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April 9, 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 sixteen (16) copies of Rebuttal Testimony of John S. Watson.

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

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

With kindest regards, I remain

Yours very truly,


R. Dale Grimes by permission
Matt

RDG/ms
Enclosures

Chairman Sara Kyle

April 9, 2007

Page 2

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/enclosure*)
Mr. Michael A. Miller (*w/enclosure*)

**Tennessee-American Water Company
Case No. 06-0290**

**Rebuttal Testimony
John S. Watson**

Q. Please state your name and business address?

A. My name is John S. Watson and business address is 1101 Broad Street, Chattanooga, Tennessee, 37402.

Q. Mr. Watson have you filed testimony in this rate case?

A. Yes, I have filed direct testimony in this case (TRA Docket No. 06-0290) on behalf of Tennessee American Water Company.

Q. Mr. Terry Buckner of the Consumer Advocate Protective Division in his direct testimony proposes to eliminate six positions included in the Company's Filing. Mr. Watson, what is Tennessee American Water Company's position on this adjustment to the employee level?

A. We disagree strongly with Mr. Buckner's adjustment which limits employee levels to the employee level at January 31, 2007. Mr. Buckner's recommendation for the appropriate level of employees or expense during the attrition year does not meet the known and measurable test as Mr. Miller addressed in his rebuttal and will not provide Tennessee American Water the number of employees, or in the absence of those employees, sufficient overtime FTE's to meet its service obligation and regulatory requirements currently or in the attrition year. It is my belief that Tennessee American must have each and every position it requested in this case in order to be able provide the service that is required to our customers. In my opinion, Mr. Buckner's recommendation if accepted by the TRA would create a situation which will severely hamper the Company's ability to continue to meet customer expectations and regulatory requirements. I see no evidence that Mr. Buckner has performed any analysis of job functions that we must perform at Tennessee American or in any other way supports or justifies how TAWC should or could operate

properly without these personnel. In my opinion, the impact of Mr. Buckner's recommendation, would result in increased overtime, which in fact Mr. Buckner has reduced by 680 hours from the level included in the historical test-year. Mr. Buckner not only reduced overtime but recommended the elimination of six positions. Mr. Buckner can not have it both ways and the TRA should take into consideration his deficient reasoning and support for his recommendation. The Company has filled these positions since January 31, 2007 and that meets the known and measurable requirement in this case. Mr. Buckner's recommendation is without merit and should be dismissed, if TAWC is to have an opportunity to continue providing the high level of service described in Mr. Miller's rebuttal, and have an opportunity to achieve the returns authorized in this case. .

Q. What support does Mr. Buckner use to justify his adjustment?

A. Mr. Buckner based his recommendation on speculation and arrives at an incorrect conclusion that TAWC has a pattern of inflating its employee costs by including in rates employee levels that are not achieved." He goes on to assert that "from August 2003 to January 2007, TAWC has averaged 103 employees." He concludes by saying that the TRA "should set rates on actual employee levels, and not on speculative employment levels." He in fact indicated that he used the actual employment level at January 31, 2007 of 105 employees, which is in fact a decline from the two prior month's employment levels.

Q. Would you address Mr. Buckner's claim that TAWC employee levels authorized in rates are never achieved?

A. Yes. Mr. Buckner bases this claim on information provided by TAWC of month-end employee counts. The claim is based on "snap shots" of employee levels during a period when TAWC experienced unprecedented change. Mr. Buckner gives little consideration to the impact of that change process or the explanations TAWC provided the CAPD during the discovery process or in its filing in this case. The changes TAWC has undergone since the beginning of 2003 were addressed by my direct testimony in this rate filing, and my testimony the prior rate case, Case 04-

0288. TAWC witness Mike Miller also addresses the change process undergone by TAWC in his direct and rebuttal testimony in this case and the TAWC 2004 rate case. Those changes included movement of the call center and billing functions to a National Call Center, and transition of transactional accounting functions to a National Shared Services Center. The purpose of those two transitions was to take advantage of economies of scale of American Water to greatly expand service, provide increased access to that service, and to provide those enhanced services at a lower cost to ratepayers than TAWC could provide on a stand-alone basis. Those transitions were addressed by the Company in the 2003 rate case, including amortization of the one-time transition cost by Mr. Miller testimony that was not contested by the CAPD or any other party to that proceeding. The 2003 rate case ended in settlement by the parties in that case regarding the rate treatment for the Call Center and Shared Service Center costs, and the settlement agreement was approved by the TRA. In addition, TAWC and AWWC have gone through a realignment of Regional Offices of American Water and a restructuring that included realignment of various functions at TAWC.

