

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)	CASE NO. 2006-00197
AQUA US HOLDINGS, INC., AND AMERICAN)	
WATER WORKS COMPANY, INC. FOR)	
APPROVAL OF A CHANGE IN CONTROL OF)	
KENTUCKY-AMERICAN WATER COMPANY)	

COMMISSION STAFF'S FIRST INFORMATION REQUEST
TO JOINT PETITIONERS

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that RWE Aktiengesellschaft ("RWE"), Thames Water Aqua Holdings GmbH ("Thames"), Thames Water Aqua US Holdings, Inc. ("TWUS"), American Water Works Company, Inc. ("AWWC"), and Kentucky-American Water Company ("KAWC") (collectively "Joint Petitioners") file the original, one copy in paper medium and one copy in electronic medium of the following information with the Commission no later than July 11, 2006, with a copy to all parties of record. The electronic copy shall conform to the provisions of the Commission's Order of June 5, 2006. Each paper copy of the information requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention shall be given to copied material to ensure its

legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. List and describe each disclosure and governance requirement of federal securities laws to which AWWC will be subject upon becoming a publicly traded company. For each listed requirement, state whether that requirement will also apply to KAWC.

2. List and describe each disclosure and governance requirement of the New York Stock Exchange ("NYSE") to which AWWC will be subject upon becoming a publicly traded company traded on that exchange. For each listed requirement, state whether that requirement will also apply to KAWC.

3. a. Estimate the annual cost to AWWC to comply with the federal securities laws and NYSE disclosure requirements listed in Items 1 and 2.

b. Of the compliance costs listed above, estimate the amount that will be allocated to KAWC.

c. Provide all workpapers, show all calculations, and state all assumptions used to estimate the disclosure costs.

4. a. List and describe the "Sarbanes-Oxley" related requirements that AWWC will be subject upon becoming a publicly-traded company. For each listed requirement, state whether that requirement will also apply to KAWC.

b. Estimate the annual cost to AWWC to comply with the "Sarbanes-Oxley" disclosure requirements listed in Item 4(a). Provide all workpapers, show all calculations, and state all assumptions used to estimate the disclosure costs.

5. State the specific date that Joint Petitioners currently expect to file the initial Securities Exchange Commission ("SEC") registration.

6. Provide a copy of the initial SEC registration when such filing is made with the SEC.

7. a. List all regulatory and governmental approvals that Joint Petitioners, either individually or collectively, must obtain for the proposed transfer and public offering.

b. For each approval listed in response to Item 7(a), provide a copy of the application or other filing, state the date when the application or initial filing was made or is expected to be made, and the expected date of a final decision on the application or filing.

c. Provide a copy of each regulatory or governmental approval within 10 days of the issuance of such approval.

8. Provide all reports related to the proposed merger and public offering that Joint Petitioners, either collectively or individually, have received from their financial advisers.

9. Provide all materials that Joint Petitioners have provided to AWWC or AWWC-affiliated employees about the proposed merger and public offering.

10. a. List the costs related to the proposed common stock sale that Thames and/or RWE has incurred as of the date of this Order.

b. List the costs related to the proposed common stock sale that AWWC has incurred as of the date of this Order.

c. List the total costs related to the proposed common stock sale that Thames and/or RWE expect to bear.

d. List the total costs related to the proposed common stock sale that AWWC expects to bear.

11. Compare Joint Petitioners' estimate of the price per share that Thames expects to receive for the common stock offering of AWWC with the per share price RWE/Thames originally paid for the AWWC common stock. Provide all workpapers, show all calculations, and state all assumptions used to estimate the initial offering stock price.

12. Compare Joint Petitioners' estimate of the total amount that Thames will receive for the sale of AWWC common stock with the total amount that was originally paid for AWWC. Provide all workpapers, show all calculations, and state all assumptions used to derive these estimates.

13. Provide all letters, analyses, notes, memoranda, studies, and related documents that Thames and/or RWE prepared or commissioned that discuss the estimated price of the AWWC common stock.

14. Provide a detailed narrative chronology of the proposal for a public offering of AWWC's common stock beginning with the proposal that was first presented to RWE management.

15. Provide all materials regarding the public stock offering that Joint Petitioners, AWWC, or RWE have submitted to:

- a. Investment firms;
- b. Credit rating agencies;

- c. RWE Shareholders; and
- d. RWE, Thames, or AWWC Employees.

