

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 LFUCG'S INITIAL REQUESTS FOR
INFORMATION DATED JUNE 27, 2006

Item No. 1

Witness: Ellen Wolf / Mike Miller

1. Are the Petitioners aware of any jurisdiction in the United States in which a state regulatory Commission has approved an IPO-type change of control of a regulated utility? If so please provide all relevant information pertaining to all such cases including, but not limited to, the case number and jurisdiction, the type of utility and copies of final orders.

RESPONSE:

Yes. The IPO which is the subject of this Petition was approved by:

Tennessee Regulatory Authority, Docket No. 0600119, on June 26, 2006; Hawaii Public Utilities Commission, Docket No. 2006-0095, Decision and Order No. 22511, on June 5, 2006; and the Maryland Public Service Commission noted the transaction in Docket No. ML#101250 on May 25, 2006.

See attached.

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Item No. 2

Witness: Ellen Wolf / Jens Gemmecke

2. Is it the Petitioners' position that the approval of the Kentucky Public Service Commission is required prior to the initial filing at the SEC? If so, please describe in detail all bases, legal or otherwise, that support this position.

RESPONSE:

No, there is no legal requirement. However, while it is not legally required that all necessary regulatory approvals be obtained prior to the initial filing at the SEC, 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. 3

Witness: Jens Gemmecke

3. Other than the existence of KRS 278.020(6), which prohibits the acquisition of ten percent or more of the voting securities of the utility without prior approval of the Commission, provide a list of any and all additional measures, if any, that will be taken by the Petitioners (or others) to ensure that this threshold is not exceeded as a result of the change of control.

RESPONSE:

See response to Item No. 27 of the Commission Staff's First Request for Information.

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Item No. 4

Witness: Jens Gemmecke / Ellen Wolf

4. Provide any proposed language to be inserted into the draft SEC prospectus to assure that no person or entity will acquire a controlling interest in AWW as defined by KRS 278.020(6).

RESPONSE:

To date, no specific language has been drafted.

See the response to Item No. 27 of the Commission Staff's First Request for Information.

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Item No. 5

Witness: Ellen Wolf / Mike Miller

5. Do the Petitioners believe that the use of an IPO process under the authority of the SEC may lead to a claim of federal preemption over the regulatory authority of the Kentucky Commission as to its authority under KRS 278.020(5) or (6), KRS 278.218, or any other relevant Kentucky statute, by either: (i) any of the Petitioners, or (ii) the ultimate purchasers of AWW stock?
- a. Will the Petitioners agree to a condition or commitment as part of the approval of the proposed change of control that they will not assert any claim of federal preemption as a result of the IPO process on any issue that is subject to the Kentucky Commission's authority under Kentucky law?

RESPONSE:

- (i) No.
(ii) No.

- a. Petitioners do not believe conditions to the approval of the Application/Petition are necessary.

See the responses to Item Nos. 13 and 47 of the Attorney General's First Request for Information.

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Item No. 6

Witness: Ellen Wolf

6. Once shares in AWW are actually sold through the IPO process, if subsequent sales between shareholders result in the acquisition by some person or entity of a controlling interest in AWW as defined by KRS 278.020(6), what will be the impact on AWW if such a transfer is found by the Commission or a court of law to be void?

RESPONSE:

Without a complete understanding of the facts and circumstances involved in the hypothetical presented by this question, Petitioners cannot determine the impact, if any, of such determination.

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Item No. 7

Witness: Ellen Wolf

7. In the event that the underwriters for the IPO are unable to immediately sell more than 90% of AWW stock, would the underwriters be an entity that has acquired a controlling interest in AWW per KRS 278.020(6)? If not, please explain why not.

RESPONSE:

No. Customarily, underwriters will only agree to market the number of shares for which they have obtained purchase commitments.

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Item No. 8

Witness: Ellen Wolf

8. With reference to the Petition, at paragraph 37, please state how soon after acquisition of shares that the owners of a significant number of AWW shares will be required to report such ownership to the SEC?
- a. What constitutes ownership of a “significant number of shares”?
 - b. Would such reporting reveal in any way whether such shareholders are part of an “entity” for purposes of KRS 278.020(6)?

RESPONSE:

In most cases, ten days. Pursuant to Section 13(d) of the Securities Exchange Act of 1934 and the related SEC rules, any person who, after acquiring beneficial ownership of a company’s shares, is the beneficial owner of more than 5% of a class of the company’s stock registered under the Exchange Act, is required to send to the company and to file publicly with SEC within ten days after the acquisition a statement containing the information required by the Schedule 13D. “Beneficial owner” is broadly defined as any person who has or shares, directly or indirectly, voting or investment power with respect to a security, whether through contract, arrangement, understanding, relationship or otherwise. The filing requirement of Section 13(d) also applies to any group of persons which agrees to act together for the purpose of holding, voting or disposing of equity securities of the issuer.

Schedule 13D requires a statement of facts relating to the stock and the holdings of the reporting person, the source of funds for the acquisition, any plans that the reporting person has regarding the company (such as an intention to control the issuer) and any understandings with others with respect to securities of the company.

Institutional investors, such as broker-dealers, banks, insurance companies and investment companies and advisors, who cross the 5% threshold but who acquire the securities in the

ordinary course of business and do not intend to exercise control over the issuer, are not required to file a Schedule 13D within ten days of the acquisition. Rather, these holders may file a “short-form” statement on Schedule 13G within 45 days after the end of the calendar year in which the acquisition occurs.

- a. Five percent. Please see above response.
- b. Yes.

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Item No. 9

Witness: Ellen Wolf

9. What would occur in the Petitioners' view if, in fact, the IPO resulted in a person or entity acquiring a controlling interest in AWW as defined by KRS 278.020(6), and the acquisition is void because the prior approval of the Commission was not obtained?
- a. What responsibility, if any, do the Petitioners believe that they would have to correct such a situation?

