

McLane

McLane, Graf,
Raulerson &
Middleton

Professional Association

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STEVEN V. CAMERINO
Internet: steven.camerino@mclane.com

March 6, 2007

OFFICES IN:
MANCHESTER
CONCORD
PORTSMOUTH

Debra A. Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 S. Fruit Street, Suite 10
Concord, NH 03301-2429



Re: DW 06-094; Aquarion Water Company of New Hampshire

Dear Ms. Howland:

I am writing to provide the Commission with an update on the status of the acquisition of Aquarion Company (and its subsidiary Aquarion Water Company of New Hampshire, among others) by Macquarie Utilities, Inc. Because of delays in the New York Public Service Commission proceeding relating to the transaction and because Aquarion's New York holdings constitute only about 7% of its business, Kelda Group (Aquarion's parent company) has decided to spin-off the two subsidiaries that do business in New York and sell those entities separately.

The change in the treatment of Aquarion Company's two New York subsidiaries is described in the enclosed communication from Larry Bingaman to representatives of the Town of North Hampton. Similar communications were sent to officials of the other New Hampshire communities served by Aquarion last month. Although I have previously notified the Commission staff on an informal basis of this impending minor change in the transaction, Aquarion and Macquarie also wanted to formally make the Commission aware of it now that the changes to the transaction have been finalized.

To reflect the separate sale of the New York subsidiaries, conforming changes have been made to the Stock Purchase Agreement between Macquarie and Kelda. A copy of a letter agreement amending the Stock Purchase Agreement is enclosed. (Included with the letter agreement are two additional agreements that do not relate to Aquarion Water Company of New Hampshire, but rather relate to the transitional arrangements between Aquarion and its New York subsidiaries.)

This minor change in the transaction between Aquarion and Macquarie will not result in any change in the transfer of Aquarion Water Company of New Hampshire, and therefore it should not require further Commission action. Macquarie plans to close on its acquisition of

Debra A. Howland
March 6, 2007
Page 2

Aquarion Company in April. To ensure that any questions that the Commission or its staff may have are addressed prior to the closing, the companies would appreciate receiving any such questions prior to the end of March.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven V. Camerino". The signature is fluid and cursive, with a large initial "S" and a distinct "C" at the end.

Steven V. Camerino

Enclosures

cc: Service List
Robert Rollinson
Charles Firlotte
Larry Bingaman
Linda Discepolo

Larry
Bingaman/Aquarion
/AquarionWater

02/09/2007 09:09
AM

ecreighton@northhampton-nh.gov,
dgould@northhampton-nh.gov,
hmarsh@northhampton-nh.gov,
rlandman@hlinstruments.com,
Tim@harned.com

To
Aquarion Water Company
Of New Hampshire
DW 06-094

cc

Subject

Macquarie Update

Good morning,

I wanted to give you a brief update on Macquarie's acquisition of Aquarion. When we were together on January 26, Chris Leslie and I said that we were still awaiting clearance from the New York Public Service Commission (NY PSC) to complete the change in ownership approval process, which we expected would be finalized soon.

This morning, our current parent, Kelda Group, and Macquarie Utilities announced they have amended the Aquarion Company acquisition agreement to exclude Aquarion's operations in the Port Chester and Sea Cliff areas of New York.

Kelda will sell the two New York-based water companies to neighboring water companies. This will allow Macquarie to close very quickly on the acquisition of Aquarion's properties in Connecticut, Massachusetts, and New Hampshire, which is 95% of the business. Macquarie can then move forward with the significant majority of the Aquarion Company acquisition and begin to focus on its New Hampshire and other New England properties.

Kelda has reached agreement for the Port Chester, Rye and Rye Brook communities in New York to be served by United Water Resources, the water company that presently serves the New Rochelle area, is a few minute drive to these towns, and has a large presence in other parts of New York State. Our Sea Cliff operations on Long Island will be served by Aqua America Inc., which presently owns and operates the New York Water Service Company in southeastern Nassau County and other parts of the U.S., and likewise is just a few minute drive from the Sea Cliff area.

Both Aqua America and United Water are well-established and well-respected leaders in the water industry. It is anticipated that it will take approximately six months until the NY PSC regulatory authorities approve United Water and Aqua America's purchases. Until that time our customers in the aforementioned communities will continue to be served by Aquarion, as we work closely with United Water and Aqua America personnel to ensure a smooth transition.

The New York Public Services Commission, for its part, has had a goal of wanting existing larger players to aggregate smaller entities. Since Aquarion's New York State presence is relatively small, we believe that Aqua America and United Water -- both having a significant presence in the state -- are better equipped to serve these communities over the longer term.

Bob or Tim, if you could let the other two Water Commissioners know, it would be much appreciated. If you have any questions on this matter, please let me know. Thank you.

Regards,

LLB --

Larry L. Bingaman
Senior Vice President -- Operations, MA & NH
Aquarion Water Company
900 Main Street
Hingham, MA 02043

US Mail: PO Box 336
Accord, MA 02018

MA PH: 781-740-6694
Fax: 781-741-2572
Cell: 781-724-4414

1 Merrill Industrial Drive
Hampton, NH 03842
NH PH: 603-926-3319 ext.121

MACQUARIE UTILITIES INC.

February 8, 2007

Kelda Group Inc.
Western House
Halifax Road
Bradford BD6 2SZ, United Kingdom
Attention: Philip Hudson

Re: Amendment No. 1 to Stock Purchase Agreement

Dear Mr. Hudson:

Reference is made to that certain Stock Purchase Agreement (the "Agreement"), dated as of February 24, 2006, by and between Kelda Group Inc. ("Seller") and Macquarie Utilities Inc. ("Purchaser"). Capitalized terms that are used but not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

Seller and Purchaser mutually desire to exclude Aquarion Water Company of New York and Aquarion Water Company of Sea Cliff from the transactions contemplated by the Agreement. Accordingly, Seller and Purchaser hereby agree as follows:

Exclusion of New York Subsidiaries

1. Section 3.1(b) of the Seller Disclosure Schedule is amended to delete therefrom (i) Aquarion Water Company of New York and (ii) Aquarion Water Company of Sea Cliff, such that the terms Subsidiary and Subsidiaries, as used in the Agreement, shall not include (i) Aquarion Water Company of New York or (ii) Aquarion Water Company of Sea Cliff for any purpose whatsoever under the Agreement.
2. Section 3.1(c) of the Seller Disclosure Schedule is amended to add thereto (i) Aquarion Water Company of New York and (ii) Aquarion Water Company of Sea Cliff, such that the terms Retained Entity and Retained Entities, as used in the Agreement, shall include (i) Aquarion Water Company of New York and (ii) Aquarion Water Company of Sea Cliff for all purposes whatsoever under the Agreement.
3. Section 2.3 of the Seller Disclosure Schedule is amended to delete therefrom (i) New York Public Service Commission approval, (ii) written notice to the New York Department of Environmental Protection with respect to permits or licenses as applicable, (iii) written notice to the Westchester County and Nassau County Health Departments

with respect to permits or licenses as applicable, and (iv) written notice to the New York State Health Department with respect to permits or licenses as applicable (collectively, the "New York Approvals"), such that the term Other Regulatory Approvals, as used in the Agreement, shall not include any of the New York Approvals for any purpose whatsoever under the Agreement. In addition, Section 2.3 of the Seller Disclosure Schedule is amended to add thereto New York Public Service Commission approval of (A) the transfer of all capital stock of Aquarion Water Company of New York and Aquarion Water Company of Sea Cliff to Seller and (B) a transition service agreement, by and between the Company or one of its Subsidiaries, as appropriate, and Seller or one of its subsidiaries, as appropriate, containing terms substantially as set forth on Exhibit A hereto (the "Transition Agreement"), such that the term Other Regulatory Approvals, as used in the Agreement, shall include the foregoing approvals.

