

January 27, 2012

VIA HAND DELIVERY

Jane Driskell
Commissioner of Finance and Administration
Lexington-Fayette Urban County Government
200 East Main Street
Lexington, Kentucky 40507

RECEIVED

JAN 30

L.F.U.C.G.
Department of Law

Re: Billing and Collection Contracts

Dear Ms. Driskell:

I write to document the agreement Kentucky American Water ("KAW") has reached with the Lexington-Fayette Urban County Government ("LFUCG") to continue to provide billing and collection services for the LFUCG for sewer, landfill and storm water fees beyond March 31, 2012.

By way of background, KAW and the LFUCG entered into three separate contracts under which KAW has performed billing and collection services for certain services the LFUCG provides to its citizens. Specifically, by virtue of an October 4, 2007 contract between KAW and the LFUCG, the parties agreed that KAW would provide billing and collection services for sewer use fees the LFUCG charges to its citizens. Likewise, by a separate contract dated October 4, 2007, KAW has provided the same billing and collection services for landfill use fees the LFUCG charges to its citizenry. Finally, by contract dated July 7, 2009, the parties agreed that KAW would provide billing and collection services for storm water or "water quality management" fees that the LFUCG charges to its citizens.

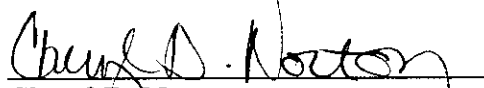
In the spring of 2011, KAW officials began to have discussions with LFUCG officials about the possibility of terminating the three contracts. In those discussions, KAW explained that, for various reasons, which included the expected sharp increases in price to the LFUCG of providing those services, it would be necessary to terminate the three contracts. During those discussions (which continued over the course of the summer of 2011), KAW consistently committed that it would not terminate the contracts in a manner that would leave the LFUCG in a compromised position. In fact, before KAW terminated the three contracts in writing by legal notices dated October 3, 2011, I wrote you on September 30, 2011 to inform you of KAW's willingness to help the LFUCG make the necessary transitions. I gave you my personal assurance that KAW would work collaboratively with the LFUCG to address any and all concerns before KAW's services under the contracts cease (the October 3, 2011 termination notices provided for a cessation date of March 31, 2012).

Recently, you and LFUCG Councilman Kevin Stinnett have informed me that the LFUCG has not been able to complete the steps necessary that would allow either the LFUCG or a third-party vendor it selects to perform the billing and collection services by March 31, 2012. Although that is both surprising and disappointing, the reasons for discontinuing these contractual relationships

continue to exist. KAW continues to believe that terminating those services will benefit the LFUCG, KAW and KAW's customers. LFUCG will gain more control over the collection of fees for landfill and storm water charges and KAW will be able to simplify its bills, both of which will benefit citizens and customers who pay their bills timely. Having said that, KAW remains firm in its commitment to help the LFUCG avoid being placed in a compromising position and it will take all reasonable steps to allow an orderly transition. Therefore, KAW is willing to continue to provide the services in question until August 31, 2012 (instead of March 31, 2012) on the same terms and conditions set forth in the above-referenced contracts. Please be advised the KAW cannot and will not provide the billing and collection services beyond August 31, 2012.

From a legal standpoint, the three contracts were terminated when KAW sent its October 3, 2011 notices providing an effective termination date of March 31, 2012. This letter documents the agreement KAW and the LFUCG have reached to amend each contract to extend the termination date of each contract to and including August 31, 2012. All other terms and conditions of the contracts shall prevail except to the extent those terms and conditions are inconsistent with the terms of this letter and/or amendments made to the contracts since they were executed. If this is acceptable to the LFUCG, please arrange for the execution called for below.

Of course, should you have any questions or concerns, please do not hesitate to contact me.


Cheryl D. Norton
President, Kentucky American Water

cc: Kevin Stinnett
Bill O'Mara

AGREED:

Lexington-Fayette Urban County Government

By: _____

Its: _____