

**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
CHRIS E. JARRETT**

April 30, 2004

**KENTUCKY AMERICAN WATER
PSC CASE NO. 2004-00103**

**DIRECT TESTIMONY
CHRIS E. JARRETT**

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

A. My name is Chris E. Jarrett, 1600 Pennsylvania Avenue, Charleston,
West Virginia 25327.

2. Q. What is your position with Kentucky American Water?

A. I am Chairman of the Board of Directors and, as such, I am the Chief Officer in
charge of its operations.

3. Q. Do you hold any other positions within the American Water system?

A. Yes, I am President of West Virginia American Water, Maryland American Water
and Virginia American Water, and Chairman of the Board of Tennessee American
Water.

4. Q. Who are the officers of Kentucky American Water?

Chairman of the Board	Chris E. Jarrett
President	Roy W. Mundy II
Vice President Finance, Treasurer and Comptroller	Michael A. Miller
Vice President and Secretary	Herbert A. Miller, Jr.
Vice President	David B. Schultz
Assistant Treasurer and Assistant Secretary	Nancy M. Strickland
Assistant Treasurer	Roy L. Ferrell, Sr.
Assistant Treasurer	James R. Hamilton
Assistant Secretary	Stephen N. Chambers
Assistant Comptroller	Thomas R. Bailey
Assistant Comptroller	Rachel S. Cole
Assistant Comptroller	Jonathan G. Eastlick
Assistant Comptroller	Doneen S. Hobbs
Assistant Comptroller	Robin N. Quinn
Assistant Comptroller	John R. Reynolds
Assistant Comptroller	Thomas C. Spitz
Assistant Comptroller	Benjamin J. Tartaglia, Jr.

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2 **5. Q. What are your responsibilities as Chairman of the Board of Kentucky**
3 **American Water?**

4 A. I am ultimately responsible for the development, management and operations of
5 Kentucky American Water's system in Kentucky. I am responsible for
6 establishing and maintaining the standards of service, directing the preparation of
7 the investment, revenue, operations and maintenance budgets, establishing
8 controls to assure the accomplishment of the approved budgets, assuring that
9 necessary funding is available to carry out the plans, ensuring the safety and
10 integrity of the systems for the protection of the customers, employees and
11 operations.

12 **6. Q. Please describe your professional education and experience.**

13 A. Please see Appendix A to my testimony.

14 **7. Q. Have you previously testified before state utility regulatory bodies?**

15 A. Yes, I have testified before the regulatory commissions in West Virginia,
16 Virginia, Tennessee, Maryland and Kentucky.

17 **8. Q. Are you familiar with the general financial condition of Kentucky American**
18 **Water?**

19 A. Yes, I am and that is the reason for the filing of this Application to increase its
20 rates.

21 **9. Q. Please describe the action sought by Kentucky American Water in this case.**

22 A. Kentucky American Water seeks a rate increase that will produce \$7.297 million
23 of additional revenue on an annual basis, or an overall increase of 16.82%. This
24 overall increase is allocated between the Company's Central Division and its

1 Northern Division operations in Tri-Village and Elk Lake (Owen County,
2 Kentucky). The overall increase for each of the three operations is as follows: (1)
3 Central Division – 16.29%, (2) Tri-Village – 41.04%, and (3) Elk Lake –
4 42.22%. A portion of the revenue increase would come from a new activation fee,
5 if approved, and lower the increase from the metered tariff. Mr. Miller, Mr. Bush
6 and Ms. Valentine will cover the specific tariff issues in their direct testimony.

7 **10. Q. Did you participate in the Company's decision to seek a rate adjustment?**

8 A. Yes. I reviewed the financial package that was provided to the Board and
9 participated in the Board decision to approve the Application and the rate filing.

10 **11. Q. What were the basic factors that caused Kentucky American Water to seek a**
11 **rate increase at this time?**

12 A. The last general rate adjustment approved by this Commission for Kentucky
13 American Water was in Case No. 2000-120, an increase in revenues by Orders
14 dated November 27, 2000, December 12, 2000 and May 9, 2001. Since that time
15 Kentucky American Water has invested substantial capital to maintain and
16 upgrade its facilities. Without an increase in rates our forecasted return to
17 common equity for the forecasted test year in this case will clearly be deficient.
18 In order for the Company to continue adequately meeting its service obligation,
19 construct needed capital improvements, and obtain capital at a reasonable cost, it
20 must seek an increase in revenues in this filing. Annual revenues must be
21 increased to allow the Company to properly fund construction projects so the
22 integrity of service to our customers can be maintained. Our witnesses will
23 address the basis for the rate request. Some of our operating expenses have

1 increased rather dramatically since our last rate case. Michael A. Miller, in the
2 answer to question 7 in his Direct Testimony, discusses the expected,
3 unacceptable return on equity for Kentucky American Water in 2005 of 7.14%.
4 This return is manifestly inadequate.

