

EXECUTION COPY

**JPMORGAN CHASE BANK, N.A.
J.P. MORGAN SECURITIES INC.
CITIGROUP GLOBAL MARKETS INC.**

June 15, 2006

American Water Capital Corp.
American Water Headquarters
1025 Laurel Oak Road
Voorhees, NJ 08043

Attention: Mr. James Kalinovich

***\$800,000,000 Revolving Credit Facility
COMMITMENT LETTER***

Ladies and Gentlemen:

You (the "*Borrower*") have requested that J.P. Morgan Securities Inc. ("*JPMorgan*") and Citigroup Global Markets Inc. agree to structure, arrange and syndicate a senior revolving credit facility in an aggregate amount of up to \$800,000,000 (the "*Facility*"). You have also requested that JPMorgan Chase Bank, N.A. ("*JPMCB*") and Citigroup (as defined below) each commit to provide a portion of the Facility and that JPMCB serve as administrative agent for the Facility. For purposes of this letter, "*Citigroup*" means CGMI, Citibank, N.A., Citicorp USA, Inc., Citicorp North America, Inc. and/or any of their affiliates as may be appropriate to consummate the transactions contemplated herein.

JPMorgan and CGMI are pleased to advise you of their several but not joint agreement to act as Joint Lead Arrangers and Co-Bookrunners for the Facility (collectively, the "*Joint Lead Arrangers*").

Furthermore, (i) JPMCB is pleased to advise you of its commitment to provide \$150,000,000 of the Facility, (ii) CGMI on behalf of Citigroup is pleased to advise you of its commitment to provide \$150,000,000 of the Facility and (iii) JPMorgan, JPMCB, CGMI and Citigroup (collectively, the "*Credit Parties*") are pleased to advise you of their several but not joint agreement to use their best efforts to assemble a syndicate of financial institutions identified by the Credit Parties in consultation with you and approved by you (acting in your reasonable discretion), to provide the balance of the necessary commitments for the Facility, in each case,

upon the terms and subject to the conditions set forth or referred to in this commitment letter (the "**Commitment Letter**") and in the Summary of Terms and Conditions attached hereto as Exhibit A (the "**Term Sheet**"). It is a condition to JPMCB's and Citigroup's commitments hereunder that the portion of the Facility not being provided by JPMCB and Citigroup shall be provided by the other Lenders referred to below.

It is agreed that JPMCB will act as the sole and exclusive Administrative Agent, and that the Joint Lead Arrangers will act as the Joint Lead Arrangers and Co-Bookrunners for the Facility and each will, in such capacities, perform the duties and exercise the authority customarily performed and exercised by it in such roles. You agree that no other agents, co-agents or arrangers will be appointed, no other titles will be awarded and no compensation (other than that expressly contemplated by the Term Sheet and the Fee Letter referred to below) will be paid in connection with the Facility unless you and we shall so agree; *provided* that you will have the right to designate certain Lenders as co-agents in consultation with the Joint Lead Arrangers.

We intend to syndicate the Facility (including, in our discretion, all or part of JPMCB's and Citigroup's commitments hereunder) to a group of financial institutions (together with JPMCB and Citigroup, the "**Lenders**") identified by us in consultation with you and approved by you (acting in your reasonable discretion). The Joint Lead Arrangers intend to commence syndication efforts promptly upon the execution of this Commitment Letter, and you agree actively to assist the Joint Lead Arrangers in completing a syndication satisfactory to them and you. Such assistance shall include (a) your using commercially reasonable efforts to ensure that the syndication efforts benefit materially from your existing lending relationships, (b) direct contact between senior management and advisors of the Borrower and its affiliates and the proposed Lenders, (c) assistance in the preparation of a Confidential Information Memorandum and/or other marketing materials (collectively, the "**Information Materials**") to be used in connection with the syndication and (d) the hosting, with the Joint Lead Arrangers, of one or more meetings of prospective Lenders, if determined to be necessary.

As the Joint Lead Arrangers, JPMorgan and CGMI will manage all aspects of the syndication, including decisions, which in each case shall be reasonably acceptable to you, as to the selection of institutions to be approached and when they will be approached, when their commitments will be accepted, which institutions will participate, the allocations of the commitments among the Lenders and the amount and distribution of fees among the Lenders. In acting as the Joint Lead Arrangers, JPMorgan and CGMI will have no responsibility other than to arrange the syndication as set forth herein and shall in no event be subject to any fiduciary or other implied duties. To assist JPMorgan and CGMI in their syndication efforts, you agree promptly to prepare and provide to the Credit Parties all information with respect to the Borrower and the transactions contemplated hereby as we may reasonably request in connection with the arrangement and syndication of the Facility. You hereby represent that (a) all information other than the projections (the "**Projections**") that has been provided to you prior to the date hereof or that will be made available to any Credit Party by you or any of your representatives (the "**Information**") when taken as a whole, does not or will not, when furnished contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made and (b) the Projections that have been or will be made available to any

Credit Party by you or any of your representatives have been or will be prepared in good faith based upon assumptions that you believe to be reasonable at the time such Projections were or will be made available. You understand that in arranging and syndicating the Facility we may use and rely on the Information and Projections without independent verification thereof, it being understood that projections are inherently uncertain and no assurances are being given that the results reflected in the Projections will be achieved.

