

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ATTORNEY GENERAL'S
SUPPLEMENTAL REQUEST FOR INFORMATION TO
THE JOINT APPLICANTS/JOINT PETITIONERS

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, submits this Supplemental Request for Information to the Joint Applicants/Joint Petitioners.

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the company witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

GREGORY D. STUMBO
ATTORNEY GENERAL

David Edward Spenard
David Edward Spenard
Dennis G. Howard II
Assistant Attorneys General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204
502 696-5457

Notice of Filing

Counsel gives notice that (pursuant to Instruction 1 of the Commission's 5 June 2006, Order of procedure) the original and one photocopy in paper medium of the filing by hand delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601 on 24 July 2006. Further, one copy in electronic medium has been filed by uploading the filing to the file transfer protocol site designated by the Executive Director on this 21st day of July 2006.

David Edward Spenard
Assistant Attorney General

Instruction 6 and Instruction 11 Certification

Per Instructions 6 and 11 of the 5 June 2006, Order of procedure, counsel certifies that the electronic version is a true and accurate copy of the document filed in paper medium, a copy in paper medium has been served on all the parties of record, the electronic version has been transmitted to the Commission,

and the Commission and other parties have been notified by electronic mail (on 21 June 2006) that the electronic version has been transmitted to the Commission. The electronic version has also been served on all the parties of record.

David Edward Spensard
Assistant Attorney General

Certificate of Service

Counsel certifies that this response has been served by mailing a true and correct photocopy of the same, first class postage prepaid, to Lindsey W. Ingram, Jr., Lindsey W. Ingram III, Stoll Keenon Ogden, 300 West Vine Street, Suite 2100, Lexington, Kentucky 40507-1801; Foster Ockerman, Jr., Martin, Ockerman & Brabant, 200 N. Upper Street, Lexington, Kentucky 40507; Anthony G. Martin, P. O. Box 1812, Lexington, Kentucky 40588; and Leslye M. Bowman, David Barberie, Lexington-Fayette Urban County Government, Department of Law, 200 East Main Street, Lexington, Kentucky 40507 all on this 21 July 2006.

David Edward Spensard

Case No. 2006-00197
Supplemental Data Requests to the Joint Petitioners

- AG-2-1) RE: Response to OAG 1 – 10. In terms of exercising voting rights, please provide examples of “key issues” for which shareholders of AWW could exercise voting rights. Further, please identify the “key issue” votes by common stock shareholders of the former AWW for the ten-year period preceding RWE’s purchase.
- AG-2-2) RE: Response to OAG 1 – 29 (c). For the period of time 1 January 2003 to present, provide the pertinent minutes and presentation materials for the board meetings as well as any minutes or meetings summaries and presentation material for the capital investment review committee meetings.
- AG-2-3) RE: Response to OAG 1- 30. Provide the third party consultant’s report.
- AG-2-4) RE: Response to OAG 1 – 49. With regard to applying for Commission approvals required under Case No. 2002-00018, does anyone at Kentucky American Water or anyone on behalf of Kentucky American Water accept this responsibility? If yes, please identify.
- AG-2-5) RE: Response to OAG 1 – 49. With regard to the Kentucky River Authority fee, does anyone at Kentucky American Water or anyone on behalf of Kentucky American Water exercise any responsibility for monitoring the fee amount and the collection of this fee amount including the process of reviewing Kentucky American’s tariff provisions regarding the collection of the fee? If yes, please identify.
- AG-2-6) RE: Response to OAG 1 – 49. With regard to sewer billings performed on behalf of the Lexington-Fayette Urban County Government, does anyone at Kentucky American Water or anyone acting on behalf of Kentucky American Water exercise any responsibility for monitoring the collection of the sewer billing and the remitting of funds to LFUCG? If yes, please identify.
- AG-2-7) RE: Response to LFUCG 1 – 7. In the event that less than 100% of the shares are sold, (1) who has control over the unsold shares including control over the decision as to when to put the shares up for sale, and (2) will RWE retain any control or ownership interest in AWW in the event that less than 100% of the shares are sold?

AG-2-8) RE: Private Offering Testing (e.g. Presentation to Angelfish, Overview of Divestiture Process, November 17, 2005, page 4). Please provide the state-by-state review of the regulatory climate for each jurisdiction in the Southeast Region.

