

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

IN RE:

**PETITION OF TENNESSEE AMERICAN)
WATER COMPANY TO CHANGE AND)
INCREASE CERTAIN RATES AND CHARGES)
SO AS PERMIT IT TO EARN A FAIR AND)
ADEQUATE RATE OF RETURN ON ITS) Docket No. 06-00290
PROPERTY USED AND USEFUL IN)
FURNISHING WATER SERVICE TO ITS)
CUSTOMERS)**

**TENNESSEE AMERICAN WATER COMPANY'S RESPONSES TO THE FIRST SET
OF DATA REQUESTS FROM THE CHATTANOOGA MANUFACTURER'S
ASSOCIATION**

The Tennessee American Water Company ("TAWC") hereby responds as follows to the First Set of Data Requests from the Chattanooga Manufacturer's Association ("CMA"):

GENERAL OBJECTIONS

(1) TAWC objects to all requests that seek information protected by the attorney-client privilege, the work product doctrine and/or any other applicable privilege or restriction on disclosure.

(2) TAWC objects to the definitions and instructions accompanying requests to the extent definitions and instructions contradict, are inconsistent with, or impose any obligations beyond those required by applicable provisions of the Tennessee Rules of Civil Procedure or the rules, regulations or orders of the Tennessee Regulatory Authority.

(3) TAWC objects to the definitions of the words "document," "you," "person," "persons," "affiliate," "affiliated," "identify," "identifying," "identification," and "referring or relating to," that accompany the data requests because such definitions are overbroad and unduly burdensome.

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(4) The specific responses set forth below are based upon information now available to TAWC, and TAWC reserves the right at any time to revise, correct, add to or clarify the objections or responses and supplement the information and/or documents produced.

(5) TAWC is providing its responses herein without waiver of, or prejudice to, its right at any later time to raise objections to: (a) the competence, relevance, materiality, privilege, or admissibility of the response, or the subject matter thereof; and (b) the use of any response, or subject matter thereof, in any subsequent proceedings.

(6) TAWC objects to each request to the extent that it is unreasonably cumulative or duplicative, or seeks information obtainable from some other source that is more convenient, less burdensome or less expensive.

(7) TAWC objects to each request to the extent it is premature such that it seeks information concerning matters about which discovery is ongoing and/or seeks information to be provided by expert witnesses.

(8) TAWC objects to request to the extent it seeks information outside TAWC's custody or control.

(9) TAWC's specific objections to each request are in addition to the General Objections set forth in this section. These General Objections form a part of each discovery response, and they are set forth here to avoid the duplication and repetition of restating them for each discovery response. The absence of a referenced to a General Objection in response to a particular request does not constitute a waiver of any General Objection with respect to that discovery request. All responses are made subject to and without waiver of TAWC's general and specific objections.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller

GENERAL

Question:

1. Produce copies of any all documents referred to or relied upon in responding to CMA's discovery requests.

Response:

TAWC objects to this question on the grounds that the requested information is overly broad, unduly burdensome, and subject to attorney client privilege and work product prepared in anticipation of litigation.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller/or others

GENERAL

Question:

2. Identify all persons know to you, your attorney(s) or other agent(s), who have knowledge, information or possess any document(s) or claim to have knowledge, information or possess any document(s) which support or contradict each or any fact you rely upon to support your contentions and request(s) for relief in this docket.

Response:

TAWC objects to this question on the grounds that it is vague, overly broad and seeks work product and attorney client privileged information. Notwithstanding the objection, the Company responds that the persons with relevant knowledge of the issues in this case are those who have provided direct testimony filed with the petition. The Company reserves the right to supplement this response as discovery and the case progresses.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: **Michael Miller/or others**

GENERAL

Question:

3. Produce a copy of all articles, journals, books or speeches written by or co-written by any expert witness(es) or other witness(es) of the Company, whether published or not.

Response:

The Company objects to this request on the grounds that it is vague, overly broad, and unduly burdensome. Notwithstanding the objection, TAWC provides the following response. The Company's testimony provides or provides reference to much of the information requested above. We reserve the right to supplement this response as the rate case progresses.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller

GENERAL

Question:

4. Over the period 2001, 2002, 2003, 2004, 2005, and 2006, provide copies of TAWC's Annual Report to Shareholders, the annual report filed with the Tennessee Regulatory Authority, and all annual report-like documents filed with the Securities and Exchange Commission. To the extent you allege a final annual report does not exist, produce the most recent quarterly report(s) and any summary of "year-to-date" information for the year allegedly not finalized. To the extent you contend that any annual report(s) for the Company do not exist, produce such report(s) for any parent or affiliate in which the Company is included or reported, and produce any and all workpapers and communications to and from said parent or affiliate regarding or related to the Company's financial statements.

Response:

TAWC objects to this request on the grounds that it is vague, ambiguous, overbroad and unduly burdensome. Notwithstanding these objections, TAWC responds as follows:

The TAWC Annual Reports to Shareholders for 2001 and 2002 are attached. The TAWC Annual Reports to Shareholders for 2003-2005 were included with the response to TRA Data Request 1, question 5. TAWC's 2006 Annual Report to Shareholders and the 2006 TRA Report are not available at this time, nor were any 2006 quarterly reports issued. The annual reports filed with the TRA are included on the enclosed CD and labeled as TN-CMA-01-Q04 attachment 2001

TRA Annual Report, TN-CMA-01-Q04 attachment 2002 TRA Annual Report, TN-CMA-01-Q04 attachment 2003 TRA Annual Report, TN-CMA-01-Q04 attachment 2004 TRA Annual Report, and TN-CMA-01-Q04 attachment TRA 2005 Annual Report. TAWC does not file any reports with the Securities and Exchange Commission.

**TENNESSEE-AMERICAN
WATER COMPANY**

**Financial Statements
and
Other Information**

December 31, 2001 and 2000

TENNESSEE-AMERICAN WATER COMPANY

An American Water System Company
1101 Broad Street
Chattanooga, Tennessee 37402

Board of Directors

J. James Barr, President and Chief Executive Officer
American Water Works Company, Inc.

Elizabeth H. Gemmill, Managing Trustee
Warwick Foundation

John F. Germ, President and Chief Executive Officer
Campbell & Associates, Inc. Consulting Engineers

Chris E. Jarrett, President
West Virginia-American Water Company

Daniel L. Kelleher, Senior Vice President
American Water Works Service Company, Inc.

William F. L'Ecuier, President
Tennessee-American Water Company

David B. Schultz, Vice President
Tennessee-American Water Company

Gerald C. Smith, (retired) Vice President
American Water Works Company, Inc.

William P. Sudderth, President
The Chattanooga Land Company

Ellen C. Wolf, Vice President and Chief Financial Officer
American Water Works Company, Inc.

TENNESSEE-AMERICAN WATER COMPANY

OFFICERS

William F. L'Ecuier	President
David B. Schultz	Vice President
Michael A. Miller	Vice President, Treasurer, and Comptroller
Herbert A. Miller, Jr.	Vice President and Secretary
Daniel R. Bailey	Assistant Secretary and Assistant Treasurer
Stephen N. Chambers	Assistant Secretary
Nancy M. Strickland	Assistant Secretary
Roy L. Ferrell	Assistant Treasurer
James R. Hamilton	Assistant Treasurer
Thomas R. Bailey	Assistant Comptroller
Jonathan G. Easlick	Assistant Comptroller
Doneen S. Hobbs	Assistant Comptroller
Frank S. Impagliazzo	Assistant Comptroller
Benjamin J. Tartaglia, Jr.	Assistant Comptroller
Robin N. Quinn	Assistant Comptroller



PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
2001 Market Street
Philadelphia PA 19103-7042
Telephone (267) 330 3000
Facsimile (267) 330 3300

Report of Independent Accountants

To the Board of Directors and Stockholders of
Tennessee-American Water Company

In our opinion, the accompanying balance sheet and the related statements of income, of retained earnings, of cash flows, of capitalization and of common stockholder's equity present fairly, in all material respects, the financial position of Tennessee-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 1, 2002

TENNESSEE-AMERICAN WATER COMPANY
Balance Sheet
(Dollars in thousands)

