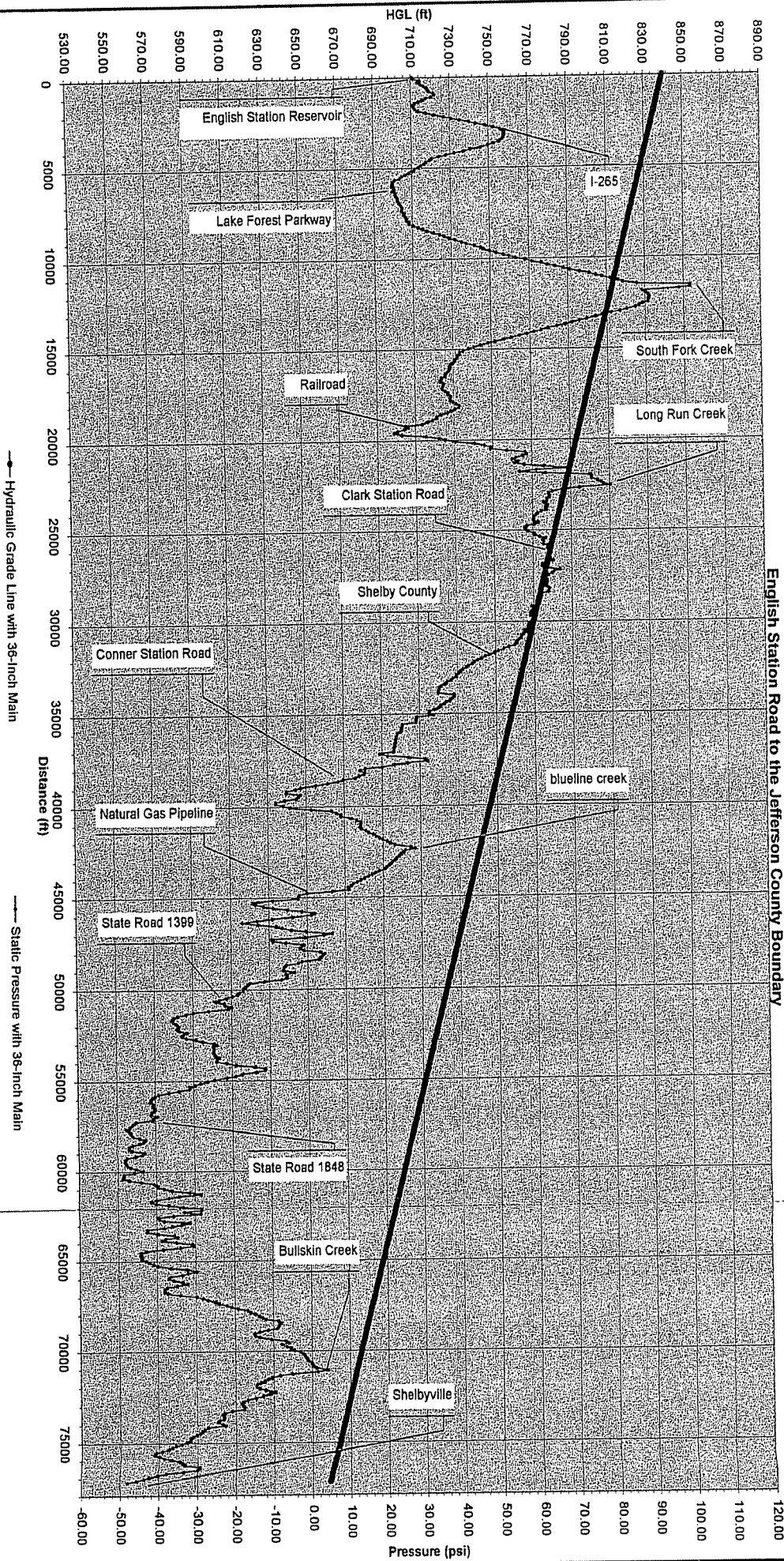
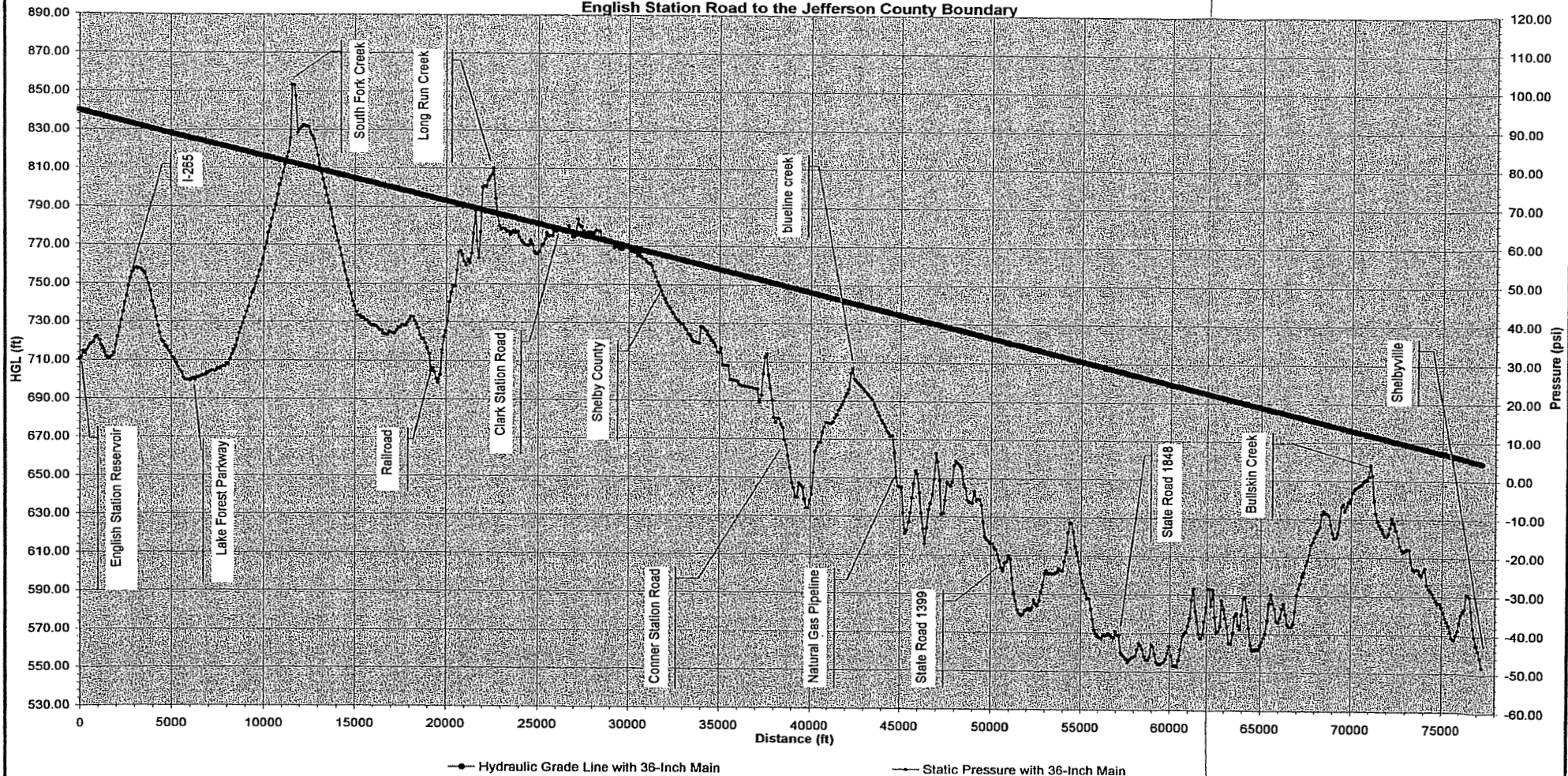


Bluegrass Transmission Main HGL and Ps Profiles 23.0 MGD Flowrate, No Pumping Facility English Station Road to the Jefferson County Boundary



Bluegrass Transmission Main HGL and Ps Profiles
23.0 MGD Flowrate, No Pumping Facility
English Station Road to the Jefferson County Boundary





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: 4/28/98
COMPANY: LOUISVILLE WATER COMPANY
HAND TO: ROBERT K. MILLER
FROM: Coleman Bush

Number of pages, including cover: 15

If you have any problems with receiving, please call:

Phone: 606/268-6364 Ask for: Larine Donoho

Hard copy mailed: Yes No X

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 receive 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:

If transmitted document is not legible, please call the above number and an original
document will be mailed to you.



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (606) 269-2386 • Fax (606) 268-6327

Coleman D. Bush
Vice President & Treasurer
(606) 268-6324

April 27, 1998

Mr. Robert K. Miller, Vice President of Finance and Treasurer
Louisville Water Company
435 South Third Street
Louisville, KY 40202

Dear Bob:

I have attached a revised draft of our contract. Please forward any changes after your review.

Also, please forward your revised pricing proposal by Thursday morning, April 30, 1998.

Sincerely,

Coleman D. Bush
Vice President and Treasurer

C: Roy W. Mundy II
Herb Miller
Mark Frost
Nick Rowe
Lindsey Ingram
Linda Bridwell

Revised April 27, 1998

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 is engaged in the manufacture of water and currently sells water to customers in 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:

Revised April 27, 1998

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 Seller.

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

Revised April 27, 1998

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 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

Revised April 27, 1998

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 21, 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 and agrees 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 commensurate with the term of indebtedness or over some other term as mutually agreed upon by the parties, 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 be established through a competitive bid process for tax-exempt instruments and failing a successful bid on tax-exempt instruments, through a competitive bid process on conventional debt instruments.

Revised April 27, 1998

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, as the same may be changed from time to time, and in a condition for Buyer's continued process of pressurization, improvement, processing, and other manufacturing and production.

b. **Rate of Flow and Pressure.** Seller shall construct Project Facilities to 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 minimum pressure of not less than thirty (30) 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 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

Revised April 27, 1998

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. Notification of meter failure will be from an alarm system based on real-time monitoring. 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.

8. **RATES AND PAYMENT:**

a. Buyer shall pay Seller 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 Board of Waterworks of the City of Louisville and the Public Service Commission of the Commonwealth of Kentucky pursuant to its rules and regulations.

Revised April 27, 1998

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. **RESERVATION OF SELLER'S CAPACITY:** Seller agrees, throughout the term of this Agreement, to provide Buyer with a 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 ALONG PROJECT FACILITIES BY SELLER PRIOR TO THE POINT OF DELIVERY:** Seller warrants and represents that any water service to others along project facilities 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 or elevated service area pumping, transmission and storage facilities, to the extent that expansion or enlargement is related to the provision of service under this agreement, it will notify Buyer of its intention to do so and will afford the Buyer with a reasonable opportunity to participate in the expansion or enlargement with a

Revised April 27, 1998

commensurate extension of the term of the contract for the purchase or delivery of additional 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, excluding medical facilities, 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 five (5) years prior to the end of the then existing term, that Buyer does not intend to extend the then existing term.

Revised April 27, 1998

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

15. **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.

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

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

Revised April 27, 1998

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

c. Seller shall be responsible for the Project Facilities to the Point of Delivery and the quality, rate of flow and pressure of the water at the Point of Delivery.

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. Revocation of Buyer's authority to do business.

3. Buyer's breach of any of the Representations and Warranties in this Agreement as determined by a court of law in the Commonwealth of Kentucky.

17. **MISCELLANEOUS PROVISIONS:**

Revised April 27, 1998

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 those records that may be subject to a recognized privilege, that are confidential or that 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. Seller agrees to carry, throughout the term of this Agreement, such liability and casualty insurance in a form and amount subject to the reasonable determination of the Board of Waterworks of the City of Louisville. Seller shall, upon

Revised April 27, 1998

Buyer's request, show evidence of such insurance by a certificate, which includes Buyer as an additional insured 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.

TOTAL P.15

Revised April 27, 1998

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: _____

312C:\Work\WTKAWC\Bluegrass\004Louisville.Agr

LOUISVILLE WATER COMPANY

435 South Third Street
Louisville, KY 40202
(502) 569-3600
(502) 569-3691 - Fax

Fax

To: Linda Bridwell	From: Karen Willis
Ky-American Water Company	Louisville Water Company
Fax: 606-268-6327	Pages: 1
Phone: 502-569-3615	Date: 04/29/98
Re: Letter to Dave Reves	CC:

☐ Urgent ☒ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

Linda,

I have marked up the letter you faxed to reflect our conversation yesterday morning. Your letter addressed the points adequately, I just provided further clarification where possible. Please review and if you have any questions or you are not in agreement with the changes, please call me at 502-569-3615.

The HGL profiles for the US 60 will go out in Thursday's mail and I will send them overnight to ensure you get them by Friday. The second set of profiles to address the I-64 route will be available the middle of next week. We had only completed the profile for the US 60 route initially, but with the renewed interest in the I-64 route, the profiles for this route will be accomplished and forwarded to you and Dave.

Thanks!



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (506) 269-2386 • Fax (606) 268-6327

Linda C. Bridwell, P.E.
Director of Engineering

David M. Reves, P.E.
American Water Works Service Company
1025 Laurel Oak Road
P.O. Box 1770
Voorhees, NJ 08043

RE: Bluegrass Water Project, Louisville Water Company Issues

Dear Dave:

This afternoon Nick Rowe and I had the opportunity to talk with Greg Heitzman and Karen Willis. On Friday April 24, Karen and I had discussed the issues that still needed to be resolved. I want to summarize our conversation:

at ^{two} -The proposed 36" pipeline from the English Station tank along US 60 will not be able to provide 23 MGD with a minimum of 30 psi at the delivery point and at all locations along the line in Jefferson County. ~~In fact, the 36" line can only provide 10 mgd without an additional booster to maintain adequate pressures.~~ The 30 psi requirement is a Division of Water regulation which is for all water lines. If the critical points were at locations where there would be no other tie-ins for 2-3 miles on either side and were just an issue of elevation, we could approach the Division of Water about a waiver. Unfortunately, these points are at highly populated areas and Louisville is concerned about a depression of pressures based on the flowrate from the surrounding distribution system. Although Greg did distinguish their analysis as a fixed grade review, these critical points cannot be corrected without additional energy.

✓ -If the pipeline from the English Station tank along US 60 is increased to a 48" main, the critical points are within margins that Louisville would be willing to consider. An upsizing to 42" main will not achieve the reduced friction losses to eliminate the critical points.

-An increase of approximately 100 feet of hydraulic head would also correct the critical points on a 36" main. Karen will forward us copies of the additional hydraulic ~~modelling~~ ^{grade line profiles}

✓ -I expressed to them my concerns with water quality issues by increasing the pipe size.

✓ -If a booster is needed in Jefferson County, I expressed a preference from a constructability standpoint on the I-64 corridor. We discussed that this will also provide greater flexibility in our booster station locations for electrical and chemical delivery considerations.

Louisville is completing a determination to upsize the pipeline to the point of delivery to 42". This will be based on projected growth to their existing wholesale customers in Shelby County. This will be complete next week.

✓ -Louisville has also undertaken a review of the constructability of the two routes, to be complete next week. The initial draft information had recommended the I-64 route based on construction feasibility issues.

✓ Greg indicated that they did not feel that there was any other route from the English Station tank that would enable them to provide the 23 mgd at 30 psi with a 36" pipe, without a booster. It is not merely an issue of trying to avoid a couple of high elevation points. Greg welcomed any additional review from our consultant on their hydraulic determinations.

✓ Additionally, there is still some negotiation on the point of delivery. They have agreed to complete work by next week regarding the economic considerations of a point east of the Jefferson County line. This point would be no further east than KY highway 55.

✓ Obviously, this will alter our design scope, although not significantly at this point. I have indicated to Greg that we gave Gannett-Fleming the official notice to proceed on April 20 and that we need to determine the exact level of changes by next week.

Please call me when you have had a chance to review this information.

Sincerely,

Linda Bridwell, P.E.
Director of Engineering

C: N.O. Rowe
G C. Heitzman, PE
K.A. Willis, PE

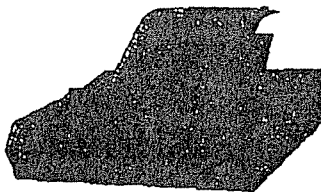
TRANSMISSION VERIFICATION REPORT

TIME : 04/29/1998 16:35
NAME : LOUISVILLE WATER
FAX : 502-569-3691
TEL : 502-569-3600

DATE, TIME
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DURATION
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FAX



Date:

4-28-98

Number of pages including cover sheet:

3

To:

GREG / KAREN
HEITZMAN / WILLIS
585-2800 / 569-3691

Phone:

Fax phone:

CC:

From:

LINDA BRIDWELL

Phone:

Fax phone: 606/268-6374

REMARKS:

☐ Urgent

☐ For your review

☐ Reply ASAP

☐ Please comment

I will send to Dave ~~and~~ if you
think it adequately sums up our
conversation.

L.

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 and return the original message to us at the above address via the U.S. Postal Service. You will be reimbursed for the required postage.

HGL Profiles

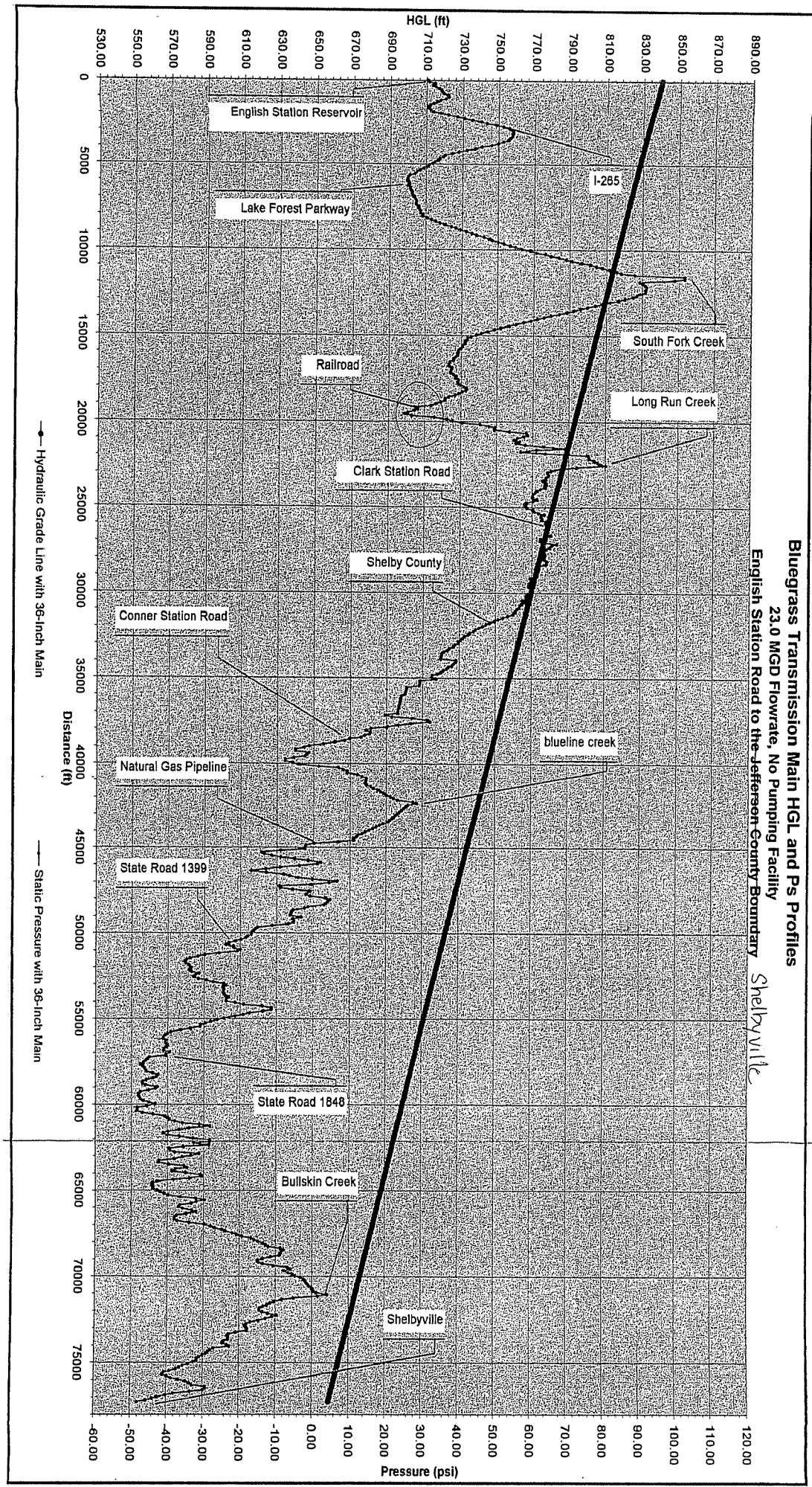
Overall, I will need two sets of the HGL/Ps Profiles. One will follow the US 60 route, the other will follow Gene Snyder Freeway to I-64 and out the gas pipeline route to Shelbyville Road.

