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WATER PURCHASE CONTRACT
SUBSIDIARY TO KRS 501.001
SECTION 9 (1)

PUBLIC SERVICE COMMISSION
RATES & RESEARCH DIV.

BY: Jordan S. Neal

THIS CONTRACT FOR THE sale and purchase of water is

executed into as of the 2nd day of March, 1978, between the City of Dawson Springs, a municipal corporation of the 4th class in Hopkins County, Kentucky, hereinafter referred to as the "Seller" and the South Hopkins Water District, a Water District created under Kentucky Revised Statutes, situated in Hopkins County, Kentucky, hereinafter referred to as the "Purchaser".

WITNESSETH:

WHEREAS, the Purchaser is organized and established under the provisions of Chapter 74 of the Kentucky Revised Statutes, for the purpose of constructing and operating a water supply distribution system serving water users within the area described in plans now on file in the office of the Purchaser and to accomplish this purpose, the Purchaser will require a supply of treated water, and

WHEREAS, by contract dated May 18, 1965, the Seller is presently supplying water to the Purchaser, and the Purchaser is presently buying its water from the Seller, and;

WHEREAS, due to the increased growth and development of both parties, it has become necessary for the Seller to construct a new water treatment plant, that it may adequately meet the needs and demands of its customers, the Purchaser included, and;

WHEREAS, the construction of said treatment plant is to be financed by a loan from the United States of America, acting through the Farmer's Home Administration of the United States Department of Agriculture, the securing of said loan being a condition to this contract, and;

WHEREAS, it is the desire and intention of the parties to continue their present relationship as Seller and Purchaser and to share in the costs of constructing said water treatment plant, and;

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BY: Judson C. Neal

WHEREAS, this can best be accomplished by the parties entering into this new contract which shall supersede all previous contracts and agreements;

NOW THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth,

A. THE SELLER AGREES:

1. (Quality and Quantity) To furnish the Purchaser at the main point of delivery which shall be the water treatment plant, and existing points of delivery, during the term of this contract or any renewal or extension thereof, potable treated water meeting applicable purity standards of the Kentucky Department of Health in such quantity as may be required by the Purchaser.

2. (Accounting System) To establish an accounting system satisfactory to all parties which shall facilitate the identification of costs actually used in calculating the cost per 1,000 gallons of producing and delivering water to the Purchaser; and to be responsible for operation of the water supply in accordance with all applicable laws and regulations.

3. (Metering Equipment) To furnish, install and operate at the points of delivery, the necessary metering equipment, including meter houses or pits, and required devices of standard type for properly measuring the quantity to the Purchaser and to calibrate such metering equipment whenever requested by the Purchaser or Seller. Meters shall be checked and calibrated at least once every twelve (12) months. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate. The previous reading of any meter disclosed by the test to be inaccurate shall be corrected for the 6 months previous to such test in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of water furnished during such period

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shall be deemed to be the amount delivered in the corresponding period immediately prior to the failure, unless Seller and Purchaser shall agree upon a different amount. The metering equipment shall be read on or about the 15th of each month. An appropriate official of the Purchaser at all reasonable times shall have access to the meter for the purpose of verifying its readings.

4. (Billing Procedure) To furnish the Purchaser at the above address not later than the 1st day of each month, with an itemized statement of the amount of water furnished the Purchaser during the preceding month.

B. THE PURCHASER AGREES:

1. It is understood that the Seller will construct a water supply facility in adequate size to meet the water needs of the Purchaser; therefore, the Purchaser agrees to purchase from the Seller all of the water needed to meet the requirements of its customers for the period of this contract; however, in the event the Purchaser expands its service to an area substantially different from its present service area, and the Seller is not capable of delivering water at a satisfactory point, consideration will be given by the Seller to grant consent for the Purchaser to buy the water to meet the needs for the new area only, from another source, subject to FmHA approval.

2. (Rates and Payment Date) To pay the Seller, not later than the 15th day of each month, for water delivered in accordance with a rate schedule determined under the following guidelines:

a. Payments under this contract shall be adequate to cover the operation and maintenance expense of the water supply facility, the debt service allocated to the water supply facility, and a water supply facility reserve fund to be maintained.

b. Payments for debt service, reserve funds, and operation and maintenance expense shall be based on the actual cost of water produced and the actual usage by Purchaser and Seller.

