

**ILLINOIS-AMERICAN WATER COMPANY,  
AMERICAN WATER WORKS COMPANY, INC.,  
THAMES WATER AQUA US HOLDINGS, INC., and  
THAMES WATER AQUA HOLDINGS GmbH**

**DIRECT TESTIMONY  
OF  
TERRY L. GLORIOD  
(Docket 06-0336)**

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**DIRECT TESTIMONY**

**OF**

**TERRY L. GLORIOD**

**I. WITNESS IDENTIFICATION AND BACKGROUND**

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

A. My name is Terry L. Gloriod, and my business address is American Water-Central Region, 727 Craig Road, St. Louis, Missouri 63141.

**Q2. Mr. Gloriod, what is your position with Illinois-American Water Company?**

A. I am President of Illinois-American Water Company (“Illinois American Water” or “IAWC”).

**Q3. Please discuss your educational and business background.**

A. I was named President of Illinois American Water on April 1, 1999, and serve as Regional President for the American Water Works Company, Inc. (“American Water”) -- Central Region. Prior to joining American Water, I was Vice President, Operations of the Continental Water Company and Chairman of the Board of Continental's subsidiary utilities in Missouri, Illinois, Indiana, and New York. I worked for Continental Water or its subsidiaries since June, 1969. I hold a Bachelor of Science degree from Washington University, St. Louis. I am a registered Professional Engineer in Missouri and a Diplomat in the American Academy of Environmental Engineers, holding specialty certification in water and wastewater. I am a past member of the Board of Trustees of the American Water Works Association Research Foundation, and former chair of its

24 Research Advisory Council. I am past chair of the Regulatory Committee of American  
25 Water Works Association's Water Utility Council, and the Government Relations  
26 Committee of the National Association of Water Companies. I am an executive board  
27 member of the Illinois Chamber of Commerce and a member of the Board of the  
28 Leadership Council Southwest Illinois.

29 **Q4. What are your duties as President of Illinois American Water?**

30 A. As President of Illinois American Water, I am responsible for maintaining IAWC's  
31 financial health; enhancing the operating reliability and efficiency of IAWC; and for  
32 assuring that all functions (e.g., planning, engineering, construction, production,  
33 distribution, customer service, accounting, and human resources) are carried out in  
34 compliance with all local, state and federal laws and regulations, and standards of good  
35 business practice. I am also ultimately responsible for assuring that Illinois American  
36 Water meets the needs of its customers.

37 **Q5. What is the purpose of your testimony?**

38 A. The purpose of my testimony is to discuss and support various aspects of the Application  
39 seeking approval for the sale of up to 100% of the shares of common stock of American  
40 Water in one or more public offerings and, prior to the closing of the initial public  
41 offering, the merger of Thames Water Aqua US Holdings, Inc. ("TWAUSHI") with and  
42 into American Water. I will refer to these transactions collectively as the "Proposed  
43 Transaction." When the Proposed Transaction is completed, the existing organizational  
44 affiliations that Illinois American Water and American Water have with RWE  
45 Aktiengesellschaft ("RWE") and its subsidiary, Thames Water Aqua Holdings GmbH

46 (“Thames GmbH”), will be severed, and American Water will become a publicly-traded  
47 corporation. In my testimony, I will discuss the effect of the Proposed Transaction on  
48 Illinois American Water and what the Proposed Transaction will mean for Illinois  
49 American Water customers.

50 **II. OVERVIEW OF DIRECT EVIDENCE**

51 **Q6. Please describe the Proposed Transaction.**

52 A. The Proposed Transaction consists of (i) the sale by Thames GmbH of up to 100% of the  
53 shares of common stock of American Water in one or more public offerings, and (ii) prior  
54 to the closing of the initial public offering, the merger of TWAUSHI with and into  
55 American Water, with American Water being the surviving corporation. Following the  
56 Proposed Transaction, American Water will be a publicly-traded company that will own  
57 operating subsidiaries, including IAWC. The shares of common stock of American  
58 Water are intended to be listed on the New York Stock Exchange (the “NYSE”).