5 **12. Q. Mr. Miller discusses the corporate reorganization currently underway at**
6 **American Water. Has that reorganization affected Kentucky American**
7 **Water?**

8 A. Yes. The Southeastern Region of American Water has been significantly
9 expanded by the addition of Pennsylvania American Water to the Southeastern
10 Region. Pennsylvania American has over 600,000 customers and the addition of
11 Pennsylvania American more than doubles the number of customers in the
12 Southeastern Region. Kentucky American Water is now a part of the
13 Southeastern Region with regional offices located in Hershey, Pennsylvania. As
14 Mr. Miller pointed out, the purpose of the realignment is to provide a structure for
15 delivering efficiencies and uniform best practices to each operating company.
16 Kentucky American Water will continue to deliver potable water to all of its
17 customers that meets or exceeds all governmental standards at a reasonable cost.
18 The reorganization has not effected any personnel changes at Kentucky American
19 Water.

20 **13. Q. Is Roy W. Mundy II the President of Kentucky American Water and is he**
21 **going to testify in this case?**

22 A. Roy W. Mundy II is the President of Kentucky American Water and is not going
23 to testify in this case. The Lexington-Fayette Urban County Government is

1 attempting to acquire all of the assets of Kentucky American Water by a
2 condemnation proceeding instituted in the Fayette Circuit Court. The Board of
3 Directors of Kentucky American Water is very concerned by this activity and
4 believes, as do I, that the best interest of our customers is the continued private
5 ownership of the assets devoted to the provision of potable water with rates and
6 services regulated by the Public Service Commission. The Board has directed
7 Mr. Mundy to devote his full time and energies to defending the Company. A
8 Summons has recently been served upon the Company in that condemnation
9 proceeding and we anticipate significant and comprehensive legal efforts during
10 the pendency of this rate application. It is essential that Mr. Mundy be available
11 to coordinate and direct those efforts on a full-time basis.

12 **14. Q. On January 10, 2003, the change of control of Kentucky American Water as**
13 **authorized by this Commission was accomplished. What has the change of**
14 **control meant to the customers of Kentucky American Water?**

15 A. The change of control has been completely transparent to the customers of
16 Kentucky American Water—they still receive the same quality product at a
17 reasonable cost. There are and will continue to be capital cost savings as a result
18 of the change of control as discussed by Mr. Miller in his testimony. The change
19 of control has made available expertise in security that gives us comfort we would
20 not otherwise have at this point in time. The security initiatives are discussed in
21 detail in the testimony of Bruce Larson and Ken Rubin. Linda Bridwell discusses
22 the capital requirements associated with solving the source of supply problem.

1 The increased availability of capital at lower rates than would otherwise exist as a
2 result of the change of control cannot be overemphasized.

3 **15. Q. Does this conclude your direct testimony?**

4 A. Yes, it does.

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APPENDIX A

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3 Following two years of active duty with the U. S. Army, I obtained a B.S.
4 degree in Management from West Virginia State College in 1971. In 1974, I obtained a
5 B.S. degree in Accounting with a minor in Economics, and in 1976 I graduated from
6 West Virginia College of Graduate Studies with a Masters Degree in Finance.

7 I joined the American Water Works Service Company in 1969. During
8 the period from 1969 to 1973, I served as Payroll and Accounts Payable Clerk,
9 Disbursement Supervisor and Internal Auditor. From 1973 to 1976, I served as Assistant
10 Director of Accounting and in 1976 was promoted to Director of Accounting. I then
11 served as Business Manager of the Kanawha Valley District of West Virginia Water
12 Company until April 1981, at which time I was named Manager and Vice President of the
13 Alexandria/Prince William District of Virginia-American Water Company.

14 In August 1983, I assumed the responsibilities of Vice President of the
15 Kentucky-American Water Company, Maryland-American Water Company,
16 Tennessee-American Water Company, Virginia-American Water Company and the West
17 Virginia-American Water Company.

18 In January 1986, I was named Manager of Finance for the Southern
19 Region, and was made Vice President and General Manager of West Virginia American
20 in 1991. Effective January 1, 1994, I was appointed President of West Virginia
21 American, and effective April 1, 2000, I was named President of the Southeast Region of
22 American Water, which includes the position of Chairman of the Board of Directors for
23 Kentucky American Water.

1 I am a former member of the Board of Directors of the National
2 Association of Water Companies. I am a member of the West Virginia Section of
3 AWWA and hold the position of Second Trustee. I serve as Chairman of the Water
4 Utility Council, and also serve as a member on the Board of the National Water Utility
5 Council.

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