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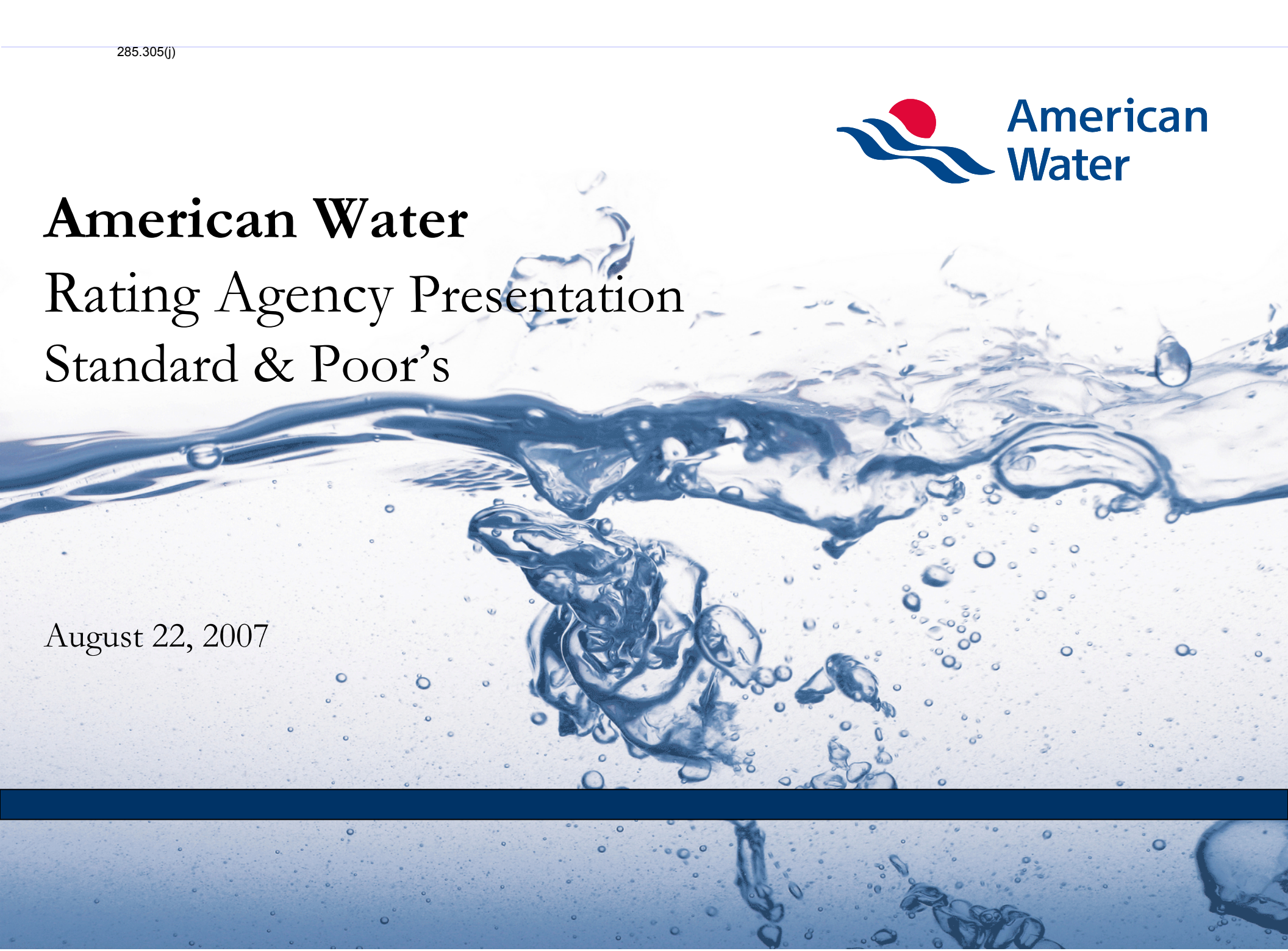
Illinois-American Water Company
Rating Agency Presentation

The following presentation was provided to both Standard & Poor's and Moody's on August 22, 2007.



American Water

Rating Agency Presentation

Standard & Poor's

August 22, 2007

Forward Looking Statements

The following presentation contains material non-public information and all information contained in it is confidential and is subject to the confidentiality obligations. The information contained in these slides includes certain forward looking statements and projections provided by American Water Works Company, Inc. ("AW"). Any such statements and projections reflect various estimates and assumptions by AW concerning anticipated results. No representations or warranties are made by AW or any of its affiliates as to the accuracy of any such statements or projections. Whether or not any such forward looking statements or projections are in fact achieved will depend upon future events, some of which are not within the control of AW. Accordingly, actual results may vary from the projected results and such variations may be material.

Management Speakers

Executive	Utility Industry Tenure	Background
Don Correll *President & CEO*	30 years	■ Joined American Water on April 17, 2006 as President & CEO ■ Spent 25 years with United Water Resources where he most recently served as chairman & CEO from 1991 through 2001 ■ Former President & CEO of Pennichuck Corp., a water utility holding company located in Merrimack, NH
Ellen Wolf *Senior Vice President & CFO*	20 years	■ Rejoined American Water in March, 2006 as Senior Vice President & CFO ■ Spent two years as Senior Vice President & CFO of USEC Inc., a global energy company ■ From 1999 to 2003, served as Vice President & CFO of American Water ■ Held various positions at Bell Atlantic, including Treasurer of Bell Atlantic ■ Began career with Deloitte & Touche
John Young *Senior Vice President & COO*	30 years	■ Began career with American Water in 1977 and has held a variety of operations, engineering and executive positions ■ 2005 became Chief Operating Officer ■ From 2003 to 2005, served as Vice President of Operations and Investment Performance ■ From 1991 to 2003, served as Vice President of Engineering
James Kalinovich *Vice President & Treasurer*	3 years	■ Joined American Water in 2004 ■ Served as Vice President and Treasurer of Amkor Technology ■ Held executive positions at Merck & Co. in the U.S. and London and worked at Deloitte & Touche as a CPA during the late 1980's

Seasoned management team with years of industry experience

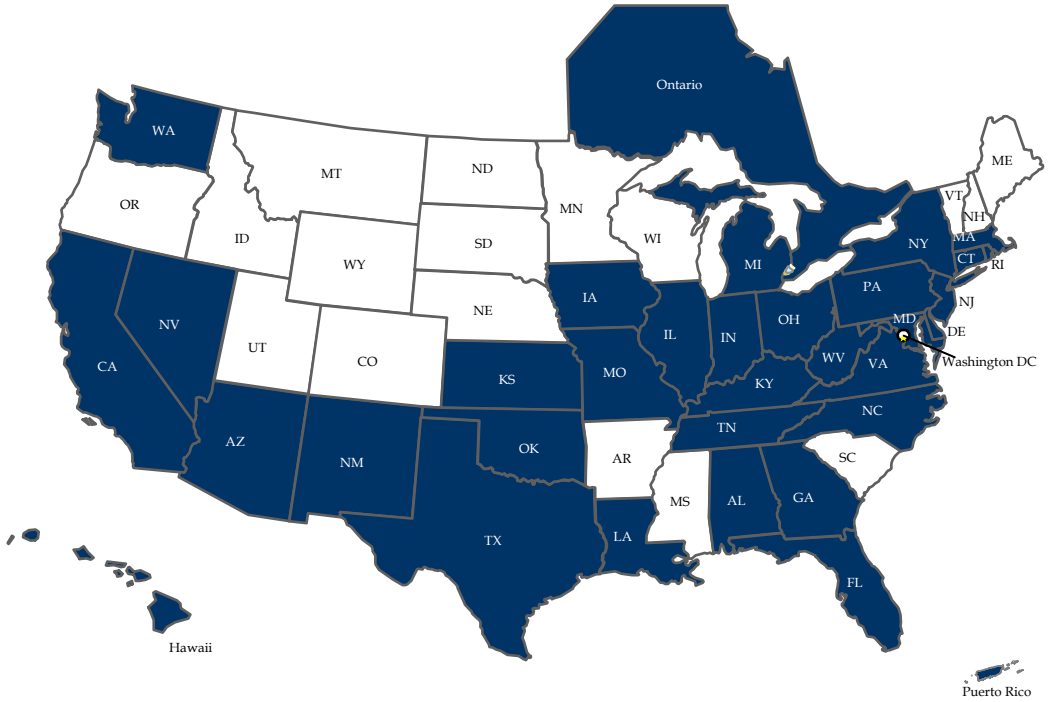
Table of Contents

Introduction

Introduction

American Water: At a Glance

- Founded in 1886 with headquarters in Voorhees, New Jersey
- Largest investor-owned U.S. water and wastewater utility (as measured by operating revenue and population served)
  - FY 2006 revenue of $2.1 billion
  - Operations in 32 states
  - 6,900 employees
  - 17.8 million people served
- Strategy
  - Invest in water and wastewater infrastructure
  - Earn an appropriate rate of return on investments
  - Grow the Regulated Business footprint
  - Continue to pursue complementary businesses
- Strengths
  - Industry leader with large customer base
  - Geographic diversification
  - Constructive regulatory environment
  - Experienced management team



American Water is the pre-eminent water and wastewater utility in the U.S.

