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David L. Armstrong
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June 18, 2008

Honorable Lindsey W. Ingram, III
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Lexington, KY 40507-1801

CERTIFICATE OF SERVICE

RE: Case No. 2008-00206
Kentucky-American Water Company aka Kentucky American Water

I, Stephanie Stumbo, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on June 18, 2008.

Executive Director

SS/rs
Enclosure



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Nick O. Rowe
President
Kentucky-American Water Company aka Kentucky American Water
2300 Richmond Road
Lexington, KY 40502

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RE: Case No. 2008-00206
Kentucky-American Water Company aka Kentucky American Water

I, Stephanie Stumbo, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on June 18, 2008.

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

KENTUCKY-AMERICAN WATER COMPANY'S)
APPLICATION FOR APPROVAL OF PAYMENT) CASE NO.
OF DIVIDEND FOR FIRST QUARTER OF) 2008-00206
CALENDAR YEAR 2008)

ORDER

Kentucky-American Water Company ("Kentucky-American"), Thames Water Aqua Holdings ("Thames"), Thames Water Aqua US Holdings, Inc. ("TWUS"), RWE Aktiengesellschaft ("RWE") and American Water Works Company ("AWWC") (collectively "Joint Applicants") have applied for Commission approval of Kentucky-American's 2008 First Quarter Dividend on common stock ("First Quarter Dividend"). Finding that Kentucky-American's dividend policy has not been affected by the change in ownership, the Commission approves the payment of the First Quarter Dividend of \$956,109, which is scheduled to be paid on June 27, 2008.

In Case No. 2002-00317,¹ the Commission approved the transfer of control of Kentucky-American from AWWC to Thames, TWUS, and RWE subject to 61 conditions. One of these conditions was that Joint Applicants obtain Commission approval prior to the payment of any dividend or transfers of any funds within a calendar year that

¹ Case No. 2002-00317, The Joint Petition of Kentucky-American Water Company, Thames Water Aqua Holdings GmbH, RWE Aktiengesellschaft, Thames Water Aqua US Holdings, Inc., Apollo Acquisition Company and American Water Works Company, Inc. for Approval of a Change of Control of Kentucky-American Water Company (Ky. PSC Dec. 20, 2002).

collectively represent more than 5 percent of Kentucky-American's retained earnings as of December 31 of the prior calendar year to RWE, Thames, TWUS or any other entity related to RWE.²

We imposed this condition to ensure Kentucky-American's financial ability to provide reliable service and to guard against any effort to drain Kentucky-American's treasury to finance RWE's acquisition of AWWC or pay the premium associated with the acquisition.³ It enables us to monitor transfers from Kentucky-American and prevent unusual or extraordinary transfers of funds. Absent the imposition of this condition, our statutory ability to monitor and prevent such conduct is very limited.

On April 28, 2008, Kentucky-American declared its First Quarter Dividend of \$956,109, which is scheduled to be paid on June 27, 2008. Joint Applicants submitted their request for Commission approval of Kentucky-American's First Quarter Dividend on May 7, 2008 in Case No. 2002-00277.⁴ Joint Applicants state that Kentucky-American's declared First Quarter Dividend of \$956,109 is in conformity with the

² Id., Appendix A at 6.

³ Case No. 2002-00018, Application for Approval of the Transfer of Control of Kentucky-American Water Company to RWE Aktiengesellschaft and Thames Water Aqua Holdings GMBH (Ky. PSC May 30, 2002) at 20–21.

⁴ Case No. 2002-00277, Compliance of Kentucky-American Water Company, American Water Works Company, RWE Aktiengesellschaft and Thames Water Aqua Holdings GMBH with the Provisions of the Orders Approving the Transfer of Control of Kentucky-American Water Company to RWE Aktiengesellschaft and Thames Water Aqua Holdings GMBH (Ky. PSC March 24, 2008). The March 24, 2008 Order closed Case No. 2002-00277 and removed it from the Commission's active docket. Therefore, Kentucky-American should file future requests for Commission approval of its common stock dividends as an application that will be docketed as a new proceeding.

historical dividend policy of paying 75 percent of earnings available for common dividends.⁵ Collectively, the declared dividend to be paid on June 27, 2008 and the dividend paid earlier in 2008 represent more than 5 percent⁶ of Kentucky-American's accumulated retained earnings as of December 31, 2007.⁷

The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that Kentucky-American's dividend policy has not been affected by the change in ownership. Therefore, Kentucky-American's payment of the First Quarter Dividend of \$956,109 should be approved.

IT IS THEREFORE ORDERED that Kentucky-American's March 31, 2008 common stock dividend of \$956,109 is approved.

Done at Frankfort, Kentucky, this 18th day of June, 2008.

By the Commission

ATTEST:

Executive Director

⁵ See Joint Applicants' Request for Approval of Dividend Payment at 1.

⁶ $\$1,097,174$ (4th Quarter 2007) + $\$956,109$ (1st Quarter 2008) = $\$2,053,282 \div \$30,159,867$ (Retained Earnings as of 12-31-07) = 6.808%.

⁷ Annual Report of Kentucky-American Water Company to the Public Service Commission of the Commonwealth of Kentucky for the Year Ended December 31, 2007 at 13.