

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT PETITION OF KENTUCKY-)
AMERICAN WATER COMPANY, THAMES)
WATER AQUA HOLDINGS GMBH, RWE)
AKTIENGESELLSCHAFT, THAMES WATER)
AQUA US HOLDINGS, INC., AND AMERICAN) CASE NO. 2006-00197
WATER WORKS COMPANY, INC. FOR)
APPROVAL OF A CHANGE IN CONTROL OF)
KENTUCKY-AMERICAN WATER COMPANY)

DIRECT TESTIMONY OF NICK O. ROWE

June 5, 2006

1 **Q1. Please state your name and business address.**

2

3 A1. My name is Nick O. Rowe, 2300 Richmond Road, Lexington, Kentucky 40502.

4

5 **Q2. What is your position with Kentucky-American Water Company (“Kentucky**
6 **American”)?**

7

8 A2. I am President of Kentucky American and responsible for its operations in the
9 Commonwealth of Kentucky.

10

11 **Q3. Do you hold any other positions within the American Water System?**

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13 A3. Yes, I am currently Regional Vice President Service Delivery Operations for the
14 Southeast Region of American Water Works Company, Inc. ("American Water").

15

16 **Q4. Who are the officers of Kentucky American?**

17

18 A4.

Nick O. Rowe	President
Herbert A. Miller, Jr.	Vice President, Corporate Counsel and Secretary
Michael A. Miller	Treasurer and Comptroller
Sheila Miller	Assistant Treasurer and Assistant Secretary
Velma A. Redmond	Assistant Secretary
Thomas R. Bailey	Assistant Comptroller
Rachel S. Cole	Assistant Comptroller and Assistant Secretary
Benjamin J. Tartaglia, Jr.	Assistant Comptroller

19

20 **Q5. What are your responsibilities as President of Kentucky American?**

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22 A5. I am responsible for the development, management and operations of
23 Kentucky American’s system in the Commonwealth of Kentucky. I am responsible for

1 establishing and maintaining the standards of service, directing the preparation of the
2 investment, revenue, operations and maintenance budgets, establishing controls to assure
3 the accomplishment of the approved budgets, assuring that necessary funding is available
4 to carry out all plans, insuring the safety and integrity of the systems for the protection of
5 the customers, employees and operations.

6
7 **Q6. Please describe your professional education and experience.**

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9 A6. I joined the American Water system in 1987 as Management Assistant at West Virginia
10 American Water. Subsequently I was promoted into various management positions with
11 responsibility for the day-to-day operations of American Water facilities in several states,
12 giving me experience in numerous fields of the water industry. My wide variety of
13 involvement in several southeastern states, Virginia, West Virginia, Maryland,
14 Pennsylvania, Kentucky, Tennessee, North Carolina, Georgia, and Florida, has created an
15 array of expertise in small and large water systems. From the fall of 2003 until the
16 summer of 2005 I served as Vice President Business Change and a member of
17 American Water's executive management team. This role was designed to coordinate a
18 set of major business initiatives that were implemented throughout American Water to
19 deliver the vision and strategic objectives, re-engineer the business, and bring about
20 cultural change. My educational background includes a B.S. Civil Engineering from
21 Western Kentucky University and a Master of Business Administration from
22 Lebanon Valley College. I am also an alumnus of Thames Water's Oxford Leadership
23 Program (April, 2003) and the RWE International Leadership Program, Lausanne,
24 Switzerland (May, 2004).

25
26 **Q7. Have you previously testified before state utility regulatory bodies?**

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28 A7. Yes. I testified before the Kentucky Public Service Commission (Case No. 2000-120)
29 and the Pennsylvania Public Utility Commission.

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31 **Q8. What is the purpose of your testimony in this case?**

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A8. The applicants are requesting the authorization from this Commission for Thames Water Aqua Holdings GmbH (“Thames GmbH”) to permit the sale of up to 100% of the shares of common stock of American Water in one or more public offerings and prior to the closing of the initial public offering (“IPO”), the merger of Thames Water Aqua US Holdings, Inc. (“TWAUSHI”) into American Water with American Water being the surviving corporation. I will refer to these transactions collectively as the “Proposed Transaction,” the details of which are covered in the testimony of Ellen C. Wolf. I will discuss the effect of the Proposed Transaction on Kentucky American and what the Proposed Transaction will mean for the best practices obtained from RWE and Thames Water.

