

COMMONWEALTH OF KENTUCKY  
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-AMERICAN )  
WATER COMPANY, THAMES WATER AQUA )  
HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT, )  
THAMES WATER AQUA US HOLDINGS, INC., ) CASE NO. 2006-00197  
AND AMERICAN WATER WORKS COMPANY, )  
INC. FOR APPROVAL OF A CHANGE IN CONTROL )  
OF KENTUCKY-AMERICAN WATER COMPANY )

RESPONSES TO ATTORNEY GENERAL'S REQUEST FOR  
INFORMATION DATED JUNE 27, 2006

Item No. 1

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Witness: Nick Rowe / Michael Miller

1. RE: Application, Numbered Paragraph 4. Regarding the phrase "local management," please provide the following:
  - A. A definition of the phrase "local management;"
  - B. Identify each individual who, as of 1 June 2006, falls within the scope of this definition; and
  - C. For each individual identified in response to part B, (i) provide the corresponding job title and job description, (ii) indicate whether the individual is an employee of Kentucky American Water Company (and if not, identify the entity responsible for the employee, e.g. American Water Works Service Company, Inc., etc.); and (iii) indicate the employee's tax home or main place of business or work for the purpose of determining travel expenses.

RESPONSE:

- A. Local Management refers to the employees of either Kentucky-American Water Company ("KAWC") or American Water Works Service Company, Inc. ("AWWSC") with responsibility for the day to day operations of KAWC.
- B.

<u>Name</u>	<u>Job Title</u>	<u>Employer</u>	<u>Location</u>
Nick Rowe	President & Gen. Mgr.	AWWSC	Lex., KY
Donna Braxton	Mgr. HR	AWWSC	Lex., KY
Susan Lancho	Mgr. Comm.&CSR	AWWSC	Lex., KY
David Whitehouse	Mgr. Govt.&Reg. Affairs	AWWSC	Lex., KY
Herb Miller	Assoc. Gen. Counsel	AWWSC	Lex., KY
Frank Ross	Supv. Loss Control	AWWSC	Lex., KY

Rick Currey	Supv. Maintenance Srv.	AWWSC	Lex., KY
Linda Bridwell	Mgr. Proj. Del.& Dev. Ser.	AWWSC	Lex., KY
Donna Taylor	Sr. Analyst Bus. Reporting	AWWSC	Lex., KY
Mike Shryock	Sr. Spec. Computer Support	AWWSC	Lex., KY
Fred White	Supt. Network	KAWC	Lex., KY
Dillard Griffin	Supt. Production	KAWC	Lex., KY
Shannon Walker	Eng. Planning	KAWC	Lex., KY
Michael Galavotti	Sr. Eng.	KAWC	Lex., KY
Gregg Tomko	Proj. Mgr. Eng.	KAWC	Lex., KY
Bill Bunch	Supv. Operations	KAWC	Lex., KY
Richard Buchanon	Supv. Operations	KAWC	Lex., KY
Joe White	Supv. Production	KAWC	Lex., KY
Mitzi Combs	Supv. Production	KAWC	Lex., KY
Mark Mullins	Supv. Main. Services	KAWC	Lex., KY
David Sheehee	Supv. Water Quality	KAWC	Lex., KY
Bill Buckner	Supv. Network	KAWC	Lex., KY
Jarold Jackson	Supv. Network	KAWC	Lex., KY
Wayne Mattingly	Supv. Network	KAWC	Lex., KY
Paul Rookard	Supv. Network	KAWC	Lex., KY
Stacy Owens	Supv. Network	KAWC	Lex., KY
Rachel Cole	Fin. Analyst-Intermediate	KAWC	Lex., KY
Bryan Siler	Fin. Analyst-Intermediate	KAWC	Lex., KY

- C. See attached documents for job descriptions of the positions listed in response to (B) above. See response to subsection B above for employer and main place of business.

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Item No. 2

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Witness: Ellen Wolf

2. RE Application, Numbered Paragraph 5. Please describe what the Applicants mean by "a sound financial structure" and state specifically the financial structure that American Water is planning to have after the proposed public offering.

RESPONSE:

The Proposed Transaction will provide American Water Works Company ("AWW") with access to the public equity and debt capital markets in the U.S., thereby maintaining AWW's ability to finance investments in the infrastructure of its subsidiaries, including KAWC. Following the Proposed Transaction, the capital structure of AWW will be comparable to that of other publicly-traded utilities. AWW will take steps to ensure that, following the Proposed Transaction, its balance sheet remains solid and that its capital structure is such that the credit rating for American Water Capital Corporation's ("AWCC") debt securities will remain at a solid investment grade

AWW's goal is to have a debt to equity ratio in a range of 45% to 55% debt and a range of 55% to 45% equity (and equity-like components) in its total capitalization structure. Thus, AWW's Balance Sheet will include debt instruments, common equity, and may include convertible debt, preferred stock and other instruments that may be considered equity equivalents (of which none will result in a controlling interest in the company). The exact composition of the balance sheet will depend on market conditions prevalent at the time of the transaction.

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Item No. 3

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Witness: Ellen Wolf / Michael Miller / Nick Rowe

3. RE Application, Numbered Paragraph 7. Please describe in detail the benefits that the transaction will produce for KAWC's customers.

**RESPONSE:**

See responses to Item Nos. 37, 38, 39 and 40 of the LFUCG's First Request for Information and to Item No. 26 of the Commission Staff's First Request for Information.

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Item No. 4

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Witness: Ellen Wolf

4. RE: Application, Numbered Paragraph 13. Regarding TWAUSHI, please provide the current organizational chart of TWAUSHI that depicts its affiliates, subsidiaries, and holdings.

RESPONSE:

Please see the requested organizational chart attached.

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Item No. 5

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**Witness: Jens Gemmecke / Ellen Wolf**

5. RE: Application, Numbered Paragraphs 19-20. In the Applicants' opinion, is it necessary for the Applicants to obtain approval from all state utility commissions prior to filing an initial registration statement with the Securities and Exchange Commission? Please explain your answer.

**RESPONSE:**

It is not legally required that all necessary regulatory approvals be obtained prior to the initial filing at the SEC. However, Petitioners have decided not to make the initial filing at the SEC until after all necessary state regulatory approvals have been received.

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Item No. 6

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Witness: Jens Gemmecke / Ellen Wolf

6. RE: Application, Numbered Paragraphs 19-20. In the Applicants' opinion, is it necessary for the Applicants to obtain approval from all state utility commissions prior to filing the final registration statement with the Securities and Exchange Commission? Please explain your answer.

**RESPONSE:**

It is not legally required that all necessary regulatory approvals be obtained prior to resolving all principal SEC comments. However, Petitioners have decided not to make the initial filing at the SEC until after all necessary state regulatory approvals have been received, and, thus, Petitioners cannot begin resolving SEC comments until that time.

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Item No. 7

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Witness: Jens Gemmecke / Ellen Wolf

7. RE: Application, Numbered Paragraphs 19-20. In the Applicants' opinion, is it necessary for the Applicants to obtain approval from all state utility commissions prior to initiating the "Road Show" for the proposed public offering? Please explain your answer.

RESPONSE:

It is not legally required that all necessary regulatory approvals be obtained prior to initiating the "Road Show". However, Petitioners have decided not to initiate the "Road Show" until after all necessary state regulatory approvals have been received.



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Item No. 8

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Witness: Jens Gemmecke / Ellen Wolf

8. RE: Regulatory Approvals:
- A. Prior to Kentucky Commission approval, can the Joint Applicants complete their IPO? If yes, please explain. If no, please explain why not.
  - B. Prior to any necessary approvals from any other applicable jurisdiction's commission or regulatory body, can the Joint Applicants complete their IPO? If yes, please explain. If no, please explain why not.
  - C. If the application is denied by the Kentucky Commission, can the Joint Applicants complete their IPO? If no, please explain why not. If yes, please explain, and include in the explanation a discussion of the post-IPO status of Kentucky American Water.
  - D. If any necessary approval is denied by the commission or regulatory body of any other applicable jurisdiction, can the Joint Applicants complete their IPO? If no, please explain why not. If yes, please explain, and include in the explanation a discussion of the status of Kentucky American Water in the proposed surviving corporation.

