BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Petition of HAWAII-AMERICAN WATER COMPANY For a Declaratory Ruling Regarding Hawaii Revised Statutes Sections 269-7, 269-17, 269-17.5, 269-18 and 269-19, or, in the Alternative, for Approval of Proposed Transaction.	DOCKET NO. 2006-0095

DECISION AND ORDER NO. 22511

Filed June 5, 2006

At 11 o'clock A .M.

per Eleanor R. Tsuzaki
Chief Clerk of the Commission

BEFORE THE PUBLIC UTILITIES COMMISSION

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In the Matter of the Petition of HAWAII-AMERICAN WATER COMPANY For a Declaratory Ruling Regarding Hawaii Revised Statutes Sections 269-7, 269-17, 269-17.5, 269-18 and 269-19, or, in the Alternative, for Approval of Proposed Transaction.	Docket No. 2006-0095 Decision and Order No. 22511

DECISION AND ORDER

By this Decision and Order, the commission denies HAWAII-AMERICAN WATER COMPANY's ("HAWC") request for a declaratory ruling that the sale by Thames Water Aqua Holdings GmbH ("Thames GmbH") of up to 100% of the shares of common stock of American Water Works Company, Inc. ("American Water") in one or more public offerings and, prior to the closing of the initial public offering ("IPO"), the merger of Thames Water Aqua US Holdings, Inc. ("Thames US Holdings") with and into American Water ("Proposed Transaction") is not subject to the commission's jurisdiction and approval under Hawaii Revised Statutes ("HRS") §§ 269-7, 269-17, 269-17.5, 269-18, 269-19 or any other provisions under HRS Chapter 269; and having determined that the commission does have jurisdiction over the proposed transaction, the commission also denies HAWC's request that the commission not exercise its jurisdiction to review and approve the transaction. The commission, however, approves the Proposed Transaction under HRS § 269-7(a).

I.

Background

A.

The Petition

On April 21, 2006, HAWC filed a petition requesting: (1) a declaratory order that the Proposed Transaction is not subject to the commission's jurisdiction and approval under HRS §§ 269-7, 269-17, 269-17.5, 269-18, 269-19 or any other HRS Chapter 269 provisions; or (2) that if the commission determines that it has jurisdiction over the Proposed Transaction, the commission: (a) not exercise its jurisdiction to review and approve it, or (b) in the alternative, approve the Proposed Transaction, pursuant to HRS § 269-7 and/or other applicable provisions of HRS Chapter 269 ("Petition").[1]

1.

Description of HAWC and Related Entities

HAWC, a Nevada corporation, is a public utility authorized to provide wastewater collection, treatment, and disposal services to residences, condominiums, hotels, commercial establishments, and golf courses on the islands of Oahu and

[1] See HAWC served copies of its Petition on the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate"), an ex-officio party to all proceedings before the commission. HRS § 269-51; Hawaii Administrative Rules § 6-61-62. No persons moved to intervene or participate in this docket.

Hawaii, in the State of Hawaii ("State").[2] Its principal place of business is Honolulu, Hawaii. HAWC is wholly owned by American Water.

American Water is a Delaware corporation with its principal office located in Voorhees, New Jersey. American Water does not conduct business in the State nor is it regulated by the commission. American Water owns regulated operating subsidiaries in 18 states, including HAWC, and its stock is wholly owned by Thames US Holdings, which in turn is held by Thames GmbH, a subsidiary of RWE Aktiengesellschaft ("RWE").

Thames US Holdings, American Water's direct parent company, is a Delaware corporation with its principal office also located in Voorhees, New Jersey. Thames US Holdings does not conduct business in the State nor is it regulated by the commission. Its various subsidiaries provide water, wastewater services, and other water resource management services to approximately 18 million customers in 29 states and in Canada.

Thames GmbH, Thames US Holdings' direct parent company, is a foreign corporation organized and existing under the laws of the Federal Republic of Germany ("Germany"), with its principal office located in Essen, Germany. Thames GmbH is a wholly owned subsidiary of RWE and is the holding company for most of RWE's water operations in the United States and various other countries.