Introduction

Corporate & Industry Milestones

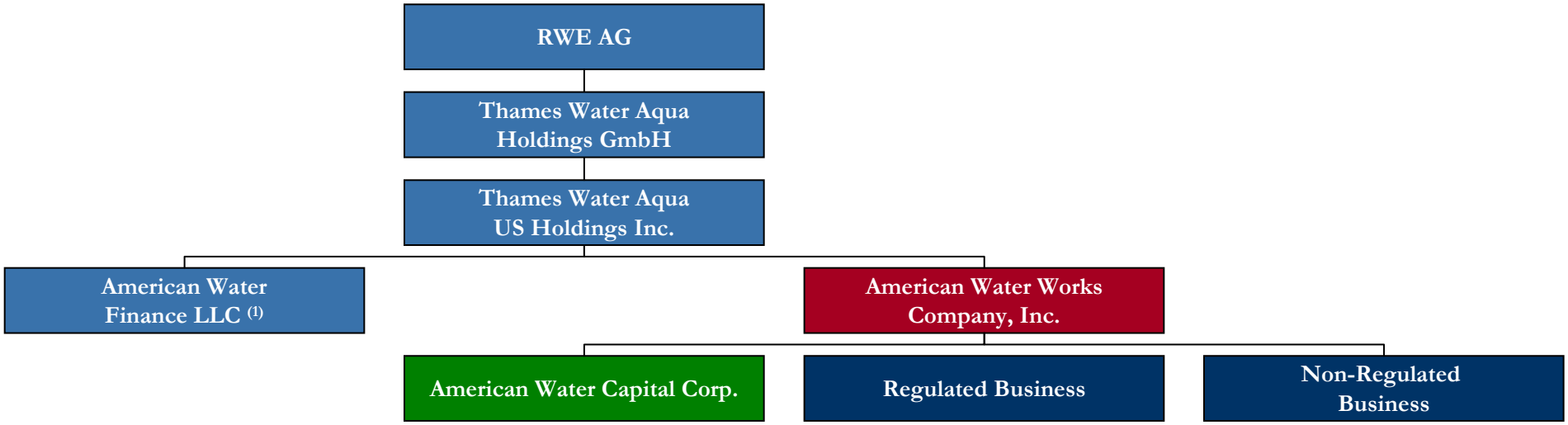
Year	Event
1886	■ Founding of American Water as the American Water Works & Guarantee Company
1935	■ Reorganizes as American Water Works Company, Inc. in response to the Public Utility Holding Act
1947	■ First listing of common stock on the New York Stock Exchange under the symbol "AWK"
1958	■ Acquires operations in Connecticut, Massachusetts and New Hampshire
1962	■ Acquires contract operations and water systems in Maryland, Pennsylvania and New Jersey through merger with Northern Water Company
1965	■ Purchases the water utility assets of Southern Gas in West Virginia
1966	■ Purchases the water utility assets of California Water & Telephone Company. Joins Fortune magazine's list of 50 largest U.S. public utility companies
1969	■ Acquires Paradise Valley Water Company in Arizona
1972	■ Passage of Clean Water Act
1974	■ Passage of Safe Drinking Water Act
1986	■ Acquires operations in New Mexico from Southwest Public Service Company
1993	■ Acquires operations in Indiana, Missouri and Ohio from Avatar Holdings
1996	■ Acquires the water service assets of Pennsylvania Gas & Water Company
1998	■ Acquires wastewater operations in Hawaii
1999	■ Acquires National Enterprises Inc. with operations in Missouri, Illinois, Indiana and New York
2000	■ Acquires water utilities in Missouri, Indiana, Illinois and Virgina from United Water Resources
2001	■ Acquires Azurix North America Corp. ■ RWE signs an agreement to acquire the Company
2002	■ Acquires water subsidiaries of Citizens Utilities Company in Arizona, California, Illinois, Indiana, Ohio and Pennsylvania
2003	■ RWE completes acquisition of the Company and combines the Company with the U.S. operations of Thames Water (including E'Town Corporation, Inc.) to form the North American Water reporting unit of RWE Thames Water
2005	■ RWE announces its intention to divest the Company
2006	■ Regulatory state approval process commences
2007	■ All state regulatory approvals received for divestiture

American Water has grown to become the industry leader since its founding 125 years ago

Introduction

Organizational Structure

Current Structure



Future Structure

(1) Preferred Share Vehicle.

Introduction

The Changing American Water

- American Water will be fully divested by RWE AG through the consummation of one or more public offerings of common stock
  - The divestiture will be implemented through an Initial Public Offering, scheduled for late 2007
    - RWE intends to sell at least 51% of American Water at IPO
    - Subsequent offerings to follow, if needed, to fully divest
- American Water intends to repay $1.97 billion of RWE Debt and Mandatory Preferred Stock
  - Issue $1.5 billion of Senior Unsecured Fixed Rate Notes, prior to the IPO
  - Issue $500 million of Equity Units at IPO

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American Water

U.S. Water & Wastewater Utility Industry Overview

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U.S. Water & Wastewater Utility Industry Overview

Key Sector Themes

Fragmented Industry	■ Over 53,000 water systems and 16,000 wastewater treatment facilities municipally owned in the US, with less than 15% owned by public water companies ■ Over 60% of systems serve less than 500 people ■ ~85% municipal ownership of water utilities, ~95% municipal ownership of wastewater
Aging Infrastructure	■ Substantial capital investment driven by need to replace aging infrastructure and meet rising environmental and water quality standards ■ Total investment needs for water and wastewater are estimated to be between $485 billion - $896 billion through 2020
Population Growth & Shift	■ Increasing population in "arid" regions (Florida, California, Arizona) ■ Need for water supply ■ Conservation ethic / declining per capita usage
Increasing Environmental Requirements	■ Consumer focus on water quality is increasing ■ Regulatory bodies are implementing new regulations ■ US Government recently adopted standards to reduce micro-biological, disinfectant by-products and arsenic contaminants ■ Increasing federal and state requirements for management and rehabilitation of sewer collection systems, limitations for sewer overflows, storm water management and reduced nutrient discharges
Focus on Security	■ Increasing focus on potential for terrorism ■ Facility assessments mandated
Lack of Funds	■ Federal and municipal budgets are unfunded or constrained ■ Private sector is slowly becoming more involved with the transfer of construction and operating risk ■ Municipalities are seeking ways to improve economics
Technology	■ Water shortages are stimulating investments in processes like desalination ■ More stringent contaminant removal requirements have promoted innovation through, for example, UV technology, membrane applications, etc. ■ Increasing technical expertise is required to implement customer and security requirements associated with improved metering systems, on-line water quality monitoring and automated operation

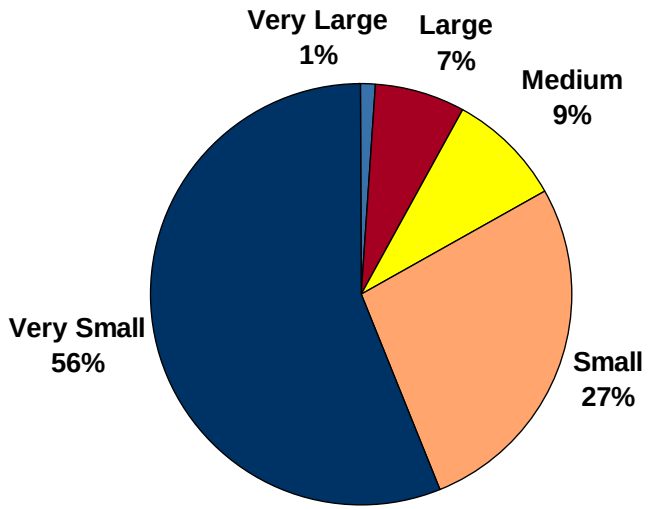
Infrastructure investment and industry consolidation will be key drivers of future growth

