

JOB ORDER

Date March 19, 1998 Suspense Account No. 123.000 Job Number 9815-11

Project No. 8-1830 Contract No. B.I. No. 65 Attachment No.

Job Description ES WS NS SS OTHER CODE 1 2 3

Street Name Preliminary engineering for planning related activities associated with the Bluegrass Water

Project Name & Description of Work: Estimation Project.

Provide planning related services for the Bluegrass Water Est. Project

Bill To ABC Estimated Cost

Deposit: Acc. Amount

Account To Be Charged 123.000

Approved By Authorized By

Date Completed Signed Job Cost Closed

DRAFT – FOR DISCUSSION PURPOSES ONLY

Kentucky American Water Company/Louisville Water Company Meeting Minutes for February 6, 1998

The meeting started at 10:00 am in the Board Room. The meeting format was changed from face-to-face to a conference call due to the 20 inches of snow. In attendance from the LWC were Greg Heitzman, Karen Willis, and Alan Arbuckle. In attendance from KAWC were Linda Bridwell, Dave Reeves, and Mick ?. Agenda was faxed to the LWC location and the meeting agenda started at 10:30 am, see attached. The meeting discussion deviated in order from the agenda and is presented below in the order discussed.

Request for Proposal

The draft contract from 1992 is being reworked and will be forwarded to LWC for review within a few weeks. Target for completion of the RFP is April 1, 1998. The KAWC will develop the RFP for that section. The design consultant selected will be for that section of the project to be owned by the KAWC. The primary goal of the RFP is to provide a cost-effective means of building the project. Upon completion of the RFP, it will be faxed to the LWC for review. LWC will respond by e-mail to Dave Reeves at DREVES@AMWATER.COM. Response should be returned to the KAWC by March 15, 1998.

The LWC may elect to negotiate with the KAWC consultant, or select another consultant. A short list of consultants has been selected by the KAWC. A fax of those consultants will be sent to the LWC for review.

A letter of understanding between John Huber and Roy Mundy is required to start the accumulation of design related expenses. This letter will include the intent of the KAWC and the understanding of financial responsibilities.

Coordination of Design Work

Contracts for the LWC are Bob Miller for legal and financial issues, and Greg Heitzman/Karen Willis for engineering issues. Contact for financial issues is Coleman Bush at the KAWC.

US 60 Route Feasibility

The proposed route follows US60 from English Station Road through Eastwood, then along a railroad line into Shelby County. LWC agreed to general alignment, however there is a trade-off between the number of easements and the necessity for a pumping

facility. The gas transmission main route requires a pump station but will have less easements. The US60 route will have more easements due to the commercial nature of that route.

Hydraulics

The grade available at the English Station Reservoir will be assumed no greater than 830 feet. The primary water main route will be US60 corridor and the gas transmission main route a secondary choice. The critical high elevation is 770 feet and is located near the entrance to the Lake Forest development entrance. Estimated static pressure may be 20 psi at this critical elevation site.

A storage facility located at the Jefferson/Shelby County boundary and US60 will not be feasible to construct. The elevation at this site is approximately 650 feet and will require the tank to be more than 200 feet in height. The intent of a storage facility at this location is to provide a buffer between the operation of LWC and KAWC systems.

The topic of surge control was discussed. The KAWC's concern is for surge control during an unscheduled shut down such as a power failure. The KAWC is to include surge analysis for the LWC section of this project.

Schedule of Completion of Work

The following timeline was suggested by the KAWC:

- February 13, 1998 (about one week from today) – discussion of LWC hydraulic evaluation and LWC review/comment of RFP
- February 17, 1998 – RFP sent to short list of consultants
- March 19, 1998 – proposals received by the KAWC
- April 1, 1998 – award contract to successful consultant
- October 1, 1998 – completion of design work
- December 1, 1998 – file to the PSC for Certificate of Convenience and Necessity
- January 15, 1999 – advertisement period begins
- April 1, 1999 – construction bids received
- June 1, 1999 – PSC hearing conducted
- September 1 to December 1, 1999 – construction starts
- March to June 2001 – facilities placed in service

The LWC will not be required to bid before the KAWC bid. LWC will provide a not-to-exceed value for the capital costs and rate structure.

Coordination of Design Work

Purpose of coordination is to provide status of design work to the KWAC and the same convenience to the LWC. The KAWC also has the need to review scope changed on the

LWC section before the change is adopted. LWC agrees with this provision. The maintenance of project records should be performed by both companies with the understanding of an open record policy.

Water Purchase Contract Issues

The location of the metering point is considered ideal if pumping facilities, storage facilities and meter are located at the same site. Having the meter located at the point of pumping will be acceptable. The tentative location of the pump station is along I-64 approximately 2000 feet into Shelby County. Objective of the pump station location is to maximize recovery through the PPSC and for pump station operation. LWC prefers to own the first KAWC owned pump station.

Pump Station Controls

The full set of pump station controls is required by the LWC to be available for telemetry. The data will be sent to the English Station Reservoir where existing signals are currently sent to the BEPWTP and the CHWTP control rooms.

Water Quality

The KAWC will be treating for corrosion control and free chlorine levels. The corrosion inhibitor may be zinc-based. KAWC requested more information on chlorine residual. Concern is for the free ammonia concentration and potential nitrification concerns. KAWC wants to provide a 2.0-ppm level of combined chlorine to the City of Lexington. The request will be forwarded and data should be provided by the LWC on table included with the request. Minimum and maximum parameters will be provided by the KAWC for this request for additional information. The contract language will include a statement that LWC supply will meet or exceed all regulations of the Kentucky Division of Water.

Other Issues

The topic produced one issue, being the selection of pipeline and valve materials. The KAWC RFP includes references for of three different types of pipe, steel, PCCP and DI. The selection of materials will be governed by the criteria of each company for the section to be owned by that company.

The meeting adjourned at 11:40 am.

SCHEDULE B
BLUEGRASS WATER PROJECT AGREEMENT

1. Seller System Capacity/ Buyer Reserve Capacity Request

The Seller shall establish in writing every five years, the Seller System Production Capacity as determined by a consulting engineer of national reknown.

Buyer shall notify Seller, in writing, the Buyer Reserve Capacity request for each calendar year by July 1st of the previous year. Annually, the Seller may reserve a minimum of _____ million gallons per day (MGD) *{LWC will consider a ramping approach}*, and up to a maximum of 23 MGD capacity to the Buyer. The Seller has up to 6 months to make the necessary improvements to provide the new Buyer Reserve Capacity request *{K-A needs to have this capacity on a moments notice}*.

2. Water Rate for Agreement

The invoice for all water purchased by the Buyer until the end of the agreement shall be comprised of the following components: 1) Operating Cost, 2) Depreciation Cost, 3) Return on Plant Investment, and 4) Customer costs. These components are defined as follows:

- Operating Cost Component
(Buyer Consumption / Seller Total System Sales) * (Seller operating expenses - common to only retail costs – customer costs)
- Depreciation Cost Component
(Buyer Reserved Capacity / Seller System Capacity) * (Seller depreciation expenses - common to only retail costs – customer costs)
- Return on Plant Investment Component
(Buyer Reserved Capacity / Seller System Capacity) * (Seller return on plant investment – common to only retail costs – customer costs)
- Customer Costs
Actual expenses assignable to the Buyer including, but not limited to, metering, billing, collection, and operation and maintenance on Buyer specific assets.

3. Minimum Consumption and Peaking Factor

{Both parties to look at and determine a minimum consumption}

Buyer consumption for each day shall be determined by the metered usage from midnight until midnight. Minimum Buyer consumption will be _____ MGD. If Buyer consumption is unusually high due to unforeseeable and uncontrollable circumstances, then the Seller will consider, at its own discretion without setting precedent, waiving the additional charges as described below for the affected period. If Buyer consumption is low due to unforeseeable and uncontrollable circumstances, then the Seller will consider, at its own discretion without setting precedent, waiving the daily minimum required as described above for the affected period.

Should the Buyer consumption remain below the Buyer Reserve Capacity for each day, the rate per 1,000 gallons shall be according to paragraph 2 above. Should the Buyer consumption exceed the Buyer Reserve Capacity for any given day, the rate shall be as identified in paragraph 2 up to the Buyer Reserve Capacity, and any additional consumption shall be at the then current LWC wholesale rate plus elevated service charge (presently \$1.35/thousand gallons).

Ky-American Meeting
Ky-American Office – Lexington, Kentucky
June 8, 1998

Attendance:

LWC – Joe Helm (BT&H), Greg Heitzman, Bob Miller, Karen Willis

K-A – Ed Grubb, Lindsey Ingram, Linda Bridwell, Herb Miller, Coleman Bush

Meeting began with a review of the latest contract, dated June 5, 1998. Group stepped through the contract, making changes where necessary. The following are notes of the changes denoted for the contract.

- Recitals
 - Section C – Herb and Joe to work on collectively
 - Section D – add “and service” after water for sale.....
- Definitions
 - 1a – add “and to be constructed to” after facilities designed.....
 - 1a – Change last sentence to “These (Project) Facilities shall be owned by the Seller.
 - 1b – The Point of Delivery will be the connection of the Project Facilities to Buyer’s facilities. The connection will be at a point in Shelby County, Ky at or near the intersection of I-64 and Ky Highway 55.
 - 1c – Section 6 to Section 8
- Design of Project Facilities
 - 2c – Date of completion will be December 1, 1998
 - 2d – Estimated cost to be provided b y December 1, 1998
- Easement Acquisition – changes to Property Acquisition (Section 3)
- New Section 4 – Bidding Process
 - Joe to work up new language
- Section 4 changes to Section 5
 - 1a – strike last sentence
 - 1b – Seller, using a Professional Engineer licensed in the state of KY will supervise....
- Section 5 changes to Section 6
 - Buyer will not be responsible for the costs “(as enumerated in preceeding sentence)”.....

- The group extensively discussed the cost components and what entity would pay for what components of the pipeline, pump station and storage facility.
- The group then began to review “Schedule B”. Discussion centered on the need to have the component that identifies the Seller System Capacity. As recommended by Joe Helm, this component was put back into Schedule B.

Assume BRC = 6.0 MGD; Free Ride up to 6.0 MGD for the BRC

Minimum consumption of 2.0 MGD


Day	Consumption 1,000 gallons	Consumption Below Amount Reserved	Rate per 1,000 gallons	Consumption Below Amount Reserved	Rate above BRC per 1,000 gallons	Total
1	1500	2000	0.74	0	1.35	\$1,480
2	1500	2000	0.74	0	1.35	\$1,480
3	2000	2000	0.74	0	1.35	\$1,480
4	2000	2000	0.74	0	1.35	\$1,480
5	2500	2500	0.74	0	1.35	\$1,850
6	3000	3000	0.74	0	1.35	\$2,220
7	3500	3500	0.74	0	1.35	\$2,590
8	5000	5000	0.74	0	1.35	\$3,700
9	6000	6000	0.74	0	1.35	\$4,440
10	6500	6000	0.74	500	1.35	\$5,115
11	7000	6000	0.74	1000	1.35	\$5,790
12	7500	6000	0.74	1500	1.35	\$6,465
13	5000	5000	0.74	0	1.35	\$3,700
14	4500	4500	0.74	0	1.35	\$3,330
15	3000	3000	0.74	0	1.35	\$2,220
16	2000	2000	0.74	0	1.35	\$1,480
17	2000	2000	0.74	0	1.35	\$1,480
18	2000	2000	0.74	0	1.35	\$1,480
19	2000	2000	0.74	0	1.35	\$1,480
20	2000	2000	0.74	0	1.35	\$1,480
21	2000	2000	0.74	0	1.35	\$1,480
22	2000	2000	0.74	0	1.35	\$1,480
23	2000	2000	0.74	0	1.35	\$1,480
24	2000	2000	0.74	0	1.35	\$1,480
25	2000	2000	0.74	0	1.35	\$1,480
26	2000	2000	0.74	0	1.35	\$1,480
27	2000	2000	0.74	0	1.35	\$1,480
28	2000	2000	0.74	0	1.35	\$1,480
29	2000	2000	0.74	0	1.35	\$1,480
30	2000	2000	0.74	0	1.35	\$1,480
						\$69,540

Assume BRC = 6.0 MGD; Free Ride up to 6.0 MGD for the BRC
Minimum consumption of 2.0 MGD

Day	Consumption 1,000 gallons	Consumption Below Amount Reserved	Rate per 1,000 gallons	Consumption Below Amount Reserved	Rate above BRC per 1,000 gallons	Total
1	1500	2000	1.11	0	1.35	\$2,220
2	1500	2000	1.11	0	1.35	\$2,220
3	2000	2000	1.11	0	1.35	\$2,220
4	2000	2000	1.11	0	1.35	\$2,220
5	2500	2500	1.11	0	1.35	\$2,775
6	3000	3000	1.11	0	1.35	\$3,330
7	3500	3500	1.11	0	1.35	\$3,885
8	5000	5000	1.11	0	1.35	\$5,550
9	6000	6000	1.11	0	1.35	\$6,660
10	6500	6000	1.11	0	1.35	\$6,660
11	7000	6000	1.11	0	1.35	\$6,660
12	7500	6000	1.11	0	1.35	\$6,660
13	5000	5000	1.11	0	1.35	\$5,550
14	4500	4500	1.11	0	1.35	\$4,995
15	3000	3000	1.11	0	1.35	\$3,330
16	2000	2000	1.11	0	1.35	\$2,220
17	2000	2000	1.11	0	1.35	\$2,220
18	2000	2000	1.11	0	1.35	\$2,220
19	2000	2000	1.11	0	1.35	\$2,220
20	2000	2000	1.11	0	1.35	\$2,220
21	2000	2000	1.11	0	1.35	\$2,220
22	2000	2000	1.11	0	1.35	\$2,220
23	2000	2000	1.11	0	1.35	\$2,220
24	2000	2000	1.11	0	1.35	\$2,220
25	2000	2000	1.11	0	1.35	\$2,220
26	2000	2000	1.11	0	1.35	\$2,220
27	2000	2000	1.11	0	1.35	\$2,220
28	2000	2000	1.11	0	1.35	\$2,220
29	2000	2000	1.11	0	1.35	\$2,220

30	2000	2000	1.11	0	1.35	\$2,220 \$98,235
----	------	------	------	---	------	---------------------

**MEMORANDUM
LOUISVILLE WATER COMPANY**

TO: Greg Heitzman, Bob Miller
FROM: John Huber 
DATE: October 9, 1998
RE: Kentucky-American Water Company

CONFIDENTIAL

Roy Mundy called me today. He advised they will have a board meeting on October 30. He anticipates signing the contract after that board meeting.

In the meantime, Kentucky-American must submit information to the Corps of Engineers for the Kentucky River crossing if they are to meet their timetable. The Kentucky River crossing permit is now a key item on the critical path. In order to get the permit approved, Roy is advised the Corps of Engineers will be looking at the need, necessity, and feasibility of the pipeline. He understands this will mean the pipeline must be essentially designed for the permit application. He is requesting we begin design of the pipeline. He will be faxing a letter requesting us to begin pipeline design either today or Monday. I advised him Greg has recently met with Gene Fouts at Shelbyville, and that Gene is now interested in taking service from us at Highway 55 in addition to a metering point at Highway 53. He understands Greg Heitzman will be discussing this possibility with Kentucky-American. I believe Kentucky-American either will be looking for some consideration for moving the metering point farther east, or will be interested in the possibility of discussing a wheeling charge for selling water at Highway 55. Roy was especially interested in discussing the wheeling charge. Kentucky-American will also be considering alternative rate structures for systems that may wish to purchase water from the pipeline.

Roy also advised Kentucky-American is talking to Goshen about the possibility of acquiring their system and that others are also discussing system acquisition with Goshen. Kentucky-American has not yet submitted a proposal. According to Roy, PSG is one of the groups submitting a proposal, and the proposal already in Goshen's hand is likely PSG's proposal. Roy advised they would not normally be seeking Goshen as a customer since they are in the region where the Louisville Water Company already operates, but because their competitors are there, they felt it was necessary for them to pursue the opportunity. He further stated he felt it would be difficult for others to establish an economy of scale which could compete with the Louisville Water Company in the Goshen area. Roy believes there is a third firm, in addition to Kentucky-American, PSG, and the Louisville Water Company looking at presenting a proposal to Goshen utilities.

jcm



Kentucky American Water Company

2300 Dickmond Road, Lexington, Kentucky 40502 606-335-3417

**WATER
SUPPLY PROJECT**

PIPELINE STATISTICS

9/97

I. Construction Timeline:

- A. Completion, 2001.
- B. Decision from PSC for Existing Case: End of summer.
- C. Preparation for Certificate of Convenience and Necessity at a cost of over \$1,000,000. (easements, design, contractual arrangements with LWC, community meetings.)
- D. Actual Construction: 18-24 months.

II. Construction Details:

- A. Capacity of Pipe: 20-25 MGD. *Midway Gallons Day - 2 million (winter) - 4 million (summer) 2-3 MGD wholly secured*
- B. Size of Pipeline: 36 inches.
- C. Pipe Composition: Ductile Iron.
- D. Cost of Pipeline: \$47.9 million.
- E. Construction Method: Directional drilling in environmentally sensitive areas; use of existing easements (gas line south of I-64, across: Kentucky River, to Lexington via Woodford Co.)

III. Financial Details:

- A. Cost of water from Louisville Water Company: \$1.11 per thousand gallons.
- B. Percent of increase to customer bill: 24.89 percent.
- C. Increase per month for average residential customer: \$4.62. (Average residential customer uses 5,750 gallons per month.)
- D. Cost increase based on total consumption - commercial users who use more will pay more; projected residential increase based on current monthly average customer usage.
- E. There is not a "no-cost" option.

IV. Louisville Water Company:

- A. Water Source: Ohio River.
- B. Over-Capacity: 100 MGD.
- C. Municipal System - Mayor Abramson Chairman of the Board.

V. Statistics/Terms:

- A. University of Kentucky Water Resources Research Institute: Overall baseline deficit 9.7 billion gallons.
- B. Equates to: 23 million gallons per day (Lexington without water 53 days).
- C. Drought of 1988: 22-year drought (added 15,000 customers).
- D. Drought of Record: Occurred in 1930 (was a projected 120-year drought).
- E. Conservation alone will not come close to solving deficit.

APPS/COMREL/WSF/PIPELINE STATISTICS





American Water Works Service Company, Inc.

1025 Laurel Oak Road • P.O. Box 1770 • Voorhees, New Jersey 08043 • (609) 346-8201 • Fax (609) 346-8360

April 1, 1998
BP 92-12

(A copy of this has been sent to the attached list of consultants)

Re: Kentucky-American Water Company
Bluegrass Water Project

Dear Colleague:

Thank you for your recent proposal for the referenced project. Although our evaluation of consultant proposals is not yet complete, the proposal submitted by the Gannett Fleming/PDR team appears, at this time, to be the most favorable. Based on this preliminary evaluation, we have authorized Gannett Fleming/PDR to proceed only with an additional aerial survey and appropriate ground control along the proposed pipeline route. These activities were initiated at this time such that adequate horizontal and vertical control based on the current topography along the pipeline route could be established while the limited opportunity to do so still exists.

We expect that our final evaluation will be complete no later than April 13 at which time you will be informed if there has been any change from our preliminary evaluation. Should the Gannett Fleming/PDR team not be chosen to complete the remainder of the engineering activities on this project, the new survey data will be provided to the selected consultant. Thank you again for your efforts to date on this project.

Sincerely,

David M. Reves

DMR/f

xc: L.C. Bridwell - KAWC
T.A. Friley - KAWC
N.O. Rowe - KAWC
K.A. Willis - Louisville Water Company

KENTUCKY-AMERICAN WATER COMPANY
BLUEGRASS WATER PROJECT

List of Consultants

Team 1

GRW Engineers, Inc.
801 Corporate Drive
Lexington, KY 40503
Attn: Ron D. Gilkerson
(606) 223-3999

Copied

Quest Engineers, Inc.
881 Corporate Drive
Lexington, KY 40503
Attn: Mr. Charles R. Scroggin

Copied

Montgomery Watson
2000 Bond Court Building
1300 East 9th Street
Cleveland, OH 44114
Attn: Mr. Richard G. Atoulikian

Team 2

Killam Associates
27 Bleeker Street
Milburn, NJ 07041-1008
Attn: Nicholas M. DeNichilo
(973) 379-3400

Copied

CDP Engineers, Inc.
616 Wellington Way, Suite C
Lexington, KY 40503
Attn: Mr. John B. Steinmetz

Team 3

Gannett Fleming, Inc.
207 Senate Avenue
Camp Hill, PA 17011
Attn: W. Kirk Corliss, Jr.
(717) 763-7211

Copied

PDR Engineers, Inc.
462 South 4th Avenue, Suite 400
Meidinger Tower
Louisville, KY 40202
Attn: Mr. Raymond W. Ihlenburg

Team 4

PEH Engineers
620 Euclid Avenue
P.O. Box 22738
Lexington, KY 40522
Attn: Michael A. Woolum
(606) 266-2144

Copied

Hazen and Sawyer, P.C.
4011 WestChase Blvd.
Raleigh, NC 27607
Attn: Anthony P. Izzo

Team 5

Camp Dresser & McKee Inc.
Two Paragon Centre
Suite 300
6040 Dutchmans Lane
Louisville, KY 40205
Attn: Bernard F. Maloy
(502) 452-1700

Copied

Photo Science, Inc.
2670 Wilhite Drive
Lexington, KY 40503
Attn: Mr. Mark Meade



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502
(606) 268-6320 • Fax (606) 268-6327

KAWC

Roy W. Mundy II
President

February 20, 1998

Mr. John Huber, President
Louisville Water Company
435 South Third Street
Louisville, Kentucky 40202

RE: Kentucky-American Water Company
Louisville Water Company Agreement

Dear John:

The purpose of this letter is to memorialize an agreement between Kentucky-American Water Company ("Kentucky-American") and Louisville Water Company with respect to potential reimbursement by Kentucky-American of costs incurred by Louisville Water Company in the design of facilities necessary to supply potable water for Kentucky-American's Bluegrass Water Supply Project.

We are in the final stages of completing a proposed agreement between Kentucky-American and Louisville Water Company wherein Louisville Water Company will supply potable water to Kentucky-American at a point near I-60 just east of the intersection of the Jefferson County - Shelby County line. In order to supply this volume of water it will be necessary for Louisville Water Company to design facilities that will be necessary for delivery of potable water in sufficient quantity and quality to that point.

We anticipate that by April 1, 1998, Kentucky-American will enter into a Water Purchase Agreement with Louisville Water Company and that Kentucky-American will have selected a contractor for the design of its facilities which are a part of the Bluegrass Water Supply Project. It will be necessary for the Water Purchase Agreement to contain a provision that it will be binding only when Kentucky-American has obtained a final, non-appealable Order from the Public Service Commission in the form of a Certificate of Convenience and Necessity authorizing the construction of the Bluegrass Water Supply Pipeline.

As a part of the application for the Certificate of Convenience and Necessity, Kentucky-American is required to include a description of the manner in which the facilities will be constructed. Kentucky-American would be unable to meet this regulatory requirement if Louisville Water Company was not willing to design its necessary facilities before the application is made to the Public Service Commission. Therefore, we would ask that the Louisville Water Company design be completed by October 1, 1998 as will be noted in the Water Purchase Agreement.

Copies to: G. Heitzman, L. Hollis, S. Hubbs, B. Miller, K. Teasley
2/24/98

Mr. John Huber
February 20, 1998
Page 2

We understand that the design of your facilities would not have value to Louisville Water Company in the absence of the Water Purchase Agreement becoming a binding contract. We therefore agree, in the event the Water Purchase Agreement does not become binding, to reimburse Louisville Water Company for external costs incurred by it in the design of its facilities and for the reasonable internal costs to be incurred.

We hope that Louisville Water Company will use Kentucky-American's consultant for the design of its facilities. We believe efficiencies can be achieved by the utilization of the same design consultant; however, this agreement is not contingent upon Louisville Water using our selected consultant.

Prior to the beginning of the expenditure of money, we need an estimate of the external and internal costs to be incurred by Louisville Water Company. Any change in scope of the design, from that contemplated in the Water Purchase Agreement, which causes a deviation in the estimate from either external or internal costs must be approved by Kentucky-American in advance, which approval shall not unreasonably be withheld. Kentucky-American will provide a member of our company to serve on the design/review team to insure the above. I assume you would have no objection to our internal auditors verifying the compilation of your internal costs.

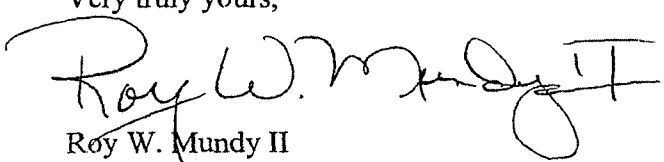
In the rare event Kentucky-American's design contractor is unacceptable to Louisville Water Company, Kentucky-American must approve your selection of a design contractor for your facilities, and that approval shall not be unreasonably withheld.

I want to personally thank you for the cooperation which has existed between the representatives of Louisville Water Company and Kentucky-American. Any questions, concerns or issues about our future relationship should be directed to Herb Miller (legal), Coleman Bush (finance), Nick Rowe (operations), or Linda Bridwell (engineering). I envision that you and I will have a fairly constant exchange of information and ideas, and please feel free to call me personally on any issue at any time.

If this Agreement meets with your approval, I would appreciate receiving your estimate of the external and internal costs to be incurred by Louisville Water Company. Upon our approval thereof, I will ask you by additional correspondence to sign a copy of this letter which shall then be considered as the agreement between Kentucky-American and Louisville Water Company as detailed herein.

On behalf of Kentucky-American's customers, I look forward to a long-term, mutually satisfactory relationship.

Very truly yours,


Roy W. Mundy II
President

KAWC 5/22/98
Discussion
Markups

WATER SUPPLY AGREEMENT

THIS WATER SUPPLY AGREEMENT, dated as of this _____ day of _____
1998, between

LOUISVILLE WATER COMPANY,
435 South Third Street
(soon to be 550 South Third Street)
Louisville, Kentucky 40202

("Seller").

and

KENTUCKY-AMERICAN WATER COMPANY,
2300 Richmond Road
Lexington, Kentucky 40502

("Buyer")

RECITALS

A. Seller, a Kentucky corporation all of the stock of which is owned by the City of Louisville, is governed by the Board of Water Works pursuant to Sections 96.230 through 96.315 310 of the Kentucky Revised Statutes, and is statutorily permitted to sell water to customers taking services in Jefferson, Oldham, Shelby, Spencer, Bullitt and Hardin Counties, Kentucky.

B. Seller owns and operates water treatment and distribution facilities and utilizes its facilities to provide water service on a retail and wholesale basis to Jefferson County and large areas of Oldham, Shelby, Spencer, and Bullitt Counties, including, among others, wholesale service to West Shelby Water District, North Shelby Water District and the City of Taylorsville;

C. Seller ~~at this time~~ has available ~~reserve~~ treatment and storage capacity sufficient to meet Buyer's needs set forth under this Agreement;

D. Buyer, a Kentucky corporation, engages in the ~~treatment and distribution~~ ^{manufacture} of water for sale to customers in the counties of Fayette, Bourbon, Clark, Harrison, Jessamine, Scott, and Woodford; and

E. Buyer is desirous of ^{securing} ~~entering into an agreement to provide it~~ ^{a continuing} ~~an additional~~ dependable source of water to meet the present and future needs of Buyer's customers and plans construction of an extended pipeline ~~from Central Kentucky~~ to the Point of Delivery defined below, ~~to provide transmission facilities for treated water to be supplied hereunder.~~ ^{as}

WITNESSETH:

NOW, THEREFORE, in consideration of the mutual covenants and conditions herein contained, the parties hereby agree as follows:

1. DEFINITIONS. In this Agreement, these terms have the meanings indicated below:

(a) Project Facilities: Fixtures, equipment, water transmission mains, meters, vaults, storage tank, pipes, pumps, buildings and other improvements and facilities approved by Buyer for delivery of Service under this Agreement. Such facilities shall be owned by the Seller upon completion.

* (b) Point of Delivery: The connection of the Project Facilities to Buyer's facilities (the "Point of Delivery") will be at a point in Shelby County, Kentucky at or near the intersection of Interstate Highway 64 and Kentucky Highway 55. (?)

(c) Service: The delivery of treated, potable water by Seller to the Point of Delivery under this Agreement and the capacity reserved for such pursuant to the standards set forth in Section 6, subsections (a) and (b). HAN

2. DESIGN OF PROJECT FACILITIES:

(a) The Project Facilities will be designed by Seller, Buyer retaining the right to approve the selection by Seller of any outside professional engineering assistance in creating such design, such approval not to be unreasonably withheld.

(b) Buyer will have the right to approve the scope of the design, subject to Seller's right to upsize the Project Facilities' transmission main from a 36 inch main, needed to provide Buyer with the requested Service, to a larger circumference to assist Seller in providing water Service to existing and future customers, it being agreed that the design and construction cost of such upsizing to accommodate Seller shall be borne by Seller. ✓

(c) Buyer agrees to pay the actual and reasonable costs of the design of the Project Facilities (except design costs attributable to Seller's upsizing), such costs to include professional engineering fees and measurable internal costs of engineering planning and design and to be invoiced periodically by Seller with payment to be due within 30 days. Any subsequent change in the design which, individually or in the aggregate, increases the cost of the construction of the Project Facilities shall be subject to Buyer's prior written approval, which approval shall not be unreasonably withheld.

W/C
will
draft
language
(d) Seller understands that the design must be fully completed in a form and substance satisfactory to Buyer prior to Buyer's application to the Public Service Commission for a Certificate of Convenience and Necessity. Consequently, the date of completion for such design shall not be later than October 21, 1998, time being of the essence.

(e) Also, on or before October 21, 1998 Seller will provide Buyer with its estimated cost of the Project Facilities (not including upsizing costs), including costs of design, construction and easement acquisition.

3. EASEMENT ACQUISITION: Upon receipt by the Seller of Buyer's written instructions, Seller will initiate an effort to acquire pipeline and any other easements and property needed in the construction and installation of the Project Facilities, keeping Buyer advised as to its progress and as to any obstacles encountered in such procurement. Buyer agrees to reimburse Seller for its out of pocket expenses (legal, appraisal, agent negotiations and other) and internal staff work costs with respect to such easement work periodically as invoiced.

we will write long.
reasonable

measurable?

