

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00096
ATTORNEY GENERAL STAFF'S SUPPLEMENTAL REQUEST FOR INFORMATION

Witness: **Cheryl Norton / Lance Williams**

1. Reference: KAWC response to OAG 1- 1. The question under sub-part A is whether the 16-inch main “would allow for expansion of Kentucky-American Water Company (KAW) into markets outside of those already serviced by its Northern Division.” KAWC’s statement in response regarding the company’s intent for the design of the facility does not address the question. The inquiry is not why KAWC is purportedly building the facility but rather what the facility could potentially allow and its possible utilization. Will the proposed 16-inch main allow for the expansion of KAW into markets outside of those already served by its Northern Division?

Response:

As the proposed project is currently designed it would not allow KAW to serve other markets outside of those already served by the Northern Division. The maximum transmission capacity of the 16-inch ductile iron main is limited by the maximum design capacity of the booster pump station and flow rates should not exceed 7 fps (feet per second). The booster station is currently designed for 2 MGD which is equal to the demand projections provided in KAW_R_PSCDR1#27_072312 and KAW_R_AGDR1#22_072312.

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Witness: **Keith Cartier / Lance Williams**

2. Reference: KAWC response to OAG 1 – 1; additionally, KAWC response to PSC 1 – 2; pages 5 and 8 (Purchase of the Water and Sewer Assets of Owenton KY – September 9, 2003). The KAWC response to PSC 1 -2 includes in part the following statements. “There is a strong indication of growth in Owen and surrounding counties.” And, “This project is valuable strategically in that it sends a ‘business as usual’ message as KAWC expands its service territory.” Does KAWC agree or disagree that completion of the Northern Division Connection as proposed in the Application will place KAWC in a better position to expand into markets outside of its current service territory? Please explain your answer.

Response:

The project is intended as the best solution for current customers. The proposed connection would enable a more reliable source of supply to Owen County than the current source of supply which could aid in attracting businesses to locate in the county. Having said that, there are no current plans to extend facilities beyond the current service territory, and any future opportunities to do so would necessarily require an evaluation of system capacity to meet whatever requirements those opportunities may present. Please also see KAW’s response to Item No. 1 of the AG’s Supplemental Request for Information.

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Witness: Lance Williams

3. Reference: KAWC response to OAG 1 - 5. What is the cost estimate for decommissioning the Monterey Tank? Please supply any corresponding work-papers, memoranda, and communications regarding the decommissioning and cost estimate.

Response:

KAW has not received a bid estimate for the cost of decommissioning the Monterey Tank, but KAW expects any such costs to be insignificant (less than \$50,000) and those costs could be significantly mitigated depending on the price of scrap steel at the time of demolition.

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Witness: **Keith Cartier / Lance Williams**

4. Reference: KAWC response to OAG 1 - 8. The response, in identifying impending violations, references an 8 September 2011 site inspection report (at part VI). In that the transfer of control of the facilities was approved by an Order of the Commission dated 22 July 2005, please identify and discuss the steps taken since 22 July 2005 to address the backwash basin and "overflowing." Include in the discussion why "impending violations" have been allowed to continue or develop during KAWC's control of the facility.

Response:

KAW recognized the potential for violations if the wash water settling basins were not monitored and managed to ensure compliance with discharge permits. KAW has done that, and has taken steps to improve the operation of the basins, including rehabilitating a discharge valve, relocating sludge from one basin to another (the old clearwell), constructing a series of stone lined catch basins for the discharge, and removing sludge from the basin. KAW's actions have enabled the plant to maintain compliance, though the design and operation are far from ideal.

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Witness: **Linda Bridwell / Keith Cartier / Lance Williams**

5. Reference: KAWC response to OAG 1 - 9; page 1 of 27. KAWC indicates, by reference to a 2004 Sanitary Survey by the Division of Water, that "the condition and location of the intake has historically been a point of concern for the Division of Water with the City of Owenton." Was KAWC aware of this fact prior to the filing for Commission approval of a transfer of ownership in PSC Case No. 2005-00206?

Response:

Yes, KAWC was aware of the concerns related to the intake.

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Witness: Linda Bridwell

6. Reference: KAWC response to OAG 1 - 9; page 3 of 27. The issue of emergency supply for the Owenton system was documented, by no later than 8 October 2004, in a public record. Why did Kentucky-American Water Company fail to include a discussion of the issue of emergency supply for Owenton in its application to construct KRS II and its related facilities?

Response:

The application to construct KRS II and its related facilities was made to address the needs of Central Kentucky as part of the regional water supply and treatment capacity deficits. Pool 3 of the Kentucky River (adjacent to Franklin and Owen Counties) was identified as a source of water supply for the Bluegrass Water Supply Commission in the O'Brien and Gere report published in 2004, prior to Kentucky American acquiring the assets of Owenton. Kentucky American realized that it might be a possibility for a future solution in the Northern Division as early as 2005, but the development and approval of the KRS II facilities were complicated and contentious enough without attempting to add the potential for an Owenton connection when the needs of the Owenton facilities had not been fully reviewed, and the addition would only unnecessarily complicate matters further. KAW felt that the proximity of the KRS II facilities to Owenton were obvious, and to discuss the probability of a connection without any answers regarding when or if it might occur, whether it would be cost effective, or any of the facilities that would be required would have been inappropriate in the application to construct KRS II.

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Witness: Lance Williams / Keith Cartier

7. Reference: KAWC response to OAG 1 - 9; page 11 of 27. "The system is in the process of being purchased by Ky-American and little long range planning is being done and the financial future is dependent upon the sale."

A. Did KAWC ever develop a long-range plan for the Owenton system?

B. If yes, then when was the plan developed? If applicable, please supply the copy of each long-range plan that has been developed.

C. If no, then please explain why not.

Response:

- a) Yes, a multi-year capital expenditure plan was developed for the Owenton system.
- b) The plan was developed while investigating the purchase of the Owenton System in 2005. A copy of the plan is attached.
- c) Not applicable.

Owenton, Kentucky
5 year CAPEX Plan as Approved by CDC
Revised 8-31-05

Item No.	Item Description	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010	Total	Comment
1	New Ky River Intake (KAW Portion)	\$ -	\$ -				\$ -	Owenton has loan for this amount
2	Upgrade WTP		\$ 50,000	\$ 200,000	\$ 250,000		\$ 500,000	
3	Upgrade / Replace Raw Water Main Squiresville Road Water Main, 7 miles	\$ 100,000	\$ 100,000				\$ 200,000	Cost included in Intake Project to be done by Carrollton
4	Southfork Road Water Main Extension		\$ 120,000				\$ 120,000	
5	SCADA Installation			\$ 100,000			\$ 100,000	
6	Security Upgrades				\$ 20,000		\$ 20,000	
7	Storage Tank Rehab				\$ -		\$ -	Done under maintenance
8	Backup Generator	\$ -					\$ -	Optional
9	Chemical Feed Improvements	\$ 300,000					\$ 300,000	
10	Misc. System Investment	\$ 60,000		\$ 60,000	\$ 60,000	\$ 80,000	\$ 260,000	
		\$ 460,000	\$ 270,000	\$ 360,000	\$ 330,000	\$ 80,000	\$ 1,500,000	

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Witness: **Keith Cartier / Lance Williams**

8. Reference: KAWC response to OAG 1 – 9; page 11 of 27. System does not purchase water from any other system. Is this accurate, as of the date of the survey containing the statement? See also page 14 of 27 (“There are presently no other public water systems with interconnections to the Owenton facility.”) If it is not accurate, as of the date of the survey, then please provide the correct information.

Response:

The sanitary survey referenced was for the Owenton Water system, prior to KAWC ownership. The statements are accurate in that the Owenton Water system did not purchase water from other systems.

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Witness: Linda Bridwell

9. Reference: KAWC response to OAG 1 - 9; page 13 of 27. "Owenton Water District is currently in the process of obtaining approval from DOW and funding from Rural Development to relocate their water intake to the Kentucky River." Please explain what happened with regard to (A) funding from Rural Development and (B) approval from DOW.

Response:

KAW has been unable to locate anything in its files regarding what happened with the Rural Development funding being pursued by Owenton, and does not have any institutional knowledge regarding the funding. Clearly, it did not go forward. The DOW approved the relocation of the water intake to the Kentucky River as part of approval for Kentucky Infrastructure Authority funding for the project, and the DOW worked closely with Owenton regarding the improvements that were made to the intake.

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Witness: **Keith Cartier / Lance Williams**

10. Reference: KAWC response to OAG 1 – 9; page 26 of 27. The Sanitation Survey (in 2004) includes questions regarding “Chlorine Safety.”

A. Indicate whether the answers for these questions remain the same under current practices for the Northern Division (and if not, then please indicate, with specificity, why not).

B. Identify any current deficient practice(s) in the Northern Division with regard to chlorine safety.

Response:

A. Yes

B. There are no deficient practices with regard to chlorine safety.

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Witness: Lance Williams

11. Reference: KAWC response to OAG 1 - 10. KAWC anticipated \$1.5 million in capital expenditures over the 5-year period and indicates the completion of a chemical feed improvement project, tank maintenance projects, and SCADA installation at remote tank sites. For the five-year period following the acquisition, please provide the following:

A. The amount of the \$1.5 million in capital expenditures that was actually spent, by year, for the five-year period.

B. The amount of capital expenditure, by year, for completion of a chemical feed improvement project.

C. The amount of capital expenditure, by year, for tank maintenance projects.

D. The amount of capital expenditure, by year SCADA installation at remote tank sites.

E. For each project identified in sub-parts B, C, and D, of this request, identify the start date or anticipated start date and completion date or anticipated completion date of each project. If a project was abandoned, deferred, or otherwise not pursued, explain why.

Response:

A) The amount of the \$1.5 million in capital expenditures

Year 2006	Year 2007	Year 2008	Year 2009	Year 2010	Total
\$29,963.45	\$425,122.40	\$28,503.86	\$63,295.74	\$44,210.22	\$591,095.67

B) The amount of capital expenditures for chemical feed improvement projects

Year 2006	Year 2007	Year 2008	Year 2009	Year 2010	Total
\$0.00	\$2,724.02	\$20,199.12	\$0.00	\$44,210.22	\$67,133.36

C) The amount of capital expenditures for tank maintenance projects

Year 2006	Year 2007	Year 2008	Year 2009	Year 2010	Total
\$29,963.45	\$422,398.38	\$8,304.74	\$44,121.65	\$0.00	\$504,788.22

D) The amount of capital expenditures for SCADA

Year 2006	Year 2007	Year 2008	Year 2009	Year 2010	Total
\$0.00	\$0.00	\$0.00	\$19,174.09	\$0.00	\$19,174.09

E) Most projects have been deferred at this time except for the maintenance that was completed on the Perry tank in 2007, some SCADA and a portion of the chemical

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feed improvements. Maintenance on the Fairgrounds Tank was officially abandoned in 2009 due to pressure problems in the system when the tank was taken out of service for maintenance. During the first year of operation after the purchase transaction was complete, KAW was able to evaluate the operations first hand and was able to make changes that helped mitigate some of the apparent problems and proposed projects. Other projects were modified after the initial evaluation of the system due to hydraulic modeling.

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Witness: Lance Williams / Keith Cartier

12. Reference: KAWC response to OAG 1 – 10. Please explain whether, prior to purchasing certain assets of the Owenton water system, KAWC anticipated capital expenditures by KAWC for a water intake facility for the Northern Division. If yes, then please identify the anticipated capital expenditures and indicate whether they were actually made by KAWC. If no, then please indicate why not.

Response:

No, prior to purchasing the Owenton water system the 5 year capital expense plan as approved by the CDC on August 31, 2005 did not include any capital expenditures by KAWC for the raw water intake facility improvements for the Northern Division. This facility is owned by the City of Owenton. Please refer to KAW_R_AGDR2#007_082012 for a copy of the approved CDC document.

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Witness: **Keith Cartier / Lance Williams**

13. Reference: KAWC response to OAG 1 – 11; page 3 of 38. The November 2008 letter from Georgetown Municipal Water & Sewer Service notes the existence of “an Agreement to connect facilities in order to supply water to one another in the event of a drought, emergency condition, service interruption or other unexpected condition.” Please explain whether the connection of KAWC’s Northern Division’s facilities with Georgetown Municipal Water & Sewer System corresponds with a present obligation or authority for KAWC to ever supply GMWSS through its Northern Division facilities. If yes, please explain the obligation or authority. If no, please explain why not and confirm that the Agreement only permits sales to KAWC through the GMWSS interconnection with the Northern District.

Response:

The agreement referenced in the 2008 letter is not affiliated with the Northern Division. The referenced agreement is for a connection located in Georgetown and provides an emergency interconnection from the Georgetown system with KAWC’s Central Division system. Although initially conceived with the thought the connection might be utilized in either direction, in practice the use has been to supply water from KAWC to Georgetown. As far as can be determined, KAW has not utilized the connection to receive water from Georgetown.

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Witness: Linda Bridwell

14. Reference KAWC's Response and Amended Response to AG 1-14. Does KAWC agree or disagree that the construction of the Northern Division Connection will have direct impacts on ratepayers located in Central Kentucky, including but not limited to the ratepayers located in Lexington-Fayette Urban County?

A. If KAWC agrees that direct impacts do exist, please identify the specific impacts to ratepayers located in Lexington-Fayette Urban County and characterize each impact as positive or negative.

B. If KAWC disagrees that Central Kentucky ratepayers will face any direct impacts regarding the Northern Division Connection, would it agree to a deferral of future recovery from ratepayers outside of the immediate service territory for the Northern Division Connection? If KAWC would not agree, please explain why not.

Response:

As discussed in the response to Item 21 of the Attorney General's First Data Request, both construction options would have an impact on all Kentucky American's ratepayers, and that impact would be equal regardless of customer location. Kentucky American agrees that there would be an impact to ratepayers in Central Kentucky, including those in Lexington-Fayette Urban County.

- a. The estimated rate impact to all customers using 5,000 gallons of water per month would be 50 cents, as calculated in response to Item 16 of this same data request.
- b. No, it would not. Kentucky American utilizes single-tariff pricing. The Northern Division Connection will appropriately impact all customers, both Northern and Central Division ratepayers equally, just as construction of KRS II impacted these customers equally.

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Witness: Linda Bridwell

15. Reference KAWC response to OAG 1 – 21. Please provide a copy of the spreadsheet entitled “Ratemaking Impact of Owenton WTP Improvements vs. Proposed KRS II Scenario” in its native format (i.e. Microsoft Excel, Access) with all underlying data, assumptions and calculations.

Response:

Please see attachment, which is the Microsoft Excel file that produced the “Ratemaking Impact of Owenton WTP Improvements vs. Proposed KRS II Scenario” sheet submitted in response to OAG 1-21.

Attachment:

KAW_R_AGDR2#015.xlsx

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Witness: Linda Bridwell

16. Please provide a projection of the expected rate impact on a residential customer's bill for the following scenarios. (The expected amount of an increase associated with the rate recovery of the project.) For the response, please provide the impact for the first year that the rate in effect would include the entire cost of the project. Show the supporting calculations.

A. A Central Division residential customer of KAWC who utilizes 5,000 gallons of water per month if the KRS II plan is authorized and placed into service.

B. A Northern Division residential customer of KAWC who utilizes 5,000 gallons of water per month if the KRS II plan is authorized and placed into service.

C. A Central Division residential customer of KAWC who utilizes 5,000 gallons of water per month if the Owenton WTP option (the non-KRS II plan is authorized and placed into service.

D. A Northern Division residential customer of KAWC who utilizes 5,000 gallons of water per month if the Owenton WTP option (the non-KRS II plan) is authorized and placed into service.