Other Amendments to the Agreement

4. Section 1.1 of the Agreement is amended by restating clause (a) of such Section in its entirety to read as follows: "(a) Seller shall sell, assign, transfer and deliver to Purchaser, and Purchaser shall purchase from Seller, the Shares for an aggregate purchase price of U.S. \$568.25 million (the **Purchase Price**), payable as set forth in Section 1.3(e) and".

5. Section 5.5 of the Agreement is amended by adding a new clause (e) thereto that reads in its entirety as follows: "(e) Notwithstanding anything to the contrary in this Section 5.5, all transfer Taxes resulting from or attributable to the distribution or disposition of any capital stock, or other equity interest in or securities of, Aquarion Water Company of New York or Aquarion Water Company of Sea Cliff shall be paid by Seller."

6. Section 6.2 of the Agreement is amended by adding a new clause (g) thereto that adds an additional condition to the obligation of Purchaser and reads in its entirety as follows: "(g) **New York Retained Entities**. Seller shall have delivered to Purchaser evidence reasonably satisfactory to Purchaser demonstrating that neither the Company nor any Subsidiary owns, beneficially or of record, any capital stock, or other equity interest in or securities of, Aquarion Water Company of New York or Aquarion Water Company of Sea Cliff. In addition, Purchaser shall have received evidence reasonably satisfactory to it that any Connecticut Department of Public Utility Control approval and any New Hampshire Public Service Commission approval received in respect of the transactions contemplated by the Agreement is sufficient to approve such transactions as modified by that certain Amendment No. 1 to Stock Purchase Agreement by and between Seller and Purchaser. For the avoidance of doubt, Seller and Purchaser acknowledge and agree that the indemnification obligations contemplated by Section 8.1(a)(iii) of the Agreement include Seller's indemnification against any liability incurred as a result of Seller taking or causing to take, or failing to take or to cause to be taken, such actions as may be necessary or appropriate such that prior to Closing neither the Company nor any Subsidiary owns, beneficially or of record, any capital stock, or other equity interest in or

securities of, Aquarion Water Company of New York or Aquarion Water Company of Sea Cliff, including any action taken or caused to be taken by Seller, or any action that Seller fails to take or to cause to be taken, in respect of any Consent of any Government Entity that may be required under Applicable Law."

Additional Agreements of the Parties

7. Seller hereby represents and warrants to Purchaser that since February 24, 2006 through the date hereof (i) it has complied, and has caused the Company and its Subsidiaries, including Aquarion Water Company of New York and Aquarion Water Company of Sea Cliff, to comply in all material respects with the provisions of the Agreement, (ii) neither it, the Company nor any Subsidiary has made, or has caused to be made, any contributions of capital or loans to Aquarion Water Company of New York or Aquarion Water Company of Sea Cliff, except for \$1.1 million in intra-company loans made to Aquarion Water Company of New York and \$800,000 in intra-company loans repaid or settled by Aquarion Water Company of Sea Cliff (all of which have been settled in accordance with the last sentence of this paragraph 7), and (iii) any dividends declared by Aquarion Water Company of New York or Aquarion Water Company of Sea Cliff have been declared in the ordinary course and consistent with past practice. In addition, (i) on or following the date hereof, neither Seller, the Company or any of its Subsidiaries shall make any loans to Aquarion Water Company of New York or Aquarion Water Company of Sea Cliff, and (ii) notwithstanding any provision of the Agreement to the contrary, if, on or following the date hereof Seller, the Company or any of its Subsidiaries makes, or causes to be made, any contributions of capital to Aquarion Water Company of New York or Aquarion Water Company of Sea Cliff (the aggregate amount of any such contributions, the "**Contribution Amount**"), the Purchase Price shall be decreased by a number of dollars equal to the Contribution Amount. For avoidance of doubt, (i) any intra-company debt as between Aquarion Water Company of New York and Aquarion Water Company of Sea Cliff, on one hand, and the Company and the Subsidiaries, on the other hand, may be settled in accordance with Section 5.20 of the Agreement, and (ii) any accounts receivables and payables as between Aquarion Water Company of New York and Aquarion Water Company of Sea Cliff, on one hand, and the Company and the Subsidiaries, on the other hand, shall be paid in cash in the ordinary course of business and shall not be settled by means of a direct or indirect contribution of capital.

8. Seller (i) represents and warrants to Purchaser that it has provided Purchaser with true and correct copies of the purchase agreements that Seller intends to enter into, or cause the Company or one of its Subsidiaries to enter into, in connection with the disposition of Aquarion Water Company of New York and Aquarion Water Company of Sea Cliff and (ii) agrees that it will not make, or cause to be made, any material changes or amendments to any such agreements in a manner adversely impacting the Purchaser or the transaction contemplated by the Agreement without the prior written consent of Purchaser.

9. Seller and Purchaser shall use their commercially reasonable efforts to negotiate, execute and deliver, or cause to be negotiated, executed and delivered, the Transition Agreement on or prior to the Closing to be effective as of the Closing. In addition, Seller shall cause the terms of any agreement between it and any third party involving the sale of Aquarion Water Company of New York to any such third party to require such third party or one of its subsidiaries to execute and deliver an agreement with the Company or one of its Subsidiaries, as appropriate, substantially in the form set forth on Exhibit B hereto (such agreement, the "Additional Agreement"); and, Purchaser shall, in connection therewith, use its commercially reasonable efforts to cause to be negotiated, executed and delivered the Additional Agreement with such third parties or one of their subsidiaries to be effective as of the closing of any such sale.

10. From time to time, as and when requested by either party, the other party shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions, as such party may reasonably deem necessary or desirable to (i) effectuate the transactions contemplated by this letter agreement, including the amendments to the Agreement and the Seller Disclosure Schedule contemplated hereby, and (ii) consummate the transactions contemplated by the Agreement, as amended by this letter agreement. In furtherance of the foregoing, Seller shall take, or cause to be taken, all such actions as may be necessary or appropriate to obtain any Consent of any Government Entity that may be required under Applicable Law in respect of Seller's obligations to take, or to cause to be taken, such actions as may be necessary or appropriate such that prior to Closing neither the Company nor any Subsidiary owns, beneficially or of record, any capital stock, or other equity interest in or securities of, Aquarion Water Company of New York or Aquarion Water Company of Sea Cliff.

11. The Forecast with respect to the first five months of 2007 is set forth on Exhibit C hereto (it being acknowledged that the dividend payable in December of 2006 under the original Forecast was actually paid in January of 2007).

12. All references to the Agreement shall be deemed to be references to the Agreement as amended hereby for all purposes whatsoever under the Agreement, this letter agreement and any and all other instruments by and between Seller and Purchaser.

13. Unless expressly amended by this letter agreement, the provisions of the Agreement and the Seller Disclosure Schedule shall remain unchanged and are hereby ratified and confirmed in all respects (for the avoidance of doubt, Article 8 and Article 9 of the Agreement shall apply to this letter agreement).

14. This letter agreement shall in all respects be governed by and construed in accordance with the laws of the State of Delaware, including all matters of construction, validity and performance, in each case without reference to any conflict of law rules that might lead to the application of the laws of any other jurisdiction.

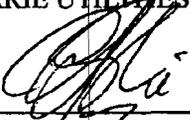
15. This letter agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts and by each party in separate counterparts, all of which shall be deemed one and the same agreement, and shall become effective when one or more such counterparts have been signed by each party and delivered to the other party.

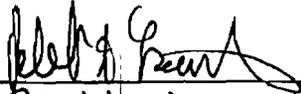
[SIGNATURES FOLLOW ON NEXT PAGE]

If the foregoing accurately reflects our agreement, please so indicate by causing a duly authorized officer of Purchaser to sign in the space provided below.

Very truly yours,

MACQUARIE UTILITIES INC.

