

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-)
AMERICAN WATER COMPANY,)
THAMES WATER AQUA HOLDINGS) CASE NO. 2002-00317
GmbH, RWE AKTIENGESELLSCHAFT,)
THAMES WATER AQUA US HOLDINGS, INC.,)
APOLLO ACQUISITION COMPANY AND)
AMERICAN WATER WORKS COMPANY, INC.,)
FOR APPROVAL OF A CHANGE IN)
CONTROL OF KENTUCKY-AMERICAN)
WATER COMPANY)

**LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT'S INTIAL REQUESTS FOR INFORMATION**

Comes now the Lexington-Fayette Urban County Government (the "LFUCG"), by counsel and submits its Initial Requests for Information to the Joint Applicants (the "Applicants") to be answered in accord with the following. By filing said discovery on this date, the LFUCG is in no way waiving the objections that it previously raised by motion with respect to the procedural schedule in this action, and specifically reserves the right to supplement these requests at a future point in time.

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Please identify the witness who will be prepared to answer questions concerning each request.
- (3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information

within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from counsel for the LFUCG.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout that would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify counsel for the LFUCG as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

LEXINGTON-FAYETTE URBAN
COUNTY GOVERNMENT

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ATTORNEYS FOR LEXINGTON-
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NOTICE AND CERTIFICATION

Counsel gives notice the original and three copies of the foregoing document have been filed by United States Mail, first class postage prepaid to Thomas M. Dorman, Executive Director, Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602-0615, and by uploading the filing to the file transfer protocol site designated by the Executive Director. The undersigned counsel hereby certifies that the electronic version is a true and accurate copy of the documents filed in paper, the electronic version has been transferred to the Commission, and the Commission and other parties have been notified by electronic mail that the electronic version has been transmitted to the Commission. Undersigned counsel also certifies that a copy of the foregoing motion was served by first class U.S. Mail delivery, postage prepaid, on the following, all on this the 23rd day of September 2002:

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ATTORNEY FOR LEXINGTON-
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GOVERNMENT

**LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT'S
FIRST SET OF REQUESTS FOR INFORMATION**

1. For each of the Joint Applicants (the "Applicants") other than Kentucky-American Water Company ("KAWC"), please provide the following:

- a. The date, if any, on which each of the Applicants registered with the Kentucky Secretary of State to do business in the Commonwealth of Kentucky;
- b. The service of process agent for each Applicant who is authorized to receive service of process within the Commonwealth of Kentucky on behalf of that Applicant;
- c. If the answer to (a) or (b) above is none, then describe in detail how the Commission or other entities or persons can obtain jurisdiction over that Applicant in order to enforce orders and conditions or file complaints on conditions or other issues;
- d. If any of the Applicants are not registered to do business in Kentucky or do not have a registered or designated service of process agent in Kentucky, please explain in detail how or why such registration is not required under Kentucky law for each entity;
- e. If any of the Applicants are not registered to do business in Kentucky or do not have a registered or designated service of process agent in Kentucky, please explain in detail how or why that Applicant has the requisite authority to file applications before this Commission, and why such an application should not be considered to be void; and
- f. Please state whether each of the Applicants intends to register to do business in Kentucky, and if so, when.

2. Please provide a certified copy of the resolution or other authorization from each of the Applicant's Board of Directors that authorized that Applicant to file the immediate action.

3. Please provide all Board of Director minutes, and memoranda provided to the Board of Directors of any of the Applicants, in which the formation of Thames Water Aqua U.S. Holdings, Inc. ("TWUS") is discussed.

4. According to the testimony of Stephen Smith, TWUS was established June 26, 2002, to take advantage of a German tax law change which became effective in December, 2001. Please explain in detail the following:

- a. Why none of the Applicants sought modification of the Order of May 30, 2002, in Case No. 2002-00018 to incorporate this change of control, in that the Commission retained jurisdiction over that matter until at least the date of the issuance of a Commission Order on Rehearing on July 10, 2002;
- b. Why it took the Applicants six months to determine whether forming TWUS would be appropriate;
- c. Why the Applicants never met the Commission's expectation that they would advise the Commission promptly of any changes in the proposed transaction in Case No. 2002-00018. See Order of July 10, 2002, at page 5; and
- d. Additional conditions that are or may be necessary to assure that the Commission will in fact be promptly informed of any such changes in the future.

5. Please provide all analyses performed by any of the Applicants that describes or quantifies the benefits to be achieved by any of the Applicants through the formation of TWUS.

6. Please explain in detail why tax savings achieved through the writing off losses of other entities against profits earned by KAWC and other operating companies should not be shared as a benefit with the ratepayers of KAWC.

7. Please explain in detail why the immediate transaction, which is allegedly only intended to reduce the taxes paid by some of the Applicants, is in the public interest.

8. Please explain whether losses incurred by unregulated activities in Kentucky would be eligible for the tax benefits to be obtained by the Applicants as a result of this transaction.

9. Please detail all other proposed or pending law changes in either Germany or England that may result in additional entities being created in the corporate structure leading from RWE Aktiengesellschaft ("RWE") to American Water Works Company, Inc. ("AWW").

