APPENDIX B
APPLICATION NO: A.06-05-025
JOINT APPLICANTS: RWE AKTIENGESELLSCHAFT, THAMES WATER AQUA HOLDINGS GMBH, AMERICAN WATER WORKS COMPANY, INC., CALIFORNIA-AMERICAN WATER COMPANY

JOINT APPLICANTS' POSITION ON CONDITIONS PROPOSED BY DRA (AS OF DECEMBER 13, 2006)

Joint Applicants do not object to Division of Ratepayer Advocates' (DRA) proposed conditions 1, 2, 3, 5 and 6, as currently drafted, and Conditions 4, 7 and 12 with the minor modifications below. Joint Applicants do not object to Conditions 8, 10, 11 and 14 with the modifications below, if the Commission determines that such conditions are in the public interest. Joint Applicants strongly oppose Conditions 9, 13, 15, 16 and 17.

No.	DRA's Proposed Condition	Category	Proposed Modification
1	Cal-Am will be provided with adequate capital from American Water to fulfill all of its service obligations prescribed by the Commission and Cal-Am.	**Yes**	
2	American Water and Cal-Am shall ensure the transaction will not result in any adverse changes in Cal-Am policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest of utility operations.	**Yes**	
3	American Water and Cal-Am will ensure that there is no adverse impact on the quality of customer service, water quality, and reliability as a result of the transaction.	**Yes**	
4	Cal-Am will continue to maintain its business headquarters in California together with full operational field offices as appropriate to maintain the quality of its service. Cal-Am will	**Yes, as modified**	Cal-Am will continue to maintain its business headquarters in California together with full operational field offices as appropriate to maintain the quality of its service. Cal-Am will not close any of its local offices as a result of this transaction. However, Cal-Am is

	not close any of its local offices as a result of this transaction. However, Cal-Am is not precluded from making local operational changes in connection with integrating water and wastewater systems acquired in other transactions.		not precluded from making local operational changes in connection with integrating water and wastewater systems acquired in other transactions **or which would have occurred absent the transaction.**
5	The transaction will have no adverse impact on Cal-Am employees and there will be no changes in any existing union agreements as a result of the transaction. All collective bargaining agreements will continue to be honored.	**Yes**	
6	Cal-Am will not allow the transaction to diminish staffing that would result in service degradation. However, Cal-Am may make local staffing and other operating changes which would have occurred absent the transaction.	**Yes**	
7	American Water and American Water Capital Corporation will notify the Commission in writing within 30 days of any downgrading to the bonds of American Water or AWCC and will include with such notice the complete report of the issuing bonding rating agency.	**Yes, as modified**	American Water and American Water Capital Corporation will notify the Commission in writing within 30 days **of public notification to American Water or AWCC** of any downgrading to the bonds of American Water or AWCC and will include with such notice the complete report of the issuing bonding rating agency.
8	Neither Cal-Am nor its ratepayers, directly or indirectly, will incur any transaction costs or other liabilities or obligations arising from RWE and Thames' divestiture of American Water. All costs of the transaction will be paid by RWE. All costs of the transaction that have been paid by American Water to date will be reimbursed by	**Yes, as modified**	**American Water will make no attempt to recover through California American Water's rates any of the transaction costs arising from the divestiture by RWE and Thames GmbH of American Water, including the SEC registration fee, the NASD filing fee, the stock exchange listing fee, legal fees and costs of the Proposed Transaction, accounting fees and expenses of the Proposed Transaction, printing and engraving fees and**

	RWE prior to the divestiture and no attempt will be made to seek recovery of such costs from ratepayers or American Water at any time.		**expenses for the registration statement, Blue Sky fees and expenses, transfer agent fees and expenses, legal fees for the state regulatory approval process, and the costs of implementing the initial processes and controls for compliance with the Sarbanes-Oxley Act of 2002. California American Water will not at any time seek to recover from its ratepayers costs directly incurred as a result of the Proposed Transaction from ratepayers of California American Water; however, California American Water may seek recovery of legitimate ongoing, non-startup costs of being a publicly-traded company in future general rate cases.**
9	For a period from the present time to five years after RWE and its subsidiaries and/or affiliates no longer retain controlling interest of American Water, Cal-Am will not seek a cost of new debt greater than the cost of debt based on AWCC's ratings immediately prior to the announcement of RWE's intended divestiture. For purposes of this provision, Cal-Am agrees that the cost of debt will be determined based on a Standard and Poor's credit rating of A for secured debt and a Moody's credit rating of Baa1 for senior unsecured debt.	**No**	N/A
10	RWE will provide an equity investment to American Water at the time of divestiture that will result in a 50% debt to 50% equity capital structure for American Water at divestiture.	**Yes, as modified**	RWE will provide an equity investment to American Water **at the time of the Proposed Initial Public Offering to ensure that American Water has a capital structure in the range of 45% to 55%, with a minimum of 45% common equity**~~at the time of divestiture that will result in a 50% debt to 50% equity capital structure for American Water at divestiture~~.
11	For a period of five years, any added costs directly or indirectly attributed to the Proposed	**Yes, as modified**	**See proposed language for No. 8.**

