

ORIGINAL



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November 20, 2006

Compliance Item:

Decision No. 68994 dated October 20, 2006 in WS-01303A-06-0283 states, "IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. shall file with Docket Control, as a compliance item in this docket, within 30 days of this Decision, a copy of all executed documents associated with the financing authorized herein."

Response:

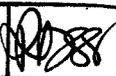
Attached is an Inter-Company Loan Agreement dated November 6, 2006 between Arizona-American Water Company and American Water Capital Corp. for \$158,448,119 which matures on December 6, 2006. This is a short-term loan necessary until a long-term loan can be executed and approved by RWE, American Water Capital Corp and several state affiliates of Arizona-American Water which are involved in the long-term financing. This short-term loan is necessary primarily because RWE, as owner, needs time to make all the related financing decisions.

As a result, the Company will make another compliance filing pursuant to the Decision No. 68994 on December 20, 2006 to update the Commission.

Arizona Corporation Commission

DOCKETED

NOV 20 2006

DOCKETED BY	
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AZ CORP COMMISSION
DOCUMENT CONTROL

2006 NOV 20 P 4: 50

RECEIVED

INTER-COMPANY LOAN AGREEMENT

This Inter-Company Loan Agreement (the "Agreement") is made and entered into as of the **6th day of November, 2006**, by and between **American Water Capital Corp.** ("Lender") and **Arizona-American Water Company** ("Borrower").

WITNESSETH

WHEREAS, Borrower is a **Arizona** corporation and an indirect subsidiary of Thames Water Aqua US Holdings, Inc. ("Parent") AND

WHEREAS, Lender is a **Delaware** corporation and a direct subsidiary Parent.

NOW, THEREFORE, the Parties hereto agree as follows:

1. Loan Amount. Subject to the terms and conditions of this Agreement and the Notes (as defined in Section 3 below), Lender agrees to lend to Borrower the aggregate amount of **One Hundred Fifty Eight Million Four Hundred Forty Eight Thousand One Hundred Nineteen** United States Dollars (\$158,448,119) (the "Loan"), which Lender shall advance to Borrower at any time from the date of this Agreement until the date thirty (30) calendar days prior to the maturity of this Agreement.
2. Use of Proceeds. Borrower will use the proceeds of the Loan for general working capital purposes and to refinance other outstanding debt.
3. Revolving Inter-company Notes. The obligation of Borrower to repay the unpaid principal amount of and interest on the Loan shall be evidenced by Inter-company Notes substantially in the form attached as Exhibit A (the "Notes"). The Lender may permit the Borrower to roll-over Principle and interest (Net of any taxes paid) into a new Note.
4. Disbursement. Lender shall disburse the Loan by wire transfer to Borrower unless otherwise directed in writing by Borrower.
5. Repayment. Borrower shall make all payments due to Lender in United States Dollars by wire transfer unless otherwise directed in writing by Lender.
6. Default Interest. If either (i) any amounts required to be paid by Borrower under this Agreement remain unpaid after such amounts are due, or (ii) an Event of Default (as defined in the Notes) has occurred and is continuing, Borrower shall pay interest on the outstanding principal balance hereunder from the date due or from the date of the Event of Default, as applicable, until such past due amounts are paid in full or until all Events of Default are cured, as applicable, at a per annum rate equal to 2% over the then current interest rate under the Notes; provided, however, in no

event shall the default rate be more than the highest rate permitted by applicable law. All computations of such interest at the default rate will be computed on the basis of the actual number of days expired over a 360 day year.

7. Maturity Date; Prepayment. The unpaid principal amount outstanding under this Agreement, together with all accrued but unpaid interest shall be due and payable in full on the earliest to occur of ("Maturity"): (a) **6th day of December, 2006**, (b) Lender and Borrower mutually agree in writing to terminate this agreement declaring the entire unpaid principal amount of, and all accrued interest on, this Agreement to be immediately due and payable in full pursuant to the provisions of Section 3 of this Agreement, or (c) the date of which Parent no longer beneficially owns more than fifty percent (50%) of the voting rights of Borrower. Unpaid principal and unpaid accrued interest under this Agreement may be prepaid by Borrower prior to Maturity in whole or in part at any time at its option without penalty; provided that prepayments of principal and/or interest will be applied first to the payment of interest accrued on the Notes and second, if the amount of prepayment exceeds the amount of all such accrued interest, to the payment of principal of the Notes.

8. Interest. The Notes shall bear interest on the unpaid principal amount hereof at an interest rate equal to **5.32 plus [0] basis points**, the rate published two days prior to the drawdown by the British Bankers Association or Wall Street Journal. Interest will be calculated on an **Actual Days Over 360** day basis. Any early interest payment (due to holiday or weekend) shall include all interest accrued through the interest due date. Interest will be paid every **1 Month(s)**.