Q9. How would the Proposed Transaction affect Kentucky American and its stakeholders?

A9. I will discuss in greater detail hereafter the affects, if any, that the Proposed Transaction will have upon Kentucky American’s ability to continue to provide adequate, economical and reliable water service; its current practices and policies; management, employees, contractual obligations, customers and level of community support.

Q10. Please explain how Kentucky American will have the ability to provide adequate, economical and reliable water service at just and reasonable rates after the Proposed Transaction.

A10. Returning American Water to publicly-traded status will not impair the ability of Kentucky American to provide adequate, economical and reliable water service at just and reasonable rates. In fact, it should enhance that ability. The Proposed Transaction makes American Water a publicly-traded company that will be focused on providing water and wastewater services to the public in North America. After the conclusion of the Proposed Transaction, American Water will no longer be a subsidiary of a multi-

1 national energy-focused company that has now determined to be primarily focused on a
2 rapidly evolving European energy market.

3
4 **Q11. What structural changes would occur at Kentucky American as a result of the**
5 **Proposed Transaction?**

6
7 A11. None. Kentucky American will continue its corporate existence as it has done since
8 1885, currently serving approximately 114,000 customers with water and wastewater
9 services in its Central Division consisting of Bourbon, Clark, Fayette, Harrison,
10 Jessamine, Scott and Woodford Counties, and its Northern Division consisting of
11 Gallatin, Grant and Owen Counties. Kentucky American will continue to be a public
12 utility in the Commonwealth of Kentucky providing water and wastewater services and
13 subject to the jurisdiction of this Commission.

14
15 **Q12. Will any of Kentucky American's practices or policies change as a result of the**
16 **Proposed Transaction?**

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18 A12. No changes in the day-to-day operations of Kentucky American are anticipated as a result
19 of the Proposed Transaction. Kentucky American's policies for service to customers,
20 employees, operations, financing, accounting, capitalization, rates, depreciation,
21 maintenance and other matters affecting its stakeholders and the public interest and its
22 operations will not change. Kentucky American will, of course, continue to strive for
23 more efficient, cost-effective service to its customers as it has always done.

24
25 **Q13. Will there be any changes in the governance of Kentucky American as a result of**
26 **the Proposed Transaction?**

27
28 A13. No. Kentucky American will still continue to be managed under the supervision of its
29 Board of Directors. This board, consisting of both internal and external members, will
30 continue to play an active role in the direction of Kentucky American after the
31 completion of the Proposed Transaction as it does today.

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Q14. How will the Proposed Transaction affect Kentucky American’s employees?

A14. The Proposed Transaction will not have any adverse impact on the employees of Kentucky American. American Water’s expected status as the largest publicly-traded water provider in the United States should continue to provide an attractive employment opportunity, allowing us to attract and retain high caliber employees. Additionally, American Water may create an employee stock purchase program following the Proposed Transaction.

Q15. Will the Proposed Transaction impact union relationships?

A15. The Proposed Transaction will have no negative effect on union relationships. All collective bargaining agreements will be honored. We plan to continue the partnering relationship that we currently have with our bargaining unit employees.

Q16. Will the Proposed Transaction change any of Kentucky American’s obligations under contracts with customers or affiliated interest agreements?

A16. No. Kentucky American will continue to honor all of its customer and regulatory obligations and agreements. All of its affiliated interest agreements, including the service company agreement and the financial services agreement, will remain in effect until or unless they are terminated or this Commission approves changes.

Q17. Will Kentucky American remain subject to applicable laws, regulations, rules, decisions, and policies governing the regulation of water utilities in the Commonwealth of Kentucky?

A17. Yes.

1 **Q18. Will the Proposed Transaction have an adverse effect on the nature and extent of**
2 **the service areas of Kentucky American?**

3
4 A18. No. Kentucky American will continue to operate in both of its divisions and in all of the
5 areas where it currently provides water and wastewater services.