RESPONSE:

- A. It is not the intent of the Petitioners to complete the IPO without the approval from the Commission because Petitioners assume the Commission will follow existing law and precedent and approve the Proposed Transaction.
- B. It is not the intent of the Petitioners to complete the IPO without the approval by regulatory authorities where such approval is necessary because Petitioners assume

those regulatory authorities will follow existing law and precedent and approve the Proposed Transaction.

- C. See answer to A above.
- D. See answer to B above.

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Item No. 9

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Witness: Ellen Wolf / Michael Miller

9. RE: Application, Numbered Paragraph 30. Concerning this paragraph:
- A. Under what circumstances would the refinancing of AWCC's debt with RWE result in a change in the terms of the debt between AWCC and KAWC?
  - B. As part of RWE's proposed divestiture of American Water, will AWCC be seeking debt financing? If so, please provide a detailed description of the anticipated type of debt financing that AWCC is seeking to obtain, including terms, interest rates, amount, and likely lenders.
  - C. Please provide copies of all commitment letters and term sheets that AWCC has received concerning any such debt.
  - D. Will KAWC be asked to guarantee or otherwise secure any of the debt of AWCC? If so, please provide the precise nature of any such guarantee or security.
  - E. As part of RWE's proposed divestiture of American Water, will American Water be seeking debt financing? If so, please provide a detailed description of the anticipated type of debt financing that American Water is seeking to obtain, including terms, interest rates, amount, and likely lenders.
  - F. Please provide copies of all commitment letters and term sheets that American Water has received concerning any such debt.
  - G. Will KAWC be asked to guarantee or otherwise secure any of the debt of AWCC? If so, please provide the precise nature of any such guarantee or security.

**RESPONSE:**

- A. See response to Item No. 21 of the Commission Staff's First Request for Information.
- B. As part of the separation from RWE, AWCC will need to refinance any debt held by RWE that does not mature before the Proposed Transaction. The specific terms, including maturity structures, interest rates and call features and likely lenders will be determined at the time of the refinancing. However, the terms and conditions would be customary to those for investment grade, publicly traded companies.
- C. AWCC is in the very early stages of arranging for the refinancing of the long-term debt held by RWE. Accordingly, commitment letters and term sheets do not exist.
- D. No.
- E. As part of RWE's proposed divestiture of AWW, AWW may need to refinance \$1.75 billion in Preferred Stock with other types of financings. No decision has yet been made on the replacement financing, which could take the form of equity, debt, or equity like instruments.
- F. See response to B above.
- G. See response to D above.

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Item No. 10

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Witness: Michael Miller / Nick Rowe

10. RE: Application, Numbered Paragraph 42. Why and how is the public interest affected by the ability of KAWC's customers to invest in the common stock of American Water?

RESPONSE:

Customers of KAWC, through ownership of AWW stock, will become part owners of the public utility that serves them and, by exercise of voting rights, will be able to vote on key issues along with all other common shareholders of AWW in the oversight of the operation of that utility.

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Item No. 11

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Witness: Michael Miller

11. RE: Application, Numbered Paragraph 42. Why and how is the public interest affected by the ability of KAWC's employees to invest in the common stock of American Water?

**RESPONSE:**

Paragraph 42 of the Application/Petition indicates that customers of KAWC will be able to invest in the common stock of AWW, not employees as indicated in the question above. The customers of KAWC were able to invest in AWW common stock before the sale of AWW common stock to RWE. The customers will again be able to invest in the common stock of AWW after the Proposed Transaction, if they desire to do so.

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Item No. 12

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Witness: Michael Miller

12. Please reconcile the statement in Numbered Paragraphs 45 and 46 that there will be no material change in KAWC's financing or balance sheet with the statement in Numbered Paragraph 30 that changes may be required in KAWC's debt to AWCC.

RESPONSE:

KAWC expects no change in the make-up of its capital structure debt and equity ratios as a result of the Proposed Transaction. The inter-company debt issued to AWCC and purchased by RWE will be replaced by like amounts of debt issued in the U.S. markets by AWCC.

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Item No. 13

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**Witness: Ellen Wolf / Michael Miller / Nick Rowe**

13. RE: Application, Numbered Paragraph 52. The Joint Applicants request that the Kentucky Public Service Commission “remove all of the conditions contained in its order approving the acquisition by RWE (Case No. 2002-00317).” As per Appendix A of the Commission’s 20 December 2002 Order in Case No. 2002-00317, Kentucky American is currently under a variety of requirements including (as examples) that its books and records will be maintained and housed in Kentucky (Condition No. 2), that KAWC will maintain an equity-to-capital ratio between 35 to 45 percent (Condition No. 21), that KAWC will not be the employer or purchaser of last resort for employees, assets, and products associated with any failed or troubled RWE, Thames, TWUS, or AWWC affiliate venture (Condition No. 25), KAWC will continue to protect and safeguard the condition of all of its watershed land holdings surrounding its reservoirs and well fields in Kentucky (Condition No. 43). Is it the position of the Joint Applicants that they are unwilling to continue any of the commitments that result from Case No. 2002-00317? If no, please specifically identify, by number, the conditions or portions of conditions that the Joint Applicants are willing to leave in place.

**RESPONSE:**

It is the position of the Petitioners that the purpose of the Proposed Transaction is to return ownership of AWW and its utility subsidiaries to publicly traded status similar to the ownership structure that existed for at least 60 years before AWW’s acquisition by RWE in January 2003, and during which time no explicit recitation of conditions as appears in docket 2002-00018 existed or was considered necessary. Many of the conditions imposed as a result of that transaction are applicable to KAWC through existing Kentucky statutes, rules and regulations or Commission precedents or are inherent in KAWC’s responsibilities as a public utility. The Commission has more than sufficient authority to enforce any such obligations on KAWC without such conditions if that should be necessary. In addition, a number of such conditions apply to entities that will no longer have any relationship to KAWC or AWW. Petitioners do not



believe it is necessary or appropriate to encumber AWW or KAWC with regulatory requirements that exceed those that already apply by operation of law.

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Item No. 14

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**Witness:** Ellen Wolf

14. RE: Application, Exhibit A, page 2. Please provide an organizational chart that reflects all subsidiaries and affiliates of the American Water Works Company, Inc., post consummation of the proposed transaction.

**RESPONSE:**

Please see the requested organizational chart attached.

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Item No. 15

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Witness: Ellen Wolf

15. Will the transaction result in any write-ups, write-offs, or a restatement of financial results of American Water or Kentucky American Water? If yes, please explain.

**RESPONSE:**

There will be no write-ups, write-offs or restatement of financial results as a result of the Proposed Transaction. However, there may be an impact as AWW reassesses its application of purchase accounting under US GAAP.

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Item No. 16

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Witness: Ellen Wolf

16. With regard to American Water and Kentucky American Water, please identify
- A. any changes in accounting principles as a consequence of the transaction,
  - B. any financial accounting reporting requirements that have become effective since 1 January 2003 (e.g. Sarbanes-Oxley, etc.), and
  - C. any changes in financial accounting reporting requirements that were in place prior to 1 January 2003. (For example, does the SEC currently require all of the reports that it required prior to 1 January 2003 or have certain reports been eliminated?)

RESPONSE:

- A. There are no contemplated changes in accounting principles as a consequence of the transaction.
- B. As a publicly traded company, AWW will be subject to Sarbanes-Oxley and will also need to file statements with the SEC (10Q, 10K).
- C. The timing for the 10Q has changed from 45 days to 40 days, and the 10K timing from 90 days to 60 days, although American Water in its first year of being a publicly traded company will have 45 days to complete the 10Q and 90 days to complete the 10K.

