

STIPULATION, PARTIAL SETTLEMENT AGREEMENT AND RECOMMENDATION

This Stipulation, Partial Settlement Agreement and Recommendation (“Stipulation”) is entered into and effective this 4th day of April 2016 by and among Water Service Corporation of Kentucky (“WSCK”), the Office of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention (“AG”) and the City of Clinton (the “City”) in the proceeding involving the above parties, which are the subject of this Stipulation, as set forth below. (WSCK, the AG and the City are referred to collectively herein as the “Parties.”)

W I T N E S S E T H:

WHEREAS, WSCK filed on November 30, 2015, with the Kentucky Public Service Commission (“Commission”) its Application in *In the Matter of: Application of Water Service Corporation of Kentucky for a General Adjustment in Existing Rates*, and the Commission has established Case No. 2015-00382;

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

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;

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

WHEREAS, the Parties have spent significant time 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 certain 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 any 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. WSCK agrees to use the rate design proposed by the AG's witness Scott J. Rubin in testimony and supporting schedules filed on February 22, 2016, to effectuate any continuation or change in revenue requirement.

2. WSCK agrees to continue using its current depreciation rates and will not change them as originally proposed in its application.

3. WSCK agrees to an adjustment to the proposed pro forma revenue requirement that results from resuming current depreciation rates. This adjustment shall be applied to the volumetric rate of all customers and fire protection rates, as shown on the Appendix to this Stipulation.

4. The Parties agree that any change to the pro forma revenue requirement proposed by WSCK other than the one identified in paragraph 3 above that is ordered by the Public Service Commission should affect only the volumetric rates for customers in the Middlesboro service area.

5. The AG and the City will not oppose the revenue requirements proposed by WSCK in this matter, subject to WSCK's agreement in paragraph 3 above to adjust its proposed revenue requirement to reflect that WSCK will continue using its current depreciation rates.

6. The AG and the City agree to waive all cross-examination of the WSCK's witnesses. The AG and the City stipulate that, after the date of this Stipulation, they will not

otherwise contest WSCK'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 or filing of post-hearing brief, except insofar as such cross-examination or brief supports the Stipulation or WSCK's application subject to the terms and conditions of this Stipulation.

7. The Parties agree that this Stipulation represents a fair, just, and reasonable resolution of the certain issues subject to the Stipulation and the Stipulation is not contrary to law.

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

9. 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 incorporated into any Order approving WSCK's application in this proceeding.

10. 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 on a specific issue agreed to or explicitly not opposed to by that party in this Stipulation.

11. 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.

12. 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.

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

14. 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.

15. 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.

16. The signatories on behalf of WSCK and the AG 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 Mayor of the City warrants that she has been informed, advised, and consulted with the City Attorney, who represent in the City in this proceeding in regard to the contents and significance of this Stipulation, and based upon the foregoing is authorized to execute this Stipulation on behalf of the City.

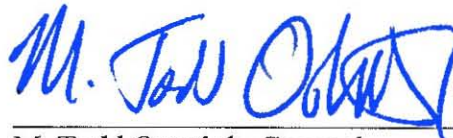
18. The Parties agree that this Stipulation is a product of negotiation among all Parties, and that no provision of this Stipulation shall be strictly construed in favor of, or against, any Party.

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

IN WITNESS WHEREOF, the Parties in Case No. 2015-00382 have hereunto affixed their signatures.

