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September 9, 2013

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**PUBLIC SERVICE
COMMISSION**

Via Hand-Delivery

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

Re: In the Matter of the Application of Fern Lake Company for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076

Dear Mr. Derouen:

Enclosed for filing is a Stipulation, Settlement Agreement and Recommendation executed by Fern Lake Company, Water Service Corporation of Kentucky, and the Office of the Attorney General's Office of Rate Intervention.

Please file this document in the record and return a file stamped copy to me. Feel free to contact me should you have any questions.

Sincerely,

David S. Samford

Enclosures

cc: Todd Osterloh (via email)
Gregory T. Dutton (via email)

STIPULATION, SETTLEMENT AGREEMENT AND RECOMMENDATION

This Stipulation, Settlement Agreement and Recommendation (“Stipulation”) is entered into and effective this 9th day of September 2013 by and among Fern Lake Company (“Fern Lake”), the Office of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“AG”) and Water Service Corporation of Kentucky (“WSCK”) in the proceeding involving the above parties, which are the subject of this Stipulation, as set forth below. (Fern Lake, the AG and WSCK are referred to collectively herein as the “Parties.”)

W I T N E S S E T H:

WHEREAS, Fern Lake filed on April 30, 2013, with the Kentucky Public Service Commission (“Commission”) its Application in *In the Matter of: The Application of Fern Lake Company for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076*, and the Commission has established Case No. 2013-00172;

WHEREAS, the AG and WSCK have been granted intervention by the Commission in this proceeding;

WHEREAS, informal conferences were attended in person or by teleconference by representatives of the Parties and Commission Staff on August 26, 2013, at the offices of the Commission, and via a conference call held on September 5, 2013. At these informal conferences, a number of procedural and substantive issues were discussed, including terms and conditions related to the issues pending before the Commission in this proceeding that might be considered by all Parties to constitute reasonable means of addressing their concerns;

WHEREAS, the Parties desire to recommend to the Commission that it enter its Order setting the terms and conditions that the Parties believe are reasonable as stated herein;

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WHEREAS, it is understood by all Parties that this Stipulation is an agreement among the Parties concerning all matters at issue in these proceedings pursuant to 807 KAR 5:001, Section 9(6);

WHEREAS, the Parties have spent many hours to reach the terms and conditions that form the basis of this Stipulation;

WHEREAS, the Parties, who represent diverse interests and divergent viewpoints, agree that this Stipulation, viewed in its entirety, is a fair, just and reasonable resolution of all the issues in this proceeding; and

WHEREAS, the Parties recognize that this Stipulation constitutes only an agreement among, and a recommendation by, themselves, and that all issues in this proceeding remain open for consideration by the Commission at the formal hearing in this proceeding.

NOW, THEREFORE, in consideration of the premises and conditions set forth herein, the Parties hereby stipulate, agree, and recommend as follows:

1. Fern Lake and WSCK agree, and the AG does not object, to an award to Fern Lake of additional revenue of \$54,905, which is \$9,689 less than the amount recommended by Commission Staff. The Parties agree that the difference between the additional revenue requirement set forth in the Staff Report and the amount of recommended award of additional revenue is attributable to a reduction in Fern Lake's variable operations and maintenance expenses.
2. Fern Lake relinquishes and abandons its claim to all rate case expenses.
3. The AG agrees and will not object to WSCK's subsequent request to pass-through the Fern Lake rate increase to the retail customers of WSCK via the Commission's process and regulation for purchased water adjustments.

4. Except as specifically stated otherwise in this Stipulation, the Parties agree that making this Stipulation shall not be deemed in any respect to constitute an admission by any Party hereto that any computation, formula, allegation, assertion, or contention made by any other Party in these proceedings is true or valid.

5. The Parties agree that the foregoing terms and conditions represent a fair, just, and reasonable resolution of the issues addressed herein.

6. The Parties agree that, following the execution of this Stipulation, the Parties shall cause the Stipulation to be filed with the Commission.

7. Each signatory waives all cross-examination of the other Parties' witnesses unless the Commission disapproves this Stipulation. The Parties stipulate that, after the date of this Stipulation, they will not otherwise contest Fern Lake's application in this proceeding, as modified by this Stipulation, during the hearing in this proceeding, and that they will refrain from cross-examination of all witnesses during the hearing, except insofar as such cross-examination supports the Stipulation or Fern Lake's application subject to the terms and conditions of this Stipulation.

8. The Parties agree to act in good faith and to use their best efforts to recommend to the Commission that this Stipulation be accepted and fully incorporated into any Order approving Fern Lake's application in this proceeding.

9. If the Commission issues an Order adopting all of the terms and conditions recommended herein, each of the Parties agrees that it shall file neither an application for rehearing with the Commission, nor an appeal to the Franklin Circuit Court with respect to such Order.

10. The Parties agree that if the Commission does not implement all of the terms recommended herein in its final Order in this proceeding, or if the Commission in its final Order in this proceeding adds or imposes additional conditions or burdens upon any or all of the Parties that are unacceptable to any or all of the Parties, then, upon written notice by any Party: (a) this Stipulation shall be void and withdrawn by the Parties from further consideration by the Commission and none of the Parties shall be bound by any of the provisions herein, provided that no Party is precluded from advocating any position contained in this Stipulation; and (b) neither the terms of this Stipulation nor any matters raised during the settlement negotiations shall be binding on any of the Parties to this Stipulation or be construed against any of the Parties.

11. The Parties agree that this Stipulation shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

12. The Parties agree that this Stipulation shall inure to the benefit of, and be binding upon, the Parties, their successors and assigns.

13. The Parties agree that this Stipulation constitutes the complete agreement and understanding among the Parties, and any and all oral statements, representations, or agreements made prior hereto or contemporaneously herewith, shall be null and void, and shall be deemed to have been merged into this Stipulation.

14. The Parties agree that, for the purpose of this Stipulation only, the terms are based upon the independent analysis of the Parties to reflect a fair, just, and reasonable resolution of the issues herein and are the product of compromise and negotiation.

15. The Parties agree that neither the Stipulation nor any of the terms shall be admissible in any court or commission except insofar as such court or commission is addressing

litigation arising out of the implementation of the terms herein. This Stipulation shall not have any precedential value in this or any other jurisdiction.

16. The signatories hereto warrant that they have informed, advised, and consulted with the Parties they represent in this proceeding in regard to the contents and significance of this Stipulation, and based upon the foregoing are authorized to execute this Stipulation on behalf of the Parties they represent.

17. The Parties agree that this Stipulation is a product of negotiation among all Parties, and that no provision of this Stipulation shall be strictly construed in favor of, or against, any Party.

18. The Parties agree that this Stipulation may be executed in multiple counterparts.

IN WITNESS WHEREOF, the Parties have hereunto affixed their signatures.

Fern Lake Company


HAVE SEEN AND AGREED:



David S. Samford, Counsel
Allyson Honaker, Counsel

**Office of the Attorney General of the
Commonwealth of Kentucky, by and through
his Office of Rate Intervention**

HAVE SEEN AND AGREED:


Gregory T. Dutton by DSS with permission
Gregory T. Dutton, Assistant Attorney General
Jennifer Black Hans, Assistant Attorney General

Water Service Corporation of Kentucky

HAVE SEEN AND AGREED:

A handwritten signature in black ink, appearing to read "M. Todd Osterloh". The signature is written in a cursive style with some stylized flourishes.

M. Todd Osterloh, Counsel