

**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)

DIRECT TESTIMONY

OF

DR. J. RANDALL WOOLRIDGE

August, 2006

REDACTED

1 **Q. PLEASE STATE YOUR FULL NAME, ADDRESS, AND OCCUPATION.**

2 A. My name is J. Randall Woolridge, and my business address is 120 Haymaker Circle, State
3 College, PA 16801. I am a Professor of Finance and the Goldman, Sachs & Co. and Frank P.
4 Smeal Endowed University Fellow in Business Administration at the University Park Campus of
5 the Pennsylvania State University. I am also the Director of the Smeal College Trading Room and
6 President of the Nittany Lion Fund LLC.

7 **I. SUBJECT OF TESTIMONY AND**
8 **SUMMARY OF RECOMMENDATIONS**

9
10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

11 A. I have been asked by the Kentucky Office of Attorney General ("OAG") to review and
12 make recommendations concerning the Joint Application filed by Kentucky-American Water
13 Company (KAW), American Water Works Company, Inc. (AWW), Thames Water Aqua US
14 Holdings, Inc (TWAUSHI), Thames Water Aqua Holdings GmbH (Thames), and RWE
15 Aktiengesellschaft (RWE). RWE is a German utility holding company, and the remaining Joint
16 Applicants are subsidiaries. The Joint Application seeks approval of a proposed merger between
17 TWAUSHI and AWW, to be followed by at least one Initial Public Offering (IPO) of the common
18 stock of AWW. The transaction, once approved and executed, would effectively result in AWW
19 becoming an independent, publicly-traded company.

1 Q. WHAT ARE YOUR QUALIFICATIONS TO PROVIDE TESTIMONY IN THIS
2 CASE?

3 A. I have testified as an expert witness before utility commissions in seventeen states and the
4 District of Columbia. I have also provided testimony in civil cases on issues related to valuation
5 and testified before the Pennsylvania House of Representatives. I have consulted with, and
6 prepared research reports for, major corporations, financial institutions, investment banking firms,
7 and government agencies.

8 My academic research has centered on empirical issues in corporate finance and
9 investments, with an emphasis on topics related to valuation. I have published over 35 articles in
10 the best academic and professional journals in the field, including the *Journal of Finance*, the
11 *Journal of Financial Economics*, and the *Harvard Business Review*. My research has been cited
12 extensively in the business press. In addition, I have directed and participated in many university-
13 and company- sponsored professional development programs for executives in 25 countries in
14 North and South America, Europe, Asia, and Africa.

15 As to the issues in this proceeding, I am a recognized authority on corporate reorganization
16 and divestiture. My 1993 article in the *Journal of Financial Economics* entitled, "Restructuring
17 Through Spinoffs: The Stock Market Evidence," co-authored with Patrick Cusatis and James Miles,
18 is a highly-cited study on the impact of corporate divestment. I have published other articles on
19 spinoffs and equity carve-outs, as well as a book entitled *Spinoffs and Equity Carve-Outs:
20 Achieving Faster Growth and Better Performance* (Financial Executives Research Foundation,

1 1999). My research on spinoffs and equity carve-outs has been cited in all major business
2 publications, and I have also appeared as a guest on CNN's *Money Line* and CNBC's *Business*
3 *Today* to discuss the topic.

4 A summary of my educational background, research, and related business experience is
5 provided in Appendix A.

6 **Q. HAVE YOU BEEN RETAINED BY PARTIES IN OTHER STATES REGARDING**
7 **THIS PROPOSED TRANSACTION?**

8 A. Yes, I have been retained by the Office of Consumer Advocate in Pennsylvania and Office
9 of Rate Payer Advocate in California.

10 **Q. WHAT ISSUES WILL YOU BE ADDRESSING IN YOUR TESTIMONY?**

11 A. I will be discussing and evaluating a number of issues regarding the financial impact of
12 proposed transaction on AWW and KAW. In particular, I am evaluating the various costs
13 associated with the transaction, and how they can ultimately impact AWW, KAW, and the rate
14 payers.

15 **Q. PLEASE SUMMARIZE THE FINDINGS OF YOUR ANALYSIS.**

16 A. The conclusions of my evaluation include:

17 (1) In its 2006 petition to the Commission to approve the divestiture of AWW, RWE is
18 arguing that many of the same financial benefits that should have occurred by the 2003
19 acquisition of AWW by RWE will now be realized by RWE's divestiture of AWW
20 through the IPO. However, the purported financial benefits listed in the Application are

1 not supported by any empirical evidence;

2 (2) AWW already has, and will continue bear some of the costs associated with its own
3 divestiture;

4 (3) AWW will incur ongoing costs associated with meeting regulatory, compliance, and
5 disclosure costs associated with being a publicly-traded company in the U.S. These
6 include SEC filing requirements, New York Stock Exchange (NYSE) listing fees, as well
7 as compliance expenses associated with Sarbanes-Oxley;