1st Set:

- Start at English Station Reservoir along US 60 – RR – County line to gas pipeline route south of I-64 out to Shelbyville exit (KY 55).
- Show the three main sizes, 48-inch, 42-inch and 36-inch with no pumping added to the system. Start at 840 grade at English Station Reservoir.
- Highlight the 30, 40 and 175 psi grid lines in yellow:
 - Make 30 psi solid yellow
 - Make 40 and 175 psi dashed yellow
- Title should read:
 - Bluegrass Transmission Main HGL and Ps Profile
 - 23 MGD flowrate, No Pumping Facility
 - English Station Reservoir to Shelbyville (via US 60)
- At the bottom, add the following statements:
 - Single pipeline steady-state analysis
 - Pipeline route: US 60 – RR – County line – gas pipeline to Shelbyville

2nd Set:

- Start at English Station Reservoir along Gene Snyder Freeway to gas pipeline route south of I-64 out to Shelbyville exit (KY 55). From English Station Reservoir to the gas pipeline route, it will be a 60-inch. From there, we will consider a 48-inch, 42-inch and 36-inch.
- Show the three main sizes, 48-inch, 42-inch and 36-inch with 150 feet of head added to the system at English Station Reservoir. Start at 840 grade at English Station Reservoir, overall grade will move to 990.
- Highlight the 30, 40 and 175 psi grid lines in yellow:
 - Make 30 psi solid yellow
 - Make 40 and 175 psi dashed yellow
- Title should read:
 - Bluegrass Transmission Main HGL and Ps Profile
 - 23 MGD flowrate, Pumping Facility at English Station Reservoir (150 feet of head)
 - English Station Reservoir to Shelbyville (via I-64)
- At the bottom, add the following information:
 - Single pipeline steady-state analysis
 - Pipeline route: English Station Reservoir - Gene Snyder Freeway - Gas pipeline - Shelbyville



Ky- Am. Conference Call

4/28/98

Greg Heitzman, Karen Willis, Nick Rowe, Linda Bridwell
by 4/29/98

1. HGL profiles for each route

* Forward 2 profiles to Linda & Dave

48/42/36 pipeline w/out pumping

48/42/36 pipeline w/ pumping (100')

} I-64 route

} E.U.S. 60 route -

Cannot provide 23 MGAD w/ 36" diameter pipe. Shelbyville

2. Delivery Point by 5/5/98

NSWD & WSWD currently are wholesale customers.

NSWD, 40% - UWC

10% - Shelbyville

50% - Franklin Co.

WSWD, 50% - UWC

50% - Shelbyville

Shelbyville notified

NSWD & WSWD water

contract would not be

renewed, in approx. 10 yrs.

Pts. to consider for delivery

• Ky 1848 - Veechdale

• Ky 55 - Shelbyville

• Delivery pt. will not affect size of pipeline

• Delivery pt. does not impact or change pumping requirement.

- these pts. selected because of power and
accessibility.

◦ i) develop a proposal and send to Ky-lm. by 5/5/98.

- Reliability

- Cost

- Operational

} Min-Min Scenario

- LWC financial commitment.

- Pumping station

Close the deal w/ one meeting 5/7, 5/8.

JLH, Roy Mundy, GCH, RKM, KAW.

I-64 route

60" Freeway

Ltr.

- No hydraulic modelling

Single pipeline steady-state analysis



LOUISVILLE WATER COMPANY

P.O. BOX 32460 • LOUISVILLE, KENTUCKY 40232-2460

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

April 30, 1998

Ms. Linda Bridwell
Kentucky American Water Works Company
2300 Richmond Road
Lexington, KY 40502

RE: Bluegrass Water Project
HGL Profiles

Dear Linda:

Enclosed for your use and review please find two hydraulic grade line profiles developed by Louisville Water Company (LWC) staff for the US 60 route. Figure 1 represents the hydraulic grade line and associated static pressures without any additional pumping. The alignment for this route generally follows US 60 to the RR, over to the Jefferson County line then heading over to the natural gas pipeline and following the gas pipeline route to KY 55 just west of Shelbyville. Figure 2 represents the same route with an additional 150 feet of head added at the English Station Reservoir.

As you can see from Figure 1, it appears that the static pressure will drop below 40 psi (LWC's minimum standard) around Lake Forest Parkway and again west of Clark Station Road near the railroad for any size diameter pipe, with no additional head added. The Lake Forest Parkway intersection also drops below the KY Division of Water requirement of 30 psi for any size diameter main, with the second location west of Clark Station Road near the railroad dropping below 30 psi for only the 36-inch diameter main. Once the pipeline reaches a point east of Conner Station Road, approximately a mile and a half into Shelby County, the static pressure drops below 30 psi in all three of the proposed diameters. Other than crossing the Blueline Creek, the static pressure does not recover over the remainder of route being investigated, which would indicate the need for additional head from this point forward.

In Figure 2, an additional 150 feet of head has been added to the system at the English Station Reservoir. The single pipeline steady-state analysis indicates that all three proposed diameters will meet the pressure range of 40-175 psi identified by LWC up to a point just west of State Road 1399. At this point, the 36-inch diameter pipe drops below the 40 psi constraint to approximately 30 psi. From this point forward, the need for additional head would likely be required. However, note that this location is approximately 2.5 miles east of the location identified from Figure 1 and meets all pressure requirements up to this point. In addition, the need for additional head would only be required for a 36-inch diameter pipeline. The static pressure for the 42-inch and

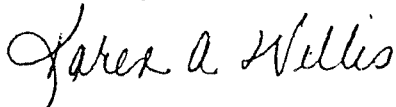
Page 2
KY-American Water Company
April 30, 1998

48-inch both remain well above the minimum of 40 psi all the way up to KY 55.

With the renewed interest in the I-64 route, hydraulic grade line profiles for this route are being developed and should be available the first part of next week. LWC staff will investigate similar scenarios as presented here in Figures 1 and 2 with the pipeline alignment to follow the I-64 route instead.

- Should you have any questions regarding the enclosed information, please feel free to call me at (502) 569-3615, or Mr. Greg Heitzman at (502) 569-3681.

Sincerely,



Karen A. Willis, P.E.
Manager of Planning Infrastructure

Cc: Dave Reves – American Water Works Service Company
Greg Heitzman - Louisville Water Company

Attachment

- Figure 1 – HGL Profile, No pumping added – US 60 Route
- Figure 2 – HGL Profile, 150 feet of head added – US 60 Route

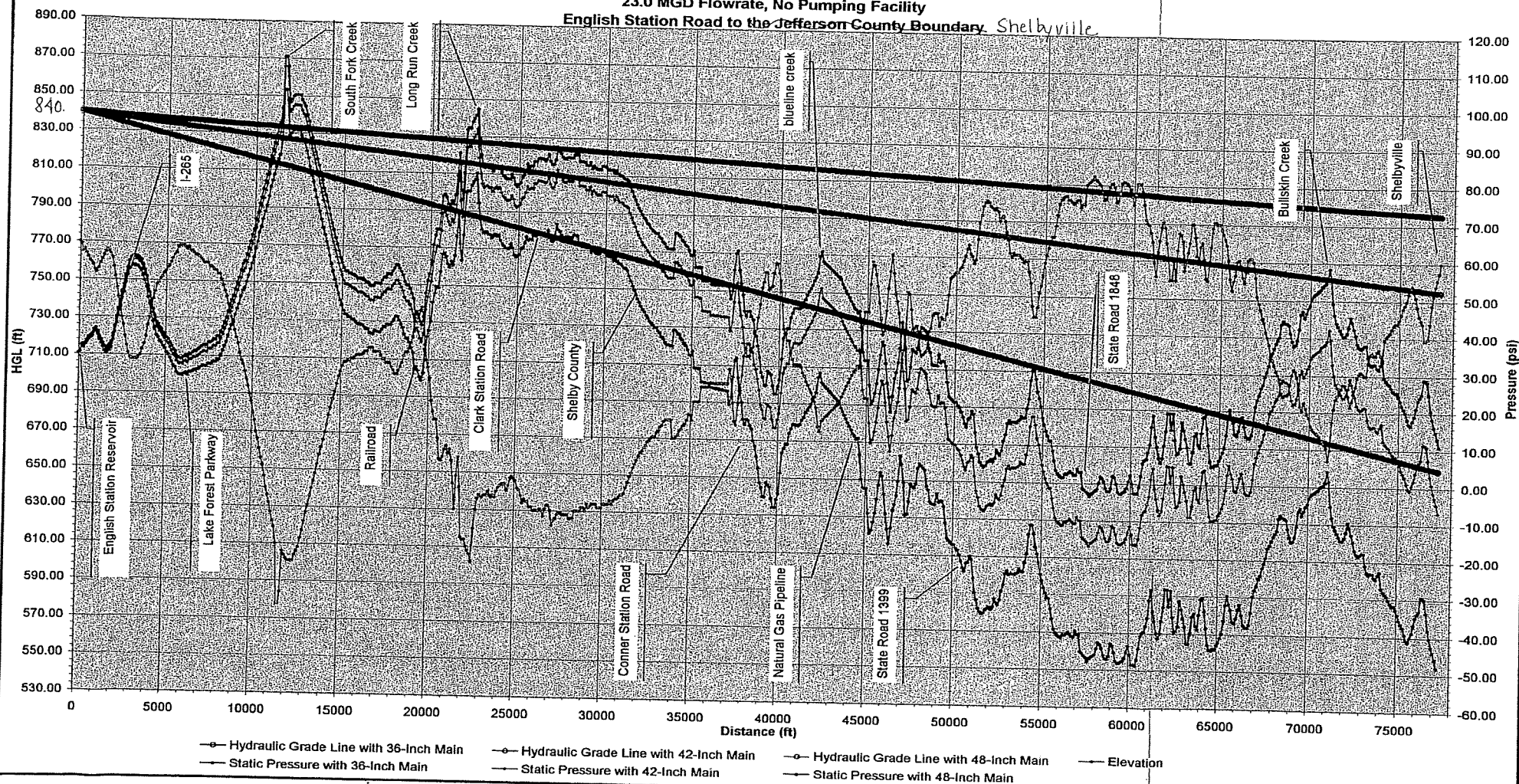


LOUISVILLE WATER COMPANY

Bluegrass Transmission Main HGL and Ps Profiles

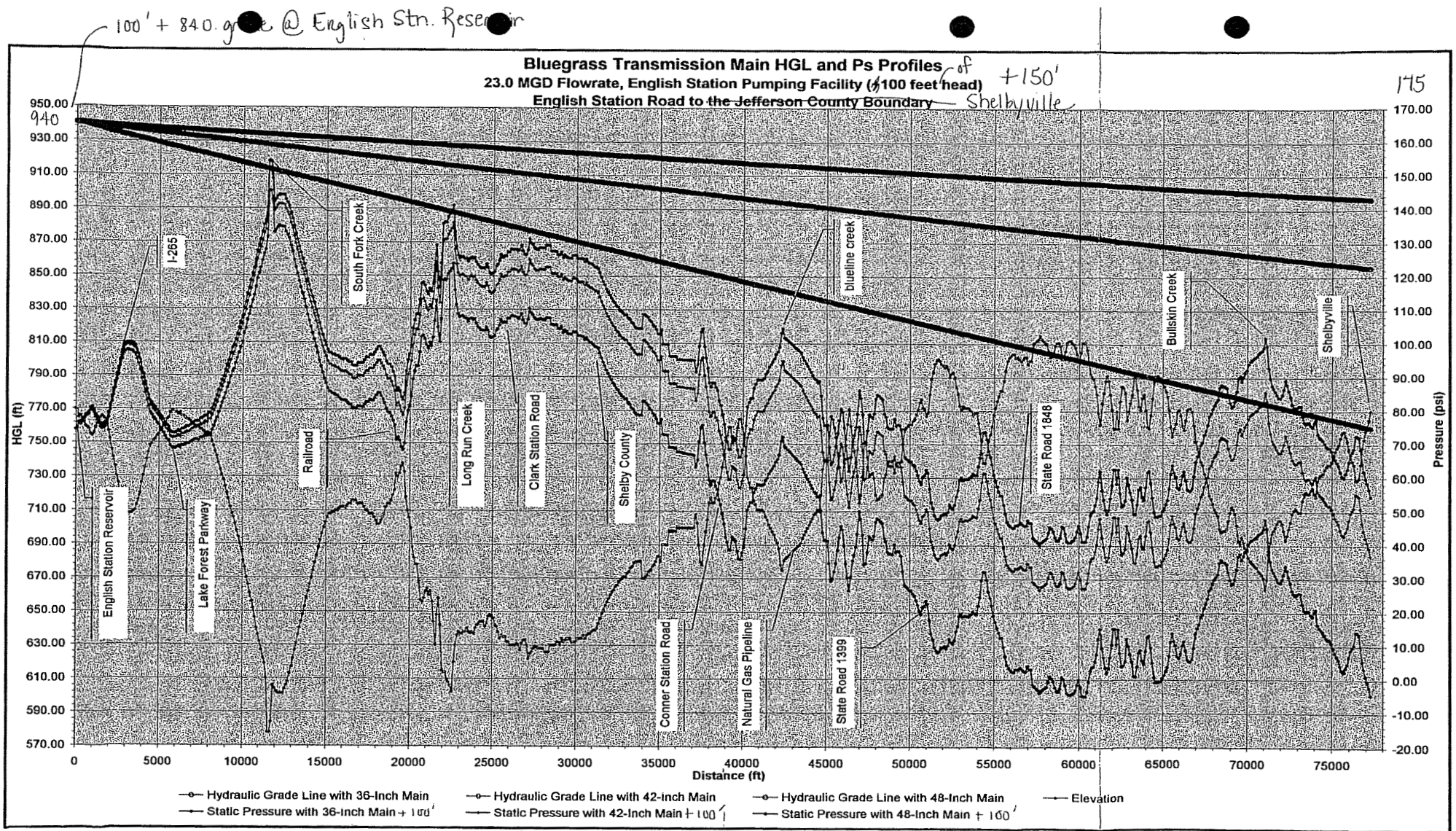
23.0 MGD Flowrate, No Pumping Facility

English Station Road to the Jefferson County Boundary, Shelbyville



* Not accomplished by hydraulic modelling

Pipeline Route, U.S. 60



* Not accomplished by hydraulic modelling

Pipeline Route: U.S. 60

4/30/98

Ky - American Values


Pump Station \$75,000/MGD
(Based on Westport cost)

Elevated Storage \$.83/gallon
(Based on Blankenbaker, Reamers)

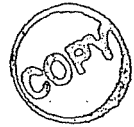
Pipeline (PCCP)

Main Size	Unit Cost/ft	Distance (ft)		
		Jeff. Cty.	Hwy 1848 (Simpsonville)	Ky. 55 (Shelbyville)
36"	\$225/LF.	35,400 ft. +/-	54,700 ft. +/-	74,700 ft. +/-
42"	\$250/LF.	↓	↓	↓
48"	\$300/LF.	↓	↓	↓

* From English Sto. Reservoir, along
Gene Snyder, to I-64 and out
gas pipeline route.



Kentucky-American Water Company



2300 Richmond Road • Lexington, Kentucky 40502 • (606) 269-2386 • Fax (606) 268-6327

Linda C. Bridwell, P.E.
Director of Engineering

David M. Reves, P.E.
American Water Works Service Company
1025 Laurel Oak Road
P.O. Box 1770
Voorhees, NJ 08043

RE: Bluegrass Water Project, Louisville Water Company Issues

Dear Dave:

This afternoon Nick Rowe and I had the opportunity to talk with Greg Heitzman and Karen Willis. On Friday April 24, Karen and I had discussed the issues that still needed to be resolved. I want to summarize our conversation:

-The proposed 36" pipeline from the English Station tank along US 60 will not be able to provide 23 MGD at a minimum of 30 psi at two locations along the line in Jefferson County. The 30 psi requirement is a Division of Water regulation which is for all water lines. If the critical points were at locations where there would be no other tie-ins for 2-3 miles on either side and were just an issue of elevation, we could approach the Division of Water about a waiver. Unfortunately, these points are at highly populated areas and Louisville is concerned about a depression of pressures based on the flowrate from the surrounding distribution system. Although Greg did distinguish their analysis as a fixed grade review, these critical points cannot be corrected without additional energy.

-If the pipeline from the English Station tank along US 60 is increased to a 48" main, the critical points are within margins that Louisville would be willing to consider. An upsizing to 42" main will not achieve the reduced friction losses to eliminate the critical points.

-An increase of approximately 100 feet of hydraulic head would also correct the critical points on a 36" main. Karen will forward us copies of the additional hydraulic grade line profiles.

-I expressed to them my concerns with water quality issues by increasing the pipe size.

-If a booster is needed in Jefferson County, I expressed a preference from a constructability standpoint on the I-64 corridor. We discussed that this will also provide greater flexibility in our booster station locations for electrical and chemical delivery considerations.

Louisville is completing a determination to upsize the pipeline to the point of delivery. This will be based on projected growth to their existing wholesale customers in Shelby County. This will be complete next week.

Louisville has also undertaken a review of the constructability of the two routes, to be complete next week. The initial draft information had recommended the I-64 route based on construction feasibility issues.

