



BOULT ■ CUMMINGS®
CONNERS ■ BERRY PLC

Henry Walker
252-2363
Fax: 252-6363
Email: hwalker@boultcum.com

March 30, 2007

Sara Kyle
Tennessee Regulatory Authority
460 James Robertson Pkwy.
Nashville, TN 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:

Please find attached Chattanooga Manufacturers Association's initial responses to discovery. Please note that the responses of Dan Nuckolls and Jack Callaghan are **confidential and being filed under seal**. Additionally, this filing will be supplemented, if necessary, on Monday, April 2, 2007.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By:

Henry Walker

HW/djc
Enclosure
cc: Parties of record

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

<i>In re: Petition of Tennessee- American Water</i>)	
<i>Company to Change and Increase Certain Rates and</i>)	
<i>Charges so as to Permit it to Earn a Fair and Adequate</i>)	Docket No. 06-00290
<i>Rate of Return on its Property Used and Useful in</i>)	
<i>Furnishing Water Service to its Customers</i>)	

**CHATTANOOGA MANUFACTURERS ASSOCIATION’S OBJECTIONS
TO TENNESSEE AMERICAN WATER COMPANY’S DISCOVERY REQUESTS**

The Chattanooga Manufacturers Association (“CMA”), by and through its attorneys, submits the following objections to the Discovery Requests from Tennessee American Water Company (the “Company”) propounded upon CMA. CMA has set forth its objections generally applicable to the Company’s requests in Part I, and specific objections to Company discovery requests in Part II.

GENERAL OBJECTIONS

1. CMA objects to the definitions and instructions contained in the discovery requests for production to the extent that the definitions and instructions attempt to impose on CMA a burden or obligation greater than that required by the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

2. CMA objects to the discovery requests to the extent they call for information and the production of documents which are protected from disclosure by the attorney-client privilege, the attorney work product doctrine or any other applicable privilege or protection. CMA objects to the Company’s discovery requests to the extent that the Company is attempting to impose on CMA obligations with regard to identification of privileged documents beyond those required by

the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

3. CMA objects to the Company's discovery requests to the extent that they seek information to matters not at issue in this litigation or to the extent they are not reasonably calculated to lead to the discovery of admissible evidence. By providing information in response to these requests, CMA does not concede that such information is relevant, material or admissible in evidence. CMA reserves all rights to object to the use of such information as evidence.

4. CMA objects to the Company's discovery requests to the extent that the Company is attempting to impose on CMA obligations to supplement its responses beyond those required by the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

5. CMA objects to the Company's discovery requests to the extent that the Company is attempting to require CMA to provide information and produce documents beyond those in its possession, custody or control as that phrase is used in the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

6. CMA objects to the Company's discovery requests to the extent that they seek information and documents that are readily available through public source or are in the Company's own possession, custody or control. It is unduly burdensome and oppressive to require CMA to respond or produce documents that are equally or more available to the Company.

7. CMA objects to the production of any documents prepared by it subsequent to the filing of this litigation or contested case.

8. CMA's objections and responses to these requests are based on information now known to it. CMA reserves the right to amend, modify or supplement its objections and responses if it learns of new information.

9. CMA also supports, adopts, and incorporates herein the relevant objections made by the Consumer Advocate Division and the City of Chattanooga.

ADDITIONAL OBJECTIONS TO SPECIFIC DISCOVERY REQUESTS

Subject to and without waiving any of the objections stated above, CMA responds to the specific discovery requests as follows:

DISCOVERY REQUEST NO. 1:

State each fact that you rely on to support your contention(s), position(s) or belief(s) that any of the request(s) for relief, including any increase in rates made by TAWC in TRA Docket No. 06-00290 should not be approved by the Tennessee Regulatory Authority ("TRA").

RESPONSE:

Objection. To the extent CMA is aware of any such facts at this time, all such facts relied upon by CMA in this proceeding are, or will be, set forth in the testimony and exhibits of the parties.

DISCOVERY REQUEST NO. 2:

Identify all persons known to you, your attorney, or other agent who have knowledge, information or possess any document(s) or claim to have knowledge, information or possess any document(s) which support your answer to Interrogatory number one (1) above.

RESPONSE:

Objection. This question is overbroad and unduly burdensome in that it could conceivably cover dozens of employers of the two companies who are presenting witnesses in this case. Those with knowledge, information, or documents supporting CMA's answer to Interrogatory One include the witnesses who have filed, or will file, testimony in this case.

Further Response: See the Company's Response to CMA Data Request to TAWC, Number 2.

DISCOVERY REQUEST NO. 3:

Identify each document, photograph, or any other article or thing whatsoever, which you rely on to corroborate any part of your contention(s), position(s) or belief(s) that any of the request(s) for relief, including any increase in rates, made by TAWC in TRA Docket No. 06-00290 should not be approved, whether as to the issues of credibility or any other issue, or which is adverse to these same contention(s), position(s) or belief(s).

RESPONSE:

Objection. At this time, the documents upon which CMA intends to rely are those which have been filed in this case or which have been provided by TAWC in response to discovery requests from the parties and the Staff.

Further Response: See the Company's Response to CMA Data Request to TAWC, Number 1. Additionally, certain CMA witnesses may subscribe to proprietary, and/or membership-based organizations that provide, confidential copyrighted material under a licensing or similar contractual arrangement and said material will not be produced.

DISCOVERY REQUEST NO. 4:

With respect to each person you expect to call as a witness, including any expert witness, regarding this matter, state or provide:

- a. the witness's full name and work address;
- b. each subject matter about which such witness is expected to testify;
- c. the substance of the facts and opinions to which any expert is expected to testify;
- d. a summary of the ground or basis of each opinion to which any such expert witness is expected to testify;
- e. whether or not the expert has prepared a report, letter or memorandum of his findings, conclusions, or opinions;
- f. the witness's complete background information, including current employer, educational, professional and employment history, and qualifications within the field in which the witness is expected to testify, and identify all publications written or presentations made in whole or in part by the witness;
- g. an identification of any matter in which the expert has testified (through deposition or otherwise) by specifying the name, docket number and forum of each case, the dates of the prior testimony and the subject of the prior testimony and identify the transcripts of any such testimony.
- h. the identity of any person with whom the witness consulted or otherwise communicated in connection with his expected testimony;
- i. the terms of the retention or engagement of each expert including but not limited to the terms of any retention or engagement letters or agreements relating to his/her engagement, testimony, and opinions as well as the compensation to be paid for the testimony and opinions;

j. the identity of all documents or things shown to, delivered to, received from, relied upon, or prepared by any expert witness, which are related to the witness' expected testimony in this case, whether or not such documents are supportive of such testimony, including without limitation all documents or things provided to that expert for review in connection with testimony and opinions; and

k. the identity of any exhibits to be used as a summary of or support for the testimony or opinions provided by the expert.

RESPONSE:

CMA objects to Discovery Request No. 4 on the grounds that the request is overbroad, unduly burdensome, vague, ambiguous and duplicative and that, at least in part, it is not reasonably calculated to lead to the discovery of admissible evidence. Additionally, CMA objects to Discovery Request No. 4 to the extent that it encroaches upon the attorney-client privilege and/or seeks the mental impressions and conclusions of CMA attorneys, which are privileged and will not be provided.

CMA further objects on the grounds that CMA has already responded to most of these questions by filing the direct testimony of CMA's witnesses. The remaining questions appear to be duplication of other questions contained in this data request. Subject to and without waiving the objections, CMA intends to continue the generally accepted practice of providing to TAWC a list of all prior proceedings in which CMA's expert witness has provided testimony pertaining to a regulated utility.

Further Response: See Pre-filed Direct Testimony of Mike Gorman, Exhibit A and the attached Exhibits MPG-1 to MPG-6.

DISCOVERY REQUEST NO. 5:

Provide any and all documents identified or specified in your answers or responses to the discovery requests served upon you in this matter.

RESPONSE:

Objection. At this time, the documents upon which CMA intends to rely are those which have been filed in this case or which have been provided by TAWC in response to discovery requests from the parties and the Staff.

