

**AGREEMENT BETWEEN
INDIANA-AMERICAN WATER COMPANY, INC.
AND
THE DAMON RUN CONSERVANCY DISTRICT**

THIS AGREEMENT, is executed this 26th day of February, 2005 ("Effective Date"), by and between INDIANA-AMERICAN WATER COMPANY, INC. ("Indiana-American Water"), an Indiana corporation and public water utility under the jurisdiction of the Indiana Utility Regulatory Commission (IURC) and the DAMON RUN CONSERVANCY DISTRICT (DRCD), a governmental unit of Unincorporated Porter County, Indiana, and established pursuant to Porter Circuit Court Order under Cause No. 64C01-0307-MI-6142 and Indiana Code 14-33 et seq.

RECITALS

WHEREAS, the DRCD was established, pursuant to Indiana law, for a number of purposes including providing of a public water supply, for domestic, commercial, and industrial use pursuant to Porter Circuit Court Order entered January 26, 2004 under Cause No. 64C01-0307-MI-6142 and pursuant thereto, the DRCD is empowered to provide a public water supply to the property owners within the boundaries of the DRCD, and

WHEREAS, Indiana-American Water owns and operates a public water utility which has service lines adjacent to the DRCD and which has capacity for providing potable water to the DRCD and its customers; and

WHEREAS, the DRCD will let bids for the construction of a system of water lines, connections and other appurtenances ("Water Distribution System") to serve its property owners and potential water customers within the boundaries of the DRCD; and

WHEREAS, the DRCD and Indiana-American Water entered into a Water Supply Agreement on February ____, 2005 whereby Indiana-American Water agreed to be the source of water for the DRCD Water Distribution System; and

WHEREAS, Indiana-American Water and the DRCD are desirous of implementing the aforementioned Water Supply Agreement and adding thereto certain other agreements that have been reached between these parties; and

WHEREAS, the DRCD will be responsible for all costs of acquisition/construction of the Water Distribution System; which costs will be financed through the issuance of the DRCD bond anticipation notes, bonds, and/or other financing mechanisms chosen by the DRCD ("Financing" or ("Bonds")); and

WHEREAS, the Water Distribution System will be owned by the DRCD during the term of the aforementioned bond; and

WHEREAS, as set forth in this agreement, Indiana-American Water will provide water service to the DRCD and will operate and maintain the Water Distribution System on behalf of the DRCD;

NOW, THERETO, in consideration of the covenants and agreements herein contained, the DRCD and Indiana-American Water agree as follows;

Section 1. Construction of Water Distribution System

Section 1.1 Designs and Construction of the Water Distribution System

The DRCD, at its sole cost, shall provide or obtain engineering and design services, inspection services, equipment, labor and materials, and all other services necessary to design and construct the Water Distribution System, per Indiana-American Water's standards and specifications. The proposed water main infrastructure shall be sized sufficiently to connect to and serve all properties within the DRCD. The DRCD shall connect the Water Distribution System in accordance with all applicable rules and regulations, with reasonable diligences, and in a manner consistent with good business and engineering practices and the availability of required equipment, labor and materials.

Section 1.2 Indiana-American Water's Review and Approval of Plans and Specifications

Prior to commencement of construction, all plans are to be submitted to Indiana-American Water for review and approval. Indiana-American Water shall have the right to refuse acceptance of any design which deviates from Indiana-American Water standards and specifications. Under no circumstances shall construction begin until the plans have been stamped for approval by Indiana-American Water.

Section 1.3 Indiana-American Water's Right to Inspect During Construction

The DRCD will provide or arrange for a professional engineer to perform periodic inspections of the Water Distribution System during construction. Indiana-American Water shall have the authority, at all reasonable times, to conduct periodic inspections of the Water Distribution System during construction. Indiana-American Water shall also have the right to stop construction, at any time, if the water main infrastructure is not being installed per Indiana-American Water standards and specifications. In the event that there is such an occurrence it will be the responsibility of the DRCD, including all costs incurred, to rectify the matters.

