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Vice Chairman

**Linda K. Breathitt**  
Commissioner

September 27, 2013

Jeff Derouen, Esq.  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
Post Office Box 615  
Frankfort, Kentucky 40602

Re: Case No. 2013-00096  
Bullock Pen Water District

Dear Mr. Derouen:

Enclosed for filing in the record of the above-referenced case is a settlement agreement between Commission Staff and Bullock Pen Water District. The signatories respectfully request that the Public Service Commission review and issue a final decision in the matter in accordance with the terms of this agreement at the earliest date possible.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerald E. Wuetcher".

Gerald E. Wuetcher  
Executive Advisor/Attorney

gw  
Enclosure

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AMENDED APPLICATION OF BULLOCK PEN	)	
WATER DISTRICT FOR APPROVAL TO ENTER	)	
INTO A LEASE AGREEMENT WITH THE BANK	)	
OF KENTUCKY, INC. IN A PRINCIPAL AMOUNT	)	
NOT TO EXCEED \$600,000.00 FOR THE	)	CASE NO. 2013-00096
PURPOSE OF REFINANCING CERTAIN	)	
OUTSTANDING DEBT OBLIGATIONS	)	
BETWEEN THE KENTUCKY RURAL FINANCE	)	
CORPORATION AND BULLOCK PEN WATER	)	
DISTRICT	)	

SETTLEMENT AGREEMENT

THIS AGREEMENT is made and entered this 27<sup>th</sup> day of September, 2013, by and between the STAFF OF THE PUBLIC SERVICE COMMISSION OF KENTUCKY ("Commission Staff") and BULLOCK PEN WATER DISTRICT ("Bullock Pen District").

WITNESSETH:

THAT, WHEREAS, Commission Staff and Bullock Pen District stipulate the following:

1. In Case No. 2002-00015,<sup>1</sup> Bullock Pen applied to the Commission for authority to enter an Assistance Agreement with Kentucky Rural Water Finance Corporation ("KRWFC") to borrow \$719,000, a certificate to construct certain facilities, including its Phase V Water System Improvement Project, and authorization to assess a monthly surcharge of \$15 to customers receiving water service through Phase V Water System Improvement Project.
2. Bullock Pen intended to use \$377,000 of the funds borrowed from KRWFC to finance the construction of the Phase V Water System Improvement Project.

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<sup>1</sup> Case No. 2002-00015, *Application of the Bullock Pen Wafer District for a Certificate of Public Convenience and Necessity to Construct and Finance an Improvements Project and to Implement a Surcharge to Its Existing Rates Pursuant to KRS 278.020 and 278.300* (Ky. PSC Mar. 18, 2002).

3. Bullock Pen proposed to assess a monthly surcharge of \$15 to customers receiving water service through Phase V Water System Improvement Project to service the portion of the KRWFC loan related to that project.
4. On March 18, 2002, the Commission granted Bullock Pen's application and, more specifically, authorized the proposed monthly surcharge. Use of the surcharge proceeds was restricted to servicing the obligations created under the Assistance Agreement." Collection of the surcharge was to cease when the portion of the debt obligation related to the Improvement Project had been retired.
5. Bullock Pen executed the Assistance Agreement with KRWFC on May 1, 2002.
6. In Case 2012-00507,<sup>2</sup> Bullock Pen District applied to the Commission for authorization to enter into a lease finance agreement with The Bank of Kentucky, Inc. Under the terms of this agreement, Bullock Pen District would receive \$860,000 which it would transfer to the trustee or paying agent for Bullock Pen Water System Revenue Bonds of 1978 to retire all outstanding bonds and to KRWFC to retire the debt obligation created by the 2002 Assistance Agreement. In its application, Bullock Pen District made no reference to the monthly surcharge assessed to the customers receiving water service through Phase V Water System Improvement Project.
7. Bullock Pen District estimated that execution of the proposed Lease Finance Agreement and retirement of the existing debt instruments would result in total gross savings and net present value savings of \$1 30,553 and \$82,666, respectively.
8. On January 4, 2013, the Commission granted Bullock Pen District's application to enter the proposed lease finance agreement with The Bank of Kentucky, but found that "[u]pon the execution of the proposed Lease Finance Agreement, the obligations created under the Assistance Agreement will be retired and, pursuant to the terms of the Commission's Order authorizing collection of the surcharge [on Phase V Water System Improvement Project customers], the surcharge should terminate. The Commission further found that "[t]ermination of the collection of the surcharge should be stayed for a period of 60 days from the date of the execution of the Lease

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<sup>2</sup> Case No. 2012-00507, *Application of Bullock Pen Water District for Approval to Enter Into a Lease Agreement with The Bank Of Kentucky, Inc. in a Principal Amount Not To Exceed \$860,000.00 for the Purpose of Refinancing Certain Outstanding Debt Obligations Between the Kentucky Rural Water Finance Corporation and the Bullock Pen Water District* (Ky. PSC Jan. 4, 2013).