Response:

A. The estimated impact is 50 cents/ month.

B. Please refer to the response to Part A.

C. The estimated impact is 63 cents/month.

D. Please refer to the response to Part C.

Please refer to the attachment for calculations.

Kentucky American Water
Case NO. 2012-00096
AG DRSupp 016
Estimated Monthly Rate Impact for Residential Customer

Estimated KRS II Pipeline Impact for Residential Customer	Current Bill for 5,000 Gallons / Month	KRS II Pipeline Impact	Calculation
Central Division Customer	\$ 35.40	\$ 0.50	Multiply Current Bill by % Impact 1.423%
Northern Division Customer	\$ 35.40	\$ 0.50	Multiply Current Bill by % Impact 1.423%

Estimated Owenton WTP Impact for Residential Customer	Current Bill for 5,000 Gallons / Month	Owenton WTP Option	Calculation
Central Division Customer	\$ 35.40	\$ 0.63	Multiply Current Bill by % Impact 1.768%
Northern Division Customer	\$ 35.40	\$ 0.63	Multiply Current Bill by % Impact 1.768%

Calculation of % Impact	Revenue Requirement	% of Authorized	Calculation
Authorized Revenue	\$ 87,304,667		Per Case NO. 2010-00036
KRS II Pipeline Impact	\$ 1,242,110	1.423%	Impact Per AG DR1 021, Divided by Authorized Revenues for %
Owenton WTP Option	\$ 1,543,169	1.768%	Impact Per AG DR1 021, Divided by Authorized Revenues for %

Current Bill Calculation	Amount	5000 Gallons / Month Charge	Calculation
Meter Charge - Assume 5/8" Meter	\$ 8.90	\$ 8.90	
Cost Per 1000 Gallons Residential Rate	\$ 5.30040	\$ 26.50	Amount x 5
	Sum	\$ 35.40	

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Witness: Linda Bridwell

17. Were the costs of the Northern Division Connection to KRS II be allocated in future rate cases solely to those customers to be served by the Connection in Owenton and the other areas within KAW's identified Northern Division, could such a cost in the form of an infrastructure surcharge and/or special tariff be economically feasible?

Response:

Infrastructure surcharges can certainly be an economically feasible way to recover the costs of capital investments. That said, the use of an infrastructure surcharge or special tariff to allocate costs to a sector of customers based on their location is inconsistent with Kentucky American's single-tariff rate design that has been approved by the Kentucky Public Service Commission.

In Case No. 2004-00103, when KAW had separate tariffs for its Central and Northern Division customers, it indicated that it intended to move to a single-tariff or "unified" rate structure in its next rate case and the Commission agreed that such a move would be consistent with generally accepted principles of sound rate design. (February 28, 2005 Order in Case No. 2004-00103, pp. 75-76). After Case No. 2004-00103, KAW acquired the Owenton system. In Case No. 2005-00206, in which the Commission addressed KAW's acquisition of the Owenton system, the Commission again recognized and encouraged a shift to single-tariff rate design when it stated, "the Commission places KAWC on notice that KAWC's next application for a general rate adjustment should contain a proposal for a single rate schedule applicable to all KAWC customers . . .". (July 22, 2005 Order in Case No. 2005-00206, p. 6). Given those Commission directives, in KAW's subsequent general rate case (Case No. 2007-00143), it proposed a single-tariff structure. The parties to that case proposed an agreed resolution of the case to the Commission. The proposed agreed resolution included the move to a single-tariff structure (November 29, 2007 Order in Case No 2007-00143, Exhibit B, p. 2), and the Commission approved the agreed resolution, including the single-tariff structure. (November 29, 2007 Order in Case No. 2007-00143). That same single-tariff structure has remained in place ever since and KAW continues to agree with the Commission that it is consistent with sound rate design.

Kentucky American's customers have been impacted equally by capital investments, including the construction of KRS II, since single-tariff rates were authorized in Case No. 2007-00143. It would be inconsistent to now assign the costs of the Northern Division Connection to only some of the Company's customers.

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Witness: **Keith Cartier / Lance Williams**

18. Reference: KAWC response to OAG 1-23(A). If the Commission approves the KRS II Northern Division Connection to KRS II as presented in the Application, will the existing purchase agreements with Georgetown Municipal Water and Sewer Service, Gallatin County, and Carroll County continue or be discontinued?

A. If KAWC plans to discontinue any of these purchase agreements, has it so advised the corresponding utility or utilities?

B. If yes, is KAWC assisting the relevant utility or utilities with regard to future water distribution and conservation planning?

C. (with regard to sub-part A) If no, why not?

Response:

KAW currently anticipates maintaining the interconnections.

A. KAW has not notified any utility of potential changes to purchases.

B. N/A

C. There is not an immediate plan to discontinue purchase from Carrollton and Gallatin. The connection with Georgetown is anticipated to remain, though KAW would not anticipate using the connection to purchase water as a matter of routine. KAW would anticipate maintaining the connection for emergency purposes.

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Witness: Lance Williams

19. Reference: KAWC response to OAG 1-23(B). Please provide detailed information concerning "the investment of new infrastructure, replacement and upsizing of existing infrastructure," which were analyzed and rejected by KAWC as related to the options of treated water purchases. (Include in the response the identity of each individual who participated in the analysis and determination.)

Response:

After examining potential treated water purchases with Bullock Pen Water District, Georgetown Municipal Water & Sewer Service, and Carroll County Water District #1, it was determined that none of these options was viable due to each system's lack of treatment capacity to supply Kentucky American Water's Northern Division. (Please refer to KAWC response to OAG 1-11(B) for further information.) The existing Gallatin County Water District connection is 2-inch and is located in the far northern portion of Owen County. The size of this connection is inadequate to meet Kentucky American Water's Northern Division's needs and significant investment in infrastructure upgrades on Gallatin County Water District's side of this connection would be necessary. In addition to these improvements, Kentucky American Water would need to construct approximately seventeen miles of main extension (as opposed to sixteen miles with the KRS II connection) with similarly sized facilities as contained in the proposed KRS II connection. Given the issues described above, the KRS II connection is clearly the least cost solution for serving the Northern District.

The individuals who participated in the analysis and determination include:

Name	Title / Company
Cheryl Norton	President / Kentucky American Water
Keith Cartier	Vice President Operations / Kentucky American Water
Lance Williams	Director Engineering / Kentucky American Water

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Witness: **Keith Cartier / Lance Williams**

20. Reference: KAWC response to OAG 1 – 26. Does KAWC agree or disagree that by reducing or eliminating its need to purchase treated water from the surrounding municipal water systems it is more competitively positioned to seek to purchase those entire systems? Please explain your response in detail.

Response:

KAW disagrees. KAW would not presume that the volume of water purchased (or lack of water purchased) by KAWC from the neighboring utilities would influence whether a neighboring utility was interested in selling, or whether KAWC would be interested in purchasing such a system.

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Witness: **Cheryl Norton / Keith Cartier**

21. Reference: KAWC response to OAG 1 – 27. Would President Cheryl Norton and Vice-President Keith Cartier be willing to voluntarily appear at any public evidentiary hearing scheduled regarding this matter, be sworn, and answer questions of the Commissioners, staff and, intervening counsel? If not, then please explain why not.

Response:

Yes.

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Witness: Lance Williams

22. Reference: KAWC response to PSC 1 – 1; pages 15, 18, and 19. The description of the Chemical Bulk Storage Improvements per the 4 April 2012 letter (appearing at page 18) is “a new chemical feed building that houses bulk liquid chemicals, access road improvements, and a chlorine scrubber.” The corresponding opinion of probable costs in the second quarter of 2008 (page 19 – which includes construction and engineering costs and contingency) is \$2,100,000. Comparatively, the summary of construction cost opinion for the third quarter of 2008 (page 15 – including a “general conditions” adjustment of 8% and a contingency of 15%) is \$1,060,000 for the proposed chemical building; \$110,000 for the chlorine scrubber; and \$200,000 for access road improvements for a total of \$1,370,000. Please explain the difference between these cost estimates and include in the explanation a discussion of the reasons for the increase in cost.

Response:

The total Construction Cost Opinion (Third Quarter 2008) was \$1,420,000 (page 15 of KAWC response to PSC 1-1). The total project cost estimate of \$2,100,000 contained in the 4 April 2012 letter includes 11.5% inflationary index from 2008 to 2012, 15% for engineering and technical services, and 15% for construction administration and inspection.

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Witness: **Linda Bridwell**

23. Reference: KAWC response to PSC 1 - 2; page 4 of 62. "A second rate increase for the water model, to coincide with the rehabilitation of the water treatment plant, is included in the model with a rate year beginning October 1, 2006. This increase is 13.91%." With regard to this statement, please indicate whether the increase was sought and obtained.

Response:

No, it was not. In 2007, KAW filed an application for a single-tariff pricing structure which was approved in Case No. 2007-00143.

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Witness: Lance Williams

24. Reference: KAWC response to PSC 1 - 2; page 5 of 62. "Purchase of this water system will give KAWC access to a new and reliable source of water - Pool #2 of the Kentucky River." Additionally, page 6 of 62 "An important part of this transaction is the construction of a new raw water intake on the Kentucky River at Pool #2 (at a location approximately 1,000 feet from the current intake) to help meet new water quality regulations." Also see page 8 of 62. Further, page 7 of 62, "When the new intake is built, the 12" raw water line from the Severn Creek intake will be extended to the new intake and after connection will by-pass the reservoir and go straight to the filtration plant." KAWC knew that access to a new and reliable source of water was important part of the transaction, therefore explain the KAWC analysis or examination of access by the Northern Division to the Kentucky River via the KRS II station at the time that the KRS II facility was being designed and submitted for approval?

Response:

There was no focused analysis. At the time of KRS II design, the Northern Division was served by the Owenton plant and was beyond the scope of the KRS II project.

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ATTORNEY GENERAL STAFF'S SUPPLEMENTAL REQUEST FOR INFORMATION

Witness: Linda Bridwell

25. Reference: KAWC response to PSC 1 - 2; page 7 of 62. "One lacking factor in the filtration plant is reliance on a single claricone for treatment." Further: "KAWC's proposal includes funds to study and make improvements in the filtration plant to improve efficiency and to provide necessary redundancy." KAWC was aware that redundancy was an important consideration, therefore, with regard to redundancy, explain the KAWC analysis or examination of interconnection of the Northern Division with the KRS II facility at the time that the KRS II facility was being designed and submitted for approval?

Response:

KAW had not completed a study for the necessary improvements at the Owenton plant and did not have detailed cost information for the necessary improvements at the Owenton plant at the time of the design of the KRS II facility. Considering the urgent need to construct the KRS II facility due to the existing raw water and treatment capacity deficits faced by the Central Division, it would have been inappropriate to hold up moving forward on KRS II. Although KAW performed appropriate due diligence in analyzing the Owenton transaction, as with any purchase, the only way to know the full extent and details of operating characteristics and deficiencies came after operation of the plant for several years.

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Witness: **Keith Cartier / Cheryl Norton**

26. Reference: KAWC response to PSC 1 - 2; page 34 of 62. "Submission of Business Development Package to KAWC Board for approval to purchase the City of Owenton's water and sewer assets." Provide a copy of this package.

Response:

The KAW Board was provided with the same business development package that was provided in response to Item No. 2 of the Commission Staff's First Request for Information. The KAW Board ultimately issued the attached unanimous consent.

**UNANIMOUS CONSENT OF THE DIRECTORS
OF KENTUCKY-AMERICAN WATER COMPANY**

The undersigned, constituting all of the members of the Board of Directors of Kentucky-American Water Company. (hereinafter "Company"), do hereby take the following corporate action by this unanimous written consent, which action shall have the same validity and effect as if taken at a meeting of the Board of Directors, duly called and held, at which all members of the Board attended and voted therefore:

RESOLVED, that the Board of Directors of the Kentucky-American Water Company ("Company") hereby authorizes the appropriate officers of the Company to enter into an Agreement For the Purchase of Assets ("Agreement") of the potable water and wastewater systems ("Systems") of the City of Owenton, Kentucky ("City"), for a total price not to exceed \$2,851,478, as may be adjusted as provided in the Agreement, with such approval contingent upon the terms and conditions in the Agreement, including, but not limited to, final approval by the City, receipt of a final unappealable order of approval by the Kentucky Public Service Commission, all other approvals of the appropriate regulatory authorities, and satisfactory results of Company due diligence investigations of the financial, regulatory, management and physical condition of the Systems to be purchased by the Company.

FURTHER RESOLVED, that the officers of the Company are authorized to take all necessary actions to effect the intent of this Resolution, including, but limited to the execution of any documents, contracts, agreements, and instruments to further the transaction and the application for all regulatory approvals.

These actions without a meeting of the Board of Directors is taken pursuant to the authority of Chapter 271B, Subtitle 8, Section 210, of the Kentucky Revised Statutes, and shall be effective September 22, 2003.

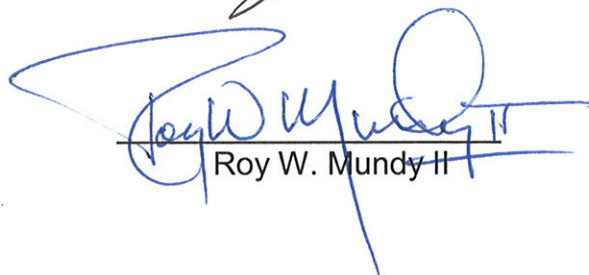
All signatures need not appear on the same counterpart of this consent, and all counterparts of this consent shall constitute one and the same instrument.



Chris E. Jarrett



Daniel L. Kelleher



Roy W. Mundy II



Lindsey Ingram, Jr.

KENTUCKY-AMERICAN WATER COMPANY
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ATTORNEY GENERAL STAFF'S SUPPLEMENTAL REQUEST FOR INFORMATION

Witness: **Keith Cartier / Lance Williams**

27. Reference: KAWC response to PSC 1 - 2; page 42 (Draft Purchase Agreement).
"Seller agrees to maintain the surrounding land, including the dam, in a safe and operational condition."

A. Was this condition part of the executed Purchase Agreement? If it was revised or eliminated, please fully explain.

B. Does KAWC believe that the Seller has ever breached this condition? If yes, then please fully explain.

Response:

A) The condition was included in the final purchase agreement, as shown below.

8. **OPERATION OF UPPER AND LOWER THOMAS LAKES.** Seller now owns and shall continue to own after the Closing Date all land and structures which directly impound the water in Upper and Lower Thomas Lakes ("the Lakes"), but grants to Buyer access to and the right to use the Lakes as a source of supply at no cost to Buyer which access and right include the right to pump water into and withdraw water from the Lakes and the right to increase or decrease the level of water in the Lakes. Seller agrees to maintain the structures which impound the Lakes, including the dam, in a safe and operational manner and in compliance with all applicable governmental requirements. Seller further agrees to maintain the land surrounding the Lakes in like fashion and agrees not to take or allow any action that would cause any pollution or detrimental effect on the quality of the water in the Lakes.

B) KAW has not asserted that Owenton has failed to live up to its obligations.

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Witness: **Lance Williams**

28. Reference: KAWC response to PSC 1 - 3; page 11. 16 November 2005 message from Thomas W. Williams includes the following statement: "Again, from the told-you-so column, the bids on the Intake were quite high." Please explain the significance of the bids being "quite high."

Response:

Mr. Thomas W. Williams no longer works for Kentucky America Water, so KAW can only speculate what is meant by Mr. Williams' comment of "quite high." On page 13 of 147 from KAW_R_PSCDR1#3_072312, Mr. Williams writes that "there is a \$1.3 million difference between the engineer's estimate and the money they 'Owenton' currently have committed." This would indicate that construction cost and materials were higher than expected and exceeded the budget by \$1.3 million.

