

corporation owning, holding or controlling separately, or in affiliation with another person or corporation, five percent (5%) or more of the capital stock of such New Jersey Operating Utility or with any corporation five percent (5%) of the capital stock of which is owned, held or controlled by a person or corporation owning, holding or controlling separately, or in affiliation with another person or corporation, five percent (5%) of the capital stock of such New Jersey Operating Utility, shall be submitted to the Board for its approval. Any such contracts shall be reported annually to the Board by the New Jersey Operating Utilities at the time of the filing of their annual reports to the Board. The New Jersey Operating Utilities shall continue to comply with N.J.S.A. 48:3-7.1. (Stipulation Par. 50(x)).

45. The corporate headquarters of New Jersey-American shall remain in New Jersey. American Water has no current plans to relocate its corporate headquarters and agrees that its corporate headquarters shall remain in New Jersey for a period of at least three (3) years following the date of the Board's Order in this proceeding. In recognition of the Board's desire to receive information about a planned move of the corporate headquarters of American Water outside of the State, American Water shall notify the Board six (6) months before an actual move of the corporate headquarters of American Water outside of the State. (Stipulation Par. 50(y)).
46. For a period of two (2) years following the date of the Board's Order in this proceeding, New Jersey-American shall notify the Board and Rate Counsel within thirty (30) days after any of its officers is no longer employed by New Jersey-American. (Stipulation Par. 50(z)).
47. New Jersey-American shall maintain a level of capital investment and best operating practices sufficient to ensure long-term safe, adequate and proper service in compliance with applicable regulations and statutes and in accordance with prudent utility practice. New Jersey-American shall receive funding priority equal to that of any other subsidiary of American Water consistent with American Water's allocation methodology. American Water and New Jersey-American shall support projects designed to enhance the long-term viability of the State's water supplies to serve customers in the service territories of New Jersey-American, including the development of new sources of supply and the enhanced utilization of existing supplies. (Stipulation Par. 50(aa)).
48. The payment for American Water stock in connection with the Proposed Transaction will not be recorded on the books of the New Jersey Operating Utilities. (Stipulation Par. 50(bb)).
49. Each New Jersey Operating Utility will maintain a level of capital investment and best operating practices sufficient to ensure long-term safe, adequate and proper service in fulfillment of its obligations under New Jersey law. American Water shall use its best efforts to maintain current credit ratings that will provide access on a cost effective basis to the public equity and debt capital markets in the U.S., thereby allowing it to assist its operating subsidiaries in financing necessary and vital investments in the infrastructure of its subsidiaries, including the New Jersey Operating Utilities. (Stipulation Par. 50(cc)).
50. The parties agree that New Jersey-American will continue to play an important role in the economic growth of New Jersey and will continue to support the local communities it serves, as a responsible corporate citizen. To further underscore its commitment to the local communities, New Jersey-American agrees to maintain, for at least three (3) years after the date of the Board's Order in this proceeding, and substantially at current

aggregate levels, charitable commitments to the communities served by New Jersey-American. (Stipulation Par. 50(dd)).

51. For a period of one (1) year following the completion of the IPO, staffing levels for collectively bargained employees will not drop below ninety percent (90%) of the number of collectively bargained individuals employed by New Jersey-American on January 1, 2007 (excluding those employees hired on a temporary or limited duration basis). Likewise, for a period of one (1) year following the completion of the IPO, staffing levels for all employees (union and non-union collectively) will not drop below ninety percent (90%) of the number of individuals employed by New Jersey-American on January 1, 2007 (excluding those employees hired on a temporary or limited duration basis). (Stipulation Par. 50(ee)).
52. New Jersey-American agrees to honor all terms and conditions of the existing collective bargaining agreements between New Jersey-American and the applicable local union of the UWUA (the "Collective Bargaining Agreements") through the termination dates of the Collective Bargaining Agreements. Any successor to New Jersey-American will assume the Collective Bargaining Agreements and all obligations thereunder through the termination dates of the Collective Bargaining Agreements. (Stipulation Par. 50(ff)).
53. As part of any rate case proceeding before the Board, the New Jersey Operating Utilities will claim an authorized rate of return for cost of capital which is comprised of the actual embedded cost of debt and a return on equity, as well as capital structure, which appropriately reflects then current market conditions and the risk fundamentals of the water utility industry. In connection therewith, the New Jersey Operating Utilities shall not claim that their risks have increased due solely to the fact that American Water is no longer a subsidiary or affiliate of RWE. (Stipulation Par. 50(gg)).
54. The New Jersey Operating Utilities shall not seek to recover from their ratepayers any costs associated with the unwinding of any debt or preferred stock transactions with RWE or any direct or indirect subsidiary of RWE. (Stipulation Par. 50(hh)).
55. The parties agree that the Joint Petitioners have complied with all conditions contained in the Order of the Board dated November 26, 2002 in I/M/O Joint Petition of New Jersey-American Water Company, Inc. and Thames Water Aqua Holdings GmbH for Approval of a Change in Control of New Jersey-American Water Company, Inc., BPU Docket No. WM01120833 (the "Acquisition Order"), that have required compliance through the date of this Stipulation. The parties hereto have reviewed the Acquisition Order and have included in this Stipulation any conditions from the Acquisition Order that they agree should continue to apply to the Joint Petitioners after consummation of the IPO. The disposition of any conditions contained in the Acquisition Order that are not continued, modified or otherwise incorporated in this Stipulation is addressed in Paragraph 50(II) of the Stipulation. (Stipulation Par. 50(ii)).
56. The parties hereto specifically affirm the Board's authority to enforce the provisions of this Stipulation and the Board's Order adopting this Stipulation. (Stipulation Par. 50(jj)).
57. The parties agree that nothing in this Stipulation shall be construed as limiting the jurisdiction vested in the Board under Title 48 of the New Jersey Statutes or as altering the requirements found therein, including, but not limited to, the requirements of N.J.S.A. 48:2-51.1 or N.J.S.A. 48:2-16. (Stipulation Par. 50(kk)).

