

FRANCHISE AGREEMENT

THIS AGREEMENT made and entered into this 21 day of January, 2016, by and between the **LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT**, an urban county government of the Commonwealth of Kentucky pursuant to Chapter 67A of the Kentucky Revised Statutes (hereinafter "Lexington"), 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 230 Richmond Road, Lexington, Kentucky 40502 (hereinafter "KAWC").

WITNESSETH:

WHEREAS, by Ordinance No. 144-2015 (the "Ordinance"), enacted December 8, 2015, Lexington created a franchise for the privilege of constructing, erecting, laying, relaying, replacing, operating and maintaining a waterworks system within the public rights-of-way in Fayette County, Kentucky; and

WHEREAS, pursuant to the Ordinance Lexington authorized the advertising for bids on said franchise and KAWC submitted a timely bid to acquire said franchise; and

WHEREAS, by Resolution No. 021-2016, enacted January 21, 2016, Lexington accepted the bid of KAWC as substantially responsive to the Ordinance and in the best interest of the citizens of Lexington-Fayette Urban County; and

WHEREAS, Lexington and KAWC have agreed to accept the following as the terms of this Agreement and as those of the franchise.

NOW THEREFORE, for and in consideration of the mutual covenants and agreements contained herein the receipt and sufficiency of all of which are hereby acknowledged, Lexington and KAWC agree as follows:

1. Lexington-Fayette Urban County Ordinance No. 144-2015, which is attached hereto as Exhibit "A" (the "Ordinance"), is incorporated herein by reference in its entirety and shall apply as if fully set forth herein.

2. The bid of KAWC for this franchise, which is attached hereto as Exhibit "B", is incorporated herein by reference in its entirety and shall apply as if fully set forth herein.

3. Lexington hereby grants unto KAWC a non-exclusive franchise for the privilege of constructing, erecting, laying, relaying, replacing, operating and maintaining a waterworks system upon, through, along, under and over the public streets, alleys, avenues, public roads, highways, sidewalks, and other public ways of the Lexington-Fayette Urban County Government in accordance with the terms of the Ordinance.

4. This Agreement shall commence on [Date], and shall expire as provided in the terms and provisions of the Ordinance.

5. In consideration of the granting of this franchise, KAWC agrees to pay to Lexington a sum equal to three percent (3%) of the gross annual revenues received by KAWC as the term "Gross Revenues" is defined in the Ordinance at Section 19(b) until such time as the fee may be increased by the Urban County Council pursuant to the terms and provisions of the Ordinance.

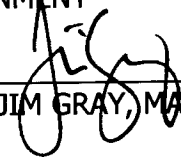
6. KAWC, its successors and assigns, in consideration of the grant, sale and conveyance of the above franchise, does hereby bind itself, its successors and assigns, to faithfully and fully perform each and every condition of said franchise as contained in this Agreement, and further to faithfully perform all acts required of it as the purchaser of said franchise.

7. This Agreement contains and embodies the entire agreement between the parties and shall be binding upon and inure to the benefit of the respective successors in

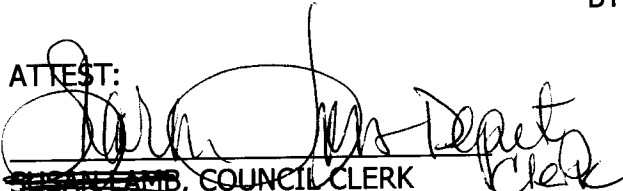
interest to the parties hereto. No changes, modifications or other deletions in this Agreement shall be effective unless and until the same are reduced to writing and approved, adopted, and executed in the same fashion as this Agreement.

IN TESTIMONY WHEREOF, the Lexington-Fayette Urban County Government has caused its name to be affixed hereto by the Mayor and Kentucky American Water Company, has caused its name to be affixed hereto by Nick O. Rowe, its properly authorized officer.

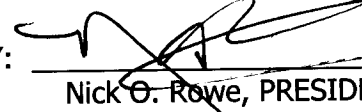
LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT

BY: 
JIM GRAY, MAYOR

ATTEST:


~~SUSAN LAMB~~, COUNCIL CLERK

KENTUCKY AMERICAN WATER COMPANY

BY: 
Nick O. Rowe, PRESIDENT

STATE OF KENTUCKY)
)
COUNTY OF FAYETTE)

The foregoing Agreement was subscribed, sworn to and acknowledged before me by Nick O. Rowe, as President of Kentucky American Water Company on this the 14th day of January, 2016.