By: 
Name: Chris Leslie
Title: President

By: 
Name: Robert Lawsky
Title: Secretary

AGREED AS OF THE DATE
FIRST ABOVE WRITTEN:

KELDA GROUP INC.

By: _____
Name:
Title:

cc: A. Peter Harwich, Allen & Overy LLP
Pankaj K. Sinha, Skadden, Arps, Slate, Meagher & Flom LLP

(673022)

If the foregoing accurately reflects our agreement, please so indicate by causing a duly authorized officer of Purchaser to sign in the space provided below.

Very truly yours,

MACQUARIE UTILITIES INC.

By: _____

Name:

Title:

By: _____

Name:

Title:

AGREED AS OF THE DATE

FIRST ABOVE WRITTEN:

KELDA GROUP INC.

By: 

Name: Charles V. Firlotte

Title: President and CEO

cc: A. Peter Harwich, Allen & Overy LLP

Pankaj K. Sinha, Skadden, Arps, Slate, Meagher & Flom LLP

(673022)

EXHIBIT A

TERMS OF TRANSITION AGREEMENT
(ATTACHED)

TRANSITION SERVICES AGREEMENT

Summary of Key Terms and Conditions

Overview

The transition services terms and conditions (the "Agreement") shall be entered into between Aquarion Water Company ("Service Company") and [Aquarion Water Company of New York / Sea Cliff Water Company] ("Water Company").¹ Defined terms used in this term sheet and not otherwise defined shall have the meaning set forth in that certain Stock Purchase Agreement between Kelda Group Inc. ("Seller") and Macquarie Utilities Inc. ("Purchaser") dated February 24, 2006, as amended by Amendment No. 1 dated February __, 2007 ("SPA").

Service Provider is currently an affiliate of Water Company. Water Company presently has limited personnel and uses Service Company to perform a wide range of services and conduct its business. Under the SPA, through a series of transactions Seller is selling the Aquarion Company ("Aquarion") to Purchaser while retaining its interests in Water Company (currently owned indirectly by Seller through Aquarion) for the purpose of selling Water Company to a third party unaffiliated with either Seller or Purchaser (the "Third Party Buyer"). The purpose of this Agreement is to provide for the continuation of certain services during the transition period beginning with the closing of the sale of Aquarion to Purchaser and ending with the sale of Water Company by Seller to the Third Party Buyer (as further defined below, the "Transition Period")

During the Transition Period Service Company will continue to provide under the Agreement certain, but not all, of the services (as further defined below, the "Transition Services") that it presently provides to Water Company pursuant to a service agreement dated April 25, 2002 (the "Current Agreement"). Services presently provided under Current Agreement that will not be provided under the Agreement (as further defined below, the "Excluded Services"), pertain primarily to corporate governance, finance and risk management services more appropriately performed by an affiliate or parent of Water Company. Either Seller or a subsidiary will perform the Excluded Services during the Transition Period.

Transition Services

Service Company shall continue to provide Transition Services in substantially the same manner and scope as provided under the Current Agreement in the following functional areas:

¹ There will be two identical Transition Agreements – one for each Water Company. Water Company names may change as a result of the change in affiliation during the Transition Period and thereafter.

- Accounting (*including* assistance with the (i) preparation and implementation of accounting methods and procedures that conform to applicable governmental requirements, (ii) the review of monthly financial reports, annual reports and other reports to stockholders, bondholders and to any governmental authorities, (iii) keeping of books and records, (iv) evaluation of systems of internal control for receipt and disbursement of funds, materials and supplies, and other assets, (v) interface with independent certified public accountants, (vi) preparation and monitoring of operating and construction budgets, and (vii) preparation of federal, state and local tax returns).
- Administration (*including* assistance with the (i) provision of qualified personnel available to perform or assist in the performance of Water Company's corporate activities, including the operation of its facilities, (ii) making of recommendations regarding operating expenditures and physical plant additions and improvements, (iii) provision of periodic internal audits of accounts, records, and policies, (iv) preparation of reports related to such internal audits, (v) preparation of legal documents such as deeds, leases, easements, contracts, charters, franchises, trust indentures and regulatory reports and filings and (vi) preparation of financial reports; *but excluding* any obligation to provide personnel for the performance of corporate activities related to the performance of Excluded Services (*e.g.*, corporate secretarial services)).
- Communications (*including* assistance with the (i) promotion of employee, customer and community relations, and (ii) preparation of communication materials (including press releases, brochures, audio visual presentations and speeches, public exhibits and displays).
- Engineering (*including* the (i) provision of general engineering services support services for the planning, operation, maintenance and construction of facilities, (ii) conduct of distribution system surveys and hydraulic analyses, (iii) preparation or review of maps, charts, operating statistics, reports and other pertinent data, (iv) periodic inspection of its structures, tanks, reservoirs, dams, wells and electrical and mechanical equipment, (v) conduct of field investigations, and (vi) preparation, as required, of related studies, reports, designs, drawings, cost estimates, specifications, and construction contract scopes of work).
- Human Resources (*including* the provision of (i) assistance in employee hiring and retention, including negotiating with applicable bargaining units, (ii) training programs, and (iii) assistance in evaluating and documenting group employee insurance, pension and benefit plans; *but excluding* any obligation to (i) establish appropriate rates of pay for Water Company employees, and (ii) provide for advice and assistance to those employees regarding group insurance, pension or benefit plans).
- Information Systems (*including* the provision of (i) PC and networking services, including user maintenance, and (ii) electronic data processing services, including customer billing and accounting

services, in each case at service levels consistent with pre-Transition Period levels).

- Operations (including the provision of (i) assistance in the development and implementation of operating procedures, (ii) periodic operational reviews, and (iii) reports regarding deviations from adopted procedures).
- Rates and Revenue (including the provision of (i) advice regarding rates, rules and regulations, (ii) assistance in the conduct of proceedings before governmental agencies, (iii) assistance in compliance with the rulings of governmental agencies, (iv) assistance in the preparation of rate filings or applications, including supporting documentation and testimony, and (v) qualified personnel for the purpose of testifying on Water Company's behalf as required during any regulatory proceedings).
- Risk Management (including the provision of assistance in (i) reviewing exposures to accidental loss, (ii) the making of recommendations regarding appropriate risk mitigation methods, including whether to purchase insurance, self-insure or use another risk management technique, (iii) arranging for the purchase of insurance coverage, and (iv) the establishment of safety and security programs to avoid or minimize risk and loss; *but excluding* any obligation to provide for the supervision of (i) investigation procedures, (ii) reviewing of claims, and (iii) the evaluation and negotiation of settlements).
- Water Quality (including the provision of (i) assistance with compliance with water quality standards of governmental agencies, (ii) assistance with establishing and attaining water quality objectives, (iii) assistance with establishing design criteria and developing approaches for solutions to water quality problems, and (iv) laboratory services for programmed analyses as required by drinking water regulations, and special analyses as required by Water Company.).
- Customer Service, Collection and Revenue Management (including the provision of (i) customer interface services, including handling customer inquiries, scheduling appointments for fieldwork, resolving billing disputes, editing meter reading results, establishing a meter change out program, explaining Water Company programs and services, payment arrangements, handling customer maintenance and preparing quotes for home sales and final bill accounts, (ii) assistance in handling of inquiries from governmental authorities, and (iii) collection services of account receivables, including using system-generated letters and statements).
- Real Estate (including the provision of advice on real estate matters and the monitoring Water Company's portfolio of property assets).
- Purchasing (including the provision of (i) advice and assistance in the solicitation of capital project and operating expense bids and negotiation of related contracts, (ii) a materials management program

for the purchase of equipment, materials, and supplies in volume on a basis advantageous to Water Company, and (iii) assistance in the evaluation of new and existing products and services.).