58. Based upon the foregoing and subject to the conditions set forth in this Stipulation, the parties agree that (i) the Proposed Transaction satisfies statutory and regulatory requirements and will not adversely impact competition, rates, employees or the provision of safe and adequate utility services at just and reasonable rates by the New Jersey Operating Utilities and the Joint Petitioners have identified positive benefits that will flow to the customers of the New Jersey Operating Utilities and the State as a result of the Proposed Transaction, (ii) the Board should approve the Proposed Transaction as described in this Stipulation and enter an Order as requested by the Petition determining that (a) the Proposed Transaction as described in this Stipulation is approved, and (b) the conditions in the Order of the Board dated November 26, 2002 in I/M/O Joint Petition of New Jersey-American Water Company, Inc. and Thames Water Aqua Holdings GmbH for Approval of a Change in Control of New Jersey-American Water Company, Inc., BPU Docket No. WM01120833, will no longer be applicable after consummation of the IPO. (Stipulation Par. 50(II)).

DISCUSSION AND FINDINGS

Pursuant to Paragraph 29 of the Stipulation, Joint Petitioners acknowledge that the Board may exercise jurisdiction over the Proposed Transaction Upon review, the Board HEREBY FINDS, as Joint Petitioners have acknowledged, that this is a petition over which the Board may exercise jurisdiction pursuant N.J.S.A. 48:2-51.1 and N.J.S.A. 48:3-10. Furthermore, for such transactions, N.J.A.C. 14:1-5.14(c) requires that the Board must be satisfied that *positive benefits* will flow to customers and the State of New Jersey (the "State"). N.J.A.C. 14:1-5.14(c) explicitly states:

(c) The Board *shall not approve* a merger, consolidation, acquisition and/or change in control unless it is satisfied that positive benefits will flow to customers and the State of New Jersey and, at a minimum, that there are no adverse impacts on any of the criteria delineated in N.J.S.A. 48:2-51.1 [emphasis added]

(d) The petitioners seeking merger, consolidation, acquisition and/or change in control of a public utility shall have the burden of proving to the Board, by a preponderance of the evidence, that the requirements of this section are met.

Having reviewed the record in this matter, including the Stipulation of Settlement among the parties to this proceeding, the Board HEREBY FINDS that the parties have voluntarily agreed to the Stipulation. Furthermore, in accordance with N.J.S.A. 48:2-51.1 and N.J.S.A. 48:3-10, the Board HEREBY FINDS as follows:

- (a) The Proposed Transaction will not adversely impact competition, because after the Proposed Transaction is consummated, each New Jersey Operating Utility will continue to provide service to its customers in its current franchise territories.
- (b) The Proposed Transaction will not have any immediate or direct impact on the rates of the New Jersey Operating Utilities. The New Jersey Operating Utilities will continue to operate under their existing Board-approved tariffs and rate structures, until such time as such tariffs and rate structures are revised in accordance with New Jersey law.
- (c) The Proposed Transaction will not impact or change any of the policies of the New Jersey Operating Utilities with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, service or other matters affecting the public interest or utility operations other than: a) as appropriate to ensure compliance with requirements of the SEC and the stock exchange on which the

shares of American Water will be traded, and b) to the extent that the organizational policies of RWE will no longer be applicable.