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Item No. 17

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Witness:      Michael Miller

17.      Post-transaction, will Kentucky American Water be required to make any filings with the Securities and Exchange Commission? If yes, please identify and explain the filing requirement(s).

RESPONSE:

No.

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Item No. 18

---

Witness: Ellen Wolf

18. Please identify and explain the post-transaction Sarbanes-Oxley-related requirements for Kentucky American Water.

**RESPONSE:**

See response to Item No. 4 of the Commission Staff's First Request for Information.

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Item No. 19

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Witness: Ellen Wolf

19. Does American plan to allocate any Sarbanes-Oxley-related compliance costs to Kentucky American Water? If yes, please identify the costs and explain how it will allocate the costs.

RESPONSE:

Yes. The latest estimate of AWW's increased audit costs for Sarbanes-Oxley compliance is \$2MM for the first year of post IPO ownership, decreasing to approximately \$1MM per year thereafter. The costs will be allocated in conformance with the existing agreement between AWWSC and KAWC.

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Item No. 20

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**Witness: Ellen Wolf / Jens Gemmecke**

20. RE: Application, Wolf Testimony, page 8. Please indicate the date or anticipated/estimated date on which the SEC "review and comments process" will be complete.

**RESPONSE:**

No estimated date can be determined for the completion of the "review and comment process" at this time. Once all necessary regulatory approvals have been received, AWW will file the initial registration statement with the SEC as soon as practicable.



COMMONWEALTH OF KENTUCKY  
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HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT, )  
THAMES WATER AQUA US HOLDINGS, INC., )      **CASE NO. 2006-00197**  
AND AMERICAN WATER WORKS COMPANY, )  
INC. FOR APPROVAL OF A CHANGE IN CONTROL )  
OF KENTUCKY-AMERICAN WATER COMPANY )

**RESPONSES TO ATTORNEY GENERAL'S FIRST REQUEST**  
**FOR INFORMATION DATED JUNE 27, 2006**

**Item No. 21**

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**Witness: Ellen Wolf / Jens Gemmecke**

21. RE: Application, Wolf Testimony, page 8. Please indicate the date or the anticipated/estimated date on which American will ask the SEC to declare the registration statement effective.

**RESPONSE:**

No estimated date can be determined for the effectiveness of the registration statement at this time. Once all necessary regulatory approvals have been received, AWW will file the initial registration statement with the SEC as soon as practicable.

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RESPONSES TO ATTORNEY GENERAL'S FIRST REQUEST  
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Item No. 22

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Witness: Ellen Wolf / Jens Gemmecke

22. RE: Application, Wolf Testimony, pages 9 and 10. The testimony indicates that "RWE has no intention of permitting any person or entity to acquire a controlling interest in American Water through the Proposed Transaction." With regard to this statement, please answer the following:
- A. Other than the disclosure in the prospectus, is there any action that RWE can take to prevent or bar a person or entity from acquiring a controlling interest in American Water through the proposed transaction? If yes, please identify and explain why the action is not being taken.
  - B. With regard to the Commonwealth of Kentucky, please identify "the relevant statutory restrictions and the consequences of a violation."

RESPONSE:

- A. No, there are none that RWE can currently take that are reasonable.
- B. Please see KRS 278.020.

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Item No. 23

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Witness: Ellen Wolf / Michael Miller

23. RE: Application, Wolf Testimony, pages 12 and 13. Please answer the following:
- A. Explain the Securities and Exchange Commission's jurisdiction to regulate the relationship (rates and service) of Kentucky American Water Company and the customers of the Kentucky American Water Company.
  - B. Do the financial reporting requirements of the Securities and Exchange Commission provide any benefits or measures of protection to equity investors or debt providers of publicly traded companies?
  - C. Explain how American Water will seek to allocate SEC reporting and compliance costs to its subsidiaries. Include in the discussion the allocation of costs to regulated and non-regulated operations.
  - D. Explain how American will seek to recover SEC reporting and compliance costs with the discussion including a specific discussion for American's Kentucky regulated and non-regulated operations.

**RESPONSE:**

- A. Petitioners are not aware of any such jurisdiction. See response to Item No. 26 of the Commission Staff's First Request for Information.
- B. Yes. Please see Application/Petition at paragraph 37. Also see response to Item No. 26 of the Commission Staff's First Request for Information.
- C. AWW will allocate the SEC reporting and compliance costs to its different subsidiaries per the AWWSC agreement currently in place.
- D. See C above.

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Item No. 24

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**Witness: Ellen Wolf**

24. RE: Application, Wolf Testimony, page 14. Please identify the anticipated or estimated impact of the merger of Elizabethtown Water Company and The Mount Holly Water Company with and into New Jersey-American Water Company on the allocation process or allocation percentages for the post-transaction American Water Works intra-company allocations of costs or cost-sharing/cost assignments.

**RESPONSE:**

There will be no impact as such costs have already been allocated to Elizabethtown Water Company, Mount Holly Water Company and New Jersey-American Water Company.

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Item No. 25

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Witness: Ellen Wolf / Michael Miller

25. RE: Application, Wolf Testimony, pages 14 and 15. Please identify any anticipated/estimated change(s) in Kentucky-American's dividend policy. If there are no anticipated or estimated changes, please confirm that Kentucky American intends to continue its historical dividend policy of paying 75% of earnings available for common dividends.

RESPONSE:

KAWC intends to continue its historical policy of paying 75% of earnings available to common stockholders in dividends to its shareholders.

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Item No. 26

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Witness: Ellen Wolf/Michael Miller

26. RE: Application, Wolf Testimony, pages 16 and 20.
- A. Please identify any anticipated/estimated change(s) in Kentucky American's equity-to-capital ratio,
  - B. the anticipated or estimated debt to equity ratio for Kentucky-American Water, and
  - C. the anticipated or estimated percentage of "equity like components" in Kentucky American Water's capital structure.

RESPONSE:

- A. No change is anticipated in KAWC's targeted equity-to-capital ratio as a result of the Proposed Transaction.
- B. No change is anticipated in KAWC's targeted debt to equity ratio as a result of the Proposed Transaction.
- C. No equity like components are currently in KAWC's capital structure and none are anticipated as a result of the Proposed Transaction.

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Item No. 27

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Witness: Ellen Wolf

27. RE: Application, Wolf Testimony, page 17. Is Ms. Wolf of the opinion that, all other things equal, in terms of the qualitative factor of the caliber of a company's management, a company with good management is more creditworthy, less creditworthy, or no different than a company with poor management?

RESPONSE:

All things equal, a company with good management will make ratings companies like S&P more comfortable with the future of the company. A good management team is a qualitative factor that is considered as part of a company's risk rating.

See attachments to the response to Item No. 19 of the Commission Staff's First Request for Information.



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Item No. 28

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Witness: Ellen Wolf / Michael Miller

28. RE: Application, Wolf Testimony, pages 19 and 20. In seeking Commission approval of the RWE transaction in 2002, Thames Water Aqua Holdings GmbH and Kentucky American Water submitted testimony and argument that a lower cost of capital through RWE ownership versus American Water continuing as a "stand alone" was a tangible, real benefit of RWE ownership. Specifically, in Case No. 2002-00018, James McGivern's testimony includes the statement that American Water Works "can never borrow money as cheaply as RWE." He adds, "No matter what American Water do, they cannot do that." (Case No. 2002-00018, public hearing, 1 May 2002, TE Vol. I, page 180. Also see, pages 92 and 93, RWE "three notches above American Water in both Standard & Poor's and Moody's.") With regard to these statements, please answer the following:
- A. Does Ms. Wolf agree that Kentucky American Water was operating under the Agreement for Services with AWCC prior to the RWE transaction? If no, please provide the basis for disagreement.
  - B. Will Kentucky American Water be able to borrow money on more advantageous terms upon the approval of this transaction than terms available if Kentucky American were to remain a part of RWE? If yes, please explain why. If no, please explain why not.
  - C. Please provide all studies, reviews, memoranda, reports, or other documentation prepared or produced since 1 January 2003 that consider, analyze, project, or otherwise examine Kentucky American Water's cost of capital. (e.g. Kentucky American's cost of capital savings following the approval of the RWE transaction, Kentucky American's cost of capital per any strategic business plans, Kentucky American's cost of capital under a scenario that the current application is approved, etc.)

