

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

IN THE MATTER OF:)
)
NOTICE OF ADJUSTMENT OF THE RATES OF) **CASE NO. 2008-00427**
KENTUCKY-AMERICAN WATER COMPANY)
EFFECTIVE ON AND AFTER NOVEMBER 30, 2008)

DIRECT TESTIMONY OF NICK O. ROWE

October 31, 2008

1 **1. Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Nick O. Rowe, 2300 Richmond Road, Lexington, Kentucky 40502.

3

4 **2. Q. WHAT IS YOUR POSITION WITH KENTUCKY-AMERICAN WATER**
5 **COMPANY (“KENTUCKY AMERICAN WATER”)?**

6 A. I am President of Kentucky American Water and responsible for its operations in the
7 Commonwealth of Kentucky.

8

9 **3. Q. WHO ARE THE OFFICERS OF KENTUCKY AMERICAN WATER?**

10 A. President	Nick O. Rowe
11 Vice President, Corporate Counsel and Secretary	A. W. Turner, Jr.
12 Vice President, Operations	Keith Cartier
13 Treasurer and Comptroller	Rochelle Kowalski
14 Assistant Treasurer	James Kalinovich
15 Assistant Treasurer	Michael A. Miller
16 Assistant Secretary	Velma A. Redmond
17 Assistant Comptroller and Assistant Secretary	Rachel S. Cole
18 Assistant Comptroller	Franco G. Boffice
19 Assistant Comptroller	Charles A. Gilbert
20 Assistant Comptroller	Doneen S. Hobbs
21 Assistant Comptroller	Rod Neviraskas

22

23 **4. Q. WHAT ARE YOUR RESPONSIBILITIES AS PRESIDENT OF KENTUCKY**
24 **AMERICAN WATER?**

25 A. I am responsible for the development, management and operations of Kentucky
26 American Water's system in the Commonwealth of Kentucky. I am responsible for
27 establishing and maintaining the standards of service, directing the preparation of the
28 investment, revenue, operations and maintenance budgets, establishing controls to
29 assure the accomplishment of the approved budgets, assuring that necessary funding
30 is available to carry out all plans, and insuring the safety and integrity of the systems
31 for the protection of the customers, employees and operations.

32

33 **5. Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND**
34 **EXPERIENCE.**

1 A. I joined the American Water system in 1987 as Management Assistant at
2 West Virginia American Water. Subsequently I was promoted into various
3 management positions with responsibility for the day-to-day operations of American
4 Water facilities in several states, giving me experience in numerous fields of the
5 water industry. My wide variety of involvement in several southeastern states,
6 Virginia, West Virginia, Maryland, Pennsylvania, Kentucky, Tennessee,
7 North Carolina, Georgia, and Florida, has created an array of expertise in small and
8 large water systems. From the fall of 2003 until the summer of 2005 I served as
9 Vice President Business Change and a member of American Water's executive
10 management team. This role was designed to coordinate a set of major business
11 initiatives that were implemented throughout American Water to deliver the vision
12 and strategic objectives, re-engineer the business, and bring about cultural change.
13 From July 2005 through July 2006 I served as the vice president of service delivery
14 operations for the Southeast Region of American Water. My responsibilities included
15 oversight of engineering, network, production, maintenance, risk management,
16 customer relations, environmental management, and contract operations that spanned
17 thirteen states. My educational background includes a B.S. Civil Engineering from
18 Western Kentucky University and a Master of Business Administration from
19 Lebanon Valley College. I am also an alumnus of Thames Water's Oxford
20 Leadership Program (April, 2003) and the RWE International Leadership Program,
21 Lausanne, Switzerland (May, 2004). A copy of my resume is attached.

22
23 **6. Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE UTILITY**
24 **REGULATORY BODIES?**

25 A. Yes. I have previously testified before the Kentucky Public Service Commission
26 (Cases No. 2000-120 and 2006-00197), have filed direct testimony in Case Nos.
27 2007-00134 and 2007-00143, and I have previously testified before the Pennsylvania
28 Public Utility Commission.

29
30 **7. Q. ARE YOU FAMILIAR WITH THE GENERAL FINANCIAL CONDITION OF**
31 **KENTUCKY AMERICAN WATER?**

1 A. Yes, I am, and its general financial condition is the reason Kentucky American Water
2 has filed this Application to increase its rates.

3
4 **8. Q. PLEASE DESCRIBE THE ACTION SOUGHT BY KENTUCKY AMERICAN**
5 **WATER IN ITS APPLICATION.**

6 A. Kentucky American Water seeks a rate increase that will produce \$18,494,634 of
7 additional revenue on an annual basis, or an overall increase of 31.27%.

