

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 COMMISSION STAFF'S
FIRST INFORMATION REQUEST DATED JUNE 27, 2006

Item No. 1

Witness: Ellen Wolf

1. List and describe each disclosure and governance requirement of federal securities laws to which AWWC will be subject upon becoming a publicly traded company. For each listed requirement, state whether that requirement will also apply to KAWC.

RESPONSE:

The disclosure and governance requirements of the federal securities laws are far too voluminous to list and describe in this response. For a brief summary of the main reporting requirements imposed upon U.S. public companies, please see attached. In addition, for access to the entire body of disclosure and governance requirements, please see the following website:

<http://www.sec.gov/about/laws.shtml>

While these requirements will have to be met formally by American Water Works Company ("AWW"), Kentucky-American Water Company ("KAWC"), as one of its subsidiaries, will need to comply at a local level with the different requirements such that the consolidated AWW will be able to fulfill its SEC obligations.

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Item No. 2

Witness: Ellen Wolf

2. List and describe each disclosure and governance requirement of the New York Stock Exchange ("NYSE") to which AWWC will be subject upon becoming a publicly traded company traded on that exchange. For each listed requirement, state whether that requirement will also apply to KAWC.

RESPONSE:

The disclosure and governance requirements of the NYSE that AWW will be subject to are far too voluminous to list and describe in this response. For a brief summary of the main NYSE requirements imposed upon listed companies, please see attached. In addition, for access to the entire body of disclosure and governance requirements, please see the following website:
<http://www.nyse.com/Frameset.html?displayPage=/about/listed/1022221393251.html>

While these requirements will have to be met formally by AWW, KAWC, as one of its subsidiaries, will need to comply at a local level with the different requirements such that the consolidated AWW will be able to fulfill its SEC obligations.

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Item No. 3

Witness: Ellen Wolf / Michael Miller

3. a. Estimate the annual cost to AWWC to comply with the federal securities laws and NYSE disclosure requirements listed in Items 1 and 2.
- b. Of the compliance costs listed above, estimate the amount that will be allocated to KAWC.
- c. Provide all workpapers, show all calculations and state all assumptions used to estimate the disclosure costs.

RESPONSE:

- a. To list in the NYSE, AWW will pay approximately \$250,000 (assuming 100 million shares) and an annual fee of approximately \$100,000. AWW's latest estimate to comply with Sarbanes-Oxley (which compliance is needed to list as a publicly traded company), are \$2MM per year for the first year of post IPO ownership, decreasing to \$1MM per year afterwards.
- b. The costs will be allocated in conformance with the existing agreement between American Water Works Service Company ("AWWSC") and KAWC. These costs are expected to minimal for KAWC.
- c. See attached. Further, the amount for disclosure costs is based upon verbal guidance received from external auditors PriceWaterhouseCoopers.

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Item No. 4

Witness: Ellen Wolf / Mike Miller

4. a. List and describe the "Sarbanes-Oxley" related requirements that AWWC will be subject upon becoming a publicly-traded company. For each listed requirement, state whether that requirement will also apply to KAWC.
- b. Estimate the annual cost to AWWC to comply with the "Sarbanes-Oxley" disclosure requirements listed in Item 4(a). Provide all workpapers, show all calculations, and state all assumptions used to estimate the disclosure costs.

RESPONSE:

- a) See attached book titled "Corporate Responsibilities of Public Companies", from RR Donnelley Capital Markets in conjunction with Edwards Angell Palmer & Dodge LLP. The publication includes Sarbanes-Oxley requirements as well as Listing Requirements for Stock Exchanges, Rules for Disclosing Non-Public Information (Reg FD), and Periodic and Current Reporting guidelines including certification of financial statements. While the Sarbanes-Oxley requirements will have to be met formally by AWW, KAWC is one of its subsidiaries and will need to comply at a local level with those requirements such that the consolidated AWW will be able to fulfill its SEC obligations. Also see response to Item No. 1 herein.
- b) See the response to Staff Item 3.a.

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Item No. 5

Witness: Ellen Wolf

5. State the specific date that Joint Petitioners currently expect to file the initial Securities Exchange Commission ("SEC") registration.

RESPONSE:

No specific date can be determined at this time. It is anticipated that this initial filing will not occur before late 2006.

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Item No. 6

Witness: Ellen Wolf

6. Provide a copy of the initial SEC registration when such filing is made with the SEC.

RESPONSE:

Petitioners will comply with this request.

