

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

IN THE MATTER OF:)
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ADJUSTMENT OF THE RATES OF) **CASE NO. 2004-00103**
KENTUCKY-AMERICAN WATER COMPANY)
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**REBUTTAL TESTIMONY
OF
LINDA C. BRIDWELL
ON BEHALF OF
KENTUCKY-AMERICAN WATER COMPANY**

October 8, 2004

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-103
REBUTTAL TESTIMONY
LINDA C. BRIDWELL

1 **1. Q. PLEASE STATE YOUR NAME.**

2 A. My name is Linda C. Bridwell.

3

4 **2. Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

5 A. The purpose of my rebuttal testimony is to address certain issues raised and
6 revenue requirement adjustments made by the Attorney General’s witness, Ms.
7 Crane. I will also address a change to my previously filed testimony that is
8 relevant to the proceedings.

9

10 **3. Q. WHAT ARE THE ISSUES THAT YOU WILL BE ADDRESSING IN YOUR**
11 **REBUTTAL TESTIMONY?**

12 A. The issues I will be addressing include the change to waste disposal at the
13 Richmond Road Station and the requested increase in maintenance expense.

14

15 **4. Q. DO YOU HAVE ANY CHANGES FROM YOUR PREVIOUSLY FILED**
16 **TESTIMONY THAT ARE RELEVANT TO THE PROCEEDINGS?**

17 A. Yes. I wish to highlight the correction of the proposed tap fees that were
18 identified on pages 30 and 31 of my testimony. This correction was noted in
19 response to the Commission’s Staff’s Second Set of Information Requests, Item
20 45. I had identified a proposed new tap fee for the Northern Division-Elk Lake 1”
21 and 2” meter settings similar to the Central Division while the tariff sheet
22 proposed an “Actual Cost”. This was an error on my part, and the proposed tap
23 fee for the Northern Division – Elk Lake 1” and 2” meter settings should be
24 “Actual Cost”.

25

26 **5. Q. WHAT OTHER ISSUES DO YOU WISH TO ADDRESS IN YOUR**
27 **TESTIMONY?**

1 A. First is the proposal in Ms. Crane's testimony at page 63, line 10. Ms. Crane
2 proposes to change the recovery period of the waste disposal costs at the
3 Richmond Road Station to a three-year period from Kentucky American Water's
4 proposed one-year recovery.

5
6 **6. Q. DO YOU AGREE WITH THAT PROPOSAL?**

7 A. No, I do not. Ms. Crane bases her change on the response to the Commission
8 Staff's Second Set of Information Requests, Item 99 while seemingly ignoring the
9 correction to this response to the Commission's Third Set of Information
10 Requests, Item 39. Perhaps I can clarify any lingering confusion about this issue.
11 There are two items within the Richmond Road Station waste disposal costs.
12 First are the ongoing annual expenses for sedimentation removal from the basins
13 and washwater tanks which is done on a constant basis. This has been an historic
14 and recurring item and includes beneficial reuse of solids removed. Additionally,
15 there has been a need for removal of solids from Lake Ellerslie adjacent to the
16 Richmond Road Station. Kentucky American Water has a discharge permit for
17 some process water not recycled into Lake Ellerslie. This permit has a low
18 turbidity allowance, however, over time the sedimentation around the discharge
19 point has built up. In the last few years Kentucky American Water has
20 experienced increased demands, greater requirements for turbidity removal and
21 thus increased chemical additions for that removal, and increased use of Kentucky
22 River raw water at the Richmond Road Station. This has caused a significant
23 increase in sedimentation produced at the Richmond Road Station and an increase
24 in the sedimentation in the reservoir area adjacent to the Richmond Road Station.
25 In August 2002, the solids build up was visible just under the surface of the
26 reservoir. It was necessary to remove those solids for disposal. 1.1 million
27 gallons of waste were removed and processed. Due to scheduling conflicts with
28 the contractor and significant unanticipated expense, Kentucky American Water
29 was able to clear the area around the discharge point but not remove all of the
30 solids. By late 2003, the solids were again visible, and cleaning removed 882,000
31 gallons in July 2004. Kentucky American Water is proposing an ongoing annual

1 cleaning beginning in June 2005 as its treatment plan included in the forecast
2 demonstrates. The response to the Commission Staff's Second Set of Information
3 Requests, Item 99(b) described historic efforts, and in that sense the
4 sedimentation removal has not been an annual event. However, as corrected in
5 the response to the Commission Staff's Third Set of Information Requests, Item
6 39, it is anticipated that this will continue going forward in an annual effort.

7
8 **7. Q. MS. CRANE HAS ALSO PROPOSED A REDUCTION IN MAINTENANCE**
9 **COSTS. DO YOU AGREE WITH THIS RECOMMENDATION?**

10 **A.** No, I do not. Without any requests for details, Ms. Crane has represented
11 that Kentucky American Water "has not provided adequate support for its forecast
12 test period claim" and has summarily reduced the amount to a three-year average
13 of on-going routine maintenance. As anyone knows who has worked in the
14 operations of a utility, maintenance is the lifeblood of operations. Preventative
15 maintenance is critical to reducing emergency costs and, more important, it is
16 critical to preventing instances where our customers lose service. This is
17 particularly significant in the water production areas. Unfortunately, on-going
18 maintenance requires resources of labor as well as dollars. Preventative
19 maintenance, particularly, can be squeezed for resources when critical demands
20 for those resources are made on a short-term basis, however, those short-term
21 reductions cannot be extended forever. Ms. Crane focused on the reduced
22 maintenance costs of the previous two years in justifying her reduction. In 2002,
23 Kentucky American Water was reeling like the rest of the country in the wake of
24 September 11. The main focus of Kentucky American Water was increased
25 security as evidenced by the security expenditures in 2002. Resources were
26 stretched from within the existing utility as well as through consultants.
27 Unfortunately, one area that suffered was in preventative maintenance. This was
28 assumed to be a short-term effort. Focus on security, however, was extended into
29 2003. Again, programmed maintenance was an area that could be reduced on an
30 interim basis but that reduction cannot be sustained without increased emergency
31 costs.

1 The proposed base year costs for maintenance do not even recover to 2001 levels,
2 and exceed 2001 levels in the forecasted period by only 8%. Considering the
3 elimination of some scheduled maintenance in the past two years, this is actually
4 a very conservative effort.

5 Workpaper 3-14, page 2 of 9 details by account the increase in maintenance.
6 Those increases are primarily in Accounts 620000.21 – Materials and Supplies –
7 Maintenance Source of Supply, 620000.22 materials and Supplies – Maintenance
8 Water Treatment, 620000.26 – Materials and Supplies – Maintenance –
9 Administrative, and 635000.26 Contract Services – Other Maintenance –
10 Administrative. The source of supply and water treatment expenses go directly to
11 programmed and emergency maintenance of intake pumps and equipment, the
12 mechanical incline car to reach the intake, and the chemical feed and high service
13 pumping equipment. Maintenance in the Administrative lines deals with increase
14 maintenance of the office facilities. Some of this increase relates to greater
15 maintenance of electronic equipment installed for security purposes.
16 Maintenance of the distribution system includes both emergency repairs and
17 preventative work such as valve and hydrant operations. While reductions can be
18 made in the short term, it is foolhardy to attempt to eliminate these programs.
19 Without asking for any additional detail, Ms. Crane proposes to arbitrarily limit
20 budgeted maintenance expenses based on a randomly selected three-year average.
21 This recommendation is inappropriate and unreasonable. It is my
22 recommendation that the maintenance costs proposed remain at the level in the
23 forecasted test year.

24
25 **8. Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

26 A. Yes.