

**MEMORANDUM OF UNDERSTANDING
BETWEEN THE CITY OF BILLINGS AND
COUNTY WATER DISTRICT OF BILLINGS HEIGHTS**

This **MEMORANDUM OF UNDERSTANDING** is made and entered into by and between the **CITY OF BILLINGS, MONTANA**, a Montana Municipal Corporation whose address is P.O. Box 1178, Billings, Montana 59103, (hereafter the City), and the **COUNTY WATER DISTRICT OF BILLINGS HEIGHTS**, whose principal business address is 1540 Popelka Drive, Billings, Montana 59105 (hereafter the District). This Memorandum of Understanding is effective on the date of the final signature by the City.

WITNESSETH:

WHEREAS, the City provides wholesale water services to the District and as a wholesale customer, the City provides its water at rates governed by a water supply agreement (hereafter the Agreement) between the City and the District dated December 14, 1998; and

WHEREAS, the Agreement allows the City to adjust its resale rates to cover the cost of service using the utility basis as outlined in the American Water Works Association's M1 Manual; and

WHEREAS, subsequent to the 2008 update of resale rates, the District challenged some of the cost-of service assumptions used in the update and therefore, the City and the District conducted mediation to resolve the disputed items and as a result of the mediation, a Memorandum of Understanding was executed on March 9, 2009; and

WHEREAS, the Memorandum of Understanding dated March 9, 2009 is expired and the City and the District agree to enter into a new Memorandum of Understanding to outline understandings between the parties regarding the classification of transmission mains for rate making purposes and the rate of return used in the City's resale rate methodology.

NOW, THEREFORE, in consideration of the covenants herein contained, the City and the District agree that:

1. For the purposes of calculating the resale rate charged to the District, the City will revise its classification of transmission mains to exclude twelve inch mains. Water main assets added to the rate base since July 1, 2010 will use the following classification system:
 - a. Transmission mains include mains greater than twelve inches.
 - b. Distribution mains include mains twelve inches and smaller.

