

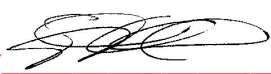
JOINT OPERATION AGREEMENT

THIS JOINT OPERATION AGREEMENT (the "Agreement") is entered into and made effective as of the day of July 3, 2000, by and between the Martin County Water District (hereinafter "District") and Prestonsburg City's Utilities Commission (hereinafter "PCUC") and relates to and further delineates the participation of the District and PCUC (hereinafter referred to collectively as "Parties" or individually as each "Party") in the previously executed Understanding entitled "Interlocal Cooperation Understanding For The Development of Utility Infrastructure" (hereinafter referred to as "Interlocal Cooperation Understanding"), attached hereto as Attachment A.

WHEREAS, the District and PCUC are each currently working to develop the necessary water transmission lines, pumping stations, tanks, and related appurtenances to jointly provide water service to the Big Sandy Federal Prison ("Federal Prison") being constructed by the Federal Bureau of Prisons ("Bureau") at the Honey Branch Park ("Industrial Park") in Martin County; and,

WHEREAS, the District and PCUC have mutually agreed and have committed in the Interlocal Cooperation Understanding cited above, that "... each will share the provision of the monthly water consumption demand of the Bureau's facility equally, understanding that circumstances may require that either Party may be called upon by the other Party, from time to time, to supply a greater volume of this consumption demand than 50% and either Party may do so without prejudice or jeopardy to this Agreement"; and,

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By 
Executive Director

WHEREAS, each party to this AGREEMENT deems it in their respective interests to further delineate and thereby clarify the physical layout of the water infrastructure components as well as to delineate and clarify the actual working relationship between the parties once the facilities subject to this Agreement are in operation;

NOW THEREFORE, contingent upon receipt of all required approvals for the location, construction and development of the Federal Prison in the Industrial Park, and contingent upon each party to this Agreement having received approval of all related infrastructure funding from federal agencies, as well as state and local agencies, and contingent upon execution of a binding water purchase agreement between PCUC and the Bureau, it is mutually agreed between the District and PCUC as follows:

WATER INFRASTRUCTURE


Site Map

1. All activities set out below are illustrated on the Site Map, attached hereto as Attachment B and considered part of this Agreement. Upon execution of this Agreement, any and all disagreements or misunderstandings regarding this Agreement shall be resolved as to their consistency and compliance with the content of the Site Map.

District Facilities

2. The District shall be responsible for the construction, operation and maintenance of, and shall subsequently own, operate, and maintain an 8-inch water service main to be constructed in a southerly direction along KY Route 3 to the intersection with Airport Road, at which point the line size will be increased, becoming a 10-inch main extending in an easterly direction along Airport

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Road to the entrance to the prison. At the prison entrance, the District will increase the main size to 16-inch, install a 16-inch Tee and Valve for service to the prison, and continue the 16-inch main in an southerly direction to and connecting with a ground level water storage tank as noted in paragraph 3 below. The 10-inch and 16-inch water lines from the PCUC pump station to the Honey Branch Storage Tank (as noted in Paragraph 3) shall be hereafter referred to as the Honey Branch Storage Tank Line.

3. The District shall construct a water storage tank of approximately 1,040,000 gallons capacity (hereinafter referred to as the "Honey Branch Storage Tank") as shown on the attached site map, and shall reserve storage space necessary for 300,000 gallons per day for domestic water service and 240,000 gallons per day for ^{Fire} line protection. The District shall allow PCUC to have physical access to the Honey Branch Storage Tank for the purpose of installing and maintaining electronic telemetry controls to be used for monitoring the level of the water in the tank.

4. The District will have and maintain metering equipment located near the intersection of Airport Road and KY Route 3. The metering equipment will be located inside a booster pump station constructed by PCUC which will be described more thoroughly in paragraphs below.

PCUC Facilities

5. PCUC shall be responsible for the construction of, and shall subsequently own, operate, and maintain 10-inch and 12-inch service mains, including two (2) booster pump stations and one (1) water storage tank; such main shall be constructed in a northerly direction

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along KY Route 3 to the intersection of Airport Road where the second PCUC pump station is located. The PCUC main will connect to the District's 10-inch main at this point.

