

City of Jackson Page 2

## **CONFIDENTIAL PROPOSAL**

December 19, 2003

Mayor Mike Miller  
333 Broadway  
Jackson, KY 41339

Dear Mayor Miller:

As we have discussed on previous occasions, I propose that the City of Jackson ("Jackson") and Kentucky American Water ("KAW") enter into a limited engagement management services contract. This contract would be subject to cancellation immediately upon notification by either party subject to payment of any outstanding balances due under the contract. KAW would provide professional management services on a schedule approved by Jackson for \$55 per hour plus travel expenses. Any charges incurred in implementing any of the following programs above the cost of management services would be billed separately, but all charges would be subject to a strict budget per assignment.

These services would be provided by Bill Bunch, a contractor for KAW. Bill has over 5 years of experience as a top-level manager for the utilities commission of a medium-sized Kentucky city. He has 5 years of experience in the regulated water and wastewater utility environment as a consultant for KAW. Bill also has 15 years of experience in the electric industry in budgeting, financial planning and analysis.

With the goals of **improved customer service, operational savings, regulatory compliance and risk avoidance**, KAW offers the following menu of services to Jackson (the water and wastewater staff of Jackson would conduct field work under the direction of Bill Bunch when necessary). We recommend that we start with only a few of your top priorities.

- Complete review of budget for water and wastewater systems with recommendations for operating expense savings including labor costs
- Audit of meter reading, billing and past due accounts
- Establishment of appropriate inventory levels necessary to provide reliable service
- Analysis of meter accuracy and recommendation for meter change-out program
- Supervision of meter change-out program
- Analysis of valve program and recommendation for repair, replacement and preventive maintenance
- Analysis of hydrant program and recommendation for repair, replacement and preventive maintenance
- Analysis of tanks and development of maintenance and painting schedule
- Develop capital improvement program
- Other financial analysis and accounting as required
- Analysis of water and wastewater sludge disposal operations with recommendation for savings
- Analysis of I & I with recommendation for savings
- Preparation of monthly operating report for City Council
- Develop safety program

City of Jackson Page 2

Each assignment approved by the City of Jackson would be accompanied by a budget before any work is started and a written report on completion.

I look forward to discussing this proposal with you and I also look forward to hearing your comments and suggestions on additional areas for which we could provide services to Jackson.

Sincerely,

Coleman Bush  
Director of Business Development  
American Water Services Southeast Region



March 22, 2004

RECEIVED

MAR 23 2004

PUBLIC SERVICE  
COMMISSION

Mr. Tom Dorman  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40601

Re: Kentucky American Water Company  
City of Jackson

Dear Tom:

Please accept the enclosed agreement as notice that Kentucky American Water Company has entered into an agreement dated February 16, 2004, with the City of Jackson, Kentucky, to provide certain advisory services. Among other provisions, the agreement has a termination date of February 1, 2005.

If you would be kind enough to stamp the additional copy as having been received by the Commission and return the stamped copy in the enclose envelope, it would be greatly appreciated.

Please advise if you have any questions.

Sincerely yours,

Herbert A. Miller, Jr.  
Corporate Counsel

Enclosures

- R. Mundy \_\_\_\_\_
- C. Bush \_\_\_\_\_
- N. Rowe \_\_\_\_\_
- H. Miller \_\_\_\_\_
- B. Brown \_\_\_\_\_
- R. Cole \_\_\_\_\_
- F. Ross \_\_\_\_\_
- D. Whitehouse \_\_\_\_\_
- D. Braxton \_\_\_\_\_
- L. Bridwell \_\_\_\_\_
- S. Stockton \_\_\_\_\_
- L. Burns \_\_\_\_\_
- D. Taylor \_\_\_\_\_
- B. Siler \_\_\_\_\_
- D. Griffin \_\_\_\_\_
- J. Rount \_\_\_\_\_
- Comments:
- Return To \_\_\_\_\_
- File # \_\_\_\_\_
- Discard \_\_\_\_\_

n Water  
chmond Road  
on, KY 40502  
859.268.6339  
859.268.6327  
amwater.com



**ADVISORY SERVICES AGREEMENT**

This Advisory Services Agreement ("Agreement") dated as of this 16<sup>th</sup> day of Feb. 2004, between Kentucky-American Water Company ("KAWC"), a Kentucky corporation, and the City of Jackson, Kentucky ("City"), a City of the 4th class in Kentucky.