	December 31,	
	<u>2001</u>	<u>2000</u>
Assets		
Property, plant and equipment		
Utility plant at original cost, net of accumulated depreciation	\$ 103,670	\$ 101,707
	<u>103,670</u>	<u>101,707</u>
Current assets		
Cash and cash equivalents	703	852
Customer accounts receivable	1,341	1,780
Allowance for uncollectible accounts	(66)	(57)
Unbilled revenues	1,694	1,657
Sewer collections receivable	1,444	1,472
Materials and supplies	389	414
Deferred vacation pay	449	488
Other	490	553
	<u>6,444</u>	<u>7,159</u>
Regulatory and other long-term assets		
Debt and preferred stock expense	208	196
Deferred pension expense	1,566	1,148
Deferred business service project expense	1,044	130
Regulatory asset-income taxes recoverable through rates	11,172	11,509
Other	1,218	1,264
	<u>15,208</u>	<u>14,247</u>
	<u>\$ 125,322</u>	<u>\$ 123,113</u>
Capitalization and Liabilities		
Common stock	\$ 13,754	\$ 13,754
Paid-in capital	4,782	4,782
Retained earnings	16,560	16,004
Total common stockholder's equity	35,096	34,540
Preferred stock without mandatory redemption requirements	1,400	1,400
Preferred stock with mandatory redemption requirements	128	128
Long-term debt	33,442	38,402
Total capitalization	<u>70,066</u>	<u>74,470</u>
Current liabilities		
Affiliate borrowings	2,981	9,086
Current portion of long-term debt	10,060	44
Accounts payable	853	557
Taxes accrued	2,515	2,121
Interest accrued	440	399
Sewer collections payable	1,943	1,994
Accrued vacation pay	449	488
Other	3,095	1,614
	<u>22,336</u>	<u>16,303</u>
Regulatory and other long-term liabilities		
Customer advances for construction	2,742	2,845
Deferred income taxes	22,098	21,767
Deferred investment tax credits	1,575	1,651
Accrued pension expense	1,566	1,148
Accrued postretirement benefit expense	334	334
Other	176	282
	<u>28,491</u>	<u>28,027</u>
Contributions in aid of construction	<u>4,429</u>	<u>4,313</u>
	<u>\$ 125,322</u>	<u>\$ 123,113</u>

The accompanying notes are an integral part
of these financial statements.

TENNESSEE-AMERICAN WATER COMPANY
Statement of Income
(Dollars in thousands)

	Years Ended	December 31,
	<u>2001</u>	<u>2000</u>
Operating revenues	\$ 30,535	\$ 31,817
Operating expenses		
Operation and maintenance	14,388	14,287
Depreciation and amortization	3,636	3,531
General taxes	3,658	3,043
	<u>21,682</u>	<u>20,861</u>
Operating income	8,853	10,956
Other income and deductions		
Allowance for other funds used during construction	69	237
Miscellaneous other income	47	74
Miscellaneous other deductions	(85)	(62)
	<u>8,884</u>	<u>11,205</u>
Income before interest charges and income taxes	8,884	11,205
Interest charges		
Interest on long-term debt	3,207	3,265
Amortization of debt expense	38	38
Interest on affiliate borrowings	274	234
Other interest	12	88
Allowance for borrowed funds used during construction	(42)	(142)
	<u>3,489</u>	<u>3,483</u>
Income before income taxes	5,395	7,722
Income taxes		
Federal income taxes	1,940	2,690
State income taxes	324	461
	<u>2,264</u>	<u>3,151</u>
Net income	\$ 3,131	\$ 4,571

Statement of Retained Earnings
(Dollars in thousands)

Retained earnings at beginning of year	\$ 16,004	\$ 14,726
Net income	3,131	4,571
	<u>19,135</u>	<u>19,297</u>
Dividends		
Preferred stock	76	76
Common stock	2,499	3,217
	<u>2,575</u>	<u>3,293</u>
Retained earnings at end of year	\$ 16,560	\$ 16,004

The accompanying notes are an integral part
of these financial statements.

TENNESSEE-AMERICAN WATER COMPANY
Statement of Cash Flows
(Dollars in thousands)

	Years Ended December 31,	
	2001	2000
Cash flows from operating activities		
Net income	\$ 3,131	\$ 4,571
Adjustments		
Depreciation and amortization	3,636	3,531
Other amortization	176	69
Provision for deferred income taxes	808	769
Amortization of deferred investment tax credits	(76)	(76)
Provision for losses on accounts receivable	37	213
Allowance for other funds used during construction	(69)	(237)
Deferred business service project expense	(914)	(130)
Other, net	(385)	(296)
Changes in current assets and liabilities		
Accounts receivable, net	411	(180)
Unbilled revenues	(37)	(74)
Materials and supplies	25	(16)
Other current assets	130	(183)
Accounts payable	296	(843)
Taxes accrued	394	(88)
Interest accrued	41	(126)
Other current liabilities	1,391	(826)
Net cash provided by operating activities	8,995	6,078
Cash flows from investing activities		
Construction expenditures	(5,617)	(5,844)
Allowance for other funds used during construction	69	237
Cost of removal, net of salvage	(77)	(107)
Net cash used in investing activities	(5,625)	(5,714)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	5,100	-
Net borrowings (repayments) under line of credit agreement	(6,105)	7,584
Repayment of long-term debt	(44)	(5,029)
Redemption of preferred stock	-	(25)
Customer advances and contributions, net of refunds	105	654
Dividends paid	(2,575)	(3,293)
Net cash used in financing activities	(3,519)	(109)
Net (decrease) increase in cash and cash equivalents	(149)	255
Cash and cash equivalents at beginning of year	852	597
Cash and cash equivalents at end of year	\$ 703	\$ 852
Cash paid during the year for:		
Interest, net of capitalized amount	\$ 3,452	\$ 3,571
Income taxes	\$ 1,620	\$ 2,458

The accompanying notes are an integral part
of these financial statements

TENNESSEE-AMERICAN WATER COMPANY
Statement of Capitalization
(Dollars in thousands, except per share amounts)

	<u>Call Price Per Share</u>	<u>December 31, 2001</u>	<u>2000</u>
Common stockholder's equity			
Common stock - \$1 par value, authorized 20,000,000 shares, issued and outstanding 13,754,234 in 2001 and 2000		\$ 13,754	\$ 13,754
Paid-in capital		4,782	4,782
Retained earnings		16,560	16,004
		<u>35,096</u>	<u>34,540</u>
Preferred stock - \$100 par value, authorized 70,000 shares			
Without mandatory redemption requirements			
Cumulative preferred stock			
5 0% series, 14,000 shares issued and outstanding in 2001 and 2000	\$ 105.00	1,400	1,400
With mandatory redemption requirements			
Cumulative preferred stock			
4.5% series, 1,280 shares issued and outstanding in 2001 and 2000	\$ 101.00	128	128
		<u>1,528</u>	<u>1,528</u>
Long-term debt			
General mortgage bonds			
8.28% series due 2002		10,000	10,000
6.77% series due 2003		9,000	9,000
8.25% series due 2005		3,200	3,200
6.5% series due 2008		6,500	6,500
9.25% series due 2019		2,500	2,500
7.84% series due 2026		5,700	5,700
Senior Note, 6.87% series due 2011		5,100	-
Obligation under capital lease		1,502	1,546
		43,502	38,446
Less: Current portion of long-term debt		10,060	44
Long-term debt, net of current maturities		33,442	38,402
Total capitalization		<u>\$ 70,066</u>	<u>\$ 74,470</u>

The accompanying notes are an integral part
of these financial statements.

TENNESSEE-AMERICAN WATER COMPANY
Statement of Common Stockholder's Equity
(Dollars in thousands, except per share amounts)

	<u>Common Stock</u>		<u>Paid-In</u>	<u>Retained</u>	<u>Common</u>
	<u>Shares</u>	<u>Par Value</u>	<u>Capital</u>	<u>Earnings</u>	<u>Stockholder's</u>
					<u>Equity</u>
Balance at December 31, 1999	13,754,234	\$ 13,754	\$ 4,782	\$ 14,726	\$ 33,262
Net income				4,571	4,571
Dividends					
Preferred stock				(76)	(76)
Common stock, \$0.23 per share				(3,217)	(3,217)
Balance at December 31, 2000	13,754,234	13,754	4,782	16,004	34,540
Net income				3,131	3,131
Dividends					
Preferred stock				(76)	(76)
Common stock, \$0.18 per share				(2,499)	(2,499)
Balance at December 31, 2001	13,754,234	\$ 13,754	\$ 4,782	\$ 16,560	\$ 35,096

The accompanying notes are an integral part
of these financial statements.

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (Dollars in thousands, except per share amounts)

Note 1 - Organization and Operation

Tennessee-American Water Company (the Company) provides water service to approximately 70,000 customers. These services are provided in 13 communities located in five counties in Tennessee and Georgia. As a public utility operating in Tennessee, the Company functions under rules and regulations prescribed by the Tennessee Regulatory Authority (the Commission). Tennessee-American Water Company is a wholly owned subsidiary of American Water Works Company, Inc. (American).

Note 2 - Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Regulation

The Company has incurred various costs and received various credits which have been reflected as regulatory assets and liabilities on its balance sheet. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS No. 71, regulated companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate setting process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in rates charged for service.

Property, Plant and Equipment

Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. The costs incurred to acquire and internally develop computer software for internal use are

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

capitalized as a unit of property. Repairs, maintenance and minor replacements of property are charged to current operations. The cost of property units retired in the ordinary course of business plus removal cost (net of salvage) is charged to accumulated depreciation. The cost of property, plant and equipment is depreciated using the straight line method. The depreciation rates, based on the average balance of depreciable property, were 2.95% in 2001 and 2.61% in 2000.