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[2]On March 31, 2006, the sale and transfer of Mauna Lani STP, Inc.'s ("Mauna Lani") assets from Mauna Lani to HAWC, which the commission approved, was consummated and made effective. See In re Mauna Lani STP, Inc. and Hawaii-American Water Company, Docket No. 05-0229, Decision and Order No. 22299, filed on February 28, 2006.

RWE is a foreign corporation organized and existing under the laws of Germany. Its principal office is also located in Essen, Germany.

2.

Proposed Transaction

The Proposed Transaction consists of: (1) the sale by Thames GmbH of up to 100% of the shares of American Water's common stock through an IPO[3]; and (2) prior to the closing of the IPO, the merger of Thames US Holdings with and into American Water, with American Water being the surviving entity. HAWC states that the Proposed Transaction is expected to result in American Water becoming the largest publicly-traded water company in the United States. The IPO and any subsequent offerings, as necessary, will be conducted in compliance with the Securities and Exchange Commission's ("SEC") rules for under-written public offerings. A detailed description of the Proposed Transaction and the related public offering process is attached as Exhibit "B" to the Petition.

3.

Declaratory Ruling

HAWC asserts that the Proposed Transaction does not trigger commission review under HRS §§ 269-7, 269-17, 269-17.5,

[3]While Thames GmbH intends to sell 100% of its shares during the IPO, market conditions at the time of the IPO may alter Thames GmbH's initial plans and Thames GmbH may decide to sell less than 100% of the shares at that time; then the reminder of the shares will be sold in a subsequent offering or offerings as soon as reasonably practicable.

269-18, and 269-19. While it concedes that certain stock or asset sales or changes in control are subject to commission jurisdiction under HRS §§ 269-17, 269-17.5, 269-18, and 269-19, HAWC contends that such transactions occurring at the public utility's parent level generally do not require specific commission approval, under these statutory provisions, when the public utility is not a Hawaii entity and such transactions do not directly affect the public utility's assets or operations via encumbrances or the issuance of notes or other forms of indebtedness. HAWC represents that this position is consistent with past commission determinations.[4] Specifically, HAWC contends that: (1) HRS § 269-17 is inapplicable since the Proposed Transaction does not involve the issuance of stock or debt by HAWC, the regulated public utility; (2) HRS §§ 269-17.5 and 269-18 are inapplicable with regard to the Proposed Transaction since American Water and Thames US Holdings are not public utilities regulated by the commission and none of the affected entities (i.e., American Water, Thames US Holdings, and HAWC) are Hawaii corporations[5]; and (3) HRS § 269-19 is inapplicable as the

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[4]HAWC specifically refers to: (1) In re Maunalua Associates, Inc., et al., Docket No. 97-0339, Decision and Order No. 16175, filed on January 27, 1998 ("Maunalua") (approval of the proposed sale to American Water of all the common stock of HAWC (then known as East Honolulu Community Services, Inc.)); and (2) In re Hawaii-American Water Company, Inc., Docket No. 02-0041, Decision and Order No. 19304, filed on April 17, 2002 ("Hawaii-American") (approval of the stock purchase of HAWC's parent company, American Water, by Thames GmbH).

[5]American Water and Thames US Holdings are both Delaware corporations while HAWC, the regulated public utility, is a Nevada corporation.

Proposed Transaction does not involve a merger or consolidation, sale, disposition, or encumbrance of public utility property.

HAWC acknowledges that the commission exercised jurisdiction under its general investigative powers set forth in HRS § 269-7 in Maunalua and Hawaii-American. Contending that it is unaware of any prior commission ruling specifically holding that IPOs or public stock offerings are subject to commission jurisdiction, HAWC maintains that the commission does not have the jurisdiction under HRS § 269-7 to "review and approve such transactions of this nature and which will be governed by and under the jurisdiction, oversight and requirements of the SEC."[6]

4.

Waiver of Jurisdiction

If, however, the commission finds that it has the authority to review the Proposed Transaction, HAWC states that the commission should not assert jurisdiction over the Proposed Transaction and should not require commission approval of the transaction. HAWC states that jurisdictional waiver is appropriate in this case since: (1) the Proposed Transaction is occurring at the parent level (as opposed to the regulated utility level) and will be seamless and transparent to HAWC and its customers; (2) HAWC, the regulated utility, will be unaffected as a corporate entity and its operations and services will not be altered by the Proposed Transaction; and

[6]See Petition at 10.