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Witness: **Keith Cartier / Lance Williams / Linda Bridwell**

29. Reference: KAWC response to PSC 1 – 56. Explain why the intake project was not built.

Response:

A number of issues evolved over time as KAW operated the facilities post acquisition. The City of Owenton retained ownership of the intake to utilize approved grant money for the construction/relocation of a new intake. However, the actual construction bids far exceeded the approved grant money, leaving the City of Owenton with limited means to construct the intake as designed. Consequently, there were a number of improvements made to the existing intake pumps to address some of the source capacity and reliability issues, which were able to be completed with grant money Owenton had received. Subsequent to those intake improvements and to other treatment changes undertaken post acquisition, KAW was able to achieve and maintain compliance with plant operations, something that had not been reliably achieved prior to KAWC operations. This reduced the urgency for relocating the intake.

Separately, KAW learned that the Fairgrounds tank could not be removed from service to perform routine maintenance and painting. In exploring alternatives to address the tank issue, the concept of potentially connecting to the new plant surfaced. With that potential, KAWC believes it was prudent not to proceed with relocation/construction of the intake until a final determination had been made relative to KRS II potential connection.

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Witness: Keith Cartier/Lance Williams

30. Reference: KAWC response to PSC 1 - 59. Please identify the date when the distribution system evaluation referenced in the second paragraph was completed.

Response:

The reference to the distribution system evaluation is not a reference to specific report or evaluation but rather to the ongoing operations of the plant on a daily basis to see if the plant as it is currently being operated is meeting the regulations.

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Witness: Linda Bridwell / Keith Cartier / Lance Williams

31. Reference: KAWC response to PSC 1 – 3; page 16. The 13 January 2006 message from Richard C. Svindland includes the following statement: “Could we have copies available for ... 2) the asset purchase agreement between Owenton & KAW to help define what we actually purchased and what they may still own.”

A. Please provide a schedule that identifies the water system assets retained by the City of Owenton under the Asset Purchase Agreement that Mr. Svindland references.

B. Please identify any water systems assets retained by the City of Owenton under the Asset Purchase Agreement that KAWC mistakenly thought it had purchased.

Response:

A) Please refer to the attached Owenton Asset Purchase Agreement and the attached Bill of Sale which further defines assets included or excluded from Asset Purchase Agreement. (Attachments KAW_R_AGDR2#031_082012_Attachment 1 and KAW_R_AGDR2#031_082012_Attachment 2, respectively).

B) There were no assets retained by Owenton that KAWC mistakenly thought it had purchased.

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT ("Agreement"), entered into this 17th day of May, 2005, between the City of Owenton, Kentucky ("Seller"), a city of the 5th class in Kentucky, 220 South Main Street, Owenton, Kentucky 40359, and Kentucky-American Water Company ("Buyer" or "Kentucky American Water"), a Kentucky corporation, with its principal office at 2300 Richmond Road, Lexington, Kentucky 40502:

WHEREAS, the City of Owenton currently provides bulk water sales to Kentucky-American Water to service the majority of Kentucky American Water's customers in its Northern Division; and,

WHEREAS, Owenton has a history of water supply limitations during dry weather conditions and water quality issues from elevated disinfection by-products resulting primarily from its source of supply and treatment processes ; and,

WHEREAS, Kentucky American Water has been providing technical and operational assistance at no cost to Owenton to address these water quality and supply problems; and,

WHEREAS, Owenton recognizes the need to access quality technical expertise which is necessary to upgrade, maintain, and operate its water and wastewater systems; and

WHEREAS, Owenton cannot make the substantial investment necessary to maintain compliance with current and future water quality regulations and to meet increasing customer demands without an unreasonable increase in water rates; and

WHEREAS, Owenton believes that its costs to effectively address these water quality and supply problems would be far greater than Kentucky American Water's costs given

Owenton's long-standing challenges in these areas prior to involvement of Kentucky American Water; and;

WHEREAS, realizing these challenges of Owenton and success of working with Kentucky American Water , the Kentucky Division of Water has enthusiastically supported Kentucky American Water's taking ownership responsibility of Owenton's water and wastewater assets, provided both parties were amenable; and,

WHEREAS, Kentucky American Water possesses the financial, technical and operational resources to direct investments and manage operations to minimize costs and maximize quality of service by meeting all water quality regulations; and,

WHEREAS, Owenton and Kentucky American Water have been in discussions and negotiations for several years to develop a long-term arrangement whereby the citizens of Owenton will be afforded high quality water and wastewater service at a reasonable price; and,

WHEREAS, the customers of Owenton will immediately benefit from Kentucky American Water's ownership of Owenton's water and wastewater system as experienced water quality, distribution system operations, engineering, and management will direct personnel and investment to address supply and water quality issues, a level of expertise not available to Owenton; and,

WHEREAS, Owenton has considered its alternatives and has concluded that a long-term partnership arrangement with Kentucky American Water is the most logical, least costly approach to delivering water and wastewater service in Owenton.

WHEREAS, the Parties to this Asset Purchase Agreement previously entered into an Asset Purchase Agreement dated January 15, 2004; and

WHEREAS, the Parties were unable to close in accordance with Paragraph 12 of that Asset Purchase Agreement but now wish to enter into a new Asset Purchase Agreement;

NOW, THEREFORE, for good and valuable consideration, including the mutual promises contained herein, the Parties to this Asset Purchase Agreement do hereby agree as follows:

1. **PURCHASE OF ASSETS**. Seller hereby agrees to sell to Buyer on the Closing Date identified in paragraph 12 herein, and Buyer hereby agrees to purchase, free and clear of all liens, claims and encumbrances, all of Seller's tangible assets devoted to the provision of potable water service and wastewater service to the public, whether or not carried on or reflected in Seller's books and records. The purchase shall include the tangible assets of Seller's potable water system and wastewater system and all interest Seller has in real property, whether license, easement, fee simple, or any other type of ownership, (collectively referred to as the "Assets") which are listed in Exhibits 1 and 2. Although Exhibits 1 and 2 are intended to be complete, to the extent Seller on the date of this Agreement owns any assets which are needed to operate the potable water system and wastewater system that should be but are not included in the exhibits (except the water and sewer office building which shall be leased to Buyer for 10 years (with Buyer having the option of three additional 10-year lease terms for the Seller's cost of utilities, janitor services, and insurance)), such assets nonetheless shall be transferred to Buyer on the Closing Date.

The following Seller's assets are specifically excluded from this Agreement: (1) two snow blades; (2) salt box; (3) Scag mower and Scag mower accessories; (4) temporary pipe to Elmer Davis Lake (which Seller agrees to remove prior to Closing); (5) red storage building at wastewater treatment plant; (6) a new water intake to be constructed by Seller; (7) all land and

structures which directly impound the water in Upper and Lower Thomas Lakes; (8) all of Seller's six-inch diameter sanitary sewer force main lines consisting of Line A from Station 16+50 to Station 79+69.82 (approximately 6,320 feet) as shown on the plans of Owen County School System Sewer Expansion Project dated April, 2001, drafted by GRW Engineers; (9) all of Seller's six-inch diameter drinking water lines and existing water lines (approximately 2,028 feet) along Kentucky Highway 22 between Station 1+ 280.000 and 1 + 789.949, as shown on the plans of Owen County, Kentucky, City of Owenton, KY 22 – Utility Relocation Sta. 1+280.000 to Sta. 1+789.949 dated October, 2003, drafted by MSE Engineers; and (10) all of Seller's twelve-inch diameter raw water lines and all of its four-inch diameter finished drinking water lines within a radius of one-half mile of the intersection of Squiresville Road and Kentucky Highway 22 in Owen County.

With respect to items 8 and 9 of this Paragraph, \$50,000 from the funds due to the Seller at closing will be held in escrow by the Buyer pending completion of and transfer to the Buyer of the piping projects identified in those items. With respect to item 10 of this Paragraph, the Seller will retain ownership of these assets until such time the Buyer determines the utility relocation work is completed. During the period of time that the assets described in items 8, 9 and 10 are owned by the Seller, the Seller agrees that it will allow, without further consideration, Buyer to use those assets for the supply, delivery, flow, pressure and treatment of water and other purposes of Buyer as part of the water supply system assets being purchased by Buyer. In the event that the relocation of the assets described in items 8, 9 and 10 is required to be paid by the Buyer before closing, then the purchase price set forth in this Agreement shall be reduced by the amount of the Buyer's cost of relocation. In the event the relocation of the assets described in items 8, 9 and 10 is required to be paid by the Buyer after closing, but before the consideration

placed escrow is released, the escrowed amount shall be applied to the costs paid by Buyer to complete these relocations.

In the event the Closing Date occurs after July 31, 2005, then, for purposes of the consideration referred to in Section 2 of this Agreement, book depreciation on assets in service on July 31, 2005 shall be that amount as of July 31, 2005. Further, any assets purchased after July 31, 2005 shall be valued on the Closing Date at cost less book depreciation less any contributions in aid of construction.

2. **CONSIDERATION.** In consideration of the sale of such Assets, Buyer shall pay to Seller on the Closing Date, the sum of \$2,595,500 (two million five hundred ninety-five thousand five hundred dollars) (“Proposal”), adjusted for (i) any difference between the actual change in the book value, defined as gross utility plant less book depreciation and less contributions in aid of construction, and the pro forma change in book value used to arrive at an estimated book value as of June 30, 2004 for purposes of the Proposal and (ii) for the net increase or decrease in the book value of the Assets subsequent to June 30, 2004, the sufficiency of which is acknowledged by Seller. In the event Seller acquires or disposes of tangible assets devoted to the provision of utility service subsequent to the date of this Agreement, the purchase price shall be adjusted to reflect the net book value of those assets on the Closing Date. Buyer agrees to adopt Seller’s rates at closing. Buyer will not place into effect any rate increase for Seller’s now existing customers for a period of two years from the Closing Date.

3. **WARRANTIES**. Seller represents and warrants to Buyer as follows as of the date of this Agreement and as of the Closing Date:

- (A) Seller is a city of the 5th class in Kentucky with the requisite right, power and authority (i) to carry on its business as is now being conducted and (ii) to own, lease or operate its properties, which it currently owns, leases, or operates. Seller has, and at all times has had, full power and authority to own its properties and to conduct its business.
- (B) Seller has full capacity, right, power and authority to enter into, deliver, and perform this Agreement. Prior to closing, all consents, approvals, authorizations, or other requirements prescribed by law, rule, contract, agreement or regulation which must be obtained or satisfied by Seller and are necessary in order for it to enter into and perform this Agreement have been satisfied. This Agreement has been duly executed and delivered by Seller and constitutes its legal, valid and binding obligation, enforceable against Seller in accordance with its terms.
- (C) The execution, delivery, and performance of and the consummation of the transactions contemplated in this Agreement do not and will not: (i) conflict with or result in a violation or breach of any of the terms, conditions, or provisions of or constitute a default of the Seller's governance documents or any instrument, loan, grant, contract, bond, agreement, mortgage, judgment, order, writ, award, decree, or other restriction to which Seller is a party, or to which any of its Assets are subject, or by which Seller is bound or any statute or regulatory provision affecting Seller, (ii) require the approval, consent, or authorization of any federal, state, or local court, governmental authority, or regulatory body (except as provided in paragraph 11 of this Agreement) or of any creditor or seller or of any person or entity, nor (iii) give any party with rights under any instrument, agreement, mortgage, judgment, order, writ, award, decree or other restriction the right to terminate, modify, or otherwise change the Seller's rights or obligations thereunder.
- (D) Seller has complied with all existing laws, rules, regulations, ordinances, orders, instruments, contracts, loans, grants, bonds, agreements, judgments and decrees now or hereafter applicable to the Assets. Seller is not aware of any proposed laws, rules, regulations, ordinances, orders, judgments, decrees, governmental takings, condemnations, or other proceedings which would be applicable to the Assets or which might adversely affect the Assets

either before or after the date of this Agreement, other than as listed in Exhibit 3.

- (E) Seller has not received any notice or notification from any court or governmental agency, authority, or body that it is in violation of or not in compliance with any federal, state, or local law, statute, ordinance, rule, regulation, guideline (including voluntary guidelines), decree, or order or permit relating to the Assets or that upon the passage of time it will be in violation of any of the foregoing. Seller's operation of its water and wastewater systems complies in all respects with all governmental requirements relating to the provision of potable water service and wastewater system operation.
- (F) Seller has good, marketable, and insurable title to all of the Assets. None of the Assets will, after closing, be subject to any mortgage, pledge, lien, charge, security interest, encumbrance, restriction, lease, license, easement, liability or adverse claim of any nature whatsoever, direct or indirect, whether accrued, absolute contingent or otherwise. All the Assets are in good operating condition and repair and are suitable for the purposes used.
- (G) No other person or entity now has, nor at any time in the future will have, the right to purchase, own, use, or sell any of the Assets.
- (H) Seller is not insolvent. Seller is able to meet all business obligations as they become due and will not be insolvent or unable to meet its business obligations as a result of completing the transactions described herein.
- (I) All tax returns, if applicable, employee withholding forms and other tax-related documents, of every kind relating to Seller and the Assets that are due to be filed in accordance with any applicable law have been duly filed and all taxes and benefits shown to be due on such returns have been paid in full.
- (J) Seller has delivered to Buyer copies of 2003 and 2004 (when available) audited and unaudited financial statements, which are complete and correct and have been prepared from Seller's books and records in accordance with generally accepted accounting principles consistently applied and maintained throughout the periods indicated and fairly present the Seller's financial condition. Except as set forth in the financial statements, Seller has no debts, liabilities or obligations (whether absolute, accrued, contingent or otherwise), of any nature whatsoever including, without limitation, any other debts, liabilities or obligations relating to or arising out

of any act, omission, transaction, circumstance, except those incurred in the ordinary course of Seller's business. There is not any condition or event which could materially or adversely affect the Assets.

- (K) With the exception of the legal proceedings listed in Exhibit 3, there is no claim, legal action, suit, arbitration, governmental investigation or other legal or administrative proceeding, nor any order, decree or judgment in progress, pending or in effect, or threatened, against or relating to Seller, its officers, directors, employees or business, the Assets, or the transactions contemplated by this Agreement, and Seller neither knows nor has reason to be aware of any basis for the same. After the execution of this Agreement Seller will take all actions necessary to assist Buyer in pursuing the claims addressed in the legal proceedings described in Exhibit 3. Each of the parties will be responsible for its costs incurred in such legal proceedings.
- (L) Between the date of this Agreement and the Closing Date Seller shall conduct its business diligently and substantially in the same manner as heretofore conducted prior to the date of this Agreement. Buyer shall not institute any new methods of accounting or operation or engage in any transaction or activity, enter into any agreement or make any commitment except in the ordinary course of business and consistent with past practice.
- (M) Seller shall not prior to the Closing Date permit any Assets to be subjected to a mortgage, pledge, lien or encumbrance, without notice to and approval of Buyer, and further shall not dispose of such Assets. Prior to the Closing Date Seller shall not acquire any asset devoted to serving the public costing more than One Thousand Dollars (\$1,000.00) without the approval of Buyer.
- (N) Seller shall maintain until the Closing Date insurance policies in effect on the Assets adequate to restore or replace the assets in case of loss with Buyer as loss payee.
- (O) Seller shall not perform any act or omit to perform any act or permit any act or omission that will cause a breach or default in this Agreement.
- (P) No representation or warranty by Seller in this Agreement nor any statement or certificate furnished or to be furnished by Seller to Buyer or its representatives in connection herewith or pursuant hereto contains or will contain any untrue statement of a material fact or will omit a statement of any material fact required to make

the statements herein or therein contained not misleading. Seller has disclosed to Buyer in writing all material adverse facts known to it relating to the Assets. Seller is not aware of any circumstances or facts which could be detrimental to the Assets other than those disclosed to the Buyer in writing.

