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March 8, 2007

**VIA HAND-DELIVERY**

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

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

Dear Chairman Kyle:

Enclosed please find an original and four (4) copies of Tennessee American Water Company's Second Supplemental Response to Consumer Advocate and Protection Division's First Discovery Requests dated January 22, 2007. This supplement includes responses to Questions 5, 6, 7, and 8. As requested, we are providing only one paper copy along with six (6) copies on the enclosed CDs. We have recently received additional responsive information that is not included in the initial responses, but will be submitted as soon as possible.

Please note that certain documents produced herewith have been marked "Highly Confidential" pursuant to the Supplemental Protective Order dated March 1, 2007. These are filed in a separate binder under seal and may not be placed on the public record.

Please also note that we will file the affidavit for these responses early next week.

Please return three copies of the Responses, which I would appreciate your stamping as "filed," and returning to me by way of our courier.

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

Chairman Sara Kyle  
March 8, 2007  
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With kindest regards, I remain

Yours very truly,

*R. Dale Grimes, By his signature*

R. Dale Grimes

*John Miller*

RDG/ms  
Enclosures

cc: Hon. Pat Miller (*w/o enclosure*)  
Hon. Ron Jones (*w/o enclosure*)  
Hon. Eddie Roberson (*w/o enclosure*)  
Ms. Darlene Standley, Chief of Utilities Division (*w/o enclosure*)  
Richard Collier, Esq. (*w/o enclosure*)  
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division (*w/o enclosure*)  
Ms. Pat Murphy (*w/o enclosure*)  
Michael A. McMahon, Esq. (*w/enclosure*)  
Frederick L. Hitchcock, Esq. (*w/enclosure*)  
Vance Broemel, Esq. (*w/enclosure*)  
Henry Walker, Esq. (*w/enclosure*)  
David Higney, Esq. (*w/enclosure*)  
Mr. John Watson (*w/o enclosure*)  
Mr. Michael A. Miller (*w/o enclosure*)

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

**IN RE:**

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

**TENNESSEE AMERICAN WATER COMPANY'S SECOND SUPPLEMENTAL  
RESPONSES TO CONSUMER ADVOCATE AND PROTECTION DIVISION'S FIRST  
DISCOVERY REQUESTS**

The Tennessee American Water Company, while expressly reserving its prior objections,  
hereby provides the following second supplemental responses to the First Discovery Requests  
from the Consumer Advocate and Protection Division:

**TENNESSEE AMERICAN WATER COMPANY**  
**Docket No. 06-00290**  
**Consumer Advocate and Protection Division Discovery Request No. 1**

**Second Supplemental Response**

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

**PART III: QUESTIONS & REQUESTS REGARDING COST OF CAPITAL &  
MISCELLANEOUS**

**Question:**

5. In TRA Docket No. 06-00119, TAWC received the Tennessee Regulatory Authority's approval for a change of control. In that Docket, TAWC stated on p. 8 of the Petition for Approval of Change in Control filed on 4/21/2006 that "The Proposed Transaction will not impair the ability of the Petitioner to maintain a reasonable capital structure that is representative of other utilities." Having received that approval to proceed with the change where Thames Water Aqua US Holdings, Inc. ("TWAUSHI") and American Water Works Company, Inc. ("AWW") will merge via an Initial Public Offering and where the surviving company is AWW, and where the petition in that docket described "the marketing effort" for the IPO, produce:
- 5(a). a copy of any related registration statement that has been filed with the Securities and Exchange Commission;
  - 5(b). the names of the legal firm or attorneys selected to handle the IPO and the approximate date the selection was made;
  - 5(c). the names of the underwriters selected to handle the IPO and the approximate date the selection was made;
  - 5(d). the names of the accounting firm(s) selected to handle the IPO and the approximate date the selection was made;
  - 5(e). a copy of those portions of the underwriting agreement which identify the underwriters' discounts and fees and which identify the underwriters' Over-Allotment option;

- 5(f). copies of annual audited financial statements for AWW and for TWAUSHI for each fiscal year from 2004 through 2006;
- 5(g). the names of the accounting firms that performed the audits on AWW and TWAUSHI;

**Response:**

TAWC objects to Request No. 5 to the extent it seeks information that is work product or protected by attorney client privileged.

5(a) The Company objects to this question, as the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence. Notwithstanding the previous objection, no such filing presently exists.

5(b) The Company objects to this question, as the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence.

5(c) The Company objects to this question, as the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence. In addition, the Company further objects to producing the requested documents on the ground that they included documents and information of a highly sensitive and confidential nature, with, among other things, federal securities laws implications, that are not adequately protected by the protective order entered by the Hearing Officer in this case and that require greater protections commensurate with the sensitivity of the information contained before they could be produced.

5(d) The Company objects to this question, as the question is vague and ambiguous and the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence.

5(e) The Company objects to this question, as the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to

lead to the discovery of admissible evidence. Notwithstanding the previous objection, no such filing presently exists.

5(f) See the response to TRA Data Request 1, question five for the Annual Reports of AWWC. The 2004-2005 Annual Report of TWAUSHI are attached to this response. The requested audited financial statements for 2006 are not yet available.