DISCOVERY REQUEST NO. 6:

Provide any and all documents and things relied upon by any CMA witness in providing testimony in this matter.

RESPONSE:

Objection: This question is duplicative. See Discovery Request No. 3.

Further Response: See the Company's Response to CMA's Request Number 1 directed to TAWC, which is the same. See CMA's Response to Numbers 15, 25, 26 herein, and all other responses containing references to responsive materials.

DISCOVERY REQUEST NO. 7:

Provide any and all expert reports which have been obtained from any expert.

RESPONSE:

Objection. We will provide reports from testifying experts, not any reports from experts who are not testifying.

DISCOVERY REQUEST NO. 8:

Provide each document, photograph, or any other article or thing whatsoever, upon which you rely in support of your contention(s), position(s) or belief(s) that any of the request(s) for relief, including any increase in rates, made by TAWC in TRA Docket No. 06-00290 should not be approved.

RESPONSE:

Objection: This question is duplicative of Discovery Request No. 3.

DISCOVERY REQUEST NO. 9:

Provide in electronic media (Word, Excel, or other Microsoft Office compatible format) and in hard copy all workpapers and other documents, generated by or relied upon by all CMA witnesses.

RESPONSE:

Objection. CMA will provide the workpapers, if any, relied upon by CMA's three witnesses and objects to the extent this Request may be interpreted to require additional information. Such information would be burdensome and irrelevant.

Further Response: CMA objects to providing the materials in a format to the extent the materials were not maintained in that format, but CMA has attempted to accommodate the request and refers to Responses 25 and 26.

DISCOVERY REQUEST NO. 10:

Please produce a copy of all trade articles, journals, treatises, and publication of any kind in any way utilized or relied upon by any of CMA's proposed expert witnesses in evaluating, reaching conclusions or formulating an opinion in the captioned matter.

RESPONSE:

Objection. This question is overbroad. In an effort to be responsive, CMA will list any such publications specifically consulted by CMA's expert witness in this case.

Further Response: Notwithstanding the objections, CMA's experts consulted the following: American Water Works Manual and any publications identified in testimony and, by the date of hearing, may have consulted relevant publications identified by any party or any other witness filing testimony or responses on behalf of a party to this docket.

DISCOVERY REQUEST NO. 11:

Please produce a copy of all articles, journals, books or speeches written by or co-written by any of CMA's expert witnesses, whether published or not.

RESPONSE:

Objection: CMA objects to Discovery Request No. 11 on the grounds that it is not reasonably calculated to lead to the discovery of admissible evidence, and that the request is overly broad and unduly burdensome, vague and ambiguous and seeking documents in the public domain.

Subject to and without waiving these objections, CMA will provide a list of all publications written or co-written by its expert witness.

Further Response: Notwithstanding the objections, none.

DISCOVERY REQUEST NO. 12:

Please produce any and all documentation, items, reports, data, communications, and evidence of any kind that CMA intends to offer as evidence at the hearing or to refer to in any way at the hearing.

RESPONSE:

Objection. This Request is duplicative of Request 3.

DISCOVERY REQUEST NO. 13:

Please produce copies of any and all documents referred to or relied upon in responding to these discovery requests.

RESPONSE:

Objection. This Request is duplicative of Request 3.

DISCOVERY REQUEST NO. 14:

Please identify each person who provided information or participated in the preparation of the responses to each of these discovery requests, and for each such person specify that responses to which he or she provided information or participated in preparing, and describe the information provided or the participation in preparation.

RESPONSE:

Objection. CMA objects to the extent that this Request refers to privileged, attorney-client information and privileged attorney work product.

Further Response: Notwithstanding the objections, CMA staff consists of only 2 people - Ray Childers and his assistant Celeste Longwith – and each assisted in obtaining responsive materials, along with witnesses Mike Gorman and his BAI staff, Dan Nuckolls and his staff at Koch Foods LLC, and Jack Callaghan and his staff at RL Stowe Mills, plus counsel.

DISCOVERY REQUEST NO. 15:

Please provide any studies, documents, CMA Minutes or correspondence from 2001-2006 possessed by the CMA or the TAWC customers represented by the CMA that address the impact of the cost of water on their business.

RESPONSE:

Objection: The request is retaliatory and oppressive and appears intended to deter CMA from participating in this and future rate cases. CMA objects to this question on the grounds of relevance and on the grounds that the question asks CMA to produce information in the possession of CMA members who are not witnesses in this case. CMA intends to produce relevant, non-privileged, responsive information that is in the possession of CMA and in the possession of CMA members who are testifying if such information concerns the pending rate case.

Further Response: See responses to Requests 25 and 26. See also the attached correspondence of CMA. Notwithstanding said disclosures, CMA Minutes (if any) containing references about the “impact of the cost of water” (to which CMA objects as vague and ambiguous) are privileged and proprietary, and will not be disclosed. CMA does not distribute said minutes to any persons other than its Staff, Board of Directors and Committee Chairs and any information contained in CMA’s Minutes is protected on the basis of Attorney-Client Privilege, Attorney Work Product doctrine, and other applicable privileges which are not waived, and/or was made or undertaken in anticipation of (or during) litigation, and any other portion of said minutes are irrelevant and the production of the same would be overbroad and unduly burdensome.

DISCOVERY REQUEST NO. 16:

Please provide any studies, documents, CMA Minutes, or correspondence from 2001-2006 possessed by the CMA or the TAWC customers represented by the CMA that address development of alternative water supplies.

RESPONSE:

Objection: See objection to Discovery Request No. 15.

Further Response: Subject to and without waiving the objections, see the attached materials relative to water reuse considerations of Diversified Machine Products.

DISCOVERY REQUEST NO. 17:

Please provide any studies, documents, CMA Minutes or correspondence from 2001-2006 possessed by the CMA or by the TAWC customers represented by the CMA that address the level of service or reliability of service provided by TAWC.

RESPONSE:

See objection to Discovery Request No. 15.

DISCOVERY REQUEST NO. 18:

Please provide any agreements or correspondence from 2001-2006 possessed by the CMA or by the TAWC customers represented by the CMA that address the service CMA provides to those customers in representing them in TAWC rate proceedings.

RESPONSE:

See objection to Discovery Request No. 15.

DISCOVERY REQUEST NO. 19:

Please provide the 2005 and 2006 Balance Sheet, Profit and Loss Statement for each customer represented by CMA. If the statements do not so indicate, also provide the Return on Equity and Profit Margin for each customer represented by the CMA. If any of those customers represented by the CMA are segments of a larger business, please provide the Profit and Loss Statement for the Chattanooga based operation including the ROE (if applicable) and the Profit Margin.

RESPONSE:

Objection: See objection to Discovery Request 15. Those CMA members who are testifying will present such information. CMA also objects on the grounds that these questions are unduly burdensome, irrelevant, and duplicative. Nevertheless, in an effort to be responsive, each company witness will provide responses with supporting information regard the impact of the proposed water rates as indicated in CMA's response to Requests 25 and 26.

Further Response: Subject to and without waiving the objections, see Responses to Requests 25 and 26.

DISCOVERY REQUEST NO. 20:

Please provide the engagement letter, contract, any other correspondence and a schedule of fees paid by CMA to Michael Gorman or Brubaker Associates, Inc. during the last five years.

RESPONSE:

Objection: CMA will provide all documents or correspondence, if any exist, concerning Mr. Gorman's employment in this case. CMA objects to the remainder of the question as unduly burdensome, overbroad, and irrelevant.

DISCOVERY REQUEST NO. 21:

For each TAWC customer testifying in this docket on behalf of the CMA, please provide a schedule listing the total annual amount their Chattanooga operations spent from 2001 to 2006 on water, electricity, natural gas, sewer, and local property tax, and calculate the percentage each of the listed costs represents as compared to the total operating or budgeted cost for their Chattanooga operations.

RESPONSE:

Objection. CMA objects on the grounds that these questions are burdensome, irrelevant, and duplicative. Nevertheless, in an effort to be responsive, each witness intends to provide responses with supporting information regarding the impact of the proposed water increase indicated in CMA's response to Requests 25 and 26.