Finance Agreement to permit Bullock Pen [District] sufficient time to request the assessment of a new surcharge.”

9. In its Order of January 4, 2013, the Commission ordered that Bullock Pen District to cease charging the existing monthly surcharge within 60 days and, if it wished to continue assessing a surcharge, to apply for authority to assess such surcharge within 30 days and to include in its application for a new surcharge “a detailed explanation as to why a surcharge is required and is reasonable.”
10. Based upon its interpretation of the Commission’s Order of January 4, 2013, Bullock Pen District’s Board of Commissioners became concerned that continuing with the proposed Lease Finance Agreement as originally proposed would result in the termination of the existing monthly surcharge on Phase V Water System Improvement Project customers without any authorization for a successor surcharge.
11. On March 11, 2013, Bullock Pen District Bullock Pen District applied to the Commission for authorization to enter into a revised lease finance agreement with The Bank of Kentucky, Inc. Under the terms of the revised Lease Finance Agreement, the proceeds of the agreement would be reduced and would be used only to retire all outstanding Bullock Pen Water System Revenue Bonds of 1978 and the outstanding portion of the 2002 Assistance Agreement with KRWFC that is unrelated to the Phase V Water System Improvement Project.

NOW, THEREFORE, Bullock Pen District and Commission Staff agree as follows:

1. Any revision to the original proposal to refinance Bullock Pen District’s existing debt obligations that would exclude the portions of the 2002 Assistance Agreement with KRWFC that are related to the Phase V Water System Improvement Project will reduce the level of savings achieved from such refinancing and is not in the public interest.
2. The conditions set forth in the Commission’s Order of March 18, 2002 regarding termination of the Phase V Water System Improvement Project surcharge were intended to apply only when the debt obligation evidenced by the 2002 Assistance

Agreement was completely retired and not merely replaced by another debt obligation designed to reduce Bullock Pen District's debt service costs.

3. The Commission's Order of January 4, 2013 should be clarified to resolve any uncertainty over Bullock Pen District's continued assessment of a surcharge to those customers who receive their water service through Phase V Water System Improvement Project facilities.

4. Upon Bullock Pen District's execution of the originally proposed Lease Financing Agreement with The Bank of Kentucky, Bullock Pen should be permitted to continue to assess a surcharge to its customers who receive water service through the Phase V Water System Improvement Project, but the amount of the monthly surcharge and the period of its assessment should be revised to reflect the terms of the Lease Financing Agreement and any savings achieved by the execution of that agreement.

5. Within 30 days of execution of the Lease Financing Agreement, Bullock Pen shall file with the Commission, in addition to the documents that the Order of January 4, 2013 currently requires, revised tariff sheets setting forth the revised monthly surcharge for Phase V Water System Improvement Project customers and the period it will be assessed. Bullock Pen District will also file the calculations used to derive the revised surcharge amount and period of assessment.

6. At the time of its filing of revised tariff sheets with the Commission, Bullock Pen District shall also publish notice of any revisions to its monthly surcharge in accordance with 807 KAR 5:011, Section 8.

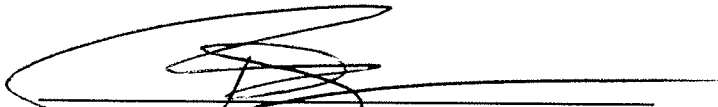
7. Commission Staff shall recommend to the Commission that this Settlement Agreement be approved.

8. This Agreement is subject to the acceptance of and approval by the Public Service Commission.

9. If the Public Service Commission fails to accept and approve this Settlement Agreement in its entirety, none of the terms of this Settlement Agreement shall be binding on either signatory.

10. If the Public Service Commission accepts and adopts this Settlement Agreement in its entirety and enters an order to that effect, Bullock Pen District shall not apply for rehearing in this proceeding nor bring an action for review of that order.

AGREED TO BY:



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