CONSTRUCTION OF PROJECT FACILITIES:

(a) Seller will construct the Project Facilities at Buyer's expense (except for upsizing cost). In the performance thereof, Seller may avail itself of the services of an outside professional engineering firm, approved by Buyer, and will be responsible for the letting of the construction contract(s) for competitive bidding, Buyer reserving the right to veto any bid or bidder for reasonable cause.

?

(b) Completion of construction of the Project Facilities and Service at the Point of Delivery will be accomplished no later than 18 months ("Construction Completion Date") from the date Buyer notifies Seller in writing to advertise the construction contract(s) for bids ("Construction Commencement Date"), time being of the essence.

(c) Delays in construction will cause extension of the Construction Completion Date provided such delays are the result of sudden and unexpected adverse weather conditions, labor unrest, natural disasters, easement acquisition obstacles or other circumstances beyond Seller's control.

legal? encountered in easement acq.

5. REIMBURSEMENT TO SELLER FOR PROJECT FACILITIES COSTS:

* wst sharing of Shelby County facilities

(a) Buyer agrees to reimburse Seller for all costs incurred by Seller with respect to the construction of the Project Facilities. Such reimbursement will take one or more of the following forms: (except for upsizing costs)

(i) By progress payments to be made within 30 days of invoice, or No?

(ii) By reimbursing Seller for its costs, including debt service, as incurred in its issuance of tax-free, municipal bonds, the proceeds of which are to be used to reimburse Seller for the cost of construction, (it being understood that the contemplated bonds will be sold on a competitive bid basis and the bid will not be awarded until Buyer has approved same, which approval, when given, will include approval of the interest rate and issuance costs relating thereto; or)

will choose

(iii) Failing the other two alternatives, by issuance by Seller of conventional debt instruments to recoup its indicated costs, Buyer agreeing to provide all of the debt service issuance other cost relating to such financing.

above

also in this

Buyer approval of rates, etc.?

LWL will redraft

"upon notice from Buyer commence the inst, can commence"

(b) If Seller's debt instruments permit prepayment of part or all of the debt obligation, and if Buyer is not in default of any of its payments to Seller under this Section and Section 8 of this Agreement, then Buyer has the right to instruct Seller on a timely basis to exercise the prepayment privilege and shall simultaneously pay to Seller the amount of the prepayment needed to remit to the holders of the debt instruments being prepaid and any redemption expenses.

(c) Failure of Buyer to provide Seller with readily available funds in time to meet any debt payment requirements will result in a 5% penalty on the delinquent amount to be added to such delinquent payment for each month or partial month such payment and penalties thereto are delinquent.

limit to
LWC's actual
penalty
what rights
?

(d) Buyer agrees to pledge as security on Seller's indebtedness, if called upon to do so, all of its rights with respect to the Project Facilities.

6. SERVICE AT THE POINT OF DELIVERY:

(a) Condition. Buyer will pay Seller for Service at the Point of Delivery, provided Service is delivered to the Point of Delivery in a potable condition, which meets or exceeds all minimum state and federal drinking water standards in effect at the time of delivery. and in a condition for

(b) Rate of Flow and Pressure. Seller shall construct the Project Facilities to furnish Service to Buyer at the Point of Delivery with a maximum flow rate of 16,000 gallons per minute and a minimum pressure of not less than thirty (30) pounds per square inch (30 psi).

(c) Failures. In the event Seller is unable to provide Buyer with Service under the terms of this Section for reasons beyond Seller's control, Seller shall use its best efforts to restore the water to a quality rate of flow and pressure as required in this Section. Time is of the essence in all situations where such a failure and restoration exist.

2017-10-15

7. METERING ARRANGEMENTS: Seller agrees to furnish, install, maintain, repair and replace at the Point of Delivery a service meter or battery of meters, including meter house or vault, for properly measuring the quantity of water being delivered to Buyer and to test such metering equipment whenever requested by Buyer but no more frequently than once every six months with the results of such tests provided to Buyer. Buyer may require Seller to conduct tests more often than every six months, but at its own expense. A meter registering within the warranty limits specified by the manufacturer thereof shall be deemed to be accurate. Previous readings of any meter disclosed by test to be inaccurate shall be corrected for three months previous to such test in accordance with the percentage of inaccuracy found by such test. 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 immediately prior to the failure, unless Seller and Buyer shall agree otherwise. An appropriate official of the Buyer shall have access to the meter at reasonable times for the purpose of inspecting and reading such metering facilities.

meter read on
last 8. day

RATES AND PAYMENT:

(a) Buyer shall pay Seller for the Service as determined by the rates and terms set forth in Schedule A, attached hereto and incorporated herein, Buyer agreeing to consent to and waive objections to any and all rate adjustment filings made by Seller with the Kentucky Public Service Commission or elsewhere so long as such constitutes rate adjustments made in accordance with Schedule A of this Agreement.

ie to
the usage
meters

(b) Seller shall invoice Buyer monthly, and Buyer shall remit payment to Seller for each invoice no later than the 20 calendar days following the mailing of such invoice. ~~Failure to make timely payments will cause a penalty of five percent (5%) per month or partial month on each invoice remaining unpaid.~~ 30/mail 20/receipt
do other customers pay penalties?

in this occurs
all trans

9. SERVICE TO OTHERS: Seller warrants and represents that any water service to others prior to the Point of Delivery provided through or from the Project Facilities shall not interfere with its service or diminish its obligations to the Buyer under this Agreement.

main
142D
CDSS

10. RESERVATION OF SELLER'S CAPACITY: Seller agrees, throughout the term of this Agreement, to reserve water treatment capacity of not less than that needed under this Agreement to treat and deliver the Service to the Point of Delivery.

11. ADDITIONAL EXPANSION BY SELLER: Seller agrees that upon undertaking any expansion or enlargement of the capacity of its existing supply or treatment facilities, or pumping, transmission and storage facilities to the extent that the expansion or enlargement relates to the provision of Service under this Agreement, it will notify Buyer of its intention to do so and will afford Buyer with a reasonable opportunity to participate in the expansion or enlargement with a commensurate extension of the term of the contract and other terms mutually agreeable.

12. LIMITATION OF SERVICE TO BUYER FOR REASONS BEYOND SELLER'S CONTROL: Buyer acknowledges that unexpected supply or treatment problems may occur which are beyond Seller's control. In the event such unexpected problems limit or prevent Seller's ability to deliver Service to the Point of Delivery, and such problems limit or prevent the delivery to any of Seller's customers, then Seller agrees that any restrictions on water delivery shall apply to the Buyer in a similar manner which Seller applies to its other customers, excluding medical facilities. Seller will use its best efforts to restore full Service to Buyer as promptly and completely as possible.

Time of
Essence

13. NOTICE: Buyer will timely notify Seller of any emergency or condition, which would adversely affect the quality, quantity or pressure of the water in Seller's system and, likewise, Seller will timely notify Buyer of any emergency or condition, which would adversely affect the quality, quantity or pressure of the water at the Point of Delivery.

14. TERM AND EXTENSIONS: The term of this Agreement shall begin on the date this Agreement is executed by both parties hereto and shall terminate on December 31, 20__.

15. BUYER'S REPRESENTATIONS AND WARRANTIES:

(a) Buyer is a Kentucky corporation with the authority to enter into this Agreement, subject to regulatory approval, and has the authority to perform under the terms of this Agreement.

(b) Buyer shall be responsible for the maintenance of water quality after the Point of Delivery provided that Seller has delivered Service to the Point of Delivery pursuant to this Agreement.

(c) Provided Seller has delivered Service to the Point of Delivery pursuant to this Agreement, Buyer shall be responsible for any bursting or breakage of pipes or damages to persons or property after the water is delivered to the Point of Delivery.

16. SELLER'S REPRESENTATIONS AND WARRANTIES:

will det. of max flow rate address this?

(a) Seller is a Kentucky corporation, all the stock of which is owned by the City of Louisville, with the authority through the Board of Water Works to enter into this Agreement to perform under the terms of this Agreement.

(b) Seller will provide Service to Buyer at the Point of Delivery that meets or exceeds applicable water quality standards of all local, state and federal regulatory agencies having jurisdiction over the service as such standards may change from time to time and the requirements of Section 6 of this Agreement, subject to interruptions beyond its control.

Seller responsible for Project Facilities pressure, quality + rate of flow

17. TERMINATION:

(a) Buyer may terminate this Agreement upon six (6) months written notice in the event of:

(1) Repeated failure of Seller to meet its commitment to reserve capacity, or to meet the water delivery requirements in Section 6 hereof.

(2) Revocation of Seller's authority to do business.

(3) Seller's breach of any of the Representations and Warranties in this Agreement as determined by a Court of Law in the Commonwealth of Kentucky.

(b) Seller may terminate this Agreement upon six (6) months written notice in the event of:

(1) Repeated failure of Buyer to pay its invoices for water service on a timely basis.

(2) Repeated failure of Buyer to pay on a timely basis its debt service obligations to Seller, time being of the essence in that regard.

(3) Revocation of Seller's authority to do business.

(4) Buyer's breach of any of the Representations or Warranties in this Agreement as determined by a Court of Law in the Commonwealth of Kentucky.

18. MISCELLANEOUS PROVISIONS:

(a) This Agreement is subject to the approval of the Kentucky Public Service Commission ("PSC") and receipt by Buyer of a final, non-appealable Order from the PSC in the form of a Certificate of Convenience and Necessity for the facilities to be constructed pursuant to this Agreement. Provided, however, failure to obtain such an Order shall not relieve Buyer of its duties hereunder to reimburse Seller for indicated costs, *set forth in Sections _____ herein,* ✓

(b) This Agreement does not constitute a partnership, joint venture, agency or other relationship between Buyer and Seller, and Buyer and Seller expressly state that they owe no fiduciary duties to one another and that the relationship is based upon Contract.

(c) This Agreement is binding on the successors and assigns of the parties hereto.

(d) Buyer and Seller agree that each of them shall have access to the books and records of the other, which are related to matters which are the subject of this Agreement, at such reasonable notice, except as those records may be subject to a recognized privilege that are confidential or may be protected by the Kentucky Open Records Law. Without limitation, the information subject to access shall include all costs of design, construction, financing, and costs of operation and maintenance of the facilities contemplated by this Agreement.

(e) Buyer reserves the right to develop and use other water supply sources and may obtain water from sources other than the Seller.

(f) The parties agree to operate and maintain their respective facilities in an efficient and economical manner and in accordance with all applicable local, state and federal laws, regulations and performance standards.

(g) This Agreement may be amended at any time by mutual agreement, in writing, of the parties.

(h) Both parties agree to use their best efforts to obtain all regulatory and legal approvals required for the accomplishment of the terms of this Agreement.

Buyer's
"resale
certificate"

Seller's
insurance
coverage?

(i) The parties acknowledge that the water to be purchased hereunder will be resold in the regular course of business of Buyer and is therefore exempt from Kentucky sales and use tax. To evidence this exemption, Buyer will furnish Seller with a duly executed "Resale Certificate" or such other documentation as the parties deem appropriate.

IN WITNESS WHEREOF, the parties have set forth their hand the day and year first above written.

BUYER:

SELLER:

Kentucky-American Water Company

Louisville Water Company

By: _____

By: _____

Title: _____

Title: _____

Date: _____

Date: _____

Attest: _____

Attest: _____

UT1.D2075:015.jrc
FAUSERS\015\WCKY\AMEWAT.AG2

KAW
3/22/98
Discussion
Hondout

Schedule A

Bluegrass Water Project Agreement

Projected Debt Amortization Schedule
per \$1,000,000 of debt with level debt service payments
at 6% interest for 20 years

Year	Beginning Balance	Interest	Principal	Ending Balance
1	\$ 1,000,000	\$ 60,000	\$ 27,185	\$ 972,815
2	\$ 972,815	\$ 58,369	\$ 28,816	\$ 944,000
3	\$ 944,000	\$ 56,640	\$ 30,545	\$ 913,455
4	\$ 913,455	\$ 54,807	\$ 32,377	\$ 881,078
5	\$ 881,078	\$ 52,865	\$ 34,320	\$ 846,758
6	\$ 846,758	\$ 50,805	\$ 36,379	\$ 810,379
7	\$ 810,379	\$ 48,623	\$ 38,562	\$ 771,817
8	\$ 771,817	\$ 46,309	\$ 40,876	\$ 730,942
9	\$ 730,942	\$ 43,857	\$ 43,328	\$ 687,614
10	\$ 687,614	\$ 41,257	\$ 45,928	\$ 641,686
11	\$ 641,686	\$ 38,501	\$ 48,683	\$ 593,002
12	\$ 593,002	\$ 35,580	\$ 51,604	\$ 541,398
13	\$ 541,398	\$ 32,484	\$ 54,701	\$ 486,697
14	\$ 486,697	\$ 29,202	\$ 57,983	\$ 428,715
15	\$ 428,715	\$ 25,723	\$ 61,462	\$ 367,253
16	\$ 367,253	\$ 22,035	\$ 65,149	\$ 302,104
17	\$ 302,104	\$ 18,126	\$ 69,058	\$ 233,045
18	\$ 233,045	\$ 13,983	\$ 73,202	\$ 159,843
19	\$ 159,843	\$ 9,591	\$ 77,594	\$ 82,249
20	\$ 82,249	\$ 4,935	\$ 82,250	(0)

Schedule B

Bluegrass Water Project Agreement

1. Buyer shall notify Seller each year of Buyer Reserved Capacity Request. Seller shall establish the Seller system capacity at least every 5 years as determined by a consulting engineer of national reknown.

2. Rate For First Five Years of Agreement

The invoice for all water purchased by Buyer during the first five years of this agreement shall be composed of:

- a. The actual consumption multiplied by the lowest rate block available to Seller's customers; and
- b. The actual consumption multiplied by the elevated service area charge; and
- c. Actual operating expenses assignable to Buyer including, but not limited to, metering, billing, collection and Buyer specific assets.

3. Rate For Remaining Years of Agreement

The invoice for Service provided by the Seller during the remaining five years of this agreement shall be composed of:

- a. Operating Cost Component
= (Buyer consumption / Seller total system sales) * (Seller operating expenses – common to retail only costs – customer costs)
- b. Depreciation Cost Component
= (Buyer Reserved Capacity / Seller System Capacity) * (Seller depreciation expenses – common to retail only costs – customer costs)
- c. Return on Plan Investment Component
= (Buyer Reserved Capacity / Seller System Capacity) * (Seller return on Plant Investment – common to retail only costs – customer costs)
- d. Actual operating expenses assignable to Buyer including, but not limited to, metering, billing, collection and Buyer specific assets.

4. If Buyer consumption remains below Buyer reserved capacity for each day of the month, then the rate for that month shall be according to paragraph 3 above.
5. If Buyer consumption rises above the Buyer reserved capacity by less than 20% for any day of the month, then the rate shall be according to paragraph 3 above for consumption up to the reserved capacity and according to paragraph 3 above * 1.5 for consumption above the reserved capacity.
6. If Buyer consumption rises above the Buyer reserved capacity by more than 20% for any day of the month, then the rate shall be according to paragraph 3 above for consumption up to the reserved capacity and according to paragraph 3 above * 2 for consumption above the reserved capacity.
7. Buyer consumption for each day shall be determined by the metered usage from midnight until midnight. If Buyer consumption is unusually high to due to unforeseeable and uncontrollable circumstances, then Seller will consider, at its own discretion without setting precedent, waiving the additional charges as described in paragraphs 5 and 6 above.

INPUTS FOR RATE CALCULATIONS

Kentucky American Water Use (mgd):

Average Day by Month:

Jan.	3.00
Feb.	3.00
March	3.00
April	3.00
May	3.00
June	3.00
July	3.00
Aug.	3.00
Sept.	3.00
Oct.	3.00
Nov.	3.00
Dec.	3.00

Reserved Amount by Month:

6.00
6.00
6.00
6.00
6.00
6.00
6.00
6.00
6.00
6.00
6.00
6.00

Avg Day for Year (mg) 3.00

Maximum Day Demand (mgd): 6.00 Planned or Reserved

Kentucky American Meter Equivalents: 1,150

Louisville Water Company Sales:

Annual Sales (mgd): 101.37

Maximum Day Capacity (mgd): 240.00

Annual Sales + KAWC Sales 104.37 102.96%

LWC Standard Wholesale Rate:

Wholesale Commodity Rate: \$1.16 per 1,000 gals.

Elevated Service Area Rate: \$0.19 per 1,000 gals.

Customer Charge: \$3.50 per month

Current KAWC Wholesale Commodity Rate \$1.16 per 1,000 gals.

Current Elevated Service Area Rate: \$0.19 per 1,000 gals.

Current Year Customer Charge: \$3.50 per month

LWC System Development Charge \$700 per Meter Equivalent

LWC Return on Investment: 9.580%

Kentucky American Water Company Investment:

Cost of Transmission Line:	\$11,000,000
Annual Interest Rate:	6.000%
Number of Annual Payments:	20

Costs

LWC Operating Costs

Total:	\$31,220,800
Customer & Retail Only:	\$14,930,530

LWC Depreciation

Total:	\$11,010,480
Customer & Retail Only:	\$5,553,790

LWC Rate Base

Total:	\$298,385,310
Customer & Retail Only:	\$84,751,092

Customer Costs Allocated to KAWC:	\$48,300
--	----------

Error

An error occurred while processing this page. See the system log for more details.

Bills and Bill Impacts				
Item	Current Rates	New Rates	Change	Percent Change
Total Allocated Costs	\$ 1,526,550	\$ 1,178,474	\$(348,076)	-22.80%
Estimated Monthly Bills				
Jan.	\$ 129,575	\$ 100,090	\$ (29,485)	-22.76%
Feb.	\$ 117,425	\$ 90,404	\$ (27,021)	-23.01%
March	\$ 129,575	\$ 100,090	\$ (29,485)	-22.76%
April	\$ 125,525	\$ 96,861	\$ (28,664)	-22.84%
May	\$ 129,575	\$ 100,090	\$ (29,485)	-22.76%
June	\$ 125,525	\$ 96,861	\$ (28,664)	-22.84%
July	\$ 129,575	\$ 100,090	\$ (29,485)	-22.76%
Aug.	\$ 129,575	\$ 100,090	\$ (29,485)	-22.76%
Sept.	\$ 125,525	\$ 96,861	\$ (28,664)	-22.84%
Oct.	\$ 129,575	\$ 100,090	\$ (29,485)	-22.76%
Nov.	\$ 125,525	\$ 96,861	\$ (28,664)	-22.84%
Dec.	\$ 129,575	\$ 100,090	\$ (29,485)	-22.76%
Total	\$ 1,526,550	\$ 1,178,474	\$(348,076)	-22.80%

KAWC 5/22/98 Discussion Marking

BLUEGRASS WATER SUPPLY PROJECT

KENTUCKY AMERICAN WATER COMPANY AND LOUISVILLE WATER COMPANY WATER SUPPLY PROPOSAL

MAY 22, 1998

ISSUES

- 1998 Contract binds Louisville Water Company (LWC) to a three to five year commitment to reserve production and transmission capacity for Kentucky American Water Company (KAWC), until the Public Service Commission (PSC) approves the pipeline and all appeals are exhausted.
- LWC desires to protect franchise area rights provided through KRS 96.265 to serve Jefferson County and all adjacent counties, including Shelby County.
- LWC currently provides wholesale water service to the North Shelby Water District under a 40-year contract.
- LWC currently provides wholesale water service to the West Shelby Water District under a 40-year contract.
- By year 2010, Shelbyville will no longer provide water to NSWD and WSWD under contract and LWC desires to protect water service opportunities to these water districts.
- The current water demand in Shelby County cannot justify LWC's investment in Shelby County at this time. The investment in pumping, storage, and pipe upsizing would exceed \$10 million.

PROPOSAL

Contract to provide the following technical components:

1. Delivery point and master meter at the Jefferson County line, near Interstate 64.
2. LWC will design, construct, and own 10,200 feet of 60-inch main along I-265 and 25,200 feet of 36-inch main along I-64 to the Jefferson/Shelby County line.
3. LWC will pay for incremental upsizing from 36-inch to 60-inch (material and construction costs).
4. KAWC will pay for 35,400 feet of 36-inch main from the English Station Reservoir to Delivery Point.
5. Design flow will consist of 23 MGD, (5 fps), a minimum operating pressure of 30 psi, and a maximum operating pressure of 175 psi.
- ✓ 6. LWC allowed connections to distribution system inside Jefferson County
7. The first pump station will be located in Shelby County, near I-64 and the Jefferson/Shelby County line.
8. LWC to negotiate with PDR/Gannett-Fleming for design services to expedite project design and coordination.
9. The design and final cost estimate will be complete by October 1998.
10. Easements platted/surveyed and appraised by October 1998.

CONTRACT OPTION

1. LWC may upsize the pipeline and extend the delivery point east to Kentucky Highway 55.
2. LWC would own the pipeline, pumping, and storage to the delivery point.
3. LWC would design and construct the Jefferson County BPS at I-265 and Shelby County Storage at Highway 1848 or Highway 55.
4. LWC will pay for any pipe upsizing (to 42" or 48"), additional booster pump station, and storage to provide up to 35 MGD capacity to Highway 55 at I-64, and any pump station relocation/design costs.
5. KAWC would move the pump station from the Jefferson/Shelby County line to the Highway 55 delivery point.
6. Design flow up to 35 MGD (8 fps in 36" or 5 fps in 42"), maximum pressure 175 psi.
7. Option must be exercised prior to PSC approval and settlement of any appeals.

LWC ADVANTAGES WITH OPTION:

1. Protects LWC interests to serve western Shelby County customers.
2. Provides high pressure service to eastern Jefferson County.
3. Reduces low suction pressure operating risk along the Jefferson County portion of pipeline.
4. Provides Interstate accessibility to pump station and storage sites.
5. Improves pumping efficiencies, reduces operating costs.
6. Improves reliability of pump operations.
7. Reduces surge risk.
8. Positions pipeline project for future water sales.
9. Provides flexibility on Jefferson County route (to minimize easement and construction costs).

KAWC ADVANTAGES WITH OPTION:

1. Reduces operating risk of two pump stations by having three lifts.
2. Reduces operating cost of lower head pump station.
3. Reduces pipeline pressures to less than 175 psi (from above 275 psi).
4. Reduces pressure surge operating risks and associated surge costs.
5. Reduced pressure class pipe resulting in lower pipeline and pump station costs.
6. Accessibility to Shelby County pump station for maintenance and chemical deliveries, closer to Lexington.
7. Available power to pump station, 480 volt electric substations available at Joyes Station Rd.
8. Tax exempt financing of additional 40,000 feet of 36-inch pipeline.
9. Cost sharing for additional capacity to Highway 55.
10. Additional 12 MGD flow availability at Highway 55 for future sales or conditions exceeding 23 MGD drought demand with no additional cost to justify to KY PSC.

Bluegrass Water Supply Project Alternatives	
Scenario A	Scenario B
LWC Ownership: English Station to US Hwy 55 KAWC Ownership: US Hwy 55 to Lexington	LWC Ownership: English Station to Jefferson/Shelby Co Line KAWC Ownership: Jefferson/Shelby County Line to Lexington
LWC Length: 74,700 feet (14.1 miles) (I-64) KAWC Length: 237,700 feet (45.0 miles) (I-64) Size: 36-inch minimum (upsized potential to 42" or 48") Capacity: 23 MGD (up to 40 MGD with main upsizing) Pump Stations: 2 (Shelby County and Ky River)	LWC Length: 35,400 feet (6.7 miles) (US 60 or I-64) KAWC Length: 277,000 feet (52.4 miles) (I-64) Size: 36-inch Capacity: 23 MGD Pump Stations: 2 (Shelby County and Ky River)
Advantages/Disadvantages:	Advantages/Disadvantages:
1. Pressure > 40 psi along entire route 2. Pressure < 200 psi along entire route 3. LWC BPS at I-265 and I-64 4. KAWC BPS at Hwy 55 and at Kentucky River 5. Cross country easements (< \$20,000/acre land value) 6. Parallel I-64 and LG&E Gas Line (improved constructability) 7. LWC to upsize to 42" or 48" main for up to 40 MGD capacity 8. LWC shares in cost of BPS in Jefferson County 9. Lower Operating Risks (< 200 psi pressure) 10. Lower construction costs for BPS, Pipe, Valves, and Surge Relief 11. Opportunity for Shelby Water Utilities to participate in storage, pumping, upsizing 12. Improved WQ due to potential sales along route 13. Shelby County buy-in to project 14. Takes advantage of natural terrain for location of BPS, master meter, and future storage 15. Available power substations for Jefferson (Pope Lick) and Shelby (Joyes Station) BPS 16. Allows KAWC to reserve additional capacity in future due to upsizing by LWC 17. BPS, Storage, Delivery Point Master Meter all near Interstate access via interchange. 18. KAWC direct project costs reduced; shifted to LWC through tax-exempt financing	1. Pressure < 30 psi in Jefferson County 2. Pressure > 250 psi in Shelby County 3. Requires 3rd BPS in Jefferson County 4. Poor access for power and chemical delivery 5. US 60 Easement Costs (>\$50,000/acre land value) 6. US 60 Route Constructability (RR, Creek, trees, terrain, pipe storage) 7. Maximum capacity of 23 MGD 8. Minimizes KAWC investment in Jefferson County



Kentucky-American Water Company

KAWC

2300 Richmond Road • Lexington, Kentucky 40502
(606) 268-6320 • Fax (606) 268-6327

Roy W. Mundy II
President

May 11, 1998

Mr. John Huber, President
Louisville Water Company
435 South Third Street
Louisville, Kentucky 40202

Dear John:

I would like to express my appreciation for the time and dedication that you and your staff have put into developing our contract to this point and for your continued willingness to discuss the various issues.

Coleman, Linda and Mark contacted Greg on Thursday, May 7, 1998 to clarify some of the issues that we discussed on Tuesday. We want to make sure that we clearly understand your position on some matters and that you also understand our needs as you approach your board tomorrow. Our needs are, in essence, the needs of our customers. Our customers require an additional source of quality water at a fair cost. As you know, before our contract is finalized, the Public Service Commission must approve it. Our diligence would not vary regardless, but we have approached the negotiations with the regulatory process, and its attendant scrutiny, in mind.

At our meeting on Tuesday, we talked at length about the issue of developing a defensible reserve capacity number. Greg suggested that we approach this issue by measuring various scenarios regarding the frequency, severity and time of a drought event. This information is to be supplied to Bob so that he can run the various reserve capacity and peak event scenarios through his rate model. Through our discussion with Greg, Linda gained a firm understanding of what he is proposing and will supply those numbers to Bob next week.

In talking to Greg, we were also seeking clarification on the issues of upsizing and point of delivery. There have been numerous scenarios presented, and I will attempt in this letter to state what I believe to be your position and also to confirm our position on these matters.

The first scenario: **Point of delivery at the Jefferson/Shelby County line with upsizing.** We understand that your position on upsizing under this scenario would be to do so on an incremental basis, basically paying the increased cost of larger pipe and any increase in installation costs within Jefferson County. Our position on upsizing this main is that the costs should be shared on a carrying capacity basis. In discussing the scenario on Tuesday relating to facilities beyond the Jefferson County line, you offered, as an example, an upsizing scenario that

Mr. John Huber
May 11, 1998
Page 2

would increase the capacity of the line from 23 to 40 MGD. On this basis, I believe your comment was that the sharing could be 23/40 KAWC and 17/40 LWC. I am certainly not trying to imply that this was an offer on your behalf, but am using this to illustrate that we feel this is the fair way to share the costs on any upsizing as LWC will obviously have that capacity for its future needs.


The second scenario: **Point of delivery in Shelby County at Highway 55 with upsizing.** As I mentioned on Tuesday, for us to consider moving the point of delivery, KAWC expects that a substantial investment be made by LWC. Offering this proposal means that the line has value to LWC, the total cost of which should not be borne by KAWC's customers. We discussed this proposal at length on Tuesday, but I want to make sure that we both have the same understanding. One possible scenario I presented was for LWC to pick up the entire cost of the line from the Shelby County line to Highway 55. Sharing the upsizing of the line from English Station to Highway 55 on the carrying capacity basis mentioned above is also worthy of consideration.

During the discussion between Linda, Coleman, Mark and Greg on Thursday, Greg mentioned that he would like to consider a third pump station. Under a scenario where LWC would see the need for a third pump station, but KAWC did not have an immediate need for it, Greg asked that KAWC consider participating in this third pump station on a carrying capacity basis. We would be willing to listen to a proposal on how a third pump station could benefit us.

One last issue that hasn't been discussed by us, but one Coleman has suggested to Bob is the consideration LWC will give KAWC as a result of KAWC becoming a guaranteed customer providing several hundred thousand dollars a year in revenues. When such opportunities are available to us, we are willing to invest certain capital to obtain such a user based upon revenue projections (not necessarily guarantees). It is possible that some of the issues we are now discussing will open that opportunity for such consideration.

Again, thank you and your team for the sincere efforts you've shown in our negotiations. If you should have any questions or comments regarding this matter, please let me know.

Very truly yours,



Roy W. Mundy II
President

RWM/pb

c: Bob Miller
Coleman Bush
Herb Miller

Greg Heitzman
Mark Frost
Nick Rowe

Linda Bridwell
L.W. Ingram, Esq.



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502
(606) 268-6320 • Fax (606) 268-6327

Roy W. Mundy II
President

March 4, 1998

John L. Huber, President
Louisville Water Company
435 South Third Street
Louisville, Kentucky 40202

Dear John:

As we discussed, enclosed is the proposed water purchase contract for our Bluegrass Water Project. It contains the key business terms which are important to Kentucky-American and our customers. We hope it will serve as the foundation for our long-lasting relationship.

We would like to meet with the appropriate individuals from Louisville Water Company as soon as possible to begin discussions on this document. Is your team available Monday, Tuesday, or Wednesday of next week? We can come to Louisville or we can meet in Lexington. Frankfort is another alternative.

Please let us know as soon as possible which is convenient. Our Corporate Counsel, Herb Miller, can be reached at 606-268-6339, and our Vice President – Operations, Nick Rowe, is at 606-268-6333.