9. Defaults and Remedies.

9.1 Events of Default. The occurrence of any of the following events will constitute an "**Event of Default**" hereunder:

(i) Borrower's failure to pay any principal of or any accrued interest on this Agreement or any other Promissory Note when the same is due and payable;

(ii) Borrower's failure to perform, keep, comply with or observe any other covenant set forth in this Agreement, which failure has not been cured within thirty (30) days after Lender gives Borrower notice thereof;

(iii) Borrower's becoming insolvent, or admitting in writing its inability to pay its debts as they mature, or making an assignment for the benefit of creditors, or applying for or consenting to the appointment of a receiver, liquidator, custodian or trustee for it or for a substantial part of its property or business, or such a receiver, liquidator, custodian or trustee otherwise being appointed and not discharged within thirty (30) calendar days after such appointment;

(iv) Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings for relief under any bankruptcy law or any other law for the relief of debtors being instituted by or against Borrower, or any order, judgment or decree being entered against Borrower decreeing its dissolution or division; provided, however, that with respect to an involuntary petition

in bankruptcy, such petition has not been dismissed within thirty (30) calendar days after the filing of such petition; or

(v) This Agreement for any reason (other than the payment in full of all amounts owing hereunder) ceases to be, or is asserted by Borrower not to be, a legal, valid and binding obligation of Borrower, enforceable in accordance with its terms, and such occurrence has not been cured to Lender's satisfaction within thirty (30) calendar days after Lender gives Borrower notice thereof.

9.2 Remedies. Upon the occurrence and during the continuance of any Event of Default, at Lender's sole option by written notice to Borrower, Lender may do either or both of the following: (i) declare the entire principal amount of, and all accrued interest on, this Agreement to immediately be due and payable in full, whereupon such amounts will accelerate and immediately become due and payable in full, provided that in the case of an Event of Default listed in paragraph (iii) or (iv) of Section 9.1 above, all unpaid principal and interest will immediately become due and payable in full without the requirement of any notice or other action by Lender; and/or (ii) exercise all rights and remedies otherwise available to Lender at law or in equity.

10. Successors and Assigns. The provisions of this Agreement will inure to the benefit of, and be binding on, each party's respective heirs, successors and assigns.

11. Waiver and Amendment. Any provision of this Agreement may be amended, waived or modified upon the written consent of Borrower and Lender. No waiver or consent with respect to this Agreement will be binding or effective unless it is set forth in writing and signed by the party against whom such waiver is asserted. No course of dealing between Borrower and Lender will operate as a waiver or modification of any party's rights or obligations under this Agreement. No delay or failure on the part of either party in exercising any right or remedy under this Agreement will operate as a waiver of such right or any other right. A waiver given on one occasion will not be construed as a bar to, or as a waiver of, any right or remedy on any future occasion.

12. Waiver of Presentment. Borrower hereby waives presentment, notice of dishonor, protest, demand and diligence.

13. Notices. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or if sent via facsimile, overnight courier service or mailed by registered or certified mail, postage prepaid, addressed or sent: (i) if to Lender, at the principal corporate offices of Lender, and (ii) if to Borrower, at the principal corporate offices of Borrower. Either party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when personally delivered or when deposited in the mail or with an overnight courier service or sent via facsimile in the manner set forth above and shall be deemed to have been received when delivered.

14. Governing Law. Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey, as applied to agreements between residents thereof to be performed

entirely within such state, without reference to that body of law relating to conflicts of law or choice of law. Each of the parties agrees that the courts of the State of New Jersey are to have exclusive jurisdiction to settle any dispute (including claims for set-off and counterclaims) which may arise in connection with the creation, validity, effect, interpretation or performance of, or the legal relationships established by, this loan contract or otherwise arising in connection with this loan contract and for such purposes irrevocably submits to the jurisdiction of the State of New Jersey courts.

15. Termination of Lending Commitment. Notwithstanding anything to the contrary in this Agreement, Lender's obligation to advance the Loan Amount hereunder shall terminate on the earliest of (i) December 31, 2007, (ii) the occurrence of any Event of Default under the Agreement, and (iii) the date on which Borrower is no longer a direct or indirect subsidiary of the Lender.

16. Termination of Agreement. This Agreement will terminate upon the payment and satisfaction in full of all of Borrower's obligations hereunder; provided, however, that the termination of this Agreement will not affect any of the rights and remedies of Lender hereunder.

17. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors and permitted assigns.

18. Assignment. This Agreement shall not be assignable or otherwise transferable by either party hereto without the prior written consent of the other party hereto, and any purported assignment or other transfer without such consent shall be void and unenforceable.

19. Severability. If any provision, including any phrase, sentence, clause, section or subsection, of this Agreement is invalid, inoperative or unenforceable for any reason, such circumstances shall not have the effect of rendering such provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision herein contained invalid, inoperative, or unenforceable to any extent whatsoever.

