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May 6, 2011

Kate Whitney
Public Service Commission
1701 Prospect Avenue
P. O. Box 202601
Helena, MT 59620-2601

Re: Docket No. D2011.1.8

Dear Ms. Whitney:

Rhonda Simmons (on behalf of John Alke) has submitted separately for filing with the Commission an original and one copy of the **Testimony of Robert Dove on Behalf of Carlyle Infrastructure Partners, LP**.

I am hereby filing a copy of this selfsame testimony electronically with the PSC.

If you have any questions, please contact me at (303) 290-1601.

Sincerely,

s/ Thorvald A. Nelson
Thorvald A. Nelson
of Holland & Hart LLP

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Encls.

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CERTIFICATE OF SERVICE

I hereby certify that on this, the 6th day of May, 2011, the foregoing **Testimony of Robert Dove on Behalf of Carlyle Infrastructure Partners, LP** was served via electronic mail and overnight mail unless otherwise indicated to the following:

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s/ Bob Moody

**DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA**

IN THE MATTER of the Consolidated) REGULATORY DIVISION
Petition by Mountain Water Company for)
Declaratory Rulings and Application for) Docket No. D2011.1.8
Approval of Sale and Transfer of Stock in)
Park Water Company)

TESTIMONY OF

ROBERT DOVE

ON BEHALF OF

CARLYLE INFRASTRUCTURE PARTNERS, LP

MAY 6, 2011

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

2 A. My name is Robert Dove. My business address is 1001 Pennsylvania Avenue,
3 NW, Washington, DC 20004-2505.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am a Managing Director of The Carlyle Group and Co-Head of the Carlyle
7 Infrastructure Partners, LP. The Carlyle Group is a global alternative asset
8 manager with more than \$106.7 billion under management. Carlyle
9 Infrastructure Partners, LP (“Carlyle”) invests primarily in transportation and
10 water infrastructure assets in the U.S. and Canada. Carlyle has committed
11 capital of \$1.14 billion that is managed by The Carlyle Group. I am also the
12 Chairman of the Board of Western Water Holdings LLC (“Western Water”).
13 Western Water was created to acquire Park Water from its principal owner Mr.
14 Sam Wheeler.

15

16 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL EXPERIENCE
17 AND PROFESSIONAL BACKGROUND.**

18 A. I was born and raised in London, England and graduated from The Forest School
19 in 1970 following which I joined the National Westminster Bank. Over the
20 following five years I obtained my professional qualifications as an Associate of
21 the Institute of Bankers. Following a period of time with County Bank, the
22 merchant banking subsidiary of National Westminster Bank, I transferred with

1 County Bank to their New York representative office in 1980. In 1985 I joined
2 UBS Securities in New York and in 1996 I accepted a position with the Bechtel
3 Group in San Francisco CA where I led a team of professional making
4 investments in infrastructure projects that were built by Bechtel. In 2006 I
5 accepted an offer from The Carlyle Group in Washington DC to Co-Head an
6 effort to raise an infrastructure fund and subsequently to seek investments
7 primarily in the United States focused on the water and transportation sectors.
8

9 **Q. PLEASE EXPLAIN HOW THIS MATTER CAME TO BE BEFORE THE**
10 **COMMISSION.**

11 A. Mountain Water Company, the applicant in this docket, is owned by Park Water
12 Company. On December 21, 2010, Park Water entered into an agreement
13 pursuant to which a wholly-owned subsidiary of Western Water will merge with
14 and into Park, with Park continuing as the surviving corporation after the merger
15 and as a wholly-owned subsidiary of Western Water.

16 On January 24, 2011, Mountain Water filed the consolidated petition for
17 declaratory ruling and application for approval of sale and transfer of stock that
18 gave rise to this docket.
19

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY BEFORE THE**
21 **COMMISSION?**

1 A. My purpose is to provide the Commission with information to support our
2 contention that the sale is in the best interest of both Mountain Water and its
3 customers. In particular, my testimony will explain how Carlyle intends to
4 operate and manage Mountain Water; describe Carlyle's future plans for Mountain
5 Water; provide assurances to Mountain Water's customers regarding future rates
6 and service quality; and describe Carlyle's commitment to environmental
7 stewardship and good corporate citizenship.

