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June 9, 1994

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RATES & RESEARCH DIV.

SECOND SUPPLEMENTAL AGREEMENT

AUG 19 1994

PUBLIC SERVICE COMMISSION

THIS SUPPLEMENTAL AGREEMENT made and entered into on this the 9 day of June, 1994; by and between THE CITY OF LEITCHFIELD, and through its UTILITIES COMMISSION, a municipal corporation of the fourth class of the Commonwealth of Kentucky, hereinafter referred to as the "CITY", and GRAYSON COUNTY WATER DISTRICT, a municipal corporation pursuant to KRS Chapter 74, of Leitchfield, Grayson County, Kentucky, hereinafter referred to as the "DISTRICT".

WITNESSETH:

WHEREAS, the CITY and the DISTRICT heretofore have entered into contracts, agreements, supplemental agreements, and addenda dated August 21, 1972, January 11, 1974, April 11, 1978, February 26, 1985, August 4, 1988, and July 20, 1989;

WHEREAS, the CITY and the DISTRICT entered into an Agreed Judgment, Civil Action File No. 82-CI-120 dated August 15, 1983;

WHEREAS, in accordance with the Joint Resolution, the parties appointed two engineers to meet and arrive at a new rate to be charged by the CITY to the DISTRICT, and said engineers issued a joint report titled "Wholesale Water Rate Study for Water Purchased by Grayson County Water DISTRICT from the CITY of Leitchfield" dated March 1988, hereinafter referred to as the "Joint Report";

WHEREAS, in accordance with the Joint Resolution, engineers representing the CITY and the DISTRICT have issued a "Joint Report on Wholesale Water Rate Calculation for Water Purchased by Grayson County Water DISTRICT from the CITY of Leitchfield" dated December, 1993, hereinafter referred to as the "1993 Joint Report";

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PURSUANT TO 807 KAR 5.011,
SECTION 9 (1)

BY: Jordan C. [Signature]
FOR THE PUBLIC SERVICE COMMISSION

WHEREAS, the DISTRICT is undertaking to construct extensions to its system which will require additional quantities of water to be purchased from the CITY and will also require a new connection to the CITY'S water system;

WHEREAS, the CITY is undertaking a construction project hereinafter referred to as "Phase 1" to increase the overall capacity of the CITY'S water treatment and water transmission to 2.7 million gallons per day (MGD) and further anticipates certain future additional improvements referred to as "Phase 2" to its treatment and transmission facilities to increase their overall capacity to 4.0 MGD;

WHEREAS, the CITY and the DISTRICT wish to cooperate to meet the water supply needs of the citizens of Leitchfield and Grayson County; and

NOW, THEREFORE, in consideration of the foregoing and the mutual promises of the parties herein contained, the parties hereto agree:

1. Effective forty-five (45) days from the execution date of the Second Supplement Agreement, the new rate the DISTRICT will pay to the CITY for water delivered by the CITY shall be \$1.143 per one thousand gallons.

2. The CITY shall read and record meter readings from the propeller type meter in the high service line at the CITY'S water plant (the high service meter) on a daily basis to provide the data required by the Joint Report for calculation of future wholesale water rates. Records of such readings shall be kept on file by the CITY for use by the engineers representing the CITY and the DISTRICT. It shall be the responsibility of the CITY to keep the high service meter operational. Testing of the high service meter shall be in accordance with the applicable section of Paragraph 7 of this Agreement. The provisions of this Paragraph 2 shall be implemented and accurate flow data accumulated at least one full year prior to any future study regarding a rate adjustment to the DISTRICT.

3. It shall be the CITY'S responsibility to initiate a new rate study in a timely manner prior to the completion of Phase 1 construction in accordance with the Joint Resolution, the Joint Report, the Supplemental Agreement dated August 4, 1988, and as set forth hereinafter. Said rate study shall be completed no later than 30 days after the delivery of all required information to the

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BY: Jordan C. Noel
FOR THE PUBLIC SERVICE COMMISSION

DISTRICT. Information required for the rate study shall include the actual final construction and project costs for the Phase I Facilities and the actual annual debt service cost for financing of Phase I. Unaudited figures for debt service cost may be used for this rate study, but only for the first rate study following completion of Phase I. The debt service cost shall include the cost, if any, of amortized net interim financing. The basis of all future rate studies shall be as follows:

<u>COST COMPONENT</u>	<u>ALLOCATION AS PER</u>
1. OPERATION & MAINTENANCE	JOINT RESOLUTION/JOINT REPORT
2. GENERAL & ADMINISTRATIVE	JOINT RESOLUTION/JOINT REPORT
3. DEBT SERVICE FOR:	
A. FACILITIES EXISTING PRIOR TO EXECUTION OF THIS DOCUMENT	JOINT RESOLUTION/JOINT REPORT
B. FACILITIES CONSTRUCTED AFTER EXECUTION OF THIS DOCUMENT	PARAGRAPH 4 SET FORTH BELOW
4. INTERIM REPLACEMENT	JOINT RESOLUTION/JOINT REPORT

The rate adjustment provided for in this paragraph and all future adjustments shall be effective 45 days after completion of each rate study.