(Q) Seller has provided to Buyer all of its records regarding the operation of this water and wastewater system for calendar year 1998 through the present.

(R) Seller has sufficient interests in land ownership for the proper operation and maintenance of the Assets.

4. **LIABILITIES.** Buyer is not assuming any of Seller's liabilities or debts. All of Seller's debts and liabilities will be settled prior to or on the Closing Date and any debts outstanding on the Closing Date will remain Seller's sole obligation and will be paid by Seller under this Agreement. Consistent with Seller's obligation to remove all debts from the Assets, Seller will, on the Closing Date, utilize as much of the purchase price as is necessary to pay off all outstanding secured obligations.

5. **OPERATION OF WATER AND WASTEWATER SYSTEMS.** Buyer shall own and operate the water and wastewater systems acquired from Seller and all customers currently served by Seller shall, for all intents and purposes, be customers of Buyer. Said customers shall, after the Closing Date, be charged at those rates and charges for such customers as from time to time are approved for use for such customers by Buyer by the Public Service Commission of the Commonwealth of Kentucky ("PSC"). Buyer assumes ownership and responsibility for maintenance of existing fire hydrants. Kentucky American Water presently has no tariff for charging for the volumetric use of water in fighting fires and has no plan to request such a tariff. As of the Closing Date Buyer will specifically assume Seller's obligations under all other contracts to which Seller may be bound as of the date of this Agreement, all of which are

listed in Exhibit 4, except the Water Purchase Agreement between Seller and Buyer as it may have been amended, which will be terminated as of the Closing Date.

6. **EMPLOYEES.** Buyer agrees to offer employment to Seller's employees, at mutually agreed upon compensation levels, who are listed in Exhibit 5, provided that such employees pass the examinations, background check and other screening tests routinely required of applicants for employment with Buyer. The employees meeting such requirements will be employed, on an at will basis, as the Buyer's full-time employees with benefits as listed in Exhibit 6, as may change from time to time, comparable to the Buyer's employees performing the same tasks, although Buyer and Seller recognize that the specific duties and responsibilities of said employees may be different from duties and responsibilities of Buyer's existing employees at other geographic locations and may be subject to different supervisory oversight and reporting. The employees shall be deemed to have been employed by Buyer on the dates indicated in Exhibit 5 for the limited purpose of determining vacation or sick pay benefits with Buyer. Seller acknowledges that it has told all of the persons listed in Exhibit 5 that the benefits of employment by Buyer may change from time to time and there is no assurance that the level of benefits will remain the same as they existed on the Closing Date. Notwithstanding the above, two existing employees of Seller (Athelene Glore and Robert Howard) will not be employed by the Buyer at Closing but will continue to be employed by Seller. Buyer will, under separate agreement(s), agree to utilize the services of these two individuals for a definite period of time, but Buyer shall have no obligation to utilize their services nor employ them beyond the expiration of the separate agreements.

7. **FINAL METER READING AND BILLING.** At least one week prior to the Closing Date Seller will provide Buyer with a current list of the names and addresses of the

Seller's customers. Within the week prior to the Closing Date, Buyer's meter readers, accompanied at the Seller's election, by Seller's meter readers, will read all customer meters and provide copies of those meter readings to Seller. Seller will bill all customers for water service as reflected in the final meter reading. Seller will, after satisfaction of all routine customary expenses of Seller through the Closing Date use any monies received from these billings in addition to all monies from all accounts receivable from prior billings for the payment of any other of the Seller's liabilities remaining at the closing. Buyer will be entitled to all revenue from water services provided by Buyer on and after the Closing Date.

8. **OPERATION OF UPPER AND LOWER THOMAS LAKES.** Seller now owns and shall continue to own after the Closing Date all land and structures which directly impound the water in Upper and Lower Thomas Lakes ("the Lakes"), but grants to Buyer access to and the right to use the Lakes as a source of supply at no cost to Buyer which access and right include the right to pump water into and withdraw water from the Lakes and the right to increase or decrease the level of water in the Lakes. Seller agrees to maintain the structures which impound the Lakes, including the dam, in a safe and operational manner and in compliance with all applicable governmental requirements. Seller further agrees to maintain the land surrounding the Lakes in like fashion and agrees not to take or allow any action that would cause any pollution or detrimental effect on the quality of the water in the Lakes.

9. **OFFICE IN OWENTON.** Buyer agrees to maintain an office in Owenton for walk-in customer service purposes as long as is economically practicable at the discretion of the Buyer but for at least 10 years after the Closing Date.

10. **GRANT REPAYMENT.** In the event that any grant existing at the date of closing is later required to be repaid, Seller assumes all liability for such repayment.

11. **PUBLIC SERVICE COMMISSION APPROVAL.** Within thirty (30) days from the satisfaction of the conditions precedent described in paragraph 17 (C), (D), (E), (F), (G), and (I) both Seller and Buyer agree to file and pursue with diligence a Joint Application with the Public Service Commission of the Commonwealth of Kentucky, if necessary, seeking approval of this Agreement.

12. **CLOSING DATE.** The closing of this Agreement shall take place within thirty (30) days after the latest of (a) receipt of an acceptable final order from the PSC, if necessary, approving this Agreement, and no appeal having been taken from the issuance of such order, and (b) receipt of any other required waivers or consents to the transfer of the water system, and (c) completion of all conditions precedent as provided in Section 17 hereof.

13. **CONVEYANCE AND TRANSFERS.** Seller will not convey, lease or in any way dispose of any of the Assets which it holds as of the date of this Agreement. On the Closing Date Seller shall transfer and convey to Buyer, its successors and assigns forever, the Assets together with all files, plats, maps, plans, records and ledgers or copies thereof in any way connected with rendition of water service by Seller.

14. **ACCESS TO BOOKS.** Between the date of this Agreement and the Closing Date Buyer shall have the right to examine all of Seller's assets and to obtain copies of all Seller's books and records at such reasonably convenient times as Buyer may require. In the event the transaction contemplated by this Agreement is not consummated, all such copies of the inventory and books and records shall be returned to Seller. If prior to the Closing Date (a) any material discrepancies are discovered in the Seller's books and records (b) any claims, liabilities, liens, encumbrances or defects in title which would materially affect the value of the Assets are discovered by or disclosed to Buyer, or (c) any one of the representations and warranties set forth

in this Agreement is determined by Buyer not to be true and correct, Buyer may at its sole option terminate this Agreement and neither Buyer nor Seller shall be further obligated hereunder or incur or be liable for any claim, loss, damage or expenses to the other as a result of such termination.

15. **BINDING EFFECT.** This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

16. **FORCE MAJEURE.** If the performance of any of the covenants or agreements contained herein is delayed or prevented by reasons beyond the Buyer's or Seller's control such as an act of God, act of war, strike, walkout, restraint of labor, from whatever cause, either partial or general, riot or civil commotion, order of court or administrative tribunal having jurisdiction over either party hereto, then the affected party shall be excused from such performance to the extent that the affected party is necessarily prevented, hindered or delayed thereby during the continuance of any such happening or event and the time for such performance shall be extended to commensurate with such delays provided that the affected party shall notify the other party of the happening of such event or force majeure within a reasonable time after the affected party acquires knowledge thereof.

17. **CONDITIONS PRECEDENT.** The parties hereto understand and agree that this Agreement and the obligations of the parties hereunder are expressly conditioned on the following, each of which is a condition precedent to the closing and the validity and enforceability of the Agreement:

(A) The PSC shall have entered a final order, if necessary (from which no appeal is taken), which approves the Joint Application to be filed by Buyer and Seller including (i) any specific rate making approach or request as set forth in the Joint Application, (ii) a

request for the use of Buyer's existing rules and regulations for Seller's water and wastewater customers, (iii) a request for the use of the Seller's existing rates to its customers as may be changed from time to time and as approved by the Public Service Commission, and (iv) this Agreement and all of its terms, conditions, undertakings, agreements and limitations between Buyer and Seller.

(B) The PSC, nor any court, shall not have attached to any order, any terms, conditions or limitations which in the sole opinion of either the Buyer or the Seller shall adversely affect the economic feasibility of this project or the Agreement between the parties or require Buyer or Seller to take any action or refrain from taking any action which might require either of them to breach any of their obligations under any mortgage indenture, as supplemented, or any other agreement to which either of them might be a party.

(C) Buyer and Seller shall have received all consents or waivers to the sale of the Assets.

(D) Buyer shall have determined that the assets are free from the presence or harmful effects of any hazardous or toxic substances, including, but not limited to, petroleum products and asbestos in friable form. Buyer shall be permitted to make or obtain such inspections and/or testing of the assets as may be desired by Buyer using such experts or consultants as Buyer deems desirable. In the event any of the inspections or testing made or obtained by Buyer reveal a condition of the assets which is not acceptable to Buyer, Buyer shall notify Seller, in writing, of such fact within ninety (90) days from the date of execution of this Agreement.

(E) Buyer's Board of Directors shall have approved the execution of this Agreement.

(F) Prior to the Closing Date there shall be a written determination from all appropriate authorities that Buyer shall have no obligation to repay any monetary obligations of Seller.

(G) Finished water quality currently produced by Seller shall be acceptable to Buyer and meet or exceed all governmental requirements.

(H) Except as may be specifically agreed to by Buyer elsewhere in this Agreement, there shall not be or have been any material or adverse changes in the Assets or financial condition of Seller, as determined by Buyer's discretion.

(I) Seller shall have granted a 20-year, non-exclusive franchise, at no further cost to Buyer or customers of the water and wastewater systems, to serve the City and citizens of Owenton.

(J) Seller has received two grants: (1) City of Owenton Water Collection and Treatment System Improvements and Freshwater Intake Project, to the Environmental Protection Agency pursuant to Public Law 107-206, a fiscal year 2001 Special Appropriations Grant, in the amount of Three Hundred and Eighty-Seven Thousand One Hundred and Sixty Dollars (\$387,160) after administrative fees and (2) Kentucky River Raw Water Intake, to the Kentucky Infrastructure Authority. Project Number WX21187207, in the amount of One Hundred Thousand Dollars (\$100,000). Seller is required to provide matching funds of approximately Two Hundred and Fifty Thousand Dollars (\$250,000) to secure the grants. Subject to the terms and conditions to be contained in an agreement respecting ownership and operation of the intake, Buyer shall pay Seller a use fee equivalent to the annual debt service incurred by Seller to provide the matching funds as long as Seller owns the intake and until the debt is fully paid. Because the construction of the new intake is critical, an amount equal to the grant funds sought

(\$487,160) shall be escrowed from the purchase price in a bank(s) chosen by Seller, subject to the joint control of Buyer and Seller, and released as grant funds are expended or used to construct the intake when the grants are denied or the grant funds are not available. Any interest earnings accumulated during the time these funds are escrowed will be remitted to the Seller upon final remittance of these escrow funds.

18. **INDEMNITY AGREEMENT.** Seller agrees to indemnify and hold harmless Buyer against any loss, claim, action, suit, proceeding, deficiency or expense (including attorneys' fees) relating to or arising from or in connection with (a) any misrepresentation, breach of representation, warranty or obligation, covenant or agreement or default by Seller under this Agreement (including the Exhibits) or any documents delivered to Buyer in connection with this Agreement; (b) claims of negligence or strict liability in connection with the Assets or the business conducted prior to the Closing Date; (c) all debts, liabilities, contracts or obligations whatsoever relating to the Assets prior to the Closing Date, or (d) all contingent liabilities relating to Seller, its business or the Assets which Buyer becomes obligated to pay with respect to any state of facts or occurrences existing at or prior to the Closing Date.

19. **WATER BOARD.** The Owenton Water Board ("Water Board") shall remain in place to serve as an advisor on growth and capital investment issues on applicable water and sewer issues. The Seller through its Water Board may partner with the Buyer to extend service and upgrade facilities. The Water Board shall meet with Buyer on a regular basis. Buyer agrees to compensate the members of the Water Board in the amount of \$50.00 per member per meeting attended with the limitation that compensation will only be made to a maximum of five Water Board members for a maximum of one meeting attended per month.

20. **ENTIRE AGREEMENT.** This Agreement, including all of its Exhibits, which are hereby incorporated by reference, constitutes the entire agreement of the parties with respect to the subject matter hereof and may not be modified or amended or terminated except by written agreement specifically referring to this Agreement, and signed by all of the parties hereto.

21. **GOVERNING LAW.** This Agreement and all amendments hereto shall be governed and construed in accordance with the laws of the Commonwealth of Kentucky.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by their duly authorized representatives, and a copy of the resolution from the Seller is attached, this the day and year first above written.

CITY OF OWENTON

Freda Crather
Witness

BY: D. M. W. [Signature]
Mayor

KENTUCKY-AMERICAN WATER COMPANY

Peggy Stone
Witness

BY: [Signature]
President

COMMONWEALTH OF KENTUCKY)

COUNTY OF Fayette)

The foregoing instrument was acknowledged before me this 18th day of May, 2005, by Nick D. Rowe, President of Kentucky-American Water Company, a Kentucky corporation, on behalf of the corporation.

My Commission expires: 1/24/07

Janice Dickson
NOTARY PUBLIC

COMMONWEALTH OF KENTUCKY)

COUNTY OF OWEN)

The foregoing instrument was acknowledged before me this 17th day of May, 2005, by D. M. WOTIER, Mayor of the City of Owenton, Kentucky, on behalf of the City.

My Commission expires: 27 Feb 2009

Doris Riley
NOTARY PUBLIC

Exhibit 1

Assets

Exhibit 1								
List of Assets - Owenton Water and Sewer								
Owenton Waterworks								
Audit Report								
Year ended: June 30, 2002								
Kind of property	Date	Method Life Rate	Balance at 7/1/01	FYE 2002 Additions	FYE 2002 Retirements	Balance at 6/30/02	Accum. Depreciation as of 6/30/02	CIAC as of 6/30/02
Land & Rights of Way								
Land & Rights of Way	1933	n/a	1,293.46			1,293.46	-	
Land & Rights of Way	1941	n/a	1,160.00			1,160.00	-	
Land & Rights of Way	1944	n/a	1,000.00			1,000.00	-	
Land & Rights of Way	1960	n/a	2,560.00			2,560.00	-	
Land & Rights of Way	1969	n/a	4,080.00			4,080.00	-	
Land & Rights of Way	1977	n/a	7,619.29			7,619.29	-	
Virgil Cobb Easement	Jun-88	n/a	3,031.50			3,031.50	-	
Land - 75M gallon tanksite dismantled	1990	n/a	6,543.13			6,543.13	-	
Land - Water Plant	1994	n/a	9,286.00			9,286.00	-	
						-	-	
						-	-	
						-	-	
						-	-	
Subtotal Land & ROW			36,573.38	-	-	36,573.38	-	
Roads & Power Lines								
Roads & Power Lines	1933	n/a	4,527.11			4,527.11	-	
Roads & Power Lines	1941	n/a	4,060.00			4,060.00	-	
Roads & Power Lines	1944	n/a	3,500.00			3,500.00	-	
Roads & Power Lines	1960	n/a	8,960.00			8,960.00	-	
Roads & Power Lines	1969	n/a	14,280.00			14,280.00	-	
Roads & Power Lines	1977	n/a	20,591.33			20,591.33	-	
						-	-	
						-	-	
						-	-	
Subtotal - Roads and Power Lines			55,918.44	-	-	55,918.44	-	
Buildings & Improvements								
Barn	Jan-85	SL-10	6,000.00			6,000.00	6,000.00	
Restroom improvements	Apr-87	SL-10	287.00			287.00	287.00	
Addition - Maintenance Bldg.	Dec-90	SL-10	1,930.46			1,930.46	1,930.46	
Addition to Red Barn	Jun-92	SL-10	1,400.00			1,400.00	1,400.00	
Storage Building	Jun-02	SL-10		21,495.00		21,495.00	179.00	
						-	-	
						-	-	
						-	-	
Subtotal - Buildings & Improvements			9,617.46	21,495.00	-	31,112.46	9,796.46	