(3) oversight and extensive disclosure and filing requirements of the SEC will sufficiently protect HAWC's customers.

5.

Approval of the Proposed Transaction

In the alternative, if the commission declines to waive its jurisdiction to review the Proposed Transaction, HAWC asserts that the Proposed Transaction should be approved since it is reasonable and consistent with the public interest. In support of its argument, HAWC contends that the Proposed Transaction will not affect its fitness, willingness, and ability to provide its utility services and that the Proposed Transaction will not adversely impact HAWC's operations, management, or customers. To this end, HAWC represents, in part, that: (1) it will continue to operate as a subsidiary of American Water and be operated by its experienced management team, under the supervision of its board of directors; (2) it will continue to honor its collective bargaining agreements and its employees will not be negatively impacted by the Proposed Transaction; (3) it will continue to operate under commission-approved rates and tariffs, abide by established policies in its operations and interactions with its customers, and comply with and fulfill its obligations under all applicable State and Federal laws. HAWC also asserts that the Proposed Transaction will not adversely impact HAWC's rates, since no material changes to its financial position as a result of the Proposed Transaction are contemplated, and since HAWC and

American Water do not plan to seek rate recovery for any costs associated with the Proposed Transaction.

Moreover, HAWC represents that the Proposed Transaction will result in American Water becoming a publicly-traded company, which will be subject to the SEC's oversight and regulatory reporting requirements; the requirements of the New York Stock Exchange (the exchange where American Water's common stock will be listed); and, among other things, the federal Sarbanes-Oxley legislation, which will result in greater corporate transparency regarding the ownership and operations of American Water and its subsidiaries, including HAWC. HAWC states that the Proposed Transaction will provide American Water access to the United States' public equity and debt capital markets, which will assist in ensuring American Water's ability to finance and undertake prudent, necessary, and important investment into the infrastructure of its operating subsidiaries, including HAWC, under reasonable terms.

B.

Consumer Advocate's Statement of Position

On May 26, 2006, the Consumer Advocate filed its Statement of Position ("CA's Statement of Position") recommending that the commission issue a declaratory ruling that although HRS §§ 269-7, 269-17, 269-17.5, 269-18, and 269-19 "do not provide the necessary authority for the [c]ommission to have jurisdiction to approve or deny the Proposed Transaction, HRS § 269-7 does provide the [c]ommission with the jurisdiction

to conduct an investigation into whether the Proposed Transaction will have a negative impact on HAWC's fitness, willingness, or ability to provide service, and whether such service will continue to be provided in a manner that is not disadvantageous to the ratepayers and as a result of such investigation provide conditions and terms to assist the [c]ommission in its findings and determinations in any future rate case proceedings involving HAWC."[7]

Alternatively, the Consumer Advocate states that it does not object to commission approval of the Proposed Transaction, subject to certain conditions. The Consumer Advocate, however, does not support HAWC's suggested alternative that the commission waive its authority to review and approve the Proposed Transaction should the commission determine that it has jurisdiction over this matter.

The Consumer Advocate states that the provisions of HRS §§ 269-17, 269-17.5, 269-18, and 269-19 are not applicable to the instant proceeding given that American Water, Thames GmbH, and Thames US Holdings are not public utilities authorized to provide services in the State, are not corporate entities organized and existing under the laws of the State, or public utilities under commission jurisdiction.

With regard to HRS § 269-7, the Consumer Advocate recognizes that the commission has the authority and discretion to review the Proposed Transaction to investigate whether the actions of the parent corporation may impact a regulated public

[7]See CA's Statement of Position at 11.

utility's fitness, willingness, and ability to provide services under the provision and that it can "evaluate and impose any reasonable conditions upon the regulated entity (i.e., HAWC) to safeguard the public interest, as well as facilitate regulatory oversight on a prospective basis."[8] However, the Consumer Advocate states that HRS § 269-7 does not provide the commission with jurisdiction over the parent corporation and the authority to approve or deny the Proposed Transaction, since this provision does not grant the commission jurisdiction over entities that are not public utilities under the definition of HRS § 269-1.