Section 1.4 Documentation Available to Indiana-American Water upon Completion of Construction

Upon completion of construction and acceptance of the Water Distribution System by the DRCD, the DRCD shall make the following documents available to Indiana-American Water for review and copying:

- (a) As-built drawings certified by the professional engineer, per Indiana-American Water's "As-built" standards and specifications;
- (b) Certification by the professional engineer of construction in compliance with the specifications; and
- (c) Copies of all necessary recorded easements and permits

Section 1.5 Connection of the Water Distribution System to Facilities Owned and Maintained by Indiana-American Water.

Upon completion of construction, DRCD shall connect the Water Distribution System to mains and facilities owned and operated by Indiana American Water, in accordance with all applicable laws and regulations, in accordance with the plans and specifications and at the location(s) designated in the plans and specifications.

Section 1.6 Ownership of the Water Distribution System

The Water Distribution System shall be owned by the DRCD during the term of the Bonds; pursuant to Section 6. of this agreement, and as part of the mutual consideration for this agreement, Indiana-American Water shall operate, maintain, and repair the Water Distribution System at its own cost and expense. Once the Bonds for the Water Distribution System have been paid off by the DRCD, Indiana-American Water will have the option to buy the Water Distribution System. The DRCD shall convey title and transfer ownership of all the water

main infrastructure and appurtenances to Indiana-American Water for the sum of \$1.00. It will be the responsibility of the DRCD to notify Indiana-American Water that the Bonds have been paid off within 30 days of doing so and also transfer ownership.

Section 2. Use of the Water Distribution System

Section 2.1 Indiana-American Water's Right to Use the Water Distribution System

Subject to the requirements set forth in this Section, the DRCD grants to Indiana-American Water the exclusive right to use the Water Distribution System for purpose of transporting water through the Water Distribution System to serve customers of Indiana-American Water who are not property owners in the DRCD ("Other Customers"). Prior to using the Water Distribution System to transport water to serve Other Customers, Indiana-American Water shall:

- (a) Give the DRCD as least thirty (30) days notice; and
- (b) Upon request of the DRCD, attend a public meeting of the Board of Directors of the DRCD to demonstrate that providing such service to Other Customers will not cause service levels to drop below levels established by the IURC

Indiana-American Water shall not use the Water Distribution System to provide service to Other Customers if doing so will cause service levels to drop below levels established by the IURC. Indiana-American Water shall indemnify and hold harmless the DRCD from and against any and all claims arising out of or related to any use of the Water Distribution System, made pursuant to this Section 2.1, to serve Other Customers.

Section 2.2 Indiana-American Water's Right to Make Connections to the Water Distribution System

Subject to the notice and other requirements set forth in this Section 2.2 and in Section 2.1 of this agreement, the DRCD grants to Indiana-American Water permission to connect mains and facilities owned and operated by Indiana-American Water to the Water Distribution System to serve Other Customers, including Resale Customers. All such connections shall be made in accordance with all applicable laws and regulations and in a manner consistent with good engineering practices. Indiana-American Water shall indemnify and hold the DRCD harmless against any and all claims arising out of or relating to any connections to the Water Distribution System made pursuant to this Section 2.2.

Section 2.3 Water Supply Agreement

Any and all rights reserved to Indiana-American Water pursuant to Section 2 of his agreement shall be limited and conditioned by the terms and agreements contained in the February ____, 2005 Water Supply Agreement executed by Indiana-American Water and the DRCD. Any inconsistencies or conflicts shall be resolved in favor of the terms and conditions of the February ____, 2005 agreement.

Section 3. Acquisition of the Water Distribution System

Once the Bonds have been paid off for the water main infrastructure Indiana-American Water will have the option to buy the Water Distribution System. The DRCD will convey title and transfer of ownership of all the water main infrastructure and appurtenances to Indiana-American Water for the Sum of \$1.00.

Section 4. Property Connections to the Water Distribution System

Section 4.1 Connection Agreement with Damon Run Conservancy District

Upon acceptance of the Water Distribution System by the DRCD and connection of the Water Distribution System to mains and facilities owned and operated by Indiana-American Water, the DRCD shall require each owner of property in the DRCD desiring to receive water service:

- (a) Connect to the Water Distribution System utilizing Indiana-American Water.
- (b) Pay DRCD all necessary connection fees.
- (c) Connect to the Water Distribution System in accordance with all applicable laws, regulations and ordinances, and Indiana-American Water's standards and specifications.