	Transaction shall be absorbed by American Water (using the RWE equity infusion) and not passed onto Cal-Am's ratepayers. Examples include, but are not limited to, increases in Directors and Officers liability insurance, increases in audit fees, NYSE annual fees, employee retention payments, employee stock purchase program costs, and annual SOX compliance costs. Such costs also may not be deferred or tracked in memorandum accounts for future consideration. At the time of the next rate case filings exceeding the five year period, Cal-Am may present any annual recurring level of such costs for consideration.		
12	All affiliated interest agreements approved by the Commission to which Cal-Am is a party will remain in effect. Additionally, the Affiliated Transaction Rules that were agreed to as part of the Settlement Conditions in D.02-12-068 will continue. The reference to RWE and RWE Group will be removed once RWE no longer has controlling interest in American Water.	**Yes, as modified**	All affiliated interest agreements approved by the Commission to which Cal-Am is a party will remain in effect. Additionally, the Affiliated Transaction Rules that were agreed to as part of the Settlement Conditions in D.02-12-068 will continue. The references to RWE and RWE Group will be removed once RWE no longer has a controlling interest in American Water.
13	Annual capital expenditures at Cal-Am for the four-year period, 2007 through 2010, will be not be significantly less than the amounts presented in response to CA-DRA-02-Q020 of $62.2 million in 2007, $126.9 million in 2008, $181.0 million in 2009 and $97.6 million in 2010. In the event projected expenditures in any given year are projected to be below those presented in the response by 10% or greater, then Cal-Am will notify the Commission regarding its revised capital expenditure projections and the causes of	**No**	N/A

	the variation.		
14	None of the acquisition conditions from D.02-12-068 should be removed until RWE (or its subsidiaries or affiliates) has sold more than 95% of its interest in American Water.	**Yes, as modified**	~~**None of t**~~The acquisition conditions from D.02-12-068 should **continue to apply to RWE until** ~~**be removed until**~~ RWE **no longer holds 50% or more of its** ~~**(or its subsidiaries or affiliates) has sold more than 95% of its**~~ interest in American Water.
15	Cal-Am will defer any rate increases and escalation year step increases in each of its jurisdictions for a period of one year. In each instance in which a rate increase is deferred, it may be implemented in the following year. The escalation step increase year for that following year will also be deferred by one year. The date by which the next General Rate Case is filed for each of the districts and general office, as provided for in the Commission's Rate Case Plan for Class A Water Utilities under Decision 04-06-018, will be deferred by one year.	**No**	N/A
16	American Water will commit shareholder funds up to $100,000 annually for a five-year period from the close of the transaction to develop, promote or otherwise get a low-income assistance program underway in cooperation with the Commission. Cal-Am will not seek recovery of those contributions to a low-income assistance program from ratepayers. Applicants will spend the fully allocated annual sum for this program even if the funds are not expended during the five-year period.	**No**	N/A
17	American Water will commit shareholder funds up to $100,000 annually for a five-year period from the close of the transaction to assist small troubled water systems, in cooperation with the	**No**	N/A

	Commission, under the Small System Technical Advisory Team by Cal-Am. Cal-Am will not seek recovery of those contributions from ratepayers. Applicants will spend the fully allocated annual sum for this program even if the funds are not expended during the five-year period.		