8

9 **Q. DOES CARLYLE INTEND TO CHANGE MOUNTAIN WATER'S**
10 **MANAGEMENT TEAM?**

11 A. No. Carlyle made the decision to acquire Park Water because it and its
12 subsidiaries are well-run companies. Consistent with that fact, it is our intention
13 to allow Mountain Water and its management team to continue essentially as
14 they are today. As a result, Mountain Water customers should see little or no
15 change to the affordable and high-quality service they now receive.

16

17 **Q. DO YOU INTEND TO SELL WATER FROM THE MOUNTAIN WATER**
18 **SYSTEM TO ANYONE OTHER THAN THE USERS THAT ARE PART OF**
19 **THE SYSTEM?**

20 A. No. Water from the Mountain Water Co. system will not be sold to anyone
21 other than users of the Company's system. Nor will Mountain Water Company's
22 water rights be diverted outside of the Missoula area for use elsewhere. They

1 will continue to be used to benefit Mountain Water Company customers and the
2 Missoula community.

3
4 **Q. WHAT ARE YOUR LONG-TERM PLANS FOR PARK WATER?**

5 A. Our fund makes long-term investments. As such, it is our intention to keep Park
6 Water and its three subsidiaries for a long-period, investing capital into the
7 systems as appropriate to improve service quality, environmental stewardship,
8 and operational efficiencies. By investing in Mountain Water, we intend to
9 become a long-term contributing member of the Missoula community.

10
11 **Q. WHAT SHOULD CUSTOMERS EXPECT IN TERMS OF RATES AND**
12 **SERVICE QUALITY GOING FORWARD IF THE SALE IS APPROVED?**

13 A. Our commitment to the Mountain Water customers and this Commission is to
14 continue Mountain Water's history of reasonable and affordable rates and top-
15 notch service quality. Our infrastructure fund does not seek to quickly increase
16 the value of its assets by raising revenues or slashing expenses and then selling
17 the asset for as large a profit as the marketplace will permit. To the contrary, our
18 investors, which include public pension funds, organized labor funds, and other
19 institutional investors, have invested in the Carlyle infrastructure fund because
20 they want to invest in something that has a low-risk of failing and a steady and
21 predictable rate of return. Since our investors and management are in this for the

1 long-haul, maintaining reasonable and affordable rates and excellent service
2 quality is a critical part of our business plan.
3

4 **Q. DO YOU ANTICIPATE ANY CHANGES TO THE WAY MOUNTAIN**
5 **WATER OPERATES GOING FORWARD?**

6 A. Yes, in certain areas. As I have already testified, one of the reasons we were
7 attracted to Park Water – including Mountain Water Company – was the quality
8 of its management and its performance in providing safe, clean water. However,
9 one area of concern that we identified in our due diligence, and that has been
10 raised in our meetings with Missoula stakeholders, is the rate of leakage in the
11 system’s infrastructure. We intend to consult with the Commission, our
12 customers, and other stakeholders to develop strategies to address the leaking
13 infrastructure in the Mountain Water system. We also intend to work with
14 stakeholders to determine how and when to best invest capital into the system’s
15 infrastructure to, over time, correct the leakage problem that exists.
16

17 **Q. WHAT STEPS HAVE YOU ALREADY TAKEN TO ADDRESS THE**
18 **LEAKAGE ISSUE?**

19 A. Even though our acquisition has not yet been approved, we have already been
20 working with the Environmental Defense Fund in our due diligence process to
21 look for ways to improve the system’s environmental efficiencies, and correcting
22 the leakage problem has been one of the priorities our joint effort has identified.

1 We have also been working with the U.S. Environmental Protection Agency to
2 identify improvements in the federal regulatory system that would allow for
3 more efficient funding mechanisms and construction procedures in repairing
4 underground water infrastructure. In our view, these initial steps are critical as
5 we develop a well thought out, comprehensive plan to address the problem of
6 replacing aging infrastructure to promote conservation while at the same time
7 being mindful of the impacts on customer rates.

