

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:** )  
 )  
**NOTICE OF ADJUSTMENT OF THE RATES OF** ) **CASE NO. 2007-00143**  
**KENTUCKY-AMERICAN WATER COMPANY** )  
**EFFECTIVE ON AND AFTER MAY 30, 2007** )

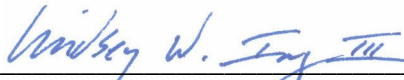
**MOTION TO APPROVE SETTLEMENT**

Kentucky-American Water Company moves the Commission for an Order approving the unanimous settlement agreement the parties have reached in this case. A fully executed Settlement Agreement, Stipulation and Recommendation is attached.

A. W. TURNER, JR., General Counsel  
Kentucky-American Water Company  
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Lexington, Kentucky 40502

and

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BY:   
Lindsey W. Ingram, Jr.  
Lindsey W. Ingram III

Attorneys for Kentucky-American Water Company

**CERTIFICATE OF SERVICE**

This is to certify that a true and accurate copy of the foregoing has been electronically transmitted to the Public Service Commission on September 14, 2007; that the Public Service Commission and other parties participating by electronic means have been notified of such electronic transmission; that, on September 14, 2007, the original and one (1) copy in paper medium will be hand-delivered to the Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; and that on September 14, 2007, one (1) copy in paper medium will be served upon the following:

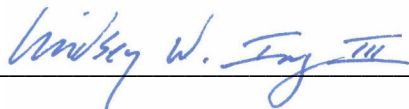
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STOLL KEENON OGDEN PLLC

By 

Attorneys for Kentucky-American Water Company

**COMMONWEALTH OF KENTUCKY  
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<b>KENTUCKY-AMERICAN WATER COMPANY</b>	)	
<b>EFFECTIVE ON AND AFTER MAY 30, 2007</b>	)	

**SETTLEMENT AGREEMENT, STIPULATION AND RECOMMENDATION**

It is the intent and purpose of the parties to this proceeding, namely Kentucky-American Water Company (“KAW”); the Attorney General of the Commonwealth of Kentucky (“AG”); the Lexington-Fayette Urban County Government (“LFUCG”); the Kentucky Industrial Utility Customers (“KIUC”); and Community Action Council (“CAC”), to express their agreement on a mutually satisfactory resolution of all of the issues in the instant proceeding.

It is understood by all parties that this Settlement Agreement, Stipulation and Recommendation (“Agreement”) 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 KAW’s rates. The parties have expended considerable efforts to reach the agreements that form the basis of this Agreement. All of the parties, representing diverse interests and divergent viewpoints, agree that this Agreement, viewed in its entirety, constitutes a reasonable resolution of all issues in this proceeding.

The adoption of this Agreement will eliminate the need for the Commission and the parties to expend significant resources litigating this proceeding, and eliminate the possibility of, and any need for, rehearing or appeals of the Commission’s final order herein. The parties agree that this Agreement is supported by sufficient and adequate data and information, and should be

approved by the Commission. Based upon the parties' participation in settlement conferences and the materials on file with the Commission, and upon the belief that these materials adequately support this Agreement, the parties hereby agree to, stipulate and recommend the following:

1. KAW should be authorized to adjust its rates in order to permit it to recover \$8,000,000.00 more in annual revenue than it is recovering under its current rates, with such revised rates to be effective for service rendered on and after December 1, 2007. The increased revenue requirement shall be reflected in increases to the customer charges associated with KAW's various rate schedules as reflected in the tariff sheets attached as Exhibit A, which rates are to be effective as of December 1, 2007 and will be filed upon the Commission's approval of this Agreement. These tariff sheets further reflect rates that are designed to allow KAW to recover the increased revenue from its various classes of customers in the manner agreed to by the parties to this Agreement. The parties agree that these rates are fair, just and reasonable.

2. The attached tariff sheets reflect implementation of the single tariff pricing model proposed by KAW in this proceeding which will result in the same rates being charged to each customer class regardless of whether that class is/was in KAW's Northern or Central Division.

3. The depreciation study KAW submitted in this proceeding has been the subject of discussion between KAW and the AG. The parties to this proceeding agree that the depreciation rates set forth in Exhibit B to this Agreement should be accepted by the Commission and made effective as of December 1, 2007.

4. The parties agree that, within a reasonable time after the Commission accepts and approves this Agreement, KAW will take all necessary steps to cause its Complaint for the appeal of the Commission's February 28, 2005 and March 30, 2006 Orders in KAW's last

general rate case (Case No. 2004-00103), which Complaint is currently pending in the Franklin Circuit Court, Civil Action No. 2005-00587, to be dismissed. However, the parties further agree that KAW shall not be precluded from requesting, pursuing, or in any way applying for relief on the issues in that appeal in subsequent KAW general rate cases. For example, one of the issues in KAW's pending appeal is the Commission's decision on the subject of a consolidated income tax adjustment. The parties agree that the voluntary dismissal of KAW's Complaint shall have no effect on KAW's ability to make any argument or request any relief it deems appropriate on the issue of a consolidated income tax adjustment in future general rate cases. Finally, the parties agree that dismissal of KAW's Complaint in Civil Action No. 2005-00587 shall in no way affect KAW's rights, defenses or arguments in defending the LFUCG's Complaint in the action that began in the Franklin Circuit Court as Civil Action No. 2005-00609, but which was consolidated with Civil Action No. 2005-00587 by Order of June 7, 2006.