4. For debt service on facilities constructed after the execution of this document including but not limited to the Phase I facilities, the DISTRICT'S share of the debt service for CITY facilities that are useful and beneficial to both the DISTRICT and the CITY (joint use facilities) shall be determined from the ratio of capacity requested by and allotted to the DISTRICT (as described in Paragraphs

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BY: Jonathan C. Steel
FOR THE PUBLIC SERVICE COMMISSION

8 and 9 below) divided by the total capacity of a given facility. Ratios to be used for Phase 1 debt service are summarized in the table below:

SUMMARY OF DESIGN CAPACITIES AND DISTRICT ALLOCATIONS
CITY OF LEITCHFIELD - PHASE 1 WATER SYSTEM ADDITIONS

DESCRIPTION	DESIGN CAPACITY (MGD)	ALLOCATION TO DISTRICT	
		(MGD)	(PERCENT)
Raw Water Intake Screening Facilities	6.0	1.56	26.0%
Raw Water Main	6.0	1.56	26.0%
Sedimentation Basin Modifications	2.7*	0.95	35.2%
Filter Facilities	3.0*	0.95	31.7%
Modifications to High Service Pumps	2.7	0.95	35.2%
Backwash Retention Basin Additions	2.7*	0.95	35.2%
Contract A - Water Transmission Main	6.0*	1.56	26.0%
Contract B - Water Transmission Main	6.0*	1.56	26.0%
Misc. Additions & Modifications to WTP	2.7	0.95	35.2%

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EFFECTIVE Total capacity of facilities when proposed additions or modifications are combined with like existing facilities.

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PURSUANT TO 807 KAR 5.011, 5. If the CITY finances any future construction project which involves joint use facilities, including but not limited to Phases 1 and 2, the CITY

BY: Carolee
FOR THE PUBLIC SERVICE COMMISSION

shall notify the DISTRICT as to the source of such financing and how debt service of such financing is to be accommodated. The CITY shall provide to the DISTRICT documentation and projections as to schedule and terms of such debt service including the CITY's obligation for debt service payments during the course of the construction of the project (interim debt service). The DISTRICT shall be responsible to the CITY for its share of the total interim debt service based on the allocation principles described hereinbefore in Paragraph 4 of this Agreement. Total interim debt service costs, of which a portion shall be allocated to the DISTRICT, shall include all interest, principal, amortization costs, etc., less interest income, if any, that may result from project financing. According to the allocation between the CITY and DISTRICT, of the total interim debt service costs the DISTRICT's rate for water purchased from the CITY shall be increased as required for the DISTRICT to pay its share of the CITY's interim debt service

payment by the time such payment is due to be paid to the funding source. An accounting of the amount paid by the DISTRICT shall be compiled by the CITY after each payment to the funding source and the DISTRICT's rate for water purchased from the CITY shall be adjusted for the next debt service payment period to account for either over or under payment by the DISTRICT. All pertinent information involved in the calculations summarized above shall be forwarded by the CITY's engineer directly to the DISTRICT's engineer for his review and concurrence. Prior to the completion of each construction project involving joint use facilities a complete rate study such as described in paragraph 3 shall be commenced.

6. The CITY shall permit the DISTRICT to connect to the CITY'S existing water system on Kentucky Highway 54 West at a point on the 10 inch transmission line constructed in 1989. The DISTRICT shall furnish, install, operate and maintain at its own expense a master meter suitable for measuring the quantity of water purchased at this point of connection. This water meter shall be installed in the vicinity of the western city limits on Kentucky Highway 54 at a location acceptable to the CITY.

7. Relative to the master meter to be added as per paragraph 6 above as well as to all other existing master meters metering water from the CITY'S water system to the DISTRICT water system, the DISTRICT agrees at its expense to have an annual test and report performed regarding the condition and accuracy of the metering device. Such test and report shall be performed by an independent service agency, subject to the CITY'S approval, whose representative and equipment used for such test are certified by the Public Service Commission of the Commonwealth of Kentucky (PSC). Meter testing shall be performed in accordance with the latest standards published by the American Water Works Association (AWWA) and the meter shall be adjusted to bring the accuracy within the latest standards of the AWWA. A copy of the annual report on meter tests, certifying the calibration, shall be furnished to the CITY. The CITY shall have an independent company which is certified by the PSC check the metering

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equipment at any time, provided, however no such interim inspection shall be made unless the CITY shall first give written notice to the DISTRICT of its intent. Such notice shall be received by the DISTRICT at least twenty-four (24) hours (excluding Saturdays, Sundays, and holidays) prior to such inspection. Cost and expense of such interim inspection shall be borne by the CITY unless accuracy of the meter is found to be outside the acceptable limits contained in the latest standards of the AWWA, in which case the cost and expense shall be borne by the DISTRICT.

