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WATER PURCHASE AGREEMENT
BETWEEN
THE CITY OF MT. VERNON, KENTUCKY
AND
THE WESTERN ROCKCASTLE WATER ASSOCIATION, INC.

THIS WATER PURCHASE AGREEMENT, is effective retroactive to October 8, 1992, (hereinafter referred to as the "Effective Date"), is made and entered into this 11th day of April, 1993, by and between the CITY OF MT. VERNON, City Hall, P.O. Box 1465, 125 Richmond Street, Mt. Vernon, Kentucky 40456, (hereinafter referred to as the "SELLER"), and the WESTERN ROCKCASTLE WATER ASSOCIATION, INC., Route 1, Box 208, Brodhead, Kentucky 40409, (hereinafter referred to as the "PURCHASER"):

WITNESSETH:

WHEREAS, the SELLER owns and operates a water treatment plant and water supply distribution system within the city limits of Mt. Vernon, Kentucky and surrounding areas, all of which are located in Rockcastle County, Kentucky; and

WHEREAS, the PURCHASER was organized and established for the purpose of operating a water supply distribution system in an area contiguous to the area served by the City of Mt. Vernon, Kentucky; and

WHEREAS, the PURCHASER requires a supply of treated water to operate its water supply distribution system; and

WHEREAS, the SELLER has an excess supply of treated water which it desires to sell; and

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-1- PURSUANT TO 807 KAR 5.011,
SECTION 9 (1)

BY: Justin C. Neal

WHEREAS, the PURCHASER has been purchasing water from the SELLER pursuant to the terms of a Water Purchase Contract dated September 15, 1983, and any and all supplemental contracts, addenda or amendments thereto; and

WHEREAS, the SELLER desires to establish a minimum amount of water to be purchased each month from the SELLER by the PURCHASER; and

WHEREAS, the PURCHASER desires to increase the maximum amount of water it can purchase each month from the SELLER; and

WHEREAS, it is the purpose of this Water Purchase Agreement, (hereinafter referred to as the "Agreement"), to set forth the entire agreement between the SELLER and the PURCHASER for the sale and purchase of water at the designated points of connection between the two water supply distribution systems; to supersede the September 15, 1983, Water Purchase Contract, and any and all supplemental contracts, addenda or amendments thereto, between the parties; to establish minimum and maximum amounts of water to be sold each month; and to define the rates and charges for the amounts of water sold;

NOW THEREFORE, in consideration of all the foregoing and the terms and conditions expressed herein, the SELLER and the PURCHASER agree as follows:

1. TERM:

The term of this Agreement shall extend for a period of forty-five (45) years from and after the Effective Date of this Agreement, unless otherwise ~~extended~~ or modified by written agreement between the Parties.

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2. QUANTITY OF WATER:

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The SELLER shall furnish to the PURCHASER ~~not more than~~ ^{not less than} ~~ten~~ ^{ten} million gallons of water as the PURCHASER may require in order to provide service to its customers, not to exceed, ten million gallons per year.

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(10) million gallons of water per month, delivered at the average flow rate of 330,000 gallons of water per day. The SELLER will perform a hydraulic analysis of its water supply distribution system within nine (9) months after the approval of this Agreement by all parties including the Farmers Home Administration. If the SELLER'S hydraulic analysis indicates that the SELLER can provide additional water to the PURCHASER in excess of the ten (10) million gallons of water per month without adversely affecting its ability to serve its other retail and wholesale customers, then the SELLER will provide the PURCHASER such additional quantities of water up to an additional two (2) million gallons per month. Any increase of the limit of ten (10) million gallons of water each month set forth in this Agreement shall be agreed to by the SELLER and the PURCHASER in a formal written Amendment to this Agreement.

3. QUALITY OF WATER:

All water furnished to the PURCHASER by the SELLER during the term of this Agreement, or any renewal or extension thereof, shall be potable, treated water meeting applicable purity standards of the Kentucky Department of Natural Resources, Division of Water.

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4. DELIVERY POINTS:

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The SELLER shall deliver the water to the PURCHASER at the points of delivery listed below and at such additional or substitute points of delivery which may be agreed upon in writing by both Parties.

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The water shall be furnished at the points of delivery at a reasonably constant pressure calculated at thirty (30) pounds per square inch. The SELLER shall use reasonable care and diligence in the operation and maintenance of its water system to

prevent and avoid abnormal interruptions and fluctuations of water supply and pressure. Should greater pressures be required by the PURCHASER than that available at a point of delivery, then it shall be the PURCHASER'S responsibility, at its own expense, to provide and operate within its system such booster pumping, storage or other facilities as may be required to develop additional pressures needed within the PURCHASER'S system.