59 **Q7. Mr. Gloriod would you discuss the direct testimony submitted by the Joint**  
60 **Applicants in this proceeding?**

61 A. Yes. In addition to my testimony, the Joint Applicants in this matter (IAWC, American  
62 Water, TWAUSHI and Thames GmbH) sponsor the testimony of Ms. Ellen Wolf, Senior  
63 Vice President and Chief Financial Officer of American Water. Ms. Wolf’s testimony  
64 further describes the Proposed Transaction and addresses certain financial matters.

65 **Q8. Please discuss the effect of the Proposed Transaction.**

66 A. For nearly 60 years, American Water was one of the largest publicly-traded water  
67 companies in the United States, with its shares listed on the NYSE. In 2003, Thames

68 GmbH and its parent, RWE, acquired American Water. That transaction was approved in  
69 an Order issued by the Illinois Commerce Commission (“Commission”) in Docket  
70 01-0832, which was affirmed by the Illinois Appellate Court. As a result of the Proposed  
71 Transaction, American Water will again become the largest publicly-traded water  
72 company in the U.S. Charts showing the basic organizational structures for IAWC and  
73 its parent companies at present and following the Proposed Transaction are marked as  
74 IAWC Exhibit “A”. The Proposed Transaction will not adversely impact IAWC's  
75 provision of service and will produce benefits for IAWC's customers. The Proposed  
76 Transaction will provide American Water with direct access to the public equity and debt  
77 capital markets in the U.S., maintaining American Water's ability to finance investments  
78 in the infrastructure of its subsidiaries, including IAWC. The Proposed Transaction will  
79 not impair the ability of American Water or IAWC to raise necessary capital on  
80 reasonable terms.

81 **III. COMPANIES INVOLVED**

82 **Q9. Please describe the companies involved in the Proposed Transaction?**

83 A. IAWC is an Illinois corporation with its principal office located in Belleville, Illinois.  
84 IAWC is a public utility, and is organized and operating under the laws of the State of  
85 Illinois. IAWC is a wholly-owned subsidiary of American Water and a second-tier  
86 subsidiary of TWAUSHI. IAWC currently owns, operates and maintains potable water  
87 production, treatment, storage, transmission and distribution systems and wastewater  
88 collection, pumping and/or treatment systems for the purpose of furnishing water and  
89 wastewater service for residential, commercial, industrial and governmental users in its  
90 various service areas. IAWC's services areas include the cities of Alton, Granite City,

91 East St. Louis, Belleville, and Cairo and surrounding areas, Pekin, Peoria, Lincoln, and  
92 surrounding areas, Champaign, Urbana, Pontiac, Sterling and Streator, and surrounding  
93 areas. IAWC's Chicago Metro District serves incorporated and unincorporated areas in  
94 portions of Cook, DuPage, Will, Kendall, Grundy, Kane and McHenry Counties. A map  
95 showing the service areas of IAWC is marked as IAWC Exhibit "B". Overall, IAWC  
96 serves approximately 293,000 customers in 125 communities in Illinois.

97 Pursuant to an affiliated interest agreement ("Services Agreement") initially  
98 approved by the Commission in Docket 88-0303 and reapproved in Docket 04-0595,  
99 IAWC receives certain services from American Water Works Service Company, Inc.  
100 ("Service Company"). The Services Agreement is marked as IAWC Exhibit "C". The  
101 services provided by Service Company are further addressed later in my testimony.

102 RWE is a stock corporation incorporated and existing under the laws of Germany.  
103 RWE's headquarters is in Essen, Germany. RWE is the parent company of a group of  
104 companies principally engaged in the business of electric power generation, trading,  
105 transmission and distribution of electric power; natural gas and crude oil exploration and  
106 production as well as natural gas transmission and distribution; and water related  
107 services. RWE ranks among Europe's leading integrated electricity and gas companies.  
108 RWE's regional focus stretches mainly from the U.K. to Eastern Europe. A description of  
109 RWE is marked as IAWC Exhibit "D," and a copy of RWE's Annual Report is marked as  
110 IAWC Exhibit "H."

111 Thames GmbH is a corporation incorporated and existing under the laws of  
112 Germany, with its headquarters in Essen, Germany. Thames GmbH is a wholly-owned

113 subsidiary of RWE. Thames GmbH is the intermediate holding company for most of  
114 RWE's water and wastewater operations. Thames GmbH owns 100% of the shares of  
115 TWAUSHI. Thames GmbH does not have any employees of its own.