- (d) The Proposed Transaction will cause no material changes in the income statement, balance sheet or financial position of the New Jersey Operating Utilities. The Proposed Transaction will not (i) adversely impact current investment and capital programs of the New Jersey Operating Utilities, or (ii) impair the ability of the New Jersey Operating Utilities to raise necessary capital on reasonable terms or to maintain a reasonable capital structure. At the time of the IPO, American Water will have a total capitalization structure that includes a debt ratio in the range of forty-five percent (45%) to fifty-five percent (55%) and a common equity ratio no lower than forty-five percent (45%). This capital structure is within the range of reasonableness for a water utility company under current market conditions.
- (e) Pursuant to paragraph 50(gg) of the Stipulation, as part of any rate case proceeding before the Board, the New Jersey Operating Utilities will claim an authorized rate of return for cost of capital which is comprised of the actual embedded cost of debt and a return on equity, as well as capital structure, which appropriately reflects then current market conditions and the risk fundamentals of the water utility industry. In connection therewith, the New Jersey Operating Utilities shall not claim that their risks have increased due solely to the fact that American Water is no longer a subsidiary or affiliate of RWE.
- (f) Pursuant to paragraph 50(hh) of the Stipulation, the New Jersey Operating Utilities shall not seek to recover from their ratepayers any costs associated with the unwinding of any debt or preferred stock transactions with RWE or any direct or indirect subsidiary of RWE.
- (g) The Joint Petitioners shall not seek any recovery of any of the costs of the Proposed Transaction, which are comprised of the SEC registration fee, the NASD filing fee, the stock exchange listing fee, legal fees and expenses of the Proposed Transaction, accounting fees and expenses of the Proposed Transaction, printing and engraving fees and expenses for the registration statement, Blue Sky fees and expenses, transfer agent fees and expenses, and legal fees for the state regulatory review process, underwriting fees for the IPO, any expenses and employee costs associated with the Proposed Transaction (such as retention bonuses), and any other costs, fees or expenses incurred by the Joint Petitioners in connection with the conduct or consummation of the Proposed Transaction (collectively, the "Costs of the Proposed Transaction"). In addition, the Joint Petitioners shall not seek recovery of the costs of the initial development and implementation of programs and procedures necessary for compliance with the Sarbanes-Oxley Act of 2002 (Pub. L. No. 107-204, 116 Stat. 745) ("Sarbanes-Oxley") from the customers of the New Jersey Operating Utilities.
- (h) The Proposed Transaction will not adversely impact employees or employment levels of the New Jersey Operating Utilities. Within the past twelve (12) months, the New Jersey Operating Utilities have added approximately one hundred (100) new employees to their payroll. As described above, the Proposed Transaction involves a change in the ownership of the American Water shares from one shareholder to multiple shareholders through one or more public offerings. Neither the Proposed Transaction nor the merger of EWC and MHWC with and into New Jersey-American described in paragraph 5 of this Stipulation will have any adverse impact on the employment levels of the New Jersey Operating Utilities. There will be no change in any existing collective bargaining agreement as a result of the Proposed Transaction and the New Jersey Operating

Utilities will continue to honor their respective existing collective bargaining agreements. The funding policies of American Water and the New Jersey Operating Utilities for the pension plans of the union and non-union employees of American Water and the New Jersey Operating Utilities will not change as a result of the Proposed Transaction. Those pension plans have been and, after completion of the Proposed Transaction, will continue to be funded in compliance with all applicable requirements of the Employee Retirement Income Security Act ("ERISA") and the Pension Protection Act of 2006 ("PPA")

- (i) Each New Jersey Operating Utility will continue to provide safe, adequate and proper service in fulfillment of its obligations under New Jersey law. The Proposed Transaction will provide American Water with access to the public equity and debt capital markets in the U.S., thereby allowing it to assist its operating subsidiaries in financing necessary and vital investments in the infrastructure of its subsidiaries, including the New Jersey Operating Utilities.
- (j) Each New Jersey Operating Utility will continue to be a direct or indirect subsidiary of American Water, and will be operated by its management, under the supervision of its board of directors. The Proposed Transaction will not cause any changes in the officers, active managers or employees of either New Jersey Operating Utility. Similarly, the Proposed Transaction will not impact changes in the officers, active managers or employees of either New Jersey Operating Utility that arise out of the ordinary course of business. After the closing of the Proposed Transaction, each New Jersey Operating Utility will continue to have experienced management and operating personnel capable of carrying out the utility's obligation to render safe, adequate and proper service.
- (k) Affiliates of American Water will continue to provide customer service, accounting, administration, engineering, financial, human resources, information systems, operations, risk management, water quality and other services to the New Jersey Operating Utilities in accordance with Board-approved service agreements in place between such affiliates and the New Jersey Operating Utilities.
- (l) Following the IPO, the Board of Directors of American Water will consist of experienced individuals who, in the aggregate, possess the capabilities and experience appropriate for the board of a large, publicly-owned multi-state water utility. As required by the applicable SEC rules and regulations and the rules of the New York Stock Exchange (where the American Water shares are expected to be listed in connection with the IPO, subject to approval of such listing by the SEC and the New York Stock Exchange), after the closing of the IPO, a majority of the members of the Board of Directors of American Water will be "independent" directors.
- (m) The Proposed Transaction will not affect the Board's powers or jurisdiction with respect to the New Jersey Operating Utilities or the authority of any other governmental agencies as to the services or facilities of the New Jersey Operating Utilities. The New Jersey Operating Utilities will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of New Jersey public utilities.