RESPONSE:

Without a complete understanding of the facts and circumstances involved in the hypothetical presented by this question, Petitioners cannot determine the impact, if any, of such failure of prior approval.

- a. Petitioners believe that they would have no responsibility to correct such a situation because KRS 278.020(6) places the obligation to obtain regulatory approval on the person or entity that acquires a controlling interest.

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Item No. 10

Witness: Ellen Wolf

10. Do the Petitioners anticipate having to seek additional Commission approval in the future in the event that a person acquires a ten percent or more ownership interest in AWW?
- a. State whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that would require a new change of control filing in the event that a future functional or operational reorganization within the proposed corporate family meets the standards contained in KRS 278.020(5) or (6)?
 - b. State all steps that AWW will take to monitor whether any person or entity has acquired or intends to acquire a controlling interest in AWW, and how AWW will assure that prior Commission approval is obtained prior to such control being acquired.

RESPONSE:

Petitioners do not now anticipate seeking any Commission approval in the future for any person that acquires a ten percent or more ownership interest in American Water Works Company ("AWW").

- a. Petitioners do not believe conditions to the approval of the Application/Petition are necessary.
- b. In the ordinary course of business, AWW intends to remain informed about its shareholders and their respective holdings in AWW. The prospectus pursuant to which shares will be sold in the IPO will include disclosure about the relevant statutory restrictions and the consequences of violation. Petitioners have no intention

of permitting any person to acquire controlling interest in AWW through the Proposed Transaction.

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Item No. 11

Witness: Ellen Wolf

11. State the Petitioners current estimate of the closing date for the change of control.

RESPONSE:

No specific date can be determined for the closing date at this time.

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Item No. 12

Witness: Jens Gemmecke

12. State in detail all of the reasons that the Petitioners have chosen to sell AWW through an IPO process as opposed to selling AWW to an existing entity or person. Please include a review of the potential benefits and detriments of the IPO approach, and a complete statement of the reasons why an IPO approach was chosen.
- a. Specifically address whether the Petitioners identified potential regulatory issues with respect to approval of an IPO approach under either KRS 278.020(5) or (6), or under other state acquisition statutes;
 - b. State whether the Petitioners received any other offers for the outright purchase of AWW, and if so, why such offers were rejected in favor of the IPO approach.
 - c. State whether RWE intends to use a similar mechanism to sell off its Thames Water holdings, and if not, why not.:

RESPONSE:

Petitioners are in agreement that pursuit of an initial public offering for AWW is the most attractive option for AWW, its employees and customers. The IPO will result in AWW being a publicly traded company that will be listed on the New York Stock Exchange. For nearly 60 years, AWW was one of the largest publicly-traded water companies in the United States and its shares were listed on the New York Stock Exchange. The IPO is expected to result in AWW becoming the largest publicly-traded water company in the U.S. Like so many utility holding companies, being publicly traded served AWW, its subsidiaries, and their customers and employees well for many years and will again serve them well as a result of the IPO.

a. With respect to KRS 278.020, Petitioners believe that the Kentucky Commission must consider their Application/Petition in accordance with KRS 278.020(5) and (6) as set forth in Petitioners' June 26, 2006 and July 3, 2006 briefs on that issue.

b. RWE did evaluate a sale of AWW to a group of long-term oriented financial investors, but for the reasons stated above, RWE deems the Proposed Transaction to be the most attractive option for AWW. Part of RWE's evaluation was the potential reception of financial investors by state Public Utility Commissions and concerns that have been raised by various PUCs and other sources with a view to such investors, which influenced RWE's decision to proceed with the Proposed Transaction.

c. RWE is also pursuing an IPO for RWE Thames Water plc, its UK water company, which was listed on the London Stock Exchange before it was acquired by RWE. RWE is currently preparing an application for public trading and listing of the shares of common stock of RWE Thames Water plc on the London Stock Exchange. However, in parallel to the IPO preparations for RWE Thames Water plc underway, RWE will continue to explore other options for RWE Thames Water plc given the different legal and regulatory framework in which RWE Thames Water plc operates.

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Item No. 13

Witness: Michael Miller

13. Will any KAW debt be refinanced as a result of the proposed change of control? If, so please provide all relevant information pertaining to such debt, including, but not limited to, the amount and the anticipated increase or decrease, whether such refinancing is mandated as part of the change of control, and the anticipated, effect, if any, on the ratepayers of KAW of such refinancing.
- a. Refer to the Petition, at paragraphs 27-28. In the event that AWW's debt is refinanced at a higher cost than current cost, state whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that such higher debt costs will not be passed on to KAW ratepayers in any way.

RESPONSE:

Yes. Please see response to Item No. 21 of the Commission Staff's First Request for Information.

- a. Conditions are not necessary. The terms of the two notes mentioned above contain a provision for call. The \$24.0 million issue matures in the normal course of business during 2007 and the current rates of Kentucky-American Water Company ("KAW") will continue to be based on the current interest rate until such time as KAWC files for a change in rates. The \$14.0 million, 4.75% issue matures March 1, 2014. This issue will be called early per the terms of the Note before the IPO is issued. It is not possible to ascertain what interest rates will be obtained for any refinancing at this time. The interest rates will be determined by the market conditions at the time of issuance of the replacement debt and should be utilized in determining the weighted cost of debt for KAWC in setting rates in

a future rate increase filing. KAWC is entitled to recover its reasonable cost of capital.

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Item No. 14

Witness: Nick Rowe/Michael Miller

14. In the event that all conditions from the RWE merger cases are removed, as requested by the Petitioners, what assurances, if any, do the ratepayers of KAW have that the change of control will not be detrimental to them?