My commission expires: 10/3/2016

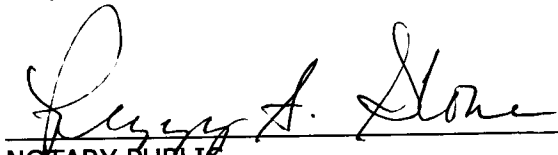

NOTARY PUBLIC
KENTUCKY, STATE-AT-LARGE

EXHIBIT A

ORDINANCE NO. 144 -2015

AN ORDINANCE CREATING AND ESTABLISHING FOR BID A NON-EXCLUSIVE WATER FRANCHISE AND PRIVILEGE TO CONSTRUCT, ERECT, LAY, RELAY, REPLACE, OPERATE AND MAINTAIN A WATERWORKS SYSTEM WITHIN THE PUBLIC RIGHTS-OF-WAY FOR AN INITIAL PERIOD OF FIVE YEARS WITH UP TO TWO RENEWAL PERIODS OF FIVE YEARS EACH; IN RETURN FOR PAYMENT TO THE URBAN COUNTY GOVERNMENT OF THE SUM OF AT LEAST THREE PERCENT (3%) OF EACH FRANCHISEE'S GROSS ANNUAL REVENUES RECEIVED FROM THE SERVICES PROVIDED WITHIN FAYETTE COUNTY, WITH THE ABILITY TO BE RAISED TO FIVE PERCENT (5%); AND FURTHER PROVIDING FOR COMPLIANCE WITH RELEVANT LAWS, REGULATIONS AND STANDARDS; A PERFORMANCE BOND; INDEMNIFICATION; INSURANCE; ACCESS TO PROPERTY AND INSPECTIONS; REPORTING; AUDITS; NOTICE OF FILINGS WITH THE PUBLIC SERVICE COMMISSION; CANCELLATION OR TERMINATION; PENALTIES FOR VIOLATIONS; AND BID REQUIREMENTS; ALL EFFECTIVE ON DATE OF PASSAGE.

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

Section 1 - There is hereby created a non-exclusive franchise to construct, erect, lay, relay, replace, operate and maintain a waterworks system, 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, streets, avenues and roads of the Lexington-Fayette Urban County Government (hereinafter, the "Rights-of-way") 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, subject to all the provisions of this Ordinance and any franchise agreement entered into pursuant to the terms of this Ordinance. This Ordinance does not excuse the franchisee from complying with any and all existing and future local laws and ordinances, as may be amended, including but not limited to the terms and provisions of Chapters 17, 17B, and 17C of the Code of Ordinances, Lexington-Fayette Urban County Government (the "Code"), and any applicable provisions of its zoning ordinance as may be amended (the "Zoning Ordinance"), which are incorporated herein by reference, and shall apply as if fully set forth herein to the extent that there is no express conflict with the terms or provisions of this Ordinance.

Section 2 - The person, firm or corporation that shall become the purchaser of said franchise, or any successor or assignee of such person, shall hereinafter be referred to as the "Company". The Lexington-Fayette Urban County Government shall hereinafter be referred to as "Lexington", or the "Government". The legislative body of Lexington is known in the Code as the Urban County Council and shall be referred to herein as the "Council." Unless otherwise defined herein, the applicable definitions and terminology contained in the provisions of the Code and/or the Zoning Ordinances shall apply.

Section 3 - The Company acquiring this franchise shall have the right and privilege of laying, maintaining and operating 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, now existing or hereafter installed, in the operation of a waterworks system, in, along and under the Rights-of-way within the corporate boundaries of Lexington as such boundaries now exist or may hereafter be extended (referred to herein as "System" or "Facilities"); subject to the provisions hereof and to all powers (including police power) inherent in, conferred upon, or reserved to Lexington, including but not limited to those contained in the Code.