8 (4) The value of AWW has stagnated under RWE's ownership;

9 (5) This stagnation is attributable to a number of factors, including (a) RWE's poor due
10 diligence prior to its acquisition of AWW in 2002, (b) a lack of management expertise at
11 AWW, (c) the poor operating performance of AWW between 2002 and 2006, (d)
12 operational problems at AWW, (e) RWE's under-funding of AWW's pension plan, (f) a
13 lack of capital investment in AWW during its ownership by RWE, and (g) the poor
14 financial performance of AWW's unregulated subsidiaries;

15 (6) Despite incurring a financial loss on its investment in AWW, RWE still gains to receive
16 over **{Begin Confidential}** [REDACTED] **{End Confidential}** in proceeds through the
17 divestment of AWW;

18 (7) The capital costs of the new AWW will increase compared to its capital costs under
19 RWE's ownership;

20 (8) The new stockholders of AWW will only pay what the new AWW is worth which is less

1 than the amount RWE paid for AWW; and

- 2 (9) Without financial remedies, rate payers are clearly not left harmless: Rate payers will be
3 left paying the tab for RWE's mismanaged acquisition of AWW, AWW's portion of the
4 IPO costs, AWW's ongoing regulatory, compliance, disclosure investor relations, and
5 stock listing expenses, a catch-up in capital investment in AWW, and making up for
6 RWE's under-funding of AWW's pension plan. In addition, AWW rate payers will have
7 to pay higher capital costs under AWW which will increase significantly compared to its
8 capital costs under RWE's ownership.

9
10 **The Financial Benefits to AWW of Being Independent of RWE**

11 **Q. WHAT ARE THE CLAIMED FINANCIAL BENEFITS OF THE DIVESTITURE**
12 **FOR AWW?**

13 A.. In the current Application to the Commission for approval of the divestiture of AWW,
14 RWE is arguing that the same financial benefits that it claimed in its 2003 acquisition of AWW by
15 RWE will now be realized by RWE's divestiture of AWW through the IPO. The primary financial
16 benefit of the divestiture will be access to the U.S. capital markets through AWW. In its
17 Application in 2002 to approve RWE's purchase of AWW, the primary financial benefit was the
18 ability to access the European capital markets for lower cost capital through RWE. However, the
19 purported financial benefits were not supported by empirical evidence in either the 2002 or 2006
20 Applications.

1 **AWW is Paying Expenses for its Own Divestiture**

2 **Q. IS AWW INCURRING EXPENSES IN THE PROCESS OF BEING DIVESTED BY**
3 **RWE?**

4 A. Yes, AWW is expected to incur millions of dollars in expenses to support its own
5 divestiture, and there is no indication that AWW will be reimbursed for these expenses. These
6 expenses include legal, financial advisory, and accounting expenses.

7 **Q. WHAT EXPENSES WILL AWW INCUR?**

8 A. As indicated in response to Staff Item No. 10 (KY Staff 1 , #10), as of July 27th, AWW has
9 already spent \$500,000 in fees for financial advisory services and expects to incur approximately
10 \$11 million in expenses related to the sale of common stock. In filings in Illinois and New Jersey,
11 AWW has since increased this figure to \$14 million. AWW estimates it will also spend \$16
12 million to establish processes and systems for S.E.C. compliance (KY AG Set 1, # 44). In addition,
13 the Company estimates that it will pay \$250,000 as an initial listing fee to the New York Stock
14 Exchange (NYSE) (KY Staff Set 1, #3).

15 It must be emphasized that these out-of-pocket expenses do not include the expenses
16 associated with the large amount of time and effort put forth by management to support the IPO. In
17 my opinion, these expenses will clearly run into the millions of dollars.

18 **AWW will Incur Ongoing Expenses as a Publicly-Held Company**

19 **Q. AS A PUBLICLY-HELD COMPANY, WHAT ONGOING EXPENSES WILL AWW**
20 **INCUR?**

1 A. AWW will incur ongoing costs associated with meeting regulatory, compliance, and
2 disclosure costs associated with being a publicly-traded company in the U.S. These include SEC
3 filing requirements, investor relations expenses, NYSE annual listing fees, as well as compliance
4 expenses associated with Sarbanes-Oxley (SOX). The Company has stated that on-going SOX
5 compliance costs will be \$1 million to \$2 million per year (KY AG Set 1, #19). In my opinion, that
6 figure is low for a Company which is as large as AWW with diverse operations spread across the
7 U.S. In addition, AWW will have on-going fees associated with SEC compliance and filings and
8 investor relations. The SEC compliance and investor relations costs, as well, will most likely cost
9 the Company in excess of a million dollars each. Finally, AWW will also have to pay NYSE
10 annual listing fees which the Company has estimated to be \$100,000/year (KY Staff Set 1, #3).

