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November 22, 2006

VIA HAND-DELIVERY TO:

Chairman Sara Kyle
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

***Re: Petition Of Tennessee American Water Company To Change And
Increase Certain Rates And Charges So As To Permit It To Earn A
Fair And Adequate Rate Of Return On Its Property Used And
Useful In Furnishing Water Service To Its Customers
Docket No. 06- 00290***

Dear Chairman Kyle:

Enclosed please find the original and six (6) copies of a Petition to be filed on behalf of our client, Tennessee American Water Company, pursuant to T.C.A. § 65-5-203. We are simultaneously, with the filing of this Petition, filing with Ms. Pat Murphy certain tariffs for Tennessee American Water Company, which are explained and discussed in the Petition and which tariffs have an issue date of November 22, 2006, and an effective date of December 22, 2006.

I am also enclosing the original and six (6) copies of the sworn testimony and exhibits of the following witnesses who will testify in behalf of the Company:

John S. Watson
Michael A. Miller
Sheila A. Miller
Edward L. Spitznagel, Jr.
Patrick L. Baryenbruch
Paul R. Herbert
Michael J. Vilbert

The entire contents of this filing in PDF format are also contained on a compact disk filed herewith. Also, we have emailed to Ms. Sharla Dillon an electronic version in

Chairman Sara Kyle
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PDF format of the Petition, the testimony of witnesses, their exhibits, and the tariff filings.

I am sending a copy of this letter to Richard Collier, Esq., and Mr. Jerry Kettles. I am also sending a copy of this letter, the Petition, testimony, exhibits, and the tariffs to Ms. Pat Murphy, the Honorable Ron Littlefield, Mayor of Chattanooga and Assistant Attorney General Timothy C. Phillips, of the Consumer Advocate Division of the Attorney General's office.

Also enclosed is our check in the amount of \$25.00, payable to the Tennessee Regulatory Authority for the filing fee.

Please return two copies of the Petition and sworn testimony and exhibits, which I would appreciate your stamping as "filed," and returning to me by way of our courier.

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

With kindest regards, I remain

Very truly yours,



R. Dale Grimes

RDG:ms
Enclosures

cc: Hon. Pat Miller (*w/o enclosures*)
Hon. Ron Jones (*w/o enclosures*)
Hon. Eddie Roberson (*w/o enclosures*)
Ms. Pat Murphy (*w/enclosures*)
Timothy C. Phillips, Esq. (*w/enclosures*)
Richard Collier, Esq. (*w/o enclosures*)
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division (*w/o enclosures*)
Hon. Ron Littlefield, Mayor of Chattanooga (*w/enclosures*)
Mr. John Watson (*w/o enclosures*)
Mr. Michael A. Miller (*w/o enclosures*)

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

**PETITION OF TENNESSEE AMERICAN)
WATER COMPANY TO CHANGE AND)
INCREASE CERTAIN RATES AND)
CHARGES SO AS TO PERMIT IT TO)
EARN A FAIR AND ADEQUATE)
RATE OF RETURN ON ITS PROPERTY)
USED AND USEFUL IN FURNISHING)
WATER SERVICE TO ITS CUSTOMERS)**

DOCKET NO. 06-00290

PETITION

Tennessee American Water Company ("Company"), a Tennessee corporation authorized to conduct and conducting a public utility business in the State of Tennessee, does hereby simultaneously file with the Tennessee Regulatory Authority ("TRA" or "Authority") this Petition and a revised schedule of tariffs to become effective thirty (30) days after date of issue and requests that the TRA, pursuant to T.C.A. § 65-5-201, et seq., investigate the Company's present and projected earnings and hear and determine that the increased rates as reflected in its Tariffs that it has filed to become effective December 22, 2006, are just and reasonable. In support of this request, the Company avers that:

1. The Company is a public utility as defined in T.C.A. § 65-4-101 and is engaged in providing residential, commercial, industrial and municipal water service, including public and private fire protection service to the City of Chattanooga and surrounding areas including 73,567 customers as of June 30, 2006, subject to the jurisdiction and supervision of the Authority pursuant to Chapter 4 and Chapter 5 of Title 65 of Tennessee Code Annotated. The rates of the customers located in the State of Georgia are not regulated by the Public Service Commission of the State of Georgia but are regulated by this Authority.