The individuals assigned to perform the Transition Services and the location of performance shall be selected by Service Company consistent with current practices under the Current Agreement; *provided* that Service Company may using its reasonable discretion make changes in personnel and place of performance; *provided, further*, that personnel employed by Service Company shall (i) be qualified to perform the Transition Services in question, (ii) keep themselves informed on all relevant aspects of Water Company's operations related to their duties, and (iii) to the extent required to perform their duties, regularly visit Water Company's facilities.

Service Company shall in the performance of the Transition Services keep abreast of economic, regulatory, governmental and operational developments and conditions that may affect Water Company, and advise Water Company of any such developments and conditions to the extent that they may be important to the conduct of the Water Company's business.

Excluded Services

Excluded Services are those services that are presently provided by Service Company under the Current Agreement that are more appropriately provided by an affiliate of Water Company. Excluded Services include:

- Corporate Secretarial (including the (i) provision and maintenance of minute books, charters, by-laws, contracts, deeds and other corporate records, (ii) the maintenance of records of stockholders, (iii) preparation or arrangements for the preparation of stock certificates, and (iv) performance of duties relating to the transfer of stock and the performance of other corporate secretarial functions (such as stockholder and director meeting notices).
- Financial (including the (i) provision of assistance in the development and implementation of financing programs for Water Company; (ii) provision of advice concerning arrangements for the sale of securities, (iii) coordination and interface with security holders and bond and mortgage trustees, (iv) financing of any kind, including the provision of loans by Service Company or any of its affiliates to Water Company or any of its affiliates, and (v) investment services of any kind).
- Those Administration, Human Resources and Risk Management related services expressly excluded from the scope of the Transition Services.

For the Avoidance of doubt, Service Company shall be obligated to perform only the Transition Services specified above and shall not be obligated to perform hereunder the Excluded Services or any other service that is not a Transition Service.

Seller

With respect to the Transition Services performed at Water Company's facilities, Water Company shall (i) provide Service Company access to

Responsibilities	the facilities and (ii) bear the entire expense of offices and other support services, facilities and materials (including, but not limited to, office furniture, equipment, supplies, computers, telephones and secretarial and janitorial support) necessary for the performance by Service Company personnel of the Transition Services.
Compensation and Payment	<p><u>Compensation.</u> Service Company shall be reimbursed its costs in performing the Transition Services consistent with the cost determination and allocation principles governing the Current Agreement (including the allocation of overhead charges and costs of similar services performed by Service Company for its affiliates). Service Company shall not otherwise be entitled to a fee for the performance of the Transition Services.</p> <p><u>Payment.</u> Amounts due from Water Company shall be billed monthly as soon as practicable after the last day of each month and paid within 15 days of receipt. All invoices shall include sufficient detail to show separately the charge for each class of service rendered.</p> <p><u>Access to Books and Records.</u> Service Company shall, upon request of Water Company, make available during business hours supporting documentation and records regarding costs incurred by Service Company in the performance of the Transition Services.</p>
Insurance	Service Company shall maintain insurance coverage and policy limits covering its activities in the performance of the Transition Services that are consistent with those maintained by it with respect to its performance of the services under the Current Agreement.
Limitation on Liability	Service Company shall have no liability to Water Company under this Agreement.
Indemnity	Water Company shall indemnify Service Company and its employees, officers and directors against any and all liability any of them may incur in connection with the Agreement or the performance thereof (i) for personal injury or damage to or destruction of property (including property of Water Company) <i>except</i> to the extent covered insurance (excluding self insurance), and (ii) that results for Water Company's breach of this Agreement, in each case to the extent such liability is not the direct result of Service Company's gross negligence or willful misconduct.
Term; Transition Period	Unless earlier terminated pursuant to customary termination provisions to be set out in the Agreement, the term of the Agreement shall be coextensive with the Transition Period and begin on the date of closing of the sale of Aquarion to Purchaser under the SPA and expire on the date of closing of the sale of the Water Company by Seller to a Third Party Buyer; <i>provided</i> that in no event shall the term or the Transition Period extend beyond _____ [Insert Drop-dead date for closing set forth in the SPA between Kelda and Third Party Buyer].
Customary	The Agreement will otherwise include customary standard terms and

Terms

conditions, including but not limited to, representations and warranties, audit rights, dispute resolution, confidentiality and termination rights, that are typical for transactions of this kind.

EXHIBIT B

**FORM OF ADDITIONAL AGREEMENT
(ATTACHED)**

DRAFT
2/8/2007
8:49:51 AM

OPERATIONS AGREEMENT
BETWEEN AQUARION WATER COMPANY OF CONNECTICUT

AND

[_____ formerly known as AWC-NY.]

February __, 2007

OPERATIONS AGREEMENT

This Operations Agreement ("Operations Agreement") is made as of February __, 2007 ("the Effective Date") by and between Aquarion Water Company of Connecticut, Inc. (together with its successors and assigns, "AWC-CT"), a public utility corporation of the State of Connecticut with its principal office at 835 Main Street, Bridgeport, Connecticut, and [_____] formerly known as Aquarion Water Company of New York, Inc.), a public utility corporation of the State of New York with its principal office at _____ ("Company"). AWC-CT and Company will be referred to jointly as "the Parties."

Recitals

1. AWC-CT is the current owner of a public water supply system in Greenwich, Connecticut, and the Company is the current owner of the public water supply system serving portions of Port Chester, Rye and Rye Brook, New York. Both companies are currently wholly-owned owned by Kelda Group, Inc.
2. AWC-CT is contracted to supply to Company a maximum annual average of 5 million gallons per day of water, pursuant to a contract originally entered into on February 5, 1954 by their predecessors-in-interest, and subsequently amended on September 1, 1954, May 6, 1983, June 30, 1994 and January 23, 2002 ("the Water Supply Agreement").
3. AWC-CT provides water to Company through a series of three active and one emergency interconnection facilities which are located in Connecticut. Each facility includes a below grade concrete chamber containing a flow meter and, in some cases, a pressure reducing valve (PRV). Flow through each facility is determined by pressure settings on the PRVs and the actual pressures in each distribution system.
4. United Waterworks Inc. ("UWW") wishes to purchase all of the outstanding equity securities of the Company through a Stock Purchase Agreement between Company and Kelda Group, Inc. dated February __, 2007 (the "Stock Purchase Agreement"). Through the Stock Purchase Agreement, UWW will own all of the stock and assets of the Company.
5. AWC-CT and Company each recognize that it is in their mutual interest to continue the delivery of AWC-CT water to the service area currently being served by Company.
6. AWC-CT and Company each recognize that it is in their mutual interests to provide for long term water supply, and each Party will use commercially reasonable efforts to plan for the long-term provision of water supply.
7. Other than as explicitly stated in this Agreement, the Parties do not waive or limit any rights the Parties may possess to any water in Connecticut or New York, whether those rights be riparian, contractual or based on other applicable law.

8. Company and AWC-CT desire to continue the water sales between AWC-CT and Company as of the closing date of the Stock Purchase Agreement, on the same terms that the sales have historically occurred between AWC-CT and Company. To that end, the Parties have entered into this Operations Agreement to set forth the principles upon which AWC-CT and Company will cooperate with the other to:
- a. Implement their respective obligations under the Water Supply Agreement.
 - b. Facilitate the ongoing operation of the interconnected systems.
 - c. Transition ownership to provide continued, responsive service to New York customers.

Agreement

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound hereby, do hereby agree as follows:

**ARTICLE I
DEFINITIONS**

The following capitalized terms, where used in the singular or the plural, shall have the following meanings as used in this Operations Agreement unless otherwise specifically indicated:

1.1 “Maximum Annualized Average Amount” shall mean five million (5,000,000) gallons per day (gpd) supplied pursuant to the Water Supply Agreement and calculated as an annual daily average but excluding any water used for the purposes of system flushing pursuant to Article IV of this Agreement.