The Board FURTHER FINDS that the following positive benefits will result from the Proposed Transaction:

- (a) American Water will be better able to focus on the water and wastewater industry in the U.S. as an independent publicly-traded company rather than continuing to be a non-core business of RWE, which has refocused its corporate strategy on its rapidly changing and

increasingly capital-intensive core European energy markets. American Water will control its own destiny and will not have to compete for management attention and financial support with the other divisions of RWE as part of a large, international corporate structure that is focused primarily on businesses other than the water and wastewater business in the U.S. As a publicly-traded company that is focused on the water and wastewater business in the U.S., American Water will be better positioned to focus on maintaining, developing and growing the water and wastewater business of its subsidiaries, including the New Jersey Operating Utilities, and on the needs of customers and employees

(b) As a publicly-traded company, American Water will gain access to the public equity and debt capital markets in the U.S., and even worldwide, thereby enhancing its efforts to obtain the most cost-effective capital to finance the needs of American Water and its subsidiaries. As a non-publicly traded company, American Water is currently restricted to accessing the U.S. capital markets through private placement offerings of its debt and equity securities which are limited by financial investor capacity and the number of investors who meet the requirements of "accredited investors" under the SEC rules. After the IPO, this will change and American Water will be able to fully access all investors in the capital markets in the U.S., both public and private, because (a) American Water will already be a public reporting company and, therefore, the administrative and legal time and burden associated with the SEC information requirements will have already been completed, and (b) after one (1) year as a public reporting company, American Water will be able to issue its securities off a shelf registration statement, which will significantly increase its ability to quickly access these markets.

(c) As a publicly-traded company, American Water will become subject to the federal securities laws and regulations as well as the requirements of the stock exchange where American Water's common shares will be listed. These laws and regulations will impose obligations on American Water and its subsidiaries related to financial reporting, accounting, internal controls, general business disclosure, corporate governance, executive compensation reporting, issuance of securities and related financial and business matters. American Water will be required to file annual, quarterly and current reports (relating to certain business events) with the SEC, and certain American Water investors will be required to make filings with the SEC disclosing their American Water shareholdings (including, under certain circumstances, the purpose for acquiring such shareholdings). All financial information of American Water and its subsidiaries will have to be reported in accordance with U.S. generally accepted accounting principles and SEC regulations. The annual consolidated financial statements of American Water must be audited. In addition, all filings with the SEC will be made immediately available on the SEC's web-site, not only to investors, but to the public at large. American Water will also be required to comply with the extensive requirements imposed as a result of Sarbanes-Oxley. These requirements relate to, among other things, internal controls over financial reporting and external audit of such controls, corporate officer certification of financial and other information, corporate governance requirements, and enhanced and expedited disclosure, particularly with respect to certain financial information. By implementing the programs and procedures necessary for compliance with Sarbanes-Oxley, American Water will be making improvements to its internal and back-office processes and the customers of the New Jersey Operating Utilities will benefit from these improvements. Although they will be receiving immediate benefits from these improvements, the substantial costs of the initial development and implementation of the programs and procedures necessary for compliance with Sarbanes-Oxley, which costs would otherwise be properly recoverable in rates, will not be passed on to or funded by customers of the New Jersey Operating Utilities. Accordingly, the customers of the New Jersey Operating Utilities will be realizing a substantial savings as a result of the Proposed Transaction.

(d) The Proposed Transaction should enhance the ability of the New Jersey Operating Utilities to attract and retain highly-qualified and capable employees who will be drawn to working for a publicly-traded company, as opposed to a non-core subsidiary of a large international corporation that is focused primarily on the European energy markets. Employees and customers of the New Jersey Operating Utilities will be able to invest in the water and wastewater utility that employs or serves them by buying American Water stock.

(e) After completion of the Proposed Transaction, the New Jersey Operating Utilities will continue to provide safe, adequate, and proper service to their customers and career opportunities for their employees. All of this will be accomplished while the New Jersey Operating Utilities maintain their financial strength and reasonable rates. The company locations for the receipt of customer payments currently maintained by New Jersey-American and the 24/7 customer call center service currently provided by the New Jersey Operating Utilities will not change as a result of the Proposed Transaction.

(f) After completion of the Proposed Transaction, the New Jersey Operating Utilities will continue to be managed by capable and experienced management executives and professional and operating personnel who will carry out the obligations of the New Jersey Operating Utilities to render safe, adequate and proper service, which includes providing the regulatory agencies and their staff with consistent and responsive access to responsible company personnel. In addition, after completion of the Proposed Transaction, all management decisions of the New Jersey Operating Utilities that currently require the approval of American Water and ultimate approval by RWE, will only require the approval of American Water. Accordingly, after completion of the Proposed Transaction, American Water, located in Voorhees, New Jersey, in conjunction with its local operating utilities, will have ultimate responsibility for managing all business operations throughout the United States, including the operations of the New Jersey Operating Utilities.

