

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

IN THE MATTER OF:

**NOTICE OF ADJUSTMENT OF THE RATES OF
KENTUCKY-AMERICAN WATER COMPANY
EFFECTIVE ON AND AFTER MAY 30, 2007**

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CASE NO. 2007-00143

**JOINT DIRECT TESTIMONY OF
MICHAEL A. MILLER AND NICK O. ROWE**

September 14, 2007

1 **1. Q: MR. ROWE, PLEASE STATE YOUR NAME, TITLE AND BUSINESS**
2 **ADDRESS.**

3 A: My name is Nick O. Rowe. My title is President of Kentucky-American Water
4 Company (“KAW”). My business address is 2300 Richmond Road, Lexington,
5 Kentucky 40502.

6 **2. Q: MR. MILLER, PLEASE STATE YOUR NAME, TESTIMONY AND**
7 **BUSINESS ADDRESS.**

8 A: My name is Michael A. Miller. My title is Assistant Treasurer of KAW. My
9 business address is 1600 Pennsylvania Avenue, Charleston, West Virginia 25302.

10 **3. Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A: Our joint testimony is filed in support of the Settlement Agreement, Stipulation
12 and Recommendation (“Agreement”) filed with the Kentucky Public Service
13 Commission (“Commission”) on September 14, 2007 in this proceeding. Our
14 testimony will explain how the Agreement is fair, just and reasonable.

15 **4. Q: PLEASE EXPLAIN HOW THE TOTAL AMOUNT OF THE INCREASE**
16 **IN REVENUES FOR KAW AS PROPOSED IN THE AGREEMENT CAN**
17 **BE CONSIDERED FAIR, JUST AND REASONABLE.**

18 A: The initial proposal by KAW in this proceeding, which was subsequently revised,
19 represents a fair, just and reasonable outcome. Since this proceeding commenced,
20 substantial data has been exchanged and the parties have engaged in extensive
21 negotiations in an attempt to arrive at an alternative outcome that is fair, just and
22 reasonable to KAW’s customers and its shareholders and an outcome which the

1 Commission would, and should, approve. The compromise of revenues and rates
2 which has resulted from these negotiations reflects the present best judgment of
3 the parties (including their respective outside experts) as to what is fair, just and
4 reasonable for KAW's customers and shareholders. These rates will produce
5 sufficient revenue for KAW to operate and provide the high level of service its
6 customers expect and deserve.

7 KAW's position remains that the entire revised increase it has sought in this
8 proceeding is appropriate to maintain its earnings at a level that allows KAW an
9 opportunity to earn a fair, just and reasonable return on its investment.
10 Nonetheless, the nature of the ratemaking process is such that the Agreement
11 produces a fair, just and reasonable outcome as a result of the compromise
12 reached by the parties.

13 **5. Q: WHY WOULD THE PARTIES BE WILLING TO REACH A**
14 **COMPROMISE?**

15 A: Each of the parties to the Agreement has vigorously pursued its respective
16 positions in testimony, exhibits and responses to data requests. However, despite
17 the sincerity of these individual positions, the parties recognize that the final
18 outcome in this proceeding would likely result in a decision with which no party
19 would be totally satisfied. The parties further recognize that the very nature of
20 litigation entails both risk and cost. By reaching this compromise, each party has
21 determined that the proposed Agreement is preferable to other, less favorable
22 outcomes and avoids the costs that would result from continued litigation.

1 Through negotiation, each party was able to prioritize its goals in this proceeding
2 and ensure that those priorities are reflected in the Agreement.

3 **6. Q: HOW DOES A COMPROMISE PRODUCE A FAIR, JUST AND**
4 **REASONABLE CHANGE IN REVENUES?**

5 A: Each of the parties to this proceeding represents a unique constituency. By
6 pursuing the positions of the respective constituencies in negotiations, each party
7 has ensured that the priorities of its constituencies have been met. Each party has
8 freely and voluntarily agreed to the concessions it has made in order to ensure its
9 priorities are reflected in the Agreement, which provides for a fair, just and
10 reasonable change in rates. In other words, the Agreement is a fair, just and
11 reasonable settlement because each constituency has been vigorously represented
12 in the negotiations and, through representation or direct involvement, has freely
13 agreed to the Agreement.

