

OCTOBER 1, 1997

WATER CONTRACT

THIS AGREEMENT, made and entered into effective this 1st day of October, 1997, by and between the PRESTONSBURG CITY'S UTILITIES COMMISSION ("Prestonsburg") and SANDY VALLEY WATER DISTRICT ("Sandy Valley").

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

WITNESSETH:

OCT 01 1997

That the parties hereto, for and in consideration of the covenants hereinafter set out, hereby agree as follows:

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: Stephan O. Bee
SECRETARY OF THE COMMISSION

1. Water Delivery Point. Prestonsburg agrees to furnish and sell to Sandy Valley during the term of this contract at the existing point of delivery, which is located at Mare Creek, Floyd County, Kentucky ("Delivery Point"), and Sandy Valley agrees to receive and purchase from Prestonsburg, potable treated water meeting applicable purity standards of the Kentucky Department of Health at the Delivery Point. Water will be furnished at a reasonably constant pressure calculated at 60 p.s.i.; provided that the requirement that water be delivered at 60 p.s.i. shall not apply until Prestonsburg is able to place in service a new water tank of 300,000 gallon capacity near Ivel, Kentucky, which tank is expected to be in service prior to the end of 1998.

2. Maximum and Minimum Quantities of Water. Prestonsburg shall deliver and Sandy Valley shall purchase quantities of water not to exceed 225,000 gallons per day of twenty-four hours, and not to exceed a cumulative total of 6,000,000 gallons per month. For these purposes, "per day" or "daily" shall mean the 24-hour period starting at 12:00 midnight and

ending at 11:59 p.m. Prestonsburg shall have the right to install equipment to restrict the flow of water on an hourly basis or establish temporary shut-offs to restrict the flow so that the quantities can be limited to the contract maximums set forth herein. It shall be the sole responsibility of Sandy Valley to control its customer load so that the water flow at the Delivery Point need not be restricted. A minimum contract quantity of 3,000,000 gallons per month shall be paid for by Sandy Valley.

3. Metering Equipment and Testing. Prestonsburg agrees to furnish, install, operate and maintain at its own expense at the Delivery Point, the necessary metering equipment, including a meter house or pit and required devices of standard type for properly measuring the quantity of water delivered to Sandy Valley and to calibrate such metering equipment whenever requested by Sandy Valley, but not more frequently than 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 readings of any meter disclosed by test to be inaccurate shall be corrected for the three (3) 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 shall be deemed to be the amount of water delivered in the corresponding period immediately prior to the failure. An appropriate official of Sandy Valley, at all reasonable times, shall have access to the meter for the purpose of verifying its readings.

4. Statement of Water Supplied. Prestonsburg agrees to furnish Sandy Valley, once each month, a statement of the quantity of water furnished Sandy Valley during the applicable billing period.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: Stephan O. Bell
SECRETARY OF THE COMMISSION

5. Payment Policy. Payment shall be made by Sandy Valley in accordance with Prestonsburg's wholesale customer payment policy ("Wholesale Payment Policy"), as it may be modified pursuant to public notice from time to time, subject to review by the Kentucky Public Service Commission, which is as follows:

Customers' bills will be mailed on the last business day of each month. Payment is due when bills are mailed. Prestonsburg City's Utilities Commission is not responsible for mail delivery. If payment is not received in our office by the 15th day of the following month, a 10% penalty will be added to the accounts of customers who have not paid their bills in full. On the 16th day of the month, Prestonsburg City's Utilities Commission will mail a disconnect notice to those customers who have not paid their bills in full. The disconnect notice, mailed on the 16th, will be the only notice sent to delinquent customers before their utilities services will be subject to disconnection for non-payment. A copy of the disconnect notice will be mailed to the Public Service Commission. Meters will be scheduled for removal ninety days after the date of the disconnect notice and service may be disconnected. Customers receiving disconnect notices will have five business days to bring or mail their payments to our office located at 2103 South Lake Drive, Prestonsburg, Kentucky. Thereafter, interest will accrue until paid at nine percent per annum. Our office hours are Monday through Friday, 8:00 A.M. to 5:00 P.M. For the convenience of our customers, we have a night deposit box located at the front of our building. If it is necessary to send a service representative to collect a bill, a \$200 collection fee will be charged. If it is necessary to remove the meter for non-payment, customers will be required to pay their bills in full, plus a \$500 reconnection fee before service is restored. If customers' bills and/or notices are mailed late by Prestonsburg City's Utilities Commission, the payment period will be extended the same amount of time the bill and/or notices were mailed late.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5011.
SECTION 9(1)
By: Stephan D Bell
SECRETARY OF THE COMMISSION

