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PUBLIC SERVICE
COMMISSION

April 25, 2013

Mr. Jeff Derouen
Executive Director
Public Service Commission
Commonwealth of Kentucky
211 Sower Blvd
Frankfort, KY 40602

**RE: Recently Executed Water Purchase Agreement between
Louisville Water Company and Hardin County Water District No. 2**

Dear Mr. Derouen:

Please find attached four (4) executed copies of the wholesale water purchase agreement between Louisville Water Company (LWC) and Hardin County Water District No. 2 (HCWD2). This contract is a result of the two parties working together to create a Letter of Intent that was executed April 3, 2008. The Letter of Intent describes LWC's intention to provide a supplemental water supply to HCWD2, and HCWD2's intention to purchase a supplemental supply from LWC.

Prior to selling water to HCWD2, both LWC and HCWD2 must complete system improvements. It is anticipated these improvements will be completed in sufficient time to allow LWC to make available and HCWD2 to begin purchasing water no later than January 1, 2016.

Thank you for your attention to this submittal. Please let me know if you need additional information or have any questions. My direct line is 502.569.0808.

Sincerely,

Barbara K. Dickens
Vice President, General Counsel

C: Mr. Damon Talley, Attorney, HCWD2
Mr. Michael Bell, Chairman, HCWD2
Mr. James Jeffries, General Manager, HCWD2
Mr. James Brammell, Vice President, Chief Engineer, LWC

WATER PURCHASE AGREEMENT

BETWEEN

LOUISVILLE WATER COMPANY

AND

**HARDIN COUNTY
WATER DISTRICT No. 2**

MARCH 19, 2013

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WATER PURCHASE AGREEMENT

This Water Purchase Agreement (the "Agreement") is entered into as of the 19th day of March 2013, by and between:

LOUISVILLE WATER COMPANY ("LWC")
A Municipally Owned Corporation
Governed by the Board of Water Works
Pursuant to KRS 96.230 through 96.310
550 South Third Street
Louisville, KY 40202

And

HARDIN COUNTY WATER DISTRICT NO. 2 ("HCWD2")
A Water District
Governed by a Board of Commissioners
Pursuant to KRS Chapter 74
P.O. Box 970
360 Ring Road
Elizabethtown, KY 42702

WITNESSETH:

WHEREAS, Louisville Water Company (the "LWC") has a reserve treatment capacity and desires to sell potable water to Hardin County Water District No. 2 (the "HCWD2");

WHEREAS, HCWD2 continues to experience a steady customer growth rate and increased water demand by its customers;

WHEREAS, HCWD2 desires to obtain a supplemental supply of potable water;

WHEREAS, on April 3, 2008, LWC and HCWD2 executed a Letter of Intent, whereby LWC expressed its intent to provide a supplemental supply of water to HCWD2 and HCWD2 expressed its intent to purchase a supplemental supply of water from LWC;

WHEREAS, LWC has made, and plans to make additional, improvements to its water distribution system to enhance its ability to provide a supplemental supply of water to HCWD2; and

WHEREAS, HCWD2 has made plans to construct a 24-inch diameter ductile iron water transmission main, approximately 11 miles in length, from its existing Elizabethtown Loop transmission main to the proposed Point of Delivery, hereinafter specified, near the Hardin-Bullitt County Line south of the Rolling Fork River.

NOW, THEREFORE, in consideration of all the foregoing and the terms and conditions set forth herein, LWC and HCWD2 (the "Parties") agree as follows:

1. Quantity of Water. Subject to the limitations and time deadlines set forth below, LWC shall furnish to HCWD2, at the Point of Delivery hereinafter specified, such quantities of water as HCWD2 may require. LWC shall be obligated to furnish to HCWD2, and HCWD2 shall

be obligated to purchase from LWC, the following quantities of water according to the following time deadlines and conditions:

- A. No later than January 1, 2016, LWC shall make available a capacity of two (2) million gallons per day (MGD);
- B. No later than January 1, 2016, HCWD2 shall pay monthly to LWC the cost for the actual quantity of water used, but not less than sixty (60) MG annually;
- C. No later than January 1, 2017, HCWD2 shall pay monthly to LWC the cost for the actual quantity of water used, but not less than one hundred twenty (120) MG annually;
- D. No later than January 1, 2018, HCWD2 shall pay monthly to LWC the cost for the actual quantity of water used, but not less than one hundred eighty (180) MG annually;
- E. No later than January 1, 2019, HCWD2 shall pay monthly to LWC the cost for the actual quantity of water used, but not less than two hundred forty (240) MG annually;
- F. No later than January 1, 2020, HCWD2 shall pay monthly to LWC the cost for the actual quantity of water used, but not less than three hundred (300) MG annually;
- G. No later than January 1, 2021, HCWD2 shall pay monthly to LWC the cost for the actual quantity of water used, but not less than three hundred sixty-five (365) MG annually;
- H. No later than January 1, 2021, LWC shall make available additional capacity of three (3) MGD, which is a total of five (5) MGD; and
- I. LWC agrees to make available additional quantities of water beyond five (5) MGD subject to these additional parameters:

- (1) LWC and HCWD2 will negotiate in good faith the financial terms and construction schedule for the provision of any additional capacity beyond five (5) MGD; and
- (2) All requests by HCWD2 for additional quantities of water shall be formal, written requests made by HCWD2's Chairman and directed to LWC's President & CEO; and the maximum quantity to be furnished by LWC under the terms of this Agreement is ten (10) MGD.