6. PCUC will construct a booster pump station near the intersection of KY Route 3 and Airport Road to pump water into the District's Honey Branch Storage Tank Line. This station will house PCUC's pumping equipment, as well as both PCUC's and the District's metering equipment. Both parties shall have unrestricted access to this station for the purpose of operation and maintenance of their respective facilities. The metering equipment for both parties shall consist of appropriately sized meters, piping, and valves as well as appropriate pressure gauges and ports for sampling. Both parties shall be allowed to install electronic telemetry equipment on the metering equipment of both parties.

7. PCUC will install a 16-inch main from the point of connection with the District's system as described in Paragraph 2, to a meter vault on the Federal Prison's property which is the point of connection for the Federal Prison's water system. This vault shall contain an appropriately sized meter, valving, and piping to meet the Federal Prison's needs. Pressure gauges and ports for sampling, as well as telemetry equipment, shall also be included. Both Parties, as well as appropriate Federal Prison officials, shall have unrestricted access to this meter vault and the District shall be allowed to install telemetry equipment for their use to this meter.

Both parties shall complete all construction set forth herein no later than February 1, 2001.

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JOINT OPERATION

8. PCUC will provide water service to the Federal Prison, as described herein, pursuant to a separate contractual agreement between the Bureau and PCUC, satisfactory in form and substance to PCUC and solely at its discretion.

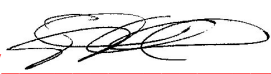
9. Water services as may be provided by the District from its own water production to other tenants of the Industrial Park and all others in the service area of the District shall be provided pursuant to separate contractual agreements satisfactory in form and substance to the District and solely at its discretion.

10. While both Parties will endeavor to provide at least 50 percent of the Federal Prison's water requirements on a daily and monthly basis, the Parties understand that the actual percentage of water supplied to the Federal Prison by either the District or PCUC may vary on a daily or monthly basis.

11. Under normal operation, PCUC will pump each day into the District's Honey Branch Storage Tank Line an amount of water equal to 50 percent of the water usage of the Federal Prison for the previous day, and the District shall operate the Honey Branch Storage Tank in such a manner as to receive this water therein. The District shall pump a sufficient quantity of water into the District's Honey Branch Storage Tank to maintain an adequate level of water necessary to provide reliable service to the Federal Prison.

12. Adequate water will be maintained in the Honey Branch Storage Tank at all times to supply both the domestic water requirements and maximum fire protection for the Federal Prison. If the level of water in the Honey Branch Storage Tank is not sufficient to provide

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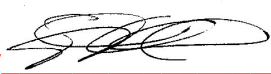
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reliable water service to the Federal Prison, then PCUC will pump into the Honey Branch Storage Tank Line a quantity of water that exceeds 50 percent of the water usage of the Federal Prison for the previous day, thus supplying more than 50 percent of water requirements of the Federal Prison. It may possible that PCUC will need to pump more than 100 percent of the water usage of the Federal Prison for the previous day, thus providing emergency backup water service to the District. Any emergency backup service supplied hereunder shall be fully interruptible at any time at PCUC's sole discretion. PCUC shall have no obligation to supply emergency backup service to the District. In no event shall the provision of emergency backup water service to the District impair PCUC's ability to serve the full requirements of the Federal Prison. In the event that the supply of emergency backup water service to the District impairs PCUC's ability to serve the full requirements of the Federal Prison or other PCUC customers, then the District shall be required to curtail end uses of the water from the Honey Branch Storage Tank and Honey Branch Storage Tank Line other than the Federal Prison's use.