U.S. Water & Wastewater Utility Industry Overview

Fragmented Industry Presents Consolidation Opportunities

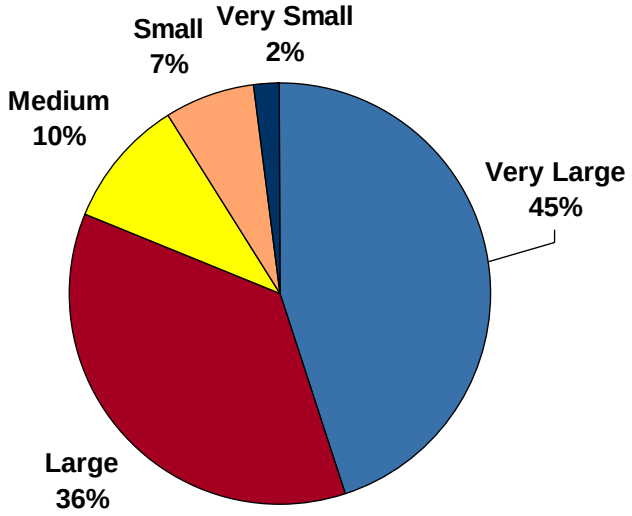
- Large number of small water and wastewater utilities may result in inefficiencies in the marketplace
  - Smaller utilities may not have the operating expertise, financial and technological capability or economies of scale to provide services or raise capital as efficiently as larger utilities
    - Approximately 53,000 community water systems and 16,000 wastewater systems in the United States, with less than 15% owned by public water companies
    - 56% of water systems only serve 2% of population
- These inefficiencies will lead to industry consolidation in the future, as the larger investor-owned utilities acquire smaller, local water and wastewater systems

Number of U.S. Water Systems by Type(1)



Total Number of Water Systems: 52,838

U.S. Population Served by Water System Type(1)

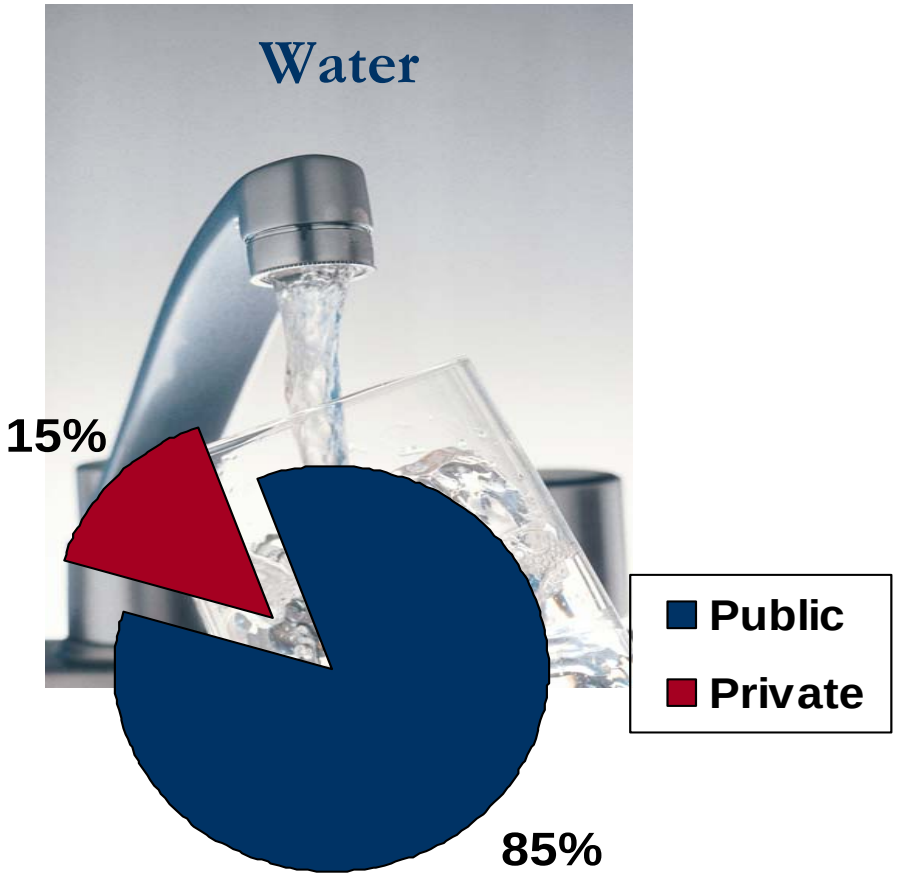


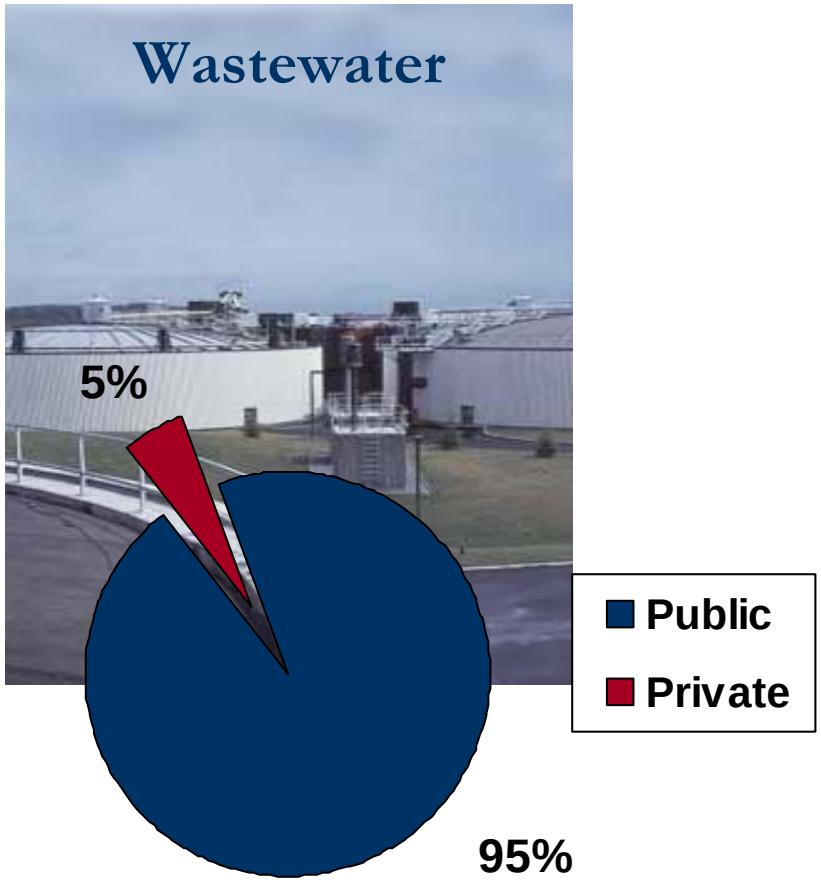
Total Population Served by Water Systems: 273 million

(1) Note: Includes only Community Water Systems - defined as a public water system that supplies water to the same population year-round. Source: EPA, Drinking and Ground Water Statistics, 2004.

