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A PROFESSIONAL LIMITED LIABILITY COMPANY

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June 9, 2006

TRA DOCKET NO. 00-00745
JUN 14 2006
1:00 PM

The Honorable Ron Jones,
Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Dear Chairman Jones:

06-00154

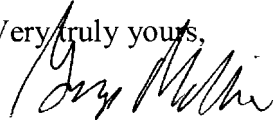
On behalf of our client, Tennessee-American Water Company, enclosed are an original and thirteen copies of an Extension of Water Purchase Agreement (the "Special Contract") between Tennessee-American and the Town of Signal Mountain, Tennessee, which we are submitting for approval by the Tennessee Regulatory Authority pursuant to Rule 1220-4-1-.07 relating to special contracts.

As you will notice, the enclosed agreement extends an agreement previously approved by the TRA (Order dated August 18, 1997, Docket No. 97-01305), which has been heretofore extended twice, with TRA approval (Order dated June 21, 2001, Docket No. 00-00745; Order dated June 27, 2005, Docket No. 04-00088). A copy of the original agreement and the previous extensions are also enclosed. As you can see, the terms of the agreement, as heretofore extended and approved by the TRA, will not be materially modified by the proposed extension.

The approval of the extension to the Special Contract would allow Tennessee-American to continue furnishing water to the Town of Signal Mountain for resale to its customers at the non-discriminatory tariff price of 0.796 per hundred cubic feet and under the same conditions as it has in the past and would benefit the Town of Signal Mountain and its residents by providing a good, clean, dependable water supply at fair and affordable prices.

If you have any questions concerning this matter, please call John Watson, General Manager of Tennessee-American (423-755-9307), or me.

Very truly yours,


George H. Masterson

GHM/ch
Enclosures
cc: John Watson

6105276.1

EXTENSION OF WATER PURCHASE AGREEMENT

THIS EXTENSION OF WATER PURCHASE AGREEMENT, made effective as of July 1, 2006, by and between Tennessee American Water ("Tennessee American"), located at 1101 Broad Street, Chattanooga, Tennessee, and Town of Signal Mountain ("Signal Mountain"), whose address is 1111 Ridgeway Avenue, Signal Mountain, Tennessee,

WHEREAS, the parties hereto have agreed to extend the term of their Water Purchase Agreement dated July 1, 1997 ("Original Agreement") as amended and extended by agreement dated as being effective July 1, 2000 ("First Extension Agreement"), and agreement dated as being effective July 1, 2003 ("Second Extension Agreement"), copies of which are attached hereto and incorporated herein by reference, for an additional term of three years as provided herein,

NOW THEREFORE, in consideration of the mutual covenants and promises herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Except as specifically provided herein, all of the terms, conditions, privileges and obligations in the Original Agreement, as amended and extended by the First and Second Extension Agreements are hereby extended for a term of three (3) years (or thirty-six (36) monthly billing periods), beginning July 1, 2006 and ending July 1, 2009.
2. Effective July 1, 2006 and continuing through the end of the term hereof, Section 1 of the Original Agreement, as amended and extended by the First and Second Extension Agreements, is hereby amended to state that Signal Mountain will purchase water at the rate of exactly \$0.796 per hundred cubic feet (CCF), which is approximately \$1.061 per 1,000 gallons.
3. This Extension of Water Purchase Agreement is subject to the approval by the Board of Tennessee American Water and the Tennessee Regulatory Authority ("TRA"). Signal Mountain agrees to take such action reasonably necessary to support Tennessee American's application for approval from the TRA.

IN WITNESS WHEREOF, the parties have set forth their hands.

TOWN OF SIGNAL MOUNTAIN

By M. Campbell

Title: Town Manager

Date: 4-10-2006

TENNESSEE AMERICAN WATER

By [Signature]

Title: VICE PRESIDENT GENERAL NETWORK MANAGER

Date: APRIL 4, 2006

WATER PURCHASE AGREEMENT

THIS AGREEMENT, made this 1st day of July, 1997 by and between

Tennessee-American Water Company ("Tennessee-American"), located at 1101 Broad Street, Post Office Box 6338, Chattanooga, Tennessee

and

Town of Signal Mountain ("Signal Mountain"), located at 1100 Ridgeway Avenue, Signal Mountain, Tennessee

WHEREAS, Tennessee-American, a Tennessee corporation, is a public utility which owns and operates a water utility system in and around the City of Chattanooga, Tennessee including the contiguous Tennessee cities of Red Bank, East Ridge, Ridgeside, and Lookout Mountain, plus the cities of Rossville and Lookout Mountain, Georgia and areas in the Georgia counties of Dade, Walker and Catoosa; and

WHEREAS, Signal Mountain wishes to purchase all or substantially all of its water supply from Tennessee-American; and

WHEREAS, Tennessee-American currently supplies water to Signal Mountain and has the capability and facilities in place to provide all or substantially all of the water supply currently required by Signal Mountain; and

WHEREAS, Signal Mountain and Tennessee-American are desirous of establishing an Agreement for the purchase of water for a fixed period of time; and,

WHEREAS, the parties have reached an Agreement for the sale and purchase of water which they now desire to record in writing;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other

good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION I **SALE OF WATER**

Signal Mountain agrees to purchase a minimum of 273,750,000 gallons per year at \$.95 per 1,000 gallons.