Greg indicated that they did not feel that there was any other route from the English Station tank that would enable them to provide the 23 mgd at 30 psi with a 36" pipe, without a booster. It is not merely an issue of trying to avoid a couple of high elevation points. Greg welcomed any additional review from our consultant on their hydraulic determinations.

Additionally, there is still some negotiation on the point of delivery. They have agreed to complete work by next week regarding the economic considerations of a point east of the Jefferson County line. This point would be no further east than KY highway 55.

Obviously, this will alter our design scope, although not significantly at this point. I have indicated to Greg that we gave Gannett-Fleming the official notice to proceed on April 20 and that we need to determine the exact level of changes by next week.

Please call me when you have had a chance to review this information.

Sincerely,



Linda Bridwell, P.E.
Director of Engineering

C: N.O. Rowe
G.C. Heitzman, PE
K.A. Willis, PE

Ky-American Meeting

May 5, 1998

Attendance:

John Huber, Bob Miller, Greg Heitzman, Joe Helm,
Karen Willis - LWC

Roy Mundy, Nick Rowe, Mark Frost, Lindsay Ingram,
Herb Miller - Ky. Am.

Timeline

Application to PSC - Dec. 1998

Construction Commence

Water Delivery by June 2001

Issues

- Engineering Design - LWC
 - Pt. of Delivery
 - 2-3 pump stns
 - Route
 - Rates; Reserve Capacity
- } Pt. of Delivery

Pt. of delivery

Every foot that the pipeline moves into
Shelby Co. that LWC owns, becomes more
controversial for Ky-Am.

Pipeline ownership issues

Ky-Am
Viewpoint

- Option 1: LWC owns to Ky 55, and pays for the entire pipeline not just an increment of such, all revenue to LWC.
- Option 2: Ky-Am & LWC share in ownership of pipeline; also share in any revenues.
- Option 3: Ky-Am own to Jefferson Co., they get revenue from what they own.

LWC Viewpoint

LWC contacted MSWD & NSWD about their water needs; For next 10-15 yrs, both feel comfortable with source of supply from LWC.

If Lexington pipeline occurs, both districts want access to the new line.

Reasons why LWC moved to Ky 55.

- customer perspective of existing wholesale
- investment of capital;

LWC technical viewpoint.

Reasons of where to locate, purely technical perspective.

- Interchanges are the best location for access, that results in 2 interchanges:

- Veechdale, Simpsonville
- Ky 55

Ky 55 provided advantages from technical perspective, plus, pass the test from:

it need to

Ky-Am BOWW ; Ky-Am customers
LWC BOWW ; LWC customers.
PSC

Concerns from Ky-Amer.

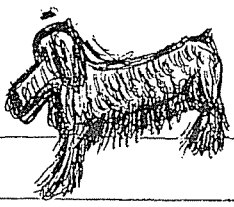
- Water Qual. if line is upsized.
- LWC participation ~~is~~ in waterline.

BIN

List.

Bad investment for Shelbyville

LWC to present Scenarios to BOWW (including costs) and determine what LWC is willing to do.



BowW Mtg. 5/12

Present dollar figures to BowW. for ~~a~~ our ~~cost~~ portion of ownership.

Rates

Reserve capacity v. regular wholesale rate.

Ky-Arn. will provide demand scenarios for demand throughout the year for various weather scenarios.

avg. day = 2.3 MGD

Reserve capacity = 6 MGD



Items to finalize

Pt. of delivery

- Analysis to Ky-Am in form of proposal.
- 2 weeks from 5/5 for concept of cost & pt. of delivery.
- 1 month to close out.
- Engr. consultant decision/discussion to BOWW.

Written Contract - Signed in 1 month.

Rate

5 yr. capacity projection.

Model projections back from Bob

Fri. 5/22, Louisville 9:00 am.

4/24/98

Things to finalize....

1. Procure engineering design firm.

- provide detail design
- id. easements needed
- provide detail on cost estimate

Gannett-Fleming.

PDR Engineers

~~Environmental Engineers~~

} See attachment

2. Permit Issue

- submit as one application for entire pipeline.
- Permit 404.

3. Pinpoint location for point of delivery

- Concern of reserve capacity = 23 MGD
- from elevated service area.

4. # 6a - Exhibit identifying standards that we can deliver. What parameters? Cl_2 , ~~turbidity~~, ammonia residual, ph.

*
Call
Jack.

5. Water Quality in pipeline if we upsize to 48"

< Tues. morning > 4/28. Mt w/ Linda, Nick

* Peak Usage / Peak Event

- considerations for waiver.

- Daily peak?

* No Sys. Devel. Charge - Bob wants to waive it.
house, assuming to be there.

~~Things to finalize~~

- ownership of line where contract does not allow to sell (PSC)

- less that they own, more scrutiny.

- Water Qual. in pipeline 48" v. 36"

Ky - American Mtg.

4/24/98, Ky-American Office

Attendance:

Coleman Bush - KAWC

Joe Helm - BTEH

Lindsey Ingram - attorney for KAWC

Mark Frost - KAWC

Karen Willis - LWC

Bob Miller - LWC

Herb Miller - KAWC

Linda Bridwell - KAWC

Engr, Rate, Contract. - 3 components

RKM

* Exchange of planning information

- 5 yr. budget; LWC → KAWC

* - Use of reserve capacity by KAWC; KAWC → LWC
◦ Simple letter agreement instead of contract.

★
RKM
idea

* - access to the ear of the Board.
◦ advisory board, special committee
general language - nothing
specific, don't lock in though

are we
Setting
a precedence,
willing to do
with others?

12. Responsibilities and Work History

Introduction to Gannett Fleming

Gannett Fleming, an international consulting engineering company, has been active in almost every phase of consulting engineering since its establishment in 1915. Over the years, the company has performed more than 20,000 assignments in 40 states and in 30 countries around the world. Gannett Fleming provides water resources, environmental, transportation, and industrial services; planning, land development, and construction engineering and management; and specialized services including architectural, structural, geotechnical, hydrogeology, mechanical/electrical, SCADA, computer-assisted design, management information systems, and geographic information systems.

Gannett Fleming is listed among the nation's most prestigious engineering firms. The *Engineering News Record*, April 1997, listed Gannett Fleming as 55th among the 500 leading United States consulting firms. In 1996, our fees for work performed totaled approximately \$120 million.

The company and its wholly-owned subsidiaries employ approximately 1,450 persons with expertise in numerous disciplines. Nearly 800 employees are located in our Harrisburg, PA, headquarters with the remaining staff at 27 regional offices throughout the United States, as well as Africa and Mexico. The staff includes civil, electrical, mechanical, structural, hydraulic, and sanitary engineers; architects; surveyors; geologists; soils scientists; hydrologists; environmental scientists; and technical and clerical support personnel. The total number of engineers in the firm is approximately 650.

Team Organization

For this project, we have assembled a highly qualified team of engineers and technicians. As the prime consultant, Gannett Fleming will be responsible for the overall project. We have carefully selected local subconsultants to complement our staff and to provide a strong Kentucky presence.

A summary of project responsibilities and pertinent experience of our key personnel is presented below. Following this information are highlights on each of our subconsultants. The interrelations of the project team members are presented in *Section 13 - Organization Chart*. Additional information on each of our subconsultants, including project descriptions, is included in this section. Resumes of project team members for Gannett Fleming and our subconsultants are included in *Section 14 - Resumes*.

Gannett Fleming's responsibilities will include:

- Overall project responsibility

- Daily communications with Kentucky-American and American Water Service Company, Inc.
- Lead Engineer in:
 - Geotechnical analyses
 - Hydraulic modeling and surge analysis
 - Pipe material and trench evaluations and design
 - Special crossings analysis and design
 - Pipeline design
 - Pumping station design
 - Cost estimating

Gannett Fleming Key Team Members

Jeffrey L. Raffensperger will serve as Project Manager responsible for all day-to-day activities and the point of contact for Kentucky-American Water Company. Mr. Raffensperger has more than 20 years of experience with Gannett Fleming. As detailed in his resume, he specializes in the design of large diameter pipelines and water treatment plants. Currently, he is serving as Project Manager on two other American projects: St. Joseph Water Treatment Plant for Missouri-American and Huntsville Pumping Station for Pennsylvania-American Water Company. Mr. Raffensperger has extensive steep slope pipeline design experience.

W. Kirk Corliss, Jr., P.E., will serve as Project Officer and will also provide Technical Review. Mr. Corliss is Vice President and Manager of Gannett Fleming's Water Supply Section and has 32 years experience with Gannett Fleming. He has extensive experience in the design of water treatment, pumping, transmission, and storage facilities and has directed studies or design on more than 50 water treatment plants over the past 10 years. Mr. Corliss has served as Project Director or Project Manager on 10 American projects. He is very familiar with American people and projects and has established a good working relationship with American. He also designed the Newtown Pumping Station in the late 80s for Kentucky-American Water Company.

James L. Long, P.E., will serve on the Technical Review Committee. Mr. Long is a principal with the firm and Senior Vice President and Director of the Water Resources and Geotechnical Division. He has a Master of Science in Hydraulics and has performed or overseen all of the firm's major steady state and transient analyses during his 35 years with Gannett Fleming. He has extensive knowledge in control and line valve selection and operation, surge relief design, pipeline materials, and analyzing cause and effects.

W. Douglas Ensor, P.E., will serve on the Technical Review Committee. Mr. Ensor is a principal with Gannett Fleming and manages the Newport News, Virginia regional office. He

has 29 years experience in the water industry, the last 10 with Gannett Fleming. Mr Ensor has extensive experience in all types of river and road crossings. He was project manager for the state and national award-winning 48-inch horizontal directional drilling river crossing for the City of Norfolk, Virginia. Mr. Ensor serves on the AWWA Standards Committees C302 Reinforced Concrete Pressure Pipe, Non-Cylinder Type and C303 Concrete Pressure Pipe, Bar-Wrapped, Steel Cylinder Type.

Raymond W. Ilenburg of PDR will be Assistant Project Manager. He will also oversee route/site selection. Mr. Ilenburg has more than 28 years experience. He previously worked for Gannett Fleming for 3 years out of our Newport News office. He worked on several of the projects listed in Section 1 - Project Descriptions, including the Norfolk pipeline and the Newport News project. He worked under Mr. Corliss on several projects and assisted Jeffrey Raffensperger on others. He has an excellent working relationship with the Louisville Water Company and water utilities along the pipeline route.

Mark W. Fischer, P.E., P.L.S., of PDR will provide Utility Coordination/Permitting. Mr. Fischer has more than 20 years of experience in water supply projects. Specializing in pipelines, the following are a few water line improvement projects on which he has served as project manager: Georgetown-Frankfort Interconnect; Scott County; Martin County; Fleming County; and Pendleton County.

Robert A. Stark, P.E., will serve as Pipeline Design Manager. Mr. Stark is a principal in the firm and Senior Project Manager in the Water Supply Section. During his with 35 years with Gannett Fleming, Mr. Stark has specialized in large transmission main design including 35,000 LF of 30-inch and 35,000 LF of 42-inch steel transmission main for the City of Bethlehem, Pennsylvania and 48,000 LF of 20 and 24-inch and 85,000 LF of 30, 36, and 48-inch ductile iron transmission main for the West Virginia Water Company, Charleston, West Virginia. He has in depth knowledge in pipe materials, line valves, pipe restraint, pipe corrosion and cathodic protection, construction procedures, pipe repair and pipeline rehabilitation.

Laurence S. Zimmermann, P.E. will serve as Pump Station Design Manager. Mr. Zimmermann has 30 years experience in water supply. As detailed in his resume, Mr. Zimmermann has served as Project Manager on over ten water treatment plant projects and project engineer for another five having raw and treated water pumping stations. Several of these projects are highlighted in Section 1.

Scott R. Smith, founder of Scott R. Smith Environmental Management Consultants, Inc., will provide environmental permitting services. Mr. Smith has 25 years of direct experience in environmental compliance.

Ronald L. Thomas, C.E., a Principal of Law Engineering and Environmental Services, Inc., will provide environmental services related to wetlands. Mr. Thomas is a certified ecologist

with extensive experience in wetland assessment and related permitting issues. He also specializes in wetland mitigation, environmental assessments and habitat assessment.

Charles M. Niquette, President of Cultural Resources Analysts, Inc., will provide Archaeological services. Offering more than 20 years experience, Mr. Niquette has conducted archeological field work in Kentucky, North Carolina, West Virginia, Ohio, Missouri, Virginia, Arkansas, and Colorado.

Complete resumes for all Gannett Fleming project team members are included in *Section 14 - Resumes*. Detailed information on subconsultant personnel is also included in *Section 14*.

The Gannett Fleming members of the team have worked together on a daily basis on scores water supply projects. The experience our project managers and other investigative and design team members have working together ensures that the framework is already established for successfully completing this project in the most efficient manner.

One of the keys to the success of our projects is the participation of top management personnel in every project completed by the firm. Gannett Fleming is wholly owned by its engineering managers, and every project is directed by one or more of those managers. Stockholders Messrs. Raffensperger, Corliss, Long, Ensor, and Zimmermann will be responsible for this project. The personal involvement of top management and the experience and expertise of our personnel are the keys to our success in providing outstanding professional service to each client.

Subconsultants

The following subconsultants have been selected based on their specialties, locations, and knowledge of the local area. However, we would like to stress that our Project Manager, Jeffrey Raffensperger will be involved on a daily basis. He will work from our prime subconsultant's office in Lexington, Kentucky, as needed. During the times he is working at our headquarters office, he will always be electronically connected with the subconsultants, Kentucky-American and American Water Works Service Company via E-mail.

Please refer to the attachments following this section for more complete information, including project descriptions, for each of our subconsultants. Resumes are included in *Section 14*.

PDR Engineers, Inc.

PDR Engineers, Inc. (PDR) will be our prime subconsultant. The firm was founded in 1946 and is ranked in the top 500 firms in *Engineering-News-Record's* listing of the top 500 firms. They are located in Lexington and Louisville, Kentucky and have three regional offices outside

the state. Water and wastewater projects have been their mainstay since their founding. They have designed over 1 million feet of water and sewer lines, 50 pump stations, and 30 water and wastewater treatment plants. The Gannett Fleming team will take best advantage of their local knowledge by utilizing them for property research, survey, easement plats and descriptions, pipeline drawings, and assistance in pipeline design and non-environmental permits.

PDR has a good working relationship with the Louisville Water Company, as well as with many of the communities along the pipeline route, including Frankfort, Georgetown, Shelbyville, Midway, and Versailles. In addition, James T. Huiting, P.E., while working for another firm, performed preliminary hydraulic modeling studies for the Kentucky-American 36- or 42-inch transmission main from Louisville to Lexington as well as locating one, two, or three pump stations along the proposed transmission main.

Fuller, Mossbarger, Scott & May Engineering, Inc.

Fuller, Mossbarger, Scott & May Engineering, Inc. (FMSM) will provide soil and rock borings at the Kentucky River, and road and railroad crossings, and at other critical locations along the transmission main and will assist our geotechnical engineers with analysis. With a staff of over 150 professional engineers, this firm has completed numerous Kentucky-American projects. FMSM was founded in 1966 and has three offices, including one in Louisville, Kentucky. Observation during boring work and the preparation of the geotechnical report will be performed by FMSM or Gannett Fleming.

Cultural Resources Analysts, Inc.

Cultural Resources Analysts, Inc. will provide archeological services. Founded in 1983, this fully-equipped archeological contract firm is a small business located in Lexington, Kentucky. They have worked on numerous projects for developers, cities and other municipalities; water districts; oil, gas and coal companies; area development districts; federal and state agencies; and architectural and engineering firms.

Law Engineering and Environmental Services, Inc.

Law Engineering and Environmental Services, Inc., a national environmental services and geotechnical firm with a regional office located in Louisville, Kentucky, will provide environmental wetland assessment services. This firm was founded in 1948 and has 4,300 employees. This firm has performed environmental assessments related to pipeline projects for Indiana-American Water Company; Tennessee Gas Pipeline for a 96-mile pipeline corridor; and Northern Illinois Gas for a 28-mile corridor. They have also completed projects for Kentucky-American Water Company.

Scott R. Smith Environmental Management Consultants, Inc.

Scott R. Smith Environmental Management Consultants, Inc. will provide environmental permitting services in conjunction with PDR. This environmental consulting firm is headquartered in Lexington, Kentucky and has been providing services for 30 years.

Corrpro Companies Inc.

Corrpro Companies Inc. (Corrpro) will provide, if required, corrosion engineering services. This firm has been providing economical long-term solutions for corrosion problems since 1984. This firm is located in Medina, OH, and has 27 offices throughout the country. They offer state-of-the-art research and testing facilities along with an extensive materials production facility. Gannett Fleming has worked with Paul Rothman of Corrpro on several transmission main projects including the 25,000-foot, 84-inch raw water transmission main for Fairfax County, Virginia.

Mechanical Solutions, Inc.

Mechanical Solutions, Inc. will provide finite element analysis. MSI will review information from prospective pump manufacturers, as well as the system design and specifications. They will then analyze and evaluate the pump installations at the two booster installations, determine whether vibration problems could occur, and if so, how to avoid them. MSI is located in Parsippany, NJ. As detailed in the attached information, MSI has extensive experience in finite element vibration analysis for clients including Kentucky-American Water Company.

Quality Control and Quality Assurance

Gannett Fleming is committed to providing high quality engineering service to its customers through its continuous quality improvement (CQI) program that involves all personnel in a systematic, logical process to continually improve the firm's work practices and procedures. CQI, Gannett Fleming's adaptation of Total Quality Management, is a systematic, firm-wide process of improving services we perform for our clients by improving the way we work and the services we provide. CQI is concerned with identifying barriers and removing those barriers. CQI achieves this by making quality a part of everyone's job description. We train each person in CQI and assign him or her to a Quality Improvement Meeting Unit (QIMU). These QIMU's hold one-hour weekly meetings to identify barriers and to propose improvements or changes in the way we work. In this way, CQI provides a vehicle for the recognition and re-involvement of all employees in improving the firm's methods, procedures, and operations.

CQI is utilized on all projects including the recent Missouri-American Water Company St. Joseph Water Treatment Plant project. The same procedures and techniques will be employed for this project.

Gannett Fleming, Inc.

 **Gannett Fleming**

Gannett Fleming Project Descriptions

The 5 projects featured in this section represent Gannett Fleming's expertise on projects similar to this one for Kentucky-American Water Company. These projects highlight larger diameter pipelines; pipelines crossing rives, roads, and railroads; and subaqueous crossings, as well as large capacity pumping stations. We have also highlighted our experience on projects for other American companies. Complete reference information is included for each project.