Section 4.2 Disconnection of Wells

The DRCD will require each property owner in the DRCD desiring to connect to the Water Distribution System to physically disconnect all household piping from any existing wells and close wells in a manner consistent with health and safety and all applicable laws, rules and regulations; provided that existing wells may be continued to be used solely for outdoor purposes, such as watering. Indiana-American Water will not turn on service or set a water meter if customer's plumbing is not properly disconnected from any existing well piping.

Section 4.3 Meters and Lines

Indiana-American Water may charge new residential users desiring to connect to the Water Distribution System, a fee based upon its good faith estimate of time and material for the purchase and installation of any service lines and water meters.

Section 5. Water Service to be Provided by Indiana-American Water

Section 5.1 Water Service to be Provided by Indiana-American Water

Upon connection of a property in the DRCD to the Water Distribution System pursuant to Section 4, Indiana-American Water shall provide water service to the property as provided in this Section 5. Indiana-American Water shall continue to permit the DRCD to use Indiana-American Water's public water source identification number with respect to the Water Distribution System for the term of this agreement. Prior to submitting plans to the Indiana Department of Environmental Management (IDEM) with Indiana-American Water's public water source identification number, the plans must be reviewed, approved, and signed by Indiana-American Water.

Section 5.2 Indiana-American Water Customers

Residential users who connect their properties to the Water Distribution System pursuant to Section 4 and receive water service from Indiana-American Water pursuant to this Section 5 shall be considered to be water customers of Indiana-American Water for all purposes and shall have the same rights and obligations as all other similar water customers of Indiana-American Water's Northwest Operation. Indiana-American Water shall provide water service to such customers in accordance with all applicable laws, rules, regulations and tariffs, including, without limitation, those promulgated by the IURC and Indiana-American Water.

Section 5.3 Rates for Service and Billing

Indiana-American Water shall bill property owners directly who connect to the Water Distribution System pursuant to Section 4 and receive water service from Indiana-American Water pursuant to this Section 5 in accordance with Indiana-American Water's Northwest Operations rates and charges for service approved by the IURC, as those rates and charges may be in effect from time to time. Indiana-American Water shall directly bill

and collect from such property owners in accordance with all applicable laws, rules, regulations and tariffs, including those promulgated by the IURC and Indiana-American Water from time to time. If the DRCD adopts an ordinance permitting it, Indiana-American Water shall bill property owners directly for fire hydrant rental and maintenance. All collections referenced in the paragraph shall be the exclusive property of Indiana-American Water. Additionally, Indiana-American Water agrees to include in its billing a “surcharge” identified by the DRCD which will facilitate collection from the DRCD customers of the revenue needed by the DRCD to pay the debt service owed on the Bonds.

Section 5.4 Any Necessary Approvals from the Indiana Utility Regulatory Commission

Indiana-American Water shall obtain any necessary approvals from the IURC required to provide water service to customers in the DRCD, including, without limitation, any necessary approvals under this agreement.

Section 6. Operation and Maintenance of the Water Distribution System

Section 6.1 Standards of Service for Operation, Maintenance, and Capital Improvements

In consideration of the mutual covenants and promises contained in this agreement, Indiana-American Water shall operate, maintain, and repair the Water Distribution System in the same manner and at the same levels that it operates, maintains, and repairs its own distribution system in the Indiana-American Water Northwest Operation and shall comply with all applicable laws, regulations, and administrative rules applicable to such Water Distribution System as if Indiana-American Water owned the Water Distribution System. Any capital improvements, such as necessary water main relocations or replacements, are to be funded by the DRCD during the term of the bonds. Any necessary capital improvements in reference to the twenty (20) inch water main within the right-of-way of U.S. Highway 6, from State Road 149 to Meridian Road will be funded by the DRCD for a period of fifty (50) years, from the time that any particular segment of the water main within the right-of-way of U.S. Highway 6 has been placed in service. The term “placed in service” is defined as a section of water main that has been installed per Indiana-American Water’s standards and specifications, has passed all necessary pressure and bacteria testing, all as-built information has been documented and submitted to Indiana-American Water, and is completely ready for customers to accept service. All necessary engineering associated with the above mentioned capital improvements will be the responsibility of the DRCD and must be reviewed and approved by Indiana-American Water prior to the commencement of construction. All construction associated with completing any capital improvement is to be funded by the DRCD and is to be completed by Indiana-American Water’s own internal forces, at cost, and at the discretion of Indiana-American Water, and or by one of Indiana-American Water’s approved contractors. If it is deemed by Indiana-American Water that the work should be done by an approved contractor, it will be the responsibility of the DRCD to prepare all bid documents and let the work.