6. Rate Schedule. Sandy Valley agrees to pay Prestonsburg, according to Prestonsburg's Wholesale Payment Policy, for water delivered in accordance with this Agreement at the rates for each metered delivery point as set forth in Appendix A to this Agreement.

7. Overrun Volumes. Prestonsburg has no obligation to deliver more than 225,000 gallons per day or 6,000,000 gallons per month in total to Sandy Valley. Any quantities of water taken by Sandy Valley above these contract maximums shall be considered overrun volumes ("Overrun Volumes"). Overrun Volumes shall be fully interruptible for any reason and at any time in the sole discretion of Prestonsburg. Prestonsburg will give as much notice as is reasonably practicable before interrupting overrun volumes. The rate for overrun volumes shall be the current rate for gallons of water delivered monthly in excess of 100,000 gallons, plus the booster pump rate, multiplied by one hundred and twenty percent per 1,000 gallons; provided that the increased rate for Overrun Volumes shall not be assessed for Overrun Volumes which do not exceed 5% of the daily contract maximum volume (e.g. rate for Overrun Volumes applies to all volumes above 236,250 gallons per day while the regular rate applies to volumes up to 236,250 gallons per day). The increased rate for Overrun Volumes shall not be applicable if the overrun is due to an event of force majeure as defined in Section 15 and for no longer than the duration of the force majeure condition, provided that Sandy Valley gives immediate notice to Prestonsburg's designated representative following Sandy Valley's discovery of the force majeure condition, that the event of force majeure is documented to the satisfaction of Prestonsburg's representative, and that Sandy Valley acts with diligence to promptly remove the force majeure condition.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

8. Rate Schedule Modifications.

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: Stephan B. Bee
SECRETARY OF THE COMMISSION

- (a) Subject to subsection (b) of this section, Prestonsburg may make a rate filing with the Kentucky Public Service Commission at any time requesting

a rate increase for service to Sandy Valley, and this Agreement is subject to rate increase adjustments approved by the Kentucky Public Service Commission or its successor agency or entity. In the event of such rate increase, Appendix A to this Agreement will be amended to reflect the lawfully effective charges.

(b) Prestonsburg shall not file a wholesale rate case for which new, increased rates will become effective to Sandy Valley prior to October 1, 1998.

9. Termination. This Agreement shall commence on the effective date hereof and continue for a period of twenty-four years. This Agreement supersedes and replaces the Water Purchase Contract of March 19, 1981, between the parties. This Agreement shall terminate automatically at the end of the twenty-four year term. It may be renewed or extended as may be agreed upon by the parties.

10. Fire Protection and System Reliability. Prestonsburg shall not be responsible in any way for the failure of Sandy Valley to furnish sufficient water for fire protection purposes, or sufficient water storage tanks for system reliability purposes, and Sandy Valley shall indemnify Prestonsburg from any such claims related thereto.

11. Additional Service Provisions. Any booster pump or meter equipment to be used by Prestonsburg shall not be required to exceed a 150 gallon per minute booster pump or a three inch water meter. If Sandy Valley requires booster pumps or other apparatus to increase the p.s.i.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5.011,
SECTION 9(1)

BY: Stephan B. Bell
SECRETARY OF THE COMMISSION

for its own system, said pumps or other apparatus shall be supplied by Sandy Valley but shall, in no event, exceed 150 gallons per minute capacity.

