

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:


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

NOTICE OF FILING

Joint Petitioners hereby give notice of their filing of the attached supplemental response to Item No. 1 of the LFUCG's First Request for Information and Item No. 7(c) of the Commission Staff's First Request for Information.

Respectfully submitted,

Lindsey W. Ingram, Jr.
Robert M. Watt III
Lindsey W. Ingram III
STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone No. 859-231-3000
Facsimile No.: 859-253-1093

By: 

Attorneys for RWE Aktiengesellschaft,
Thames Water Aqua Holdings GmbH,
Thames Water Aqua US Holdings, Inc.,
American Water Works Company, Inc., and
Kentucky-American Water Company

CERTIFICATION

This is to certify that a true and accurate copy of the foregoing has been electronically transmitted to the Public Service Commission on September 11, 2006; that the Public Service Commission and other parties participating by electronic means have been notified of such electronic transmission; that, on September 11, 2006, the original and one (1) copy in paper medium will be hand-delivered to the Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; and that on September 11, 2006, one (1) copy in paper medium will be served upon the following via U.S. Mail:

Gregory D. Stumbo
David Edward Spenard
Laura Rice
Office of the Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601
david.spenard@ag.ky.gov
dennis.howard@ag.ky.gov
laura.rice@ag.ky.gov

Leslye M. Bowman
David J. Barberie
LFUCG
Department of Law
200 East Main Street
Lexington, Kentucky 40507
lbowman@lfucg.com
dbarberi@lfucg.com

Anthony G. Martin
P.O. Box 1812
Lexington, Kentucky 40588
agmlaw@aol.com

STOLL KEENON OGDEN PLLC

By 
Attorneys for Joint Petitioners

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)

SUPPLEMENTAL RESPONSE 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.

SUPPLEMENTAL RESPONSE:

In addition to the approvals identified in Petitioners' July 11, 2006 response to this request, the Proposed Transaction which is the subject of this Petition was approved by the State Corporation Commission for the Commonwealth of Virginia on August 31, 2006. Please see the attached.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, August 31, 2006

JOINT PETITION OF

CASE NO. PUE-2006-00057

THAMES WATER AQUA HOLDINGS GMBH,
THAMES WATER AQUA US HOLDINGS, INC.,
AMERICAN WATER WORKS COMPANY, INC.,
VIRGINIA AMERICAN WATER COMPANY,
UNITED WATER VIRGINIA INC.,
and
BLUEFIELD VALLEY WATER COMPANY

For approval of change of control pursuant to the
Utility Transfers Act, Va. Code §§ 56-88 et seq.

ORDER GRANTING APPROVAL

On May 12, 2006, Thames Water Aqua Holdings GmbH (“Thames GmbH”); Thames Water Aqua US Holdings, Inc. (“TWAUSHI”); American Water Works Company, Inc. (“American Water”); Virginia-American Water Company (“VA American”); United Water Virginia Inc. (“United Water”); and Bluefield Valley Water Company (“Bluefield Valley”) (collectively “Petitioners”) completed a Joint Petition (“Petition”) with the State Corporation Commission (the “Commission”) requesting approval pursuant to Chapter 5 of Title 56 of the Code of Virginia (§§ 56-88 et seq.) (the “Utility Transfers Act”) for (i) the sale by Thames GmbH of up to 100% of the shares of common stock of American Water in one or more public offerings and (ii) prior to the closing of the initial public offering (“IPO”), the merger of TWAUSHI with and into American Water (the “Proposed Transaction”). Through the Proposed Transaction, the Petitioners plan to dispose of their current ownership and control of VA American.

United Water,¹ and Bluefield Valley² (collectively the “VA Companies”). Following the Proposed Transaction, American Water will continue its ownership and control of the VA Companies in a new holding company structure. The Proposed Transaction will be conducted in accordance with the Securities Act of 1933, and the shares of common stock of American Water are intended to be listed on the New York Stock Exchange. The Petitioners submit that the Proposed Transaction will result in the continuous and seamless provision of reliable and adequate service by the VA Companies to all of their customers at just and reasonable rates.

VA American is a Virginia public service corporation that provides water service to approximately 54,300 residential, commercial, and industrial customers in the cities of Hopewell and Alexandria and the Counties of Prince William and Prince George in Virginia. VA American is a wholly owned subsidiary of American Water.

United Water is a Virginia public service corporation that provides water service to approximately 2,300 residential and commercial customers within 17 separate systems located southeast of Fredericksburg, Virginia, in Westmoreland, Northumberland, Lancaster, King William and Essex Counties in Virginia. United Water is a wholly owned subsidiary of VA American.

Bluefield Valley is a Virginia public service corporation that provides water service to approximately 165 residential and commercial customers in Bland County, Virginia. Bluefield Valley is a wholly owned subsidiary of West Virginia American Water Company, which is owned by American Water.