**RESPONSE:**

- A. Yes.
- B. See response to Item No. 16(c) of the LFUCG's First Request for Information.
- C. There are no reports that analyze KAWC's Cost of Capital except for those that were filed in KAWC's last rate case (Case No. 2004-00103 before the Kentucky Commission).

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Item No. 29

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Witness: Michael Miller

29. Application, Miller Testimony, page 6. The testimony indicates, in part, that "Kentucky American has been assured that the capital investment will be available for its constructions plans." With regard to this statement, please provide the following:
- A. Identify who has provided the assurance;
  - B. Indicate when the assurance(s) were provided; and
  - C. Provide a summary of each assurance including any written memoranda, e-mail messages, correspondence, meeting notes, or other documentation concerning the assurance.

RESPONSE:

- A. Please see the response to Item No. 50 of the Attorney General's First Request for Information for recent AWW commitments involving the major investment associated with solving the source of supply deficit. KAWC discusses its capital investment plans on a regular basis with AWW management at the Regional and Corporate levels, including the major investment related to solving the source of supply deficit which will require a significant capital investment as outlined in the Direct Testimony of Mr. Miller. The consistent indication in those discussions has been support for capital investment requirements needed to replace aging infrastructure and provide other facilities needed to meet its public service obligation, meet customer demand and meet or exceed water quality and service standards. It has been the history of AWW to provide the capital when needed by KAWC and the other subsidiaries, and the stated intent to continue that investment as outlined in the Application/Petition filed in this case. As stated in Mr. Miller's testimony, AWW has

also consistently indicated that they expect fair and equitable returns on the invested capital, including timely and appropriate coverage in rates.

- B. See response to A. above.
- C. Based on the response to A. above it would be nearly impossible to identify each and every instance where discussions or documents related to assurances of capital investment occurred. This would involve every past discussion on budgets at Board meetings, staff meetings, capital investment review committee meetings, etc. In addition, it would involve every work order and investment project memorandum constructed and proposed, as well as, project memos and numerous internal memoranda. A response to this request would be unduly burdensome.

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Item No. 30

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**Witness: Michael Miller / Nick Rowe**

30. RE: Application, Miller Testimony, page 6. Since 1 January 2003, has RWE, Thames, American, or Kentucky American Water considered other options for addressing KAWC's source of supply issue? If yes, please summarize the other options that have been considered and provide the capital cost/capital investment analysis (if any) for each option.

**RESPONSE:**

Since December 1999, KAWC has been an active participant with first the Bluegrass Water Supply Consortium, which was a loose organization of seventeen utilities with the goal of solving the region's water supply deficit, and now the Bluegrass Water Supply Commission ("BWSC"). KAWC's involvement was not altered in any way as a result of the previous change in ownership and has continued to be solely responsible for addressing KAWC's source of supply issue. KAWC continued to provide input and participate in all activities of the BWSC after January 1, 2003, including the development of the solution alternatives analysis. The Consortium became the BWSC in August 2004 with nine member entities. KAWC is not allowed under state regulation to be a member, but continues to actively participate.

In February 2004, the BWSC finalized a report titled "Water System Regionalization Feasibility Study." This report studied 40 water supply alternatives and recommended a new treatment plant be built on Pool 3 of the Kentucky River. This report also indicated that grants, Congressional appropriation, low interest loans and/or long term debt issues would be used to fund the \$200 million to \$300 million project and that each member utility would pay for the plant and pipeline grid based on its pro-rated share of overall plant capacity.

The BWSC's plan included a Phase 1 project to install a pipeline between Lexington and Frankfort because KAWC had the most immediate need of the group and Frankfort indicated that it had up to 5 mgd of capacity available for resale in the short term until the full regional solution could be implemented. It became apparent to KAWC during the summer of 2005, that the BWSC's plan to install a Phase 1 pipeline between Lexington and Frankfort would not work since Frankfort did not have available capacity during peak events as previously thought. It was also apparent that BWSC was not meeting scheduled milestones and did not appear to be in the position to attract grants, and/or Congressional appropriation to supply KAWC with its water needs in the foreseeable future. KAWC commissioned a third party consultant to review and update as needed the cost for the recommended BWSC plan, and to provide an updated project scope and opinion of cost for KAWC to design, build and operate a water treatment plant on pool 3 of the Kentucky River.

In March 2006, KAWC met with representatives of the BWSC to discuss potential partnership arrangements that could help get the regional effort on track for a 3-5 year implementation. It became apparent that BWSC plans were still not progressing sufficiently to meet the water supply needs of KAWC's customers in a timely manner. At the March 14, 2006 informal conference with the Kentucky Public Service Commission and other stakeholders, KAWC indicated that it would take the lead in designing, building and operating a water treatment plant on the Kentucky River with a goal that KAWC's customers would have adequate source of supply by 2010. KAWC is continuing to discuss public-private partnership arrangements with the BWSC.

The third party consultant's report is currently in draft form and will be submitted as part of the Certificate of Convenience and Necessity proceeding that KAWC plans to file for the new water treatment plant in the Spring of 2007.

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Item No. 31

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Witness: Michael Miller

31. RE: Application, Miller Testimony, pages 6, 7, and 8. Please explain how Kentucky American Water's plan to propose innovative rate making concepts differs under a scenario in which RWE were to continue its ownership as opposed to a scenario in which the Commission approves this transaction.

**RESPONSE:**

There would be no difference in KAWC's proposed rate making approach towards the Source of Supply Project. The only potential difference would be if a condition were imposed in this proceeding which limited KAWC's ability to seek rate recovery for the significant investment required to construct the proposed project. KAWC believes such a condition could place significant financial stress on it when a certificate of convenience is issued for the project and construction begins. In addition, KAWC believes it may be detrimental to its customers over the life of the property if innovative ratemaking is not considered during construction of the project as outlined in the direct testimony of Mr. Miller.

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Item No. 32

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**Witness: Nick Rowe/Michael Miller**

32. RE: Application, Rowe Testimony. For each person identified as an officer of Kentucky American, please provide the following:
- A. Indicate whether the officer is an employee of Kentucky American Water (and if not, identify the entity responsible for the employee); and
  - B. Indicate the employee's tax home or main place of business or work for the purpose of determining travel expenses.

**RESPONSE:**

	<u>Name</u>	<u>Office</u>	<u>Employer</u>	<u>Place of Business</u>
A.	Nick Rowe	President	AWWSC	Lexington, KY
	Herbert A. Miller	VP, Corp. Counsel	AWWSC	Lexington, KY
	Michael A. Miller	Treasurer&Comp.	AWWSC	Charleston, WV
	Sheila Miller	Asst. Treas.&Sec.	AWWSC	Charleston, WV
	Velma A. Redmond	Asst. Secretary	AWWSC	Hershey, PA
	Thomas R. Bailey	Asst. Comptroller	AWWSC	Charleston, WV
	Rachel S. Cole	Asst. Comp.&Sec.	KAWC	Lexington, KY
	Benjamin J. Tartaglia	Asst. Comptroller	AWWSC	Marlton, NJ
B.	See response to subsection A. above.			



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Item No. 33

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Witness: Nick Rowe / Michael Miller

33. RE: Application, Rowe Testimony, page 5. Please provide a list of each "affiliated interest agreement" to which Kentucky American Water is currently a party or otherwise subject to an obligation under the agreement. Also, for each agreement, provide the following:
- A. the effective date for the agreement;
  - B. if applicable, the termination date of the agreement; and
  - C. indicate whether there have been any modifications, extensions, revisions, or amendments to the agreement since 1 January 2003 (and supply a corresponding summary of the modification, extension, revision, etc.).

