

AGREEMENT

THIS AGREEMENT, effective the 16th day of May, 1995, is made and entered into by and between LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT, an urban county government of the Commonwealth of Kentucky pursuant to Chapter 67A of the Kentucky Revised Statutes, 200 East Main Street, Lexington, Kentucky 40507 and KENTUCKY-AMERICAN WATER COMPANY, a corporation created and existing under and by virtue of the laws of the Commonwealth of Kentucky, with its principal office at 2300 Richmond Road, Lexington, Kentucky.

W I T N E S S E T H:

Water Franchise

For and in consideration of the payment by Kentucky-American Water Company to Lexington-Fayette Urban County Government of the sum of One Hundred Dollars (\$100.00), the receipt of which is hereby acknowledged, and in further consideration of the covenants, limitations and agreements as set forth in Resolution No. 146-95 passed by the Urban County Council on April 27, 1995, a copy of which is attached hereto as Exhibit A, and in further consideration of the covenants, limitations and agreements as set out in the bid of Kentucky-American Water Company dated May 10, 1995, a copy of which is attached hereto as Exhibit B, the Lexington-Fayette Urban County Government does hereby sell, grant and convey to Kentucky-American Water Company, its successors and assigns, a water franchise and privilege to install, erect, operate and maintain a waterworks system and plant as advertised by the Lexington-Fayette Urban County Government in the Lexington Herald-Leader published May 3, 1995 in Lexington, Fayette County, Kentucky. The franchise

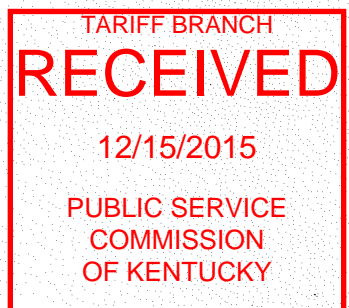
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and privilege sold, granted and conveyed shall continue in full force and effect for a period of twenty (20) years from the effective date of this Agreement. The franchise as adopted by Resolution No. 146-95 on April 27, 1995 and the bid of Kentucky-American Water Company dated May 10, 1995 are made a part of this agreement as fully as if set out at length herein. This Agreement shall supersede and be in place of the Agreement effective May 19, 1994.

The franchise hereby sold, granted and conveyed to Kentucky-American Water Company is not exclusive and shall not be construed as being in any way exclusive of preventing the Lexington-Fayette Urban County Government from providing for the sale of similar franchises to other persons, companies or corporations.

Kentucky-American Water Company, its successors and assigns, in consideration of the grant, sale and conveyance of the above franchise, does hereby bind itself, its successors and assigns, to faithfully and fully perform each and every condition of said franchise as contained in Resolution No. 146-95 and as contained in its May 10, 1995 bid, and further to faithfully perform all acts required of it as the purchaser of said franchise.

IN WITNESS WHEREOF, the Lexington-Fayette Urban County Government by and through its Mayor and Kentucky-American Water Company by and through Roy W. Mundy, II, its properly authorized Vice President and Manager, have executed this Agreement on the dates hereinafter set forth but to be effective as of the date first above written in the opening paragraph of this Agreement.



LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT

BY: Pam Miller
PAM MILLER, MAYOR

COMMONWEALTH OF KENTUCKY)
COUNTY OF FAYETTE)

The foregoing Agreement was subscribed, sworn to and acknowledged before me by Pam Miller, Mayor of Lexington-Fayette Urban County Government, for and on behalf of the Government, on this the 23rd day of May, 1995.

My commission expires: 10-18-98

Susan Lamb
NOTARY PUBLIC, STATE AT LARGE, KY

KENTUCKY-AMERICAN WATER COMPANY

BY: Roy W. Mundy II
ROY W. MUNDY, II, VICE
PRESIDENT AND MANAGER

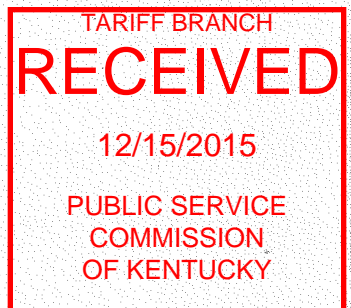
COMMONWEALTH OF KENTUCKY)
COUNTY OF FAYETTE)

The foregoing Agreement was subscribed, sworn to and acknowledged before me by Roy W. Mundy, II, Vice President and Manager, Kentucky-American Water Company, for and on behalf of the Company, on this the 15th day of May, 1995.

My commission expires: September 19, 1995

Patricia Ballard
NOTARY PUBLIC, STATE AT LARGE, KY

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RESOLUTION NO. 146-95

A RESOLUTION CREATING AND ESTABLISHING A WATER FRANCHISE.