5(g) PriceWaterhouseCoopers.

**Supplemental Response:**

5(a) The registration statement related to the IPO has not been filed with the SEC at this time. TAWC will provide such document when it becomes available.

5(e) There is no underwriting agreement related to the IPO at this time. TAWC will provide such agreement once such agreement is executed.

**TENNESSEE AMERICAN WATER COMPANY**  
**Docket No. 06-00290**  
**Consumer Advocate and Protection Division Discovery Request No. 1**

**Second Supplemental Response**

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

**PART III: QUESTIONS & REQUESTS REGARDING COST OF CAPITAL &  
MISCELLANEOUS**

**Question:**

6.     Produce copies of all appraisals or other reports in the possession of TWAUSHI or AWW, or RWE, or the Thames Water Aqua Holdings, or the underwriters where such appraisals or reports estimate the fair value of the merged company's stock at any point in time from the day of the offering through December 31, 2010;
  - 6(a).   Produce a record of those portions of the proposed Charter or proposed Bylaws where the Charter or the Bylaws address AWW's capitalization;
  - 6(b).   Provide copies of all written communications, including emails, between the selected underwriters and TWAUSHI or AWW, or RWE, or the Thames Water Aqua Holdings where such communications request or discuss AWW's future revenues or AWW's future stock prices;
  - 6(c).   Provide copies of all written communications, including emails, between the selected underwriters and investors or potential investors in AWW;
  - 6(d).   Provide copies of all written communications where stock grants, bonuses, and option grants to AWW's employees or officers are proposed or discussed.

**Response:**

TAWC objects to Request No. 6 to the extent it seeks information that is work product or protected by the attorney-client privilege. Notwithstanding this objection, TAWC responds to the subparts of Request No. 6 as follows:

6(a) The Company objects to this question, as the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence. In addition, the Company further objects to producing the requested documents on the ground that they include documents and information of a highly sensitive and confidential nature, with, among other things, federal securities laws implications, that are not adequately protected by the protective order entered by the Hearing Officer in this case and that require greater protections commensurate with the sensitivity of the information contained before they could be produced. Notwithstanding the previous objections, the Company offers the following information: No such documents currently exist.

6(b) The Company objects to this question, as the question is overbroad, unduly burdensome, the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence. In addition, the Company further objects to producing the requested documents on the ground that they include documents and information of a highly sensitive and confidential nature, with, among other things, federal securities laws implications, that are not adequately protected by the protective order entered by the Hearing Officer in this case and that require greater protections commensurate with the sensitivity of the information contained before they could be produced.



6(c) The Company objects to this question, as the question is overbroad, unduly burdensome, the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence. In addition, the Company further objects to producing the requested documents on the ground that they include documents and information of a highly sensitive and confidential nature, with, among other things, federal securities laws implications, that are not adequately protected by the protective order entered by the Hearing Officer in this case and that require greater protections commensurate with the sensitivity of the information contained before they could be produced.

6(d) The Company objects to this question, as the question is overbroad, unduly burdensome, the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence.

**Supplemental Response:**

6. TAWC provides this supplemental response to the request as it has been modified by the Hearing Officer's Order of March 1, 2007. The Goldman Sachs documents referenced below represent the entirety of information on the subject matter of the request that has been provided in each divestiture proceeding where approval of the proposed IPO has occurred. TAWC continues to maintain that the value of the AWWC stock and the proceeds of the IPO as determined by the investors in the IPO are not relevant to this proceeding. The pro-forma capital structure of AWWC at the time of the IPO is being provided in the supplemental response to CAD-1-Question 8, however, the proceeds from the IPO have no bearing on that capital structure. Attached are the copies of the Goldman Sach's reports related to the estimated ranges of the stock price and proceeds from the IPO. There will be no impact on the pro forma AWWC capital

structure regardless of the level of proceeds ultimately obtained through the IPO.

- 6(a) Consistent with the original response above, no such documents currently exist. TAWC will provide the information once it is available.
  
- 6(b) TAWC provides this supplemental response to the request as it has been modified by the Hearing Officer's Order of March 1, 2007. The Goldman Sachs documents referenced below represent the entirety of information on the subject matter of the request that has been provided in each divestiture proceeding where approval of the proposed IPO has occurred. In addition, recent additional documents from Goldman Sachs that have not been produced previously in the divestiture proceedings are being provided. Please see the attached communications and other documents related to the IPO, including documents provided by Goldman Sachs. Attachments to this response are designated Highly Confidential, pursuant to the Supplement Protective Order of March 1, 2007, and filed under seal. TAWC has redacted portions of the document titled "Presentation Regarding IPO Execution Process," dated April 21, 2006 on the grounds that the redacted portions contain advice from counsel and materials prepared in anticipation of litigation regarding compliance with legal requirements relevant to the public offering process and divestiture law and strategies related to planned litigation proceedings and are, therefore, protected by the attorney-client, work product and anticipation of litigation privileges.