11 **The Value of AWW has Stagnated Under RWE's Ownership**

12 **Q. PLEASE DISCUSS THE STAGNATION IN AWW'S VALUE UNDER RWE'S**
13 **OWNERSHIP?**

14 A. Under the ownership of RWE, the value of AWW has stagnated while the value of Aqua
15 America, AWW biggest U.S. rival, has increased significantly.

16 RWE bought AWW in 2003 in a transaction valued at \$7.6 billion. This included \$4.6
17 billion for the purchase of all the outstanding shares of AWW at a price of \$46 as well as the
18 assumption of \$3.0 billion in outstanding debt.

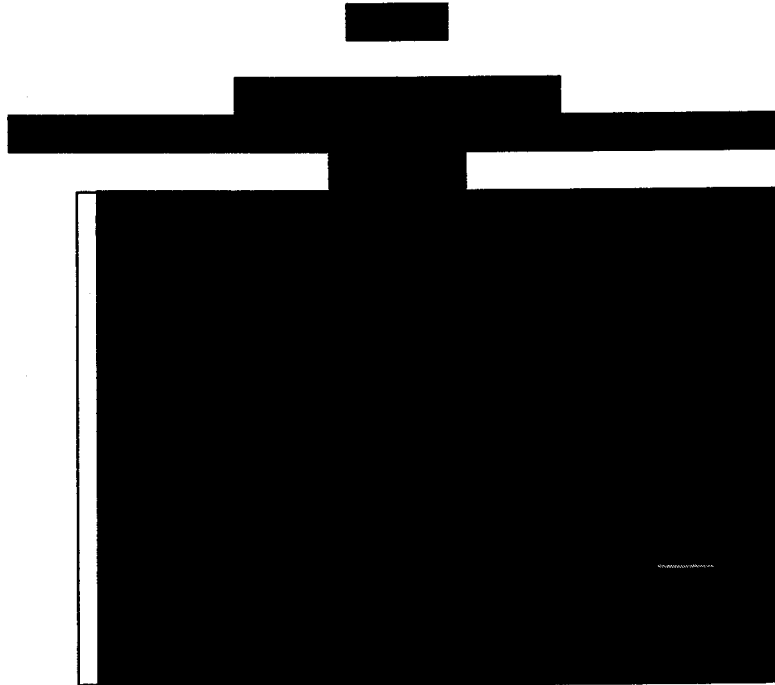
19 The stagnation in value for AWW is highlighted by three factors:

20

1 (1) In the 4th quarter of 2005, RWE took a 759M Euro (\$899 million) impairment loss on
2 the goodwill carried for RWE Thames Water North America/American Water. This
3 was the result of an impairment test determined on the basis of enterprise valuation
4 using alternative valuation models.

5 (2) AWW's operating performance significantly lagged behind expectations. The
6 November 1, 2002 *Value Line* for AWW projected revenues and net income of \$2,300
7 million and \$285 million as of 2006. Based on projections made by Goldman, Sachs &
8 Co. for the IPO, **{Begin Confidential}** [REDACTED]
9 [REDACTED] [REDACTED]. **{End**
10 **Confidential}** The expected versus actual five-year growth rates are highlighted in the
11 table below.

1 {Begin Confidential}



6
7
8
9 {End Confidential}

10 Over the five-year period 2001-2006, {Begin Confidential} [REDACTED]

11 [REDACTED]

12 [REDACTED]. {End Confidential} By comparison,

13 Aqua America, AWW's largest U.S. water utility rival, grew their revenues and earning

14 both in excess of 11% over the same time period.

15 (3) Exhibit_(JRW-2) provides an assessment by Goldman, Sachs of the projected value of

16 AWW in the IPO. {Begin Confidential} [REDACTED]

1 [REDACTED] {End Confidential} As
2 discussed above, RWE acquired AWW for an equity value of \$4.6B. By comparison,
3 the market capitalization of Aqua America increased by about 80% over the 2002-2006
4 time period.
5

6 **The Stagnation in Value is Attributable to a Number of Factors**

7 **Q. PLEASE DISCUSS THE FACTORS THAT HAVE CONTRIBUTED TO THE**
8 **STAGNATION IN THE VALUE OF AWW WHILE IT HAS BEEN OWNED BY RWE.**

9 A. The stagnation in value is attributable to a number of factors, including (a) RWE's poor due
10 diligence prior to its acquisition of AWW in 2002, (b) a lack of management expertise at AWW, (c)
11 the poor operating performance of AWW between 2002 and 2006, (d) operational problems at
12 AWW, (e) RWE's under-funding of AWW's pension plan, (f) a lack of capital investment in
13 AWW during its ownership by RWE, and (g) the poor financial performance of AWW's
14 unregulated subsidiaries. I have illustrated the poor operating performance of AWW above. OAG
15 witness Scott Rubin discusses a number of these issues, including the problems discovered by
16 RWE after the purchase of AWW, AWW's operational problems, RWE's perception of a lack of
17 managerial talent at AWW, and the under-funding of the pension fund. I address the other two
18 issues below.