RESPONSE:

The Proposed Transaction returns KAWC to the same corporate structure that existed prior to the purchase of the common stock of AWW by RWE. KAWC operated without conditions such as those imposed in case 2002-00018 prior to the purchase of AWW by RWE. KAWC will remain under the jurisdiction of the Kentucky Public Service Commission. KAWC will remain subject to Commission rules and regulations, which include the full review of its operations and financial status in general rate filings, certificate of convenience and necessity proceedings and a myriad of other proceedings as required from time to time. KAWC will also remain subject to regulation by the Kentucky Dept. of Environmental Protection (Division of Water & Division of Waste Management), the Kentucky Dept. of Transportation (Division of Highways), OSHA, and numerous other local ordinances. Given the extensive level of regulatory oversight to which KAWC will continue to be subjected, KAWC does not believe that conditions need to be imposed in this proceeding. In addition, KAWC will not be able to change the rates charged to its customers without requesting a new tariff as part of a general rate increase filing which will subject KAWC to the full review of its operations by the Commission, including intervention, discovery and cross examination by all interested parties to the proceeding.

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Item No. 15

Witness: Nick Rowe / Michael Miller

15. Are the Petitioners willing to accept conditions or commitments placed on them by the Commission in order to have the change of control approved? If so, provide a general list of the types of conditions that would be acceptable to the Petitioners. If not, provide a detailed explanation as to why the placement of conditions would not be acceptable.

RESPONSE:

Petitioners do not believe conditions to the approval of the Application/Petition are necessary.

See the responses to Item Nos. 13 and 47 of the Attorney General's First Request for Information and Item Nos. 13 and 14 herein.

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Item No. 16

Witness: Ellen Wolf / Michael Miller / Nick Rowe

16. In its Order of July 10, 2002, in Case No. 2002-00018 (beginning at pg. 10), the Commission listed the following benefits to Kentucky-American's ratepayers from the transfer of control to RWE. For each benefit found by the Commission, please specifically state whether the Petitioners agree that the loss of said benefit through this proposed transaction will be a detriment to KAW's customers, and if not, why not.
- a. "Upon completion of the transaction, KAWC will have access to Thames Aqua's resources and expertise";
 - b. "It will allow KAWC to share best operating practices, increase KAWC's access to technical resources, enhance KAWC's access to capital markets, and derive the benefits of Thames Aqua's research and development programs."
 - c. "It will allow KAWC to draw upon RWE's extensive borrowing power and should reduce KAWC's cost of capital."
 - d. "The proposed transfer of control allows KAWC to access Thames Aqua's experience in the area of security."
 - e. "Clearly, the proposed merger is likely to enhance KAWC's ability to provide reasonable utility service at reasonable rates."

RESPONSE:

- a. Petitioners do not agree that such benefits will be lost. During the more than three years during which RWE owned AWW and its subsidiaries, AWW and its subsidiaries shared knowledge, expertise, and best operating practices. AWW and its operating subsidiaries will continue to utilize such knowledge and best practices to the extent they continue to

provide benefits. Moreover, during the time RWE owned American Water, professional relationships and ongoing communications have been established that will continue in the future, thus facilitating continued knowledge sharing.

- b. No. During the more than three years during which RWE owned AWW and its subsidiaries, AWW and its subsidiaries shared knowledge, expertise, and best operating practices. AWW and its operating subsidiaries will continue to utilize such knowledge and best practices to the extent they continue to provide benefits. Moreover, during the time RWE owned AWW, professional relationships and ongoing communications have been established that will continue in the future, thus facilitating continued knowledge sharing.

By returning AWW's access to the publicly traded U.S. debt and equity markets, the Proposed Transaction should facilitate KAWC's access to the capital markets in comparison to what it would be under continued RWE ownership. See the response to Item No. 41(b) of the Attorney General's First Request for Information.

- c. No. On an ongoing basis, absent the Proposed Transaction, RWE's changing circumstances and focus on its rapidly changing and increasingly capital intensive core European energy markets suggest that RWE will encounter increasing capital constraints, as well as opportunities and risks which would likely increase its cost of capital, all of which could adversely impact AWW and its operating subsidiaries' access to and cost of capital through RWE, should RWE retain ownership of AWW. The Proposed Transaction is designed to facilitate AWW's access to cost-effective capital in comparison to what it would be under continued RWE ownership.
- d. Petitioners disagree that such benefits will be lost. In the aftermath of the September 11, 2001 terror attacks, Thames' greater experience in dealing with such attacks facilitated AWW's planning and response not only to heightened security concerns associated with terrorist attacks, but to the broader concepts of event management response, such as natural disasters. In the over three years RWE has owned AWW, knowledge and best practices have been shared. AWW will continue to use that knowledge to the extent it continues to provide benefits. Moreover, during the time RWE has owned AWW, professional relationships and ongoing communications have been established that will continue in the future, thus facilitating continued knowledge sharing in the future. See the response to Item No. 42(b) to the Attorney General's First Request for Information.
- e. No. For the reasons stated in a-d above, AWW will continue to utilize the knowledge sharing and best practices it has experienced in the last three years that have enhanced KAWC's ability to provide utility service at reasonable rates.

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Item No. 17

Witness: Ellen Wolf / Michael Miller

17. Given that one of the touted benefits of the RWE merger was the ability of AWW and KAW to obtain financing at a lower rate due to RWE's financial power and access to European capital markets, explain in detail whether this will still be the case after the change of control is consummated, and if it is not the case, explain how the loss of this benefit is not a detriment to KAW's ratepayers.

RESPONSE:

When the petition regarding the RWE acquisition was filed in 2002, there was a substantial difference between AWW's ability and cost to obtain financing on the US debt market compared to RWE's standing on the European debt markets. This was due to a variety of reasons, among others:

- The 2001 California power crisis, which raised investor concern vis-à-vis regulated US utilities;
- The bankruptcy of companies such as Enron and Worldcom which raised doubt in the reliability of financial reporting; and
- As generally risk-conscious behavior of investors which translated into high credit spread differentials.

