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Content Owner: Dan Kelleher
 Last Update: June 28, 2006



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June 27, 2006

Regulatory Approval Process Advances

From: John Bigelow, SVP Regulatory Programs & Enterprise Risk Management

and Dietrich Firnhaber, SVP Legal

On June 26, we received approval from the Tennessee Regulatory Authority for the sale of shares of common stock of American Water. Petitions related to RWE's divestiture have been filed in 13 states. Tennessee is the second state where approval has been obtained. On June 5, the company received notification from the Hawaii Public Utilities Commission that approval was granted. Our teams continue to advance the regulatory process in the other states where approval is required.

Please use the attachment below to print and share hard copies with those who do not have Intranet access:

Regulatory Approval Process Advances (pdf)

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June 15, 2006

New VP of Planning & Reporting Begins June 15

From: Ellen Wolf, SVP and CFO

I am pleased to announce that **John Settelen** will be joining American Water as Vice President of Planning & Reporting effective June 15, 2006. In this role, John will be responsible for corporate business planning and analysis including Annual Business Plans and Five Year Business Plans. He will replace **Matthew Harris**, who will take on a new position to support American Water's preparation for its Initial Public Offering.

John previously worked at American Water for 17 years, holding a variety of positions in the company, including Corporate Accounting Director and Vice President and Comptroller of New Jersey American Water. For the past 7 years John has worked in the energy industry with Exelon Corporation and more recently Constellation Energy.

John is a Certified Public Accountant and Certified Management Accountant.

John's experience of planning and reporting in a regulated environment will be an asset to the company as we prepare for the future. Please join me in welcoming John back to American Water.

Please use the attachment below to print and share hard copies with those who do not have Intranet access:

[New VP of Planning & Reporting Begins June 15 \(pdf\)](#)

Content Owner: Dan Kelleher
Last Update: June 15, 2006

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June 07, 2006

Internal Audit Group Joins SOX Implementation Team

From: Ellen Wolf, Senior Vice President & CFO

As part of our program to become compliant with the Sarbanes-Oxley Act (SOX), which will enable us to become a public company, our SOX Implementation team is reviewing all of our processes and controls. SOX established higher levels of accountability and corporate governance standards, including reporting requirements for publicly registered companies. Many of the areas being documented and tested for SOX compliance would normally be reviewed by our internal audit department. For that reason, our internal audit group has recently been assigned to join the SOX implementation team. It is a common practice for a company's internal audit department to become part of a SOX implementation team during the initial year. At American Water, this assignment change will help build capability within our audit function, while providing valuable skills and abilities for our SOX compliance program.

In order to accommodate the change in assignment, our internal audit group will complete audits currently in progress, and will perform new audits only as required to address a specific business need. In addition to the change in assignment, we are making a change in reporting. The internal audit group will now report administratively to me as CFO, rather than to the CEO, while also reporting directly to the Audit Committee of the American Water Board. The process to recruit someone to lead the group, replacing Doneen Hobbs who is now leading our Shared Services Center, continues.

As our SOX compliance program draws to a close later this year, our internal audit group will return to their core function. Additional focus will be placed on testing in our organization for compliance with SOX, and helping to ensure our processes are updated and kept current to satisfy our business needs.

Please use the attachment below to print and share hard copies with those who do not have Intranet access:

June 7, 2006 - Internal Audit Group Joins SOX Implementation Team (pdf)

Content Owner: Dan Kelleher
Last Update: June 07, 2006

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June 06, 2006

Filing in Kentucky Marks Completion of the First Stage

From: John Bigelow, SVP Regulatory Programs & Enterprise Risk Management

and Dietrich Firnhaber, SVP Legal

On June 5, American Water filed a petition with the Kentucky Public Service Commission for approval of RWE's divestiture of American Water. This filing marks the completion of the first step in the regulatory process.

Petitions dealing with RWE's divestiture have been filed with the state public utility commissions in 13 states. The regulatory process was initiated on April 21 with applications filed in New York, Virginia, Maryland, Tennessee, Illinois and Hawaii, and was followed by Arizona on April 26, Pennsylvania on May 5, West Virginia on May 8, California and New Mexico on May 22, and New Jersey on May 23. Over the next several months our teams will continue to advance the regulatory process in each state. In fact, we achieved our first state approval on June 5 from Hawaii.

We have started the necessary preparation for the next step in the ownership transition process which includes our initiative to become Sarbanes-Oxley compliant. We anticipate that the initial filing with the Securities Exchange Commission will not occur before late 2006 when all our regulatory proceedings are well underway.

Please download and print the attached file for posting purposes

Filing in Kentucky Marks Completion of the First Stage for Regulatory Approval

Content Owner: Dan Kelleher
Last Update: June 06, 2006

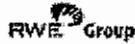
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May 23, 2006

New Jersey Filing

From: John Bigelow, SVP Regulatory Programs & Enterprise Risk Management
and Dietrich Firnhaber, SVP Legal

Yesterday, American Water filed with the California Public Utilities Commission and the New Mexico Public Regulations Commission for approval of the sale of shares of common stock of American Water through an IPO. American Water has also filed with the New Jersey Board of Public Utilities today. Today's filing in New Jersey marks our formal filing in 12 of the 13 states.

We plan to file in Kentucky, the remaining state, in the near future.

These filings represent the culmination of a great deal of work and effort of many people. We are grateful to them and to you for your continued support and interest.

Content Owner: Dan Kelleher
 Last Update: May 24, 2006

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April 26, 2006

Regulatory Approval Process Continues with Filing in Arizona

From: John Bigelow, SVP Regulatory Programs

American Water has filed a petition with the Arizona Corporation Commission for approval of the sale of shares of common stock of American Water. This filing is another step in RWE's divestiture of American Water which follows the petitions filed in six other states last Friday.

Content Owner: Dan Kelleher
Last Update: May 24, 2006

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April 21, 2006

Regulatory Approval Process Begins Today

From: Donald L. Correll, President & CEO

Today we have filed petitions with state public utility commissions in New York, Virginia, Maryland, Tennessee, Illinois and Hawaii for approval of the sale of shares of common stock of American Water. This is the first step in the process of RWE's divestiture of American Water.

These filings represent an important milestone in American Water's history. Getting to this point in the process has required an enormous amount of effort by many employees and advisors. Over the next several weeks, we intend to file petitions in the other states where regulatory approval is required. While the regulatory process will involve our entire regulatory team, it remains very important that each of us focus on our day-to-day responsibilities related to delivering the reliable, high quality service our customers expect. I look forward to communicating with you further in the next two weeks.

Content Owner: Dan Kelleher
 Last Update: May 24, 2006

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April 12, 2006

Vice President of Investor Relations Begins April 17

From: Ellen Wolf, Senior Vice President & CFO

I am pleased to announce that **Ed Vallejo** has accepted the new role of Vice President of Investor Relations at American Water, reporting directly to me.

Ed will join us beginning Monday, April 17 and will assist in the process of taking American Water into public ownership. Following that, he will be responsible for communicating American Water's strategy and performance to the financial community.

Ed will rejoin American Water now that his assignment as Thames Water Chile Chief Financial Officer has come to a close with the completion of the sale of Thames' Chilean holdings. He brings extensive experience in Corporate Finance, Capital Markets and Investment Banking, including Initial Public Offering transactions.

Prior to his assignment in Chile, Ed held a variety of senior management positions with increasing responsibility including Vice President of Planning and Mergers & Acquisitions for American Water and Treasurer of American Water Works Service Company.

Please join me in welcoming Ed back to the American Water family.

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Vice President of Investor Relations Begins April 17

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Last Update: May 24, 2006

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March 24, 2006

RWE To Sell Shares of American Water in an Initial Public Offering

From: George MacKenzie, Interim CEO

Since RWE announced its plans to sell American Water on November 4, 2005, we have all expected news on the method of sale, either through an initial public offering (IPO) or to a group of long-term oriented financial investors. RWE's Executive Board now has decided to sell shares of American Water in an IPO with the expectation that our shares will be listed on a national stock exchange. This is exciting news for us, and an opportunity to demonstrate American Water's commitment to our employees, and to the communities and customers we serve.

As you may know, the sale of shares of American Water in an IPO will require approval by the public utility commissions in certain states as well as the filing of a registration statement with the U.S. Securities and Exchange Commission. The transaction will also be subject to the approval of the RWE AG Supervisory Board. The target is to complete the transaction during 2007.

As a reminder, the U.S. securities laws and regulations impose strict restrictions on American Water, its local operating subsidiaries and employees as to what may and may not be said to the public about the company, its local operating subsidiaries and the IPO process. Please remember that any violation of these laws and regulations could have serious negative consequences to American Water, RWE and the individual committing a violation. To comply with these restrictions, all questions from the media and others should be referred to **Dan Kelleher, External Affairs**, at (856) 346-8258 or **Kimberly Cooper, External Communications**, at (856) 346-8207.

While this news is a milestone, we do not yet have answers to many of the questions you might have. Please continue to remain patient as we are committed to keeping you updated about the process. I again encourage everyone to remain focused on our customers and continue to provide superior service and value to them as we prepare for this new chapter in the history of American Water.

The foregoing communication is for internal distribution only, does not constitute an offer to sell any securities and is not a solicitation of an offer to buy any securities. Such an offer or solicitation will only be made by means of a prospectus.

Content Owner: Gary Dean
Last Update: June 07, 2006

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March 17, 2006

Message to Employees from the Interim CEO

From: George MacKenzie, Interim CEO

Several diverse topics are on my mind that I'd like to cover: condemnations, an interesting industry trend, media rumors, and our Sarbanes-Oxley compliance effort.

There has been a lot of recent press coverage about condemnations, particularly in Illinois, California, West Virginia and Kentucky. This can be distracting to all of us in accomplishing what we strive to do - deliver reliable, high quality service to our customers. However, I believe once a decision is made by RWE on the divestiture process, we will be able to move quickly with regulatory filings to help expedite the approval process and move forward with the sale. A decision on the sale process should help calm condemnation interest. But the most effective way to avoid customer dissatisfaction and condemnation interest is for each of us, as individual employees, to do our jobs well day in and day out. That will keep American Water a high-value, high-performing company.

American Water has tremendous value in our industry. I recently saw a report that struck my interest. It stated that in the past decade, the number of publicly traded water companies has decreased from 24 to 12, a reflection of industry consolidation. What's key is that the 12 publicly traded water companies today have a combined value of \$7.2 billion. If American Water were to become a publicly traded company, from a market capitalization perspective, we would more than double that value. No matter our ownership status down the road, our size, our value and our leadership in the industry are something of which we can all be proud.

Also in the media recently has been speculation about competitor interest in purchasing American Water and/or Thames Water, namely, Veolia. We shouldn't be surprised that there might be rumors of such interest in purchasing the assets of American Water - we are an attractive, quality business. However, many will be just rumors. Until RWE decides on its method, we will continue to regard this as pure speculation.

Until the sale process is further along and ownership status is clear, I realize there are outstanding questions many of you have posed. I ask for your continued patience. We will provide information when we can and as answers become available.

Our Sarbanes-Oxley Act compliance project is moving steadily forward. The steering committee met last week with our external consultant, Ernst & Young. We are in the initial assessment - looking at the state of our current overall control environment. This includes interviews or evaluative discussions with our business units at a management level. As the process and findings unfold, you will be hearing more.

I welcome your feedback and appreciate your continued support.

Sincerely,

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December 29, 2005

Policy Concerning Media Contacts

From: Dan Kelleher, Sr. Vice President, External Affairs

On November 28, 2005, a communication was issued by George Patrick, General Counsel for American Water, to inform employees about the approved way to handle any inquiries you may receive related to RWE's divestiture of American Water. The following is intended to complement the November 28 communication by informing employees of our policy regarding interaction with media beyond the sale process.

American Water is frequently the subject of media coverage. A consistent and well-defined system for external communications is important to the success of a company. Moreover, federal security laws impose certain obligations on the company regarding the disclosure of information. American Water, therefore, has established the following policy and procedures.