U.S. Water & Wastewater Utility Industry Overview

Need for Industry Consolidation Remains, and is Essential to Address Fundamental Industry Challenges





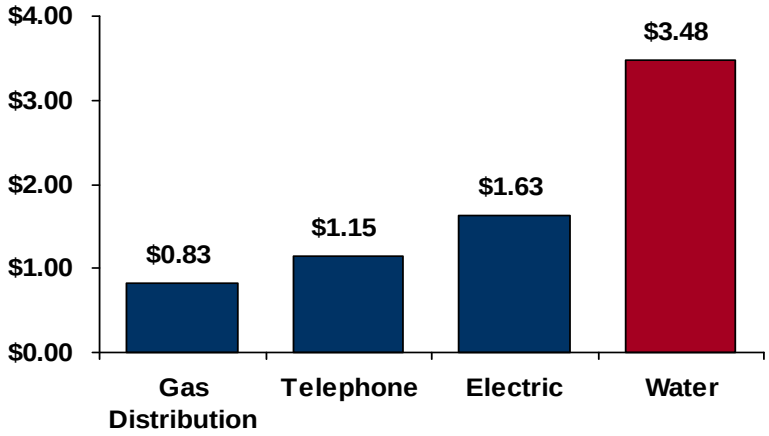
Existing industry fragmentation will provide American Water with plenty of opportunities to do roll-ups and "tuck-in" acquisitions

U.S. Water & Wastewater Utility Industry Overview

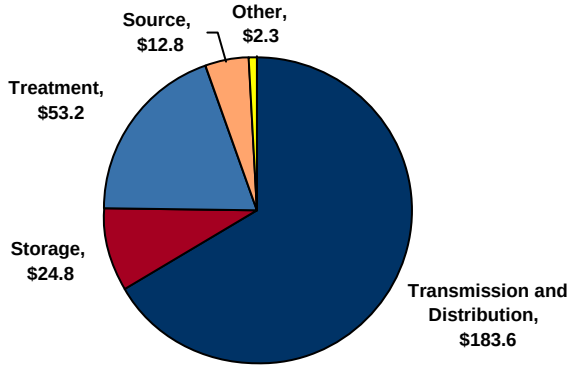
The US Water & Wastewater Industry is the Most Capital Intensive Amongst Infrastructure Sectors

- More capital invested per revenue dollar than all other utilities
- Large capital investments needed through 2020 mainly for distribution and collection systems
  - $485 - $896 billion for water and wastewater (1)
  - $154 - $446 billion for water (2)
- Increasing stringent regulations from EPA for both water and wastewater will require additional investment

Capital Invested per $1 of Revenue (3)



Water Related Cap Ex Needs through 2020 ($ in billions) (2)



Consolidation is needed to mitigate increasing costs and investments, achieve quality compliance and facilitate growth and sustainable supply

(1) 2002 USEPA Clean Water & Drinking Water Infrastructure Gap Analysis.
(2) 2005 USEPA Drinking Water Infrastructure Needs Survey & Assessment.
(3) 2006 AUS Utility Reports.

U.S. Water & Wastewater Utility Industry Overview

Fragmented Industry Landscape Drives Significant Potential for Consolidation

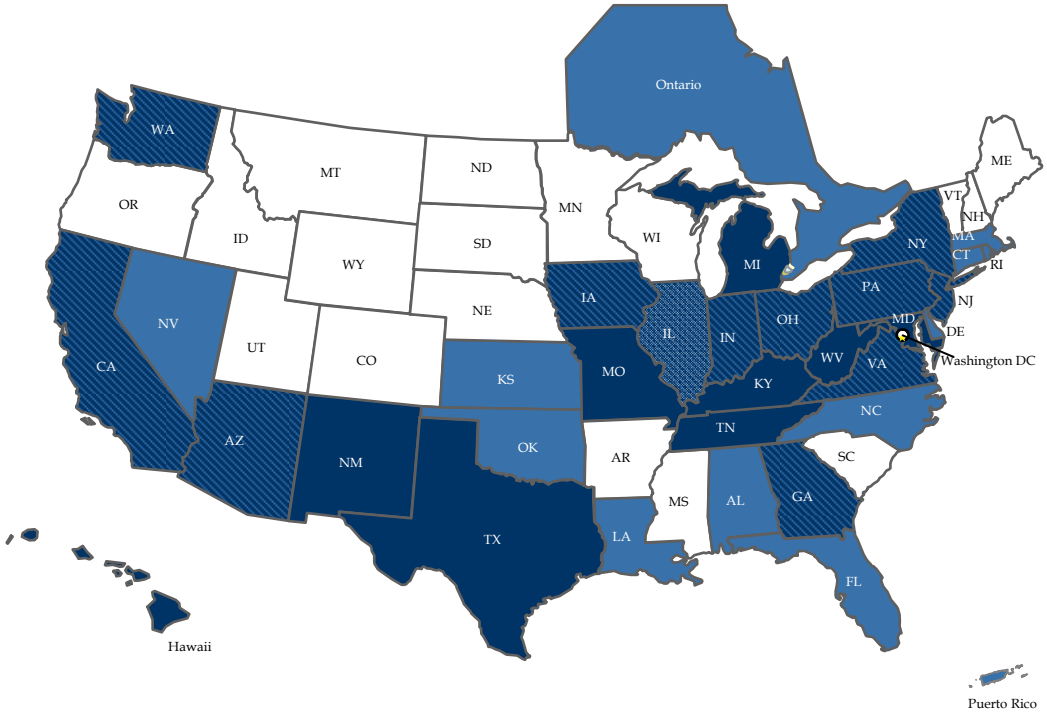
- Consolidation is expected to continue directly through either large or "tuck-in" acquisitions or indirectly through Public Private Partnerships
  - 11 publicly traded companies remain, versus 23 pre-consolidation
  - Publicly traded water utility group only represents $6.0 – $7.0 billion in equity market value
- Advantages of "tuck-in" acquisitions
  - Possibility to standardize tariffs
    - Rate consolidation smoothes increases for rate payers over time
  - Cost benefits from centralized functions
    - Administrative functions: financing, billing, accounting, customer service, information technology and human resources
    - Operating Functions: meter reading, waste disposal and contracting
  - Provides better access to capital markets / lower cost of capital than target's access to funds
  - Often a "tuck-in" acquisition will be made because target companies require substantial capex
    - Incremental capex becomes part of rate base
    - Potential to include premium into rate base as regulators see benefits of ownership by skilled operator
    - Target companies capex reduced through interconnections

Shrinking publicly traded U.S. water and wastewater universe will further enhance American Water's size / scale and leadership position

Company Overview

Company Overview

Market Leader With a Broad National Footprint and Strong Local Presence



Current Operations

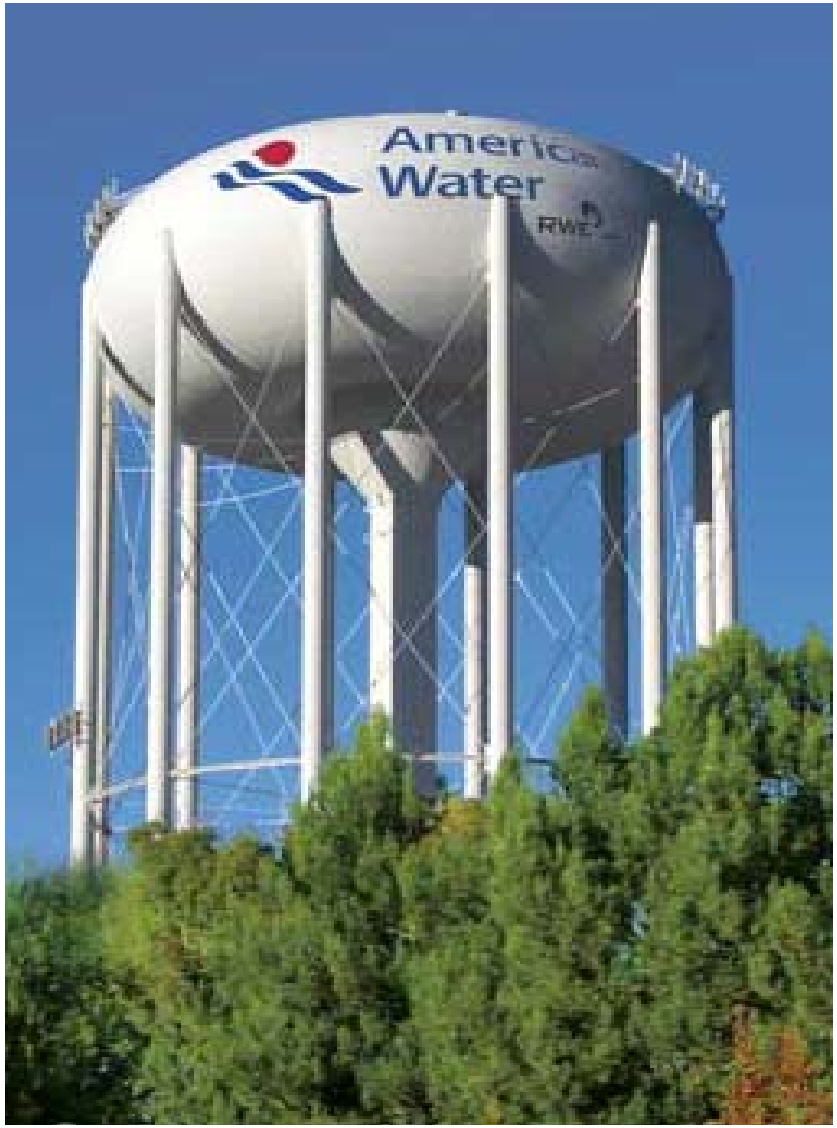
- **Utility Only**
- **Non-Regulated**
- **Both**