It was good to see you and Cindy at last Friday's reception. I really appreciate you taking the time to drive to Lexington to be part of my surprise.

Yours very truly,


Roy W. Mundy II
President

RWM/llt

c: Coleman Bush
Herb Miller
Nick Rowe

Enclosure

3/6/98

COPIES TO: Joe Helm (by fax), Vince Guenther, Greg Heitzman,
Steve Hubbs, B. Miller, K. Teasley

APPS/MM/MDOCS/LWC - HUBER

AGREEMENT

THIS AGREEMENT, dated this ____ day of _____, 1998, by and between KENTUCKY-AMERICAN WATER COMPANY, a Kentucky Corporation, at 2300 Richmond Road, Lexington, Kentucky 40502 ("Buyer") and LOUISVILLE WATER COMPANY, a municipal corporation, at 435 South Third Street, Louisville, Kentucky 40202 ("Seller").

WITNESSETH:

WHEREAS, Seller owns and operates municipal water supply and treatment facilities comprising several sources of supply, including the Ohio River; and

WHEREAS, Seller utilizes its facilities to provide water service on a wholesale and retail basis; and

WHEREAS, Seller has available reserve capacity sufficient to meet Buyer's needs under this Agreement; and

WHEREAS, Buyer engages in the manufacture of water for sale to customers in the Central Kentucky area including the counties of Fayette, Bourbon, Clark, Harrison, Jessamine, Scott, and Woodford; and

WHEREAS, both Buyer and Seller are desirous of entering into an agreement to provide Buyer a continuing, dependable source of water for the present and future needs of Buyer's customers;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereby agree as follows:

1. **DEFINITIONS:** In this Agreement, these terms have the meanings indicated below:

a. **Seller:** Louisville Water Company, a municipal corporation located at 435 South Third Street, Louisville, Kentucky 40202.

b. **Buyer:** Kentucky-American Water Company, a Kentucky corporation located at 2300 Richmond Road, Lexington, Kentucky 40502.

c. **Project Facilities:** Fixtures, equipment, mains, meters, vaults, storage tanks, pipes, pumps, buildings and other improvements and facilities approved by Buyer for the delivery of Service under this Agreement.

d. **Point of Delivery:** The location of the connection of the Project Facilities to Buyer's Facilities at a point to be determined by Buyer, in its reasonable discretion, in Shelby County, Kentucky near the intersection of the Jefferson County - Shelby County line and Kentucky Highway 60. The Point of Delivery shall be owned by Buyer.

e. **Service:** The actual delivery of treated, potable water by Seller to the Point of Delivery under this Agreement including, but not limited to, the requirements in Sections 5.a. and 5.b. hereunder.

2. **DESIGN OF PROJECT FACILITIES:**

a. Seller will design the Project Facilities. However, Seller may elect to design the Project Facilities by engaging a qualified professional to provide such design services. If Seller elects to engage such a qualified design professional, Buyer reserves the

right to approve the selection of such professional, which approval shall not be unreasonably withheld.

b. The scope of the Design is subject to approval of Buyer in its reasonable discretion. Should Seller elect to expand the design, construction or installation of the Project Facilities in excess of the Buyer's determination of the scope of the Project Facilities, then all costs, direct or indirect, associated with expanding the scope shall be borne solely by the Seller. Any expansion of the scope of the Project Facilities shall not interfere with Seller's duties to deliver Service to the Point of Delivery as required under this Agreement.

c. Provided Seller does not expand the scope of the Project Facilities, Buyer agrees to pay the actual and reasonable costs of the Design of Project Facilities, such costs to include outside professional engineering fees, measurable internal costs of engineering design and actual out-of-pocket costs associated with the issuance of tax exempt debt obligations including payments of principal, interest and other reasonable professional fees. Any changes in the Design which, individually or in the aggregate, increases the cost of the Design shall be subject to Buyer's prior written approval, which approval shall not be unreasonably withheld.

3. **TIME DEADLINE FOR DESIGN OF PROJECT FACILITIES**: Seller agrees that its Design must be fully completed in a form and substance to Buyer's approval prior to Buyer's application to the Public Service Commission for a Certificate of Convenience and Necessity, provided that the date for completion of design shall not be later than

October 1, 1998. Seller acknowledges and agrees that time is of the essence in the Design of the Project Facilities.

4. **CONSTRUCTION OF PROJECT FACILITIES:** Seller shall complete construction and installation of the Project Facilities and have Service available at the Point of Delivery no later than 15 months ("Construction Completion Date") from the date Buyer notifies Seller to begin construction ("Construction Commencement Date"). Delays in the Construction Completion Date may extend such date provided that delays are caused by sudden and unexpected adverse weather conditions, labor unrest, natural disasters or other circumstances beyond Seller's control. Seller acknowledges that time is of the essence in the Construction of Project Facilities.

5. **REIMBURSEMENT TO SELLER FOR CONSTRUCTION AND DEBT SERVICE COSTS FOR THE PROJECT FACILITIES:**

a. Seller will construct the Project Facilities at its expense. Buyer agrees to pay Seller, on a monthly basis, amortized over a period of twenty (20) years, the amount necessary to pay, in full, Seller's indebtedness, including interest, incurred to construct the Project Facilities. The rate of interest on such indebtedness shall not exceed the interest rate for a comparable tax exempt debt issue. The amortization schedule is attached hereto as Schedule A.

b. If Seller's debt instruments permit prepayment of part or all of the debt obligation, and if Buyer is not in default of any of its payments to Seller under Section 8 of this Agreement, then Buyer has the right to instruct Seller to exercise the prepayment

privilege and shall simultaneously pay to Seller the amount of the prepayment to remit to the holders of the debt instruments.

6. **SERVICE AT THE POINT OF DELIVERY:**

a. **Condition.** Buyer will pay Seller for Service at the Point of Delivery, provided Service is delivered to the Point of Delivery in a potable condition, which meets or exceeds all minimum state and federal regulations and in a condition for Buyer's continued process of pressurization, improvement, processing, and other manufacturing and production. At Buyer's direction and expense, Seller agrees to adjust certain chemical levels of the water prior to the Point of Delivery. Seller may sample water provided under this Agreement at or prior to the Point of Delivery.

b. **Rate of Flow and Pressure.** Seller shall have the ability to furnish and shall furnish Service to Buyer at the Point of Delivery with a flow rate at a maximum rate of 16,000 gallons per minute and a constant pressure of not less than forty (40) pounds per square inch.

c. **Failures.** In the event Seller is unable to provide Buyer with Service under the terms of this Section for reasons beyond Seller's control, Seller shall use all of its best efforts to restore the water to a quality, rate of flow and pressure as required in this Section. Time is of the essence in all situations where such a failure and restoration exist.

7. **METERING ARRANGEMENTS:** Seller agrees to furnish, install, maintain, repair and replace at the Point of Delivery a service meter or battery of meters, including meter house or vault, for properly measuring the quantity of water being delivered to Buyer and to calibrate such metering equipment whenever requested by Buyer but no more

frequently than once every six months with the results of such calibrations provided to Buyer. Buyer may conduct calibrations more often than every six months, but at its own expense. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate. Previous readings of any meter disclosed by test to be inaccurate shall be corrected for three months previous to such test in accordance with the percentage of inaccuracy found by such test. 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 immediately prior to the failure, unless Seller and Buyer shall agree otherwise. An appropriate official of the Buyer shall have access to the meter at reasonable times for the purpose of inspecting, reading and testing such metering facilities.

8. **RATES AND PAYMENT:**

a. Buyer shall pay Seller for the Service actually delivered to the Point of Delivery in accordance with this Agreement pursuant to the rates and terms so identified on Schedule B, attached hereto and incorporated herein and as may be changed from time to time as approved by the Public Service Commission of the Commonwealth of Kentucky.

b. Seller shall invoice Buyer on a monthly basis for water usage as reflected by the metering devices (installed pursuant to Section 7 hereof) on the last business day of each calendar month. Buyer shall remit payment to Seller for such invoices no later than the 20th calendar day following receipt of such invoice and acknowledgment by Buyer that such invoice is correct as to charges and water usage.

9. **EXCLUSIVE RESERVATION OF SELLER'S CAPACITY:** Seller agrees, throughout the term of this Agreement, to provide Buyer with an exclusive reservation of its water treatment capacity, such reservation to not be less than capacity needed under this Agreement to treat and deliver Service to the Point of Delivery as set forth in this Agreement.

10. **SERVICE TO OTHERS BY SELLER PRIOR TO THE POINT OF DELIVERY:** Seller warrants and represents that any water service to others prior to the Point of Delivery shall not interfere with or diminish its obligations to the Buyer under this Agreement. In the event of any such interference or diminishment, Seller shall immediately cease or diminish such Service to others until full Service is restored to Buyer.

11. **ADDITIONAL EXPANSION BY SELLER:** Seller agrees that upon undertaking any expansion or enlargement of the capacity of its existing supply or treatment facilities, it will notice Buyer of its intention to do so and will afford the Buyer with a reasonable opportunity to negotiate for the additional purchase or delivery of water.

12. **LIMITATION OF SERVICE TO BUYER FOR REASONS BEYOND SELLER'S CONTROL:**

a. Buyer acknowledges that unexpected supply or treatment problems may occur which are beyond Seller's control. In the event such unexpected problems limit or prevent the Seller's ability to deliver Service to the Point of Delivery, and such problems limit or prevent the delivery to any of the Seller's customers, then Seller agrees that any restrictions on water delivery shall apply to the Buyer in a similar manner which Seller applies to its customers of the highest and most important priority.

b. Seller will use its best efforts to restore full Service to Buyer as promptly and completely as possible. Time is of the essence for the restoration of full service.

13. **TERM AND EXTENSIONS:** The term of this Agreement shall begin on the date this Agreement is executed by both parties hereto and shall terminate on December 31, 2030. This Agreement shall be automatically extended for two (2) consecutive additional terms of twenty-five (25) years each, unless Buyer provides written notice to Seller at least two (2) years prior to the end of the then existing term, that Buyer does not intend to extend the then existing term.

14. **BUYER'S REPRESENTATIONS AND WARRANTIES:**

a. Buyer is a Kentucky corporation with the authority to enter into this Agreement, and subject to regulatory approval, has the authority to perform under the terms of this Agreement.

b. Buyer shall be responsible for the maintenance of water quality after the Point of Delivery provided that Seller has delivered Service to the Point of Delivery pursuant to this Agreement.

c. Provided Seller has delivered Service to the Point of Delivery pursuant to this Agreement, Buyer shall be responsible for any bursting or breakage of pipes or damages to persons or property after the water is delivered to the Point of Delivery.

d. Buyer will immediately notify Seller of any emergency or condition which would adversely affect the quality, quantity or pressure of the water in the Seller's system.

15. **SELLER'S REPRESENTATIONS AND WARRANTIES:**

a. Seller is an municipal corporation with the authority to enter into this Agreement, and has the authority to perform under the terms of this Agreement.

b. Seller will deliver Service to the Point of Delivery that meets or exceeds the applicable quality standard of all local, state and federal regulatory agencies and the requirements of Section 6 of this Agreement.

c. Seller will immediately notify Buyer of any emergency or condition which would adversely affect the quality, quantity or pressure of the water in the Buyer's system.

d. Seller acknowledges its obligations under this Agreement and specifically incorporates the Sellers commitments in this Agreement.

e. Seller shall be responsible for the Project Facilities and the quality, rate of flow and pressure of the water in the Project Facilities prior to the Point of Delivery and all damages to persons or property before the water is delivered to the Point of Delivery, and any damages arising from any contamination of Seller's water supply.

16. **TERMINATION:**

a. Buyer may terminate this Agreement upon six (6) months written notice in the event of:

1. Repeated failure of Seller to meet its commitment to reserve capacity, or to meet the water delivery requirements in Section 6 hereof.

2. Revocation of Seller's authority to do business.

3. Seller's breach of any of the Representations and Warranties in this Agreement.

b. Seller may terminate this Agreement upon six (6) months written notice in the event of:

1. Repeated failure of Buyer to pay its invoices for water service on a timely basis.

2. Revocation of Buyer's authority to do business.

3. Buyer's breach of any of the Representations and Warranties.

17. **MISCELLANEOUS PROVISIONS:**

a. This Agreement is subject to the approval of the Kentucky Public Service Commission ("PSC") and receipt by Buyer of a final, non-appealable Order from the PSC in the form of a Certificate of Convenience and Necessity for the facilities to be constructed pursuant to this Agreement.

b. This Agreement does not constitute a partnership, joint venture, agency or other relationship between Buyer and Seller and Buyer and Seller expressly state that they owe no fiduciary duties to one another and that the relationship is based upon Contract.

c. This Agreement is binding on the successors and assigns of the parties hereto.

d. Buyer and Seller agree that each of them shall have access to the books and records of the other, which are related to matters which are the subject of this Agreement, at such reasonable notice, except as those records may be subject to a

recognized privileged or be confidential. To the extent that access relates to confidential records, the party requesting the access shall be entitled to access upon the execution of an agreement pledging the maintenance of confidentiality of the information being accessed. Without way of limitation, such information shall include all costs of design, construction, financing, and costs of operation and maintenance of the facilities contemplated by this Agreement.

e. Seller agrees to carry, throughout the term of this Agreement, such liability and casualty insurance in a form and amount subject the reasonable determination of the Buyer. Seller shall, upon Buyer's request, show evidence of such insurance by a certificate which includes Buyer as a loss payee or beneficiary under such insurance coverage.

f. Buyer reserves the right to develop and use other water supply sources and may obtain water from sources other than the Seller.

g. The parties agree to operate and maintain their respective facilities in an efficient and economical manner and in accordance with all applicable local, state and federal laws, regulations and performance standards.

h. This Agreement may be amended at any time by mutual agreement, in writing, of the parties.

i. Both parties agree to use their best efforts to obtain all regulatory and legal approvals required for the accomplishment of the terms of this Agreement.

j. Time is of the Essence under this Agreement.

k. The parties acknowledge that the water to be purchased hereunder will be manufactured and resold in the regular course of business of Buyer and is therefore exempt from Kentucky sales and use tax. To evidence this exemption, Buyer will furnish Seller with a duly executed "Resale Certificate" or such other documentation as the parties deem appropriate.

IN WITNESS WHEREOF, the parties have set forth their hands the day and year first above written.

BUYER:

Kentucky-American Water Company

By: _____

Title: _____

Date: _____

Attest: _____

SELLER:

Louisville Water Company

By : _____

Title: _____

Date: _____

Attest: _____

312\C:\Work\LWI\KAWC\Bluegrass\004Louisville Agr

From: Joan Malone / THRD4
To: Bob Miller / THRD4, Greg Heitzman / THRD4
Subject: fwd: Kentucky-American

KAWC

===NOTE=====2/06/98=12:11pm=====

I had a conversation today with Roy Mundy concerning Kentucky-American's work to complete their certificate of need case for the pipeline. Kentucky-American's project schedule calls for them to have the case submitted to PSC by April 1. In view of that schedule, they are stepping up the pace of their work and will be requesting information from us on a more frequent and likely accelerated pace.

One key item they will be pursuing is a draft contract. Roy advised they are taking the 1991 draft contract proposal and adapting it to changes which have occurred in the interim. They may also be incorporating some of the elements of their other wholesale contracts. The contract draft is being prepared by Herb Miller, their new counsel at Kentucky-American. Since Kentucky-American is now a separate operating company, they have a house counsel. He will be connecting with Joe Helm to discuss the contract. Roy describes this as the basic elements of the contract such as length, escalator clauses, etc. He is well aware of the work Bob Miller and Coleman Bush have underway on rates. I believe the Voorhees office of American would like to see a draft contract with pretty firm consensus before the RFP for pipeline design is issued. I believe they hope to issue that RFP in a few weeks.

I suspect you have already had some more conversations with those you are working with at American. Time is now becoming an important element in this process. I advised Roy we had a great deal of work underway, but we would give this work a high priority.

We should discuss this in detail the next time we have an opportunity.

Fwd=by:=Greg=Heitzman=2/09/98=12:43pm=====

Fwd to: Joan Malone / THRD4, Karen Willis / THRD

.....

FYI.

Karen: I believe you and Alan know what I need.

1. Cost/Hydraulic scenarios for water main to both JC line and Veechdale interchange.
2. a summary of potential Shelby Co demand scenarios (above the 1 MGD limit at existing NSWd and WSWd master meters). Also get an average Ford Assembly Plant demand from Fern Valley from 1997 (avg day).
3. Draft a letter/fax for me to sign for Friday to KA confirming the US 60 route as generally acceptable, pointing out concerns with a. easement density, B. constructibility (commercial route vs cross country farm land), c. value of easements, d. transition back to gas pipeline route south of I-64, e. availability of reliable power source for the pump station/master meter complex.
4. get the WSWd and NSWd OF of tanks (from Sandy). Plus look thru Tony's info to see if we can find a WSWs distribution map. I need to know where their key water mains are. I recall seeing one, that Tony had.

let's plan to meet Friday morning at 9:00-12:00 with me, you and Alan, plus Bob if available, to confirm our strategy. We might also take a filed trip Fri morning on the route.



DAKOTA
Kentucky-American Water Company

2300 Richmond Road, Lexington, Kentucky 40502 606-335-3417

WATER
SUPPLY PROJECT

PIPELINE STATISTICS

I. Construction Timeline:

- A. Completion, 2001.
- B. Decision from PSC for Existing Case: End of summer.
- C. Preparation for Certificate of Convenience and Necessity at a cost of over \$1,000,000. (easements, design, contractual arrangements with LWC, community meetings.)
- D. Actual Construction: 18-24 months.

II. Construction Details:

- A. Capacity of Pipe: 20-25 MGD. *Midway Gallons Day - 2 million (winter) - 4 million (summer)*
 - B. Size of Pipeline: 36 inches.
 - C. Pipe Composition: Ductile Iron.
 - D. Cost of Pipeline: \$47.9 million.
 - E. Construction Method: Directional drilling in environmentally sensitive areas; use of existing easements (gas line south of I-64, across: Kentucky River, to Lexington via Woodford Co.)
- 2-3 MGD likely second*

III. Financial Details:

- A. Cost of water from Louisville Water Company: \$1.11 per thousand gallons.
- B. Percent of increase to customer bill: 24.89 percent.
- C. Increase per month for average residential customer: \$4.62. (Average residential customer uses 5,750 gallons per month.)
- D. Cost increase based on total consumption - commercial users who use more will pay more; projected residential increase based on current monthly average customer usage.
- E. There is not a "no-cost" option.

IV. Louisville Water Company:

- A. Water Source: Ohio River.
- B. Over-Capacity: 100 MGD. *Reserve Capacity - 70 MGD*
- C. Municipal System - Mayor Abramson Chairman of the Board. *→ No*

V. Statistics/Terms:

- A. University of Kentucky Water Resources Research Institute: Overall baseline deficit 9.7 billion gallons.
- B. Equates to: 23 million gallons per day (Lexington without water 53 days).
- C. Drought of 1988: 22-year drought (added 15,000 customers).
- D. Drought of Record: Occurred in 1930 (was a projected 120-year drought).
- E. Conservation alone will not come close to solving deficit.

APPS/COMREL/WS/P/PIPELINE STATISTICS



cc: J. Huber, B. Miller, K. Willis
from: G. Heitzman 5/12/97

KAWC



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • 760-428-2866 • Fax (606) 268-6327

Linda C. Bridwell, P.E.
Engineering Manager

OFFICE OF V.P./CHIEF ENG.
LOUISVILLE WATER CO.

May 5, 1997

Mr. Greg Heitzman, PE
Vice President-Chief Engineer
Louisville Water Company
435 South Third Street
Louisville, KY 40202

RE: Water Supply Project

Dear Greg:

As a follow-up to our March 20 meeting, I have reviewed our demand projection model and projected available supply. Based on our preliminary pipeline design and latest demand projections, we anticipate the following purchased water needs from the Louisville Water Company:

Year	<u>Average Day Demand</u>	<u>Peak Day Demand</u>	<u>Drought Average Day</u>
	<u>(MGD)</u>	<u>Deficit</u>	<u>Demand Deficit</u>
		<u>(MGD)</u>	<u>(MGD)</u>
2000	2.136	7.73	14
2005	2.136	11.24	16
2010	2.136	14.76	19
2015	2.136	18.02	21
2020	2.136	21.28	23

The average day demand is a projected base flow for water quality purposes. It assumes a six-day detention time in the 277,000 feet of 36" pipe from the Jefferson County line to the connection point with Kentucky-American's distribution system during the warmest six months of the year to prevent nitrification. An eight-day detention time during the rest of the year is assumed. Obviously there will need to be some operational adjustments once the pipeline is installed, and we would like to see the agreement allow for those adjustments.

The maximum capacity needed will be the larger of either the drought average day demand deficit or the peak day demand deficit. In our current projection, this happens to be the drought average day demand deficit for all years. This would be a six month average need during a drought of record. The peak day demand deficit is a projection of the treatment capacity deficit based on a peak day demand with a 95% confidence factor during any given year.

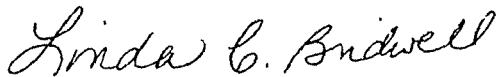
Kentucky-American is projecting to design its construction based on the 2020 demand deficit, however, we understand that there could be some cost savings if the facilities that Louisville needs to construct can be phased in based on the increasing demands.

Heitzman
May 2, 1997
page 2

Our current construction cost estimates assume that Kentucky-American will construct and operate the booster station at the Jefferson County line. We would appreciate it if you could complete your cost analysis and proposed fees both with Louisville constructing the booster station, and with Kentucky-American constructing the booster station.

I hope that this information is sufficient for you to provide us with a preliminary cost of service from the Louisville Water Company. Our hearing is still scheduled for May 21 at the Public Service Commission. Please call me at (606) 268-6373 if there are any concerns.

Sincerely,



Linda C. Bridwell, PE
Engineering Manager

c: R.W. Mundy, II
C.D. Bush

Roy W. Mundy II
Vice President and Manager

KAWC

April 7, 1997

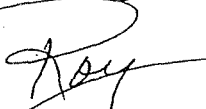
Robert K. Miller
Vice President of Finance
Louisville Water Company
435 South Third Street
Louisville, Kentucky 40202

Dear Mr. Miller:

I appreciated the opportunity to get together with you and others at Louisville Water Company last month. We at Kentucky-American Water Company are looking forward to a long working relationship with the group at Louisville Water Company.

Again I enjoyed meeting with you. Please do not hesitate to call me at my direct number 268-6320 at any time.

Best regards,



Roy W. Mundy II

/pb

cc. John Huber, President

RAWC
JLH Meeting Notes

RAWC Mtg 3/20/97

Roy Mundy Hearing before commission May 21.

Coleman Bush U of R study identifies 9.8 b.s. deficit in basin

London Bridwell even more than Varza 7.0 + b.s. deficit.

Tom McRae Will go into hearing as mediator:

JLH Solidified deficit study.

RKM Experts to testify on other alternatives

SCM Create state: Dams structurally can't handle
Environmental considerations.

Ed Holmes, Commissioner: Commission has a stake in this case.

[Expect 2 days of hearing

[Hope for decision on hearings in Aug.

[Pleading that Roy Am. he allowed to move ahead on pipeline

[Don't see anything to hold this up.

Full Intervenor vs. Limited Intervenor.

45
22
67

[LWC Attendees at 5/21 Mtg as shown

22-25 MGD

Peak Drought Consumption

36" Pipeline (rather than 30")

2 Booster Sta's - Jeff Co. & Kay River

[Not a growth issue, its a drought issue.

[Open end vs. limited contract

2.3 MGD Average

Rate Computation: Maximum Hour \rightarrow is it an applicable
Component.

JLH 3/3/93 Letter to R. Edens

Item IC \rightarrow Ratchet, Concern, Drought Year
does high capacity carry forward.
Retrospective only for adjustment

Agenda for meeting-Kentucky-American Water Company and Louisville Water Company
March 20, 1997 8:30a-noon

Purpose: Discuss contract for sale of water by LWC to KAWC

1. Overview of status of PSC Case No. 93-434 "An investigation of the sources of supply and future demand of Kentucky-American Water Company." (KAWC)

2. Report of LWC's treatment capacity, average day, maximum day, maximum hour. (LWC)

3. Water Quality.

4. LWC's improvements necessary to serve pipeline. KA's share of these costs.

5. Simpson County Water District v. City of Franklin, Ky.

6. Review March 3, 1993 letter from John Huber to Bob Edens.

7. Discuss approach to setting wholesale rates.

8. Review draft contract.



LOUISVILLE WATER COMPANY

435 SOUTH THIRD STREET • LOUISVILLE, KENTUCKY 40202

TEL 502-569-3600 FAX 502-585-2806

March 3, 1993

Mr. Robert A. Edens
Vice President & General Manager
Kentucky-American Water Company
2300 Richmond Road
Lexington, Kentucky 40502

Dear Bob:

Subject: Water Sales Agreement Ratemaking Issues

Louisville Water Company staff has evaluated a number of ratemaking methodologies as part of the contemplated wholesale water sales agreement. This letter is intended to serve as an outline of a methodology that we believe gives each participant a way of managing long-term risks. I have enclosed a copy of our 1992 Rate Study which is used as a reference in the following outline.

- I. Investment Recovery For Existing Facilities Within Jefferson County (Demand Charge)
 - A. KAWC provides long range consumption levels for planning purposes only.
 - B. KAWC provides capacity commitment request for next year by October 1st of each year in terms of:
 1. Average Day Consumption
 2. Maximum Day Consumption
 3. Maximum Hour Consumption
 - C. KAWC capacity commitment request must be at least equal to previous year request.
 - D. If actual Average Day Consumption, Maximum Day Consumption or Maximum Hour Consumption exceeds commitment request, then actual consumption level replaces commitment request.

- E. Utility Rate Schedule 1 Depreciation Expenses (line 2) and Return on Plant Investment (line 3) then allocated to KAWC based on ratio of capacity commitment request / ten-year system averages.
1. $(\text{Average Day Commitment} / \text{System Ten-Year Average Day Consumption}) * (\text{Base Depreciation Expenses} + \text{Base Return on Plant Investment})$
 2. $(\text{Maximum Day Commitment} / \text{System Ten-Year Average Maximum Day Consumption}) * (\text{Maximum Day Depreciation Expenses} + \text{Maximum Day Return on Plant Investment})$
 3. $(\text{Maximum Hour Commitment} / \text{System Ten-Year Average Maximum Hour Consumption}) * (\text{Maximum Hour Depreciation Expenses} + \text{Maximum Hour Return on Plant Investment})$
- F. Water sold to KAWC would no longer be considered surplus, and restrictions on use would be similar to retail customers.
- G. Methodology eliminates KAWC retail risk for allocation of depreciation and return on plant investment.
- H. Important to identify those assets common to only retail customers.

II. Recovery of Operating Expenses (Commodity Charge)

- A. Based on KAWC current year actual consumption or specified contract minimum, whichever is higher.
- B. Utility Rate Schedule 1 Operating Expenses (line 1) allocated to KAWC similar to methodology in I.E.1-3 above, except charged as consumption based item instead of fixed cost item:
1. $(\text{Next Year KAWC Average Day Consumption} / \text{Next Year Budgeted System Consumption}) * \text{Base Operating Expenses}$
 2. $(\text{Next Year KAWC Maximum Day Consumption} - \text{Next Year KAWC Average Day Consumption}) / (\text{Previous System Maximum Day Consumption} - \text{Previous System Average Consumption}) * \text{Maximum Day Operating Expenses}$

3.
$$\frac{(\text{Next Year KAWC Maximum Hour Consumption} - \text{Next Year KAWC Average Hour Consumption})}{(\text{Previous System Maximum Hour Consumption} - \text{Previous System Average Consumption})}$$

- C. Elevated Service Area Surcharge charged as actual consumption based item. ESA Surcharge may reduce as a result of increased consumption.

III. Service Charge

- A. Utility Rate Schedule 1 Customer Costs allocated based on sum of equivalent meter capacities * service charge per equivalent meter unit (see service charge specified in rule 6.02).

IV. System Development Charge

- A. System Development Charge will be charged for the purpose of recovering past and future growth related capital expenditures for transmission and storage.
- B. Based on sum of equivalent meter capacities * System Development Charge.
- C. System Development Charge applied on one-time basis each time additional meter capacity is added.

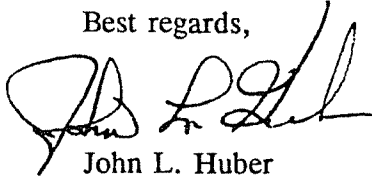
V. Investment Recovery For New Facilities Within Jefferson County

- A. New facilities will be financed through borrowed funds.
- B. Investment will be recovered through collection of debt service payments from KAWC.
- C. Additional payment to reflect resulting lowered LWC borrowing capacity may be determined.
- D. Contract termination provisions exclude recovery of debt service from KAWC.
- E. Cost of replacing or extending life of new facilities will be recovered from KAWC.

Conclusion

I look forward to discussing this matter with you in more detail on Monday, March 8th. Please feel free to contact me before then at 569-3680 if you have any questions or comments. Again, while there are a number of possible ratemaking alternatives, we believe that the above outline offers an optimal way for Kentucky-American Water Company and Louisville Water Company to manage their long-term risks.

Best regards,

A handwritten signature in black ink, appearing to read "John L. Huber", written over a horizontal line.

John L. Huber
President



LOUISVILLE WATER COMPANY

See "Rule A"
to be provided

DRAFT

WATER PURCHASE AGREEMENT

THIS WATER PURCHASE AGREEMENT dated as of the ____ day of _____, 199____, is between

LOUISVILLE WATER COMPANY,
a municipal corporation
435 South Third Street
Louisville, Kentucky 40202

("SELLER")

and

KENTUCKY-AMERICAN WATER COMPANY,
a Delaware corporation
2300 Richmond Road
Lexington, Kentucky 40502

("PURCHASER")

RECITALS

A. Seller, a municipal corporation, all of the stock of which is owned by the City of Louisville governed by the Board of Water Works pursuant to Sections 96.230 through 96.315 of the Kentucky Revised Statutes, is engaged in the treatment, transmission and distribution of water to customers within the City of Louisville and the County of Jefferson and beyond.