13. PCUC will bill the Bureau each month at its contracted rate based on the amount of water delivered to the Federal Prison determined from monthly meter readings for service to the Federal Prison at the Prison Master Meter. PCUC will receive full remittance from the Bureau for all such water supplied. Payment to the District from remittance received from the Bureau will be calculated by applying the following rate to the amount of water provided each month by the District to serve the Federal Prison:

First 112,000 gallons per month
 All over 112,000 gallons per month

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 \$348.50 per month
 \$3.05 per 1,000 gallons
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The amount of water provided each month by the District to serve the Federal Prison shall be determined by subtracting (a) the amount of water that Prestonsburg pumps into the Honey Branch Storage Tank Line for the month (based on meter readings at PCUC Meter) from (b) the amount of water delivered to the Federal Prison for the month (based on meter readings at the Prison Master Meter). To modify the rates set forth in this numbered paragraph, the District must provide PCUC a notice of any proposed rate change at least 120 days prior to filing for a rate change with the Public Service Commission; however, in no event shall any component of the District's rate be increased until a simultaneous and corresponding increase in the contract rate between PCUC and the Federal Prison actually occurs so that any such increase by the District is fully passed-through to the Federal Prison. Any change in rate by the District must be supported by a cost of service study consistent with standard industry ratemaking practices for water utilities. Payment by PCUC to the District for water supplied to the Federal Prison shall be made within ten (10) working days from receipt of remittance received from the Bureau.

14. In the event that Prestonsburg pumps an amount of water into the Honey Branch Storage Tank for the month (based on meter readings at the PCUC Meter) that exceeds the amount of water delivered to the Federal Prison for the month (based on meter readings at the Prison Master Meter), resulting in PCUC providing emergency backup water service of a non-recurring nature to the District, PCUC shall bill the District at the following rate for emergency back-up water service:

First 112,000 gallons per month

All over 112,000 gallons per month

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Payment by the District to PCUC for water supplied to the District for emergency backup water service shall be made within ten (10) working days from the date of PCUC's invoice to the District. To modify the rates set forth in this numbered paragraph, the PCUC must provide the District a notice of any proposed rate change 120 days in advance of the effective date of the proposed change in rates, except that PCUC may, without notice, increase or decrease the rate by the same percentage as any increase or decrease in the District's rate to PCUC as set forth in number paragraph 13, above. Any such change in rate that does not correspond to the percentage change in the District's rate for service to PCUC must be supported by a cost of service study consistent with standard industry ratemaking practices for water utilities.

15. PCUC and the District shall each be responsible for the loss of any water that occurs on their respective facilities.

16. Each party to this Agreement shall have unrestricted access to all meters and any electronic telemetry equipment of the other for purposes of verification and system operations. Assigned staff of both PCUC and the District shall read the meters cited in this Agreement together each month, at a mutually agreed upon time, day and date.

17. Each Party to this Agreement shall bear the expense of having its meter(s) tested annually by an independent, certified meter testing service, and a copy of the report of such test shall be forwarded to the other party. Either Party may request the other to conduct additional testing but so as not to exceed more than one such additional test in each calendar year.

18. This Agreement shall remain in full force and effect from the date written above until and at which time PCUC shall no longer provide water service to the Federal Prison.

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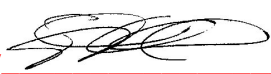
19. Force Majeure. All obligations of either party with respect to service hereunder shall be excused without liability during the pendency of any condition of force majeure, which causes the party claiming force majeure to be unable to meet its performance obligations hereunder. Force majeure shall 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.

20. Nothing in this Agreement shall subject PCUC to regulation by the Kentucky Public Service Commission ("KYPSC"). To the extent the KYPSC exercises jurisdiction over any aspect of this Agreement, PCUC shall remain free to withdraw without penalty or other obligation from this Agreement upon providing 30 days written notice to the District.

21. Indemnification by District. District shall indemnify, defend and hold harmless PCUC and its officers, directors, employees, and agents from, against and with respect to any claim, liability, obligation, loss, damage, assessment, judgment, cost, expense (including without limitation, reasonable attorneys' fees and costs) arising out of or in any manner incident, relating or attributable to any loss, claim, action, proceeding or determination arising out of District's obligations or performance under this Agreement.

22. Indemnification by PCUC. PCUC shall indemnify, defend and hold harmless District and its officers, directors, employees and agents from, against and with respect to any

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claim, liability, obligation, loss, damage, assessment, judgment, cost, expense (including without limitation, reasonable attorneys' fees and costs) attributable to any loss, claim, action, proceeding or determination arising out of PCUC's obligations or performance under this Agreement.

