

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

**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)**

CASE NO.
2002-00277

CERTIFICATION

This is to certify that the electronic version of Kentucky-American Water Company's Response to Commission Staff's Request for Information dated December 9, 2005, is a true and accurate copy of the pleading filed in paper medium; that the Petitioners have notified the Commission and the parties in Case No. 2002-00317 by electronic mail on December 16, 2005, that the electronic version of this pleading has been transmitted to the Commission, and that a copy has been served by mail upon:

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and that the original and eight (8) copies have been filed with the Public Service Commission in paper medium on the 16th day of December, 2005.

BY: Lawley Morgan, Jr.

Counsel for Kentucky-American Water Company,
Thames Water Aqua Holdings GmbH, Thames
Water Aqua US Holdings, Inc., RWE AG and
American Water Works Company, Inc.

KENTUCKY-AMERICAN WATER COMPANY
Case No. 2002-00277

Response to Commission Staff's
Request for Information dated December 9, 2005

Item No. 1

Witness: Michael A. Miller

1. Refer to the Dividend Record that is attached to Kentucky-American's December 7, 2005 dividend approval request.
 - a. Explain why Kentucky-American paid a dividend on common stock of \$862,065 for the quarter ending March 25, 2005 when the reported quarterly earnings were only \$124,982. State the reasons for Kentucky-American's deviation from its policy of limiting dividends payments to 75 percent of the earnings available for dividends in the quarter.
 - b. Explain why Kentucky-American had earnings available for common stock dividends of (\$632,171) for the quarter ending June 24, 2005.

RESPONSE:

1. a. Kentucky American Water's Board of Directors declared a dividend of \$862,065 for the quarter ending March 25, 2005, as a result of an error in the form (TD-15) presented to them. The form is attached hereto as Exhibit A. The net income to common stock for the six months ending March 25, 2005, is shown as \$1,184,542. This resulted in the calculation of the dividend of \$862,065.05 which was declared by the Board. Subsequently the error was discovered and a corrected TD-15 was provided, being Exhibit B attached hereto, showing net income available to common stock for the six months ending March 25, 2005, of \$174,541. Had the corrected TD-15 been presented to the Board initially, the recommended dividend would have been \$94,043.46. The error was not discovered in time for corrective action until the Board met to consider the third quarter results. At that time, as the dividend record attached to Kentucky-American Water's requests shows, \$2,761,477 was available as net income to common stock. A 75% dividend payment of that net income would have resulted in a dividend declaration of \$2,071,107; but in order to be consistent for the first three quarters with the dividend policy of paying 75% of income available, a dividend was declared of \$830,717.23. Thus, the two dividends declared for the year (\$862,065.05 and \$830,717.23) total \$1,692,782.28 or 75.09% of the net

income available for dividend declaration ($\$124,982 - \$632,171 + \$2,761,477$). Even though Kentucky American Water inadvertently deviated from its dividend policy as a result of the first declaration in 2005, that mistake has been corrected and all dividend declarations to-date for 2005 are consistent with the policy.

- b. Kentucky American Water had negative earnings of \$632,171 available for the quarter ending June 24, 2005, as a result of the “write-offs” of the accruals for expenses incurred in establishing the Customer Care Center, the Shared Services Center and for protection of its assets. Those “write-offs” were required as a result of the Orders in Case No. 2004-00103 and are shown on the copy of the journal entries attached hereto as Exhibit C in the amounts of \$518,017.28, \$477,003.97 and \$2,852,813.91.