Emergency failures of pressure or water supply due to main supply line breaks, power failure, flood, fire and use of water to fight fire, earthquake or other catastrophe shall excuse the SELLER from this provision for such reasonable period of time as may be necessary to restore service.

The points of delivery, water main sizes, meter sizes, and approximate flow rates in gallons per minute (gpm) are as follows:

POINTS OF DELIVERY	MAIN SIZE	METER SIZE	APPROXIMATE FLOW RATE (GPM)
1. East end of water main on U.S. 25 at Burr	3-inch	1 1/2-inch	18
2. End of water main on old KY Highway 461	6-inch	4-inch	121
3. End of water main on Old Brodhead Road (Ky. 1326)	4-inch	3-inch	72
4. U.S. 150 at Brodhead	6-inch	1 1/2-inch	12
5. Negro Creek	3-inch	1 1/2-inch	7

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5. OPERATION OF SYSTEM:

The SELLER shall, at all times, operate and maintain its water system in an efficient manner and shall take such actions as may be reasonably necessary to perform its obligations under this Agreement. Temporary or partial failures to deliver water shall be remedied with all possible dispatch. The SELLER shall immediately inform the PURCHASER, by telephone, of the nature and extent of such temporary or partial failure to deliver water.

6. METERING EQUIPMENT:

The SELLER shall furnish, install, operate, and maintain at its own expense, at the points of delivery, 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 the PURCHASER and to calibrate such metering equipment whenever requested by the PURCHASER, but not more frequently than once 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 reading of any meter disclosed by test to be inaccurate shall be corrected for the one month period previous to such test in accordance with the percentage of inaccuracy found by such test, unless SELLER and PURCHASER shall agree upon a different amount. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount of water delivered in the corresponding period of equal days immediately prior to the failure, unless SELLER and PURCHASER shall agree upon a different amount. The metering equipment shall be read on or about the twentieth (20th) day of each month. The PURCHASER, at all reasonable

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times, and upon request with adequate notice of at least twenty-four (24) hours, during the normal business hours of the SELLER, shall have access to the meter(s) for the purpose of verifying the meter reading(s).

7. EXPANSION OF PURCHASER'S SYSTEM:

The PURCHASER agrees to inform the SELLER of any proposed project or proposed expansion or any major modifications to the PURCHASER'S water distribution system, hereinafter referred to as the "Project", according to the following criteria.

A. The PURCHASER will furnish to the SELLER one (1) complete set of construction drawings, technical specifications and related material that describes the Project proposed by the PURCHASER. Said related material, shall include, but not be limited to, the estimated increase in water consumption that said Project will require.

B. The PURCHASER shall have the Project designed by a registered professional engineer licensed to practice in the Commonwealth of Kentucky. Said design shall be based on flow demands and pressure requirements as determined by a hydraulic analysis performed by a registered professional engineer licensed to practice in the Commonwealth of Kentucky.

C. The PURCHASER shall not initiate any Project that will increase the PURCHASER'S water consumption above ten (10) million gallons of water, unless, this Agreement has been modified in writing prior to the Project being undertaken. The SELLER agrees that the PURCHASER may proceed with the implementation of any Project upon notification to the SELLER if the estimated increase in the PURCHASER'S

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water consumption as a result of the Project does not exceed the agreed upon limit of ten (10) million gallons of water per month.

D. The PURCHASER shall furnish written evidence to the SELLER that any Project proposed by the PURCHASER has been approved by the Kentucky Department of Natural Resources, Division of Water.

8. BILLING AND PAYMENT PROCEDURE:

The SELLER shall furnish the PURCHASER on or about the first (1st) day of each month with an itemized statement of the amount of water furnished the PURCHASER at each of the points of delivery during the preceding month and the costs thereof. The PURCHASER shall pay those costs to the SELLER not later than the twentieth (20th) day of each month. Any amount remaining unpaid after the due date shall be deemed delinquent and shall bear interest at the rate of twelve percent (12%) per annum until paid.

9. RATE:

The PURCHASER agrees to pay the SELLER for water delivered in accordance with the following:

A. To purchase from SELLER a minimum of five (5) million gallons of water per month from the Effective Date of this Agreement through and including December 31, 2009. The PURCHASER agrees to pay for the minimum monthly quantity of water even if not used by the PURCHASER. The maximum amount of water purchased from the SELLER shall not exceed ten (10) million gallons for any one month period at an average flow rate of 330,000 gallons of water per day. The daily maximum amount of water purchased shall not exceed 412,500 gallons.