8
9 **9. Q. DID YOU PARTICIPATE IN THE COMPANY'S DECISION TO SEEK A**
10 **RATE ADJUSTMENT?**

11 A. Yes. I reviewed the Application and actively participated by leading discussions in
12 preparation for this filing.

13
14 **10. Q. WHAT ARE THE BASIC FACTORS THAT CAUSE KENTUCKY AMERICAN**
15 **WATER TO SEEK A RATE INCREASE AT THIS TIME?**

16 A. The last general rate adjustment approved by this Commission for Kentucky
17 American Water was in Case No. 2007-00143. The rate adjustment resulting from
18 that case was effective December 1, 2007. Since that time, Kentucky American
19 Water has invested substantial capital to maintain and upgrade its facilities, including
20 the significant investment required for the construction of Kentucky River Station II
21 and associated facilities that were the subject of Case No. 2007-00134. Without an
22 increase in rates, our forecasted return to common equity for the forecasted test year
23 in this case will clearly be deficient. If Kentucky American Water is to continue to
24 adequately meet its service obligations, construct needed capital improvements, and
25 obtain capital at a reasonable cost, it must have an increase in its revenues. The
26 integrity of service to our customers must be maintained and that simply cannot be
27 done without adequate capital.

28
29 **11. Q. DOES KENTUCKY AMERICAN WATER ANTICIPATE SIGNIFICANT**
30 **EXPENDITURES OF CAPITAL IN THE NEAR FUTURE?**

1 A. Yes. We propose to spend \$16,697,928 for system improvements in 2009 (net of
2 customer advances, contributions and refunds), not including the Kentucky River
3 Station II project. As for that project, we have begun construction of Kentucky River
4 Station II and the associated facilities that were approved by the Commission in Case
5 No. 2007-00134. The total cost of construction of those facilities will be
6 approximately \$162,000,000 and, to date, KAW has already spent over \$25,000,000
7 on the project. The project is on schedule and is approximately 16% complete.
8 Construction is expected to be complete in 2010. The Commission has already
9 determined that construction of Kentucky River Station II facilities is necessary for
10 Kentucky American Water to meet the needs of our customers.

11
12 **12. Q. DOES KENTUCKY AMERICAN WATER OBTAIN BENEFITS BY VIRTUE**
13 **OF BEING A PART OF THE AMERICAN WATER WORKS COMPANY**
14 **SYSTEM?**

15 A. Absolutely. As a part of the American Water Works System, the services of our
16 nationally recognized Belleville Laboratory are available to us as well as the services
17 of our Shared Services Center and Customer Service Center. Our allocated costs for
18 these services have increased, but it is important to remember that those services are
19 provided without any profit. I do not believe those services could be obtained in the
20 open market at the same or lower cost. The comparable costs in the open market are
21 addressed in the testimony of Patrick Baryenbruch.

22
23 **13. Q. IS CUSTOMER SERVICE A HIGH PRIORITY FOR KENTUCKY**
24 **AMERICAN WATER?**

25 A. Absolutely. The Commission's approval of our efforts to augment our source of
26 supply and treatment plant capacity allows us to continue to provide the excellent
27 customer service to which our customers are accustomed. At the present time, we
28 anticipate completion of main replacements on Clays Mill Road and Royster Road in
29 2008. We will begin and complete main replacements on Liberty Road, Meadow
30 Lane, Tremont Avenue, Beaumont Avenue, Melrose Avenue and Kastle Avenue in
31 2008. We also will begin main replacement projects on North Broadway and Carrick

1 Pike in 2008 that will be completed in 2009. Finally, we have planned main
2 replacements for South Limestone Avenue and U.S. 25 in 2009 and for Leestown
3 Road in 2010. Other capital investment projects include the replacement of the
4 Incline Car at Kentucky River Station I and a proposed new ground storage facility.
5 We have completed the process of flushing our distribution system as a part of our
6 annual effort to maintain water quality for our customers. We continue to invest
7 significantly more money, on an annual basis, in system improvements to better serve
8 our customers than we pay in common stock dividends. More details of our capital
9 improvement program are included in the direct testimony of Linda C. Bridwell.

10
11 Our focus on customer service has not diminished. Our primary objective is to
12 provide excellent customer service and we take pride in meeting that objective.