**ARTICLE II
ASSET OWNERSHIP AND MAINTENANCE**

2.1 Ownership of Connecticut Assets AWC-CT shall own, operate and maintain all assets located in the State of Connecticut that are necessary for the provision of the water pursuant to the Water Supply Agreement.

2.2 Maintenance of Connecticut Assets AWC-CT shall maintain, repair and/or replace (at its sole discretion) all assets located in the State of Connecticut in accordance with generally accepted engineering practices and applicable laws, rules, regulations and orders, so that AWC-CT shall be able to meet the terms of the Water Supply Agreement.

2.3 Ownership of New York Assets. Company shall own, operate and maintain all current Company assets located in the State of New York in accordance with generally accepted engineering practices and applicable laws, rules, regulations and orders. For the avoidance of confusion, the AWC-CT storage tank and associated interconnections and piping located on or

near High Ridge Road in Pound Ridge, New York will continue to be owned, operated and maintained by AWC-CT.

**ARTICLE III
PROVISION OF WATER**

3.1 Delivery of Water

(a) AWC-CT and Company will work together to agree upon the expected daily deliveries of water from AWC-CT to Company. Both parties agree to continue operations in a manner consistent with historical practice. Notwithstanding the foregoing, AWC-CT and Company shall work cooperatively to find a solution to increased water demands in either service territory, however, in no event shall AWC-CT be required to incur costs in the development of such a solution.

(b) Nothing in this Agreement shall require AWC-CT to deliver water in excess of the Maximum Annualized Average Amount on an annualized basis. Notwithstanding the foregoing, the Parties recognize that Company may be subject to temporary shortages of water which would require additional supplies. If AWC-CT receives written notice of such temporary shortage of water from Company, AWC-CT will promptly request and use commercially reasonable best efforts to convince relevant regulatory authorities in the State of Connecticut to permit AWC-CT to sell water in addition to the Maximum Annualized Average Amount on a temporary basis, provided that AWC-CT is not subject to a similar shortage of water. In no event shall AWC-CT be responsible for supplying water in excess of the Maximum Annualized Average Amount, nor shall AWC-CT be required to install any additional infrastructure to accommodate the delivery of such additional water.

3.2 Water Quality AWC-CT shall deliver treated water to Company at the interconnection points of quality meeting State of Connecticut, and federal water quality laws, rules, regulations and requirements. The point of measurement shall be the interconnects.

3.3 Water Pressure

(a) AWC-CT will provide adequate upstream pressure at each interconnection to provide the adequate water flow pursuant to the Water Supply Agreement.

(b) AWC-CT will change the downstream pressure settings at the interconnection points in response to Company's requests, or with notification to Company.

(c) AWC-CT will make commercially reasonable efforts to respond to change requests involving pressure settings within two hours of receiving a request during AWC-CT's normal business hours and within six hours of receiving a request outside of normal business hours.

(d) Pressure settings on all pressure reducing valves will be adjusted to meet seasonal changes in system pressures. Such changes shall not be made daily.

(e) To the extent that Company requests more than two seasonal adjustments of pressure reducing valves per year, Company shall bear all reasonable costs associated with such adjustments

(f) The Parties recognize that the adjustment of pressure settings is an iterative process and that successive adjustments to achieve a requested setting shall be deemed to be only one adjustment and that such iterative adjustments shall not be deemed to be daily changes

(g) AWC-CT will use commercially reasonable best efforts to comply with any commercially reasonable request by the Company to operate the New York booster pump at the Putnam Plant to increase pressure and flow during a fire event.

3.4 Metering

(a) AWC-CT will maintain its existing equipment for remote access to daily average flow and instantaneous suction and discharge pressure at the various interconnections to the Company system. AWC-CT will allow Company, at Company's sole cost and expense, to connect to the existing equipment in order to obtain remote access to such data. Company shall be responsible for all costs associated with obtaining and maintaining its working data connections to the interconnection equipment.

(b) Flow meters at each interconnection will be tested and calibrated annually to American Water Works Association or other mutually agreeable standards. AWC-CT shall perform such meter testing and Company shall be notified in writing at least seven days advance and shall have the right to witness such testing. AWC-CT shall provide Company with copies of all such test results. AWC-CT shall adjust billings for meter errors leading to over or under billings.

3.5 Interruptions in Delivery and Scheduled Outages

(a) Each of AWC-CT and Company shall use all commercially reasonable and diligent efforts to avoid interruptions in the provision of water to Company under the Agreement.

(b) AWC-CT and Company shall mutually agree on the schedule for anticipated outages in water delivery for maintenance or repairs or other reasonably foreseeable events not covered by force majeure.

(c) Each of AWC-CT and Company shall promptly notify the other party of the likelihood or threat of any interruption as soon as possible.

3.6 Drought Response In the event that AWC-CT declares a drought for its Greenwich System in accordance with its State of Connecticut-approved Drought Response Plan, or as otherwise directed by the State of Connecticut, Company will promptly request and use commercially reasonable best efforts to convince relevant municipalites in New York State to enact drought restrictions comparable to those restrictions imposed by AWC-CT in Greenwich. If the relevant municipalities impose such restrictions, Company shall provide customer notice and notification to the public media within seven days of the imposition of such municipal restrictions.

3.7 Pricing.

(a) The methodology currently being employed to determine the total cost of production of water sold under the Water Supply Agreement (the "Costing Methodology") is prescribed by a Declaratory Ruling issued by the New York Public Service Commission on July 20, 1998 ("Declaratory Ruling"). That Declaratory Ruling provides that the Costing Methodology shall remain in effect with respect to rate proceedings which are decided prior to January 1, 2008. The Parties recognize that any revision of the Costing Methodology under the Water Supply Agreement must be approved by both the New York Public Service Commission and the Connecticut Department of Public Utility Control.

(b) The Parties agree to use good faith efforts to agree upon a fair and equitable, cost of service-based, methodology to determine the price of the water supplied pursuant to the Water Supply Agreement.

(c) To the extent that a new pricing methodology is not agreed by AWC-CT and Company and approved by NYPSC and DPUC by the expiration on January 1, 2008, AWC-CT and Company will seek to continue pricing the water supplied under the Water Supply Agreement pursuant to the terms found in the Declaratory Ruling and historical practice for a period of two years after January 1, 2008.

(d) The Parties recognize that pursuant to the Declaratory Ruling, the construction of a filtration plant by Westchester Joint Water Works or New York City may occur and that such construction may result in increased costs to Company.

(e) Notwithstanding the foregoing, in no event shall the price of water under the Water Supply Agreement ever be less than the actual cost of service to AWC-CT of providing that water.

ARTICLE IV

INTERSTATE CUSTOMERS DIRECTLY CONNECTED TO ADJACENT SYSTEMS

4.1 Current Company/AWC-CT Customers

(a) Company currently possesses 26 customers that obtain water from AWC-CT system, prior to the metered interconnection points between the AWC-CT system and the Company system. These customers are billed by Company at Company rates.

(b) AWC-CT currently possesses 177 customers that obtain water from the Company system, after the metered interconnection points between the AWC-CT and the Company system. These customers are billed by AWC-CT at AWC-CT rates.

4.2 Company Customers Connected to the AWC-CT System

(a) Certain customers located in the State of New York are connected to the AWC-CT water system despite their location in the State of New York. For billing, metering and all other water service purposes, however, these customers are considered customers of the Company. Upon consummation of the transactions contemplated by the Stock Purchase Agreement, these customers will become customers of Company and will be metered, billed and serviced by Company. For billing purposes, consumption by these customers will be reported to AWC-CT and added to the water transferred to Company through the interconnections on a quarterly basis. The water supplied to these customers will form part of the Maximum Annualized Average Amount supplied to Company pursuant to the Water Supply Agreement. Company shall also provide these customers with the required annual Consumer Confidence Report of the Company system.