116 TWAUSHI is a corporation organized and existing under the laws of Delaware  
117 and headquartered in Voorhees, New Jersey. It is the intermediate holding company for  
118 all of RWE's water businesses in the United States and Canada, and a wholly-owned  
119 subsidiary of Thames GmbH. TWAUSHI and its subsidiaries today have approximately  
120 7,000 employees and provide water, wastewater services and other water resource  
121 management services to a population of approximately 18 million people in 29 states and  
122 in Canada. TWAUSHI is the direct parent of American Water. At present, TWAUSHI  
123 also is the direct parent of Thames Water Holdings, Inc., which is, in turn, the parent of  
124 E'Town Corporation ("E'Town"), which, in turn, owns Elizabethtown Water Company  
125 ("Elizabethtown"), a New Jersey public utility. Under a proposal filed with the New  
126 Jersey Public Service Commission ("NJPSC"), the operations of E'Town (and  
127 Elizabethtown) would be merged with those of American Water. If this proposal is  
128 approved by the NJPSC, that merger is expected to occur prior to issuance by the  
129 Commission of an Order approving the Proposed Transaction. A description of  
130 TWAUSHI is marked as IAWC Exhibit "E".

131 American Water is a Delaware corporation headquartered in Voorhees, New  
132 Jersey. The principal business of American Water is the investment in and ownership of  
133 the common stock of operating water and wastewater utility companies, such as IAWC,  
134 that provide quality water and wastewater services to millions of customers in the United

135 States and three Canadian Provinces. American Water is more than 100 years old, and its  
136 subsidiaries presently have approximately 6,000 employees. For nearly 60 years, from  
137 1947 until January 2003, American Water was one of the largest publicly-traded water  
138 companies in the United States, with its shares listed on the NYSE. A description of  
139 American Water is marked as IAWC Exhibit “F”.

140 **IV. EFFECT OF THE PROPOSED TRANSACTION**

141 **Q10. Will the Proposed Transaction diminish IAWC’s ability to provide adequate,**  
142 **reliable, efficient, safe and least-cost public utility service?**

143 A. No, it will not. As a result of the Proposed Transaction, American Water will be a  
144 publicly-traded company that is focused on the water and wastewater business in the U.S.  
145 As a publicly-traded company, American Water will be better positioned to focus on  
146 maintaining, developing and growing the water and wastewater business of its  
147 subsidiaries, including IAWC, and on the needs of customers and employees. The  
148 Proposed Transaction will not adversely affect IAWC's policies with respect to service to  
149 customers, employees, operations, financing, accounting, capitalization, rates,  
150 depreciation, maintenance, or other matters affecting the public interest or utility  
151 operations. IAWC will continue to provide safe, adequate and reliable service in  
152 fulfillment of its obligations under Illinois and federal law.

153 **Q11. Will the Proposed Transaction result in subsidization of non-utility activities by**  
154 **IAWC or its customers?**

155 A. No. IAWC does not engage in a significant level of non-utility activity. To the extent  
156 that IAWC may engage in such activities in the future, it will continue to maintain its

157 books and records in such a manner as to fairly and reasonably allocate costs and  
158 facilities between utility and non-utility activities, so as to allow the Commission to  
159 identify those costs and facilities that are properly included for ratemaking purposes.

160 **Q12. Will any affiliated interest agreements to which Illinois American Water is a party**  
161 **change as a result of the Proposed Transaction?**

162 A. No. All affiliated interest agreements approved by the Commission to which IAWC is a  
163 party will remain in effect unless or until the agreements terminate and/or the  
164 Commission approves amended agreements. Pursuant to the Commission's Order in  
165 Docket 02-0690, IAWC submitted all of its affiliated interest agreements for reapproval  
166 in 2004 and 2005. Those agreements have all been reapproved pursuant to Commission  
167 Orders in Docket 04-0582 (agreement between IAWC and American Water Capital Corp.  
168 ("AWCC") under which IAWC issues debt and participates in a cash management  
169 program); Docket 04-0594 (two agreements between IAWC and American Lake Water  
170 Company under which IAWC purchases water at wholesale for distribution to  
171 customers); Docket 04-0595 (Services Agreement between IAWC and Service  
172 Company); Docket 04-0597 (office building lease agreement between American Water  
173 Resources and IAWC); and Docket 05-0504 (agreement under which IAWC provides  
174 certain services to American Lake Water Company).