2. Extraordinary Circumstances. In the event extraordinary circumstances occur (e.g. an industry agrees to locate in the Glendale Megasite and projects a large volume of water consumption) and HCWD2 deems it necessary to accelerate the time deadlines outlined in paragraph 1 of this Agreement, LWC pledges to use its best efforts to accommodate HCWD2's increased water demand by expediting delivery of additional quantities of water. If such an event occurs, HCWD2 pledges to provide LWC with as much advance notice as possible under the circumstances. LWC and HCWD2 agree to negotiate in good faith the financial terms and the construction schedule for the provision of any additional capacity on an accelerated schedule.

3. Quality of Water. All water furnished at the Point of Delivery shall be treated, potable water that complies with all applicable state and federal regulatory agencies' standards for water quality.

4. Point of Delivery. LWC shall construct the necessary facilities to enable it to furnish the water at a mutually agreed upon location on the south side of the Rolling Fork River near the Hardin-Bullitt County Line (the "Point of Delivery"). Once the Point of Delivery location is determined, the Parties shall prepare a written description of the location. A document containing the written description shall be executed by both Parties, designated as the "Point of Delivery Addendum," and made a part of the Agreement.

5. Pressure at the Point of Delivery. LWC shall deliver the water to HCWD2 at a minimum hydraulic grade line elevation of 650 feet mean sea level (the "MSL") and a maximum hydraulic grade line elevation of 690 feet MSL at the Point of Delivery. 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 paragraph for such reasonable period of time as may be necessary to resolve the situation.

6. Master Meter. LWC shall install, at its own expense, master metering equipment at the Point of Delivery. As future consumption

warrants, the initial master meter will be upsized accordingly. LWC shall own, operate and maintain the master meter and related facilities.

7. **Meter Testing and Adjustment.** LWC shall test the master meter located at the Point of Delivery once every year. Additional testing may be performed by LWC at its sole discretion. LWC shall provide a 24-hour notice to HCWD2 prior to conducting any meter tests, allow access to the metering site during testing, and submit test results to the appropriate official or agent designated by HCWD2. A meter registering within the acceptable limits as identified by AWWA standards shall be deemed to be accurate. A reading of the meter determined by test results to be inaccurate (registering outside of acceptable limits of AWWA standards based upon type of meter) shall cause billings for at least one month, 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. An appropriate official or agent designated by HCWD2 shall have access to the master meter for the purpose of collecting daily usage data and verifying the meter's readings.

8. Rates. LWC agrees to charge and HCWD2 agrees to pay LWC's standard wholesale water rate that is in effect at the time water service is commenced (currently \$2.05 per thousand gallons, as identified in the Board of Water Works 2013 Rate Schedule). In addition, HCWD2 shall pay a flat monthly service charge fee based upon the requested capacity of the master meter. The Parties further agree and acknowledge that LWC's wholesale water rate and service charge fee will be reviewed and may be adjusted annually by the Board of Water Works.

9. Future Rate Increases. Currently, LWC's standard wholesale rate is based upon a cost-of-service methodology consistent with AWWA rate making principles. LWC agrees that any future rate increases will be based upon its current or similar cost-of-service methodology.

10. Advance Notice of Rate Modification. LWC shall notify HCWD2 in writing of the proposed rate adjustment or modification at least sixty (60) days before it is to become effective. This will provide HCWD2 sufficient time to review and comment upon, if desired, the proposed rate

and to obtain a Purchased Water Adjustment from the Kentucky Public Service Commission (the "PSC").

11. Annual Meeting. Commencing in 2013, the President of LWC, the General Manager of HCWD2, and other representatives of the Parties shall meet at least annually to discuss the future water needs of HCWD2 and other relevant topics. By mutual agreement, the Parties may accelerate the timelines set forth in paragraph 1 of this Agreement if demand projections warrant acceleration.

12. LWC Service Rules and Regulations. The Parties further acknowledge and agree that the Board of Water Works Service Rules and Regulations, including any amendments thereto, applicable to wholesale customers applies to this Agreement and are incorporated into this Agreement by reference.

13. Warranties Provided by HCWD2. Subject to paragraph 3 of this Agreement, HCWD2 covenants and warrants that it shall be responsible for any water quality issues that might occur within its distribution system as a result of blending water purchased from LWC with HCWD2 water.