5. The parties agree that beginning in KAW's 2008 fiscal year, KAW will increase its annual contribution to the Help to Others Program to a total of \$50,000.00.

6. The parties agree that KAWC will take the following actions with respect to fire hydrants located in Fayette County: (a) establish a liaison or point of contact with respect to fire hydrants; (b) continue to paint hydrants in accordance with NFPA 291, Chapter 5, on a timely basis; (c) either provide LFUCG with the information related to the inspection and testing of each fire hydrant within 30 days of its inspection or testing, or provide a monthly summary update of the same information. Further, the parties agree that, within a reasonable time after the Commission accepts and approves this Agreement, LFUCG will take all necessary steps to cause its Complaint for the appeal of the Commission's February 28, 2005 and March 30, 2006 Orders in KAW's last general rate case (Case No. 2004-00103) to be dismissed. That Complaint

commenced Civil Action No. 2005-00609 in the Franklin Circuit Court which was consolidated with Civil Action No. 2005-00587 by Order of June 7, 2006.

7. Attached to this Agreement as Exhibit C are proof-of-revenue sheets, showing that the rates set forth in Exhibit A will generate the proposed revenue increase to which the parties have agreed in Paragraph No. 1 above.

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

9. This Agreement 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 KAW or any other utility.

10. If the Commission issues an order adopting this Agreement 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 Circuit Court with respect to such order.

11. In the event the Commission should reject or modify all or any portion of this Agreement, or impose additional conditions or requirements upon the parties, each party shall have the right, within thirty (30) days of the Commission's order, to either file an application for rehearing or terminate and withdraw from the Agreement by filing a notice with the Commission. Upon rehearing, any party shall have the right within fifteen (15) days of the Commission's order on rehearing to file a notice of termination or withdrawal from this Agreement. In such event, the terms of this Agreement shall not be deemed binding upon the parties and the Agreement shall not be admitted into evidence, or referred to, or relied upon in

any manner by any party. In order to facilitate the execution of this Agreement and to achieve one of the purposes of this Agreement, KAW will not file rebuttal testimony that might have otherwise been filed. However, should any party require that hearings go forward pursuant to this paragraph, then the parties agree that all parties should be permitted to move the Commission for the establishment of a procedural schedule which would permit the parties to submit evidence that was not been submitted as a result of reaching this Agreement.

12. The parties agree that this Agreement is a fair, just and reasonable resolution of the issues in this proceeding and is in the best interests of all concerned. The parties urge the Commission to adopt the Agreement in its entirety. The parties agree that, following the execution of this Agreement, it shall be submitted to the Commission together with a request for consideration and approval of the Agreement. The parties agree that this Agreement is subject to the acceptance of and approval by the Commission and they further agree to act in good faith and to use their best efforts to recommend to the Commission that this Agreement be accepted and approved.

13. The parties agree that this Agreement shall inure to the benefit of and be binding upon the parties and their successors and assigns.

14. The parties agree that this Agreement constitutes the complete understanding among the parties and any and all oral statements, representations or agreements made prior to the execution of this Agreement shall be null and void and shall be deemed to have been merged into this Agreement.

15. The signatories to this Agreement warrant that they have informed, advised and otherwise consulted with the parties for whom they sign regarding the contents and significance

of this Agreement, and, based upon those communications, the signatories represent they are authorized to execute this Agreement on behalf of the parties.

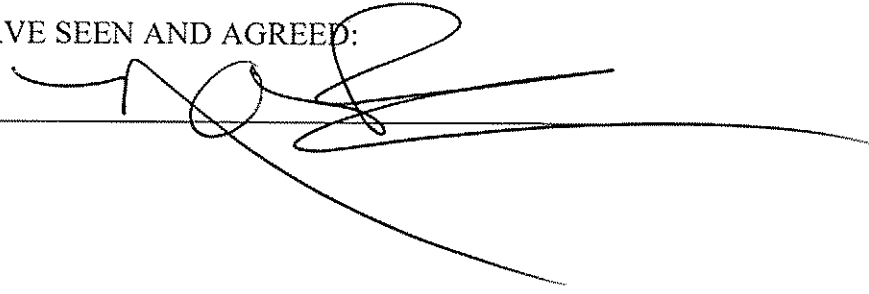
16. The parties agree that this Agreement may be executed in multiple counterparts.



KENTUCKY-AMERICAN WATER COMPANY

HAVE SEEN AND AGREED:

By

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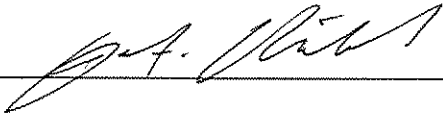
ATTORNEY GENERAL OF KENTUCKY

HAVE SEEN AND AGREED:

By David Earl Spence

COMMUNITY ACTION COUNCIL

HAVE SEEN AND AGREED:

By 

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

HAVE SEEN AND AGREED:

By *Amber* (APPROVED BY COUNCIL 9/13/07)

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS

HAVE SEEN AND AGREED:

By David F. Boehm