19 The underinvestment in AWW by RWE is highlighted in Exhibit (JRW-3). Page 1 of this
20 Exhibit shows that AWW's capital expenditures, as indicated by Cap Ex/ Revenues, and Cap Ex/

1 Total Assets, have lagged behind, and are expected to continue to lag behind those of AWW's
2 largest rival, Aqua America. Page 2 of Exhibit_(JRW-3) shows that in its most recent revised
3 business plan AWW increased its capital budget over the 2006-2010 time horizon by {Begin
4 Confidential} [REDACTED]. {End Confidential}. This is another indicator of RWE's
5 underinvestment in AWW.

6 Exhibit_(JRW-4) provides a summary of the operating performance of AWW's non-
7 regulated operations. These show that the operating margins for the non-regulated businesses of
8 AWW for the years 2003-2005 were only {Begin Confidential} [REDACTED] {End
9 Confidential}.

10 RWE Should Receive Over {Begin Confidential} [REDACTED] {End Confidential} in the
11 Divestiture of AWW

12 Q. ONCE RWE HAS SOLD OFF AWW AND BEEN REPAID ALL MONIES OWED
13 BY AWW, HOW MUCH CASH WILL IT RECEIVE?

14 A. In Exhibit_(JRW-5), I have estimated the total proceeds that RWE will receive including
15 the IPO, repayment of debt and preferred stock, and a gain on a currency hedge. {Begin
16 Confidential} [REDACTED]. {End Confidential}

17 The Capital Costs of the New AWW Will Increase After Separation from RWE

18 Q. YOU CLAIM THAT AWW'S CAPITAL COSTS WILL INCREASE AFTER THE
19 DIVESTITURE. PLEASE EXPLAIN.

1 A. In its Application and in responses to requests for information, RWE has insisted that the
2 separation from RWE will not affect AWW's ability to attract capital. Yet, by my estimation, the
3 capital costs of the new AWW will increase compared to its capital costs under RWE's ownership.
4 The increase is the results of several factors: (1) AWW's debt rating was downgraded to A- in the
5 wake of the divestiture announcement, (2) RWE holds \$2.65B in AWW debt which must be
6 refinanced, and (3) RWE holds \$1.75B in AWW preferred stock which will be effectively
7 converted to common equity with the IPO.

8 **Q. HOW DID YOU ESTIMATE THE IMPACT OF THE DIVESTITURE ON AWW'S**
9 **COST OF CAPITAL?**

10 A. In Exhibit_(JRW-6) I have provided a rough estimate of the impact of the divestiture on
11 AWW's cost of capital. Page 1 shows details of the computation. Page 2 provides the pre- and
12 post- IPO capital structure with the required financings. **{Begin Confidential}** [REDACTED]

13 [REDACTED]
14 [REDACTED]. **{End Confidential}** On page 3 I show that A- rated, 10-year
15 bonds have been trading at a 81 basis point (BP) premium to the 10-year Treasury. The current
16 Treasury Yields and yields curve are shown on page 4. The curve is relatively flat at this time, and
17 so I will use my estimated yield on 10-year A- rated utility bonds as the yield on the new debt. To
18 arrive at this figure, I use the current yield on 10-year Treasury bonds (4.97%) plus the 81 BP
19 premium, or 5.78% as the yield on the new debt used to refinance the RWE debt. However, to
20 account for debt issuance costs, I will use a net proceeds ratio of .97, which applied to the new debt

1 yield of 5.78% gives me a debt cost rate of 5.96%. {Begin Confidential} [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 {End Confidential} The cost rates on the 3rd party debt and the minority interest are assumed to be
8 6.0%. Since these two capital components are the included in both the pre- and post- IPO cost of
9 capital, their cost rates are irrelevant as to whether AWW's cost of capital increases or decreases
10 after the IPO. As an equity cost rate, I use 10% for both the pre- and post- IPO cost of capital
11 calculations. This is the current allowed return on common equity for KAW.

12 **Q. WHAT IS YOUR ESTIMATE OF THE IMPACT OF THE DIVESTITURE ON**
13 **AWW'S COST OF CAPITAL?**

14 A. Based on my calculations, I estimate that AWW's cost of capital will increase by {Begin
15 Confidential} [REDACTED]. {End Confidential}

16 **AWW's New Stockholders will Not be Picking Up the Tab**

17 **Q. WHY DO YOU SAY THAT THE NEW STOCKHOLDERS WILL NOT BE**
18 **PICKING UP THE TAB FOR AWW'S POOR PERFORMANCE UNDER THE**
19 **OWNERSHIP OF RWE?**

20 A. The new stockholders of AWW will only pay what the new AWW is worth which, as

1 discussed above, is less that the price paid by RWE for AWW. As such, they will not be picking up
2 the tab for RWE's poor stewardship.