Nonetheless, the Consumer Advocate states that the commission is not prohibited from providing notice to HAWC that issues related to cost allocations between the parent corporation and HAWC and potential transition and transaction costs related to the Proposed Transaction do not negatively impact HAWC's ratepayers, which are matters to be considered and addressed by the commission in HAWC's next rate case proceeding. Accordingly, the Consumer Advocate recommends that the commission: (1) require American Water and HAWC to provide the commission with necessary information related to the financing, managing, and administering of HAWC's affairs to allow for an independent review of the reasonableness of any cost allocations; and (2) advise American Water that it cannot obtain rate recovery of any transition and transaction costs associated with the Proposed

[8] Id. at 8.

Transaction from HAWC's ratepayers, consistent with past commission decisions.

Moreover, the Consumer Advocate states that it cannot support HAWC's request that the commission not assert jurisdiction and not issue an approval or denial of the Proposed Transaction, if it determines that the Proposed Transaction is subject to commission jurisdiction. The Consumer Advocate declares that for non-telecommunications public utilities there is no statutory provision allowing the commission to waive jurisdiction after determining that the transaction is subject to commission jurisdiction. However, the Consumer Advocate does support HAWC's alternative request for approval of the Proposed Transaction, and recommends that the commission approve the Proposed Transaction, subject to the enumerated conditions described above.

II.

Discussion

A.

HRS §§ 269-17, 269-17.5, 269-18, and 269-19

HAWC and the Consumer Advocate argue that HRS §§ 269-17, 269-17.5, 269-18, and 269-19 do not apply to the Proposed Transaction. The commission agrees.

HRS § 269-17 requires a public utility to obtain prior commission approval before it issues stocks, bonds, notes, and other evidences of indebtedness. The Proposed Transaction does not involve the issuance of stock or other forms of indebtedness

by the regulated public utility (HAWC) as contemplated by HRS § 269-17. Accordingly, HRS § 269-17 does not apply to the Proposed Transaction.

HRS § 269-17.5 requires prior commission approval for a foreign corporation to acquire more than 25% of the issued and outstanding voting stock of a corporation "organized under the laws of the State" who owns, controls, operates or manages any plant or equipment as a public utility under the definition of HRS § 269-1. This provision is not applicable since none of the affected entities, including the regulated entity, HAWC, are corporations organized under the laws of the State of Hawaii.

Under HRS § 269-18, commission approval is required before a public utility corporation acquires the stock of another public utility corporation that is "organized or existing under or by virtue of the laws of the State." This provision is also not applicable since none of the affected entities, including the regulated entity, HAWC, are corporations organized under the laws of the State of Hawaii.

HRS § 269-19 governs the direct or indirect merger and consolidation of a public utility corporation, and the sale, lease, assignment, mortgage, and other disposition of the property of a public utility. The Proposed Transaction does not involve the disposition of a public utility's property as contemplated under HRS § 269-19, and the merger between American Water and Thames US Holdings appears to merely be corporate restructuring involving a parent (Thames US Holdings) and its wholly owned subsidiary (American Water).

Based on the foregoing, the commission finds that HRS §§ 269-17, 269-17.5, 269-18, and 269-19 do not apply to the Proposed Transaction.

B.

HRS § 269-7(a)

1.

Jurisdiction Under HRS § 269-7(a)

HAWC and the Consumer Advocate both contend that the commission lacks the authority to review and approve the Proposed Transaction under HRS § 269-7(a). The commission disagrees.

HRS § 269-7(a) states as follows:

> The public utilities commission and each commissioner shall have power to examine into the condition of each public utility, the manner in which it is operated with reference to the safety or accommodation of the public, the safety, working hours, and wages of its employees, the fares and rates charged by it, the value of its physical property, the issuance by it of stocks and bonds, and the disposition of the proceeds thereof, the amount and disposition of its income, and all its financial transactions, its business relations with other persons, companies, or corporations, its compliance with all applicable state and federal laws and with the provisions of its franchise, charter, and articles of association, if any, its classifications, rules, regulations, practices, and service, and all matters of every nature affecting the relations and transactions between it and the public or persons or corporations.

