

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

IN THE MATTER OF:)
)
NOTICE OF ADJUSTMENT OF THE RATES OF) **CASE NO. 2007-00143**
KENTUCKY-AMERICAN WATER COMPANY)
EFFECTIVE ON AND AFTER MAY 30, 2007)

DIRECT TESTIMONY OF NICK O. ROWE

April 30, 2007

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 Treasurer and Comptroller	Michael A. Miller
13 Assistant Treasurer and Assistant Secretary	Sheila Valentine Miller
14 Assistant Secretary	Velma A. Redmond
15 Assistant Comptroller	Thomas R. Bailey
16 Assistant Comptroller and Assistant Secretary	Rachel S. Cole
17 Assistant Comptroller	Doneen S. Hobbs
18 Assistant Comptroller	Rod Nevirauskas
19 Assistant Comptroller	Franco G. Boffice
20 Assistant Comptroller	Charles A. Gilbert

21

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 as Exhibit A.

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 No. 2007-
27 00134, and I have previously testified before the Pennsylvania Public Utility
28 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 \$13,188,906 of
7 additional revenue on an annual basis, or an overall increase of 25.1%.

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. 2004-00103, an increase in revenues effective
18 December 1, 2004. Since that time Kentucky American Water has invested
19 substantial capital to maintain and upgrade its facilities. Without an increase in rates,
20 our forecasted return to common equity for the forecasted test year in this case will
21 clearly be deficient. If Kentucky American Water is to continue to adequately meet
22 its service obligations, construct needed capital improvements, and obtain capital at a
23 reasonable cost, it must have an increase in its revenues. The integrity of service to
24 our customers must be maintained and that simply cannot be done without adequate
25 capital.

26
27 **11. Q. DOES KENTUCKY AMERICAN WATER ANTICIPATE SIGNIFICANT**
28 **EXPENDITURES OF CAPITAL IN THE NEAR FUTURE?**

29 A. Yes. We propose to spend in excess of \$21,000,000 for system improvements in
30 2007 and approximately \$16,000,000 in 2008 (net of customer advances,
31 contributions and refunds.) In addition, we have filed an Application with the Public

1 Service Commission seeking its approval for the construction of Kentucky River
2 Station II, associated facilities and a transmission main. We have not solicited bids
3 for that project but we anticipate it could cost \$160,000,000 to \$170,000,000,
4 depending upon the size of the water treatment plant constructed. The construction of
5 those facilities is essential for us to meet the needs of our customers and can be
6 accomplished on a reasonable financial basis only if Kentucky American Water
7 remains financially healthy.

8
9 **12. Q. HAS KENTUCKY AMERICAN WATER SOUGHT A SINGLE TARIFF**
10 **PRICING FOR BOTH OF ITS DIVISIONS IN THIS CASE?**

11 A. Yes. We made that decision known in Case No. 2004-00103 and in that proceeding
12 the Commission decided to leave the rates in our Northern Division as they existed
13 prior to our Application.

14
15 As of December 31, 2006, we had 101,402 residential and 8,418 commercial
16 customers in our Central Division. We have three separate tariffs in our Northern
17 Division and as of that same date we had 968 residential and 110 commercial
18 customers previously served by Owenton, 2,092 residential and 31 commercial
19 customers previously served by Tri-Village Water District and 298 residential and 1
20 commercial customer previously served by Elk Lake. As of December 31, 2006, the
21 Northern Division residential customers were 3.2% of our total residential class and
22 the Northern Division commercial customers were 1.66% of our total commercial
23 class. Placing all of these customers into single tariff pricing will decrease the rates
24 paid by those customers in our Northern Division but will enable Kentucky American
25 Water to become more efficient because revenues will no longer have to be tracked
26 separately, separate tariffs will no longer have to be maintained, and customer service
27 will no longer have to deal with four different types of residential customers.
28 Additionally, it will not be necessary to maintain or generate any separate cost basis.
29 The vast majority of Kentucky American's costs for serving both divisions are
30 common as opposed to specific for each division. We endeavor to provide the same

1 quality service for all of our customers and a continued distinction based upon
2 geography does not seem reasonable at this time.