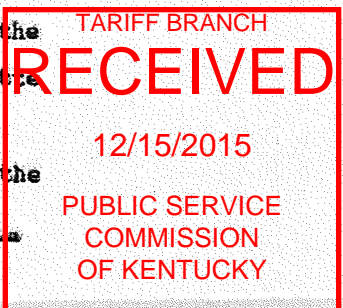
BE IT RESOLVED BY THE COUNCIL OF THE LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT:

Section 1 - There is hereby created and established a water franchise and privilege granting to the purchaser thereof, whose bid may be accepted, the discretionary right to construct, erect, lay, relay, replace, operate and maintain a waterworks system and plant, embracing mains, pipelines, valves and valve boxes, hydrants, meters and meter boxes, service pipe and appurtenances, and any and all other facilities, appliances, apparatus and equipment necessary, used or useable, in the operation of a waterworks system for the purpose of supplying and to supply water to the inhabitants of Fayette County for domestic, commercial, industrial and other purposes within the right-of-ways through, upon, over, along and under bridges, viaducts, sidewalks, public places and on the main public roads and highways in Fayette County, and on all streets, avenues and roads, running off from or connected therewith either directly or indirectly, and the privilege of opening and excavating the same without the payment of license or other fee as the business of the purchaser thereof may from time to time require, in constructing, erecting, laying, relaying, replacing, operating, maintaining or removing its pipelines and other works and equipment and together also with the right to transport water through its mains and pipelines to any other mains or pipelines, laid or to be laid, which are or may be connected therewith.

Section 2 - The franchise and privilege granted and established by this resolution shall be exercised in accordance with the conditions set out herein and shall continue in full force and effect for a period of twenty (20) years beginning on the date of acceptance by the Lexington-Fayette Urban County Government of a bid therefor. Nothing contained herein shall supersede the requirements of the Code of Ordinances of the Lexington-Fayette Urban County Government.

Section 3 - Prior to the opening of any right-of-way for the

EXHIBIT A



purpose of constructing, erecting, laying, relaying, replacing, operating, maintaining and/or removing any of said pipes and appurtenances, service facilities or other equipment in the exercise of the rights herein granted, the purchaser shall obtain a permit to do so from the Mayor or the Lexington-Fayette Urban County Government Division of Engineering or from any other person or official authorized to grant same and who may be designated by the Urban County Government for such purpose, except in case of an emergency, in which event the permit shall be subsequently obtained within a reasonable time. When the purchaser enters upon any right-of-way for the purposes herein specified, it shall prosecute the work, at its own cost and expense, except when the Urban County Government has requested relocation of facilities more than once within the same government project, all costs of such second relocation shall be paid by the Urban County Government. Purchaser shall prosecute all such work with due diligence and shall dig and close up all trenches and exposed places as rapidly as possible, and shall leave the right-of-ways in the same condition as when it entered the same for said purpose or purposes, all as required by the scope and nature of the project. All such repairs shall be maintained by the purchaser for one year in as good condition as the remainder of said right-of-way; and upon completion thereof, the Lexington-Fayette Urban County Government, through its duly constituted representative, shall inspect said work and, if properly replaced and restored, shall give to the purchaser a certificate thereto or, if not, it shall give to the purchaser a detailed statement of the work necessary to be done in order to comply with all reasonable requirements or regulations of the Urban County Government in restoring the surface of said right-of-way. If the purchaser does not replace within a reasonable time the surface of any right-of-way which has been opened by the purchaser, the Urban County Government, after written notice of its intention, may replace such surface to the condition herein specified at the cost of the purchaser.

Section 4 - The purchaser in pursuance of the rights, privileges and franchise herein granted, shall not unreasonably or

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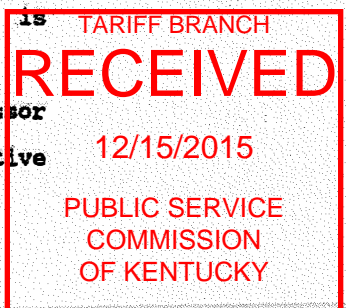
unnecessarily obstruct roads or other public places or right-of-ways and during the progress of any of its works shall exercise due care in the protection of the public from accident or injury and shall hold the Urban County Government harmless from any and all damages, suits and actions, by reason of negligence of the purchaser or its employees while constructing, erecting, laying, relaying, replacing, operating, maintaining and/or removing its works or equipment.

Section 5 - The quality of water to be furnished by the purchaser and the operating conditions affecting its quality shall be in accordance with the requirements and regulations of the Environmental Protection Agency or any legally constituted federal body designated as its successor in jurisdiction, the Kentucky Natural Resources and Environmental Protection Cabinet, Division of Water or any legally constituted state body designated as its successor in jurisdiction, and the Public Service Commission or any legally constituted state body designated its successor in jurisdiction.

