

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter of:

Application of Northern Kentucky)
Water District (A) for an Adjustment of Rates;)
(B) for Issuance of Bonds; and (C) Financing) CASE NO. 2012-00072
)

STIPULATION AND RECOMMENDATION

It is the intent and purpose of the participants to this proceeding, namely Northern Kentucky Water District ("Northern") and the Attorney General of the Commonwealth of Kentucky ("Attorney General"), (the "parties") and the Commission Staff ("Staff") to express their agreement on a mutually satisfactory resolution of all of the issues in the instant proceeding.

On June 29, 2012, Northern filed its application for an adjustment of rates. Based on a test year ending December 31, 2011 and annual revenues of \$52,342,592, it proposed rates to increase revenues by \$3,322,367 phased in over a two year period, which results in an approximately \$1,690,766 increase the first year and \$1,631,601 increase the second year.

On July 5, 2012, the Attorney General through his Office of Rate Intervention, which is authorized to represent the interests of utility ratepayers before the Commission pursuant to KRS 367.150(8), was granted intervention in the case. No other parties intervened.

It is understood by the parties and the Staff that this Stipulation and Recommendation is not binding upon the Public Service Commission ("Commission"), unless or until approved by the Commission and the issuance of a final order. It does not represent agreement on any specific

theory of ratemaking or on any specific claim, computation, formula, allegation, assertion, contention, methodology, theory or ratemaking principle supporting the appropriateness of any proposed or recommended adjustments to Northern's rates.

The parties and Staff have expended considerable efforts to reach the agreements that form the basis of this Stipulation and Recommendation. The parties and Staff agree that this Stipulation and Recommendation viewed in its entirety constitutes a reasonable resolution of all issues in this proceeding.

The adoption of this Stipulation and Recommendation will eliminate the need for the Commission and the parties to expend significant resources in litigation of this proceeding and will eliminate the possibility of and any need for a hearing, rehearing or appeals of the Commission's final order.

It is the position of the parties that this Stipulation and Recommendation is supported by sufficient and adequate data and information and is entitled to serious consideration by the Commission. Based upon the parties' participation in a settlement conference with the Staff on October 12, 2012, the materials on file with the Commission and upon the belief that these materials adequately support this Stipulation and Recommendation, the parties, representing diverse interests and divergent viewpoints, agree that this Stipulation and Recommendation, viewed in its entirety constitutes a fair, just and reasonable resolution of all issues in this proceeding.

It is the position of the Parties and the Staff that the terms about which they have agreed as reflected in this Stipulation and Recommendation are supported by sufficient and adequate data and information, and should be approved in their entirety by the Commission.

Based on the foregoing, the parties and Staff stipulate and recommend the following:

1. Northern is authorized to adjust its base rates in order to permit it an opportunity to recover \$3,322,367 more in revenue phased in over a two year period than it is recovering under its current rates based on proposed rates and implementation dates as stated in the application. The retail rate adjustment is to be implemented in two phases. The first phase of the adjustment shall become effective for service rendered on and after January 1, 2013, which is approximately a 3.34% increase for the average residential customer. The second phase of the rate increase shall become effective for service rendered on and after January 1, 2014, which is approximately a 3.03% increase for the average residential customer.

2. Northern's revised tariff sheets with agreed upon rates are attached.

3. The parties and Staff acknowledge that the calculation of revenue requirements and the level of debt service coverage in that calculation may be an issue in Northern's next rate case.

4. The parties and Staff agree that Northern's request to eliminate its quarterly filings related to the issue of monthly billing is granted. The parties and Staff further acknowledge that this issue may be re-evaluated by the Commission in Northern's next rate case.

5. Each party waives all cross-examination of the witnesses of the other party except in support of the Stipulation and Recommendation or unless the Commission disapproves this Stipulation and Recommendation and each party and the Staff further stipulate and recommend that the Notice of Intent, Notice, Application, testimony, pleadings and responses to data requests filed in this proceeding be admitted into the record.

6. This Stipulation and 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 Northern or any other utility.

7. If the Commission issues an order adopting this Stipulation and Recommendation in its entirety, each of the parties agrees that it shall not file either an application for rehearing with the Commission or an appeal to the Franklin Circuit Court with respect to such order.

8. In the event the Commission should reject or modify all or any portion of this Stipulation and Recommendation 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 Stipulation and Recommendation 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 Stipulation and Recommendation. In such event the terms of this Stipulation and Recommendation shall not be binding upon the parties, and this Stipulation and Recommendation shall not be admitted into evidence, referred to or relied upon in any manner by any party or the Staff. The terms of this Stipulation and Recommendation and any matters discussed or raised during the settlement negotiations shall not be binding on any of the parties to this Stipulation and Recommendation, be construed against any of the parties in any fashion, or be the subject of cross-examination in any subsequent court or administrative proceeding.

9. The parties agree that this Settlement Stipulation and Recommendation shall

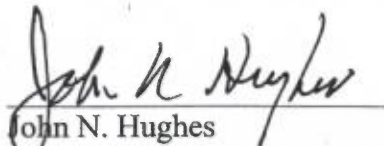
not be deemed to divest the Commission of jurisdiction under KRS Chapter 278.

10. The parties agree for the purpose of this Stipulation and Recommendation that its terms are based upon the independent analysis of the parties to reflect a fair, just, and reasonable resolution of the issues and are the product of compromise and negotiation.


11. The parties agree that neither the Stipulation and Recommendation nor any of the terms shall be admissible in any court or administrative proceeding except insofar as such court or administrative body is addressing litigation arising out of the implementation of its terms or the approval of this Stipulation and Recommendation. This Stipulation and Recommendation shall not have any precedential value in this jurisdiction.

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

AGREED this 19th day of October, 2012.



John N. Hughes
Attorney for Northern Kentucky Water District



David Edward Spenard
Assistant Attorney General
Office of Rate Intervention