Furniture & Fixtures							
Furniture & Fixtures	1977	SL-10	1,019.55			1,019.55	1,019.55
Posting machine (1/2)	1978	SL-10	4,220.91			4,220.91	4,220.91
Copier	Feb-84	SL-5	833.75			833.75	833.75
Typewriter (1/2)	Jun-85	SL-5	318.00			318.00	318.00
Table	Jan-86	SL-10	158.00			158.00	158.00
Fire Proof Cabinet	Nov-89	SL-10	300.00			300.00	300.00
Computer	Jun-91	SL-5	2,737.50			2,737.50	2,737.50
Copier (1/2)	Jun-96	SL-5	1,557.50			1,557.50	1,557.50
PS 120 Computer	Jun-96	SL-5	2,311.93			2,311.93	2,311.93
						-	-
						-	-
						-	-
Subtotal - Furniture & Fixtures			13,457.14	-	-	13,457.14	13,457.14
Distribution System							
Distribution System	1933	SL-50	51,231.32			51,231.32	51,231.32
Distribution System	1960	SL-50	116,480.00			116,480.00	99,207.00
Distribution System	1969	SL-50	185,640.00			185,640.00	119,121.00
Distribution System	1977	SL-50	277,000.55			277,000.55	141,733.00
Tank	1980	SL-50	16,000.00			16,000.00	7,067.00
Apartment Hook Up	1981	SL-35	3,277.82			3,277.82	1,979.00
Water Loading Building	Sep-82	SL-35	1,420.00			1,420.00	814.00
8" Water Meter	Aug-86	SL-35	978.15			978.15	447.00
New Line - Druther's	Sep-86	SL-35	2,588.00			2,588.00	1,172.00
Flowmeter for hydrant	Oct-86	SL-35	480.83			480.83	220.00
Ford Street Line	Jan-87	SL-35	7,331.26			7,331.26	3,240.00
Kelly Court Line	Jun-88	SL-35	7,000.00			7,000.00	3,000.00
Road Bore & Forsee's	Jun-88	SL-35	5,662.95			5,662.95	2,413.00
(1) 6" meter/(6) 3/4" meters	Jul-88	SL-40	2,096.80			2,096.80	742.00
Waterline for Horizon Homes	Jan-89	SL-50	6,854.00			6,854.00	1,850.00
Hwy 22/Gratz Road Waterline	Feb-89	SL-50	1,380.79			1,380.79	376.00
Horizon Homes material for line	Mar-89	SL-50	2,261.42			2,261.42	600.00
Fire Hydrant - Horizon Homes	Mar-89	SL-40	801.62			801.62	267.00
Fire Hydrant - Horizon Homes	Mar-90	SL-40	978.00			978.00	300.00
Pipe - 2" meter	Apr-90	SL-35	2,253.24			2,253.24	800.00
Old Lines Replaced	Jun-90	SL-35	10,161.50			10,161.50	3,625.00
Hwy 127 Waterline	Jun-90	SL-50	82,087.00			82,087.00	18,881.31
Water main & Plant Improvements	Jun-90	SL-50	178,882.61			178,882.61	44,725.00
400,000 Gallon Tank	Jun-90	SL-30	576,526.56			576,526.56	239,811.60
Capitalize Repairs to 100,000 Gallon Tank	Jun-90	SL-30	93,718.80			93,718.80	39,049.70
2 Hydrants	Jun-91	SL-40	1,743.32			1,743.32	503.27
Services	Various	SL-50	19,005.00			19,005.00	5,691.00
Meters	Various	SL-50	17,384.75			17,384.75	5,213.00
Meter Installations	Various	SL-50	19,005.00			19,005.00	5,691.00
New Water Treatment Plant	Jun-96	SL-50	2,272,841.02			2,272,841.02	295,470.00
Pipe Upgrade - Cedar Hill Road	2-Mar	SL-50		6,447.00		6,447.00	43.00
						-	-
						-	-
						-	-
						-	-
Subtotal - Distribution System			3,963,072.31	6,447.00	-	3,969,519.31	1,095,283.20
							1,772,487.18

Equipment								
Equipment	1977	SL-10	2,227.30				2,227.30	2,227.30
Temporary line	1977	SL-10	14,000.00				14,000.00	14,000.00
Snow Plow	1979	SL-10	1,617.00				1,617.00	1,617.00
Boat	Jul-83	SL-5	100.00				100.00	100.00
Alum Feeder Tank	Jun-85	SL-5	2,887.91				2,887.91	2,887.91
Ditch Witch	Jun-86	SL-7	450.00				450.00	450.00
Chlorinator Equipment	Oct-86	SL-10	3,370.00				3,370.00	3,370.00
Two Cylinder Scale	Nov-86	SL-10	755.00				755.00	755.00
Push Rod Machine	Apr-87	SL-10	4,500.00				4,500.00	4,500.00
Jar Test Equipment	Oct-86	SL-5	778.02				778.02	778.02
Communication Equipment	Jan-89	SL-10	1,396.00				1,396.00	1,396.00
PH Meter & Line Converter	Jun-89	SL-15	424.29				424.29	366.00
Eccentric Slide Block	Jun-89	SL-15	188.42				188.42	170.00
Porta Pump & Tow Chain	Jun-89	SL-20	608.89				608.89	333.00
Hi Tork Mixer	Jun-89	SL-10	1,582.00				1,582.00	1,582.00
1/2 Intercom	Oct-89	SL-10	30.45				30.45	30.45
Telephone system (partial)	Jan-90	SL-10	272.84				272.84	272.84
Jackhammer	Feb-90	SL-10	5,499.90				5,499.90	5,499.90
Copy Machine	May-90	SL-10	421.25				421.25	421.25
Coin Operated Machine	Mar-90	SL-10	989.00				989.00	989.00
Valve - River gate	Apr-90	SL-40	3,150.00				3,150.00	987.00
Fencing	Jun-90	SL-20	6,025.00				6,025.00	3,763.00
Ten Foot Jon Boat	Jun-91	SL-10	85.00				85.00	85.00
1/2 Mower	Jun-91	SL-10	561.87				561.87	561.87
Roto Tiller	Jun-93	SL-10	579.95				579.95	468.82
Lawnmower	Dec-94	SL-10	1,716.96				1,716.96	1,290.00
Computer	Dec-94	SL-5	350.00				350.00	350.00
P/U Truck Chevy (1/2)	Jun-96	SL-5	18,916.57				18,916.57	18,916.57
Snow Plow & Utility bed for truck	Jul-90	SL-5	7,245.00				7,245.00	7,245.00
Computer Upgrade	Oct-97	SL-3	4,686.00				4,686.00	4,686.00
1989 Dodge Truck	Aug-99	SL-5	6,000.00				6,000.00	3,500.00
1999 Deere 310E Backhoe	Sep-99	SL-10	28,034.41				28,034.41	7,942.00
12' Truck Bed	Apr-00	SL-10	6,722.00				6,722.00	1,512.00
Scag Power mower	Jun-01	SL-5	4,000.00				4,000.00	866.67
Scag Power mower accessories	Jun-01	SL-5	299.00				299.00	64.98
2002 Chevy Pickup	Jan-02	SL-5		26,390.25			26,390.25	2,639.00
							-	-
Subtotal - Equipment			130,470.03	26,390.25	-		156,860.28	96,623.58
Grand Total Waterworks			4,209,108.76	54,332.25	-		4,263,441.01	1,215,160.38
							equals 6/30/02 audit	equals 6/30/02 audit
								1,772,487.18
								audit

Owenton Sewer								
Audit Report								
Year ended: June 30, 2002								
Kind of property	Date	Method Life Rate	Beginning Balance	Additions	Retirements	Ending Balance	Accum. Depr.	CIAC
Land								
Land & Rights of Way	1938	n/a	2,250.00			2,250.00	-	
Subtotal - Land & Rights of Way			2,250.00	-	-	2,250.00	-	
Buildings & Improvements								
Restroom improvements	Apr-87	SL-10	287.00			287.00	287.00	
						-	-	
						-	-	
						-	-	
Subtotal - Buildings & Improvements			287.00	-	-	287.00	287.00	
Furniture & Fixtures								
1/2 Posting Machine	1978	SL-10	4,220.91			4,220.91	4,220.91	
1/2 IBM Typewriter	2-12-85	SL-5	318.00			318.00	318.00	
Office Chair	1-23-86	SL-7	139.00			139.00	139.00	
Fire Proof Safe	Nov-89	SL-10	300.00			300.00	300.00	
Phone System - partial	Jun-90	SL-10	984.24			984.24	984.24	
						-	-	
						-	-	
						-	-	
						-	-	
Subtotal - Furniture & Fixtures			5,962.15	-	-	5,962.15	5,962.15	

Equipment						-		
Equipment	1938	SL-10	3,335.66			3,335.66	3,335.66	
Equipment	1964	SL-10	3,335.67			3,335.67	3,335.67	
Equipment	1977	SL-10	1,050.00			1,050.00	1,050.00	
78 Chev Truck	Aug-83	SL-3	3,500.00			3,500.00	3,500.00	
Radio (1/3 interest)	Aug-83	SL-3	100.00			100.00	100.00	
Sewer Cleaning Machine	Apr-84	SL-5	974.85			974.85	974.85	
Chlorinator Machine	Feb-86	SL-7	1,350.00			1,350.00	1,350.00	
Smoke Blower	Apr-87	SL-10	602.10			602.10	602.10	
Monitoring Kit	Jun-87	SL-10	884.64			884.64	884.64	
Communication System	Jan-89	SL-10	1,396.00			1,396.00	1,396.00	
Sludge Truck	Aug-88	SL-10	27,691.00			27,691.00	27,691.00	
91 S10 Chevey P/U	Jul-91	SL-5	3,953.16			3,953.16	3,953.16	
V-500 Chlorinator	Aug-89	SL-10	1,222.38			1,222.38	1,222.38	
12' Boat & 4 hp motor	Sep-89	SL-10	200.00			200.00	200.00	
Air Tanks	Dec-89	SL-10	1,522.00			1,522.00	1,522.00	
Equipment	Jan-90	SL-10	173.61			173.61	173.61	
Copy Machine	May-90	SL-10	421.25			421.25	421.25	
Computer System	Jun-90	SL-10	3,500.00			3,500.00	3,500.00	
Computer System	Jun-90	SL-10	2,737.50			2,737.50	2,737.50	
Mower (1/2 interest)	Jun-91	SL-10	500.00			500.00	500.00	
Sewer Cleaning Machine	Apr-93	SL-10	20,009.00			20,009.00	19,009.00	
Aerator	Jun-96	SL-10	8,200.00			8,200.00	4,988.00	
2 Myer Pumps & Installation	Nov-97	SL-10	4,842.84			4,842.84	2,218.00	
99 Deere 310E Backhoe (1/2)	Sep-99	SL-10	9,792.59			9,792.59	2,692.00	
Aerators	Apr-00	SL-10	11,962.00			11,962.00	2,691.00	
						-	-	
						-	-	
						-	-	
						-	-	
Subtotal - Equipment			113,256.25	-	-	113,256.25	90,047.82	

Distribution System						-		
Distribution System	1938	SL-50	101,899.32			101,899.32	101,899.32	106,338.26
Distribution System	1964	SL-50	146,664.34			146,664.34	113,171.00	
Sewer Lines	Apr-89	SL-50	3,748.55			3,748.55	994.00	
Horizon Home Lines	Jan-89	SL-50	5,635.00			5,635.00	1,525.00	
Wastewater Plant Improvements	Dec-89	SL-50	2,110,399.46			2,110,399.46	526,980.00	1,168,806.00
Pump Station Replacements	Jun-89	SL-50	267,212.77			267,212.77	69,472.00	
Sewer Rehab and television service	Dec-89	SL-20	46,935.29			46,935.29	28,342.00	
Meters, services & installations	Jun-90	SL-50	2,000.00			2,000.00	500.00	
Meters, services & installations	var 6/89	SL-50	4,700.00			4,700.00	1,729.00	
Meters, services & installations	Jun-91	SL-50	2,850.00			2,850.00	656.00	
Sewer Rehab	Dec-91	SL-20	4,561.51			4,561.51	2,394.00	
Sewer Rehab	Dec-92	SL-20	6,913.79			6,913.79	3,287.00	
Lift Station	Mar-99	SL-50	15,450.00			15,450.00	1,004.00	
Madison Street Force Main	Jan-00	SL-50	67,145.00			67,145.00	3,357.00	
Madison Street Force Main	Dec-00	SL-50	9,851.78			9,851.78	296.00	
						-	-	
						-	-	
						-	-	
						-	-	
Subtotal - Distribution System			2,795,966.81	-	-	2,795,966.81	855,606.32	1,275,144.26
Grand Total Sewer			2,917,722.21	-	-	2,917,722.21	951,903.29	1,275,144.26
							equals 6/30/02 audit	equals 6/30/02 audit

Exhibit 2
Real Estate

DEEDS

1. Deed dated May 13, 1933, from the Owenton School District recorded in Deed Book 72, at page 453.
2. Deed dated March 29, 1988, from Nellie Slaughter and her husband, J.L.W. Slaughter recorded in Deed Book 80, at page 130.
3. Deed dated March 29, 1938, from Ada Cull, Dorman L. Cull, Margaret B. Cull and Byron Cull recorded in Deed Book 80, at page 133.
4. Deed dated November 30, 1949, from Newt Cobb and his wife, Eura Cobb recorded in Deed Book 92, at page 239.
5. Deed dated April 15, 1950, from Ray C. Stamper and his wife, Emma C. Stamper recorded in Deed Book 92, at page 559.
6. Deed dated April 8, 1952, from Robert S. Duncan and his wife, Margaret Duncan recorded in Deed Book 95 at page 381.
7. Deed dated April 9, 1955, from H.L. Smith, et al. recorded in Deed Book 97, at page 452.
8. Deed dated April 23, 1955, from Dorman Cull and his wife, Margaret Cull recorded in Deed Book 97, at page 464.
9. Deed dated January 11, 1961, from Robert S. Duncan and his wife, Margaret Duncan recorded in Deed Book 103, at page 69.
10. Deed dated March 27, 1961, from E.S. Rose and his wife, Alice Rose and Malone Bourne and his wife, Beth Ann Bourne recorded in Deed Book 103, at page 173.
11. Deed dated December 21, 1963, from Sollie Clifton and his wife, Edith Clifton recorded in Deed Book 107, at page 210.
12. Deed dated December 21, 1963, from Anna McCormick Webster and her husband, Leonard Webster recorded in Deed Book 107, at page 212.
13. Deed dated December 23, 1963, from A.E. Rose and Fannie Rose recorded in Deed Book 107, at page 215.