Meanwhile, these issues have been resolved by regulatory and legal action, e.g. the introduction of the Sarbanes-Oxley legislation. Today, the regulated water sector in the US is seen as more stable than the European energy sector where a new wave of consolidation was recently initiated. Investor appetite for debt issued by regulated US utilities has picked up significantly and the absence of a sizeable issuer in the regulated water sector led to an additional scarcity premium. Consequently, the advantage of access to RWE's funding power has narrowed over the past four years. Although RWE still enjoys an extremely good standing in the debt markets, it might suffer going forward from a more cautious investor evaluation of the European energy sector.

See response to Item No. 16(c) herein.

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Item No. 18

Witness: Ellen Wolf / Michael Miller

18. What role does AWW currently play in the operations of its subsidiaries, i.e., what service does it provide its subsidiaries and what do subsidiaries do for the parent company? If this is anticipated to change in any way as result of the change of control, please describe in detail all such changes.

RESPONSE:

AWW is the parent company of KAWC and provides the equity necessary for the KAWC capital structure. The Board of Directors of AWW establishes the policies, guidelines and framework for the corporate operations of AWW and its subsidiaries. The Board of Directors of AWW established American Water Works Service Corporation ("AWWSC") as the vehicle to carry out the various service functions related to operation of a multi-state water and waste water utility as outlined in the Service Company agreement dated January 1, 1989.

The subsidiaries of AWW provide utility and other services in the various jurisdictions where they exist. Those services are provided in a manner that meets or exceeds regulatory requirements and customer expectations.

There is no change anticipated in the relationship between AWW, AWWSC and KAWC as a result of the Proposed Transaction.

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Item No. 19

Witness: Ellen Wolf/Michael Miller

19. What will be the relationship between KAW and AWW, including corporate structure, names and titles, lines of authority, decision making authority vested in each level of control, levels of coordination and linkage between the various operating units, and financial among these entities following the change of control?
- a. Through what mechanisms will AWW invest in KAW?

RESPONSE:

There is no change anticipated in the relationship between AWW, AWWSC and KAWC as a result of the Proposed Transaction. Please see the response to Item No. 18 herein.

- a. AWW will continue to provide the equity for KAWC. American Water Capital Corporation ("AWCC") will continue to obtain debt for the operating subsidiaries of AWW through a pooling of the borrowing needs of the subsidiaries in order to obtain economies of scale.

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Item No. 20

Witness: Nick Rowe / Mike Miller

20. What, if anything, will happen to KAW's current board, officers and senior management as a result of the change of control.
- a. What measures, if any, are being taken to ensure the retention of these persons?
- b. Who (names and identities) will be the board and officers of KAW after the change of control is finalized.

RESPONSE:

No change in KAWC's board of directors, officers, or senior management is expected as a result of the Proposed Transaction.

- a. A retention plan is in place for key employees.
- b. Please see the response to Item No. 32 of the Attorney General's First Request for Information for the list of officers. The current KAWC board of directors are:

<u>Name</u>	<u>Position</u>	<u>Employer</u>	<u>Place of Business</u>
<u>Internal:</u>			
Nick Rowe	Chairman	AWWSC	Lexington, KY
Dan Warnock	Director	AWWSC	Hershey, PA
John Young	Director	AWWSC	Voorhees, NJ
Christopher Buls	Director	AWWSC	Hershey, PA
<u>External:</u>			
Lindsey Ingram, Jr.	Director	Stoll Keenon Ogden	Lexington, KY
Patricia A. Freibert	Director	Former State Repr.	Lexington, KY
William G Sisson	Director	Cen. Baptist Hospital.	Lexington, KY

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Item No. 21

Witness: Nick Rowe / Michael Miller

21. How many employees did KAW have at the end of calendar year 2005? For each of the last 10 years, list the number of employees at the start of the year, the number of positions eliminated, the number of positions added (exclusive of mergers), and the number of new employees gained as a result of mergers.

RESPONSE:

See attached.

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Item No. 22

Witness: Nick Rowe / Michael Miller

22. How many employees does Kentucky-American currently have? For all such employees, a job title and description of duties.
- a. Do the Petitioners anticipate a reduction in any of the employees if the change of control is approved? If so, please explain how many, why, and which types of employees are to be reduced. Please provide a copy of any and all documents that demonstrate a requirement that the number of employees will remain substantially the same if the change of control is approved.
- b. Are the Petitioners willing to accept a condition as part of the approval of the proposed change of control that they will not substantially reduce the existing level of employees provided in the responses above? If so, for what period of time? In the event that such a condition is unacceptable, please state why.

RESPONSE:

See the response to Item No. 46 of the Attorney General's First Request for Information. Also see the attached schedule.

- a. There is no documentation that demonstrates a requirement that the number of employees will remain substantially the same if the Proposed Transaction is approved. See Paragraph 44 of the Application/Petition filed in this case.
- b. As stated in the Application/Petition in this case, there is no anticipated adverse impact on the employee levels of KAWC. As stated in the responses to Item Nos. 13 and 47 of the Attorney General's First Request for Information, KAWC does not believe conditions to the approval of the Application/Petition are necessary. KAWC believes it should be permitted to manage its business in a

manner that allows it to take full advantage of changing business conditions related to service improvements, economies of scale and efficiency gains, and changing technology advances subject to review by the Commission in general rate filings or as otherwise directed by the Commission.

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Item No. 23

Witness: Nick Rowe

23. With reference to Rowe testimony, response to Q. 4, please state which officers are KAW employees, and of the employees, their employment status with KAW – whether full time, part time, or shared time. If shared time, please describe their other duties, and the percentage of their time spent on each.