Further Response: Subject to and without waiving the objections, see Responses to Requests 25 and 26.

DISCOVERY REQUEST NO. 22:

Please provide copies of all prior testimony of Mr. Callaghan and Mr. Nuckolls before the Tennessee Regulatory Authority or any other public utility commission.

RESPONSE:

Objection. This request is overly burdensome and irrelevant. The testimony of these witnesses is publicly available. CMA identified in the testimony, or will identify, the docket, if any, in which these witnesses testified as to TAWC.

Further Response: Subject to and without waiving the objections, to the best of his knowledge and recollection, Mr. Nuckolls testified as to TAWC in TRA dockets 03-00118 and 04-00288, while to the best of his knowledge and recollection Mr. Callaghan filed testimony as to TAWC in TRA docket 04-00288.

DISCOVERY REQUEST NO. 23: (TO MR. CALLAGHAN)

With regard to the system of wells referenced on page 3 of your testimony, please provide: (i) the daily production capacity measured in gallons per day; (ii) the annual amount of water from the system of wells utilized in the company's processes and production operations for the past 3 years; (iii) a description of the company's plans to utilize the system of wells in the future; and (iv) if the company is not currently fully utilizing the systems of wells, or if the company does not plan to fully utilize the system of wells in the future, an explanation of the basis for each decision.

RESPONSE:

CMA objects to providing confidential information to TAWC which TAWC could use in contract negotiations with Mr. Callaghan's company.

DISCOVERY REQUEST NO. 24: (TO MR. CALLAGHAN)

With regard to the visits from Tennessee American Water referenced on page 4 of Mr. Callaghan's testimony, please identify the personnel that participated in the visits and the dates of such visits, and produce all documents referring or relating to those visits.

RESPONSE: Since 1999, Mr. Callaghan recalls to the best of his recollection only being visited by TAWC management at R.L. Stowe Mills by Bill L'Ecuyer, years ago, and has no documentation of said visit.

DISCOVERY REQUEST NO. 25: (TO MR. CALLAGHAN)

With regard to the impact to your cost structure referenced on page 4 of your testimony, please provide: (i) a schedule listing and describing all components of your cost structure and the cost associated with each component; (ii) identify all assumptions and formula utilized in support of your calculation of the 12 to 14 cents per pound impact; and (iii) provide, in electronic format, all calculations and workpapers utilized in the preparation of your testimony.

RESPONSE:

Objection. Question (i) is overbroad and burdensome. In an effort to be responsive, Mr. Callaghan will explain the basis for his statement about the impact of the proposed increase on his company's cost structure. Mr. Callaghan will respond to question (ii) and (iii).

Further Response: Subject to and without waiving the objections, see the attached materials and specifically, filed under seal and marked Confidential pursuant to the protective order in this case, CMA Exhibit Callaghan-001. The relevant water and sewer portions of said exhibit are derived from documents already in TAWC's possession (i.e. the bills issued to R.L. Stowe Mills) and control. The "impact" can be derived from simple mathematical calculations that annualize the "impact" of TAWC's requested 19.67% increase using the following assumptions: the mill's water costs include raw water and sewerage, or 8.08% of it's 2006 operating costs; water costs for fiscal year end 2006 were approximately 11.7¢ per pound; TAWC seeks a 19.67% increase; a 19.67% increase equates to a 2.29¢ increase per pound; and 11.7¢ plus 2.29¢ per pound equals 13.99¢ per pound; so, roughly, an increase from 12 to 14¢ per pound. And, said increase is occurring at a time of declining sales and requirements to reduce operating expense across the board at the facility.

DISCOVERY REQUEST NO. 26: (TO MR. NUCKOLLS)

With regard to the impact to your facility referenced on page 4 of your testimony, please provide: (i) a schedule listing and describing all components of your cost structure and the cost associated with each component; (ii) identify all assumptions and formula utilized in support of your calculation of the \$100,000 impact; and (iii) provide, in electronic format, all calculations and workpapers utilized in the preparation on your testimony.

RESPONSE:

Objection. Question (i) is overbroad and burdensome. Mr. Nuckolls will respond to question (ii) and (iii).

Further Response: Subject to and without waiving the objections, see the attached materials and specifically, filed under seal and marked Confidential pursuant to the protective order in this case, CMA Exhibit Nuckolls-001. The relevant water and sewer portions of said exhibit are derived from documents already in TAWC's possession (i.e. the bills issued to Koch Foods) and control. The 19.67% increase results in an annualized impact of approximately \$100,000 using a simple mathematical formula taking into consideration the water costs (exclusive of sewerage) over six months (July 2006-December 2006; now seven months when including January 2007), based on a 5 day production schedule, annualizing those amounts, and applying TAWC's requested increase of 19.67%, all of which results in essentially a \$100,000 impact.

DISCOVERY REQUEST NO. 27:

Identify/and or produce all communications between the CMA and its members regarding the hearing of this case.

RESPONSE:

Objection. The request is overbroad, vague, ambiguous, and unduly burdensome. CMA further responds and refers to attached responsive materials.

Respectfully submitted,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By: Henry Walker
Henry Walker
1600 Division Street, Suite 700
P.O. Box 340025
Nashville, Tennessee 37203
(615) 252-2363

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing is being forwarded via U.S. mail, to:

R. Dale Grimes
J. Davidson French
Bass, Berry & Sims
AmSouth Center
315 Deaderick Street, Ste. 2700
Nashville, TN 37238
www.dgrimes@bassberry.com
www.dfrench@bassberry.com

Michael A. McMahan
Valerie L. Malueg
Special Counsel
801 Broad Street, Ste. 400
Chattanooga, TN 37402
www.mcmahan@mail.chattanooga.gov

Timothy C. Phillips
Assistant Attorney General
Office of the Attorney General
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202
www.timothy.phillips@state.tn.us

Richard Collier
Tennessee Regulatory Authority
460 James Robertson Pkwy.
Nashville, TN 37243
www.richard.collier@state.tn.us

Frederick L. Hitchcock
Chambliss, Bahner & Stophel, P.C.
1000 Tallan Building
Two Union Square
Chattanooga, TN 37402
www.rhitchcock@cbslawfirm.com

on this the 30th day of March 2007.

Henry Walker
Henry Walker



**CHATTANOOGA
MANUFACTURERS
ASSOCIATION**

CMA Utility Intervention History-Updated 12/5/06

In the past two decades, CMA has been actively involved in several utility rate interventions before the Tennessee Regulatory Authority and their predecessor, the Tennessee Public Service Commission. These interventions have involved rate increase petitions filed by the Tennessee American Water Company and the Chattanooga Gas Company. Financial results of this intervention activity is summarized below:

1985 CMA vs. Tennessee American Water Co. (TAWC)

TAWC petitioned the Tennessee Public Service Commission for an increase of 16%, and was granted an increase of 10%.

1988 CMA vs. TAWC

TAWC filed for an increase of \$2.16 million. An increase of \$1.52 million was granted, with CMA's intervention accomplishing a \$664,000 reduction in the revenue requested by TAWC

1989 CMA vs. Chattanooga Gas Co.

The gas company filed for an increase of 3.8% and was granted a 1.1 % increase.

1990 CMA vs. TAWC

TAWC filed for an increase of \$2.6 million, or 11.2%, which was granted. Intervening attorneys could not effectively counter the case presented by TAWC.

1993 CMA vs. Chattanooga Gas Co.

The Gas Company filed for an increase of \$5.6 million, or 7.6% across the board. An increase of \$2.15 million was granted, which included 5% for commercial users, 2% for industrial users and a rate structure with a large-volume rate block beneficial to some industrial users.

1994 Tennessee American Water Company Case

Prior to a hearing in Chattanooga, CMA and the water company settled the major issues involving revenue amounts and rate structures, and a small increase was granted.

1995 CMA vs. Chattanooga Gas Co.

The gas company filed with the Tennessee Regulatory Authority (TRA) for an increase of \$5.1 million, or 7.7%, and was granted an increase of \$2.5 million. In addition, the tariff for interruptible customers was reduced by 10%.