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3. (Tap On Fee) To pay ^{BY: *[Signature]*} ~~the~~ Seller a "tap on fee" for its meters, equal to the actual cost of purchase and installation of necessary metering equipment, including meter houses or pits, and required devices of standard type for properly measuring the quantity to the Purchaser.

C. IT IS FURTHER MUTUALLY AGREED BETWEEN THE SELLER AND THE PURCHASER AS FOLLOWS:

1. (Term of Contract) That this contract shall extend for a term of 45 years from the date of the initial delivery of any water as shown by the first bill submitted by the Seller to the Purchaser and, thereafter may be renewed or extended for such term or terms, as may be agreed upon by the Seller and Purchaser.

2. (Capacity) That the operation of the water treatment plant, with a reasonable reserve capacity, is essential to both parties, therefore, when the average monthly operating time for any month exceeds sixteen (16) hours per day, each party shall take all steps necessary to enlarge the water treatment plant, realizing that it will take two or three years to complete the required improvements, and they further agree to abide by this contract for any future financing.

3. (Project Cost) Between the third (3rd) and sixth (6th) month after the treatment facility becomes fully operable, the Purchaser and the Seller shall agree upon a "Project Cost Figure" attributable to the treatment facilities, to be used in determining debt service and reserve for the treatment facility. This figure shall be subject to approval by FmHA.

4. (Debt Service Payment) That the principal and interest debt service allocated to the water service cost shall be the actual principal and interest payment on that portion of outstanding debt attributed to the Project Cost of:

- a. a new water intake structure;
- b. new raw water transmission line and pumps;
- c. the new water treatment facility.

In addition, the Purchaser shall construct a new 16-inch water line from the new water treatment plant to a point on U. S. Highway 62E,

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as shown on the attached map, at ^{BY: *Jordan C. Neal*} ~~no cost to Seller~~. The Purchaser shall allow the Seller free use of this transmission line. The Seller shall construct a 500,000 gallon standpipe to maintain its pressures. The Purchaser shall have use of lines inside the city for its use in exchange for the Seller's use of the major transmission line. The water, therefore, will be metered at the plant to (1) the new transmission main for the Purchaser, and (2) the existing transmission mains for the Seller. The Seller shall further receive additional water from a new meter on the 16-inch line, and any other points it desires to meter. The Purchaser shall still meter water through the existing meters to the North, East and West Sections of the Purchaser. Amortization shall, therefore, be based on all facilities from Lake Beshear to the two meters leaving the treatment plant.

5. (Reserve Fund) The Seller shall deposit fifteen (15) percent of the respective principal and interest payments to a water supply facility reserve fund which shall be established and maintained. Deposits to this fund shall continue until a level of one and one-half times the average annual debt service is reached. Deposits shall be discontinued during periods when one and one-half times the highest annual debt service payment remains in the fund, but shall be reinstated at the same rate whenever the fund drops below that amount. This fund shall only be used for payment of costs incurred due to unusual circumstances which cannot be paid as part of the routine operation and maintenance expense of the water treatment facility. This fund shall be maintained throughout the life of the loan and shall be subject to all requirements of the lending agency. The fund may be invested and draw interest subject to the rules of the lending agency. Upon completion of all obligations to the lending agency, the fund may be liquidated with the Purchaser and Seller having a vested interest in the fund balance in a proportion equal to the average of actual usage during the three (3) years prior to liquidation.

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6. (Operation and Maintenance Payment) That the Seller shall be responsible for operating and maintaining the water treatment plant in the most economical manner feasible, and the Purchaser shall have the right to question specific items in the audit. The operation and maintenance costs chargeable to the treatment plant and delivery costs shall include:

- (1) Labor,
- (2) Chemicals,
- (3) Electricity,
- (4) Other applicable utility costs,
- (5) Insurance,
- (6) Taxes,
- (7) Accounting,
- (8) Testing of all master meters on a yearly basis,
- (9) And any and all other miscellaneous costs related to water production, operation, and maintenance.

7. (Time Period from Start of Delivery until End of Seller's First Operating Year)

That the Purchaser shall pay an annual minimum charge of \$59,917.44 in equal monthly payments until the end of the first operating year. This shall constitute the payment for operation and maintenance, debt service, and reserve fund for all water used up to 5,874,258 gallons per month. Usage over this amount shall be charged at the rate of 85 (.85) cents per 1,000 gallons to the Purchaser.