¹ The direct owner of United Water’s common stock is VA American, which is, in turn, owned by American Water.

² The direct owner of Bluefield Valley’s common stock is West Virginia American Water Company, which is, in turn, owned by American Water.

American Water is a Delaware corporation headquartered in Voorhees, New Jersey, which owns regulated operating subsidiaries that provide water and wastewater service in 18 states. American Water is a wholly owned subsidiary of TWAUSHI.

TWAUSHI is a Delaware corporation headquartered in Voorhees, New Jersey, whose subsidiaries provide water, wastewater and other water resource management services to approximately 18 million customers in 29 U.S. states and Canada.

TWAUSHI is a wholly owned subsidiary of Thames GmbH.

Thames GmbH is the holding company for most of RWE Aktiengesellschaft's ("RWE('s)") water operations in the United States and other countries. Thames GmbH is a wholly owned subsidiary of RWE.

RWE is one of Europe's leading electricity, gas, and water companies. Organized and headquartered in Essen, Federal Republic of Germany, RWE supplies approximately 20 million customers with electricity, approximately 10 million customers with natural gas, and approximately 14 million people with water and wastewater services. In 2005, RWE generated revenues of approximately 42 billion euros and employed approximately 86,000 people.

On June 2, 2006, the Commission issued an Order for Notice and Comment ("Notice Order") that established a procedural schedule in which the Petitioners were required to provide public notice by June 16, 2006, the public was invited to request a hearing by July 7, 2006, the public was invited to provide written comments by July 14, 2006, the Commission Staff ("Staff") was instructed to review the Petition and file a Staff Report ("Report") summarizing its investigation by August 16, 2006, and the Petitioners were allowed to respond to Staff's Report and any public comments or requests for

hearing by August 22, 2006. On June 8 and 30, 2006, the Petitioners filed proof of publication, service and notice with the Commission. On July 14, 2006, the Department of Finance for the City of Alexandria filed comments in which it asked the Commission Staff to pay special attention to the effect that the Proposed Transaction could have on the VA Companies' rates, rate base, inter-company debt, and access to capital. On August 16, 2006, Staff filed its Report recommending approval of the Proposed Transaction subject to certain requirements. On August 21, 2006, the Commission issued an order extending its period of review through September 11, 2006. On August 22, 2006, the Petitioners filed comments ("Comments") on the Report, which suggested a modification to one Staff requirement.

In its Report, Staff concluded that the Proposed Transaction seemed reasonable, would neither impair nor jeopardize the provision of adequate service to the public at just and reasonable rates, and should be approved. However, Staff also noted that the Petitioners were unable to provide any significant information regarding American Water's post-closing financial profile, including its capital structure. Therefore, Staff recommended the following requirements. First, Staff recommended that the Petitioners should file a Report of Action ("ROA") within thirty (30) days of completing the Proposed Transaction that includes certain information relevant to the Proposed Transaction. Second, Staff agreed with the Petitioners' request for the termination of a recordkeeping requirement stemming from the Commission's 2001 Order³ approving American Water's acquisition by Thames GmbH. Third, Staff recommended that the Commission specify that its approval of the Proposed Transaction has no ratemaking

³ *Joint Application of American Water Works Company, Inc., and Thames Water Aqua Holdings GmbH*, Case No. PUA-2001-00082, Order Granting Approval (April 4, 2002), 2002 S.C.C. Ann. Rep. 182-184.

implications. Fourth, Staff recommended that the Commission direct American Water and the VA Companies that: a) the quality of service in the VA Companies' service territories should not deteriorate due to a lack of maintenance or capital investment; b) the quality of service in the VA Companies' service territory should not deteriorate due to a reduction in the number of employees providing services; and c) the VA Companies should continue to maintain a high degree of cooperation with the Commission Staff and should take all actions necessary to ensure the VA Companies' timely response to Staff inquiries with regard to its provision of service in Virginia. Fifth, Staff recommended that the Commission limit its approval to twenty-four (24) months from the date of the Order in this case. Sixth, Staff recommended that every VA Company should provide Staff with at least thirty (30) days advance notice of the prospective amount and date of any dividend payment from it to American Water or American Water's successor. Seventh, Staff recommended that no VA Company should transfer any assets to American Water without prior Commission approval pursuant to § 56-89 of the Code. Eighth, Staff recommended that VA American should submit to the Commission's Division of Economics and Finance, within ninety (90) days of the completion of the Proposed Transaction, a cost/benefit analysis report on its continued participation in the Financial Services Agreement⁴ versus comparable third-party financing.