3
4 **13. Q. AS A PART OF THE AMERICAN WATER WORKS COMPANY SYSTEM,**
5 **DOES KENTUCKY AMERICAN WATER OBTAIN BENEFITS?**

6 A. Absolutely. As a part of the American Water Works System the services of our
7 nationally recognized Belleville Laboratory are available to us as well as the services
8 of our Shared Service Center and Customer Service Center. Our allocated costs for
9 these services have increased, but it is important to remember that those services are
10 provided without any profit and I do not believe could be obtained in the open market
11 on as reasonable a basis, and certainly not at less than what Kentucky American pays.
12 The comparable costs in the open market are addressed in the testimony of Patrick
13 Baryenbruch.

14
15 **14. Q. DOES KENTUCKY AMERICAN WATER REMAIN COMMITTED TO**
16 **CUSTOMER SERVICE?**

17 A. Absolutely. Our decision to augment our source of supply and treatment plant
18 capacity is a commitment to customer service. At the present time we anticipate
19 completion of main replacements in Second Street, Madison Place, Merino Street,
20 Lackawanna Drive and Bucoto Court in Lexington in 2007. We will begin and
21 complete main replacements in New Circle Road, Saunier Street, Bruce Street,
22 Columbia Avenue and South Limestone in Lexington in 2007. In addition, we have
23 planned main replacements on Clays Mill Road, Newtown Pike, Leestown Road,
24 Liberty Road, and US 25 in conjunction with road improvements. We plan on
25 replacing approximately 10,000 feet of mains in Owen County in 2007 and the
26 completion of the replacement of the residual handing equipment at our Richmond
27 Road Station this year. We are now in the process of flushing our distribution system
28 as a part of our annual effort to maintain water quality for our customers. We
29 continue to invest significantly more money, on an annual basis, in system
30 improvements to better serve our customers than we pay in common stock dividends.

1 More details of our capital improvement program are included in the direct testimony
2 of Linda C. Bridwell.

3
4 Our focus on customer service has not diminished. Our primary objective is to
5 provide customer service that every one of our employees can be proud of.

6
7 **15. Q. WHAT IS THE STATUS OF KENTUCKY AMERICAN WATER'S**
8 **PARTICIPATION IN THE PARTNERSHIP FOR SAFE WATER**
9 **("PARTNERSHIP")?**

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

11
12 It was created by the United States Environmental Protection Agency, the American
13 Water Works Association, the National Council of Water Companies, the Association
14 of Safe Drinking Water Administrators, the American Water Works Research
15 Foundation and the Association of Metropolitan Water Agencies. The purpose of the
16 Partnership is to encourage participants to identify processes that will enhance the
17 quality of potable water and to voluntarily implement those processes with minimum
18 capital investment. As an example, Kentucky American Water set as one of its goals
19 filtered water turbidity less than the current regulatory requirement. Through a
20 process of extensive data collection, evaluation and correction, we have met our self-
21 imposed goal which we believe increases the microbial safety of our water for all of
22 our customers.

23
24 In 1998 Kentucky American Water was one of only 20 utilities nationally recognized
25 for completion of the Phase III self-assessment of the Partnership. In 2003 our
26 facilities were recognized as one of only 17 nationally to receive five-year awards for
27 ongoing plant performance excellence. From 2004 through 2006, Kentucky American
28 Water continued to meet Partnership Goals and remains in good standing at both of
29 our Central Division treatment facilities.

1 In 2006, Kentucky American began the Partnership program for our Northern
2 Division. We will continue to work with EPA to obtain Partnership status for our
3 Northern Division.
4

5 As a result of our voluntary participation in the Partnership, we have improved the
6 quality of our potable water and are better prepared to meet new, more stringent water
7 quality regulations as they are adopted.
8
9

10 **16. Q. DO YOU BELIEVE THAT ALL OF THE UTILITY PLANT ASSETS OWNED**
11 **BY KENTUCKY AMERICAN WATER ARE USED AND USEFUL IN**
12 **PROVIDING WATER AND WASTEWATER SERVICES?**

13 A. Yes.
14

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

16 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 provide a broad overview of operations and the industry as a whole.

EMPLOYMENT HISTORY

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

As president, Nick 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, Nick 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, Nick 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, Nick served as a member of RWE Thames Water's executive management team for North America.

Nick 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 in order that we may provide an adequate and fair rate of return for our 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

- Lexington Industrial Foundation – Board of Directors 2007–2009
- Commerce Lexington – Board of Directors 2007
- 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).