12. Indemnification. Each party ("Indemnifying Party") shall indemnify the other party ("Indemnified Party"), its directors, commissioners, employees, and agents from all claims, demands, and liabilities of any kind caused by the Indemnifying Party relating to or arising out of this Agreement, except where such claims, demands, or liabilities result from or arise out of the sole negligence of the Indemnified Party.

13. Chlorination. Sandy Valley shall be responsible for any chlorination of the water furnished by Prestonsburg if such chlorination is required by the Floyd County Department of Health or any other Federal or State governmental agency.

14. Interruptible Service. If Prestonsburg does not have a sufficient supply of water to supply its retail customers, then Prestonsburg, at its sole discretion, may reduce on a proportional basis with its other customers the amount of water to be furnished to Sandy Valley: provided that Prestonsburg shall be entitled at all times to retain sufficient water to provide adequate fire flow within the City of Prestonsburg and to provide adequate water to critical medical facilities. Prestonsburg will give as much notice as reasonably practicable before interrupting service to Sandy Valley.

15. Force Majeure. All obligations of either party with respect to service hereunder shall be excused without liability during the pendency of any condition of force majeure. Force majeure shall include any act, event or condition beyond the reasonable control of the party

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: Stephan D. Bell
SECRETARY OF THE COMMISSION

claiming force majeure, and shall include, but not be limited to, any act of God, fire, storm, earthquake, freezing condition, wind, flood, drought, snow, water used to fight fires, line breaks, environmental release, breakage of or delay in receiving parts, equipment or supplies, or shortage thereof, strike or lockout, or any act, event or requirement of any governmental law, regulation or entity. Force majeure shall not include routine leakage or line loss or financial inability to pay.

16. Notices. All notices and other communications (other than routine billing and service communications) provided hereunder shall be in writing and shall be delivered personally or transmitted by registered or certified mail, return receipt requested or by a recognized overnight courier service. Such notice shall be deemed to have been given at the time of personal delivery or upon delivery to the United States Postal Service for delivery by registered or certified mail, or upon receipt thereof, as reflected on the signed certificate or delivery statement of the courier service. Notice must be delivered or sent to the party at the following address or to such other address as a party may have designated by notice:

TO PRESTONSBURG: Prestonsburg City's Utilities Commission
2103 South Lake Drive
Prestonsburg, Kentucky 41653

TO SANDY VALLEY: Sandy Valley Water District
P.O. Box 127
524 George Road
Betsy Layne, Kentucky 41605

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: Stephan O. Bell
SECRETARY OF THE COMMISSION

17. Amendment - Governing Law. This Agreement may be amended in writing only, duly signed by both parties, and will be governed by and construed in accordance with the laws of the Commonwealth of Kentucky.

18. Binding Effect and Benefit. Upon execution, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, personal representatives, successors and assigns, subject to regulatory approval as set forth below; provided, however, neither this Agreement nor any rights and obligations hereunder may be assigned by Sandy Valley without the written consent of Prestonsburg, which consent shall not unreasonably be withheld.

19. Severability. The terms and provisions of this Agreement shall not be severable. and in the event that any material term or provision hereof is held to be invalid or unenforceable, the remaining terms or provisions hereof shall be invalid and unenforceable, and neither party shall have any further obligation hereunder.

20. Regulatory Approval. This Agreement is contingent upon and subject to approval by the Kentucky Public Service Commission. Should the Commission fail to approve this Agreement in its entirety, neither party shall be bound by the terms hereof, and this Agreement shall be considered null and void and of no force or effect.