- American Water has individuals who are authorized spokespersons for its interactions with the media. No other employees are authorized to speak on behalf of American Water with respect to its business operations or issues affecting the company unless they have been expressly authorized to do so, by an authorized spokesperson.
- Please consult with one of the authorized spokespersons listed at the end of this document before you or anyone in your organization responds to media calls or participates in any interviews.
- If you are contacted by a journalist, please feel comfortable saying that company policy requires you to direct him or her to one of the company's authorized spokespersons.
- Rumors concerning the business and affairs of American Water may circulate from time-to-time. It is the company's policy not to comment upon rumors and media or financial market speculation. Employees are expected to avoid commenting upon or responding to rumors and should refer any requests for comment or response to an authorized spokesperson.
- All American Water employees are responsible for understanding and following these guidelines. The potential for inappropriate media contacts to create brand or reputation impact is a serious matter. The failure to observe these policies can be the basis for discipline or discharge.
- American Water's External Affairs/External Communications team is available to provide media relations strategy, advice on media training, response to media inquiries and communications counsel. Questions related to external communications activities should be directed to one of the authorized spokespersons.

Thank you in advance for your cooperation. Any questions regarding these policies in general or their applicability to the facts of a specific situation should be directed to Dan Kelleher (dkelleher@amwater.com).

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Below is a list of individuals who are authorized spokespersons for American Water:

American Water Corporate: Kimberly Cooper, Office: 856-346-8207, Email: kimberly.cooper@amwater.com

Northeast Region: Lendel Jones, Office: 609-512-3606, Email: ljones@njwater.com

Southeast Region: Debbie Lippert, Office: 724-743-3101, Email: dlippert@pawc.com

Central Region: Eric Thornburg, Office: 314-996-2301, Email: ethornburg@amwater.com

Western Region: Kevin Tilden, Office: 619-409-7714, Email: ktilden@amwater.com

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November 28, 2005

Decisions to Postpone Technology Implementation and Accelerate Sarbanes-Oxley Compliance

From: John Young, COO, & John Bigelow, CFO

The American Water Executive Management Team (EMT) has decided to postpone for at least one year the implementation of an ERP (Enterprise Resource Package) of new financial and HR systems – the two primary areas of focus with the mySAP Work Package 1. However, the company has decided to accelerate the work required to enable American Water to become compliant with the Sarbanes-Oxley Act of 2002 (SOX).

These decisions were reached after careful, in depth review of the work effort and timetables involved with each project. The announcement by RWE to sell American Water was a significant factor in our decisions, particularly related to accelerating SOX compliance.

We recognize this decision will impact many of our employees, and in particular those who have joined the mySAP Work Package 1 project team. Many of the project team members have relocated and/or committed to long-term temporary assignments. We want to recognize and thank those employees for the commitment they have made and also confirm we will work with them in their transition. We also want to emphasize our decision in this regard will not result in any involuntary job losses.

This change of priority will prompt many questions, and we have addressed several below. If there are additional questions, we will be able to discuss them in the course of meetings over the next several days. For further questions, email AW Internal Communications (or aw.internalcommunications@amwater.com).

What happens to the team working on the SAP and related technology projects?

We held meetings today with the team members. We will look for opportunities to redeploy team members currently on the SAP and other related technology projects. We anticipate that all will have the opportunity to go back to their former departments. These include, for example, IT, Finance, Human Resources, Procurement, and the business units. In the future, some employees may be able to support the SOX implementation project.

Why can't both projects be completed at the same time?

We have spoken with consultants experienced with helping companies become compliant with SOX, and have also spoken with individuals who have been involved in such projects. The consistent message is that the project will be difficult and time intensive. Attempting to become SOX compliant in line with RWE's sale plans at the same time as changing technology platforms is not possible. Therefore, we have concluded the best course is to implement SOX compliance procedures first. Then, we

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will return to the technology improvement programs.

When is this effective?

The decision is effective today. There will be close-out activity of the mySAP project through December 31, 2005. The Human Resources team will work with project employees to enable the smoothest transition to the new role, and these dates will vary over the course of the next month. Separately, the SOX compliance efforts will begin early in 2006.

Will jobs be lost?

No. We are committed to working with employees to review individual capabilities and potential employment options. As stated previously, the majority of those assigned to the project will return to their local business units.

What is the Sarbanes-Oxley Act of 2002 (SOX)?

SOX is a piece of federal legislation sponsored by Senator Paul Sarbanes and Congressman Michael Oxley in response to a series of business scandals (i.e. Enron, WorldCom) that occurred in 2001-2002. The Act was authorized by Congress to help increase investors' confidence in the integrity of the financial statements of public companies and bolster confidence in the capital markets.

The primary objectives of the Act are to: prevent accounting and reporting problems from occurring; define a higher level of responsibility, accountability and financial reporting transparency; provide new or enhanced standards for corporate accountability and penalties for wrongdoing; and fundamentally change how Audit Committees, management and external auditors carry out their responsibilities and interactions.

Why is the Act important to American Water?

When American Water becomes a stand-alone company, there will be increased expectations by investors related to internal controls and transparency. If American Water becomes a publicly traded company, we will be required to comply with SOX. The Act currently impacts most publicly traded companies, but the "spirit" of SOX is beginning to enter into the private and government sectors as well. While the Act's focus is primarily on the controls surrounding financial reporting and protection of assets, the impact is far reaching in every organization touching the CFO, CEO, management and the employees. Although the CFO and CEO are the primary individuals who are required to certify financial statements and reports, many companies require managers to sign a sub-certification of their control environment to support their sign offs. SOX focuses on key processes from "start to finish" to ensure the proper controls are in place. Compliance with SOX needs to occur before a company can be publicly traded.

What are the requirements under SOX?

As a publicly traded company, we would be required to file quarterly financial reports and annual reports with the Security Exchange Commission (SEC). The Act requires CFOs and CEOs to formally certify as to the accuracy of quarterly financial statements, as well as the operating effectiveness of disclosure controls and procedures, and ability to detect acts of fraud. Management must also assess, conclude and accept responsibility as to the effectiveness and design of the control environment at year end. The annual assessment is supported by ongoing SOX internal control documentation testing over the year. During the year, as a result of testing and documentation, we would attempt to "fix"

any control gaps identified to ensure the control environment is effectively designed and operating properly to insure proper reporting. Our auditors, PricewaterhouseCoopers, review management's assessment of internal control during the year by reviewing SOX documentation and test results. Included in the annual report, is an auditor opinion and conclusion on management's assessment over internal control.

American Water was a publicly traded company prior to being acquired by RWE. Was the company in compliance then?

When American Water was publicly traded (prior to January 2003), the company was in full compliance with all then applicable SEC regulations. Although the Act was signed into law in 2002, most public companies were not required to be SOX compliant until 2004. RWE acquired American Water in January 2003, so American Water has not been required to comply. In addition, SOX applies primarily to companies that are listed on one of the US stock exchanges. Since RWE is not listed in the US, it has not been required to comply.

Following the various business scandals in 2001-2002 (i.e. Enron, WorldCom), reporting requirements and management responsibilities have become greater. Most notably the documentation and testing requirements associated with management's assessment and conclusion on the internal control environment have become much more strict. The performance of controls must be evidenced ("show me") and the absence of key controls requires immediate action to implement and reduce risk.

What is the timeline for the SOX project?

We intend to begin a scoping process this week and to have the results in January. Once we have that information, we will be able to better define next steps and timelines.

Does American Water still intend to implement an ERP project? If so, will the project team be reassembled?

The main drivers to replace our systems are the aging of those platforms and the need for our business to become more efficient in our technology processes so we can work better, work smarter, and serve the customer better. These are still important to our business, and during the SOX compliance project we will enhance existing systems and controls. We expect to revisit the technology project after SOX compliance is completed. When a course of action and timeline related to replacement of the technology platforms are decided, we will need a team in place to implement the project.

Content Owner: Dan Kelleher
Last Update: May 24, 2006

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November 28, 2005

Handling Inquiries About the RWE Divestiture: Guidelines for all Employees

From: George W. Patrick, General Counsel

On November 4th, RWE announced that it intends to divest the American Water business either through an initial public offering (IPO) or to a small group of long term financial investors. It is important that you be aware of guidelines for handling inquiries you may receive about the divestiture.

If the IPO option is selected, American Water will again become a public company. Because an IPO and private divestiture are both being considered, the US securities laws impose on American Water, its local operating units and their employees certain restrictions on what may and may not be said about American Water, its local operating units and the divestiture process. A violation of these laws could have serious consequences.

To comply with these restrictions, American Water has appointed **Daniel Kelleher, SVP, External Affairs**, as the Company's principal spokesperson. **All questions and requests from the press and others for information or comments about the divestiture should be referred to Dan at (856) 346-8258.** Therefore, all American Water employees other than Dan and members of his staff designated by him should not be involved in any way with any communication with anyone outside the Company regarding the IPO or divestiture process.

Members of the divestiture project team will receive special instructions governing their communications with regulators and other members of the team. Here are some specific guidelines that all other American Water employees should follow:

- Do not mention the IPO or divestiture process in any press release, press conference or other public communication.
- Do not take part in any conversations with representatives of the media, regulators, or others outside of American Water that relate in any way to the IPO or divestiture.
- If the subject of the IPO or divestiture comes up, do not volunteer any information beyond what RWE has publicly announced. At the date of this letter, that information consists essentially of the first sentence of this letter.
- **You may answer unsolicited inquiries from the media, regulators and others concerning factual information about American Water's business if (a) that information is already publicly available, and (b) you answer in a manner consistent with past practice. Do not make any statements concerning the potential IPO or divestiture process beyond what RWE has publicly announced.**
- Do not make any major changes to advertising campaigns, American

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Water web sites or other publicity programs without first consulting Dan Kelleher or his team.

Again, it is extremely important that you follow these restrictions and guidelines. If you are unsure about a particular communication or have any questions, please consult Dan Kelleher. The divestiture process is an exciting one for American Water, and by complying with these guidelines, you will be able to help ensure the process goes smoothly.

Content Owner: Dan Kelleher
Last Update: May 24, 2006

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November 22, 2005

An Update from Jeremy

From: Jeremy Pelczer, President and CEO

Dear Colleagues,

Further to my October 21 update, there have been some unexpected developments to say the least. On November 4, RWE announced its intention to undertake a divestiture of American Water and Thames Water separately. Clearly there will be a regular communication update specific to the sale process to keep employees informed. We are still very much in the early stages of the process and are working closely with RWE to determine specifics.

1. I was in California last week attending the annual National Association of Regulatory Utility Commissioners' (NARUC) conference. This afforded me an opportunity to reach out to a number of the regulators in the communities we serve directly.

During those conversations I made the following points:

- I reiterated the background to the consolidation in the European Energy market in which RWE wishes to be a major player.
- I advised them of the significant capital investment needs in both the American Water and Thames Water businesses. The Water Division is 42% of the capital investment of RWE. This growing capital requirement for both water companies, combined with alternative opportunities for RWE in European Energy, were factors RWE considered. Allowing American Water and Thames Water to access the necessary capital as stand-alone businesses is the path RWE has chosen.
- I also reminded regulators and supporting staff that in the first three years of ownership under RWE, American Water has spent 16% more on capital than in the prior three years before RWE ownership. Including forecasts for November and December this year, that three-year total is \$1.44 billion of capital investment in American Water.
- I also advised those I met at the conference that we are very focused on ensuring business as usual is seen as a paramount requirement of all of our management and employees, and we will continue to be diligent in making sure our customers get the service they deserve.

It is certainly true that change brings with it uncertainties, which can be of concern to employees. However, we are working closely and well with RWE in a joint effort to ensure a smooth transition to new ownership. I believe American Water will continue to be the market leader. The aging infrastructure in the US creates further growth opportunity for American Water, and investment in growth will benefit the company and the customers in the communities we serve.