13
14 **14. Q. WHAT IS THE STATUS OF KENTUCKY AMERICAN WATER'S**
15 **PARTICIPATION IN THE PARTNERSHIP FOR SAFE WATER**
16 **("PARTNERSHIP")?**

17 A. As this Commission is aware, we voluntarily joined this Partnership in 1996.

18
19 It was created by the United States Environmental Protection Agency, the American
20 Water Works Association, the National Council of Water Companies, the Association
21 of Safe Drinking Water Administrators, the American Water Works Research
22 Foundation and the Association of Metropolitan Water Agencies. The purpose of the
23 Partnership is to encourage participants to identify processes that will enhance the
24 quality of potable water and to voluntarily implement those processes with minimum
25 capital investment. As an example, Kentucky American Water set as one of its goals
26 filtered water turbidity less than the current regulatory requirement. Through a
27 process of extensive data collection, evaluation and correction, we have met our self-
28 imposed goal which we believe increases the microbial safety of our water for all of
29 our customers.

1 In 1998, Kentucky American Water was one of only 20 utilities nationally
2 recognized for completion of the Phase III self-assessment of the Partnership. In
3 2003 our facilities were recognized as one of only 17 nationally to receive five-year
4 awards for ongoing plant performance excellence. From 2004 through 2006,
5 Kentucky American Water continued to meet Partnership Goals and remains in good
6 standing at both of our Central Division treatment facilities. In 2006, Kentucky
7 American began the Partnership program for our Northern Division. In 2008,
8 Kentucky American Water was awarded the Partnership for Safe Water Ten-Year
9 Directors Award for its commitment to superior water quality at both plants in the
10 Central Division.

11
12 As a result of our voluntary participation in the Partnership, we have improved the
13 quality of our potable water and are better prepared to meet new, more stringent water
14 quality regulations as they are adopted.

15
16 **15. Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 A. Yes it does.

Nick O. Rowe
President, Kentucky American Water

PROFESSIONAL SUMMARY

Profession: Water Utility Management

Position in firm: President, Kentucky American Water

Nick Rowe joined the American Water system in 1987 as Management Assistant at West Virginia American Water. He was subsequently promoted into various management positions with responsibility for the day-to-day operations of American facilities in several states, giving him experience in numerous fields of the water industry. His wide variety of involvement in Virginia, West Virginia, Maryland, Pennsylvania, Kentucky, Tennessee, North Carolina, Georgia and Florida has created an array of expertise in water systems from small to large facilities. Mr. Rowe's involvement with various regulatory agencies, civic organizations and professional associations provides a broad overview of operations and the industry as a whole.

EMPLOYMENT HISTORY

2006- present **Kentucky American Water, Lexington, KY**
President

As president, Mr. Rowe has direct responsibility for production and distribution operations of the company in addition to indirect oversight of other functional areas, including engineering, water quality, security and human resources. Directs the planning and delivery of the operating, maintenance and capital expenditure budgets for the company, and monitors financial performance to ensure that business plan goals are met. Takes the lead in establishing rapport with civic, political and key stakeholders in the community, interfacing with regulatory entities, and representing company positions at regulatory proceedings and hearings. Supports the business development function in the integration of water and wastewater business opportunities in both the regulated and non-regulated markets. Has oversight of business processes to ensure that American Water policies are followed, best practices are implemented, and internal/external reporting requirements are met.

2005 - 2006 **American Water, Southeast Region,**
Vice President, Service Delivery – Operations

As a member of the regional executive management team, Mr. Rowe had responsibility of overall operations and growing the business in a region that spans 13 states and Puerto Rico. His responsibility included oversight of engineering and network, production and maintenance, risk management, customer relations, environmental management and compliance, and contract operations. During this time, Mr. Rowe also served as interim

president of Kentucky American Water from August 2004 until being named president in August 2006.

2003 – 2005
American Water, Voorhees, NJ
Vice President Business Change

The Business Change Program played a key role in shaping American Water after its merger with RWE Thames Water in 2003. The Business Change Program designed a coordinated set of major business initiatives to be implemented throughout American Water to deliver the new vision and strategic objectives, re-engineer the business, and bring about cultural change. The Change Program was inclusive of organization redesign, process re-engineering, and initiative tracking while enabling delivery, all with the purpose of creating sustainable value to the business. In this role, Mr. Rowe served as a member of RWE Thames Water's executive management team for North America.

Mr. Rowe was named Diversity Officer for American Water in March 2005 and served in that capacity to advise the executive management team on strategies for implementing processes and practices to build a business culture that supports diversity and drives their effective implementation.

1998 – 2003
Kentucky American Water, Lexington, KY
Vice President Operations

Management responsibility for all operational functions of the company which served 325,000 people in ten counties. Oversight responsibility included production, distribution, water quality and engineering in addition to providing direction in the areas of finance, accounting and information systems, security and risk management.