**TENNESSEE AMERICAN WATER COMPANY**  
**Docket No. 06-00290**  
**Consumer Advocate and Protection Division Discovery Request No. 1**

**Second Supplemental Response**

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

**PART III: QUESTIONS & REQUESTS REGARDING COST OF CAPITAL & MISCELLANEOUS**

**Question:**

7. Produce copies of all appraisals or other reports or other written communication in the possession of TWAUSHI or AWW, or RWE, or the Thames Water Aqua Holdings, or the selected underwriters, or the selected accountants or the selected legal firm where such appraisals or reports estimate the following:
- 7(a). The expected gross proceeds from the IPO;
  - 7(b). The underwriter's portion of gross proceeds;
  - 7(c). The portion of expected gross proceeds which will flow to AWW;

**Response:**

TAWC objects to Request No. 7 as it is overbroad, unduly burdensome and to the extent it seeks information that is work product, protected by the attorney client privilege or outside of TAWC's possession, custody or control. Notwithstanding this objection, TAWC responds to the subparts of Request No. 7 as follows:

7(a) The Company objects to this question, as the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence. In addition, the Company further

objects to producing the requested documents on the grounds that they include documents and information of a highly sensitive and confidential nature, with, among other things, federal securities laws implications, that are not adequately protected by the protective order entered by the Hearing Officer in this case and that require greater protections commensurate with the sensitivity of the information contained before they could be produced.

7(b) The Company objects to this question, as the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence.

7(c) The Company objects to this question, as the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence. Notwithstanding the previous objection, AWW is not expected to obtain any proceeds from the IPO.

**Supplemental Response:**

7(a) Please see the Supplemental Response to CAD-1-Question 6.

7(c) None.

**TENNESSEE AMERICAN WATER COMPANY**  
**Docket No. 06-00290**  
**Consumer Advocate and Protection Division Discovery Request No. 1**

**Second Supplemental Response**

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

**PART III: QUESTIONS & REQUESTS REGARDING COST OF CAPITAL & MISCELLANEOUS**

**Question:**

8.     Produce copies of all appraisals or other reports or other written communication in the possession of TWAUSHI or AWW, or RWE, or the Thames Water Aqua Holdings, or the selected underwriters, or the selected accountants or the selected legal firm where such appraisals or reports estimate:
- 8(a).   The book value of equity which AWW will hold 31 days after the IPO is completed;
- 8(b).   The book value of debt which AWW will bear 31 days after the IPO is completed.

**Response:**

TAWC objects to Request No. 8 as it is overbroad, unduly burdensome and to the extent it seeks information that is work product, protected by the attorney client privilege or outside of TAWC's possession, custody or control. Notwithstanding this objection, TAWC responds to the subparts of Request No. 8 as follows:

8(a).   The Company objects to this question, as the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence. In addition, the Company further objects to producing the requested documents on the ground that they include

documents and information of a highly sensitive and confidential nature, with, among other things, federal securities laws implications, that are not adequately protected by the protective order entered by the Hearing Officer in this case and that require greater protections commensurate with the sensitivity of the information contained before they could be produced.

8(b). The Company objects to this question, as the requested information is not relevant to the subject matter of this proceeding nor reasonably calculated to lead to the discovery of admissible evidence. In addition, the Company further objects to producing the requested documents on the ground that they included documents and information of a highly sensitive and confidential nature, with, among other things, federal securities laws implications, that are not adequately protected by the protective order entered by the Hearing Officer in this case and that require greater protections commensurate with the sensitivity of the information contained before they could be produced.

**Supplemental Response:**

8(a)(b) Attached is the Pro-forma capital structure for the consolidated AWWC at the time of the IPO. Attachments to this response are designated Highly Confidential, pursuant to the Supplement Protective Order of March 1, 2007, and filed under seal. This consolidated capital structure of AWWC includes the debt recorded at the subsidiary level. While TAWC does not believe that a double leverage capital structure is appropriate for setting the rates of TAWC, if such calculation is made and approved by the TRA, the subsidiary debt should be eliminated from the Consolidated AWCC capital structure attached, because the debt obtained independently by each subsidiary is not a source of capital available for AWWC to provide equity to those subsidiaries.

Respectfully Submitted,

*R. Dale Grimes*

R. Dale Grimes (#6223)

J. Davidson French (#15442)

Ross I. Booher (#019304)

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*Counsel for Petitioner*

*Tennessee American Water Company*

*Filed*

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing has been served via the method(s) indicated, on this the 8th day of March, 2007, upon the following:

<input type="checkbox"/> Hand-Delivery	Michael A. McMahan
<input type="checkbox"/> U.S. 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 type="checkbox"/> Hand-Delivery	Frederick L. Hitchcock, Esq.
<input type="checkbox"/> U.S. Mail	Shareholder
<input type="checkbox"/> Facsimile	Chambliss, Bahner & Stophel, P.C.
<input checked="" type="checkbox"/> Overnight	1000 Tallan Building
<input checked="" type="checkbox"/> Email	Two Union Square
	Chattanooga, TN 37402
<input type="checkbox"/> Hand-Delivery	David C. Higney, Esq.
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