RESPONSE:

- | A. | <u>Affiliate Agreement</u> | <u>Effective</u> | <u>Termination</u> | <u>Modification</u> |
|----|----------------------------|------------------|--------------------|---------------------|
|    | AWWSC/KAWC                 | 1-01-1989        | NA                 | NA                  |
|    | AWCC/KAWC                  | 6-15-2000        | NA                 | NA                  |
|    | AWR/KAWC                   | 1-21-2002        | NA                 | NA                  |
- B. See response to subsection A. above.
  - C. See response to subsection A. above.

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Item No. 34

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Witness: Ellen Wolf

34. When RWE announced its initial acquisition of AWW, it was stated that officers and directors of AWW owned approximately 23% of the common stock of AWW. Is it contemplated that the officers and directors of AWW will have a similar ownership stake in the company after the proposed public offering? If not, please explain why not.

RESPONSE:

No. It is not intended to allocate a significant amount of shares to AWW officers and directors, either individually or collectively. Prior to the acquisition of AWW by RWE, certain family groups held common shares of AWW for more than half a century, which led to officers and directors of AWW owning a substantial portion of the common stock of AWW at the time when RWE announced its initial acquisition of AWW.

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Item No. 35

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Witness: Michael Miller / Ellen Wolf

35. As of December 31, 2005, how much of AWW's debt (in dollars and percentage of total capital) was held by RWE or any subsidiary of RWE? Concerning this debt:
- A. Please provide a copy of each debt instrument between AWW and RWE or any subsidiary of RWE.
  - B. Please provide a workpaper showing, at December 31, 2005, and at the end of the most recent accounting period, the amount outstanding on each debt instrument and the interest rate.
  - C. What is proposed to happen to each debt instrument as a result of the transaction proposed in this case?

**RESPONSE:**

A total of \$2,588,566,000 of debt with RWE was outstanding at 12/31/05 for the entire AWW system, comprised of the following amounts:

Description	Amount	Percentage of Total Capital
Revolver at 12/31/05	\$362,466,000	4.08
Long-Term Debt		
Current Portion	\$1,817,800,000	20.46
Due After June 2007	\$408,300,000	4.60
<b>TOTAL RWE DEBT</b>	<b>\$2,588,566,000</b>	<b>29.14</b>

- A. See attached.
- B. See the work paper attached hereto which contains the requested information for RWE-related debt.
- C. Petitioners object to the question on the ground that the wording is vague. Subject to, and without waiving the objection, Petitioners state that any new debt or replacement for maturing debt of AWW (including AWCC) will be issued directly in the U.S. Investment Grade Debt Market. AWCC will repay to RWE the amounts due under debt instruments presently outstanding, and is replacing the short-term credit facility with a bank credit facility. Of the \$2,588,566,000 total amount of outstanding debt as of December 31, 2005, \$2,180,266,000 will become due in the ordinary course of business between June 2006 and June 2007, and will be refinanced. This debt is being refinanced at maturity in the normal course, and not "as a result of the transaction proposed in this case." The remaining debt as of December 31, 2005, in the amount of \$408,300,000, will be called by RWE, as allowed by the terms of the debt instruments, prior to maturity. See response to Item No. 13 of the LFUCG's First Request for Information. In addition, AWCC has determined that the cost rate of the short-term credit facility (revolver) will be in line with that of the current credit facility.

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Item No. 36

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Witness: Ellen Wolf

36. Does AWW anticipate issuing or assuming any debt as part of the separation of AWW from RWE? If so:
- A. Please provide all documents that discuss the anticipated issuance or assumption of debt.
  - B. Please provide a narrative summary of the contemplated debt issuance or assumption, including the reasons for doing so.
  - C. Please provide an analysis of the impact of the issuance or assumption of debt on the overall cost of capital, credit ratings, and financial stability of AWW.

RESPONSE:

AWW does not anticipate assuming any debt as part of the separation of AWW from RWE, but does anticipate issuing new debt through AWW or its wholly-owned subsidiary AWCC. See response to Item No. 35 herein.

- A. Petitioners object to the request for "all" such documents on the grounds that the request is unreasonable and unduly burdensome and would require production of documents not relevant to the issues in this proceeding. Without waiving that objection, see response to Item No. 8 of the Commission Staff's First Request for Information.
- B. See Direct Testimony of Ellen C. Wolf, pp. 15 and 16 and response to Item No. 35 herein. Debt that will become due in the ordinary course of business between June 2006 and June 2007, is being refinanced at maturity in the normal course. Debt that is being called by RWE prior to maturity is being refinanced as a result of RWE's business decision, in the context of the divestiture, to call such debt. AWCC will again access the

U.S. public and private debt capital markets to meet the financing needs of the regulated utility subsidiaries of AWW. While refinancing costs post transaction will vary according to market conditions, AWW believes that the Capital Debt market is very receptive to public, post-RWE ownership of AWW. For example, AWW is currently replacing the \$550MM RWE revolving credit facility (of which \$362,466,000 was outstanding at 12/31/05) with an \$800MM facility. There is strong demand for the new \$800MM revolving credit facility, as evidenced by the over \$2 billion in preliminary commitments received for the facility.

- C. With regard to the overall impact of the issuance of debt on the overall cost of capital, credit ratings, and financial stability of AWW, please see the Direct Testimony of Ellen C. Wolf, pp. 16 and 17.

Given AWW's plan for Debt to Equity levels at par with other water utilities, and assuming timely rate relief and a rate of return similar to the average in the industry, AWW does not expect to see a change in its Cost of Capital, other than due to capital market conditions at the time new or replacement debt is issued.

AWW does not expect any impact on the financial stability of AWW due to the situations described above. Petitioners are preparing an additional analysis of the impact of the issuance of debt on the overall cost of capital, credit ratings, and financial stability of AWW.

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AND AMERICAN WATER WORKS COMPANY, )  
INC. FOR APPROVAL OF A CHANGE IN CONTROL )  
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Item No. 37

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**Witness: Michael Miller**

37. As a result of, or around the time of, the proposed public offering, does AWW anticipate any changes in the following:
- A. The dividend payment policy of Kentucky American Water?
  - B. The capital structure of the Kentucky American Water?
  - C. The amount of debt owed by Kentucky American Water to AWW or any affiliate of AWW?
  - D. If the answer to any of the above is affirmative, please describe the changes that are anticipated and provide all documents that discuss the reasons for, and effects of, the changes.

**RESPONSE:**

Petitioners object to the phrase "around the time of" as vague and undefined. Subject to, and without waiving this objection, Petitioners respond as follows:

- A. The dividend payment policy of KAWC is not anticipated to change as a result of the Proposed Transaction. In addition, see response to Item No. 25 of the Attorney General's First Request for Information.
- B. KAWC's capital structure is not anticipated to change as a result of the Proposed Transaction.
- C. The amount of debt owed by KAWC to AWCC is not anticipated to change as a result of the Proposed Transaction.

D. N/A.



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Item No. 38

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**Witness: Nick Rowe**

38. At the time of RWE's acquisition of AWW, RWE and AWW represented that the acquisition would enhance Kentucky American Water's ability to provide its customers with high-quality water service. Concerning this:
- A. Please identify and describe each instance since the acquisition of AWW by RWE when Kentucky American Water has failed to comply with any drinking water quality standard or regulation.
  - B. Please identify and describe each instance since the acquisition of AWW by RWE when Kentucky American Water was denied funding for a project to enhance or maintain the quality and/or quantity of water provided by the Kentucky American Water.
  - C. How will the separation of AWW from RWE affect the ability of the Kentucky American Water to provide its customers with high-quality water service?

**RESPONSE:**

- A. Since the acquisition of AWW by RWE, KAWC has not violated water quality standards. There have been two violations related to reporting as follows:

On March 6, 2006, KAWC received a Notice of Violation for failing to comply with the content requirements in its 2004 Consumer Confidence Report. KAWC failed to include a total coliform detection in the annual CCR. This was a record keeping oversight. All bacteriological information is now provided monthly and additional reviews of the CCR are held prior to publication.