In accordance with the Commission's regulations, depreciation on contributed facilities is charged to contributions in aid of construction. Such depreciation amounted to \$92 in 2001 and \$87 in 2000.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest bearing accounts. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2001 or 2000.

Materials and Supplies

Materials and supplies are stated at average cost.

Regulatory and Other Long-Term Assets

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from the date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Pension expense in excess of the amount contributed to the pension plan has been deferred. These costs will be recovered in future service rates as increased contributions are made to the plan.

Deferred business services project expenses consist of reengineering and start-up activities for consolidated customer and shared administrative service centers that are being established by American. These costs are being deferred as it is expected that these costs will be recovered in the rates charged for utility service in the future.

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for ratemaking purposes. The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Other Current Liabilities

Other current liabilities at December 31, 2001 and 2000 include payables of \$2,299 and \$889, respectively, which represent checks issued but not presented to the bank for payment.

Advances and Contributions in Aid of Construction

The Company may receive advances and contributions to fund construction necessary to extend service to new areas. As determined by the Commission, advances for construction are refundable for limited periods of time as new customers begin to receive service. Amounts which are no longer refundable are reclassified to contributions in aid of construction.

Utility plant funded by advances and contributions is excluded from rate base and is not depreciated for rate-making purposes. Generally, advances and contributions received during the period January 1, 1987 through June 12, 1996 have been included in taxable income and the related property is depreciable for tax purposes. As a result of a tax law change, advances and contributions received subsequent to June 12, 1996 are excluded from taxable income and the related property is not depreciable for tax purposes.

On January 11, 2001 the Internal Revenue Service issued regulations that excluded lateral service lines from its definition of contributions in aid of construction that are not included in taxable income. These customer connection fees are defined as the cost of installing a connection or service line from the Company's main lines to the lines owned by the customer. The regulations were effective immediately, and the Company is now paying tax on money or property received for these connections.

Recognition of Revenues

Water service revenues for financial reporting purposes include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period.

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

Income Taxes

The Company, its parent and affiliates participate in a consolidated federal income tax return. Federal income tax expense for financial reporting purposes is provided on a separate return basis, except that the federal income tax rate applicable to the consolidated group is applied to separate company taxable income and the benefit of net operating losses, if any, is recognized currently.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are expected to reverse. Regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a non-cash adjustment to income with a corresponding charge to utility plant which represents the cost of borrowed funds and a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Commission.

Environmental Costs

Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2001 and 2000.

Asset Impairment

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, on a separate entity basis, may not be recoverable. If the sum of the future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss is based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

New Accounting Standards

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 was issued by the Financial Accounting Standards Board (FASB) in June of 1998 and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This new accounting standard did not have any effect on the Company's financial position or results of operations. The Company's contracts that meet the definition of a derivative are for normal purchases and normal sales, are expected to result in a physical delivery, and are of quantities expected to be used or sold over a reasonable period in the normal course of business. The Company has no hedging activities.

In June of 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

Also in June of 2001, the FASB issued Statement of Financial Accounting Standard No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset.

The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 143 will have on its results of operations and financial position.

In August 2001, the FASB issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

Lived Assets and for Long-Lived Assets to Be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discounted operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company is currently evaluating the effect that adoption of the provisions of SFAS 144 will have on its results of operations and financial position.

Reclassifications

Certain reclassifications have been made to conform previously reported data to the current presentation.

Note 3 - Utility Plant

The components of utility plant at December 31 are as follows:

	<u>2001</u>	<u>2000</u>
Water plant		
Sources of supply	\$ 290	\$ 265
Treatment and pumping	23,738	24,163
Transmission and distribution	80,313	76,398
Services, meters, and fire hydrants	26,963	25,687
General structures and equipment	9,655	9,764
Construction work in progress	<u>1,800</u>	<u>1,394</u>
	142,759	137,671
Less - accumulated depreciation	<u>(39,089)</u>	<u>(35,964)</u>
	<u>\$ 103,670</u>	<u>\$ 101,707</u>

Note 4 - Preferred Stock

Preferred stock agreements require annual sinking fund payments of \$26 in 2002 through 2005.

Preferred stock agreements contain provisions for redemption at various prices on 30 days notice at the Company's discretion. In the event of voluntary liquidation of the Company, the 4.5% issue is redeemable at \$100 per share; the 5% series is redeemable at \$100 per share provided a majority of the holders consent, or at \$105 if they do not. In the event of involuntary sale or governmental acquisition of the Company, all classes of preferred stock are redeemable at \$100 per share. All call prices are on thirty days' notice plus accrued dividends.

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

Note 5 – Long-Term Debt

Maturities of long-term debt, exclusive of sinking funds, will amount to \$10,000 in 2002, \$9,000 in 2003 and \$3,200 in 2005. There are no maturities in 2004.

The general mortgage bond indentures contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. There were no restrictions at December 31, 2001 and 2000.

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as general mortgage bonds are outstanding. The amount of bonds authorized is unlimited as long as long-term debt does not exceed 65% of capitalization. Long-term debt is collateralized by utility plant.

Future minimum lease payments under capital lease will amount to \$189 in 2001, \$200 in 2002, \$207 in 2003, \$209 in 2004 and \$214 in 2005.

Note 6 – Affiliate Borrowings

During 2001, the Company maintained a line of credit through American Water Capital Corp. (AWCC), an affiliate (see Note 13 - Related Party Transaction). AWCC is a special purpose corporation that serves as the primary funding vehicle for the Company. AWCC has a 364-day, \$500 million revolving credit agreement with a group of 10 domestic and international banks. No compensating balances are required under the agreement. AWCC also issues commercial paper, and the revolving credit agreement also supports these borrowings.

At December 31, 2001 and 2000, there were \$2,981 and \$9,086 of short-term borrowings outstanding, respectively. The weighted average annual interest rate on these borrowings was 5.11% and 7.49%, respectively. The unused line of credit at December 31, 2001 was \$14,471.

Note 7 - Financings

During 2001, the Company completed the following financings:

Date	Proceeds	Issue
3/29/2001	\$5,100	Senior note, 6.87% series due March 29, 2011

The senior note is unsecured and was issued to AWCC for the principal amount. AWCC provided the funding for this note by itself issuing \$140 million of senior notes to institutional investors at a price equal to the principal amount.

TENNESSEE-AMERICAN WATER COMPANY**Notes to Financial Statements (continued)**
(Dollars in thousands, except per share amounts)**Note 8 - General Taxes**

Components of general tax expense for the years presented in the statement of income are as follows:

	<u>2001</u>	<u>2000</u>
Gross receipts and franchise	\$ 558	\$ 415
Property and capital stock	2,410	2,090
Payroll	404	426
Miscellaneous	286	112
	<u>\$ 3,658</u>	<u>\$ 3,043</u>

Note 9 - Income Taxes

Components of income tax expense for the years presented in the statement of income are as follows:

	<u>2001</u>	<u>2000</u>
State income taxes:		
Current	\$ 237	\$ 374
Deferred		
Current	(1)	1
Non-current	88	86
	<u>\$ 324</u>	<u>\$ 461</u>
Federal income taxes:		
Current	\$ 1,295	\$ 2,084
Deferred		
Current	(7)	7
Non-current	728	675
Amortization of deferred investment tax credits	(76)	(76)
	<u>\$ 1,940</u>	<u>\$ 2,690</u>

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	<u>2001</u>	<u>2000</u>
Income tax at statutory rate of 35%	\$ 1,888	\$ 2,703
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	211	300
Flow through differences	237	216
Amortization of deferred investment tax credits	(76)	(76)
Other, net	<u>4</u>	<u>8</u>
Actual income tax expense	<u>\$ 2,264</u>	<u>\$ 3,151</u>

The following table provides the components of the net deferred tax liability at December 31:

	<u>2001</u>	<u>2000</u>
Deferred tax assets:		
Advances and contributions	\$ 2,789	\$ 2,784
Deferred investment credits	611	642
Other	<u>926</u>	<u>676</u>
	<u>4,326</u>	<u>4,102</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	20,978	20,467
Income taxes recoverable through rates	4,346	4,477
Other	<u>1,100</u>	<u>925</u>
	<u>26,424</u>	<u>25,869</u>
Net deferred tax liability:	<u>\$ 22,098</u>	<u>\$ 21,767</u>

No valuation allowances were required on deferred tax assets at December 31, 2001 or 2000.

Note 10 - Rate Matters

As necessary, the Company applies to the Commission for changes in the rates charged for service. The rate increase request is based on the level of operating expenses and capital costs that are expected to be in effect when the rates become effective. The revenues requested are based on actual sales during the historic test year selected by the Company as the base period, but are adjusted for known changes such as an increase or decrease in the number of customers or a documented change in customer usage.