6
7 **Q19. How will the Proposed Transaction affect retail customers?**

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9 A19. Existing rates will not be affected by the Proposed Transaction. Kentucky American will
10 continue to use the rates and charges approved under its existing tariffs until such time as
11 they are changed by this Commission. Kentucky American does not seek recovery of the
12 costs of the Proposed Transaction, which are comprised of the SEC registration fee, the
13 NASD filing fee, the stock exchange listing fee, legal fees and expenses of the Proposed
14 Transaction, accounting fees and expenses of the Proposed Transaction, printing and
15 engraving fees and expenses for the registration statement, Blue Sky fees and expenses,
16 transfer agent fees and expenses, and legal fees for the state regulatory approval process.

17
18 **Q20. Are there other benefits that will accrue to American Water from the Proposed**
19 **Transaction?**

20
21 A20. Although American Water has always considered its association with RWE to be
22 positive, some people have expressed concerns about foreign ownership. Returning
23 American Water to United States publicly-traded status should alleviate any lingering
24 concerns about foreign ownership.

25
26 **Q21. Will the Proposed Transaction negatively impact local community involvement?**

27
28 A21. No. Kentucky American will remain a good corporate citizen and will continue to be
29 involved with and support the local communities that it serves. Kentucky American will
30 continue to contribute to civic, charitable and economic development programs in
31 Kentucky. Kentucky American is currently involved in environmental stewardship and

1 plans to continue sponsorship in such programs as Bluegrass Pride, McConnell Springs,
2 the Audubon Society, and Reforest the Bluegrass. Environmental stewardship is
3 embedded in the operation of our water treatment plants, both of which have received
4 national recognition for the 5-year EPA Director Awards. Following this transaction, we
5 anticipate these programs and community service will continue at the same high level.
6

7 **Q22. Will you comment about some of the benefits gained from the sharing of best**
8 **practices since the acquisition of American Water by RWE?**
9

10 A22. Yes, there are a number of areas in which Kentucky American has benefited from
11 knowledge and sharing best practices.
12

13 One significant example is that the security procedures put in place by
14 Kentucky American reflect the lessons learned and the knowledge gained from the
15 specific experience gained internationally by Thames Water protecting against terrorist
16 threats in the United Kingdom, such as those posed by the Irish Republican Army.
17

18 The adoption of Event Management has allowed Kentucky American to anticipate and
19 react to events which may materially affect its business. Event Management is designed
20 to maximize the efficiency and timeliness of event recognition, response and recovery
21 efforts. It has enabled Kentucky American to better respond to operational incidents such
22 as large main breaks, weather related incidents and safety and security incidents.
23

24 Kentucky American has also adopted the concepts of Tiered Safety policies,
25 Comprehensive Health and Safety Programs and Self-Certification. These concepts and
26 procedures have contributed to improving health and safety performance and have
27 enhanced the overall effectiveness of our health and safety programs.
28

29 **Q23. How would the Proposed Transaction affect the continuing use of these best**
30 **practices by Kentucky American?**
31

1 A23. The Proposed Transaction will have no affect on the continued use of these or other best
2 practices Kentucky American has experienced as a result of its affiliation with RWE and
3 Thames Water. None of the best practices or the knowledge transfer from which
4 Kentucky American has benefited is proprietary to Thames Water or RWE in any sense
5 that would prevent Kentucky American from continuing their use after the Proposed
6 Transaction.

7
8 **Q24. Are there other benefits to be derived from the Proposed Transaction with respect**
9 **to affiliated interests?**

10
11 A24. Yes, divestiture by RWE that will result from the Proposed Transaction will create
12 transparency of the operations of American Water and its subsidiaries.

13
14 **Q25. Will the Proposed Transaction have any impact on American Water's ability to**
15 **pursue strategic consolidation?**

16 A25. Yes. American Water itself will be able to make decisions about appropriate acquisitions
17 that promote its own strategic water and wastewater goals, unencumbered by competing
18 goals arising out of RWE's energy strategy. This direct decision-making ability will
19 enhance American Water's capacity to pursue beneficial consolidation and growth,
20 thereby enhancing American Water's ability to provide more cost-effective service to
21 customers. Such an ability is particularly important in the water and wastewater
22 industries that are so highly fragmented in this country. There are currently
23 approximately 54,000 community water systems and 16,000 wastewater systems in the
24 U.S. This fragmentation has resulted in limited management best practices experience,
25 thereby increasing costs to consumers. As a publicly-traded company American Water
26 will be able to operate in a manner that is in sharp contrast to thousands of small systems

1 that do not have the financial, technical or operating capacity to meet current, let alone
2 future, infrastructure and water quality challenges.