2. Executive Management Meeting

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Fortuitously, we had planned for some time our quarterly Executive Management Team Meeting (EMT) for the period November 16-18. This allowed us to make sure the whole EMT was fully aligned behind the early work on the sale process and the next steps. Included in the reviews at the EMT meeting was the start of important goal alignment as we set the objectives for 2006. It is my intention to complete all the performance management reviews with colleagues from the EMT during December. They, in turn, will be able to have performance management meetings within the regions and functions, setting individual goals for 2006. This will allow everyone to be clear on their priority goals, allowing us to continue improving all aspects of how we manage the company and serve our customers.

As we have undertaken at previous EMT meetings, we again had representatives from the Western Region Change Partner Network join the EMT for one of the evenings. I always find these gatherings invaluable in gaining continued insights to the thoughts, ideas and challenges as seen through the eyes of those who participate in the Change Partner Network and I thank them for their time and efforts.

3. American Water continues to collect various awards for its performance in a wide range of activities. The most recent was as the 2005 NCPPP (National Council for Public Private Partnerships) award winner. This national award is related to our partnership with the City of Buffalo, New York. As a result of our award-winning partnership, the City noticed \$21m savings in costs and the public noticed an 8% rate decrease. The award also emphasizes the long-term nature of our relationship with communities we serve. These awards are never easy to collect and don't come quickly. The background is that in September 1997 the Buffalo Water Board entered into a contract with American Water Services to upgrade, operate and maintain its water system. The original contract had a five-year term, which has since been renewed for another five years. Well done to all those involved in the contract.

Having been in the US for the last two weeks, I am actually in the UK this week and returning to Voorhees on December 1. I would like to take this opportunity to wish all American Water employees a very happy Thanksgiving and I hope all of you enjoy quality time with your family and friends on this important occasion.

With very best wishes,

Jeremy Pelczer

CEO, American Water

Content Owner: Dan Kelleher
Last Update: May 24, 2006

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November 11, 2005

American Water Ownership Transition Update 1

From: Internal Communications

This is the first of periodic updates we will issue as information becomes available on the sale of American Water by RWE. Employee questions are being collected and answers will be distributed when sufficient information is available to do so. The Change Partner Networks will also be part of our communications process. An attachment is included below with this update to provide a **Question & Answer Guide**.

■CEO Jeremy Pelczer Offers Briefing for Employees

While in Voorhees this week, **Jeremy Pelczer** has been communicating with employees informally. Here he provides further background to RWE's decision. He explained, "The decision RWE has reached is not an indication that anything is wrong with American Water or Thames Water, rather RWE, as a major European energy company with gas and electricity being its traditional strengths, believes that it can make the best use of its core strengths by concentrating on the converging European utility markets. American Water and Thames Water will be sold separately to achieve the best value for both companies. The sale will take time, however, and we will still be part of RWE next year and probably into 2007.

"During this transition, we need to focus on getting the basics right in terms of customer service and meeting our regulatory obligations," he added, stressing that day-to-day business needs to continue as usual. "I understand this time might be unsettling for you and that you need to be kept informed. We will communicate openly with employees about progress."

Jeremy is planning to meet next week with utility regulators at the National Association of Regulatory Utility Commissioners Conference in California and also with the American Water EMT at its quarterly meeting. His next personal update to American Water employees will be distributed by November 22.

■Recap of Interview with RWE CEO Harry Roels

On Sunday, November 6, **Harry Roels** discussed RWE's decision to sell its principal water business. He began by saying "American Water and Thames Water are excellent companies."

In his interview with a major German newspaper, *Frankfurter Allgemeine Sonntagszeitung*, he also explained that the change in strategy is largely due to the company's need to pursue greater opportunities in the Eastern Europe energy markets. The significant capital expenditures required for the water industry, he said, limits RWE's flexibility to capitalize on those energy investment opportunities.

■SVP, Capital Markets Joins American Water Board and EMT

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Earlier this week, **Dietrich Firnhaber**, SVP, Legal/Worldwide Legal Director, explained that representatives from RWE will be joining us regularly throughout the sale process, and welcomed **Andreas Zetzsche** in addition to **Christoph Quick**, both members of RWE's Mergers & Acquisitions team.

Dr. Volker Heischkamp has also joined the American Water team as a Senior Vice President, Capital Markets. He will join the Board of American Water and the senior management team. Volker comes from RWE, where he has been Head of Group Treasury. Volker will relocate here to play a key role in helping to coordinate the sale process, his focus being on all aspects of the capital markets and taking care of close liaison between American Water, RWE and Goldman Sachs, RWE's appointed investment banker.

■ Sale Process Team Assembled

A team of experts in mergers, acquisitions, finance and capital markets has been assembled and will hold discussions with American Water management members at the Voorhees Business Center and the four regions. The team is made up of representatives from RWE and Goldman Sachs. Their primary purpose is to better understand our business as well as our business plans and aspirations for the future.

Christoph Quick, Senior Project Manager for RWE's Mergers and Acquisitions, will be responsible for the sale process.

Please use the attachments below to print hard copies for sharing with those who do not have Intranet access ...

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Last Update: May 24, 2006

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November 07, 2005

RWE Evaluation Process Begins

From: Dietrich Firnhaber, SVP, Legal/Worldwide Legal Director

In our employee conversations held in several locations last Friday about RWE's plan to sell American Water and RWE Thames Water, numerous questions were raised. Since RWE is in very early stages of this transaction, we are unable to provide answers to many questions. Our External Affairs team is logging related questions for the short term and will plan communications as RWE moves through this process. In addition, there will be a new section to communicate RWE Updates on our Intranet over the next week or two. In the meantime, we ask for your understanding and patience.

As RWE has stated, it will conduct the process by evaluating listing American Water with the New York Stock Exchange (an initial public offering) as well as a sale of American Water to a group of long-term oriented financial investors. As part of this evaluation, we can expect representatives from RWE to be working closely with us. This week, joining us at the Business Center from RWE are Andreas Zetzsche, Head of Mergers & Acquisitions, and Christoph Quick, Senior Project Manager of Mergers & Acquisitions, as well as advisors from Goldman Sachs, a global investment bank.

Please forward your questions via email to AW Internal Communications or contact Denise Kelly, Internal Communications at (856) 309-4546.

Content Owner: Dan Kelleher
Last Update: May 24, 2006

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November 04, 2005

Letter from Jeremy Pelczer: RWE Intends to Divest the UK and North American Water Business

From: Jeremy Pelczer, President & CEO

Dear Colleagues,

RWE today announced that they will focus their strategic efforts on strengthening the company's leading market position in the European energy sector. As a direct result, the water businesses of both American Water and RWE Thames Water will no longer be a core business within the RWE Group. RWE intends to divest both companies. The first move will be the sale of American Water, either through an initial public offering or to a group of financial investors. As you all know from experience, the sale of American Water will require approval by the public utility commissions in certain states. We expect the approval process to be completed not before 2007.

I realize this decision impacts our business portfolio as we move forward. If an IPO should take place, I am certain we can master this challenge as we were a listed company in the past. This is an exciting opportunity to show what a great company we operate and what dedicated people we are in the communities we serve. Let us work together to meet the task-at-hand with all our enthusiasm, drive and, above all, determination to succeed.

As a result of your efforts and accomplishments over the years, American Water is today the number one company in the North American private water and wastewater service industry. I am confident that your personal dedication and commitment will continue unabated during the months ahead. We also need to work closely with the executives and teams of experts at RWE to ensure this transaction runs smoothly and professionally.

During this transition period, I urge everyone, however, to remain focused on our most precious asset — our customers. We need to continue to strive in providing superior service and value to them while preparing for this new chapter in our corporate history. American Water continually stands out from its competitors by setting new standards for performance in the water industry while at the same time being responsible stewards of the environment and the water resources we manage. With our renowned expertise and outstanding reputation, we have the tools to continue to grow by offering our customers both reliable service and product quality.

Over the past three years, we all have developed strong ties, relationships and friendships with various colleagues within the RWE Group. Let us continue working closely and cooperatively with our counterparts and colleagues as there is still much we can learn from each other, and there is still work to be accomplished before American Water ceases to be part of the RWE Group.

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Your patience and hard work, as well as your courage, will be very much needed during this transition period. The success of this transaction is also up to us: to make it work, to go the extra mile, and to make the difference that has always made American Water the market leader in the water industry and set us apart from the competition.

Sincerely,

Jeremy Pelczer

CEO, American Water

Content Owner: Dan Kelleher
Last Update: May 24, 2006

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November 04, 2005

Message to customers from Jeremy Pelczer

From: Jeremy Pelczer, President & CEO

Message To Our Customers

You may have read or heard in the media that our parent company, RWE, will now focus its strategic efforts on strengthening the company's leading market position in the European energy sector. As a direct result, the company plans to sell American Water. RWE will commence an evaluation of various divestment alternatives, and the sale will be subject to regulatory approval. Please be certain that we will inform you once a concrete option has been chosen.

In the meantime, please rest assured that you will continue to receive the same high quality of service from American Water employees that you have come to expect. Your daily water supply and services will not be in any way affected by this decision.

We remain committed to investing in our utility operations, research and development and improving the customer experience. The same management and local staff will continue to deliver service; our name will remain the same as will our customer-service phone numbers. We will also continue to be regulated by the same local, state and federal laws that have always governed our operations.

Your continued trust in our ability to provide you with reliable service and high-quality drinking water is very valuable to each and every one of us at American Water. We are proud to be part of the local communities we serve and look forward to serving you in the future.

Thank you for continued support.

Sincerely,
 Jeremy Pelczer
 President and CEO, American Water

Contact
 Kimberly Cooper
 856-346-8207

Content Owner: Dan Kelleher
 Last Update: May 30, 2006

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Susan L Lancho
06/06/2006 06:19 AM

To: KAWC - Notes Users, CSC - Liaisons
cc: Deborah P Lippert/PAWC/AWWSC@AWW, Takisha D
Walker/CALLCTR/CORP/AWWSC@AWW
Subject: Article in this morning's Herald-Leader

Supervisors, please share this information with those who do not have e-mail access.

On Monday, June 5, American Water filed a petition with the Kentucky Public Service Commission for approval of the sale of shares of common stock of American Water. Yesterday's filing is covered in today's newspaper. American Water has now filed for approval with all the necessary state regulatory commissions. It could take the Kentucky PSC up to 120 days to issue its decision.

Should you have any questions re: this filing please let me know.

Thanks,
Susan

Susan Lancho
Communications Manager
American Water, Southeast Region - KY/TN
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Lexington, Kentucky 40502
859.268.6332 office
859.268.6327 fax
859.537.0736 cell
susan.lancho@amwater.com

Susan L Lancho
04/10/2006 09:41 PM

To: KAWC - Notes Users
cc: Takisha D Walker/CALLCTR/CORP/AWWSC@AWW,
Deborah P Lippert/PAWC/AWWSC@AWW
Subject: Article in today's Herald-Leader

An article appearing in Tuesday's Herald-Leader covers the actions taken by some U.S. mayors, including Lexington Mayor Teresa Isaac and former Mayor Scotty Baesler, to encourage RWE to sell systems to local communities in which we operate.

This is to remind you that RWE's intentions remain to sell American Water as one entity. Individual state subsidiaries are not for sale.

Susan Lancho
Communications Manager
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susan.lancho@amwater.com

Susan L Lancho
11/04/2005 12:27 PM

To: KAWC - Notes Users
cc: Takisha D Walker/CALLCTR/CORP/AWWSC@AWW
Subject: Fw: Google Alert - Thames Water

Please know that I am aware of this public announcement and am awaiting more information to share. If any media inquiries are received please let me know.

<http://www.rwe.com/generator.aspx/templateId=renderPage/id=76864?pmid=4000858>

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----- Forwarded by Susan L Lancho/KAWC/AWWSC on 11/04/2005 12:17 PM -----
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Google Alert for: Thames Water

RWE Abandons \$17 Billion Water Push to Focus on Power and Gas
Bloomberg - USA
... said today in a statement to the Frankfurt stock exchange. The sale of London's Thames Water Plc will come later, the company said. ...
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RWE says will sell water ops of Thames Water, American Water in ...
Forbes - USA
ESSEN, Germany (AFX) - RWE AG said it intends to sell the water business of Thames Water PLC as well as that of American Water Works in 2007 as it focuses on ...