1998 CMA vs. Chattanooga Gas

In the most significant ruling in CMA's intervention history, the gas company was required to take an annual reduction in rates of \$1.1 million instead of the \$4.4 million increase that had been filed. Since another rate case was not filed until 2004, this intervention significantly benefited local gas users for 7 years.

2003 CMA vs. TAWC

The water company filed for an increase of \$3.86 million, or 12% across the board. An increase of \$2.7 million was granted, which was allocated 6% for industrial and 7.4% for residential. Also, \$500,000 in annual fire hydrant service fees, previously borne by TAWC, were assessed to the City.

During this case, the TRA appeared to give consideration to the "cost of service" approach which CMA has been advocating for the past decade. If this is, in fact, a position or policy change on the part of TRA, then this may be even more important than the savings accomplished in the instant case.

2004 CMA vs. Chattanooga Gas Co.

The gas company filed for an increase of 15% across the board, with several balancing and penalty provisions harmful to industrial users. CMA filed as an intervenor, put together an intervention team, and filed testimony and information requests leading to a hearing the week of August 23.

The TRA ruled on August 30, that the gas company would receive a 2% increase instead of the 15% increase requested. The TRA also approved tariff changes negotiated between CMA and the gas company involving reduction of penalties and balancing charges and lowering minimum amounts of usage qualifying customers to purchase gas supplies from sources other than the gas company.

On November 4, the gas company filed a petition requesting TRA to reconsider the ruling issued in the previous rate case. On November 21, TRA decided to hear oral arguments in this matter, and set the date of December 13 for this hearing.

2004/05 CMA vs. TAWC

TAWC filed a rate case with the TRA on September 10 seeking an across the board increase in revenue of \$1.9 million. This increase would be in addition to the \$500,500 in fire hydrant fees currently being paid by the City that will be assumed by "non-municipal government customers within the service area" according to provisions of SB 3198/HB3240 passed by the State Legislature in the last legislative session. As a result of this legislation filed by the City, TAWC will no longer be permitted to recover \$500,500 in fees for fire hydrant service from the City. CMA continues to work with the City in support of movement toward cost of service-based rates, and to seek other allies in support of a successful intervention effort.

The hearing has been set for January 31-February 2, 2005

(A settlement was reached prior to the Hearing, and as a result, the TAWC was granted an increase in revenue of \$297,005 vs. the \$1.97 million that they were seeking.)

2006 CMA vs. Chattanooga Gas Company

The gas company filed a petition on June 30 to increase base rates by \$5.8 million and allow the company to earn a return on equity of 11.5%, among other things. As ordered by the TRA as a part of the last rate case, the company has performed a cost of service study which supports allocation of the major portion of the proposed increase to the residential class of users. The Consumer Advocate Division will oppose this rate design, and most likely will seek an across the board allocation of the rate increase. CMA filed a petition to intervene on July 17, and is assembling an intervention team to represent industrial interests as this matter goes before the TRA for resolution. The TRA hearing was scheduled for December 5, 6 & 7, 2006, in Nashville.

Update 12/5/06 A proposed settlement Agreement was filed by the Consumer Advocate, the Gas Company and the CMA, and has been approved by the TRA today. The rate increase was 2.75 million vs. 5.8 million requested or 47% of the original request.

2006 CMA vs. TAWC

On November 22, the water company filed petition with the Tennessee Regulatory Authority for a rate increase of 19.67 %. CMA is discussing this matter with other business advocacy and government groups and, as in the past, will intervene. You can follow this case at:
<http://www2.state.tn.us/tra/dockets/0600290.htm>

***All of these utility cost savings and reductions are cumulative and compounded when assessing their dollar value to local industrial operations. Most of the companies on the intervention teams recovered intervention costs in a few months.**

Effective 10/1/04, Don Huffman, retired Director of Engineering with the Dixie Group, will chair the CMA Energy Committee. He has been involved in most of the above cases, and is available to discuss case specifics and the importance of CMA's assertive interventions in long-term management of utility costs.

You may contact him through the CMA office at 266-1902 or at 622-5570.

---a message from Don Huffman----

"It is noted that the majority of interventions in Tennessee have come via the Chattanooga Manufacturers Association, the first being more than 20 years ago when the Regulating Agency was dealing with the Consumer Advocate on residential concerns only. CMA has had a least 13 interventions and has effectively reduced rate increase requests by approximately \$22,000,000.00. While some of this reduction would have occurred through action of the Consumer Advocate Division, a conservative estimate would be that CMA intervention group members and the CMA staff have saved Chattanooga Industry more than half the \$22M in lower rates. CMA's intervention has also influenced rate design in the direction of "Cost of Service" based rates, which have significantly benefited industrial customers. Rate increase requests appear to be coming more frequently, and as intervention costs escalate, more companies will be needed to participate in sharing these costs. It is in the best interests of the local economy that CMA be ready to intervene when necessary."



CHATTANOOGA MANUFACTURERS ASSOCIATION

Location: 10 West MLK Blvd. • Chattanooga, TN 37402 • Phone: 423-266-1902 • Fax: 423-266.1985
Mailing Address: P.O. Box 11489 • Chattanooga, Tennessee 37401

CREATING THE FUTURE ... MANUFACTURERS & COMMUNITY WORKING TOGETHER

OFFICERS

Tim Spires, Chairman
NA Industries

David Breckinridge, Vice-Chairman
Alstom Power, Inc.

Dan Nuckolls, Secretary/Treasurer
Koch Foods

STAFF

C. Ray Childers
President/CEO

Celeste Longwith
Executive Assistant to the President/CEO

DIRECTORS

Phil Ball
W.R. Grace

Merrell Bennett
Wigley

Frank Brogden
Bunge

George Garcia
Buzzi Unicem USA

Robert Holcombe
Mueller Company

Roger Layne
East Tech Co.

Walter Lancaster
Rock Tenn

Dr. Bill Minehan
AdTech Ceramics

J. D. Purvis
BASF

COMMITTEE CHAIRS

Energy
Don Huffman
Dixie Group

Environment
Brian Humphrey
Miller & Martin

Government Affairs
Michael St. Charles
Chambliss, Bannier & Stophel

Human Resources
Mike Love
Playcare

Membership
Eric Elster
Commercial Metals

Public Relations
Kent Keasler
Miller - Reia, Inc.

Tax
Carl Hartley
Baker Donelson

January 18, 2007

Dan Nuckolls
Kochs Food
P. O. Box 749
Chattanooga, TN 37401

Re: Tennessee American Water Co. Filing for 19.7 % Increase in Water Rates

Dear Dan,

This letter is written to obtain your help in the CMA Intervention case in opposition to Tennessee American Water Company's recent rate filing for a 19.7 % increase in water rates. Attached you will find a recent *Chattanooga Times* editorial. We hope to receive from your company the strong local support the *Times* predicts in opposition to this increase. You will also note that the City of Chattanooga and the Hamilton County Commission are supportive of CMA's intervention effort and oppose the proposed increase.

In the past, major water users have borne most of the cost for an intervention, although all classes of water users benefit from holding water costs down. The cost for legal and expert witness expenses for our interventions can be approximately \$80,000 to \$110,000. Since this rate increase request is so large and is the same percentage increase for all classes of rate payers (residential, commercial and industrial), it seems reasonable to ask all users to join in and share the costs. It is noted that CMA has intervened in the past seven water rate cases has been successful in significantly reducing the requested increases.

Therefore we are asking you to help fund the intervention case, by sending a check to CMA in the amount of one month's average water bill or \$200, whichever is larger. Associate Members with less than 100 employees please send the amount of one month's average water bill or a minimum of \$100. The maximum any company is asked to send is \$7500. Hopefully this will raise enough money to fund CMA's opposition and we won't have to ask for additional funds later. This is the largest rate increase we can remember ever being requested and it comes only 18 months since the last increase.