21. Wholesale Service. Sandy Valley shall not resell at wholesale water supplied hereunder to any new or additional wholesale customer so as to make Prestonsburg, directly or indirectly, a wholesale supplier to any other water system, without Prestonsburg's consent.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: Stephan Bell
SECRETARY OF THE COMMISSION

22. Non-Waiver. Either party's failure to exercise any of its rights hereunder at any time will not operate as a waiver of its right to exercise same at any other time(s).

23. Counterparts. This Agreement may be executed in several counterparts with the same effect as if the parties executing the several counterparts had all executed one counterpart.

24. Designated Representatives. To promote communications and to resolve service, operations, and collection issues on a timely basis, each party will designate a specific individual as a primary point of contact between the parties. Prestonsburg hereby designates its Superintendent, currently, Seldon Horne, as its representative. Sandy Valley hereby designates Joe Jacobs, or his successor in office as Secretary of Sandy Valley, as its representative.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers or agents to execute this Agreement the day and year first above written.

SANDY VALLEY WATER DISTRICT

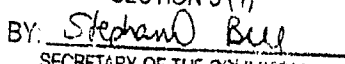
BY: 
CHAIRMAN

ATTEST:


SECRETARY

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5.011,
SECTION 9(1)
BY: 
SECRETARY OF THE COMMISSION

PRESTONSBURG CITY'S UTILITIES
COMMISSION

BY: Seldon Horne
SELDON HORNE, SUPERINTENDENT

ATTEST:

C. J. McNally
C. J. McNALLY, CHAIRMAN

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5.011,
SECTION 9(1)
BY: Stephan D Bell
SECRETARY OF THE COMMISSION

RATE SCHEDULE

APPLICABILITY: This Rate Schedule is applicable for wholesale water service by the Prestonsburg City's Utilities Commission ("Prestonsburg") to the Sandy Valley Water District ("Sandy Valley") pursuant to the Water Contract of October 1, 1997, between the parties.

CONTRACT QUANTITIES: The maximum daily contract quantity for service pursuant to the Water Contract is 225,000 gallons per day. The maximum monthly contract quantity for such service is 6,000,000 gallons per month. All volumes taken by Sandy Valley above these daily or monthly contract maximums shall be considered Overrun Volumes. A minimum contract quantity of 3,000,000 gallons per month shall be paid for by Sandy Valley.

RATES: Rates for each metered delivery point are set forth as follows:

Monthly volumes:	Charge per 1000 gallons:
0 - 2,000 gallons	\$6.97 minimum
next 98,000 gallons	3.02
over 100,000 gallons	2.02

Booster pump service: For each metered delivery point that requires booster pump service, an additional charge of \$.10 per 1000 gallons shall be charged for each booster pump used in providing service.

OVERRUN RATE: Sandy Valley shall be allowed a 5% tolerance above the daily contract maximum volume before assessment of the Overrun Rate. The Overrun Rate shall apply to all volumes exceeding 236,250 gallons per day or 6,000,000 gallons per month. The Overrun Rate shall be the charge for monthly volumes over 100,000 gallons specified above, plus the booster pump rate, multiplied by 120% per 1000 gallons.

RATE MODIFICATIONS: These rates are subject to modification at any time subsequent to October 1, 1998, pursuant to a rate adjustment filing made by Prestonsburg with the Kentucky Public Service Commission, or its successor entity or agency, and approved by said Commission.

CONTRACT PROVISIONS: This Rate Schedule is part of and is made applicable pursuant to the terms of the Water Contract of October 1, 1997 between the parties, which terms are incorporated into and made a part hereof.

EFFECTIVE DATE: This Rate Schedule is effective October 1, 1997.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

APPENDIX "A"

PURSUANT TO 807 KAR 5:011.
SECTION 9 (1)
BY: Stephan O Bell
SECRETARY OF THE COMMISSION

RECEIVED

MAR 17 1998

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION
CASE NO. 96-161

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

SANDY VALLEY WATER DISTRICT

COMPLAINANT

v.