23. Indemnification Claims.

(a) PCUC or District, if claiming indemnity hereunder (the "Indemnified Party"), agrees to give prompt notice to the party or parties from which indemnity may be sought (the "Indemnifying Party") of the assertion of any claim or the commencement of any suit, action or proceeding in respect of which indemnity may be sought hereunder.

(b) At the request of the Indemnified Party, the Indemnifying Party shall assume the defense of any such suit, action or proceeding, including its compromise or settlement, in which the outcome would give rise to a claim for indemnification, and shall be fully responsible for the outcome hereof. The Indemnifying Party may not compromise or settle any such suit, action or proceeding without the Indemnified Party's consent which shall not be unreasonably withheld.

MISCELLANEOUS

24. Governing Law. This Agreement shall be governed by and construed and interpreted in accordance with the laws of the Commonwealth of Kentucky.

25. Entire Agreement/Amendments.

(a) This Agreement constitutes the entire ~~Agreement among the parties~~ pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements,

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understandings, negotiations and discussions, whether oral or written, of the parties pertaining to the subject matter hereof.

(b) No amendment, supplement, modification, waiver or termination of this Agreement shall be implied or be binding unless executed in writing by a party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly therein provided.


26. Assignment. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of the parties, their successors, heirs and assigns, subject to regulatory approval where required. The rights and obligations provided by this Agreement may not be assigned or transferred by a party without the written consent of the other party, which consent may not unreasonably be withheld.

27. Headings. Headings used in this Agreement are for convenience only and are in no way to be construed as part of this Agreement or as a limitation of the scope of the particular articles or sections to which they refer.

28. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

29. Notices. All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be considered to have been duly given when delivered by hand, or sent by first class certified or registered mail, postage prepaid, return receipt requested, in each case to the appropriate addresses (or to such other addresses as a

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party may from time to time designate as to itself by notice similarly given to the other party in accordance with this Section):

(a) If to PCUC to: Seldon D. Home, Superintendent
Prestonsburg City's Utilities Commission
2560 South Lake Drive
Prestonsburg, Kentucky 41653

with a copy to: C. Kent Hatfield
Middleton & Reutlinger
2500 Brown & Williamson Tower
Louisville, Kentucky 40202

(b) If to District to: John R. Triplett
Chairman
Martin County Water District
HC 69, Box 875
Inez, Kentucky 41224

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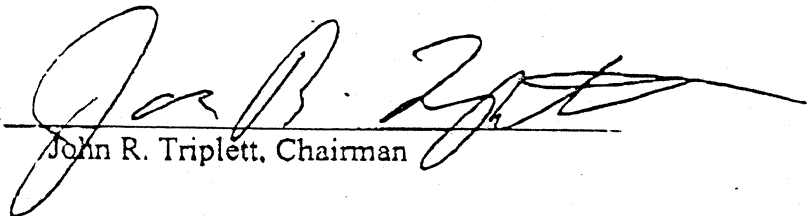
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30. Specific Performance. The parties hereto agree that money damages and any other remedy available at law may be inadequate to redress or remedy any loss or damage suffered by a party hereto upon any breach of this Agreement, and the parties therefore agree that, in addition to recovery on any claim for money damages or obtaining any other remedy available at law, a party hereto also may enforce the terms of this Agreement by injunction and/or specific performance and/or may obtain any other appropriate remedy.

This Agreement is made as of the year and day first above written, and shall be effective as of that date without regard to the fact that execution hereof by the parties shall have been effected at the same time or at other times.

MARTIN COUNTY WATER DISTRICT

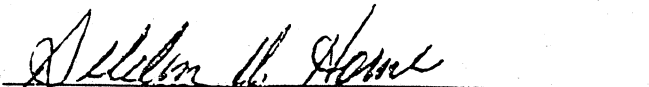
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BY: 
John R. Triplett, Chairman

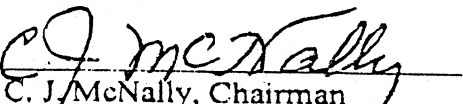
ATTEST:


SECRETARY

PRESTONSBURG CITY'S UTILITIES COMMISSION

BY: 
Seldon D. Horne, Superintendent

ATTEST:


C. J. McNally, Chairman
of the Prestonsburg City's
Utilities Commission

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