16. a. Provide the Standard & Poor's ratings for American Water Capital Corporation ("American Capital") from its conception until the second quarter of calendar year 2006. List all changes (up- or down-grades) in the Standard & Poor's ratings during this period and state the reasons for each rating change.

b. Explain why Standard & Poor's placed American Capital upon the "negative credit watch."

17. a. Provide the Moody's Investors Service, Inc. ("Moody's") ratings for American Capital from its conception until the second quarter of calendar year 2006. List all changes (up- or down-grades) in Moody's ratings during this period and state the reasons for each rating change.

b. Explain why Moody's placed American Capital on the "negative outlook" list.

18. Refer to the Application/Petition at Paragraph 29.

a. List the publicly-traded utilities to which Joint Petitioners are referring and provide the capital structure as of December 31, 2005 for each listed utility.

b. Describe AWWC's expected capital structure following the common stock offering.

c. Describe how AWWC's expected capital structure will affect KAWC's operations.

19. At Paragraph 29 of the Application, Joint Petitioners state that “American Water’s objectives in designing this capital structure will be to provide ready and cost-efficient access to necessary capital and maintain a solid investment grade rating for AWCC [American Capital].” Describe in detail how AWWC’s capital structure will affect American Capital’s ability to access capital, cost of capital, and investment grade rating.

20. Describe the effect that AWCC’s separation from RWE will have on AWCC’s ability to attract capital and the cost that AWCC will pay for such capital.

21. At Paragraph 30 of the Application, Joint Petitioners state that “[i]n certain instances, the refinancing of AWCC’s debt with RWE may require changes in the terms of the inter-company debt between AWCC and KAWC.” Identify the instances where the refinancing of AWCC’s debt will change the terms of the inter-company debt.

22. At Paragraph 43 of the Application, Joint Petitioners state that the “Proposed Transaction should facilitate the attraction and retention of highly-qualified and capable employees who will be drawn to working for a prestigious, high-profile, publicly-traded company.” State whether AWWC experienced difficulty in either attracting or retaining qualified employees due to its affiliation with Thames and RWE. If difficulties were experienced, described these difficulties.

23. Identify any measures that AWWC has implemented or plans to implement to ensure that either key current management personnel are retained or that qualified successors will be recruited.

24. In Case Nos. 2002-00018 and 2002-00317,¹ Joint Petitioners in support of RWE's acquisition of AWWC argued that RWE's acquisition would allow KAWC greater access to world capital markets. Describe how the proposed transaction will affect KAWC's and AWWC's access to world capital markets.

25. In Case Nos. 2002-00018 and 2002-00317, Joint Petitioners in support of RWE's acquisition of AWWC argued that RWE's acquisition would allow KAWC access to Thames' significant knowledge and expertise on security matters. State whether the proposed transaction, which will sever KAWC's connections with Thames, will restrict or reduce KAWC's present security knowledge and expertise. Explain.

26. In their Application/Petition, Joint Petitioners stress the benefits of AWWC being subject to the disclosure and governance requirements of federal securities laws and NYSE rules. Compliance with such requirements generally benefit investors. List and describe the benefits of compliance with such requirements for KAWC customers who are not investors.

27. At Paragraph 50 of the Application, Joint Petitioners state that "RWE has no intention of permitting any person to acquire a controlling interest in American Water through the proposed transaction."

a. Define "controlling interest" as used in the above statement.

¹ Case No. 2002-00018, Application For Approval of the Transfer of Control of Kentucky-American Water Company to Rwe Aktiengesellschaft and Thames Water Aqua Holdings Gmbh; Case No. 2002-00317, The Joint Petition of Kentucky-American Water Company, Thames Water Aqua Holdings Gmbh, Rwe Aktiengesellschaft, Thames Water Aqua US Holdings, Inc., Apollo Acquisition Company and American Water Works Company, Inc. For Approval of a Change of Control of Kentucky-American Water Company.

b. Describe how RWE will ensure that no person will acquire a controlling interest in AWWC.

c. Identify the stage in the initial offering process in which Joint Petitioners will know if a person is interested in acquiring 10 percent or more of the AWWC common stock and describe the actions that Joint Petitioners may take at that time to prevent such acquisition.

A handwritten signature in black ink, appearing to read "B. O'Donnell", is written over a horizontal line.

Beth O'Donnell
Executive Director
Public Service Commission
Post Office Box 615
Frankfort, Kentucky 40602-0615

Dated: June 27, 2006

cc: Parties of Record