OCT 01 1997

CITY OF PRESTONSBURG AND
PRESTONSBURG CITY'S UTILITIES COMMISSION

PURSUANT TO 807 KAR 5011, RESPONDENTS
SECTION 9(1)

BY: Stephan D. Bell

SECRETARY OF THE COMMISSION

JOINT MOTION OF PRESTONSBURG AND THE SANDY VALLEY WATER DISTRICT
TO ACCEPT SETTLEMENT, APPROVE WATER CONTRACT,
AND DISMISS PROCEEDING

The City of Prestonsburg and the Prestonsburg City's Utilities Commission (collectively "Prestonsburg"), and the Sandy Valley Water District ("Sandy Valley"), by counsel, jointly move the Public Service Commission ("Commission") to accept the parties' settlement, to approve a new Water Contract, and to dismiss the captioned proceeding as settled.

This proceeding was initiated by the filing of a formal complaint by Sandy Valley against Prestonsburg on August 1, 1996. After the filing of various pleadings, including discovery, by the parties, this matter was scheduled for hearing to resolve the matters in issue. A hearing was held before a Hearing Officer of the Commission on September 30 and October 1, 1997. The parties requested the suspension of the hearing on October 1 to permit additional time for their settlement discussions. Later that day, the parties reported to the Hearing Officer and to Commission Staff

that they had reached an agreement in principle for settlement of the case. The parties outlined the terms of the proposed agreement in principle to the Hearing Officer and Commission Staff and advised that they would work jointly on final documents effectuating their agreement to submit to the Commission for approval. By this joint motion, the parties submit their agreements to the Commission and seek its approval of their new Water Contract, and dismissal of this proceeding as settled.

The complaint involved a number of issues of interpretation of the parties' previously-existing contract signed in 1981. The parties have agreed to resolve the disputed matters and to replace the 1981 contract with a new water contract spelling out the basis for the parties' relationship going forward.

The parties' agreement reflects substantial compromise with respect to various matters disputed by the parties. The parties submit that the new Water Contract will enable them to have an updated and more clearly defined relationship in the future. The parties believe that the public interest requires acceptance of their agreement, the approval of the Water Contract attached hereto, and dismissal of the instant proceeding as settled.

WHEREFORE, Prestonsburg and Sandy Valley jointly move the Commission for entry of an Order accepting their settlement, approving the Water Contract attached hereto, and dismissing the instant proceeding as settled.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5011,
SECTION 9(1)

BY: Stephan D. Bell
SECRETARY OF THE COMMISSION

Respectfully submitted,

C. Kent Hatfield

C. KENT HATFIELD
MIDDLETON & REUTLINGER
2500 Brown & Williamson Tower
Louisville, Kentucky 40202
(502) 584-1135
Counsel for Prestonsburg City's
Utilities Commission and Special
Counsel for the City of
Prestonsburg

Bruce F. Clark

Bruce F. Clark
Jason Thomas
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, KY 40602-0634
Counsel for Sandy Valley Water
District

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5011,
SECTION 9(1)

BY: *Stephan D. Bell*
SECRETARY OF THE COMMISSION

SETTLEMENT AND RELEASE AGREEMENT

RECEIVED
MAY 12 1998
PUBLIC SERVICE
COMMISSION

This Agreement, made and entered into effective this 1st day of October, 1997, by and between the City of Prestonsburg, Kentucky ("City"), and the Prestonsburg City's Utilities Commission ("Prestonsburg"), and Sandy Valley Water District ("Sandy Valley").

DEFINITIONS

When used in this Agreement, the following terms have the following meanings:

- 1. "Agreement" means this Settlement and Release Agreement.
- 2. "Contract" means the Water Purchase Contract dated March 19, 1981 between Prestonsburg and Sandy Valley in which Prestonsburg agreed to supply potable water to Sandy Valley.
- 3. "Closing" means the closing of the transactions contemplated by this Agreement. The Closing will take place immediately following the execution of this Agreement at the offices of Prestonsburg, or at such other time and place as may be agreed in writing by the Parties.