RESPONSE:

<u>Name</u>	<u>Employer</u>	<u>Status</u>	<u>Other Duties</u>	<u>% to KAWC</u>
Nick Rowe	AWWSC	Shared-time	SE Reg VP-Oper.	14.26%
Herbert A. Miller	AWWSC	Shared-time	TN Corp. Counsel	76.05%
Rachel S. Cole	KAWC	Full-time		100.00%

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Item No. 24

Witness: Ellen Wolf / Michael Miller

24. Do the Petitioners anticipate that there will be any consolidation of management, workforce, facilities, customer service center(s), financial services operations, etc., if the change of control is approved? If so, please explain in detail, particularly as to the KAW.

RESPONSE:

No. AWW and KAWC will continue to look at technological advances and other business conditions that will permit more efficient operating practices and cost effective service improvements.

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Item No. 25

Witness: Ellen Wolf / Michael Miller

25. Explain in detail any and all of the differences in management, services, performance, etc., that any of the Petitioners anticipate will result if the proposed change of control is approved?

RESPONSE:

No changes are anticipated.

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Item No. 26

Witness: Nick Rowe / Michael Miller

26. List each utility acquisition by KAW over the past 5 years, the nature of the business acquired, the purchase date, the purchase terms, the equity portion of the purchase price, the debt portion of the purchase price, the total financing package for each acquisition, the investors who purchased 2% or more of the equity or debt, and the underwriter(s) involved.

RESPONSE:

<u>Name</u>	<u>Business</u>	<u>Date</u>	<u>Terms</u>	<u>Purchase Price</u>
Tri-Village	Water utility	7-30-01	Acq. assets	\$1,685,568
Elk Lake	Water utility	7-16-02	Acq. assets	\$ 89,084
Owenton	Water/Wastewater	9-15-05	Acq. assets	\$2,595,500

The detailed terms of the agreements are included in the purchase agreements filed with the petitions in case numbers 2001-094, 2002-00094 and 2005-00206.

No additional equity was taken directly to finance the acquisitions. Equity ratios were maintained by infusion of retained earnings. The debt issued to finance these acquisitions was issued by KAWC to AWCC. The purchaser of the AWCC debt was RWE. There were no underwriters for these transactions.

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Item No. 27

Witness: Michael Miller / Ellen Wolf

27. How will KAW and AWW finance acquisitions in the future?

RESPONSE:

KAWC and AWW will finance acquisitions through an appropriate mix of additional debt and equity.

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Item No. 28

Witness: Michael Miller

28. How will future acquisitions be treated in future rate cases, and what portion of acquisition costs, premiums, or other such expenses will be recovered through Kentucky-American's rates?

RESPONSE:

Future acquisitions will be treated no different than in past rate cases. If appropriate, KAWC will seek to recover in rates acquisition costs, premiums or other such expenses if the guidelines established in the order of September 11, 1985, in *In the Matter of: An Adjustment of Rates of Delta Natural Gas Company, Inc.*, Case No. 9059, can be demonstrated to justify the rate recovery.

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Item No. 29

Witness: Ellen Wolf / Michael Miller

29. What rate of growth in customers, net income and dividends has been projected for AWW and KAW by the Petitioners?

RESPONSE:

Petitioners object to the portion of this question that seeks Net Income and Customer Growth projections because that portion appears to seek information not relevant nor reasonably calculated to lead to the discovery of admissible evidence and appears to be designed to obtain discovery for use in a potential condemnation proceeding.

Petitioners do not anticipate that dividend policy will change as a result of the Proposed Transaction.

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Item No. 30

Witness: Nick Rowe

30. Provide a copy of each newsletter or other communication sent to employees of KAW and/or AWW regarding the change of control.

RESPONSE:

See response to Item No. 9 of the Commission Staff's First Request for Information.

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Item No. 31

Witness: Nick Rowe

31. List each collective bargaining agreement currently in force with unions representing KAW employees, and its term.

RESPONSE:

<u>Name</u>	<u>Effective Date</u>	<u>Expiration Date</u>
Fireman & Oilers – Local 320	November 1, 2004	October 31, 2007
Fireman & Oilers – Local 320	December 17, 2004	December 16, 2007

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Item No. 32

Witness: Ellen Wolf/Michael Miller

32. Provide the following data for both AWW and each of its divisions and subsidiaries for the year ended December 31, 2005: sales, EBITDA, operation result, operating margin.

RESPONSE:

The information requested pertaining to all subsidiaries of AWW, except for KAWC, is not relevant to this proceeding.

American Water

000 Omitted	<u>Sales</u>	<u>EBITDA</u>	<u>Operating</u> <u>Income</u>	Operating Margin
AWW (See note below) 2004	\$1,908,768	\$675,554	\$461,797	24%
KAWC 2005	\$50,120	\$19,888	\$14,024	28%

Note: The 2005 Annual Report of AWW has not been released by the external auditors for AWW as of the date of this filing. The information pertaining to AWW for 2005 will be provided when it becomes available.

Note: The table above indicates Operating Income which is assumed to be the equivalent to "operation result" included in the request.

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Item No. 33

Witness: Ellen Wolf

33. Provide the following information for AWW's O&M business and other non-regulated activities, as well as for each of its other types of business activities: actual and projected revenue for the period 1998-2008, actual and projected net revenue for the period 1998-2008, actual and projected operating profit for the period 1998-2008, and actual and projected operating margin for the period 1998-2008.

RESPONSE:

The historical information is produced subject to a Motion for Confidential Treatment. The requested projected information is not final and is subject to change. It could be misleading and is of little probative value. Therefore, the projected 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 requested projected information includes commercial or proprietary information, the disclosure of which would permit an unfair advantage to competitors and which could subject certain of the Petitioners to the risk of a possible "gun-jumping" violation.

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Item No. 34

Witness: Ellen Wolf / Jens Gemmecke

34. Provide all studies, reports or calculations either commissioned or prepared internally by any of the Petitioners which discuss the valuation of AWW or KAW.

RESPONSE:

With respect to KAWC, there are no such documents. With respect to AWW, please see the response to Item No. 8 of the Commission Staff's First Request for Information.