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Item No. 7

Witness: Ellen Wolf

7. a. List all regulatory and governmental approvals that Joint Petitioners, either individually or collectively, must obtain for the proposed transfer and public offering.
- b. For each approval listed in response to Item 7(a), provide a copy of the application or other filing, state the date when the application or initial filing was made or is expected to be made, and the expected date of a final decision on the application or filing.
- c. Provide a copy of each regulatory or governmental approval within 10 days of the issuance of such approval.

RESPONSE:

a. and b. Filings have or will be made with the following federal and state authorities before the Proposed Transaction can be consummated¹:

U.S. Securities and Exchange Commission: On March 24, 2006, RWE announced its plans to sell the shares of American Water in an Initial Public Offering and stated that the target is to complete the transaction during 2007.

State of Delaware, Secretary of State: filing must be made re merger.

¹ The listing herein is without prejudice to the Petitioners' position that the Proposed Transaction may not be subject to the jurisdiction of certain state commissions where one or more of the Petitioners has filed seeking either a determination of no jurisdiction or, in the alternative, approval.

Arizona Corporation Commission: filed on April 25, 2006; no required time for decision.

California Public Utilities Commission: filed on May 22, 2006; no required time for decision.

Hawaii Public Utilities Commission: filed on April 21, 2006; Decision and Order approving same issued on June 5, 2006. See response to Item No. 1 for copy.

Illinois Commerce Commission: filed on April 21, 2006; required time for Order is 11 months from filing which may be extended.

Kentucky Public Service Commission: filed on June 5, 2006; required time for decision is 60 days from filing which may be extended an additional 60 days.

Maryland Public Service Commission: filed on April 21, 2006; The Commission noted the Transaction on May 24, 2006. See response to Item 1 for copy.

New Jersey Board of Public Utilities: filed on May 23, 2006; no required time for decision.

New Mexico Public Regulation Commission: filed on May 22, 2006; no required time for decision.

New York Public Service Commission: filed on April 21, 2006; no required time for decision.

Pennsylvania Public Utility Commission: filed on May 5, 2006; no required time for decision.

Tennessee Regulatory Authority: filed on April 21, 2006; Approved on June 26, 2006. See response to Item 1 for copy of transcript.

Virginia State Corporation Commission: filed on April 21, 2006; required time for decision is 60 days from filing which may be extended for an additional 120 days.

West Virginia Public Service Commission: filed on May 8, 2006; no required time for decision.

The time for regulatory approvals will vary from state to state based on each commission's rules, regulations, and independent assessment of the matter. Required regulatory timeframes, where applicable, are set forth above. For states where there is no required time for a decision, it is difficult to predict how long the proceeding will take. However, a reasonable estimate could be six months. Additional time may be necessary depending on the number of interveners, Commission workload and other factors.

The documents responsive to part (b) of this request are extremely voluminous and, therefore, are not filed herewith. However, upon request, Petitioners will provide a CD containing those documents as .pdf files.

c. Petitioners will provide copies of each regulatory or governmental approval as requested. Copies of approvals for Hawaii, Maryland and Tennessee are attached.

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Item No. 8

Witness: Ellen Wolf / Jens Gemmecke

8. Provide all reports related to the proposed merger and public offering that Joint Petitioners, either collectively or individually, have received from their financial advisers.

RESPONSE:

Petitioners have not received a report related to the proposed merger. Relating to the public offering, attached please find copies of presentations made to AWW and RWE by their financial advisers, Goldman Sachs. These presentations are being submitted subject to a Motion for Confidential Treatment. In addition, the April 21, 2006, presentation has been redacted to protect from disclosure information which is protected by the attorney-client privilege and the work product doctrine.

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Item No. 9

Witness: Ellen Wolf / Michael Miller / Nick Rowe

9. Provide all materials that Joint Petitioners have provided to AWWC or AWWC-affiliated employees about the proposed merger and public offering.

RESPONSE:

Other than the documents attached hereto, no documents have been provided to all employees of AWW or AWW-affiliated employees.

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Item No. 10

Witness: Jens Gemmecke / Ellen Wolf

10. a. List the costs related to the proposed common stock sale that Thames and/or RWE has incurred as of the date of this Order.
- b. List the costs related to the proposed common stock sale that AWWC has incurred as of the date of this Order.
- c. List the total costs related to the proposed common stock sale that Thames and/or RWE expect to bear.
- d. List the total costs related to the proposed common stock sale that AWWC expects to bear.