(END OF APPENDIX B)

APPENDIX C
APPLICATION NO: A.06-05-025
JOINT APPLICANTS: RWE AKTIENGESELLSCHAFT, THAMES WATER AQUA HOLDINGS GMBH, AMERICAN WATER WORKS COMPANY, INC., CALIFORNIA-AMERICAN WATER COMPANY

LATE-FILED EXHIBIT __

CONDITIONS IMPOSED IN D.02-12-068

Number[1]	CONDITION IMPOSED IN D. 02-12-068 PURSUANT TO SETTLEMENT AGREEMENT	JOINT APPLICANTS' PROPOSED REMOVAL OF OR MODIFICATION TO CONDITION	ANALOGOUS CONDITION PROPOSED BY DRA IN THIS PROCEEDING
1	Cal-Am agrees to the following: Monterey: defer filing the authorized 2004 step rate increase that would have been filed in 2003 to November 2004 to be effective January 2005. Sacramento, Felton, Montara and Larkfield: defer filing the authorized 2004 step rate increase that would have been filed in 2003 to November 2004 to be effective January 2005. Los Angeles (San Marino, Duarte and Baldwin Hills): file general rate case as scheduled in 2003 but set forth in the application that Cal-Am will defer filing the tariffs authorizing rate increases from January 1, 2004 to January 1, 2005. This deferral will not apply to any step rates. Village & Coronado: file	Fully executed; not applicable going forward. See endnote.	Proposed Condition No. 15.

[1] The number of each condition refers to each condition as numbered in Appendix B to D. 02-12-068 entitled "Settlement Agreement With Conditions."

	general rate case as scheduled in 2004 but set forth in the application that Cal-Am will defer filing the tariffs authorizing rate increases from January 1, 2005 to January 1, 2006. This deferral will not apply to any step rates. Any such deferred rates will be placed into effect at the same time as the next scheduled step rate for each such district.		
2	Cal-Am will be provided with adequate capital to fulfill all of its service obligations prescribed by the Commission and Cal-Am will comply with all applicable California and federal statutes, laws and administrative regulations.	Cal-Am will be provided with adequate capital from American Water to fulfill all of its service obligations prescribed by the Commission and Cal-Am. (Condition No. 1)	Proposed Condition No. 1
3	The Commission will retain jurisdiction over the rates and services provided by Cal-Am. RWE, Thames, American and Cal-Am will not assert in any Commission proceeding that Commission review of the reasonableness of any cost has been or is preempted by a United Kingdom, Federal Republic of Germany, European Community or other foreign regulator.	No longer warranted; condition should be removed.	Not addressed in DRA Report.
4	Cal-Am will continue to maintain its books and records in accordance with all Commission rules. Cal-Am's books and records will be maintained and housed in California.	No longer warranted; condition should be removed.	Not addressed in DRA Report.
5	The transaction will not result in any adverse changes in Cal-Am policies with respect to service to customers, employees, operations,	American Water and Cal-Am shall ensure the transaction will not result in any adverse changes in Cal-Am policies with respect to	Proposed Condition No. 2

	financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility operations.	service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest of utility operations. (Condition No. 2)	
6	There will no adverse impact on customer service as a result of the transaction. RWE and Thames will maintain American's and Cal-Am's levels of commitment to high quality utility service and will fully support maintaining Cal-Am's record for service quality.	American Water and Cal-Am will ensure that there is no adverse impact on the quality of customer service, water quality, and reliability as a result of the transaction. (Condition No. 3)	Proposed Condition No. 3.
7	Cal-Am shall continue to maintain its business headquarters in California together with fully operational field offices as appropriate to maintain the quality of its service. Cal-Am will not close any of its local offices as a result of this transaction. However, Cal-Am is not precluded from making local operational changes in connection with integrating water and wastewater systems acquired in other transactions.	Cal-Am will continue to maintain its business headquarters in California together with full operational field offices as appropriate to maintain the quality of its service. Cal-Am will not close any of its local offices as a result of this transaction. However, Cal-Am is not precluded from making local operational changes in connection with integrating water and wastewater systems acquired in other transaction **or which would have occurred absent the transaction**. (Condition No. 4)	Proposed Condition No. 4.
8	The transaction will not result in changes to the existing management and officers of Cal-Am.	No longer warranted; condition should be removed.	Not addressed in DRA Report.
9	Operational control of Cal-Am will not change as a result of the transaction.	Covered by Condition No. 4. No longer warranted; condition should be removed.	Not addressed in DRA Report.
10	The transaction will have no adverse impact	The transaction will have no adverse impact on	Proposed Condition No. 5.