14. Warranties Provided by LWC. LWC covenants and warrants that it will communicate with HCWD2 as soon as LWC becomes aware of

an event within LWC's system that will result in interruption of service to HCWD2; and, further, that LWC will restore full service to HCWD2 as soon as reasonably possible. 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 HCWD2 shall be reduced or diminished in the same ratio or proportion as the water service to LWC's other customers within the same customer class (excepting health service related customers).

15. PSC Review and Effective Date. The Parties acknowledge that this Agreement cannot become effective until it has been reviewed and accepted for filing by the PSC. LWC shall file an executed copy of this Agreement with the PSC. HCWD2 pledges its assistance to help expedite the PSC review process. The Effective Date of this Agreement shall be the date the Agreement is deemed to be "filed" by the PSC. LWC shall give written notice of the Effective Date to HCWD2.

16. Term and Termination of Agreement. The term of this Agreement shall extend for a period of approximately fifty (50) years, commencing on the Effective Date hereof as provided for in paragraph 14 of this Agreement, and terminating on June 30, 2063, unless otherwise extended by written agreement of the Parties or terminated pursuant to the

terms of this Agreement. 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:

A. For HCWD2 to terminate:

- (1) Failure of LWC to meet water delivery requirements stated herein (except for failures related to the temporary interruptions described in paragraphs 5 and 13); or
- (2) Failure of LWC to meet all applicable water quality requirements; or
- (3) The breach by LWC of any other duty, warranty, or covenant contained in this Agreement.

B. For LWC to terminate:

- (1) Repeated failure of HCWD2 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 HCWD2's authority to operate a water system by one or more governmental authorities having jurisdiction over such matters; or
- (3) Repeated failure of HCWD2 to consistently meet all applicable water quality requirements of the Kentucky Division of Water resulting in classification of HCWD2 as a significant non-complier if such classification causes LWC to be in violation of any drinking water requirements; or
- (4) HCWD2's breach of any duty, warranty, or covenant contained in this Agreement; provided, however, LWC cannot exercise such termination right until it has given HCWD2 written notice of the breach and HCWD2 has failed to correct or eliminate such breach within sixty (60) days from receipt of that written notice.

17. Authorization to Enter Into Agreement. HCWD2 shall obtain any approvals required for the purchase of water contemplated by this

Agreement, and LWC agrees to cooperate in obtaining any such approvals. HCWD2 affirms that it has the necessary authority to enter into the Agreement.

18. Jurisdiction. As a result of Simpson County Water District v. City of Franklin, 872 S.W.2d 460 (Ky. 1994), the Parties acknowledge that the PSC has exclusive jurisdiction to resolve disputes concerning “rates and service” which may arise under this Agreement. Any other dispute arising under this Agreement shall be filed and be heard in the Circuit Court of Jefferson County, Kentucky.

19. Waiver. Neither LWC’s failure nor HCWD2’s failure to assert its respective rights under any provision or term of this Agreement shall be construed as a waiver of that right or any other right at any time in the future.

20. Assignment. The Parties agree that this Agreement shall not be assigned without the prior, written consent of the other Party, such consent not to be unreasonably withheld.

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

If to LWC: President & CEO
Louisville Water Company
550 S. Third Street
Louisville, KY 40202

If to HCWD2: Chairman
Hardin County Water District No. 2
P.O. Box 970
Elizabethtown, KY 42702

22. Severability of Provisions. Should any provision or paragraph in this Agreement be held to be invalid or unlawful, the remaining provisions or paragraphs in this Agreement shall be fully enforceable and shall remain in full effect.

23. Entire Agreement. This Agreement represents the entire agreement by the Parties regarding wholesale water sales by LWC to HCWD2.

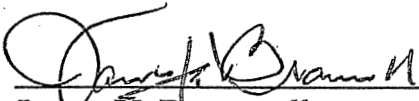
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[Signature page to follow]

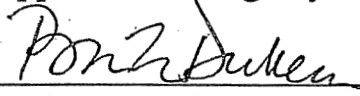
IN TESTIMONY WHEREOF, witness the signatures of the Parties by their duly authorized officers (as evidenced by resolutions of their respective governing boards) as of the day and year first above written, it being understood and agreed that this Agreement may be executed in two or more counterparts,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

For the

LOUISVILLE WATER COMPANY

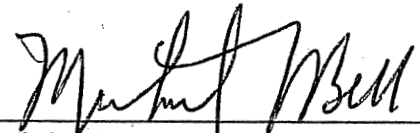

James H. Brammell
Vice President and Chief Engineer

Approved for Legality and Form:

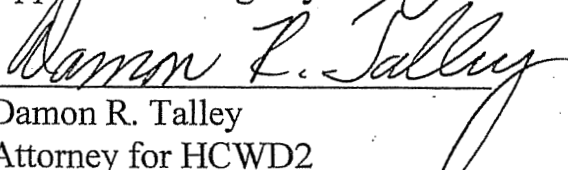

Barbara K. Dickens
Vice President, General Counsel

For the

HARDIN COUNTY WATER
DISTRICT No. 2


Michael L. Bell, Chairman

Approved for Legality and Form:


Damon R. Talley
Attorney for HCWD2