2. The Company is a wholly-owned subsidiary of American Water Works Company, Inc. ("AWWC"). AWWC is the largest water holding company in the United States which provides water and waste water services to 18 million people in twenty-nine (29) states, Puerto Rico and Canada. The Company's existing rates and charges will not provide, and cannot be made to provide, sufficient revenues to cover all the costs incurred in providing adequate quality water service including its cost of capital.

3. The Company has the responsibility to its customers to provide them with the best water service possible. This responsibility includes meeting the present and future service requirements of customers, improving existing service and introducing new technologies as they are developed. The Company has the technological capability to do this, however, it cannot accomplish such a program without adequate earnings. As this Authority knows, the Company, like all regulated utilities, must have customer rates approved that will permit it to earn a rate of return on its investment in the State of Tennessee which will be sufficient to attract new capital at reasonable terms, as it is needed.

4. The Company is also continuing its program of replacing small diameter water mains throughout the system; the replacement of the 21st Century Riverfront Pipeline project in downtown Chattanooga; construction of two (2) distribution system water storage tanks, one million gallons each; the replacing of meters and service lines; the installation of main extensions; and the general relocation and replacement of existing facilities. All of these programs have been planned and are being instituted to bring about more and better water service. Some of them must continue to be carried out at additional costs.

5. The Company's capital expenditures program for 2006 was \$10,345,000 for "normal recurring" items, and \$6,216,000 for specific projects, for a grand total of \$16,561,000.

In 2007, the "normal recurring" items are estimated at \$9,430,000 and the special projects at \$2,093,554 for a grand total of \$11,523,554. These capital expenditures have resulted and will result in more and better service to the Company's customers throughout the area it serves. The testimony of the Company's witnesses will detail the major construction projects, the expenditures, the anticipated results and benefits to its customers.

6. Under the present rates, the Company's revenues and revenue projections are not sufficient and cannot be made sufficient to: (a) allow the Company to earn a fair rate of return to which it is entitled under Article 1, Section 8 of the Constitution of Tennessee, and the 14th Amendment to the Constitution of the United States; (b) provide a fair rate of return on its investment for a reasonable period; (c) attract on reasonable terms the large sums of additional capital required to adequately maintain, expand and improve the Company's plant in Tennessee to meet the needs of the public for additional improved quality water service and to maintain existing service levels; (d) maintain its credit; and (e) maintain its operations at a level that will not be materially impaired or damaged.

7. The Company avers that a fair rate of return on the Company's operations is essential to the continued provision of adequate quality service, to make the necessary improvements and to meet the expansion needs of the customers it serves. Consequently, it is essential and in the public interest that the Company's rates and charges be revised to provide an increase in revenue. Because of the continued increase in expenses and costs of providing new and improved services, the earnings situation of the Company has deteriorated to a level that, without rate relief, the Company cannot meet demands for service in an orderly and economical fashion.

8. As will be testified to and as shown by the accounting exhibits filed by its witness, Sheila A. Miller, the Company selected as the historical test year the twelve months ended June 30, 2006, and has adjusted the test period for two levels of adjustments. The first adjustment normalizes the test year and the second level adjusts the normalized year to arrive at the attrition year, which is the twelve months ended February 29, 2008. The resulting rate of return for the attrition year, using current rates, was 4.77% on a rate base of \$100,583,193 and net operating income of \$4,795,614. At a proposed rate of return of 8.466%, the Company would have a revenue deficiency of \$6,379,887 for the attrition year.

9. The Company would like to be in a position to continue its upgrading program and improve the quality of service offered its customers, but the Company cannot provide the necessary new facilities, maintain existing ones adequately, and meet the needs of its customers for the future with such an unrealistic rate of return. The Company has no other alternative but to petition this Authority to permit it to place higher rates into effect in order to: (a) avoid material impairment or damage to the Company's long range operations; and (b) to enable the Company to earn a fair rate of return on its Tennessee operations during the foreseeable future.

