

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

IN THE MATTER OF:)
)
NOTICE OF ADJUSTMENT OF THE RATES OF) **CASE NO. 2008-00427**
KENTUCKY-AMERICAN WATER COMPANY)
EFFECTIVE ON AND AFTER NOVEMBER 30, 2008)

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”); 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 \$10,300,000.00 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 June 1, 2009. 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 will be filed upon the Commission's approval of this Agreement. These tariff sheets 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 continued use of the single tariff pricing model approved by KAW in Case No. 2007-00143 which results 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 parties to this proceeding agree that the depreciation rates currently in place and as approved by the Commission in Case No. 2007-00143 should continue to be effective.

4. The parties agree that one of the disputed issues in this case has been the appropriate ratemaking and accounting treatment of the capital expenditures ("CWIP") related to the construction of Kentucky River Station II and its associated facilities ("KRS II") which were the subject of Case No. 2007-00134. The basis of the dispute is whether KAW should be

permitted to begin earning a cash return on a portion of KRS II CWIP by including it in rate base without AFUDC offset as a result of this case, and, thus, whether a portion of KRS II CWIP should be reflected in the rates without AFUDC offset that will be implemented to be effective on June 1, 2009. The parties agree that \$20,200,000 of KRS II CWIP should be included in KAW's rate base without AFUDC offset as of June 1, 2009, at which time KAWC will cease recording AFUDC on the \$20,200,000 of CWIP, and that the rates set forth in Exhibit A include full rate recovery of \$20,200,000 of KRS II CWIP in rates. The parties agree that all other KRS II CWIP will be included in KAW's rate base at this time, but with full AFUDC brought above the line to determine going-level revenues. The parties project that the full cost of KRS II CWIP, including the \$20,200,000 mentioned above, and associated AFUDC will be included for eventual ratemaking treatment in KAW's next general rate case. Finally, the parties agree that KAW has sought in this case inclusion in rate base of a larger portion of KRS II CWIP without AFUDC offset than agreed to in this paragraph for reasons reflected in the record in this case, including the prevention of "rate shock." The effect of including \$20,200,000 of KRS II CWIP in rate base without AFUDC offset as a result of this case rather than a larger amount is that a greater incremental portion of KRS II CWIP or utility plant is projected for inclusion in KAW's next general water rate case. However, the AG, LFUCG and CAC agree that they will not take the position in KAW's next general water rate case that some portion of the total KRS II cost should be disallowed in that case in order to avoid "rate shock." Such agreement has no impact on the issue of whether any CWIP incurred by KAW, including KRS II CWIP, is or was prudent.

5. The parties agree that beginning in KAW's 2010 fiscal year, KAW will increase its annual contribution to the Help to Others Program to a total of \$60,000.00. KAW, CAC and

the AG agree to continue to discuss in good faith the challenges faced by low-income utility customers and to explore ways to meet those challenges.

6. Attached to this Agreement as Exhibit B 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.

7. The parties agree that, following the execution of this Agreement, they will cause the Agreement to be filed with the Commission together with a request to the Commission for consideration and approval of the Agreement for rates to become effective on June 1, 2009. The parties agree that this Agreement is subject to the acceptance and approval by the Commission and they further agree to act in good faith and use their best efforts to recommend to the Commission that this Agreement be accepted and approved.

8. Each party waives all cross-examination of the other parties' witnesses except for supporting this Agreement 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 twenty (20) 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 has 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.

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 _____

A large, stylized handwritten signature in black ink is written over the horizontal line following the word "By". The signature is highly cursive and extends significantly to the right of the line.