B. Purchaser, a profit-making corporation, is engaged in the treatment, transmission and distribution of water in the Lexington-Fayette County area and beyond.

C. Seller presently has surplus capacity in its treatment system and is agreeable to selling water to Purchaser to the extent such sale will not jeopardize Seller's service obligation to its Jefferson County customers.

D. Purchaser, in turn, has determined that it will be in need of additional water sources during the term of this Agreement and, therefore, is desirous of purchasing treated water from Seller on the terms hereinafter set forth.

WITNESS

In consideration of the premises set forth below the parties agree as follows:

1. Extension of Main. Seller agrees, subject to cost reimbursement set forth hereinafter, to construct at its cost a water main, having a diameter of thirty-six inches or more, extending from its English Station Road storage facility in Jefferson County, Kentucky to a point in the Jefferson-Shelby County line where such line intersects, more or less, with _____, the contemplated point of delivery of water to the Purchaser (the "Point of Delivery"). Design of the main by Seller will commence upon notification of the Purchaser that it has

obtained the necessary approvals to proceed with its construction of a main extending from the Point of Delivery to its system in Lexington-Fayette County. The main being installed by the Seller shall be owned and maintained by it.

2. Reimbursement to Seller of its Main Construction and Debt Service Costs Relating Thereto. Purchaser agrees to reimburse Seller for the cost of such main extension and for the debt service cost incurred by Seller, relating thereto, by reimbursing to the Seller its debt service cost, as incurred, in borrowing the funds for the design and construction of the main and the cost of issuance of the debt instruments relating thereto. In the event Seller elects to install a main extension from its English Station Road storage facility to the point of delivery in excess of 36 inch in diameter, Seller, not Purchaser, will pay all costs, including debt service cost and borrowing expenses incurred because of the increased sizing of the main. In the event Seller elects to build a larger main, it will so notify Purchaser and will provide Purchaser with estimates of the difference between the cost of the 36 inch main installation and borrowing charges and the cost of the main actually being installed.

3. Completion of Construction. Seller shall cause the main extension from its English Station Road storage facility to the Point of Delivery to be completed within thirty-six months of the day Purchaser gave its approval to the financing arrangements or the initial construction contract, whichever came later, delays caused by weather, labor disputes or acts of God operating to extend Seller's completion deadline.

4. Purchaser's Prepayment Privilege. Assuming that the financing arrangements permit prepayment of the portion of the financing to be reimbursed by Purchaser, and so long as Purchaser is not in default in any of its payments with respect thereto, Purchaser may, at its option and at any time a prepayment privilege is available, instruct Seller to exercise the prepayment privilege provided in the financing, Purchaser paying over to Seller or its fiscal agent at the time such instructions are given the funds necessary to effect the prepayment and all reasonable costs relating thereto.

5. Purchase of Water - Quality and Quantity. Seller agrees to furnish to Purchaser at the Point of Delivery during the term of this Agreement, and any renewal or extension thereof, treated water at a flow rate not to exceed twelve thousand (12,000) gallons per minute. Purchaser agrees to purchase and Seller agrees to sell during the months of October through April of each year (the "Non-irrigation Season") of the term no less than 3,000,000 gallons of Seller's water, a day, and no less than 5,000,000 gallons, a day, during the months of May through September of each year (the "Irrigation Season") of the term. Purchaser understands and agrees that should it wish to be supplied with more than _____ million gallons a month during the Irrigation Season or _____ million gallons a month during the Non-irrigation Season, the sale

of such surplus will first be subject to the Agreement of the Seller who, prior to consenting thereto first must assess other requirements upon its system.

6. Pressure at Point of Delivery. The water pressure at the point of delivery will be furnished at a reasonably constant pressure, calculated at elevation p.p. _____ msl. If greater pressure than normally available at the Point of Delivery is required by Purchaser, the cost of providing such greater pressure shall be borne by it. Emergency failures of pressure or supply due to main breaks, power failure, flood, fire and use of water to fight fire, labor unrest, earthquake, tornado or other extraordinary circumstances shall excuse Seller from this provision for such reasonable period of time as may be necessary to resolve the situation.

7. Metering Arrangements. Seller agrees to furnish and install at the Point of Delivery a service meter or battery of meters, including meter house or vault, for properly measuring the quantity of water being delivered to Purchaser and to calibrate such metering equipment whenever requested by Purchaser but no more frequently than once every six months. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate. Previous readings of any meter disclosed by test to be inaccurate shall be corrected for three months previous to such test in accordance with the percentage of inaccuracy found by such test. 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 immediately prior to the failure, unless Seller and Purchaser shall agree otherwise. An appropriate official of the Purchaser shall have access to the meter at reasonable times for the purpose of verifying its readings.

8. Rates and Payment. Purchaser shall pay to Seller for water delivered under this Agreement in accordance with the rates determined in accordance with the provisions set forth in Schedule A, attached hereto and made a part hereof by reference, such rate to be adjusted annually, effective with the first day of January of each year, based on determinations made as of the previous calendar year and computations resulting therefrom. Recognizing that Purchaser's system will not be ready to accept Seller's water at the Point of Delivery until some time in 199__, the parties understand and agree that it will not be until shortly prior to the start of water delivery that the initial rate obligations can be determined. Seller shall invoice Purchaser on a monthly basis for water for the previous month, Purchaser to remit payment therefore within _____ days of receipt of Seller's billing. Failure to pay within such time will result in a penalty of _____ percent (%) per month for such delinquency in addition to any other remedies and options available to Seller as set forth hereinafter.

9. Purchaser Warranties and Agreements. Purchaser warrants, covenants and agrees as follows:

(a) That it will not sell water provided under this Agreement to serve areas within the geographical boundaries of Jefferson County, to serve areas then being served by wholesale customers of Seller or to serve retail systems then being leased or managed by Seller.

(b) That its demand for water under this Agreement shall not exceed the gallons per minute set forth in paragraph 5, above, and that the total gallons taken per month will meet the minimum but will not exceed the monthly maximum set forth in paragraph 5, except to the extent increased by subsequent agreement.

(c) That it shall be responsible for the maintenance of water quality and purity at any point beyond the Point of Delivery, and Purchaser assumes all liability for any and all damages of any kind including but not limited to injuries to property or persons which occur directly or indirectly as a result of impure or substandard water emanating beyond the Point of Delivery.

(d) That Seller shall not be liable or accountable for any bursting, breakage or accident of any kind that may occur within Purchaser's water system, or any damages of any kind or nature including, but not limited to, injuries to persons or damage to property resulting from such bursting, breakage or accident of water mains or pipes located beyond the Point of Delivery.

(e) The Seller shall notify immediately the Purchaser of any emergency or condition which may affect the quality of water in the Purchaser's system. That Seller will provide Purchaser with the same discount it provides its other larger customers.

(f) Subject to the provisions of paragraph 10(b), below, Seller will not be considered in breach of this Agreement if it fails to deliver sufficient water to the Point of Delivery pursuant to paragraph 5, above, due to reasons beyond Seller's control.

10. Seller Warranties and Agreement. Seller warrants, covenants and agrees as follows:

(a) That the water delivered to the Point of Delivery shall meet applicable purification standards of the Kentucky Natural Resources and Environmental Protection Cabinet and, or such successor regulatory agency as may be appropriate as such changes are modified from time to time during the term hereof.

(b) That in the event of an extended shortage of water, or the supply of water available to Seller is diminished for reasons beyond its control, the supply of water to Purchaser shall be reduced or diminished in the same ratio or proportion as the supply to Seller's retail customers is reduced or diminished.

(c) The Purchaser shall notify immediately the Seller of any emergency or condition which may affect the quality of water in the Seller's system.

11. Duration of Agreement. This Agreement commences with the effective date hereof, and shall expire seventy-five (75) years thereafter.

12. Rights to Terminate Agreement.

(a) This Agreement may be terminated by Purchaser prior to its expiration upon six months' advance notice in the event of any of the following occurrences:

- (i) Repeated failure of Seller to meet its water delivery requirements
- (ii) Repeated failure of Seller to meet water purification standards, recited hereinabove.

(b) This Agreement may be terminated by Seller prior to expiration upon six months' advance written notice in the event of any of the following occurrences:

- (i) Failure of Purchaser to pay its monthly obligation within ____ days of the due date for monthly water service.
- (ii) Revocation of Purchaser's authority to operate a water distribution system by one or more governmental authorities having jurisdiction thereof.
- (iii) Failure to abide by one or more of the warranties set forth in paragraph 9 or to purchase the minimum quantities specified in paragraph 5 hereinabove.

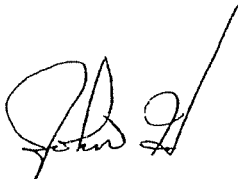
(c) Provided, however, termination of this Agreement by expiration or otherwise shall not operate to relieve Purchaser of any financial obligations to Seller, as set forth herein or otherwise, nor shall termination operate to relieve Seller of any then existing obligations to Purchaser arising hereunder.

13. Miscellaneous.

28:cjf:15
UT1.B8571
15:KYAM.agm

MEMORANDUM

LOUISVILLE WATER COMPANY

TO: LIST
FROM: John L. Huber 
DATE: November 30, 1993
RE: PSC--KAWC Rate Increase Application

Attached is the Public Service Commission's Order, dated November 19, 1993.

jcm
attachment

LIST: Janice K. Barnette
Gregory C. Heitzman
Robert K. Miller
Barbara L. Crow
Anthony J. Elpers
J. Vincent Guenthner

PS 46, 47, 48

Bob,
Note page 44 and 45.



bcc: Ms. Janice Barnette, Mr. Greg Heitzman, Mr. Steve Hubbs,
Mr. Robert Miller, Mr. Larry Shanks, Ms. Barbara Crow
Mr. Vince Guenther, Mr. Bo Williams



LOUISVILLE WATER COMPANY

435 SOUTH THIRD STREET • LOUISVILLE, KENTUCKY 40202

TEL 502-569-3600 FAX 502-585-2806

JOHN L. HUBER
PRESIDENT

November 24, 1993

Board of Water Works
Louisville, Kentucky

Dear Directors:

RE: Kentucky-American Rate Increase

The attached article from the *Lexington Herald Leader* summarizes actions taken by the Kentucky Public Service Commission on Kentucky American's latest rate case and on preliminary planning for a pipeline to the Ohio River. The article reports these significant outcomes:

- ▶ Kentucky-American was allowed only 1/3 of the increase requested on the rate filing.
- ▶ The commission will investigate future water supply demands and the need for a pipeline to the Ohio River.
- ▶ Kentucky-American cannot charge customers for preliminary pipeline planning until the commission's investigation is completed.
- ▶ Kentucky-American was directed to quickly come up with an "aggressive" water conservation plan.
- ▶ The commission ordered Kentucky-American to end rate making practices that give price breaks to industries that use more water.

Each of these items is significant, but the overall change in philosophy of the PSC indicates they are beginning to adopt (at least for the Lexington area) water resources planning and rate making philosophies currently being implemented in the arid, water resource short areas of the western and southwestern United States.

Board of Water Works
Louisville, KY
November 24, 1993
Page 2

Please call me if you have any questions or comments.

Sincerely,



John L. Huber
President

JLH/pj

Attachment: *Lexington Herald Leader* article of 11/21/93

cc: Ms. Joan Riehm
Mr. Joseph Helm



LOUISVILLE WATER COMPANY

*First Page - A1*LEXINGTON HERALD-LEADER, LEXINGTON, KY. ■ SUNDAY, NOVEMBER 21, 1993 **A13**

Water-rate increase lower than requested

BY: ANDY MEAD

HERALD-LEADER STAFF WRITER

Kentucky-American Water Co.'s requested rate increase was slashed by the state Public Service Commission in a historic order released yesterday.

The company's plans for a Louisville-to-Lexington pipeline also were set back. The commission ordered an investigation into whether the \$50 million pipeline is needed.

The water company, which has 80,000 customers in Lexington and surrounding areas, had requested an increase that would bring in an additional \$2.7 million a year. The commission cut that by more than two-thirds, to \$873,000.

That means the average residential water bill will go up by 44 cents a month instead of \$1.44.

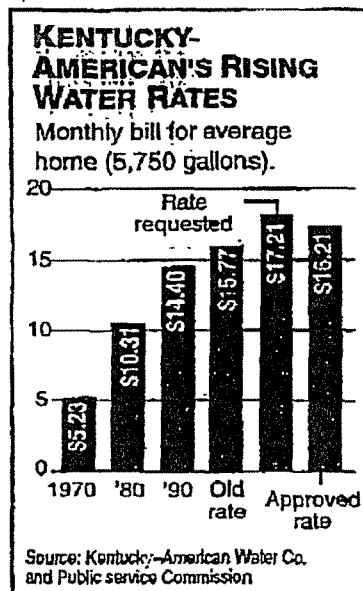
Because the requested rate had already been put into effect in late August, some customers will receive refunds. Details on refunds will be determined later.

In a separate order, the commission said it will investigate future water supply and demand to determine the need for a pipeline to bring treated Ohio River water to Lexington.

Kentucky-American now gets almost all its water from the Kentucky River.

Citing uneven flows and occasional droughts in the Kentucky,

SEE WATER, A13



OFFICE OF THE ATTORNEY
LOUISVILLE WATER CO.

1993 NOV 23 AM 9:57

RECEIVED

WATER: Pipeline plan needs study, commission says

FROM PAGE ONE

the company announced early this year that it had begun planning a pipeline from Louisville.

It said that unless higher dams are built on the Kentucky River, the pipeline will be needed by 1997 to assure a steady water supply.

But the commission said the water company cannot charge customers for preliminary pipeline planning until the investigation is completed.

Kentucky-American had planned to spend \$1.4 million in the next year on pipeline design and rights of way.

Finally, the commission told Kentucky-American to quickly come up with an aggressive water conservation plan.

And, in what the commission suggested was the beginning of gradual rate reform, it put an end to Kentucky-American's policy of giving price breaks to industries that used more water.

The commission said conservation and decisions about dams by the Kentucky River Authority may determine "when the pipeline will be needed or ... if it will be needed at all."

"My initial reaction is 'Hooray,'" said Chetan Talwalkar of Lexington, who intervened in the rate case after reading a newspaper article about the pipeline plans.

"The pipeline has finally been taken off the fast track and is going to get the scrutiny it deserves."

In recent years, Kentucky-American has received about three-fourths of the amount requested in rate increases, compared to one-third in the current case.

Bill Doyle, an assistant state attorney general who intervenes for rate-payers in Public Service Commission cases, said that "all and all, this is a pretty big success."


Kentucky-American spokeswoman Jan Davie said yesterday that the company had not had enough time to thoroughly review the 55-page rate order.

The commission's order is historic because it is the first "forward-looking" rate case, in which a utility might be allowed to collect from customers money it plans to spend in the future.

The task of projecting costs made the case much more complicated than normal water-rate cases.

The company asked for higher rates in January. The commission took so long to decide that the requested rates went into effect provisionally in August. They would have become permanent had the commission not ruled before Monday.

MEMORANDUM

To: File
From: Vince Guenther 
Date: November 24, 1993
Re: KY-American Rate Case

On Friday, November 24, I spoke with Jan Davie from KY-American regarding the PSC's ruling. Jan informed me that they are still evaluating the impact of the ruling and are not sure what effect it will have on the proposed pipeline. The ruling was just sent to the corporate headquarters and they are currently in the process of evaluating what steps the company will take.

Key points of the ruling are as follows:

- * Does not allow pipeline expenditures to be part of the rate base.
- * KY-American will have four flat-rate customer classes. They will have a flat rate for residential, commercial, municipal, and industrial customers.

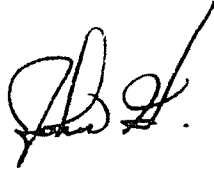
They will still realize an overall 3% increase in rates. They originally asked the PSC for a 9.27% rate increase.
- * KY-American must submit a plan to the PSC by December 9 on their supply management planning process. This could lead toward complete implementation of an integrated resource planning process.
- * KY-American started collecting the rate increase before it was approved, so it has to be refunded.
- * By January 28, 1993 they have to submit to the PSC an aggressive Conservation Plan. The PSC did not offer any guidance on this issue. This may lead to such measures as low flow plumbing fixtures.
- * The PSC will investigate future water supply and demand to determine the need for additional water resources in the region.

Jan Davie will continue to keep me informed as the Company determines what steps they are going to take.

cc: John L. Huber
Janice Barnette
Greg Heitzman
Bob Miller
Barbara Crow

MEMORANDUM
LOUISVILLE WATER COMPANY

TO: FILE

FROM: John L. Huber 

DATE: October 20, 1993

RE: Kentucky-American Water Company

Bob Edens called today to advise that he attended a meeting of water systems along the corridor between Lexington and Maysville to discuss future water supply needs. The meeting was arranged by the Buffalo Trace Area Development Districts. Approximately 25 cities and water districts attended.

At the meeting, Bob Edens made a presentation covering the following topics:

- ▶ He discussed Kentucky-American's current and future water supply needs, and how those needs relate to the availability of water resources from the Kentucky River.
- ▶ He also discussed the conversations held to date with the Louisville Water Company and the activities Kentucky-American is currently pursuing relative to the possibility of a water supply main to Louisville.
- ▶ He also questioned whether there were issues and possibilities the group wished to further explore.

There is an area near Maysville that has had previous opportunities for economic development but has had those opportunities stifled due to the unavailability of water supply. They sought additional supply from the city of Maysville, but the city of Maysville was unable to provide it. Further, the city of Maysville has some need to update and expand its water supply.

jcm

cc: Janice K. Barnette
Gregory C. Heitzman ✓
Robert K. Miller
Barbara L. Crow
J. Vincent Guenther

bcc: Mr. Gregory C. Heitzman, Mr. Robert K. Miller, Mr. J. Vince Guenthner
Mr. Joseph B. Helm



LOUISVILLE WATER COMPANY

435 SOUTH THIRD STREET • LOUISVILLE, KENTUCKY 40202

TEL 502-569-3600 FAX 502-585-2806

JOHN L. HUBER
PRESIDENT

June 2, 1993

Mr. Don Mills
Executive Director
Commonwealth of Kentucky
Public Service Commission
730 Schenkel Lane
P. O. Box 615
Frankfort, KY 40602

Dear Mr. Mills:

RE: Kentucky-American Water Company Rate Case No. 92-452

Enclosed is material requested by Mr. Chetan Talwalkar through the PSC. We responded on May 21, 1993 to an earlier, similar information request by Mr. Talwalkar, but since the second request differed somewhat from the first, we are forwarding a complete set of information as requested through the Commission.

Copies of our 1991 and 1992 Annual Reports are enclosed, which summarize the financial and operating information requested. The ten-year rate history and current rate schedule are enclosed, as is a summary of average and peak day pumpage from the Crescent Hill and Payne Plants. I believe this packet fulfills Mr. Talwalkar's request.

Sincerely,

John L. Huber
President

jcm
enclosures

**AVERAGE AND PEAK DAY PUMPAGE
CRESCENT HILL AND PAYNE PLANTS
1987 to 1992**

The Crescent Hill and Payne Plants serve the Louisville Water Company system. The Crescent Hill Plant serves the basic pressure system and pumps to reservoirs to establish a hydraulic gradient at 660 feet above mean sea level (msl). The Payne Plant pumps to reservoirs to establish a gradient of 860 msl. The Crescent Hill Plant has a nominal capacity of 240 million gallons a day (MDG). The Payne Plant has a nominal treatment capacity of 60 MGD. Treated water pumping facilities consist of four 15 MGD units. The 860 system the Payne Plant pumps to is served by both the Payne Plant and by the Crescent Hill Plant through booster pumping facilities. During peak pumping periods, Operations personnel choose whether to meet the peak on the 860 system from the Crescent Hill Plant and its booster pumping stations or from the Payne Plant, depending on which has the lower peak demand power rate. The Payne Plant can be operated during peak demand periods at up to 45 MGD, in its current configuration. If sustained deliveries in excess of 30 MGD develop, addition of pumping units or expansion of the Westport Road 660-860 transfer station will be considered. Current plans call for expansion of the Westport Station since it likely will have to be relocated to accommodate a planned highway interchange.

<u>Year</u>	<u>Crescent Hill Plant</u>		<u>Payne Plant</u>	
	<u>Max. Day</u>	<u>Avg. Day</u>	<u>Max. Day</u>	<u>Avg. Day</u>
1987	133.2	98.8	26.2	16.1
1988	158.4	98.4	40.0	17.2
1989	125.8	93.6	28.0	16.0
1990	143.6	96.1	29.7	18.0
1991	141.3	95.2	31.8	19.8
1992	121.1	90.2	29.3	23.1

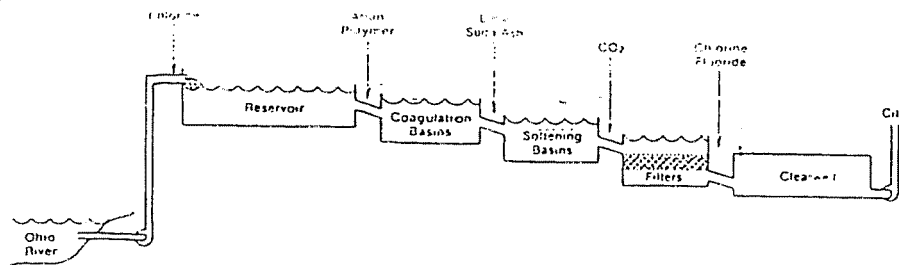


Figure 1. Treatment processes used at the Louisville Water Company prior to 1974

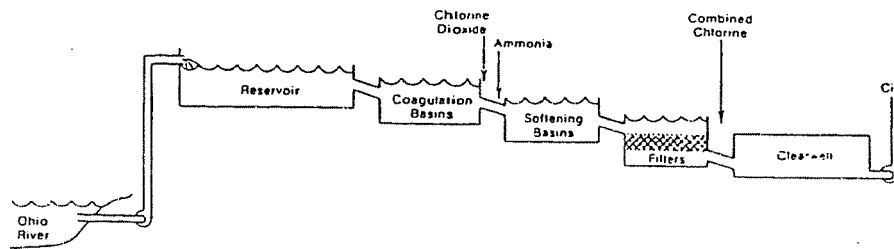


Figure 2. Chlorine dioxide-chloramination disinfection system

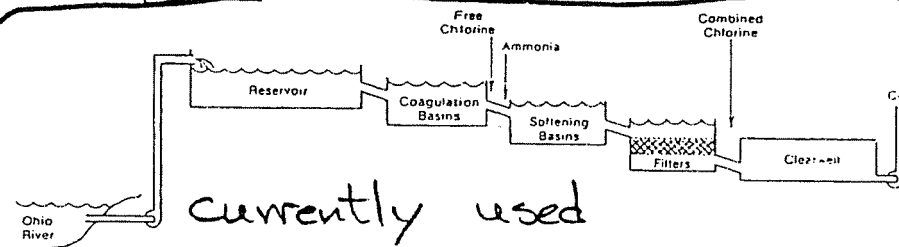


Figure 3. Short-term free chlorination disinfection system

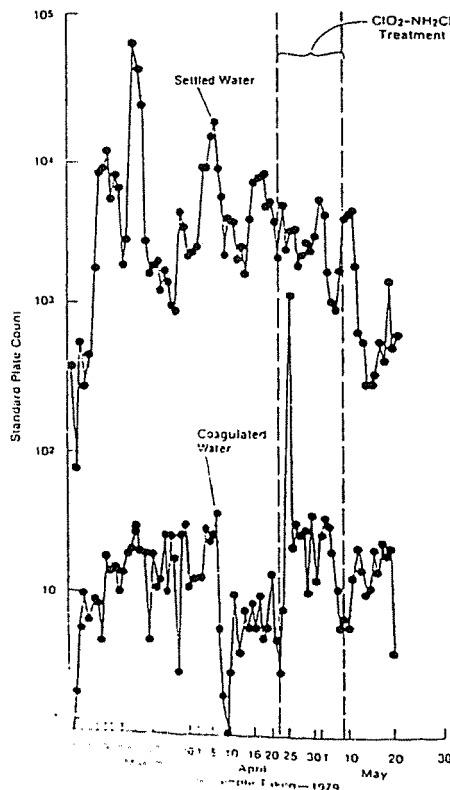


Figure 4. Standard plate count data for pre-settled and coagulated water

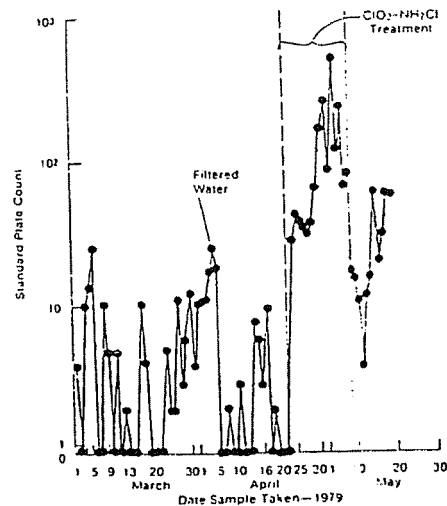


Figure 5. Standard plate count data for filtered water

HISTORY OF LWC WATER RATE INCREASES

1993

Adopted by the Board: December 8, 1992

Became effective: With statement issued January 1, 1993 Percentage Increase: 2.8%

1992

Adopted by the Board: December 10, 1991

Became effective: With statement issued January 1, 1992 Percentage Increase: 3.0%

1991

Adopted by the Board: December 11, 1990

Became effective: With statement issued January 1, 1991 Percentage Increase: 3.7%

1990

Adopted by the Board: January 16, 1990

Became effective: With statement issued February 1, 1990 Percentage Increase: 2.6%

1989

Adopted by the Board: December 13, 1988

Became effective: With statement issued January 1, 1989 Percentage Increase: 5.5%

1988

Adopted by the Board: December 8, 1987

Became effective: With statement issued January 1, 1988 Percentage Increase: 2.8%

1987

Adopted by the Board: December 9, 1986

Became effective: With statement issued January 1, 1987 Percentage Increase: 5.9%

1986

Adopted by the Board: November 12, 1985

Became effective: With statement issued January 1, 1986 Percentage Increase: 6.5%

1985

Adopted by the Board: December 11, 1984

Became effective: With statement issued January 1, 1985 Percentage Increase: 7.2%

1984

Adopted by the Board: November 15, 1983

Became effective: With statement issued January 1, 1984 Percentage Increase: 4.8%

BOARD OF WATER WORKS
RULES AND REGULATIONS

RATE SCHEDULE

JANUARY 1, 1993

WATER RATES

LOUISVILLE WATER COMPANY, LOUISVILLE, KENTUCKY

BOARD OF WATER WORKS RULES AND REGULATIONS

RATES 6.00

6.01 For the purpose of classifying revenues, and to provide for different classes of rates, there shall be established seven (7) classes of customers and three (3) areas of service. The classes of customers shall be identified as Residential, Commercial, Industrial, Fire Service, Fire Hydrants, Municipal, and Utilities Purchasing Water for Resale. The areas of service shall be identified as the area served by the Company and lying within the County of Jefferson, the area served directly by the Company through Company-owned facilities and lying outside the County of Jefferson and the area lying outside the County of Jefferson and served directly by the Company through leased facilities and where a surcharge is imposed by the lessor.

6.02 The rate charge for metered water service shall be comprised of two components which will represent:

(1) the physical service provided and the potential demand of the customer as determined by the capacity or capacities of the meter(s) installed. The charge for each meter shall be the product of the service charge for 5/8" x 3/4" meter and the service charge factor listed herein.

<u>MONTHLY SERVICE CHARGE FACTOR</u>	
<u>METER SIZE</u>	<u>SERVICE CHARGE FACTOR</u>
5/8"x3/4"	1.00
1"	2.50
1 1/2"	5.00
2"	8.00
3"	17.50
4"	30.00
6"	70.00
8"	125.00
10"	190.00
12"	290.00
16"	575.00

(2) the water consumption of the customer as registered on the meter(s) being used in the billing period.

The customer's bill for the billing period shall be the total of the service and commodity charge for that period.

6.03 General Rate Inside the County of Jefferson and Leased Facilities Outside the County of Jefferson.

All classes of customers taking metered service directly from the Company and situated (1) within the County of Jefferson or (2) outside the County of Jefferson and served through facilities owned by others but leased by the Company, and where a surcharge is imposed by the lessor, excepting the utilities purchasing water for resale, and excepting the municipal customers who shall be served as provided in KRS 96.270 (3024a-6) at no cost to the customer, and excepting publicly owned fire hydrants per se, shall be charged in accordance with the following schedule.

<u>SERVICE CHARGE MINIMUM MONTHLY BILL</u>	
<u>METER SIZE</u>	<u>SERVICE CHARGE MINIMUM MONTHLY BILL</u>
5/8"x3/4"	\$3.49
1"	8.73
1 1/2"	17.45
2"	27.92
3"	61.08
4"	104.70
6"	244.30
8"	436.25
10"	663.10
12"	1,012.10
16"	2,006.75

COMMODITY CHARGE

The charge for monthly usage shall be computed in accordance with the following schedule:

	Thousand Gallons Per Month			
First	3	at	\$1.13	Per 1,000 gallons
Next	3	at	1.28	Per 1,000 gallons
Next	194	at	1.46	Per 1,000 gallons
Next	1,300	at	1.35	Per 1,000 gallons
Next	3,500	at	1.20	Per 1,000 gallons
Next	5,000	at	.98	Per 1,000 gallons
All consumptions in excess of	10,000	at	.90	Per 1,000 gallons

SCHEDULE OF FIRE SERVICE CHARGES

The charge for fire service, where water may be taken for fire protection only, shall be in accordance with the following schedule. This charge will also be applicable to such fire hydrants as may be provided by private agencies.