Client: **Chester Water Authority**
Fifth and Welsh Streets
Chester, PA 19016
Robert W. Naef, P.E., Executive Manager and Chief Engineer
(610) 876-8185

Description: Client for 23 years. Performed hydraulic and acoustical studies, preliminary design, final design, bid assistance, construction administration, and resident observation services for the following projects:

Transmission Mains:

Susquehanna River 42 and 36 Inch Raw Water Transmission Main
(Project Manager - Jeffrey L. Raffensperger) (Placed Into Service 1989)

- 14,385 LF of 42 inch prestressed concrete cylinder pipe
- 5,275 LF of 36 inch prestressed concrete cylinder pipe
- 710' of 72 inch prestressed concrete cylinder pipe carbon contact detention line
- Cross county routing
- Surge analysis
- Hydraulic control structure
- Wetlands mitigation
- Permit requirements - Erosion and Sedimentation Control (E&S), PA Department of Environmental Protection (PADEP)

42 Inch Treated Water Transmission Main
(Project Manager - Robert A. Stark, Project Engineer - Matthew J. Carnish)
(Under Design)

- 9,500 LF of 42 inch prestressed concrete cylinder pipe
- Cross county routing
- Wetlands mitigation
- 72 inch tunnel under highway
- Permit requirements - E&S, Township, PADEP

Artesian 20 Inch Treated Water Transmission Main
(Project Manager - Robert A. Stark) (Placed Into Service 1992)

- 17,500 LF of ductile iron pipe
- Routing along highway

- Boring across State highway
- Permits required - PADOT, PADEP

Pumping Stations:

Rosedale Booster Station

(Project Manager - W. Kirk Corliss) (Placed Into Service 1977)

- In-line booster station for 40 miles for 48/42 inch transmission main - Oxford Tanks to Village Green Tank Farm
- Gravity flow - 37 mgd
- Stage 1 pump flow - 44 mgd
- Stage 2 pump flow with second in-line booster station - 60 mgd
- Three 30 mgd, 700 hp horizontal centrifugal pumps
- Variable speed drives - liquid rheostat
- Acoustical study and noise attenuating design - maximum of 55 dBA at property lines
- 60 mgd pipe gallery overflow
- Architecturally treated to fit into exclusive rural setting
- SCADA with local and remote control of pumps
- Low suction override to control speed of pumps
- Hydraulic model, surge study, and surge controls
- Permits required - PADOT, Site Development

Kelton-Pennock Booster Station

(Project Manager - R. A. Stark, Project Engineer - M. J. Carnish)

(To Be Placed Into Service Fall 1997)

- Second in-line booster station for 40 miles, 48/42 inch treated water transmission system from Oxford Tanks to Village Green Tank Farm.
- To operate in series with Rosedale Booster Station or by itself.
- Increase transmission capacity from 44 to 60 mgd.
- Hydraulic model, surge study, and surge controls at station with air vacuum chamber modifications along transmission main and surge relief addition at Rosedale Booster Station.
- Three 900 hp, 30 mgd horizontal centrifugal pumps
- Variable speed drives (VFDs) by others. Design criteria and design review by Gannett Fleming.
- Acoustical study and noise attenuating design - maximum of 55 dBA at property line.
- Architecturally treated to fit into rural residential setting.

- Permits required - PADEP, Site Development, E&S

Hillendale Booster Station

(Project Manager - R. A. Stark, Project Engineer - M. J. Carnish)

(Placed Into Service 1992)

- 7 mgd booster station with suction off 48/42 inch Oxford Tanks to Village Green Tank Farm Treated Water Transmission Main.
- To service Artesian Water Company in Delaware and numerous customers along route.
- One 150 hp, 4 mgd; two 125 hp, 3 mgd; and one 40 hp, 1 mgd horizontal centrifugal pumps.
- Solid state variable frequency drives (VFDs) to maintain 55 psi delivery pressure at State line regardless of flow.
- If VFDs control lost, pumps to operate at constant speed with flow rate varied by motor-operated modulating butterfly control valves to maintain 55 psi at State line.
- Emergency generator.
- Colonial brick exterior design to match aesthetic appearance of neighboring residences.
- Hydraulic and surge study and surge controls.
- Acoustical study and noise attenuating design - maximum of 55 dBA at property line.
- Permits required - PADEP, Site Development, E&S

Tanks:

10 Mgal Treated Water Storage Tank at Village Green Tank Farm

(Project Manager - R. A. Stark, Project Engineer - S. F. Wood)

(Design Completed, Ready for Bid)

- Part of 90 Mgal treated water storage facility at end of 48/42 inch transmission main.
- Prestressed concrete.
- Permits required - PADEP, Site Development, E&S

Client: **City of Norfolk**
Department of Utilities
Division of Water Production
6040 Waterworks Road
Norfolk, VA 23502
Craig C. Ziesemer, Assistant Director
(804) 441-5742

Description: Studies, preliminary design, final design, bid assistance, construction administration, and field observation services for the following projects:

Transmission Mains:

48 Inch Raw Water Transmission Main

(Project Manager-W. Douglas Ensor - Project Completed 1995)

- 59,300 LF of 48 inch prestressed concrete cylinder pipe.
- Route along existing right-of-way at rear of residential properties and highway right-of-way.
- Hydraulic study related to existing in-line Simmondsdale Booster Pumping Station and its proposed expansion.
- Surge analysis.
- Geotechnical analysis.
- Three (3) river crossings of Elizabeth River:
 - ▶ Extensive studies for most economical method of crossings.
 - ▶ Western Branch - 1,000 LF of 48 inch pile-supported subaqueous crossing.
 - ▶ Southern Branch - 2,200 LF of 48 inch horizontal directional drilling.
 - ▶ Eastern Branch - 1,200 LF each - two (2) 48 inch raw water steel mains; 20 inch treated water steel main; and 18 inch gas steel main on pile caps above water surface.
- 48 inch horizontal directional drilling largest constructed in United States. Received seven (7) State and National Awards.
- 800 LF, 84 inch tunnel with liner plate below Northern-Southern Railroad.
- Permit requirements - VDOT, VDH, DEQ (SWCB), U.S. Army COE, Norfolk Southern Railroad.

Kempsville Road 42 Inch Treated Water Main

(Project Manager- E. P. Skipper) (To Be Placed Into Service 1998)

- 7,000 LF of 42 inch prestressed concrete cylinder pipe.
- Competitive bid ductile iron, steel pipe, and prestressed concrete cylinder pipe.
- Wetlands evaluation.
- Geotechnical investigations.
- 50 mgd metering chamber and related SCADA facilities.
- Tunnel under roadway.
- Permit requirements - VDOT, VDH, VMRC, DEQ (SCWB), U.S. Army COE.

Pumping Station:

Moore's Bridges Water Treatment Plant, 78 mgd Upgrade and Expansion to 108 mgd

(Project Manager-W. Kirk Corliss - Project to be Completed 1998)

- 108 mgd transfer pump station.
- 27 mgd 300 hp vertical turbine pumps.
- Variable frequency drives on two of five pumps.
- SCADA system for plant, over 150 remote signals, and remote control of Simmons Dale Booster Pumping Station.

Tanks:

Moore's Bridges Water Treatment Plant, 78 mgd Upgrade and Expansion to 108 mgd

(Project Manager - W. Kirk Corliss - Placed Into Service 1996)

- 8 Mgal steel finished water storage tank on piles.
- 4 Mgal steel finished water storage tank on piles.

Client: **Pennsylvania Gas and Water Company**
 (Now owned and operated by Pennsylvania American Water Company)
 20 East Union Street
 Wilkes-Barre, PA 18701
 David R. Kaufman, P.E., Operations Manager
 717-830-6515

Description: Studies, preliminary design, final design, bid assistance (design-build for three (3) projects, general construction and field observation services for the following projects:

Transmission Mains:

Ceasetown Treated Water Transmission Mains
(Project Manager - Jeffrey L. Raffensperger) (Placed Into Service 1993)

- 16,300 LF of 42 inch ductile iron pipe.
- Cross country.
- Over twenty stream crossings.
- Environmental Impact Statement (EIS).
- Steep slope - 22°, 300 feet long with pipe collars.
- Hydraulic studies.
- Permit Requirements - EIS, E&S, PADEP, PADOT

Plymouth Tunnel Treated Water Transmission Main Replacement
(Project Manager - Jeffrey L. Raffensperger) (Placed Into Service 1993)

- 4,560 LF of 42 inch (3,400 LF in tunnel); 850 LF of 48 inch; and 1,220 LF of 36 inch ductile iron pipe.
- Steep slope to tunnel entrance - 19°, 770 feet long with pipe collars. (Steepest slope 30° for 160 feet).
- Hydraulic analyses.
- Wetlands.
- Permit Requirements - E&S, PADEP.

Nesbitt Raw Water Transmission Main
(Project Manager - Robert A. Stark) (Placed Into Service 1988)

- 2,000 LF of 30 inch ductile iron pipe.
- Cross country.

-
- Hydraulic analyses.
 - Wetlands.
 - Permit Requirements - PADEP, E&S.

Watres Transmission Mains

(Project Manager - Jeffrey L. Raffensperger) (Placed Into Service 1993)

- 6,700 L.F. of 24 inch ductile iron pipe raw water transmission main.
- 3,100 L.F. of 24 inch and 14,800 L.F. of 16 inch ductile iron pipe treated water main.
- Cross country.
- Hydraulic Analyses.
- Stream, road, and railroad crossing.
- Permit Requirements - PADEP, E&S, Railroad, PA Turnpike.

Scranton Transmission Mains

(Project Manager - Jeffrey L. Raffensperger) (Placed Into Service 1990)

- 8,200 L.F. of 42 inch and 1,400 L.F. of 48 inch ductile iron pipe treated water main.
- 13,050 L.F. of 24 inch ductile iron pipe treated water main relocation for PADOT project.
- Cross country and roads.
- Hydraulic analyses.
- Environmental issues.
- Stream and road crossings.
- Permit Requirements - PADEP, PADOT, E&S.

Pumping Stations:

Scranton Water Treatment Plant

(Project Manager - Jeffrey L. Raffensperger) (Placed Into Service 1990)

- 3 - 30 mgd, 500 HP Vertical Turbine (V) can raw water pumps.
- Variable frequency drives (VFDs).
- SCADA.
- Chlorination at plant.

Ceasetown Water Treatment Plant

(Project Manager - Jeffrey L. Raffensperger) (Placed Into Service 1993)

- 3 - 14.4 mgd, 125 HP (V) raw water pumps.
- Variable frequency drives (VFDs).
- Surge analyses and control analyses.
- SCADA.
- Chlorination at plant.

Mill Creek/Gardner - Watres Water Treatment Plant

(Project Manager - Jeffrey L. Raffensperger) (Placed Into Service 1993)

- 2 - 4 mgd, 150 HP Horizontal Centrifugal (H) raw water pumps.
- 1 - 2.5 mgd, 100 HP (H) raw water pump.
- 3 - 2.5 mgd, 200 HP (H) treated water pumps.
- Hydraulic analyses.
- Surge analyses and control facilities.
- SCADA.
- Chlorination at plant.

Tanks:

Multiple Projects - All Steel

(Project Manager - Jeffrey L. Raffensperger) (Placed Into Service 1988-1993)

- | | |
|------------------|-----------------------|
| ■ Fallbrook - | 0.75 Mgal, 1.0 Mgal. |
| ■ Ceasetown - | 5.0 Mgal, 2.9 Mgal. |
| ■ Watres - | 0.75 Mgal, 0.75 Mgal. |
| ■ Mill Creek - | 1.6 Mgal, 1.6 Mgal. |
| ■ Crystal Lake - | 1.0 Mgal. |
| ■ Brownell - | 0.78 Mgal, 0.78 Mgal. |
| ■ Scranton - | 1.6 Mgal, 2.5 Mgal. |
| | 2.5 Mgal, 2.8 Mgal. |
| ■ Nesbitt | 2.0 Mgal. |
| ■ Survey. | |
| ■ Geotechnical. | |
| ■ SCADA. | |

Client: **City of Bethlehem**
10 East Church Street
Bethlehem, PA 18018
Jeffrey A. Andrews
Superintendent of Water Supply and Treatment
610-865-7090

Description: Studies, preliminary design, final design bid assistance, construction administration and field observation, and start-up services.

Transmission Mains:

Raw Water Transmission Main to Water Treatment Plant
(Project Manager - Robert A. Stark) (Placed into Service 1995)

- 23,800 LF of 42-inch steel pipe.
- Route study
- Cross country
- Aerial survey
- 1,135 LF of main at 13° slope with concrete thrust collars
- Wetlands - 75 percent of route
- Archeological concerns
- Hazardous materials (lead, zinc) along portions of main
- Stream and highway crossings
- Cathodic protection studies and design.
- Hydraulic modeling
- Surge analysis and control facilities
- Permit requirements - PA DEP, E&S, PA Historical and Museum Commission

Treated Water Transmission Main from Water Treatment Plant to City
Project Manager - James L. Long) (Placed into Service 1995)

- 23,800 LF of 48-inch and 1,500 LF of 54-inch steel pipe
- Route study
- Roadways and cross country
- Geotechnical borings at special crossings
- Aerial survey
- Wetlands
- Stream and highway crossings

-
- Cathodic protection studies and design.
 - Hydraulic modeling
 - Surge analysis and control facilities
 - Permit requirements

Tunkhannock Raw Water Main

(Project Manager - James L. Long) (Placed into Service 1968)

- 11,600 LF of 42-inch and 35,750 LF of 30-inch steel pipe
- Route study
- Cross country
- 810 LF at 20° slope with concrete thrust collars. (Steepest 400 LF at 27° slope)
- Stream and highway crossings
- Hydraulic modeling
- Special flow control valve designed for high head loss
- Cathodic protection study and design
- Permitting requirements - PA DOT, PADEP

Water Treatment Plant:

30 mgd Water Treatment Plant

- Chlorine and ammonia facilities
- SCADA - Distributed Control System (DCS)
- Permit requirements - PADEP

System SCADA:

New System SCADA System

(Project Manager - Steven Lowry) (Placed into Service 1995)

- System study and design
- Dual computer control center
- 42 remote stations
- 2 repeater stations interfaced to microwave line
- Interfaced with plant DCS

Tanks:

Multiple Projects

(Project Manager - James L. Long, Project Engineer - Samuel F. Wood)
(Placed Into Service 1993)

- 5-0 Mgal steel - on piles
- 5-0 Mgal steel
- 5-0 Mgal steel

Client: City of Newport News
Newport News Waterworks
2600 Washington Avenue, 5th Floor
Newport News, VA 23607
Bryan Bradish, P.E., Chief Engineer
(804) 247-2405

Description: Gannett Fleming provided route study, preliminary and final plans and specifications, bid assistance, construction administration, resident observation services for construction of 51,000 LF of 48-inch raw water main and three associated outfalls. This project was divided into three phases:

Harwoods Mill 48-inch Raw Water Supply Main

(Project Manager-W. Douglas Ensor, Assistant Project Manager-Everett Skipper)
(Placed Into Service 1995)

- 23,000 LF of 48-inch raw water transmission main
- Cross county routing
- Tunnel crossing of railroads and state highways
- Extensive archeological and environmental assessments
- Complete cathodic protection system design
- Permit requirements - local conditional usage (York County), VDOT, SWCB, VDH, CSX Railroad, local wetlands

Lee Hall 48-Inch Raw Water Main

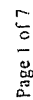
(Project Manager-W. Douglas Ensor, Assistant Project Manager-Everett Skipper)
(To Be Placed Into Service Fall 1997)

- 26,000 LF of 48-inch raw water transmission main with new outfall for Harwoods Mill Reservoir, and aerial crossing of Lee Hall Reservoir
- 350-foot tunnel crossing of I-64
- Routing across Yorktown, VA Naval Weapons Station
- Pile supported (1,500 LF) aerial crossing of Lee Hall Reservoir
- Permit requirements - local conditional use (York County and James City County), VDOT, SWCB, US Navy, local wetlands board, CSX Railroad

New Little Creek Reservoir Outfall

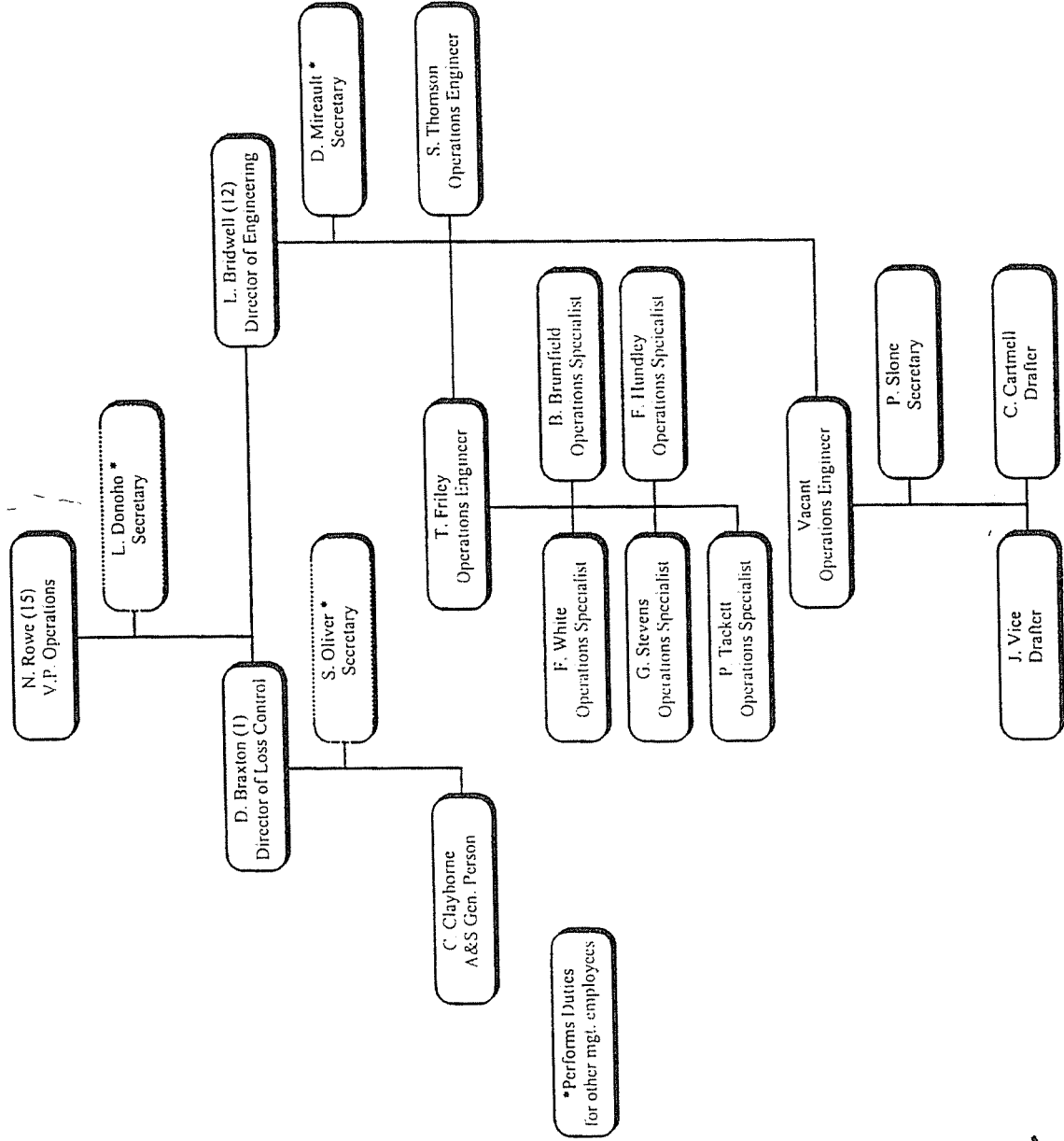
(Project Manager-W. Douglas Ensor, Assistant Project Manager-Everett Skipper)
(Placed Into Service 1994)