- Largest and most geographically diversified water and wastewater services provider in North America
  - Operations in 32 states, Puerto Rico and Ontario, Canada
- Scale and geographic scope enables American Water to capitalize effectively on growth opportunities, while insulating the Company from adverse conditions in any one region
- Regulated businesses:
  - Span 1,625 communities and 356 individual service areas
  - 45,000 miles of distribution and collection mains
  - Owns and/or operates 655 groundwater and 84 surface water treatment plants
  - Owns and/or operates 41 wastewater treatment plants

American Water's broad national footprint provides geographic, regulatory, weather and economic diversity

Company Overview

Regulated Utility Overview



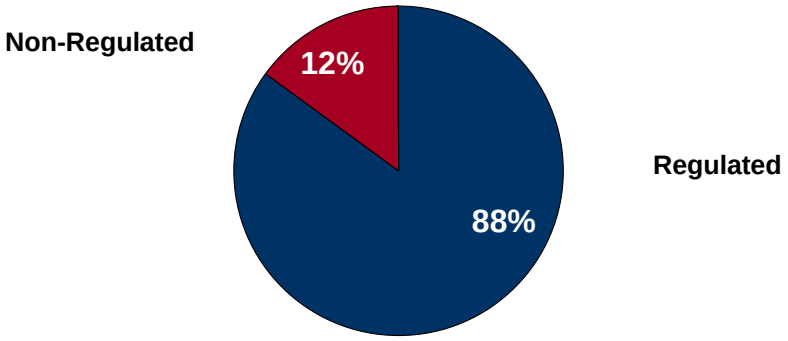
Think Nationally, Act Locally

- National Presence
  - Economies of Scale
  - Economies of Expertise
  - Best Practice Sharing
  - Industry leader in water quality, testing and research
  - Works with EPA to develop water quality standards
- Local Business
  - State Presidents
  - Operations Managed by Local Staff
  - Relationships with Mayors, Commissions and Opinion Leaders to Meet Community Challenges & Needs
  - Customer Education and Payment Assistance Programs
  - Actively involved in communities served

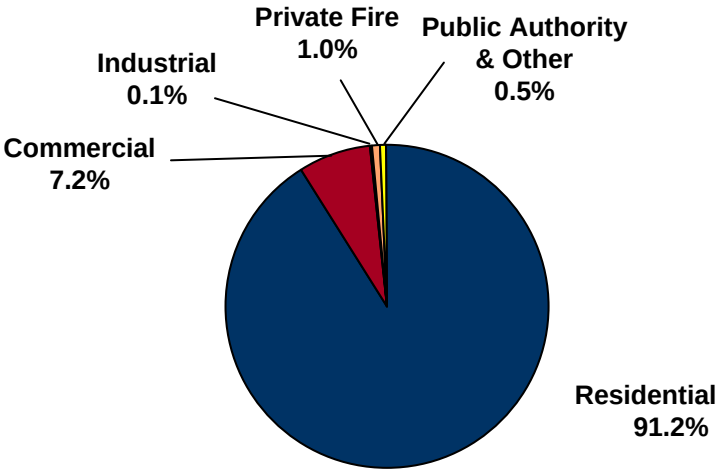
Company Overview

Majority of Revenues Provided by Regulated Business

FY2006 Revenue[1]



Customers by Class



Total Customers[2]: 3,286,363

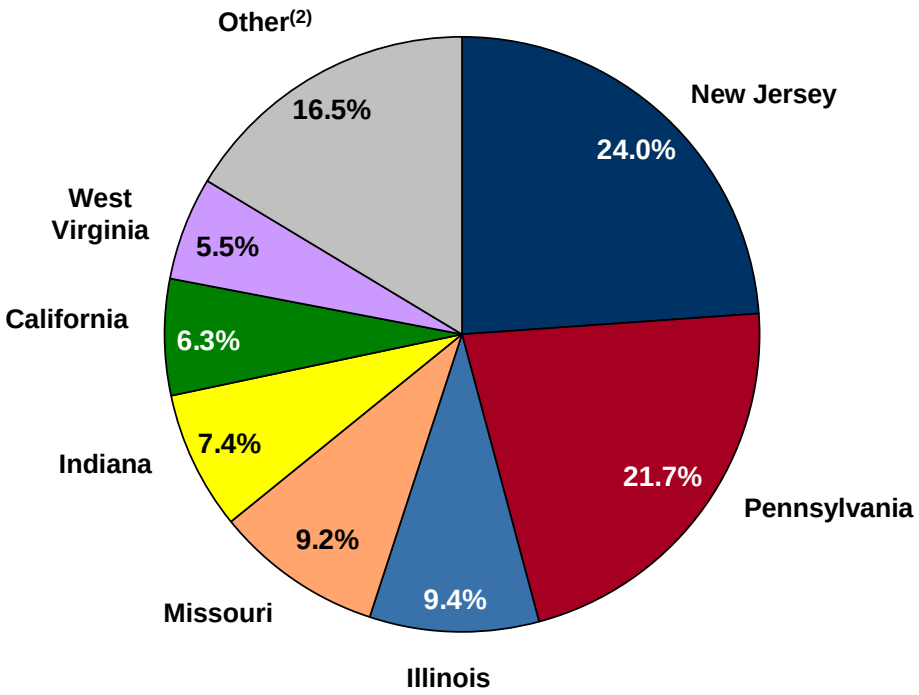
- Regulated Business provides a high degree of financial stability:
  - High capital barriers to entry
  - Economic regulation promotes predictability in financial planning and long-term performance through the rate-setting process
  - Largely residential customer base promotes consistent operating results
- Economic regulation in the water and wastewater industry to supervise the natural monopoly characteristics of the sector
  - Determination of an applicable rate base, the recovery of prudently incurred operating expenses and an opportunity to earn an appropriate rate of return on invested capital
- Residential customers accounted for approximately 91% of the total customers served and approximately 61% of total operating revenue for the Regulated Businesses in FY 2006
  - Represent a stable low risk customer platform which generates predictable cash flows over time and across geographic service areas

(1) Unaudited.
(2) Includes water and wastewater.

Company Overview

Extensive Geographic Diversification among Regulated Business

2006 Regulated Revenue by State(1)



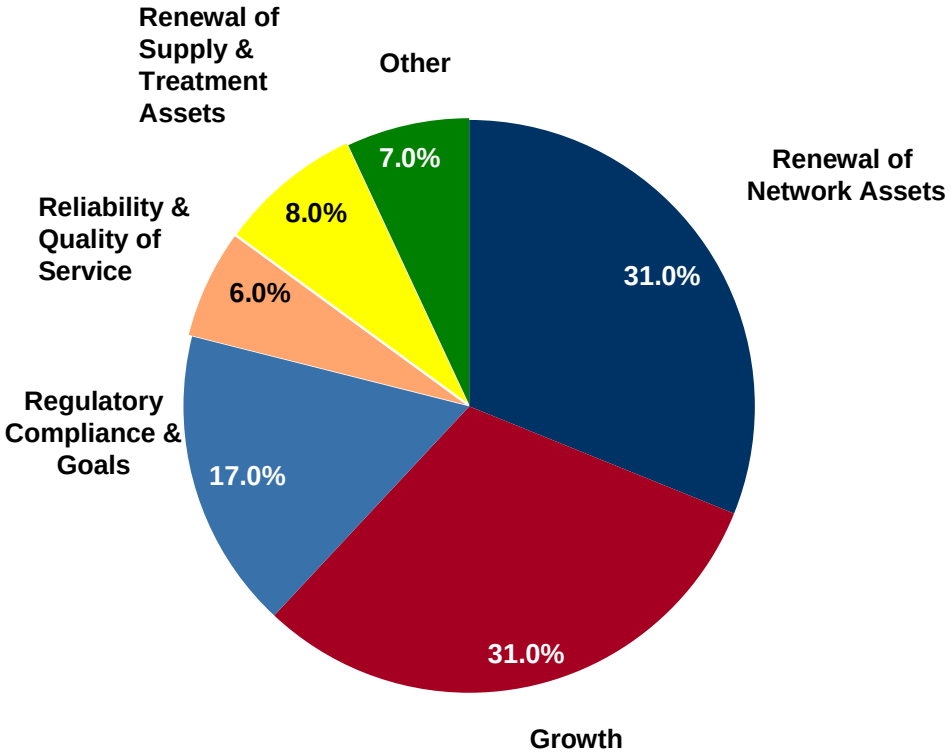
- Scale and geographic scope enables American Water to capitalize effectively on growth opportunities across service areas, helping to insulate disruption in any one region
- Presence in numerous jurisdictions and regions across the U.S. promotes stable and predictable financial performance across overall business
- Customer base changes very little from year-to-year which results in consistent revenue and EBITDA growth
- Regulatory environment allows American Water to pass on prudent cost increases to customers, where these increases have been approved by the state regulator

(1) Unaudited.
(2) Represents AZ, IA, KY, MD, MI, NM, OH, TN, NY, TX, VA, HI.