Size:	4"	6"	8"	10"	12"
Monthly Charge:	\$9.00	\$18.50	\$35.25	\$70.00	\$140.50

6.04 General Rate Outside the County of Jefferson

All classes of customers taking metered services directly from the Company and situated outside the County of Jefferson, and served through facilities owned by the Company, excepting utilities purchasing water for resale, and excepting publicly owned fire hydrants, shall be charged in accordance with the following schedule:

<u>SERVICE CHARGE MINIMUM MONTHLY BILL</u>	
<u>METER SIZE</u>	<u>SERVICE CHARGE MINIMUM MONTHLY BILL</u>
5/8"x3/4"	\$3.49
1"	8.73
1 1/2"	17.45
2"	27.92
3"	61.08
4"	104.70
6"	244.30
8"	436.25
10"	663.10
12"	1,012.10
16"	2,006.75

COMMODITY CHARGE

The charge for monthly usage shall be computed in accordance with the following schedule:

	Thousand Gallons Per Month			
First	200	at	\$2.20	Per 1,000 gallons
Next	1,300	at	1.52	Per 1,000 gallons
Next	1,500	at	1.15	Per 1,000 gallons

SCHEDULE OF FIRE SERVICE CHARGES

The charge for fire service, where water may be taken for fire protection only, shall be in accordance with the following schedule. This charge will also be applicable to such fire hydrants as may be provided by private agencies.

Size:	4"	6"	8"	10"	12"
Monthly Charge:	\$9.00	\$18.50	\$35.25	\$70.00	\$140.50

6.05 Utilities Purchasing Water for Resale

Public utilities which purchase water for resale wherever situated shall be charged \$1.13 per thousand gallons for all water purchased, the elevated service area surcharge specified in Rule 6.06, and the service charge specified in Rule 6.02, if applicable, to the point at which water is taken through the master meter.

6.06 Elevated Service Area Surcharge

All customers shall pay a surcharge of \$.19 per thousand gallons if water must be delivered at a higher elevation than the general pressure plane served by the Crescent Hill/Cardinal Hill system.

6.07 At the Company's option, bills may be rendered monthly or bimonthly. If the bills are rendered on a bimonthly basis, the minimum monthly charge shown on the Schedule of Minimum Monthly Bill, and the gallons of water shown in the Schedule of Commodity Charges, and the monthly charge in the Schedule of Fire Service Charges, shall be multiplied by two.

6.08 In the event that payment for any charge is not made within twenty (20) days from the billing date, the net amount of the bill shall be increased by 5% and the gross amount thus determined must be paid. One late payment will be accepted every twelve (12) billing periods at net amount if the bill is paid before the next billing date.

6.09 Where water is used without proper authorization, the estimated quantity of unmetered water used shall be paid for at the rate of \$3.00 per thousand gallons.

6.10 Water taken from a Louisville Water Company public fill station shall be paid for at the rate of \$2.50 per thousand gallons plus such deposits as may be established from time to time.

6.11 The Company shall have the right to require that all customers filing Bankruptcy under Chapter 7, 11 or 13 of the Bankruptcy Code, post a deposit equal to one and one-half times an average bill based on usage during the past twelve months.

Upon adoption, these rates shall become effective and apply to statements mailed on and after January 1, 1993.

12/2/92



LOUISVILLE WATER COMPANY

435 SOUTH THIRD STREET • LOUISVILLE, KENTUCKY 40202

TEL 502-569-3600

FAX 502-585-2806

April 5, 1993

Mr. Robert A. Edens
Vice President & General Manager
Kentucky-American Water Company
2300 Richmond Road
Lexington, Kentucky 40502

Dear Bob:

Subject: Computation of Sample Water Bill

Louisville Water Company staff has extensively reviewed and revised our rate study model to reflect the ratemaking methodology described in my letter to you dated March 3, 1993. I have enclosed an abbreviated version of this rate model including a sample billing assuming an average day of 3 MGD, maximum day of 4 MGD and maximum hour of 5 MGD. This model is easily adaptable for computation of bills under a variety of average day, maximum day and maximum hour scenarios.

Please note that the distribution of costs is based on existing demand factors which are somewhat dated. These demand factors are currently being reviewed and may change as a result of demand studies in the future, thereby changing the allocation of costs among average day, maximum day and maximum hour.

Operating Costs and Depreciation Costs to be allocated are from Schedule 2U and Schedule 3U respectively of our 1992 Rate Study. Return on Plant Investment is from Schedule 4U of the 1992 Rate Study, except that the annual return is based on our retail rate of 9.35% rather than our wholesale rate of 11.35%.

The computation of the Kentucky-American Water Company share of these costs is based on total estimated units of service for all customer classes on Schedule 6 of the 1992 Rate Study.

Please feel free to call Bob Miller at 502/569-3663 if you have any further questions.

John Huber
President

TOTAL KAWC WATER CHARGES

VOLUMETRIC CHARGES	
COMMODITY COST RATE	\$0.3640
ELEVATED SERVICE AREA SURCHARGE	\$0.1789

TOTAL VOLUMETRIC CHARGES	\$0.5429 / THOUSAND GALLONS
ANNUALIZED VOLUMETRIC CHARGES	
	\$594,514 / YEAR
FIXED CHARGES FOR SYSTEM INVESTMENT	
DEPRECIATION	\$110,217
RETURN ON PLANT INVESTMENT	\$432,220

TOTAL CHARGES SYSTEM INVESTMENT	\$542,437 / YEAR
SERVICE CHARGE	
	\$26,175 / YEAR
DEBT SERVICE RECOVERY	
	\$886,450 / YEAR
TOTAL ANNUAL KAWC WATER CHARGES	
	\$2,049,576

KAWC RATE MODEL VARIABLES

	AVERAGE DAY	MAXIMUM DAY	MAXIMUM HOUR
--	----------------	----------------	-----------------

KAWC CAPACITY COMMITMENT REQUEST MGD

	3	4	5
--	---	---	---

SYSTEM ANNUAL WATER CONSUMPTION

	95.96	145.14	219.28
--	-------	--------	--------

SYSTEM ANNUAL WATER CONSUMPTION + KAWC

	98.96	149.14	224.28
--	-------	--------	--------

RETURN ON PLANT INVESTMENT PERCENT

9.35%

SERVICE CHARGE FACTOR

625

ANNUAL SERVICE CHARGE

\$26,175

CAPITAL CONSTRUCTION COST FOR TRANSMISSION FACILITIES

\$11,000,000

ANNUAL DEBT SERVICE FOR TRANSMISSION FACILITIES

\$886,450

SYSTEM DEVELOPMENT CHARGE

\$280,000

ANALYSIS OF COMMODITY COST ALLOCATION				
	BASE	MAXIMUM DAY	MAXIMUM HOUR	TOTAL
OPERATING EXPENSES	\$11,391,710	\$2,165,590	\$631,730	\$14,189,030
KAWC CONSUMPTION TG	1,095,000	1,460,000	1,825,000	
KAWC COST SHARE PCT	3.03%	1.99%	1.60%	
KAWC COST SHARE	\$345,347	\$43,155	\$10,082	\$398,584
KAWC COMMODITY RATE				\$0.3640

ANALYSIS OF EFFECT OF KAWC SALES ON ESA SURCHARGE

KAWC SALES MGD	ANNUAL SALES TG	PERCENT OF ESA	ADDITIONAL OPERATING EXP	REVISED ESA SURCHARGE
3	1,095,000	14.22%	\$101,899	\$0.1789

ANALYSIS OF DEPRECIATION ALLOCATION

	BASE	MAXIMUM DAY	MAXIMUM HOUR	TOTAL
DEPRECIATION EXPENSE	\$2,867,530	\$1,122,430	\$57,530	\$4,047,490
KAWC COST SHARE PCT	3.03%	1.99%	1.60%	
KAWC COST SHARE	\$86,931	\$22,368	\$918	\$110,217

ANALYSIS OF RETURN ON PLANT INVESTMENT ALLOCATION

	9.35%		
	MAXIMUM HOUR	MAXIMUM DAY	TOTAL
RETURN ON PLANT	\$175,368	\$5,004,765	\$16,055,301
KAWC COST SHARE PCT	1.60%	1.99%	
KAWC COST SHARE	\$2,799	\$99,734	\$432,220

RETURN ON PLANT

KAWC COST SHARE PCT

KAWC COST SHARE

BASE

MAXIMUM
HOUR

MAXIMUM
DAY

TOTAL

BROWN, TODD
& HEYBURN PLLC

RECEIVED

93 NOV -5 PM 1:44

OFFICE OF V.P./CHIEF ENG.
LOUISVILLE WATER CO.
November 4, 1998

File
K-A

Joseph B. Helm

Direct Dial: (502) 568-0219
E-Mail: Joseph@Lou.bth-pllc.com

400 West Market Street
32nd Floor
Louisville, KY 40202-3363
(502) 589-5400
Facsimile (502) 581-1087
www.bth-pllc.com

Lexington Office
2700 Lexington Financial Center
Lexington, KY 40507-1749
(606) 231-0000
Facsimile (606) 231-0011

Northern Kentucky Office
50 East RiverCenter Boulevard
Suite 1500
Covington, KY 41011
(606) 431-5550
Facsimile (606) 431-2191

Indiana Office
120 West Spring Street, Suite 400
New Albany, IN 47150
(812) 948-2800
Facsimile (812) 948-7994

Nashville Office
315 Deaderick Street, Suite 2222
Nashville, TN 37238
(615) 770-4100
Facsimile (615) 770-4108

Mr. Herb Miller
General Counsel
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

Via UPS

Re: Water Supply Agreement, Exhibits and Schedules Thereto

Dear Herb:

Per your telephone message, received this day, I am forwarding eight sets of originals of the Water Supply Agreement intended for execution by Kentucky-American in light of its recent Board approval.

Sincerely,

Joseph B. Helm/jrc
Joseph B. Helm

Enclosures

copy to Mr. John L. Huber

UT1.D2075:015.jrc
F:\USERS\015\WC\MILLER\H.L.T2

Mr. Herb Miller
November 4, 1998
Page 2

BROWN, TODD
& HEYBURN PLLC

blind copy to Mr. Gregory C. Heitzman /
Mr. Robert Miller



LOUISVILLE WATER COMPANY

550 SOUTH THIRD STREET • LOUISVILLE, KENTUCKY 40202

TEL 502-569-3600 FAX 502-569-0815

JOHN L. HUBER
PRESIDENT

September 30, 1998

Board of Water Works
Louisville, KY

Dear Directors:

I thought you would be interested in seeing the attached article.

Sincerely,

A handwritten signature in cursive script, appearing to read "John L. Huber".

John L. Huber
President

jcm
attachment

cc: Mr. Larry Lenahan

bcc: J. Barnette, T. Cushing, G. Heitzman, S. Hubbs, B. Miller, D. Morrow, K. Teasley

Lexington Herald-Leader
Wednesday, September 23, 1998

Objection cancels meeting on pipeline

By Andy Mead

HERALD-LEADER STAFF WRITER

FRANKFORT — A meeting planned for yesterday on a controversial pipeline that would bring water from Louisville to Lexington was canceled because of controversy over the meeting itself.

Assistant Attorney General David Spenard objected to the meeting between the state Public Service Commission and Kentucky-American Water Co., saying it would give the private water company a chance to present its case before officially applying for permission to build the pipeline.

Kentucky-American, which intends to file its application in December, contends the pipeline would be needed to get Lexington through a severe drought.

Attorney General Ben Chandler argues that it would be cheaper to raise dams on the Kentucky River to hold more water.

"The scope of Kentucky-American's request for a conference extends beyond purely procedural matters and presents a pre-application bite of the apple," Spenard wrote in a letter to commissioners.

After receiving Spenard's letter, commission chairwoman B.J. Helton canceled the meeting late Monday afternoon.

She disagreed with his objections, saying in a return letter that "it was never our intent to allow Kentucky-American to present any substantive aspects" of its case.

Helton said the commission wants to use informal conferences whenever possible "to reduce or even eliminate the time spent in formal hearings and appeals."

That line drew an objection from a representative of a rural preservation group that opposes the pipeline.

"Isn't the Public Service Commission supposed to be for the public?" asked Christine Amos of Lexington-Frankfort Scenic Corridor Inc. "How can the public know anything if they have informal conferences?"

Helton said there was no intent to exclude the public. She noted that the attorney general's office, which represents ratepayers before the commission, was notified of the meeting along with others involved in earlier related cases.

Amos said she heard about the meeting while trying to find out how her group, which agrees with Chandler, could intervene in the pipeline case.

The pipeline permit process is expected to generate public debate and perhaps lawsuits.

MEMORANDUM
LOUISVILLE WATER COMPANY

TO: LIST

FROM: John L. Huber *John L. Huber*

DATE: September 26, 1994

RE: Kentucky-American Hearings on Louisville Pipeline

Roy Mundy called me today with a briefing on the recent Public Service Commission hearings on the Louisville to Lexington pipeline. Roy said that contrary to published reports in the Lexington Herald Leader, the hearings went very well from his perspective. There was real interest and sensitivity to the need for additional water resources from business and industry in central Kentucky, and representatives of more than fifteen corporations and other entities came to speak in favor of the pipeline and of the need for a reliable water resource to support economic development into the future.

Roy felt the Attorney General's commissioned report was severely lacking in substance, and the numbers presented in the report did not substantiate some of the conclusions. He did state that Scott Rubin, the Attorney General's witness, was an excellent witness. He did, however, make comments such as: "Occasional water outages are acceptable."

Toyota was quick to counter that water outages are not acceptable.

Roy felt the real downside was the editorial and reporting by the Lexington Herald Leader. He felt their reporting was inaccurate and slanted. He did further state that electronic media coverage was very positive on the hearings.

Contrary to the position taken by the Lexington Herald Leader, the PSC does not consider the issue to be resolved. At this point, Kentucky-American is cautiously optimistic that the PSC will support the need for the pipeline.

Two groups which have not spoken in favor of the pipeline, but in Roy's opinion more importantly have not opposed the pipeline, are the Kentucky River Authority and the Lexington-Fayette County Urban Government. Mayor Pam Miller has stated her first preference is to resolve any deficiencies by making more resources available from the Kentucky River. Roy continues to believe that is neither economic nor achievable on a timely basis.

In short, Kentucky-American is cautiously optimistic that the PSC will recognize the need for the pipeline, even in view of the opinions expressed by the Lexington Herald Leader.

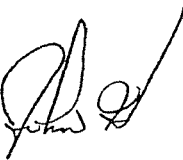
jcm

LIST: Janice Barnette, Greg Heitzman, Steve Hubbs, Bob Miller, Larry Shanks, Barbara Crow, Tony Elpers, Vince Guenther, Bill Rhodes

MEMORANDUM

LOUISVILLE WATER COMPANY

TO: FILE

FROM: John L. Huber 

DATE: April 6, 1995

RE: Kentucky-American Water Company Water Resource Needs

I talked to Roy Mundy of KAWC today about their continuing efforts to secure additional water resources. Roy's personal opinion is that the pipeline is the best and most economical solution, and that it will happen.

KAWC has filed for a rehearing after receiving the decision from PSC. Roy advised the PSC findings did support Kentucky-American's position that there is a water supply deficit. The question the PSC has is not whether or not there is a deficit, but the question is, rather: Where will be water be secured?

The Kentucky River Authority has commissioned a study to evaluate the safe yield of the Kentucky River. In some respects, the study parallels a similar effort completed two years ago. The current study is being conducted by the University of Kentucky. KAWC is serving on the steering committee for the project. The UK contract provides for 18 months to complete the study. By the time the final draft of the report is completed, peer reviewed, and approved, it will likely take 24 months to finalize the study's outcome.

Meanwhile, KAWC's base load continues to grow. The Toyota Plant, which they serve, has begun producing the Avalon in an expansion of the plant, and a second shift has been added to the production schedule. Lexington also continues to grow. In the last year, KAWC added approximately 1800 new accounts. Growth rate in the Lexington area has continued at approximately 2 to 2.5 percent for the last 20 years, and at this time, it appears that growth will be sustained. Roy indicates that after the Commission's findings were published, many community members stepped forward to express their concern over additional delay in securing additional water resources.

In summary, KAWC officials remain convinced of the need and necessity for additional water resources, and see the pipeline as the most feasible and most cost effective solution to supply the additional resources needed.

cc: J. Barnette, G. Heitzman, S. Hubbs, R. Miller, L. Shanks, B. Crow, T. Elpers,
V. Guenther, C. Staebler



LOUISVILLE WATER COMPANY

550 SOUTH THIRD STREET • LOUISVILLE, KENTUCKY 40202

TEL 502-569-3600 FAX 502-569-0815

August 12, 1998

Ms. Linda C. Bridwell, P.E.
Director of Engineering
Kentucky-American Water Company
2300 Richmond Road
Lexington, Kentucky 40502

RE: Bluegrass Water Project, Agreement for Consulting Services

Dear Ms. Bridwell:

The purpose of this letter is to apprise you of the status of our negotiations with PDR Engineers, Inc. for the consulting services that are required for the Bluegrass Water Project.

As you recall from your meeting on July 21st in Lexington with Jim Brammell, Karen Willis, Bill Rhodes and Steve Tucker, a number of technical issues were discussed as well as the status of the fee negotiation between LWC and PDR. I have been briefed on the discussions held at that meeting and will respond to a number of the points discussed.

First, it is my understanding that there were a number of items in the LWC-prepared scope of work that may not routinely be included in a Kentucky-American project, but which Kentucky-American has agreed to fund as appropriate project expenses. These items include: evaluation of alternative alignments; facilitation of public involvement; title searches for easements; other easement acquisition support services; rock soundings; labeling of rock/bore information; vacuum excavates and associated field research; drafting of connection details; and permit support. These items remain in the scope of work.

It is my further understanding that there were a number of items discussed on which Kentucky-American has reservations either concerning price or scope. Following are some of these elements along with my perspective. With respect to the scope and cost of the survey effort, it is Louisville Water Company standard practice to require plan and profile information on the construction drawings for all transmission main projects. This is viewed as necessary for the LWC to have accurate control on the locations of our facilities. As such, it is my view that this same level of detail is appropriate on both the 60-inch and 36-inch mains to be constructed for the Bluegrass Water Project.

Another item which is standard practice for the LWC is the design and installation of thrust blocks along project alignments in conjunction with appropriately designed restrained joints. Again, it would be the LWC position that we would follow our standard practice on the Bluegrass Water Project.

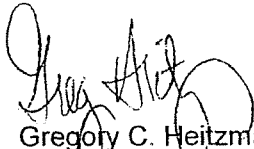
On the issue of pipe materials, it is my intent to bid the 60-inch transmission main as PCCP and the 36-inch main as ductile iron, although we would consider receiving alternate bids for PCCP for the 36-inch main. The specification for the 36-inch main will be for pressure class 350 pipe, a concession in that LWC's standard practice is to use schedule 54 pipe in all ductile applications.

Subsequent to the meeting of our staff with you on July 21st, we have continued negotiations with PDR Engineers, Inc. in an effort to reduce costs. Based upon my discussions with PDR, I have concluded that further cost reductions could only be accomplished at the expense of unacceptable scope reductions. As such, my recommendation is that Kentucky-American Water Company authorize the LWC to execute a contract with PDR Engineers, Inc. for the not-to-exceed fee of \$779,206 with the understanding that approximately \$540,000 of the overall fee is attributable to the pipeline design effort and would be reimbursed by Kentucky-American to LWC.

The terms as outlined in the previous paragraph were presented yesterday to LWC's Board of Water Works and were approved. Upon receipt of your concurrence I will execute the agreement with PDR Engineers and issue the notice-to-proceed. This will allow us to meet the December 1998 target for design completion.

If you have questions, please do not hesitate to contact me. I look forward to your response and to initiating the pipeline design project with PDR.

Yours truly,



Gregory C. Heitzman, P.E.
Vice President, Chief Engineer

CC: Coleman Bush, Kentucky-American Water Company
Jim Brammell, Louisville Water Company



LOUISVILLE WATER COMPANY



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502
(606) 268-6320 • Fax (606) 268-6327

Roy W. Mundy II
President

March 4, 1998

John L. Huber, President
Louisville Water Company
435 South Third Street
Louisville, Kentucky 40202

Dear John:

As we discussed, enclosed is the proposed water purchase contract for our Bluegrass Water Project. It contains the key business terms which are important to Kentucky-American and our customers. We hope it will serve as the foundation for our long-lasting relationship.

We would like to meet with the appropriate individuals from Louisville Water Company as soon as possible to begin discussions on this document. Is your team available Monday, Tuesday, or Wednesday of next week? We can come to Louisville or we can meet in Lexington. Frankfort is another alternative.

Please let us know as soon as possible which is convenient. Our Corporate Counsel, Herb Miller, can be reached at 606-268-6339, and our Vice President - Operations, Nick Rowe, is at 606-268-6333.

It was good to see you and Cindy at last Friday's reception. I really appreciate you taking the time to drive to Lexington to be part of my surprise.

Yours very truly,


Roy W. Mundy II
President

RWM/llt

c: Coleman Bush
Herb Miller
Nick Rowe

Enclosure

3/6/98

COPIES TO: Joe Helm (by fax), Vince Guenther, Greg Heitzman,
Steve Hubbs, B. Miller, K. Teasley

APPS/MM/MDOCS/LWC - HUBER

AGREEMENT

THIS AGREEMENT, dated this ____ day of _____, 1998, by and between KENTUCKY-AMERICAN WATER COMPANY, a Kentucky Corporation, at 2300 Richmond Road, Lexington, Kentucky 40502 ("Buyer") and LOUISVILLE WATER COMPANY, a municipal corporation, at 435 South Third Street, Louisville, Kentucky 40202 ("Seller").

WITNESSETH:

WHEREAS, Seller owns and operates municipal water supply and treatment facilities comprising several sources of supply, including the Ohio River; and

WHEREAS, Seller utilizes its facilities to provide water service on a wholesale and retail basis; and

WHEREAS, Seller has available reserve capacity sufficient to meet Buyer's needs under this Agreement; and

WHEREAS, Buyer engages in the manufacture of water for sale to customers in the Central Kentucky area including the counties of Fayette, Bourbon, Clark, Harrison, --- Jessamine, Scott, and Woodford; and

WHEREAS, both Buyer and Seller are desirous of entering into an agreement to provide Buyer a continuing, dependable source of water for the present and future needs of Buyer's customers;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereby agree as follows:

1. **DEFINITIONS:** In this Agreement, these terms have the meanings indicated below:

a. **Seller:** Louisville Water Company, a municipal corporation located at 435 South Third Street, Louisville, Kentucky 40202.

b. **Buyer:** Kentucky-American Water Company, a Kentucky corporation located at 2300 Richmond Road, Lexington, Kentucky 40502.

c. **Project Facilities:** Fixtures, equipment, mains, meters, vaults, storage tanks, pipes, pumps, buildings and other improvements and facilities approved by Buyer for the delivery of Service under this Agreement.

d. **Point of Delivery:** The location of the connection of the Project Facilities to Buyer's Facilities at a point to be determined by Buyer, in its reasonable discretion; in Shelby County, Kentucky near the intersection of the Jefferson County - Shelby County line and Kentucky Highway 60. The Point of Delivery shall be owned by Buyer.

e. **Service:** The actual delivery of treated, potable water by Seller to the Point of Delivery under this Agreement including, but not limited to, the requirements in Sections 5.a. and 5.b. hereunder.

2. **DESIGN OF PROJECT FACILITIES:**

a. Seller will design the Project Facilities. However, Seller may elect to design the Project Facilities by engaging a qualified professional to provide such design services. If Seller elects to engage such a qualified design professional, Buyer reserves the

right to approve the selection of such professional, which approval shall not be unreasonably withheld.

b. The scope of the Design is subject to approval of Buyer in its reasonable discretion. Should Seller elect to expand the design, construction or installation of the Project Facilities in excess of the Buyer's determination of the scope of the Project Facilities, then all costs, direct or indirect, associated with expanding the scope shall be borne solely by the Seller. Any expansion of the scope of the Project Facilities shall not interfere with Seller's duties to deliver Service to the Point of Delivery as required under this Agreement.

what about
exp.
into
Shelby
Co.

c. Provided Seller does not expand the scope of the Project Facilities, Buyer agrees to pay the actual and reasonable costs of the Design of Project Facilities, such costs to include outside professional engineering fees, measurable internal costs of engineering design and actual out-of-pocket costs associated with the issuance of tax exempt debt obligations including payments of principal, interest and other reasonable professional fees. Any changes in the Design which, individually or in the aggregate, increases the cost of the Design shall be subject to Buyer's prior written approval, which approval shall not be unreasonably withheld.

initial
cost
estimate

3. **TIME DEADLINE FOR DESIGN OF PROJECT FACILITIES:** Seller agrees that its Design must be fully completed in a form and substance to Buyer's approval prior to Buyer's application to the Public Service Commission for a Certificate of Convenience and Necessity, provided that the date for completion of design shall not be later than

OK.

K-A to
review
p. 15 2.

October 1, 1998. Seller acknowledges and agrees that time is of the essence in the Design of the Project Facilities.

4. **CONSTRUCTION OF PROJECT FACILITIES:** Seller shall complete construction and installation of the Project Facilities and have Service available at the Point of Delivery no later than 15 months ("Construction Completion Date") from the date Buyer notifies Seller to begin construction ("Construction Commencement Date"). Delays in the Construction Completion Date may extend such date provided that delays are caused by sudden and unexpected adverse weather conditions, labor unrest, natural disasters or other circumstances beyond Seller's control. Seller acknowledges that time is of the essence in the Construction of Project Facilities.

ESMT

5. **REIMBURSEMENT TO SELLER FOR CONSTRUCTION AND DEBT SERVICE COSTS FOR THE PROJECT FACILITIES:**

a. Seller will construct the Project Facilities at its expense. Buyer agrees to pay Seller, on a monthly basis, amortized over a period of twenty (20) years, the amount necessary to pay, in full, Seller's indebtedness, including interest, incurred to construct the Project Facilities. The rate of interest on such indebtedness shall not exceed the interest rate for a comparable tax exempt debt issue. The amortization schedule is attached hereto as Schedule A.

Dec 90
ESMT
may 92

b. If Seller's debt instruments permit prepayment of part or all of the debt obligation, and if Buyer is not in default of any of its payments to Seller under Section 8 of this Agreement, then Buyer has the right to instruct Seller to exercise the prepayment

privilege and shall simultaneously pay to Seller the amount of the prepayment to remit to the holders of the debt instruments.

6. **SERVICE AT THE POINT OF DELIVERY:**

a. **Condition.** Buyer will pay Seller for Service at the Point of Delivery, provided Service is delivered to the Point of Delivery in a potable condition, which meets or exceeds all minimum state and federal regulations and in a condition for Buyer's continued process of pressurization, improvement, processing, and other manufacturing and production. At Buyer's direction and expense, Seller agrees to adjust certain chemical levels of the water prior to the Point of Delivery. Seller may sample water provided under this Agreement at or prior to the Point of Delivery. *note*

b. **Rate of Flow and Pressure.** Seller shall have the ability to furnish and shall furnish Service to Buyer at the Point of Delivery with a flow rate at a maximum rate of 16,000 gallons per minute and a constant pressure of not less than forty (40) pounds per square inch.

c. **Failures.** In the event Seller is unable to provide Buyer with Service under the terms of this Section for reasons beyond Seller's control, Seller shall use all of its best efforts to restore the water to a quality, rate of flow and pressure as required in this Section. Time is of the essence in all situations where such a failure and restoration exist.

7. **METERING ARRANGEMENTS:** Seller agrees to furnish, install, maintain, repair and replace at the Point of Delivery a service meter or battery of meters, including meter house or vault, for properly measuring the quantity of water being delivered to Buyer and to calibrate such metering equipment whenever requested by Buyer but no more

frequently than once every six months with the results of such calibrations provided to Buyer. Buyer may conduct calibrations more often than every six months, but at its own expense. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate. Previous readings of any meter disclosed by test to be inaccurate shall be corrected for three months previous to such test in accordance with the percentage of inaccuracy found by such test. 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 immediately prior to the failure, unless Seller and Buyer shall agree otherwise. An appropriate official of the Buyer shall have access to the meter at reasonable times for the purpose of inspecting, reading and testing such metering facilities.

8. **RATES AND PAYMENT:**

a. Buyer shall pay Seller for the Service actually delivered to the Point of Delivery in accordance with this Agreement pursuant to the rates and terms so identified on Schedule B, attached hereto and incorporated herein and as may be changed from time to time as approved by the Public Service Commission of the Commonwealth of Kentucky.

b. Seller shall invoice Buyer on a monthly basis for water usage as reflected by the metering devices (installed pursuant to Section 7 hereof) on the last business day of each calendar month. Buyer shall remit payment to Seller for such invoices no later than the 20th calendar day following receipt of such invoice and acknowledgment by Buyer that such invoice is correct as to charges and water usage.

9. **EXCLUSIVE RESERVATION OF SELLER'S CAPACITY:** Seller agrees, throughout the term of this Agreement, to provide Buyer with an exclusive reservation of its water treatment capacity, such reservation to not be less than capacity needed under this Agreement to treat and deliver Service to the Point of Delivery as set forth in this Agreement.

10. **SERVICE TO OTHERS BY SELLER PRIOR TO THE POINT OF DELIVERY:** Seller warrants and represents that any water service to others prior to the Point of Delivery shall not interfere with or diminish its obligations to the Buyer under this Agreement. In the event of any such interference or diminishment, Seller shall immediately cease or diminish such Service to others until full Service is restored to Buyer. *Start*

11. **ADDITIONAL EXPANSION BY SELLER:** Seller agrees that upon undertaking any expansion or enlargement of the capacity of its existing supply or treatment facilities, it will notice Buyer of its intention to do so and will afford the Buyer with a reasonable opportunity to negotiate for the additional purchase or delivery of water. *Start*

12. **LIMITATION OF SERVICE TO BUYER FOR REASONS BEYOND SELLER'S CONTROL:**

a. Buyer acknowledges that unexpected supply or treatment problems may occur which are beyond Seller's control. In the event such unexpected problems limit or prevent the Seller's ability to deliver Service to the Point of Delivery, and such problems limit or prevent the delivery to any of the Seller's customers, then Seller agrees that any restrictions on water delivery shall apply to the Buyer in a similar manner which Seller applies to its customers of the highest and most important priority. *✓*

b. Seller will use its best efforts to restore full Service to Buyer as promptly and completely as possible. Time is of the essence for the restoration of full service.

13. **TERM AND EXTENSIONS**: The term of this Agreement shall begin on the date this Agreement is executed by both parties hereto and shall terminate on December 31, 2030. This Agreement shall be automatically extended for two (2) consecutive additional terms of twenty-five (25) years each, unless Buyer provides written notice to Seller at least two (2) years prior to the end of the then existing term, that Buyer does not intend to extend the then existing term.