- 4. "Water Contract" means the water purchase agreement between the City of Prestonsburg and Sandy Valley Water District, dated and effective October 1, 1997, and attached hereto as Exhibit A.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

RECITALS

OCT 01 1997

- 1. Whereas, Sandy Valley is a Water District organized under Chapter 24 of the Kentucky Revised Statutes;
- 2. Whereas, the Contract, pursuant to its express terms, expires March 19, 2021;
- 3. Whereas, disputes between the parties have arisen involving the validity, interpretation and operation of the Contract; and

PURSUANT TO 807 KAR 5011.
SECTION 9(1)
BY: Stephan D. Bell
SECRETARY OF THE COMMISSION

4. Whereas, the Parties hereto desire to resolve their disputes, to end current legal and regulatory proceedings in which they are adverse, to enter into a new Water Contract to supersede and replace the Contract, and to achieve a resolution between the parties with respect to all such pending and threatened proceedings.

TERMS

In consideration of the premises and the mutual covenants contained in this Agreement, and intending to be legally bound, the Parties agree as follows:

1. Water Contract. At the Closing, Prestonsburg and Sandy Valley shall execute the Water Contract in the form attached to this Agreement as Exhibit "A."

2. Joint Motion. At the Closing, Sandy Valley shall cause its counsel to execute and deliver to counsel for Prestonsburg and the City the Joint Motion to Approve Water Contract and Dismiss Sandy Valley's Complaint in the form attached to this Agreement as Exhibit "B," which Joint Motion will urge the Public Service Commission to approve the Water Contract, which change as being in the public interest.

3. Closing. All action and deliveries required by the Parties under this Agreement shall take place simultaneously.

4. Sandy Valley Release.

(i) Sandy Valley, its successors, assigns, predecessors, subsidiaries, affiliates and related companies, their present and former employees, officials, commissioners, officers, agents and attorneys hereby fully and finally release and discharge Prestonsburg and the City, its commissioners, their personal representatives, agents and attorneys from any and all liabilities, obligations, causes of actions, suits, debts, covenants, employment agreements, contracts,

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: Stephan D. Bell
SECRETARY OF THE COMMISSION

controversies, agreements, warranties, representations, promises, damages, understandings, demands and claims of whatsoever kind and nature, known and unknown, now existing or hereafter arising, which Sandy Valley has or had or may have against them whether in law or in equity, (hereinafter collectively the "Claims"), relating to or arising out of the Contract or other transactions and claims that were or might have been made in the proceeding styled, Sandy Valley Water District v. City of Prestonsburg and Prestonsburg City's Utilities Commission, Case No. 96-361 before the Public Service Commission.

(ii) The parties acknowledge that this Release is given in compromise of a disputed claim.

(iii) This Release is unconditional and shall have immediate effect, and shall not be construed as an executory accord or as being subject to any further contingency whatsoever, other than the approval, without modification, by the Kentucky Public Service Commission of the Water Contract attached as Exhibit "A."

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
OCT 01 1997

5. Further Actions. At any time and from time to time, each party will, without further consideration, take any actions and execute and deliver any documents as the other party may reasonably request to effectuate the purposes of this Agreement.

PURSUANT TO 807 KAR 5:011,
SECTION 9(1)
BY: Stephan O Bell
SECRETARY OF THE COMMISSION

6. Entire Agreement; Amendment; Waiver. This Agreement, including the attached exhibits, sets forth the entire agreement of the parties with respect to the subject matter of this Agreement, supersedes all existing agreements between them concerning that subject matter, and may be modified or amended only by a written instrument signed by each party. Any party to this Agreement may in writing (i) extend the time for the performance of any obligations of any other party; (ii) waive performance of any obligations by any other party; (iii) waive any inaccuracies in

representations and warranties by the other party; and [iv] waive the fulfillment of any condition that is precedent to the performance by the party of any of its obligations under this Agreement. No such waiver will be deemed to be continuing or to apply to any other instance or to constitute the waiver of any other term or condition of this Agreement in that or any other instance. The failure of a party to insist upon strict compliance with any provision of this Agreement on one or more occasions will not be considered a waiver and will not prevent that party from insisting upon strict compliance with that provision or any other provision of this Agreement.