- 2,000 LF of 48-inch raw water transmission main and new outfall structure for Little Creek Reservoir
- Outfall designed for delivery of 40 mgd raw water
- New easements/right-of-way acquisition
- Permits required - Historical/Archaeological, local conditional use (James City County), DOT, SWCB, VDH

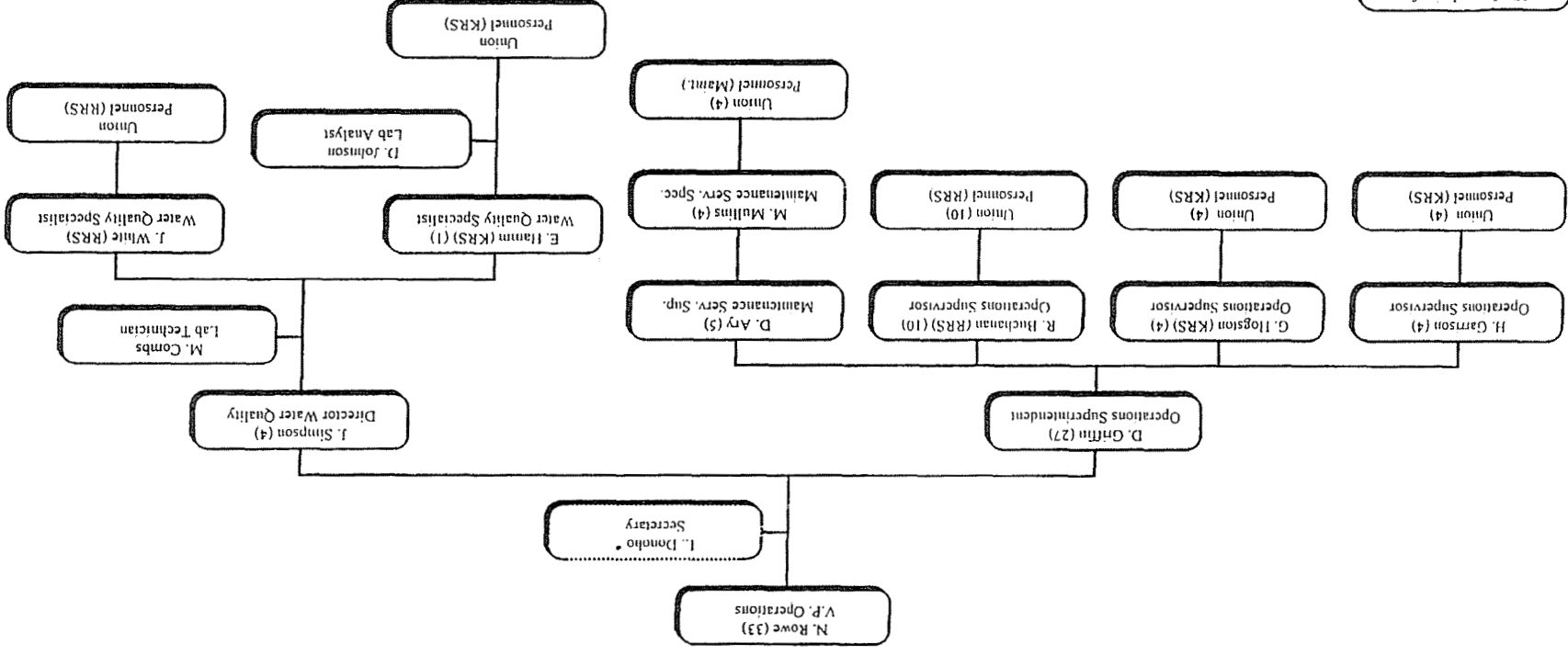


Kentucky-American Water Company

Loss Control/Engineering



Kentucky-American Water Company Production/Water Quality

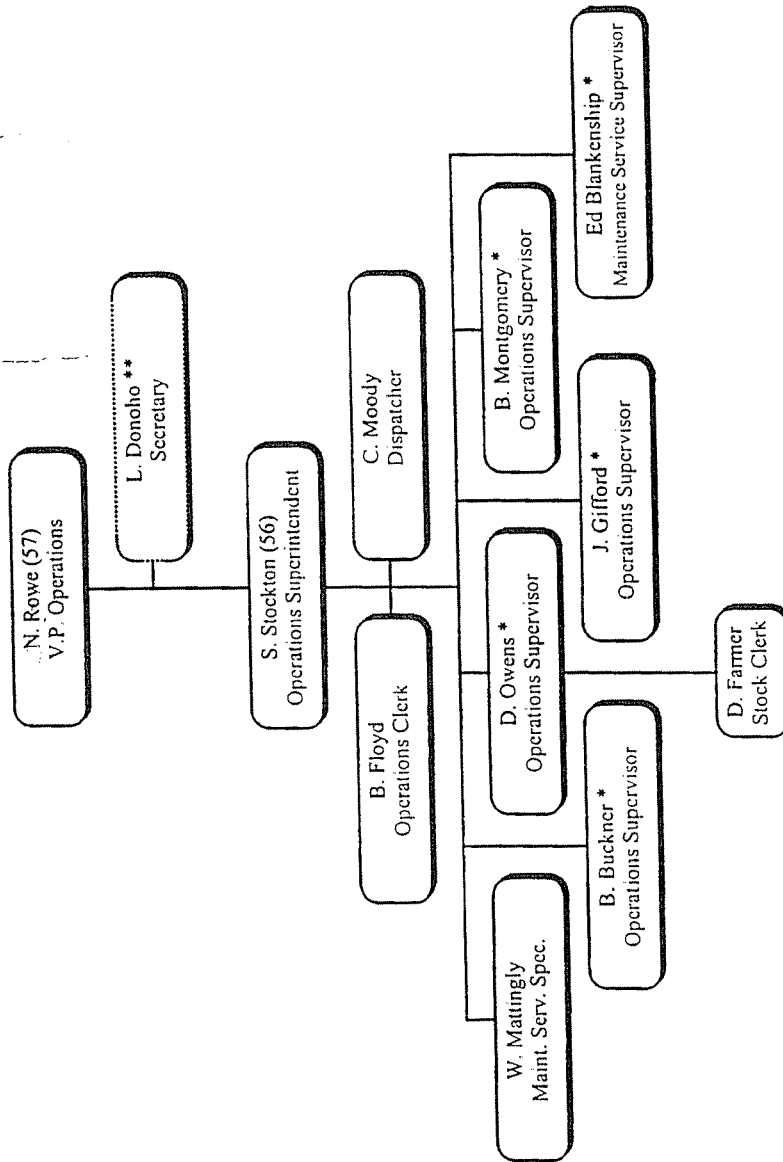


* Performs duties for other management employees.



Kentucky-American Water Company

Distribution/Outside Commercial/Construction

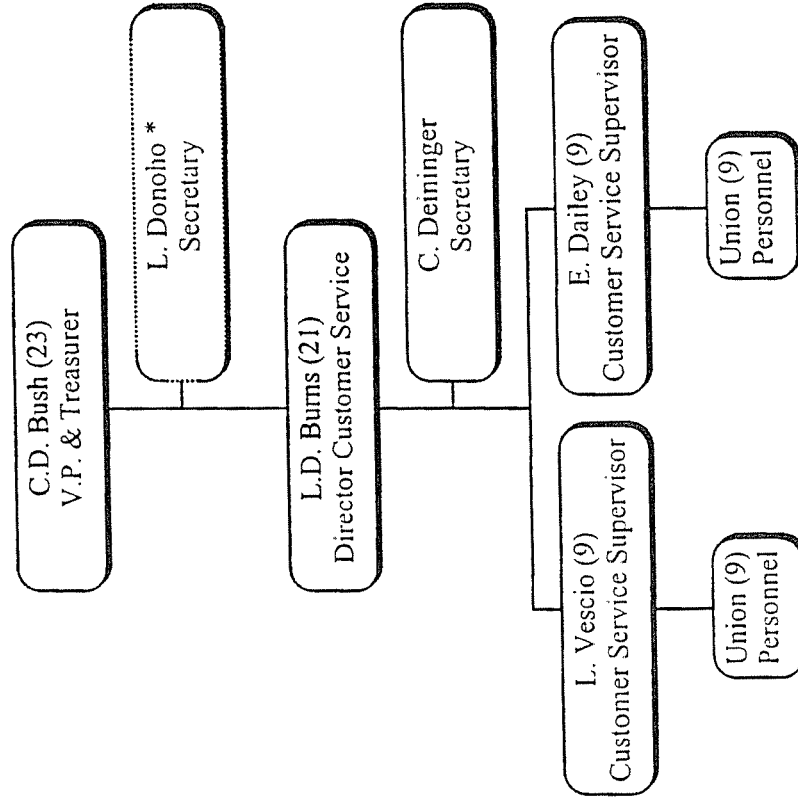


* All Operations Supervisors and Maintenance Service Supervisor interchange responsibilities between operations and maintenance of distribution system, meter reading, and outside commercial service work. They supervise 47 Union employees.

** Performs duties for other management employees.



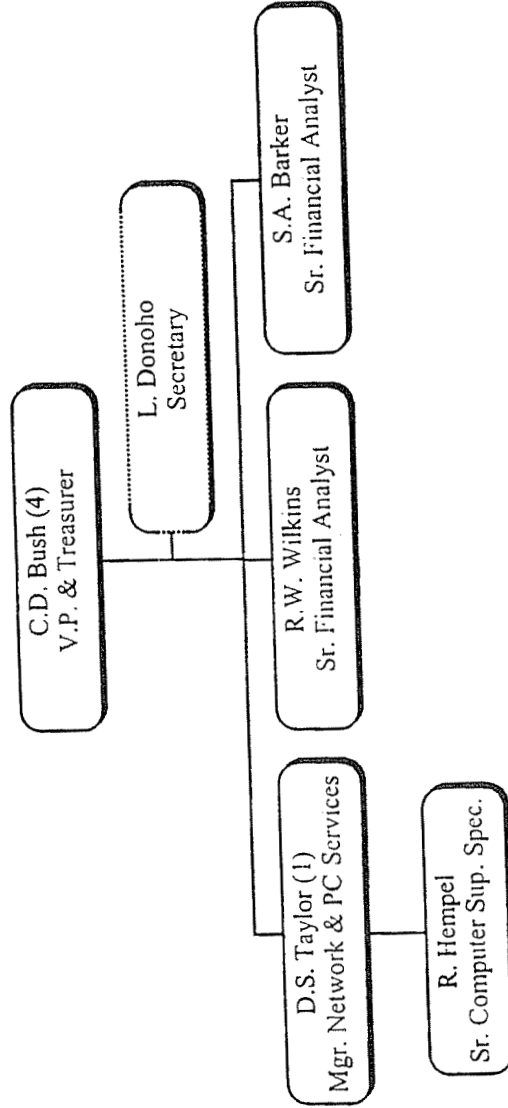
Kentucky-American Water Company
Customer Service



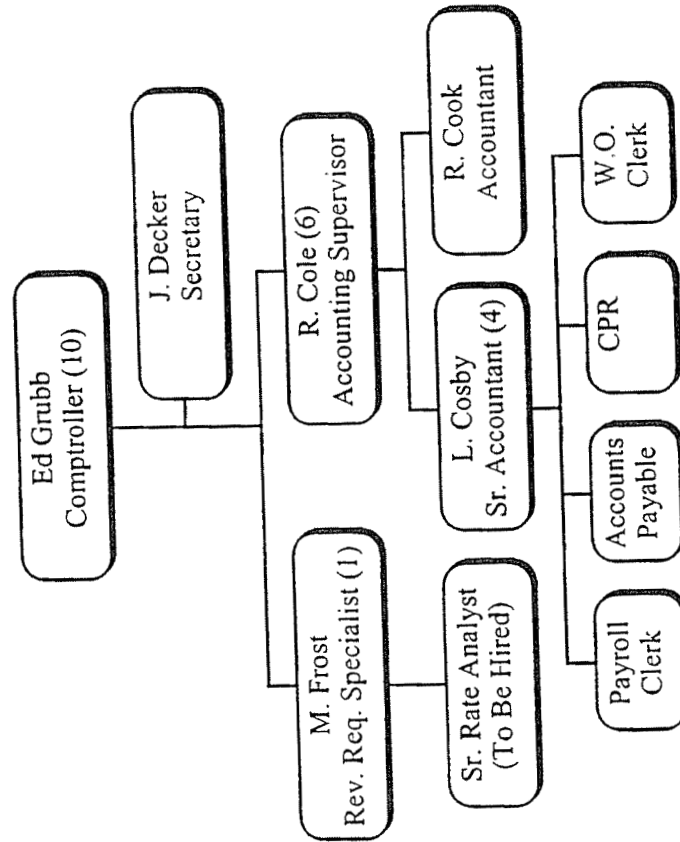
* Performs Duties for
Other Management Employees



Kentucky-American Water Company
Information Systems/Financial Planning



Kentucky-American Water Company
Accounting/Rates



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.

What investment for K-A. ?

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

2300 Richmond Road • Lexington, Kentucky 40502 • (606) 269-2386 • Fax (606) 268-6327

Coleman D. Bush
Vice President & Treasurer
(606) 268-6324

May 28, 1998

Mr. Robert K. Miller, Vice President of Finance and Treasurer
Louisville Water Company
435 South Third Street
Louisville, KY 40202

Dear Bob:

I feel that we had a very productive meeting last Friday. As you can imagine, at Kentucky-American, we have explored the various point of delivery and rate alternatives at length.

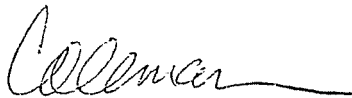
We offer the following for your consideration:

- While many of the details will require significantly more discussion, we understand your offer regarding point of delivery to be: For a point of delivery located at or near KY 55, Louisville Water Company ("LWC") will build, at its expense, one booster station to be located in Jefferson County and one storage tank (size and location to be determined). This is acceptable to us for the following consideration. It is estimated that these additional facilities will add up to 12 MGD to the capacity of the project facilities. We propose that Kentucky-American Water Company ("KAWC") be allowed to reserve one half of this additional capacity at no additional cost to KAWC.
- Regarding the water rate, we are pleased that the permanent ratchet is no longer an issue. In previous negotiations, you mentioned the possibility of phasing in the reserved capacity amount. We propose that we reserve 3 MGD in year 1; 4 MGD in year 2; 5 MGD in year 3 and 6 MGD in year 4 and thereafter, subject to the dictates of actual operation. The 1.5 and 2.0 "excess use" multiples are intriguing but do not appear to withstand a cost-based test. Unless the 1.5 and 2.0 "excess use" multiples produce a more favorable rate, we propose an "excess use" rate of \$1.22 per thousand gallons (including the ESA charge) tied to some peak event in your system. Above that, we propose that the standard wholesale rate (including the ESA charge) apply.

Page 2

I will be out of town until June 8. I propose that we set a meeting for that week to try to bring these negotiations to a close. If a meeting sometime the week of June 8 is acceptable, please contact Herb Miller at 606.268.6339

Sincerely,



Coleman Bush
Vice President and Treasurer

C: Roy W, Mundy II
Nick O. Rowe
Herbert A. Miller, Jr.
Linda C. Bridwell
Mark C. Frost

annually, the seller ~~will~~ ^{may} reserve capacity (a mix of 6 MGD) and up to max. of 23 MGD capacity to the Buyer. The seller has up to 12 months to make the necessary impr. to provide the new Buyer Reserve Capacity Request.

SCHEDULE B BLUEGRASS WATER PROJECT AGREEMENT

1. Seller shall establish, in writing, the Seller System Capacity ^{every 5 years} every five years as determined by a consulting engineer of national reknown.

^{by 1/1 of the prev. year.}

Buyer shall notify Seller, in writing, the Buyer Reserve Capacity request for the coming year. ~~Should the Buyer Reserve Capacity request be within the 23-million-gallon-per-day (MGD) limit, yet exceed the current Seller System Capacity, the Seller has up to 12 months to make the necessary improvements to provide the new Buyer Reserve Capacity request.~~

Should the Seller be approached to sell any ^{up to 6} elevated system capacity to anyone other than the Buyer, the Buyer has ~~12~~ months from the time of notification from the Seller to respond to the Seller with a new Buyer Reserve Capacity.

^{for the Proj. Facilities}
that would limit the seller's ability to provide the Buyer Reserve Capacity.

2. Rate for First Five Years of Agreement

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

- Minimum consumption per day will be 2.0 million gallons.
- Actual consumption will be multiplied by the lowest rate block available to Seller's customers (\$1.03/1,000 gallons - 1998) plus the elevated service charge (\$0.19/1,000 gallons - 1998).

3. ^{Water} Rate for Remaining Years of Agreement

The invoice for all water purchased by the Buyer after the first five years until the end of the agreement shall be comprised of the following ~~three~~ components: 1) Operating Cost, 2) Depreciation Cost, and 3) Return on ^{Plant} ~~(Plan)~~ Investment. These components are defined as follows:

- Operating Cost Component
(Buyer Consumption / Seller Total System Sales) * (Seller operating expenses - common to retail ^{only} costs - customer costs) ^{divide by 365.}
- Depreciation Cost Component
(Buyer Reserved Capacity / Seller System Capacity) * (Seller depreciation expenses - common to retail ^{only} costs - customer costs)
- Return on Plant Investment Component
(Buyer Reserved Capacity / Seller System Capacity) * (Seller return on plant investment - common to retail ^{only} costs - customer costs)

- Actual operating expenses — add in d.

1 - w/part 2
1 - w/out part 2

Work up 2 schedules for "B"

Definitions page 8

4. Peaking Factor for First Five Years of Agreement

Buyer consumption for each day shall be determined by the metered usage from midnight until midnight. If Buyer consumption is unusually high due to unforeseeable and uncontrollable circumstance, then the Seller will consider, at its own discretion without setting precedent, waiving the additional charges as described below.

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 by less than 20 percent 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 rate identified in paragraph 2 times a multiplier of 1.5.

Should the buyer consumption exceed the Buyer Reserve Capacity by more than 20 percent 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 rate identified in paragraph 2 times a multiplier of 2.0.

comes out no matter

3. Peaking Factor After the First Five Years of the Agreement

Should the Buyer consumption remain below the Buyer Reserve Capacity for each day, the rate per 1,000 gallons shall be according to paragraph 3 above.

Should the buyer consumption exceed the Buyer Reserve Capacity by less than 20 percent for any given day, the rate shall be as identified in paragraph 3 up to the Buyer Reserve Capacity, and any additional consumption shall be at the rate identified in paragraph 2 times a multiplier of 1.5.

Should the buyer consumption exceed the Buyer Reserve Capacity by more than 20 percent for any given day, the rate shall be as identified in paragraph 3 up to the Buyer Reserve Capacity, and any additional consumption shall be at the rate identified in paragraph 2 times a multiplier of 2.0.

std. wholesale + ESAC

Equipment failure

4. Min. ^{daily} ~~monthly~~ purchase. 2.0 MGD.

midnight - midnight

If Buyer consumption is low due to

wave the minimum ~~consumption~~ purch. requirement for the affected period.