SAP is key to Thames Water efficiency drive
VNUNet.com - Haarlem, Netherlands
Utility firm Thames Water is beginning a business transformation project to improve the quality of its information and boost efficiency. ...

RWE Thames Water Selects SAP to Spur Wave of Business ...

noticias.info - Spain

/noticias.info/ SAP AG (NYSE: SAP) today announced that RWE Thames Water, the world's third largest water and wastewater service company, has chosen mySAP ...

RWE Thames Water Selects SAP to Spur Wave of Business ...

WebWire (press release) - Atlanta,GA,USA

LONDON, UK - October 31, 2005 - SAP AG (NYSE: SAP) today announced that RWE Thames Water, the world's third largest water and wastewater service company, has ...

News Brief: RWE Thames Water Selects SAP to Spur Wave of Business ...

PR Newswire (press release) - New York,NY,USA

31 /PRNewswire-FirstCall/ -- SAP AG (NYSE: SAP) today announced that RWE Thames Water, the world's third largest water and wastewater service company, has ...

RWE Thames Water Selects SAP to Spur Wave of Business ...

CRM Today - USA

SAP AG announced that RWE Thames Water, the world's third largest water and wastewater service company, has chosen mySAP™ Business Suite to enable its ...

Thames Water to go to market as RWE eyes energy

Times Online - UK

THAMES Water's German owner is planning to return the company to the stock market, a move that could be announced later this week. ...

UPDATE 3-RWE plans to spin off Thames Water - sources

Reuters - USA

... Oct 24 (Reuters) - German utility RWE (RWEAG.DE: Quote, Profile, Research) plans to spin off its water businesses grouped under RWE Thames Water to focus on ...

Thames Water to float again in £9bn spin off from RWE

Independent - London,England,UK

Thames Water, the UK's biggest water company, is to be floated on the stock market again in a deal which is likely to value the business at about £9bn. ...

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RWE intends to divest the UK and North American water business

- **Continental European water business to remain within RWE Energy**

- **RWE aims to temporarily increase dividend payout ratio on completion of each transaction and reduce debt**

RWE intends to sell the water business of RWE Thames Water in the UK as well as that of American Water in North America. RWE has come to this decision because the Company believes it can make the best use of its core strengths by concentrating on the converging European electricity and gas markets. The limited synergies between the North American and UK water businesses and the European energy business were also a major factor in this decision.

RWE Thames Water's Continental European activities, excluding Pridesa, Spain, will be fully integrated into RWE Energy as these assets offer cost-efficiency synergies within the RWE Energy's regional markets.

RWE will initiate the exit process by evaluating various divestment alternatives for American Water. Options include an initial public offering as well as a sale of American Water to a group of long-term financial investors. Once this transaction is well underway RWE plans to begin the sales process for RWE Thames Water. Both the North American and UK transaction will be subject to the approval of the RWE AG Supervisory Board as well as to regulatory approvals. The target is to complete both transactions during 2007.

Under observance of the strict acquisition criteria on strategic fit and financial performance RWE will also continue to consider opportunities for value-adding external growth in the European markets.

RWE expects the RWE Group, as well as American Water and RWE Thames Water, to benefit from the planned separation of ownership. "The transactions will lead to greater transparency of the value of our water business. Both American Water and RWE Thames Water are market leaders in their respective regions," stated Harry Roels, CEO of RWE AG. "As stand-alone entities, they are well positioned to continue on their stable growth paths going forward and maintain the breadth and quality of their service," Roels added.

RWE shareholders will also benefit from the transactions. RWE plans, upon the closing of the proposed American Water transaction, to increase the dividend payout ratio for fiscal 2006 to a level between 70% and 80% of recurrent net income. Upon completion of a sale of RWE Thames Water, RWE also expects to be able to increase its dividend payout ratio for fiscal 2007 to a level between 70% and 80% of recurrent net income. In addition, RWE does not plan to refinance its maturing 2006 and 2007 debt, which accounts for approximately €5 billion in bonds and bank loans.

Both American Water and RWE Thames Water are currently included in RWE's financial reporting within the RWE Thames Water Division. In 2004, this Division accounted for about €4.1 billion or 9.6 percent of the RWE Group's total external sales and contributed €1.4 billion or 23.2 percent of RWE's total operating result. In the same year, the Division accounted for €1.5 billion or 43% of the Group's total capital expenditure requirements.

Forward-looking statements

This press release contains forward-looking statements regarding the future development of the RWE Group and its companies. These statements are assessments that we made based on information available to us at the time this document was prepared. In the event that the underlying assumptions do not materialize or additional risks arise, actual performance can deviate from the performance expected at present. Therefore, we cannot assume responsibility for the

correctness of these statements.

This press release is not an offer of securities for sale or the solicitation of offers to buy securities in the United States or in any other jurisdiction in which said offer or solicitation is prohibited. Any such securities may not be offered or sold in the United States absent registration or an exemption from registration under the U.S. Securities Act of 1933, as amended, or in any other jurisdiction in which such offer or sale is prohibited. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the issuer and that will contain detailed information about the company and management, as well as financial statements.

This press release is not for distribution in any jurisdiction where such release is prohibited.

Additional information as Download:

- [Fact sheet RWE](#)
 - [Fact sheet Thames Water](#)
 - [Fact sheet American Water](#)
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Additional information as links:

- [Harry Roels Transaction Speech](#)
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- [News download as rtf](#)
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2005 Press Releases



Voorhees, NJ - June 29, 2006
American Water Funds Environmental Grant Program

Voorhees, NJ - June 22, 2006
American Water President and CEO Donald Correll Addresses U.S. Conference of Mayors

< Voorhees, NJ - May 18, 2006 >
American Water Appoints George MacKenzie to Chairman of the Board

Voorhees, NJ - May 08, 2006
American Water Celebrates National Drinking Water Week

Voorhees, NJ - May 02, 2006
American Water Continues To Grow By Acquisition And Service Offering

< Voorhees, NJ - March 24, 2006 >
RWE to Sell Shares of American Water In an Initial Public Offering

Voorhees, NJ - March 20, 2006
American Water Announces Donald L. Correll as President and CEO

Voorhees, NJ - March 06, 2006
American Water's Audit Program Goes HI-Tech

Voorhees, NJ - March 02, 2006
American Water Offers Nine Tips To Protect The Environment And Save Water

Voorhees, NJ - February 16, 2006
Six Things You Can Do Now To Reduce Winter Water Use



Voorhees, NJ - May 18, 2006

American Water Appoints George MacKenzie to Chairman of the Board

American Water, the largest and most geographically diverse provider of water services in North America, today announced the appointment of George MacKenzie as non-executive chairman of the Company's Board of Directors effective May 17, 2006.

George MacKenzie most recently served as Interim President and CEO of American Water until the appointment of Donald L. Correll, which took effect April 17, 2006. Mr. MacKenzie has been a member of the American Water Board of Directors since August 2003 and also served as the Chair of the Audit Committee of the Board from February 2004, until his appointment as Interim CEO.

✓ Harry Roels, CEO of RWE AG, stated, "I am pleased that George has accepted this appointment and will continue to serve in an important role in preparing American Water for its return to being an independent, publicly traded company."

In addition to his role with American Water, George MacKenzie is a director on the Boards of Safeguard Scientifics, Inc., traffic.com, and C&D Technologies, Inc., where he served as Interim CEO early in 2005. He also serves on the Board of Trustees of the Medical Center of Delaware and is a member of the Investment Committee at the University of Delaware.

George MacKenzie previously served as vice chairman of the Board and chief financial officer of Hercules Incorporated, a global manufacturer of chemical specialties whose 5,000 employees generated sales of approximately \$2 billion in fiscal

http://129.41.243.229/awpr1/newsroom/press_releases/page11368.html

7/6/2006



Voorhees, NJ - March 24, 2006

RWE to Sell Shares of American Water in an Initial Public Offering

The Executive Board of RWE AG decided to pursue an Initial public offering (IPO) in the U.S. for the shares of American Water as the most attractive option for RWE and the U.S.-based company, its employees and customers. This decision will return American Water to its status as a publicly-traded company. RWE had previously announced on November 4, 2005 its intention to divest American Water either through an IPO or by selling American Water to a group of financial investors.

The IPO will result in a publicly-traded company that is focused on water and wastewater in the U.S. and dedicated to maintaining a high level of service and quality.

The sales process is expected to be initiated shortly through filings for approval with certain state public utility commissions. The IPO will require filing of a registration statement with the U.S. Securities and Exchange Commission (SEC). The transaction will also be subject to the approval of the RWE AG Supervisory Board. The target is to complete the transaction during 2007.

The foregoing communication does not constitute an offer to sell any securities and is not a solicitation of an offer to buy any securities. Such an offer or solicitation will only be made by means of a prospectus.

Contact:

Kimberly Cooper
American Water

Bill McAndrews
RWE AG

http://129.41.243.229/awpr1/newsroom/press_releases/page10532.html

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Director, External Communications T: 856-346-8207 M: 856-261-9870	Senior Manager, Group Press Relations T: +49(0) 2 01/12- 1 50 95 M: +49(0) 1 62/2 51 53 02
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RWE is one of the leading international utility companies. The company provides customers with electricity, gas and water as well as services related to these products. The company's core markets are Germany, the UK and Continental Europe. Major companies and millions of households throughout Europe rely every day on the RWE Group's services and products. In fiscal year 2005, approximately 86,000 employees worldwide within the RWE Group generated sales of about €42 billion.

Contact
Kimberly Cooper
856-346-8207

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American Water Corporate Home



Voorhees, NJ - January 24, 2006

American Water Announces Executive Changes

American Water, the largest and most geographically diversified provider of water services in North America, today announced the appointment of Ellen Wolf as senior vice president and chief financial officer effective March 1, 2006. Upon joining the company, Wolf will also be elected to the company's Board of Directors.

Wolf served as vice president and chief financial officer for American Water prior to the company's sale to RWE. In that position, Wolf led the team involved in the sale process as well as the required regulatory approval process. After leaving American Water, Wolf joined USEC Inc. in December 2003, where she is completing responsibilities as senior vice president and chief financial officer. Wolf resides in Voorhees with her husband and three children.

Effective with Ellen's appointment, John Bigelow, currently chief financial officer, will become senior vice president to lead the company's regulatory programs, including rate case activity and approvals related to the transfer of new ownership. In addition, Bigelow will be responsible for enterprise risk management.

"I am delighted that Ellen has agreed to return to American Water to help lead the company as we transition to new ownership," said George MacKenzie, American Water interim chief executive officer. "Ellen has the highest integrity, and with her knowledge of the business and the industry, she is uniquely qualified for this position. With RWE's announcement last November that it will be selling American Water, Ellen's previous experience

http://129.41.243.229/awpr1/newsroom/press_releases/page7474.html

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will be especially valuable."

"I became acquainted with Ellen as our acquisition of American Water was nearing completion," said RWE Chief Executive Officer Harry Roels. "I was impressed with her knowledge of the business and respected the way she led the American Water transition team. I think George MacKenzie has made an excellent choice."

MacKenzie continued, "John has done a fine job leading the company's finance functions as part of RWE's Water Division. I am pleased to have him leading the regulatory process especially as we transition to new ownership."

During his career with American Water, Bigelow held a variety of senior management positions with increasing responsibility including Vice President and Treasurer of New Jersey American Water and Vice President of Business Services for American Water which involved leading the company's transition to a national customer service center. He has been chief financial officer since December 2003.

Contact
Kimberly Cooper
856-346-8207

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Voorhees, NJ - November 04, 2005

Message To Our Customers

You may have read or heard in the media that our parent company, RWE, will now focus its strategic efforts on strengthening the company's leading market position in the European energy sector. As a direct result, the company plans to sell American Water. RWE will commence an evaluation of various divestment alternatives, and the sale will be subject to regulatory approval. Please be certain that we will inform you once a concrete option has been chosen.