HRS § 269-7(a) (emphasis added).

In particular, the Consumer Advocate states that HRS § 269-7(a) does not provide the commission with the authority to approve or deny the Proposed Transaction since American Water and Thames GmbH are not public utilities within the meaning of

HRS § 269-1.[9] Nonetheless, it does recognize that the commission has the "authority and discretion to review the Proposed Transaction to ensure that HAWC continues to be able [sic] serve its customers in a manner that is not negatively impacted as a result of the Proposed Transaction . . . [and] can evaluate and impose any reasonable conditions upon the regulated entity (i.e., HAWC) to safeguard the public interest, as well as facilitate regulatory oversight on a prospective basis."[10] Moreover, the Consumer Advocate clearly states that the commission under HRS § 269-7(a) has the authority to investigate whether "actions of the parent corporation may have an impact on the public utility's fitness, willingness and ability to provide services or on the rates, terms and conditions that are charged for such service."[11] However, it is under this investigative power, that the commission has historically asserted jurisdiction to review the corporate transactions of a parent entity and its effects on the regulated entity.[12] As stated in Maunalua, the provisions of HRS § 269-7(a) are "broad and, in essence, vest in us the

[9]In past commission proceedings, the Consumer Advocate appears to have endorsed commission review and approval of corporate transactions involving parent entities of regulated public utilities under HRS § 269-7(a). See Consumer Advocate's statements of position filed in Docket Nos. 05-0045, 05-0050, and 05-0232, on March 29, March 22, and October 5, 2005, respectively.

[10]See CA's Statement of Position at 8.

[11]Id. at 9.

[12]See Hawaii-American at 3. See also In re Sprint Communications Company, L.P., et at. Docket No. 05-0045, Decision and Order No. 21715, filed on April 4, 2005; In re SBC Communications Inc., and AT&T Corp., Docket No. 05-0050, Decision and Order No. 21801, filed on May 3, 2005.

authority to examine all transactions that affect or may affect the public whom the utility serves."[13]

In this case, none of the arguments advanced by HAWC and the Consumer Advocate persuade the commission that its interpretation of its authority to review and approve transactions such as the Proposed Transaction under HRS § 269-7(a), consistent with past commission proceedings, is in error. Accordingly, the commission will review the Proposed Transaction under HRS § 269-7(a).

2.

Approval Under HRS § 269-7(a)

If the commission finds that it has jurisdiction to review the Proposed Transaction, HAWC requests that the commission decline to entertain that jurisdiction on the grounds that the Proposed Transaction is occurring at the parent level and will be overseen by the SEC. HAWC, however, failed to cite any statutory or procedural provision to support its request. Nor is the commission aware of any statutory provision authorizing the commission to waive its approval requirements once it determines that jurisdiction over a transaction exists regarding a non-telecommunications public utility, such as HAWC. Accordingly, the commission denies HAWC's request to waive its jurisdiction over the Proposed Transaction.

Nonetheless, upon review, the commission finds that the Proposed Transaction is reasonable and consistent with the public

[13]See Maunalua at 4-5 (emphasis added).

interest.[14] The Proposed Transaction, based on HAWC's various representations, should not negatively affect HAWC's fitness, willingness, and ability to provide services to its customers or have any adverse impact on HAWC's operations and management. For instance, HAWC will continue to be regulated by the commission since the Proposed Transaction does not affect commission authority to regulate HAWC. Thus, HAWC will continue to be subject to all applicable public utility laws and commission rules, decisions, and policies governing public utilities in the State. In particular, HAWC will continue to operate under its commission-approved rates and tariffs. Additionally, as a publicly-traded entity, American Water and its subsidiaries, including HAWC, will be subject to additional levels of scrutiny by the SEC resulting in greater corporate transparency to the advantage and benefit of HAWC's customers and the public in general. Moreover, HAWC's customers and employees will have an opportunity to invest in another local utility through purchasing American Water's stock, resulting in some level of control, albeit minimal, over the regulated public utility; and HAWC's employees could also benefit through an employee stock ownership plan, which American Water may create upon completion of the Proposed Transaction, as contemplated.[15]

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[14]This finding is based on the unique facts and circumstances particular to this docket.

