heitzman
President & CEO

STATE OF KENTUCKY
COUNTY OF Jefferson

Subscribed, sworn to and acknowledged before me by Gregory C. Heitzman to be his true act and deed on this 17th day of May, 2012.


My Commission Expires: 2-29-2016



Notary Public

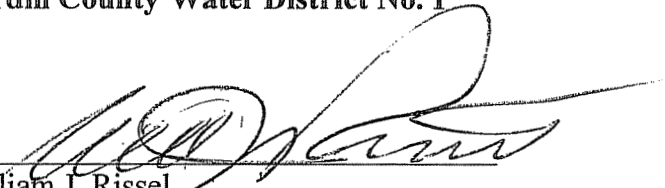
Approved for Form and Legality:

For LWC:



Barbara Dickens, Vice President and General Counsel

Hardin County Water District No. 1




William J. Rissel
Chairman

STATE OF KENTUCKY
COUNTY OF Hardin

Subscribed, sworn to and acknowledged before me by William J. Rissel to be his true act and deed on this 15th day of May, 2012.

My Commission Expires: 10/12/2015




Notary Public



Approved for Form and Legality:

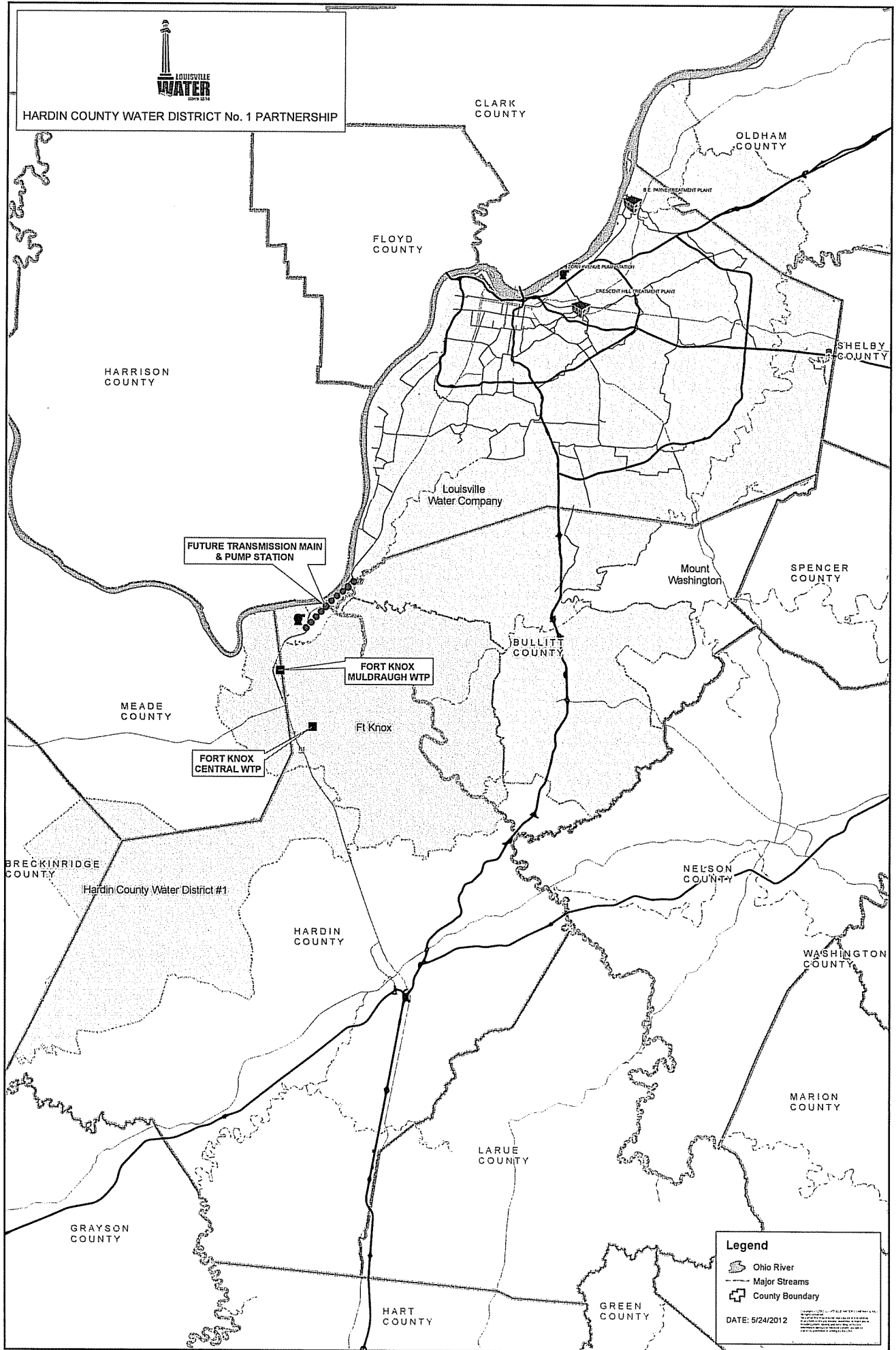
For HCWD1:



David Wilson, Skeeters Bennett Wilson & Pike



HARDIN COUNTY WATER DISTRICT No. 1 PARTNERSHIP



Legend

- Ohio River
- Major Streams
- County Boundary

DATE: 5/24/2012