14. **BUYER'S REPRESENTATIONS AND WARRANTIES**:

a. Buyer is a Kentucky corporation with the authority to enter into this Agreement, and subject to regulatory approval, has the authority to perform under the terms of this Agreement.

b. Buyer shall be responsible for the maintenance of water quality after the Point of Delivery provided that Seller has delivered Service to the Point of Delivery pursuant to this Agreement.

c. Provided Seller has delivered Service to the Point of Delivery pursuant to this Agreement, Buyer shall be responsible for any bursting or breakage of pipes or damages to persons or property after the water is delivered to the Point of Delivery.

d. Buyer will immediately notify Seller of any emergency or condition which would adversely affect the quality, quantity or pressure of the water in the Seller's system.

15. **SELLER'S REPRESENTATIONS AND WARRANTIES:**

- a. Seller is an municipal corporation with the authority to enter into this Agreement, and has the authority to perform under the terms of this Agreement.
- b. Seller will deliver Service to the Point of Delivery that meets or exceeds the applicable quality standard of all local, state and federal regulatory agencies and the requirements of Section 6 of this Agreement.
- c. Seller will immediately notify Buyer of any emergency or condition which would adversely affect the quality, quantity or pressure of the water in the Buyer's system.
- d. Seller acknowledges its obligations under this Agreement and specifically incorporates the Sellers commitments in this Agreement.
- e. Seller shall be responsible for the Project Facilities and the quality, rate of flow and pressure of the water in the Project Facilities prior to the Point of Delivery and all damages to persons or property before the water is delivered to the Point of Delivery, and any damages arising from any contamination of Seller's water supply.

16. **TERMINATION:**

- a. Buyer may terminate this Agreement upon six (6) months written notice in the event of:
 - 1. Repeated failure of Seller to meet its commitment to reserve capacity, or to meet the water delivery requirements in Section 6 hereof.
 - 2. Revocation of Seller's authority to do business.

3. Seller's breach of any of the Representations and Warranties in this Agreement.

b. Seller may terminate this Agreement upon six (6) months written notice in the event of:

1. Repeated failure of Buyer to pay its invoices for water service on a timely basis.

2. Revocation of Buyer's authority to do business.

3. Buyer's breach of any of the Representations and Warranties.

17. **MISCELLANEOUS PROVISIONS:**

a. This Agreement is subject to the approval of the Kentucky Public Service Commission ("PSC") and receipt by Buyer of a final, non-appealable Order from the PSC in the form of a Certificate of Convenience and Necessity for the facilities to be constructed pursuant to this Agreement.

b. This Agreement does not constitute a partnership, joint venture, agency or other relationship between Buyer and Seller and Buyer and Seller expressly state that they owe no fiduciary duties to one another and that the relationship is based upon Contract.

c. This Agreement is binding on the successors and assigns of the parties hereto.

d. Buyer and Seller agree that each of them shall have access to the books and records of the other, which are related to matters which are the subject of this Agreement, at such reasonable notice, except as those records may be subject to a

recognized privileged or be confidential. To the extent that access relates to confidential records, the party requesting the access shall be entitled to access upon the execution of an agreement pledging the maintenance of confidentiality of the information being accessed. Without way of limitation, such information shall include all costs of design, construction, financing, and costs of operation and maintenance of the facilities contemplated by this Agreement.

e. Seller agrees to carry, throughout the term of this Agreement, such liability and casualty insurance in a form and amount subject the reasonable determination of the Buyer. Seller shall, upon Buyer's request, show evidence of such insurance by a certificate which includes Buyer as a loss payee or beneficiary under such insurance coverage.

f. Buyer reserves the right to develop and use other water supply sources and may obtain water from sources other than the Seller.

g. The parties agree to operate and maintain their respective facilities in an efficient and economical manner and in accordance with all applicable local, state and federal laws, regulations and performance standards.

h. This Agreement may be amended at any time by mutual agreement, in writing, of the parties.

i. Both parties agree to use their best efforts to obtain all regulatory and legal approvals required for the accomplishment of the terms of this Agreement.

j. Time is of the Essence under this Agreement.

k. The parties acknowledge that the water to be purchased hereunder will be manufactured and resold in the regular course of business of Buyer and is therefore exempt from Kentucky sales and use tax. To evidence this exemption, Buyer will furnish Seller with a duly executed "Resale Certificate" or such other documentation as the parties deem appropriate.

IN WITNESS WHEREOF, the parties have set forth their hands the day and year first above written.

BUYER:

Kentucky-American Water Company

By: _____

Title: _____

Date: _____

Attest: _____

SELLER:

Louisville Water Company

By : _____

Title: _____

Date: _____

Attest: _____

312\C:\Work\LWI\KAWC\Bluegrass\004Louisville.Agr

1-27-98

MEMORANDUM
LOUISVILLE WATER COMPANY

TO: Greg Heitzman, Bob Miller
FROM: John Huber *John*
DATE: October 9, 1998
RE: Kentucky-American Water Company

CONFIDENTIAL

Roy Mundy called me today. He advised they will have a board meeting on October 30. He anticipates signing the contract after that board meeting.

In the meantime, Kentucky-American must submit information to the Corps of Engineers for the Kentucky River crossing if they are to meet their timetable. The Kentucky River crossing permit is now a key item on the critical path. In order to get the permit approved, Roy is advised the Corps of Engineers will be looking at the need, necessity, and feasibility of the pipeline. He understands this will mean the pipeline must be essentially designed for the permit application. He is requesting we begin design of the pipeline. He will be faxing a letter requesting us to begin pipeline design either today or Monday. I advised him Greg has recently met with Gene Fouts at Shelbyville, and that Gene is now interested in taking service from us at Highway 55 in addition to a metering point at Highway 53. He understands Greg Heitzman will be discussing this possibility with Kentucky-American. I believe Kentucky-American either will be looking for some consideration for moving the metering point farther east, or will be interested in the possibility of discussing a wheeling charge for selling water at Highway 55. Roy was especially interested in discussing the wheeling charge. Kentucky-American will also be considering alternative rate structures for systems that may wish to purchase water from the pipeline.

Roy also advised Kentucky-American is talking to Goshen about the possibility of acquiring their system and that others are also discussing system acquisition with Goshen. Kentucky-American has not yet submitted a proposal. According to Roy, PSG is one of the groups submitting a proposal, and the proposal already in Goshen's hand is likely PSG's proposal. Roy advised they would not normally be seeking Goshen as a customer since they are in the region where the Louisville Water Company already operates, but because their competitors are there, they felt it was necessary for them to pursue the opportunity. He further stated he felt it would be difficult for others to establish an economy of scale which could compete with the Louisville Water Company in the Goshen area. Roy believes there is a third firm, in addition to Kentucky-American, PSG, and the Louisville Water Company looking at presenting a proposal to Goshen utilities.

jcm

From: Dorothy Bailey / THRD4 CONFIRMED
To: Joan Malone / THRD4

KAWC

====PHONE=NOTE=====9/21/98==1:43pm==
CALLER: Roy Mundy for JOHN HUBER
COMPANY: KY American Water
PHONE: (606) 269-4001

MESSAGE:

Please call ☒ Returned call ☐
URGENT ☐ Will call again ☐

Restrictions on use.

Dry weather reduced river flows to point had to have news conference requesting voluntary odd-even restrictions.

Set new max day at 64.7 MGD.

Dropping down now to mid 50's MGD.

Keeping discussion on because climatologists say we may have real dry weather over next couple of months.

Have sent draft contract to Board with Exec. Summary to Board.

Ky-Am. requested a meeting with PSC to update them on status of Bluegrass Water Project. Undertaking an aggressive

P.R. program identifying and explaining problem and the solution. Tomorrow they are giving the commission and update the Bluegrass Project. Will advise we have a win-win contract. Atty. General will be there. The discussion will be public knowledge - when a conf. is requested on any topic they must request the presence of the intervenors.

Some possibility contract will be submitted to PSC in next few weeks.

Meeting with Kentucky-American
May 3, 1998

- Contract is now the issue on the critical path
- Selected a design consultant for pipeline and for acquiring right-of-way options. Stannett-Fleming-PDR
- Before you initiate this contract, get conceptual agreement with LWC.
- This is the first time they will be visibly achieving work on the project. Become a visible project
- Are proceeding with initial contact of property owners along the route; ^{during next 2 weeks.} 3rd week of May will be doing on the ground surveying.
- Plan to file certificate case with PSC Nov-Dec
- Decision on or about September
- Pipe in place, in service for Summer 2001

Point of Delivery:

K.A. - Interests

Constituents

Stockholders
Commission
Customers

If we receive revenue from population ^{K.A.} - can't subsidize
Not incremental cost sharing

~~So~~ If shared cost - share in revenue.

Confusion - We sell the water, why do you care?

Protection of Service area?

Price - Ford Plant

Shelbyville's
Bad Investment

LWC
Ownership
to point
of delivery
at Ky 55

Partnership - Lease

KAWC
Ownership
to point
of delivery
at Ky 55

Potential
wholesale
customers

Existing wholesale customers

New Customers

Upsizing - Water Quality → If more Q req'd, who pays?

KAWC
ownership

Board - Earning on investment

= Incremental Investment - Proportional Investment - LWC Ownership

Killam

Rates & Charges

Reserve Capacity

Reserve Capacity

Wholesale Rate Plus SDC

Present Rate Structure

- Some Discount -> Again Reserve Capacity Consideration

low base PSC
ave assurance
availability - But -> Best Rate
of 20-23 MGD

$$\begin{array}{r} 2.3 \\ 1.8 \\ \hline 1.05 \end{array}$$

2.0 MGD

6.0 MGD

$$\begin{array}{r} 2.3 \\ 2.5 \\ \hline 11.5 \end{array}$$

$$\begin{array}{r} 2.3 \\ 2.0 \\ \hline 4.6 \end{array}$$

$$\begin{array}{r} 2.25 \\ 2.2 \\ \hline 6.75 \end{array}$$

Delivery
Term.
Protection of Sav. Area
Rate
Res Capacity

Protection of
Existing Asset
Base

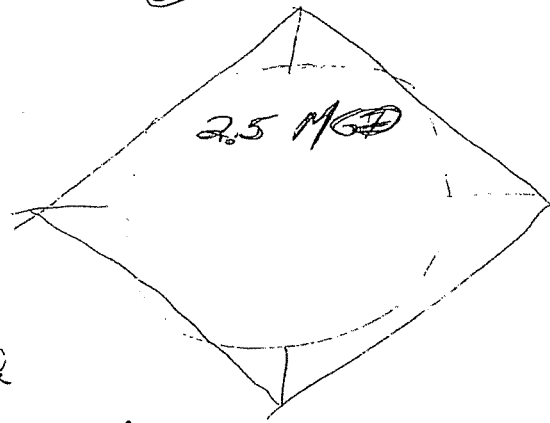
4.6
5.75

2.5

6.0 MGD

MGD.

1.8 - 2.3



50% of 3 year Peak

2.5 times average day

whichever is greater of Res capacity = 2.5 times average day

or
50% of 3 year peak

1.86 2.3 MGD
2.05 Avg

225
270
300

10 → Premium

70% → max demand for — months
80%

6 MGD

~~20 day peak~~
Midnight to Midnight Peak
80% of average midnight to midnight
peak.

80% → 8 M.G.
80%

15
0.7
10.5

\$1.35/

6.0 MGD Reserve Capacity 2.5
Commodity Charge 6.0

1.35
80%
10800



LOUISVILLE WATER COMPANY

550 SOUTH THIRD STREET • LOUISVILLE, KENTUCKY 40202

TEL 502-569-3600 FAX 502-569-0815

JOHN L. HUBER
PRESIDENT

November 16, 1998

Mr. Herbert A. Miller, Jr.
Corporate Counsel
Kentucky-American Water Company
2300 Richmond Road
Lexington, KY 40502

Dear Herb:

Enclosed are four fully executed copies of the Water Supply Agreement.

Design of the water main from English Station Road and U. S. Highway 60 to Kentucky Highway 55 at Interstate 64 is being initiated in accordance with Mr. Mundy's recent letter.

Please extend our appreciation to the Kentucky-American staff for the professionalism and courtesy exhibited throughout these negotiations.

Sincerely,

A handwritten signature in cursive script, appearing to read "John L. Huber".

John L. Huber
President

jcm
enclosures

cc: Mr. Joseph B. Helm
Mr. Lindsey W. Ingram, Jr.

bcc: Greg Heitzman, with copy of agreement
Steve Hubbs, with copy of agreement
Bob Miller, with copy of agreement
Karla Teasley, with copy of agreement

WATER SUPPLY AGREEMENT

THIS WATER SUPPLY AGREEMENT, dated as of this 7th day of November, 1998, between

LOUISVILLE WATER COMPANY,
550 South Third Street
Louisville, Kentucky 40202

("Seller").

and

KENTUCKY-AMERICAN WATER COMPANY,
2300 Richmond Road
Lexington, Kentucky 40502

("Buyer")

RECITALS

A. Seller, a Kentucky corporation all of the stock of which is owned by the City of Louisville, is governed by the Board of Water Works pursuant to Sections 96.230 through 96.310 of the Kentucky Revised Statutes and is statutorily permitted to sell water to customers taking service in Jefferson, Oldham, Shelby, Spencer, Bullitt and Hardin Counties, Kentucky.

B. Seller owns and operates water treatment and distribution facilities and utilizes its facilities to provide water service on a retail and wholesale basis throughout Jefferson County, Kentucky and in large areas of Oldham, Shelby, Spencer, and Bullitt Counties, including, among others, wholesale service to West Shelby Water District, North Shelby Water District and the City of Taylorsville;

C. Seller has available treatment and storage capacity sufficient to meet Buyer's needs set forth in this Agreement;

D. Buyer, a Kentucky corporation, engages in the manufacture of water for sale and service to customers in the counties of Fayette, Bourbon, Clark, Harrison, Jessamine, Scott, and Woodford; and

E. Buyer is desirous of securing a continuing, dependable source of water to meet the present and future needs of Buyer's customers and plans construction of extended transmission facilities to the Point of Delivery, defined below, to connect its existing system with Seller's.

WITNESSETH:

NOW, THEREFORE, in consideration of the mutual covenants and conditions herein contained, the parties agree as follows:

1. DEFINITIONS. In this Agreement, these terms have the meanings indicated below:

(a) Project Facilities: Fixtures, equipment, water transmission mains, metering equipment, vaults, storage facility, pipes, pump station, and other improvements and facilities designed and to be constructed to Seller's specifications and approved by Buyer to be used for delivery of Service under this Agreement together with easements and other real property rights acquired with respect thereto. Such facilities shall be owned by the Seller.

(b) Point of Delivery: The connection of the Project Facilities to Buyer's facilities. The connection will be at a point in Shelby County, Kentucky at or near the intersection of Interstate Highway 64 and Kentucky Highway 55.

(c) Service: The delivery of treated, potable water by Seller to the Point of Delivery under this Agreement pursuant to the standards set forth in Section 9, subsections (a) and (b) and as may be changed by operation of Section 13.

2. DESIGN OF PROJECT FACILITIES:

(a) The Project Facilities will be designed by Seller, Buyer retaining the right to approve the selection by Seller of outside professional engineering assistance in creating such design, such approval not to be unreasonably withheld, and to approve the scope of the design within the framework set forth immediately below. To the extent this Agreement is not executed by August 1, 1998, then the design completion date shall be extended by the time subsequent to August 1, 1998, until execution of this Agreement.

(b) The design of the Project Facilities shall include, among other things, a 60-inch transmission main from Seller's English Station Road Reservoir to the intersection of Interstate Highway 265 and Interstate Highway 64 in Jefferson County, a 36-inch transmission main from such intersection eastwardly to the intersection of Interstate Highway 64 and Kentucky Highway 55 in Shelby County (the location of the Point of Delivery), a 23 million gallon per day pump station situated in the Interstate 265-Interstate 64 intersection area, and a water storage facility with a minimum capacity of 1.0 million gallons situated along the 36-inch transmission main in Shelby County west of the Point of Delivery. Attached, designated EXHIBIT A, is a plat indicating the general location and route of the Project Facilities. Any subsequent change in the design/route which, individually or in the aggregate, increases the costs of the construction or operation of the Project Facilities to be paid by Buyer shall be subject to Buyer's prior written approval, which approval shall not be unreasonably withheld.

(c) Seller understands that the design of the Project Facilities must be fully completed in a form and substance satisfactory to Buyer prior to Buyer's application to the Kentucky Public Service Commission (the "PSC") for a Certificate of Convenience and Necessity. Consequently, the date of completion for such design shall not be later than December 1, 1998, time being of the essence.

(d) Also, on or before December 1, 1998 Seller will provide Buyer with its estimated cost of the portion of the Project Facilities for which Buyer is agreeing to pay as hereinafter provided and an estimate of the cost of the remaining (Seller's) portion.

3. PROPERTY ACQUISITION: Upon receipt by the Seller of Buyer's written instructions and within the limitations of such, Seller will initiate an effort to acquire easements and other property rights needed in the construction and installation of the Project Facilities, keeping Buyer advised from time to time as to its progress and as to any obstacles encountered in such procurement. Seller's efforts to acquire easements and other property rights shall be made expeditiously and in good faith. With respect to property rights being acquired at Buyer's cost, Seller will not purchase any of them without the costs thereof being approved by the Buyer and will not file condemnation actions without Buyer's direction to do so.

4. BIDDING ON CONSTRUCTION OF PROJECT FACILITIES: Upon receipt of written instructions from Buyer, and within the limitations contained therein which shall not be contrary to law or Seller's written contract bidding procedures, Seller will initiate its construction contract bidding process for the Project Facilities, including the advertising for and the taking of bids in accordance with its invitation to bid.

5. CONSTRUCTION OF PROJECT FACILITIES:

(a) Upon receipt of written instructions from Buyer, Seller will proceed with the awarding (preceded by rebidding if previously submitted bids have expired) of the Project Facilities construction contract(s) to the qualified bidder(s) submitting the lowest and best bid(s).

(b) Seller, using a professional engineering firm, registered in Kentucky, will supervise the construction of the Project Facilities and will complete same to the Point of Delivery no later than eighteen months from the date Seller receives the initial written instructions, set forth in Section 5(a), immediately above, time being of the essence. The completion of construction of the Project Facilities with water service being available at the Point of Delivery is referred to as the "Construction Completion Date".

(c) Delays in construction may cause reasonable extension of the Construction Completion Date provided such delays are the result of unanticipated adverse weather conditions, labor unrest, natural disasters, legal obstacles encountered in easement acquisition or other circumstances beyond Seller's control. Also, if Seller deems it necessary to rebid the construction contract(s) because of the expiration of the previous bids, the Construction Completion Date will be extended to accommodate the delay caused by such rebidding.

6. PROJECT FACILITIES' COSTS ALLOCATION:

(a) Except as otherwise provided in Section 6(c) Buyer agrees to pay the reasonable and necessary costs of design, site acquisition and construction of the Project Facilities, which costs include, but are not limited, to the following:

Consulting Engineering Services
Easement and other Property Rights
Easement Acquisition Agent
Recording of Real Estate Documents
Real Property Appraisals
Miscellaneous Out-of-Pocket Expenses

Bid Publication
Construction Contract(s) Obligations
Materials
Reproduction and Printing
Measurable In-house Engineering Planning,
Design and Construction Administration

(b) In addition, Buyer agrees to pay Seller's costs incurred with respect to the financing of Buyer's share of the Project Facilities, which costs include but are not limited to, financial advisor charges, bond counsel and other legal expenses, printing and other reproduction costs and marketing and travel expenses and pre-issuance financing costs, referenced in Section 7(a), below.

(c) Seller will be responsible for the costs of the design, site location and construction of the pump station and the Shelby County water storage facility. In addition, Seller shall be responsible for the incremental costs of material and installation of any portion of the transmission main, the diameter of which is greater than 36 inches so long as such increase in diameter is not the requirement of Buyer. Provided, however, in the event the Project Facilities are not built, Buyer will reimburse Seller for the design cost of the pump station and the storage facility in return for which Seller will assign all of its right, title and interest in and to such design to Buyer.

7. INVOICING AND PAYMENT OF BUYER'S COSTS:

(a) Inasmuch as most, if not all, of the costs incurred by Seller on Buyer's behalf in the design, property acquisition, bidding, and construction of the Project Facilities can be paid from the proceeds of issuance of tax-free or taxable revenue bonds, contemplated under Sections 8(a) or (b), below, Seller is agreeable to financing all pre-issuance costs with the understanding that it will be reimbursed in full from the bond proceeds for such costs, including its financing costs, to the extent permitted under the terms of the bond issue; otherwise such reimbursement is to be made by Buyer in accordance with Section 8(c), below.

(b) Seller will advise Buyer of its pre-bond issue design, property acquisition and bidding costs. Seller, within 30 days of such advice, will finance the amount thereof anticipating reimbursement from bond proceeds pursuant to Subsection (a), above.

(c) Construction costs, unless paid directly from bond financing proceeds, will be invoiced by Seller to Buyer as incurred with Buyer to be responsible for providing funds to Seller in advance of any construction contract payment deadline relating to progress and final payments.

(d) Seller's cost incurred on Buyer's behalf not reimbursable, or not to be reimbursed, from bond proceeds will be paid by Buyer in full within 30 days of receipt of Seller's invoice.

(e) Buyer reserves the right to dispute costs it deems to be unreasonable but agrees that it will indemnify Seller and hold it harmless for any judgments, settlements, legal fees

and other costs incurred by Seller as a result of Buyer's refusal to pay Seller with respect to a third party claim.

8. FINANCING OF BUYER'S SHARE OF COSTS OF PROJECT FACILITIES:

Buyer agrees to reimburse Seller for all Project Facilities' costs, the cost of which Buyer has assumed hereinabove. Such reimbursement will take one or more of the following forms:

(a) By reimbursing Seller for its costs, including, but not limited to, debt service and issuance costs, through the issuance of tax-free, municipal revenue bonds by the Seller, the proceeds of which are to be used to pay or to reimburse Seller for the Project Facilities' costs, to the extent such costs are eligible for reimbursement from bond proceeds, it being understood that the contemplated bonds will be sold on a competitive bid basis and the bid award will be made by Seller only after consultation with Buyer. Attached hereto and designated Schedule A is a Projected Debt Amortization Schedule which assumes a \$1,000,000 issue, bearing interest at 6% per annum and maturing over a 20 year period, said Schedule being attached for illustrative purposes only; or

(b) Failing the availability of above described tax-free financing, by reimbursing Seller for its costs, including, but not limited to, debt service and cost of issuance, through the issuance of corporate revenue bonds by Seller or Buyer, at Buyer's option, the proceeds of which are to be used to pay or to reimburse Seller for the cost of the Project Facilities, it being understood that the contemplated bonds, if issued by Seller, will be sold on a competitive bid basis with the winning bid to be awarded by Seller only after consultation with Buyer; or

(c) By progress payments from Buyer to Seller to be made within 30 days of invoice, the first such payment to be made within thirty days of Buyer's written advice that no bond issue financing is to be pursued and to be in an amount equal to the sum of all amounts previously incurred by Seller including those financed pursuant to Section 7(a), above, plus the financing cost thereof. The provisions of this subsection also shall be applicable to invoices from Seller that are later determined to be ineligible for reimbursement from bond proceeds.

(d) If Seller's bond instruments permit prepayment of part or all of the debt obligation, and if Buyer is not in default of any of its payments to Seller under this Section and Section 11 of this Agreement, then Buyer has the right to instruct Seller on a timely basis to exercise the prepayment privilege and shall simultaneously pay to Seller the amount of the prepayment needed, including premium, if any, to remit to the holders of the debt instruments being redeemed and any redemption expenses.

(e) Failure of Buyer to provide Seller with readily available funds in time to meet any debt payment requirements or construction contract obligation will result in a 5% penalty on the delinquent amount to be added to such delinquent payment for each month or partial month such payment and penalties thereon are delinquent.

(f) The parties understand and agree that the pledge securing the proposed revenue bonds will be Buyer's promise to pay the debt service thereon. Buyer agrees to cooperate

with Seller in good faith in preparing for and marketing the bond issue, including, but not limited to, the meeting of all disclosure requirements..

9. SERVICE AT THE POINT OF DELIVERY:

(a) Condition. Seller will provide Buyer Service at the Point of Delivery, which meets or exceeds all applicable drinking water standards in effect at the time of delivery.

(b) Flow Rate and Pressure. Seller shall design and construct the Project Facilities to make them capable of delivering water to Buyer at the Point of Delivery having a flow rate of up to 23 million gallons per day and water pressure of not less than thirty pounds per square inch (30 psi).

(c) Rate of Flow Demand. While Buyer is reserving up to 23 million gallons per day of Seller's production capacity, its requirements will be, as presently contemplated, substantially less than that during much of the duration of this Agreement. Such is recognized in Exhibit B, referenced in Section 11, setting forth the parties' rate arrangements. Nevertheless, Buyer may at any time and from time to time be in need of 23 million gallons per day, or significant portions thereof. At the same time, Seller desires as much advance notice as it can get with respect to any significant demand increase by Buyer in order that Seller's operations will not be adversely affected by a sudden, out of the ordinary demand on its production and transmission facilities. With such in mind, the parties pledge to each other open communications, from the Buyer to the Seller of any operational situations that may cause it to significantly increase its water needs in the near future; i.e. plant/equipment outage, drought predictions, etc., and from Seller to Buyer of Seller's operational situations that might adversely affect Seller's ability to immediately respond to any sudden need of Buyer for a significant increase in volume of water at the Point of Delivery, i.e. plant/equipment outages, planned and unplanned, and other factors that might affect its ability to deliver water. Regardless, Seller agrees to supply Buyer's demands, as same may be altered from time to time, and with reference to any sudden significant demand increase, as soon as possible after notification by Buyer, barring problems beyond Seller's control.

(d) Service to Others. Seller warrants and represents that any water service to others prior to the Point of Delivery provided through or from the Project Facilities shall not interfere with its service or diminish its obligations to the Buyer under this Agreement.

(e) Failures. Buyer acknowledges that unexpected supply or treatment problems may occur which are beyond Seller's control. In the event Seller, when called upon, is unable to provide Buyer with Service under the terms of this Agreement for reasons beyond Seller's control, Seller shall use its best efforts to restore the Service to the quality, rate of flow and pressure required. Time is of the essence in all situations where such failure and duty of restoration exists. In the event delivery problems limit or prevent the delivery of water to any of Seller's other customers, then Seller agrees that any restrictions, placed by it or upon it by others as to water delivery, shall apply to the Buyer in the same manner as applied by Seller to other customers.

10. METERING ARRANGEMENTS: Seller agrees to furnish, install, maintain, repair and replace at the Point of Delivery a service meter or battery of meters, including meter house or vault, for properly measuring the quantity of water being delivered to Buyer and to test such metering equipment whenever requested by Buyer but no more frequently than once every six months with the results of such tests provided to Buyer. Buyer may require Seller to conduct tests more often than every six months, but at its own expense. A meter registering between 98.5% and 101.5% of the actual flow shall be deemed to be accurate. Previous readings of any meter disclosed by test to be inaccurate shall be corrected for three months previous to such test in accordance with the percentage of inaccuracy found by such test. 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 immediately prior to the failure, unless Seller and Buyer shall agree otherwise. An appropriate official of the Buyer shall have access to the meter at reasonable times for the purpose of inspecting and reading such metering facilities.

11. RATES AND PAYMENT:

(a) Buyer shall pay Seller for the Service as determined by the methodology set forth in Exhibit B, attached hereto and incorporated herein, Buyer agreeing that the rate-making methodology contained therein is reasonable for the anticipated annual rate adjustment filings by the Seller with the Kentucky Public Service Commission relating to the provision of Service under this Agreement.

(b) Buyer's meter will be read at the end of each month of Service and shall be invoiced by Seller in accordance with the provisions of Exhibit B, provided, however, the rate paid by Buyer for Service shall never exceed Seller's Wholesale Rate plus its Elevated Service Area Surcharge, if applicable, as adjusted from time to time.

(c) Buyer shall remit payment to Seller for each invoice no later than the 30 calendar days following the mailing or facsimile transmission of such invoice. Failure to make timely payments will cause a penalty of five percent (5%) per month or partial month on each invoice remaining unpaid. Buyer shall have the option of paying such monthly invoices by automatic bank drafts.

12. RESERVATION OF CAPACITY: Seller reserves production capacity to Buyer of 23 million gallons per day (flow rate) for the term of this Agreement.

13. RIGHT TO INCREASE DELIVERY CAPACITY OF PROJECT FACILITIES:

(a) Recognizing that the Project Facilities being financed by Buyer will have a delivery capacity of 23 million gallons of water per day and further recognizing that the Seller financed additions thereto of a pumping station, a Shelby County storage facility and main upsizing will make the Project Facilities expandable to 35 million gallons per day, Seller hereby agrees to give Buyer the right, and the right of first refusal, to acquire up to all of the additional 12 million gallons per day capacity on the following terms and conditions:

(i) When Seller receives a bona fide, acceptable proposal to sell water service from or through the Project Facilities, it will notify Buyer in writing who will have 60 days to exercise its right of first refusal for the acquisition of the capacity contemplated in such proposal. If Buyer chooses to acquire the additional capacity offered, or on its own volition to acquire additional available capacity, it will be obligated as follows:

(ii) To pay Seller a percentage of the then book value of the Seller-financed part of the Project Facilities and any improvements made thereto that is represented by the capacity being acquired as same relates to the total 12 million gallons per day available.

(iii) Pay to Seller all costs incurred by it in any upgrading of the Project Facilities needed to provide the increase in rate of flow to the Point of Delivery.

(iv) To an increase in its Exhibit B capacity Request in an amount equal to the increased daily capacity being acquired, effective at the time that the Seller has made the increase available at the Point of Delivery, it being understood that Seller will make such increased capacity available no later than 12 months from the date of exercise of the right.

(v) To an increase in its Exhibit B minimum monthly usage by an amount equal to 50% of the increased monthly capacity being acquired, effective at the same time the Request increase takes effect.

(b) Upon Buyer's exercise of its rights set forth above in this Section 13, Seller will consider, at Buyer's request, issuance of Seller's debt instrument(s) to finance Buyer's obligations under subsection (a)(ii) and (iii), above, an issuance similar to that contemplated in Section 8(a).