In the meantime, please rest assured that you will continue to receive the same high quality of service from American Water employees that you have come to expect. Your daily water supply and services will not be in any way affected by this decision.

We remain committed to investing in our utility operations, research and development and improving the customer experience. The same management and local staff will continue to deliver service; our name will remain the same as will our customer-service phone numbers. We will also continue to be regulated by the same local, state and federal laws that have always governed our operations.

Your continued trust in our ability to provide you with reliable service and high-quality drinking water is very valuable to each and every one of us at American Water. We are proud to be part of the local communities we serve and look forward to serving you in the future.

Thank you for continued support.

http://129.41.243.229/awpr1/newsroom/press_releases/page7296.html

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Sincerely,

Jeremy Pelczer
President and CEO, American Water

Contact
Kimberly Cooper
856-346-8207

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June 30, 2006

New Manager of Income Tax Begins

From: Bill Schiavi, Tax Director

I am pleased to announce that **Dave Stewart** has joined American Water as Income Tax Manager. Dave has been working with the company in a number of tax positions for the last four years as a consultant with Resources Connection. In his new role, Dave will be responsible for the day-to-day management of the income tax department at the Woodcrest office. His main areas of responsibility will be income tax accounting and compliance, with a particular focus on our Sarbanes-Oxley-related processes and controls. Dave will report directly to me.

Dave previously held key tax positions in public company environments and is exceptionally qualified to lead the income tax department as we transition to a public company.

Dave is a CPA and has a Masters degree in Taxation from Widener University.

Please join me in welcoming Dave to American Water, and share this announcement with your team as appropriate.

Content Owner: Dan Kelleher
Last Update: June 30, 2006

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June 28, 2006

New Manager of Accounting Standards Begins

From: Ed Keiffer, Director Financial Reporting

I am pleased to announce that **Beth Scalse** has joined American Water as Manager of Accounting Standards. In this new role, Beth will work closely with our team dedicated to Sarbanes-Oxley compliance. She will be responsible for managing technical research into accounting issues and assisting in development of corporate accounting guidelines, policies and procedures to ensure a high quality of financial reporting. Beth will report directly to me.

Beth previously worked for Systems & Computer Technology Corporation in Malvern, PA, holding several positions of increasing responsibility including Director, Financial Reporting. Prior to that she obtained audit experience with Ernst & Young, LLP.

Beth will be a great asset to the company as we transition to new ownership. Beth is a CPA and has a B.A. in Accounting from Franklin & Marshall College.

Please join me in welcoming Beth to American Water, and share this announcement with your team as appropriate.

[New Manager of Accounting Standards Begins \(pdf\)](#)

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Content Owner: Dan Kelleher
Last Update: June 28, 2006

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June 15, 2006

New VP of Planning & Reporting Begins June 15

From: Ellen Wolf, SVP and CFO

I am pleased to announce that **John Settelen** will be joining American Water as Vice President of Planning & Reporting effective June 15, 2006. In this role, John will be responsible for corporate business planning and analysis including Annual Business Plans and Five Year Business Plans. He will replace **Matthew Harris**, who will take on a new position to support American Water's preparation for its Initial Public Offering.

John previously worked at American Water for 17 years, holding a variety of positions in the company, including Corporate Accounting Director and Vice President and Comptroller of New Jersey American Water. For the past 7 years John has worked in the energy industry with Exelon Corporation and more recently Constellation Energy.

John is a Certified Public Accountant and Certified Management Accountant.

John's experience of planning and reporting in a regulated environment will be an asset to the company as we prepare for the future. Please join me in welcoming John back to American Water.

Please use the attachment below to print and share hard copies with those who do not have Intranet access:

[New VP of Planning & Reporting Begins June 15 \(pdf\)](#)

Content Owner: Dan Kelleher
Last Update: June 15, 2006

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May 01, 2006

Relaunching American Water - A Message to All Employees from CEO Don Correll

From: Don Correll, President and CEO

In my first two weeks, I've been able to meet many of you and I look forward to talking with more of you as I travel throughout our business. When asked about my plans as your new CEO, I have explained that my top priority is en-suring American Water is at the forefront of the industry.

The market place demands a solid external presence of companies the size and scope of American Water. I want to see that everything possible is done to market the American Water brand and position our organization for aggressive and solid growth activity. While business requires a strong internal focus on improvement, it also requires strong visibility in the market place.

The divestiture process provides us the perfect opportunity to reintroduce our-selves to the market. Our reputation proves we are a leader in providing cus-tomers quality water and service. I want to see us market that legacy to our greatest advantage.

I see my job as leading the successful relaunching of American Water. This is the first of many ways in which I plan to regularly communicate to you and with you about our progress in this and other key business areas.

I appreciate your support and the role you each play to continue the legacy.

Content Owner: Dan Kelleher

Last Update: May 24, 2006

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April 07, 2006

Message to Employees from the Interim CEO

From: George MacKenzie, Interim CEO

To: All American Water Employees

With Don Correll beginning on April 17, this will be my last message to you as Interim CEO. It's been such a pleasure to work directly with everyone and I look forward to serving on the company's Board of Directors and witnessing the progress and achievements that are yet to occur.

Now that RWE has determined the sale of American Water is an IPO, all the important processes involved will be our focus. Our objective is first and foremost to obtain approval from certain states as we prepare for that sale. It's realistic to expect our transition to new ownership will involve some twists and turns in the road, but we must remain focused. We also cannot lose sight of managing the business by providing our customers with high quality water and excellent service in every way as well as delivering our financial objectives.

Next week, I'm planning to have a company-wide Change Partner Network call to discuss some of the current movement going on in the company. For example, we're focusing our efforts on filling vacancies that exist at all locations, a new code of ethics will be distributed in a few weeks and an in-depth organizational review will help ensure a strong talent pool.

I leave as Interim CEO knowing as an organization we have the skills and determination to meet the challenges ahead and to make strident efforts toward necessary improvement. I'm also confident that the top leadership role will be left to a real industry expert. Don Correll is a great choice for American Water. I encourage you to give him your full support. Together we can all accomplish very great things.

My best wishes to each of you for continued success.

Sincerely,

George MacKenzie, Interim CEO

Content Owner: Dan Kelleher

Last Update: May 24, 2006

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March 31, 2006

Guidelines on Use of RWE Logo

From: Kathleen Carney, Director Marketing

Now that RWE has completed its evaluation process and decided to sell its shares of American Water in an initial public offering, we have further direction on the use of the RWE logo. The target is to complete the transaction during 2007, and there are guidelines in place to be followed throughout the process, effective immediately. These guidelines have been approved by American Water's CEO and the brand team at RWE. Please make it a point to share this information with your teams and others who may need it.

Use of RWE Logo Until Sale Completion

Short-Term Items

American Water will continue to use RWE's logo on the following short-term items until the sale process is complete. If additional supplies are needed, please keep reorder quantities as low as possible.

Stationery & Templates (e.g. envelopes, letterhead, memos, fax covers, PowerPoint presentations for internal and external purposes)

Business Cards, Water Quality Reports (CCRs), Bill Inserts, Internet Web Site, Advertising, Vendor Checks, Employees Checks, Press Releases

Newsletters: Internal and external newsletters, including newsletters produced by the corporate office and those by subsidiaries of American Water, including non-regulated subsidiaries

Literature Reprints: reprints including corporate literature, regional literature, folders, project sheets, case-study write-ups, door hangers, and the like; reprints will be made only when necessary. New four-color literature will refrain from containing the RWE logo. New literature before the sale is unlikely.

Proposal Cover Sheets (e.g., all bid submittals for regulated and non-regulated RFPs, including statements of qualification submittals.)

Bills: our bills currently do not reference RWE. However, at some future stage American Water will revisit the appearance of customer bills and its presentation of the state brand logo.

Long-Term Items:

Newly required long-term items should be produced without reference to RWE due to their expense and to their shelf life lasting long after the sale. Reproduction of existing items, such as signage, should not be implemented until the sale is complete.

Premium Items/Giveaways: The goal is to deplete existing premium items, where possible, that include RWE's logo. Current inventory on hand with our vendor should suffice until mid-2007. Should one need to

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purchase a new item, it is not necessary to include RWE's logo, as often these items are small in size (space constraints) and are most likely to be visible long after the sale.

Sponsorships: Given that the usage of an RWE locked logo was problematic from the start (RWE has recognized this), it is our intent to sponsor or co-sponsor an event, such as the American Water Works Association, using the American Water brand only. Corporate sponsorship opportunities planned for 2006 begin in June.

Apparel, such as uniforms, embroidered shirts, hard hats, employee ID badges: These items are costly and are often purchased in bulk. We will refrain from reference to RWE on production of new items given the longevity of usage.

Trade Show Booths: Existing trade show booths, with current reference to RWE, will continue to be used during 2006 up until the time of sale. However, should a business need arise to create a new booth, we will not need to include the RWE logo due to expense and longevity.

Water Tanks: Water tanks with current RWE reference will eventually be addressed once the sale process is official. New water tanks or tanks requiring repainting before the sale process should not include RWE logo reference due to major expense and longevity.

Interior Signage, such as employee nameplates, lobby decor, permanent signage: Due to costs, we will refrain from reference to RWE for these items, when ordering new. No purchases should be made to simply replace existing items.

Exterior Signage and Flags: Signage and flags with reference to RWE will not be changed until the sale process. New signage and flags that are needed before the sale process will be produced without the RWE logo. We expect this need before the sale process to be minor.

Fleet: Since the majority of American Water's fleet is still white with the local logo, we will cease ordering new fleet in silver and revert back to white. New decals for new cars will carry the local AW brand only due to costs.

Content Owner: Kathleen Carney
Last Update: June 28, 2006

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March 08, 2006

Director of Customer Service Takes on CSC SOX Compliance

From: Glenn Milton, Vice President of Customer Service

I am pleased to announce that effective Immediately Director of Customer Service **Adam Boelke** has accepted the assignment to lead the Customer Service Center's Sarbanes-Oxley Act (SOX) compliance efforts and other auditing projects. In doing so, Adam will be relocating from the Pensacola CSC to the Alton CSC.

This relocation is necessary so Adam will be able to work more closely with the CSC audit and compliance ad hoc teams, as well as more directly with the company's SOX project team and American Water's SOX contractor, Ernst & Young.

Essentially, SOX, Section 404, is the measure and reporting of the company's internal control over financial reporting. SOX impacts publicly traded companies, and it is also beginning to enter the private and government sectors. The company has begun developing a SOX implementation plan, and Adam will have a critical role in the plan's development and implementation at the CSC.

Adam has a strong foundation in our business and strategic areas to allow for CSC success in the upcoming year and beyond.

Let me assure everyone that the Pensacola CSC plays a vital role in delivering top-notch service to our customers, and Adam's leadership has developed Pensacola to be prepared for this strategic move.

Adam will continue to provide managerial support for CSC Education & Development Manager Gina Mikrut, CSC Process Manager Tony Neal and Senior Business Support Specialist John Danneker. Adam will be the CSC's point person for the American Water Regions and company headquarters on the SOX project and all CSC audits.

New Pensacola CSC Call Handling Manager Tom Torchia, who recently replaced Michael Miller, will report directly to me as Alton CSC Call Handling Managers Sharon Daugherty and Greg Schmidt already do.

Feel free to contact me if you have any questions regarding this organizational announcement. Please join me in congratulating Adam on this exciting new opportunity.

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Content Owner: Gary Dean
Last Update: May 23, 2006

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March 06, 2006

Message to Employees from the Interim CEO

From: George MacKenzie, Interim CEO

I hope by now you've had a chance to review our 2005 financial results as announced last week. While our performance reflects improvement, we did not achieve all that we wanted. Therefore, it's particularly important that we be even more focused on our business plan goals this year and in future years. Our 2006 Company Performance Targets are intended to help us do that. Those company-wide targets are also the foundation on which individual performance targets should be set.