3
4 **Q26. Will the conditions imposed by the Commission in the RWE acquisition cases still**
5 **apply after the Proposed Transaction is finalized?**

6
7 A26. As a part of the application we are asking the Commission to terminate the conditions
8 and obligations that were required in Cases 2002-00018 and 2002-00317. Following the
9 completion of the Proposed Transaction, neither RWE nor Thames Water will have any
10 affiliation with American Water or Kentucky American, and continuation of the
11 conditions and obligations required should be terminated. To the extent that any party or
12 the Commission believes that it might be appropriate to require acceptance of any
13 conditions for the approval of this Proposed Transaction, I believe that the consequences
14 thereof should be fully considered in this proceeding.

15
16 **Q27. Do you believe that the Proposed Transaction is consistent with the interest of the**
17 **public?**

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19 A27. Of course I do. This Commission has defined the interest of the public in Case No. 2002-
20 00018 by concluding:

21
22 “The Commission finds that any party seeking approval of a
23 transfer of control must show that the proposed transfer will not
24 adversely affect the existing level of utility services or rates or that
25 any potentially adverse affects can be avoided through the
26 Commission’s imposition of reasonable conditions on the
27 acquiring party.”¹

28
29
30 As I have stated, and am absolutely convinced, the Proposed Transaction will not
31 adversely affect the existing level of water and wastewater services and rates provided by

¹ Case No. 2002-00018, Order dated May 30, 2002, p. 7.

1 Kentucky American. There are no known potential adverse affects on Kentucky
2 American from the Proposed Transaction.

3
4 **Q28. Do you have an opinion as to whether or not Kentucky American will continue to**
5 **have the financial, technical and managerial abilities to provide reasonable service**
6 **after the Proposed Transaction?**

7
8 A28. Yes, I certainly do have an opinion.

9
10 **Q29. What is that opinion?**

11
12 A29. Through its current resources in Kentucky, and the resources available to it in the
13 American Water Company System, Kentucky-American Water Company currently
14 enjoys access to individuals and institutions with superb financial, technical and
15 managerial talents.

16
17 At Kentucky American we have capable, experienced managers in all areas of the
18 operation. Three of our key departments are led by individuals with distinguished careers
19 at Kentucky: Linda Bridwell, Manager of Capital Project Delivery, has 16 years of
20 experience in managing capital programs and planning processes for infrastructure
21 replacement; Dillard Griffin, Production Superintendent, has over 35 years of experience
22 in managing the day-to-day operation of water and wastewater facilities, including
23 oversight of our water quality standard; and Fred White, Network/Distribution
24 Superintendent, has 30 years experience ranging from installation of new construction to
25 managing distribution facilities. Dillard was instrumental in the EPA partnership awards
26 I have previously mentioned.

27
28 It is important for Kentucky American's customers, existing and future, that our plan to
29 solve the source of supply problem be adequately funded and that the investors receive a
30 return commensurate with the investment and risk being taken. The source of supply
31 solution is the most critical project for Kentucky American and we are committed now

1 and in the future to resolve this issue. We have the local resources and access to regional
2 and national expertise through the service company to aid in the planning, design and
3 construction of a solution for the long-term benefits of our customers.
4

5 As the largest public utility in the United States providing water and wastewater services,
6 American Water and its subsidiaries have, and will continue to attract, outstanding
7 technical and managerial talent to direct its day-to-day and future planning activities. At
8 Kentucky American we are very fortunate to have a capable and dedicated board who
9 take their responsibilities seriously, are actively involved in policy decisions and continue
10 to provide direction to me.
11

12 **Q30. Do you believe this Commission should approve the application?**

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14 A30. Yes, for all of the reasons set forth in my testimony, I do.
15

16 **Q31. Does this conclude your testimony?**
17

18 A31. Yes, it does.
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