7. Settlement Payment.

i) Sandy Valley shall pay to Prestonsburg the sum of \$10,000 ("Payment"). without interest, on or before September 30, 2000, by 5:00 p.m. No penalty shall be charged or discount earned for early payment. Sandy Valley agrees, upon default, to pay all costs of collecting, securing or attempting to collect, or secure the Payment, including a reasonable attorney's fee, whether same be collected or secured by suit or otherwise, providing the collection of such costs and fees are permitted by applicable law. Further, if payment is late, interest shall accrue at the rate of twelve percent per annum on the unpaid portion beginning October 1, 2000.

The Payment to be paid hereunder represents a portion of Prestonsburg's billings to Sandy Valley which are unpaid and disputed by Sandy Valley.

ii) Should Prestonsburg make new, increased base wholesale water rates effective to Sandy Valley prior to October 1, 2000, the Payment (defined above) owed by Sandy Valley to Prestonsburg shall be waived.

iii) In addition to the foregoing, the Payment shall be subject to the Wholesale Payment Policy, including, but not limited to, termination of service for non-payment, as

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5011,
SECTION 9 (1)
BY: E. P. [Signature]
SECRETARY OF THE COMMISSION

described in paragraph 5 of the Water Contract effective as of October 1, 1997, which shall be incorporated into and made a part hereof as if fully set forth.

8. Prestonsburg's and the City's Release.

i) Prestonsburg and the City, its successors, assigns, predecessors, subsidiaries, affiliates and related companies, their present and former employees, officials, commissioners, officers, agents and attorneys hereby fully and finally release and discharge Sandy Valley its commissioners, their personal representatives, agents and attorneys from any and all liabilities, obligations, causes of actions, suits, debts, covenants, employment agreements, contracts, controversies, agreements, warranties, representations, promises, damages, understandings, demands and claims of whatsoever kind and nature, known and unknown, now existing or hereafter arising, which Prestonsburg and the City has or had or may have against them whether in law or in equity, (hereinafter collectively the "Claims"), relating to or arising out of the Contract or other transactions and claims that were or might have been made in the proceeding styled, Sandy Valley Water District v. City of Prestonsburg and Prestonsburg City's Utilities Commission. Case No. 96-361 before the Public Service Commission.

ii) The parties acknowledge that this Release is given in compromise of a disputed claim.

iii) This Release is unconditional and shall have immediate effect, and shall not be construed as an executory accord or as hereby subject to any further contingency or condition whatsoever except as follows:

a) Approval, without modification, by the Kentucky Public Service Commission of the Water Contract attached as Exhibit "A"; and

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)
BY: Stephan O. Bell
SECRETARY OF THE COMMISSION

b) The Release shall not be effective until Sandy Valley delivers the Payment or the required delivery of the Payment is waived, as the case may be.

9. Headings; Exhibits. The section headings contained in this Agreement are inserted solely as a matter of convenience and will not affect in any way the construction or interpretation of the terms of this Agreement. The exhibits attached to this Agreement are a part of this Agreement and are incorporated by reference in their entirety as if fully set forth in this Agreement at the point where first mentioned.

10. Governing Law. This Agreement was negotiated and executed in Kentucky, and will be governed by and construed in accordance with the laws of the Commonwealth of Kentucky.

11. Number; Gender. As used in this Agreement, unless the context clearly indicates otherwise, any singular number will include the plural, any plural number will include the singular, and any masculine personal pronoun will be construed to mean the corresponding feminine or neuter personal pronoun, or vice versa.