ATTORNEY GENERAL OF KENTUCKY

HAVE SEEN AND AGREED:

By *R M Sp* Assistant Attorney General

COMMUNITY ACTION COUNCIL

HAVE SEEN AND AGREED:

By  _____

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

HAVE SEEN AND AGREED:

By W. L. Wilson

*Subject to Approval of the
Lexington-Fayette Urban County Council*

P.S.C. KY. No. 6

COVER SHEET AND ORIGINAL SHEETS:

Nos. 1, 2, 5 through 19, 20.1, 21, 24.1, 26, 29 through 49,
49.4, 49.5, 49.6, 51, 54, 58, 59, 61, 62, 63, 64, and 64a;

First Revised Sheet Nos. 4, 24, 25, 28, 49.1, 49.2, 49.3, 50.3, 57,
58.1, 58.2, 58.3, 58.4, 58.5, 60, 65 and Appendix H

Second Revised Sheet Nos. 22, 23, 27, 50.1, 50.2, 56;

Third Revised Sheet No. 3.1, 52.1, 55

Fourth Revised Sheet Nos. 28.1 and 28.2;

Fifth Revised Sheet Nos. 20

Seventh Revised Sheet No. 55.1

Tenth Revised Sheet No. 3:

Twenty-Second Revised Sheet No. 53;

Twenty-Fourth Revised Sheet No. 52;

Twenty-Eighth Revised Sheet No. 50

KENTUCKY-AMERICAN WATER COMPANY

2300 RICHMOND ROAD, LEXINGTON, KENTUCKY

FOR SERVICE IN KENTUCKY COUNTIES OF

BOURBON, CLARK, FAYETTE, GALLATIN, GRANT, HARRISON,

JESSAMINE, OWEN, SCOTT AND WOODFORD

FILED WITH THE PUBLIC SERVICE COMMISSION OF KENTUCKY

ISSUED:

EFFECTIVE: June 1, 2009

ISSUED BY: _____

Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Twenty-Eighth Revised Sheet No. 50
Canceling Twenty-Seventh Revised Sheet No. 50

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 1

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for Residential, Commercial, Industrial, Sales for Resale, Municipal and All Other Public Authority metered service.

Meter Rates

The following shall be the rates for consumption, in addition to the service charges provided for herein;

	Customer Category	Rate Per 1,000 Gallons All Consumption	Rate Per 100 Cubic Feet All Consumption
(I)	Residential	\$3.77200	\$2.82900
(I)	Commercial	3.48667	2.61500
(I)	Industrial	2.81867	2.11400
	Municipal & Other		
(I)	Public Authority	3.29467	2.47100
(I)	Sales for Resale	3.27067	2.45300

Service Charges

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

	<u>Size of Meter</u>	<u>Service Charge Per Month</u>
(I)	5/8"	\$8.60
(I)	3/4"	12.90
(I)	1"	21.50
(I)	1-1/2"	43.00
(I)	2"	68.80
(I)	3"	129.00
(I)	4"	215.00
(I)	6"	430.00
(I)	8"	688.00

(I) Indicates Increase

ISSUED:

EFFECTIVE: June 1, 2009

ISSUED BY:

_____ 2300 Richmond Road, Lexington, KY 40502
Nick O. Rowe, President

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Twenty-Fourth Revised Sheet No. 52
Canceling Twenty-Third Revised Sheet No. 52

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 3

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates

	<u>Size of Service</u>	<u>Rate Per</u> <u>Month</u>	<u>Rate Per</u> <u>Annum</u>
(I)	2" Diameter	\$ 6.07	\$ 72.91
(I)	4" Diameter	24.45	293.43
(I)	6" Diameter	55.00	660.03
(I)	8" Diameter	97.79	1,173.45
(I)	10" Diameter	152.83	1,833.98
(I)	12" Diameter	220.13	2,641.62
(I)	14" Diameter	299.67	3,596.08
(I)	16" Diameter	391.32	4,695.89

Special Provisions

No charge shall be made for water used in extinguishing accidental fires or for Underwriters' tests, and water shall not be drawn from a private fire service connection for any other purpose.

(I) Indicates Increase

ISSUED:

EFFECTIVE: June 1, 2009

ISSUED BY: _____
Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Third Revised Sheet No. 52.1
Canceling Second Revised Sheet 52.1

TAPPING FEES

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for residential, commercial, industrial, other public authority and sales for resale customers.