14. Deed dated December 21, 1963, from Dorman L. Cull and his wife, Margaret Cull recorded in Deed Book 107, at page 216.
15. Deed dated December 2, 1963, from James R. Ford and his wife, Helen Ford, and R.C. Ford, Jr. and his wife, Grace Ford recorded in Deed Book 107, at page 469.
16. Deed dated November 12, 1968, from E.S. Rose and his wife, Alice Rose recorded in Deed Book 113, at page 422.
17. Deed dated November 28, 1969, from the Owenton Municipal Housing Commission recorded in Deed Book 120, page 563.
18. Deed dated January 8, 1976, from Charles Maurice Clements and his wife, Audrey Clements recorded in Deed Book 133, at page 394.
19. Deed dated August 10, 1982, from Kraft, Inc. recorded in Deed Book 146, at page 219.
20. Deed dated September 24, 1987, from Owen County Industrial Development Corporation recorded in Deed Book 155, at page 252.
21. Deed dated October 12, 1987, from the Owen County Board of Education recorded in Deed Book 155, at page 366.
22. Deed dated November 30, 1987, from the Owen County Board of Education recorded in Deed Book 155, at page 533.
23. Deed dated December 11, 1987, from Owenton Manor, Inc. recorded in Deed Book 156, at page 11.
24. Deed dated January 13, 1988, from James Murphy and Teresa Murphy recorded in Deed Book 156, at page 278.
25. Deed dated December 29, 1987, from Robert A. Rose and his wife, Mary F. Rose and Eugene Rose and his wife, Alice Rose recorded in Deed Book 157, at page 276.
26. Deed dated February 5, 1993, from Calvin Cress and his wife, Mary Cress recorded in Deed Book 169, at page 479.
27. Deed dated May 30, 2003, from John Clifton and his wife, Jo Ann Clifton recorded in Deed Book 206, at page 671.
28. Deed dated November 19, 1987, from Charles E. Carter and his wife, Betty C. Carter recorded in Deed Book 155, at page 539.

EASEMENTS

1. Easement dated March 8, 1938, from Relda Hunt recorded in Deed Book 80, at page 164. Easement dated April 6, 1940, from Julia S. McBee and her husband, K.S. McBee recorded in Deed Book 80, at page 135.
2. Easement dated March 25, 1940, from E. Ransdell and his wife, Eunice Ransdell recorded in Deed Book 80, at page 136.
3. Easement dated March 25, 1940, from L.E. Doane and his wife, Corinne Doane recorded in Deed Book 80, at page 138.
4. Easement dated February 6, 1940, from Citizens Bank and Trust Company recorded in Deed Book 80, at page 139.
5. Easement dated February 12, 1940, from Charles Marshall and his wife, Willoughby Marshall recorded in Deed Book 80, at page 141.
6. Easement dated December 20, 1939, from Allie Johnson recorded in Deed Book 80, at page 142.
7. Easement dated December 20, 1939, from Owenton Independent School District recorded in Deed Book 80, at page 144.
8. Easement dated August 5, 1938, from Norah Gilbert recorded in Deed Book 80, at page 145.
9. Easement dated July 16, 1938, from Hiram Wilson recorded in Deed Book 80, at page 147.
10. Easement dated August 8, 1938, from Levi Bush, M.H. Reese and Vic Dorsey, Trustee of Second Baptist Church of Owenton recorded in Deed Book 80, at page 148.
11. Easement dated October 5, 1938, from Fred Honiker and his wife, Kate Honiker recorded in Deed Book 80, at page 149.
12. Easement dated August 2, 1938, from Stella Vallandingham and her husband, R.L. Vallandingham recorded in Deed Book 80, at page 151.
13. Easement dated October 5, 1938, from John G. Thomas and his wife, Maude Thomas recorded in Deed Book 80, at page 152.

14. Easement dated October 5, 1938, from Mrs. J.M. Starnes recorded in Deed Book 80, at page 154.
15. Easement dated October 9, 1938, from W.E. King and his wife, Hattie King recorded in Deed Book 80, at page 155.
16. Easement dated October 5, 1938, from Mary Elizabeth Vallandingham and her husband, George Vallandingham recorded in Deed Book 80, at page 157.
17. Easement dated October 4, 1938, from Nellie Adams Hunter and M. D. Hunter, her husband; Reuben Hunter; Clarice Toole and Clyde Tools, her husband; Cora Belle Wood and William B. Wood, her husband; K.L. Hunter; Lovell Hunter and Opal Hunter, his wife; and Stanley Hunter recorded in Deed Book 80, at page 159.
18. Easement dated March 30, 1938, from J.P. Sidebottom and his wife, Ollie Sidebottom recorded in Deed Book 80, at page 161.
19. Easement dated March 10, 1938, from B.F. Holbrook recorded in Deed Book 80, at page 163.
20. Easement dated March 15, 1938, from Ruby Ransdell recorded in Deed Book 80, at page 166.
21. Easement dated October 15, 1938, from Allen B. Cammack and his wife, Louella A. Cammack recorded in Deed Book 80, at page 167.
22. Easement dated September 4, 1940, from John Joslin and his wife, Marie Joslin recorded in Deed Book 80, at page 281.
23. Easement dated August 26, 1940, from Mattie Fortner recorded in Deed Book 80, at page 282.
24. Easement dated August 29, 1940, from Helen F. Porter and her husband, William Porter recorded in Deed Book 80, at page 283.
25. Easement dated June 29, 1940, from Fred Honiker recorded in Deed Book 80, at page 284.
26. Easement dated July 3, 1940, from B.B. Welch and his wife, Ethel Welch recorded in Deed Book 80, at page 285.
27. Easement dated June 29, 1940, from C.L. True and his wife, Hattie Belle True recorded in Deed Book 80, at page 286.
28. Easement dated November 30, 1949, from Newt Cobb and his wife, Eura Cobb recorded in Deed Book 88, at page 475.

29. Easement dated April 5, 1964, from Earl Powell and his wife, Emma Powell recorded in Deed Book 107, at page 431.
30. Easement dated December 2, 1963, from James R. Ford and Helen Ford recorded in Deed Book 107, at page 469.
31. Easement dated October 25, 1965, from Albert Hammond and his wife, Clemmie Hammond recorded in Deed Book 109, at page 461.
32. Easement dated February 8, 1951, from W.T. Forsee, et al. recorded in Deed Book 114, at page 263.
33. Easement dated July 7, 1969, from Mable Turner recorded in Deed Book 114, at page 620.
34. Easement dated July 7, 1969, from J.R. Holbrook recorded in Deed Book 114, at page 621.
35. Easement dated July 21, 1969, from Howard Rose, Jr. and his wife, Viola Potts Rose recorded in Deed Book 114, at page 622.
36. Easement dated July 18, 1969, from Austin Cobb, et al. recorded in Deed Book 114, at page 623.
37. Easement dated July 11, 1969, from Elzie McCormick and his wife, Fannie McCormick recorded in Deed Book 114, at page 624.
38. Easement dated September 18, 1969, from Victor Kelly recorded in Deed Book 115, at page 75.
39. Easement dated September 25, 1969, from Virgil Cobb and his wife, Dorothy Cobb recorded in Deed Book 115, at page 96.
40. Easement dated October 24, 1969, from Jack Welch and his wife, Mary B. Welch recorded in Deed Book 115, at page 224.
41. Easement dated July 30, 1973, from Dorman Baldwin and his wife, Carolyn Baldwin, and Derwood Mefford and his wife, Joyce Ann Mefford, recorded in Deed Book 125, at page 165.
42. Easement dated November 5, 1973, from John C. Thomas and his wife, Peggy Thomas recorded in Deed Book 125, at page 524.
43. Easement dated October 1, 1973, from O.H. Curtis, Jr. and his wife, Ella Curtis, and Frances Beverly recorded in Deed Book 126, at page 449.

44. Easement dated October 1, 1973, from Jessie S. Henry recorded in Deed Book 126, at page 452.
45. Easement dated October 1, 1973, from Aileen Moffett Miller and her husband, James D. Miller, Jr. recorded in Deed Book 126, at page 454.
46. Easement dated October 12, 1973, from John C. Thomas and his wife, Peggy Thomas recorded in Deed Book 126, at page 456.
47. Easement dated October 12, 1973, from John C. Thomas and his wife, Peggy Thomas, and Robert Allen Rose and Mary Rose, his wife, recorded in Deed Book 126, at page 458.
48. Easement dated November 8, 1976, from Marvin Keith and Gladys Keith recorded in Deed Book 133, at page 204.
49. Easement dated January 7, 1977, from James Hudnall and his wife, Margaret Hudnall recorded in Deed Book 133, at page 406.
50. Easement dated February 22, 1977, from Cantrell Duncan recorded in Deed Book 133, at page 525.
51. Easement dated June 9, 1977, from Raymond Lee Lamb and Mary W. Lamb recorded in Deed Book 134, at page 393.
52. Easement dated January 22, 1979, from O.D. Hawkins and Bessie C. Hawkins and James Farris Bush and Sandra Kaye Bush recorded in Deed Book 139, at page 213.
53. Easement dated November 21, 1979, from Charles E. Carter and his wife, Betty C. Carter recorded in Deed Book 141, at page 554.
54. Easement dated April 11, 1980, from Michael Dennis Callaghan and his wife, Elaine Callaghan recorded in Deed Book 142, at page 348.
55. Easement dated April 27, 1981, from Mable J. Clifton recorded in Deed Book 144, at page 44.
56. Easement dated April 27, 1981, from Margaret Burke recorded in Deed Book 144, at page 45.
57. Easement dated May 21, 1981, from Robert Duncan recorded in Deed Book 144, at page 676.

58. Easement dated March 17, 1981, from Catrell Duncan recorded in Deed Book 144, at page 677.
59. Easement dated April 7, 1981, from Donald Perkins and his wife, Nancy Perkins recorded in Deed Book 144, at page 678.
60. Easement dated February 17, 1981, from Marvin Keith and his wife, Helen Keith recorded in Deed Book 144, at page 679.
61. Easement dated February 24, 1981, from James E. Bush and his wife, Sandra Bush recorded in Deed Book 144, at page 680.
62. Easement dated March 6, 1981, from Joe Duncan and his wife, Carmen Duncan recorded in Deed Book 144, at page 681.
63. Easement dated April 11, 1981, from O.D. Hawkins and his wife, Bessie Hawkins recorded in Deed Book 144, at page 682.
64. Easement dated April 11, 1981, from Catrell Duncan recorded in Deed Book 144, at page 683.
65. Easement dated February 19, 1981, from Glen A. Duke and his wife, Eleanor J. Duke recorded in Deed Book 144, at page 684.
66. Easement dated October 29, 1981, from Hide-A-Way Hills Property Owners Association recorded in Deed Book 144, at page 685.
67. Easement dated February 19, 1981, from Lake-Land Development Service, Inc. recorded in Deed Book 144, at page 686.
68. Easement dated February 20, 1981, from Robert L. Walker and his wife, Frances S. Walker recorded in Deed Book 144, at page 687.
69. Easement dated February 18, 1981, from Larry D. Pierson and his wife, Judy Pierson recorded in Deed Book 144, at page 688.
70. Easement dated March 13, 1987, from James Perkins and his wife, Ann Perkins recorded in Deed Book 154, at page 148.
71. Easement dated November 30, 1987, from Virgil Cobb and his wife, Dorothy Cobb recorded in Deed Book 156, at page 1.
72. Easement dated October 9, 1987, from Owenton Partnership II recorded in Deed Book 156, at page 3.

73. Easement dated October 9, 1987, from Owenton Associates recorded in Deed Book 156, at page 5.
74. Easement dated December 11, 1987, from B & J Associates recorded in Deed Book 156, at page 7.
75. Easement dated October 22, 1987, from Lillian Kemper recorded in Deed Book 156, at page 9.
76. Easement dated December 21, 1987, from Jack Marston and his wife, Dotty L. Marston recorded in Deed Book 156, at page 13.
77. Easement dated December 21, 1987, from Ben L. Lykins and his wife, Linda Lykins recorded in Deed Book 156, at page 15.
78. Easement dated January 13, 1988, from Herschel Stewart recorded in Deed Book 157, at page 280.
79. Easement dated December 7, 1988, from James D. Miller and Aileen Miller recorded in Deed Book 158, at page 45.
80. Easement dated December 2, 1988, from Charles E. Carter and Betty Carter, his wife, recorded in Deed Book 158, at page 46.
81. Easement dated June 12, 1995, from Gene Allen Thomas recorded in Deed Book 178, at page 100.
82. Easement dated June 13, 1995, from Robert Swigert and Melanie Swigert recorded in Deed Book 178, at page 102.
83. Easement dated May 8, 1995, from Oleta Powell recorded in Deed Book 178, at page 104.
84. Easement dated May 9, 1995, from Eugene S. Rose and his wife, Alice Rose recorded in Deed Book 178, at page 106.
85. Easement dated September 19, 1988, from Nina Cobb recorded in Deed Book 183, at page 435.
86. Easement dated September 20, 1988, from Gerald Minch and Shirley Minch recorded in Deed Book 183, at page 436.
87. Easement dated September 20, 1988, from Charles E. Howard and Nannie Margaret Howard in Deed Book 183, at page 437.

88. Easement dated September 20, 1988, from Herman Waldrop, Jr. and his wife, Elizabeth Waldrop recorded in Deed Book 183, at page 438.
89. Easement dated September 20, 1988, from Louise Botkins recorded in Deed Book 183, at page 439.
90. Easement dated September 20, 1988, from Gayle Allen Parsons recorded in Deed Book 183, at page 440.
91. Easement dated September 22, 1988, from Thomas G. Miller and Doris Miller recorded in Deed Book 183, at page 441.
92. Easement dated June 12, 2000, from Doris Bourne recorded in Deed Book 195, at page 247.
93. Easement dated May 25, 2000, from Acton Lusby and his wife, Edna Lusby recorded in Deed Book 195, at page 250.
94. Easement dated March 17, 1995, from Schlumberger Industries, Inc. recorded in Deed Book 199, at page 598.
95. Easement dated March 31, 1995, from Owen County Industrial Development Corporation recorded in Deed Book 199, at page 601.

Exhibit 3
Legal Proceedings

None

Exhibit 4 **Contracts**

1. A Contract between the City of Owenton and the Hide-A-Way Hills Water Committee dated May, 1981.
2. A Contract between the City of Owenton and the Pleasant Home Water Subscribers dated July 13, 1981.
3. A Contract between the City of Owenton and the Gratz Road Water Subscribers dated April 14, 1981.
4. A Contract between the City of Owenton and Tri-Village Water District dated January 5th 1993.
5. A Contract between the City of Owenton and Glen O. Duke dated April 12, 2005.

Exhibit 5
Employees

<u>Name</u>	<u>SS#</u>	<u>DOB</u>	<u>HIRE DATE</u>
Marshall Gibson	401-82-2249	1/3/55	7/24/1985
David Clifton	407-74-6060	5/25/51	5/9/1975
Steve Dempsey	404-04-8785	12/9/59	6/29/1999
Bobby O'Banion	405-88-1470	12/20/59	4/18/1979
Anthony Callan	302-50-1179	6/29/50	4/4/1994
Terry Kincaid	406-78-4222	5/18/53	6/26/1980
LeeAnn Osborne	402-90-0709	9/7/69	4/1/1999

Exhibit 6
Employee Benefits
As of April 1, 2005

Group Health Insurance – PPO Health Plan

Horizon BCBS ***Preferred Provider Organization*** (a network of physicians, facilities and other service providers with discounted service fees)

- Plan typically pays 90% of covered expenses or 100% after a co-payment.
- Annual deductible: None
- Co-pay: \$15 for office visit, \$25 emergency room (\$0 if admitted); 10% hospitalization
- Out-of-Pocket Maximum: \$1,000 single/ \$3,000 family (including deductible/co-pay)
- Lifetime Maximum: Unlimited
- Out of network provider coverage available with deductibles and higher co-pays.
- Preventive care services included.

Employee monthly contributions:

	<u>2005</u>
Single	\$22
Family	\$55

- *Indemnity plan available in areas where PPO not available.
- *\$100 per month bonus payable to those electing no group health coverage.
- *Group health insurance is available until retirement.