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B. The PURCHASER shall pay to the SELLER each month for water delivered by the SELLER to the PURCHASER one dollar and seven cents (\$1.07) per one thousand (1,000) gallons of water registered on the SELLER'S meter(s) effective the 8th day of October, 1992; provided, however, the PURCHASER shall be deemed to have taken at least the minimum quantity of water each month as stated above. The costs to the PURCHASER shall be measured by the volume of water registered at the meter(s) on a monthly basis. If the PURCHASER takes more than it's maximum quantity of water each month without having obtained prior written approval from the SELLER, an additional charge of twenty five (25) cents per one thousand (1,000) gallons of water that exceeds the maximum quantity of ten (10) million gallons of water each month shall be paid by the PURCHASER to the SELLER.

Volume reports shall be submitted by the SELLER to the PURCHASER with the monthly bill. The PURCHASER shall have the right, during the normal business hours of the SELLER, to inspect the SELLER'S records to the extent necessary to verify the SELLER'S calculations of the water delivered to the PURCHASER.

Any water purchased at any time during the term of this Agreement by the PURCHASER in excess of the SELLER'S maximum quantity of ten (10) million gallons of water per month shall be only for the convenience of the PURCHASER and shall not be considered as a waiver of the SELLER'S maximum quantity of water per month.

C. The PURCHASER shall reimburse the SELLER all costs incurred by the SELLER for making any new connections to the PURCHASER'S system including, but not limited to, construction costs, engineering, inspection, administration, accounting, legal and property costs, within thirty (30) days of receipt of SELLER'S itemized billing.

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BY: Andrea C. Neal

10. RATE MODIFICATION:

The provisions of this Agreement pertaining to the rate to be paid by the PURCHASER for water delivered by the SELLER are subject to modification, from time to time, as may be required based upon the SELLER'S costs of providing water to the PURCHASER, but will not be modified more than once per year. Any rate adjustment modification proposed by the SELLER will be based upon a demonstrable increase or decrease in the costs of providing water service to the PURCHASER, however, the PURCHASER understands that the rate of one dollar and seven cents (\$1.07) per 1,000 gallons of water shall be considered a minimum rate during the term of this Agreement. Any Cost of Service Study performed by the SELLER in support of a rate adjustment will follow guidelines set forth by the American Water Works Association (AWWA) in the latest edition of the AWWA Manual M1 - Water Rates and may include the following items:

A. "Unaccounted for" Water - "Unaccounted for" water is equal to the amount of water produced less the total amount of water sold and used (backwash and line flushing). The total "Unaccounted for" water percentage shall be used relative to the SELLER and shall not exceed twenty (20) percent relative to the PURCHASER.

B. Bond Coverage Ratio - Bond coverage ratio is defined by the Bond Ordinance as 125 percent.

C. Depreciation - Depreciation costs as defined by the Bond Ordinance and as set forth in the annual audit of the water system.

D. Anticipated Expenditures - Projections for anticipated expenditures will be based on historical expense trends and known and measurable adjustments in costs of materials, supplies and labor for the test year expenses.

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BY: James C. Neel
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E. Customer Accounts - Costs associated with reading customer meters and issuing and collecting customer invoices. These costs shall be allocated totally to the SELLER.

F. Costs for Electricity - Costs for electricity for facilities jointly used by the PURCHASER and the SELLER.

G. Inch-mile Ratio - Inch-mile is defined as the pipeline size in inches multiplied by the length of the pipeline in miles. Inch-mile Ratio is equal to jointly used inch-miles divided by the SELLER'S total system inch-miles. This ratio will be based on the information used and results developed during the performance of a computer generated Hydraulic Study of the SELLER'S water distribution system.

11. ADVANCED NOTICE OF RATE MODIFICATION:

The SELLER shall notify the PURCHASER in writing of the proposed rate at least thirty (30) days before it is to be adopted as the actual rate. This will enable the PURCHASER to review and comment on the proposed rate before it is actually adopted by the SELLER. The SELLER shall furnish the PURCHASER with a copy of the Cost of Service Study to support the proposed rate modification.

At the expiration of the thirty (30) day review period, the SELLER may establish and adopt the actual rate to be charged the PURCHASER and shall immediately notify the PURCHASER in writing of the new rate.

12. EFFECTIVE DATE OF RATE MODIFICATION:

The Effective Date of the new rate as to the PURCHASER shall be at least thirty (30) days after the expiration of the thirty (30) day review period set forth in paragraph 11 of this Agreement.

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13. WATER SHORTAGE:

In the event of a shortage of water, or if the supply of water available to the SELLER is otherwise diminished over a period of time, then, the supply of water made available to the PURCHASER shall be reduced or diminished by the same ratio or proportion as the supply of water to the SELLER'S other customers is reduced or diminished.