(b) Company shall continue to operate and maintain the distribution system in New York to which these customers are connected. Such operations and maintenance shall be in accordance with generally accepted engineering practices and applicable laws, rules regulations and requirements. Notwithstanding the foregoing, to the extent that system flushing is required, such system flushing shall be conducted as agreed by the Operating Committee defined in section 7.2 of this agreement.

(c) Replacement of the existing services or direct connection of new service lines for Company customers to the existing water mains upstream of the interconnections and located in New York is permitted, but the existing water mains shall not be extended to service new Company customers.

(d) Company shall promptly repair any leaks and use best practices to manage non-revenue water. Company shall at least every two years conduct a leak survey and provide the results of such survey to AWC-CT.

4.3 AWC-CT Customers Connected to the Company System

(a) Certain customers located in the State of Connecticut are connected to the Company water system despite their location in the State of Connecticut. For billing, metering and all other water service purposes, however, these customers are considered customers of AWC-CT. Upon consummation of the transactions contemplated by the Stock Purchase Agreement, these customers will continue to be customers of AWC-CT and will be metered, billed and serviced by AWC-CT. For billing purposes, consumption by these customers will be reported to Company and will be credited against the water transferred to Company through the interconnections on a quarterly basis. The water supplied to these customers will be credited against the Maximum Annualized Average Amount supplied to Company pursuant to the Water Supply Agreement. AWC-CT shall also provide these customers with the required annual Consumer Confidence Report of the AWC-CT system.

(b) AWC-CT shall continue to operate and maintain the distribution system in Connecticut to which these customers are connected. Such operations and maintenance shall be in accordance with generally accepted engineering practices and applicable laws, rules regulations and requirements. Notwithstanding the foregoing, to the extent that system flushing

is required, such system flushing shall be conducted as agreed by the Operating Committee defined in section 7.2 of this agreement.

(c) Replacement of the existing services or direct connection of new service lines for AWC-CT customers to the existing water mains upstream of the interconnections and located in Connecticut is permitted, but the existing water mains shall not be extended to service new AWC-CT customers.

(d) AWC-CT shall promptly repair any leaks and use best practices to manage non-revenue water. AWC-CT shall at least every two years conduct a leak survey and provide the results of such survey to Company.

4.4 Pound Ridge System AWC-CT is currently constructing and installing a storage tank in Pound Ridge, New York to serve its system in Stamford, Connecticut. Because AWC-CT is not a public utility in the State of New York, it is desired by the parties that any potential customers located in New York will be precluded from connecting to the water main that leads from the storage tank to the Stamford System. The Parties also recognize, however, that they may be obliged in the future to service such customers to the requirements of regulatory agencies. To the extent such requirement becomes applicable to either Party, the Parties agree that the details surrounding the connection of such customers will be resolved by the Operating Committee defined in Section 7.2.

ARTICLE V TERM AND EXTENSION RIGHTS

5.1 Term of the Operations Agreement This Agreement shall commence as of the closing date of the Stock Purchase Agreement. Unless sooner terminated by mutual agreement of the Parties, the Agreement shall continue in effect until the termination of the Water Supply Agreement. This Agreement shall automatically terminate on the termination date of the Water Supply Agreement.

5.2 Term of Land Lease AWC-CT is currently a tenant of Company at a parcel of land commonly referred to as the Samuel H. Bargh Reservoir, pursuant to a lease entered into by their predecessors-in-interest on September 1, 1970 ("the Land Lease"). The Land Lease is currently scheduled to expire on August 31, 2010, subject to certain renewal provisions, however, the parties desire to extend the term of the Land Lease.

5.3 Extension of Water Supply Agreement The Parties agree that they will begin good faith negotiation of an extension of the Water Supply Agreement no later than June 1, 2015. As of the Effective Date of this Agreement, each Party agrees to provide at least five year's notice prior to the termination of the Water Supply Agreement. In the event that the Water Supply Agreement is not renewed by Dec. 31, 2024, Company shall have the right to enter the leasehold property to design, engineer, construct, start up and test such infrastructure as Company determines to construct to fulfill its water supply responsibilities and obligations, subject to AWC-CT's rights for a portion of the water from the leasehold premises

5.4 Effect of Expiration Expiration of this Agreement shall not relieve the Parties of any obligation accruing prior to such termination. The rights and obligations of the Parties under

Sections 6 and 7, hereof, shall survive expiration of this Agreement. Upon the expiration of this Agreement, the Parties will coordinate in good faith an orderly termination.

**ARTICLE VI
INDEMNIFICATION**

6.1 Company Indemnity To the extent permitted by law, Company shall indemnify, defend and hold harmless AWC-CT and its affiliates, officers, directors, employees and agents (each an "AWC-CT Indemnified Indemnitee") from and against any and all losses, damages, liabilities or expenses (including reasonable attorneys' fees and other costs of defense) incurred by any AWC-CT Indemnified Indemnitee, either directly or in connection with any and all actions, suits, claims or demands that may be brought or instituted against any AWC-CT Indemnified Indemnitee by any third party, whether associated with water quality, quantity, pressure or otherwise, based on or arising out of or resulting from any breach by Company of this Agreement, or any negligent act or omission, or willful misconduct by Company or any of its employees or agents in performing its obligations hereunder.

6.2 AWC-CT Indemnity To the extent permitted by law, AWC-CT shall indemnify, defend and hold harmless Company and its affiliates, officers, directors, employees and agents (each a "Company Indemnified Indemnitee") from and against any and all losses, damages, liabilities or expenses (including reasonable attorneys' fees and other costs of defense) incurred by any Company Indemnified Indemnitee, either directly or in connection with any and all actions, suits, claims or demands that may be brought or instituted against any Company Indemnified Indemnitee by any third party, whether associated with water quality, quantity or pressure or otherwise, based on or arising out of or resulting from the breach by AWC-CT of this Agreement, or any negligent act or omission, or willful misconduct of AWC-CT or any of its employees or agents in performing its obligations hereunder.

6.3 Notice of Claims; Information Each Party agrees to give the other Party prompt written notice of any claims made for which the other party might be liable under Section 6.1, or 6.2, as the case may be. The indemnifying Party shall have the opportunity to defend, negotiate, and settle such claims; provided, however, that the indemnified Party shall be entitled to participate in the defense of such matter and to employ at its expense counsel to assist therein. The Party seeking indemnification shall provide the indemnifying Party with such information and assistance as the indemnifying Party may reasonably request, at the expense of the indemnifying Party.

6.4 Settlement of Claims No Party shall be responsible or bound by any settlement of any claim or suit made without its prior written consent; provided, however, that the indemnified Party shall not unreasonably withhold or delay such consent.

**ARTICLE VII
DISPUTE RESOLUTION**

7.1 Disputes The Parties recognize that disputes as to certain matters may from time to time arise during the Term of this Agreement which relate to a Party's rights and/or obligations hereunder. It is the objective of the Parties to establish procedures to facilitate the resolution of disputes arising under this Agreement in an expedient manner by mutual cooperation and without resort to litigation. To accomplish this objective, the Parties agree to

follow the procedures set forth in this Article VII if and when a dispute arises under this Agreement.

7.2 Dispute Avoidance In an effort to avoid disputes, and in order to ensure the best possible service to both Parties' customers, each Party shall nominate representatives to a Operating Committee. The Operating Committee shall meet on a regular basis, either in person or by electronic or telephonic means, in order to address joint operational issues that may affect the supply of water under the Water Supply Agreement and any other issues that may impact the provision of water from AWC-CT to Company.

7.3 Resolution Through Discussion Unless otherwise specifically recited in this Agreement, any disputes relating to the collaboration hereunder shall be first referred to the Operating Committee by any Party at any time after such dispute has arisen. If the Operating Committee is unable to resolve such a dispute within twenty (20) days of being requested by a Party to resolve the dispute or the Operating Committee is unable to resolve a dispute among its members, the matter shall be presented to the chief executive officers of the Parties, or their respective designees, for resolution. In the event that the chief executive officers of the Parties, or their respective designees, cannot resolve the dispute within fifteen (15) days of being requested by a Party to resolve a dispute, a Party may, by written notice to the other Parties, invoke the provisions of Section 7.4 hereinafter.