	on Cal-Am employees. Thames has committed to no layoffs until March 31, 2004 or one year after the transaction closes, whichever is later. There will be no changes in compensation and the value of employee benefits will not diminish as a result of the transaction.	Cal-Am employees and there will be no changes in any existing union agreements as a result of the transaction. All collective bargaining agreements will continue to be honored. (Condition No. 5)	
11	There will be no changes in any existing union agreement as a result of the transaction. All collective bargaining agreements will be honored.	Covered by Condition No. 5.	Proposed Condition No. 5.
12	Cal-Am will not allow the transaction to diminish staffing that would result in service degradation. However, Cal-Am may make local staffing and other operating changes which would have occurred absent the transaction.	Cal-Am will not allow the transaction to diminish staffing that would result in service degradation. However, Cal-Am may make local staffing and other operating changes which would have occurred absent the transaction. (Condition No. 6)	Proposed Condition No. 6.
13	There will not be an additional layer of management overhead allocated to Cal-Am as a result of the transaction. Cal-Am may, however, demonstrate in a rate proceeding that specific management overheads provide a benefit to Cal-Am or its customers and should be recoverable in rates.	No longer warranted; condition should be removed. See endnote.	Not addressed in DRA Report.
14	None of the outstanding debt, owed and recorded as liabilities on the books of Cal-Am, will be affected by the proposed transaction. There will be no changes in the income statement, balance sheet or financial position of Cal-Am as a result of the transaction.	No longer warranted; condition should be removed. See endnote.	Not addressed in DRA Report.

15	Cal-Am's equity to capital ratio shall be maintained at or about 35 percent. If Cal-Am's common equity falls below 35 percent of total capital, Cal-Am shall within 30 days of such event provide a detailed written plan of action to return Cal-Am's equity capital to a minimum of 35 percent. In general rate cases the Commission has historically authorized a capital structure for Cal-Am composed of approximately 55-60% debt and 40-45% equity. Cal-Am shall not be prohibited from requesting that the foregoing equity percentage be modified based on changes in capital markets or other conditions that make it prudent to alter Cal-Am's capital structure.	No longer warranted; condition should be removed. See endnote.	Not addressed in DRA Report.
16	RWE and American Water Capital Corporation (AWCC) will notify the Commission in writing within 30 days of any downgrading to the bonds of RWE or AWCC and will include with such notice the complete report of the issuing bonding rating agency.	American Water and American Water Capital Corporation will notify the Commission in writing within 30 days **of public notification to American Water or AWCC** of any downgrading to the bonds of American Water or AWCC and will include with such notice the complete report of the issuing bonding rating agency. (Condition No. 7)	Proposed Condition No. 7.
17	Neither Cal-Am nor its ratepayers, directly or indirectly, will incur any transaction costs or other liabilities or obligations arising from Thames' and RWE's acquisition of American. All costs of the transaction will be absorbed by the shareholders with no attempt to seek recovery from ratepayers at any time. Cal-Am will not incur any additional indebtedness, issue any additional securities, or pledge any	**American Water will make no attempt to recover through California American Water's rates any of the transaction costs arising from the divestiture by RWE and Thames GmbH of American Water, including the SEC registration fee, the NASD filing fee, the stock exchange listing fee, legal fees and costs of the Proposed Transaction, accounting fees and expenses of the Proposed**	Proposed Condition No. 8.

	assets to finance any part of the purchase price paid by Thames for American stock.	**Transaction, printing and engraving fees and expenses for the registration statement, Blue Sky fees and expenses, transfer agent fees and expenses, legal fees for the state regulatory approval process, and the costs of implementing the initial processes and controls for compliance with the Sarbanes-Oxley Act of 2002. California American Water will not at any time seek to recover from its ratepayers costs directly incurred as a result of the Proposed Transaction from ratepayers of California American Water; however, California American Water may seek recovery of legitimate ongoing, non-startup costs of being a publicly-traded company in future general rate cases.** (Condition No. 8)	
18	The premium Thames pays for American stock, as well as all transaction-related costs, including external advisors, early termination costs, change in control payments, or retention bonuses paid to Cal-Am or American employees as a result of the proposed transaction, will not be "pushed down" to Cal-Am, and there will be no attempt to recover such costs in any future rate proceeding.	Covered by Condition No. 8, as modified by Joint Applicants.	Proposed Condition No. 8.
19	For a period of five years following the close of the transaction Cal-Am will not seek a cost of new debt greater than it would have sought if American had remained an independent entity. For the purposes of this provision, Cal-Am agrees that at present its cost of new debt	No longer warranted; condition should be removed. See endnote.	Proposed Condition No. 9.