14 **7. Q: WHAT EVIDENCE IS THERE FOR THE COMMISSION THAT EACH**
15 **CONSTITUENCY WAS VIGOROUSLY REPRESENTED IN THE**
16 **NEGOTIATIONS THAT LED TO THIS SETTLEMENT?**

17 A: The Agreement itself reveals the sincerity of the negotiations on all sides. The
18 record in this proceeding clearly states the positions of the parties. The
19 Commission need only review the positions taken by the parties in this case and
20 compare those positions to the Agreement to determine if each party was
21 vigorously represented in negotiations and made appropriate concessions to
22 ensure its priorities were reflected on the Agreement. Any settlement must be
23 viewed in its entirety rather than evaluated on the basis of any its individual

1 components. This Agreement was negotiated in the context of its overall result
2 and impact on customers and shareholders, not any one particular rate issue.

3 **8. Q: PLEASE BRIEFLY DESCRIBE THE TERMS OF THE AGREEMENT**
4 **AND ITS EXHIBITS.**

5 A: The Agreement offered to the Commission for its consideration and approval
6 permits KAW to adjust its rates to recover an additional \$8.0 million in annual
7 revenue compared to current rates, beginning December 1, 2007. The increased
8 revenue shall be reflected in increases to customer charges associated with
9 KAW's various tariff sheets. The affected tariff sheets are attached to the
10 Agreement (as Exhibit A) in their proposed form. The proposed tariff sheets
11 show the rates that will be implemented on December 1, 2007 if the Agreement is
12 approved. They also reflect the implementation of single tariff pricing as called
13 for in the Agreement. Exhibit B to the Agreement reflects the KAW depreciation
14 rates that will be effective as a result of the Agreement. Exhibit C to the
15 Agreement contains the proof-of-revenue information. The Exhibits to the
16 Agreement are considered a part of the Agreement and have been agreed to by all
17 parties.

18 **9. Q: PLEASE DESCRIBE WHY THE TARIFFS THAT HAVE BEEN**
19 **MODIFIED BY VIRTUE OF THE AGREEMENT ARE FAIR, JUST AND**
20 **REASONABLE.**

21 A: As a part of the Agreement, the parties have agreed upon the affected tariff sheets
22 that comprise Exhibit A to the Agreement. Those tariff sheets ensure the interests
23 of the constituencies represented by each party have been prioritized and

1 protected in the Agreement. The tariffs themselves are the means by which KAW
2 can produce the agreed upon level of revenue – a level that is necessary for KAW
3 to meet its obligations.

4 **10. Q: PLEASE DESCRIBE WHY THE DEPRECIATION RATES THAT WILL**
5 **BE IMPLEMENTED BY KAW ARE ATTACHED TO THE AGREEMENT**
6 **AS EXHIBIT B.**

7 A: As part the Agreement, the parties have agreed upon the depreciation rates that
8 KAW will implement. Those rates are set forth in Exhibit B to the Agreement. In
9 the proceeding, KAW submitted a new depreciation study and the study and its
10 contents were the subject of discovery. For accounting and external auditing
11 purposes, KAW must use clear and established depreciation rates. Therefore,
12 those rates, to which the parties have agreed, have been specifically set forth in
13 Exhibit B.

14 **11. Q: PLEASE DESCRIBE THE ATTACHED PROOF-OF-REVENUE SHEETS.**

15 A: As a part of the Agreement, all of the parties have agreed upon the proof-of-
16 revenue sheets that are Exhibit C to the Agreement. Those sheets detail the rate
17 design of the \$8.0 million rate adjustment.

18 **12. Q: PLEASE DESCRIBE THE PART OF THE SETTLEMENT AGREEMENT**
19 **THAT CALLS FOR KAW TO INCREASE ITS CONTRIBUTION TO THE**
20 **HELP TO OTHERS PROGRAM.**

21 A: KAW has agreed to increase its annual contribution to the Help To Others
22 Program beginning in 2008. The annual contribution will increase from \$20,000
23 to \$50,000, which contribution has been and will be paid by KAW's owners and

1 not KAW's customers. Although the Commission has no jurisdiction over the
2 Help To Others Program, KAW looks forward to making the agreed upon
3 increase.

4 **13. Q: HAS KAW PUBLISHED PUBLIC NOTICE OF THE HEARING IN THIS**
5 **CASE, WHICH IS SCHEDULED TO BEGIN ON SEPTEMBER 18, 2007?**

6 A: Yes. KAW published the public notice in newspapers throughout its service area.
7 Affidavits demonstrating the publications are being gathered at this time and will
8 be submitted to the Commission when the complete documentation has been
9 compiled.

10 **14. Q: ARE THERE ANY OTHER MATTERS YOU WISH TO ADDRESS AT**
11 **THIS TIME?**

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

17 **15. Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN SUPPORT OF**
18 **THE AGREEMENT?**

19 A: Yes.