

WATER SUPPLY AGREEMENT

between

BOROUGH OF SHARPSVILLE

and

AQUA PENNSYLVANIA, INC.

THIS WATER SUPPLY AGREEMENT, made this 14<sup>th</sup> day of May, 2008, by and between the BOROUGH OF SHARPSVILLE, a municipal entity located in Mercer County, Pennsylvania (hereinafter called the "Borough") and AQUA PENNSYLVANIA, INC., a Pennsylvania corporation that provides service in portions of Mercer County and that has an office location at 665 South Dock Street, Sharon, Pennsylvania (hereinafter called "Company").

WHEREAS, the Borough has a water system that provides service to its residents and customers located within the Borough; and

WHEREAS, through a bulk water agreement, the Borough also provides the source of water supply to certain residents and businesses located in South Pymatuning Township; and

WHEREAS, the Borough has a need for a new source of water supply and has considered alternative means of obtaining that supply, including constructing a new water treatment plant within the Borough at an estimated cost of approximately \$10 million; and

WHEREAS, following the consideration of other alternatives, the Borough has

determined to obtain its water supply from the Company, which has a large regional water plant in the neighboring community of Sharon, Pennsylvania; and

WHEREAS, the Borough desires to become a customer of the Company and intends to purchase water from the Company for resale to its customers in the Borough of Sharpville and through a bulk water supply arrangement to certain residents and businesses in South Pymatuning Township; and

WHEREAS, it is recognized that interconnections between water systems are encouraged and promoted by various regulatory agencies as being in the public interest.

NOW, THEREFORE, subject to the terms and conditions hereof, the parties hereto, for good and valuable consideration, and intending to be legally bound hereby, consent and agree with each other as follows:

1. Purchase of Water on the Start Date. Aqua agrees to sell treated water and Borough agrees to purchase treated water under the terms and conditions set forth in this Agreement at the Delivery Points referenced below. Borough will commence purchasing water from Aqua at the Delivery Points within ten days following notice from Aqua that the Delivery Points are installed and available to be used to provide service (the date that service commences shall be called the "Start Date"). Commencing from the Start Date, the Borough will take all of its water from Aqua and will discontinue the use of the Borough's existing water treatment plant.
2. Installation of Meter Pit(s). The Company shall install a meters pit(s), as described below and at a location(s) as shown on the map attached hereto as Attachment A:

- a. A meter pit and all related appurtenances at Mercer Avenue.
- b. If necessary, as determined by both the Borough's engineer and the Company's engineer (recognizing that the Borough will ultimately determine the desired normal flows and pressures within its system), a meter pit at Hall and Ridge Avenues, along with all appurtenances. This installation shall also involve the installation of 655 feet of 12-inch interconnecting main and a 100 foot directional-bore stream crossing. If necessary, the Company will also install approximately 5,500 feet of 12-inch water main along Ridge Avenue in Sharpville to replace existing Borough 6-inch main from the new interconnection to the existing Borough 10-inch water main on 7<sup>th</sup> Avenue or a similar alternate project along Pierce Avenue (which parallels Ridge and may be less costly and equally effective). The Company shall own that section of pipe, which the Borough shall purchase at the original cost of the installation less depreciation if this Agreement is terminated or not renewed.

3. Meter(s) installed as the Delivery Point(s). The Company agrees to install an appropriate meter(s) within the meter pit(s). The meter will measure and record the water purchased by the Borough. The meter(s) shall be the Delivery Points, where title to the water will change from Aqua to the Borough. Company shall charge the Borough monthly, a meter charge for each meter installed by the Company that will be used to measure and record the water purchased by the Borough. The meter(s) subject to this charge are

those specifically referenced in paragraph two (2) of this agreement. The charge will be determined by the size of the meter and the application of the Company's tariff as then in effect when service is being provided. By way of example, under the tariff currently in effect, Company would charge the Borough a monthly meter charge in the amount of \$319.00 for a four inch meter, \$658.00 for a six inch meter and/or \$1,150.00 for an eight inch meter. The meter charge described heretofore is expected to change over time and, as also noted in Section 7 of this Agreement, shall be subject to and governed by the tariff charge set by the Pennsylvania Public Utility Commission.