Section 4 - In the operation of its System as it relates to the rights conferred by this franchise, the Company shall conform to at least the minimum standards or requirements contained in federal or state law or regulation related to the operation of a waterworks system. The quality of water to be furnished by the Company and the operating conditions affecting its quality shall be in accordance with the Safe Drinking Water Act, 42 U.S.C. §300f *et seq.* and the requirements and regulations of (i) the United States Environmental Protection Agency or any legally constituted federal body designated as its successor in jurisdiction, (ii) the Kentucky Natural Resources and Environmental Protection Cabinet, Division of Water or any legally constituted state body designated as its successor in jurisdiction, and (iii) the Public Service Commission or any legally constituted state body designated its successor in jurisdiction. The conditions and requirements of service to the inhabitants of Lexington and the rates to be charged by the Company for such service shall be in accordance with the lawful rules, regulations and orders of the Public Service Commission or its successor. In

addition to complying with all of the requirements contained in federal or state law or regulation, and the Code (as may be amended), the Company agrees that:

(a) All working facilities and conditions used during construction, installation and maintenance of Facilities under this franchise shall comply with the standards of the Occupational Safety and Health Administration;

(b) It shall construct and operate the System and Facilities under this franchise in accordance with all generally accepted related industry codes and standards;

(c) All materials, equipment and Facilities used or installed under this franchise shall be of good quality and in compliance with industry standards. In case of any defect in the work, materials or equipment, whether latent or patent, the Company will forthwith remedy such defects without cost to Lexington as soon as practicable under the circumstances or as otherwise provided under the Code; and

(d) In the construction or reconstruction or maintenance or removal of any of said Facilities, the Company shall have due regard for the rights of Lexington and others, and shall not interfere with, or in any way injure the property of Lexington or others lawfully under, on, or above the Rights-of-way. The Company shall comply with all the laws of the Commonwealth of Kentucky and the Code 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 the Code and laws. Work by the Company hereunder shall be done in a workmanlike manner and so as not to unnecessarily interfere with public use of the Rights-of-way.

Section 5 – The Company shall comply with all of the requirements of the Code and Zoning Ordinance pertaining to government or public construction and/or work in Rights-of-way, specifically including Section 17C of the Code, as it may be amended in the future.

Section 6 – In addition to any performance bond(s) required pursuant to Section 17C-23 of the Code, the Company may be required to provide a performance guarantee for significant projects with construction costs of one hundred thousand dollars (\$100,000) or more involving the Rights-of-way. This performance guarantee shall be set in an amount and duration to be determined by the Chief Administrative Officer of Lexington or his or her designee upon discussing and verifying the scope of such a

project with the Company. The performance guarantee shall be in favor of Lexington to be issued by an entity subject to jurisdiction and venue in Fayette County, Kentucky. In no event shall Lexington require the total cumulative amount of such performance guarantee to exceed two hundred thousand dollars (\$200,000), unless otherwise provided in this Ordinance or by law.

Section 7 – As consideration for the granting of this franchise, the Company agrees to defend, indemnify, and hold harmless Lexington and its officials, boards, members, agents and employees (“Lexington Indemnitees”), consistent with the indemnification and hold harmless provisions as set forth in Section 17C-17 of the Code, as it may be amended in the future. The obligation to defend, indemnify, and hold harmless does not include defending, indemnifying, and holding harmless the Lexington Indemnitees for their own negligent acts. The Company shall not unreasonably or 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.

Section 8 - The Company shall comply with all applicable federal, state or local non-discrimination and affirmative action requirements of any laws, regulations and executive directives, and shall not discriminate in its employment practices against any employee or applicant for employment because of race, color, religion, national origin, sex, age or physical handicap.

Section 9 - The Company shall maintain in full force and effect a commercial general liability insurance policy consistent with the insurance provisions set forth in Section 17C-16 of the Code, as it may be amended in the future.

Section 10 – (a) Lexington, through its Mayor or his or her designee, or through such assistants as Lexington may employ or designate, may, at all reasonable times and under reasonable conditions with prior notice, have access to all or any of the property located within the Rights-of-way owned or used in part or in whole by the Company in its operating and maintaining the System under this franchise. In like manner, Lexington's above-mentioned officers and assistants may at all reasonable times and under reasonable conditions with prior notice, inspect, and subject to reasonable confidentiality measures requested by the Company, examine or verify all or any of the accounts,

books, records, contracts, documents or papers of the Company relating to Gross Revenues in order to audit and recompute any amounts determined to be payable under this Ordinance consistent with the provisions of Section 20(b) of this Ordinance. In the event that Lexington determines that it desires an audit of this franchise, the Company agrees to comply with all reasonable requests of Lexington pertaining to obtaining any necessary information or documentation from the Company reasonably necessary to the administration of this franchise, subject to reasonable confidentiality measures requested by the Company.

(b) The Company agrees further to furnish the Mayor or his designee timely written notice of its filing an application with the Public Service Commission for an increase in general rates or change in its billing practices concurrently with said filing. Should Lexington choose to intervene in the Commission action, the Company shall not oppose such intervention, and Lexington shall be given access to records related to said application, as required by the Commission.