RESPONSE:

- (a) As of the date of this Order (June 27, 2006), Thames and RWE have incurred c.€4.6 million (c.USD 5.6 million) costs related to the Proposed Transaction.
- (b) As of the date of this Order (June 27, 2006), AWW has incurred approximately \$500,000 in costs related to the Proposed Transaction.
- (c) As of the date of this Order, Thames and RWE expect to incur total costs related to the Proposed Transaction of approx. €10 million (approx. USD 12 million).
- (d) As of the date of this Order (June 27, 2006), AWW expects to incur total costs related to the Proposed Transaction of \$11 million.

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Item No. 11

Witness:

11. Compare Joint Petitioners' estimate of the price per share that Thames expects to receive for the common stock offering of AWWC with the per share price RWE/Thames originally paid for the AWWC common stock. Provide all workpapers, show all calculations, and state all assumptions used to estimate the initial offering stock price.

RESPONSE:

The per share price is determined by the market capitalization divided by the number of shares outstanding. No decision has been made so far regarding the number and denomination of shares going into the IPO, this being more of a technical, marketing driven decision rather than being related to the share price RWE/Thames paid in 2003. Any comparison of the two would therefore be inappropriate.

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Item No. 12

Witness: Jens Gemmecke

12. Compare Joint Petitioners' estimate of the total amount that Thames will receive for the sale of AWWC common stock with the total amount that was originally paid for AWWC. Provide all workpapers, show all calculations, and state all assumptions used to derive these estimates.

RESPONSE:

The total amount that Thames will receive will depend on multiple factors, including, among others, the outcome of the marketing process and the conditions of the stock markets at the time of the offering. If RWE/Thames were to pursue a multiple step approach with subsequent offerings following the IPO, the price RWE/Thames would receive may vary from offering to offering. Given recent market volatility, Petitioners are currently unable to provide a good estimate regarding the price that RWE/Thames may receive during any subsequent public offering because the factors determining the pricing at the time of any such offering are the same factors that will determine the pricing at the time of the IPO.

It might serve as an indication of Petitioners estimate of the total proceeds to be expected from the Proposed Transaction that RWE AG took an impairment charge of €759 million on the book value of Thames Water Aqua US Holdings Inc. as per 12-31-2005.

See materials provided pursuant to Item No. 8 herein.

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Item No. 13

Witness: Jens Gemmecke

13. Provide all letters, analyses, notes, memoranda, studies, and related documents that Thames and/or RWE prepared or commissioned that discuss the estimated price of AWWC common stock.

RESPONSE:

See response to Item No. 12 herein.

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Item No. 14

Witness: Jens Gemmecke

14. Provide a detailed narrative chronology of the proposal for a public offering of AWWC's common stock beginning with the proposal that was first presented to RWE management.

RESPONSE:

After a first internal discussion on its May 31, 2005, meeting, the Executive Board of RWE initially discussed its idea of a change in corporate strategy with the Supervisory Board of RWE on September 16, 2005. Following that discussion, the Executive Board further explored such change in strategy, and discussed this further with the Supervisory Board of RWE on November 4, 2005. After that meeting, RWE publicly announced that it intended to sell the water business of RWE, Thames Water in the UK as well as that of AWW in North America, and that it would initiate the exit process by evaluating various divestment alternatives for AWW. Options were to include an initial public offering as well as a sale of AWW to a group of long-term financial investors. It further noted that both the North American and UK transaction will be subject to the approval of the RWE Supervisory Board as well as to regulatory approvals. On March 24, 2006, RWE announced that the Executive Board of RWE had decided to pursue an initial public offering in the U.S. for the shares of AWW.

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Item No. 15

Witness: Jens Gemmecke

15. Provide all materials regarding the public stock offering that Joint Petitioners, AWWC, or RWE have submitted to:
- a. Investment firms,
 - b. Credit rating agencies,
 - c. RWE Shareholders; and
 - d. RWE, Thames, or AWWC Employees.

RESPONSE:

- (a) AWWC has submitted no material regarding the public stock offering to investment firms. A copy of the request for proposals sent by RWE to investment firms is attached.
- (b) Concerning materials regarding the public stock offering submitted to credit rating agencies, attached please find:
Presentation to Standard & Poor's and Moody's Investors Service on the occasion of the announcement of the sale of the water division held by RWE in London November 02, 2005; and
Annual presentation to Standard & Poor's and Moody's Investors Service held by RWE in Essen March 2006.

