

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

**IN THE MATTER OF:**

**THE APPLICATION OF KENTUCKY-AMERICAN  
WATER COMPANY FOR AN ADJUSTMENT OF  
RATES**

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**CASE NO. 2015-00418**

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**SETTLEMENT TESTIMONY OF LINDA C. BRIDWELL, P.E.**

**July 7, 2016**

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1 **Q. Please state your name and business address.**

2 A. My name is Linda C. Bridwell. My business address is 2300 Richmond Road,  
3 Lexington, Kentucky 40502.

4 **Q. What is the purpose of this settlement testimony?**

5 A. This settlement testimony is filed in support of the Settlement Agreement, Stipulation and  
6 Recommendation (“Agreement”) filed with the Kentucky Public Service Commission  
7 (“Commission”) on July 6, 2016 in this proceeding. This testimony will explain how the  
8 Agreement is fair, just and reasonable.

9 **Q. Please explain how the total amount of the increase in revenues for KAW as  
10 proposed in the Agreement can be considered fair, just and reasonable.**

11 A. The initial proposal by KAW in this proceeding, which was subsequently revised,  
12 represents a fair, just and reasonable outcome. Since this proceeding commenced,  
13 substantial data has been exchanged and the parties have engaged in extensive  
14 negotiations in an attempt to arrive at an alternative outcome that is fair, just and  
15 reasonable to KAW’s customers and its shareholders and an outcome which the  
16 Commission would, and should, approve. The compromise of revenues and rates which  
17 has resulted from these negotiations reflects the present best judgment of the parties  
18 (including their respective outside experts) as to what is fair, just and reasonable for  
19 KAW’s customers and shareholders. These rates will produce sufficient revenue for  
20 KAW to operate and provide the high level of service its customers expect and deserve.

21 KAW’s position remains that the entire revised increase it has sought in this  
22 proceeding is appropriate to maintain its earnings at a level that allows KAW an  
23 opportunity to earn a fair, just and reasonable return on its investment. Nonetheless, the

1 nature of the ratemaking process is such that the Agreement produces a fair, just and  
2 reasonable outcome as a result of the compromise reached by the parties.

3 **Q. Why would the parties be willing to reach a compromise?**

4 A. Each of the parties to the Agreement has vigorously pursued its respective positions in  
5 testimony, exhibits and responses to data requests. However, despite the sincerity of  
6 these individual positions, the parties recognize that the final outcome in this proceeding  
7 would likely result in a decision with which no party would be totally satisfied. The  
8 parties further recognize that the very nature of litigation entails both risk and cost. By  
9 reaching this compromise, each party has determined that the proposed Agreement is  
10 preferable to other, less favorable outcomes and avoids the costs that would result from  
11 continued litigation. Through negotiation, each party was able to prioritize its goals in  
12 this proceeding and ensure that those priorities are reflected in the Agreement.

13 **Q. How does a compromise produce a fair, just and reasonable change in revenues?**

14 A. Each of the parties to this proceeding represents a unique constituency. By pursuing the  
15 positions of the respective constituencies in negotiations, each party has ensured that the  
16 priorities of its constituencies have been met. Each party has freely and voluntarily  
17 agreed to the concessions it has made in order to ensure its priorities are reflected in the  
18 Agreement, which provides for a fair, just and reasonable change in rates. In other  
19 words, the Agreement is a fair, just and reasonable settlement because each constituency  
20 has been vigorously represented in the negotiations and, through representation or direct  
21 involvement, has freely consented to the Agreement.

1 **Q. What evidence is there for the Commission that each constituency was vigorously**  
2 **represented in the negotiations that led to this settlement?**

3 A. The Agreement itself reveals the sincerity of the negotiations on all sides. The record in  
4 this proceeding clearly states the positions of the parties. The Commission need only  
5 review the positions taken by the parties in this case and compare those positions to the  
6 Agreement to determine if each party was vigorously represented in negotiations and  
7 made appropriate concessions to ensure its priorities were reflected on the Agreement.  
8 Any settlement must be viewed in its entirety rather than evaluated on the basis of any its  
9 individual components. This Agreement was negotiated in the context of its overall  
10 result and impact on customers and shareholders, not any one particular rate issue.