Company Overview

Capital Expenditures in Regulated Business Play a Key Role in American Water's Future

Capex Drivers 2007-2011



- Prudent investment in regulated utility infrastructure across all geographic regions provides an essential service to water utility customers
- Capex plays key role in American Water's expansion and diversification activities
- Required on an ongoing basis to comply with existing and new regulations, renew aging treatment and network assets, provide capacity for new growth, and enhance system reliability, security and quality of service
- Capex to sustain the existing infrastructure is usually between 65%-75% of total capital expenditures
- Net capex of $4.3 billion over the next five years

Company Overview

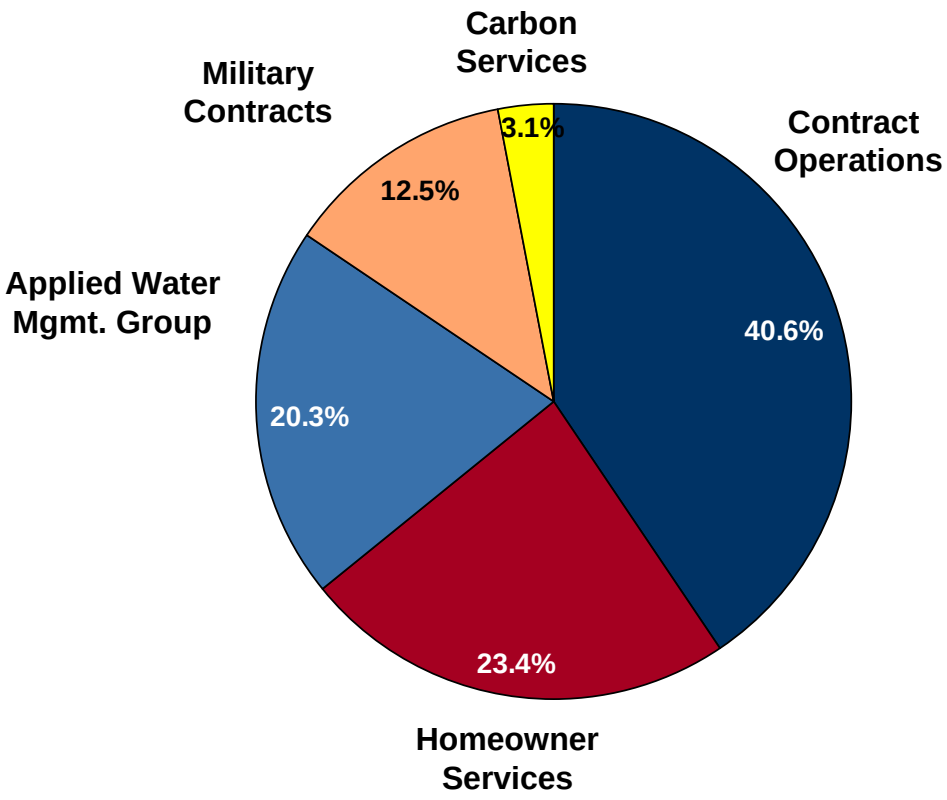
Water Quality Program

- Internationally Recognized Expertise
  - Cooperative relationship with EPA
    - Developing standards
    - Providing nationwide database
  - EPA partnership program – 65 plants with Directors Awards
- National Research Laboratory
  - State of the art capability
  - Available to all subsidiaries at low cost
- Stringent Water Quality Standards
  - Frequently implementing standards before regulation mandates
  - Adopting internal standards that often exceed regulation

Company Overview

Non-Regulated Operations Overview

2006 Non-Regulated Operations[1] (Based on Revenue)



- American Water leverages the expertise, assets and geographic diversity of its Regulated Businesses to make opportunistic investments in complementary non-regulated businesses
- Contract Operations Group enters into public/private partnerships through O&M and DBO's for the provision of services to water and wastewater facilities for municipalities and other customers
- Homeowner Services Group which provides water, sewer line and in-home plumbing protection services for homeowners has entered into over 550,000 customer contracts in 13 regulated states
- Applied Water Management Group works with customers to design, build and operate smaller scale water and wastewater treatment plants
  - Battery Park City in New York City and Gillette Stadium in Foxborough, MA
- Military Contract group participates in the Department of Defense's Utility Privatization Program
  - Operates and maintains the water and wastewater systems at various military bases
- Carbon services group provides granular activated carbon for water purification to our Regulated Businesses as well as certain outside customers

(1) Unaudited.

Key Credit Strengths

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Key Credit Strengths

Regulatory Environment

- Encourages capital expenditures necessary to provide reliable service and drive the expansion of regulated asset
- Constructive regulatory mechanisms in place to support expedient recovery of capital investment used for infrastructure renewal
  - Distribution System Improvement Charges (DSIC)
  - Future Test Years
  - Single Tariff Structures
- Provides earnings consistency and stability in cash flows

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Regulation & Rate Setting Process

Regulation & Rate Setting Process

Overview of Regulatory Environment

General Overview

- Rates are generally set according to traditional rate base / rate-of-return principles that remain in large part unchanged, despite deregulation of other utilities
- Rates are set by public utility commissions in each state
  - Need for investment in water industry is generally understood and recognized by Regulators
- Rates are set prospectively
  - Based on historical costs in most states, usually with some provision for known and measurable changes, with a minority of states relying on a forecast test year
  - Allowed ROE has been, over the last few years, in the 9 -11% area, and is largely dependent upon the current interest rate environment (premium to long term risk-free rate is stable)
  - A growing number of states allow recovery on infrastructure capital expenditures outside a general rate case
- Generally able to file rate reviews "at will"
  - Time needed to prepare a filing
  - "Anti-pancaking" concerns (cannot file a rate case while another is pending)
  - Commissions can require a rate case filing

Key Trends in Regulation

- Role of regulation
  - Protect consumer
  - Ensure investors receive appropriate rate of return
- Regulators moving toward policies which encourage investment
  - Rate adjustment mechanisms in Pennsylvania, Illinois, Indiana, Missouri, Ohio and New York are allowing companies to adjust rates to reflect capital invested to replace infrastructure in the interim period between rate reviews
  - States such as California, Kentucky, Illinois, New York are using future test years to set rates, reducing the time lag between investing capital and realizing the return
- Some regulators are also looking at the overall corporate capital structure and the corporate tax rate to determine state rates
- Interveners such as consumer advocacy groups and state attorney generals are becoming more active and better coordinated

Regulation & Rate Setting Process

Favorable Outcome of Change of Control Petition with Commissions

- Although RWE accepted a number of rate case stay out restrictions during the 2002/2003 acquisition proceedings, no rate case stay out restrictions were imposed or accepted during the 2006/2007 divestiture proceedings.
- Divestiture approval conditions are generally not harmful and include the following:
  - Many states have provisions which help ensure the Company's continuation of quality service
  - Some states require AW to maintain a minimum ratio of 45% common equity to total capitalization at the time of IPO
  - Some PUCs require that the underwriters limit purchasers to less than 10% of common equity
  - PA order requires AW to maintain RWE's commitment to retirees and eligible retirees at time of RWE acquisition
  - Restrictions in some states on staff reductions for up to one year after IPO
  - Restrictions in most states on certain divestiture related costs being passed to ratepayers
  - Many PUCs required various standard reporting of operational performance and other items which may impact the regulated utilities stakeholders