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

The Company has not sought approval from the Commission to increase its rates for service in either 2001 or 2000.

Note 11 - Employee Benefit Plans

Employees' Stock Ownership Plan

The Company participates in an Employees' Stock Ownership Plan sponsored by American which provides for beneficial ownership of American common stock by all associates who are not included in a bargaining unit. Each participating associate can elect to contribute an amount that does not exceed 2% of their wages. In addition to the associate's participation, the Company makes a contribution equivalent to 1/2% of each participant's qualified compensation, and matches 100% of the contribution by each participant. The Company expensed contributions of \$44 for 2001 and \$52 for 2000 that it made to the Plan. The trustee of the Plan may purchase shares of American common stock at the prevailing market price from American, in the open market, or in a private transaction.

Savings Plan for Employees

The Company participates in a 401(k) Savings Plan for Employees sponsored by American. All associates can make contributions that are invested at their direction in one or more funds including a fund consisting entirely of American common stock. The Company matches 50% of the first 4% of each associate's wages contributed to the Plan. The Company expensed matching contributions to the Plan totaling \$90 for 2001 and \$82 for 2000. All of the Company's matching contributions are invested in the fund of American common stock. The trustee of the Plan may purchase shares of American common stock at the prevailing market price from American, in the open market, or in a private transaction.

Note 12 - Postretirement Benefits

Pension Benefits

The Company participates in a noncontributory defined benefit pension plan sponsored by American covering substantially all associates. Benefits under the Plan are based on the associate's years of service and average annual compensation for those 60 consecutive months of employment which yield the highest average. Pension cost of the Company is based on an allocation from American of the total cost related to the Plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made no contribution to the Plan in 2001 or 2000.

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

In addition, during 2000, the Company recognized a settlement gain of \$627 relating to the transfer of annuities from the plan to a separate third-party life insurance company. This settlement gain has been recognized as a decrease in deferred pension costs and accrued pension costs.

Postretirement Benefits Other Than Pensions

The Company participates in an American plan that provides certain life insurance benefits for retired associates and certain health care benefits for retired associates and their dependents. Substantially all associates may become eligible for these benefits if they reach retirement age while still working for the Company. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO. Associates who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplemental plan. Costs of the Company are based on an allocation from American of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company made contributions to trust funds established for these postretirement benefits of \$638 in 2001 and \$562 in 2000. the Company's policy is to fund postretirement benefits costs accrued.

Note 13 - Related Party Transactions

American Water Works Service Company, Inc. (AWWS), an affiliate, provides certain management services to the Company (administration, accounting, data processing, engineering, etc.) and other operating water companies in the American Water Works System on an at-cost, not-for-profit basis in accordance with a management and service agreement. Purchases of such services by the Company were accounted for as follows:

	<u>2001</u>	<u>2000</u>
Included in operation and maintenance expense		
as a charge against income	\$ 1,792	\$ 1,435
Capitalized in various balance sheet accounts	91	171
	<u>\$ 1,883</u>	<u>\$ 1,606</u>

The Company has operating agreements with American Water Services, Inc. (AWS), an affiliate, for the lease of granular activated carbon at the Company's water treatment plant. The agreements provide for AWS to regenerate the spent carbon and return it to the water treatment plant where it originated. Under the terms of the agreements, AWS will provide carbon for a period of 36 months. The carbon is scheduled for replacement at 36 month intervals and is warranted to perform to specific standards during the period. The Company paid \$275 in 2001 and \$242 in 2000 to AWS under these agreements.

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

Several of the Company's associates have performed services at cost to AWWWS relating to the establishment by American of consolidated customer and shared administrative service centers. The total amount of these services was \$141 in 2001 and \$88 in 2000. At December 31, 2001, net amounts receivable from this affiliate for these services were \$0.

The Company maintains a line of credit through AWCC, an affiliate. The Company paid AWCC fees of \$40 in 2001 and \$21 in 2000, preliminary costs of long-term financing of \$35 in 2001 and \$2 in 2000 and interest on borrowings of \$274 in 2001 and \$234 in 2000.

Note 14 - Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amount reported in the balance sheet for current assets and current liabilities approximates their fair value.

Preferred stock with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stock with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	2001		2000	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Preferred stock with mandatory redemption requirements	\$ 128	\$ 102	\$ 128	\$ 121
Long-term debt, including current maturities and excluding capital leases	\$ 42,000	\$ 42,878	\$ 36,900	\$ 37,055

Note 15- Operating Leases

The Company has entered into operating leases involving certain equipment. Rental expenses under operating leases were \$440 in 2001 and \$28 in 2000. Operating leases for the equipment expire over the next 3 years. Certain leases have renewal options ranging from 1 to 5 years.

TENNESSEE-AMERICAN WATER COMPANY

Notes to Financial Statements (continued) (Dollars in thousands, except per share amounts)

At December 31, 2001, the minimum annual future rental commitments under operating leases that have initial or remaining noncancellable lease terms in excess of one year are \$542 in 2002, \$499 in 2003, \$366 in 2004, \$273 in 2005, and \$278 in 2006.

Note 16 - Commitments and Contingencies

The Company's construction program for 2002 is estimated to cost approximately \$6,950. Commitments have been made in connection with certain projects included in this program.

The Company is routinely involved in legal actions. In the opinion of management, none of these matters will have a material adverse effect, if any, on the financial position, results of operations or cash flows of the Company.

TENNESSEE-AMERICAN WATER COMPANY

Other Information

**Tennessee-American
Water Company**

Financial Statements

December 31, 2002 and 2001



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Report of Independent Accountants

To the Board of Directors and Stockholders
Tennessee-American Water Company

In our opinion, the accompanying balance sheets and the related statements of income, of capitalization, of retained earnings and stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Tennessee-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
February 6, 2003

TENNESSEE-AMERICAN WATER COMPANY
Statement of Income
(Dollars in thousands)

	Years Ended December 31	
	<u>2002</u>	<u>2001</u>
Operating revenues	\$ 29,972	\$ 30,535
Operating expenses		
Operation and maintenance	14,366	14,388
Depreciation and amortization	3,737	3,636
General taxes	3,588	3,658
	<u>21,691</u>	<u>21,682</u>
Operating income	8,281	8,853
Other income and deductions		
Allowance for other funds used during construction	166	69
Miscellaneous other income	13	47
Miscellaneous other deductions	(80)	(85)
	<u>8,380</u>	<u>8,884</u>
Income before interest charges and income taxes	8,380	8,884
Interest charges		
Interest on long-term debt	2,812	3,207
Amortization of debt expense	37	38
Interest on affiliate borrowings	191	274
Other interest	1	12
Allowance for borrowed funds used during construction	(98)	(42)
	<u>2,943</u>	<u>3,489</u>
Income before income taxes	5,437	5,395
Income taxes		
Federal income taxes	1,963	1,940
State income taxes	297	324
	<u>3,177</u>	<u>3,131</u>
Net income	3,177	3,131
Dividends on preferred stock	73	76
Net income to common stock	<u>\$ 3,104</u>	<u>\$ 3,055</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE-AMERICAN WATER COMPANY
Statement of Cash Flows
(Dollars in thousands)

	Years Ended December 31,	
	2002	2001
Cash flows from operating activities		
Net income	\$ 3,177	\$ 3,131
Adjustments:		
Depreciation and amortization	3,737	3,636
Other amortization	201	176
Provision for deferred income taxes	1,353	808
Amortization of deferred investment tax credits	(76)	(76)
Provision for losses on accounts receivable	269	37
Allowance for other funds used during construction	(166)	(69)
Deferred business service project expense	(164)	(914)
Other, net	(506)	(385)
Changes in current assets and liabilities:		
Accounts receivable, net	(535)	411
Unbilled revenues	24	(37)
Materials and supplies	31	25
Other current assets	53	130
Accounts payable	(602)	296
Taxes accrued	35	394
Interest accrued	(76)	41
Other current liabilities	(541)	1,391
Net cash provided by operating activities	<u>6,214</u>	<u>8,995</u>
Cash flows from investing activities		
Construction expenditures	(5,505)	(5,617)
Allowance for other funds used during construction	166	69
Cost of removal, net of salvage	(76)	(77)
Net cash used in investing activities	<u>(5,415)</u>	<u>(5,625)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	-	5,100
Net borrowings (repayments) under line of credit agreement	10,488	(6,105)
Repayment of long-term debt	(10,060)	(44)
Redemption of preferred stock	(51)	-
Customer advances and contributions, net of refunds	757	105
Dividends paid	(2,449)	(2,575)
Net cash used in financing activities	<u>(1,315)</u>	<u>(3,519)</u>
Net decrease in cash and cash equivalents	(516)	(149)
Cash and cash equivalents at beginning of year	703	852
Cash and cash equivalents at end of year	<u>\$ 187</u>	<u>\$ 703</u>
Cash paid during the year for:		
Interest, net of capitalized amount	<u>\$ 3,080</u>	<u>\$ 3,452</u>
Income taxes	<u>\$ 1,022</u>	<u>\$ 1,620</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE-AMERICAN WATER COMPANY
Statement of Capitalization
(Dollars in thousands, except per share amounts)

