

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 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)

**LEXINGTON-FAYETTE URBAN COUNTY
GOVERNMENT'S INITIAL REQUESTS FOR INFORMATION**

Comes now the Lexington-Fayette Urban County Government (the "LFUCG"), by counsel and pursuant to the Public Service Commission's Scheduling Order of June 19, 2006 and submits its Initial Requests for Information to the Joint Petitioners to be answered in accord with the following:

(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 counsel for the LFUCG.

(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 that 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 counsel for the LFUCG 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.

(10) The respective Joint Petitioners and certain other entities are identified by commonly used acronyms. For example, Kentucky-American Water Company is "KAW", American Water Works Company is "AWW", and the Securities and Exchange Commission is the "SEC".

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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.

2. Is it the Petitioners' position that the approval of the Kentucky Public Service Commission is required prior to the initial filing at the SEC? If so, please describe in detail all bases, legal or otherwise, that support this position.

3. Other than the existence of KRS 278.020(6), which prohibits the acquisition of ten percent or more of the voting securities of the utility without prior approval of the Commission, provide a list of any and all additional measures, if any, that will be taken by the Petitioners (or others) to ensure that this threshold is not exceeded as a result of the change of control.

4. Provide any proposed language to be inserted into the draft SEC prospectus to assure that no person or entity will acquire a controlling interest in AWW as defined by KRS 278.020(6).

5. Do the Petitioners believe that the use of an IPO process under the authority of the SEC may lead to a claim of federal preemption over the regulatory authority of the Kentucky Commission as to its authority under KRS 278.020(5) or (6), KRS 278.218, or any other relevant Kentucky statute, by either: (i) any of the Petitioners, or (ii) the ultimate purchasers of AWW stock?

a. Will the Petitioners agree to a condition or commitment as part of the approval of the proposed change of control that they will not assert any claim of federal preemption as a result of the IPO process on any issue that is subject to the Kentucky Commission's authority under Kentucky law?

6. Once shares in AWW are actually sold through the IPO process, if subsequent sales between shareholders result in the acquisition by some person or entity of a controlling interest in AWW as defined by KRS 278.020(6), what will be the impact on AWW if such a transfer is found by the Commission or a court of law to be void?

7. In the event that the underwriters for the IPO are unable to immediately sell more than 90% of AWW stock, would the underwriters be an entity that has acquired a controlling interest in AWW per KRS 278.020(6)? If not, please explain why not.

8. With reference to the Petition, at paragraph 37, please state how soon after acquisition of shares that the owners of a significant number of AWW shares will be required to report such ownership to the SEC?

a. What constitutes ownership of a "significant number of shares"?

b. Would such reporting reveal in any way whether such shareholders are part of an "entity" for purposes of KRS 278.020(6)?

9. What would occur in the Petitioners' view if, in fact, the IPO resulted in a person or entity acquiring a controlling interest in AWW as defined by KRS 278.020(6), and the acquisition is void because the prior approval of the Commission was not obtained?

a. What responsibility, if any, do the Petitioners believe that they would have to correct such a situation?

10. Do the Petitioners anticipate having to seek additional Commission approval in the future in the event that a person acquires a ten percent or more ownership interest in AWW?

a. State whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that would require a new change of control filing in the event that a future functional or operational reorganization within the proposed corporate family meets the standards contained in KRS 278.020(5) or (6)?

b. State all steps that AWW will take to monitor whether any person or entity has acquired or intends to acquire a controlling interest in AWW, and how AWW will assure that prior Commission approval is obtained prior to such control being acquired.

11. State the Petitioners current estimate of the closing date for the change of control.

12. State in detail all of the reasons that the Petitioners have chosen to sell AWW through an IPO process as opposed to selling AWW to an existing entity or person. Please include a review of the potential benefits and detriments of the IPO approach, and a complete statement of the reasons why an IPO approach was chosen.

a. Specifically address whether the Petitioners identified potential regulatory issues with respect to approval of an IPO approach under either KRS 278.020(5) or (6), or under other state acquisition statutes;

b. State whether the Petitioners received any other offers for the outright purchase of AWW, and if so, why such offers were rejected in favor of the IPO approach.

c. State whether RWE intends to use a similar mechanism to sell off its Thames Water holdings, and if not, why not.