I have enjoyed participating in some Change Partner Network discussions. It's clear to me from the questions and topics raised that employees want to know what they can do to help drive the company's performance. One significant way employees can help us reach our financial targets is by realizing that no matter what your position in the company, each day you make decisions that impact our service and financial objectives. The decisions we're making must reflect our business priorities.

There is also a strong interest in what the company is doing to fill vacancies. This week I've discussed our progress with the Regional Presidents. We are all focused on this issue and will remain so as it is a crucial part of our ability to continue providing the reliable, high quality service to which we're committed. I believe we are making steady progress overall.

After careful consideration of our growth strategy, we have decided to explore the possible sale of two of our non-regulated businesses. Our residuals management and underground infrastructure businesses, while sound, are very different from our core business. If we are able to sell them at a favorable price, we will consider doing so. If not, we'll continue to focus on growing them.

Last week we welcomed Ellen Wolf back to the organization. With Ellen's arrival, the recent senior management changes are falling in place, and we are poised to take on the challenges of transitioning to new ownership.

Thank you for your continued support.

Sincerely,
 George MacKenzie
 Interim CEO

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February 27, 2006

Year-end Update on AW 2005 Financial Performance

From: John Bigelow, Chief Financial Officer

I am pleased to provide you with a summary of the company's overall performance for last year.

Operating Results

- Our operating results continued to improve in 2005 with an increase of five percent over 2004. This increase is mainly due to rate case awards and increased sales on the regulated side of the business.
- These favorable variances were slightly offset by increased expenses as well as discontinued and lower-yielding contracts in the non-regulated business.

Revenues

- Total revenues increased by six percent compared to 2004, including adjustments made for the sale of Ashbrook and Leopold, two companies with activities beyond our strategic focus. Without the adjustments, total revenue increased by three percent.
- Revenues in the regulated business increased five percent due to rate increases, increased sales volumes in the Northeast Region, and favorable weather conditions in the Southeast and Central Regions.
- In the non-regulated Enterprises Group, new business in the Military Services and Homeowner Services groups helped to offset operation and maintenance contracts that were not renewed.

Capital Expenditures

Capital expenditures totaled \$631 million in 2005, an increase of six percent compared to 2004, as American Water continued to invest in facilities to provide reliable, quality service.

Cash Flow

Cash flow improved over last year by \$41 million, reflecting constructive changes such as the timing of accounts payable activities. However, we still remain negative in terms of cash flow because the amount spent on new investments exceeds our recovery of former investments in utility infrastructure, requiring that we continue to improve.

Summary

While our financial results continue to reflect improved performance compared to previous years, our performance has not met our business plan goals. We fell short of our budget expectations due to higher costs of production, delayed or lower than anticipated rate case settlements and less growth across the company than expected.

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As American Water moves forward after RWE's announcement to divest its water business, it is more important than ever for us to focus on delivering reliable, high quality service to our customers, investing in our existing businesses, and growing our business.

For more information about the company's financial performance, please contact me or your regional finance director.

See the following Financial Performance table.

American Water's 2005 Financial Performance			
(in US \$ millions)			
As of December 31, 2005			
	2005 Actual	2004 Actual	Difference to 2004
Revenue	\$2,228	\$2,168*	\$60
Operating Results	608	579	29
Capital Expenditures	631	594	37
Cash Flow	(99)	(140)	41

Glossary of terms:

Operating Results – revenues minus operating expenses and depreciation

Capital Expenditures – total construction expenses and equipment purchases

Cash Flow – cash generated by the business after capital expenditures

*2004 revenues include a total of \$60m for the sale of Ashbrook and Leopold

2005 Financial Performance

Content Owner: Dan Kelleher

Last Update: May 24, 2006

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February 15, 2006

Reshaping our Business: Refining Leadership Roles to Achieve Key Priorities

From: George MacKenzie, Interim CEO

I stated in previous announcements that American Water will focus on three key areas this year: delivering reliable and high quality service to our customers, investing in our existing businesses, and growing our business. I now want to inform you of some important organizational changes that will help us achieve our key priorities and prepare us for a smooth transition to new ownership.

The changes are being made primarily within the Executive Management Team. They include expanding the role of **John Young**, Chief Operating Officer, to assume more direct responsibility for company-wide operations and delivery of operating results. All Regional Presidents will report to John, and Customer Service Center, Operational Services and Process Performance roles will remain under his leadership. Reporting to John, **Steve Schmitt**, VP Operational Services, will take on additional responsibility for functional leadership of Innovation and Environmental Excellence, Best Operating Practices, CPM/Asset Management, Operational Risk Management, Supply Chain, Engineering Construction and Technical Services and Belleville Laboratory.

As previously announced, **Ellen Wolf** will join American Water as Senior Vice President and Chief Financial Officer and **John Bigelow** will transition to Senior Vice President, Regulatory Programs and Enterprise Risk Management. **Dan Kelleher** will continue to lead the External Affairs function as a consultant until a replacement candidate has been selected. Additionally, Dan will focus on the various condemnation proceedings across the company.

Another notable change is that regional leaders in Finance and Business Development will have a dual direct reporting relationship. Finance Directors will report to the Regional President and the CFO. Business Development Directors will report to the Regional President and Chief Growth Officer. Additionally, the Benefits Services Center will report into Human Resources.

We are continuing the external search for the Chief Information Officer position. Until the role is filled the IT function will report to the Chief Financial Officer. The Internal Audit function, led by **Doneen Hobbs**, will report directly to the Board of Directors Audit Committee and administratively to the Chief Executive Officer.

The above changes will be effective as of March 1, 2006.

There are several senior leaders who have left the business: **William Malarkey**, VP, Corporate Development and **Opuiyo Oforlokuma**, VP, Products and Services, and **Andrew Chapman**, VP, Strategy and Regulation. Each, in their respective roles, have made significant contributions to the business. I thank each of them for their dedicated

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service and wish them continued success in their careers.

I want to emphasize that this is a pivotal period for our business. Our transition to new ownership is a time of excitement and opportunity. Yet, we will need to remain focused to continue our legacy of excellence. The organization changes being announced today will help us do that. However, it is the combined effort and commitment of all of us that will make us successful. I ask for your support as we go forward. I am looking forward to working with you this year and to our collective achievement and success.

Quick Reference Summary

The following are highlights of organizational changes featured in this announcement:

- Regional Presidents will report to **John Young**, Chief Operating Officer.
- **Steve Schmitt**, VP, Operational Services, is responsible for: Innovation and Environmental Excellence, Best Operating Practices, CPM/Asset Management, Operational Risk Management, Supply Chain, Engineering Construction and Technical Services and the Belleville Laboratory.
- **Jim McGlvern**, Chief Growth Officer, will share direct leadership responsibility for Business Development with Regional Presidents, in developing our growth strategy.
- **Ellen Wolf** will join the organization as Senior VP and CFO and will share direct leadership responsibility for Finance with Regional Presidents.
- **John Bigelow** will assume a new role as Senior VP, Regulatory Programs and Enterprise Risk Management.
- **Dan Kelleher** will continue to lead the Communications and External Affairs function as a consultant until a permanent candidate is selected, and will coordinate American Water's condemnation defense activities.
- **Doneen Hobbs** will continue to lead the Internal Audit function reporting directly to the Audit Committee and administratively to the CEO.
- The search for a Chief Information Officer (formerly VP, Business Transformation) and a CEO are ongoing. Until the CIO role is filled, IT will report to the CFO.
- The Benefits Service Center will report to Corporate Human Resources.

Questions & Answers

1. What prompted these changes in organizational structure? Why are we making these changes now?

Since the announcement of the divestiture, the Executive Management Team (EMT) has been reviewing the company structure and core processes to assess areas which need to be modified as we transition to new ownership. The organization structure we are changing from was designed around being part of the RWE Water Division and wholly owned by RWE. It is therefore necessary to make changes in our leadership structure now. These changes are intended to prepare the company for

sustainable success beyond the divestiture. While there may be further refinements, they create a foundation for us to build upon as we move forward in developing a premier water resources company.

2. Will there be further restructuring at lower levels in the business?

No immediate major changes are currently being planned. Going forward, the EMT will continually evaluate if further refinements will be needed to help us prepare for new ownership, growth and delivering quality services to our customers.

3. What is the status of the search for a new CEO and CIO?

The search to fill both positions is ongoing. In the interim, George MacKenzie is leading the business as the CEO and the responsibility for IT will be managed through the Chief Financial Officer until the CIO is hired.

4. Why are the Regional Presidents now reporting to the COO? Are they still members of the Executive Management Team?

A key part of our success this year and going forward will be to function as one integrated operating company. Having Regional Presidents report to the COO will assist us in creating greater synergies between the regions, enhance operational excellence and further standardize core practices and processes across the business. Although the Regional Presidents will report to the COO, they will remain a part of the Executive Management Team and will have continual access to the CEO. This will enable them to continue providing critical input that will help lead, shape and drive the business.

5. Why do Regional functional leaders for Business Development and Finance now have a dual direct reporting relationship to the Regional President and Business Center?

Our focus is to drive standardization and synergies across the business. This new reporting relationship will help us ensure that the roles and objectives within the Regions and Business Center are in alignment and will support greater collaboration within the business. This will become increasingly important as we work toward company-wide initiatives such as becoming Sarbanes-Oxley (SOX) compliant. Operating in this manner will also help eliminate duplication of effort, streamline core company processes and ultimately deliver service to our customers in a much more timely and cost effective manner. Leveraging the Business Development function across American Water will enhance our future growth capability.

6. Why has Ellen Wolf been selected to resume the CFO role?

Ellen provides unique experiences that will help us transition to new ownership. Her combined experience as CFO of American Water for nearly four years while it was publicly traded, and CFO for publicly traded USEC Inc., makes her highly qualified for this position. A key organizational objective for this year is to become SOX compliant. Ellen is currently the chair of an audit committee in a publicly held company that has successfully led the change for becoming SOX compliant. Ellen also has experience with effectively facilitating divestitures such as we are now going through. Overall, she brings experience and knowledge that will help American Water become an even more attractive company to potential new owners and continue to deliver reliable, high quality service to our customers.

7. What will these changes mean to employees? Will they create more work or initiatives?

Overall, employees should see greater focus and accountability on operational excellence and growth. In turn, that will mean better practices in performance management, and a sharper focus on where we're headed and how we're going to get there. We have already announced our SOX compliance project. However, there are no specific initiatives or projects tied to this restructuring. We are aiming to be a growing organization focused on stronger service delivery, and we can expect there will always be change. Despite our transition to new ownership, we still have a steadfast commitment to our vision: To be your trusted water resource company dedicated to delivering innovative solutions.

8. Why is the Benefits Service Center moving from the Shared Services organization and reporting to Human Resources?

We have decided that it will be more effective to move this function back to its previous reporting relationship to assume better linkage between Corporate Benefits and Benefit Program administration.

9. Where do I go to get further information about current and impending changes?

Please speak to your direct supervisor. A part of their role is to share information and answer questions as company changes occur. If they are not available, please feel free to contact your local HR representative. If there is additional information, they will advise you on how to access it.

10. What can I do to support these changes?

All of us should continue doing what we do best, diligently focusing on our day-to-day responsibilities and contributing ideas about how we can improve and grow. It will also be important to share this information with your colleagues and ask questions for better understanding whenever needed.

Please use the attachments below to print and share hard copies with those who do not have Intranet access:

Organizational Structure-March 2006

Content Owner: Dan Kelleher
Last Update: May 24, 2006

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February 07, 2006

Next Steps for Sarbanes-Oxley Implementation

From: John Bigelow, Chief Financial Officer

In November, we announced the need to accelerate American Water's implementation and compliance with the Sarbanes Oxley Act (SOX), which as a project is now beginning to pick up speed. Therefore, I want to provide some additional details related to implementation by answering a few questions. As we complete key milestones, we'll share updates on our progress.