	<u>Call Price</u> <u>Per Share</u>	<u>December 31,</u> <u>2002</u>	<u>2001</u>
Common stockholder's equity			
Common stock - \$1 par value, authorized 20,000,000 shares, issued and outstanding 13,754,234 in 2002 and 2001		\$ 13,754	\$ 13,754
Paid-in capital		4,782	4,782
Retained earnings		17,288	16,560
		<u>35,824</u>	<u>35,096</u>
Preferred stock - \$100 par value, authorized 70,000 shares			
Without mandatory redemption requirements			
Cumulative preferred stock			
5.0% series, 14,000 shares issued and outstanding in 2002 and 2001	\$ 105.00	1,400	1,400
With mandatory redemption requirements			
Cumulative preferred stock			
4.5% series, 760 and 1,280 shares issued and outstanding in 2002 and 2001, respectively	\$ 101.00	76	128
		<u>1,476</u>	<u>1,528</u>
Long-term debt			
General mortgage bonds			
8.28% series due 2002		-	10,000
6.77% series due 2003		9,000	9,000
8.25% series due 2005		3,200	3,200
6.5% series due 2008		6,500	6,500
9.25% series due 2019		2,500	2,500
7.84% series due 2026		5,700	5,700
Note payable to affiliate			
6.87% series due 2011		5,100	5,100
Obligation under capital lease		1,442	1,502
		<u>33,442</u>	<u>43,502</u>
Less: Current portion of long-term debt and capital lease obligation		9,074	10,060
Long-term debt, net of current maturities		<u>24,368</u>	<u>33,442</u>
Total capitalization		<u>\$ 61,668</u>	<u>\$ 70,066</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE-AMERICAN WATER COMPANY
Statement of Retained Earnings and Stockholders' Equity
(Dollars in thousands, except per share amounts)

	<u>Common Stock</u>		<u>Paid-In</u>	<u>Retained</u>	<u>Stockholders'</u>
	<u>Shares</u>	<u>Par Value</u>	<u>Capital</u>	<u>Earnings</u>	<u>Equity</u>
Balance at December 31, 2000	13,754,234	\$ 13,754	\$ 4,782	\$ 16,004	\$ 34,540
Net income	-	-	-	3,131	3,131
Dividends					
Preferred stock	-	-	-	(76)	(76)
Common stock, \$0.23 per share	-	-	-	(2,499)	(2,499)
Balance at December 31, 2001	13,754,234	\$ 13,754	\$ 4,782	\$ 16,560	\$ 35,096
Net income	-	-	-	3,177	3,177
Dividends					
Preferred stock	-	-	-	(73)	(73)
Common stock, \$0.18 per share	-	-	-	(2,376)	(2,376)
Balance at December 31, 2002	<u>13,754,234</u>	<u>\$ 13,754</u>	<u>\$ 4,782</u>	<u>\$ 17,288</u>	<u>\$ 35,824</u>

The accompanying notes are an integral part of these financial statements.

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 1 - Organization and Operation

Tennessee-American Water Company (the Company) provides water service to approximately 70,000 customers. These services are provided in 13 communities located in five counties in Tennessee and Georgia. As a public utility operating in Tennessee, the Company functions under rules and regulations prescribed by the Tennessee Regulatory Authority (the Commission). Tennessee-American Water Company is a wholly owned subsidiary of American Water Works Company, Inc. (American).

Note 2 - Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Regulation

The Company has incurred various costs and received various credits which have been reflected as regulatory assets and liabilities on its balance sheet. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). This statement sets forth the application of accounting principles generally accepted in the United States of America for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS No. 71, regulated companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate setting process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in rates charged for service.

Property, Plant and Equipment

Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. Repairs, maintenance and minor replacements of property are charged to current operations. The cost of property units retired in the ordinary course of business plus removal cost (net of salvage) is charged to accumulated depreciation. The cost of property, plant and equipment is depreciated using the straight-line method. The depreciation rates, based on the average balance of depreciable property, were 2.61% in 2002 and 2.95% in 2001.

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 2 (continued)

In accordance with the Commission's regulations, depreciation on contributed facilities is charged to contributions in aid of construction. Such depreciation amounted to \$99 in 2002 and \$92 in 2001.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest bearing accounts. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents held at December 31, 2002 or 2001.

Materials and Supplies

Materials and supplies are stated at average cost.

Regulatory and Other Long-Term Assets

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from the date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Pension expense in excess of the amount contributed to the pension plan has been deferred. These costs will be recovered in future service rates as increased contributions are made to the plan.

Deferred business services project expenses consist of reengineering and start-up activities for consolidated customer and shared administrative service centers that are being established by American. These costs are being deferred as it is expected that these costs will be recovered in the rates charged for utility service in the future.

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the Commission of full normalization for ratemaking purposes. The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Other Current Liabilities

Other current liabilities at December 31, 2002 and 2001 include payables of \$2,259 and \$2,299 respectively, which represent checks issued but not presented to the bank for payment.

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 2 (continued)

Advances and Contributions in Aid of Construction

The Company may receive advances and contributions to fund construction necessary to extend service to new areas. As determined by the Commission, advances for construction are refundable for limited periods of time as new customers begin to receive service. Amounts which are no longer refundable are reclassified to contributions in aid of construction.

Utility plant funded by advances and contributions is excluded from rate base and is not depreciated for rate-making purposes. Generally, advances and contributions received during the period January 1, 1987 through June 12, 1996 have been included in taxable income and the related property is depreciable for tax purposes. As a result of a tax law change, advances and contributions received subsequent to June 12, 1996 are excluded from taxable income and the related property is not depreciable for tax purposes.

On January 11, 2001, the Internal Revenue Service issued regulations that excluded lateral service lines from its definition of contributions in aid of construction that are not included in taxable income. These customer connection fees are defined as the cost of installing a connection or service line from the Company's main lines to the lines owned by the customer. The regulations were effective immediately, and the Company is now paying tax on money or property received for these connections.

Recognition of Revenues

Water service revenues for financial reporting purposes include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period.

Income Taxes

The Company, its parent and affiliates participate in a consolidated federal income tax return. Federal income tax expense for financial reporting purposes is provided on a separate return basis, except that the federal income tax rate applicable to the consolidated group is applied to separate company taxable income and the benefit of net operating losses, if any, is recognized currently.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates anticipated to be in effect when such temporary differences are expected to reverse. Regulatory assets and liabilities are recognized for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 2 (continued)

Allowance for Funds Used During Construction (AFUDC)

AFUDC is a non-cash adjustment to income with a corresponding charge to utility plant which represents the cost of borrowed funds and a return on equity funds devoted to plant under construction. AFUDC is recorded to the extent permitted by the Commission.

Environmental Costs

Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. There were no remediation costs accrued at December 31, 2002 and 2001.

Asset Impairment

Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, on a separate entity basis, may not be recoverable. If the sum of the future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss is based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

Reclassifications

Certain reclassifications have been made to conform previously reported data to the current presentation.

Note 3 - Utility Plant

The components of utility plant at December 31 are as follows:

	<u>2002</u>	<u>2001</u>
Water plant		
Sources of supply	\$ 290	\$ 290
Treatment and pumping	23,639	23,738
Transmission and distribution	82,774	80,313
Services, meters, and fire hydrants	28,307	26,963
General structures and equipment	9,514	9,655
Construction work in progress	2,927	1,800
	<u>147,451</u>	<u>142,759</u>
Less - accumulated depreciation	<u>(42,017)</u>	<u>(39,089)</u>
	<u>\$ 105,434</u>	<u>\$ 103,670</u>

Depreciation expense amounted to \$3,617 in 2002 and \$3,515 in 2001.

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 4 - Preferred Stock

Preferred stock agreements require annual sinking fund payments of \$26 in 2003 through 2007.

Preferred stock agreements contain provisions for redemption at various prices on 30 days notice at the Company's discretion. In the event of voluntary liquidation of the Company, the 4.5% issue is redeemable at \$100 per share; the 5% series is redeemable at \$100 per share provided a majority of the holders consent, or at \$105 if they do not. In the event of involuntary sale or governmental acquisition of the Company, all classes of preferred stock are redeemable at \$100 per share. All call prices are on thirty days' notice plus accrued dividends.

Note 5 - Long-Term Debt

Maturities of long-term debt, exclusive of sinking funds, will amount to \$9,000 in 2003, \$0 in 2004, \$3,200 in 2005 and \$0 in 2006 and 2007.

The general mortgage bond indentures contain clauses restricting the declaration of common stock dividends and other distributions on capital stock if common stockholder's equity falls below a specified amount. There were no restrictions at December 31, 2002 and 2001.