Since Tennessee American Water Company is a regulated monopoly whose water and earnings rates are controlled by the Tennessee Regulatory Authority, such interventions are our only available option to effectively participate in the rate setting process. This is an important issue and your help is greatly needed for a successful intervention against the 19.7% increase requested by Tennessee American Water Company. If you have any questions on this matter, please call the CMA office.

Sincerely,

Ray
Ray Childers
CMA President

Don Huffman
Chairman, CMA Energy Committee

Chattanooga Times

Established 1869 Adolph S. Ochs, Publisher 1878-1935

TOM GRISCOM

Publisher & Executive Editor

HARRY AUSTIN

Editorial Page Editor

WES HASDEN

Associate Editor

EDITORIALS

TAWC's excessive rate hike

It's not certain yet whether the Tennessee Regulatory Authority will come to Chattanooga, as requested by the Chattanooga Manufacturers Association, for its spring hearing on the exorbitant rate increase proposed by the Tennessee-American Water Co. Regardless, the CMA and city and county officials should have strong local support in their opposition to the rate increase. TAWC's requested 19.7 percent rate hike is egregiously excessive.

In fact, it's the sort of outrageous rate request that ought to send the water company's customers here to the streets begging local officials to reconsider a municipal takeover of the water company. If Chattanooga held public ownership of the monopoly water utility — as do Knoxville, Memphis, Nashville and the majority of other Tennessee and American cities — such a high rate increase would never be proposed. Enraged citizens would storm the public utility's meetings in protest, and hound the political leaders who would appoint the public utility board members, were such a rate increase requested.

Mayor Ron Littlefield has said little in recent months about his initial interest in reviving a takeover bid for TAWC, but it would be timely for him to speak now. For one thing, TAWC's parent company, American Water Works, is again for sale, this time by its latest owner, the global German RWE. Indeed, TAWC's exorbitant rate request may be designed to help fatten AWW's profit margins to make the corporation more appealing to new potential outside buyers.

In any case, TAWC and other AWW companies traditionally seek far higher rate hikes than are justified, which explains why regulatory authorities routinely knock them down, on average, to just a third of their requested rate increases.

TAWC did win approval in 2004 for an unusually high 9.5 percent rate hike. But that was allowed, though wrongly, because the Legislature had approved the city's request the previous year for legislation to cut Chattanooga's fire hydrant fees by \$600,000. In fact, the city sought relief from fire hydrant fees because TAWC had reneged on its earlier agreement to end fire hydrant fees as part of an agreement to get the city to drop its 1999 takeover bid.

When TAWC sought a 5.96 percent rate

hike in 2005, the state's consumer advocate argued that the company should have to cut its rates by 4 percent instead. An expert analyst hired by the CMA that year also argued that AWW had a pattern of seeking substantially higher revenue than was ultimately found reasonable by regulatory authorities. The TRA subsequently approved just a fraction of the increase sought then by the company.

TAWC officials are contending this year that they need far higher revenue to offset the costs of continued infrastructure investments needed to serve new customers and to maintain existing lines and facilities. But that's always the argument for its padded rate hike requests. So it's galling that the company keeps on trying to gouge local customers when the TRA usually finds just a fraction of its rate requests to be justified.

Chattanoogaans who were swayed by TAWC's slick advertising campaign against the city's 1999 takeover bid should recall how its "Not for Sale" theme proved false in 2001. That was when TAWC's parent New Jersey company, AWW, was sold to RWE. The German company decided last year to spin off AWW, so TAWC is now for sale again. RWE, of course, hopes to keep the conglomerate intact this year to streamline the sale, and has rejected the notion of piecemeal purchases by individual cities. That's to its corporate advantage, but not of benefit to TAWC ratepayers.

In any case, TAWC's history of excessively high rate increases will continue unless citizens here rally behind the idea of a publicly owned utility. Public ownership clearly would be to our benefit. TAWC is allowed by the TRA to return a substantial profit margin to its shareholders, so profit for investors is automatically built into its rates. Conversely, a public utility would only have to finance its operating and infrastructure improvements in its rates. The foregone corporate profits would remain in citizens' pockets.

That savings, in addition to local control of the monopoly utility, makes an easy case for a publicly owned water company. It would provide the enduring benefit of lower rates, retained capital and a unique focus on area residents' local needs. It would be a shame to surrender that dream, particularly when the water company's corporate owner is so transparently greedy.



CHATTANOOGA MANUFACTURERS ASSOCIATION

Location: 10 West MLK Bldg. • Chattanooga, TN 37401 • Phone: 423-256-1902 • Fax: 423-256-1985
Mailing Address: Attn: Box 11488 • Chattanooga, Tennessee 37401

OFFICERS

Tim Spires, Chairman
NA Industries

David Breckinridge, Vice-Chairman
Alstom Power, Inc.

Dan Nuckolls, Secretary/Treasurer
Koch Foods

STAFF

C. Ray Childers
President/CEO

Celeste Longwith
Executive Assistant to the President/CEO

DIRECTORS

Phil Ball
W.R. Grace

Merrell Bennett
Wrigley

Frank Brogden
Bunge

George Garcia
Buzzi Unicem USA

Robert Holcombe
Mueller Company

Roger Layne
East Tech Co.

Walter Lancaster
Rock Tenn

Dr. Bill Minehan
AdTech Ceramics

J. D. Purvis
BASF

COMMITTEE CHAIRS

Energy
Don Huffman
Dixie Group

Environment
Brian Humphrey
Miller & Martin

Government Affairs
Michael St. Charles
Chombliss, Bahner & Slophel

Human Resources
Mike Love
Playcore

Membership
Eric Elster
Commercial Metals

Public Relations
Kent Keasler
Miller - Reid, Inc.

Tax
Carl Hartley
Baker Donelson

January 18, 2007

Jack Callaghan
RL Stowe
1101 South Watkins Street
Chattanooga, TN 37404

Re: Tennessee American Water Co. Filing for 19.7 % Increase in Water Rates

Dear Jack,

This letter is written to obtain your help in the CMA Intervention case in opposition to Tennessee American Water Company's recent rate filing for a 19.7 % increase in water rates. Attached you will find a recent *Chattanooga Times* editorial. We hope to receive from your company the strong local support the *Times* predicts in opposition to this increase. You will also note that the City of Chattanooga and the Hamilton County Commission are supportive of CMA's intervention effort and oppose the proposed increase.

In the past, major water users have borne most of the cost for an intervention, although all classes of water users benefit from holding water costs down. The cost for legal and expert witness expenses for our interventions can be approximately \$80,000 to \$110,000. Since this rate increase request is so large and is the same percentage increase for all classes of rate payers (residential, commercial and industrial), it seems reasonable to ask all users to join in and share the costs. It is noted that CMA has intervened in the past seven water rate cases has been successful in significantly reducing the requested increases.

Therefore we are asking you to help fund the intervention case, by sending a check to CMA in the amount of one month's average water bill or \$200, whichever is larger. Associate Members with less than 100 employees please send the amount of one month's average water bill or a minimum of \$100. The maximum any company is asked to send is \$7500. Hopefully this will raise enough money to fund CMA's opposition and we won't have to ask for additional funds later. This is the largest rate increase we can remember ever being requested and it comes only 18 months since the last increase.

Since Tennessee American Water Company is a regulated monopoly whose water and earnings rates are controlled by the Tennessee Regulatory Authority, such interventions are our only available option to effectively participate in the rate setting process. This is an important issue and your help is greatly needed for a successful intervention against the 19.7% increase requested by Tennessee American Water Company. If you have any questions on this matter, please call the CMA office.

Sincerely,

Ray
Ray Childers
CMA President

Don
Don Huffman
Chairman, CMA Energy Committee

Chattanooga Times

Established 1869 Adolph S. Ochs, Publisher 1878-1935

TOM GRISCOM

Publisher & Executive Editor

HARRY AUSTIN

Editorial Page Editor

WES HASDEN

Associate Editor

EDITORIALS

TAWC's excessive rate hike

It's not certain yet whether the Tennessee Regulatory Authority will come to Chattanooga, as requested by the Chattanooga Manufacturers Association, for its spring hearing on the exorbitant rate increase proposed by the Tennessee-American Water Co. Regardless, the CMA and city and county officials should have strong local support in their opposition to the rate increase. TAWC's requested 19.7 percent rate hike is egregiously excessive.

