

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT PETITION OF KENTUCKY-AMERICAN	)	
WATER COMPANY AND THAMES WATER AQUA	)	
HOLDINGS GMBH FOR APPROVAL OF A	)	CASE NO. 2002-00018
CHANGE OF CONTROL OF KENTUCKY-	)	
AMERICAN WATER COMPANY	)	

COMMISSION STAFF S FIRST SET OF INTERROGATORIES AND  
REQUESTS FOR PRODUCTION OF DOCUMENTS TO  
KENTUCKY-AMERICAN WATER COMPANY AND THAMES WATER  
AQUA HOLDINGS GmbH

Pursuant to Administrative Regulation 807 KAR 5:001, Commission Staff requests that Kentucky-American Water Company ( Kentucky-American ) and Thames Water Aqua Holdings GmbH ( Thames Holdings ) (collectively Joint Applicants ) file the original, four copies in paper medium and one copy in electronic medium of the following information with the Commission no later than March 4, 2002, with a copy to all parties of record. Each copy of the information requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention shall be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1.
  - a. State the total amount in dollars that Thames Holdings will pay for the outstanding common stock of American Water Works Company ( American Water ).
  - b. State the book value of American Water s outstanding common stock.
  - c. Provide all workpapers, show all calculations and state all assumptions used to obtain the response to Item 1(a) and (b).
2.
  - a. State the total amount in dollars that Thames Holdings will pay for American Water s outstanding preferred stock.
  - b. State the book value of American Water s outstanding preferred stock.
  - c. Provide all workpapers, show all calculations and state all assumptions used to obtain the response to Item 2(a) and (b).
3.
  - a. State the total amount in dollars that Thames Holdings will pay for American Water s outstanding Preference Stock.
  - b. State the book value of American Water s outstanding Preference Stock.
  - c. Provide all workpapers, show all calculations and state all assumptions used to obtain the response to Item 3(a) and (b).
4. State the estimated premium that Thames Holding is paying for all of American Water s outstanding stock. Provide all workpapers, show all calculations and state all assumptions used to estimate this premium.
5. Describe how Thames Holding will finance the proposed purchase of American Water s outstanding stock.

6. Refer to Joint Applicants Application, Exhibit 1 ( Agreement and Plan of Merger ), Company Disclosure Schedule, Section 3.01(k)(iv).

a. Provide an analysis of the impact the proposed merger will have on each of the listed plans.

b. Provide a copy of the Form of Change of Control Agreement ( Control Agreement ) dated January 1, 2000 between American Water and its executives.

c. Explain how the terms of the Control Agreement are consistent with the Joint Applicants Response to the Commission s Order of January 30, 2002, Item 20(a).

7. Refer to Joint Applicants Response to the Commission s Order of January 30, 2002, Item 2(f).

a. Describe in detail each of Etown Corp s and Elizabethtown Water Company s expected business relationships with American Water or any American Water operating subsidiary.

b. Describe in detail all of Etown Corp s and Elizabethtown Water Company s expected business relationships with Kentucky-American.

8. Refer to Joint Applicants Response to the Commission s Order of January 30, 2002, Item 9.

a. Provide the journal entries that American Water will record if the push down accounting method is used to record the acquisition. Provide all workpapers, show all calculations and state all assumptions used to derive these entries.

b. State the amount of the acquisition cost that Kentucky-American would record if the goodwill were to be pushed down to American Water's operating subsidiaries and compare that amount to book value of Kentucky-American's outstanding stock. Provide all workpapers, show all calculations and state all assumptions used to obtain the response.

9. Refer to Joint Applicants' Response to the Commission's Order of January 30, 2002, Item 10.

a. Provide an analysis of the potential growth that RWE Aktiengesellschaft ( RWE ) expects to obtain in the following areas:

- (1) External growth in the regulated water business.
- (2) Growth through the expansion of rate base.
- (3) Unregulated O&M business.
- (4) New products and services.

b. Provide all workpapers, show all calculations and state all assumptions used to prepare the Joint Applicants' Response to Item 9(a).

c. Describe Thames Holdings' intentions toward the acquisition of municipal water and wastewater utilities in general and in the state of Kentucky specifically.

d. State whether Thames Holdings will request from the Commission rate base recovery of goodwill (i.e., the price paid in excess of the original book value) when the assets of municipal water and wastewater utilities are acquired.

e. Identify and describe any new services, other than wastewater, that Thames Holdings can provide and that American Water is unable to provide.