175 **Q13. Will the Proposed Transaction impair the ability of IAWC to maintain a reasonable**  
176 **capital structure or attract capital on reasonable terms?**

177 A. No. This area is further discussed by Ms. Wolf.

178 **Q14. Following the Proposed Transaction, will IAWC remain subject to all applicable**  
179 **laws, regulation, rules, decisions and policies governing the regulation of Illinois**  
180 **public utilities?**

181 A. Yes. The Proposed Transaction does not affect the Commission's authority with respect  
182 to IAWC or the authority of other governmental agencies as to IAWC's services or  
183 facilities. Because American Water will be subject to stock exchange, Securities and  
184 Exchange Commission ("SEC") and Sarbanes-Oxley rules and regulations after closing  
185 of the Proposed Transaction, the scope of the oversight of the operations of American  
186 Water will increase.

187 **Q15. Will the Proposed Transaction affect competition in the State of Illinois?**

188 A. No. The Proposed Transaction will not affect competition in the State of Illinois because  
189 IAWC will continue to operate in its current certificated service territories under the same  
190 market conditions that existed prior to the closing of the Proposed Transaction.

191 **Q16. Will the Proposed Transaction have any adverse impact on IAWC's rates?**

192 A. No. IAWC will continue to operate under its existing tariffs and rate structures (until  
193 such time as such tariffs and rate structures are revised in accordance with Illinois law)  
194 and to honor all its customer and regulatory obligations.

195 **Q17. Do the Applicants seek recovery in rates of the costs associated with the Proposed**  
196 **Transaction?**

197 A. No. Joint Applicants seek no recovery in rates of costs of the Proposed Transaction,  
198 which are comprised of the SEC registration fee, the NASD filing fee, the stock exchange  
199 listing fee, legal fees and expenses of the Proposed Transaction, accounting fees and

200 expenses of the Proposed Transaction, printing and engraving fees and expenses for the  
201 registration statement, Blue Sky fees and expenses, transfer agent fees and expenses, and  
202 legal fees for the state regulatory approval process. Therefore, under Section 7-204(c) of  
203 the Illinois Public Utilities Act (“PUA”), the Commission should rule that the costs of the  
204 Proposed Transaction are not recoverable in rates.

205 **Q18. Do the Applicants expect savings to result in Illinois as a result of the Proposed**  
206 **Transaction?**

207 A. No. Joint Applicants do not expect savings to result in Illinois from the Proposed  
208 Transaction. Under Section 7-204(c), the Commission should rule that such savings  
209 reflected in the test years in future rate cases, if any, should be allocated in full to  
210 customers.

211 **Q19. After the Proposed Transaction, will Illinois American Water contribute to local**  
212 **communities?**

213 A. Yes. IAWC will continue to make contributions to the state and local economies, and  
214 continue IAWC's commitment to be a good corporate citizen in the local communities we  
215 serve.

216 **Q20. Are there other benefits that will result from the Proposed Transaction?**

217 A. Yes. The Proposed Transaction should facilitate the attraction and retention of highly  
218 qualified and capable employees who will be drawn to working for a prestigious, high  
219 profile, publicly-traded company. Employees will be able to invest in their water utility  
220 by buying American Water stock. In addition, American Water may create an employee  
221 stock purchase program following the Proposed Transaction.

222 **Q21. In connection with the Proposed Transaction, are there any plans for transfer or use**  
223 **by an affiliate of assets or information owned or in the possession of IAWC?**

224 A. No. Aside from data and information used by the parent in assembling consolidated  
225 financial statements, for normal business purposes or under approved affiliated interest  
226 agreements, there are no current plans for transfer or use by an affiliate of assets or  
227 information now owned or in the possession of IAWC. If plans for such transfer or use  
228 are developed in the future, the proposed transaction and terms and conditions thereof  
229 will be submitted to the Commission for any required approval.