20. Headings. The headings contained in this Agreement are for purposes of convenience only and shall not affect the meaning or interpretation of this Agreement.

21. Counterparts. This Agreement may be executed in (i) in several counterparts, each of which shall be deemed an original and all of which shall together constitute one and the same instrument, and (ii) by the facsimile transmission by any party to the other party of a copy of an original signature(s) of the representative(s) of such party; provided that the original signatures are thereafter forthwith provided to the other party.

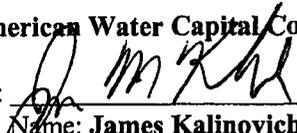
22. Language. This Agreement is entered into in the English language. In the event of any dispute concerning the construction or meaning of this Agreement, the text of the Agreement as written in the English language shall prevail over any translation of this Agreement that may have been or will be made.

23. Indemnity. Borrower shall fully indemnify Lender from and against any commercially reasonable expense, loss, damage, or liability which it may suffer or incur as a consequence of any Event of Default or in seeking to enforce this Agreement. This shall include, but not limited to, attorneys' fees.

[Remainder of this page intentionally left blank.]

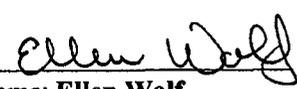
IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

American Water Capital Corp.

By: 

Name: James Kalinovich

Title: Vice President and Treasurer

By: 

Name: Ellen Wolf

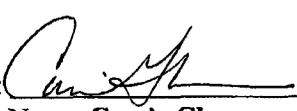
Title: CFO

Arizona-American Water Company

By: 

Name: Paul Townsley

Title: President

By: 

Name: Carrie Gleeson

Title: Assistant Secretary

Exhibit A
FORM OF REVOLVING INTERCOMPANY NOTE

USD _____

AWCC_AZ- #

Dated: 6th day of November, 2006

FOR VALUE RECEIVED, **Arizona-American Water Company**, a United States corporation (the "*Borrower*"), hereby promises to pay to the order of **American Water Capital Corp.**, a United States corporation ("*Lender*"), or any subsequent holder on the earlier of (i) **6th day of December, 2006** or (ii) demand by Lender or (iii) the date of which **Thames Water Aqua US Holdings, Inc.** ("*Parent*") no longer beneficially owns more than fifty percent (50%) of the voting rights of Borrower, in United States Dollar (USD) funds, at 1025 Laurel Oak Road, Voorhees, New Jersey 08043 or at such location as the holder hereof shall from time to time designate, the lesser of (i) the principal sum of USD _____ or, (ii) the outstanding principal amounts of all loans and advances at any time and from time to time made by Lender to the Subsidiary, plus all accrued and unpaid simple interest (computed on the basis of **Actual Days Over 360**) on the unpaid principal balance hereof at an initial rate of (insert rate %) per annum as such rate may be changed from time to time by Lender and agreed by the Subsidiary, with such amounts to be maintained by the Lender on its ledger.

The Subsidiary may, at its option, prepay this Note in whole or in part on any date prior to maturity, together with accrued and unpaid interest on the portion prepaid, without premium or penalty.

THIS NOTE SHALL BE GOVERNED BY THE LAWS OF THE UNITED STATES.

Arizona-American Water Company

By: _____
Name:
Title:

By: _____
Name:
Title:

PAY TO THE ORDER OF **Arizona-American Water Company** as of this 6th day of November, 2006.

American Water Capital Corp.

By: _____
Name:
Title:

By: _____
Name:
Title:

FORM OF REVOLVING INTERCOMPANY NOTE

AWCC_AZ- #20061106

USD \$158,448,119.00

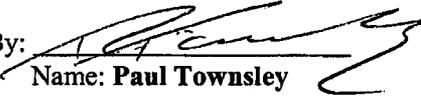
Dated: 6th day of November, 2006

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The Subsidiary may, at its option, prepay this Note in whole or in part on any date prior to maturity, together with accrued and unpaid interest on the portion prepaid, without premium or penalty.

THIS NOTE SHALL BE GOVERNED BY THE LAWS OF THE UNITED STATES.

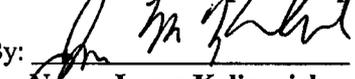
Arizona-American Water Company

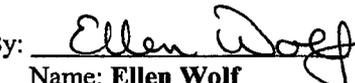
By: 
Name: **Paul Townsley**
Title: **President**

By: 
Name: **Carrie Gleeson**
Title: **Assistant Secretary**

PAY TO THE ORDER OF **Arizona-American Water Company** as of this 6th day of November, 2006.

American Water Capital Corp.

By: 
Name: **James Kalinovich**
Title: **Vice President and Treasurer**

By: 
Name: **Ellen Wolf**
Title: **CFO**