Section 6 - The conditions and requirements of service to the inhabitants of the Fayette County and the rates to be charged by the purchaser for such service shall be in accordance with the lawful rules, regulations and orders of the Public Service Commission of Kentucky or any legally constituted State body designated as its successor in jurisdiction.

Section 7 - It shall be the duty of the Mayor, as soon as practicable after the effective date of this Resolution, to offer for sale at public auction said franchise and privilege and it shall be sold to the highest and best bidder, at a time and place to be fixed by her, after she shall have given due notice thereof by advertising this order in full one time, not less than seven (7) days nor more than twenty-one (21) days before the time to be fixed by her, in the Lexington Herald-Leader, a newspaper of general circulation in Fayette County, Kentucky, which newspaper is published in Fayette County, Kentucky.

Section 8 - The Urban County Government or its legal successor in interest, reserves the right at any time during the effective



period of the franchise to be awarded hereby, to impose upon the successful bidder a franchise fee in an amount not to exceed three percent (3%) per annum of the "Gross Revenues" as defined herein. If any franchise fee shall be due pursuant to the authority contained herein, the purchaser shall remit to the Urban County Government or its legal successor in interest, within forty-five (45) days of the end of each and every calendar quarter beginning with January 1, April 1, July 1 and October 1 next following the enactment of any such franchise fee, the amount of said franchise fee for said quarter or applicable portion thereof, until said franchise fee shall be discontinued or until the franchise expires.

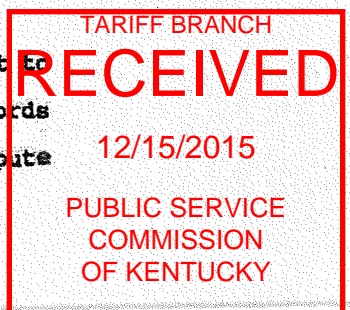
Section 9 - "Gross Revenues", for purposes of this resolution, shall include all revenues from the sale of water, service charges based upon the size of facilities, municipal fire connections and hydrants, private fire connections and hydrants, temporary service connections for construction purposes, reconnection charges, returned check charges, service line inspection fees, and bulk sales to customers in Fayette County. All other sources of revenue are excluded from "Gross Revenues".

Section 10 - The franchise or privilege hereby granted shall be vested in the purchaser thereof, upon acceptance by the Urban County Council of the bid therefor, but the purchaser shall enter into a formal contract with the Urban County Government consenting to the terms, conditions, stipulations and provisions herein contained, which contract shall be in a form acceptable to the Lexington-Fayette Urban County Government.

Section 11 - The purchaser shall pay to the Urban County Government within thirty (30) days of receipt of a request for payment the amount equal to the reasonable costs which the Urban County Government may incur in connection with the granting to the purchaser of a franchise, but in no event to exceed Two Thousand Dollars (\$2,000.00).

Section 12 -

(a) The Urban County Government shall have the right to inspect the purchaser's income and water consumption records pertaining to Gross Revenues, in order to audit and to recompute



any amounts to be paid under this resolution.

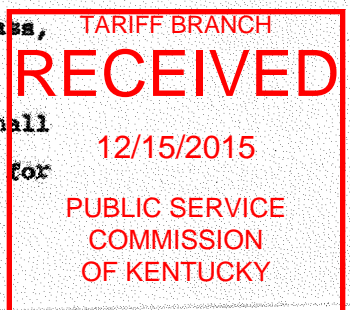
(b) Should an underpayment be discovered at any time by the Urban County Government or the purchaser, notice of the underpayment shall be sent to the non-discovering party within ten (10) days, not including Saturdays or Sundays, of discovery along with a copy of any audit or other supporting documentation. Any additional amount due to the Urban County Government shall be paid no later than ten (10) business days following receipt of the written notice. In the event that any franchise payment or recomputed amount is not made on or before the applicable dates heretofore specified, interest shall be charged from such date at the annual rate of 8%. Overpayments discovered by the Urban County Government or the purchaser shall be an adjustment on the next quarterly payment without interest.

Section 13 -

(a) Copies of all documents relating to (1) the quality of potable water, (2) the capability of the purchaser to meet service requirements, and (3) environmental releases submitted by the purchaser to any federal, state or local governmental entity having jurisdiction over the quality of potable water or purchaser's services and further required because of a deterioration in the quality of potable water or services below defined standards, shall be submitted simultaneously to the Commissioner of Public Works.

(b) Within six (6) months of the close of each fiscal year, the purchaser shall submit an annual financial report to the Commissioner of Finance prepared by a qualified financial officer in accordance with the provisions of the codification of statements on auditing standards promulgated by the American Institute of Certified Public Accountants. Within fifteen (15) days of the end of each and every month purchaser shall submit a schedule showing its revenues (exclusive of sales and city taxes) for the previous month by category described in Section 9 hereof, by revenue class, and all adjustments thereto.