In fact, it's the sort of outrageous rate request that ought to send the water company's customers here to the streets begging local officials to reconsider a municipal takeover of the water company. If Chattanooga held public ownership of the monopoly water utility — as do Knoxville, Memphis, Nashville and the majority of other Tennessee and American cities — such a high rate increase would never be proposed. Enraged citizens would storm the public utility's meetings in protest, and hound the political leaders who would appoint the public utility board members, were such a rate increase requested.

Mayor Ron Littlefield has said little in recent months about his initial interest in reviving a takeover bid for TAWC, but it would be timely for him to speak now. For one thing, TAWC's parent company, American Water Works, is again for sale, this time by its latest owner, the global German RWE. Indeed, TAWC's exorbitant rate request may be designed to help fatten AWW's profit margins to make the corporation more appealing to new potential outside buyers.

In any case, TAWC and other AWW companies traditionally seek far higher rate hikes than are justified, which explains why regulatory authorities routinely knock them down, on average, to just a third of their requested rate increases.

TAWC did win approval in 2004 for an unusually high 9.5 percent rate hike. But that was allowed, though wrongly, because the Legislature had approved the city's request the previous year for legislation to cut Chattanooga's fire hydrant fees by \$600,000. In fact, the city sought relief from fire hydrant fees because TAWC had reneged on its earlier agreement to end fire hydrant fees as part of an agreement to get the city to drop its 1999 takeover bid.

When TAWC sought a 5.96 percent rate

hike in 2005, the state's consumer advocate argued that the company should have to cut its rates by 4 percent instead. An expert analyst hired by the CMA that year also argued that AWW had a pattern of seeking substantially higher revenue than was ultimately found reasonable by regulatory authorities. The TRA subsequently approved just a fraction of the increase sought then by the company.

TAWC officials are contending this year that they need far higher revenue to offset the costs of continued infrastructure investments needed to serve new customers and to maintain existing lines and facilities. But that's always the argument for its padded rate hike requests. So it's galling that the company keeps on trying to gouge local customers when the TRA usually finds just a fraction of its rate requests to be justified.

Chattanoogaans who were swayed by TAWC's slick advertising campaign against the city's 1999 takeover bid should recall how its "Not for Sale" theme proved false in 2001. That was when TAWC's parent New Jersey company, AWW, was sold to RWE. The German company decided last year to spin off AWW, so TAWC is now for sale again. RWE, of course, hopes to keep the conglomerate intact this year to streamline the sale, and has rejected the notion of piecemeal purchases by individual cities. That's to its corporate advantage, but no of benefit to TAWC ratepayers.

In any case, TAWC's history of excessively high rate increases will continue unless citizens here rally behind the idea of a publicly owned utility. Public ownership clearly would be to our benefit. TAWC is allowed by the TRA to return a substantial profit margin to its shareholders, so profit for investors is automatically built into its rates. Conversely, a public utility would only have to finance its operating and infrastructure improvements in its rates. The foregone corporate profits would remain in citizens' pockets.

That savings, in addition to local control of the monopoly utility, makes an easy case for a publicly owned water company. It would provide the enduring benefit of low rates, retained capital and a unique focus on area residents' local needs. It would be a shame to surrender that dream, particularly when the water company's corporate owners are so transparently greedy.



Tennessee
American Water®

John S. Watson
Vice President and General Manager

November 21, 2006

Ms. Ginny McCallie, Plant Manager
R. L. Stowe
1101 South Watkins Street
Chattanooga, TN 37404

Dear Ms. McCallie:

I wanted to inform you that Tennessee American Water will ask for a review of rates in a filing Wednesday with the Tennessee Regulatory Authority (TRA). The filing calls for an across the board application of the proposed rate increase. The proposal, if granted, would increase the average residential customer's bill \$3.02 per month to \$18.38, or less than 10 cents a day.

The review of water rates by the TRA will take several months to complete and any adjustment in water rates will not take place until 2007. The TRA process ensures a comprehensive review of the request. We have briefed Ray Childers at the Chattanooga Manufacturers Association of the proposed increase.

Tennessee American Water invested approximately \$26 million over the past two years to provide new or improved water service to our approximately 74,000 customers. Like your businesses, we have experienced increases in energy costs and other materials while continuing to reinvest in our skilled and dedicated workers. The Company's commitment to invest in the community's infrastructure ensures the ongoing reliability and quality of the water system.

A Chattanooga business for 137 years, Tennessee American Water continues to be a business focused on its customers. We remain devoted to providing quality water and reliable service at a value every day. Our business is investing in Chattanooga, our customers are satisfied and we remain committed to doing our part in supporting the City and the Chamber in economic initiatives.

Enclosed, you will find a briefing packet prepared for our key stakeholders. It contains information regarding the rate filing and frequently asked questions. I will be contacting you in the next few weeks to meet and discuss the details of the case. In the interim, if you have any questions, please contact me at 755-7607. Thank you for your leadership and service to Chattanooga.

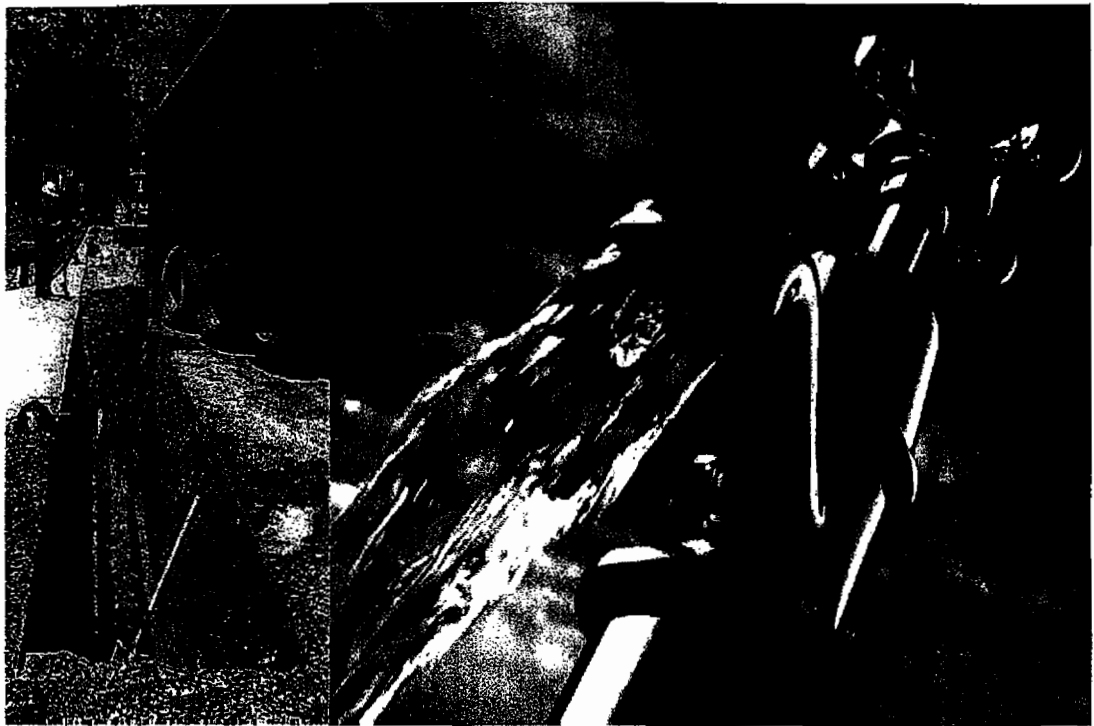
Regards,


John S. Watson
Vice President and General Manager

Enclosure

American Water
1101 Broad Street
Post Office Box 6338
Chattanooga, TN 37401
USA
T +1 423 755 9307
F +1 423 755 7634
I www.tawc.com