4. Estimated Date to Complete Installation. Subject to the provisions of Section 9 of this Agreement, the Company will begin construction no later than July 31, 2008 and attempt to complete the installation of the aforementioned construction work by October 31, 2008 so that the Delivery Points are installed and available to be used to provide service to the Borough shortly thereafter.
5. Meter Reading and Billing. The Company agrees to read the meters for billing purposes on a monthly basis. The Company agrees to test and calibrate the meters at least once per year and provide a copy of the test results to the Borough. The Company agrees to maintain the accuracy limits of the meter to within 3% + or - of 100% accuracy. The Borough may request, at any time and at its cost, additional or special accuracy tests to be performed by the Company to verify the accuracy of the meter. If any discrepancies in meter accuracy are ever found, each party agrees to limit its claim for adjustment to

the percentage of meter inaccuracy for the 30 day period immediately preceding the test.

6. Delivery of Water. The Company agrees that the water to be furnished by it hereunder through the Delivery Points shall comply with applicable federal and state drinking water requirements. The Company shall not be responsible for any degradation of water that occurs after the Delivery Points, within the distribution system of the Borough or South Pymatuning Township, or within any homes or premises.
7. Rate and CPI Adjustment. The Company will charge the Borough \$2.20 for each 1,000 gallons of water taken by the Borough. The rate of \$2.20 per thousand gallons will remain in effect for 5 years beginning with the month in which service actually commences. Following the initial 5 year period, the rate for year 6 shall increase by the percentage increase in the CPI ("CPI Adjustment") between years 4 and 5, calculated for a basket of goods in the Pittsburgh area (or comparable of substitute index) . Thus, if the CPI Adjustment is 5% between years 4 and 5, then the rate of \$2.20 for year 5 would increase to \$2.31 for application in year 6. A similar approach shall be applied to each subsequent year. In addition to the charge per thousand gallons, the Borough shall pay a meter charge, based on the size of the installed meters, as applicable in the Company's tariff, as it may be in effect from time to time.
8. Payment and Service Provisions. The Company will bill the Borough on a monthly basis and the Borough agrees to pay promptly in accordance with and

subject to the provisions of this Agreement and the provisions contained in the Company's Rules and Regulations filed with the PUC as amended from time to time. The general service provisions shall also be subject to the Company's Rules and Regulations. Upon reasonable notice and at reasonable times, the Borough shall have the right to access and review the Company's meter reading and billing records related to this Agreement. Any disputes arising from this Agreement will first be attempted, in good faith, to be settled between the Company and the Borough, acknowledging that rate and service issues shall be within the jurisdiction of the Pennsylvania Public Utility Commission ("PUC"). Failure of the Borough to pay for water service on a timely basis will entitle the Company to commence the process to discontinue service.

9. Regulatory Approval. As a condition to construction of the water main extension between the systems and the provision of service under the terms stated herein, the Company shall first obtain the approval (or deemed approval) of this Agreement under Section 507 of the Pennsylvania Public Utility Code. The parties intend for the effective date of the Agreement to be 31 days following its filing with the PUC, and that should be the deemed effective date unless the PUC institutes a proceeding to review the contract, in which event the parties will await the PUC's grant of approval. In any event, the parties acknowledge that the PUC will have continuing jurisdiction over the terms of service. To the extent that approval of this Agreement is needed from any other regulatory agency, the Company shall be responsible for

determining the applicable requirements and for making the necessary filing and the Borough shall cooperate fully in those efforts.