Water Service Corporation of Kentucky

HAVE SEEN AND AGREED:



M. Todd Osterloh, Counsel

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

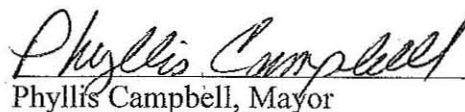
HAVE SEEN AND AGREED:



Kent Chandler, Assistant Attorney General
Rebecca Goodman, Executive Director

City of Clinton

HAVE SEEN AND AGREED:



Phyllis Campbell, Mayor

Proposed AG Rate Structure @ 100%

Meter Size	Rate \$	Middlesboro		Clinton		Total
		Units	Revenue	Units	Revenue	Revenue
5/8"	\$ 10.00	65,944	\$ 659,440	295	\$ 2,950	\$ 662,390
3/4"	\$ 10.00	24	\$ 240	6,359	\$ 63,590	\$ 63,830
1"	\$ 17.50	1,136	\$ 19,880	168	\$ 2,940	\$ 22,820
1.5"	\$ 30.00	286	\$ 8,580	59	\$ 1,770	\$ 10,350
2"	\$ 45.00	585	\$ 26,325	60	\$ 2,700	\$ 29,025
3"	\$ 85.00	96	\$ 8,160	-	\$ -	\$ 8,160
4"	\$ 130.00	36	\$ 4,680	-	\$ -	\$ 4,680
6"	\$ 255.00	36	\$ 9,180	-	\$ -	\$ 9,180
BFC			\$ 736,485		\$ 73,950	\$ 810,435
First 100KGal	\$ 4.454	306,759,146	\$ 1,366,305			\$ 1,366,305
Over 100KGal	\$ 3.439	73,200,504	\$ 251,737			\$ 251,737
All Gal	\$ 4.580			30,101,342	\$ 137,864	\$ 137,864
Volume			\$ 1,618,042		\$ 137,864	\$ 1,755,906
Private	\$ 25.83	876	\$ 22,630	120	\$ 3,100	\$ 25,729
Municipal	\$ 5.74	3,300	\$ 18,958	648	\$ 3,723	\$ 22,680
WIND*	\$ 190.64	12	\$ 2,288			\$ 2,288
Fire Protection			\$ 43,875		\$ 6,823	\$ 50,697
Total			\$ 2,398,402		\$ 218,637	\$ 2,617,038

*WIND (Middlesboro Water Industrial) should be included in 2" industrial customer with total test year usage of 3,400

Settlement Rate Structure - Depreciation Change removed

Meter Size	Rate \$	Middlesboro		Clinton		Total
		Units	Revenue	Units	Revenue	Revenue
5/8"	\$ 10.00	65,944	\$ 659,440	295	\$ 2,950	\$ 662,390
3/4"	\$ 10.00	24	\$ 240	6,359	\$ 63,590	\$ 63,830
1"	\$ 17.50	1,136	\$ 19,880	168	\$ 2,940	\$ 22,820
1.5"	\$ 30.00	286	\$ 8,580	59	\$ 1,770	\$ 10,350
2"	\$ 45.00	585	\$ 26,325	60	\$ 2,700	\$ 29,025
3"	\$ 85.00	96	\$ 8,160	-	\$ -	\$ 8,160
4"	\$ 130.00	36	\$ 4,680	-	\$ -	\$ 4,680
6"	\$ 255.00	36	\$ 9,180	-	\$ -	\$ 9,180
BFC			\$ 736,485		\$ 73,950	\$ 810,435
First 100KGal	\$ 4.242	306,759,146	\$ 1,301,272			\$ 1,301,272
Over 100KGal	\$ 3.275	73,200,504	\$ 239,732			\$ 239,732
All Gal	\$ 4.362			30,101,342	\$ 131,302	\$ 131,302
Volume			\$ 1,541,004		\$ 131,302	\$ 1,672,306
Private	\$ 24.99	876	\$ 21,889	120	\$ 2,999	\$ 24,888
Municipal	\$ 5.56	3,300	\$ 18,338	648	\$ 3,601	\$ 21,938
WIND*	\$ 184.40	12	\$ 2,213			\$ 2,213
Fire Protection			\$ 42,439		\$ 6,599	\$ 49,039
Total			\$ 2,319,928		\$ 211,851	\$ 2,531,780

*WIND (Middlesboro Water Industrial) should be included in 2" industrial customer with total test year usage of 3,400