On or before the tenth day after the end of each twelve months of this Agreement, Tennessee-American will review the usage of Signal Mountain during the prior twelve month period year. If Signal Mountain's usage during the prior twelve month period was 273,750,000 gallons or more, no additional charge will be made. Should Signal Mountain's usage be less than 273,750,000 gallons, that month's invoice will include a charge for the difference between the actual usage and 273,750,000 gallons priced at \$.95 per 1,000 gallons.

SECTION II **FLUORIDATION OF WATER SUPPLY**

The Company will fluoridate the water supplied to the Town of Signal Mountain, in accordance with the Tennessee Department of Environment and Conservation Rule 1200-5-1-.17 (20), which requires the maintenance of a monthly average concentration of fluoride between 0.9 mg/l and 1.3 mg/l, unless required to do otherwise by applicable state law or regulations.

SECTION III **OPERATIONAL REQUIREMENTS**

In order to minimize utilization of the peaking capacity of Tennessee-American, Signal Mountain will provide adequate storage to provide for its own maximum hour needs. Signal Mountain shall maintain a minimum of one day of water supply storage on their distribution system.

Tennessee-American will supply up to 2,500 gallons per minute to the existing metering location as described in Section IV hereof, at a pressure sufficient to fill the existing Signal Mountain Receiving tanks at the base of Signal Mountain. If Signal Mountain requests flow rates in excess of 2,500 g.p.m. at any time during the term of this Agreement, it will be required either to pay for the additional system improvements that are needed to meet such additional flow or to contract for water at a higher rate per 1,000 gallons of water to be determined by the Company.

SECTION IV **METERING**

Metering of the water sold under this Agreement shall be at the existing meter setting located at the Town of Signal Mountain's existing storage tanks at the base of Signal Mountain, just off of Signal Mountain Road and Suck Creek Road.

SECTION V **BILLING**

On or before the tenth day of each month, Tennessee-American will issue an invoice to Signal Mountain for Signal Mountain's metered usage during the prior month. Payment of such invoice will be made by Signal Mountain on or before eighteen days after receipt of the invoice.

SECTION VI **APPROVALS BY TENNESSEE REGULATORY AUTHORITY**

It is understood and agreed that this Agreement is conditioned on approval by the Tennessee Regulatory Authority ("TRA"). Promptly upon execution of this Agreement, Tennessee-American shall file an application for approval with the TRA and take such action in good faith as may be necessary to obtain the appropriate approval.

SECTION VII
TERM OF AGREEMENT

The term of this Agreement shall be for a period of three (3) years or thirty-six (36) monthly billing periods. The three (3) year period shall commence with the effective date of the purchase of water under this Agreement. The effective date of the commencement of sales under the terms of this Agreement shall be the beginning of the next regular monthly billing period following approval of this Agreement by the TRA.

SECTION VIII
FORCE MAJEURE

Neither Signal Mountain or Tennessee-American shall be liable for damages to the other for any act, omission, or circumstance occasioned by or in consequence of any strikes, lockouts, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, civil disturbances, explosions, breakage, or accident to machinery or lines of pipe, and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome. Failure to prevent or settle any strike or strikes shall not be considered to be a matter within the control of the party claiming suspension. Such causes or contingencies affecting such performance shall not relieve Signal Mountain from its obligations to make payment of amounts due hereunder. During the period of force majeure, the minimum annual charge shall be reduced by a ratio equal to the number of days of interruption divided by 365 days. If, during the period of force majeure some water can be delivered, then the ratio shall be multiplied by the percentage reduction in usage.

SECTION IX
RENEWAL OF AGREEMENT

This Agreement may be renegotiated for additional periods of time beyond the term of this Agreement. Negotiations to extend the term of this Agreement shall commence no later than six (6) months prior to the expiration date of this Agreement. However, the rates to be charged during any renewal period shall also be subject to prior approval by TRA.

SECTION X
MISCELLANEOUS PROVISIONS

(1) **Assignment**

Upon obtaining written approval from Tennessee-American which will not be unreasonably withheld, this Agreement may be assigned by Signal Mountain to any successor in the operation of the facilities currently owned by Signal Mountain.

(2) **Notices**

Any notice required or permitted to be given by one of the parties to this Agreement shall be given by U.S. mail, personal delivery or by overnight carrier to the other party at the address set forth below:

Town of Signal Mountain
1100 Ridgeway Avenue
Signal Mountain, TN 37377
Attn: Town Manager

Tennessee-American Water Company
1101 Broad Street
P. O. Box 6338
Chattanooga, Tennessee 37401
Attn: Vice-President and Manager

Any notice so given shall be deemed given upon its deposit in the U.S. mail, upon personal delivery or upon its delivery to the overnight carrier.

