

LOUISVILLE WATER COMPANY
NORTH NELSON WATER DISTRICT
WATER PURCHASE AGREEMENT

This Water Purchase Agreement (hereafter, Agreement) is entered into this 25th
day of February, 2004, between the Parties:

LOUISVILLE WATER COMPANY
A Municipally-owned Corporation
Governed by the Board of Water Works
Pursuant to KRS 96.230 through 96.310
550 South Third Street
Louisville, KY 40202

LWC

And

NORTH NELSON WATER DISTRICT
A Water District Established and Governed by
KRS 74.010 through 74.416
Post Office Box 25
Cox's Creek, KY 40013

NNWD

WHEREAS, Kentucky Turnpike Water District (hereafter KTWD) and North Nelson Water District (hereafter NNWD) executed a wholesale water contract in 1996, whereby KTWD sold water to NNWD;

WHEREAS, Louisville Water Company acquired the assets of and merged with KTWD in September 2000;

WHEREAS, LWC, as successor in interest to KTWD, assumed KTWD's responsibilities for the wholesale water contract executed by KTWD and NNWD in 1996;

WHEREAS, LWC and NNWD have expressed interest in executing a new wholesale water contract;

NOW, THEREFORE, in consideration of the terms set out herein, LWC and NNWD (hereafter, collectively, the Parties) agree to the following:

PUBLIC SERVICE COMMISSION
OF KENTUCKY
OFFICE

APR 11 2004

PURSUANT TO KRS 18A.015
SECTION 3(1)

BY [Signature]
EXECUTIVE DIRECTOR

1. Quantity and Quality of Water to be Supplied

LWC will furnish water to NNWD at a maximum rate of 300 gallons per minute through the master meter located on Cedar Grove Road near the intersection with Browington Road. Water furnished shall be treated water meeting applicable water quality standards of the Kentucky Natural Resources and Environmental Protection Cabinet.

2. Pressure at Point of Delivery

LWC's water pressure at the initial point of delivery to NNWD will be sufficiently high to provide water service at a hydraulic grade adequate to operate the existing NNWD elevated storage tank with an 886 feet mean sea level overflow. If a greater pressure at the initial point of delivery is required by NNWD, the costs of providing that greater pressure shall be borne by NNWD. Emergency failures of pressure or failures of supply due to main breaks, power failure, flood, fires and use of water to fight fires, labor unrest, earthquake, tornado or other extraordinary circumstance shall excuse LWC from any failure to comply with this paragraph for such reasonable period of time as may be necessary to resolve the situation.

3. Metering

There is currently at the initial point of delivery a four (4) inch master meter in a meter vault. LWC will test this master meter when requested to do so by NNWD (not more than once every twelve months), and LWC will test this master meter in its sole discretion at any time LWC chooses to do so. A meter registering not more than two (2) per cent above or below the test result shall be deemed to be accurate. A reading of the meter determined by test results to be inaccurate (registering more than two per cent above or below the test result) shall cause billings for six months previous to such test to be adjusted by the percentage of inaccuracy found by such test. If the meter shall fail to register usage for any period, the amount of water furnished during such period shall be considered to be the same as the amount of water furnished during the corresponding period immediately prior to the failure, unless the parties agree to determine the amount of water furnished by some other method. NNWD's designated agent shall have access to the meter at reasonable times for the purpose of verifying the meter's readings.

4. Rates and Payments

LWC agrees to charge LWC's wholesale rate identified in Rule 6.03 of the Board of Water Works Rules and Regulations of \$1.16 plus \$.19 elevated service area surcharge for a total of \$1.35 per thousand gallons of water, plus a flat monthly service charge of \$135.00 per month. This wholesale rate will increase, effective May 1, 2004, to \$1.27 plus \$.22 elevated service area surcharge for a total of

\$1.49 per thousand gallons of water, plus a flat monthly service charge of \$142.50 per month. The parties acknowledge that LWC's wholesale water rate may be adjusted annually by the Board of Water Works. The parties further acknowledge that LWC currently forecasts an increase of approximately seven cents (\$.07) per thousand gallons of water for 2005 wholesale water rate, as well as periodic increases in the elevated service area surcharge. NNWD and LWC acknowledge the LWC wholesale rate is determined by LWC's rate-making methodology, and that LWC's rate-making methodology is a reasonable basis for the annual rate adjustments both NNWD and LWC expect during the term of this wholesale water contract. That methodology requires that the wholesale rate be determined by allocating the following components:

- a) Operating Expenses;
- b) Depreciation Expenses;
- c) Return on Plant Investment;

Less expenses common to only retail customers.