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Item No. 35

Witness: Ellen Wolf / Jens Gemmecke

35. Provide all studies, reports or calculations in the possession of the Petitioners or their related companies, regardless of source, which analyze anticipated revenue streams from AWW or KAW.

RESPONSE:

Please see the response to Item No. 34 herein.

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Item No. 36

Witness: Nick Rowe

36. Describe in detail any and all of the anticipated changes (if any), from an operational perspective, that will result to KAW or AWW as a result of the change of control.

RESPONSE

No changes in operations are anticipated at KAWC or AWW as a result of the Proposed Transaction.

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Item No. 37

Witness: Ellen Wolf / Michael Miller / Nick Rowe

37. Explain in detail what differences, if any, that the Petitioners anticipate the typical KAW customer will notice or experience as a result of the change of control. To the extent that any particular type of customer is expected to have a different experience as result of such approval, please explain in detail what and how.

RESPONSE:

The primary benefits the Proposed Transaction will produce are that it will assure AWW and its subsidiaries access to cost effective capital through the public U.S. debt and equity markets and result in entities that will be better able to focus on the water and wastewater industry in the U.S., compared to continued ownership by RWE, which has refocused its corporate strategy on its rapidly changing and increasingly capital intensive core European energy markets. These and other benefits are more fully described in the Application/Petition at pages 10 - 15 and the testimonies of Ellen C. Wolf (pages 10 - 14), Michael A. Miller (pages 3 - 7), and Nick O. Rowe (pages 3 - 11).

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

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Item No. 38

Witness: Ellen Wolf / Michael Miller / Nick Rowe

38. Describe in detail all of the benefits, if any, to KAW's ratepayers that are anticipated to result from the change of control. Are these benefits in any way measurable or quantifiable? List specific examples, if possible.

RESPONSE:

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

Petitioners have made no studies or analyses that would quantify these benefits.

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Item No. 39

Witness: Ellen Wolf / Michael Miller / Nick Rowe

39. Can KAW's ratepayers expect any enhancement over the current existing level of service as a result of an approval of the change of control? If so, please provide a detailed response that includes the specific benefit or benefits to be provided broken down by the type of customer (i.e., residential or business). List specific examples, if possible.
- a. More specifically, will the LFUCG obtain any additional benefit or benefits (level of maintenance, service, types or numbers of products, etc.) as a result of the change of control? If so, please provide a detailed response that includes the specific benefit or benefits to be provided.

RESPONSE:

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

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Item No. 40

Witness: Ellen Wolf / Michael Miller / Nick Rowe

40. From the perspective of each type of KAW customer, how and why is it better for the change of control to be approved than for the current ownership structure to be maintained?

RESPONSE:

The primary reason it is better to approve the Proposed Transaction than for the current ownership structure to be maintained is that it will assure AWW and its subsidiaries access to cost effective capital through the public U.S. debt and equity markets and result in entities that will be better able to focus on the water and wastewater industry in the U.S., compared to continued ownership by RWE, which has refocused its corporate strategy on its rapidly changing and increasingly capital intensive core European energy markets. This benefit, which will enhance KAWC's ability to provide safe and reliable service on a going forward basis, should affect each type of KAWC's customers in a similar way.

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

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Item No. 41

Witness: Ellen Wolf / Nick Rowe / Michael Miller

41. The Petitioners make a number of representations regarding continued technical, managerial, and financial capability. Please provide as much detail as possible, including documentation and specific examples, of all known technical, managerial, and financial changes that will result from the approval of the change of control, with a focus on KAW.
- a. What guarantees, if any, do the ratepayers have that the Petitioners will stand by these representations?
 - b. Are the Petitioners willing to make these representations enforceable by entering into conditions pertaining to them as part of the approval of the proposed transfer? If so, please explain in detail how such conditions should be stated to best ensure meaningful enforceability. If not, please state why the Petitioners are not willing to do so.

RESPONSE:

There are no changes anticipated in the technical, managerial, and financial capability of KAWC as a result of the Proposed Transaction. AWW, after the proposed change of control, will once again be the largest publicly traded water utility in the U. S. In this role, AWW has demonstrated the ability in the past to attract managerial and technical talent capable of maintaining AWW and its subsidiaries as leaders in the water utility business. AWW and KAWC envision no change in the ability to continue to attract the technical, managerial and financial resources to continue its leadership role in the utility industry.

- a. Over 100 years of proven capabilities, and high quality service, as well as, the continued regulatory review of the Commission and many other federal, state and local entities who provide regulatory oversight to KAWC's operations.

- b. Petitioners do not believe conditions are needed in the approval of the Proposed Transaction.

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Item No. 42

Witness: Ellen Wolf / Michael Miller / Nick Rowe

42. Does the Joint Petition contain an exhaustive list of all the ways in which the proposed transfer is "consistent with the public interest" in accordance with KRS 278.020 or KRS 278.218? If not, please describe in greater detail in what ways the approval of the transfer is consistent with the public interest.

RESPONSE:

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

KRS 278.218 does not apply to this proceeding.

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Item No. 43

Witness: Jens Gemmecke / Ellen Wolf / Nick Rowe

43. Provide all analyses performed by any of the Petitioners that describe or quantify the benefits to be achieved by any of the Petitioners through the change of control.

RESPONSE:

See the responses to Item Nos. 8 and 15 of the Commission Staff's First Request for Information.

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Item No. 44

Witness: Ellen Wolf / Michael Miller / Nick Rowe

44. Do the Petitioners believe that the change of control, if approved, will be value enhancing? If so, in what ways, to whom, and in what amounts?