(c) The Company agrees to provide Lexington and the Council with information pertaining to its provision of services pursuant to this franchise upon reasonable request. This shall include, but is not necessarily limited to, attending official public meeting(s) at which some or all the Councilmembers are in attendance (in order to provide such information upon reasonable advance notice) and providing an annual update to the Council upon its request.

Section 11 - (a) The franchise hereby created shall be for an initial period of five (5) years from the date of acceptance by the Council.

(b) This franchise may be renewed for up to two (2) additional terms not to exceed five (5) years each upon the request of the Company and the approval of the request by the Council. The request shall be made in writing to Lexington's Mayor and Vice-Mayor at least one hundred eighty (180) days, but no earlier than one (1) year, in advance of the termination date of the Company's franchise agreement. The ultimate decision of whether to grant an additional franchise term shall solely be that of the Government.

(c) In addition, the term of the franchise may be extended up to twelve (12) months by agreement of the parties in order to provide for the good faith negotiation of a new franchise.

(d) This franchise is not exclusive, and the Government reserves the right to grant similar franchises to more than one Company. All franchises awarded pursuant to this Ordinance are intended to terminate at the same time. Therefore any other Company awarded a franchise pursuant to this Ordinance shall only be awarded a franchise that is equal in duration to the remaining term of the initial franchise(s).

(e) This franchise creates no vested rights in the Company and any installation or emplacement of Facilities by the Company in the Rights-of-way is at the Company's risk. If the Company is not granted a new or extended franchise upon the expiration of the term for which the franchise is granted, or if the Company's franchise is terminated or cancelled, as provided for herein, Lexington shall have the right to require the Company to remove at its own expense all portions of the System from all Rights-of-way within the confines of Fayette County. The Company shall be provided a reasonable time within which to remove its facilities.

(f) No assignment of this franchise or the System subject to this franchise shall take place without at least sixty (60) days' advance written notice to Lexington, and consent by Lexington, which consent shall not be unreasonably withheld. In the event that such an assignment is subject to the jurisdiction of the Public Service Commission, the Company agrees not to object to Lexington's intervention in any action before the Public Service Commission on this subject.

(g) The Company shall not object to Lexington's intervention in any action before the Public Service Commission involving the transfer of control of the Company.

Section 12 - (a) If, after the Company is provided the opportunity to appear and present evidence before Lexington's Chief Administrative Officer or his or her designee, Lexington determines that the Company has violated any of the following provisions of this Ordinance, the following penalties shall be recoverable. The above determination by the Chief Administrative Officer or his or her designee shall be in writing and provide the basis for the decision. Such determination shall be the final administrative decision and may be appealed to a court of competent jurisdiction.

(1) For the failure to complete any construction project contracted to be finished by no later than the ending term of any franchise awarded pursuant to this Ordinance or any extension of that franchise and it is not completed by that time, Lexington shall have the right, upon ten (10) days' notice to the Company, to impose a penalty of five hundred dollars (\$500.00) per day or part thereof that the violation continues; in lieu of a penalty, the Company may post a performance bond, letter of credit or other surety acceptable to Lexington in an amount sufficient to complete such construction projects. This Section shall not apply to any projects for which performance bonds or other surety is already pledged.

(2) For failure to provide data and reports requested by Lexington and as required by this Ordinance the Company shall forfeit one hundred dollars (\$100.00) per day or part thereof that the violation continues.

(3) For failure to pay the franchise fee when due pursuant to Section 19 of this Ordinance, or any itemized bill presented by Lexington pursuant to Section 5 of this Ordinance or this Section, the Company shall forfeit one hundred dollars (\$100.00) per day or part thereof that the violation continues. However, this provision shall not apply if interest is assessed by Lexington pursuant to Section 20(c).

(b) If the Company fails to comply within thirty (30) days of any Council resolution directing compliance with any other provisions of this Ordinance, the Company shall forfeit one hundred dollars (\$100.00) per day or part thereof that the violation continues. The decision of the Council may be appealed to a court of competent jurisdiction.

(c) The Company shall not be excused from complying with any of the terms and conditions of this Ordinance by any failure of Lexington, upon any one or more occasions, to insist upon the Company's performance or to seek the Company's compliance with any one or more of such terms or conditions. Payment of penalties shall not excuse non-performance under this Ordinance. The right of Lexington to seek and collect penalties as set forth in this Section is in addition to its right to terminate and cancel as set forth in Section 14 of this Ordinance.