In considering the Joint Petition, the Board has carefully considered the impact of the Proposed Transaction as set forth above and HEREBY ADOPTS the Stipulation of Settlement attached hereto as its own, incorporating by reference the terms and conditions as if fully set forth at length herein, and HEREBY ORDERS compliance with the following:

(a) The Joint Petitioners shall not allocate, push down or assign any of the Costs of the Proposed Transaction to the New Jersey Operating Utilities, either directly or indirectly, for rate-making purposes and such Costs of the Proposed Transaction will not be passed on to or funded by customers of the New Jersey Operating Utilities or sought to be passed on to or funded by such customers. In addition, the costs of the initial development and implementation of the programs, processes and procedures necessary for compliance with Sarbanes-Oxley will not be passed on to or funded by customers of the New Jersey Operating Utilities or sought to be passed on to or funded by such customers. The Joint Petitioners shall provide a certified report to the Board containing an itemized breakdown of all of the Costs of the Proposed Transaction and the costs of the initial development and implementation of the Sarbanes-Oxley compliance programs, processes and procedures within one year of the date of the Board's Order in this proceeding, or if the IPO has not occurred within one year of the date of the Board's Order in this proceeding, within sixty (60) days after the completion of the IPO and certifying that no such Costs have been or will be passed on to the customers of the New Jersey Operating Utilities. The eligibility of any ongoing Sarbanes-Oxley costs for ratemaking purposes will be considered in the context of New Jersey American Water Company's next base rate proceeding.

(b) The New Jersey Operating Utilities are subject to all applicable New Jersey and federal water and wastewater supply, service and quality standards and each New Jersey

Operating Utility shall conduct itself in a manner consistent with the objective of achieving compliance with those standards. There shall be no diminution from the New Jersey Operating Utilities' current levels of customer service and water quality as a result of the Proposed Transaction and that they shall maintain access to adequate resources to continue to be responsive in a timely manner to questions from customers and regulatory agencies. After the completion of the Proposed Transaction, the New Jersey Operating Utilities shall continue to be managed by capable and experienced local management executives and professional and operating personnel who will carry out the obligations of the New Jersey Operating Utilities to render safe, adequate and proper service, which includes providing the Board and the Board Staff with consistent and responsive access to responsible company personnel and any information necessary to carry out the Board's regulatory functions.

(c) Following completion of the Proposed Transaction, American Water and New Jersey Operating Utilities shall continue to keep the Board and Board Staff apprised of any significant issues affecting American Water and/or the New Jersey Operating Utilities in the manner in which they currently do so and shall use their best commercially reasonable efforts to provide notification of any such significant issues, including but not limited to, those set forth in subsections (e) and (t) of paragraph 50 of the Stipulation, to the Board and Board Staff no later than when American Water and the New Jersey Operating Utilities give notice of such significant issues to any person or entity outside their respective companies, including any other state regulatory body or agency, to the extent permitted by the requirements of all applicable laws and regulations.

(d) Following the completion of the Proposed Transaction and, if applicable, subject to the executed Confidentiality Agreement attached as Exhibit B to the Stipulation, each New Jersey Operating Utility shall provide and/or make ready for review by the Board or the Board Staff any or all of its original accounting books, records and financial documents within seven (7) business days after a request therefore by the Board and to the extent that such books, records and documents are available, unless otherwise specified by the Board.

(e) American Water and the New Jersey Operating Utilities shall provide notice to the Board and the Board Staff, upon the applicable SEC filing relating to such event appearing on the SEC's web-site, if American Water experiences any of the following events: (i) a change of control, (ii) a material acquisition or disposal of assets other than in the ordinary course of business, (iii) a filing of bankruptcy or appointment of a receiver, or (iv) a change in its independent accounting firm.

(f) Prior to the IPO, RWE and/or Thames GmbH will infuse equity capital into American Water sufficient to establish a capital structure for American Water at the time of the IPO that includes an equity-to-capitalization ratio no lower than forty-five percent (45%) common equity. American Water shall file a balance sheet as of the quarter ended immediately preceding the date of the completion of the IPO with the Board.

(g) Following the completion of the Proposed Transaction, at least thirty percent (30%) of the members of the Board of Directors of New Jersey-American shall be individuals who (i) are New Jersey residents, and (ii) are not members of the Board of Directors of American Water unless they are "independent" directors of American Water within the meaning of the New York Stock Exchange listing requirements. Following the completion of the Proposed Transaction, New Jersey-American shall notify the Board of any change in the composition of its Board of Directors within ten (10) business days of the occurrence of such change.