KENTUCKY-AMERICAN WATER COMPANY
Computation of Proposed Stock Dividends

TD-15

Common Shares Outstanding (A)		1,567,391
Net Income to Common 6 months ended 3/25/05		\$1,184,542
Adjustments 6 months ended 3/25/05	(1)	
	(2)	
	(3)	\$0
Total Earnings Available for Common Dividends 6 months ended 3/25/05		\$1,184,542
Deduct 25% of Total Earnings Available		\$296,136
Earnings Available for Common Dividends 6 months ended 3/25/05		\$888,407
Deduct Common Dividends Paid		\$31,348
Add Subsidiary Dividends Received		
Balance Available for Common Dividends 6 months ended 3/25/05		\$857,059
Proposed Quarterly Dividend Payable June 20, 2005:		\$0.55
Amount (A) x (B)		\$862,065.05
Budget as shown on TD-28		\$0.00

EXHIBIT A

Item 1(a) Sheet 1 of 1

KENTUCKY-AMERICAN WATER COMPANY
Computation of Proposed Stock Dividends

TD-15

Common Shares Outstanding (A)		1,567,391
Net Income to Common 6 months ended 3/25/05		\$174,541
Adjustments		
6 months ended 3/25/05	(1)	
	(2)	
	(3)	\$0
Total Earnings Available for Common Dividends 6 months ended 3/25/05		\$174,541
Deduct 25% of Total Earnings Available		\$43,635
Earnings Available for Common Dividends 6 months ended 3/25/05		\$130,906
Deduct Common Dividends Paid		\$31,348
Add Subsidiary Dividends Received		
Balance Available for Common Dividends 6 months ended 3/25/05		\$99,558
Proposed Quarterly Dividend Payable June 20, 2005:		\$0.06
Amount (A) x (B)		\$94,043.46
Budget as shown on TD-28		\$0.00

Account No.	Sub L/\#0#T	Amount	Explanation 2
120105.575400.16		518,017.28	
120105.183280		477,003.97	
120105.575408.16		477,003.97	
120105.183281		2,852,813.91	
120119.575711.16		2,852,813.91	
120105.186492			

[09101] - Journal Entries

Functions Tools Help

Document Type: JE Model (Y): F
 Reverse or Void (RM): F

Document Number/Co: 120506 | 00012 Explanation: Write off CCC & Deferred Costs

G/L Date: 05/18/05 Batch Number: 3501160 Home BU

Remaining: Ref: 1

Skip to Line: _____

EXHIBIT C

Item 1(b) Sheet 1 of 1

F5=Make New Model F6=% JE F15=Model JE's F13=Acct Master F24=More Keys MW

KENTUCKY-AMERICAN WATER COMPANY
Case No. 2002-00277

Response to Commission Staff's
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Item No. 2

Witness: Michael A. Miller

2. Explain why Kentucky-American did not file its request for Commission approval of its scheduled December 5, 2005 dividend payment until December 7, 2005.

RESPONSE:

2. Kentucky American Water did not file its request for Commission approval of its December 5, 2005 dividend payment because the error mentioned in the response to Data Request No. 1 herein was not discovered until an effort had been initiated to prepare a request to the Public Service Commission for approval of the dividend declared at the October 26, 2005 Board meeting. As a result of the discovery of the error it became necessary to obtain a Consent Resolution from the Board to change the dividend which had previously been declared. Kentucky American Water did not receive the Consent Resolution until November 16, 2005.

KENTUCKY-AMERICAN WATER COMPANY
Case No. 2002-00277

Response to Commission Staff's
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Item No. 3

Witness: Michael A. Miller

3. State whether Kentucky-American paid the common stock dividend on the scheduled payment date.

RESPONSE:

3. Yes, because the Consent Resolution which was circulated among the members of the Board mentioned in the response to Data Request No. 2 did not change the date of the common stock dividend payment.

KENTUCKY-AMERICAN WATER COMPANY
Case No. 2002-00277

Response to Commission Staff's
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Item No. 4

Witness: Michael A. Miller

4. Describe the consequences that Kentucky-American faces if it fails to pay the common stock dividend on the scheduled date.

RESPONSE:

4. Kentucky American Water inadvertently paid the dividend on December 5, 2005, as described in the previous responses herein. It has technically violated Condition 32 in Case No. 2002-00317 but has not violated its policy, previously approved by the Commission, of paying 75% of net income available to common stock as a common stock dividend. Appropriate mechanisms have been put in place to prevent a recurrence of the mistake.