In their Comments, the Petitioners generally agreed with Staff's Report. However, the Petitioners expressed concern with Staff's fifth requirement, which would limit the Commission's approval of the Proposed Transaction to twenty-four (24) months from the date of the Order in this case. The Petitioners represented that should other

⁴ *Application of Virginia-American Water Company and American Water Capital Corp., for continuing authority to participate in a financial services agreement with an affiliate*, Case No. PUE-2004-00074, Order Granting Authority (October 12, 2004), 2004 S.C.C. Ann. Rep. 484-485.

regulatory approvals be delayed or all of American Water's shares not be sold in the IPO, then subsequent public offerings to dispose of American Water's shares could occur outside of Staff's recommended twenty-four (24) month window. Therefore, the Petitioners suggested modifying Staff's requirement to state that: "Commission approval is limited to 24 months from the date the Securities and Exchange Commission declares the IPO registration statement to be effective."

NOW THE COMMISSION, having considered the Petition, Staff's Report, the Petitioners' Comments and applicable law, is of the opinion and finds that the Proposed Transaction will not impair or jeopardize adequate service to the public at just and reasonable rates and, therefore, should be approved subject to certain requirements as described below. We adopt Staff recommendations enumerated (1) through (4) and (6) through (8). Regarding Staff's fifth recommendation, we find that approval of the Proposed Transaction should be limited to twenty-four (24) months from the date the Securities and Exchange Commission declares the IPO registration statement effective.

Accordingly, IT IS HEREBY ORDERED THAT:

1) Pursuant to §§ 56-88 et seq. of the Code of Virginia, Thames Water Aqua Holdings GmbH; Thames Water Aqua US Holdings, Inc.; American Water Works Company, Inc.; Virginia-American Water Company; United Water Virginia Inc.; and Bluefield Valley Water Company are granted approval to enter into (i) the sale by Thames GmbH of up to 100% of the shares of common stock of American Water in one or more public offerings and (ii) prior to the closing of the initial public offering, the merger of TWAUSHI with and into American Water.

2) The approval granted herein shall be subject to the requirements outlined and adopted above.

3) The VA Companies shall file a Report of Action with the Commission within thirty (30) days of completing the Proposed Transaction, subject to administrative extension by the Commission's Director of the Division of Public Utility Accounting. The ROA shall include the following information: (a) American Water's pro forma income statement, balance sheet, cash flow statement, and capitalization ratio; (b) a copy of the final Securities and Exchange Commission registration statement; (c) the final results of the IPO, including new investors holding 5% or more of American Water's outstanding shares, the percentage of shares retained by RWE, and whether further public offerings are contemplated; (d) the post-closing investment grade analysis and rating of American Water from Standard & Poor's, Moody's Investors Service, and Fitch Ratings; (e) American Water's post-closing balance sheet and capitalization ratio; (f) the total effect on American Water and the VA Companies of converting from International to American accounting standards; and (g) a detailed list of any Proposed Transaction-related charges that are flowed down to the VA Companies by date, company and amount.

4) Each VA Company shall provide Staff with at least thirty (30) days advance written notice of the prospective amount and date of any dividend payment from it to American Water or American Water's successor.

5) VA American shall submit to the Commission's Division of Economics and Finance within ninety (90) days of the completion of the Proposed Transaction, subject to administrative extension by the Commission's Director of the Division of

Public Utility Accounting, a cost/benefit analysis report on its continued participation in the Financial Services Agreement versus comparable third party financing.

6) There appearing nothing further to be done, this matter is dismissed.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

Richard D. Gary, Esquire, and Charlotte P. McAfee, Esquire, Hunton & Williams,
Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074; C.
Meade Browder, Jr., Senior Assistant Attorney General, Office of the Attorney General,
Division of Consumer Counsel, 900 East Main Street, Second Floor, Richmond, Virginia
23219; and the Commission's Office of General Counsel and Divisions of Public Utility
Accounting, Energy Regulation and Economics and Finance.

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)

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

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.

SUPPLEMENTAL RESPONSE TO PART (C):

In addition to the approvals identified in Petitioners' July 11, 2006 response to part c of this request, the Proposed Transaction which is the subject of this Petition was approved by the State Corporation Commission for the Commonwealth of Virginia on August 31, 2006. Please see the attached.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, August 31, 2006

JOINT PETITION OF

CASE NO. PUE-2006-00057

THAMES WATER AQUA HOLDINGS GMBH,
THAMES WATER AQUA US HOLDINGS, INC.,
AMERICAN WATER WORKS COMPANY, INC.,
VIRGINIA AMERICAN WATER COMPANY,
UNITED WATER VIRGINIA INC.,
and
BLUEFIELD VALLEY WATER COMPANY

For approval of change of control pursuant to the
Utility Transfers Act, Va. Code §§ 56-88 et seq.