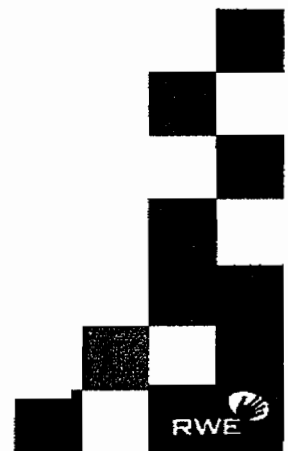




**Tennessee
American Water**

NOVEMBER 2006 RATE FILING

- **RATEMAKING BACKGROUND**
- **SUMMARY OF THE RATE CASE**
- **FREQUENTLY ASKED QUESTIONS**





John S. Watson
Vice-President &
General Network Manager

February 14, 2007

Kochs Food
Dan Nuckolls
P. O. Box 749
Chattanooga, TN 37401

Dear Mr. Nuckolls:

I recently received a copy of a letter sent by the Chattanooga Manufacturer's Association (CMA) regarding Tennessee American Water's petition for a rate change with the Tennessee Regulatory Authority (TRA). Having been a CMA member for decades and worked with them on many rate filings, I was surprised at how the company and the regulatory process were portrayed. I felt it would be right to provide some context and clarify some facts regarding Tennessee American Water's petition for a rate increase.

The TRA, an agency of state government, provides financial and operational oversight for investor-owned utilities such as Tennessee American Water. The TRA's role is to protect the public interest by balancing the needs of customers, the company and its shareholders in a way that ensures the delivery of high-quality water service at fair rates. The TRA's rate review process is public and comprehensive and can require several months to complete. The process involves thousands of pages of documentation.

The combination of investor-owned utilities and government regulation has served customers well for decades in Tennessee. One of the primary reasons the regulatory process works is that it allows interested parties to participate. Groups like the CMA, the City of Chattanooga and the Consumer Advocate Division routinely participate in the TRA process.

The company's petition requests a 19.67 percent increase in rates, but customers don't pay percentages. With this request, the average commercial customer with a two-inch meter using 37,500 gallons of water a month will notice a \$41.13 increase. The average residential bill would increase by about \$3.00 to \$18.38 a month. By comparison, recent price increases in electricity amounted to four or five times that amount.

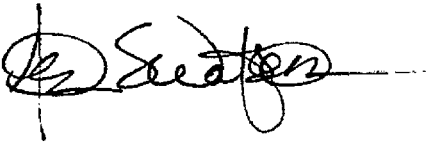
American Water
1101 Broad Street
Post Office Box 6338
Chattanooga, TN 37401
USA
T +1 423 755 9307
F +1 423 755 7634
I www.tawc.com



Like all businesses, we are sensitive to rate increases, but also recognize the need to recover costs related to investment and increases in operating expenses such as electricity, fuel, chemicals and employee health care. Over the past two years, Tennessee American Water has invested \$26 million in the water system to maintain the high level of quality and reliability our customers have come to expect. Water remains one of the best values customers receive every month when they pay their utility bills.

Chattanooga is fortunate to have utilities that provide reliable service at low rates. Our company is one of the oldest companies in Chattanooga and has served customers here for 135 years. I would welcome the opportunity to answer any questions you may have about Tennessee American Water or the current request for a rate increase. Please do not hesitate to call.

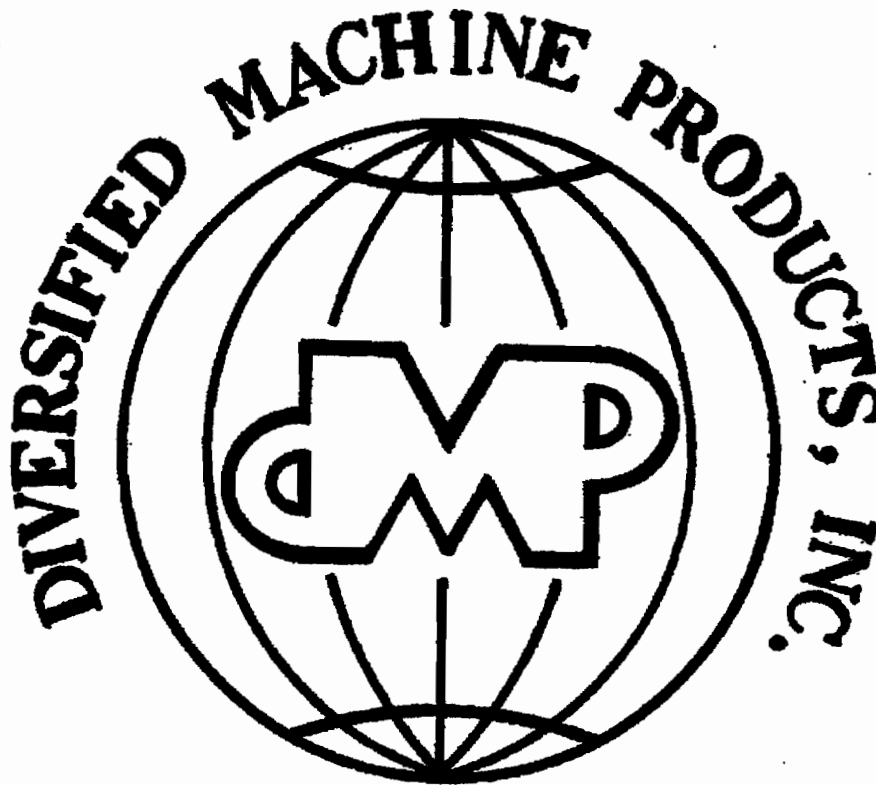
Sincerely,

A handwritten signature in black ink, appearing to read "John Watson", with a horizontal line extending to the right.

John Watson
Vice President, General Manager

WATER REUSE CONSIDERATIONS

DMP LIQUID FILTRATION REUSE SYSTEM
LFS-112 & LFS-116 (patent pending)



PO BOX 5308 ~ 2175 CENTENNIAL DRIVE
GAINESVILLE, GA. 30504

P: (770) 532-4766 F: (770) 534-1673

www.diversifiedmp.com

CONFIDENTIAL

TENNESSEE-AMERICAN WATER COMPANY
TRA Docket No. 06-00290

**Calculation of Inter-Class Revenue Subsidies
at CMA-Corrected Cost of Service
and Across the Board Rate Increase**

<u>Line</u>	<u>Customer Classification</u>	<u>Pro Forma Cost of Service Per CMA</u> (1)	<u>Revenues at Company- Proposed Rates</u> (2)	<u>Deviation From Cost of Service</u> (3)	<u>Under / Over Percentage</u> (4)
1	Residential	\$19,478,224	\$16,354,136	(\$3,124,088)	-16.04%
2	Commercial	10,482,274	12,242,287	1,760,013	16.79%
3	Industrial	3,889,024	4,103,407	214,383	5.51%
4	Other Public Authority	2,710,973	2,877,105	166,132	6.13%
5	Other Water Utilities	1,338,566	1,254,459	(84,107)	-6.28%
6	Private Fire Protection	576,347	1,644,020	1,067,673	185.25%
7	Public Fire Protection	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>
8	Total	\$38,475,408	\$38,475,414	\$6	0.00%

TENNESSEE-AMERICAN WATER COMPANY
TRA Docket No. 06-00290

**Calculation of Inter-Class Revenue Subsidies
at Company-Proposed Cost of Service
and Across the Board Rate Increase**

<u>Line</u>	<u>Customer Classification</u>	<u>Pro Forma Cost of Service Per TAWC (1)</u>	<u>Revenues at Company- Proposed Rates (2)</u>	<u>Deviation From Cost of Service (3)</u>	<u>Under / Over Percentage (4)</u>
1	Residential	\$19,434,031	\$16,354,136	(\$3,079,895)	-15.85%
2	Commercial	10,462,122	12,242,287	1,780,165	17.02%
3	Industrial	3,946,415	4,103,407	156,992	3.98%
4	Other Public Authority	2,705,353	2,877,105	171,752	6.35%
5	Other Water Utilities	1,361,068	1,254,459	(106,609)	-7.83%
6	Private Fire Protection	566,420	1,644,020	1,077,600	190.25%
7	Public Fire Protection	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>
8	Total	\$38,475,409	\$38,475,414	\$5	0.00%