Section 13 – The Company shall make all reasonable efforts to prevent interruptions of service in Fayette County and when such interruptions occur shall

endeavor to reestablish service with the shortest possible delay consistent with the safety of its customers, employees, and the general public. The Company shall continue to maintain its Kentucky corporate headquarters in Lexington, Fayette County, Kentucky, and agrees that it shall be staffed, at a minimum, with appropriate decision-making personnel for operations at the local level, which shall include, but not be limited to, the acceptance of payments, receipt of customer complaints, response to emergencies, and the general provisions of customer service.

Section 14 - (a) In addition to all other rights and powers pertaining to Lexington by virtue of the franchise or otherwise, Lexington, by and through the Council, reserves the right to terminate and cancel any franchise awarded pursuant to this Ordinance and all rights and privileges of the Company hereunder in the event that the Company:

(1) Willfully violates any material provision of the franchise or any material rule, order, or determination of Lexington made pursuant to the franchise, except where such violation is without fault or through excusable neglect or due to a force majeure;

(2) Willfully attempts to evade any material provision of the franchise or practices any fraud or deceit upon Lexington;

(3) Knowingly makes a material misrepresentation of any fact in the application, proposal for renewal, or negotiation of the franchise; or

(4) Fails to begin service restoration following seventy-two (72) consecutive hours of an interruption in service, except when approval of such interruption is obtained from Lexington. Such approval shall not be unreasonably withheld. In cases of force majeure or acts beyond the Company's control, approval shall be granted. Upon request, the Company shall provide daily restoration status reports.

(b) Prior to attempting to terminate or cancel this franchise pursuant to this Section, the Mayor or his designee, or the Council shall make a written demand that the Company do or comply with any such provision, rule, order or determination. If a violation described in Section 14(a) continues for a period of thirty (30) days following such written demand without written proof that the corrective action has been taken or is being actively and expeditiously pursued, Lexington may place its request for termination of the franchise as early as the next regular Council meeting agenda. Lexington shall cause to be served upon Company, at least ten (10) days prior to the date of such Council

meeting, a written notice of intent to request such termination and the time and place of the meeting, legal notice of which shall be published in accordance with any applicable laws.

(c) If a violation described in Section 14(a) of this Ordinance continues for a period of thirty (30) days following such written demand without written proof that the corrective action has been taken or is being actively and expeditiously pursued, Lexington may place its request for termination of the franchise as early as the next regular Council meeting agenda. The Government shall cause to be served upon the Company, at least ten (10) days prior to the date of such Council meeting, a written notice of intent to request such termination and the time and place of the meeting, legal notice of which shall be in accordance with any applicable laws.

(1) The Council shall consider the request of the Government and shall hear any person interested therein, and shall determine in its reasonable discretion, whether or not any alleged violation by the Company occurred or was with just cause.

(2) If such violation by the Company is found to have been with just cause, the Council shall direct the Company to comply therewith within such time and manner and upon such terms and conditions as are just and reasonable.

(3) If the Council determines such violation by the Company was without just cause, then the Council may, by resolution or ordinance, declare that the franchise of the Company shall be terminated and forfeited unless there is compliance by the Company within such period as the Council may fix.

Section 15 - The Company shall provide Lexington at least sixty (60) days' advance written notice of the foreclosure or other judicial sale of all or a substantial part of the Company's Facilities, or upon the termination of any lease covering all or a substantial part of its Facilities, and such notification shall be treated as a notification that an assignment of the franchise has taken place, and the provisions of Section 11 of this Ordinance, governing the consent of the Council to such assignment, shall apply.

Section 16 – (a) Lexington shall have the right to cancel this franchise within thirty (30) days after the appointment of a receiver, or trustee, to take over and conduct the business of the Company, whether in receivership, reorganization, bankruptcy, or other

action or proceeding, unless such receivership or trusteeship shall have been vacated prior to the expiration of said thirty (30) days, unless:

(1) Within thirty (30) days after his or her appointment, such receiver or trustee shall have fully complied with all the provisions of this Ordinance and remedied all defaults thereunder; and,

(2) Such receiver or trustee, within said thirty (30) days shall have executed an agreement, duly approved by the court having jurisdiction in the premises, whereby such receiver or trustee assumes and agrees to be bound by each and every provision of this Ordinance and the franchise granted to the Company.