Tapping (Connection) Fees

Size of Meter Connected

(I)	5/8-Inch	\$ 702.00
(I)	1-Inch	1,287.00
(I)	2-Inch	3,129.00
	Service larger than 2"	Actual Cost

For services greater than 2", a cost-adjustable deposit is required upon application. The tapping fee will be required upon application for all services installed on or after the effective date of this tariff, except in cases where a complete application for service (including plumbing inspection) is on file with the Company prior to the effective date of this tariff.

(I) Indicates Increase

ISSUED:

EFFECTIVE: June 1, 2009

ISSUED BY: _____

Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY

P.S.C. Ky No. 6
Twenty-Second Revised Sheet No. 53
Canceling Twenty-First Revised Sheet No. 53

CLASSIFICATION OF SERVICE
SERVICE CLASSIFICATION NO. 4

Applicable

Applicable to the entire Service Territory of Kentucky-American Water Company.

Availability of Service

Available for municipal or private fire connections used exclusively for fire protection purposes.

Rates For Public Fire Service

	<u>Rate Per Month</u>	<u>Rate Per Annum</u>
(I) For each public fire hydrant contracted for or ordered by Urban County, County, State or Federal Governmental Agencies or Institutions.	\$30.99	\$371.87

Rates For Private Service

(I) For each private fire hydrant contracted for by Industries or Private Institutions	\$54.34	\$652.13
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(I) Indicates Increase

ISSUED:

EFFECTIVE: June 1, 2009

ISSUED BY: _____

Nick O. Rowe, President

2300 Richmond Road, Lexington, KY 40502

KENTUCKY-AMERICAN WATER COMPANY
CASE NO: 2008-00427
REVENUES AT PRESENT AND PROPOSED RATES
TWELVE MONTHS ENDED MAY 31, 2010

Line No.	Rate Classification (A)	Sales (B)	Revenues at Present Rates (C)	Revenues at Proposed Rates (D)	Revenue Change (Amt) (E)	% of Revenues Change (F)
1						
2						
3						
4						
5						
6						
7	Residential	8,406,538	\$30,588,335	\$35,611,418	\$5,023,083	16.420%
8	Commercial	5,837,430	15,056,532	18,049,993	2,993,461	19.880%
9	Industrial	910,670	1,623,443	1,992,648	369,205	22.740%
10	Other Public Authority	2,019,601	4,508,892	5,509,118	1,000,226	22.180%
11	Sales for Resale	668,896	1,388,967	1,686,829	297,862	21.440%
12	Miscellaneous	0	21,626	21,626	0	0.000%
13	Private Fire Service	0	1,283,769	1,555,437	271,668	21.160%
14	Public Fire Service	0	2,428,896	2,773,378	344,482	14.180%
15						
16	Total	<u>17,843,135</u>	<u>\$56,900,460</u>	<u>\$67,200,447</u>	<u>\$10,299,987</u>	<u>18.100%</u>
17						
18	<u>Proforma Other Operating Revenues</u>					
19	Other Revenue-Rents Water Property		\$105,143	\$105,143	\$0	0.000%
20	Other Revenue - Collections for Others		\$1,071,239	1,071,239	0	0.000%
21	Other Revenues - NSF Checks		\$25,646	25,646	0	0.000%
22	Reconnection Fee		\$694,652	694,652	0	0.000%
23	Activation Fee		\$617,172	617,172	0	0.000%
24	Other revenue - misc		11,845	11,845	0	0.000%
25	AFDUC		<u>6,255,297</u>	<u>6,255,297</u>	<u>0</u>	<u>0.000%</u>
26						
27	Proforma Total Operating Revenues		<u>\$65,681,454</u>	<u>\$75,981,441</u>	<u>\$10,299,987</u>	<u>15.680%</u>
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