(3) **Governing Law**

This Agreement shall be governed by the laws of the State of Tennessee.


(4) **Enforceability**

In the event that any provision hereof is found to be invalid or unenforceable, such invalidity or unenforceability shall not impair or limit the validity or enforceability of any other provision hereof, each of which shall continue in full force and effect, and this Agreement shall be construed as if such invalid or unenforceable provisions were omitted from this Agreement.

(5) **Entire Agreement**

This Agreement constitutes the entire Agreement between Signal Mountain and Tennessee-American with respect to the subject matter contained in the Agreement, except that Signal Mountain is subject to the rules, regulations and other applicable conditions and provisions set forth in Tennessee-American's tariff on file with the TRA and as from time to time amended. This Agreement shall not be amended without the prior written consent of both parties. No modification of this Agreement or waiver of any of its terms and conditions will be effective unless set forth in a written document signed by both parties.

TOWN OF SIGNAL MOUNTAIN

By: 
James H. Althaus

Its: Mayor

TENNESSEE-AMERICAN WATER COMPANY

By: 
Richard T. Sullivan

Its: Vice-President and Manager

EXTENSION OF WATER
PURCHASE AGREEMENT

REC'D TN
REGULATORY AUTH.

THIS EXTENSION OF WATER PURCHASE AGREEMENT, made effective as of
July 1, 2000, by and between:

00 AUG 22 PM 3 5
OFFICE OF THE
EXECUTIVE SECRET

Tennessee-American Water Company ("Tennessee-
American"), located at 1101
Broad Street, Post Office Box 6338, Chattanooga, Tennessee

And

Town of Signal Mountain ("Signal Mountain"), located at
1101 Ridgeway Avenue, Signal Mountain, Tennessee

WHEREAS, Signal Mountain and Tennessee-American have mutually agreed to extend the term of their Water Purchase Agreement dated July 1, 1997 ("Original Agreement") for an additional period of time under the same terms and conditions, except as herein specified.

NOW THEREFORE, in consideration of the mutual covenants and promises herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. All of the terms, conditions, privileges and obligations in the Original Agreement, except as specifically otherwise stated herein, are hereby extended for a term of three (3) years (or thirty-six [36] monthly billing periods) beginning September 1, 2000.
2. A copy of the Original Agreement is attached hereto and incorporated herein by reference.
3. Section X (2) of the Original Agreement is amended to provide that any notice to Tennessee-American be sent to the attention of the President of Tennessee-American.

4. This Extension of Water Purchase Agreement is subject to the approval by the Board of Directors of Tennessee-American and by the Tennessee Regulatory Authority ("TRA"). Signal Mountain agrees to take such action reasonably necessary to support Tennessee-American's application for approval from the TRA.

IN WITNESS WHEREOF, the parties have set forth their hands.

TOWN OF SIGNAL MOUNTAIN

By: 

Title: MAYOR

Date: 6/15/00

TENNESSEE-AMERICAN WATER CO.

By: 

Title: PRESIDENT

Date: August 19, 2000

EXTENSION OF WATER PURCHASE AGREEMENT

THIS EXTENSION OF WATER PURCHASE AGREEMENT, made effective as of July 1, 2003, by and between Tennessee-American Water Company (Tennessee-American"), located at 1101 Broad Street, Chattanooga, Tennessee, and Town of Signal Mountain ("Signal Mountain"), whose address is 1101 Ridgeway Avenue, Signal Mountain, Tennessee.

WHEREAS, the parties hereto have agreed to extend the term of their Water Purchase Agreement dated July 1, 1997 ("Original Agreement"), as amended and extended by agreement dated as being effective July 1, 2000 ("First Extension Agreement"), copies of both are attached hereto and incorporated herein by reference. for an additional term of three years as provided herein,

NOW, THEREFORE, in consideration of the mutual covenants and promises herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows.

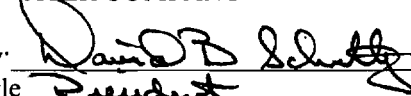
1. Except as specifically provided herein, all of the terms, conditions, privileges and obligations in the Original Agreement, as amended and extended by the First Extension Agreement, are hereby extended for a term of three (3) years (or thirty-six (36) monthly billing periods), beginning July 1, 2003 and ending July 1, 2006.
2. Effective August 7, 2003, and continuing through the end of the term hereof, Section 1 of the Original Agreement, as amended and extended by the First Extension Agreement, is hereby amended to state that Signal Mountain will purchase water at the rate of \$1.02 per 1,000 gallons.
3. This Extension of Water Purchase Agreement is subject to the approval by the Board of the Tennessee-American Water Company and the Tennessee Regulatory Authority ("TRA") Signal Mountain agrees to take such action reasonably necessary to support Tennessee-American's application for approval from the TRA.

IN WITNESS WHEREOF, the parties have set forth their hands

TOWN OF SIGNAL MOUNTAIN

By: 
Title: (Mayor)
Date: 1-29-04

TENNESSEE-AMERICAN
WATER COMPANY

By: 
Title: President
Date: 2/20/04