



Steven L. Beshear
Governor

David L. Armstrong
Chairman

Leonard K. Peters
Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

James Gardner
Vice-Chairman

John W. Clay
Commissioner

Honorable Lindsey W. Ingram, III
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KY 40507-1801

September 26, 2008

CERTIFICATE OF SERVICE

RE: Case No. 2008-00327
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 September 26, 2008.

Executive Director

SS/rs
Enclosure

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 SECOND QUARTER OF) 2008-00327
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 Second Quarter Dividend on common stock ("Second 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 Second Quarter Dividend of \$1,394,978, which is scheduled to be paid on September 26, 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 July 22, 2008, Kentucky-American declared its Second Quarter Dividend of \$1,394,978, which is scheduled to be paid on September 26, 2008. Joint Applicants submitted their request for Commission approval of Kentucky-American's Second Quarter Dividend on August 6, 2008 in Case No. 2002-00277.⁴ Joint Applicants state that Kentucky-American's declared Second Quarter Dividend of \$1,394,978 is in conformity with the historical dividend policy of paying 75 percent of earnings available

² Id., App. 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. The Commission established this proceeding to consider Kentucky-American's request for approval of its common stock dividends for the second quarter of 2008.

for common dividends.⁵ Collectively the declared dividend to be paid on September 26, 2008 and the dividends 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 Second Quarter Dividend of \$1,394,978 should be approved.

The Commission further finds that, in any future application that Kentucky-American files with the Commission in accordance with the provisions of our Order of December 20, 2002 for approval to issue a dividend on common stock, Kentucky-American may use the electronic filing procedures that the Commission previously authorized for such filings in Case No. 2002-00277.⁸

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

⁶ $\$1,097,174$ (4th Quarter 2007) + $\$956,109$ (1st Quarter 2008) + $\$1,394,978$ (2nd Quarter 2008) = $\$3,448,261$ ÷ $\$30,159,867$ (Retained Earnings as of 12-31-07) = 11.433%.

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.

⁸ 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 June 22, 2002).

IT IS THEREFORE ORDERED that:

1. Kentucky-American's September 26, 2008 common stock dividend of September 2008 is approved.

2. In any future application that Kentucky-American files with the Commission in accordance with the provisions of our Order of December 20, 2002 for approval to issue a dividend on common stock, Kentucky-American is authorized to use the electronic filing procedures that the Commission previously authorized for such filings in Case No. 2002-00277.

Done at Frankfort, Kentucky, this 26th day of September, 2008.

By the Commission

ATTEST:

Executive Director