

**AMERICAN WATER WORKS COMPANY/RWE
AKTIENGESELLSCHAFT MERGER
MARYLAND-AMERICAN WATER COMPANY
TERMS AND CONDITIONS**

1. Maryland-American Water Company (“Maryland-American”) will cap all rates and charges at their present (pre-merger) levels until March 31, 2004; provided that Maryland-American may file a rate case prior to March 31, 2004 in order that it may have approval of rate changes no later than March 31, 2004. This stay-out period is established to mirror the period of time in which the merging companies have agreed to maintain its workforce at pre-merger levels. The rate cap does not apply in circumstances of (a) extreme financial hardship, (b) significant changes in water quality regulation, or (c) changes in federal income taxes. It is agreed that extreme financial hardship includes purchase of water and that the agreement to stay out would not preclude Maryland-American from filing a water purchase cost pass through tariff prior to March 31, 2004.
2. American Water Works Company (“American”), Thames Water Plc (“Thames”), Thames Water Aqua Holdings GmbH (“Thames Holdings”) and RWE Aktiengesellschaft (“RWE”) shall be prohibited from allocating, pushing down, or assigning any purchase price, goodwill, retention bonus, or any premium reflected in the purchase price of the American stock acquisition transaction by and between American, Thames, Thames Holdings and RWE which is the subject of this Petition (the “Transaction”) to Maryland-American either directly or indirectly through the service company affiliate or by any other means. No costs associated with the Transaction, including but not limited to financial, legal, severance payments, regulatory fees, and investment services or the purchase price of American’s stock shall be passed on to, recovered from, or be funded by customers of Maryland-American any time. No acquisition adjustment, as defined in the Commission-adopted Uniform System of Accounts, shall be recovered from the customers of Maryland-American.
3. RWE, Thames and Thames Holdings shall be permitted to allocate or assign costs, fees, investments, or expenses to Maryland-American, either directly or indirectly through American Water Works Service Company (“AWWSC”), the service company affiliate; provided that such costs, fees, investments or expenses relate to the provision of services to Maryland-American customers that directly benefit such customers by enhancing service to customers or reducing the cost of such services and are not duplicative.
4. Subject to the execution, where appropriate, of acceptable confidentiality agreements, to the extent AWWSC, American, Thames, Thames Holdings or RWE transact business with Maryland-American, the Commission Staff and the Office of People’s Counsel shall be provided reasonable and convenient (i.e., after reasonable notice, in Maryland) access to the books and records of such entities for the purpose of reviewing the proper allocation of costs to Maryland-American.

5. Maryland-American shall provide water that is potable, and, insofar as practicable, free from objectionable odors, taste, color and turbidity, all in accordance with all regulatory requirements applicable to Maryland water companies.
6. There shall be no change in the method by which Maryland-American allocates costs to or from affiliates from the date of the Commission's order approving the merger in this proceeding without prior approval by the Commission.
7. Maryland-American shall continue to maintain its books and records in accordance with the Commission-approved Uniform System of Accounts or as otherwise prescribed by the Commission. In addition, the annual reports of RWE (www.rwe.com) and Thames (www.Thames-Water.com) are available at the web sites indicated, in English. The financial statements of American, prepared in accordance with US GAAP, shall also be made available to the Commission, Commission staff and Office of People's Counsel upon request. A general explanation of significant differences in the accounting principles used by RWE, International Accounting Standards, and those required under GAAP in the United States is available at a web site maintained by the accounting firm Price Waterhouse Coopers at <http://www.pwcglobal.com/extweb/pwcpublications.nsf/DocID/803E18F1DDD4A91E852568CC0055602B>. To the extent that, the Commission, Commission staff or Office of People's Counsel may have questions regarding how specific items appearing in the financial statements of RWE, Thames Holdings or Thames would be treated under GAAP, Petitioners shall promptly answer such questions.
8. The corporate headquarters of American shall remain within the continental United States.
9. No layoffs or involuntary employee severance, except for cause, shall take place at Maryland-American before March 31, 2004. A de minimus or temporary reduction in employment levels shall not constitute a violation of this provision.
10. Maryland-American shall maintain capital structures and use its best efforts to achieve financial target ratios consistent with at least the retention of Maryland-American's current debt quality and/or rating. Any lowering of these debt qualities and/or ratings, resulting in the debt instrument grade shall be reported to the Commission.
11. With respect to its Maryland customers, neither American, Thames, RWE nor Maryland-American shall disclose confidential customer information, including names, addresses, and phone numbers, to an affiliate of RWE, except for contracted billing purposes, without prior written notice to the Commission and without prior consent of the customer.
12. Upon closing of the merger transaction, RWE and Thames shall each appoint an agent who will accept service of process in Maryland.