Information relating to RWE's core European energy business has been redacted from the attached documents because such information is not responsive to this data request and includes commercial or proprietary information, the disclosure of which

would permit an unfair advantage to competitors of RWE. The grounds for redaction of the information is that it is unresponsive in that it does not relate to the public stock offering, not that it is confidential.

- (c) Please see the attached presentation to RWE shareholders.
- (d) Please see the response to Item No. 9 herein.

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Item No. 16

Witness: Ellen Wolf

16. a. Provide the Standard & Poor's ratings for American Water Capital Corporation ("American Capital") from its conception until the second quarter of calendar year 2006. List all changes (up- or down-grades) in the Standard & Poor's ratings during this period and state the reasons for each rating change.
- b. Explain why Standard & Poor's placed American Capital upon the "negative credit watch."

RESPONSE:

- a. Standard & Poor's issuer ratings for American Water Capital Corporation ("AWCC") from its conception until the second quarter of calendar year 2006 were:

S&P – Corporate Credit Rating

<u>Date</u>	<u>Rating</u>	<u>Outlook</u>
07 Nov 2005	A-	Watch Neg
30 Dec 2003	A	Negative
15 Jul 2003	A	Negative
17 Sep 2001	A-	Watch Positive
21 Sep 2000	A-	Stable
19 Jun 2000	A-	Stable

Both the 2003 upgrade and the 2005 downgrade were related to the RWE acquisition and the RWE divestment announcement, respectively.

b. In their 07-Nov-2005 Research Update S&P writes:

“The rating action follows the announcement made by RWE of its intention to sell its U.K. and U.S. water businesses and reflects the weaker, stand-alone credit quality of AWCC, absent RWE's support. Standard & Poor's will meet with American Water's management to discuss in detail the effect of this announcement, especially in relation to the future strategic direction, financial policy, capital structure, liquidity, and funding of the company. The CreditWatch listing on AWCC is not expected to be resolved until the completion of the sale, due to the greater amount of uncertainty regarding the future plans for the American Water operations versus those of the U.K. water business, RWE Thames Water PLC (A/Watch Neg/A-1).”

It is not unusual for rating agencies to put companies on credit watch if major events such as mergers, divestments, restructurings, regulatory actions or anticipated operating developments are upcoming. The fact that S&P explicitly states that the credit watch is not expected to be resolved until the completion of the deal makes it clear that this is related to the inherent uncertainty during the process rather than concerns about the credit quality of AWW and/or AWCC.

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Item No. 17

Witness: Ellen Wolf

17. a. Provide the Moody's Investors Service, Inc. ("Moody's") ratings for American Capital from its conception until the second quarter of calendar year 2006. List all changes (up- or down-grades) in Moody's ratings during this period and state the reasons for each rating change.
- b. Explain why Moody's placed American Capital on the "negative outlook" list.

RESPONSE:

- a. Moody's issuer ratings for AWCC from its conception until the second quarter of calendar year 2006 were:

Moody's – Senior Unsecured Rating

<u>Date</u>	<u>Rating</u>	<u>Outlook</u>
04 Nov 2005 ¹	Baa1	Negative
07 Jun 2004	Baa1	Negative
26 Nov 2003	Baa1	Possible Downgrade
20 Dec 2002	Baa1	Stable
17 Sep 2001	Baa1	Possible Upgrade
12 Feb 2001	Baa1	n.a.
23. Jul 00	Baa1	RATING ASSIGNED

- b. Moody's put AWCC on credit watch for possible downgrade on 11-26-2003, saying:

¹ Implicit. No rating action on AWCC following the announced divestment.

“The rating review reflects declining margins and cash flow coverages, which result from regulatory lag in recouping operating and capital expenditures at the regulated utility subsidiary, and an increase in adjusted funded debt.”

In the 06-07-2004 report which replaced the credit watch for possible downgrade with the (less rigorous) negative outlook Moody’s wrote:

“The negative rating outlook reflects the possibility that American Water Capital's ratings could be downgraded if regulators do not approve rate increases of sufficient magnitude to improve AWW's consolidated cash flow coverages to a level that is more commensurate with the rating category. The negative outlook is also influenced by the negative rating outlook for RWE, whose ratings are a meaningful consideration for the rating of AWCC.”

See attached.

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Item No. 18

Witness: Ellen Wolf / Michael Miller

18. Refer to the Application/Petition at Paragraph 29.
- a. List the publicly-traded utilities to which Joint Petitioners are referring and provide the capital structure as of December 31, 2005 for each listed utility.
 - b. Describe AWWC's expected capital structure following the common stock offering.
 - c. Describe how AWWC's expected capital structure will affect KAWC's operations.