The CITY agrees to have an annual test and report performed at its expense regarding the condition and accuracy of the high service meter at the CITY'S water treatment plant. The DISTRICT shall be afforded the same rights and obligations as described above for the CITY (in relation to the DISTRICT'S master meters). The CITY shall be afforded the same rights and obligations as described above for the DISTRICT (in relation to the DISTRICT'S master meters).

8. At existing master meter points of connection of the two systems, the new Hwy 54 West connection and future locations approved by the CITY, the CITY shall furnish to the DISTRICT such quantities of potable water as may be required by the DISTRICT, except such quantities shall not exceed the greater of 25,000,000 gallons per month or 950,000 gallons per day on a daily rate basis until additional quantities are requested by the DISTRICT as described hereinafter.

Further, on an annual basis the DISTRICT shall provide the CITY with the DISTRICT'S projection of quantities of water to be withdrawn from individual master meter locations. If such projections indicate that additional joint use facilities are needed to supply the required quantities of water at certain individual master meter locations, the CITY shall inform the DISTRICT of the nature and estimated cost of the proposed facilities. After an evaluation of alternatives, the DISTRICT shall either: (a) notify the CITY that the DISTRICT will participate in its proposed facilities; or (b) the DISTRICT shall provide water quantity projections which are within the CITY'S existing system capacity. Within two (2)

years of the DISTRICT'S notification to the CITY of it's willingness to participate in proposed facilities, the CITY shall provide such facilities and a new rate shall be computed as generally set forth in paragraph 3 hereinbefore.

9. When the DISTRICT'S total projections of water needs from the CITY approach the levels set forth in Paragraph 8 above, the DISTRICT shall provide notice to the CITY that additional quantities will be needed in approximately two (2) years. The CITY shall then immediately commence the construction required to provide the DISTRICT up to 41,000,000 gallons per month, not exceed 1,560,000 gallons per day on a daily rate basis, and shall complete such construction within two (2) years of said notice. Regardless of actions taken by the CITY related to water system construction, two (2) years after receiving said notice the CITY shall furnish the DISTRICT such quantities of potable water as may be required by the DISTRICT, except such quantities shall not exceed the greater of 41,000,000 gallons per month or 1,560,000 gallons per day on a daily rate basis. At such time as the actual additional debt service needed to provide the 41,000,000 gallons per month is established, a new rate shall be computed as generally set forth in paragraph 4 hereinbefore.

10. This agreement and all former contracts, agreements, supplemental agreements and addenda between the parties related to water purchases shall extend for a term of forty (40) years from the date of execution of this Second Supplemental Agreement by the parties. Thereafter, the DISTRICT is granted an option to renew or extend its agreements with the CITY under the same terms and conditions for an additional twenty (20) year period provided written notice of the DISTRICT'S intention to exercise this option to extend is given to the CITY at least two (2) years before the expiration of the forty (40) year term provided above.

11. Potential situations such as mechanical/electrical failures, raw water shortage, etc. can occur that could reduce or prevent the supply of potable water from the CITY'S facilities. When such conditions arise the CITY shall immediately notify the DISTRICT of the impending emergency. The CITY and

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PURSUANT TO 807 KAR 5:011,
SECTION 9(1)
BY: Jordan C. Neal
FOR THE PUBLIC SERVICE COMMISSION

DISTRICT shall then coordinate their efforts and if necessary, take appropriate steps to limit water use within each respective water system. When water use must be limited, the supply of water to the DISTRICT'S consumers shall be reduced or diminished by the same manner and ratio or proportion as the supply to the CITY'S consumers is reduced or diminished.

12. Each and every provision of the contracts, agreements, supplemental agreements, and addenda dated August 21, 1972, January 11, 1974, April 11, 1978, February 26, 1985, August 4, 1988, July 20, 1989, and an Agreed Judgement, Civil Action File No. 82-C1-120 dated August 15, 1983, is hereby ratified, reiterated, and reaffirmed except to the extent that it is more specifically changed in the foregoing paragraphs by this Second Supplemental Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this contract to be executed by their duly authorized officers the day and year above written.

CITY OF LEITCHFIELD,
UTILITIES COMMISSION

BY: Joe Bill Green
Chairman

ATTEST:

Walter Bator
Secretary

GRAYSON COUNTY WATER DISTRICT

BY: Ed Nichols
Chairman

ATTEST:

Gilbert Duvall
Secretary

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SECTION 9 (1)

BY: Jordan C. [Signature]
FOR THE PUBLIC SERVICE COMMISSION