

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**January 30, 2007**

<b>IN RE:</b>	)	
	)	
<b>PETITION OF TENNESSEE-AMERICAN</b>	)	<b>DOCKET NO.</b>
<b>WATER COMPANY FOR APPROVAL OF</b>	)	<b>06-00119</b>
<b>CHANGE OF CONTROL</b>	)	

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**ORDER APPROVING TRANSFER OF AUTHORITY**

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This matter came before Director Eddie Roberson, Director Pat Miller and Director Sara Kyle of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on June 26, 2006 for consideration of the *Petition of Tennessee-American Water Company for Approval of Change of Control* (the “*Petition*”) filed by Tennessee-American Water Company (“TAWC” or “Petitioner”) seeking approval of a transfer of authority pursuant to the provisions of Tenn. Code Ann. § 65-4-113 (2004).

**The *Petition***

RWE Aktiengesellschaft (“RWE”) is a foreign corporation organized and existing under the laws of the Federal Republic of Germany.

Thames Water Aqua Holdings GmbH (“Thames GmbH”) is a foreign corporation organized and existing under the laws of the Federal Republic of Germany. It is a wholly-owned subsidiary of RWE. Thames GmbH is the holding company for most of RWE’s water operations, both in the United States and in several foreign countries.

Thames Water Aqua US Holdings, Inc. (“TWAUSHI”) is a Delaware corporation and is a wholly-owned subsidiary of Thames GmbH. In turn, TWAUSHI is the direct parent company of American Water Works Company, Inc. (“American Water”). TWAUSHI does not conduct business in Tennessee, nor is it authorized to do so. TWAUSHI’s subsidiaries now have approximately 7,000 employees and provide water, wastewater services and other water resource management services to approximately 18 million customers in 29 states and Canada.

American Water is also a Delaware corporation that owns regulated operating subsidiaries in 18 states. American Water does not conduct business in Tennessee, nor is it authorized to do so.

TAWC, a wholly-owned subsidiary of American Water, is a regulated waterworks corporation organized and existing under the laws of the State of Tennessee, with its principal office located in Chattanooga, Tennessee. TAWC serves customers in the cities of Chattanooga, East Ridge, Ridgeside, Lookout Mountain, Elder Mountain and Red Bank and in the Town of Signal Mountain, all of which are located in Hamilton County, Tennessee. In addition, the Petitioner also provides service for customers in portions of the cities of Lookout Mountain, Rossville and Fort Oglethorpe, Georgia, and in Catoosa, Walker, and Dade Counties in Georgia. TAWC currently owns, operates and maintains potable water production, treatment, storage, transmission and distribution systems for the purpose of furnishing potable water for residential, commercial, industrial and governmental users in its service territory. TAWC also owns, operates, and maintains collection, pumping and/or treatment systems for the purpose of furnishing wastewater service for residential, commercial, industrial and governmental users in its service territory.

In 2003, RWE, through its subsidiary TWAUSHI, acquired American Water in a transaction that was approved by the Authority in TRA Docket Nos. 01-01116 and 02-00273. The proposed transaction is expected to result in American Water becoming the largest publicly-traded water company in the United States (“Proposed Transaction”). After consummation of the transaction, the

Petitioner will continue to be operated by its local management. The proposed transaction will provide American Water with access to the public equity and debt capital markets in the United States, maintaining American Water's ability to finance necessary and vital investments in the infrastructure of its subsidiaries, including the Petitioner. The *Petition* asserts the Proposed Transaction will produce benefits for the Petitioner's customers including maintaining a high level of service at just and reasonable rates, and following the proposed transaction, customers will be able to invest in their water utility by buying American Water stock.

The *Petition*, filed on April 21, 2006, requests approval of (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, with American Water being the surviving corporation. The Petitioner is a Tennessee corporation that holds a certificate of public convenience and necessity ("CCN") to provide water service in the city of Chattanooga, Tennessee and certain surrounding areas. The Proposed Transaction will result in an indirect transfer of authority of the Petitioner.

Regarding the sale by Thames GmbH of up to 100% of the shares of common stock of American Water, the shares will be sold through one or more underwritten public offerings to a broad group of investors, including institutional and retail investors. The *Petition* certifies that it is the desire of Thames GmbH to sell 100% of the shares in the IPO. Depending on market conditions, Thames GmbH may decide not to sell 100% of the shares in the IPO. The remainder of the shares would then be sold in a subsequent offering or offerings as soon as reasonably practicable following the IPO. The IPO and subsequent public offerings will be conducted according to the rules for underwritten public offerings mandated by the SEC.

The *Petition* asserts the Proposed Transaction will not impair the ability of the Petitioner to maintain a reasonable capital structure that is representative of other utilities. After the Proposed

Transaction, the Petitioner will continue to be a subsidiary of American Water and will be operated by its management, under the supervision of its board of directors. According to the *Petition*, the experienced management at the Petitioner will continue to provide its financial, technical and managerial abilities to the Petitioner for the benefit of its customers and the communities they live in. The *Petition* states that American Water Works Company, Inc. will continue to provide customer service, accounting, administration, engineering, financial, human resources, information systems, operations, risk management, water quality and other services to the Petitioner under existing service agreements. The Proposed Transaction will be transparent to and will have no adverse impact on the customers of the Petitioner, and the Petitioner will continue to operate under its existing tariffs and rates. In addition, the Proposed Transaction will not adversely impact the Petitioner's rates or its policies with respect to service to customers, employees, operations, financing, or other matters affecting the public interest or utility operations.

#### **June 26, 2006 Authority Conference**

Tenn. Code Ann. § 65-4-113 (2004) requires a public utility to obtain TRA approval to transfer its authority to provide utility services. Tenn. Code Ann. § 65-4-113(a) (2004) reads as follows:

No public utility, as defined in § 65-4-101, shall transfer all or any part of its authority to provide utility services, derived from its certificate of public convenience and necessity issued by the authority, to any individual, partnership, corporation or other entity without first obtaining the approval of the authority.

Tenn. Code Ann. § 65-4-113(b) (2004) provides the standards by which the TRA shall consider an application for transfer of authority, in pertinent part, as follows:

Upon petition for approval of the transfer of authority to provide utility services, the authority shall take into consideration all relevant factors, including, but not limited to, the suitability, the financial responsibility, and capability of the proposed transferee to perform efficiently the utility services to be transferred and the benefit to the consuming public to be gained from the transfer. The authority shall approve the transfer after consideration of all relevant factors and upon finding that such transfer furthers the public interest.

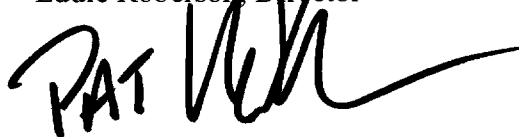
At the regularly scheduled Authority Conference held on June 26, 2006, the voting panel assigned to this docket voted unanimously to approve the Petition after finding that the transfer is in the public interest and will be transparent to customers, and no customer notification letter is required.

**IT IS THEREFORE ORDERED THAT:**

- 1) The indirect transfer of authority as described in the *Petition of Tennessee-American Water Company for Approval of Change of Control* and discussed herein is approved.
- 2) As a result of the transfer, Tennessee-American Water Company will remain a wholly-owned subsidiary of the American Water Works Company, Inc. and will retain its certificate of public convenience and necessity.



Eddie Roberson, Director



Pat Miller, Director



Sara Kyle, Director