RESPONSE:

- a. See table attached.
- b. AWW targets a capital structure with a debt to equity ratio in the range of 45-55% debt to 45-55% equity or equity like instruments (rating agency definition).
- c. No change to KAWC's operations is expected. The expected capital structure of AWW supported by a reasonable cash flow profile will result in a solid investment grade company which will provide ready and cost-efficient access to capital markets to AWW and KAWC through AWCC.

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RESPONSES TO COMMISSION STAFF'S
FIRST INFORMATION REQUEST DATED JUNE 27, 2006

Item No. 19

Witness: Ellen Wolf

19. At Paragraph 29 of the Application, Joint Petitioners state that “American Water’s objectives in designing this capital structure will be to provide ready and cost-efficient access to necessary capital and maintain a solid investment grade rating for AWCC [American Capital].” Describe in detail how AWWC’s capital structure will affect American Capital’s ability to access capital, cost of capital, and investment grade rating.

RESPONSE:

See attached PDF file “Standard & Poor’s Corporate Ratings Criteria.”

A company’s capital structure forms part of the mosaic of items that firms like S&P use to derive an appropriate rating for a company. Of note, among the many instances where capital structure is mentioned in the attached PDF file as part of the ratings methodology, page 20 mentions capital structure as part of the Business Risk and Financial Risk categories that underpin a particular rating. Also, page 27 describes the effect of capital structure on the different ratios that are analyzed (page 27), and page 30 highlights the role of higher debt implying lower credit quality.

COMMONWEALTH OF KENTUCKY
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THAMES WATER AQUA US HOLDINGS, INC.,) CASE NO. 2006-00197
AND AMERICAN WATER WORKS COMPANY,)
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Item No. 20

Witness: Ellen Wolf

20. Describe the effect that AWCC's separation from RWE will have on AWCC's ability to attract capital and the cost that AWCC will pay for such capital.

RESPONSE:

In the past, AWCC has issued debt in both the public market and to RWE. Because RWE has revised its core business focus to be on the European power and energy markets and has decided to dispose of its water business, RWE is not expected to be a future source of debt capital for AWCC.

AWCC's separation from RWE will not impact AWCC's ability to attract capital. Following the Proposed Transaction, AWCC will be able to access the US Investment Grade Debt Capital Markets.

Refinancing costs post-transaction will vary according to market conditions at the time the capital will be raised.

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Item No. 21

Witness: Ellen Wolf / Michael Miller

21. At Paragraph 30 of the Application, Joint Petitioners state that “[i]n certain instances, the refinancing of AWCC’s debt with RWE may require changes in the terms of the inter-company debt between AWCC and KAWC.” Identify the instances where the refinancing of AWCC’s debt will change the terms of the inter-company debt.

RESPONSE:

AWCC will be refinancing all of the existing debt with RWE in the public markets. Specifically for KAWC, the \$24.0 million, 5.65% debt issue matures on June 12, 2007. This issue may be called early per the terms of the Note. An early call ultimately depends on the timing of the Proposed Transaction. 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 Proposed Transaction.

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Item No. 22

Witness: Ellen Wolf

22. At paragraph 43 of the Application, Joint Petitioners state that the “Proposed Transaction should facilitate the attraction and retention of highly-qualified and capable employees who will be drawn to working for a prestigious, high-profile, publicly-traded company.” State whether AWWC experienced difficulty in either attracting or retaining qualified employees due to its affiliation with Thames and RWE. If difficulties were experienced, describe these difficulties.

RESPONSE:

AWW has not experienced difficulty attracting and retaining highly-qualified and capable employees due to its affiliation with Thames and RWE. Nevertheless, becoming a publicly traded US company will provide the advantage of candidates and employees being able to more easily identify with the company, obtain relevant company information and provide opportunities for company ownership. Such advantages could enhance AWW’s ability to improve the company’s recognition and image in the recruiting markets.

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Item No. 23

Witness: Ellen Wolf

23. Identify any measures that AWWC has implemented or plans to implement to ensure that either key current management personnel are retained or that qualified successors will be recruited.

RESPONSE:

AWW has implemented a special retention bonus for key management personnel to provide an incentive for them to remain with the company for a specified period. AWW has an active and ongoing recruitment program.