As consideration for JPMCB's and Citigroup's commitments hereunder and the Joint Lead Arrangers' agreements to perform the services described herein, you agree to pay the nonrefundable fees set forth in Annex I to the Term Sheet and in the Fee Letter dated the date hereof and delivered herewith (the "*Fee Letter*").

JPMCB's and Citigroup's commitments hereunder and the Joint Lead Arrangers' agreements to perform the services described herein are subject to (a) there not occurring or becoming known to us after the date hereof any material adverse condition or material adverse change in or affecting the business, condition (financial or otherwise) or operations of American Water Works Company, Inc. ("*AW*") and its subsidiaries, taken as a whole, (b) our review of the audited consolidated balance sheet and related statements of income, stockholders equity and cash flows of AW for the year ending December 31, 2005, which financial statements shall not be inconsistent in a material and adverse manner with any information or other matter disclosed to us prior to the date hereof, (c) our not becoming aware after the date hereof of any information or other matter affecting the Borrower or the transactions contemplated hereby that is inconsistent in a material and adverse manner with any such information or other matter disclosed to us prior to the date hereof, (d) there not having occurred, after the date hereof, a material disruption of or material adverse change in financial, banking or capital market conditions that, in our reasonable judgment, could reasonably be expected to materially impair the syndication of the Facility, (e) our satisfaction that prior to the execution and delivery of definitive documentation with respect of the Facility there shall be no competing offering, placement or arrangement of any syndicated bank financing by or on behalf of the Borrower, AW or any of its subsidiaries and (f) the negotiation, execution and delivery on or before August 18, 2006 of definitive documentation with respect to the Facility satisfactory to JPMCB, Citigroup and their counsel. Those matters that are not covered by the provisions hereof and of the Term Sheet are subject to the approval and agreement of the Credit Parties and the Borrower.

You agree (a) to indemnify and hold harmless each Credit Party and their respective affiliates and their respective officers, directors, employees, advisors, and agents (each, an "*indemnified person*") from and against any and all losses, claims, damages and liabilities to which any such indemnified person may become subject arising out of or in connection with this Commitment Letter, the Facility, the use of the proceeds thereof or any related transaction or any claim, litigation, investigation or proceeding relating to any of the foregoing, regardless of whether any indemnified person is a party thereto, and to reimburse each indemnified person upon demand for any reasonable out-of-pocket legal or other expenses incurred in connection with investigating or defending any of the foregoing, *provided* that the foregoing indemnity will not, as to any indemnified person, apply to losses, claims, damages, liabilities or related expenses to the extent they are found by a final, non-appealable judgment of a court to arise from the willful misconduct or gross negligence of such indemnified person, and (b) to reimburse each

Credit Party and their respective affiliates on demand for all reasonable out-of-pocket expenses (including due diligence expenses, syndication expenses, travel expenses, and reasonable fees and disbursements of King & Spalding LLP) incurred in connection with the Facility and any related documentation (including this Commitment Letter, the Term Sheet, the Fee Letter and the definitive financing documentation) or the administration, amendment, modification or waiver thereof. No indemnified person shall be liable to you for any indirect or consequential damages in connection with its activities related to the Facility. No indemnified person shall be liable to you for any damages arising from the use by others of Information or other materials obtained through electronic, telecommunications or other information transmission systems or for any special, indirect, consequential or punitive damages in connection with the Facilities.

This Commitment Letter shall not be assignable by you without the prior written consent of each other party hereto (and any purported assignment without such consent shall be null and void), is intended to be solely for the benefit of the parties hereto and is not intended to confer any benefits upon, or create any rights in favor of, any person other than the parties hereto. This Commitment Letter may not be amended or waived except by an instrument in writing signed by you and each other party hereto. This Commitment Letter may be executed in any number of counterparts, each of which shall be an original, and all of which, when taken together, shall constitute one agreement. Delivery of an executed signature page of this Commitment Letter by facsimile transmission shall be effective as delivery of manually executed counterpart hereof. This Commitment Letter and the Fee Letter are the only agreements that have been entered into among us with respect to the Facility and set forth the entire understanding of the parties with respect thereto.

This Commitment Letter shall be governed by, and construed in accordance with, the law of the State of New York. The Borrower consents to the nonexclusive jurisdiction and venue of the state or federal courts located in the City of New York. Each party hereto irrevocably waives, to the fullest extent permitted by applicable law, (a) any right it may have to a trial by jury in any legal proceeding arising out of or relating to this Commitment Letter, the Fee Letter or the transactions contemplated hereby or thereby (whether based on contract, tort or any other theory) and (b) any objection that it may now or hereafter have to the laying of venue of any such legal proceeding in the state or federal courts located in the City of New York.