[15]See Petition at 14.

Based on the foregoing, the commission concludes that the Proposed Transaction should be approved. However, the commission makes clear that the approval herein is only with respect to the Proposed Transaction, and that any other financial transactions, including any contemplated debt refinancing as referred to in Petition[16] or any other financing arrangement, that affect or may affect HAWC's operations and services, or seek to encumber or mortgage HAWC's property, will require separate commission review and approval.

Moreover, the Consumer Advocate's recommendations regarding HAWC and American Water's cost allocation information, and transitional and transactional costs associated with the Proposed Transfer appear to be appropriate and reasonable under the circumstances set forth in this docket. Accordingly, HAWC and American Water will make available to the commission, during HAWC's next rate case proceeding, all necessary information related to the financing, managing, and administering of HAWC's affairs to allow for an independent review of the reasonableness of any cost allocations; and HAWC and American Water are advised that any transition and transaction costs associated with the Proposed Transaction cannot be recovered from HAWC's ratepayers.[17]

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[16] Id. at 13-14.

[17] The commission will hold HAWC and American Water to their representation that they are not planning to seek rate recovery of costs associated with the Proposed Transaction from HAWC's ratepayers. Id. at 15.

III.

Orders

THE COMMISSION ORDERS:

1. HAWC's request for declaratory ruling that the Proposed Transaction is not subject to the commission's jurisdiction and approval under HRS §§ 269-7, 269-17, 269-17.5, 269-18, 269-19 or any other provisions under HRS Chapter 269, is denied.

2. HAWC's request that the commission not exercise its jurisdiction to review and approve the Proposed Transaction, upon determining that commission jurisdiction exists, is also denied.

3. The Proposed Transaction, described in HAWC's Petition filed on April 21, 2006, is approved pursuant to HRS § 269-7(a). The approval, herein, is subject to the conditions and advisements set forth in Section II.B.2 of this Decision and Order.

4. Upon consummation of the Proposed Transaction, HAWC shall provide notice with reasonable and sufficient financial details regarding the IPO and any subsequent offerings, to the commission and the Consumer Advocate, as soon as reasonably practicable.

DONE at Honolulu, Hawaii JUN - 5 2006.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By _____
Carlito P. Caliboso, Chairman

By (EXCUSED)
Wayne H. Kimura, Commissioner

By _____
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:

_____
Ji Sook Kim
Commission Counsel

2006-0095.si

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 22511 upon the following Petitioners, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

JOHN E. COLE
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for Eleanor R. Takasaki
Karen Higashi

DATED: JUN - 5 2006

STATE OF MARYLAND

PUBLIC SERVICE COMMISSION

#11, 5/24/06 AM; ML#101250, S-790

May 24, 2006

Susan D. Baker, Esquire
Niles, Barton & Wilmer, LLP
111 South Calvert Street, Suite 1400
Baltimore, Maryland 21202-6185

Dear Ms. Baker:

The Commission has reviewed the Joint Petition for Approval of a Transfer of Control filed on April 21, 2006 by Maryland-American Water Company, Inc. and Thames Water Aqua Holdings GmbH.

After considering this matter at the May 24, 2006 Administrative Meeting, the Commission noted the transaction and reserved the right to institute a proceeding at a later date if and when it becomes necessary. The Company is reminded that it must comply with Public Utility Companies Article, §5-205, *Annotated Code of Maryland*, if this transaction results in a transfer of control.