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Item No. 24

Witness: Ellen Wolf

24. In Case Nos. 2002-00018 and 2002-00317,¹ Joint Petitioners in support of RWE's acquisition of AWWC argued that RWE's acquisition would allow KAWC greater access to world capital markets. Describe how the proposed transaction will affect KAWC's and AWWC's access to world capital markets.

RESPONSE:

RWE has revised its core business focus to be on the European power and energy markets, and therefore RWE is not expected to be a future source of debt capital for AWWC. As a publicly traded company, AWW will be able to access world capital markets as a standalone company if financing rates are more favorable than US markets. AWWC, as the financing arm of AWW, will also be able to access world capital markets if rates warrant such action.

¹ Case No. 2002-00018, Application for Approval of the Transfer of Control of Kentucky-American Water Company to RWE Aktiengesellschaft and Thames Water Aqua Holdings GmbH; Case No. 2002-00317, The Joint Petition of Kentucky-American Water Company, Thames Water Aqua Holdings GmbH, RWE Aktiengesellschaft, Thames Water Aqua US Holdings, Inc., Apollo Acquisition Company and American Water Works Company, Inc. For Approval of a Change of Control of Kentucky-American Water Company.

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Item No. 25

Witness: Nick Rowe

25. In Case Nos. 2002-00018 and 2002-00317, Joint Petitioners in support of RWE's acquisition of AWWC argued that RWE's acquisition would allow KAWC access to Thames' significant knowledge and expertise on security matters. State whether the proposed transaction, which will sever KAWC's connections with Thames, will restrict or reduce KAWC's present security knowledge and expertise. Explain.

RESPONSE:

The separation of AWW from RWE Thames Water will not restrict or reduce KAWC's security knowledge or expertise. 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. 26

Witness: Ellen Wolf

26. In their Application/Petition, Joint Petitioners stress the benefits of AWWC being subject to the disclosure and governance requirements of federal securities laws and NYSE rules. Compliance with such requirements generally benefits investors. List and describe the benefits of compliance with such requirements for KAWC customers who are not investors.

RESPONSE:

Customers who do not wish to own AWW shares can also benefit from AWW's public company status. Oversight Systems Inc., one of the leading companies in dealing with the integrity and accuracy of financial reporting, in its 2006 Financial Executive Report On Sarbanes-Oxley Compliance (a nationwide survey of 222 financial executives) reports that under Sarbanes-Oxley mandated processes there has been:

- 1) Clear accountability of financial controls and operations;
- 2) Reduced errors in financial operations;
- 3) Increased accuracy of financial reports;
- 4) Decreased risk of financial fraud;
- 5) Empowered the Board's Audit Committee by providing it with deeper information; and
- 6) Strengthened investors view of the Company.

Information about the company will also be available in the SEC's web site to any ratepayer. Form 10K is an annual report that discloses comprehensive information about a company. Historically, Form 10K has been due 90 calendar days after the end of the company's fiscal year. To provide the public with information on an accelerated timetable, the timing for the 10Q has changed from 45 days to 40 days, and the 10K timing from 90 days to 60 days, although AWW 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.

Form 8K is a report that is required to be filed when certain specified reportable events occur. Generally, a Form 8K must be filed with the SEC within four business days of the occurrence of a material event.

All these processes and controls should make customers more comfortable with AWW as its water utility provider.

The complete Oversight Systems report on Sarbanes-Oxley is attached as a .pdf file.

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Item No. 27

Witness: Jens Gemmecke

27. At Paragraph 50 of the Application, Joint Petitioners state that “RWE has no intention of permitting any person to acquire a controlling interest in American Water through the proposed transaction.”
- a. Define “controlling interest” as used in the above statement.
 - b. Describe how RWE will ensure that no person will acquire a controlling interest in AWWC.
 - c. Identify the stage in the initial offering process in which Joint Petitioners will know if a person is interested in acquiring 10 percent or more of the AWWC common stock and describe the actions that Joint Petitioners may take at that time to prevent such acquisition.

RESPONSE:

- a. Please see KRS 278.020.
- b. RWE has no intention of permitting any person to acquire controlling interest in AWWC through the Proposed Transaction. The prospectus pursuant to which shares will be sold in the IPO will include disclosure about the relevant statutory restrictions and the consequences of a violation.
- c. There is no way for the Petitioners to know if a person is interested in acquiring 10 percent or more of the AWW common stock. The prospectus pursuant to which shares will be sold in the IPO will include disclosure about the relevant statutory restrictions and the consequences of a violation. See response to Item No. 8 of the LFUCG’s First Request for Information.