This Commitment Letter is delivered to you on the understanding that neither this Commitment Letter, the Term Sheet or the Fee Letter nor any of their terms or substance shall be disclosed, directly or indirectly, to any other person except (a) to your affiliates and your and their directors, officers, employees, agents and advisors who are directly involved in the consideration of this matter or (b) as may be compelled in a judicial or administrative proceeding, as may be requested by any State utilities regulatory body or as otherwise required by law or the rules and regulations of any securities exchange (in which case you agree to inform us promptly thereof), *provided* that, the foregoing restrictions shall cease to apply (except in respect of the Fee Letter and its terms and substance) after this Commitment Letter has been accepted by you. Notwithstanding any other provision in this Commitment Letter, each Credit Party hereby confirms that the Borrower shall not be limited from disclosing the U.S. tax treatment or U.S. tax structure of the Facility.

Each Credit Party agrees to keep confidential, and not to publish, disclose or otherwise divulge information obtained from you in the course of the transactions contemplated hereby, except that the Credit Parties shall be permitted to disclose such information (a) to their respective officers, employees and attorneys, and to their respective affiliates (and their officers, employees and attorneys) who are made aware of the provisions of this paragraph, in each case on a confidential and need-to-know basis; (b) on a confidential basis to any potential Lender that agrees to keep such information confidential (and any such potential Lender may disclose such confidential information to its officers, directors, employees, agents and representatives in connection with the syndication of the Facility on a confidential and need-to-know basis); (c) as required by applicable law, regulation or compulsory legal process; (d) to the extent requested by any bank regulatory authority; (e) to the extent such confidential information is or becomes publicly available other than as a result of a breach of this agreement by a Credit Party; or (f) to the extent you shall have consented to such disclosure in writing.

You acknowledge that the Credit Parties and their respective affiliates may be providing debt financing, equity capital or other services (including financial advisory services) to other companies in respect of which you may have conflicting interests regarding the transactions described herein and otherwise. No Credit Party will use confidential information obtained from you by virtue of the transactions contemplated by this letter or their other relationships with you in connection with the performance by such Credit Party of services for other companies, and no Credit Party will furnish any such information to other companies. You also acknowledge that no Credit Party has an obligation to use in connection with the transactions contemplated by this letter, or to furnish to you, confidential information obtained from other companies.

The compensation, reimbursement, indemnification and confidentiality provisions contained herein and in the Fee Letter shall remain in full force and effect regardless of whether definitive financing documentation shall be executed and delivered and notwithstanding the termination of this Commitment Letter or any commitment hereunder; *provided* that solely with respect to the Lenders, the reimbursement, indemnification and confidentiality provisions shall be superseded by the comparable provisions of the definitive financing documentation.

If the foregoing correctly sets forth our agreement, please indicate your acceptance of the terms hereof and of the Term Sheet and the Fee Letter by returning to us executed counterparts hereof and of the Fee Letter not later than 5:00 p.m., New York City time, on June 15, 2006. JPMCB's commitment, Citigroup's commitment and the Joint Lead Arrangers' agreements herein will expire at such time in the event JPMCB has not received such executed counterparts in accordance with the immediately preceding sentence.

[Remainder of page intentionally left blank.]

The Credit Parties are pleased to have been given the opportunity to assist you in connection with this important financing.

Very truly yours,

JPMORGAN CHASE BANK, N.A.

By _____
Name:
Title:

J.P. MORGAN SECURITIES INC.

By A. Kostrzewa-Millet
Name: A. Kostrzewa-Millet
Title: Vice President

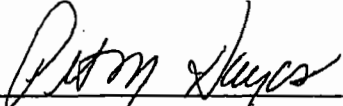
CITIGROUP GLOBAL MARKETS INC.

By _____
Name:
Title:

The Credit Parties are pleased to have been given the opportunity to assist you in connection with this important financing.

Very truly yours,

JPMORGAN CHASE BANK, N.A.

By 
Name: **PETER M. HAYES**
Title: **Vice-President**

J.P. MORGAN SECURITIES INC.

By _____
Name:
Title:

CITIGROUP GLOBAL MARKETS INC.

By _____
Name:
Title:

The Credit Parties are pleased to have been given the opportunity to assist you in connection with this important financing.

Very truly yours,

JPMORGAN CHASE BANK, N.A.

By _____
Name:
Title:

J.P. MORGAN SECURITIES INC.

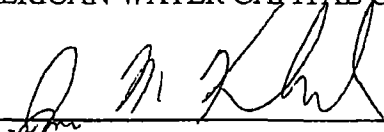
By _____
Name:
Title:

CITIGROUP GLOBAL MARKETS INC.

By Wajeeh Faheem
Name: Wajeeh Faheem
Title: Authorized Signatory

Accepted and agreed to as of
the date first written above by:

AMERICAN WATER CAPITAL CORP.

By 

Name:

Title:

James M. Kalinovich

Treasurer