(b) The Company shall have the right to cancel this franchise upon any act of bankruptcy, receivership, reorganization, application for the appointment of a receiver, or any other initiation of insolvency proceedings on behalf of, or against, Lexington. Notwithstanding the foregoing, and subject to an order of an appointed trustee or receiver, Lexington does not waive the ability to claim that the Company is still required to pay Lexington a franchise fee in order to maintain its System or Facilities in the Rights-of-way.

Section 17 - It shall be the duty of the Mayor or his or her designee as soon as practicable after the passage of this Ordinance to offer for sale at public auction said franchise and privilege. In the event that additional interested bidders are identified or express an interest in obtaining a franchise after this initial offering, the additional offering and advertisement to accommodate such bidders is hereby authorized. Said franchise and privilege shall be sold to the highest and best bidder or bidders at a time and place fixed by the Mayor after he or she has given due notice thereof by advertisement or publication as required by law.

Section 18 - Bids and proposals for the purchase and acquisition of the franchise and privileges hereby created shall be in writing and shall be delivered to the Mayor or his designee upon the date and at the time fixed by him or her in said publication or advertisement for receiving same. Thereafter, the Mayor shall report and submit to the Council, at the time of its next regular meeting or as soon as practicable thereafter, said bids and proposals for its approval. The Council reserves the right, for and on behalf of Lexington, to reject any and all bids for said franchise and privileges; and, in case the bids

reported by the Mayor shall be rejected by the Council, it may direct, by resolution or ordinance, said franchise and privilege to be again offered for sale, from time to time, until a satisfactory bid therefore shall be received and approved.

(a) Each bid shall be accompanied by a nonrefundable payment to Lexington in the amount of five hundred dollars (\$500.00) to cover its cost of advertising and other administrative expenses incurred.

(b) In addition, any bid submitted by an entity or person not already owning within the territorial limits of Fayette County a plant, equipment, and/or Facilities sufficient to render the service required by this Ordinance must be accompanied by cash or a certified check drawn on a bank of the Commonwealth of Kentucky, or a national bank, equal to five percent (5%) of the fair estimated cost of the system required to render the service, which check or cash shall be forfeited to the Government in case the bid should be accepted and the bidder should fail, for thirty (30) days after the confirmation of the sale, to pay the price and to give a good and sufficient bond in a sum equal to one-fourth (1/4) of the fair estimated cost of the system to be erected, conditioned that it shall be enforceable in case the purchaser should fail, within sixty (60) days, to establish and begin rendering the service in the manner set forth in this Ordinance. Bids shall include such documentation as is necessary to support the bidder's determination of the fair estimated cost of the system required to render the service. Lexington reserves the right to review any of bidder's supporting documentation which justifies bidder's determination of said estimated cost.

Section 19 - (a) In consideration for the granting of the franchise the Company agrees to pay the franchise fee as provided herein which shall automatically be established in an amount of three percent (3%) of the "Gross Revenues" as defined herein. Lexington reserves the right at any time, and upon reasonable notice, during the effective period of the franchise to be awarded hereby to impose upon the Company a franchise fee in an amount not to exceed five percent (5%), inclusive of the permitting fees provided in subsection 19(c), below, of the Gross Revenues as defined herein. At a minimum, the franchise fee is intended to apply to Gross Revenues received by the Company for water services provided within Fayette County which include the franchise fee as part of the tariff filed with the Public Service Commission as of the date of the

adoption of this Ordinance, and the Company expressly agrees that it will continue to pay franchise fees on the Gross Revenues derived from these services for the duration of this franchise. The Company will also assess and pay the franchise fee on any Gross Revenues from revised, amended, or additional tariffs (except for nonrecurring charges in Fayette County) unless Lexington specifically indicates that it does not want the fee to apply, and subject to any necessary approval by the Public Service Commission. Calculations of amounts payable hereunder and payments shall commence with the first billing period following tariff approval by the Public Service Commission. The Company is otherwise required to continue submitting payments to Lexington under the terms of its existing tariff and/or franchise until such time as this tariff approval is obtained.

(b) "Gross Revenues," for purposes of this Ordinance, shall include all revenues received from customers in Fayette County 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.

(c) Pursuant to Section 17C-22 of the Code, as it may be amended in the future, the Company is also required to pay Lexington an additional amount intended to adequately compensate Lexington for its permitting and inspection of the Company's construction activities in the Rights-of-way. This amount is to be paid separately to Lexington at the time and under the terms as set forth in Chapter 17C of the Code. These permitting fees shall be in addition to the above franchise fee. These permitting fees may be calculated as an appropriate percentage of Gross Revenues at the option of the Company and remitted to Lexington quarterly. Notwithstanding the foregoing, the Company may elect to pay for its permit fees upon application for each respective permit upon approval of the person specified in Chapter 17C of the Code. These permitting fees are subject to change during the term of the franchise based upon an audit of the actual cost of permitting for Lexington, or a change in the amount of the respective permitting fees found in Section 17C-22 of the Code. In the event of such a change, the Company shall be provided at least sixty (60) days' advance written notice.