13. Will any KAW debt be refinanced as a result of the proposed change of control? If, so please provide all relevant information pertaining to such debt, including, but not limited to, the amount and the anticipated increase or decrease, whether such refinancing is mandated as part of the change of control, and the anticipated, effect, if any, on the ratepayers of KAW of such refinancing.

a. Refer to the Petition, at paragraphs 27-28. In the event that AWW's debt is refinanced at a higher cost than current cost, state whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that such higher debt costs will not be passed on to KAW ratepayers in any way.

14. In the event that all conditions from the RWE merger cases are removed, as requested by the Petitioners, what assurances, if any, do the ratepayers of KAW have that the change of control will not be detrimental to them?

15. Are the Petitioners willing to accept conditions or commitments placed on them by the Commission in order to have the change of control approved? If so, provide a general list of the types of conditions that would be acceptable to the Petitioners. If not, provide a detailed explanation as to why the placement of conditions would not be acceptable.

16. In its Order of July 10, 2002, in Case No. 2002-00018 (beginning at pg. 10), the Commission listed the following benefits to Kentucky-American's ratepayers from the transfer of control to RWE. For each benefit found by the Commission, please specifically state whether the Petitioners agree that the loss of said benefit through this proposed transaction will be a detriment to KAW's customers, and if not, why not.

a. "Upon completion of the transaction, KAWC will have access to Thames Aqua's resources and expertise";

b. "It will allow KAWC to share best operating practices, increase KAWC's access to technical resources, enhance KAWC's access to capital markets, and derive the benefits of Thames Aqua's research and development programs."

c. "It will allow KAWC to draw upon RWE's extensive borrowing power and should reduce KAWC's cost of capital."

d. "The proposed transfer of control allows KAWC to access Thames Aqua's experience in the area of security."

e. "Clearly, the proposed merger is likely to enhance KAWC's ability to provide reasonable utility service at reasonable rates."

17. Given that one of the touted benefits of the RWE merger was the ability of AWW and KAW to obtain financing at a lower rate due to RWE's financial power and access to European capital markets, explain in detail whether this will still be the case after the change of control is consummated, and if it is not the case, explain how the loss of this benefit is not a detriment to KAW's ratepayers.

18. What role does AWW currently play in the operations of its subsidiaries, i.e., what service does it provide its subsidiaries and what do subsidiaries do for the parent company? If this is anticipated to change in any way as result of the change of control, please describe in detail all such changes.

19. What will be the relationship between KAW and AWW, including corporate structure, names and titles, lines of authority, decision making authority vested in each level of control, levels of coordination and linkage between the various operating units, and financial among these entities following the change of control?

a. Through what mechanisms will AWW invest in KAW?

20. What, if anything, will happen to KAW's current board, officers and senior management as a result of the change of control.

a. What measures, if any, are being taken to ensure the retention of these persons?

b. Who (names and identities) will be the board and officers of KAW after the change of control is finalized.

21. How many employees did KAW have at the end of calendar year 2005? For each of the last 10 years, list the number of employees at the start of the year, the number of positions eliminated, the number of positions added (exclusive of mergers), and the number of new employees gained as a result of mergers.

22. How many employees does Kentucky-American currently have? For all such employees, a job title and description of duties.

a. Do the Petitioners anticipate a reduction in any of the employees if the change of control is approved? If so, please explain how many, why, and which types of employees are to be reduced. Please provide a copy of any and all documents that demonstrate a requirement that the number of employees will remain substantially the same if the change of control is approved.

b. Are the Petitioners willing to accept a condition as part of the approval of the proposed change of control that they will not substantially reduce the existing level of employees provided in the responses above? If so, for what period of time? In the event that such a condition is unacceptable, please state why.

23. With reference to Rowe testimony, response to Q. 4, please state which officers are KAW employees, and of the employees, their employment status with KAW – whether full time, part time, or shared time. If shared time, please describe their other duties, and the percentage of their time spent on each.

24. Do the Petitioners anticipate that there will be any consolidation of management, workforce, facilities, customer service center(s), financial services operations, etc., if the change of control is approved? If so, please explain in detail, particularly as to the KAW.

25. Explain in detail any and all of the differences in management, services, performance, etc., that any of the Petitioners anticipate will result if the proposed change of control is approved?