On March 6, 2006, KAWC received a Notice Of Violation for failure related to continuous turbidity monitoring for each individual filter. KAWC has contested this violation and it is under review by the DOW. A light bulb on Filter 3 at the KRS failed resulting in no turbidity readings from 8:46 PM, March 22, 2005 until 7:43 AM, March 24, 2005. Overall water quality was not impacted by this reporting malfunction. The SCADA system has been updated with the proper default alarms, turbidimeters have been reprogrammed, and additional training for Plant Operators has been provided as a result of this incident.

- B. KAWC is not aware of any instance where funding was denied by RWE or AWW for a given project. It is the responsibility of the management team of KAWC to prioritize the capital projects which will receive funding in a particular year with the context of KAWC's overall business environment. This prioritized list is presented to and approved by KAWC's Board of Directors.
- C. The separation of AWW from RWE will not adversely affect the ability of KAWC to provide its customers with high-quality water services. See Direct Testimony of Nick Rowe beginning on page 3 and the Direct Testimony of Ellen Wolf beginning on page 10.

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Item No. 39

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Witness: Nick Rowe

39. At the time of RWE's acquisition of AWW, RWE and AWW represented that Kentucky American Water would benefit from RWE's strong commitment to environmental protection. Concerning this:
- A. Please identify and describe each instance since the acquisition of AWW by RWE when Kentucky American Water has failed to comply with any environmental protection standard or regulation.
  - B. Please identify and describe each instance since the acquisition of AWW by RWE when the Kentucky American Water was denied funding for a project to enhance or maintain the quality of the natural environment or to improve its compliance with any environmental protection standard or regulation.
  - C. How will the separation of AWW from RWE affect the ability of the Kentucky American Water to continue to protect the natural environment and comply with environmental protection standards and regulations?

RESPONSE:

- A. October 25, 2004, KAWC received a violation for exceeding the effluent water quality standards at its Rockwell Village Sewer Treatment Plant. This package waste water treatment plant serving 83 customers was acquired by KAWC from the Boonesboro Water District. KAWC and the KY DOW have worked together to close this facility and connect it to a public waste water system. KAWC has made the necessary upgrades to the facility and replaced the plant operator. There have been no further violations since April 2004.

- B. KAWC is not aware of any instance where funding was denied by RWE or AWW for a given project. It is the responsibility of the management team of KAWC to prioritize the capital projects which will receive funding in a particular year with the context of KAWC's overall business environment. This prioritized list is presented to and approved by KAWC's Board of Directors.
- C. The separation of AWW from RWE will not adversely affect the ability of KAWC to protect the natural environment and comply with environmental protection standards and regulations. See Direct Testimony of Nick Rowe beginning on page 3 and the Direct Testimony of Ellen Wolf beginning on page 10.

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Item No. 40

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Witness: Nick Rowe / Michael Miller

40. At the time of RWE's acquisition of AWW, RWE and AWW represented that Kentucky American Water would benefit from RWE's strong commitment to customer service. Concerning this:
- A. Please identify and describe each instance since the acquisition of AWW by RWE when Kentucky American Water has failed to comply with any customer service standards or regulations.
  - B. Since the acquisition of AWW by RWE, please provide a listing and summary of each customer-service-related complaint filed against Kentucky American Water before any regulatory agency or court.
  - C. Please identify and describe each instance since the acquisition of AWW by RWE when Kentucky American Water was denied funding for a project to enhance or maintain the quality of customer service or to improve its compliance with any customer service standard or regulation.
  - D. Please provide a copy of all reports summarizing Kentucky American Water's customer-service, billing, and/or meter-reading performance or metrics for the years 2000 through 2005.
  - E. How will the separation of AWW from RWE affect the ability of the Kentucky American Water to continue to provide high-quality customer service and comply with customer service standards and regulations?

**RESPONSE:**

- A. See response to Item No. 38(a) of the Attorney General's First Request for Information. Except as might be responded elsewhere in these responses, since the acquisition by RWE, KAWC is not aware of any failure to comply with any Kentucky customer service standards or Kentucky customer service regulations.
- B. See attached for a list and summary of complaints filed or referred by the Kentucky Commission between 2003 and 2006.
- C. KAWC is not aware of any instance where funding was denied by RWE or AWW for a given project. It is the responsibility of the management team of KAWC to prioritize the capital projects which will receive funding in a particular year within the context of KAWC's overall business environment. This prioritized list is presented to and approved by the KAWC Board of Directors.
- D. Petitioners object to the request for "all" such reports on the grounds that the request is unreasonable and unduly burdensome. KAWC has, however, conducted a reasonable search for reports responsive to this request. Subject to, and without waiving their objection, Petitioners provide the following response. See attached.
- E. The separation of AWW from RWE will not adversely affect the ability of KAWC to continue to provide high-quality customer service and comply with customer service standards and regulations. See Direct Testimony of Nick Rowe beginning on page 3 and the Direct Testimony of Ellen Wolf beginning on page 10.

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Item No. 41

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Witness: Nick Rowe

41. At the time of RWE's acquisition of AWW, RWE and AWW represented that Kentucky American Water would benefit from RWE's strong commitment to research and development. Concerning this:
- A. Please identify and describe each instance since the acquisition of AWW by RWE when Kentucky American Water was denied funding for a research and development project.
  - B. How will the separation of AWW from RWE affect the ability of the Kentucky American Water to engage in research and development?

RESPONSE:

- A. Petitioners are not aware of any instance where funding was denied by RWE or AWW for a given project. It is the responsibility of the management team of KAWC to prioritize the projects which will receive funding in a particular year within the context of KAWC's overall business environment.
- B. The separation of AWW from RWE will not adversely affect the ability of KAWC to engage in research and development. KAWC benefits from research undertaken by AWW. The drinking water field is research intensive and AWW has been an active proponent and participant in drinking water research activity for more than 20 years. AWW conducts its research activities through a central function that serves the subsidiary companies, including KAWC.

Listed below are internal research reports that have been produced by AWW since the acquisition of AWW by RWE. Attachment to Item No. 41 herein further lists industry publications produced by AWW during this time frame that are too numerous to list here. In addition to research activity this function also provides coordination of environmental and

water quality regulatory compliance efforts, provides direct input to USEPA and other regulatory agencies during development of new regulations, and provides direct support to AWW field operations personnel on matters dealing with water quality, treatment, sampling, analytical issues and compliance.

AWW Internal Research Reports: 2003 to 2005

- Alternative Treatments for Nitrification Control in Chloraminating Utilities
- Early Warning Systems to Protect Distribution System Water Quality
- Comparison of Electroscanning and CCTV Inspections for I/I Assessment and Control
- Susceptibility of Distribution Systems to Negative Pressure Transients
- Formation, Occurrence, Stability, & Dominance of HAAs and THMs. January 2004.
- Methods for E. coli O157:H7 Detection in Water. June 2004.
- Occurrence of Microcystins in Lakes and Reservoirs. August 2004
- Microbial Indicators for Assessing the Vulnerability of Groundwater to Fecal Contamination. 2004.
- Water Quality Management - How to Structure it Within a Water Utility. January 2003.
- Impacts of Major Point and Non-Point Sources on Raw Water Treatability. March 2003.
- Evaluation of Ultraviolet Technology for Disinfection of Finished Water. March 2003.
- Development of a Simple Assimilable Organic Carbon Assay. August 2003.
- Field Verification & Control of Transient Low & Negative Pressures. December 2003.
- Optimizing Chloramine Treatment. December 2003.
- Full-Scale Evaluation of Ultraviolet Technology. December 2003.
- Practical Taste & Odor Methods for Routine Operations: Decision Tree. 2003.

AWW's research activities of the type described above will continue after the Proposed Transaction.