The general mortgage bonds are issuable in series. No bonds senior to the general mortgage bonds may be issued so long as general mortgage bonds are outstanding. The amount of bonds authorized is unlimited as long as long-term debt does not exceed 65% of capitalization. Long-term debt is collateralized by utility plant.

The senior note is unsecured and was issued to American Water Capital Corp. (AWCC), an affiliate, for the principal amount. AWCC provided the funding for this note by itself issuing \$140 million of senior notes to institutional investors at a price equal to the principal amount.

Future minimum lease payments under capital lease will amount to \$209 in 2003, \$213 in 2004, \$217 in 2005, \$217 in 2006 and \$221 in 2007.

Note 6 - Affiliate Borrowings

During 2002 and 2001, the Company maintained a line of credit through AWCC, an affiliate (see Note 12). AWCC has a 364-day, \$500 million revolving credit agreement with a group of 11 domestic and international banks. No compensating balances are required under the agreement. AWCC also issues commercial paper, and the revolving credit agreement also supports these borrowings.

At December 31, 2002 and 2001, there were \$13,469 and \$2,981 of short-term borrowings outstanding, respectively. The weighted average annual interest rate on these borrowings was 1.98% and 5.11%, respectively. The unused line of credit at December 31, 2002 was \$11,531.

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 7 - General Taxes

Components of general tax expense for the years presented in the statement of income are as follows:

	<u>2002</u>	<u>2001</u>
Gross receipts and franchise	\$ 407	\$ 558
Property and capital stock	2,541	2,410
Payroll	389	404
Other	251	286
	<u>\$3,588</u>	<u>\$3,658</u>

Note 8 - Income Taxes

Components of income tax expense for the years presented in the statement of income are as follows:

	<u>2002</u>	<u>2001</u>
State income taxes:		
Current	\$ 179	\$ 237
Deferred		
Current	-	(1)
Non-current	118	88
	<u>\$ 297</u>	<u>\$ 324</u>
Federal income taxes:		
Current	\$ 804	\$1,295
Deferred		
Current	-	(7)
Non-current	1,235	728
Amortization of deferred investment tax credits	(76)	(76)
	<u>\$1,963</u>	<u>\$1,940</u>

A reconciliation of income tax expense at the statutory federal income tax rate to the actual income tax expense is as follows:

	<u>2002</u>	<u>2001</u>
Income tax at statutory rate of 35%	\$1,903	\$1,891
Increases (decreases) resulting from -		
State taxes, net of federal income taxes	193	211
Flow through differences	253	237
Amortization of deferred investment tax credits	(76)	(76)
Other, net	(13)	1
Actual income tax expense	<u>\$2,260</u>	<u>\$2,264</u>

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 8 (continued)

The following table provides the components of the net deferred tax liability at December 31:

	<u>2002</u>	<u>2001</u>
Deferred tax assets:		
Advances and contributions	\$ 912	\$ 890
Deferred investment credits	583	612
Deferred OPEB	130	130
Other	85	161
	<u>1,710</u>	<u>1,793</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	20,117	19,290
Income taxes recoverable through rates	3,251	3,411
Deferred security costs	77	15
Deferred financial and customer service costs	595	531
Other	762	653
	<u>24,802</u>	<u>23,900</u>
Net deferred tax liability	<u>\$23,092</u>	<u>\$22,107</u>

No valuation allowances were required on deferred tax assets at December 31, 2002 and 2001, as management believes it is more likely than not that these assets will be realized.

Note 9 - Rate Matters

As necessary, the Company applies to the Commission for changes in the rates charged for service. The rate increase request is based on the level of operating expenses and capital costs that are expected to be in effect when the rates become effective. The revenues requested are based on actual sales during the historic test year selected by the Company as the base period, but are adjusted for known changes such as an increase or decrease in the number of customers or a documented change in customer usage.

The Company has not sought approval from the Commission to increase its rates for service in either 2002 or 2001.

Note 10 - Employee Benefit Plans

Employees' Stock Ownership Plan

The Company participates in an Employees' Stock Ownership Plan sponsored by American which provides for beneficial ownership of American common stock by all associates who are not included in a bargaining unit. Each participating associate can elect to contribute an amount that does not exceed 2% of their wages. In addition to the associate's participation, the Company makes a contribution equivalent to 1/2% of each participant's qualified compensation, and matches 100% of the contribution by each participant. The Company expensed contributions of

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 10 (continued)

\$42 for 2002 and \$44 for 2001 that it made to the Plan. The trustee of the Plan may purchase shares of American common stock at the prevailing market price from American, in the open market, or in a private transaction. See Note 16 regarding the sale of American's common stock.

Savings Plan for Employees

The Company participates in a 401(k) Savings Plan for Employees sponsored by American. All associates can make contributions that are invested at their direction in one or more funds including a fund consisting entirely of American common stock. The Company matches 50% of the first 5% of each associate's wages contributed to the Plan. The Company expensed matching contributions to the Plan totaling \$92 for 2002 and \$90 for 2001. All of the Company's matching contributions are invested in the fund of American common stock. The trustee of the Plan may purchase shares of American common stock at the prevailing market price from American, in the open market, or in a private transaction. See Note 16 regarding the sale of American's common stock.

Note 11 - Postretirement Benefits

Pension Benefits

The Company participates in a noncontributory defined benefit pension plan sponsored by American covering substantially all associates. Benefits under the Plan are based on the associate's years of service and average annual compensation for those 60 consecutive months of employment which yield the highest average. Pension cost of the Company is based on an allocation from American of the total cost related to the Plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company's funding policy is to contribute at least the minimum amount required under the Employee Retirement Income Security Act of 1974. The Company made contributions to the Plan in the amount of \$259 in 2002 and no contributions for 2001.

Postretirement Benefits Other Than Pensions

The Company participates in an American plan that provides certain life insurance benefits for retired associates and certain health care benefits for retired associates and their dependents. Substantially all associates may become eligible for these benefits if they reach retirement age while still working for the Company. Retirees and their dependents under age 65 are covered by a point-of-service managed care plan that requires co-payments or an HMO. Associates who elect to retire prior to attaining age 65 are generally required to make contributions towards their medical coverage until attaining age 65. Retirees and their dependents age 65 and over are covered by a Medicare supplemental plan. Costs of the Company are based on an allocation from American of the total cost related to the plan. Information regarding accumulated and projected benefit obligations is not prepared at the subsidiary level. The Company made contributions to trust funds established for these postretirement benefits of \$689 in 2002 and \$638 in 2001. The Company's policy is to fund postretirement benefits costs accrued.

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 12 - Related Party Transactions

American Water Works Service Company, Inc. (AWWS), an affiliate, provides certain management services to the Company (administration, accounting, data processing, engineering, etc.) and other operating water companies in the American Water Works System on an at-cost, not-for-profit basis in accordance with a management and service agreement. Purchases of such services by the Company were accounted for as follows:

	<u>2002</u>	<u>2001</u>
Included in operation and maintenance expense		
as a charge against income	\$ 1,746	\$ 1,792
Capitalized in various balance sheet accounts	375	91
	<u>\$ 2,121</u>	<u>\$ 1,883</u>

The Company has operating agreements with American Water Services, Inc. (AWS), an affiliate, for the lease of granular activated carbon at the Company's water treatment plant. The agreements provide for AWS to regenerate the spent carbon and return it to the water treatment plant where it originated. Under the terms of the agreements, AWS will provide carbon for a period of 36 months. The carbon is scheduled for replacement at 36 month intervals and is warranted to perform to specific standards during the period. The Company paid \$279 in 2002 and \$275 in 2001 to AWS under these agreements.

Several of the Company's associates have performed services at cost to AWWS relating to the establishment by American of consolidated customer and shared administrative service centers. The total amount of these services was \$182 in 2002 and \$141 in 2001. At December 31, 2002, net amounts receivable from this affiliate for these services were \$135.

The Company maintains a line of credit through AWCC, an affiliate. The Company paid AWCC fees of \$11 in 2002 and \$40 in 2001, preliminary costs of long-term financing of \$35 in 2002 and \$35 in 2001 and interest on borrowings of \$191 in 2002 and \$274 in 2001.

Note 13 - Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amount reported in the balance sheet for current assets and current liabilities approximates their fair value.

Preferred stock with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stock with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 13 (continued)

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	2002		2001	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Preferred stock with mandatory redemption requirements	\$ 77	\$ 82	\$ 128	\$ 102
Long-term debt, including current maturities and excluding capital leases	\$ 32,000	\$ 34,858	\$ 42,000	\$ 42,878

Note 14 - Operating Leases

The Company has entered into operating leases involving certain equipment. Rental expenses under operating leases were \$280 in 2002 and \$440 in 2001. Operating leases for the equipment expire over the next six years. Certain leases have renewal options ranging from one to seven years.