AG-2-9) Concerning response to Staff 1-15, Standard and Poor's presentation of 11/5/05, page 14. Please describe in detail and quantify the "required investments and associated risks" that are referred to concerning AWW.

AG-2-10) Concerning response to Staff 1-15, Standard and Poor's presentation of 11/5/05, page 17. Please describe in detail the meaning of the phrases "Quality/Networks USA" and "Post Projection Period" as used on this page. In particular, describe the types of capital expenditures that RWE contemplates totaling €0.9 billion in this category, and over what period of time that investment is anticipated.

AG-2-11) Concerning response to Staff 1-15, Standard and Poor's presentation of 11/5/05, page 19. How would the separation of AWW from RWE result in a "higher return on equity through leverage."

AG-2-12) Concerning response to Staff 1-15, Moody's presentation of March 2006, page 29. It states that RWE is considering the option of selling AWW to a "group of long-term financial investors." Is this still under consideration? If not, when did this cease to be an option? If so, please describe the status of RWE's pursuit of this option and the expected schedule for knowing whether this option will be pursued.

AG-2-13) Concerning, Goldman Sachs presentation of 4/19/06, page 22. It states that one of the "capital structure considerations" is for a minimum credit rating of Baa1 / BBB+.

- a. Will AWW's initial financing be designed to achieve a Baa1 / BBB+ credit rating?
- b. How does this compare to the current credit ratings of AWW and American Water Capital Corp.?
- c. Please quantify the likely change in interest rates as a result of the difference between the current credit rating and a Baa1 / BBB+ credit rating.
- d. When does AWW expect to have a final financing plan in place?

- e. Do the Joint Applicants expect the Commission to approve the proposed transaction before the final financing plan is known? If so, would the Joint Applicants agree to conditions that require AWW to achieve a particular credit rating and/or capital structure?

AG-2-14) Concerning Goldman Sachs presentation of 5/2/06, page 13. Please quantify and explain in detail the concern with the "high level of capital expenditure spending" that is needed for AWW.

AG-2-15) Concerning Goldman Sachs presentation of 5/2/06, page 13. Please quantify and explain in detail the concern with AWW's "underfunded pension and OPEBs, coupled with a low pension funding ratio."

AG-2-16) Concerning Goldman Sachs presentation of 5/2/06, page 23. This page indicates that a 100% IPO would provide proceeds of approximately [REDACTED] billion. If that is the case, and if equity represents 45% to 55% of AWW's capital structure (Ms. Wolf's testimony, page 16), then it would imply total debt between [REDACTED] billion and [REDACTED] billion, compared to AWCC's existing debt of less than \$3 billion. Concerning this:

- a. Are these figures accurate? If not, please explain why not.
- b. Please provide a financing plan for the issuance of between [REDACTED] billion and [REDACTED] billion of debt.

AG-2-17) Concerning response to AG 1-45, RWE Supervisory Board minutes of 11/4/05, page 4. On this page it states that "rises in efficiency [at AWW] were not implemented as planned." Please specifically describe the increases in efficiency that were planned, delineate when they should have been implemented, and explain why they were not implemented.

AG-2-18) Concerning response to AG 1-45, RWE Supervisory Board minutes of 11/4/05, page 8. On this page, it states: "In connection with the discussions about the most recent planning by American Water's management, it had become clear to him that leakage problems in the US would tend to worsen in future. For instance, the share of water production in New Jersey that is lost by leakage had risen from 15% to currently 18%. The comparable value for Pennsylvania stood at 30%. While replacing Thames Water's entire pipe system would take 125 years at the current renewal rate, the corresponding figure for American Water was over 200 years. The reason for this

extraordinarily high value was that American Water, across a period of several years, had not met regulatory stipulations in various US states. In part, this was due to insufficient investment by American Water in the previous 10 years prior to RWE acquiring its holding. In view of this renewal backlog, there ought to be no investment restraint in dealing with these defects. The elimination of major deviations from regulators' stipulations is likely to last into the year 2008." Concerning this:

- a. Please provide comparable loss figures for KAWC.
- b. Has KAWC experienced a similar level of "insufficient investment"?
- c. What is the current renewal rate for the replacement of KAWC's pipe system?