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Item No. 42

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Witness: Nick Rowe

42. At the time of RWE's acquisition of AWW, RWE and AWW represented that the Kentucky American Water would benefit from RWE's expertise in water system security. Concerning this:
- A. Please identify and describe each instance since the acquisition of AWW by RWE when Kentucky American Water was denied funding for a project to enhance or maintain the level of the safety and security of any of its water systems.
  - B. How will the separation of AWW from RWE affect the ability of Kentucky American Water to continue to protect the safety and security of its water systems?

RESPONSE:

- A. Petitioners are not aware of any instance where funding was denied by RWE or AWW for a given project. It is the responsibility of the management team of KAWC to prioritize the capital projects which will receive funding in a particular year within the context of KAWC's overall business environment. This prioritized list is presented to and approved by KAWC's Board of Directors.
- B. The separation of AWW from RWE will not adversely affect the ability of KAWC to continue to protect the safety and security of its water systems. AWW has established a central security coordinating function directly serving the subsidiary companies, including KAWC. The AWW security program leveraged the practices and security system design experience from RWE Thames Water's 20 years of preparing for and responding to terrorist attacks in the UK, as well as current best practices from the power, chemical, oil & gas sectors. The AWW Security Program will build on the foundation thus provided to meet the continuing security needs of AWW and its subsidiaries. Since

2003 AWW has been at the forefront of both Federal and industry-led efforts to investigate threats to water systems and to develop active and effective security controls and practices to mitigate these risks. AWW has been involved at the committee and board levels in the following: (i) the National Drinking Water Advisory Council (NDWAC); (ii) the Water Security Working Group (WSWG) supporting USEPA in determining the most effective approaches to securing water systems; (iii) the National Infrastructure Advisory Committee (NIAC) advising the President of the United States in matters of Homeland Security for critical infrastructure sectors; (iv) the Water Sector Coordinating Council (WSCC), formed in response to HSPD-7 and advising USEPA and DHS and steering the Water Sector's efforts to enhance the security and resilience of drinking water systems; and (v), the Water Information Sharing and Analysis Center (ISAC), the principle venue for information sharing on matters of security and threats between the government and water sector owner/operators. AWW's involvement in security activities described above will continue after the proposed transaction.

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Item No. 43

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Witness: Nick Rowe

43. At the time of RWE's acquisition of AWW, RWE and AWW represented that Kentucky American Water would benefit from RWE's investments in local communities for environmental protection and the assistance of low-income customers. Concerning this:
- A. Please identify and describe each instance since the acquisition of AWW by RWE when Kentucky American Water has reduced spending on any community-service or low-income customer project or program.
  - B. Please identify and describe each instance since the acquisition of AWW by RWE when Kentucky American Water was denied funding for a project to improve the quality of the local environment, support a non-profit organization within its service area, or improve or maintain funding for assistance to low-income or other special-needs customers.
  - C. How will the separation of AWW from RWE affect the ability of Kentucky American Water to continue to work within its local communities to enhance the quality of the local environment and assist low-income or other special-needs customers?

RESPONSE:

- A. None.
- B. KAWC is not aware of any instance where funding was denied by RWE or AWW for a given project. It is the responsibility of the management team of KAWC to prioritize the projects which will receive funding in a particular year within the context of KAWC's overall business environment. This prioritized list is presented to and approved by KAWC's Board of Directors.

- C. The separation of AWW from RWE will not adversely affect the ability of KAWC to continue to work within its local communities to enhance the quality of the local environment and assist low-income or other special-needs customers. See Direct Testimony of Nick Rowe beginning on page 3 and the Direct Testimony of Ellen Wolf beginning on page 10.

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Item No. 44

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Witness: Ellen Wolf / Michael Miller

44. Please provide AWW's current estimate of the costs associated with establishing processes and systems to ensure AWW's compliance with laws and regulations as a publicly traded company in the United States, and provide the basis for that estimate. Concerning this:
- A. Does AWW intend to recover a portion of the costs identified in the previous question from Kentucky American Water? If so, approximately what percentage of AWW's costs will be allocated to the Kentucky American Water, and how will the allocation percentage be determined?

**RESPONSE:**

The current estimate of the costs associated with establishing processes and systems to endure AWW's compliance with the laws and regulations as a publicly traded company is approximately \$16 million. See estimate included in the schedule attached to this response.

- A. Approximately 3.21% of these costs will be allocated to KAWC in conformance with the Services Agreement between KAWC and AWWSC. There is no intent, however, to recover any cost to set-up processes and systems to ensure AWW's compliance with the laws and regulations as a publicly traded company in the United States from KAWC customers.

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Item No. 45

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Witness: Ellen Wolf / Michael Miller

45. Please provide AWW's current estimate of the costs associated with converting AWW's accounting systems to U.S. GAAP, and provide the basis for that estimate. Concerning this:
- A. Does AWW intend to recover a portion of the costs identified in the previous question from Kentucky American Water? If so, approximately what percentage of AWW's costs will be allocated to Kentucky American Water, and how will the allocation percentage be determined?

RESPONSE:

AWW does not need to convert its accounting system to US GAAP, as the accounting books and records are already maintained in accordance with US GAAP. Thus, there are no costs associated with converting AWW's accounting system to US GAAP.

- A. N/A

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Item No. 46

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Witness: Nick Rowe / Michael Miller

46. Please provide an employee count for Kentucky American Water as of (A) 1 January 2003, and (B) 1 June 2006. (Distinguish between full-time and part-time employees.)

RESPONSE:

January 1, 2003 - 136 employees	Full-time.
June 1, 2006 - 124 employees.	Full-time.
June 1, 2006 - 10 employees.	Part-time. Located in Kentucky, but employees of AWWSC who charge a portion of their time to KAWC.

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Item No. 47

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**Witness: Nick Rowe/Michael Miller**

47. RE: Application, Rowe Testimony, pages 5 and 9. The testimony indicates that Kentucky American will continue to honor all of its customer and regulatory obligations and agreements. Numbered Paragraph 52 of the Application contains a request for the Commission to remove all conditions that result from the commitments made in Case No. 2002-00317. Please reconcile these positions with regard to the commitments that do not involve RWE or Thames Water (for example, that Kentucky American's books and records be maintained and housed in Kentucky).

**RESPONSE:**

These positions do not require reconciliation because they are not inconsistent.

It is the position of the Petitioners that the purpose of the Proposed Transaction is to return ownership of AWW and its utility subsidiaries to publicly traded status similar to the ownership structure that existed for at least 60 years before AWW's acquisition by RWE in January 2003, and during which time no explicit recitation of conditions as appears in docket 2002-00018 existed or was considered necessary. Many of the conditions imposed as a result of that transaction are applicable to KAWC through existing Kentucky statutes, rules and regulations or Commission precedents or are inherent in KAWC's responsibilities as a public utility. The Commission has more than sufficient authority to enforce any such obligations on KAWC without such conditions if that should be necessary. In addition, a number of such conditions apply to entities that will no longer have any relationship to KAWC or AWW. Petitioners do not believe it is necessary or appropriate to encumber AWW or KAWC with regulatory requirements that exceed those that already apply by operation of law.



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Item No. 48

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Witness: Michael Miller

48. RE: Application, Rowe Testimony, page 6. Will American Water or any of its affiliates or subsidiaries incur any information technology expense or cost resulting from the separation of American's separation from RWE (e.g. installation of new software, payment of licensing fees, etc.)? If yes, will Kentucky American seek recovery of such costs through rates?

RESPONSE:

No.

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Item No. 49

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Witness: Nick Rowe / Michael Miller

49. RE: Application, Rowe Testimony, page 10. Identify the Officers or other employees within the TWAUSHI corporate family (including any Kentucky American Water Officers or other employees) who are responsible for (i) applying for Commission approvals required under Case No. 2002-00018 and Case No. 2002-00317 (e.g. payment of dividend, etc.), (ii) issues pertaining to the Kentucky River Authority fee, and (iii) issues pertaining to sewer billing on behalf of the Lexington Fayette Urban County Government.