Also included under the group health plan are the following benefits:

Vision Care – part of group health insurance plan

- One routine eye exam every 24 months under group health plan.
- Vision Care Program – discount program for eye-care needs, i.e., glasses and contact lenses

Prescription Drugs – part of group health insurance plan

- Retail (34-day supply): You pay 10% for generic drugs; you pay 20% for brand-name drugs.
- Mail Order (up to a 90-day supply): You pay \$5 for generic drugs; you pay \$15 for brand-name drugs

Dental/Orthodontia Plan – Aetna Dental PPO

- Annual deductible: \$50 individual; \$100 family
- Annual maximum benefit: \$1,000 per covered person
- Preventive care: You pay 0%, subject to reasonable and customary charges
- Restorative and major care: You pay 20%, after deductible

- Orthodontia Benefits: You pay 50%, after deductible
- Separate Lifetime Maximum Benefit for Orthodontia: \$1,500

Flexible Spending Account

Two pre-tax savings accounts:

Health Care Savings Account - Set aside to pay for health services not covered by health plan such as:

- Deductions
- Co-payments
- Glasses/Eye Exams
- Hearing Aids
- Psychiatric Treatment (portion not reimbursed by group health insurance)
- Annual amount you may contribute:
- Minimum: \$120
- Maximum: \$2500
- Use or Lose

Dependent Care Spending Account - Set aside to pay for dependent care expenses because you (and your spouse if you are married) work. Covers:

- Wages paid to baby sitter or companion (expenses not covered if care is provided by someone claimed as a dependent)
- Services of a nursery school/day care center
- Wages paid to a housekeeper for providing care for an eligible dependent
- Dependent child under age 13
- Any person you claim as a dependent who is physically or mentally incapable of self care
- Annual amount you may contribute: \$5000 (\$2500 if married and file separately)
- Use or Lose

Basic Life Insurance

This coverage is valued at one and one-half times your projected base annual regular earnings up to \$200,000 maximum. This benefit is available until retirement.

Voluntary Life Insurance

Option to purchase 1, 2, or 3 times your projected annual base pay up to \$300,000 without proof of insurability. Premiums based on age. Option to purchase \$20,000 spouse life insurance, and \$10,000 each dependent life insurance. This benefit is available until retirement.

Travel Accidental Death & Dismemberment

If the company requires an employee to travel on company business outside the service territory and an accident occurs, an additional either \$400,000 or \$500,000 could be payable to a named beneficiary depending upon the type of loss and the employee's annual salary.

Special Death Benefit

Over and above the life insurance benefits, upon the death of an active employee, a special benefit is paid to the beneficiary equal to one or one and one-half month's wages depending upon years of service. This benefit is paid to the beneficiary within three (3) working days following the employee's death.

Sick Leave

Two weeks (10 days) of paid sick leave available annually.

Temporary Disability Benefits

After sick leave benefits are exhausted, 75% of income is payable for up to 26 weeks with certified disability.

Long Term Disability Benefits

Benefit payments approximately 60% of the regular wages are payable (less any Social Security Disability and other disability income) after a 6-month qualifying period.

Pension Plan

- Vesting after 5 years of service
- Full retirement at age 62 with 20 years of service
- Eligible for early retirement at age 55 with 15 years of service
- Automatic surviving spouse benefit if death of employee precedes retirement.
- All contributions made by the company.
- Retirement based on average earnings (highest consecutive 5 years within last 10 years preceding retirement).
- Average benefit: 20 years – 32% of average earnings; 25 years – 40% of average earnings.

401(k) Savings Plan

- You can invest from 1% to 20% of your eligible compensation in the 401(k) Savings Plan before taxes are withheld from your pay, subject to federal maximums.
- The Company contributes 50 cents to your account through American Water Works Company Stock Fund for every dollar you invest, up to 5% of your base pay.
- You are 100% immediately vested in these Company contributions.
- Company contributions, earnings and dividends accumulate tax free until you withdraw, usually at age 59-1/2 or when you retire.
- Several investment options available through Merrill Lynch.
- Special provisions for loans or hardship withdrawals if you need money before you retire.

Random Drug Testing Program

Kentucky American recognizes that a drug free workplace is a goal that will enable all employees to work in a safe and healthy environment. We expect all employees to report to work each day unimpaired. To achieve this goal, the Company has instituted a random drug testing procedure that will occur a minimum of six (6) times per year.

Employee Assistance Plan (EAP)

Kentucky American is proud to offer its employees an Employee Assistance Program known as an EAP. This program is available to all employees and their families through an 800 number for assistance in a variety of areas such as marital or financial problems, drug or alcohol abuse problems, legal or emotional problems. This is a voluntary and confidential program. Provides you and each eligible dependent with up to six (6) sessions per year for evaluation, short-term counseling and/or referral for all behavioral health care issues at no cost.

Education Assistance

The American System offers its employees financial assistance for those who wish to improve their education for the mutual benefit of the individual and the Company. Reimbursement for job related, undergraduate and graduate work is available to employees. The maximum expenditure per employee is the IRS limit of \$5,250 per calendar year.

Kentucky American Training

In addition to assistance for education through accredited institutions, Kentucky American also offers in-house training for hourly, supervisory, and managerial personnel. All in-house training is directed toward developing and enhancing current and future job skills.

Vacation Based on Completed Years of Continuous Service

1 year	10 days	14 years	19 days
2 years	11 days	15 years	20 days
3 years	12 days	16 years	20 days
4 years	13 days	17 years	21 days
5 years	15 days	18 years	21 days
6 years	15 days	19 years	22 days
7 years	16 days	20 years	22 days
8 years	16 days	21 years	23 days
9 years	17 days	22 years	23 days
10 years	17 days	23 years	24 days
11 years	18 days	24 years	24 days
12 years	18 days	25 years plus	25 days
13 years	19 days		

Employees hired during the current vacation year will be entitled to 1 day of vacation for each "Completed Month of Continuous Service" up to 10 days. This vacation must be taken any time after a "Completed Month of Continuous Service," but must be taken before the end of the calendar year.

Holidays

9 paid holidays each year.
2 floating holidays

Affirmation of EEO & Sexual Harassment Policy

Every year Kentucky American reaffirms its policy on equal opportunity in employment and all employment decisions towards minorities, females, veterans, disabled veterans and persons with disabilities as well as ethnic heritage, religious beliefs, race, color and age. This policy is posted on all bulletin boards in compliance with federal law for federal contractors.

Posted at the same time is our policy on maintaining a working environment free of harassment in any form. There is a procedure for reporting, investigating and taking the appropriate disciplinary measures.

Code of Ethics

As a part the American Water, all Kentucky American employees are required to abide by a basic Code of Ethics, which addresses how we do business, conflicts of interest and actions taken for favored treatment. The Code of Ethics also addresses political activities and contributions and dealing with inside information. All officers of the Company and senior employees must report to the President who in turn reports to the Board of Directors each year regarding compliance with this policy. All employees are asked to sign a written statement of compliance with this policy annually. A special hotline is established for anonymously reporting violations of the Code of Ethics.

Employees' Guide for Conduct

All American Water properties abide by a printed and distributed Guide for Conduct which lists 34 offensive acts and the disciplinary penalties applied to each. The Guide for Conduct is presented and explained to each employee and a verification of receipt and understanding is required and placed in an employee's personnel file.

Safety Code

Along the same lines as the Guide for Conduct, the American System complies with all OSHA standards as well as industry-specific safety standards. This policy is posted and thoroughly discussed with each employee, and a verification of receipt and understanding is required in each personnel file. Kentucky American insists that employees have a safe working environment and adhere to safe work practices.

Safety Program

Employee education combined with constant feedback and vigilant monitoring of safe work practices is the guiding principle of our statewide safety program. Our proactive stance has resulted in reduced vehicle accidents as well as fewer lost time injuries.

Leaves of Absence

Paid leaves of absence are available for three reasons:

- Jury duty
- Death in Family – length of leave determined by relationship to the deceased to the employee (1 or 3 days)
- Absence under the Veterans' Reemployment Act and the Family Medical Leave Act.

Service Awards

- American Water has a program to commemorate years of service in five-year increments. Depending upon the level of service, an employee may select from a brochure of items.
- Employees with 25 years' service are presented a Quarter Century gold ring featuring two diamonds and sapphire.
- Special tribute gifts available to retirees.

Performance Evaluation

During the first quarter of each year, all employees have their previous year's performance evaluated. This process utilizes goals and objectives agreed upon by the employee and his/her supervisor. These goals are consistent with individual, department, and company goals. Annual merit increases are effective April 1 when awarded.

Compensation Administration

In order to attract and retain a highly skilled and diversified workforce, KENTUCKY AMERICAN provides a competitive compensation program. In support of this objective is a program designed to:

- Provide a framework for assigning positions to salary ranges on a fair and consistent basis.
- Establish and maintain salary ranges that are competitive in the marketplace
- Ensure that each salary decision is based on an evaluation of each employee's performance.

Leadership Evaluation and Development (L.E.A.D.)

American Water is committed to growth and quality service and recognizes the importance of employee development for the future success of the company. The program includes a process that allows each employee's skills to be assessed against a predetermined set of criteria to identify strengths as well as

areas for development. The assessment provides the framework for an individual's development plan to be created by the employee and his/her immediate supervisor. The individual development plan strongly encourages the attainment of new skill sets. American's goal is to develop employees in order that future opportunities can be filled from within the organization.

Benefits will be reviewed on a regular basis and are subject to be modified or cancelled at the discretion of the Company.

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Jessie
COPY

Dated: September 15, 2005

**BILL OF SALE
AND
ASSIGNMENT**

For and in consideration of the sum of \$ 2,595,500.⁰⁰ of which \$ 91,831.⁵⁴ of that sum having been the consideration expressed in deed of even date, the receipt of which is hereby acknowledged, the City of Owenton, a Kentucky city of the fifth class, does hereby grant, bargain, sell, release, assign, transfer and convey unto Kentucky-American Water Company, a Kentucky corporation, whose address is 2300 Richmond Road, Lexington, Kentucky 40502, all of the items described on the Exhibits attached hereto in incorporated herein by reference.

To have and to hold all of the right, title and interest of the city of Owenton in the assets, leases, agreements and contracts unto Kentucky-American Water Company, its successors and assigns forever.

The City of Owenton covenants and agrees with Kentucky-American water Company, its successors and assigns, that all of the items described on the Exhibits attached hereto are free and clear from any and all encumbrances whatsoever, that it is the true and lawful owner thereof and has the authority to transfer its interests as herein done, and that it will warrant and defend same against the claims and demands of all persons whatsoever.

IN WITNESS WHEREOF, the City of Owenton has caused this bill of Sale and Assignment to

to be executed by it authorized elected official on this September 15, 2005.

CITY OF OWENTON, KENTUCKY

By: *D.M. Wotier*

D.M. Wotier, Mayor

ATTEST:

Freda C. Prather

Freda C. Prather, Clerk

COMMONWEALTH OF KENTUCKY

COUNTY OF CLARK

The foregoing bill of Sale and Assignment was subscribed, acknowledged and sworn to before me by ~~D.M.~~ D.M. Wotier, Mayor of the City of Owenton, Kentucky on this September 15, 2005, to be his free and voluntary act and deed as mayor of the City of Owenton, Kentucky.

[Signature]
Notary Public
My Commission Expires: 1-27-08

This Instrument Prepared by:

Herbert A. Miller, Jr.
2300 Richmond Road
Lexington, Kentucky 40502

Herbert A. Miller, Jr.

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APPENDIX A

<u>Kind of property</u>	<u>Date</u>	<u>Net Utility Plant</u>
<u>Owenton Water Utility Assets</u>		
Buildings & Improvements		
Barn	Jan-85	-
Restroom Improvements	Apr-87	-
Addition - Maintenance Bldg.	Dec-90	-
Addition to Red Barn	Jun-92	-
Storage Building	Jun-02	14,866.00
Storage Builidng	Sep-02	1,032.00
Furniture & Fixtures		
Furniture & Fixtures	1977	-
Posting machine (1/2)	1978	-
Copier	Feb-84	-
Typewriter (1/2)	Jun-85	-
Table	Jan-86	-
Fire Proof Cabinet	Nov-89	-
Computer	Jun-91	-
Copier (1/2)	Jun-96	-
PS 120 Computer	Jun-96	-
Copier	Oct-03	638.25
Distribution System		
Distribution System	1933	-
Distribution System	1960	9,797.58
Distribution System	1969	54,606.46
Distribution System	1977	117,493.38
Tank	1980	7,906.33
Apartment Hook Up	1981	997.24
Water Loading Building	Sep-82	474.46
8" Water Meter	Aug-86	441.32
New Line - Druther's	Sep-86	1,178.58
Flowmeter for hydrant	Oct-86	215.91
Ford Street Line	Jan-87	3,420.72
Kelly Court Line	Jun-88	3,358.33
Road Bore & Forsee's	Jun-88	2,730.20
(1) 6" Meter and (6) 3/4" Meters	Jul-88	1,184.76
Waterline for Horizon Homes	Jan-89	4,564.46
Hwy 22/Gratz Road Waterline	Feb-89	914.96
Horizon Homes Material for line	Mar-89	1,517.05
Fire Hydrant - Horizon Homes	Mar-89	470.45
Fire Hydrant - Horizon Homes	Mar-90	601.00
Pipe - 2" meter	Apr-90	1,247.91
Old Lines Replaced	Jun-90	5,606.08
Hwy 127 Waterline	Jun-90	57,937.61
Water main & Plant Improvements	Jun-90	122,678.19
400,000 Gallon Tank	Jun-90	275,057.21
Capitalize Repairs to 100.000 Gallon Tank	Jun-90	44,646.27
2 Hydrants	Jun-91	1,098.88
Services	Various	12,094.83
Meters	Various	11,055.25
Meter Installations	Various	12,094.83
New Water Treatment Plant	Jun-96	1,831,529.81
Pipe Upgrade - Cedar Hill Road	Mar-02	5,990.13
Equipment		
Equipment	1977	-
Temporary line	1977	-
Snow Plow	1979	-

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APPENDIX A

<u>Kind of property</u>	<u>Date</u>	<u>Net Utility Plant</u>
Boat	Jul-83	-
Alum Feeder Tank	Jun-85	-
Ditch Witch	Jun-86	-
Chlorinator Equipment	Oct-86	-
Two Cylinder Scale	Nov-86	-
Push Rod Machine	Apr-87	-
Jar Test Equipment	Oct-86	-
Communication Equipment	Jan-89	-
PH Meter & Line Convertor	Jun-89	-
Eccentric Slide Block	Jun-89	-
Porta Pump & Tow Chain	Jun-89	179.64
Hi-Tork mixer	Jun-89	-
1/2 Intercom	Oct-89	-
Telephone system (partial)	Jan-90	-
Jackhammer	Feb-90	-
Copy Machine	May-90	-
Coin Operated Machine	Mar-90	-
Valve - River gate	Apr-90	1,909.54
Fencing	Jun-90	1,296.29
Ten Foot Jon Boat	Jun-91	-
1/2 Mower	Jun-91	-
Roto Tiller	Jun-93	-
Lawnmower	Dec-94	-
Computer	Dec-94	-
P/U Truck Chevy (1/2)	Jun-96	-
Snow Blade & Utility Bed for truck	Jul-90	-
Computer Upgrade	Oct-97	-
1989 Dodge Truck	Aug-99	-
1999 Deere 310E backhoe	Sep-99	11,099.45
12' Truck Bed	Apr-00	3,054.00
2002 Chevy Pickup	Jan-02	6,817.67
Gas Detector	Nov-02	714.08

Water Utility Assets **2,634,517.12**

Owenton Sewer Utility Assets

Buildings & Improvements		
Restroom Improvements	Apr-87	-
Furniture & Fixtures		
1/2 Posting Machine	1978	-
1/2 IBM Typewriter	2/12/1985	-
Office Chair	1/13/1986	-
Fire Proof Safe	Nov-89	-
Phone System - partial	Jun-90	-
Equipment		
Equipment	1938	-
Equipment	1964	-
Equipment	1977	-
78 Chev Truck	Aug-83	-
Radio (1/3 interest)	Aug-83	-
Sewer Cleaning Machine	Apr-84	-
Chlorinator Machine	Feb-86	-
Smoke Blower	Apr-87	-
Monitoring Kit	Jun-87	-