RESPONSE:

Petitioners believe that the Proposed Transaction, if approved, will be value enhancing for all stakeholders as follows:

- The customers will benefit from KAWC's ongoing commitment to secure high quality water supply at reasonable cost and will be able to invest in his water company (see the responses to Item Nos. 37, 38, 39 and 40 herein);
- The potential investor will benefit from a stock that trades within a water sector that has nearly doubled in market capitalization with the return of AWW. This increased liquidity will also attract institutional funds which were not able to invest in the water sector so far;
- KAWC and AWW employees will benefit from the opportunities within a growth oriented utility which will not have to compete internally for funds and management attention;
- Regulators will benefit from the highest possible standard of transparency which comes with the status of a publicly listed company; and
- RWE will benefit as it will be able to make the necessary investments in its core energy business without putting its credit standing at risk.

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Item No. 45

Witness: Ellen Wolf / Michael Miller / Nick Rowe / Jens Gemmecke

45. Provide all Board of Director minutes, and information provided to the Board of Directors of any of the Petitioners, in which the change of control is discussed.

RESPONSE:

See attached. Portions of the documents attached hereto are redacted because they are protected by the attorney-client privilege and attorney work product doctrine. Also, portions of the documents are redacted insofar as they do not relate to the Proposed Transaction, and, therefore, are not responsive to the question. Finally, the minutes for the Supervisory Board of RWE and related materials are not attached hereto because they are being translated from German to English and will be provided as soon as possible.

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Item No. 46

Witness:

46. Please provide separate supplemental documentation, of a substantially similar nature to that provided in Exhibits 5 and 6 to the Original Joint Petition, for each of the Petitioners that are regulated by the Kentucky Public Service Commission, broken down for each such respective Applicant.

RESPONSE:

This question is vague and ambiguous such that it cannot be answered.

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Item No. 47

Witness: Nick Rowe

47. Do the Petitioners anticipate that substantially all of KAW's operations will remain headquartered in Lexington, Kentucky, if the change of control is approved? Please provide a copy of any and all documents that demonstrate that the Petitioners are committed to retaining their Kentucky headquarters in Lexington, Kentucky if the proposed transfer is approved.
- a. Are the Petitioners willing to accept a condition as part of the approval of the change of control that KAW's headquarters will remain in Lexington for the next ten years? In the event that such a condition is unacceptable, please state why.

RESPONSE:

Yes. KAWC has no documentation regarding the continued location of KAWC's headquarters being located in Lexington, KY.

- a. Petitioners do not believe conditions to the approval of the Application/Petition are necessary. See responses to Item Nos. 13 and 47 of the Attorney General's First Request for Information.

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Item No. 48

Witness: Nick Rowe / Michael Miller

48. How many different types of accounts (and of what type) does the LFUCG currently make payments to KAW under? For each account, provide the following information:
- a. The type of account;
 - b. The physical location (address or GPS) of the meter or hydrant; and
 - c. The total amount paid by the LFUCG for each type of account during the last 12 month period.

RESPONSE:

While not relevant, see the attached schedule. The schedule does not include the location of each hydrant. This information has been previously supplied to Fire Chief Robert Hendricks, Major Doug Ingram, Captain Bill Woodward and Fire Marshall James Brannon.

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Item No. 49

Witness: Michael Miller

49. State whether the Petitioners intend to seek recovery of the expenses associated with this proceeding from KAW's 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.

RESPONSE:

No.

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Item No. 50

Witness: Nick Rowe / Michael Miller / Ellen Wolf

50. State whether the Petitioners would agree to a “most favored nations clause” condition as part of the approval of the proposed transfer that would require them to agree to meet or exceed the conditions placed upon any of the Petitioners as the result of the approval of the proposed transfer in other jurisdictions.

RESPONSE:

Petitioners do not believe conditions to the approval of the Application/Petition are necessary. See the responses to Item Nos. 13 and 47 of the Attorney General’s First Request for Information.

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Item No. 51

Witness: Nick Rowe / Michael Miller

51. Describe in detail, in what ways (if any) the change of control is anticipated by the Petitioners to impact any ongoing Commission case involving KAW, including, but not limited to, Case No. 2001-00117.

RESPONSE:

No impact from the Proposed Transaction is expected regarding any ongoing Commission case involving KAWC.

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Item No. 52

Witness: Nick Rowe

52. One of the claimed benefits of the proposed RWE merger for employees was that it would allow KAW and AWW employees to gain experience in an international utility supply organization and have employment and career advancement opportunities in such a broad organization.
- a. Please state whether any other KAW employees received the benefit of being part of the international RWE organization. If so, please provide a description of the benefits received;
 - b. Please state whether the Petitioners agree that the loss of this benefit or potential benefit is a detriment to KAW's employees, and if not, explain in detail why it is not.

RESPONSE:

a. & b. In the over 3-years since RWE acquired AWW, some KAWC employees were able to participate in leadership development programs, and other meetings and knowledge sharing activities that were sponsored by RWE or Thames where they were able to gain information from colleagues with international experience. While KAWC will no longer be affiliated with RWE or Thames after the Proposed Transaction, the knowledge acquired by such employees will remain after the Proposed Transaction. Moreover, during the time RWE owned AWW, professional relationships and ongoing communications have been established that will continue in the future, thus facilitating continued knowledge sharing.

On a going forward basis, with regard to career advancement opportunities, Petitioners do not agree that the Proposed Transaction is a detriment to KAWC employees. While the AWW system resulting from the Proposed Transaction may not be as large as RWE, it will be focused on the maintenance growth and development of the water and wastewater industry in the U.S. It

will be able to make its own strategic plans and investment decisions unencumbered by the goals, strategy, and competing capital requirements of RWE (and its affiliates) which has decided to focus on its core European energy markets. A divested, publicly traded AWW is therefore likely to enhance employee career advancement opportunities in the water and wastewater industries as opposed to what they would be if AWW and its subsidiaries remain fourth or fifth tier subsidiaries of a parent that is no longer focused on those industries as a core activity.