5. North Nelson Water District Warranties

NNWD provides the following warranties:

- a) NNWD will not sell water provided under the terms of this Agreement to any person or entity acquiring water for the purpose of resale without prior written consent from LWC, with such prior written consent not to be unreasonably withheld by LWC.
- b) NNWD will not permit "cross connection" wherein LWC's treated water is mixed with water from any other source, and NNWD shall separate LWC water from such other water by either atmospheric gap or LWC-approved backflow prevention device.

6. Louisville Water Company Warranties

LWC provides the following warranties:

- a) LWC will reserve for the term of this Agreement the water treatment capacity necessary to meet LWC's obligations under this Agreement.
- b) LWC will communicate with NNWD as soon as LWC becomes aware of an event within LWC's system that will result in interruption of service to NNWD, and, further, that LWC will restore full service to NNWD as soon as reasonably possible. In the event of an extended shortage of water, or, in the event that the overall supply of water available from LWC is diminished over an extended period of time, water service to NNWD shall be reduced or diminished in the same ratio or proportion as the water service to LWC's other customers

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PURSUANT TO KY KAR 5:011
SECTION 0.01
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within the same customer class (excepting health service related customers).

7. Term, Modification and Termination of Agreement

This Agreement shall be effective thirty (30) days after the date of the Order of the Kentucky Public Service Commission approving this Agreement (and at that point, this Agreement shall supersede any and all previous wholesale water purchase agreements between the parties), and run for forty (40) years, with this Agreement subject to the termination rights of the parties as set out herein. Either party may terminate this Agreement with twelve (12) months advance written notice to the other party with the notices to be provided to the addresses set out in paragraph 9 of this Agreement in the event of any of the following:

- a) For NNWD to terminate:
 - 1) Failure of LWC to meet water delivery requirements stated herein (except for failures related to the temporary interruptions described at 6 (b), above);
 - 2) Failure of LWC to meet water quality requirements of the Natural Resources and Environmental Protection Cabinet of Kentucky (except for failures related to the temporary interruptions described at 6 (b), above);

- b) For LWC to terminate:
 - 1) Failure of NNWD to pay within thirty (30) days of due date for monthly wholesale water service described in this Agreement;
 - 2) Revocation of NNWD's authority to operate a water system by one or more governmental authorities having jurisdiction over such matters;
 - 3) Failure of NNWD to meet water quality requirements of the Natural Resources and Environmental Protection Cabinet of Kentucky;

Provided, however, that termination shall not relieve either NNWD or LWC from any obligation incurred prior to the notice of termination.

This Agreement may be modified by means of an "addendum" or "amendment" signed by both parties and approved by the necessary regulatory authorities, including the Kentucky Public Service Commission.

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OF KENTUCKY
EXECUTIVE

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SECTION 9.011

BY Chancellor D. D. D.
EXECUTIVE DIRECTOR

8. Miscellaneous Matters

LWC shall file this Agreement and related tariff information with and as required by the Kentucky Public Service Commission. NNWD shall obtain any other approvals required for its purchase of water contemplated by this Agreement, with LWC to provide any and all cooperation necessary to obtain any such approvals. The Parties acknowledge that Board of Water Works Rules and Regulations Section 1.16 governing payments and charges applies to this Agreement.

9. Notices

Unless otherwise advised by other party in writing, all notices to the parties, respectively, shall be as follows:

If to LWC: Louisville Water Company
550 S. Third Street
Louisville, KY 40202


If to NNWD: North Nelson Water District
Post Office Box 25
Cox's Creek, KY 40013

10. Duplicate Originals

The parties will execute two identical originals of this agreement, with each party to retain one fully executed original agreement.

IN TESTIMONY WHEREOF witness the signatures of the Parties by their authorized officers:

For the
LOUISVILLE WATER COMPANY




John L. Huber, President


For the
NORTH NELSON WATER DISTRICT



Harry Hurst, Chairman

Attest:





Steve Ballinger
EXECUTIVE DIRECTOR

APR 11 2004

PURSUANT TO KRS 199.5-011

BY _____