What can I do to help with SOX implementation?

As part of SOX, you're going to hear us talk a lot about "internal controls" and "control activities." The term "control" related to SOX basically refers to checks and balances. Successful companies implement controls in all areas of their businesses including everything related to financial reporting; how we regulate and/or monitor the way we do things to ensure accuracy, timeliness, and proper documentation and approval. SOX requires a more disciplined and extensive set of processes to ensure controls are effective.

Since SOX is about internal control, and not simply a "check the box" exercise, the best way for each of you to contribute today is by continuing to focus on the completeness and accuracy of the work you perform each day. We're at the beginning stages of the compliance project, so it will take some time to see changes. Some examples of what could change include how we submit and approve timesheets as part of our payroll process, or how we handle our P-Card transactions. The "control activities" around these examples will ensure we approve things properly, have adequate documentation and evidence of approval, and that we do so in a timely manner.

What are the general next steps for SOX implementation?

Several key phases related to SOX implementation include identifying a consultant, planning and scoping, education, documentation and testing, and remediation. Here's where we are on a few of these phases:

Since SOX is about internal control, and not simply a "check the box" exercise, the best way for each of you to contribute today is by continuing to focus on the completeness and accuracy of the work you perform each day. We're at the beginning stages of the compliance project, so it will take some time to see changes. Some examples of what could change include how we submit and approve timesheets as part of our payroll process, or how we handle our P-Card transactions. The "control activities" around these examples will ensure we approve things properly, have adequate documentation and evidence of approval, and that we do so in a timely manner.

What are the general next steps for SOX implementation?

Several key phases related to SOX implementation include identifying a

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consultant, planning and scoping, education, documentation and testing, and remediation. Here's where we are on a few of these phases:

SOX Consultants – After a thorough evaluation process, we have selected Ernst & Young, an industry leader in SOX compliance, to provide a framework for implementing compliance at American Water. We'll utilize their experience, SOX best practices, and support of key activities, such as creating documentation and testing, as we assess the design and effectiveness of our control environment.

Planning and scoping – We've begun developing an implementation plan to ensure consistency and accuracy of our approach throughout the company. This includes assessing business processes and internal controls, and establishing an internal framework to support SOX readiness and ongoing activities. We expect to communicate the completed plan by mid-March.

Education – This will be in the form of live instruction and/or documents tailored to American Water's specific needs. As a result, it is not necessary to seek SOX courses outside of the company.

Documentation and Testing – The general timing and extent of documentation will be determined once we complete our planning and scoping phase. We expect documentation to begin in the first half of 2006 and full testing to occur later in the year.

Remediation – This phase, essentially fixing and monitoring any issues, begins last and is ongoing. As gaps in our control processes are identified, we will develop action plans to adjust and improve our control activities and eliminate risks as part of the SOX implementation.

Who will be working on the SOX compliance project?

As part of the planning phase, a small core group will be developing a road map for implementation with Ernst & Young using SOX best practices. After the completion of planning, a larger group of American Water and Ernst & Young people from various business areas will be involved in key activities that will include control interviews, documentation, testing support, and ongoing remediation activities. Our planning road map will identify timelines, business areas, and the American Water people required to support our program. This plan will be communicated at the completion of our planning phase in mid-March.

More about SOX

When American Water becomes a stand-alone company, there will be increased expectations by investors related to internal controls and transparency. If American Water becomes a publicly traded company, we will be required to comply with SOX. The Act currently impacts most publicly traded companies, but the spirit of SOX is beginning to enter into the private and government sectors as well.

While the Act's focus is primarily on the controls surrounding financial reporting and protection of assets, the impact is far reaching in every organization touching the CEO, CFO, management and the employees. Many companies require managers to sign a sub-certification of their control environment to support their sign offs. SOX focuses on key processes from start to finish to ensure the proper controls are in place.

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February 03, 2006

Message to Employees from the Interim CEO: Company Targets

From: George MacKenzie

In my previous memo, I indicated that defining our priorities will be critical to our success this year. We've established that our top three priorities are to:

- deliver reliable, high quality service to our customers
- invest in our existing businesses
- and grow our business.

Today, I want to inform you of our key company-wide performance targets for 2006, which will enable us to meet our priorities. Our company-wide targets take a balanced view of performance focusing on financial achievement, customer service, efficient and effective business processes and employee engagement. These targets are the broad foundation upon which more specific regional, functional, departmental and individual performance targets will be established.

With each of us working diligently and collaboratively, we have the potential to achieve and exceed these targets. I encourage you over the next few weeks to discuss with your supervisor how your job responsibilities line up with these targets and how you can contribute in delivering them and making this a highly productive year for you and American Water.

Please see the following chart of our targets to keep and share with others.

George MacKenzie
Interim CEO

American Water 2006 Targets

Finance	<p>Meet or Exceed 2006 Business Plan</p> <ul style="list-style-type: none"> • Meet our financial commitments • Enhance working capital management through: <ul style="list-style-type: none"> - Increasing the speed in managing collectibles - Maintaining cost-effective inventory levels - Processing payables in a timely manner
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	<p>Execute Regulatory Programs Effectively</p> <ul style="list-style-type: none"> • Process rate cases in a timely manner to achieve planned outcomes • Support regulatory approval of transfer of ownership
<p>Customer</p>	<p>Enhance Customer Satisfaction</p> <ul style="list-style-type: none"> • Consistently achieve overall customer satisfaction ratings of 95% or higher • Meet or exceed internal and external customer needs in a timely and efficient manner <p>Deliver Reliable, High Quality Service</p> <ul style="list-style-type: none"> • Meet the reliability and quality expectations of our utility customers and regulators • Effectively and efficiently deliver our \$660 million capital program
<p>Process</p>	<p>Execute Company-wide Diversity Plan</p> <ul style="list-style-type: none"> • Integrate Diversity into all key policies and practices <p>Sustain and Enhance Operating Performance</p> <ul style="list-style-type: none"> • Achieve basic Sarbanes-Oxley compliance by year-end • Increase emphasis on delivering results on time, within scope and budget • Meet or exceed the business growth targets
<p>Employee</p>	<p>Enhance Talent Bench Strength and Capability</p> <ul style="list-style-type: none"> • Ensure employees have individual performance targets and timely feedback • Implement stronger processes and policies that enable attracting and retaining talent <p>Enhance Employee Engagement and Satisfaction</p> <ul style="list-style-type: none"> • Increase focus on open, timely and relevant employee communications • Continue delivering on employee survey action plans



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January 24, 2006

Ellen Wolf to Become American Water CFO

From: George MacKenzie, Interim CEO

I am pleased to announce **Ellen Wolf** will be joining American Water as Senior Vice President and Chief Financial Officer effective March 1, 2006. In that position, Ellen will be responsible for all finance and treasury activities and will help lead the company through our transfer of ownership. Upon joining the company, she will be elected to the company's Board of Directors.

I have known Ellen for many years and have always been impressed by her high ethical standards and her focus on sound internal controls. Those qualities will be very valuable as American Water transitions to new ownership. Ellen's combined experience as CFO of American Water for nearly four years before the acquisition by RWE and as CFO for publicly traded USEC Inc. makes her uniquely qualified for this position.

"Ellen earned respect from regulators and industry members during her previous tenure with American Water and through the sale to RWE," said RWE Chief Executive Officer **Harry Roels**, "and I am confident she will be equally effective as we transition American Water to new ownership."

Also effective March 1, 2006, **John Bigelow**, currently CFO, will become Senior Vice President, reporting to me. John will be responsible for enterprise risk management and regulatory programs, including rate case activity and approvals related to the transfer of new ownership. John has done a fine job leading the company's finance functions as part of RWE's Water Division for more than two years. I have come to respect John's abilities and consider him a strong member of our team. I am pleased John will continue to contribute his experience and knowledge of the business during the challenging period ahead of us.

More details about these changes will follow.

Content Owner: Dan Kelleher
 Last Update: May 24, 2006

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January 19, 2006

Message to Employees from the Interim CEO

From: George MacKenzie, Interim CEO

If you're like me, it's rare that a day goes by without wondering where all the time went. I am in my third week as your Interim CEO, but a lot has taken place.

As Interim CEO, I intend to get involved, not just as a leader or manager, but in helping to run this business on a day-to-day basis. I've learned a lot as a board member during the past several years, but am on a steep learning curve across many areas.

Clearly, there is a lot going on across the company. Defining our priorities will be critical. Therefore, our top three areas of focus need to be:

- delivering reliable, high quality service to our customers
- Investing in our existing businesses
- and growing our business.

On Monday, we confirmed our commitment to growth, and defined our focus on "growing our water and wastewater regulated utilities as well as non-regulated opportunities that are a good fit with our regulated business."

I am steadfast about delivering the 2006 operating and financial results to which we are committed. We will all be involved in achieving those goals, and perhaps making some adjustments to help us reach them.

If we are successful with these objectives, we will become an even more attractive, high-value company, which will help us transition smoothly to new ownership. To support that transition, we are beginning work on becoming Sarbanes-Oxley (SOX) compliant. That project will involve many employees throughout the business, and you will hear much more about SOX over the coming months. It is important that we have your commitment, because it is important to our future.

My style is to "manage by walking around." That allows me to meet and talk with the people who make this company tick, and that's all of you. With our diverse geographic footprint, it will be difficult to meet a lot of you quickly, but I intend to find ways to meet many of you. I also will keep you informed through communications like this.

American Water is a great brand with a lot of dedicated employees. I am very pleased to be working with you to help achieve our objectives for 2006.

Sincerely,

George MacKenzie

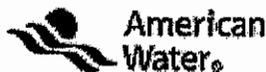
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January 16, 2006

Growth Strategy for 2006 Confirmed

From: Jim McGivern, Chief Growth Officer

As American Water transitions to new ownership, we remain committed in 2006 to executing business strategies that will continue to make the company successful. Those include:

- delivering reliable, high quality service to our customers
- investing in our existing businesses
- and growing our business.

Today, I would like to comment on our approach for growth and clarify our direction given the ownership transition. We will emphasize growing our water and wastewater regulated utilities as well as non-regulated opportunities that are a good fit with our regulated business, taking into account such factors as risk, return and capabilities. This will allow us to provide more services to communities where we already have relationships.

Our focus will also be on leveraging our existing relationships and growing around the footprint of our regulated business. Through these relationships, we will be well placed to offer value-added services, which could include:

- ownership of regulated water and wastewater systems
- operation and maintenance of small- to medium-size water and wastewater systems we do not own which are near our existing footprints
- concession contracts which from a risk and capabilities perspective are a good fit with the regulated business, and
- the provision of other services that are part of our core business, e.g. billing services, bulk water sales, developer services, military utility contracting, service line protection, etc.

This does mean some changes primarily in the area of growth. Approximately 20 individuals throughout American Water, whose main focus was on new non-regulated growth opportunities and operations, are directly affected by this change. We are working with each of them to assist in transitioning to other roles within the organization or in transitioning to employment outside of American Water. In addition, a number of positions that were intended to be filled in Business Development will not be filled during 2006.

Our Growth Strategy decisions were made only after very careful consideration. We take seriously the impact of these decisions, and feel they are in the best interest of the company. At the same time, I want to

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express there is no plan to conduct any major restructuring within the organization as we experienced in 2004.

A Question & Answer Guide is attached that will provide more detail on our strategic growth direction, as well as a hard copy of the announcement to share with those who do not have Intranet access.

Growth Strategy for 2006 Confirmed

Content Owner: Dan Kelleher
Last Update: May 24, 2006

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December 20, 2005

An Update from Jeremy

From: Jeremy Pelczer, President and CEO

Dear Colleague,

Following the announcement last week regarding George MacKenzie taking the role of Interim President & CEO of American Water, it is appropriate that this is my last update. While I'm delighted to undertake the role of Chairman of American Water, which will allow me to remain very connected to the opportunities and challenges facing the business, it is certainly appropriate that George undertake the leadership requirements of the business in his capacity as Interim President & CEO.