3 **The Ratepayers of the New AWW Will Be Picking Up the Tab**

4 **Q. IN YOUR OPINION, WHO WILL BE PAYING THE TAB FOR AWW'S POOR**
5 **PERFORMANCE UNDER THE OWNERSHIP OF RWE?**

6 A. Without financial remedy, rate payers will clearly be paying the tab and therefore are not left
7 harmless by the divestiture of AWW. Rate payers will be left paying the tab for RWE's
8 mismanaged acquisition of AWW, AWW's portion of the IPO costs, AWW's ongoing regulatory,
9 compliance, and disclosure expenses, a catch-up in capital investment in AWW, and making up for
10 the increase in the unfunded liability in AWW's pension plan during RWE's ownership. In
11 addition, AWW rate payers will have to pay higher capital costs under AWW which will increase
12 compared to its capital costs under RWE's ownership.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. At this time it does. However, I understand that the Attorney General continues to seek
15 additional discovery that the Joint Applicants have not provided. As a result, I respectfully request
16 the opportunity to supplement my testimony.

APPENDIX A

EDUCATIONAL BACKGROUND, RESEARCH, AND RELATED BUSINESS EXPERIENCE

J. RANDALL WOOLRIDGE

J. Randall Woolridge is a Professor of Finance and the Goldman, Sachs & Co. and Frank P. Smeal Endowed Faculty Fellow in Business Administration in the College of Business Administration of the Pennsylvania State University in University Park, PA. In addition, Professor Woolridge is Director of the Smeal College Trading Room and President and CEO of the Nittany Lion Fund, LLC.

Professor Woolridge received a Bachelor of Arts degree in Economics from the University of North Carolina, a Master of Business Administration degree from the Pennsylvania State University, and a Doctor of Philosophy degree in Business Administration (major area-finance, minor area-statistics) from the University of Iowa. At Iowa he received a Graduate Fellowship and was awarded membership in Beta Gamma Sigma, a national business honorary society. He has taught Finance courses at the University of Iowa, Cornell College, and the University of Pittsburgh, as well as the Pennsylvania State University. These courses include corporation finance, commercial and investment banking, and investments at the undergraduate, graduate, and executive MBA levels.

Professor Woolridge's research has centered on the theoretical and empirical foundations of corporation finance and financial markets and institutions. He has published over 35 articles in the best academic and professional journals in the field, including the *Journal of Finance*, the *Journal of Financial Economics*, and the *Harvard Business Review*. His research has been cited extensively in the business press. His work has been featured in the *New York Times*, *Forbes*, *Fortune*, *The Economist*, *Financial World*, *Barron's*, *Wall Street Journal*, *Business Week*, *Washington Post*, *Investors' Business Daily*, *Worth Magazine*, *USA Today*, and other publications. In addition, Dr. Woolridge has appeared as a guest on CNN's *Money Line* and CNBC's *Morning Call* and *Business Today*.

The second edition of Professor Woolridge's popular stock valuation book, *The StreetSmart Guide to Valuing a Stock* (McGraw-Hill, 2003), was recently released. He has also co-authored *Spinoffs and Equity Carve-Outs: Achieving Faster Growth and Better Performance* (Financial Executives Research Foundation, 1999) as well as a new textbook entitled *Modern Corporate Finance, Capital Markets, and Valuation* (Kendall Hunt, 2003). Dr. Woolridge is a founder and a managing director of www.valuepro.net - a stock valuation website.

Professor Woolridge has also consulted with and prepared research reports for major corporations, financial institutions, and investment banking firms, and government agencies. In addition, he has directed and participated in over 500 university- and company- sponsored professional development programs for executives in 25 countries in North and South America, Europe, Asia, and Africa.