By Direction of the Commission,

Donald P. Eveleth
Deputy Executive Secretary

DPE/gjd

BEFORE THE TENNESSEE REGULATORY AUTHORITY

CERTIFIED COPY

TRANSCRIPT OF EXCERPT OF AUTHORITY CONFERENCE

Monday, June 26, 2006

APPEARANCES:

For TRA Staff:

Mr. Richard Collier
Mr. Carsie Mundy
Ms. Monica Ashford

Reported By:
Carol A. Nichols, RDR, CRR, CCR

NASHVILLE COURT REPORTERS
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(The aforementioned Authority Conference came on to be heard on Monday, June 26, 2006, beginning at approximately 1:00 p.m., before Chairman Ron Jones, Director Sara Kyle, Director Pat Miller, and Director Eddie Roberson. The following is an excerpt of the proceedings that were had, to-wit:)

THE CLERK: Next, we have the presentation by Chattanooga Gas concerning the shifting of certain routine functions to Wipro. This is to be heard following the Authority conference agenda and hearing calendar.

Next, we have section 2, Directors Miller, Kyle, and Roberson. Docket number 06-00119, Tennessee-American Water Company. Petition of Tennessee-American Water Company for approval of change of control. Consider transfer.

DIRECTOR KYLE: Thank you. This matter came before the TRA upon the April 21, 2006, petition of the Tennessee-American Water Company for approval of a change of control. The petitioner seeks approval from the Authority for a proposed transaction that will result in an indirect change in the control of the petitioner. The petition asserts that the proposed transaction will not impair the ability of the

petitioner to maintain a reasonable capital structure that is representative of other utilities.

After the proposed transaction, the petition certifies that the petitioner will continue to be a subsidiary of American Water and will be operated by its management under the supervision of its board of directors. But the petitioner will continue to provide through its experienced management financial, technical, and managerial abilities for the benefit of its consumers and the communities they live in.

The petitions state that the American Waterworks Service Company will continue to provide customer service, accounting, administration, engineering, financial, human resources, information system, operations, risk management, water quality, and other services to the petitioner under the service agreement in place with the petitioner. The proposed transaction will be transparent to and will have no adverse impact on the customers of the petitioner.

Therefore, I find that the indirect change of control of Tennessee-American Water Company is in the public interest. It will be transparent to customers, and no customer letter or notice is required. I move for approval of the transfer of authority pursuant to TCA 65-4-113, 2004 Edition.

DIRECTOR MILLER: Second. Vote aye.

DIRECTOR ROBERSON: Before I vote, I would like to ask a question, if I may, of the staff. I know the City of Chattanooga was interested in this transaction. Were they noticed of this agenda item?

MR. MUNDY: Director Roberson, I don't know the answer to that question right now. I'll be glad to check that and let you know, but I do not know whether they were noticed or not. I didn't check that.

DIRECTOR KYLE: Do you want to ask Legal?

MR. COLLIER: I don't have knowledge of that.

MS. ASHFORD: Director Roberson, it's my understanding that the city attorney for the City of Chattanooga was notified.

DIRECTOR ROBERSON: Okay. In that case, I vote yes.

(End of excerpt.)

REPORTER'S CERTIFICATE

STATE OF TENNESSEE)

COUNTY OF DAVIDSON)

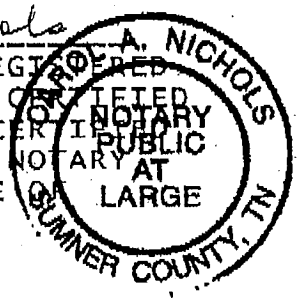
I, Carol A. Nichols, Registered Diplomate Reporter, Certified Realtime Reporter, and Certified Court Reporter, with offices in Nashville, Tennessee, hereby certify that I reported the foregoing proceedings at the time and place set forth in the caption thereof; that the proceedings were stenographically reported by me in shorthand; and that the foregoing proceedings constitute a true and correct transcript of said proceedings to the best of my ability.

I FURTHER CERTIFY that I am not related to any of the parties named herein, nor their counsel,and have no interest, financial or otherwise, in the outcome or events of this action.

IN WITNESS WHEREOF, I have hereunto affixed my official signature and seal of office, this 27th day of June, 2006.

Carol A. Nichols

CAROL A. NICHOLS, REGISTERED DIPLOMATE REPORTER, CERTIFIED REALTIME REPORTER, CERTIFIED COURT REPORTER, AND NOTARY PUBLIC FOR THE STATE OF TENNESSEE



My Commission Expires:
February 5, 2008