(h) If the Joint Petitioners determine that the sale by Thames GmbH of one hundred percent (100%) of the shares of common stock of American Water cannot be completed within

twenty-four (24) months from the date the SEC declares the registration statement for the IPO effective, the Joint Petitioners shall provide written notice of such fact and the expected timeframe within which such sale will be completed to the Board Secretary within ten (10) business days after such determination. Thereafter, the sale by Thames GmbH of one hundred percent (100%) of the shares of common stock of American Water must be completed within thirty-six (36) months from the date the SEC declares the registration statement for the IPO effective unless: (a) such period is extended by the Board, or (b) Thames GmbH's ownership percentage of the outstanding shares of American Water common stock is less than ten percent (10%).

(i) American Water shall continue to fund the pension plans of the union and non-union employees of the New Jersey Operating Utilities in compliance with all applicable requirements of ERISA and the PPA. The New Jersey Operating Utilities will not seek to recover from their customers any increased pension funding expense or other costs that would be incurred to remedy any violation of ERISA's minimum funding requirements during RWE's ownership of American Water if it should be determined that any such violation has occurred. Nothing contained in this Stipulation shall preclude the Board from conducting an audit or review of the status and details of pension plans of the union and non-union employees as provided in applicable New Jersey law.

(j) Except in accordance with the provisions of a Board-approved financial service agreement, the New Jersey Operating Utilities shall not participate in any inter-company lending arrangement whereby depository, surplus cash funds are loaned or borrowed by the New Jersey Operating Utilities or any other subsidiary or affiliate of American Water to meet long-term or short-term (less than 365 days) operating cash requirements.

(k) Except in accordance with the provisions of a Board approved financial service agreement or otherwise with the prior approval of the Board, the New Jersey Operating Utilities shall not make loans or extend credit to American Water or any American Water subsidiary for a term in excess of one (1) year or pledge its assets to secure any securities of American Water or any direct or indirect subsidiary of American Water.

(l) For a period of three (3) years following the date of the Board's Order in this proceeding, American Water shall not charge New Jersey-American more than its allocated share of \$1 million per year (adjusted annually for inflation) for additional audit costs for Sarbanes Oxley compliance in conformance with the Board approved service agreement in place between New Jersey-American and American Water Works Service Company, Inc.

(m) For a period of three (3) years following the date of the Board's Order in this proceeding and after notification has first been given to the affected employees, each New Jersey Operating Utility shall notify the Board, Rate Counsel and, if applicable, the UWUA in writing of a planned reduction of five percent (5%) or more in its work force.

(n) The New Jersey Operating Utilities shall not bear any costs incurred to comply with any law, regulation, standard, or practice of the United Kingdom, Federal Republic of Germany, or European Community necessary to complete the Proposed Transaction.

(o) New Jersey-American shall notify the Board and Rate Counsel of any downgrading of the bonds of American Water, American Water Capital Corporation ("AWCC") or New Jersey-American upon public notification of any such downgrading and, where available, shall provide a copy of the report of the rating agency relating to the downgrading to the Board and to Rate Counsel.

(p) New Jersey-American shall notify the Board before making any dividend payment that is in excess of seventy-five percent (75%) of its after-tax net income to common stock earned during each twelve month period ending September 30 with such dividend payments being made quarterly in arrears.

(q) The Proposed Transaction shall not have any material effect on the income statement, balance sheet or book value of either New Jersey Operating Utility.

(r) Following the completion of the Proposed Transaction, the Board may conduct various focused audits, management audits or reviews of the New Jersey Operating Utilities as provided in applicable New Jersey law.

(s) The Joint Petitioners shall file a report with the Board fully describing the corporate structure and various corporate relationships of the Joint Petitioners following the completion of the Proposed Transaction. Such report shall be in sufficient detail to allow the Board's Division of Audits to understand all affiliate relationships to the extent that they pertain to the operations of the New Jersey Operating Utilities and/or include the New Jersey Operating Utilities as a party, and such review is necessary to carry out the Board's regulatory functions. Upon request, the books, records and supporting documentation relating to such affiliate transactions shall be made available to the Board within six (6) months of the date of completion of the Proposed Transaction.

(t) In recognition of the Board's concern that diversified investments by utilities and utility holding companies could have a deleterious impact on the financial integrity of American Water and the New Jersey Operating Utilities, the Joint Petitioners shall provide notification to the Board and Rate Counsel of any documents that have been filed with the SEC describing the investment results of American Water's diversified activities upon such documents appearing on the SEC's web-site, and, upon request, will provide copies of such filed documents to the Board and Rate Counsel. Upon request, appropriate representatives of American Water and/or the New Jersey Operating Utilities shall meet with the Board Staff and Rate Counsel to review and discuss, subject to the executed Confidentiality Agreement attached as Exhibit B of the Stipulation of Settlement, the contents of any such documents filed by American Water with the SEC and any related issues, including any information relating to the unregulated business activities of American Water, as well as information relating to the unregulated business activities of the New Jersey Operating Utilities or their subsidiaries, all to the extent necessary to carry out the Board's regulatory functions.