ORDER GRANTING APPROVAL

On May 12, 2006, Thames Water Aqua Holdings GmbH (“Thames GmbH”); Thames Water Aqua US Holdings, Inc. (“TWAUSHI”); American Water Works Company, Inc. (“American Water”); Virginia-American Water Company (“VA American”); United Water Virginia Inc. (“United Water”); and Bluefield Valley Water Company (“Bluefield Valley”) (collectively “Petitioners”) completed a Joint Petition (“Petition”) with the State Corporation Commission (the “Commission”) requesting approval pursuant to Chapter 5 of Title 56 of the Code of Virginia (§§ 56-88 et seq.) (the “Utility Transfers Act”) for (i) the sale by Thames GmbH of up to 100% of the shares of common stock of American Water in one or more public offerings and (ii) prior to the closing of the initial public offering (“IPO”), the merger of TWAUSHI with and into American Water (the “Proposed Transaction”). Through the Proposed Transaction, the Petitioners plan to dispose of their current ownership and control of VA American.

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implications. Fourth, Staff recommended that the Commission direct American Water and the VA Companies that: a) the quality of service in the VA Companies' service territories should not deteriorate due to a lack of maintenance or capital investment; b) the quality of service in the VA Companies' service territory should not deteriorate due to a reduction in the number of employees providing services; and c) the VA Companies should continue to maintain a high degree of cooperation with the Commission Staff and should take all actions necessary to ensure the VA Companies' timely response to Staff inquiries with regard to its provision of service in Virginia. Fifth, Staff recommended that the Commission limit its approval to twenty-four (24) months from the date of the Order in this case. Sixth, Staff recommended that every VA Company should provide Staff with at least thirty (30) days advance notice of the prospective amount and date of any dividend payment from it to American Water or American Water's successor. Seventh, Staff recommended that no VA Company should transfer any assets to American Water without prior Commission approval pursuant to § 56-89 of the Code. Eighth, Staff recommended that VA American should submit to the Commission's Division of Economics and Finance, within ninety (90) days of the completion of the Proposed Transaction, a cost/benefit analysis report on its continued participation in the Financial Services Agreement⁴ versus comparable third-party financing.

In their Comments, the Petitioners generally agreed with Staff's Report. However, the Petitioners expressed concern with Staff's fifth requirement, which would limit the Commission's approval of the Proposed Transaction to twenty-four (24) months from the date of the Order in this case. The Petitioners represented that should other

⁴ *Application of Virginia-American Water Company and American Water Capital Corp., for continuing authority to participate in a financial services agreement with an affiliate*, Case No. PUE-2004-00074, Order Granting Authority (October 12, 2004), 2004 S.C.C. Ann. Rep. 484-485.

regulatory approvals be delayed or all of American Water's shares not be sold in the IPO, then subsequent public offerings to dispose of American Water's shares could occur outside of Staff's recommended twenty-four (24) month window. Therefore, the Petitioners suggested modifying Staff's requirement to state that: "Commission approval is limited to 24 months from the date the Securities and Exchange Commission declares the IPO registration statement to be effective."

NOW THE COMMISSION, having considered the Petition, Staff's Report, the Petitioners' Comments and applicable law, is of the opinion and finds that the Proposed Transaction will not impair or jeopardize adequate service to the public at just and reasonable rates and, therefore, should be approved subject to certain requirements as described below. We adopt Staff recommendations enumerated (1) through (4) and (6) through (8). Regarding Staff's fifth recommendation, we find that approval of the Proposed Transaction should be limited to twenty-four (24) months from the date the Securities and Exchange Commission declares the IPO registration statement effective.

Accordingly, IT IS HEREBY ORDERED THAT:

1) Pursuant to §§ 56-88 et seq. of the Code of Virginia, Thames Water Aqua Holdings GmbH; Thames Water Aqua US Holdings, Inc.; American Water Works Company, Inc.; Virginia-American Water Company; United Water Virginia Inc.; and Bluefield Valley Water Company are granted approval to enter into (i) the sale by Thames GmbH of up to 100% of the shares of common stock of American Water in one or more public offerings and (ii) prior to the closing of the initial public offering, the merger of TWAUSHI with and into American Water.

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4) Each VA Company shall provide Staff with at least thirty (30) days advance written notice of the prospective amount and date of any dividend payment from it to American Water or American Water's successor.

5) VA American shall submit to the Commission's Division of Economics and Finance within ninety (90) days of the completion of the Proposed Transaction, subject to administrative extension by the Commission's Director of the Division of

Public Utility Accounting, a cost/benefit analysis report on its continued participation in the Financial Services Agreement versus comparable third party financing.

6) There appearing nothing further to be done, this matter is dismissed.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:

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Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219-4074; C.
Meade Browder, Jr., Senior Assistant Attorney General, Office of the Attorney General,
Division of Consumer Counsel, 900 East Main Street, Second Floor, Richmond, Virginia
23219; and the Commission's Office of General Counsel and Divisions of Public Utility
Accounting, Energy Regulation and Economics and Finance.