14. ADDITIONAL EXPANSION BY SELLER: Seller agrees that before undertaking any expansion or enlargement of any of the Project Facilities or the Payne plant treatment capacity, it will notify Buyer of its intention to do so and will afford Buyer with a reasonable opportunity to participate in the expansion or enlargement upon terms and conditions mutually agreeable.

15. NOTICE: In addition to the communications called for in subsection 9(c), Buyer will timely notify Seller of any condition or situation, which would adversely affect the quality, quantity or pressure of the water in Seller's system and, likewise, Seller will timely notify Buyer of any condition or situation, which would adversely affect the quality, quantity or pressure of the water at the Point of Delivery.

16. TERM AND EXTENSIONS: The term of this Agreement shall begin on the date it is executed by both parties hereto and shall terminate 50 years after the date Service is initiated. The parties shall execute an addendum showing the date Service is initiated and the termination date 50 years later. One year prior to the termination date the parties hereto shall begin to negotiate in good faith an extension of this Agreement with due and proper consideration for the principles and concepts contained herein, being mindful that the parties are hopeful that their relationship, created herein, will be one of mutual benefit and respect that will last longer than the initial 50 year term.

17. BUYER'S REPRESENTATION AND WARRANTY:

Buyer is a Kentucky corporation with the authority to enter into this Agreement, subject to regulatory approval, and has the authority to perform under the terms of this Agreement.

18. SELLER'S REPRESENTATION AND WARRANTY:

Seller is a Kentucky corporation with the statutory authority through the Board of Water Works to enter into this Agreement and to perform under the terms of this Agreement.

19. TERMINATION:

(a) Buyer may terminate this Agreement upon six (6) months written notice in the event of:

(1) Repeated failure of Seller to provide the Service set forth in this Agreement.

(2) Revocation of Seller's authority to do business.

(b) Seller may terminate this Agreement upon six (6) months written notice in the event of:

(1) Failure of Buyer to deliver to Seller written instructions to proceed with the construction of the Project Facilities within six months of receipt by Buyer of a final, nonappealable Order from the PSC in the form of a Certificate that public convenience and necessity requires the construction.

(2) Buyer's failure to receive after five or more years from the date of this Agreement a final, nonappealable Order, referenced in subsection (1), immediately above, unless at the time of such termination election by Seller, Buyer is pursuing, and continues to pursue, in good faith and with reasonable diligence the desired PSC Order.

(3) Repeated failure of Buyer to pay its invoices for water service on a timely basis.

(4) Repeated failure of Buyer to pay on a timely basis its debt service obligations to Seller, time being of the essence in that regard.

(5) Revocation of Buyer's authority to do business.

20. MISCELLANEOUS PROVISIONS:

(a) This Agreement is subject to the approval of the PSC and receipt by Buyer of a final, nonappealable Order, in a form and written content acceptable to Buyer, from the PSC

in the form of a Certificate of Convenience and Necessity for the facilities to be constructed pursuant to this Agreement. Provided, however, failure to obtain such an Order shall not relieve Buyer of its duties hereunder to reimburse Seller for costs incurred pursuant to the provisions of Sections 2, 3 and 4, above. In the event such Order alters, directly or indirectly, one or more provisions of this Agreement (including the one or more provisions of Exhibit B) and such modification(s) is not acceptable to either party, then this Agreement terminates so long as the terminating party communicates such action to the other party within 60 days of receipt of such Order.

(b) This Agreement does not constitute a partnership, joint venture, agency or other relationship between Buyer and Seller, and Buyer and Seller expressly state that they owe no fiduciary duties to one another and that the relationship is based upon Contract.

(c) This Agreement is binding on the successors and assigns of the parties hereto.

(d) The parties agree that each will have access upon reasonable notice to the books and records of the other relating to the subject matter of this Agreement, such access to exclude records that are subject to a recognized privilege or to protection under the Kentucky Open Records Law. Without limitation, the information subject to access shall include all costs of design, construction, financing, and costs of operation and maintenance of the facilities contemplated by this Agreement.

(e) Buyer reserves the right to develop and use other water supply sources and may obtain water from sources other than the Seller.

(f) The parties agree to operate and maintain their respective facilities in an efficient and economical manner and in accordance with all applicable local, state and federal laws, regulations and performance standards.

(g) This Agreement may be amended at any time by mutual agreement, in writing, of the parties.

(h) Both parties agree to use their best efforts to obtain all regulatory and legal approvals required for the accomplishment of the terms of this Agreement.

(i) The parties acknowledge that the water to be purchased hereunder will be resold in the regular course of business of Buyer and is therefore exempt from Kentucky sales and use tax. To evidence this exemption, Buyer will furnish Seller with a duly executed "Resale Certificate" or such other documentation as the parties deem appropriate.

(j) Seller agrees, subject to its right hereby reserved to self-insure itself up to the first Two Million Dollars in liability, to carry public liability insurance in the minimum amount of Ten Million Dollars per occurrence during the term of this Agreement.

IN WITNESS WHEREOF, the parties have set forth their hand the day and year first above written.

BUYER:

SELLER:

Kentucky-American Water Company

Louisville Water Company

By: Roy W. Mundy, II

By: John L. Huber

Roy W. Mundy, II

John L. Huber

President

President

Date: November 7, 1998

Date: November 12, 1998

Attest: Herbert A. Miller, Jr.

Attest: Robert K. Miller

Name: Herbert A. Miller, Jr.

Name: Robert K. Miller

Secretary

UT1.D2075:015.jrc

F:\USERS\015\LVCKYAMEWAT.A13

Schedule A

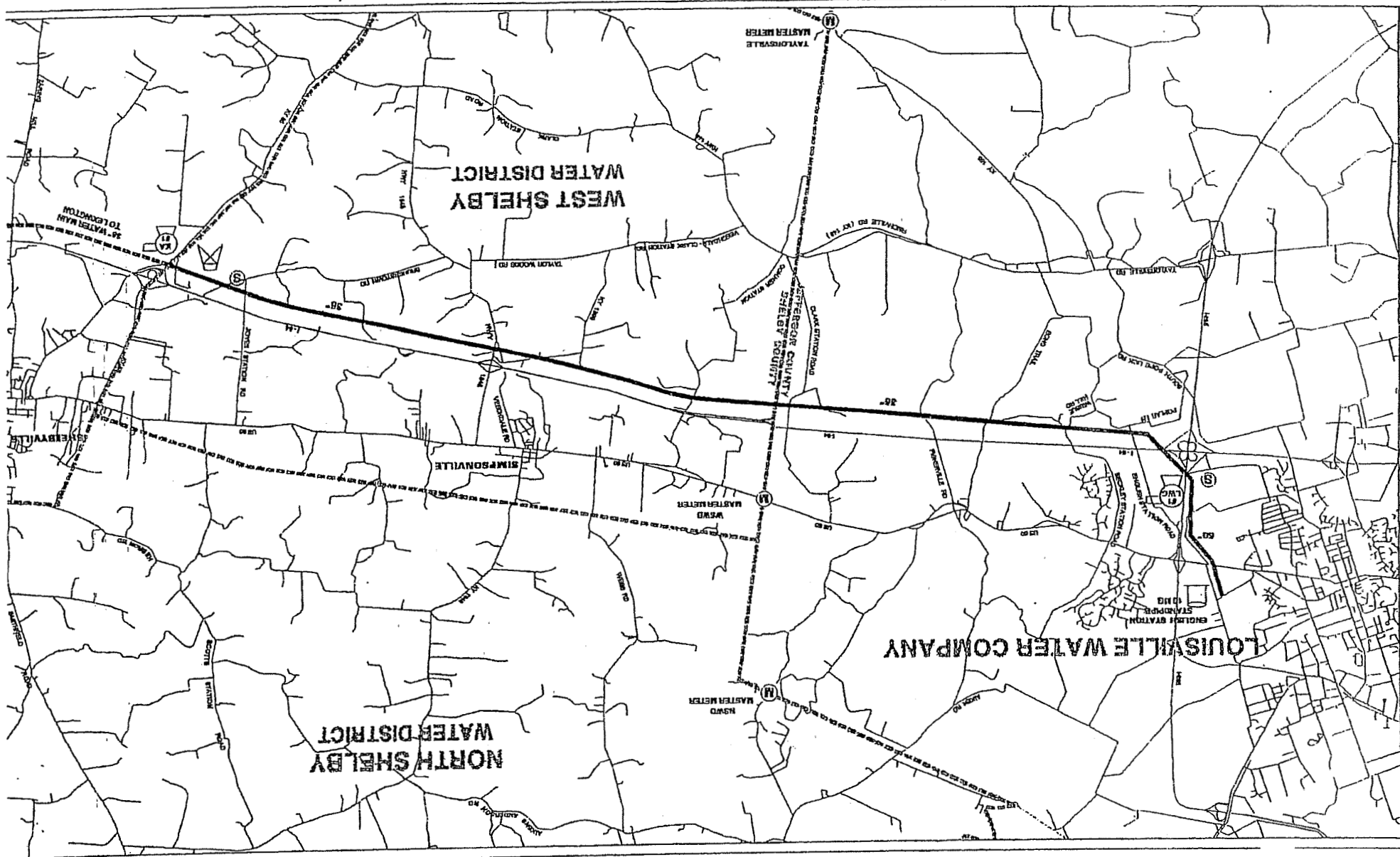
Bluegrass Water Project Agreement

Projected Debt Amortization Schedule
per \$1,000,000 of debt with level debt service payments
at 6% interest for 20 years

Year	Beginning Balance	Interest	Principal	Ending Balance
1	\$ 1,000,000	\$ 60,000	\$ 27,185	\$ 972,815
2	\$ 972,815	\$ 58,369	\$ 28,816	\$ 944,000
3	\$ 944,000	\$ 56,640	\$ 30,545	\$ 913,455
4	\$ 913,455	\$ 54,807	\$ 32,377	\$ 881,078
5	\$ 881,078	\$ 52,865	\$ 34,320	\$ 846,758
6	\$ 846,758	\$ 50,805	\$ 36,379	\$ 810,379
7	\$ 810,379	\$ 48,623	\$ 38,562	\$ 771,817
8	\$ 771,817	\$ 46,309	\$ 40,876	\$ 730,942
9	\$ 730,942	\$ 43,857	\$ 43,328	\$ 687,614
10	\$ 687,614	\$ 41,257	\$ 45,928	\$ 641,686
11	\$ 641,686	\$ 38,501	\$ 48,683	\$ 593,002
12	\$ 593,002	\$ 35,580	\$ 51,604	\$ 541,398
13	\$ 541,398	\$ 32,484	\$ 54,701	\$ 486,697
14	\$ 486,697	\$ 29,202	\$ 57,983	\$ 428,715
15	\$ 428,715	\$ 25,723	\$ 61,462	\$ 367,253
16	\$ 367,253	\$ 22,035	\$ 65,149	\$ 302,104
17	\$ 302,104	\$ 18,126	\$ 69,058	\$ 233,045
18	\$ 233,045	\$ 13,983	\$ 73,202	\$ 159,843
19	\$ 159,843	\$ 9,591	\$ 77,594	\$ 82,249
20	\$ 82,249	\$ 4,935	\$ 82,250	\$ (0)



EXHIBIT A
BLUEGRASS WATER PROJECT



WATER SUPPLY AGREEMENT

EXHIBIT B

Rate Arrangements

Because of the unusual situation impacting upon the relationship, i.e. Buyer owning and operating production facilities sufficient, much of the time, to meet its present needs but desiring a second reliable source of water, and Seller presently having production capacity available and being asked to commit to Buyer more capacity than Buyer plans to use for a number of years, the parties have developed the rate arrangements set forth below.

1. Buyer's Capacity Request. On or before July 1 of each calendar year, beginning with the year preceding the first full calendar year of Service, Buyer will notify Seller in writing of its capacity request (the "Request") for the succeeding calendar year, which Request may be any number between 2.5 million gallons per day and 23 million gallons per day; provided, however, Buyer's Request, beginning in the sixth full calendar year of service must be at least 5 million gallons per day. Buyer's Request for the first partial calendar year of service delivered under this Agreement, assuming the initial Service commences after January 1 of any calendar year and the first full calendar year is set at 2.5 million gallons per day unless such amount is raised on a timely basis by Buyer. Subsequent Requests for the next four full calendar years will not be less than 3 million gallons per day for the second full calendar year, 3.5 million gallons per day for the third, 4 million gallons per day for the fourth and 4.5 million gallons per day for the fifth full calendar year.

2. Water Service Rate. The rate for the Service for the term of the Agreement shall be determined by totaling the following components:

(a) The Operating Expense Component, determined for the billing period by dividing the Buyer's usage by the Seller's total sales and multiplying the quotient by Seller's Operating Expenses, less expenses common only to retail customer expenses and to customers generally.

(b) The Depreciation Expense Component, determined for the billing period by dividing the Buyer's Request by the Seller's production capacity and multiplying the quotient by the Seller's Depreciation Expense, less depreciation on contributed capital and depreciation common only to retail customers and to customers generally.

(c) The Return on Plant Investment Component, determined for the billing period by dividing the Buyer's Request by the Seller's production capacity and multiplying the quotient by Seller's Return on Plant Investment, excluding return on plant investment common only to retail customers and to customers generally.

(d) Customer Cost Component, determined for the billing period by the Service Charge, as it may change from time to time, currently contained in Section 6.02.1 of Seller's rate schedule, applied to the number and size of meters installed at Buyer's request.

3. Minimum Usage. Minimum usage of water during the first full calendar year of Service, and for any months of Service prior thereto, shall be, for the months of January, February, March, April, November and December (the "Nonirrigation Months") 36 million gallons per month and for the months of May through October (the "Irrigation Months") 54 million gallons per month. Buyer will be billed for such minimum usage if same is not consumed by it. During the second full calendar year, the minimum usage for the Nonirrigation Months shall be 38.4 million gallons per month and for the Irrigation Months, shall be 57.6 million gallons per month. For the third full calendar year, the minimum usage of water during the Nonirrigation Months shall be 40.8 million gallons per month and 61.2 million gallons per month for the Irrigation Months. For the fourth full calendar year, the minimum usage for water during the Nonirrigation Months shall be 43.2 million gallons per month and for the Irrigation months, 64.8 million gallons per month. During the fifth full calendar year of Service, the minimum usage of water during the Nonirrigation Months shall be 45.6 million gallons per month and during the Irrigation Months, 68.4 million gallons per month. Thereafter, for the remaining months of the Agreement the minimum usage shall be 54.0 million gallons per month for the Nonirrigation months and 66 million per month for the Irrigation months. However, in determining whether Buyer has met its minimum usage for any month, only daily usage by Buyer up to its capacity Request, then in effect, will be considered, usage exceeding such Request not to be included in such computation.

4. Usage Exceeding Request. Usage of water during any 24 hour period in excess of Buyer's Request will result in a charge to Buyer, with respect to the excess consumption, of Seller's Wholesale Rate, as set by the Board of Water Works from time to time, including its Elevated Service Area Surcharge (which Rate, including the surcharge, is presently \$1.35 per 1000 gallons).

5. Emergency Excess or Minimum Usage. In the event Buyer's usage is enhanced or diminished for a brief period of time due to unforeseeable or uncontrollable circumstances, for example emergency flushing, Seller agrees to equitably adjust Buyer's Service billing with respect to such emergency.

6. Supporting and Explanatory Schedules. Attached to this Exhibit B are the following described supporting and explanatory schedules:

(a) Schedule 1, entitled Calculation of Rate Components where a Request of 2.5 million gallons per day is in effect and making references to schedules found in "Seller's 1997 Rate Study for 1998."

(b) Schedule 2, relating to the Operating Expense Component.

(c) Schedule 3, relating to the Depreciation Expense Component.

(d) Schedule 4, relating to the Return on Plant Investment Component.

(e) Schedule 5, entitled Calculation of Monthly Water Bill Example.

7. Seller's Production Capacity. As shown in Schedule 1, attached, Seller's present daily production capacity has been determined to be 240,000,000 gallons, based upon data contained in Seller's 1995-2015 Facilities Plan, prepared by CH2M Hill a nationally recognized independent consulting engineering firm. Seller agrees to have its production capacity reviewed and redetermined, at least every five years during the term of this Agreement by a nationally recognized independent consulting engineering firm and the redetermination used in Exhibit B computations [Sections 2(b) and 2(c)]. Production capacity, for the purposes of this Agreement, shall mean Seller's combined source pumping, treatment, and treated water pumping capability as determined from its facilities existing at the time of such determination. Provided, however, such capacity, for the purposes of the annual computations to be made pursuant to Section 2 of this Exhibit B, shall never be lower than 240,000,000 gallons.

8. Computations. The computations contained in the attached Schedules are based upon Seller's 1997 Rate Study For FY 1998, using Seller's historical and current financial and operational records, such financial records being prepared in accordance with generally accepted accounting principles, audited annually by a reputable certificated public accounting firm and constitute the same figures used by Seller in preparing its 1998 budget, approved by the Board of Water Works and submitted to Seller's bondholder trustee, an annual exercise. Annual rate revisions will be performed using Seller's budget figures.

UT1.D2075:015.jrc
F:\USERS\015\LC\WATSUPP8.SCB

EXHIBIT B

10/8/98

Schedule 1

LWC - KAWC WATER SUPPLY AGREEMENT
Calculation of Rate Components

Request (1,000 Gal.)

2,500

Divided by: LWC Production Capacity (1,000 Gal.)

240,000

Request / Production Capacity Quotient

1.042%

CALCULATION OF OPERATING EXPENSE COMPONENT

Net Operating Expenses	Utility Rate Schedule 2; Column 1; Line 50.	\$ 31,220,800
Less: Common to Retail Customer Costs	Utility Rate Schedule 2; Column 7; Line 50.	(5,127,330)
Customer Costs	Utility Rate Schedule 2; Column 6; Line 50.	(9,803,200)
Operating Cost		\$ 16,290,270
Divided by: LWC's Annual System Sales (1,000 Gal.)	Utility Rate Schedule 1; Column 3; Line 4.	37,000,000
Operating Expense Component Quotient (per 1,000 Gal.)		\$ 0.44028

CALCULATION OF DEPRECIATION EXPENSE COMPONENT

Depreciation Expense	Utility Rate Schedule 3; Column 1; Line 19.	\$ 11,010,480
Less: Common to Retail Customer Costs	Utility Rate Schedule 3; Column 7; Line 19.	(2,940,510)
Customer Costs	Utility Rate Schedule 3; Column 6; Line 19.	(2,663,010)
Depreciation - Plant Funded by CIAC	Utility Rate Schedule 3.	(632,290)
Depreciation Cost		\$ 4,774,670
Multiplied by: Request / Production Capacity Quotient		1.042%
Annual Depreciation Expense Component		\$ 49,752.06
Divided by: 12-Months		12
Monthly Depreciation Expense Component		\$ 4,146.01

CALCULATION OF RETURN ON PLANT INVESTMENT COMPONENT

LWC's Return on Plant Investment	Utility Rate Schedule 4; Column 1; Line 24.	\$ 28,585,310
Less: Common to Retail Customer Costs	Utility Rate Schedule 4; Column 7; Line 24.	(7,164,740)
Customer Costs	Utility Rate Schedule 4; Column 6; Line 24.	(1,488,140)
Net Return on Plant Investment		\$ 19,932,430
Multiplied by: Request / Production Capacity Quotient		1.042%
Annual Return on Plant Investment Component		\$ 207,695.92
Divided by: 12-Months		12
Monthly Return on Plant Investment Component		\$ 17,307.99

CUSTOMER COST COMPONENT

Example based on one 6" meter	\$ 259.00
-------------------------------	-----------

USAGE EXCEEDING REQUEST COMPONENT

Usage of water during any 24 hour period in excess of KAWC's Request will result in a charge to KAWC, with respect to excess consumption, of LWC's Wholesale Rate including its Elevated Service Area Surcharge.

\$ 1.35

COMPUTATION OF TOTAL WATER BILL

The monthly water bill will be the sum of the following charges: operating expense component; depreciation expense component; return on plant investment component; customer cost component; and the usage exceeding request component.

Schedule 2

UTILITY RATE

ALLOCATION OF LOUISVILLE WATER COMPANY ESTIMATED NET OPERATING EXPENSE TO FUNCTIONAL COST COMPONENTS
YEAR ENDED DECEMBER 31, 1998 (IN THOUSAND DOLLARS)

LINE NO.	ITEM	NET OPERATING EXPENSE	ELEVATED SERVICE AREA	BASE	COMMON TO ALL CUSTOMERS		CUSTOMER	COMMON TO ONLY RETAIL CUSTOMERS
					EXTRA CAPACITY MAXIMUM DAY	MAXIMUM HOUR		
1)	SOURCE OF SUPPLY	52.44		36.31	16.13			
2)	POWER AND PUMPING							
3)	Zorn Station, Power	866.07		866.07				
4)	Zorn Station, Other	427.14		295.76	131.38			
5)	Crescent Hill Station, Power	743.19		743.19				
6)	Crescent Hill Station, Other	434.68		269.42		165.26		
7)	B.E. Payne Station, Raw Water, Power	113.98		113.98				
8)	B.E. Payne Station, Raw Water, Other	178.51		123.61	54.91			
9)	B.E. Payne Sta., Finished Water, Power	645.90	322.95	322.95				
10)	B.E. Payne Sta., Finished Water, Other	207.41	103.70	64.28		39.43		
11)	Boosting Pumping, Power	180.86	171.82	9.04				
12)	Boosting Pumping, Other	496.64	397.31	61.56		37.76		
13)	Total Power and Pumping	4,294.38	995.78	2,869.87	186.28	242.45	0.00	
14)	PURIFICATION							
15)	Chemicals, B.E. Payne	977.05		977.05				
16)	Chemicals, Crescent Hill	308.54		308.54				
17)	Purification, Other	3,707.65		2,567.27	1,140.38			
18)	Total Purification	4,993.24	0.00	3,852.86	1,140.38	0.00	0.00	
19)	TRANSMISSION AND DISTRIBUTION							
20)	Transmission Mains	712.95		493.66	219.28			
21)	Distribution Mains	1,789.04						1,789.04
22)	Distribution Storage, Res. & Tanks	23.09	20.78	1.43		0.88		
23)	Services	1,126.75					1,126.75	
24)	Meters	485.12					485.12	
25)	Hydrants	290.26						290.26
26)	Transmission & Distribution Subtotal	4,427.20	20.78	495.09	219.28	0.88	1,611.87	2,079.30
27)	Percent	100.00%	0.47%	11.18%	4.95%	0.02%	36.41%	45.97%
28)	General Transmission and Distribution	5,052.32	23.71	565.00	250.25	1.00	1,839.47	2,372.89
29)	Total Transmission and Distribution	9,479.52	44.49	1,060.09	469.53	1.88	3,451.34	4,452.19
30)	CUSTOMER ACCOUNTS AND SERVICE							
31)	Supervision	201.12						
32)	Meter Reading	1,025.39						
33)	Customer Records	3,983.47						
34)	Uncollected Accounts	275.00						
35)	Miscellaneous Customer Accounts	96.82						
36)	Total Customer Accounts & Service	5,581.80					5,581.80	
37)	Subtotal	24,401.37	1,040.27	7,819.13	1,812.32	244.33	9,033.14	4,452.19
38)	Percent	100.00%	4.26%	32.04%	7.43%	1.00%	37.02%	18.25%
39)	ADMINISTRATIVE AND GENERAL							
40)	Administrative and General	12,610.53						
41)	Labor Related Overhead	8,853.50						
42)	Less: Operating Expenses Applied	(12,262.30)						
43)	Total Administrative and General	9,201.73	392.28	2,948.59	683.42	92.14	3,406.39	1,678.91
44)	Total	33,603.10	1,432.55	10,767.72	2,495.74	336.46	12,439.52	6,131.10
45)	Free Water in Lieu of Taxes	963.70		963.70				
46)	Amortization	(80.90)		(80.90)				
47)	Retirement of Assets	750.00		232.43		142.57	375.00	
48)	Total Operating Expenses	35,235.90	1,432.55	11,882.95	2,495.74	479.03	12,814.52	6,131.10
49)	Other Operating Income	(4,015.10)					(3,011.33)	(1,003.78)
50)	Net Operating Expense	31,220.80	1,432.55	11,882.95	2,495.74	479.03	9,803.20	5,127.33

Schedule 3

UTILITY RATE

ALLOCATION OF LOUISVILLE WATER COMPANY ESTIMATED DEPRECIATION EXPENSE TO FUNCTIONAL COST COMPONENTS
YEAR ENDED DECEMBER 31, 1998 (IN THOUSAND DOLLARS)

LINE NO.	ITEM	TOTAL DEPRECIATION EXPENSE	ELEVATED SERVICE AREA	BASE	COMMON TO ALL CUSTOMERS			COMMON TO ONLY RETAIL CUSTOMERS
					EXTRA CAPACITY MAXIMUM DAY	MAXIMUM HOUR	CUSTOMER	
1)	Land	895.57	17.31	614.97	200.07	13.48	49.73	
2)	Land Improvements and Buildings	359.24		248.75	110.49			
3)	Basins and Ground Storage	162.42	43.90	73.48		45.06		
4)	Standpipes and Elevated Storage	204.84	19.21	128.54	57.09			
5)	High Service Pumps and Equipment	34.93	24.17	8.67		4.09		
6)	Booster Pump Equipment	48.65		33.69	14.96			
7)	Miscellaneous Pump Equipment	64.48		64.48				
8)	Sludge Disposal Equipment	536.44		371.44	165.00			
9)	Purification Equipment	2,122.63		1,469.76	652.87			
10)	Transmission Mains	1,971.82						1,971.82
11)	Distribution Mains	357.76					357.76	
12)	Meters	1,302.41					1,302.41	
13)	Services	447.05					447.05	
14)	Meter Installations	409.90						409.90
15)	Fire Hydrants							
16)	Sub-total	8,918.14	104.59	3,011.76	1,200.49	62.63	2,156.95	2,381.72
17)	Percent	100.00%	1.17%	33.77%	13.46%	0.70%	24.19%	26.71%
18)	General and Other Equipment	2,092.34	24.54	706.61	281.65	14.69	506.06	558.79
19)	TOTAL	11,010.48	129.13	3,718.37	1,482.14	77.33	2,663.01	2,940.51

Schedule 3

Schedule 4

UTILITY RATE

ALLOCATION OF ESTIMATED LOUISVILLE WATER COMPANY NET INVESTMENT (1998) INCLUDING WORK-IN-PROGRESS (THOUSAND DOLLARS)

LINE NO.	ITEM	NET PLANT INVESTMENT	ELEVATED SERVICE AREA	BASE	COMMON TO ALL CUSTOMERS		CUSTOMER	COMMON TO ONLY RETAIL CUSTOMERS
					EXTRA CAPACITY MAXIMUM DAY	EXTRA CAPACITY MAXIMUM HOUR		
1)	Land	4,827.66	133.83	2,817.58	889.91	107.15	879.19	
2)	Land Improvements and Buildings	34,449.56	448.15	20,410.16	6,446.36	776.15	6,368.74	
3)	Basins and Ground Storage	9,866.34		6,831.71	3,034.63			
4)	Standpipes and Elevated Storage	5,457.51	1,711.29	2,321.96		1,424.26		
5)	High Service Pumps and Equipment	6,127.01	543.55	3,866.13	1,717.33			
6)	Booster Pump Equipment	1,025.46	733.14	181.18		111.14		
7)	Miscellaneous Pump Equipment	3,510.21		2,430.58	1,079.65			
8)	Sludge Disposal Equipment	1,704.07		1,704.07				
9)	Purification Equipment	18,576.16		12,862.62	5,713.54			
10)	Transmission Mains	148,269.67		102,665.77	45,603.90			
11)	Distribution Mains	102,856.67						102,856.67
12)	Meters	2,887.58					2,887.58	
13)	Services	40,176.18					40,176.18	
14)	Meter Installations	13,588.90					13,588.90	
15)	Fire Hydrants	16,854.21						16,854.21
16)	Sub-total	410,177.19	3,569.96	156,091.75	64,485.33	2,418.69	63,900.59	119,710.88
17)	Percent	100.00%	0.87%	38.05%	15.72%	0.59%	15.58%	29.19%
18)	Gen. Plant & Unamortized Capital Charges	10,906.02	94.92	4,150.25	1,714.57	64.31	1,699.02	3,182.94
19)	Total Plant	421,083.21	3,664.88	160,242.00	66,199.90	2,483.00	65,599.61	122,893.82
20)	Other Rate Base Items (1)	9,451.20	82.26	3,596.63	1,485.85	55.73	1,472.38	2,758.35
21)	Sub-total	430,534.41	3,747.14	163,838.63	67,685.75	2,538.73	67,071.99	125,652.17
22)	Contributions and Grants (2)	(132,149.10)		(24,183.29)			(51,538.15)	(56,427.67)
23)	Total Net Plant Investment	298,385.31	3,747.14	139,655.35	67,685.75	2,538.73	15,533.84	69,224.50
	Annual Return @ 9.58%	28,585.31	358.98	13,378.98	6,484.30	243.21	1,488.14	7,164.71

1. Line 20, "Other Rate Base Items", includes: Materials - \$3,500,000, Prepayments - \$250,000, and Working Capital - \$5,701,200 for a total of \$9,451,200.

2. Line 22, "Contributions and Grants", excludes federal government grants of \$3,550,900.

Schedule 4
11/25/97

Schedule 5
LWC - KAWC Water Supply Agreement
Calculation of Monthly Water Bill Example

Monthly Minimum Usage (1,000 Gal.)
Buyer's Daily Request (1,000 Gal.)