7.4 Arbitration Any claim or controversy arising out of the provisions of this Agreement or the interpretation thereof, if not resolved pursuant to the provisions of Section 7.3, shall be settled by binding arbitration conducted in accordance with the rules of the American Arbitration Association subject to the following procedure. The Party asserting a claim or controversy (herein the "Claim") shall give written notice of said Claim to any and all other Parties involved in said Claim. The Party against whom any Claim is so asserted shall have fifteen (15) business days to accept or reject in whole or in part, in writing said Claim. If said Claim is rejected in whole or in part, the Party asserting a Claim must give written notice (effective upon receipt) of a demand for arbitration not later than ten (10) days after the Party asserting the Claim receives written notice of the rejection, in whole or in part of the Claim. The demand must (a) give a general description of the nature of the Claim and the date on which the Party first became aware of the existence of the Claim, and (b) state what remedy or damages are sought. Amendments to the amount of the damages sought shall be permitted upon a showing of due diligence. No amendments shall be permitted if the Claim is not timely made. This Claim procedure must be followed in all instances. Copies of the demand for arbitration must be given to the Party against whom the Claim is asserted. Copies of all notices must be given contemporaneously to the other Parties. In any matter submitted to arbitration hereunder, the Arbitration panel shall consist of three persons, as follows: the two Parties in dispute shall each, within 10 days of receipt of the demand for arbitration, select one person who shall be experienced in water utility supply and operations. The two (2) members so chosen shall select the third member who shall also be experienced in water utility supply and operations. If the two (2) panel members so chosen are unable to agree on the third member within ten (10) days after the selection of the later of the two (2) of them, such third member shall be selected by the American Arbitration Association. The Party against whom the Claim is made shall have fifteen (15) business days from receipt of said demand to file its response with the Arbitrators. Upon receipt of a Claim and the response thereto, the Arbitrators shall hold a conference of the parties and their representatives to present the Claim and responses thereto. This conference shall be an

informal proceeding and each Party's presentation shall not exceed one (1) day in duration, unless a longer time is permitted by Arbitrators for good cause shown, or mutually agreed upon by the Parties. The conference shall begin no later than fifteen (15) business days from the date of completion of the Arbitration panel. Following the completion of the conference the Arbitrators shall approve, disapprove or modify the Claim and, if appropriate, grant damages. Unless the Arbitrators specifically state otherwise, their decision shall be final and binding upon the Parties. The Arbitrators shall have ten (10) business days to render their decision following said conference. The Arbitrators may request additional information from one or more of the Parties to the dispute and shall render their decision within ten (10) business days of receipt of said information. The time in which any additional information sought by the Arbitrators to be produced shall be set by Arbitrators in their request for said information. If the Arbitrators fail to make a response within the time permitted herein, the Claim shall be conclusively deemed rejected. The prevailing Party may enter such decision in any court having competent jurisdiction. Unless otherwise mutually agreed upon by the Parties, the arbitration proceedings shall be conducted at the metropolitan area location of the Party originally requesting the resolution of the dispute. Each Party must bear its own attorneys' fees and associated costs and expenses. The Arbitrators shall have the authority to grant specific performance and, in the event the Arbitrators determine that a Party has acted unreasonably, allocate costs and expenses between the Parties (including attorney's fees) so that such Party bears all or a disproportionate share of such costs and expenses. The Arbitrators shall also have the authority to assess award damages, but not punitive, indirect or consequential damages. Nothing in this Section shall limit the right of any party to seek and obtain injunctive or other equitable relief by means of suit in any court of competent jurisdiction.

**ARTICLE VIII
TRANSITION ISSUES**

8.1 Employee Matters Upon the Effective Date, AWC-CT shall eliminate positions from its employment rolls corresponding to the level of work performed in the NY system. The number of employees impacted is as follows: one management/supervisor position and five hourly full-time equivalent positions. Upon the Effective Date, AWC-CT shall terminate the six employees who occupy those positions. Company shall interview the six terminated employees and give due consideration for the possible employment of these six employees in their current or similar capacities.

8.2 Transition Services

(a) It is anticipated that Company may require various transition services from AWC-CT for a period of time after the closing. Such services may include, but are not limited to: customer service, meter reading, and billing. AWC-CT will cooperatively provide transition services on a cost plus overhead basis.

(b) Each Party shall use best efforts to ensure the continuity of service to affected customers through any transition period. Such best efforts may include AWC-CT providing contractual operations services to Company for a period of time as Company desires. Such transitional services may include various functional specialties associated with or involved in providing rate regulation, human resources, accounting, engineering, laboratory, billing, payroll and other support services. Company will provide a commercially reasonable list of such services, capable of being provided by AWC-CT, within 30 days of execution of this Agreement

which will become a part of this Agreement. Such services will be provided on a cost plus overhead basis.

(c) The Parties will develop a transition plan which will set forth reasonable arrangements providing Company, at Company's sole expense, with appropriate access to AWC-CT's relevant computer systems to allow for a full conversion of the relevant data and functionality to Company's system on the closing date of the Stock Purchase Agreement and for the provision of such services as may be necessary or desirable to effect a reasonable transition, including the transfer to Company of copies of engineering, laboratory, human resources, accounting and other data and records. AWC-CT shall make commercially reasonable arrangements satisfactory to Company for the transfer to Company of copies of all books and records and other data and information relating to the assets being sold under the Stock Purchase Agreement, which is in the possession or control of AWC-CT. The Parties shall use commercially reasonable efforts to cooperate in good faith and take all reasonable steps necessary to develop a mutually acceptable transition plan. The Parties also agree to use their commercially reasonable efforts to negotiate and execute an agreement with respect to those transition services specified in Section 8.2(b) (the "Transition Services Agreement"). The term of each transitional service shall be as agreed between the parties in such Transition Services Agreement, but in no event shall the Transition Services Agreement last for a period for longer than six months after the consummation of the transactions contemplated by the Stock Purchase Agreement.

(d) Notwithstanding the foregoing, under no circumstances shall Company be obligated to retain AWC-CT to provide any of the transition services contemplated above.

ARTICLE IX MISCELLANEOUS PROVISIONS

9.1 Assignment and Limited Liability Each Party may assign this Agreement and otherwise transfer its rights and interests and delegate its responsibilities hereunder only with the prior written consent of the other Party. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Parties. In no event shall any partner, trustee, principal, officer, director, shareholder, employee or agent of or in any Party have or incur any personal liability for any of the liabilities or obligations of any Party and no personal judgment shall be sought, levied or enforced against any such person individually.

9.2 Legal Compliance Each Party shall comply in all material respects with all applicable federal, state, and local laws, rules, regulations and requirements in the performance of its obligations and the exercise of its rights under this Agreement.

9.3 Consents Not Unreasonably Withheld Whenever provision is made in this Agreement for a Party to secure the consent or approval of another Party, unless expressly stated otherwise, that consent or approval shall not unreasonably be withheld, delayed or conditioned, and whenever in this Agreement provision is made for one Party to object to or disapprove a matter, such objection or disapproval shall not be exercised unreasonably.

9.4 Relationship of the Parties It is expressly agreed that the Parties are independent contractors and that the relationship between the Parties described in this Agreement shall not constitute a partnership, joint venture or agency. Except as permitted herein, no Party shall have the authority to make any statement, representations, or commitments of any kind or take any action which shall be binding on another Party, without the prior consent of that Party.