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Item No. 53

Witness: Michael Miller

53. KAW Witness Miller suggests that accelerated rate recovery treatment for KAW to finance KAW's recently announced "go it alone" water supply deficit solution should be considered.
- a. Is KAW suggesting that the Commission should adopt any of these ratemaking mechanisms as a part of this proceeding?
 - b. Does KAW's go it alone solution require such accelerated cost recovery, or is KAW capable of financing its plan under its current ratemaking treatment for capital investment?
 - c. What impact, if any, does KAW's current financial condition have on KAW's ability to finance its go it alone water supply plan without accelerated recovery as suggested by Mr. Miller? Will this change in any way as result of the change of control? If so, how?

RESPONSE:

- a. No. See the response to Item No. 31 of the Attorney General's First Request for Information.
- b. KAWC is capable of financing the construction either way, however, as explained in Mr. Miller's testimony at questions 14 to 18 there are compelling issues that the Commission should consider regarding innovative rate treatment for a project that essentially doubles the rate base of KAWC. Those issues are rate shock to the customers, least long-term cost for the customers, and the cash impact on KAWC under traditional rate making methods.

- c. The Proposed Transaction has no impact on the current financial issues facing KAWC. See the response to Item Nos. 30 and 31 of the Attorney General's First Request for Information. The financial performance of KAWC since the previous change of control has not been strong or acceptable and the rate filing moratorium imposed in case 2002-0018 contributed to those unacceptable results. KAWC, like any other utility, must be provided the opportunity to achieve its cost of capital as determined by the Commission. Any utility, KAWC being no different, must provide a reasonable return to its investors if it is to continue to attract the capital at reasonable rates necessary to carry out its public service obligation. KAWC does not believe a rate filing moratorium as a condition in this case is necessary, and believes such a condition would be detrimental to KAWC, its customers, and would not enhance the ability of KAWC to provide the solution to its source of supply deficit.

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Item No. 54

Witness: Michael Miller

54. With reference to the Petition, paragraph 30, state whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that no additional costs for changes as described in this paragraph will be passed on to KAW ratepayers in any way.

RESPONSE:

Petitioners do not believe conditions to the approval of the Application/Petition are necessary.

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Item No. 55

Witness: Ellen Wolf / Michael Miller

55. State whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that will prevent any additional costs for SEC compliance from being passed on to KAW ratepayers in any way.

RESPONSE:

Petitioners do not believe conditions to the approval of the Application/Petition are necessary.

SEC compliance is a requirement for companies that want to access the US Capital Markets for their funding needs. Since AWW is the source of equity financing, and AWCC is the source of debt financing for the AWW subsidiaries, KAWC will benefit from AWW being able to access the Capital Markets, therefore it would not be proper to exclude costs of SEC compliance from KAWC's rate base.

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Item No. 56

Witness: Ellen Wolf

56. Provide a resume for witness Wolfe, including dates of service as Senior Vice-President and CFO of USEC, Inc.

RESPONSE:

See attached.

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Item No. 57

Witness: Michael Miller

57. State whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that will continue to restrict the payment of dividends to AWW similar to the condition restricting payments of dividends adopted in Case No. 2002-00018.

RESPONSE:

Petitioners do not believe conditions to the approval of the Application/Petition are necessary. See responses to Item Nos. 13 and 47 of the Attorney General's First Request for Information and Item Nos. 15 and 22 herein regarding the imposition of conditions in this case. Petitioners see no reason to impose conditions regarding KAWC's long-standing dividend policy.

See responses to Item Nos. 25 and 37(a) of the Attorney General's First Request for Information regarding the continuance of KAWC's long-standing dividend policy.

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Item No. 58

Witness: Ellen Wolf / Michael Miller

58. With reference to Wolfe testimony, Q. 19, State whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that will prevent Sarbanes-Oxley costs being passed through to KAW customers (since these costs would not be incurred absent the sale of AWW by RWE).

RESPONSE:

See response to Item No. 55 herein.

One of the key additional costs that AWW will incur as a publicly traded company are costs to comply with The Sarbanes-Oxley Act of 2002 (said compliance is required for all publicly traded companies). Of note, AWW would have had to ultimately implement many of the internal controls, governance and other features of Sarbanes-Oxley for reasons independent of the Proposed Transaction. Such features have become a key area of interest for certain state regulators, banks, financial institutions and other sources of debt which require controls of the type required by Sarbanes-Oxley for privately held companies. Sarbanes-Oxley compliance, however, is required for publicly-traded companies, and the Proposed Transaction will accelerate AWW's implementation of its provisions. Since KAWC will benefit from AWW being an SEC publicly traded company, it would not be appropriate to exclude Sarbanes-Oxley costs from KAWC's rate base.

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Item No. 59

Witness: Ellen Wolf / Michael Miller

59. With reference to Wolfe testimony, Q. 33 and 35, state what “minimal impact” the transaction will have on KAW’s rates or rate structure, and define “minimal impact” as used in the testimony.

RESPONSE:

The term minimal was used to indicate the possibility of small positive or negative impacts on the future cost of service of KAWC related to the Proposed Transaction. The rates of KAWC cannot change until a tariff is filed before the Kentucky Commission, which would be subject to full review by the Commission and any interveners.

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Item No. 60

Witness: Nick Rowe

60. With reference to Rowe testimony, Q. 23, since none of the best practices described herein are proprietary, please explain why it was necessary for KAW to be part of the Thames or RWE system to have access to these practices.
- a. Will AWW and KAW lose access to best practices as developed at Thames or RWE in the future as a result of this transfer?

RESPONSE:

Without the business relationship between AWW, Thames, KAWC and RWE, KAWC would not have had access to those best practices.

- a. KAWC and AWW will no longer have access to future RWE and Thames information after the completion of the transaction. However, during the time RWE owned AWW, professional relationships and ongoing communications have been established that will continue in the future, thus facilitating continued knowledge sharing. See the response to Item No. 52 herein.