<u>Kind of property</u>	<u>Date</u>	<u>Net Utility Plant</u>
Communication System	Jan-89	-
Sludge Truck	Aug-88	-
91 Chevy S-10 P/U	Jul-91	-
V-500 Chlorinator	Aug-89	-
12' Boat & 4 hp motor	Sep-89	-
Air Tanks	Dec-89	-
Equipment	Jan-90	-
Copy Machine	May-90	-
Computer System	Jun-90	-
Computer System	Jun-90	-
Mower (1/2 interest)	Jun-91	-
Sewer Cleaning Machine	Apr-93	-
Aerator	Jun-96	581.17
2 Myer Pumps & installation	Nov-97	1,072.01
99 Deere 310E Backhoe (1/2)	Sep-99	3,959.63
Aerators	Apr-00	5,433.83
Sample Analysis Equipment	1/1/2003	2,892.50
Distribution System		
Distribution System	1938	-
Distribution System	1964	24,083.30
Sewer Rehab	Apr-89	2,513.93
Horizon Home Lines	Jan-89	3,747.46
Wastewater Plant Improvements	Dec-89	1,448,002.13
Pump Station Replacements	Jun-89	180,595.44
Sewer Rehab and television service	Dec-89	11,063.33
Meters, services & installations	Jun-90	1,371.67
Meters, services & installations	var 6/89	2,669.42
Meters, services & installations	Jun-91	2,011.13
Sewer Rehab	Dec-91	1,436.01
Sewer Rehab	Dec-92	2,516.71
Lift station, car wash & post office	Mar-99	13,454.63
Madison Street Force Main	Jan-00	59,479.21
Madison Street Force Main	Dec-00	8,923.74
Bioxide feed system tank @ school	2/1/2004	16,307.00
High school extension	9/1/2003	426,554.08
Total Sewer Assets		2,218,668.30
Grand Total		4,853,185.41
Less: CIAC-Water		1,221,239.55
CIAC-Sewer		1,245,800.40
Net Assets		2,386,145.46

Detail:		
Real Property-Water		1,389,478.19
Real Property-Sewer		966,015.76
Total Real Property		2,355,493.95

Personalty-Water		23,799.38
Personalty-Sewer		6,852.13
Total Personalty		30,651.52

STATE OF KENTUCKY, County of Owen, SCT
 I, Mary K. Duncan, Clerk of Owen County, hereby
 Certify that the foregoing Boscano was this day
 Lodged in my office for record and is, with this and the
 Foregoing certificate duly recorded in my said office
 Witness my hand this 15 day Sept 2009 m.
 Clerk fee 10.00 State fee _____ transfer tax _____
 Total amount collected 13.00 receipt # 4919
 Mary K. Duncan, Owen County Clerk
 By CS Deputy Clerk Book 2 Page 401

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Witness: Linda Bridwell

32. Reference: KAWC response to PSC 1 - 3; page 16. The 13 January 2006 message from Richard C. Svindland includes the following statement: "Could we have copies available for ... 5) an estimate of what it could cost if KAW did the entire project as a stand alone. (i.e, include AFUDC, inspections, engineering, construction, etc.)." Please provide the estimate prepared and/or the response prepared in response to Mr. Svindland's request.

Response:

KAW is unable to locate an estimate, if it was prepared, or a response to Mr. Svindland's request. KAW will provide the information if it is located.

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Witness: Linda Bridwell

33. Reference: KAWC response to PSC 1 – 3; page 16. The 13 January 2006 message from Nick Rowe includes the following statement: “Linda [Bridwell]- I expect your Dept. to drive the intake solution issue.” Does KAWC agree or disagree that the individual responsible for the pursuit of the KRS II project was aware of the issues associated with the intake problems for the Northern Division?

Response:

KAWC agrees that Linda Bridwell, in the roles of Project Delivery Manager for Kentucky, and subsequently Project Delivery Manager for KRS II, was aware of intake issues at Owenton.

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Witness: Linda Bridwell

34. Reference: KAWC response to PSC 1 - 3; page 20. The 23 February 2006 message from Thomas W. Williams includes the following statement: "Donna Marlin, DOW, says that they have never jointed a municipality in funding discussions with elected officials, but the grave situation in Owenton warrants their involvement." Did KAWC oppose DOW's involvement? If yes, then how and why?

Response:

No, KAW did not oppose the DOW's involvement at any time.

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Witness: Linda Bridwell

35. Reference: KAWC response to PSC 1 - 3; page 22. The 5 April 2006 message from Thomas W. Williams contains the following statement: "KAWC's plans for a regional plant in Owen County may reduce the need for a new intake." Please indicate whether KAWC gave consideration to an interconnection between the Northern Division and the KRS II station as an option prior to KAWC filing its application for Commission approval to build the KRS II station.

Response:

Yes, KAWC knew that an interconnection between the Northern Division and the KRS II station was a possibility prior to KAWC filing its application for Commission approval to build the KRS II station but without an exploration of the cost effectiveness. Please also see KAW's response to Item No. 6 of these responses.

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Witness: **Keith Cartier / Lance Williams**

36. Reference: KAWC response to PSC 1 – 3; page 47. The 18 November 2008 message from Dillard Griffin includes the following statement: “I am hearing rumors that we may want to leave that plant open and not consider connecting it into the New pipeline network and that the plans are to proceed with the chemical upgrades.” Further: “If we are going to continue to operate the existing plant then we need a residuals plan, then we need to get into a budget a plan for this.” Further: “If you can provide an update on the status or current thinking about the existing plant then we will know more about plans for maintenance, equipment, and some more firm multi-year operating plans. With residuals disposal and the existing old plant being large items that we need to get an operating plan in place for.” When, exactly, did KAWC first give consideration to connecting the Northern Division to the KRS II station?

Response:

Informal discussions/consideration had been occurring since early 2008. However, until the certificate was approved for KRS II, evaluation of comparisons would have been premature. In mid-2008, the Fairgrounds tank was removed from service in an attempt to perform routine tank maintenance. System issues arose that prevented completion of that maintenance and identified the need for a more holistic operational review of the system. By that time, the PSC had issued the order approving KRS II. More formal discussions began occurring around mid to late 2008 regarding evaluations of a connection to KRS II, including project costs and potential operational savings.

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Witness: Keith Cartier

37. Reference: KAWC response to PSC 1 – 3; page 47. Would Dillard Griffin be willing to voluntarily appear at any public evidentiary hearing scheduled regarding this matter, be sworn, and answer questions of the Commissioners, staff and, intervening counsel? If not, then please explain why not

Response:

Dillard Griffin retired in 2011 and is no longer employed by KAW.

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Witness: **Lance Williams / Keith Cartier**

38. Reference: KAWC response to PSC 1 - 4; page 2. Please provide a narrative explaining the CDC process (including obtaining "SER CDC Implementation Approval").

Response:

The CDC process is a framework within which KAWC acquisition opportunities are evaluated and approved. In general, the intent of this process is to obtain timely decisions and to ensure that the appropriate level of management review is applied commensurate with the nature of the acquisition opportunity.

The CDC process should lead to the optimization of resources by determining at an early stage whether or not an opportunity is viable; provide for the development of any specific strategies to bring about a successful acquisition based on a realistic assessment of KAWC's competitive advantages; and strengthen the identification and mitigation of potential risks, thereby creating an opportunity for a more successful project implementation.

Within the CDC Process there are three approval stages although not all are necessary -- Development Approval, Bid Approval and Implementation Approval. The Development Approval stage is necessary to obtain authorization to expend funds for outside services in order to more fully develop an opportunity. The Bid Approval stage includes a review of the financial and operational attractiveness of an acquisition, the identification of opportunities and risks of an acquisition and lastly provides for authorization to submit an offer within certain terms. The Implementation Approval stage is necessary if any facts or assumptions presented at the Bid Approval stage have materially changed. This is common as negotiations with other parties develop and/or circumstances change.

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Witness: **Lance Williams/Keith Cartier**

39. Reference: KAWC response to PSC 1 - 4; page 2. The 22 April 2005 Implementation Approval Proposal includes the following: "The City's water system is in overall fair condition. The WTP is relatively new however the distribution system is aged and in need of attention and not unlike many municipal systems throughout the US. Owenton has received several violations for elevated THMs due to its source of supply. A new intake project along with treatment modifications will adequately address this problem. Capital expenditures of \$1,500,000 over the next five years have been modeled to accommodate modifications to the WTP and various distribution system improvements." Did KAWC paint an overly optimistic picture of the Owenton water system in order to obtain corporate parent approval for its purchase?

Response:

No.

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Witness: **Lance Williams/Keith Cartier**

40. Reference: KAWC response to PSC 1 - 4; page 5. Under Market Environment," the following statement appears. "Owenton officials have made it clear that if this transaction is not closed within a reasonable period, they will cease further discussions with KAW." Did KAWC decide to proceed with the transaction in the absence of adequate time to consider the transaction or otherwise without fully considering the transaction?

Response:

KAW fully considered and vetted issues relative to the transaction. Negotiations are often more urgent or time sensitive from one party's perspective.

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Witness: **Keith Cartier / Lance Williams**

41. Reference: KAWC response to PSC 1 – 4; page 12. Per the April 2005 discussion, there is an assumption that “Owenton will complete the Kentucky River intake in a timely manner and not in excess of forecasted use fee.” Please explain whether the intake was completed in a timely manner and at or below the forecasted use fee. If not completed, explain the impact.

Response:

The new intake on the Kentucky River has not been completed. KAW has continued to operate with the current intake pending resolution of the potential connection to KRS II.

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Witness: Linda Bridwell / Lance Williams

42. Reference: KAWC response to PSC 1 – 14. Please answer the following questions.

- A. Please confirm that if the KRS II option is approved, it will result in an incremental risk or a reduction of water availability for the Central Division customers. If not, then please explain why not.
- B. If the KRS II option is approved, will it result in a reduction of risk to the Northern Division customers?
- C. Please confirm that the approval of a KRS II option may accelerate the need for an expansion of the KRS II WTP. If not, then please explain why not.

Response:

- A. No, KRS II has a rated capacity of 20 mgd and is capable of being safely operated at flows up to 24 mgd. The ability of KRS II to operate at 24 mgd is due to its pumping and filtration capacity. KRS II has five filters and with all filters in service, KRS II could produce 25 mgd. The pumps at KRS II are also sized to reliably produce 24 mgd with one unit out of service. Under routine operating conditions, the capacity above 20 mgd could be utilized to supply the Northern Division with no impact on the available water for Fayette County or Central Division customers.
- B. Yes, approval of the KRS II option will reduce the risk to the Northern Division customers. The proposed project is driven by the inadequacies and lack of redundancy of the Owenton Water Treatment Plant and raw water intake. The KRS II option has redundancy built into the plant, pumps and storage. In the event that a main break occurs in the 16-inch transmission mains, KRS II will supply points south of the main break while the storage tanks will provide temporary supply to the remaining parts of the system. The 16-inch main is a readily replaceable component which can be relatively easily repaired and/or replaced.
- C. See KAW_R_PSCDR1#14_072312 and KAW_R_PSCDR1#27_072312. Looking at projected maximum daily demands through 2025, the maximum daily demand is 2.07 mgd for the Northern Division. Despite current trends of declining usage, which have not been calculated into the projected maximum daily demands for the Northern Division, this option may potentially cause the need for the plant to be expanded a year or two sooner than previously expected. The immediate cost savings to all KAW customers, in addition to the reduced risk to the Northern Division customers, are benefits that outweigh the possibility that KRS II would need to be expanded slightly sooner.

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Witness: Lance Williams/Keith Cartier

43. Reference: KAWC responses to PSC 1 – 23; 1 – 24, and 1 – 25. KAWC indicates, in part, that it “is considering whether the facilities could be utilized for KAW own use(s).” Please provide a narrative of this process and identify each use considered or under consideration. Supply any corresponding memoranda, communications, or work-papers.

Response:

Discussions that occurred within KAWC during the normal course of project conversation have generated a number of possibilities for future disposition of the site and facility use, though none has progressed beyond the identification as a possibility. There are no specific work papers, memoranda, communications, etc. at this time, though ideas discussed as potential outcomes included:

- Could the site/facility be converted into an equipment storage garage (KAW/City or County)
- Could the facility be used as a training site
- Is the property marketable to industry/other entities
- Could the site and/or facilities be sold or donated to the city for use in conjunction with the lake
- Would the city or county be interested in converting the facility into a community activity center
- How much of the existing material could be used or sold for parts
- How much of the materials could be sold for scrap
- Can the clarifier be dismantled and reused at another location

As any disposition is premature pending the PSC order, KAWC has not researched or investigated any of the above mentioned possibilities, and has not had conversations externally regarding the ideas.

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Witness: **Keith Cartier**

44. Reference: KAWC response to PSC 1 – 29. What is the total customer count for the Northern Division for the May 2012 sales data?

Response:

There were 3,882 water customers at end of May 2012.

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Witness: **Keith Cartier / Lance Williams**

45. Reference: KAWC to PSC 1 – 36. With regard to the risk associated with an inadequate residuals process, when did the process become inadequate? (Why has KAWC allowed an inadequate process to occur and/or exist?)

Response:

KAWC recognized potential issues with the residuals during due diligence. KAWC has monitored sludge and discharge since assuming operation, and has taken a number of actions to mitigate risk of potential permit violation (please refer to response for AGDR2#004). KAWC continues to believe an alternate method of sludge removal is required to adequately ensure appropriate compliance.

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Witness: Lance Williams

46. Reference: KAWC to PSC 1 - 71. What is the maximum transmission capacity of this main? (For example, how many million gallons a day could be transmitted through the main?)

Response:

The maximum transmission capacity of the 16-inch ductile iron main is directly influenced by two main factors; 1) the size of the booster station and 2) the maximum velocity for design of the pipe. The booster station is designed for 2 mgd (million gallons per day) and, therefore, limits the capacity in the main to 2mgd. If this restriction were removed by increasing the size of the pump station, then the maximum velocity for the design of the pipe becomes the limiting factor. In general, to protect against damaging surge pressure on the Class 350 ductile iron pipe, the velocity of the water in the main shall not exceed 7 fps (feet per second). Given this limitation, the maximum flow through the 16-inch ductile iron main is approximately 6.3 mgd.

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Witness: Keith Cartier

47. With regard to the fees paid by KAWC to the Kentucky River Authority consequent to the utilization of the KRS II WTP, please answer the following.

A. Please identify the fees, if any, paid by KAWC to the Kentucky River Authority consequent to the utilization of the current intake for the Owenton WTP. (Identify the fee type(s) and the fee rate(s).)

B. Please confirm that if KAWC obtains approval of the KRS II option, to the extent that KAWC supplies its Northern Division with water from the KRS II WTP, there will be a KRA fee or fees associated with the water withdrawn from the Kentucky River for supplying the Northern Division. If no, then please explain why not.

C. Does a KAWC director, officer, or employee serving on the Kentucky River Authority? If yes, please identify each person and include the date of appointment (and, if applicable, confirmation).

Response:

A. The Owenton plant pays the Tier I fee of \$0.022 per thousand gallons due to the location of the intakes tributaries of the Kentucky River.

B. KRS II pays the sum of Tier I and Tier II rates of \$0.022 and \$0.06 per thousand gallons due to the location of the intake on the main stem of the Kentucky River.

C. Keith Cartier was appointed to the board of directors of Kentucky River Authority on November 4, 2009, serving as a member residing in a county adjacent to the main stem of the Kentucky River. His term expires September 18, 2013.