26. List each utility acquisition by KAW over the past 5 years, the nature of the business acquired, the purchase date, the purchase terms, the equity portion of the purchase price, the debt portion of the purchase price, the total financing package for each acquisition, the investors who purchased 2% or more of the equity or debt, and the underwriter(s) involved.

27. How will KAW and AWW finance acquisitions in the future?

28. How will future acquisitions be treated in future rate cases, and what portion of acquisition costs, premiums, or other such expenses will be recovered through Kentucky-American's rates?

29. What rate of growth in customers, net income and dividends has been projected for AWW and KAW by the Petitioners?

30. Provide a copy of each newsletter or other communication sent to employees of KAW and/or AWW regarding the change of control.

31. List each collective bargaining agreement currently in force with unions representing KAW employees, and its term.

32. Provide the following data for both AWW and each of its divisions and subsidiaries for the year ended December 31, 2005: sales, EBITDA, operation result, operating margin.

33. Provide the following information for AWW's O&M business and other non-regulated activities, as well as for each of its other types of business activities: actual and projected revenue for the period 1998-2008, actual and projected net revenue for the period 1998-2008, actual and projected operating profit for the period 1998-2008, and actual and projected operating margin for the period 1998-2008.

34. Provide all studies, reports or calculations either commissioned or prepared internally by any of the Petitioners which discuss the valuation of AWW or KAW.

35. Provide all studies, reports or calculations in the possession of the Petitioners or their related companies, regardless of source, which analyze anticipated revenue streams from AWW or KAW.

36. Describe in detail any and all of the anticipated changes (if any), from an operational perspective, that will result to KAW or AWW as a result of the change of control.

37. Explain in detail what differences, if any, that the Petitioners anticipate the typical KAW customer will notice or experience as a result of the change of control. To the extent that any particular type of customer is expected to have a different experience as result of such approval, please explain in detail what and how.

38. Describe in detail all of the benefits, if any, to KAW's ratepayers that are anticipated to result from the change of control. Are these benefits in any way measurable or quantifiable? List specific examples, if possible.

39. Can KAW's ratepayers expect any enhancement over the current existing level of service as a result of an approval of the change of control? If so, please provide a detailed response that includes the specific benefit or benefits to be provided broken down by the type of customer (i.e., residential or business). List specific examples, if possible.

a. More specifically, will the LFUCG obtain any additional benefit or benefits (level of maintenance, service, types or numbers of products, etc.) as a result of the change of control? If so, please provide a detailed response that includes the specific benefit or benefits to be provided.

40. From the perspective of each type of KAW customer, how and why is it better for the change of control to be approved than for the current ownership structure to be maintained?

41. The Petitioners make a number of representations regarding continued technical, managerial, and financial capability. Please provide as much detail as possible, including documentation and specific examples, of all known technical, managerial, and financial changes that will result from the approval of the change of control, with a focus on KAW.

a. What guarantees, if any, do the ratepayers have that the Petitioners will stand by these representations?

b. Are the Petitioners willing to make these representations enforceable by entering into conditions pertaining to them as part of the approval of the proposed transfer? If so, please explain in detail how such conditions should be stated to best ensure meaningful enforceability. If not, please state why the Petitioners are not willing to do so.

42. Does the Joint Petition contain an exhaustive list of all the ways in which the proposed transfer is "consistent with the public interest" in accordance with KRS 278.020 or KRS 278.218? If not, please describe in greater detail in what ways the approval of the transfer is consistent with the public interest.

43. Provide all analyses performed by any of the Petitioners that describe or quantify the benefits to be achieved by any of the Petitioners through the change of control.

44. Do the Petitioners believe that the change of control, if approved, will be value enhancing? If so, in what ways, to whom, and in what amounts?

45. Provide all Board of Director minutes, and information provided to the Board of Directors of any of the Petitioners, in which the change of control is discussed.

46. Please provide separate supplemental documentation, of a substantially similar nature to that provided in Exhibits 5 and 6 to the Original Joint Petition, for each of the Petitioners that are regulated by the Kentucky Public Service Commission, broken down for each such respective Applicant.

47. Do the Petitioners anticipate that substantially all of KAW's operations will remain headquartered in Lexington, Kentucky, if the change of control is approved? Please provide a copy of any and all documents that demonstrate that the Petitioners are committed to retaining their Kentucky headquarters in Lexington, Kentucky if the proposed transfer is approved.

a. Are the Petitioners willing to accept a condition as part of the approval of the change of control that KAW's headquarters will remain in Lexington for the next ten years? In the event that such a condition is unacceptable, please state why.