9.5 Force Majeure No Party shall lose any rights hereunder or be liable to another Party for damages or losses on account of failure of performance by the defaulting Party (other than a failure of performance of an obligation to pay money) if the failure is occasioned by government action, war (whether declared or otherwise), acts of third parties outside of such Party's control, acts of public enemies, acts of terrorism, orders of any branch of the government of the United States or any State or political subdivisions thereof having legal jurisdiction, interference from unauthorized sources, floods, sinkholes, riots, epidemics, fires, civil disturbances, explosions, power outages, flood, drought, labor disturbances, strikes, lockouts, embargoes, acts of God, or any other cause or event not reasonably foreseeable or reasonably within the control of the defaulting Party and without the act, omission, fault or negligence of the defaulting Party, provided that the Party claiming force majeure has exerted all reasonable efforts to avoid, mitigate or remedy such force majeure. Such excuse shall continue as long as the condition preventing the performance continues. Upon cessation of such condition, the affected Party shall promptly resume performance hereunder. Each Party agrees to give the other Parties prompt written notice of the occurrence of any such condition, the nature thereof, and the extent to which the affected Party will be unable to perform its obligations hereunder. Each Party further agrees to use all reasonable efforts to correct and mitigate the condition as quickly as possible and to give the other Parties prompt written notice when it is again fully able to perform its obligations.

9.6 Further Actions Each Party agrees to execute, acknowledge and deliver such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

9.7 Notices All notices hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile transmission (receipt verified), telexed, mailed by registered or certified mail (return receipt requested), postage prepaid, or sent by express courier service, to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice; provided, that notices of a change of address shall be effective only upon receipt thereof).

If to AWC-CT:

Aquarion Water Company of Connecticut
835 Main Street
Bridgeport, CT 06604
Attn: Charles V. Firlotte
Telecopy: 203-336-5639

with a copy to:

Pullman & Comley, LLC
90 State House Square

Hartford, CT 06103
Attn: Frederic Lee Klein, Esq.
Telecopy: 860-424-4370

If to Company:

United Water Resources Inc.
200 Old Hook Road
Harrinton Park, NJ 07649
Phone: (201) 767_9300
Facsimile: (212) 424-8500
Attention: Robert A. Gerber, Esq.

With a copy to:

LeBoeuf, Lamb, Greene & MacRae LLP
125 West 55th Street
New York, NY 10019
Phone: (212) 424-8000
Facsimile: (212) 424-8500
Attention: Joseph A. Tato. Esq.

9.8 Waiver Except as specifically provided herein, the waiver from time to time by any of the Parties of any of its rights or its failure to exercise any remedy shall not operate or be construed as a continuing waiver of same or of any other of such Party's rights or remedies provided in this Agreement.

9.9 Estoppel Certificates The Parties each agree, from time to time, upon not less than thirty (30) days' prior written notice by any other Party, to execute, acknowledge and deliver to the requesting party a statement in writing certifying that this Agreement is unmodified and in full force and effect and that the certifying Party has no defenses, offsets or counterclaims against its obligations hereunder, and that, to the best of its knowledge, there are no uncured defaults of any other Party under this Agreement (or if there have been any modifications, that the same is in full force and effect as modified, and stating the modifications and, if there are any defenses, offsets, unpaid charges, counterclaims or defaults, setting them forth in reasonable detail). Any such statement delivered pursuant to this Section may be relied upon by any prospective purchaser, investor, lessee, or mortgagee.

9.10 Severability If any term, covenant or condition of this Agreement or the application thereof to any Party or circumstance shall, to any extent, be held to be invalid or unenforceable, then (a) the remainder of this Agreement, or the application of such term, covenant or condition to Parties or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Agreement shall be valid and be enforced to the fullest extent permitted by law; and (b) the Parties hereto covenant and agree to renegotiate any such term, covenant or application thereof in good faith in order to provide a reasonably acceptable alternative to the term, covenant or condition of this Agreement or the application thereof that is invalid or unenforceable, it being the intent of the Parties that the basic purposes of this Agreement are to be effectuated.

9.11 Governing Law This Agreement shall be governed by and construed in accordance with the laws of New York State without reference to the rules of conflict of laws thereof.

9.12 Ambiguities Ambiguities, if any, in this Agreement shall not be construed against any Party, irrespective of which Party may be deemed to have authored the ambiguous provision.

9.13 Headings All headings are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

9.14 Counterparts This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

9.15 Entire Agreement This Agreement, including all Exhibits attached hereto which are hereby incorporated herein by reference, sets forth all the covenants, promises, agreements, warranties, representations, conditions and understandings between the Parties hereto with respect to the subject matter hereof and supersedes and terminates all prior agreements and understandings between the Parties. Notwithstanding the preceding sentence, this agreement does not supercede or terminate the Stock Purchase Agreement, Water Supply Agreement or the Land Lease, except as expressly provided herein. There are no covenants, promises, agreements, warranties, representations, conditions or understandings, either oral or written, between the Parties with respect to the subject matter hereof other than as set forth herein and therein. No subsequent alteration, amendment, change or addition to this Agreement shall be binding upon the Parties hereto unless reduced to writing and signed by the respective authorized officers of all of the Parties.

9.16 No Third Party Beneficiary Except as expressly provided herein, this Agreement shall not confer any rights or remedies upon any third party other than the Parties, and their respective successors and permitted assigns.

[Signatures on following page.]

DRAFT

2/8/2007

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed under seal by their duly authorized representatives as of the date and year first above written.

**AQUARION WATER Company
OF CONNECTICUT, INC.**

[Company]

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Hartford/70941.2/LHOFFMAN/221115v4

EXHIBIT C

CURRENT FORECAST
(ATTACHED)

Aquarion Company - (Aquarion stand-alone excluding NY subsidiaries)

	<u>Dec-06</u>	<u>Jan-07</u>	<u>Feb-07</u>	<u>Mar-07</u>	<u>Apr-07</u>	<u>May-07</u>
Net Debt - Beginning	(227,750,000)	(227,750,000)	(235,808,500)	(237,524,125)	(234,936,025)	(235,454,525)
Operating		5,003,118	5,234,118	6,138,118	6,152,118	7,303,118
Property Taxes		-	(3,813,000)	-	-	(188,000)
Income Taxes		-	-	(48,000)	-	-
Interest - L.T, ST, Kel-\$10.m		(1,503,500)	(1,029,500)	(1,130,500)	(1,179,500)	(47,500)
Kelda Management Fee		(123,118)	(123,118)	(123,118)	(123,118)	(123,118)
Aquarion Dividend		(5,297,000)	-	-	(2,357,000)	-
Capex		(7,092,000)	(1,994,125)	(2,248,400)	(3,011,000)	(3,727,125)
Net Debt - Ending	(227,750,000)	(235,808,500)	(237,524,125)	(234,936,025)	(235,454,525)	(232,237,150)
less: Kelda Intercompany Debt	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Net Debt Excl. Kelda Debt	(217,750,000)	(225,808,500)	(227,524,125)	(224,936,025)	(225,454,525)	(222,237,150)
Composition of Net Debt:						
Long Term Debt	(261,587,000)	(261,585,000)	(261,583,000)	(261,581,000)	(261,579,000)	(261,577,000)
Short Term Debt - BoA	-	-	-	-	-	-
Subtotal Third-Party Debt	(261,587,000)	(261,585,000)	(261,583,000)	(261,581,000)	(261,579,000)	(261,577,000)
Short Term Debt - Kelda	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
Total Debt	(271,587,000)	(271,585,000)	(271,583,000)	(271,581,000)	(271,579,000)	(271,577,000)
Less: Cash and Investments	30,900,000	22,889,500	21,221,875	23,857,975	23,387,475	26,652,850
Less: Debt Issuance Costs	12,937,000	12,887,000	12,937,000	12,787,000	12,737,000	12,687,000
Subtotal	43,837,000	35,776,500	34,058,875	36,644,975	36,124,475	39,339,850
Net Debt	(227,750,000)	(235,808,500)	(237,524,125)	(234,936,025)	(235,454,525)	(232,237,150)