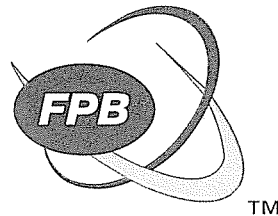


Jim Smith
General Manager



Frankfort Plant Board

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February 18, 2011

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**PUBLIC SERVICE
COMMISSION**

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

Re: Case No. 2010-00485

Dear Mr. Derouen:

Enclosed for filing please find an original and six (6) copies of the parties' Joint Settlement Stipulation and Recommendation.

I appreciate your assistance. If you have any questions, please contact me at 352-4541 or hprice@fewpb.com.

Sincerely,

Hance Price

Hance Price
Staff Attorney

HP/mw
encl.
cc: Thomas A. Marshall
Donald T. Prather

Equal Opportunity/Affirmative Action Employer

317 West Second Street (P.O. Box 308) Frankfort, Kentucky 40602 Phone (502) 352-4372
Fax (502) 223-3887 www.fpb.cc

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FEB 18 2011

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PROPOSED ADJUSTMENT OF THE WHOLESALE)
WATER SERVICE RATES OF THE FRANKFORT) CASE NO. 2010-00485
ELECTRIC AND WATER PLANT BOARD)

JOINT SETTLEMENT STIPULATION AND RECOMMENDATION

It is the intent and purpose of the parties to this proceeding, namely the applicant, Frankfort Electric and Water Plant Board (“Frankfort Plant Board” or “FPB”); and the Intervenor, Elkhorn Water District, Peaks Mill Water District, North Shelby Water Company and U.S. 60 Water District of Shelby and Franklin Counties, Kentucky (“Intervenor”) to express their agreement on a mutually satisfactory resolution of all of the issues in the instant proceeding which shall hereafter be referred to as the “Stipulation” and/or “Recommendation”.

It is understood by all parties hereto that this Recommendation is not binding upon the Public Service Commission (“Commission”), nor does it represent agreement on any specific theory supporting the appropriateness of any recommended adjustments to FPB’s rates. The parties have expended considerable efforts to reach the stipulation and agreements that form the basis of this Recommendation. The parties, representing diverse interests and divergent viewpoints, agree that this Recommendation, viewed in its entirety, constitutes a reasonable resolution of all issues in this proceeding.

The adoption of this Recommendation will eliminate the need for the Commission and the parties to expend significant resources in litigation of this proceeding, and eliminate the possibility of, and any need for, rehearing or appeals of the Commission’s final order. Therefore, the parties stipulate and recommend the following:

1. FPB should be permitted to adjust its rates to recover more in annual revenue than it is recovering under its current rates, with such rates to be effective for service rendered on and after April 1, 2011. The parties agree to phase in rate increases of six (6) percent per year for the next three (3) years beginning with the current rate of \$1.704 per 1,000 gallons. Under this structure, the rates are as follows:

Year 1 (April 1, 2011 – March 31, 2012) - \$1.81 per 1,000 gallons

Year 2 (April 1, 2012 – March 31, 2013) - \$1.91 per 1,000 gallons

Year 3 (April 1, 2013 – March 31, 2014) - \$2.01 per 1,000 gallons

FPB will not increase the rates charged to the wholesale non-water producers (i.e. water districts) until after March 31, 2014. After March 31, 2014, FPB will continue to charge \$2.01 per 1,000 gallons until it files a revised tariff that is approved by the Commission.

2. FPB and North Shelby Water Company and U.S. 60 Water District of Shelby and Franklin Counties, Kentucky will extend their current wholesale contracts with a term sufficient to qualify for Rural Development financing. FPB will negotiate mutually agreeable extensions or new contracts with Peaks Mill and Elkhorn Water Districts.

3. Each party waives all cross-examination of the witnesses of the other parties unless the Commission disapproves this Recommendation, and each party further stipulates and recommends that the testimony, pleadings and responses to data requests filed in this proceeding be admitted into the record.

4. This Recommendation is submitted for purposes of this case only and is not deemed binding upon the parties in any other proceeding, nor is it to be offered or relied upon in any other proceeding involving FPB or any other utility.

5. If the Commission issues an order adopting this Recommendation in its entirety, each of the parties agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin County Circuit Court with respect to that order.

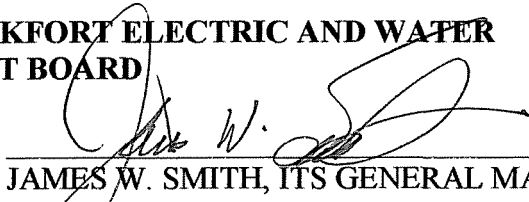
6. If this Recommendation is not adopted in its entirety, each party reserves the right to withdraw from it and require that hearings go forward upon any or all matters involved, and that in such event the terms of this Recommendation shall not be deemed binding upon the parties, nor shall such Recommendation be admitted into evidence, or referred to, or relied upon in any manner by any party, the Commission, or its Staff in any such hearing.

7. The parties agree that the foregoing Recommendation is reasonable and in the best interests of all concerned, and urge the Commission to adopt the Recommendation in its entirety.

AGREED: This the 18th day of February, 2011.

**FRANKFORT ELECTRIC AND WATER
PLANT BOARD**

BY:



JAMES W. SMITH, ITS GENERAL MANAGER

ELKHORN AND PEAKS MILL WATER DISTRICTS

BY:

Thomas A. Marshall / by Hans Prie w/ authorization
THOMAS A. MARSHALL, ESQ, THEIR
ATTORNEY

**NORTH SHELBY WATER COMPANY AND U.S. 60
WATER DISTRICT OF SHELBY AND FRANKLIN
COUNTIES, KENTUCKY**

BY:

Donald T. Prather / by Hans Prie w/ authorization
DONALD T. PRATHER, ESQ, THEIR
ATTORNEY