TENNESSEE-AMERICAN WATER COMPANY
TRA Docket No. 06-00290

**Calculation of Inter-Class Revenue Subsidies
at Company-Proposed Cost of Service
and Across the Board Rate Increase**

<u>Line</u>	<u>Customer Classification</u>	<u>Pro Forma Cost of Service Per CMA</u> (1)	<u>Revenues at Present Rates</u> (2)	<u>Deviation From Cost of Service</u> (3)	<u>Under / Over Percentage</u> (4)
1	Residential	\$19,478,224	\$13,681,917	\$5,796,307	42.36%
2	Commercial	10,482,274	10,230,156	252,118	2.46%
3	Industrial	3,889,024	3,428,902	460,122	13.42%
4	Other Public Authority	2,710,973	2,404,176	306,797	12.76%
5	Other Water Utilities	1,338,566	1,048,255	290,311	27.69%
6	Private Fire Protection	576,347	1,373,647	(797,300)	-58.04%
7	Public Fire Protection	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>
8	Total	\$38,475,408	\$32,167,053	\$6,308,355	19.61%

TENNESSEE-AMERICAN WATER COMPANY
TRA Docket No. 06-00290

**Calculation of Inter-Class Revenue Subsidies
at Company-Proposed Cost of Service
and Across the Board Rate Increase**

Line	Customer Classification	Pro Forma Cost of Service Per CMA (1)	Revenues at Present Rates (2)	Deviation from Cost of Service (3)	Deficiency Spread			Adjusted Revenues (6)	Percent Increase (7)	Index at Percent Change (8)
					Reduce Subsidies by 33.3% (4)	Revenue Deficiency Spread on Equal Percentage Change (5)	Remaining			
1	Residential	\$19,478,224	\$13,681,917	\$5,796,307	\$1,930,170	\$1,782,212		\$17,394,299	27.13%	1.38
2	Commercial	10,482,274	10,230,156	252,118	83,955	1,177,417		11,491,528	12.33%	0.63
3	Industrial	3,889,024	3,428,902	460,122	153,221	408,920		3,991,043	16.39%	0.84
4	Other Public Authority	2,710,973	2,404,176	306,797	102,163	286,113		2,792,453	16.15%	0.82
5	Other Water Utilities	1,338,566	1,048,255	290,311	96,674	130,700		1,275,629	21.69%	1.11
6	Private Fire Protection	576,347	1,373,647	(797,300)		156,810		1,530,457	11.42%	0.58
7	Public Fire Protection	0	0	0	0	0		0	0	-
8	Total	\$38,475,408	\$32,167,053	\$6,308,355	\$2,366,183	\$3,942,172		\$38,475,408	19.61%	1.00

Comparison of Present and CMA Proposed Rates

Line No.		Rates Effective March 9, 2005			CMA Proposed Rates			CMA Proposed Percent Increase		
		Chattanooga	Mountain	Lakeview	Chattanooga	Mountain	Lakeview	Chattanooga	Mountain	Lakeview
1	5/8 - inch meter	9.26	10.39	10.39	12.04	13.51	13.51	30.00%	30.00%	30.00%
2	3/4 - inch meter	15.55	15.55	15.55	20.22	20.22	20.22	30.00%	30.00%	30.00%
3	1 - inch meter	25.88	25.88	25.88	33.64	33.64	33.64	30.00%	30.00%	30.00%
4	1 1/2 - inch meter	51.79	51.79	51.79	67.33	67.33	67.33	30.00%	30.00%	30.00%
5	2 - inch meter	82.85	82.85	82.85	107.71	107.71	107.71	30.00%	30.00%	30.00%
6	3 - inch meter	155.35	155.35	155.35	201.96	201.96	201.96	30.00%	30.00%	30.00%
7	4 - inch meter	258.92	258.92	258.92	336.60	336.60	336.60	30.00%	30.00%	30.00%
8	6 - inch meter	517.85	517.85	517.85	673.21	673.21	673.21	30.00%	30.00%	30.00%
9	8 - inch meter	828.55	828.55	828.55	1,077.12	1,077.12	1,077.12	30.00%	30.00%	30.00%
10										
11										
12										
13										
14										
15										
16	Volumetric									
17	First 400 Cubic Feet	0.172	0.640	0.316	0.224	0.832	0.411	30.00%	30.00%	30.00%
18	Next 6,100 Cubic Feet	2.730	3.516	3.008	3.123	4.022	3.441	14.40%	14.40%	14.40%
19	Next 43,500 Cubic Feet	1.715	2.501	1.993	1.962	2.861	2.280	14.40%	14.40%	14.40%
20	Next 450,000 Cubic Feet	1.282	1.749	1.425	1.467	2.001	1.630	14.40%	14.40%	14.40%
21	Next 1,000,000 Cubic Feet	0.980	1.448	1.124	1.121	1.657	1.286	14.40%	14.40%	14.40%
22	All Over 1,500,000 Cubic Feet	0.582	1.049	0.725	0.666	1.200	0.829	14.40%	14.40%	14.40%
23	Ft. Oglethorpe	0.7960			0.969			21.69%		
24										
25	Private Fire Service									
26										
27	1 - Inch Service	24.12			26.87			11.42%		
28	1 1/2 - Inch Service	54.40			60.61			11.42%		
29	2 - Inch Service	96.75			107.80			11.42%		
30	2 1/2 - Inch Service	147.53			164.38			11.42%		
31	3 - Inch Service	217.48			242.32			11.42%		
32	4 - Inch Service	435.50			485.23			11.42%		
33	6 - Inch Service	870.32			969.71			11.42%		
34	8 - Inch Service	1,742.11			1,941.06			11.42%		
35	10 - Inch Service	2,613.37			2,911.82			11.42%		
36	12 - Inch Service	3,484.78			3,882.74			11.42%		
37		830.26			925.08			11.42%		
38										
39	Public Fire Service									
40										
41	Ridgeside	0.00			1,988.94					
42	Public Fire	0.00			186.60					

Attrition Year Revenues at Current and CMA Proposed Rates

Line No.	Class/Description	Per Book Sales (CCF)	Per Book Total Revenues	Normalized Sales (CCF)	Normalized Total Revenues	Current Rates Sales (CCF)	Attrition Total Revenues	Proposed Rates Sales (CCF)	Total Revenues	Total Revenue Difference	Total Revenue Percent Change
1											
2											
3	Class/Description										
4											
5	Residential	4,551,139	13,410,823	4,547,185	13,508,292	4,575,131	13,681,917	4,575,131	16,806,795	3,124,878	22.84%
6	Commercial	4,274,865	10,055,048	4,216,842	10,115,307	4,253,671	10,230,156	4,253,671	12,084,728	1,854,572	18.13%
7	Industrial	3,199,859	3,478,302	3,092,865	3,428,902	3,092,865	3,428,902	3,092,865	3,950,594	521,692	15.21%
8	Other Public Authority	1,205,008	2,329,280	1,210,272	2,404,176	1,210,272	2,404,176	1,210,272	2,826,404	422,228	17.56%
9	Other Water Utility	1,547,422	1,168,613	1,302,516	1,048,255	1,302,516	1,048,255	1,302,516	1,276,168	227,913	21.74%
10	Private Fire Service	0	1,326,106	0	1,341,877	0	1,373,647	0	1,530,517	156,870	11.42%
11	Public Fire Service	0	0	0	0	0	0	0	-	-	
12	Subtotal	14,778,293	31,768,172	14,369,690	31,946,809	14,434,455	32,167,053	14,434,455	38,475,205	6,308,152	19.61%
13											
14	Other Operating Revenues		1,255,342		1,260,333		1,265,235		1,336,761	71,526	5.65%
15											
16	Total		33,023,514		33,207,142		33,432,288		39,811,966	6,379,678	19.08%

20 Per book revenues include unbilled revenues.