**WITNESSETH:**

WHEREAS, City owns and operates a water system for the treatment, transmission, storage and distribution of potable water and a sewer system for the collection and treatment of sewage, both systems (collectively referred to as "System") serving customers in Jackson, Kentucky and in other parts of Breathitt County;

WHEREAS, City desires the services that KAWC can provide in assisting with certain management functions of the System:

WHEREAS, the City Council of Jackson, Kentucky has authorized its Mayor to enter into this Agreement;

WHEREAS, City desires that KAWC, on a short-term and limited basis, act in an advisory capacity to City regarding certain operation, maintenance, and management decisions;

NOW, THEREFORE, for and in consideration of the covenants and agreements herein contained and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree that:

1. Subject to the right to terminate the Agreement as provided below, City hereby requests and KAWC agrees to provide advisory assistance to City for the purpose of assisting City in seeking increased operational efficiency and effectiveness of the System and improved customer service to customers served by the System. Each assignment approved by the City will be accompanied by a budget before any work is started. A written report will be provided on completion of each assignment. The menu of services offered by KAWC includes:

- Complete review of budget for water and wastewater systems with recommendations for operating expense savings including labor costs
- Audit of meter reading, billing and past due accounts
- Establishment of appropriate inventory levels necessary to provide reliable service
- Analysis of meter accuracy and recommendation for meter change-out program
- Supervision of meter change-out program
- Analysis of valve program and recommendation for repair, replacement and preventive maintenance
- Analysis of hydrant program and recommendation for repair, replacement and preventive maintenance
- Analysis of tanks and development of maintenance and painting schedule
- Develop capital improvement program
- Other financial analysis and accounting as required
- Analysis of water and wastewater sludge disposal operations with recommendation for savings
- Analysis of I & I with recommendation for savings
- Preparation of monthly operating report for City Council
- Develop safety program

2. City shall retain its full statutory authority and responsibility to operate, maintain, and manage the System.

3. KAWC shall act in an advisory capacity to City and shall not act or otherwise obligate City without specific advance authority from City or within reasonable bounds of authority as may be extended by City to KAWC.

4. KAWC shall provide the advisory services to City on the following terms and conditions:

- a. KAWC shall provide personnel as may be approved by City to formulate appropriate plans and actions for the improvement of the System, including, but not limited to, identification of necessary actions, prioritization of appropriate actions, providing estimates of cost, identification of potential funding sources, providing assistance in securing of appropriate outside contractors, and implementation of appropriate actions as may be desired and authorized by City.
- b. KAWC will invoice City monthly during the term of this Agreement and at the termination of the Agreement, \$55 (fifty-five dollars) per hour for services provided including travel time to and from Lexington, KY plus travel expenses, including meals and lodging when necessary. No work will be performed by KAWC without prior written approval of City. City agrees, without offset for any reason, to pay KAWC for such services and expenditures within ten (10) days of the date of each invoice.

5. City understands and agrees that in carrying out its obligations under this Agreement, KAWC is not assuming management responsibility for City and shall not be liable for any of City's debt or other liabilities by virtue of this Agreement.

6. In addition to compensating KAWC for its services under this Agreement as described in Section 4(b) above, City also agrees that it shall continue to be responsible for, and shall

pay, all other costs and expenses incident to the operation of the System during the period of this Agreement.

7. During the term of this Agreement, all employees of the System shall continue to be employees of City on the usual terms and conditions of their employment, and City specifically understands and agrees that KAWC is not the employer of any employees of the System.