1995 – 1997
Pennsylvania American Water, Hershey, PA
Manager, Eastern Operations

Managed the water operations of a 16-county area of eastern Pennsylvania. Responsible for providing reliable, safe and environmentally responsible water service for over 500,000 people. This service was provided by managing over 205 employees in 11 division offices, 11 water treatment plants, various well stations and over 1,700 miles of distribution system. Responsible for reporting the financial, accounting, safety, water quality and engineering aspects of the company to the company President and Vice President of Operations to help provide an adequate and fair rate of return for investors. Involved in managing the areas of labor and employee relations, and customer service areas.

1992 – 1995
Pennsylvania American Water, Hershey, PA
Director, Corporate Operations Services

Managed the day-to-day operations of Pennsylvania American Water with direct reporting to the Vice President of Operations. Responsible for managing over 150 million dollars in construction over three years. Oversaw and directed specific technical areas for more than 20 district offices within

Pennsylvania. This included planning, budgeting, forecasting and work force management. Personal involvement with the implementation and development of new policies and procedures for human resources, loss control and operations. Also involvement in the financial review of income statements, balance sheets, and cash forecasting to ensure a solid rate of return for a five hundred million dollar private water utility. Oversaw the engineering, water quality, loss control/risk management, fleet and materials, regulatory studies, and the building management departments.

1988 - 1992

**Virginia American Water, Hopewell District, Richmond, VA
Operations Manager**

Upper level management position with responsibilities which included management of maintenance and capital investment budgets ranging from three million to five million dollars annually, respectively. Accountable for bottom line (profit/loss) margin. Oversaw and directed the five year and fifteen year planning forecast for major improvements at Virginia-American Water Company, Hopewell facility. Responsible for maintaining community, employee, Virginia Department of Health and State Corporation Commission relations. Assisted in labor negotiations of union contract. Promoted the development of service territory through acquisition proposals.

1987 – 1988

**West Virginia American Water, Huntington Division, Huntington, WV
Management Assistant**

Assisted in the day-to-day development, management, and operation of the plant and personnel of the company. Responsibilities included: planning, acquisition, or construction of new facilities; planning and preparing the company budget which ranged from five hundred thousand to one million dollars; controlling construction, operations and maintenance within established budget limitations; maintenance of community and customer relations; employee relations, including labor negotiations; assisted management in the attainment of financial and accounting objectives that related to direct business relations with existing and/or new customers.

1981 – 1987

**CSX Railroad Corporation, Huntington, WV
Senior Resident Engineer**

Responsible for design of mining/rail facilities for various major coal operations throughout West Virginia and Eastern Kentucky. Managed track and survey crews to oversee construction of facilities to serve expansion of various companies.

EDUCATION

Western Kentucky University - B.S., Civil Engineering, 1981
Lebanon Valley College, Annville, PA – Master of Business Administration, 1994

PROFESSIONAL AFFILIATIONS / CIVIC INVOLVEMENT

- Kentucky Chamber of Commerce – Board of Directors & Executive Committee, 2008
- Lexington Industrial Foundation – Board of Directors 2007–2009
- Commerce Lexington – Board of Directors 2008
- Commerce Lexington – Winners Circle Chairman 2007
- Central Bank Advisory Board – 2007-2009
- New Century Lexington – Board of Directors
- Greater Lexington Chamber of Commerce – Past Chair/Current Trustee
- American Water Works Association – Member
- National Association of Water Companies – Member
- U.S. Magistrate Judge Selection Panel – Fall 2005
- RWE International Leadership Program, Lausanne, Switzerland – May 2004
- Thames Water Oxford Leadership Program – April 2003
- Leadership Bluegrass – Class of 1998
- First Security Bank – Former Board Member
- United Way of the Bluegrass – Former Board Member
- Governor's Higher Education Nominating Committee – Former Chairman
- YMCA, Beaumont Branch – Former Board Member

PROFESSIONAL PRESENTATIONS

- Served as expert witness on various operational/finance issues before the Kentucky and Pennsylvania Public Service Commissions.
- Served on various AWWA (American Water Works Association) state committees and panels discussing water-related issues.
- Presented updates on “Water Supply” to numerous city councils and officials at weekly and monthly meetings.
- “Drought Management” – presented updates to various city council members, civic and large user groups, police and fire officials during the 1999 Central Kentucky drought.
- Liaison to Pennsylvania Governor's office on “Emergency Power Management” of Pennsylvania-American facilities during rolling blackout period (1996).