

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

**IN THE MATTER OF:)
)
NOTICE OF ADJUSTMENT OF THE RATES OF) CASE NO. 2004-00103
KENTUCKY AMERICAN WATER COMPANY)
EFFECTIVE ON AND AFTER MAY 30, 2004)**

**DIRECT TESTIMONY OF
PATRICK BARYENBRUCH**

April 30, 2004

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TESTIMONY OF
PATRICK L. BARYENBRUCH

FILED ON BEHALF OF
KENTUCKY-AMERICAN WATER COMPANY

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

A. Patrick L. Baryenbruch, 302 East Park Drive, Raleigh, North Carolina 27605.

2. Q. Please describe your educational and professional background.

A. I received a Bachelors degree in accounting from the University of Wisconsin-Oshkosh in 1974 and a Masters in Business Administration degree from the University of Michigan in 1979.

I am a certified public accountant and am a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants.

I began my career as a staff accountant with Arthur Andersen & Company where I performed financial audits of utilities, banks and finance companies. After three years I left to pursue an M.B.A. degree. Upon graduation from business school, I worked with the consulting firms of Theodore Barry & Associates and Scott, Madden & Associates.

During my consulting career, I have performed consulting assignments for approximately 50 utilities and 10 public service commissions. I have participated as project manager, lead or staff consultant for 24 commission-ordered management and prudence audits of public utilities. Of these, I have been responsible for evaluating the area of affiliate charges and allocation of corporate expenses in the Commission-ordered audits of Connecticut Light and Power, Connecticut Natural Gas, General Water Corporation (Pennsylvania Operations), Philadelphia Suburban Water Company, Pacific Gas & Electric Company and Southern California Edison.

My firm has performed the commission-ordered audit of Southern California Edison's 2002 and 2003 transactions with its non-regulated affiliate companies.

3. Q. What are your duties and responsibilities in your current position?

A. I am the President of my own consulting practice, Baryenbruch & Company, which was established in 1985. In that capacity, I provide consulting services to utilities and their regulators.

1 4. Q. Please describe the reason for your testimony in this case.
2 A. I am presenting the results of my study which evaluated the
3 services provided by American Water Service Company (Service
4 Company) to Kentucky-American Water Company (Kentucky-
5 American). This study was undertaken in conjunction with
6 Kentucky-American's rate case and is true to the best of my
7 knowledge and belief. The study is attached as Exhibit PLB-1.
8

9 5. Q. What were the objectives of your study?
10 A. This study was undertaken to answer three questions. First, what
11 would be the economic impact on Kentucky-American if it were to
12 outsource the managerial, professional and technical services that
13 it now receives from American Water Service Company, Inc.
14 (Service Company)? Second, are the costs of American Water's
15 National Call Center reasonable? Third, are the services Kentucky-
16 American receives from the Service Company necessary?
17

18 6. Q. What conclusions were you able to draw concerning question
19 number 1, the economic impact of outsourcing all the services
20 provided by the Service Company?
21 A. I was able to draw the following conclusions:
22 (1) On average, the hourly rates for outside service providers
23 are more than 74% higher than the Service Company's
24 hourly rates.
25 (2) The managerial, professional and technical services
26 provided by the Service Company are vital and could not be
27 procured externally by Kentucky-American without careful
28 supervision on the part of Kentucky-American. If these
29 services were contracted entirely to outside providers,
30 Kentucky-American would have to add at least one more
31 position to manage activities of the outside firms. This
32 position would be essential to ensure a high level of quality
33 service is being provided.
34 (3) If all the managerial, professional and technical services now
35 provided by the Service Company had been out-sourced
36 during the 12-months ended December 31, 2003, Kentucky-
37 American and its ratepayers would have incurred an
38 additional \$2,333,931 in expenses. This amount includes
39 the added cost of outside providers and the cost of one
40 Kentucky-American position needed to direct this outsourced
41 work. This is over 71% more than the Service Company's
42 total billings to Kentucky-American during the year ended
43 December 31, 2003.

1 (4) It would be difficult for Kentucky-American to find local
2 service providers with the same specialized water industry
3 expertise as that possessed by the Service Company staff.
4 Service Company personnel spend substantially all their time
5 serving operating water companies. This specialization
6 brings with it a unique knowledge of water utility operations
7 and regulation that is most likely unavailable from local
8 service providers.

9 (5) Service Company fees do not include any profit markup.
10 Only its actual cost of service is being recovered from
11 Kentucky-American ratepayers.

12

13 7. Q. What is your conclusion regarding the reasonableness of the costs
14 of American Water's National Call Center that provides service to
15 Kentucky-American?

16 A. I was able to determine that the cost of the Service Company's
17 customer accounts services, including those provided by the
18 National Call Center, are less than the average of electric utilities in
19 Kentucky and surrounding states. During the 12-months ended
20 December 31, 2003, the annualized customer accounts cost for
21 Kentucky-American customers was \$24.38 compared to the 2002
22 average of \$25.64 for neighboring electric utilities.

23

24 8. Q. What conclusions were you able to draw concerning the necessity
25 of the services Kentucky-American receives from the Service
26 Company?

27 A. I was able to draw the following conclusions:

28 (1) Kentucky-American could not function without the services
29 that are provided to it by the Service Company. These
30 services are the same type of activities that must be carried
31 out by a stand-alone utility company to ultimately provide
32 customers with service.

33 (2) There is no redundancy in the services provided by the
34 Service Company and the activities that are performed by
35 Kentucky-American itself.

36

37 9. Q. Does this complete your testimony?

38 A. Yes.