8
9 **Q. COULD THERE BE AN IMPACT ON CUSTOMER RATES AS THE**
10 **AGING INFRASTRUCTURE IS REPLACED?**

11 A. Almost certainly. We are proceeding in this effort with a keen awareness that
12 the pace of improvement in Mountain Water's aging infrastructure has to be
13 carefully balanced with the goal of keeping rates reasonable and affordable. To
14 ensure this balancing is done thoughtfully, before implementing any plan, we
15 will conduct analyses on the long-term benefits of new investments compared to
16 the immediate and long term customer rate impacts. As those analyses are
17 completed, our intention is to work closely with the Commission, its staff, our
18 customers, Missoula officials, and environmental stakeholders to determine the
19 best path forward over time.

20

1 **Q. ARE THERE OTHER AREAS OF OPERATION YOU INTEND TO**
2 **REVIEW IF THE APPLICATION IS APPROVED?**

3 A. Yes. We intend to examine whether there are reasonable and cost effective ways
4 to accelerate the migration of existing flat rate customers to metered service.
5 Conserving our scarce water resources is both good environmental practice and,
6 frankly, good business. One of the more effective ways to conserve water is to
7 accurately measure how much is being used. Unfortunately, a significant number
8 of customers in the older parts of Missoula still receive flat rate service. As a
9 result, those customers have much lower incentives to conserve than customers
10 whose bills are based on how much water they use.

11 We understand that getting all of the customers to metered service will not
12 occur quickly. Recognizing this reality, our plan is to work with the
13 Commission and Staff to continue and promote rate designs that encourage
14 customer metering, alongside an educational effort designed to point out the
15 benefits of metering to the environment, the community, and our customers. For
16 example, we intend to explore whether there might be any cost effective
17 incentives that could be offered to existing flat rate customers to encourage a
18 migration to metered service.

19

20 **Q. EARLIER YOU MENTIONED YOUR INTENTION TO INVEST IN THE**
21 **MOUNTAIN WATER COMPANY AND BECOME A LONG-TERM**

1 **CONTRIBUTING MEMBER OF THE MISSOULA COMMUNITY. HOW**
2 **DO YOU INTEND TO DO THIS AS THE LOCAL WATER COMPANY?**

3 A. This is a very important question and while the question invites a degree of
4 rhetoric, I want to underscore my fund's commitment, and my personal pledge to
5 continue and expand Mountain's commitment to the community it serves.

6 First, water is the most precious resource we have in a community with
7 the exception of each other. Montana, and specifically Missoula, has been
8 blessed with some of the cleanest and best water in the world. It is essential that
9 any company responsible for the system that delivers that water to the
10 community do so recognizing those truths and that they pledge to operate a
11 system that is safe, secure, and protects the quality of that water. I am making
12 that pledge to the Commission.

13 Second, as an essential commodity the owner of the system must invest
14 time and capital in the system. It cannot be irresponsible or greedy in what it
15 charges users of the system. I pledge we will work closely with the Commission
16 and its staff to find the most equitable rates for users of the system, and to abide
17 by the procedures of the Commission that were set up to ensure those rates.

18 Third, it is essential that the people who own and operate that company
19 recognize that they are part of the community and become active members in the
20 community. As the entity responsible for delivering the water in Missoula it
21 must be a leader in communicating to the members of that community and
22 engaging other stakeholders that are involved in delivering and protecting the

1 water. I pledge that Western Water Holdings, Park Water, and Mountain Water
2 personnel will fulfill that responsibility. We will communicate with the public
3 and those stakeholders.

4 Again we have not waited until we own Park Water before doing so.
5 Immediately after informing the Commission and your staff of our intention to
6 acquire Park Water we met with Mayor John Engen of Missoula and have met
7 with him a number of times since then. We have met with several other city
8 officials, members of the local press, Missoula community and business leaders,
9 University of Montana officials, Montana state officials including elected
10 officials from Missoula, federal officials, and members of the public. We have
11 met with environmental leaders including the Clark Fork Coalition.

12 In every one of those meetings, we have conveyed our commitment and
13 intentions that I have outlined here today. I restate those commitments and I
14 pledge to the Commission and the public that we will do our utmost to fulfill
15 them and never forget the public interest that we hold by being in the business in
16 which we are here today seeking your approval to operate.

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

19 **A.** Yes. Thank you.