48. How many different types of accounts (and of what type) does the LFUCG currently make payments to KAW under? For each account, provide the following information:

- a. The type of account;
- b. The physical location (address or GPS) of the meter or hydrant; and
- c. The total amount paid by the LFUCG for each type of account during the last 12 month period.

49. State whether the Petitioners intend to seek recovery of the expenses associated with this proceeding from KAW's ratepayers, including, but not limited to, legal, professional and consulting expenses. If rate recovery for such costs is contemplated as a possibility, please provide an accounting of such costs to date, broken out by category of cost.

50. State whether the Petitioners would agree to a "most favored nations clause" condition as part of the approval of the proposed transfer that would require them to agree to meet or exceed the conditions placed upon any of the Petitioners as the result of the approval of the proposed transfer in other jurisdictions.

51. Describe in detail, in what ways (if any) the change of control is anticipated by the Petitioners to impact any ongoing Commission case involving KAW, including, but not limited to, Case No. 2001-00117.

52. One of the claimed benefits of the proposed RWE merger for employees was that it would allow KAW and AWW employees to gain experience in an international utility supply organization and have employment and career advancement opportunities in such a broad organization.

a. Please state whether any other KAW employees received the benefit of being part of the international RWE organization. If so, please provide a description of the benefits received;

b. Please state whether the Petitioners agree that the loss of this benefit or potential benefit is a detriment to KAW's employees, and if not, explain in detail why it is not.

53. KAW Witness Miller suggests that accelerated rate recovery treatment for KAW to finance KAW's recently announced "go it alone" water supply deficit solution should be considered.

a. Is KAW suggesting that the Commission should adopt any of these ratemaking mechanisms as a part of this proceeding?

b. Does KAW's go it alone solution require such accelerated cost recovery, or is KAW capable of financing its plan under its current ratemaking treatment for capital investment?

c. What impact, if any, does KAW's current financial condition have on KAW's ability to finance its go it alone water supply plan without accelerated recovery as suggested by Mr. Miller? Will this change in any way as result of the change of control? If so, how?

54. With reference to the Petition, paragraph 30, state whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that no additional costs for changes as described in this paragraph will be passed on to KAW ratepayers in any way.

55. State whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that will prevent any additional costs for SEC compliance from being passed on to KAW ratepayers in any way.

56. Provide a resume for witness Wolfe, including dates of service as Senior Vice-President and CFO of USEC, Inc.

57. State whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that will continue to restrict the payment of dividends to AWW similar to the condition restricting payments of dividends adopted in Case No. 2002-00018.

58. With reference to Wolfe testimony, Q. 19, State whether the Petitioners will agree to a condition or commitment as part of the approval of the change of control that will prevent Sarbanes-Oxley costs being passed through to KAW customers (since these costs would not be incurred absent the sale of AWW by RWE).

59. With reference to Wolfe testimony, Q. 33 and 35, state what "minimal impact" the transaction will have on KAW's rates or rate structure, and define "minimal impact" as used in the testimony.

60. With reference to Rowe testimony, Q. 23, since none of the best practices described herein are proprietary, please explain why it was necessary for KAW to be part of the Thames or RWE system to have access to these practices.

a. Will AWW and KAW lose access to best practices as developed at Thames or RWE in the future as a result of this transfer?

Respectfully submitted,

LEXINGTON-FAYETTE URBAN
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CERTIFICATION, NOTICE OF FILING, CERTIFICATE OF SERVICE

Pursuant to Commission Order, counsel certifies that the electronic version of this document 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 as further certified below, the electronic version has been transmitted to the Commission, and the Commission and other parties have been notified by electronic mail that the electronic version has been transmitted to the Commission, and an electronic version has been uploaded to the file transfer protocol site designated by the Executive Director. I further certify that an original and one (1) copy of this document were served by first class U.S. Mail delivery, postage prepaid, to Beth O'Donnell, Executive Director, Public Service Commission, P.O. Box 615, 211 Sower Boulevard, Frankfort, Kentucky 40602-0615; furthermore, it was served by mailing a copy by first class U.S. Mail delivery, postage prepaid, on the following, all on this the 27th day of June 2006:

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