12. Severability. The invalidity, illegality or unenforceability of any provision of this Agreement shall not make the remaining provisions of this Agreement invalid, illegal or unenforceable.

13. Time of Essence. Time is of the essence to the performance of the obligations set forth in this Agreement.

14. Equitable Remedies. The parties agree that the failure of either party to perform its obligations under this Agreement would cause irreparable injury to the other party that could not adequately be compensated by money damages. The parties therefore agree that, in addition to any other right or remedy available to either party, each party shall be entitled, either before or after the

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

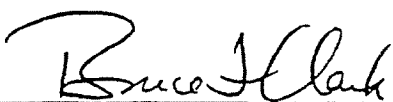
OCT 01 1997

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

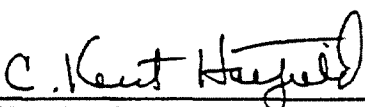
BY: Stephan O. Bell
SECRETARY OF THE COMMISSION

consummation of the transactions contemplated by this Agreement, to an injunction restraining any breach or threatened breach of this Agreement and to specific performance of any provision of this Agreement.

IN WITNESS WHEREOF, the Parties and their counsel have executed this Agreement effective on the date first written above.



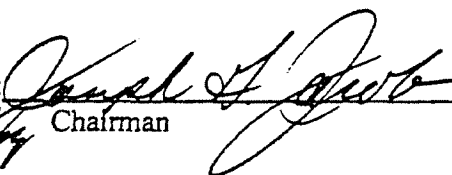
Bruce F. Clark
Jason P. Thomas
STITES & HARBISON
421 West Main Street
P.O. Box 634
Frankfort, Kentucky 40602-0634
(502) 223-3477
Counsel for Sandy Valley Water District



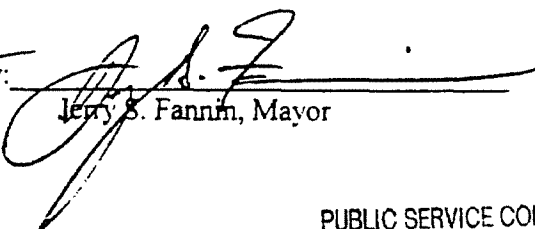
C. Kent Hatfield
MIDDLETON & REUTLINGER
2500 Brown & Williamson Tower
Louisville, Kentucky 40202
(502) 584-1135
Counsel for Prestonsburg City's Utilities
Commission and Special Counsel for City
of Prestonsburg, Kentucky

SANDY VALLEY WATER DISTRICT

CITY OF PRESTONSBURG, KENTUCKY

By: 

Chairman

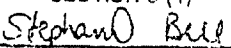
By: 

Jerry S. Fannin, Mayor

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

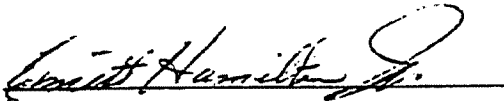
PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

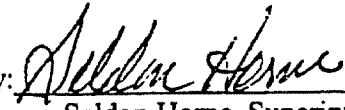
BY: 

SECRETARY OF THE COMMISSION

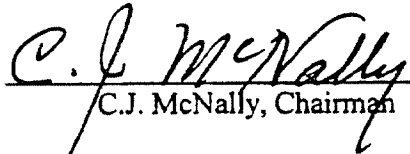
ATTEST:

PRESTONSBURG CITY'S UTILITIES
COMMISSION


Secretary

By: 
Seldon Horne, Superintendent

Attest:


C.J. McNally, Chairman

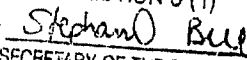
EXHIBITS

- A - Water Contract
- B - Joint Motion to Approve Water Contract and Dismiss Sandy Valley's Complaint

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE

OCT 01 1997

PURSUANT TO 807 KAR 5:011,
SECTION 9 (1)

BY: 
STEPHAN D. BEE
SECRETARY OF THE COMMISSION