10. Interruptions or Fluctuations. It is hereby specifically acknowledged by both parties hereto that there will be occasions, because of leaks, failure of facilities, required repairs to facilities, strikes, acts of God, human error, or emergency circumstances, when interruptions or fluctuations in service will occur; it also being hereby specifically agreed that the only obligation the Company shall have is to use ordinary and reasonable care to maintain the water service and the supply herein provided. The Company shall not be liable in any way to Borough for any interruption or diminishing of water service or supply caused by circumstances beyond the Company's specific control or the normal changes and fluctuations on the system.

11. Limitations on Usage Areas. The Company is selling and the Borough is purchasing water for distribution and sale exclusively within the Borough's existing service area and for use within South Pymatuning Township. The Borough agrees that it will not sell or transport water to any other areas without the specific written approval of the Company during the term of this agreement or any extensions or renewals thereof. Company agrees that it will not sell or transport water, except as provided for in this agreement, to South Pymatuning Township or any of the Borough's customers during the term of this agreement or any extensions or renewals thereof with out the express written consent of the Borough.

12. Term. This Agreement shall remain in effect for a period of twenty (20) years

from the date hereof, and may be extended upon new terms that are mutually satisfactory to the parties based on good faith negotiations. At the conclusion of five years from the effective date of this agreement and every five years thereafter, the Borough shall have the option of continuing with this agreement or withdrawing from the same without any obligation to Company except that should Company install any pipe in the Borough, the Borough shall purchase from Company the pipe at the Company's original cost less depreciation.

13. Legal Authority. Each party represents and warrants to the other that it has full legal authority to enter this Agreement; that the officers or representatives signing this Agreement have been duly authorized to sign by their respective party; that entering this Agreement will not conflict with or violate the terms of any other agreement or obligation to which each respective party hereto is obligated or bound.

14. Successor and Assigns. This Agreement shall be binding upon the respective successors and assigns of the parties hereto and the benefits herein shall enure to the same; however, the Agreement may not be assigned by either party without the written consent of the other.

15. Entire Agreement. This Agreement embodies the entire Agreement between the parties hereto with reference to the subject matter and there are no agreements, understandings, conditions, warranties, or representations, oral or written, expressed or implied with reference to the subject matter hereof that are not merged in this Agreement and superseded hereby. This Agreement



may only be amended by a writing signed by all parties hereto.

16. Governing Law. This Agreement shall be interpreted pursuant to the laws of the Commonwealth of Pennsylvania.
17. Cooperation. The parties agree to cooperate with each other and to use commercially reasonable efforts in the implementation of this Agreement, and to sign or cause to be signed, in a timely fashion, any and all necessary instruments, documents and petitions, and to take such other actions as may be reasonably necessary in order to effectuate the purposes of this Agreement.
18. Notice. Notice to be given pursuant to the terms of this Agreement shall be in writing and delivered in person or transmitted by certified mail, return receipt requested, postage prepaid. Notices required to be given shall be addressed as follows:

Borough:

Mr. Michael G. Wilson  
Borough Manager / Secretary  
Borough of Sharpsville  
One South Walnut Street  
Sharpsville, PA 16150

AQUA:

Mr. Robert G. Liptak  
President,  
Northern Operations  
Aqua America, Inc.  
665 South Dock Street  
Sharon, PA 16146


or to such other address(es) and to such individuals as may be specified by either party by prior written notice.


IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered, and their respective corporate seals to be hereunto affixed by their respective duly authorized officers, the day and year first above written.

BOROUGH OF SHARPSVILLE

ATTEST:

By:

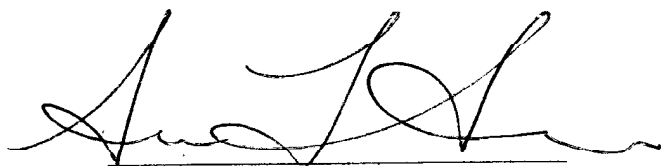
  
Secretary


  
Council President

AQUA PENNSYLVANIA, INC

ATTEST:

By:



  
Vice President