10. Refer to Joint Applicants Response to the Commission s Order of January 30, 2002, Item 12. The response of RWE, Thames Holdings, American Water, and Kentucky-American was unresponsive. State whether RWE, Thames Holdings, American Water, and Kentucky-American will commit to filing the reports listed in Item 12.

11. Refer to Joint Applicants Response to the Commission s Order of January 30, 2002, Item 18(a). Provide a detailed breakdown of the \$8.5 million in merger costs that Thames Holdings had incurred as of January 31, 2002.

12. Refer to Joint Applicants Response to the Commission s Order of January 30, 2002, Item 18(b). Provide a detailed breakdown of the \$10,000 in merger costs that American Water had incurred as of January 31, 2002.

13. Refer to Joint Applicants Response to the Commission s Order of January 30, 2002, Item 18(c). Provide a detailed breakdown of the \$150 million in total transaction costs that Thames Holdings expects to incur.

14. List all changes that Thames Holdings expects will occur to Kentucky-American's projected construction budgets as set forth in Joint Applicants Response to the Commission s Order of January 30, 2002, Item 42.

15. Refer to Joint Applicants Response to the Commission s Order of January 30, 2002, Item 44(f).

a. Provide a detailed analysis of Kentucky-American s assets that have a book value in excess of \$10 million.

b. Explain why RWE, Thames Holdings, American Water, and Kentucky-American will not make this commitment for assets whose original book value is in excess of \$1 million, but less than \$10 million.

16. Refer to Joint Applicants Response to the Commission s Order of January 30, 2002, Item 44(dd).

a. List all financial reports that Thames Holdings, upon completion of the acquisition, will be required to prepare. For purposes of this response, assume that the Commission does not impose any reporting requirements on Thames Holdings that are in addition to those currently existing in Kentucky law.

b. List all financial reports that American Water, upon completion of the acquisition, will be required to prepare. For purposes of this response, assume that the Commission does not impose any reporting requirements on American Water that are in addition to those currently existing in Kentucky law.

17. Refer to Joint Applicants Response to the Commission s Order of January 30, 2002, Item 44(oo).

a. Explain how the scope of RWE s, Thames Holdings , American Water s, and Kentucky-American s businesses will not permit their acceptance of this commitment.

b. State whether RWE, Thames Holdings, American Water, and Kentucky-American are willing to accept the commitment if it refers only to water and/or wastewater utility merger rather than utility merger. Explain.

18. Refer to Joint Applicants Response to the Commission s Order of January 30, 2002, Item 44 (ss).

a. List and describe the conditions that could be justified by a fact situation in another state that would not be reasonably transferable to Kentucky.

b. Explain why, given that the commitment in question requires Kentucky-American ratepayers to receive net benefits and conditions that are proportionate to those in other states and not necessarily the same benefits and conditions, the Joint Applicants, RWE and American Water cannot accept the commitment.

c. State the effect on the proposed transaction if the Commission conditions its approval of the proposed transfer of control on RWE's and Thames Holdings' acceptance of this commitment.

19. Refer to Joint Applicants' Response to the Commission's Order of January 30, 2002, Item 44 (yy).

a. List each of the generous terms to which the Joint Applicants refer in their response.

b. Provide a comparison of the benefit regimes that are in effect for each company that RWE and Thames Holdings currently own.

20. Refer to Direct Testimony of James McGivern at Question 16. State whether, in light of Thames Holdings' experience and expertise in the area of security and Kentucky-American's access to such experience and expertise as a result of the proposed transfer of control, Kentucky-American now requires the asset protection charge that it proposed in Case No. 2001-00440.<sup>1</sup>

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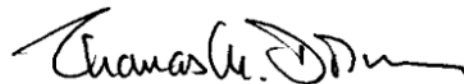
<sup>1</sup> Case No. 2001-00440, Proposed Revisions to the Filed Rate Schedules of Kentucky-American Water Company to Permit the Assessment of an Asset Protection Charge.

21. Refer to Direct Testimony of Roy W. Mundy II at 10.

a. List and describe the positive rate impacts for ratepayers that Kentucky-American expects from the proposed transfer of control.

b. State whether the proposed transfer of control will result in any rate reduction for Kentucky-American ratepayers. If a reduction is expected, state the anticipated date when Kentucky-American would apply for Commission approval of such reduction.

c. State whether the proposed transfer of control is expected to delay any future request by Kentucky-American for an increase in water service rates. If a delay is expected, state the originally projected date for Kentucky-American's rate filing and the revised date.



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Thomas M. Dorman  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
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DATED: February 22, 2002

cc: Parties of Record