11 **Q. Please briefly describe the terms of the Agreement and its exhibits.**

12 A. The Agreement offered to the Commission for its consideration and approval permits  
13 KAW to adjust its rates to recover an additional \$6.475 million in annual revenue  
14 compared to current rates. The new rates would be effective for service on and after  
15 August 28, 2016. The additional revenue shall be reflected in increases to customer  
16 charges associated with KAW's various tariff sheets. The affected tariff sheets are  
17 attached to the Agreement (as Exhibit A) in their proposed form. The proposed tariff  
18 sheets show the rates that will be implemented on August 28, 2016 if the Agreement is  
19 approved. Exhibit B to the Agreement reflects the KAW depreciation rates that will be  
20 effective as a result of the Agreement. Exhibit C to the Agreement contains the proof-of-  
21 revenue information. The Exhibits to the Agreement are considered a part of the  
22 Agreement and have been agreed to by all parties.

1 **Q. Please describe why the tariffs that have been modified by virtue of the Agreement**  
2 **are fair, just and reasonable.**

3 A. As a part of the Agreement, the parties have agreed upon the affected tariff sheets that  
4 comprise Exhibit A to the Agreement. Those tariff sheets ensure the interests of the  
5 constituencies represented by each party have been prioritized and protected in the  
6 Agreement. The tariffs themselves are the means by which KAW can produce the agreed  
7 upon level of revenue – a level that is necessary for KAW to meet its obligations.

8 **Q. Please describe why the depreciation rates that will be implemented by KAW are**  
9 **attached to the Agreement as Exhibit B.**

10 A. As part the Agreement, the parties have agreed upon the depreciation rates that KAW  
11 will implement, which were first presented with KAW's Application. Those rates are  
12 also set forth in Exhibit B to the Agreement. In the proceeding, the new depreciation  
13 study and its contents were the subject of discovery. For accounting and external  
14 auditing purposes, KAW must use clear and established depreciation rates. Therefore,  
15 those rates, to which the parties have agreed, have been specifically set forth in Exhibit B.

16 **Q. Please describe the attached proof-of-revenue sheets.**

17 A. As a part of the Agreement, all of the parties have agreed upon the proof-of-revenue  
18 sheets that are Exhibit C to the Agreement. Those sheets detail the rate design of the  
19 \$6.475 million rate adjustment.

20 **Q. Has KAW published public notice of the hearing in this case, which is scheduled to**  
21 **begin on July 13, 2016?**

22 A. Yes. KAW published the public notice in newspapers throughout its service area. On  
23 Jun 24, 2016, KAW filed with the Commission the requests for publication and a copy of

1 the public notice Affidavits demonstrating proof of publication are being gathered at this  
2 time and will be submitted to the Commission when the complete documentation has  
3 been compiled.

4 **Q. Are there any other matters you wish to address at this time?**

5 A. Yes. In closing, please note that all of the parties have expended considerable effort to  
6 reach the terms that form the basis of the Agreement. The parties agree that the  
7 Agreement is reasonable, produces rates that are fair, and is in the best interests of all  
8 concerned. Together, we submit the Agreement for the consideration of the Commission  
9 and urge that it be approved in its entirety.

10 **Q. Does this conclude your direct testimony in support of the Agreement?**

11 A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
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COUNTY OF FAYETTE ) SS:

The undersigned, **Linda C. Bridwell**, being duly sworn, deposes and says she is the Manager of Rates and Regulation for Kentucky-American Water Company, that she has personal knowledge of the matters set forth in the foregoing testimony, and the answers contained therein are true and correct to the best of her information, knowledge, and belief.

*Linda C. Bridwell*  
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**LINDA C. BRIDWELL**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 7<sup>th</sup> day of July, 2016.

*Lizzy A. Stone* (SEAL)  
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Notary Public

My Commission Expires:  
10/3/2016