(u) Upon request, the New Jersey Operating Utilities shall make available to the Board's Division of Audits, for review at the Board's offices, copies of all of the audits of the New Jersey Operating Utilities and, subject to the executed Confidentiality Agreement attached as Exhibit B of the Stipulation of Settlement, the internal audits of American Water or any of its subsidiaries and successors to the extent that such audits pertain to the operations of the New Jersey Operating Utilities and such review is necessary to carry out the Board's regulatory functions.

(v) Subject to the executed Confidentiality Agreement attached as Exhibit B of the Stipulation of Settlement, upon request, copies of the U.S. federal income tax returns of American Water and any of its subsidiaries and successors that are consolidated with the New Jersey Operating Utilities for the purposes of U.S. federal income taxes shall be made available for review by the Board Staff and Rate Counsel at the Board's offices to the extent that such review is necessary to carry out the Board's regulatory functions.

(w) New Jersey-American shall use its best reasonable efforts to maintain all applicable water quality standards and to maintain or improve water service standards including, but not

limited to, the following: water service related interruptions and employee response time thereto, and customer complaint and customer inquiry response time related to such water quality standards. The New Jersey Operating Utilities shall maintain adequate resources to continue to be responsive to questions from customers and regulatory agencies.

(x) In accordance with, and absent a change in, N.J.S.A. 48:3-7.1 or any applicable Board regulations, any management, advisory service, construction or engineering contract that in itself or in connection with another contract relating to the same work, project, transaction or service involves the expenditure of a sum exceeding twenty-five thousand dollars (\$25,000.00), made by either New Jersey Operating Utility with any person or corporation owning, holding or controlling separately, or in affiliation with another person or corporation, five percent (5%) or more of the capital stock of such New Jersey Operating Utility or with any corporation five percent (5%) of the capital stock of which is owned, held or controlled by a person or corporation owning, holding or controlling separately, or in affiliation with another person or corporation, five percent (5%) of the capital stock of such New Jersey Operating Utility, shall be submitted to the Board for its approval. Any such contracts shall be reported annually to the Board by the New Jersey Operating Utilities at the time of the filing of their annual reports to the Board. The New Jersey Operating Utilities shall continue to comply with N.J.S.A. 48:3-7.1.

(y) The corporate headquarters of New Jersey-American shall remain in New Jersey for a period of at least three (3) years following the date of the Board's Order in this proceeding. American Water shall notify the Board six (6) months before an actual move of the corporate headquarters of American Water outside of the State.

(z) For a period of two (2) years following the date of the Board's Order in this proceeding, New Jersey-American shall notify the Board and Rate Counsel within thirty (30) days after any of its officers is no longer employed by New Jersey-American.

(aa) New Jersey-American shall maintain a level of capital investment and best operating practices sufficient to ensure long-term safe, adequate and proper service in compliance with applicable regulations and statutes and in accordance with prudent utility practice. New Jersey-American shall receive funding priority equal to that of any other subsidiary of American Water consistent with American Water's allocation methodology. American Water and New Jersey-American shall support projects designed to enhance the long-term viability of the State's water supplies to serve customers in the service territories of New Jersey-American, including the development of new sources of supply and the enhanced utilization of existing supplies.

(bb) The payment for American Water stock in connection with the Proposed Transaction shall not be recorded on the books of the New Jersey Operating Utilities.

(cc) Each New Jersey Operating Utility shall maintain a level of capital investment and best operating practices sufficient to ensure long-term safe, adequate and proper service in fulfillment of its obligations under New Jersey law. American Water shall use its best efforts to maintain current credit ratings that will provide access on a cost effective basis to the public equity and debt capital markets in the U.S., thereby allowing it to assist its operating subsidiaries in financing necessary and vital investments in the infrastructure of its subsidiaries, including the New Jersey Operating Utilities.

(dd) New Jersey-American will continue to play an important role in the economic growth of New Jersey and will continue to support the local communities it serves, as a responsible corporate citizen. New Jersey-American agrees to maintain, for at least three (3)

years after the date of the Board's Order in this proceeding, and substantially at current aggregate levels, charitable commitments to the communities served by New Jersey-American.

(ee) For a period of one (1) year following the completion of the IPO, staffing levels for collectively bargained employees shall not drop below ninety percent (90%) of the number of collectively bargained individuals employed by New Jersey-American on January 1, 2007 (excluding those employees hired on a temporary or limited duration basis). Likewise, for a period of one (1) year following the completion of the IPO, staffing levels for all employees (union and non-union collectively) will not drop below ninety (90%) of the number of individuals employed by New Jersey-American on January 1, 2007 (excluding those employees hired on a temporary or limited duration basis).