14. TWENTY-FOUR HOUR STORAGE:

The PURCHASER agrees to install, maintain and utilize sufficient storage capacity in its water distribution system to maintain its system for a minimum period of twenty-four (24) hours, based upon the average daily usage of water by its customers.

15. INDEMNIFICATION:

Each Party shall be solely responsible for the construction, operation, and maintenance of its respective water system. Each Party, to the extent permitted by law, expressly agrees to indemnify, save harmless and defend the other Party against all claims, demands, costs, or expenses asserted by third parties and proximately caused by the negligence or willful misconduct of such indemnifying Party in connection with the construction, operation, and maintenance of its respective water system.

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16. DEFAULT:

The PURCHASER agrees to pay all monies as described in the Agreement when due, and both Parties hereby agree to carry out all other duties and obligations to be performed by them pursuant to all of the terms and conditions set forth and contained in this Agreement. The failure of either Party to perform any of its duties or obligations contained herein shall be an event of default by that Party.

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BY: *Justin C. Neel*
FOR THE PUBLIC SERVICE COMMISSION

A. Notice of Default. Upon the occurrence of an event of default, the nondefaulting Party may promptly notify the defaulting Party, in writing pursuant to the terms of this Agreement, of the existence and nature of the event of default.

B. Curing of Default, Termination and Remedy.

(1) Within fifteen (15) days after written notice of the event of default has been received, the defaulting Party shall cure such default.

(2) Should the defaulting Party fail to cure the default within fifteen (15) days after written notice has been given to it, or within the time reasonably necessary to cure the default by the exercise of due diligence, or within the time specified in the Agreement, then the nondefaulting Party may, at its option, immediately terminate this Agreement and recover from the defaulting Party any and all damages to which it may be entitled under applicable law.

(3) Notwithstanding the foregoing provisions, neither Party shall have the right to terminate this Agreement unless the event of default constitutes a breach of a material term or condition of this Agreement.

(4) The PURCHASER shall not be in default if all undisputed monies are paid when due.

17. TERMINATION OF WATER SERVICE FOR NONPAYMENT

Should an act of default by the PURCHASER in payment of monies under this Agreement continue for a period of thirty (30) days from the giving of written notice without having been cured by the PURCHASER, then the SELLER may, by written notice, terminate the right of the PURCHASER to receive any or all of its water supply from the

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By Robert C. Neel
FOR THE PUBLIC SERVICE COMMISSION

SELLER. If the default in payment continues for thirty (30) days or more after the termination of water service, the SELLER may terminate this Agreement and recover from the PURCHASER any and all damages to which it may be entitled under applicable law.

18. DISPUTED BILL:

If a portion of any bill issued by the SELLER to the PURCHASER is in a bona fide dispute, the undisputed amount shall be paid when due. In the event the SELLER is entitled to all or any portion of the disputed amount, the SELLER shall also be entitled to interest on such amount at twelve percent (12%) per annum.

19. NOTICES:

If at any time either Party desires or is required to give notice to the other Party pursuant to the terms of this Agreement, such notice shall be in writing and shall be hand delivered or mailed by certified mail, return receipt requested. Notice shall be effective upon receipt. Notices shall be given to the Parties at the following addresses or such other place or other person as either Party shall designate by similar notice:

(A) As to the SELLER

City of Mt. Vernon
City Hall
P.O. Box 1465
125 Richmond Street
Mt. Vernon, Kentucky 40456
Attention: Mayor

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BY: *Judith C. Neal*
FOR THE PUBLIC SERVICE COMMISSION

(B) As to the PURCHASER

Western Rockcastle Water Association, Inc.
Route 1, Box 208
Hwy. 150
Brodhead, Kentucky 40409
Attention: President

20. RESPONSE TO NOTICES:

At any time either Party desires or is required to respond to any notice given pursuant to paragraph 19., such response shall be made in the manner prescribed by paragraph 19. and be given within fifteen (15) days after receipt of the notice unless otherwise provided in this Agreement.

21. PARAGRAPH HEADINGS:

The descriptive headings of the various paragraphs of this Agreement have been inserted for convenience of reference only and shall in no way modify or restrict any of the terms and provisions thereof.

22. ENTIRE AGREEMENT; SEVERABILITY:

This Agreement constitutes the entire agreement between the Parties with respect to the subject matter contained herein. Except as otherwise provided herein, no subsequent alteration, amendment, change or addition to this Agreement shall be binding upon either Party unless and until it is reduced to writing and signed by both Parties. Should any provision of this Agreement be declared to be invalid or unenforceable by a Court of competent jurisdiction, the remaining provisions of this Agreement shall remain in full force and effect unless such invalid or unenforceable provision substantially impairs the benefits of the Agreement for either Party.