(d) No later than ten (10) working days after final acceptance of its bid by Lexington, or any subsequent notification of any change in the amount of the fees in this Section 19, the Company shall file an application or tariff with the Kentucky Public Service Commission to provide for prompt and satisfactory cost recovery of the amount(s) payable under this Ordinance and any franchise awarded pursuant to its terms for any amounts for which it desires recovery. The Company shall provide Lexington with copies of any tariffs it files with the Kentucky Public Service Commission related to the franchise in order to satisfy the obligations created herein. The Company is otherwise required to continue submitting payments to the Government under the terms of its existing tariff(s) and/or franchise until such time as any necessary approvals are obtained.

(e) If, after a period of sixty (60) days from the filing of the Company's above application, the Kentucky Public Service Commission shall have made no final determination concerning the prompt and satisfactory recovery of amounts payable by the Company under this Section of the Ordinance, then the Company's obligation to pay the amount specified in Section 19(a) of this Ordinance shall be suspended, provided the Company shall first give Lexington ten (10) days written notice of its intention to suspend payment pending the decision of the said Commission. In the event of suspension of the Company's obligation as herein provided, Lexington shall have the option to terminate this franchise within thirty (30) days of receipt of said written notification from the Company. Notwithstanding the above, any Company that had a previously existing franchise with Lexington shall continue to pay the fees established pursuant to its previous franchise.

Section 20 - (a) Payment of any amount due under this Ordinance shall be made monthly, within thirty (30) days of the end of the preceding calendar month. Upon request, and provided the Company has the capability to do so without additional cost, the Company shall deposit such payments electronically to an account specified by Lexington. In the event of suspension of the Company's obligation pursuant to Section 19(e) herein, said suspension shall not have application to any amount due hereunder for the preceding calendar month, and the gross income received by the Company during any such suspension period shall be excluded from the Company's annual Gross Revenues for the purpose of calculating amounts due under Section 19 (a) herein.

(b) No acceptance of any franchise fee payment by Lexington shall be construed as an accord and satisfaction that the amount paid is in fact the correct amount nor shall acceptance be deemed a release to any claim Lexington may have for future or additional sums pursuant to this Ordinance. Lexington shall have the right to inspect the Company's income, financial, and records relating to Gross Revenues in order to audit, and to re-compute any amounts determined to be payable under this Ordinance. The Company shall respond to a reasonable request for information related to obtaining audit information within ten (10) business days unless agreed otherwise by the parties. This provision shall survive the term of any franchise agreement awarded pursuant to this Ordinance for a period of one (1) year. Any additional amount due to Lexington as a result of the audit shall be paid within ten (10) days following written notice to the Company by Lexington which notice shall include a copy of the audit report. If as a result of such audit or review Lexington determines that the Company has underpaid its franchise fee by five percent (5%) or more for any six (6) month period then in addition to making full payment of the relevant obligation it shall reimburse Lexington for all of the reasonable costs associated with the audit or review. If such audit or review is performed in connection with the granting of a new franchise, and extension of the terms of this franchise, a sale or transfer of control of the Company, or a substantive modification of the terms to, or an assignment of this franchise, the Company shall reimburse Lexington for all of the reasonable costs associated with the audit or review including all out-of-pocket costs for attorneys, accountants and other consultants.

(c) 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 eight percent (8%). Overpayments discovered by Lexington or the Company shall be an adjustment on the next monthly payment at an annual rate of interest of eight percent (8%).

(d) With respect to its billing of Lexington, the Company agrees to the following:

(1) Work with Lexington, without legal obligation, to improve electronic data sharing of billing information;

(2) Provide a monthly excel spreadsheet sent electronically that shall contain the account number, address, billing month, consumption volume and total cost of service for each account billed to Lexington.

(3) Upon request, an explanation of any and all billing adjustments or credits including the account(s) impacted and any and all late payments.