Section 6.2 Procedures for Service

In consideration of the mutual covenants and promises contained in this agreement, Indiana-American Water shall handle, respond to an process all customer complaints and requests for service of the Water Distribution System in the same manner as it does for such complaints and request for service with respect to its own distribution system in the Indiana-American Water Northwest Operations and shall comply with all applicable laws, regulations and administrative rules applicable to such water distribution systems as if Indiana-American Water owned the Water Distribution System.

Section 6.3 Cost of Service

Indiana-American Water shall operate, maintain, and repair the Water Distribution System without charge to the DRCD.

Section 7. Terms and Termination of Agreement

This agreement shall remain in full force and effect through the term of payment of the bonds associated with the water main infrastructure and the 50 year period referred to in Section 6.1 for Capital Improvements. Either party may terminate this agreement for cause if the other party breaches any of its material obligations herein and fails to cure such breach within ninety (90) days following the receipt of written notice of such breach by the other party.

Section 8. General Provisions

Nothing in this agreement will be construed to create an employment relationship or joint venture between the parties. All services performed by Indiana-American Water will be performed as an independent contractor.

This agreement may be amended only by written instrument signed by authorized representatives of both parties.

In the event that any provision of this agreement is determined to be invalid or unenforceable, then to the extent that such term is invalid or unenforceable, it will not affect the validity or enforceability of any term of this agreement.

This agreement will not be governed by and interpreted in accordance with the laws of the State of Indiana.

This agreement may be executed originally by facsimile and in one or more counterparts, each of which will be deemed to be an original copy and all of which together will constitute one agreement binding on all the parties.

Any notices sent pursuant to this agreement shall be in writing, shall be addressed as set forth below (or to such other addresses as the parties may designate from time to time) and shall be either:

- (a) Delivered in person; or
- (b) Sent via (1) overnight courier guaranteeing overnight delivery, with receipt confirmed, or (2) facsimile, telex, or other wire transmission, if receipt is confirmed.

To: Damon Run Conservancy District
P. O. Box 208
Wheeler, IN 46393

To: Indiana-American Water
650 Madison Street
Gary, IN 46402

Neither party will assign or otherwise dispose of this agreement, or its right, title or interest therein, or any part thereof, without the prior written consent of the other party, except that any such assignment occurring by reason of the merger of consolidation or sale of substantially all the assets involving a party shall not constitute an assignment for the purposes of their section.

This agreement, including all exhibits and attachments, sets forth the entire agreement and understanding of the parties. All prior agreements and letters of intent, including the **Term Sheet**, are superseded by this agreement. There are no representations, promises, agreements or understandings, oral or written, express or implied, which are not set forth in this agreement.

This agreement is entered in to by Indiana-American Water in conformity with and subject to the rules and regulations of the IURC and Indiana-American's rules, Regulations, and Conditions of Service on file with and approved by such Commission. In the event of any conflict between the terms of this agreement and the rules and regulations of such Commission and, or, Indiana-American Water's Rules, Regulations, and Conditions of Water Service shall control.

The parties have, by their duly authorized representatives, executed this agreement as of the date stated above.

INDIANA-AMERICAN WATER

DAMON RUN CONSERVANCY DISTRICT

By: Stacy R. Sagan

By: Bernard Madly
Chairperson / President

Title: General Mgr - Network

[Signature]
Secretary / Treasurer