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23. NON-WAIVER:

Any waiver at any time by any Party hereto of its rights or interests in respect to the other Party or with respect to any matter arising in connection with this Agreement shall not be considered a waiver of any such rights or matters at any subsequent time.

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BY: Judith C. Neal

FOR THE PUBLIC SERVICE COMMISSION

24. SUCCESSORS AND ASSIGNS:

This Agreement shall inure to the benefit of and be binding upon the Parties hereto and their respective successors and assigns. This Agreement shall not be assigned by either Party without the written consent of the other Party.

25. PURCHASER'S SUCCESSOR:

In the event of any occurrence rendering the PURCHASER incapable of performing under this Agreement, any successor of the PURCHASER, whether the result of legal process, assignment, or otherwise, shall succeed to the rights and obligations of the PURCHASER and the terms of this Agreement shall be binding upon the successor in interest.

26. PLEDGE:

It is understood by the Parties that the PURCHASER intends to, and does by the execution of this Agreement, pledge this Agreement to the United States of America, acting through the Farmers Home Administration (FmHA) as part of the security for the repayment of all indebtedness currently owed by the PURCHASER to FmHA, and any additional loans hereinafter obtained from the United States of America. The SELLER, however is not incurring any liability to FmHA because of the PURCHASER'S pledge of this Agreement to FmHA; and the SELLER is not incurring any independent obligation to FmHA because of this pledge by the PURCHASER.

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27. FmHA APPROVAL:

The PURCHASER has financed construction of ~~its existing system~~ through loan(s) from the United States of America, acting through the Farmers Homes Administration of the United States Department of Agriculture. The provisions of this Agreement pertaining to the undertakings of the PURCHASER are conditioned upon and subject to the approval

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of the State Office of the FmHA which approval shall not be unreasonably withheld. Similarly, any future modifications of the provisions of this Agreement by the Parties shall likewise be subject to the approval, in writing, of said State Office. Such approval shall not, however, apply to any change in rates paid by the PURCHASER for water purchased by it from the SELLER as same is controlled by the provisions of this Agreement.

28. EFFECTIVE DATE:

The Parties acknowledge that, in order for this Agreement to be made effective, it must be approved by and executed on behalf of the SELLER, the PURCHASER, and FmHA. The SELLER must also enact or amend such ordinances as it deems necessary to effectuate the provisions of this Agreement pertaining to establishing and modifying rates. This Agreement shall become effective with the final passage, approval, and publication of such ordinances. The Effective Date shall be the publication date. The term of this Agreement shall be measured from the Effective Date.

29. DISPUTES:

Every effort shall be made to resolve any disagreements arising from this Agreement between the respective representatives of the SELLER and the PURCHASER. Disagreements not so resolved will become disputes. Pending final resolution of a dispute hereunder, the Parties to this Agreement will continue to operate ~~under~~ the terms of the Agreement.

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30. PRIOR CONTRACTS SUPERSEDED:

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As of the Effective Date of this Agreement, the September 15, 1983 Water Purchase Contract, and any and all supplemental contracts, addenda or amendments thereto, shall be superseded.

FOR THE PUBLIC SERVICE COMMISSION

IN WITNESS THEREOF, the Parties hereto, acting under the authority of their respective governing bodies, have caused this Agreement to be duly executed in multiple counterparts, each of which shall constitute an original, on the date stated above.

CITY OF MT. VERNON

ATTEST:

Kaye Rader
KAYE RADER, CITY CLERK

BY: Gary R. Cromer
GARY R. CROMER, MAYOR

WESTERN ROCKCASTLE WATER ASSOCIATION, INC.

ATTEST:

Eddie J. Hamm
EDDIE J. HAMM, SEC.-TREAS.

BY: Charles D. Burton
CHARLES D. BURTON, PRESIDENT

This Water Purchase Agreement is approved on behalf of the Farmers Home Administration this 30th day of AUGUST, 1993.

BY: Jimmy H. Hall, C&BP Specialist
(Typed name of person and title)

SIGNATURE: Jimmy H. Hall

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This Water Purchase Agreement has been approved as to legality of form and content by:

John E. Clontz
Mr. John E. Clontz
Clontz & Cox
Attorneys at Law
P.O. Box 1350
Mt. Vernon, Kentucky 40456

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BY: Judith L. Hall
FOR THE PUBLIC SERVICE COMMISSION