8. KAWC and City agree that during the Agreement, KAWC shall use reasonable efforts to advise City of any operating problems that it observes, but that City shall remain liable for any operating losses of the System and shall be responsible for any and all capital improvements necessary to the System.

9. It is understood and agreed by the Parties that the relationship of KAWC to City is that of independent contractor. The services provided for under this Agreement are of a professional nature and City shall indemnify and hold KAWC (and its officers, directors, employees and agents) harmless from and against any claim, damages or liabilities whatsoever, direct or indirect, including regulatory actions and attorneys fees, arising out of or in connection with the performance of this Agreement, unless caused by the sole intentional misconduct or gross negligence of KAWC. Notwithstanding any other provision of this Agreement, KAWC shall not be responsible or liable for the quality of the potable water, costs incurred in the production and distribution of the potable water or fines or penalties regarding such water. Further, City shall maintain in force all of its existing insurance coverage, including fire, casualty, liability, general liability, workers compensation, vehicle, and other coverage. KAWC shall be entitled to at least ten (10) days prior notice of any intent to cancel said coverage.

10. If any litigation is necessary to enforce the terms of this Agreement, the action, unless waived by KAWC in writing, shall be brought and maintained in the appropriate state or federal court in Fayette County, Kentucky, and the prevailing Party shall be entitled to interest at the statutory rate, reasonable attorney's fees, which are directly attributed to such litigation, in addition to any other relief to which it may be entitled.

11. City represents that it has the authority to enter into this Agreement, and represents that it has complied with all governmental action necessary to bind it to the terms hereof.

12. City shall be liable for those fines or civil penalties, or other penalties or relief or remedy, imposed by any regulatory or enforcement agencies on City which are directly related to its ownership or operation of the System and shall indemnify and hold KAWC harmless from the payment of any such fines and/or penalties.

13. Indemnity obligations provided for in this Agreement shall survive the termination of the Agreement.

14. If required by PSC, KAWC shall submit the Agreement for review and approval by PSC. If, for any reason, PSC fails to approve the Agreement, the Agreement shall be immediately terminated and payment to KAWC for costs incurred or services rendered as provided herein shall be immediately due and payable.

15. Agreement will terminate (a) February 1, 2005; (b) upon mutual agreement of the parties, or (c) upon twenty-four hours written notice to either party by the other party, without cost or liability to either party, except for payment of any accrued costs incurred or services rendered



as provided in Section 4(b) above. Notice of termination shall be valid if delivered by electronic transmission or facsimile transmission to:

To KAWC:

Roy W. Mundy, President  
Kentucky-American Water Company  
2300 Richmond Road  
Lexington, Kentucky 40502  
Fax Number: 859-268-6827  
E-mail Address: [rwmundy@kawc.com](mailto:rwmundy@kawc.com)

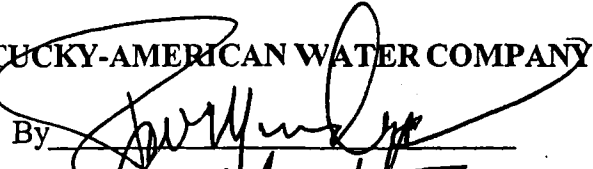
Copy to: Herbert A. Miller, Jr.  
Corporate Counsel  
2300 Richmond Road  
Lexington, Kentucky 40502  
Fax Number: 859.268.6327  
E-mail Address: [hmillier@kawc.com](mailto:hmillier@kawc.com)

To City:


Mayor Michael Miller  
City of Jackson, Kentucky  
333 Broadway  
Jackson, KY 41339  
Fax Number: 606.666.7046  
E-mail Address: [mayordoodle@aol.com](mailto:mayordoodle@aol.com)

IN WITNESS WHEREOF, the parties have executed this Agreement as of the  
date first written above.

**KENTUCKY-AMERICAN WATER COMPANY**

By   
Its President

**CITY OF JACKSON, KENTUCKY**

By   
Its Mayor