(ff) New Jersey-American shall honor all terms and conditions of the existing collective bargaining agreements between New Jersey-American and the applicable local union of the UWUA (the "Collective Bargaining Agreements") through the termination dates of the Collective Bargaining Agreements. Any successor to New Jersey-American will assume the Collective Bargaining Agreements and all obligations thereunder through the termination dates of the Collective Bargaining Agreements.

(gg) As part of any rate case proceeding before the Board, the New Jersey Operating Utilities will claim an authorized rate of return for cost of capital which is comprised of the actual embedded cost of debt and a return on equity, as well as capital structure, which appropriately reflects then current market conditions and the risk fundamentals of the water utility industry. In connection therewith, the New Jersey Operating Utilities shall not claim that their risks have increased due solely to the fact that American Water is no longer a subsidiary or affiliate of RWE.

(hh) The New Jersey Operating Utilities shall not seek to recover from their ratepayers any costs associated with the unwinding of any debt or preferred stock transactions with RWE or any direct or indirect subsidiary of RWE.

(ii) The Joint Petitioners have complied with all conditions contained in the Order of the Board dated November 26, 2002 in I/M/O Joint Petition of New Jersey-American Water Company, Inc. and Thames Water Aqua Holdings GmbH for Approval of a Change in Control of New Jersey-American Water Company, Inc., BPU Docket No. WM01120833 (the "Acquisition Order"), that have required compliance through the date of this Stipulation. The Board HEREBY FINDS that the conditions set forth in the Acquisition Order have been satisfied and shall no longer be applicable after the consummation of the IPO, except as otherwise noted within the Stipulation.

(jj) Nothing in this Stipulation shall be construed as limiting the jurisdiction vested in the Board under Title 48 of the New Jersey Statutes or as altering the requirements found therein, including, but not limited to, the requirements of N.J.S.A. 48:2-51.1 or N.J.S.A. 48:2-16.

(kk) The Stipulation of Settlement shall bind and inure to the benefit of the parties and their respective successors and assigns.

CONCLUSION

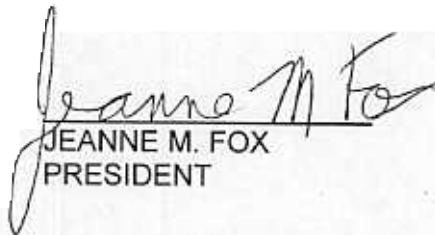
Based upon the foregoing and subject to the conditions set forth in this Order, the Board HEREBY FINDS that the Proposed Transaction satisfies applicable statutory and regulatory requirements and will not adversely impact competition, rates, employees or the provision of safe, adequate, and proper utility services at just and reasonable rates by the

New Jersey Operating Utilities. The Board FURTHER FINDS that the Joint Petitioners have identified positive benefits that will flow to the customers of the New Jersey Operating Utilities and the State as a result of the Proposed Transaction. Therefore, Board HEREBY APPROVES the Proposed Transaction as described in the Stipulation of Settlement and HEREBY DECLARES, subject to the terms contained in the Stipulation, that the conditions in the Order of the Board dated November 26, 2002 in I/M/O Joint Petition of New Jersey-American Water Company, Inc. and Thames Water Aqua Holdings GmbH for Approval of a Change in Control of New Jersey-American Water Company, Inc., BPU Docket No. WM01120833, will no longer be applicable after consummation of the IPO, except as otherwise noted within the Stipulation.

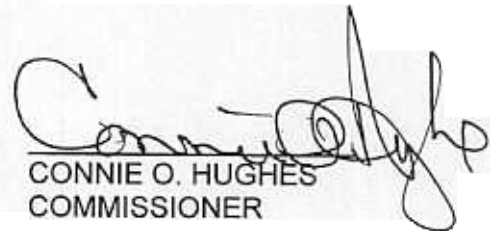
The effective date of the Order is as set forth below.


DATED: 6/18/07

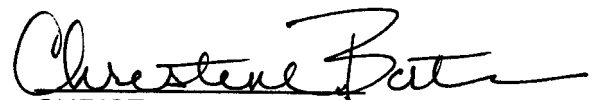
BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT

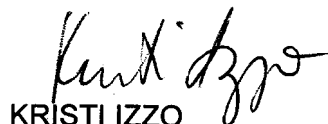

FREDERICK F. BUTLER
COMMISSIONER


CONNIE O. HUGHES
COMMISSIONER

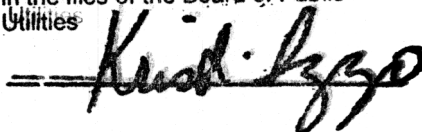

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



In the Matter of Thames Water Aqua Holding
GMBH/RWE, etc. – For Approval of Proposed Transaction
Involving Sale of Shares of Common Stock of
American Water Works Company
Docket No. WM06050388

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