8. (Time Period Beginning January 1st after the Seller's First Operating Year)

An annual audit and report on the water treatment facility shall be made at the end of the first operating year, and each year thereafter, by a certified public accountant employed by the Seller. The audit shall determine the true O & M costs, true debt service cost and the amount of reserve fund deposit. The above total cost shall be divided by the total water metered from the plant during that year, excluding water metered for internal plant use. This calculation shall yield the unit cost per 1,000 gallons of water metered. The estimated monthly payment for the Purchaser for the following year shall equal this unit cost times the actual monthly usage for each month of that year. The monthly payment for the Seller shall be calculated using the same unit cost and the metered water usage of the Seller each month.

Each year-end audit shall determine if the payments for the past year have been over or underpaid, based on actual audited

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costs. Overpayments shall be refunded or credited to the Purchaser's next monthly billed charges. Underpayments shall be collected on the next payment date after the audit.

This year-end procedure shall be repeated annually at the end of the Seller's operating year.

9. (Water for Testing) When requested by the Purchaser the Seller will make available to the contractor at the point of delivery, or other point reasonably close thereto, water sufficient for testing, flushing, and trench filling the system of the Purchaser during construction, irrespective of whether the metering equipment has been installed at that time, at a flat charge of 70 (.70) cents per 1,000 gallons, which will be paid by the contractor or, on his failure to pay by the Purchaser.

10. (Failure to Deliver) That the Seller will, at all times, operate and maintain its system in an efficient manner and will take such action as may be necessary to furnish the Purchaser with quantities of water required by the Purchaser. Temporary or partial failures to deliver water shall be remedied with all possible dispatch. In the event of an extended shortage of water, or the supply of water available to the Seller is otherwise diminished over an extended period of time, the supply of water to Purchaser's consumers shall be reduced or diminished in the same ratio or proportion as the supply to Seller's consumers is reduced or diminished.

11. (Modification of Contract) That the provisions of this contract pertaining to the schedule of rates to be paid by the Purchaser for water delivered are subject to modification at the end of every 1 year period. Any increase or decrease in rates shall be based on a demonstrable increase or decrease in the costs of performance hereunder, but such costs shall not include increased capitalization of the Seller's distribution system. Other provisions of this contract may be modified or altered by mutual agreement.

12. (Regulatory Agencies) That this contract is subject to such rules, regulations, or laws as may be applicable to similar Agreements in this State and the Seller and Purchaser will collaborate in obtaining such permits, certificates, or the like, as may be required to comply therewith.

13. (Miscellaneous) That the construction of the water supply treatment and distribution system of the Seller and water distribution system of Purchaser are being financed by a loan made or insured by, and/or a grant from, the United States of America, acting through the Farmers Home Administration of the United States Department of Agriculture, and the provisions hereof pertaining to the undertakings of the parties are conditioned upon the approval, in writing, of the State Director of the Farmers Home Administration.

14. (Successor to the Parties) That in the event of any occurrence rendering the Purchaser incapable of performing under this contract, any successor of the Purchaser, whether the result of legal process, assignment, or otherwise, shall succeed to the rights of the Purchaser hereunder.

That in the event of any occurrence rendering the Seller incapable of performing under this contract, any successor of the Seller, whether the result of legal process, assignment, or otherwise, shall succeed to the rights of the Seller hereunder.

15. (Pledge of Contract) This contract is hereby pledged to the United States of America, acting through the Farmers Home Administration, as part of the security for a loan or loans from the United States of America.

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BY: *[Signature]*
FOR THE PUBLIC SERVICE COMMISSION

In witness whereof, the parties hereto, acting under authority of their respective governing bodies, have caused this contract to be duly executed in six (6) counterparts, each of which shall constitute an original.

Seller:

Purchaser:

City of Dawson Springs

South Hopkins Water District

BY *Norman C. Dixon*
Mayor

BY *Delmar B. Sneed*
President

Attest:

Attest:

Sheila R. Glass
City Clerk

James A. Lewis
Secretary

This contract is approved on behalf of the Farmers Home Administration this 6th day of April, 1970.

BY *Robert W. Lutton*

TITLE *Community Programs Specialist*

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BY: *Justin C. Paul*
FOR THE PUBLIC SERVICE COMMISSION

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By: Hal C. Harned