Regulation & Rate Setting Process

Proven Rate Case Strategy

- Focus on local community relations
  - State Presidents provide the community with direct access to a senior manager dedicated to the state utility and its customers
  - Active community involvement
  - 24 hour customer service center
- Provide high quality service
  - Highly skilled operations team which leverages economies of scale and best practices across all districts
- Focus on stakeholder needs
  - State Presidents maintain relationships with regulators and other key stakeholders in each state
  - Experienced rate teams with relationships at all levels within regulatory bodies
  - State and Corporate Rates teams includes former regulators and staff

Regulation & Rate Setting Process

Top Seven States / Subsidiaries

State	2006 Revenue	Population Served	DSIC[2]	Test Year[3]	Allowed ROE	Tariff Structure[4]
New Jersey	$446	2,650,000	No	Historic	10.00%	Single
Pennsylvania	403	2,140,000	Yes	Historic	10.60%	Single
Illinois	174	1,280,000	Yes	Future	10.27%	Multiple
Missouri	171	1,630,000	Yes	Historic	10.00%	Multiple
Indiana	137	1,280,000	Yes	Historic	9.25%	Multiple
California[1]	117	680,000	No	Future	10.06%	Multiple
West Virginia[1]	102	570,000	No	Historic	9.85%	Single

American Water's regulated business is built upon long-established regulatory relationships, which allow for appropriate returns and recovery of costs

(1) Unaudited.
(2) Distribution system improvement charge (DSIC): a charge assessed to water customers' bills as a means to raise capital to replace aging infrastructure.
(3 In most cases historic test year with certain adjustments for known and measurable changes.
(4) Single Tariff Structure represents a single rate structure within a state whereas a Multiple Tariff Structure includes many different tariffs by district or other subdivision within a state.
(5) Earnings sharing threshold of 10.80%: Returns between 10.80% and 11.30% shared 50%/50% between rate-payer and stockholder. Returns above 11.30% shared 75% / 25% between rate-payer and stockholder.

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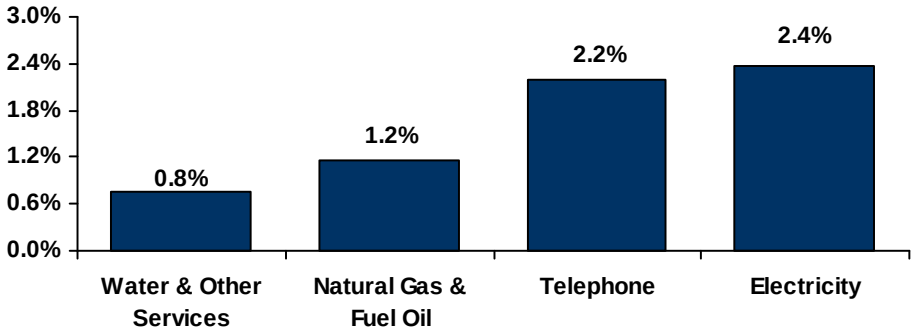
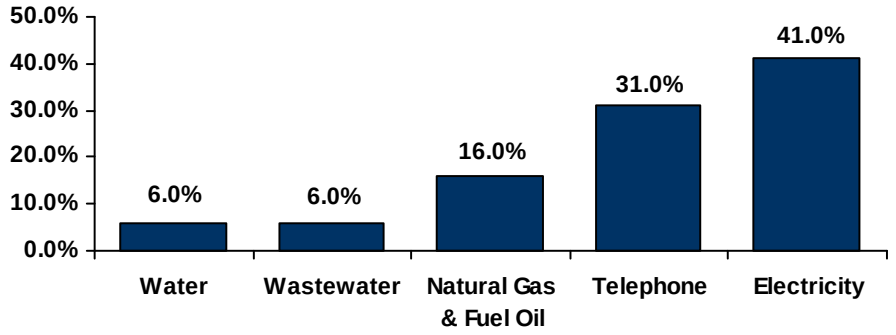
Regulation & Rate Setting Process

Relative Cost of Water

% of Annual Household Budget (1)



% of Annual Household Utilities Budget (2)



- U.S. water and wastewater rates are still relatively low in comparison to other traditional utilities
  - Translating into the lowest comparative utility bill paid by customers
- Since the domestic water supply cost in many parts of the country is not much more than $1.00 per day, consumers display more interest in the cost of heating their homes and in the cost of turning on their lights

(1) Source: 2004 Bureau of Labor Statistics; Assumes four person household.
(2) Source: C.A. Turner Utility Report; EPA.

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Corporate Policies & Governance

Corporate Policies & Governance

Entity Controls

- Establishment of an Independent Board meeting all SEC and NYSE requirements
- Issuance of Code of Ethics to all employees, Employee Hotline and Ethics Committee governance
- Audit Committee and Board oversight
- An independent Internal Audit function reporting to Audit Committee
- Defined accountability and oversight through organization structure, job descriptions and Delegation of Authority
- Hiring (i.e. background checks) and promotion practices based on defined competency requirements
- Employee performance review and development (i.e. training) processes, as well as reward and discipline practices
- IT access controls, as well as back up and recovery

Corporate Policies & Governance

Corporate Controls

- American Water adheres to a core set of corporate practices and procedures to run its business
  - Review of material contracts
  - Centralized cash management
  - Cap-ex approval
  - Comprehensive monthly financial reporting package
- Company maintains financial checks at multiple levels
  - Corporate finance staff and internal audit monitor all subsidiaries and operations
  - Subsidiaries employ controllers at field operations
  - PricewaterhouseCoopers conducts corporate audit and state audit
- Information technology platform provides an ability to analyze results and trends
  - Fixed assets records maintained on one software package
  - One general ledger software package (JDE) for majority of companies
  - Consolidation performed through Hyperion System 9

Corporate Policies & Governance

Key Accounting Policies

- Revenue Recognition
  - Revenues from regulated utility subsidiaries and unregulated operations recognized as services provided; revenues from DBO's recognized over contract term
- Capitalization and depreciation policies
  - Additions to utility plant, replacements of retirement units of property, and costs incurred to acquire and internally develop computer software are capitalized
  - Long-lived assets depreciated over the length of their estimated useful lives and reviewed for impairment whenever the carrying value may be unrecoverable
- Valuation of goodwill, intangibles and other assets
  - Goodwill reviewed annually, or more frequently if changes in circumstances indicate the carrying value may not be recoverable
  - Market multiples and discounted estimated future cash flows used to test for impairment
  - Annual impairment reviews performed in fourth quarter of calendar year
- Accounting for income taxes
  - Certain income and expense items accounted for in different time periods for financial reporting than for income tax reporting purposes

Corporate Policies & Governance

Goodwill

- American Water's total assets include substantial goodwill associated primarily with the acquisition by an affiliate of RWE of American Water in 2003 and E'Town Corporation in 2001, representing the excess of the purchase price the purchaser paid over the fair value of the net tangible and intangible assets acquired
  - $2.96 billion at December 31, 2006
  - Goodwill was recorded at fair value on the date of an acquisition and, in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", or SFAS No. 142, is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable
    - May be required to reflect, as required by SFAS No. 142 and other applicable accounting rules, a non-cash charge to operating results for any goodwill impairment. The recognition of an impairment of a significant portion of goodwill would negatively affect our results of operations and total capitalization, the effect of which could be material
  - To test for impairment, American Water utilizes comparable public company analyses and discounted estimated future cash flows to measure fair value for each reporting unit
  - Goodwill impairments were $216.0 million, $420.4 million, and $227.8 million in 2004, 2005 and 2006 respectively.

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Conclusion

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Appendix

Long-Term Debt Outstanding

($ in thousands)

	Rates	Maturity Date	Balance
American Water Works Company, Inc.			
Mandatory Redeemable Preferred Shares	5.90%	2013	$ 1,750,000
American Water Capital Corp.			
Private Activity Bonds and Government Funded Debt			
Floating Rate	3.72%-3.92%	2018-2032	86,860
Senior Notes			
Fixed Rate	5.39%-6.87%	2011-2022	1,212,000
RWE Notes (1)			
Fixed Rate	4.00%-6.05%	2008-2034	81,000
Other Subsidiairies			
Private Activity Bonds and Government Funded Debt			
Fixed Rate	0.00%-6.88%	2009-2038	948,348
Floating Rate	3.75%-3.87%	2015-2032	178,145
Mortgage Bonds			
Fixed Rate	6.31%-10.06%	2007-2034	802,840
Senior Debt			
Fixed Rate	5.60%-7.61%	2007-2025	53,500
Mandatory Redeemable Preferred Shares	4.60%-9.75%	2013-2036	24,856
Notes Payable and Other (2)	5.76%-11.77%	2007-2026	3,898
Total Long-Term Debt			**$ 5,141,447**

(1) Debt to RWE.