It has been an energizing and challenging period for me since I moved to the United States in September 2003. It has been a privilege to be associated with American Water and to be part of a great company with wonderful people. This has provided an experience I wouldn't change for the world.

I have received some nice emails recently. One such note was from an employee who felt great things have happened to American Water and, of all the great things that have occurred recently, the change in the company's culture was seen as having the most long-lasting benefit.

As I have said on a number of occasions, American Water's past demands and deserves respect and it will always have that respect from me. This doesn't mean we can be immune from change or that change is always as easy to complete as quickly as we would like. But a lot has been accomplished in many different areas of the business, and you should be proud to work for a company that can make a real difference to people's lives and is passionate about providing a high standard of service to the communities where we work. Sometimes we fall short of the standards we set and we need to learn quickly from such occurrences. That doesn't change the fundamental integrity of the business.

As the early work on the sale process starts to really kick in, it reminds me of just how good the American Water story is. It's a story of pride; of professionalism; about being the leader in the industry in which we work; about being environmentally responsible, as evidenced by a large number of awards in recent times. It's a story of community responsibility, with some superb examples from the Corporate Responsibility team. It's about a business strong on thought leadership; with a hunger and desire to find better ways of working in the continuing drive for more efficient ways of serving our customers. Sure, there are things we get wrong that we need to improve, but the key is that we learn from these lessons of experience and continue to improve our enterprise. With that as a platform, the company has every reason to be confident of going forward successfully in a world characterized by regular change in technology, increasing customer expectations and ever increasing performance requirements.

Sheila and I would like to say a massive thank you for making us feel so

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welcome during our time living in the US. I wish you all compliments of the season and a healthy and happy 2006.

Very best regards,

Jeremy Pelczer

CEO, American Water

Content Owner: Dan Kelleher

Last Update: May 24, 2006

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December 15, 2005

George MacKenzie to be Interim President & CEO

From: Jeremy Pelczer, Chairman, President & CEO

I am pleased to announce the appointment of **George MacKenzie** as Interim President & CEO of American Water effective January 1, 2006, reporting directly to RWE CEO Harry Roels. Once George begins on January 1, 2006, I will continue to serve as a non-executive Chairman of American Water.

George has been a valued member of the American Water Board of Directors since August 2003 and has been the Chair of the Audit Committee of the Board since February 2004. During his tenure on the Board, I have come to admire George's thoughtful and considered approach as well as the deep and varied business experience he brings to the Board. I am grateful that George has agreed to accept this important role. Harry Roels has stated, "George has the experience and ability to lead American Water during our transition to new ownership. His knowledge of the company and his leadership qualities position him well to carry forward the strengths that have made the company the reputable market leader it is today."

In early 2005, George served as Interim CEO for C&D Technologies, Inc., where he remains a Director. George previously served as Vice Chairman of the Board and Chief Financial Officer of Hercules, Inc., a manufacturer of chemical specialties with nearly 5,000 employees and sales of \$2 billion. During his 22-year career with Hercules, he served in a variety of senior management roles including President of the Chemical Specialty Division.

In addition to being a Director of American Water and C&D Technologies, George is a Director of Central Vermont Public Service Corporation as well as Safeguard Scientifics, Inc. He also serves on the Board of Trustees of the Medical Center of Delaware and is a member of the Investment Committee at the University of Delaware.

George lives with his wife Carol in Chadds Ford, Pennsylvania. They have two grown sons who live in London and Denver.

Content Owner: Dan Kelleher
Last Update: May 24, 2006

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July 01, 2004 - Customer Satisfaction Survey Conducted in May

Dear Colleagues:

I would like to share with you the results of an Independent customer satisfaction survey carried out by American Water in May.

June 30, 2004 - Customer Satisfaction Survey Conducted in May

Dear Colleagues:

I would like to share with you the results of an Independent customer satisfaction survey carried out by American Water in May.

June 18, 2004 - A Letter from Jeremy Pelczer

Dear Colleague,

It's been nine months since I was given the honor of being appointed President of American Water and moved here to live, and I wanted to share with you a few observations as we move into summer.

June 17, 2004 - Diversity Update: Western PA Diversity, June 2004

Diversity Update: Western PA Diversity, June 2004

June 15, 2004 - Ontario Fixed Residuals team evaluates the business

Improving efficiency, performance, and profitability in Ontario, Canada.

June 13, 2004 - WaterLines - Newsletter for employees of American Water in Indiana, Michigan and Ohio - June 2004

WaterLines - Newsletter for employees of American Water in Indiana, Michigan and Ohio - June 2004

June 11, 2004 - Divisional People Directory

During July, there will be a small project running to add all American Water employees contact details to the Divisional People Directory.

June 02, 2004 - Ideas into Action News

Jeremy Pelczer joined a conference call between the core team and panel members and pathfinders on Wednesday, May 26, to pass on his appreciation to those providing support for the IIA program.

Content Owner: Dan Kelleher
Last Update: April 24, 2006

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November 17, 2005

Third Quarter Update on American Water's 2005 Performance

From: John Bigelow, Chief Financial Officer

I am pleased to provide you with a summary of our overall, companywide performance in the first nine months of 2005.

Operating Results

- Our operating results improved significantly with an increase of nine percent over the same period last year,
- This increase is mainly due to favorable rate case outcomes in the regulated business and increased demand from favorable weather conditions.
- These positive variances were slightly offset by increased operating expenses and underperforming contracts in the non-regulated business that were not renewed by the company.

Revenues

- Total revenues increased by three percent compared to last year, including adjustments made for the sale of Ashbrook and Leopold, two companies with activities beyond our strategic focus.
- Revenues in the regulated business increased five percent due to rate increases and increased demand in the Southeast and Central Regions, although the increase was less than planned.
- In the non-regulated Enterprises Group, new business in the Military Services and Homeowner Services groups helped to offset operation and maintenance contracts that were not renewed.

Capital Expenditures

Capital expenditures, or Capex, for the first three quarters totaled \$372 million, which is under budget, mainly due to project and developer delays in North America. As shown on the attached chart, we're continuing to maintain a high level of capital investment at the same rate as last year.

Cash Flow

While we have improved our cash flow position over last year by \$41 million, we remain cash flow negative. That means our amount spent on new investments exceeds our recovery of former investments in utility infrastructure. This trend is consistent with our goals to improve cash flow.

Summary

Our financial results continue to reflect improved performance compared

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to previous years. However, our performance has not met the goals we set for ourselves in the business plan – our budget – due to less growth across the company than anticipated.

As American Water moves forward after RWE's announcement that it intends to divest its International water business, it's more important than ever for us to grow our regulated and non-regulated business by focusing on offering our customers both reliable service and product quality.

I look forward to reporting our progress next quarter. In the meantime, for more information about the company's financial performance, please contact me or your regional finance director.

See the following Financial Performance table.

American Water's Financial Performance			
(In US \$ millions)			
Nine months ended September 30, 2005			
	2005 Actual	2004 Actual	Difference to 2004
Revenue	\$1,596	\$1,581	\$15
Operating Results	468	430	38
Capex	372	372	-
Cash Flow	(118)	(159)	41

Glossary of terms:

Operating Results – revenues minus operating expenses and depreciation

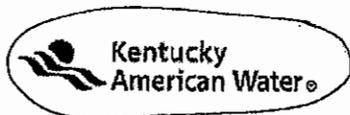
Capex – total construction expenses and equipment purchases

Cash Flow – cash generated by the business after capex

Content Owner: Dan Kelleher

Last Update: May 24, 2006

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Press Releases

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2005 Press Releases

Lexington, KY - June 16, 2006
Michael Galavotti Named Senior Operations Engineer

Lexington, KY - June 14, 2006
Kentucky American Water Awards Scholarships To Three Central Kentucky Students

Lexington, KY - June 13, 2006
Kevin Kruchinski Named Operations-Specialist In Production

Lexington, KY - May 26, 2006
Kentucky American Water Announces 2006 Art Contest Winners

Lexington, KY - May 23, 2006
Kentucky American Water: End Debate, Once And For All

Voorhees, NJ - March 24, 2006
RWE to Sell Shares of American Water In an Initial Public Offering

Lexington, KY - February 18, 2006
Kentucky American Water Announces Science Fair Winners

Lexington, KY - February 13, 2006
Election Registry Decision Dismisses Moreland Complaint

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Voorhees, NJ - March 24, 2006

RWE to Sell Shares of American Water in an Initial Public Offering

The Executive Board of RWE AG decided to pursue an initial public offering (IPO) in the U.S. for the shares of American Water as the most attractive option for RWE and the U.S.-based company, its employees and customers. This decision will return American Water to its status as a publicly-traded company. RWE had previously announced on November 4, 2005 its intention to divest American Water either through an IPO or by selling American Water to a group of financial investors.

The IPO will result in a publicly-traded company that is focused on water and wastewater in the U.S. and dedicated to maintaining a high level of service and quality.

The sales process is expected to be initiated shortly through filings for approval with certain state public utility commissions. The IPO will require filing of a registration statement with the U.S. Securities and Exchange Commission (SEC). The transaction will also be subject to the approval of the RWE AG Supervisory Board. The target is to complete the transaction during 2007.

The foregoing communication does not constitute an offer to sell any securities and is not a solicitation of an offer to buy any securities. Such an offer or solicitation will only be made by means of a prospectus.

Contact:

Kimberly Cooper
American Water

Bill McAndrews
RWE AG

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Director, External Communications T: 856-346-8207 M: 856-261-9870	Senior Manager, Group Press Relations T: +49(0) 2 01/12- 1 50 95 M: +49(0) 1 62/2 51 53 02
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RWE is one of the leading International utility companies. The company provides customers with electricity, gas and water as well as services related to these products. The company's core markets are Germany, the UK and Continental Europe. Major companies and millions of households throughout Europe rely every day on the RWE Group's services and products. In fiscal year 2005, approximately 86,000 employees worldwide within the RWE Group generated sales of about €42 billion.

American Water, headquartered in Voorhees, New Jersey, is the largest and most geographically diversified provider of water services in North America. The company has regulated and non-regulated utility businesses located across 29 states and three Canadian provinces. In fiscal 2005, 6,850 American Water employees generated over \$2.2 billion in revenues. The company also serves over 18 million people with clean drinking water and wastewater services.

Contact
Kimberly Cooper
856-346-8207

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Voorhees, NJ - November 04, 2005

Message To Our Customers

You may have read or heard in the media that our parent company, RWE, will now focus its strategic efforts on strengthening the company's leading market position in the European energy sector. As a direct result, the company plans to sell American Water. RWE will commence an evaluation of various divestment alternatives, and the sale will be subject to regulatory approval. Please be certain that we will inform you once a concrete option has been chosen.

In the meantime, please rest assured that you will continue to receive the same high quality of service from American Water employees that you have come to expect. Your daily water supply and services will not be in any way affected by this decision.

We remain committed to investing in our utility operations, research and development and improving the customer experience. The same management and local staff will continue to deliver service; our name will remain the same as will our customer-service phone numbers. We will also continue to be regulated by the same local, state and federal laws that have always governed our operations.

Your continued trust in our ability to provide you with reliable service and high-quality drinking water is very valuable to each and every one of us at American Water. We are proud to be part of the local communities we serve and look forward to serving you in the future.

Thank you for continued support.

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Sincerely,

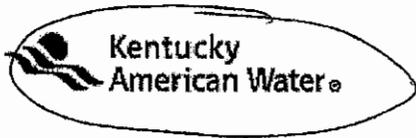
Jeremy Pelczer
President and CEO, American Water

Contact
Kimberly Cooper
856-346-8207

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*Spotlight announcement
on home page*



American Water Files Petition with the Public Service Commission of Kentucky

On June 5, 2006, American Water filed a petition with the Public Service Commission of Kentucky for approval of the sale of shares of common stock of American Water. This filing is a required step in RWE's divestiture of American Water.

On March 24, 2006, RWE announced its decision to pursue an initial public offering (IPO) in the U.S. for the shares of American Water.

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