Dr. Woolridge has prepared testimony and/or provided consultation services in the following cases:

Pennsylvania: Dr. Woolridge has prepared testimony on behalf of the Pennsylvania Office of Consumer Advocate in the following cases before the Pennsylvania Public Utility Commission: Bell Telephone Company (R-811819), Peoples Natural Gas Company (R-832315), Pennsylvania Power Company (R-832409), Western Pennsylvania Water Company (R-832381), Pennsylvania Power Company (R-842740),

Pennsylvania Gas and Water Company (R-850178), Metropolitan Edison Company (R-860384), Pennsylvania Electric Company (R-860413), North Penn Gas Company (R-860535), Philadelphia Electric Company (R-870629), Western Pennsylvania Water Company (R-870825), York Water Company (R-870749), Pennsylvania-American Water Company (R-880916), Equitable Gas Company (R-880971), the Bloomsburg Water Co. (R-891494), Columbia Gas of Pennsylvania, Inc. (R-891468), Pennsylvania-American Water Company (R-90562), Breezewood Telephone Company (R-901666), York Water Company (R-901813), Columbia Gas of Pennsylvania, Inc. (R-901873), National Fuel Electric utility Company (R-911912), Pennsylvania-American Water Company (R-911909), Borough of Media Water Fund (R-912150), UGI Utilities, Inc. - Electric Utility Division (R-922195), Dauphin Consolidated Water Supply Company - General Waterworks of Pennsylvania, Inc, (R-932604), National Fuel Electric utility Company (R-932548), Commonwealth Telephone Company (I-920020), Conestoga Telephone and Telegraph Company (I-920015), Peoples Natural Gas Company (R-932866), Blue Mountain Consolidated Water Company (R-932873), National Fuel Gas Company (R-942991), UGI - Gas Division (R-953297), UGI - Electric Division (R-953534), Pennsylvania-American Water Company (R-973944), Pennsylvania-American Water Company (R-994638), Philadelphia Suburban Water Company (R-994868;R-994877;R-994878; R-9948790), Philadelphia Suburban Water Company (R-994868), Wellsboro Electric Company (R-00016356), Philadelphia Suburban Water Company (R-00016750), National Fuel Electric utility Company (R-00038168), Pennsylvania-American Water Company (R-00038304), York Water Company (R-00049165), Valley Energy Company (R-00049345), Wellsboro Electric Company (R-00049313), and National Fuel Gas utility Corporation (R-00049656).

New Jersey: Dr. Woolridge prepared testimony for the New Jersey Department of the Public Advocate, Division of Rate Counsel: New Jersey-American Water Company (R-91081399J), New Jersey-American Water Company (R-92090908J), and Environmental Disposal Corp (R-94070319).

Hawaii: Dr. Woolridge prepared testimony for the Hawaii Office of the Consumer Advocate: East Honolulu Community Services, Inc. (Docket No. 7718).

Delaware: Dr. Woolridge prepared testimony for the Delaware Division of Public Advocate: Artesian Water Company (R-00-649).

1 **Ohio:** Dr. Woolridge prepared testimony for the Ohio Office of Consumers' Council: SBC Ohio (Case No. 02-1280-TP-
2 UNC R-00-649), and Cincinnati Gas & Electric Company (Case No. 05-0059-EL-AIR).

New York: Dr. Woolridge prepared testimony for the County of Nassau in New York State: Long Island Lighting Company (PSC Case No. 942354).

Florida: Dr. Woolridge prepared testimony for the Office of Peoples Counsel in Florida: Florida Power & Light Co. (Docket No. 050045-EL).

Connecticut: Dr. Woolridge prepared testimony for the Office of Consumer Counsel in Connecticut: United Illuminating (Docket No. 96-03-29), Yankee Gas Company (Docket No. 04-06-01), Southern Connecticut Gas Company (Docket No. 03-03-17), the United Illuminating Company (Docket No. 05-06-04).

California: Dr. Woolridge prepared testimony for the Office of Ratepayer Advocate in California: San Gabriel Valley Water Company (Docket No. 05-08-021).

South Carolina: Dr. Woolridge prepared testimony for the Office of Regulatory Staff in South Carolina: South

Carolina Electric and Gas Company (Docket No. 2005-113-G).

Kentucky: Dr. Woolridge prepared testimony for the Office of Attorney General in Kentucky: Kentucky-American Water Company (Case No. 2004-00103), Union Heat, Light, and Power Company (Case No. 2004-00042), and Kentucky Power Company (Case No. 2005-00341).

Washington, D.C.: Dr. Woolridge prepared testimony for the Office of the People's Counsel in the District of Columbia: Potomac Electric Power Company (Formal Case No. 939).

Washington: Dr. Woolridge consulted with trial staff of the Washington Utilities and Transportation Commission on the following cases: Puget Energy Corp. (Docket Nos. UE-011570 and UG-011571); and Avista Corporation (Docket No. UE-011514).

Kansas: Dr. Woolridge prepared testimony on behalf of the Kansas Citizens' Utility Ratepayer Board Utilities in the following cases: Western Resources Inc. (Docket No. 01-WSRE-949-GIE), UtiliCorp (Docket No. 02-UTCG701-CIG), and westar Energy, Inc. (Docket No. 05-WSEE-981-RTS).

FERC: Dr. Woolridge has prepared testimony on behalf of the Pennsylvania Office of Consumer Advocate in the following cases before the Federal Energy Regulatory Commission: National Fuel Gas Supply Corporation (RP-92-73-000) and Columbia Gulf Transmission Company (RP97-52-000).