10. Mr. Michael A. Miller will testify as to the Company's capital structure and the cost of debt and preferred stock for the attrition period. The testimony of Mr. Miller will recommend that the capital structure that should be used for the Company for the attrition year should be comprised of \$43,968,646 equity, 41.86%; \$55,579,080¹ long term debt, 53.07%; \$1,382,100 preferred stock, 1.32%; and \$3,948,000 short term debt, 3.76%. The Company in its overall cost of capital has used an equity cost of 11.0%.² Using the capital structure and cost of

¹ Included in this figure is the 6.15% New Series \$36,500,000 General Mortgage Bonds which will be used to recall the 4.75% issue in the amount of \$19,000,000 and refinance \$17,500,000 short term debt.

² The Company is filing the testimony of Mr. Michael Vilbert of The Brattle Group, which testimony is that his analysis shows that the cost of common equity capital requested by the Company of 11.0% is reasonable.

capital as set out above and shown in the exhibits of Dr. Michael Vilbert and Mr. Miller, the calculated weighted cost of capital is 8.466%.

11. The Company proposes that it be allowed to place into effect customer rates that will produce an overall rate of return of 8.466% on a rate base of \$100,583,193. The additional gross revenues required would be approximately \$6,379,887. The amount requested is the minimum additional annual gross revenues necessary for the Company to attract the necessary capital required to continue to provide adequate water service to the people of the City of Chattanooga and surrounding area and to meet the demand for water service in the foreseeable future.

12. The Company has filed simultaneously with this Petition revised Tariffs effective December 22, 2006, designed to produce the additional gross revenues needed. The testimony of various Company witnesses and the exhibits that Ms. Miller will sponsor will show how these additional gross revenues will be derived. The tariffs filed will produce a total increase in annual revenue of approximately \$6,379,887 by increasing rates.

13. The Company avers that the above-proposed changes are necessary and proper and are designed to meet the present and future needs of its customers in an economically feasible manner. The Company's Tariffs as filed and the overall rate of return it has requested are all fair and reasonable in the best interests of the Company and the customers it serves, and, therefore, should be approved.

WHEREFORE, the Company requests the Tennessee Regulatory Authority to:

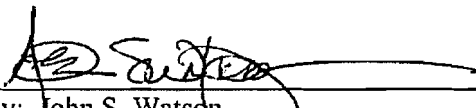
1. Schedule a hearing upon proper notice for the presentation of evidence as to the present and projected earnings and the additional revenues required to provide a fair rate of return on the Company's property used and useful in providing quality water service to its customers.


2. Enter an order approving the Company's schedule of rates filed with the Commission designed to increase the Company's annual revenues by approximately \$6,379,887 and adopt as the method to effect this increase in revenues, the Tariffs filed to become effective December 22, 2006, or as soon thereafter as lawfully permitted.

3. Grant such other relief as may be required in light of the evidence to be produced at the hearing.

This the 16TH day of NOVEMBER, 2006.

TENNESSEE AMERICAN WATER COMPANY


By: John S. Watson,
Title: Vice President and Network General Manager

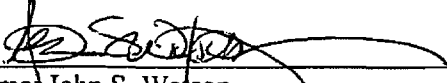

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J. Davidson French (#015442)
BASS, BERRY & SIMS PLC
AmSouth Center
315 Deaderick Street, Suite 2700
Nashville, TN 37238
(615) 742-6200

Attorneys for Petitioner

VERIFICATION

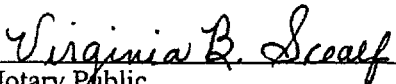
STATE OF TENNESSEE)
)
COUNTY OF HAMILTON)

I, John S. Watson, hereby declare under penalty of perjury, that I am Vice President and General Network Manager of TENNESSEE-AMERICAN WATER COMPANY; that I am authorized to make this verification on behalf of TENNESSEE-AMERICAN WATER COMPANY; that I have read the foregoing petition; and that the facts stated therein are true and correct to the best of my knowledge, information, and belief.



Name: John S. Watson
Title: Vice President & General Network Manager

Sworn to and subscribed before me this 16th day of November, 2006.



Notary Public

My Commission Expires:

July 30, 2008