230 **V. DOCKET 01-0832 CONDITIONS**

231 **Q22. Are there conditions that were imposed by the Commission in Docket 01-0832 at the**  
232 **time of RWE's acquisition of American Water which should be terminated as a**  
233 **result of the Proposed Transaction?**

234 A. Yes. In Docket 01-0832, the Commission approved the acquisition of American Water  
235 by Thames GmbH, subject to certain conditions, including, inter alia, the following  
236 (numbered as they appear in the Commission's Order): (2) "The final corporate structure  
237 approved by the Commission shall be the following: IAWC will continue to be a  
238 subsidiary of [American Water]; [American Water], through [TWAUSHI], will be a  
239 wholly-owned subsidiary of RWE"; and (3) "Commission approval consistent with  
240 Section 7-204 of the Act must be sought for any additional changes to the corporate  
241 structure involving IAWC." (The defined terms used in the Order in Docket 01-0832  
242 have been changed to be consistent with those used in this testimony.) Docket 01-0832,  
243 Order, p. 23. These Conditions should be deemed eliminated, since neither American  
244 Water nor TWAUSHI will then be subsidiaries of RWE, and any continuing requirement

245 that Illinois American seek approval for a “reorganization” would be imposed by Section  
246 7-204 of the PUA, and not by the Order in Docket 01-0832. Also, as Condition No. 4 of  
247 the Commission's Order in Docket 01-0832, IAWC was required to advise the  
248 Commission of any change in the corporate credit rating of RWE, Thames GmbH or  
249 American Water. Following the Proposed Transaction, the credit rating of RWE and  
250 Thames GmbH will no longer affect the credit rating of either American Water or IAWC.  
251 Accordingly, IAWC should no longer be required to report changes in the credit rating of  
252 RWE or Thames GmbH. Thus, in its Order in this proceeding, the Commission should  
253 confirm that Conditions 2, 3 and 4, as stated in the Order in Docket 01-0832, are no  
254 longer applicable.

255 **VI. ADDITIONAL INFORMATION**

256 **Q23. Have you prepared materials for consideration by the Commission in connection**  
257 **with its review of the Proposed Transaction?**

258 A. Yes. Joint Applicants have prepared the following:

259 (a) Charts showing the basic organizational structures for IAWC and its parent  
260 companies at present and following the Proposed Transaction, marked as IAWC Exhibit “A”;

261 (b) A map showing the certificated service areas for IAWC, marked as IAWC Exhibit  
262 “B”;

263 (c) A copy of the Services Agreement between IAWC and Service Company, marked  
264 as IAWC Exhibit “C”;

265 (d) A description of RWE, marked as IAWC Exhibit “D”;

266 (e) A description of TWAUSHI, marked as IAWC Exhibit “E”;

267 (f) A description of American Water, marked as IAWC Exhibit “F”;

268 (g) Income statements and balance sheets for IAWC for the year ending December  
269 31, 2004, marked as IAWC Exhibit “G”; and

270 (h) A 2005 annual report for RWE, marked as IAWC Exhibit “H”.

271

272 **Q24. Section 7-204A of the PUA sets forth a list of materials to be provided with**  
273 **reorganization approval filings of public utilities that were not subsidiaries of other**  
274 **entities prior to the effective date of the Section. Does this statute apply to Illinois**  
275 **American Water?**

276 A. No. The effective date of Section 7-204A was August 15, 1989. Illinois American Water  
277 was the subsidiary of its current parent, American Water Works Company, Inc., on  
278 August 15, 1989, and for many years prior to that date. Accordingly, the Section does  
279 not apply to the reorganization proposed in this proceeding.

280 **Q25. Does this conclude your direct testimony?**

281 A. Yes, it does.

**VERIFICATION**

I, Terry L. Gloriod, certify that: (1) I am President of Illinois-American Water Company; (2) I sponsor the attached Direct Testimony of Terry L. Gloriod ("Direct Testimony") and the Exhibits referenced therein; (3) I have personal knowledge of the information stated in the Direct Testimony and referenced Exhibits; and (4) such information is true and correct to the best of my knowledge, information and belief.

Terry L. Gloriod  
Terry L. Gloriod

**SUBSCRIBED AND SWORN**  
to before me this 7th  
day of June, 2006.

Deborah S. Hendrix  
Notary Public

**DEBORAH S. HENDRIX**  
Notary Public-Notary Seal  
STATE OF MISSOURI  
St. Louis County  
My Commission Expires: Aug. 11, 2007