10. Please provide a description of all other corporate reorganizations that are currently under consideration which will either directly or indirectly affect the ownership of any of the Applicants.

11. Please describe any pending or proposed law changes in the United States that may result in additional entities being created in the corporate structure leading from RWE to AWW or KAWC.

12. Please explain what restrictions, if any, are in place that would prevent TWUS from becoming involved in the operational control of AWW or KAWC.

13. Please provide a complete listing of any and all environmental fines or penalties that have been imposed on any of the Applicants in any of the jurisdictions in which they have been active in the last ten years. Include all details of the circumstances of such actions; the fine or penalty imposed; and the remedial action, if any, undertaken by the affected entity.

14. Please provide all analysts' reports in the possession of the Applicants that discuss the financial condition of any of the Applicants.

15. Please state whether the Applicants would agree to a condition that would require a new change of control filing in the event that a future functional or operational reorganization within the RWE corporate family meets the standards contained in KRS 278.020(4) or (5).

16. Please indicate whether the Applicants intend to continue to utilize Jacobson Park as part of the KAWC system, and, if so, for how long. In the event that the Applicants do not intend to utilize Jacobson Park as part of the KAWC system for at least the remaining period of the existing lease agreement with the LFUCG, describe in detail for how long such use is intended, and what the Applicants intend to do with the park once it is no longer useful as part of the KAWC system.

17. Please provide all internal memoranda prepared by or for any of the Applicants that discusses future plans for Jacobson Park.

18. Please provide the Applicants' estimate of the current market value of Jacobson Park, including all assumptions contained in such an estimate.

19. Please state whether all of the Applicants would accept a condition that they will not sell Jacobson Park to anyone other than the LFUCG during the term of the current lease agreement with the LFUCG, even if KAWC finds a source of water supply sufficient to support a finding that Jacobson Park is no longer used and useful for water supply service. In the event any of the Applicants will not accept such a condition, please state why.

20. Please provide an accounting for the expenditures incurred to date by any of the Applicants in the campaign against a "Government Takeover" of KAWC, including expenditures supporting the "Coalition Against a Government Takeover", with an explanation of the source of the funds used for such expenditures and the accounting procedures, if any, that will assure that KAWC ratepayers will not be responsible for such expenditures.

21. Please state whether the Applicants intend to seek recovery of the expenses associated with PSC Case No. 2002-00018 and the immediate action from KAWC ratepayers, including, but not limited to, legal, professional and consulting expenses. If rate recovery for such costs is contemplated as a possibility, please provide an accounting of such costs to date, broken out by category of cost.

22. Please list all treaties, laws, international agreements or related items that any of the Applicants could raise or rely on as a defense to any action by this Commission or a court of the Commonwealth of Kentucky brought to enforce conditions imposed as the result of either PSC Case No. 2002-00018 or the immediate action.

23. Please state whether all of the Applicants are willing to waive the protections provided by any of the items listed in request number 22, above in the event that such an enforcement action is undertaken by either the Commission or a court of the Commonwealth of Kentucky. In the event that any of the Applicants will not accept such a condition, please state why.

24. Please state the Applicants current estimate of the closing date for the acquisition of AWW.

25. Please list any and all actions taken by RWE, Thames Water Aqua Holdings GmbH (“Thames”) (or any of the Applicants on their behalf), in fulfilling the condition that they agreed to in PSC Case No. 2002-00018 that provided RWE and Thames “...will take the lead in enhancing KAWC’s relationship with the Commission, with state and local governments, and with other community interests...”.

26. Please list all reports filed by RWE, Thames or other subsidiaries of RWE that are equivalent to the reports currently required to be filed by AWW with the Securities and Exchange Commission. Please include the information to be provided by such reports, the agency to which such reports are made, and any areas of current SEC filings that will no longer be required to be reported to a regulatory agency.

27. Please provide specific current information as to the makeup of AWW’s post-transaction board of directors (see Testimony of Stephen Smith at page 2).

28. Please provide a copy of any and all documents that demonstrate a requirement that TWUS’s Board of Directors will be the same as AWW’s post-transaction board.

29. Please provide a copy of all documents that demonstrate a requirement that TWUS will be prevented from engaging in any commercial transactions with KAWC.

30. Thames Water PLC was acquired by RWE in November 2000 Please state whether the transition process with respect to Thames Water PLC is complete.

31. One of Mr. Smith's responsibilities, as listed in his curriculum vitae, is described as "Restructuring of the TW group to minimize the exposure to German CFC legislation". Please describe or explain in detail the following:

- a. The German CFC legislation that is the focus of this effort;
- b. Why the Applicants need to restructure in order to "minimize exposure" to such legislation;
- c. How the creation of TWUS relates to "minimizing exposure" to the CFC legislation;
- d. All restructuring activities that have been undertaken to date with respect to this function; and
- e. Whether similar restructuring efforts will be undertaken or contemplated either pre- or post-merger to "minimize exposure" to similar American laws and regulations, and if so, what restructuring is contemplated.