At December 31, 2002, the minimum annual future rental commitments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are \$297 in 2003, \$216 in 2004, \$219 in 2005, \$223 in 2006 and \$227 in 2007.

Note 15 - Commitments and Contingencies

The Company's construction program for 2003 is estimated to cost approximately \$4,673. Commitments have been made in connection with certain projects included in this program.

The Company is routinely involved in legal actions. In the opinion of management, none of these matters will have a material adverse effect, if any, on the financial position, results of operations or cash flows of the Company.

Note 16 - Subsequent Event - Merger with RWE Aktiengesellschaft

On September 16, 2001, American entered into an Agreement and Plan of Merger (the Agreement) with RWE Aktiengesellschaft (RWE) and Thames Water Aqua Holdings GmbH (Thames), which is RWE's holding company for its global water business, to merge with a subsidiary of RWE and become a wholly owned indirect subsidiary of RWE. The transaction was approved at a special meeting of the stockholders of American on January 17, 2002. On January 10, 2003, Apollo Acquisition Company, a Delaware corporation, merged (the Merger) with and into American, pursuant to the Agreement, with American surviving the Merger. Pursuant to the Agreement, each issued and outstanding share of common stock, par value \$1.25 per share, of American has been canceled and converted into the right to receive \$46.00 in cash

TENNESSEE-AMERICAN WATER COMPANY
Notes to Financial Statements
December 31, 2002 and 2001
(Dollars in thousands)

Note 16 (continued)

without interest, plus a stub period dividend of \$0.2153333 per share. As a result of the Merger, American became a wholly owned subsidiary of Thames Water Aqua US Holdings, Inc., a wholly owned subsidiary of Thames.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller/or others

GENERAL

Question:

5. Please identify any restatements discussing the Company made in any annual report or financial statements by the Company or its affiliates since 2001, including any instances wherein the restatement was related to or arising from any governmental or regulatory action, shareholder complaint or derivative action, or any investigation (public or private) of the Company or its affiliates.

Response:

TAWC objects to this question on the grounds that it is overly broad, unduly burdensome, and not relevant to this proceeding. The information to the extent the request applies to other operating subsidiaries AWWC is not relevant to this proceeding. Notwithstanding the objection, TAWC provides the following response. The information requested for TAWC and AWWC is contained in the annual reports to the shareholder(s) and/or the footnotes to those reports. Please see the response to TRA Data Request 1, question 5 for both the TAWC and AWWC Annual Reports for 2003-2005. Please see the response to CMA Data Request 1, question 4 for the TAWC Annual Reports for 2001-2002, and reference to the 2006 Annual Report. Please see the response to City Data Request 1, question 30 for the 2001-2002 for the Annual Reports of AWWC.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller/Sheila Miller/or others

GENERAL

Question:

6. To the extent not already provided in response to the initial Data Requests by the Tennessee Regulatory Authority staff in this docket, please provide all workpapers on electronic spreadsheet and in hard copy format, along with copies of all reference material(s) and other sources relied upon by all witnesses for the Company in this proceeding.

Response:

TAWC objects to this request on the grounds that it is overbroad, unduly burdensome, and seeks information that is attorney work product and attorney client privileged. Notwithstanding these objections, TAWC responds as follows:

Please see the response to TRA Data Request 1, question 13.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller/John Watson

RATE BASE

Question:

7. Please provide a copy of TAWC's five-year and ten-year capital expenditure and operating expense budgets.

Response:

TAWC objects to this question on the grounds that it is overly broad, unduly burdensome, and not relevant to this proceeding. The requested information beyond the attrition year is not relevant to this proceeding. Notwithstanding the objection, TAWC provides the following response. Please see the responses to TRA Data Request 1, questions 18, 52 and 53. In addition, please see the responses to City Data Request 1, questions 14 and 15.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: John Watson

RATE BASE

Question:

8. Please provide a tabulation of projected capital investment dollars for each of the Fiscal Years 2001 through 2006, the dollar amount of investment actually expended in each of those years, and whether the Company invested or failed to invest the amount it projected would be invested.

Response:

Year	Projected	Actual
2001	5,857,700	5,581,875
2002	6,950,000	5,425,472
2003	4,673,076	6,720,620
2004	9,072,111	8,050,861
2005	14,031,079	14,762,461
2006	15,379,883	16,034,779
Total	55,963,849	56,576,068

The Company has invested, and continues to spend capital dollars to support infrastructure replacement, economic development and to assure compliance with regulatory requirements. While the variances from actual to budget are up and down from year to year due to delays or accelerations associated with changing conditions and regulations, the total capital investment for the period exceed the budgets by \$612, 225, a variance of 1.1%.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Vilbert

COST OF CAPITAL

Question:

9. Please provide an electronic version of Dr. Vilbert's work papers with all formulas and file references intact.

Response:

The electronic version of Dr. Vilbert's work papers is included on the enclosed CD labeled as TN-CMA-01-Q09 attachment US Gas LDC sample and TN-CMA-01-Q09 attachment 2 Water Sample.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller

COST OF CAPITAL

Question:

10. With reference to Lines 1-4 on Page 9 or Mr. Miller's Direct Testimony, please provide a tabulation of the authorized rates of return in recent orders around the country that form the basis for TAWC's opinion that an 11% return on common equity is fair reasonable and representative of current investor expectations. Please include, but do not limit your response to, the jurisdictions, docket numbers, authorized return, and dates of issue of the orders surveyed by TAWC.

Response:

The testimony referenced in the question will be amended (**bolded language**) to state as follows. The Company has reviewed the current bond rate projections, and **the filed for** and authorized ROE's in recent **filings and Commission** orders across the country and determined that the 11.0% ROE is fair, reasonable, and representative of the current investor expectations regarding ROE. Based on the proposed amendment to the testimony the Company provides the following response.

The Company provides its response in the attached schedule.

**Tennessee American Water Co.
Response to CMA Data Request 1, question 10**

<u>Company</u>	<u>Docket or Case Number</u>	<u>Requested ROE</u>	<u>Authorized ROE</u>	<u>Type of Case</u>
Tennessee-American	03-00118	10.70%	9.90%	general rate case
Arizona American	Decision No. 68858	12.00%	10.40%	general rate case
California-American	A06-01-005	11.60%		general rate case
Hawaii-American	D&O 20966	10.60%	10.60%	general rate case
Missouri-American	WR-2007-0216	11.30%		general rate case
Ohio-American	06-433-WS-AIR	11.00%		general rate case
New Jersey-American	BPU-WR-06030257	11.23%		general rate case
Indiana-American	43187	11.50%		general rate case
Pennsylvania-American	R00038304	12.00%	10.60%	general rate case
Aqua-Pennsylvania	R-00051030	10.60%	10.60%	DSIC Case
Southwest Utilities, Inc (Texas)	34658-R	12.00%	12.00%	general rate case

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller

COST OF CAPITAL

Question:

11. Please identify the process that TAWC uses to assess debt and equity capital.

Response:

TAWC obtains equity capital from its Parent, American Water Works Co., Inc. TAWC utilizes American Water Capital Corp. to place its debt as authorized by the TRA in case number 00-00637. As indicated in that case, TAWC is free to obtain its debt in the open market if it can obtain more favorable terms than provided by AWCC.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller

COST OF CAPITAL

Question:

12. Please identify the process that TAWC uses to assess debt and equity capital.

Response:

Refer to Q-11, as this question appears to be a duplicate regarding the information requested in Q-11.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller

COST OF CAPITAL

Question:

13. Please identify the credit rating for all affiliates that work with TAWC to assess external debt markets.

Response:

TAWC objects to this question on the grounds that is vague and not relevant to this proceeding. Notwithstanding the objection, TAWC provides the following response. Please see the response to City Data Request 1, questions 5 and 6.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller

COST OF CAPITAL

Question:

14. Please identify the credit rating for all affiliates that work with TAWC to assess external debt markets.

Response:

This is a duplicate question, please see the objections and response to Q-13.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller

COST OF CAPITAL

Question:

15. Please provide copies of credit rating reports issued for the TAWC affiliates referenced above by all credit rating agencies issued over the last two years (since January 1, 2005).

Response:

Please see the objections and response to City Data Request 1, question 5.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Michael Miller

COST OF CAPITAL

Question:

16. Please identify the annual cost of all affiliate transactions to TAWC including, but not limited to, identifying the affiliate(s) involved, providing a description of the service(s) provided, amounts(s) involved and the date(s) or service(s).

Response:

See the objections, responses and attachments to the TRA Data Request 1, question 14 and the City Data Request 1, question 18.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Paul Herbert

COST OF SERVICE AND RATE DESIGN

Question:

17. Provide on electronic spreadsheet the cost of service model prepared and/or relied on by TAWC in this proceeding.

Response:

The cost of service information was provided in excel format in response to the TRA Data Request 1, question 1 as part of Paul Herbert's testimony and related exhibits. Additional work papers were provided in response to the TRA Data Request 1, question 13.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Paul Herbert

COST OF SERVICE AND RATE DESIGN

Question:

18. Provide all workpapers on electronic spreadsheet and in hard copy supporting or contradicting the cost of service model referred to in the preceding data request.