Schedule B

Bluegrass Water Project Agreement

< add min. consumption of 2.0 MGD. ex. reserve cap.
example of calc.

Buyer shall notify Seller ^{in writing} 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.

Return time - 6 months 12 mos.

X-A 2 mos. to decide of cap.

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 \$1.03/1000
- b. The actual consumption multiplied by the elevated service area charge; and rates to Brown (Col)
- 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.

What about above Reserve Cap 2.0 MGD
Min 2.0 MGD
QCH/KAUS

after 5

Min.

Up to reserve < 20% > 20%

23 MGD

add

should Peaking Factor - 1st 5 yrs.

4. If Buyer consumption remains ^{the} below Buyer reserved capacity for each day of the month, then the rate for ^{per 1,000 gallons} that month shall be according to paragraph (3) above.

5. ^{should the given ~~rate~~ exceed} If Buyer consumption ^{exceed} 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) ^{see} above for consumption up to the reserved capacity and according to paragraph 3 above * 1.5 for consumption above the reserved capacity. ^{below}

6. ^{should} If Buyer consumption ^{given} 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. ^{see below}

① 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.

below

the rate shall be as identified in # 3 up to the BRC consumption, and any additional consumption shall be at the rate id. in # 3 x a multiplier of 1.5.

Peaking Factor after 1st 5.

Rate as established by components

x 1.5

x 2.0.

add Schedule "A"

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

and

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

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 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 of water for sale to customers in the counties of Fayette, Bourbon, Clark, Harrison, Jessamine, Scott, and Woodford, and

E. Buyer is desirous of entering into an agreement to provide it 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.

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. *facility stations*

✓ (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. *UWC spec.*

✓ (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).

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.

① (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. *2 P.S. 25 MGD (I-265/I-64)*

★ ③ Storage Facility *1.5 MG (in Shelby prior to the Point of Delivery)*
(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. *language to be developed. 5 yr time frame.*

(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.

"incremental" material & installation cost.

no longer than 12 month period.

Condemnation: LWC would take, but ~~at~~
KAWC would pay for condemn. procedure

Includes actual
cost of esent.
with cost id.
in this #.

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.

<measurable work>

4. CONSTRUCTION OF PROJECT FACILITIES:

purchase price

(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. <Add'l language>

5. REIMBURSEMENT TO SELLER FOR PROJECT FACILITIES COSTS:

(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:

(i) By progress payments to be made within 30 days of invoice, or ~~OK~~

~~(ii)~~ ~~OK~~ 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
"Commencement date". "trigger date - by KAWC"

~~(iii)~~ ~~OK~~ Failing the ~~other two~~ ~~above~~ ~~S~~ 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.

(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.

(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. *(Remove - may put back in if % rate is better for KAUC)*

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.

✓(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.

Duty of
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.

8. RATES AND PAYMENT:

(a)^B 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.

(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. *<read on the last day of month>*

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. *Consistent w/ every other customer*

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. *checked B*

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. *Ref. Sched. B*

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. *in excess of 16x gpm it will*

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, 2038.

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:

(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.

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. *design costs*

(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.

*Insurance
statement*
7

(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: _____

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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)

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%

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KAWC RATE OPTIONS

Annual Water Bill: Regular Wholesale Rates: Option 1

Commodity Rate	\$1,270,200 @ \$1.16/1,000 gals.
Elevated Service Area Surcharge	208,050 @ \$0.19/1,000 gals.
Total Annual Commodity Charge	<u>\$1,478,250</u>
Customer Charge	<u>\$48,300 @ \$3.5/Meter Equivalent per month</u>
Total Annual Water Bill	<u>\$1,526,550</u> or \$ 1.39 per 1,000

Initial Capital Outlay

Extension of System Capital Contribution	\$11,000,000
System Development Charge	<u>\$805,000</u>
Total Initial Capital Outlay	<u>\$11,805,000</u>

Assumptions:

Wholesale rate = \$1.16/1,000 gals.

KAWC Usage 3 MGD (annual average)

KAWC has 1150 Equivalent Meter Units

Annual Water Bill: Proposed Approach (Option 2)

Operating Cost Component	\$482,103
Depreciation Cost Component	136,417
Return on Plant Investment Component	<u>511,654</u>
Total Annual Commodity Charge	<u>\$1,130,174</u>
Customer Charge	<u>\$48,300</u>
Total Annual Water Bill	<u>\$1,178,474</u> or \$1.08 /1,000 gals.

Assumptions:

KAWC Usage 3 MGD (annual average)

LWC System Capacity 240 MGD

KAWC Reserved Capacity Request 6 MGD

Annual Debt Service


Principal Amount \$11000000

\$959,030 Assumes 0.06% for 20 years

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%

**LOUISVILLE WATER COMPANY
MEMORANDUM**

To: Greg Heitzman

From: Karen Willis 

May 28, 1998

RE: Ky-American – Schedule B

Attached please find a revised copy of Schedule B as I have interpreted Bob's original. In addition, I have attached a sample bill calculation showing how the daily rate can change based on various daily consumption scenarios (ie. under the minimum 2.0, at the Buyer Request Capacity, above the Buyer Request Capacity by less than 20% and above the Buyer Request Capacity by more than the 20%). I revamped the "after five year" rate calculation description on Schedule B in an attempt to make it clearer, and then attached the sample calculation that Bob had developed previously. The sample calculation definitely needs a title on it, but you may think it needs more than that.

I have not forwarded this information to Joe yet. I would like to have you review first and provide comments, then we can send Joe the revised copy.

I am attempting to set up the June 5th meeting. I have been unable to get a hold of Nick Rowe as of this afternoon. I will try either him or Linda on Friday.

SCHEDULE B
BLUEGRASS WATER PROJECT AGREEMENT

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

Buyer shall notify Seller, in writing, the Buyer Reserve Capacity request for the coming year by July 1st of the previous year. Annually, the Seller may reserve a minimum of six (6) million gallons per day (MGD), and up to a maximum of 23 MGD capacity to the Buyer. The Seller has up to 12 months to make the necessary improvements to provide the new Buyer Reserve Capacity request.

Should the Seller be approached to sell any capacity from the Project Facilities to anyone other than the Buyer, that would limit the Seller's ability to provide the Buyer Reserve Capacity, the Buyer has up to six (6) months from the time of notification from the Seller to respond to the Seller with a new Buyer Reserve Capacity.

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) Actual assignable operating costs. These components are defined as follows:

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

3. Minimum Consumption and Peaking Factor

Buyer consumption for each day shall be determined by the metered usage from midnight until midnight. Minimum Buyer consumption will be 2.0 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 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 current LWC wholesale rate plus elevated service charge (\$1.35/1,000 gallons – 1998).

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(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)
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BLUEGRASS WATER PROJECT AGREEMENT

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Buyer shall notify Seller, in writing, the Buyer Reserve Capacity request for the coming year by July 1st of the previous year. Annually, the Seller may reserve a minimum of six (6) million gallons per day (MGD), and up to a maximum of 23 MGD capacity to the Buyer. The Seller has up to 12 months to make the necessary improvements to provide the new Buyer Reserve Capacity request.

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5 year non binding estimate

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• ~~Assignable Operating Costs~~
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operation and maintenance on



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From:
Karen Willis /
THRD

Confirm receipt
To: Greg Heitzman / THRD4
Subject: Ky-American Consultant ~

===NOTE=====

CC: Jim Brammell / THRD

.....
Just received notice from American
Water Works that they have selected
Gannett Fleming/PDR preliminarily as
their consultant for the pipeline
project. They are still conducting
their reviews but have authorized
Gannett Fleming to move ahead with
aerial survey and appropriate ground
control for the pipeline route. They
anticipate completing their evaluation
by 4/13.

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

KAWC

====NOTE=====

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.

FAX

**KENTUCKY-AMERICAN
WATER COMPANY**

Date 5-11-98 *KAWC*

Number of pages including cover sheet 3

TO: John Huber
Louisville Water Co

Phone

Fax Phone 502-569-3691

FROM: Roy W. Mundy II
KENTUCKY-AMERICAN
WATER COMPANY
2300 Richmond Road
Lexington, KY 40502

Phone 606-268-6320

Fax Phone 606-268-6327

CC:

Any problems with receiving this fax -
please contact Pat Ballard at 268-6326

REMARKS: ☐ Urgent ☐ For your review ☐ Reply ASAP ☐ Please Comment

Please distribute copies to Bob Miller and Greg Heitzman.

Thank you.

Pat Ballard



Kentucky-American Water Company

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.

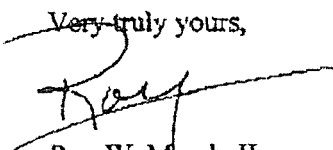
The second scenario: **Point of delivery in Shelby County at Highway 55 with upsizing.** As I mentioned on Tuesday, for us to consider moving the point of delivery, KAWC expects that a substantial investment be made by LWC. Offering this proposal means that the line has value to LWC, the total cost of 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) 269-2386 • Fax (606) 268-6327

Herbert A. Miller, Jr.
Corporate Counsel
(606) 268-6339

FAX TRANSMISSION COVER SHEET

July 1, 1998

TO: John Huber 502-585-2806
Robert Miller 502-585-2806
Greg Heitzman 502-585-2806 569-3691
Joseph B. Helm 502-581-1087

FROM: Herb Miller

SUBJECT: Proposed Water Supply Agreement

Page 1 of 13

Please call 606-268-6326 and ask for Pat Ballard if you have a problem with this transmittal.
This will be the only form of delivery of the transmitted document.



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (606) 269-2386 • Fax (606) 268-6327

Herbert A. Miller, Jr.
Corporate Counsel
(606) 268-6339

VIA FACSIMILE 7/1/1998

July 1, 1998

John Huber
Robert Miller
Greg Heitzman

Louisville Water Company (Fx: 502.585.2806)
435 South Third Street
Louisville, Kentucky 40202

Joseph B. Helm, Esq.
Brown, Todd & Heyburn (Fx: 502.581.1087)

Attached is a proposed contract with changes from the last version prepared by Joe.

As you realize, Schedule B (referenced in Sections 11 (a) and 13) will be an important document, and will be discussed in depth at our meeting next week.

Yours very truly,

Herbert A. Miller, Jr.
Corporate Counsel

HAM:jd

cc: Roy W. Mundy II
Coleman Bush
Nick O. Rowe
Linda C. Bridwell
Mark Frost
Lindsey W. Ingram, Jr.

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.

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).

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 the I 265-I 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 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.** 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, **and within the limitations contained therein,** 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 ~~section subparagraph 5 (a), immediately above (the "Construction Completion Date")~~, time being of the essence. **The completion of construction and the connection and Service at the Point of Delivery is referred to as the Construction Completion Date.**

(c) Delays in construction will 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.

6. **PROJECT FACILITIES' COSTS ALLOCATION:**

(a) Buyer agrees to pay the **reasonable and necessary** costs of design, site acquisition ~~location~~ and construction of the Project Facilities, **excluding the design, site location and construction of the 25 million gallon per day pump station, the Shelby County water storage facility and the incremental costs of material and installation of any portion of the transmission main, the diameter of which is greater than 36 inches,** which costs include, but are not limited to, the following:

Consulting Engineering Services
Easement and other Property Rights

Bid Publication
Construction Contract(s) Obligations

Easement Acquisition Agent
 Recording
 Real Property Appraisals
 Miscellaneous Out-of-Pocket Expenses

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.

(c) Notwithstanding the provisions in Section 6 (a), Seller will be responsible for the costs ~~(as previously enumerated in this subsection (a), above)~~ of the design, site location and construction (as previously enumerated in Section 6 (a)) 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].~~

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.

(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) Buyer understands and agrees that Seller most likely will assign its rights under this Agreement as security on Seller's bonded indebtedness, incurred by it with respect to

the Project Facilities and further agrees to cooperate with Seller in preparing for and marketing the bond issue.

9. SERVICE AT THE POINT OF DELIVERY:

(a) Condition. Seller will provide Buyer Service at the Point of Delivery, which meets or exceeds all ~~minimum state of Kentucky and federal drinking water standards~~ laws and regulatory requirements in effect at the time of delivery.

(b) Rate of Flow and Pressure. Seller shall design and construct the Project Facilities to ~~make them capable of delivering~~ deliver water to Buyer at the Point of Delivery having maintaining a flow rate of up to 16,000 gallons per minute and water pressure of not less than thirty pounds per square inch (30 psi).

(c) Failures. In the event Seller, when called upon, 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 Service to the quality, rate of flow and pressure required. Time is of the essence in all situations where such a failure and duty of restoration exist.

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 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.

11. RATES AND PAYMENT:

(a) Buyer shall pay Seller for the Service as determined by the rates and terms set forth in Schedule B, 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 filing constitutes rate adjustments made in accordance with Schedule B.~~

(b) Buyer's meter will be read at midnight on the last day of each month of Service and shall be invoiced monthly by Seller based upon ~~Buyer's consumption for such month or based upon Buyer's minimum consumption obligation for such month, whichever is greater.~~ the terms as provided in Schedule B.

(c) Buyer shall remit payment to Seller for each invoice no later than the 20 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.~~

12. 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.

~~13. RESERVATION OF CAPACITY: Seller reserves treatment and delivery capacity to Buyer of sixteen thousand gallons per minute (flow rate) for the term of this Agreement.~~

13. EXCESS SERVICE: Any service in excess of the provisions of Section 9 (b) shall, prior to actually being used by Seller or a bona fide customer of Seller and within six (6) months of the expected use, first be offered to Buyer on terms as set forth in Schedule B. Buyer shall have 30 days from receipt of written notice from Seller within which to agree to purchase such excess service being offered.

14. ADDITIONAL EXPANSION BY SELLER: Seller agrees that ~~upon before~~ undertaking any expansion or enlargement of any of the Project Facilities, or any of Seller's facilities used to fulfill the purposes of 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 upon terms and conditions mutually agreeable.

15. 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 problems impair Seller's ability to deliver Service to the Point of Delivery, and such problems limit or prevent the delivery of water to any of Seller's other customers, then Seller agrees that any restrictions placed by it upon water delivery shall apply to the Buyer in the same manner to that applied by, or upon it by others, Seller to its other customers. Seller will use its best efforts to restore full Service to Buyer as promptly and completely as possible, time being of the essence.

16. NOTICE: 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.

17. 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__.

18. 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.

19. 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.

20. 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 reserve capacity commitment, set forth in Section 13, above, or to provide the Service set forth in Section 8, above~~ 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 (6) months~~ of receipt by Buyer of a final, non-appealable Order from the PSC in the form of a Certificate of Convenience and Necessity permitting Buyer, among other things, to finance the Project Facilities to the extent provided herein, ~~with written instructions to proceed with the construction of the Project Facilities referenced in Section 5(a).~~

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

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

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

21. MISCELLANEOUS PROVISIONS:

(a) This Agreement is subject to the approval of the PSC and receipt by Buyer of a final, non-appealable Order, in a form and with 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 and 3, 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) 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.

(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 _____ 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: _____
Name: _____

By: _____
Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

JUL-01-1998 15:25

KAWC

P.12/13

Attest: _____
Name: _____

Attest: _____
Name: _____

EXHIBIT 1
[2 (B)]

Plat of location and general route of
the Project Facilities.

SCHEDULE A
[8 (A)]

Projected Debt Amortization Schedule
assuming a \$1 million issue at 6% for 20 years.

SCHEDULE B
[11 (A)]
(13)

Rates and payment for service.

From: Joan Malone / THRD4

To:

Tom Cushing / CHFP, Steve Hubbs / CHFP, Greg Heitzman / THRD4, Bob
Miller / THRD4, Janice Barnette / THRD4, Karla Teasley / ALMD, Barbara
Crow / THRD4, Cindy Stairs / THRD4, Vince Guenther / THRD4

Subject: Bluegrass Pipeline Water Supply Agreement

====NOTE=====

FROM JOHN HUBER:

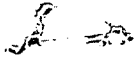
Roy Mundy, President of Kentucky-American Water Company, and I have signed the Bluegrass Pipeline Water Supply Agreement. Under the agreement, the LWC will build a 60-inch water main from English Station Rd. and U. S. Hwy. 60 to Interstate 64 (generally along the Snyder Freeway), a 36-inch water main parallel to I-64 from the Snyder Freeway to KY Highway 55 on the west side of Shelbyville, a booster pumping station in the vicinity of I-64 and the Snyder Freeway, and an elevated storage tank near KY Hwy. 55. Under the agreement, the LWC will be responsible for funding the upsizing of the water main from U.S. 60 to I-64 along the Snyder Freeway from a 36-inch water main to a 60-inch water main, construction of the booster pumping station near I-64 and the Snyder Freeway, and the elevated storage tank at KY Hwy. 55. The KAWC would fund the 36-inch water main from English Station Road and U. S. 60 along the Snyder Freeway, then out I-64 to KY Hwy. 55. Their funding of the water main would come as a contribution in aid of construction. The contract is for a term of 50 years after the date service is initiated. The portion of the pipeline which will be owned and operated by the LWC will have a capacity of 12 mgd over and above the 23 mgd capacity required by KAWC. The LWC has agreed to give KAWC the right of first refusal to acquire up to all of the additional 12 million gallons per day capacity in accordance with specific terms and conditions of the contract.

Water rates are based on a "take or pay" schedule. KAWC will be allowed to ramp into the agreement over a 5-year period. The "take or pay" contract does, of course, include a minimum useage clause which will require an average use of 2 millions/day after the fifth year of the contract, with some lesser amount allowed for non-irrigation months and a higher amount for the irrigation months. The agreement includes rates based on an operating expense component, a depreciation expense component, and a return on plant investment component.

In accordance with the agreement, we would initially finance the cost of the water main from U. S. 60 at English Station Road to KY Hwy. 55 at I-64, with the KAWC paying for the cost of an equivalent 36-inch main over that distance based on a 20-year debt amortization schedule.

While we have negotiated and signed the agreements and have initiated design of the pipeline from English Station and U. S. 60 out to KY Hwy. 55 at I-64, there are many approvals yet to be obtained for this project.