45,000
2,500

Day	Daily Usage (1,000 Gal.)	Usage Exceeding Request (1,000 Gal.)
1	1,500	0
2	1,500	0
3	2,000	0
4	2,000	0
5	3,000	500
6	3,000	500
7	4,000	1,500
8	4,000	1,500
9	5,000	2,500
10	5,000	2,500
11	6,000	3,500
12	6,000	3,500
13	7,000	4,500
14	7,000	4,500
15	8,000	5,500
16	8,000	5,500
17	9,000	6,500
18	9,000	6,500
19	10,000	7,500
20	10,000	7,500
21	9,000	6,500
22	9,000	6,500
23	8,000	5,500
24	8,000	5,500
25	7,000	4,500
26	7,000	4,500
27	6,000	3,500
28	6,000	3,500
29	5,000	2,500
30	5,000	2,500
Totals	181,000	109,000
Usage Within the Request (1,000 Gal.)		72,000
Multiplied by: Operating Expense Component Quotient (per 1,000 Gal.)		\$ 0.44028
Operating Expense Component		\$ 31,700.16
Usage Exceeding Request (1,000 Gal.)		109,000
Multiplied by: Seller's Wholesale Rate (per 1,000 Gal.)		\$ 1.35
Usage Exceeding Request Component		\$ 147,150.00
Operating Expense Component		\$ 31,700.16
Depreciation Expense Component		4,146.01
Return on Plant Investment Component		17,307.99
Usage Exceeding Request Component		147,150.00
Customer Cost Component		259.00
Monthly Water Bill		\$ 200,563.16
Monthly Water Bill / Buyer's Usage for Month (1,000 Gal.)		\$ 1.10808
Monthly Debt Service Cost		\$ XXX,XXX.XX
Total		\$ XXX,XXX.XX

JUN-22-1998 11:55

KAWC

P.01/03



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502

606-269-2386

TELECOPY TRANSMITTAL SHEET

FAX No. (606) 268-6327

We have a Sharp Model FO-800 Facsimile

DATE:

June 22, 1998

COMPANY:

Louisville Water Co.

HAND TO:

John Huber

FROM:

Roy Munday

Number of pages, including cover: 3

If you have any problems with receiving, please call:

Phone: 606-268-6326 Ask for: Pat Ballard

Hard copy mailed: yes ☒ no ☐

PLEASE DELIVER TO THE ABOVE NAMED PERSON IMMEDIATELY.

The information contained in this transmission is privileged, confidential and intended only for the use of the individual or entity named above. If you have received this communication in error, please notify Kentucky-American Water Company immediately by telephone, collect and return the original message to us at the address shown via the U.S. Postal Service. You will be reimbursed for the required postage. Thank you.

MESSAGE:



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502
(606) 268-6320 • Fax (606) 268-6327

Roy W. Mundy II
President

June 19, 1998

Mr. John Huber, President
Louisville Water Company
435 South Third Street
Louisville, Kentucky 40202

Dear John:

Thank you again for the hard work you and your staff have put into our negotiations toward the water purchase agreement between the Louisville Water Company and Kentucky-American Water Company. My purpose in writing is to state the current position of KAWC regarding what I consider to be our only significant remaining issue, and to make a suggestion as to how we might bring these issues to a close.

POINT OF DELIVERY:

We are in agreement with your request to move the point of delivery to the intersection of Interstate Highway 64 and Kentucky Highway 55. Our understanding is that this request includes a 25-MGD pump station and water storage tank designed and installed entirely at the expense of LWC (tank capacity to be determined).

**ADDITIONAL 12 MGD OF CAPACITY CREATED BY PUMP STATION AND TANK
REFERENCED ABOVE:**

We understand that you have offered KAWC the right of first refusal for any increment of this additional capacity. Our request that one-half of this additional capacity be reserved for us at no additional cost was denied. I assume that if we agree to the first refusal concept of the 12 MGD in lieu of an absolute reserve, our cost to accept a portion of the 12 MGD would be in accord with current contract terms.

UPSIZING PROJECT FACILITIES:

We continue to disagree on LWC's share of the cost when the line is upsized, but to complete the contract, we will accept your representation that the incremental cost approach has been universally applied by LWC in situations where upsizing has been done.

Copies to RKM L. Hollis
GCIT S. Huber
6-22-98 K. Willis R. Seaberg

John Huber...
June 22, 1998
Page 2

DEPRECIATION ON CLAC:

The Public Service Commission does not allow KAWC to recover depreciation on contributed property and it is likely that they would look with disfavor on a rate that included such a cost. We suggest that depreciation on contributed property, if any, be removed from our rate calculation.

MINIMUM LEVEL OF SALES:

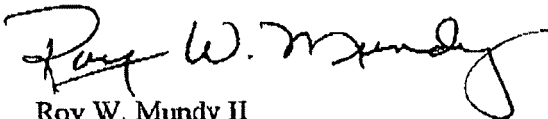
You have indicated that your board is interested in a guaranteed stream of revenue. We suggest that a minimum level of sales is unnecessary because the reserved capacity rate requires a minimum, and guaranteed, level of revenue, as it may increase from time to time, over the life of the contract.

RESERVED CAPACITY:

Our decision in these negotiations must be made among the various alternatives to the source of supply deficit. We must minimize our annual operating costs. It is obvious that the closer our reserved capacity is to our actual average use, the lower our per-unit rate will be. We propose that our initial reserved capacity be 2.5 MGD. We also propose that this reserve increase .5 MGD in the succeeding three years until it reaches 4 MGD. A reserved capacity of 6 MGD, while our average use remains at around 2 MGD, produces a rate that creates little, if any, benefit for KAWC. In fact, at an actual use of 1.5 MGD, the rate, using a 6-MGD reserved capacity, is \$1.79 per thousand gallons.

I am hopeful that prior to our next meeting as a group, I could discuss these issues with you privately. We may be able to bring closure to some of them.

Sincerely,



Roy W. Mundy II
President

3.5
4.0
5.0

Kentucky American Proposal
(remaining items of negotiation)
June 30, 1998

I. Point of Delivery - Hwy 55 near Interstate 64.

- A. Minimum pressure at delivery point (discharge side of meter battery) is 30 psi.
- B. Maximum Pressure along LWC pipeline is 175 psi.
- C. Minimum Pressure along LWC pipeline is 40 psi.
- D. Minimum flow capacity at delivery point is 23 MGD (36" pipe velocity = 5 ft/sec).
- E. Maximum flow capacity is 35 MGD (36" pipe velocity = 8 ft/sec).

II. LWC Owned and Operated Facilities (Project Facilities)

- A. 25 MGD Pump Station with expansion capability to 35 MGD located near I-265 and I-64 in Jefferson County.
- B. Minimum 1.0 MG Storage Tank in Shelby County, west of delivery point and KAWC BPS.
- C. 10,200 feet of 60-inch and 64,500 feet of 36-inch transmission main from English Station Reservoir to Delivery Point, generally following I-265 and I-64 corridor, using most feasible route.
- D. Project Facilities designed by consultant selected by LWC, approved by KAWC.
- E. Design and final cost estimate completed by December 1, 1998.

III. Financing of Project Facilities

- A. KAWC to pay for 36-inch transmission main from English Station to Delivery Point.
- B. LWC to pay for incremental upsizing from 36-inch to 60-inch along Interstate 265.
- C. LWC to pay for Jefferson County 25 MGD pump station and Shelby County storage facility
- D. LWC to allow KAWC to recover cost of pipeline construction for any service connections to the transmission main in the form of a service connection fee having a value of \$5,000 per equivalent unit as follows:
 - 1. 4-inch metered service, 25 equivalent units, \$125,000 connection fee
 - 2. 6-inch metered service, 50 equivalent units, \$250,000 connection fee
 - 3. 8-inch metered service, 80 equivalent units, \$400,000 connection fee
 - 4. 10-inch metered service, 115 equivalent units, \$575,000 connection fee
 - 5. 12-inch metered service, 185 equivalent units, \$925,000 connection fee
 - 6. 16-inch metered service, 330 equivalent units, \$1,650,000 connection fee.
- E. Service Connection Fees would apply for term of contract (40 years), collected by seller for buyer. Total fees collected can not exceed value of the 36-inch transmission main.
- F. Connection fees apply only to metered service and do not apply to distribution system connections to transmission facilities for purpose of retail distribution of water.

IV. Reserve Capacity:

- A. KAWC initially reserves 4.0 MGD, increased to minimum of 5 MGD by 2005.
- B. KAWC has first right of refusal on reserve greater than 4 MGD up to 23 MGD, LWC giving 6 months response time for KAWC to increase reserve if LWC desires to sell additional reserve.
- C. KAWC gives LWC 6 months notice on need to increase reserve capacity.
- D. LWC retains full rights on 12 MGD of the 35 MGD total capacity.

V. Depreciation:

- A. LWC will not charge depreciation on contributed portion of Project Facilities (transmission facilities), providing that KAWC will provide for replacement and or rehabilitation of facility as needed upon renewal of contract for a second 40 year contract term.
- B. Depreciation will be included in the water rate for transmission, pumping and storage facilities used in delivering water to the delivery point.

VI. Water Rate Schedule B:

A. Buyer Reserve Request

- Can establish new capacity by July 1, of previous year. (adjusted once per year)
- Seller has 12 months to accommodate new reserve request level.
- Maximum reserve capacity request is 23 MGD.

B. Water rate for consumption within the Buyer reserve request:

- Operating Cost component (variable based on consumption)
- Depreciation Cost component (fixed based on reserve capacity)
- Return on Plant Investment Cost component (fixed based on reserve capacity)
- Dedicated customer costs (based on actual expenses)

C. Water Rate for consumption exceeding capacity Reserve Request in a 24 hour period:

- wholesale rate with ESA
- Waiver provision for emergency approved by Seller.

D. Minimum Water Sales

- Minimum water sales requirement of 1.5 MGD initially.
- Minimum water sales requirement of 2.0 MGD by Year 2005.
- Waiver for minimum requirement in event of an emergency approved by Seller.

Bluegrass Water Project - Sample Monthly Bill Calculation											
		Operating Cost		Depreciation	Return on Plant	Customer Cost	Excess Rate Cost				
Day	Consumption	Consumption	Standard	Operating	Total	Return on	Plant Invest	Customer	Above Amount	Consumption	Excess
1,000 gallons	Below Amount	Rate per	1,000 gallons	Cost	Cost	Plant Invest	Cost	Estimated	Rate per	1,000 gallons	Rate per
1,500	1,500	1,500	1,500	\$660.42	\$249.16	\$934.53	\$28.77	\$1.35	\$0.00	\$1,872.88	\$0.00
2	1,500	1,500	\$0.44	\$660.42	\$249.16	\$934.53	\$28.77	\$1.35	\$0.00	\$1,872.88	\$0.00
3	2,000	2,000	\$0.44	\$880.56	\$249.16	\$934.53	\$28.77	\$1.35	\$0.00	\$2,093.01	\$0.00
4	2,000	2,000	\$0.44	\$880.56	\$249.16	\$934.53	\$28.77	\$1.35	\$0.00	\$2,093.01	\$0.00
5	3,000	3,000	\$0.44	\$1,320.83	\$249.16	\$934.53	\$28.77	\$1.35	\$0.00	\$2,533.29	\$0.00
6	3,000	3,000	\$0.44	\$1,320.83	\$249.16	\$934.53	\$28.77	\$1.35	\$0.00	\$2,533.29	\$0.00
7	4,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$0.00	\$2,973.57	\$0.00
8	4,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$0.00	\$2,973.57	\$0.00
9	5,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$1,350.00	\$4,323.57	\$0.00
10	5,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$1,350.00	\$4,323.57	\$0.00
11	6,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$2,700.00	\$5,673.57	\$0.95
12	6,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$2,700.00	\$5,673.57	\$0.95
13	7,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$4,050.00	\$7,023.57	\$1.00
14	7,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$4,050.00	\$7,023.57	\$1.00
15	8,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$5,400.00	\$8,373.57	\$1.05
16	8,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$5,400.00	\$8,373.57	\$1.05
17	9,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$6,750.00	\$9,723.57	\$1.08
18	9,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$6,750.00	\$9,723.57	\$1.08
19	10,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$8,100.00	\$11,073.57	\$1.11
20	10,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$8,100.00	\$11,073.57	\$1.11
21	9,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$6,750.00	\$9,723.57	\$1.08
22	9,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$6,750.00	\$9,723.57	\$1.08
23	8,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$5,400.00	\$8,373.57	\$1.05
24	8,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$5,400.00	\$8,373.57	\$1.05
25	7,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$4,050.00	\$7,023.57	\$1.00
26	7,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.53	\$28.77	\$1.35	\$4,050.00	\$7,023.57	\$1.00
27	6,000	4,000	\$0.44	\$1,761.11	\$249.16	\$934.5					

Reserve Capacity Request	4000	thousand gallons per day
Minimum Usage per Day	1500	thousand gallons per day
LWC System Consumption	101369.863	thousand gallons per day
LWC Operating Cost	44.631	per day
LWC Depreciation Cost	14.950	per day
LWC Return on Plant	56.072	per day
LWC System Capacity	240000	thousand gallons per day

thousand gallons per day	per day	per day	per day	thousand gallons per day
4000	1500	69,863	44,631	240000
thousand gallons per day	thousand gallons per day	thousand gallons per day	thousand gallons per day	thousand gallons per day

Bluegrass Water Project - Sample Monthly Bill Calculation												
Day	Consumption			Operating Cost			Depreciation			Return on Plant		
	1,000 gallons	Below Amount	Standard	1,000 gallons	Rate per	Total	Total	Depreciation	Plant Invest	Total	Estimated Customer	Consumption
1	1,500	\$0.44	\$660.42	\$311.45	\$1,168.16	\$28.77	-	\$1.35	\$0.00	\$2,168.80	\$2.19	1,000 gallons
2	1,500	\$0.44	\$660.42	\$311.45	\$1,168.16	\$28.77	-	\$1.35	\$0.00	\$2,168.80	\$2.19	1,000 gallons
3	2,000	\$0.44	\$880.56	\$311.45	\$1,168.16	\$28.77	-	\$1.35	\$0.00	\$2,388.94	\$2.39	1,000 gallons
4	2,000	\$0.44	\$880.56	\$311.45	\$1,168.16	\$28.77	-	\$1.35	\$0.00	\$2,388.94	\$2.39	1,000 gallons
5	3,000	\$0.44	\$1,320.83	\$311.45	\$1,168.16	\$28.77	-	\$1.35	\$0.00	\$2,829.21	\$2.83	1,000 gallons
6	3,000	\$0.44	\$1,320.83	\$311.45	\$1,168.16	\$28.77	-	\$1.35	\$0.00	\$2,829.21	\$2.83	1,000 gallons
7	4,000	\$0.44	\$1,761.11	\$311.45	\$1,168.16	\$28.77	-	\$1.35	\$0.00	\$3,269.49	\$3.27	1,000 gallons
8	4,000	\$0.44	\$1,761.11	\$311.45	\$1,168.16	\$28.77	-	\$1.35	\$0.00	\$3,269.49	\$3.27	1,000 gallons
9	5,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	-	\$1.35	\$0.00	\$3,709.77	\$3.71	1,000 gallons
10	5,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	-	\$1.35	\$0.00	\$3,709.77	\$3.71	1,000 gallons
11	6,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	1,000	\$1.35	\$1,350.00	\$5,059.77	\$5.06	1,000 gallons
12	6,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	2,000	\$1.35	\$2,700.00	\$6,409.77	\$6.41	1,000 gallons
13	7,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	2,000	\$1.35	\$2,700.00	\$6,409.77	\$6.41	1,000 gallons
14	7,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	2,000	\$1.35	\$2,700.00	\$6,409.77	\$6.41	1,000 gallons
15	8,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	3,000	\$1.35	\$4,050.00	\$7,759.77	\$7.76	1,000 gallons
16	8,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	4,000	\$1.35	\$5,400.00	\$9,109.77	\$9.11	1,000 gallons
17	9,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	4,000	\$1.35	\$5,400.00	\$9,109.77	\$9.11	1,000 gallons
18	9,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	5,000	\$1.35	\$6,750.00	\$10,459.77	\$10.46	1,000 gallons
19	10,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	5,000	\$1.35	\$6,750.00	\$10,459.77	\$10.46	1,000 gallons
20	10,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	4,000	\$1.35	\$5,400.00	\$9,109.77	\$9.11	1,000 gallons
21	9,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	4,000	\$1.35	\$5,400.00	\$9,109.77	\$9.11	1,000 gallons
22	9,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	4,000	\$1.35	\$5,400.00	\$9,109.77	\$9.11	1,000 gallons
23	8,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	3,000	\$1.35	\$4,050.00	\$7,759.77	\$7.76	1,000 gallons
24	8,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	2,000	\$1.35	\$2,700.00	\$6,409.77	\$6.41	1,000 gallons
25	7,000	\$0.44	\$2,201.39	\$311.45	\$1,168.16	\$28.77	2,000	\$1.35	\$2,700.00	\$6,409.77	\$6.41	1,000 gallons
26	7,000	\$0.44	\$2,2									

Reserve Capacity Request
Minimum Usage per Day
LWC System Consumption
LWC Operating Cost
LWC Depreciation Cost
LWC Return on Plant
LWC System Capacity

5000	thousand gallons per day
2000	thousand gallons per day
101369.863	thousand gallons per day
44,631	per day
14,950	per day
56,072	per day
240000	thousand gallons per day

Contract Negotiations with Louisville Water Company

July 8, 1998 at 9:30a in Louisville

Agenda Items

✓ 1. Question as to immediate availability of 23 MGD.

2. Rate - Latest LWC offer is:

My suggested alternative:

		<u>min.</u>	<u>reserved</u>			<u>min.</u>	<u>reserved</u>		
		<u>purchase</u>	<u>capacity</u>	<u>constant</u>		<u>purchase</u>	<u>capacity</u>	<u>constant</u>	
	<u>year</u>	<u>MGD</u>	<u>MGD</u>	<u>rate</u>		<u>year</u>	<u>MGD</u>	<u>MGD</u>	<u>rate</u>
	1	1.5	2.5	0.952661		1	1.5	2.5	0.952661
	2	1.6	3.0	1.013113		2	1.6	3.0	1.013113
	3	1.7	3.5	1.066453		3	1.7	3.5	1.066453
	4	1.8	4.0	1.113866		4	1.8	4.0	1.113866
	5	1.9	4.5	1.156289		5	1.9	4.0	1.078414
	6	2.0	5.0	1.194469		6	2.0	4.0	1.046507

We should look at minimum use on the basis of a yearly average, that is, total use divided by 365.

The rate should be specified Schedule B or the standard wholesale rate, whichever is lower.

✓ 3. Is right of first refusal available for additional 12 MGD? Joe indicated that it was not. If we are given the right to take this at our option, what is the cost?

4. We have not resolved the depreciation on CIAC issue.

✓ 5. What is the estimated cost of the Project Facilities, in detail?

60" Line } \$2 million Total cost
 17" Line } \$5 million LWC cost
 \$17 million Cost less by AM CIAC

6. We need to go through the contract page by page again, discussing the changes.

7. Paragraphs 7 and 8 need particular attention.

8.

9.

10.

**Bluegrass Water Project
Analysis of Depreciation Component of Water Rates
Regarding Contributed Capital**

Depreciation including Contributions in Aid of Construction

Total Depreciation	\$ 11,010,480
- Common to Only Retail	\$ 2,940,510
- Customer Expense	\$ 2,663,010
	\$ 5,406,960

Depreciation excluding Contributions in Aid of Construction

Total Depreciation	\$ 7,555,390
- Common to Only Retail	\$ 1,465,210
- Customer Expense	\$ 1,315,510
	\$ 4,774,670

Difference \$ 632,290

KAWC Percent Portion 1.04167%

KAWC Dollar Portion \$ 6,586.38

*Rates to allow
vs.
Rates to LWC.*

WATER SUPPLY AGREEMENT

THIS WATER SUPPLY AGREEMENT, dated as of this _____ day of _____, 1998, between

LOUISVILLE WATER COMPANY,
435 South Third Street
(soon to be 550 South Third Street)
Louisville, Kentucky 40202

("Seller").

and

KENTUCKY-AMERICAN WATER COMPANY,
2300 Richmond Road
Lexington, Kentucky 40502

("Buyer")

RECITALS

A. Seller, a Kentucky corporation all of the stock of which is owned by the City of Louisville, is governed by the Board of Water Works pursuant to Sections 96.230 through 96.310 of the Kentucky Revised Statutes and is statutorily permitted to sell water to customers taking service in Jefferson, Oldham, Shelby, Spencer, Bullitt and Hardin Counties, Kentucky.

B. Seller owns and operates water treatment and distribution facilities and utilizes its facilities to provide water service on a retail and wholesale basis throughout Jefferson County, Kentucky and in large areas of Oldham, Shelby, Spencer, and Bullitt Counties, including, among others, wholesale service to West Shelby Water District, North Shelby Water District and the City of Taylorsville;

C. Seller has available treatment and storage capacity sufficient to meet Buyer's needs set forth in this Agreement;

D. Buyer, a Kentucky corporation, engages in the manufacture of water for sale and service to customers in the counties of Fayette, Bourbon, Clark, Harrison, Jessamine, Scott, and Woodford; and

E. Buyer is desirous of securing a continuing, dependable source of water to meet the present and future needs of Buyer's customers and plans construction of extended transmission facilities to the Point of Delivery, defined below, to connect its existing system with Seller's.

W I T N E S S E T H:

NOW, THEREFORE, in consideration of the mutual covenants and conditions herein contained, the parties agree as follows:

1. DEFINITIONS. In this Agreement, these terms have the meanings indicated below:

(a) Project Facilities: Fixtures, equipment, water transmission mains, metering equipment, vaults, storage facility, pipes, pump station, and other improvements and facilities designed and to be constructed to Seller's specifications and approved by Buyer to be used for delivery of Service under this Agreement together with easements and other real property rights acquired with respect thereto. Such facilities shall be owned by the Seller.

(b) Point of Delivery: The connection of the Project Facilities to Buyer's facilities. The connection will be at a point in Shelby County, Kentucky at or near the intersection of Interstate Highway 64 and Kentucky Highway 55.

(c) Service: The delivery of treated, potable water by Seller to the Point of Delivery under this Agreement pursuant to the standards set forth in Section 9, subsections (a) and (b).

2. DESIGN OF PROJECT FACILITIES.

(a) The Project Facilities will be designed by Seller, Buyer retaining the right to approve the selection by Seller of outside professional engineering assistance in creating such design, such approval not to be unreasonably withheld, and to approve the scope of the design within the framework set forth immediately below.

(b) The design of the Project Facilities shall include, among other things, a 60-inch transmission main from Seller's English Station Road Reservoir to the intersection of Interstate Highway 265 and Interstate Highway 64 in Jefferson County, a 36-inch transmission main from such intersection eastwardly to the intersection of Interstate Highway 64 and Kentucky Highway 55 in Shelby County (the location of the Point of Delivery), a 25 million gallon per day pump station situated in ~~Interstate 265~~ the Interstate 265-Interstate 64 intersection area, and a water storage facility with a minimum capacity of 1.0 million gallons situated along the 36-inch transmission main in Shelby County west of the Point of Delivery. Attached, designated EXHIBIT I, is a plat indicating the general location and route of the Project Facilities. Any subsequent change in the design design/route operation of the Project Facilities to be paid by Buyer shall be subject to Buyer's prior written approval, which approval shall not be unreasonably withheld.

(c) Seller understands that the design of the Project Facilities must be fully completed in a form and substance satisfactory to Buyer prior to Buyer's application to the Kentucky Public Service Commission (the "PSC") for a Certificate of Convenience and Necessity. Consequently, the date of completion for such design shall not be later than December 1, 1998, time being of the essence.

(d) Also, on or before December 1, 1998 Seller will provide Buyer with its estimated cost of the portion of the Project Facilities for which Buyer is agreeing to pay as hereinafter provided and an estimate of the cost of the remaining (Seller's) portion.

3. PROPERTY ACQUISITION: Upon receipt by the Seller of Buyer's written instructions and within the limitations of such, Seller will initiate an effort to acquire easements and other property rights needed in the construction and installation of the Project Facilities, keeping Buyer advised from time to time as to its progress and as to any obstacles encountered in such procurement. Seller's efforts to acquire easements and other property rights shall be made expeditiously and in good faith. Seller will not purchase any property rights without the costs thereof being approved by the Buyer and will not file condemnation actions without Buyer's direction to do so.

4. BIDDING ON CONSTRUCTION OF PROJECT FACILITIES: Upon receipt of written instructions from Buyer, Seller will initiate its construction contract bidding process for the Project Facilities, including the advertising for and the taking of bids in accordance with its invitation to bid.

5. CONSTRUCTION OF PROJECT FACILITIES:

(a) Upon receipt of written instructions from Buyer, Seller will proceed with the awarding (preceded by rebidding if previously submitted bids have expired) of the construction contract(s) to the qualified bidder(s) submitting the lowest and best bid(s).

(b) Seller, using a professional engineering firm, registered in Kentucky, will supervise the construction of the Project Facilities and will complete same to the Point of Delivery no later than eighteen months from the date Seller receives the initial written instructions, set forth in subparagraph (a), Section 5(a), immediately above (the "Construction Completion Date"), time being of the essence. The completion of construction of the Project Facilities with water service being available at the Point of Delivery is referred to as the "Construction Completion Date".

(c) Delays in construction ^{may reasonably} will cause extension of the Construction Completion Date provided such delays are the result of unanticipated adverse weather conditions, labor unrest, natural disasters, legal obstacles encountered in easement acquisition or other circumstances beyond Seller's control. Also, if Seller deems it necessary to rebid the construction contract(s) because of the expiration of the previous bids, the Construction Completion Date will be extended to accommodate the delay caused by such rebidding.

6. PROJECT FACILITIES' COSTS ALLOCATION:

(a) Except as otherwise provided in Section 6(c) Buyer agrees to pay the costs of design, site acquisition and construction of the Project Facilities, which costs include, but are not limited, to the following:

Bid Publication	Consulting Engineering Services
Construction Contract(s) Obligations	Easement and other Property Rights
Materials	Easement Acquisition Agent
Reproduction and Printing	Recording of Real Estate Documents
Measurable In-house Engineering Planning,	Real Property Appraisals
Design and Construction Administration	Miscellaneous Out-of-Pocket Expenses

(b) In addition, Buyer agrees to pay Seller's costs incurred with respect to the financing of Buyer's share of the Project Facilities, which costs include but are not limited to, financial advisor charges, bond counsel and other legal expenses, printing and other reproduction costs and marketing and travel expenses.

(c) Seller will be responsible for the costs (as previously enumerated in this subsection (a), above) of the design, site location and construction of the 25 million gallon per day pump station and the Shelby County water storage facility. In addition, Seller shall be responsible for the incremental costs of material and installation of any portion of the transmission main, the circumference diameter of which is greater than 36 inches [including in the incremental costs of the 60-inch main from the English Station Road reservoir to the intersection of Interstate Highway 265 and Interstate Highway 64, referenced in paragraph 2(b) above], so long as such increase in diameter is not the requirement of Buyer.

7. INVOICING AND PAYMENT OF BUYER'S COSTS.

(a) Design costs incurred by Seller will be billed to Buyer upon completion of the design, i.e. within 30 days of delivery of same to Buyer for inclusion in Buyer's PSC application for a Certificate of Convenience and Necessity. Such costs will include professional engineering fees, reproduction expenses and measurable in house engineering planning and design work.

(b) Property right acquisition costs will be billed to Buyer by Seller periodically, as incurred.

(c) Construction costs, unless paid directly from bond financing proceeds, will be billed by Seller to Buyer as incurred with Buyer to be responsible for providing funds to Seller in advance of any construction contract payment deadline relating to progress and final payments.

(d) Buyer reserves the right to dispute costs it deems to be unreasonable but agrees that it will indemnify Seller and hold it harmless for any judgments, settlements, legal fees and other costs incurred by Seller as a result of Buyer's refusal to pay Seller with respect to a third party claim.

(e) Subject to the provision of subsection (f), immediately below, Buyer will pay Seller in full within 20 days of receipt of Seller's invoice of a Buyer Project Facility cost.

(f) It appearing that most, if not all, of the costs incurred by Seller in the design, easement acquisition, and construction of the Project Facilities can be paid from the proceeds of issuance of the tax-free or taxable bonds, contemplated under Sections 8(a) or (b), below, Seller is agreeable to financing all pre-issuance costs with the understanding that it will be reimbursed in full from the bond proceeds for such costs, including its financing costs, to the extent permitted under the terms of the bond issue, otherwise such reimbursement is to be made by Buyer in accordance with Section 8(c), below.

8. FINANCING OF BUYER'S SHARE OF COSTS OF PROJECT FACILITIES:

Buyer agrees to reimburse Seller for all Project Facilities' costs, the responsibility for which Buyer has assumed hereinabove. Such reimbursement will take one or more of the following forms:

(a) By reimbursing Seller for its costs, including, but not limited to, debt service and issuance costs, through the issuance of tax-free, municipal bonds by the Seller, the proceeds of which are to be used to pay or to reimburse Seller for the Project Facilities' costs, to the extent such costs are eligible for reimbursement from bond proceeds, it being understood that the contemplated bonds will be sold on a competitive bid basis and the bid award will be made by Seller only after consultation with Buyer. Attached hereto and designated Schedule A is a Projected Debt Amortization Schedule which assumes a \$1,000,000 issue, bearing interest at 6% per annum and maturing over a 20 year period, said Schedule being attached for illustrative purposes only, or

(b) Failing the availability of above described tax-free financing, by reimbursing Seller for its costs, including, but not limited to, debt service and cost of issuance, through the issuance of corporate bonds by Seller or Buyer, at Buyer's option, the proceeds of which are to be used to pay or to reimburse Seller for the cost of the Project Facilities, it being understood that the contemplated bonds, if issued by Seller, will be sold on a competitive bid basis with the winning bid to be awarded by Seller only after consultation with Buyer, or

(c) By progress payments from Buyer to Seller to be made within 20 30 days of invoice, the first such payment to be made within thirty days of Buyer's written advice that no bond issue financing is to be pursued and to be in an amount equal to the sum of all amounts previously incurred by Seller including those financed pursuant to Section 7(f), above, plus the financing cost thereof. The provisions of this subsection also shall be applicable to invoices from Seller that are later determined to be ineligible for reimbursement from bond proceeds.

(d) If Seller's bond instruments permit prepayment of part or all of the debt obligation, and if Buyer is not in default of any of its payments to Seller under this Section and Section 11 of this Agreement, then Buyer has the right to instruct Seller on a timely basis to exercise the prepayment privilege and shall simultaneously pay to Seller the amount of the prepayment needed, including premium, if any, to remit to the holders of the debt instruments being redeemed and any redemption expenses.