Vermont: Dr. Woolridge prepared testimony for the Department of Public Service in the Central Vermont Public Service Case (Docket No. 6988).

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American Water Financial Summary

Pro Forma for "Base Case" Refinancing

(\$ in millions)

2005	2006	2007	2008	2009	2010	CAGR
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Confidential

Exhibit_(JRW-2)
Page 1 of 1



Illustrative Analysis at Various Prices
Current Outlook

Confidential



Capex Comparison Over Time

American Water versus Aqua America

Capex / Revenues

Capex / Total Assets

Confidential

Exhibit_(JRW-3)
Page 2 of 2



Key Changes in Business Outlook

Confidential

Capital Expenditures

Commentary

Confidential

**Exhibit_(JRW-4)
Page 1 of 1**

AMERICAN WATER NON-REGULATED OPERATIONS

**KAW_R_1LFDR_33_ATT_071106
1 of 1**

Estimated Total Proceeds to RWE
In \$ Millions

Confidential

Pre-IPO Cost of Capital

Amount	Capital Ratio	Cost Rate	Weighted Cost Rate
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Pre-IPO Cost of Capital

Amount	Capital Ratio	Cost Rate	Weighted Cost Rate
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Confidential

Exhibit_(JRW-6)
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Capital Structure Summary

Confidential

Refinancing Summary

2006E

Adj.

2006PF

Long-Term Debt Cost Rate

Date	10 Year U.S. Utilities BBB+ rated Yields	10 Year U.S. Utilities A-rated Yields	10-Year A- Yieldd as Average of BBB+ and A Yields	U.S. Treasury 10yr Bonds
Jan-03	6.075	5.759	5.917	4.344
Feb-03	5.638	5.305	5.471	4.020
Mar-03	5.533	5.247	5.390	4.070
Apr-03	5.377	5.074	5.226	4.140
May-03	4.626	4.460	4.543	3.587
Jun-03	4.641	4.499	4.570	3.724
Jul-03	5.505	5.398	5.451	4.611
Aug-03	5.552	5.276	5.414	4.658
Sep-03	5.054	4.735	4.895	4.171
Oct-03	5.183	5.019	5.101	4.514
Nov-03	5.153	5.006	5.080	4.515
Dec-03	5.150	5.007	5.079	4.453
Jan-04	5.003	4.928	4.965	4.331
Feb-04	4.829	4.643	4.736	4.172
Mar-04	4.702	4.465	4.584	4.025
Apr-04	5.381	5.178	5.280	4.679
May-04	5.534	5.327	5.430	4.763
Jun-04	5.501	5.289	5.395	4.739
Jul-04	5.398	5.164	5.281	4.592
Aug-04	5.034	4.856	4.945	4.223
Sep-04	5.000	4.787	4.893	4.231
Oct-04	4.945	4.774	4.859	4.135
Nov-04	5.208	5.077	5.142	4.435
Dec-04	5.075	4.925	5.000	4.300
Jan-05	4.964	4.831	4.898	4.201
Feb-05	5.222	5.030	5.126	4.440
Mar-05	5.343	5.139	5.241	4.546
Apr-05	5.135	4.955	5.045	4.270
May-05	4.969	4.733	4.851	4.069
Jun-05	4.846	4.673	4.759	3.998
Jul-05	5.337	5.012	5.175	4.338
Aug-05	4.943	4.791	4.867	4.116
Sep-05	5.307	5.014	5.160	4.402
Oct-05	5.559	5.342	5.451	4.628
Nov-05	5.515	5.323	5.419	4.597
Dec-05	5.409	5.198	5.304	4.437
Jan-06	5.538	5.363	5.451	4.571
Feb-06	5.570	5.373	5.472	4.601
Mar-06	5.898	5.696	5.797	4.925
Apr-06	6.129	5.928	6.028	5.142
May-06	6.162	5.946	6.054	5.189
Jun-06	6.219	6.023	6.121	5.204
Jul-06	6.081	5.853	5.967	5.030
			5.23	4.42

Average Yield Spread - A- Yield and 10-Year Treasury Yield

0.81

Date	10 Year U.S. Utilities BBB+ rated Yields	10 Year U.S. Utilities A-rated Yields	10-Year A- Yieldd as Average of BBB+ and A Yields	U.S. Treasury 10yr Bonds
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SOURCE: Bloomberg (FMCH function)

(1) Bloomberg Curve #36 - USD Utility (A)