COPY TO MARK HARP



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,

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, non-appealable 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, non-appealable 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.
Secretary

Name: Robert K. Miller

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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)

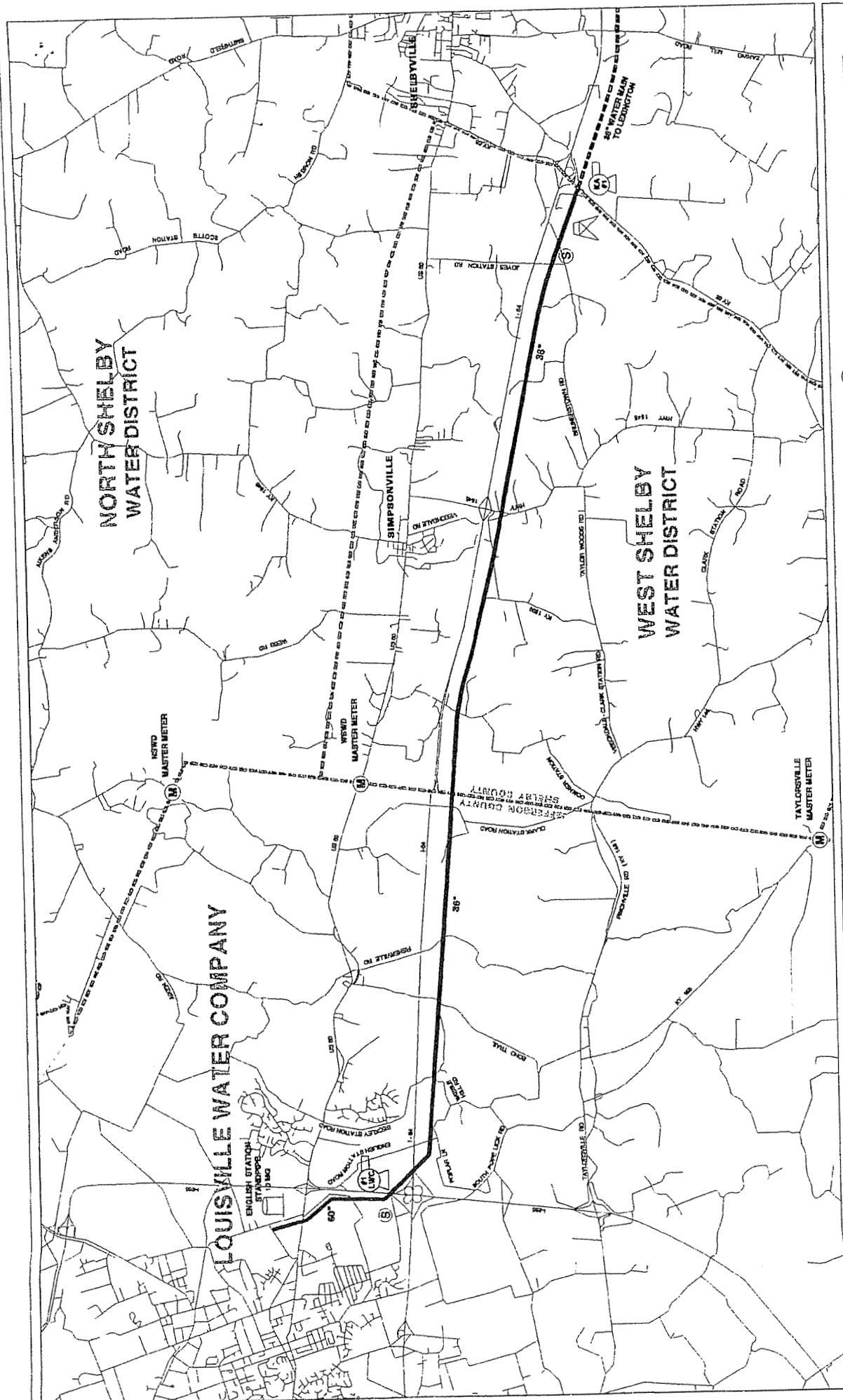
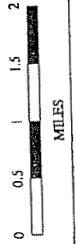


EXHIBIT A BLUEGRASS WATER PROJECT

- STORAGE RESERVOIR
- MASTER METER
- ELECTRIC SUBSTATIONS
- WATER DISTRICT BOUNDARIES (APPROX.)
- PROPOSED 48" WATER MAIN (LWC)
- PROPOSED 36" WATER MAIN (LWC)
- PROPOSED 36" WATER MAIN (KIA)
- PROPOSED ELUVIATED STORAGE (LWC)
- PROPOSED PUMPING STATION



07/19/98

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.

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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	<u>1.042%</u>

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.	<u>(9,803,200)</u>
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.)		<u>\$ 0.44028</u>

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.	<u>(632,280)</u>
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		<u>\$ 4,146.01</u>

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.	(7,184,740)
Customer Costs	Utility Rate Schedule 4; Column 6; Line 24.	<u>(1,488,140)</u>
Net Return on Plant Investment		\$ 19,932,430
Multiplied by: Request / Production Capacity Quotient		1.042%
Annual Return on Plant Investment Component		\$ 207,895.92
Divided by: 12-Months		12
Monthly Return on Plant Investment Component		<u>\$ 17,307.99</u>

CUSTOMER COST COMPONENT

Example based on one 6" meter	<u>\$ 259.00</u>
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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.	<u>\$ 1.35</u>
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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		COMMON TO ONLY RETAIL CUSTOMERS
					EXTRA CAPACITY MAXIMUM DAY	MAXIMUM HOUR CUSTOMER	
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
27)	Percent	100.00%	0.47%	11.18%	4.95%	0.02%	36.41%
28)	General Transmission and Distribution	5,052.32	23.71	565.00	250.25	1.00	1,839.47
29)	Total Transmission and Distribution	9,479.52	44.49	1,060.09	469.53	1.88	3,451.34
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
38)	Percent	100.00%	4.26%	32.04%	7.43%	1.00%	37.02%
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
44)	Total	33,603.10	1,432.55	10,767.72	2,495.74	336.46	12,439.52
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
49)	Other Operating Income	(4,015.10)					(3,011.33)
50)	Net Operating Expense	31,220.80	1,432.55	11,882.95	2,495.74	479.03	9,803.20

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 DEPRECIATIO EXPENSE	ELEVATED SERVICE AREA	BASE	COMMON TO ALL CUSTOMERS			COMMON TO ONLY RETAIL CUSTOMERS
					EXTRA CAPACITY MAXIMUM DAY	MAXIMUM HOUR	CUSTOMER	
1)	Land							
2)	Land Improvements and Buildings	895.57	17.31	614.97	200.07	13.48	49.73	
3)	Basins and Ground Storage	359.24		248.75	110.49			
4)	Standpipes and Elevated Storage	162.42	43.90	73.46		45.06		
5)	High Service Pumps and Equipment	204.84	19.21	128.54	57.09			
6)	Booster Pump Equipment	34.93	24.17	6.67		4.09		
7)	Miscellaneous Pump Equipment	48.65		33.69	14.96			
8)	Sludge Disposal Equipment	64.48		64.48				
9)	Purification Equipment	536.44		371.44	165.00			
10)	Transmission Mains	2,122.63		1,469.76	652.87			
11)	Distribution Mains	1,971.82						1,971.82
12)	Meters	357.76					357.76	
13)	Services	1,302.41					1,302.41	
14)	Meter Installations	447.05					447.05	
15)	Fire Hydrants	409.90						409.90
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			COMMON TO ONLY RETAIL CUSTOMERS
					EXTRA CAPACITY MAXIMUM DAY	MAXIMUM HOUR	CUSTOMER	
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	6,445.36	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		2,430.56	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	2,756.35
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
24)	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

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

10/8/98

Monthly Minimum Usage (1,000 Gal.)		45,000
Buyer's Daily Request (1,000 Gal.)		2,500
	Daily Usage (1,000 Gal.)	Usage Exceeding Request (1,000 Gal.)
Day		
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

From: Joan Malone / THRD4
To:
Union Office / ALMD, Tony Gregory
/ THRD4, Tom Cushing / CHFP,
Steve Hubbs / CHFP, Steve Cooper
/ ALMD, Mike Sturgeon / THRD4,
Kevin Grant / ALMD, Kathy
Getsinger / THRD4, Karla Teasley
/ ALMD, Jim Smith / CHFP, Jim
Brammell / THRD4, Jim Asseff /
THRD4, Janice Barnette / THRD4,
Jack Wang / CHFP, Greg Heitzman /
THRD4, Ed Chestnut / THRD4, Don
McKay / THRD4, Bob Miller / THRD4
Subject: Bluegrass Water Project

===NOTE=====

UNION OFFICE: PLEASE PROVIDE COPY TO
MARK HARP

FROM JOHN HUBER:

Roy Mundy, President of
Kentucky-American Water Company, called
to advise the Kentucky-American Board
approved the water sales agreement last
Friday. Herb Miller will be contacting
Joe Helm to assure the official
contract documents to be signed have
the language in them as agreed upon.
Once that has been ascertained,
Kentucky-American will sign the
documents and forward to the LWC for
signing.

Kentucky-American had already
instructed us two weeks ago to begin
design of the portion of the Bluegrass
Water Project which would be built
under the administration of the LWC.
Kentucky-American still has many
approvals to obtain regarding this
project, including the approval of the
Public Service Commission. The Public
Service Commission review will be quite
extensive, and any decision resulting
from that review will be months away.

From: Joan Malone / THRD4
To:
Bob Miller / THRD4, Greg Heitzman
/ THRD4, Janice Barnette / THRD4,
Karla Teasley / ALMD, Steve Hubbs
/ CHFP
Subject: fwd: Bluegrass Pipeline

====NOTE=====9/21/98==2:43pm==
CC:
Barbara Crow / THRD4, Vince
Guenthner / THRD4
.....

FROM JOHN HUBER:

I had a conversation today with Roy Mundy concerning the Bluegrass Pipeline. Lexington is continuing with voluntary water use restrictions. The flow in the Kentucky River has diminished to the point the voluntary restrictions are necessary. Last week they set a new maximum day at 64.7 mgd. Their load is dropping and is now in the mid 50s. The advisory on voluntary restrictions will continue because climatologists advise Kentucky-American the current weather patterns will likely extend the very dry weather over the next couple of months. In the Lexington area, they have had light rainfall over the past week and a half, and last night had some more significant rain.

The draft contract has been forwarded to their board with an executive summary. Their board has been given a period of time to provide any additional input. To date, no additional comments have been received, and the period for input will end within the next few days.

Kentucky-American has requested a meeting with the Public Service Commission to update them on the status of the Bluegrass water project. That meeting will occur tomorrow. One of the things they will advise the Commission on is the status of the water sales agreement which they will present as a win-win contract. Whenever a meeting on a specific topic is requested with the PSC, the other intervenors in the issue must also be advised of the conference and are invited to attend. Roy expects the Attorney General's office to be at the meeting and perhaps some of the other intervenors.

Kentucky-American is undertaking an aggressive public relations program identifying and explaining the problem they are facing and also the solutions they see to the problem.

Kentucky-American is evaluating how and when they present the water sales

KAWC

agreement to the Public Service Commission. At this time, they are considering submitting the water sales agreement to the PSC in advance of the other aspects of the Bluegrass Pipeline project. They will keep us advised of their plans.

We did not discuss other topics.

cc: Followup file 10/2 for agenda
prep. meeting

Fwd=by:=Karla=Teasley=11/01/98==2:39pm=
Fwd to: Joan Malone / THRD4

.....
Joan, would you ask John to consider giving ELT members an update to this project similar to the above e-mail? It would be helpful to me. Thanks,
Karla

From: Joan Malone / THRD4
To:
Bob Miller / THRD4, Greg Heitzman
/ THRD4, Janice Barnette / THRD4,
Karla Teasley / ALMD, Steve Hubbs
/ CHFP

Subject: Bluegrass Pipeline

===NOTE=====

CC:

Barbara Crow / THRD4, Vince
Guenthner / THRD4

.....

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KAWC

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We did not discuss other topics.

cc: Followup file 10/2 for agenda
prep. meeting

KENTUCKY-AMERICAN WATER COMPANY
2300 RICHMOND ROAD
LEXINGTON KY 40502
606-268-6320
FAX 606-268-6327

FACSIMILE TRANSMITTAL SHEET

TO:	FROM:
John Huber	ROY W MUNDY II
COMPANY:	DATE:
Louisville Water Company	10/12/98
FAX NUMBER:	TOTAL NO. OF PAGES INCLUDING COVER:
502-569-3691	2
PHONE NUMBER:	SENDER'S REFERENCE NUMBER:
502-569-3600	
RE:	YOUR REFERENCE NUMBER:
Water Purchase Agreement	

☐ URGENT ☐ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:



Kentucky-American Water Company

KRW

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

Roy W. Mundy II
President

VIA FACSIMILE & MAIL

October 12, 1998

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

Dear John:

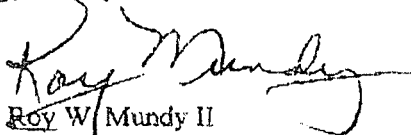
This is to follow-up our conversation of this past Friday concerning the Bluegrass Water Project and our negotiations with Louisville Water Company concerning the purchased water agreement. Let me first take a moment again to thank you and your team for your fine efforts in the negotiations with Kentucky-American during the last several months. I realize that there has been a lot of time and effort put into this process by members of both of our staffs – for that I am most appreciative.

Our plans are to present the final contract to our Board of Directors on October 30, 1998 for their final approval, but because of the urgency of the expeditious handling of this project, I would like to give Louisville Water Company authorization to proceed ahead with PDR Engineers so that we may start the design process for your portion of the project. It is imperative that the design work for Louisville be completed as soon as possible as that information will be most critical in the permitting process with the Corps of Engineers and more importantly with our filing of our certificate case with the Commission.

This letter is to serve as that official notice to proceed and Kentucky-American Water Company will bear those costs, absent design costs for the tank and booster which are the responsibility of Louisville Water Company. I will be out of the office this week, however, if you have any questions, please call Nick Rowe at 606-268-6333.

Thanks again, John, for your help in our endeavors.

Sincerely,



Roy W. Mundy II

RWM/NK/pb

c: L. Bridwell C. Bush N. Rowe

Enshured\Water Supply Project\LWC contract ltr 10.12.98.doc

Copies from G. Neitzman
10-13-98 B. Miller

TOTAL P.02

FAX**Date** 8-21-97**Number of pages including cover sheet** 7**TO:** John Huber
Louisville Water Co**Phone****Fax Phone** 502-585-2806**FROM:** Roy W. Mundy II
KENTUCKY-AMERICAN
WATER COMPANY
2300 Richmond Road
Lexington, KY 40502**Phone** 606-268-6320**Fax Phone** 606-268-6327Any problems with receiving this fax -
please contact Pat Ballard at 268-6326**CC:****REMARKS:** ☐ Urgent ☒ For your review ☐ Reply ASAP ☐ Please Comment

"Good news John - I'll discuss this with you next week."

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 US Postal Service. You will be reimbursed for the required postage. Thank you.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE SOURCES OF)
SUPPLY AND FUTURE DEMAND OF)
KENTUCKY-AMERICAN WATER COMPANY)

CASE NO. 93-434

O R D E R

Background

The Commission initiated this investigation by Order dated November 19, 1993, to explore on an in-depth basis the issues surrounding Kentucky-American Water Company's ("Kentucky-American") demand projections and sources of supply. A hearing was held in this matter on August 31, 1994 and September 1, 1994. On March 14, 1995, the Commission entered an Order terminating its investigation. The Commission by Order of April 24, 1995 granted Kentucky-American's petition for rehearing to the limited extent that the investigation would remain open to await a new safe-yield analysis of the Kentucky River. On October 7, 1996, the Kentucky River Authority filed with the Commission a copy of the final draft of the Kentucky River Basin Water Supply Assessment Study ("1996 Kentucky River Study") compiled by the Kentucky Water Resources Research Institute ("KWRI"). The Commission by Order entered December 23, 1996 found that further proceedings were appropriate and adopted a procedural schedule setting the matter for hearing. That hearing was held on May 21, 1997 at the Commission's offices in Frankfort, Kentucky. The Commission began the hearing by reading the following opening statement from the Bench:

This case was initiated by the Commission's Order entered November 13, 1993, in response to a Motion filed by the Attorney General's Office. The purpose of this case, as set forth in that initiating Order, is to investigate the sources of supply and future demand, including Demand Side Management of Kentucky-American Water Company. After conducting extensive discovery, two informal conferences and a two-day public hearing, the Commission issued an Order on March 14, 1995. That Order stated that all of the projections of Kentucky-American's future water demands were within a zone of reasonableness and they all indicated a supply deficit under a drought of record scenario. On the issue of supply, the March 14, 1995, Order stated that there had been three relatively recent studies performed to determine the safe yield of the Kentucky River; however, each of those studies was based on different assumptions and there was significant variations in their conclusions. Consequently, the Commission determined that no definitive conclusion could be made on whether a source of supply deficit existed. This case was then held open specifically to receive the results of a new analysis of the Kentucky River to be performed on behalf of the Kentucky River Authority by the Kentucky Water Resources Research Institute at the University of Kentucky. That study has now been incorporated into the record of this case and the parties have filed testimony which is to be subjected to cross-examination today. After fully reviewing the filed testimony it is evident that a substantial portion of it addresses issues that are beyond the scope of this investigation. The only issues before us now are the adequacy of Kentucky-American's sources of supply and the magnitude of any deficiency. If—and the Commission emphasizes the word "if"—the evidence leads us to find that a deficiency does exist, any determination of the most feasible and cost effective solution will be done if and when Kentucky-American files a formal application for approval of a particular solution. Therefore, with this ruling in mind, we urge the parties to limit the witnesses summaries and the cross-examination of the issue of adequacy of supply and the magnitude of any deficiency.¹

Analysis of Supply

Extensive testimony and evidence have been presented previously in this matter and have been further supplemented by the 1996 Kentucky River Study and additional testimony by the parties in this case. All of the evidence in this case supports the conclusion that the Kentucky River cannot supply enough water to meet the unrestricted

¹ Transcript of Evidence ("T.E."), pages 6-8.

demands of Kentucky-American's customers during drought conditions. The 1996 Kentucky River Study identified baseline total annual water supply deficits for the basin ranging from 2.2 to 6.3 billion gallons. These figures represent the anticipated deficits that would occur under 1994 demand forecasts for the 1953 and 1930 drought conditions. Future baseline deficits under moderate and high population growth scenarios were projected out to the year 2020. Under the high population growth 1953 and 1930 drought scenarios, projected baseline total annual water supply deficits could range as high as 3.8 and 9.7 billion gallons, respectively.² For the 1930 baseline deficit projection under 1994 demand conditions, Pool 9 and Kentucky-American will experience a 3.9 billion gallon total annual water supply deficit and an estimated 53-day period during which no water will be available to Kentucky-American's customers.³ A water shortage of this magnitude would impact the economic and environmental health of the region and the entire Commonwealth. Witnesses for both Kentucky-American and the Attorney General found KWRRI's computer-generated model of the Kentucky River to be an acceptable method of determining responses to various demand scenarios.⁴ Detailed testimony was presented by various witnesses concerning the appropriate parameters to use in KWRRI's computer model and the resulting computation of a water supply deficit.

Kentucky-American's witness, Donald F. Distanto, presented a comprehensive review and discussion of the 1996 Kentucky River Study and concluded that the planning

² Task III - Deficit Analysis, 1996 KWRRI Study, page 42.

³ Id., page 27.