Response:

See the response to question 17.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Paul Herbert

COST OF SERVICE AND RATE DESIGN

Question:

19. Provide any and all calculations or workpapers used to determine the revenue effect(s) of the proposed rate structure.

Response:

All work papers were included in the Tennessee Regulatory Authority's first data request question 13. The work papers referenced as TN-TRA-01-Q013-Revenues pages 1 through 16 of 133 detail the effect of the proposed rate structure.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Paul Herbert

COST OF SERVICE AND RATE DESIGN

Question:

20. Provide any calculations or workpapers used to determine rate class impacts or customer impacts, individually for each and every tariff to which any change is proposed, resulting from the proposed rate structure.

Response:

See the response to question 19.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Paul Herbert

COST OF SERVICE AND RATE DESIGN

Question:

21. With reference to Lines 13-16 on Page 9 of Mr. Herbert's Direct Testimony, please identify the "other similar systems" that were used to determine the relationship between maximum day and maximum hour ratios and produce any and all documents identifying, regarding or relating to such "other similar systems."

Response:

The relationship between a system's maximum hour ratio to its maximum day ratio typically ranges between a factor of 1.3 to 1.5, as follows:

	<u>Max Day Ratio</u>	<u>Max Hour Ratio</u>	<u>Ratio of Max Hour To Max Day</u>
The York Water Company	1.35	1.80	1.3
Pennsylvania-American	1.40	2.10	1.5
Aqua Pennsylvania	1.40	2.00	1.4
West Virginia-American	1.30	1.80	1.4
Kentucky-American	1.65	2.50	1.5

For Tennessee American, a factor of 1.3 was used ($1.90 \text{ max hour ratio} \div 1.45 \text{ max day ratio} = 1.3$) to estimate the system max hour ratio because of the similar size and customer mix as The York Water Company.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Paul Herbert

COST OF SERVICE AND RATE DESIGN

Question:

22. With reference to the paragraph beginning on Line 22 on Page 7 of Mr. Herbert's Direct Testimony, please state the authority used as a source for the equivalent meter and service line ratios (Classification Factors 10 and 11).

Response:

The AWWA water rates manual discusses the use of meter capacity ratios and actual unit costs by size to determine the appropriate allocation factors for meters and services.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Paul Herbert

COST OF SERVICE AND RATE DESIGN

Question:

23. Please provide an electronic copy of the 2003 Cost of Service Study prepared by Mr. Herbert for the Tennessee-American Water Company in 2003, as referenced in Line 33 of the list of cases in which Mr. Herbert has participated.

Response:

An electronic version of the 2003 cost of service study is provided on the enclosed CD labeled TN-CMA-01-Q23 attachment TAWCostAlloc 2003.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: Paul Herbert

COST OF SERVICE AND RATE DESIGN

Question:

24. Please identify in tabular format and provide a copy of all cost of service studies prepared by Mr. Herbert, or those working with him, for any other rate cases involving affiliates of TAWC or its parent(s) for the past ten (10) years including, but not limited to, a summary of the conclusion(s) of each such study, whether such study recognized a subsidy by one rate class benefiting another class of customers, whether his proposed rate design requested an increase "across-the-board" (*i.e.* allocated proportionally among the various customer classes so that each class, as a whole, would receive the same percentage increase as the other classes) or an increase that called for differential increases amongst customer classes (identifying the differential increases), whether his rate design was opposed, and whether his design was adopted.

Response:

TAWC objects to this question on the grounds that this question is overly broad, unduly burdensome, and not relevant to this proceeding. Notwithstanding the objection, TAWC provides the following response. Mr. Herbert specializes in cost of service studies in his consulting work. He has appeared before regulatory bodies across the country as an expert in this field. Attached to his testimony is a substantial list of docket (case) numbers where he has appeared as a witness, and his testimony and cost of service studies appear on the various regulatory web sites for those cases.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 06-00290
Chattanooga Manufacturers Association's Data Request No. 1

Responsible Witness: John Watson/Michael Miller

COST OF SERVICE AND RATE DESIGN

Question:

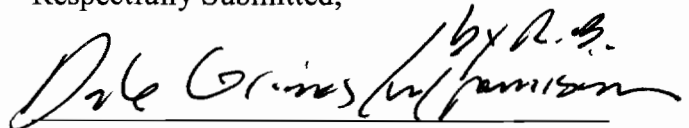
25. Please identify and produce any and all documents concerning the Company's marketing efforts that coincide with the filing and pursuit of the current rate case including, but not limited to, communications or documents concerning strategic advertising or marketing expense(s) at or near the time of the filing of the present rate case or any special project(s), fund(s), initiative(s), or focus group(s) by the Company or its parent(s) or affiliate(s), and identify whether such costs are included in base rates being considered in this docket.

Response:

TAWC objects to this question on the grounds that the question is overbroad, unduly burdensome and seeks information that is attorney work product and attorney client privileged. Notwithstanding the objection TAWC provides the following response. A copy of the media package and news releases provided at the time of filing the case is included on the enclosed CD and labeled as TN-CMA-01-Q25 Attachment. The CMA was also provided a copy of this package at the time of the filing of this case. There were no funds, initiatives, or focus groups utilized by TAWC or any affiliate for the purposes described above. There have been before and after filing this case meetings with representatives from the CMA, the City of Chattanooga, other local elected mayors and officials, and service clubs to discuss the drivers of the rate case and TAWC operations in general. The information provided at those meetings were consistent with the meeting with representatives from the CMA and the CMA was provided with copies of that material at the meetings between the Company and CMA.

TAWC believes it is a significant and important part of its public service obligation to inform the public, customers, and elected officials about the service it provides and the rates it charges or proposes to charge. While the labor cost and expenses for TAWC employees and AWWSC employees to prepare the information described above, attend the various meetings and address media or customer questions concerning this case are minimal, they are embedded in the on-going cost of TAWC in this case, and are expenses that should be properly recovered in rates.

Respectfully Submitted,


by R. G.

R. Dale Grimes (#6223)
J. Davidson French (#15442)
Bass, Berry & Sims PLC
AmSouth Center
315 Deaderick Street, Suite 2700
Nashville, TN 37238-3001
(615) 742-6200
Counsel for Petitioner
Tennessee American Water Company

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of Tennessee American Water Company's Responses to the First Set of Data Requests from Chattanooga Manufacturers Association has been served via the method(s) indicated, on this the 8th day of February, 2007, upon the following:

<input type="checkbox"/> Hand	Michael A. McMahan
<input type="checkbox"/> Mail	Special Counsel
<input type="checkbox"/> Facsimile	City of Chattanooga (Hamilton County)
<input checked="" type="checkbox"/> Overnight	Office of the City Attorney
<input checked="" type="checkbox"/> Email	Suite 400
	801 Broad Street
	Chattanooga, TN 37402
<input checked="" type="checkbox"/> Hand	Timothy C. Phillips, Esq.
<input type="checkbox"/> Mail	Vance L. Broemel, Esq.
<input type="checkbox"/> Facsimile	Office of the Attorney General
<input type="checkbox"/> Overnight	Consumer Advocate and Protection Division
<input checked="" type="checkbox"/> Email	P.O. Box 20207
	Nashville, TN 37202
<input checked="" type="checkbox"/> Hand	Henry M. Walker, Esq.
<input type="checkbox"/> Mail	Boult, Cummings, Conners & Berry, PLC
<input type="checkbox"/> Facsimile	Suite 700
<input type="checkbox"/> Overnight	1600 Division Street
<input checked="" type="checkbox"/> Email	P.O. Box 340025
	Nashville, TN 37203
<input type="checkbox"/> Hand	David C. Higney, Esq.
<input type="checkbox"/> Mail	Grant, Konvalinka & Harrison, P.C.
<input type="checkbox"/> Facsimile	633 Chestnut Street, 9 th Floor
<input checked="" type="checkbox"/> Overnight	Chattanooga, TN 37450
<input checked="" type="checkbox"/> Email	



**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

AFFIDAVIT

STATE OF WEST VIRGINIA

COUNTY OF KANAWHA

I, MICHAEL MILLER, Treasurer/Comptroller for Tennessee American Water Company, do hereby certify that the foregoing responses to the Data Requests from the Chattanooga Manufacturers Association were prepared by me or under my supervision and are true and accurate to the best of my knowledge and information.

DATED this 6th day of February, 2007.

Michael A. Miller
(signature)

Michael A. Miller
(printed name)

Sworn to and subscribed before me this 6th day of February, 2007.

J. G. Judy
NOTARY PUBLIC

My Commission Expires:

February 10, 2015