(2) Includes capital lease obligations of $2,050,190 and $40,371 at June 30, 2007 for Regulated and Non-Regulated companies respectively.

Appendix

Rate-Setting Process & Environment

- Primary regulatory model used by state PUCs involves a determination of an applicable rate base (consisting of allowed investments made in infrastructure), the recovery of prudently incurred operating expenses and appropriate rate of return on invested capital
  - This model allows American Water to estimate returns of and on investment and recovery of expenses and promotes predictability in financial planning and long-term performance of the Regulated Businesses
    - Model does not guarantee recovery in rate proceedings
    - Operating revenue is typically determined by reference to the volume of water supplied multiplied by a price-per-gallon set by a tariff approved by the relevant state PUC
- In evaluating a rate case, state PUCs typically focus on:
  - Amount and prudence of investment in facilities "used and useful" to provide public service
  - Operating and maintenance costs and taxes associated with providing the service
  - Appropriate rate of return
  - Tariff or rate design that allocates operating revenue requirements equitably across the customer base
  - Quality of service the utility provides, including issues raised by customers

Appendix

Rate-Setting Process & Environment (cont'd)

- Rate cases are normally initiated by the regulated utility whenever the utility determines it needs to recover increased operating expenses, a fair return on new capital investment, or a higher return on invested capital than the current allowed return
  - Typically a rate case will only be filed if the current or expected future return is below the allowed rate of return currently authorized by the regulator (i.e. deficiency exists)
- Rate proceedings are initiated by filing petitions with each respective state PUC
  - After hearings, interrogatories and occasionally settlement meetings with Commission staff and other parties, the state PUC will determine an allowed rate base, an allowed return on that rate base, recoverable operating costs, and an overall revenue requirement and how that revenue requirement will be collected from various customer classes
    - Allowed rate of return on rate base is a function of capital structure, perceived risk, what is necessary to attract capital at reasonable rates, and other factors
  - Allowed Revenue Requirement is computed by multiplying the rate base and the allowed return, adding applicable taxes as well as reasonable and prudent operating expenses

Appendix

Rate Base – Rate of Return Regulation

- Determine your Rate Base

  Utility Plant in Service

  - Accumulated Depreciation

  + Miscellaneous Assets

  - Contributions in Aid of Construction

  Rate Base

- Determine your Rate of Return
  - The Cost of Equity and the Cost of Debt
- Compute Allowed Operating Income (Rate Base x Rate of Return)
- Determine Gap
- Gross-Up Gap to allow for the payment of taxes

Appendix

Regulation & Rate Setting Process: Illustrative Calculation of Gap

($ in millions)	Forecast / Allowed	Actual	Revenue Deficiency
Revenues	$205.7	$205.7	($22.8)[1]
Operating Costs	100.0	120.0	
Operating Income	105.7	85.7	
Interest	33.0	35.8	
Pre-Tax Income	72.7	49.9	
Taxes	25.4	17.5	
Net Income	**$47.3**	**$32.5**	
Rate Base	1,000.0	-	
Equity Capitalization	45.0%	-	
ROE	10.5%	7.2%	
Interest Expense	6.0%	6.5%	
Tax Rate	35.0%	35.0%	

By comparing actual earnings vs. the forecasted / allowed earnings, which are based upon regulatory authorization, American Water is able to calculate a deficiency amount that is used as a basis for American Water's next rate case filing

(1) Revenue deficiency is the difference between forecasted and actual costs and interest expense.

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Appendix

Favorable Regulatory Mechanisms Ease Recovery of Capital Expenditures

- Capital expenditures necessary to provide reliable service drive the expansion of regulated assets, which earn an economic rate of return and lead to earnings growth
- A number of states in which American Water's Regulated Business operate have adopted efficient rate policies to support expedited recovery of capital investment used for infrastructure renewal and minimize the adverse impact of regulatory lag, including single tariffs, future test years, infrastructure surcharges such as Distribution System Improvement Charge (DSIC)
  - Single tariff policy, under which customers in more than one service district in a state are charged a single rate structure, regardless of which of the American Water systems serves them
    - Spreads costs across a larger customer base, thereby reducing the risk of high rate increases for certain customers and lowering administrative costs for American Water and its customers
  - Future test years and infrastructure surcharges such as DSIC reduce the lag associated with the standard method of increasing rates by state PUCs through time-consuming, backward-looking rate cases, or regulatory lag
    - Allows American Water to earn an immediate rate of return on projected capital expenditures

Appendix

Water Utility Business Risk is Low Relative to Energy Utilities

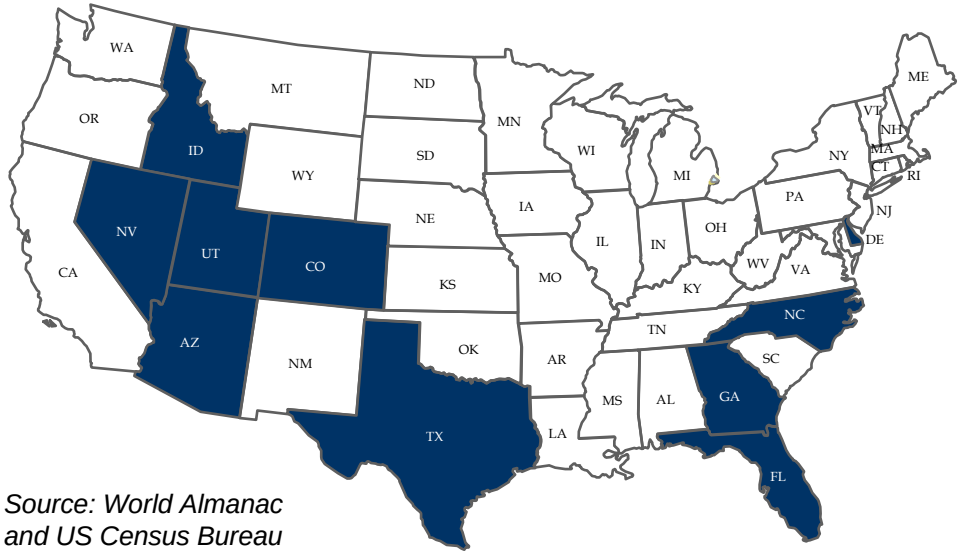
Water Utility Characteristics	Implications
▪ Capital projects focused on maintaining public health & safety standards	▪ Minimal regulator resistance to prudent projects
▪ Water bills are low portion of household budget	▪ Rate increases are less politicized ▪ Demand is more inelastic
▪ Water price is less volatile than energy commodities	▪ Rate increases are less dramatic in magnitude ▪ Cost forecasting and regulatory lag is more manageable
▪ Demand is less sensitive to weather conditions resulting in lower intra-day and daily demand fluctuations than energy utilities	▪ Less stress on the water system ▪ Less operational risk in meeting demand lowering risk of "disallowed" costs
▪ M&A focused on small tuck-ins wherein the target system becomes enabled to meet health & safety standards	▪ Regulators support the strengthening of water systems via M&A and are less likely to withhold beneficial economics
▪ Large water utilities are diversified across a larger number of regulatory jurisdictions and geographies	▪ Mitigates the impact of severe weather conditions / regulatory outcomes in a single jurisdiction

Appendix

Population Growth

- Driest regions in the United States continue to be fastest growing
  - Top 2 states rank last in precipitation
  - Water supply shortfalls threaten continued economic prosperity
- Consolidation of smaller utilities is needed to mitigate high costs of service through economies of scale, and to provide sustainable supply and technical know-how
- Supplemental methods of water supply (i.e. desalination, reuse, water transfers, conservation) need to be aggressively explored

Ten Fastest Growing U.S. States (Population)



Source: World Almanac and US Census Bureau

Fastest Growing States: Annual Precipitation

State	Annual Precip. (Rank)	Population Growth (Rank)	AW Population Served
NV	49	1	NA
AZ	50	2	741,285
GA	9	3	192,712
UT	44	4	NA
ID	46	5	NA
FL	7	6	150,000
TX	28	7	11,452
CO	43	8	NA
NC	15	9	91,500
DE	19	10	NA

American Water has the expertise to address all areas of Water Resource Management

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