Section 21 – Bids offered for purchase of this franchise shall state the bidder's acceptance of the conditions set forth in this Ordinance. If any bid shall include an offer of payment over and above the terms of the franchise, then a certified check for said amount, payable to the Lexington-Fayette Urban County Government, shall be deposited with the Government. This amount shall be in addition to the provision for payments contained in Sections 19 and 20 of this Ordinance, which shall be considered as a condition of this franchise. Any check deposited by an unsuccessful bidder shall be returned when the Council shall have accepted the bid or bids, which in its judgment is or are the highest and best.

Section 22 – Any violation by the Company, its vendee, lessee, or successor of the provisions of this franchise or any material portions thereof, or the failure promptly to perform any of the provisions thereof, shall be cause for the forfeiture of any franchise awarded pursuant to this Ordinance and all rights hereunder after written notice to the Company and continuation of such violations, failure or default, as set forth in Section 14 of this Ordinance.

Section 23 – This Ordinance and any franchise awarded pursuant to it shall be governed by the laws of the Commonwealth of Kentucky, both as to interpretation and performance. The venue for any litigation related to this Ordinance or a franchise shall be in the court of competent jurisdiction in Fayette County, Kentucky.

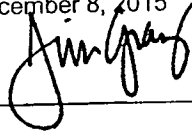
Section 24 - This Ordinance and any franchise awarded pursuant to it does not create a contractual relationship with or right of action in favor of a third party against either Lexington or the Company.

Section 25 - If any section, sentence, clause or phrase of the Ordinance is held unconstitutional or otherwise invalid, such infirmity shall not affect the validity of the remaining Ordinance.

Section 26 - The franchise created by this Ordinance shall become effective when the Council accepts the bid(s) for it.

Section 27 - This Ordinance shall become effective on the date of its passage.

PASSED URBAN COUNTY COUNCIL: December 8, 2015



MAYOR

ATTEST:


CLERK OF URBAN COUNTY COUNCIL

PUBLISHED: December 17, 2015

EXHIBIT B



2300 Richmond Road

P 859.268.6333

Lexington, KY 40502

F 859.268.6327

www.kentuckyamwater.com

VIA HAND DELIVERY

December 18, 2015

Lexington-Fayette Urban County Government
Division of Central Purchasing
200 East Main Street
Room 338
Lexington, KY 40507

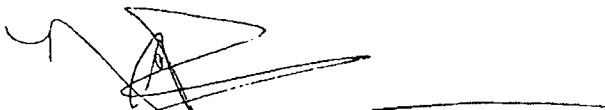
To Whom It May Concern:

In response to the Lexington-Fayette Urban County Government's offer of a water franchise, Kentucky-American Water Company ("KAW") hereby submits its bid and the enclosed check for \$500.00 for the franchise advertised in the December 14, 2015 edition of the Lexington Herald-Leader. As indicated in that legal advertisement, this bid is in response to Invitation to Bid No. 192-2015 and as described in Ordinance No. 144-2015.

Please be advised that KAW has received the required 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 look forward to hearing back from you.

Sincerely,



Nick O. Rowe
President



Check No. 1200009505
Check Date. 12/14/2015

American Water

PO Box 5600
Cherry Hill, NJ 08034
Invoice No Remarks

Invoice amount	Cash Disc	Net Paid
500.00	0.00	500.00
500.00	0.00	500.00

121415 Franchise Ordinance from LFUCG

Accu-Seal Patent 5,785,242 - 5,829,670

114304 LEXINGTON FAYETTE URBAN COUNTY GOV

CHECK CONTAINS A VOID PANTOGRAPH, MICROPRINT BORDER, CHEMICAL REACTANTS AND A WATERMARK ON BACK - HOLD AT AN ANGLE TO VIEW

American Water

PO Box 5600
Cherry Hill, NJ 08034

PNC BANK, NA 55-277
NEW JERSEY 312

NO. 1200009505
DATE 12/14/2015

FIVE HUNDRED *****

*****500.00*
VOID AFTER 90 DAYS

PAY TO THE
ORDER OF:

LEXINGTON FAYETTE URBAN COUNTY GOV
PO Box 13057
Lexington KY 40512-3057



AUTHORIZED SIGNATURE

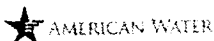


⑈ 1 200009505 ⑈ ⑆ 03 1 20 2770 ⑆ 80 1 3584806 ⑈

See Reverse Side For Easy Opening Instructions

American Water

PO Box 5600
Cherry Hill, NJ 08034



LEXINGTON FAYETTE URBAN COUNTY GOV
PO Box 13057
Lexington KY 40512-3057

Accounts for Business - 500-287-2850