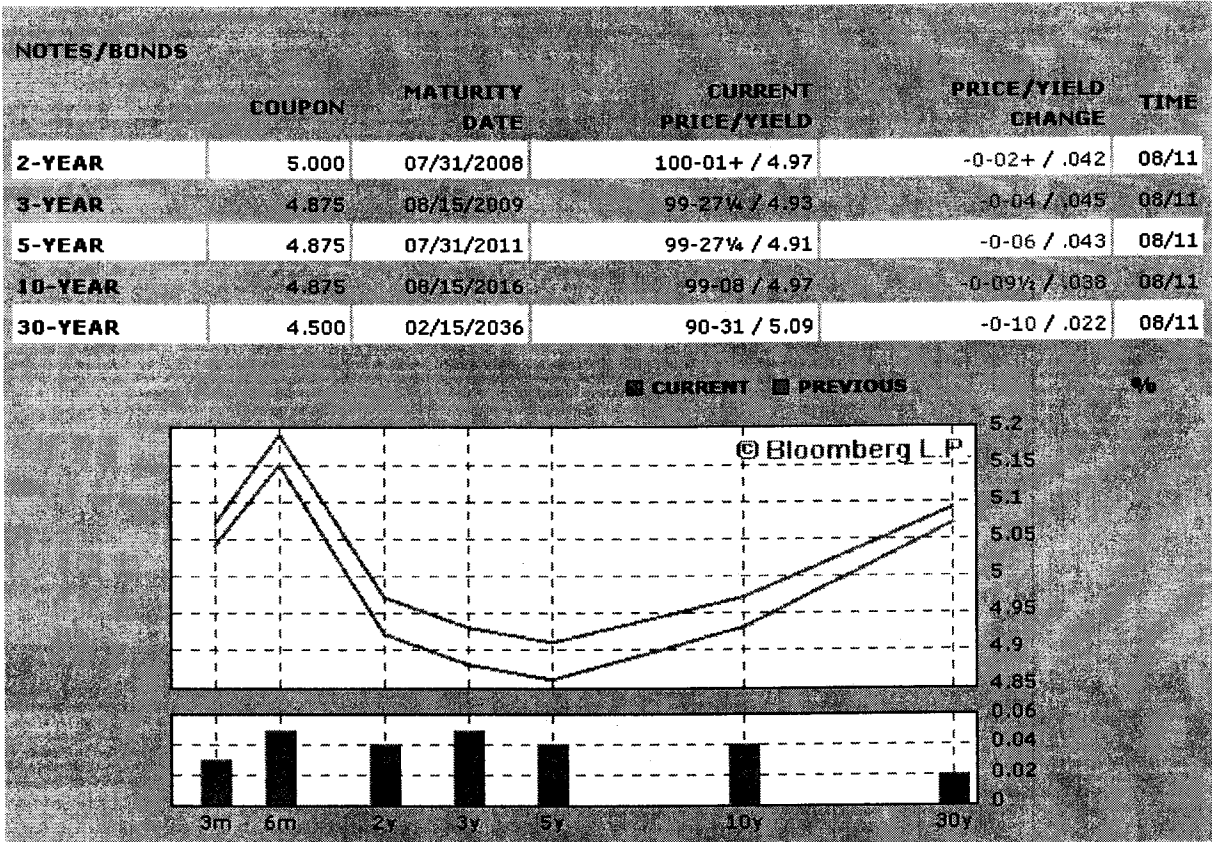
(3) Bloomberg Curve #80 - USD Trsy Composite

Type "FMCH - Go" at Command Prompt

Type "2" for US Dollar List

Enter up to 4 Curves and Dates

Type "1 - Go" at Command Prompt to get Yields



Source: www.bloomberg.com

RWE Financing at 5-31-06

ISSUER AND OBLIGOR	DATE OF CONTRACT	INTEREST RATE	MATURITY DATE	AMOUNT	SUB-TOTAL
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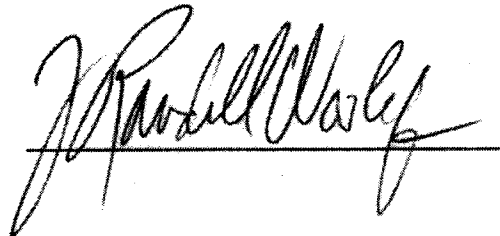
In the Matter of:

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)

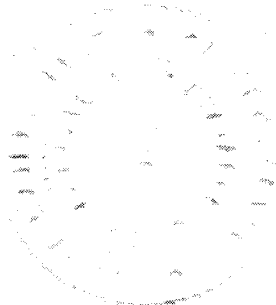
AFFIDAVIT

Comes the affiant, J. Randall Woolridge, and being duly sworn states that the foregoing testimony and attached Exhibits were prepared by him and are, to the best of his information and belief, true and correct.



Commonwealth of Pennsylvania
County of Centre

Subscribed and sworn to me by the Affiant J. Randall Woolridge this 14th day of August, 2006.



Mary L. Hart
Notary Public
aug 14, 2006