⁴ Testimony, Linda C. Bridwell, page 7; Testimony, Donald F. Distanto, page 3; Testimony, Scott J. Rubin, page 3.

period deficit should be modified to reflect certain changes in the parameters. Mr. Distanté proposed that the population component be based on the Louisville Data Center's high population growth estimate for 2020 and the inclusion of expanded water service to the public. He also factored in a computation of the transmission losses from Buckhorn and Carr Fork reservoirs, the effect of valves installed in Locks and Dams 9 through 14, and the effect of Kentucky-American's modified withdrawal permit. With these parameter changes, Mr. Distanté arrived at the total annual water supply deficit for Pool 9 as 3.489 billion gallons.⁵

The Attorney General's witness, Scott J. Rubin, characterized Kentucky-American's demand deficit projection as "worst case assumptions." He argues that under drought conditions governmental authorities would move to restrict water use. Mr. Rubin testified that it was his opinion that the Kentucky River Authority is the entity that is responsible for managing the raw water supply on the Kentucky River. He assumes that the Kentucky River Authority will do its job during the next 25 years, and, if it does, there will be enough water to meet the unrestricted demands of Kentucky-American.⁶ The Attorney General's position is based on extensive modifications to the Kentucky River which themselves are not the subject of this proceeding.⁷

⁵ T.E., pages 89-97.

⁶ T.E., pages 109-111.

⁷ However, Mr. Rubin acknowledges that KRA has elected not to install crest gates at Dams 11 and 12. The Commission also notes that KRA's installation of low level release valves in Pool 10 may cause problems with East Kentucky Power Cooperative, Inc.'s water intake system at its Dale Generating Station, and that agricultural concerns may inhibit some of KRA's proposed actions.

While the record in this case contains conflicting testimony regarding the magnitude, duration, and the probability of a drought on the Kentucky River, the Commission finds that a water supply deficit would exist during an extreme drought situation. The evidence submitted in this case provided estimates of the total annual water supply deficit in Pool 9 ranging from 1.688 billion gallons to 6.553 billion gallons for Kentucky-American's planning period.⁹ The Commission finds 3.489 billion gallons to be a reasonable estimate of the magnitude of Kentucky-American's total annual water supply deficit for the planning horizon through the year 2020.

Responsibility for Supply

The issues raised in this case resolve themselves into essentially whose responsibility is it to address the deficit? While testimony was presented that demand management and conservation could reduce the total customer demand and possibly slow the anticipated growth in future customer demand, demand management alone will not be sufficient to meet either a 1930 or 1953 drought situation. The evidence before this Commission indicates that additional steps must be taken and financial resources will have to be committed to develop an adequate and reliable source of water supply, not only for the customers of Kentucky-American, but for all the citizens served by the Kentucky River. The evidence further indicates that the net effect of the Kentucky River Authority's proposed activities, if implemented, will be insufficient. Anything Kentucky-American does which affects its withdrawals from the Kentucky River during such an occurrence also affects the drought's impact on others that depend on the Kentucky River as a source of

⁹ Task III, Deficit Analysis; 1996 KWRRRI Study, page 34.

water. The responsibility to develop an adequate and reliable source of water supply for Kentucky-American's customers is the direct obligation of Kentucky-American itself.⁹ The responsibility for developing watershed management and drought response planning for the entire Kentucky River Basin resides by statute with the Kentucky River Authority.¹⁰ The Commission considers these responsibilities to be not only compatible, but complimentary. For the Commonwealth to successfully survive a catastrophe as serious as the reoccurrence of the 1930 drought of record will require the highest degree of cooperative effort from all agencies, organizations, and individuals.

IT IS THEREFORE ORDERED that Kentucky-American shall take the necessary and appropriate measures to obtain sources of supply so that the quantity and quality of water delivered to its distribution system shall be sufficient to adequately, dependably, and safely supply the total reasonable requirements of its customers under maximum consumption through the year 2020.

Done at Frankfort, Kentucky, this 21st day of August, 1997.

By the Commission

ATTEST:


Executive Director

⁹ 807 KAR 5:066, Section 10(4).

¹⁰ KRS 151.720.

From: Joan Malone / THRD4
To:
Bob Miller / THRD4, Greg Heitzman
/ THRD4
Subject:
Engineering Costs Associated
with Proposed KY-American
Pipeline

KAWC

====NOTE=====

CC:
Steve Hubbs / CHFP, Karla Teasley
/ ALMD
.....

FROM JOHN HUBER:

I received a call Friday afternoon
advising we would soon be receiving a
letter from KY-American advising they
will now begin reimbursing the LWC for
costs associated with the pipeline
design.

A copy of the letter will be provided
as soon as it is received.

From: Bob Miller / THRD4
To:
Greg Heitzman / THRD4, John Huber
/ THRD4, Vince Guenthner / THRD
Subject: fwd: Irv Quesenberry Questions

===NOTE=====3/06/98==9:57am==
CC:
Barbara Crow / THRD4, Karla
Teasley / ALMD

.....
John: Mr. Quesenberry called to day to
say that he will be at the special
meeting on March 10th. He has 2
questions:

* What is the political situation in
Lexington and along the pipeline
corridor regarding this project?

* What is the impetus for the current
urgency by KAWC on this project? In
other words, what is driving this - a
political supporter's pending
retirement, the departure of an
opponent, etc?

Greg and Vince: Please forward your
thoughts to John on this.

Karla and Barbara: For your
information.

Fwd=by:=Vince=Guenthn=3/06/98==1:36pm==
Fwd to: John Huber / THRD4
CC:
Barbara Crow / THRD4, Bob Miller /
THRD4, Greg Heitzman / THRD4,
Karla Teasley / ALMD

.....
I'm not sure whats driving the timing
other than this is KY American's top
priority and their doing what they can
to make it happen....As far as the
political nature of the corridor, I'd
say its VERY sensitive.

When I was at the KRWA Annual Meeting
in Sept. I heard several negative
comments from Water Districts along the
pipeline. They don't trust KY American
and they are leary of the two largest
Utilities in the state partnering on
this regional project.

In Frankfort, I haven't heard a lot of
comments but the 2-3 I've heard are
negative. They haven't been direct
comments from any particular legislator
just comments through others like Gary
Larimore or LRC staff.

From: Karen Willis / THRD
To: Joan Malone / THRD4
Subject: Please forward to John...

===NOTE=====3/09/98==5:16pm==
CC: Greg Heitzman / THRD4

.....
I have completed a high level estimate
for engineering services for the
portion of the Ky-American project
within Jefferson County. The estimate
breaks down to the following
components:

Survey/esmt acqu:	\$155,000
Drafting:	\$145,000
Engineering:	\$330,000
Inspection:	\$259,000

Total:	<u>\$889,000</u>
--------	------------------

or approximately 8% of the total
project cost.

KAWC



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.

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.

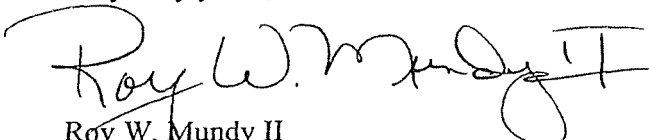
In the rare event Kentucky-American's design contractor is unacceptable to Louisville Water Company, Kentucky-American must approve your selection of a design contractor for your facilities, and that approval shall not be unreasonably withheld.

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

From: Karen Willis / THRD

To:

Greg Heitzman / THRD4, Jim
Brammell / THRD, John Huber /
THRD4

Subject: Ky-American Project

===NOTE=====4/16/98=12:05pm==
American Water Works just called and
they are officially awarding the
engineering/design of the Lou-Lexington
pipeline to Gannett-Fleming and PDR
(Louisville office). Ray Eilenberg
with the Louisville PDR office will be
their contact.

KAWC



LOUISVILLE WATER COMPANY

435 SOUTH THIRD STREET · LOUISVILLE, KENTUCKY 40202

TEL 502-569-3600

FAX 502-585-2806

JOHN L. HUBER
PRESIDENT

May 6, 1998

Board of Water Works
Louisville, KY

Dear Directors:

RE: Bluegrass Pipeline Project

We met yesterday for most of the day with Kentucky-American Water Company to negotiate aspects of a water sales agreement. There are two primary issues in the contract negotiations:

Point of Delivery

Original discussions called for the water sale to occur at the Oldham County-Shelby County line, with the Louisville Water Company owning the facilities in Jefferson County, and Kentucky-American owning the facilities from that point eastward. We have been exploring the possibility of moving the point of sale eastward to either Simpsonville or Kentucky Highway 55 at Shelbyville. Selling the water at a point farther east will, of course, involve our ownership of the pipeline to the point of delivery. Yesterday we discussed a basis for our ownership of the pipeline into Shelby County. We are currently evaluating various cost scenarios and the advantages and disadvantages of ownership of the pipeline into Shelby County.

Water Rates and Reserve Capacity

Two water rate options have been provided to Kentucky-American. One would be our standard contract for wholesaling water. The other is a special rate, which involves Kentucky-American paying for a reserved amount of plant capacity plus a commodity charge for producing the water. The latter rate concept also includes a "take-or-pay" contract. A key part of the second concept involves reserving a certain amount of system capacity for Kentucky-American. The amount of capacity reserved for them and the rate for taking water in the event the reserve capacity is exceeded are the primary items under discussion.

We will go into closed session at our meeting next Tuesday to review the status of our negotiations. It may be necessary in the coming weeks to schedule a special meeting to discuss a water sales agreement with Kentucky-American.

Sincerely,

John L. Huber
President

jcm

cc: Mr. Larry Lenahan, Mr. Gregory Heitzman, Mr. Joseph Helm, Mr. Robert Miller

An Equal Opportunity Employer

F

BROWN, TODD
& HEYBURN PLLC

RECEIVED

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

Joseph B. Helm

October 8, 1998

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

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

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

Via UPS

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

Re: Water Supply Agreement, Exhibits and Schedules Thereto

Dear Herb:

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

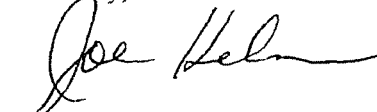
Enclosed in duplicate is, perhaps, the final draft of the proposed Water Supply Agreement, the only change being made from that document faxed to you and others on September 28th where the word "regular" previously contained in paragraph number 4 of Exhibit B has been deleted so that reference is made to "Seller's Wholesale Rate" (not Seller's regular Wholesale Rate). Everything else remains unchanged. In addition, I have attached clean copies of Schedules 1, 2, 3, 4 and 5 to Exhibit B [with the change discussed today over the telephone in Schedule 1 (one 6 inch meter, instead 1-6 inch meter)], Exhibit A (the plat showing the routing), and Schedule A (a Projected Debt Amortization Schedule).

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

Assuming no further changes from either party, the document is complete and ready for the signatures of Kentucky American and the Louisville Water Company.

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

Sincerely,



Joseph B. Helm

Enclosures

copy to Mr. Gregory C. Heitzman (w/ enclosures)

Mr. Robert Miller (w/ enclosures)

Lindsey W. Ingram, Esq. (w/ enclosures)

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FAUSERS\015\WC\MILLERH.LT1

WATER SUPPLY AGREEMENT

THIS WATER SUPPLY AGREEMENT, dated as of this ____ day of _____, 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, non-appealable 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, non-appealable 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: _____ By: _____
Roy W. Mundy, II John L. Huber
President President

Date: _____ Date: _____

Attest: _____ Attest: _____
Name: _____ Name: _____

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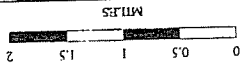
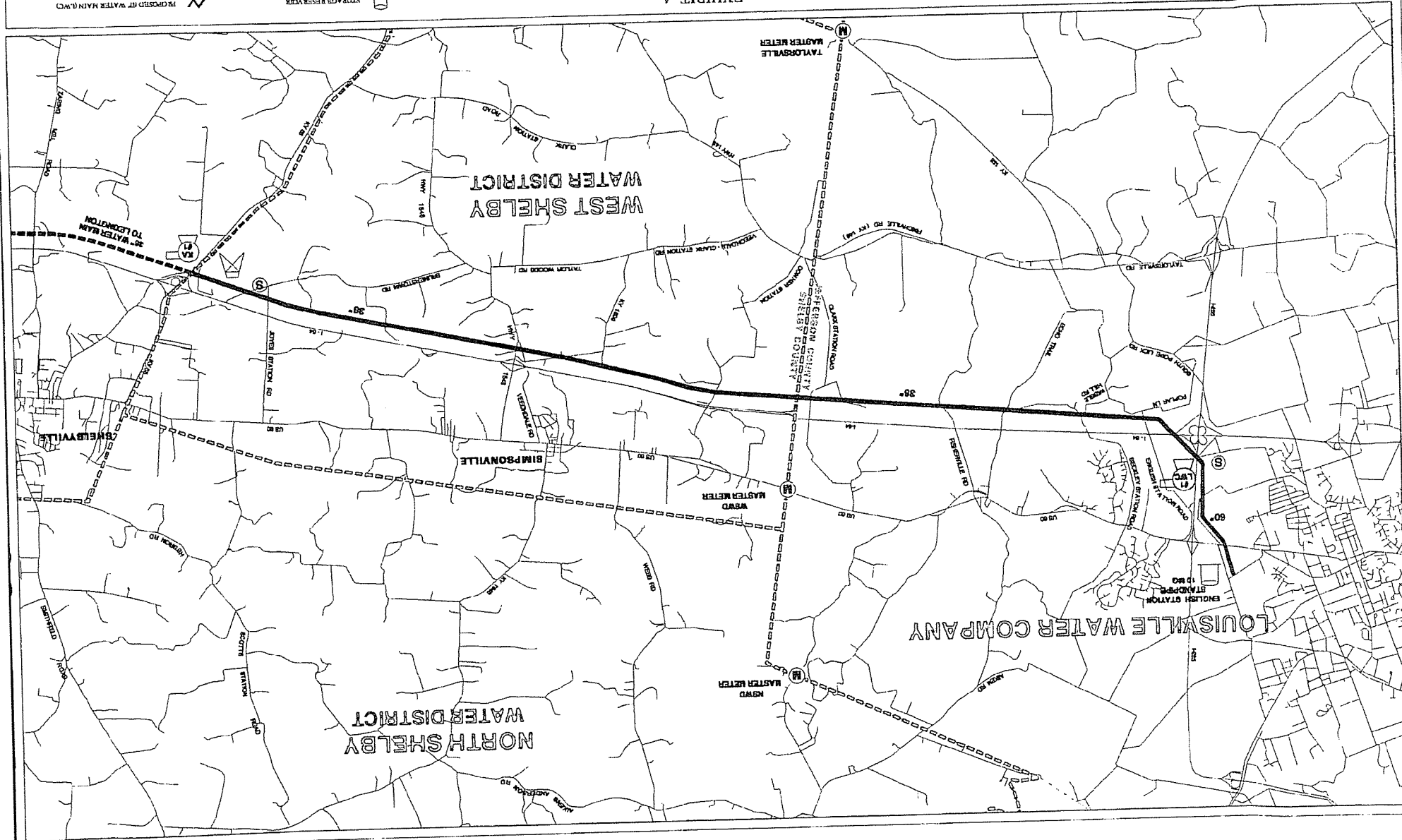


EXHIBIT A BLUEGRASS WATER PROJECT

- PROPOSED 36" WATER MAIN (L.W.C.)
- PROPOSED 36" WATER MAIN (K.A.)
- PROPOSED 36" WATER MAIN (U.W.C.)
- PROPOSED 36" WATER MAIN (U.W.C.)
- PROPOSED 36" WATER MAIN (U.W.C.)
- PROPOSED PUMPING STATION
- WATER DISTRICT BOUNDARIES (APPROX.)
- ELECTRIC SUBSTATIONS
- MASTER METER
- STORAGE & RISE VENT



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)

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.

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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		\$ 18,290,270
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
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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
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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.

EXHIBIT B

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	COMMON TO ALL CUSTOMERS			COMMON TO ONLY RETAIL CUSTOMERS
				BASE	EXTRA CAPACITY MAXIMUM DAY	MAXIMUM HOUR CUSTOMER	
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
27)	Percent	100.00%	0.47%	11.18%	4.95%	0.02%	36.41%
28)	General Transmission and Distribution	5,052.32	23.71	565.00	250.25	1.00	1,839.47
29)	Total Transmission and Distribution	9,479.52	44.49	1,060.09	469.53	1.88	3,451.34
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
38)	Percent	100.00%	4.26%	32.04%	7.43%	1.00%	37.02%
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
44)	Total	33,603.10	1,432.55	10,767.72	2,495.74	336.46	12,439.52
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
49)	Other Operating Income	(4,015.10)					(3,011.33)
50)	Net Operating Expense	31,220.80	1,432.55	11,882.95	2,495.74	479.03	9,803.20

EXHIBIT B

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 DEPRECIATIO EXPENSE	ELEVATED SERVICE AREA	BASE	COMMON TO ALL CUSTOMERS			COMMON TO ONLY RETAIL CUSTOMERS
					EXTRA CAPACITY MAXIMUM DAY	MAXIMUM HOUR	CUSTOMER	
1)	Land							
2)	Land Improvements and Buildings	895.57	17.31	614.97	200.07	13.48	49.73	
3)	Basins and Ground Storage	359.24		248.75	110.49			
4)	Standpipes and Elevated Storage	162.42	43.90	73.46		45.06		
5)	High Service Pumps and Equipment	204.84	19.21	128.54	57.09			
6)	Booster Pump Equipment	34.93	24.17	6.67		4.09		
7)	Miscellaneous Pump Equipment	48.65		33.69	14.96			
8)	Sludge Disposal Equipment	64.48		64.48				
9)	Purification Equipment	536.44		371.44	165.00			
10)	Transmission Mains	2,122.63		1,469.76	652.87			
11)	Distribution Mains	1,971.82						1,971.82
12)	Meters	357.76					357.76	
13)	Services	1,302.41					1,302.41	
14)	Meter Installations	447.05					447.05	
15)	Fire Hydrants	409.90						409.90
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

EXHIBIT B

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	COMMON TO ALL CUSTOMERS			CUSTOMER	COMMON TO ONLY RETAIL CUSTOMERS
				BASE	EXTRA CAPACITY MAXIMUM DAY	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		2,430.56	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
24)	Annual Return @ 9.58%	28,585.31	358.98	13,378.98	6,484.30	243.21	1,488.14	7,164.74

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

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

10/8/98

Monthly Minimum Usage (1,000 Gal.)		45,000
Buyer's Daily Request (1,000 Gal.)		2,500
	Daily Usage (1,000 Gal.)	Usage Exceeding Request (1,000 Gal.)
Day		
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	<u>181,000</u>	<u>109,000</u>
Usage Within the Request (1,000 Gal.)		72,000
Multiplied by: Operating Expense Component Quotient (per 1,000 Gal.)		\$ 0.44028
Operating Expense Component		<u>\$ 31,700.16</u>
Usage Exceeding Request (1,000 Gal.)		109,000
Multiplied by: Seller's Wholesale Rate (per 1,000 Gal.)		\$ 1.35
Usage Exceeding Request Component		<u>\$ 147,150.00</u>
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		<u>\$ 200,563.16</u>
Monthly Water Bill / Buyer's Usage for Month (1,000 Gal.)		<u>\$ 1.10808</u>
Monthly Debt Service Cost		<u>\$ XXX,XXX.XX</u>
Total		<u>\$ XXX,XXX.XX</u>

cc: Jim Brammell, Pattie Kaelin, Bill Rhodes
from: Greg Heitzman 11/20/98



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,

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, non-appealable 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, non-appealable 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.