RESPONSE:

Petitioners do not understand the question as there is no relationship between the cited Rowe testimony and the issues in this proceeding on the one hand and the question posed in the data request on the other hand. All of the issues identified in the data request have been addressed or are being addressed in other proceedings before the Commission.

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Item No. 50

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Witness: Nick Rowe / Michael Miller

50. RE: Application, Rowe Testimony, pages 10 and 11. With regard to Kentucky American's source of supply issue, please answer the following:
- A. At any time since 1 January 2003, have any officers or directors of RWE, Thames Water Aqua Holdings GmbH, Thames Water Aqua US Holdings, Inc., or American Water Works Company, Inc., indicated, expressed, or otherwise conveyed an unwillingness to invest in or provide Kentucky American with funding for solving the source of supply problem? If yes, please explain.
  - B. For the period since 1 January 2003, summarize Kentucky American Water Company's planning, work, and requests for obtaining funding or investment for solving its source of supply issue.

RESPONSE:

- A. No.
- B. Please see response to Item No. 30 of the Attorney General's First Request for Information for discussion of planning and work since January 1, 2003. Funding or investment will be handled through the internal American Water Capital Investment Management Process. In April 2006, the American Water Capital Investment Review Committee approved authorization of \$9.8 million for preliminary engineering work, including design of facilities and land acquisition.

COMMONWEALTH OF KENTUCKY  
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-AMERICAN )  
WATER COMPANY, THAMES WATER AQUA )  
HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT, )  
THAMES WATER AQUA US HOLDINGS, INC., )      CASE NO. 2006-00197  
AND AMERICAN WATER WORKS COMPANY, )  
INC. FOR APPROVAL OF A CHANGE IN CONTROL )  
OF KENTUCKY-AMERICAN WATER COMPANY )

RESPONSES TO ATTORNEY GENERAL'S FIRST REQUEST  
FOR INFORMATION DATED JUNE 27, 2006

Item No. 51

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Witness: Jens Gemmecke / Ellen Wolf

51. Please provide copies of all credit rating agency reports on RWE and AWW since January 1, 2005.

RESPONSE:

See attached.

COMMONWEALTH OF KENTUCKY  
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-AMERICAN )  
WATER COMPANY, THAMES WATER AQUA )  
HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT, )  
THAMES WATER AQUA US HOLDINGS, INC., ) CASE NO. 2006-00197  
AND AMERICAN WATER WORKS COMPANY, )  
INC. FOR APPROVAL OF A CHANGE IN CONTROL )  
OF KENTUCKY-AMERICAN WATER COMPANY )

RESPONSES TO ATTORNEY GENERAL'S FIRST REQUEST  
FOR INFORMATION DATED JUNE 27, 2006

Item No. 52

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Witness: Jens Gemmecke / Ellen Wolf

52. Please provide copies of presentations made to credit rating agencies or investment banking firms by the management of RWE or AWW since January 1, 2005.

**RESPONSE:**

Please see response to Item No. 15 of the Commission Staff's First Request for Information.

These presentations have been produced in response to the Staff data request in redacted form to delete information relating to RWE's core European energy business because such information is not responsive to Staff Item No. 15. In addition, the redacted information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence and, thus, such information is not produced in response to this data request. In addition, though not a ground for withholding the information, the redacted information includes commercial or proprietary information, the disclosure of which would permit an unfair advantage to competitors of RWE.

COMMONWEALTH OF KENTUCKY  
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-AMERICAN )  
WATER COMPANY, THAMES WATER AQUA )  
HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT, )  
THAMES WATER AQUA US HOLDINGS, INC., ) CASE NO. 2006-00197  
AND AMERICAN WATER WORKS COMPANY, )  
INC. FOR APPROVAL OF A CHANGE IN CONTROL )  
OF KENTUCKY-AMERICAN WATER COMPANY )

RESPONSES TO ATTORNEY GENERAL'S FIRST REQUEST  
FOR INFORMATION DATED JUNE 27, 2006

Item No. 53

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Witness: Jens Gemmecke

53. Please provide copies of reports, studies, and/or presentations prepared internally and/or by investment banking firms on the impact of the proposed IPO transaction on the financial structure and/or debt cost rates of AWW.

RESPONSE:

Objection. The request is overbroad and unduly burdensome. Without waiving the foregoing objection, please see the response to Item No. 8 of the Commission Staff's First Request for Information.

COMMONWEALTH OF KENTUCKY  
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-AMERICAN )  
WATER COMPANY, THAMES WATER AQUA )  
HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT, )  
THAMES WATER AQUA US HOLDINGS, INC., )      CASE NO. 2006-00197  
AND AMERICAN WATER WORKS COMPANY, )  
INC. FOR APPROVAL OF A CHANGE IN CONTROL )  
OF KENTUCKY-AMERICAN WATER COMPANY )

RESPONSES TO ATTORNEY GENERAL'S FIRST REQUEST  
FOR INFORMATION DATED JUNE 27, 2006

Item No. 54

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Witness: Jens Gemmecke

54. Please (a) identify the investment banking firm(s) contracted by the Company to manage the underwriting, and (b) provide a copy of the contract between the Company and the investment banking firm(s).

RESPONSE:

To date, no investment banking firm(s) have been contracted with to manage the underwriting.

COMMONWEALTH OF KENTUCKY  
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-AMERICAN )  
WATER COMPANY, THAMES WATER AQUA )  
HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT, )  
THAMES WATER AQUA US HOLDINGS, INC., )      CASE NO. 2006-00197  
AND AMERICAN WATER WORKS COMPANY, )  
INC. FOR APPROVAL OF A CHANGE IN CONTROL )  
OF KENTUCKY-AMERICAN WATER COMPANY )

RESPONSES TO ATTORNEY GENERAL'S FIRST REQUEST  
FOR INFORMATION DATED JUNE 27, 2006

Item No. 55

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Witness: Jens Gemmecke

55. Please provide copies of presentations made to credit rating agencies or investment banking firms by the management of RWE or AWW since January 1, 2005.

RESPONSE:

Please see response to Item No. 52 herein.



COMMONWEALTH OF KENTUCKY  
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-AMERICAN )  
WATER COMPANY, THAMES WATER AQUA )  
HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT, )  
THAMES WATER AQUA US HOLDINGS, INC., )      CASE NO. 2006-00197  
AND AMERICAN WATER WORKS COMPANY, )  
INC. FOR APPROVAL OF A CHANGE IN CONTROL )  
OF KENTUCKY-AMERICAN WATER COMPANY )

RESPONSES TO ATTORNEY GENERAL'S FIRST REQUEST  
FOR INFORMATION DATED JUNE 27, 2006

Item No. 56

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Witness: Ellen Wolf

56. Please provide copies of all reports, studies, and/or presentations prepared by investment banking or consulting firms regarding (1) strategic and/or financial options for AWW, and/or (2) the proposed IPO of AWW.

RESPONSE:

Objection. The request is overbroad and unduly burdensome. Without waiving the foregoing objection, please see the response to Item No. 8 of the Commission Staff's First Request for Information.

COMMONWEALTH OF KENTUCKY  
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-AMERICAN )  
WATER COMPANY, THAMES WATER AQUA )  
HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT, )  
THAMES WATER AQUA US HOLDINGS, INC., )      CASE NO. 2006-00197  
AND AMERICAN WATER WORKS COMPANY, )  
INC. FOR APPROVAL OF A CHANGE IN CONTROL )  
OF KENTUCKY-AMERICAN WATER COMPANY )

RESPONSES TO ATTORNEY GENERAL'S FIRST REQUEST  
FOR INFORMATION DATED JUNE 27, 2006

Item No. 57

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Witness: Ellen Wolf

57. Please provide copies of all reports, studies, and/or presentations prepared internally by the Company regarding (1) strategic and/or financial options for AWW, and/or (2) the proposed IPO of AWW.

RESPONSE:

AWW has not prepared any reports, studies or presentations regarding strategic and/or financial options regarding the IPO.