	is based on AWCC's current Standard and Poor's credit rating of A- for secured debt and current Moody's credit rating of Baal, for senior unsecured debt.		
20	For a period sufficient to cover a single full rate cycle for each of Cal-Am's four sets of filing districts, not to exceed four years from the date of closing, RWE, Thames, American and Cal-Am will implement a mechanism to track the savings and costs resulting from the proposed merger and a methodology to allocate all net savings and will submit to the Commission in writing a detailed description of that methodology in connection with future Cal-Am general rate case filings.	No longer warranted; condition should be removed.	Not addressed in DRA Report.
21	Cal-Am will provide the Commission with English-language versions of the RWE annual reports, RWE quarterly shareholder reports and the annual audit reports of RWE, Thames, American and Cal-Am, as applicable, either in printed media or through access to electronic versions. In addition, the income statement, balance sheet, and statement of cash flows will be converted to U.S. dollars at the exchange rates existing at the end of the time period for such excerpts or financial reports.	No longer warranted; condition should be removed.	Not addressed in DRA Report.
22	Cal-Am will match in its future rate proceedings the cost of any "best practices" that are implemented with a reasonable estimate of the savings or increased revenues that will result from the implementation of such practices and will not implement the	No longer warranted; condition should be removed.	Not addressed in DRA Report.

	practices if the increased revenues or decreased expenses do not justifiably exceed the cost of such practices. When implementing best practices, RWE, Thames, American and Cal-Am will take into full consideration the related impacts on the levels of customer service and customer satisfaction, including any negative impacts resulting from any future work force reductions.		
23	Thames will commit shareholder funds up to $50,000 annually for a five-year period from the close of the transaction to develop, promote or otherwise get a low-income assistance program underway in cooperation with the Commission. Cal-Am will not seek recovery of those contributions to a low-income assistance program from ratepayers. Applicants shall spend the fully allocated annual sum for this program even if the funds are not expended during the five-year period.	No longer warranted; California American Water will honor its existing commitment.	Proposed Condition No. 16.
24	Thames will commit shareholder funds up to $50,000 annually for a five-year period from the close of the transaction to establish in cooperation with the Commission a Small System Technical Advisory Team (SSTAT) by Cal-Am within six months of the close of the transaction. Cal-Am will not seek recovery of those contributions for a SSTAT from ratepayers. Applicants shall spend the fully allocated annual sum for this program even if the funds are not expended during the five-year period.	No longer warranted; California American Water will honor its existing commitment.	Proposed Condition No. 17.

25	The Commission has approved Cal-Am's agreements with affiliates American Water Works Service Company and American Water Capital Corp. All affiliated interest agreements approved by the Commission to which Cal-Am is a party will remain in effect. The Affiliated Transaction Rules attached as Appendix A shall apply to Cal-Am affiliated transactions not now covered by existing Commission-approved affiliated transactions.	All affiliated interest agreements approved by the Commission to which Cal-Am is a party will remain in effect. Additionally, the Affiliated Transaction Rules that were agreed to as part of the Settlement Conditions in D.02-12-068 will continue. The references to RWE and RWE Group will be removed once RWE no longer has **a** controlling interest in American Water. (Condition No. 12)	Proposed Condition No. 12.
26	Historically, Cal-Am has transferred on a quarterly basis approximately 75% of its net income to its parent, American Water Works Company, Inc., as a dividend. If Cal-Am's payment of any dividend or transfer of any funds to American represents more than the historical percentage of Cal-Am's annual net income, then Cal-Am will notify the Commission of that fact.	No longer warranted; condition should be removed.	Not addressed in DRA Report.
27	Cal-Am's parent and affiliates will not acquire Cal-Am assets at any price if such transfer of assets would impair the utility's ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.	No longer warranted; condition should be removed. Also covered by Condition No. 12, as modified by Joint Applicants.	Not addressed in DRA Report.
28	The creation of Thames Water Aqua U.S. Holdings, Inc., by RWE will have no adverse impact on Cal-Am from an operating, financial or management perspective.	No longer warranted; part of a complete agreement between parties to a different proceeding; condition should be removed.	Not addressed in DRA Report.
29	Cal-Am will seek to employ Thames' advanced project delivery experience to compliment American's capability. Based on	No longer warranted; part of a complete agreement between parties to a different proceeding; condition should be removed.	Not addressed in DRA Report.

	Cal-Am's forecasted capital expenditures for a full rate cycle for Cal-Am's filing districts, Applicants believe such savings would reduce its capital expenditure requirements by about $2.2 million.		

ENDNOTE: The continuation of Condition Nos. 1, 13, 14, 15 raise issues that are more appropriately addressed in general rate case proceedings and would assure a financially weakened American Water and California American Water, directly contrary to the public interest.

(END OF APPENDIX C)