(c) The purchaser and Urban County Government shall designate in writing representatives who are responsible for



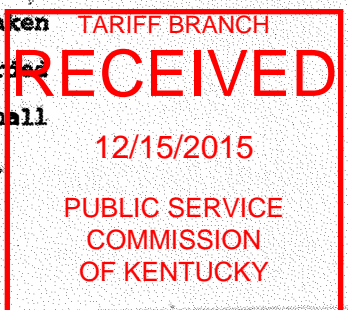
responding to requests for information related to water service in Fayette County made by each.

Section 14 -

(a) In the construction, reconstruction, maintenance or removal of any of said equipment and apparatus, the purchaser shall have due regard for the rights of the Urban County Government and others, and shall not interfere with, or in any way injure the property of the Urban County Government or others, under, on or above the ground. Said purchaser shall comply with all the laws of the Commonwealth of Kentucky and ordinances of the Urban County Government as to placing lights, danger signals or warning signs and shall be liable for any and all damage that may arise by reason of its failure or neglect to comply with such ordinances and laws. Work by the purchaser hereunder shall be done in a workmanlike manner and within a reasonable time as required by the scope and nature of the project and so as not to unnecessarily interfere with public use of any of said streets .

(b) Whenever the Urban County Government or any of its departments, agencies and/or agents, servants or employees shall grade, regrade, construct, reconstruct, widen or alter any street or shall construct, reconstruct, repair, maintain or alter any other public project (including but not limited to storm sewers, sanitary sewers and street lights) therein, it shall be the duty of the purchaser, when so ordered by the Urban County Government, to change, remove, relay and relocate its equipment and apparatus in the street at its own expense so as to conform to the established grade or line of such street and so as not to interfere with such public project so constructed, reconstructed or altered, except when the Urban County Government has requested relocation of facilities more than once within the same government project, all costs of such second relocation shall be paid by the Urban County Government.

Section 15 - All tests and measurements required to be taken by the purchaser by state and federal authorities shall be recorded and maintained for as long as required by the authority and shall be made available upon request to the Urban County Government.



Section 16 - The purchaser shall not be excused from complying with any of the terms and conditions of this Resolution by any failure of the Government, upon any one or more occasions, to insist upon the purchaser's performance or to seek purchaser's compliance with any one or more of such terms or conditions.

Section 17 - The purchaser agrees not to oppose intervention by the Urban County Government in any suit or proceeding to which the purchaser is a party and which involves this franchise agreement.

Section 18 - The purchaser shall abide by all provisions of the franchise and will not at any future time make any claim that the provisions of the franchise were, as of the time written, unreasonable, arbitrary or void.

Section 19 - Time shall be deemed to be of the essence in the performance of the terms and conditions of the franchise.

Section 20 - In any controversy or dispute under this resolution, the laws of the Commonwealth of Kentucky shall apply.

Section 21 - If any section, sentence, clause or phrase of the resolution is held unconstitutional or otherwise invalid, such infirmity shall not affect the remaining parts of the resolution.

Section 22 - That this Resolution shall become effective on the date of its passage.

PASSED URBAN COUNTY COUNCIL: April 27, 1995

/s/ Pam Miller

MAYOR

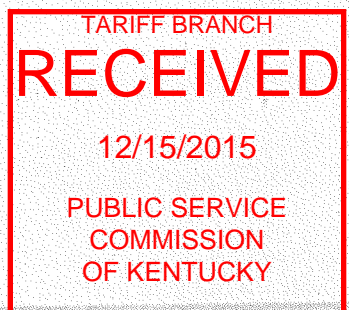
ATTEST:

/s/ Liz Damrell

CLERK OF URBAN COUNTY COUNCIL

PUBLISHED: May 3, 1995-1c

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Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502

606-269-2386

Coleman D. Bush
Business Manager

May 10, 1995

The Honorable Pam Miller
Office of the Mayor
200 East Main Street
Lexington, Kentucky 40507

Dear Mayor Miller:

In response to the Lexington-Fayette Urban County Government's offer of a water franchise, Kentucky-American Water Company hereby submits a bid, check enclosed (\$100) for the advertised franchise. We understand that said franchise will be for a 20 year period as authorized by Resolution 146-95 passed by the Lexington-Fayette Urban County Council.

Please be advised that Kentucky-American has received a Certificate of Public Convenience and Necessity from the Kentucky Public Service Commission authorizing the submission of this bid.

We appreciate the opportunity to bid and will be willing to discuss any related issues.

Sincerely,


Coleman D. Bush

CDB:kb

Enclosure

Equal Opportunity Employer

EXHIBIT 3

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