It is inappropriate for Mr. Buckner to base his claims of a pattern of overstating employee levels for rate recovery on this period without any consideration of the movement of FTE's previously on TAWC's payroll to management fees, no consideration for increased overtime that replaced the vacant FTE's, and the operational and union issues related to establishing the authorized employees levels during this time of transition.

Q. Have these changes impacted TAWC during the period through January 2007?

- A. The changes mentioned above, and others required a transition period where many aspects of the Company was impacted and the effects of those adjustments must be reviewed once implemented. Mr. Buckner inappropriately uses the misleading results from the period during which these changes occur to attempt to project the operating expenses and employment level of TAWC during the 2007-08 attrition period. In addition, the service metrics which the company is committed to achieve

and maintain were not acceptable during this transition period, and TAWC acted appropriately to the CAPD's concerns in Case Number 04-00288 about the service levels and has proceeded to improve those service metric during 2005 and 2006 by putting in place the employee levels required to maintain the service levels at the more acceptable levels achieved in 2005 and 2006. Mr. Buckner's approach would significantly impair the Company's ability to provide the level of service that TAWC strives to achieve and sustain. The reduced employee levels will either deteriorate service levels or the company would have to incur the costs to maintain those service levels without any increase in overtime FTE's. Mr. Buckner's recommendation will not permit TAWC to maintain those service levels and recover the employee cost required to achieve that result.

In the final analysis, if TAWC were to operate under the recommended employee levels recommended by Mr. Buckner without the increase in overtime FTE's, it would in my opinion, also cause customer complaints to escalate, and service levels to decline I am sure that TAWC does not wish that to happen, an I am confident that the TRA does not want that to happen either. Therefore Mr. Buckner's recommendation is deficient and should not be used in establishing the level of salary and wage expense and the related employee benefit costs authorized in this case..

Q. How did the Company determine the proper level of employees to include in its petition?

- A. TAWC is continually competing in the marketplace to attract qualified applicants that are needed to fill positions in the required workforce levels of Tennessee American Water We must undertake extensive pre-employment screening prior to employment which takes time for Tennessee American Water's Human Resources Department to complete and review. Mr. Buckner does not mention, but certainly needs to consider, that the business of providing water service carries a public service obligation to its customers, and by suggesting that Tennessee American Water reduce the size of the workforce below the level the company has requested or actually

experienced in 2006 will result in erosion of the Company's ability to fulfill that public service obligation.

It is very important to recognize that Tennessee American Water has aggressively moved forward to hire twenty-seven employees over the course of the past two years (2005 and 2006), and is in or has completed the process of employing an additional six employees. It should also be recognized that the Company has made improvements in providing service to its customers as evidenced in the service metrics it has supplied starting in 2005. The amount of effort necessary to maintain a strong and productive workforce for a Company this size is truly significant when one considers that we have experienced about a 24% turnover in the workforce during the past two and one-half years. This has resulted in large measure from the aging of the company's workforce. This turnover in the workforce actually comes as a result of a number of factors which have been identified in the company's service metric reporting, including retirement, resignation, and while unpleasant in a couple of cases, severance, or termination for cause and very recently the sudden death of a 35 year active employee. The Company can not be expected to always predict when this employee turnover will occur and it takes a significant amount of time and effort to replace those vacancies as they occur. In spite of these factors, TAWC has been aggressively recruiting, hiring, and training new employees into the TAWC workforce and continues to sustain and improve its service levels.

Mr. Buckner has also failed to recognize in his recommended payroll adjustment that TAWC's employee level has steadily increased during 2005 and moved above the level approved in case number 04-00288 in June 2006 and continues increase to increase towards the number of employees requested in this present rate case. But it has been difficult to reach the level requested in this case because several existing employees have exited the business, primarily in order to retire, but we have and continue to make significant effort to do so. Even though the Company has actively screened and hired replacement employees, the heightened level of turnover has required TAWC to expend significant resources to backfill those positions in its

operations, and in the interim period assign overtime to hourly employees, reschedule work activities, or delay work activity that could be done on a pre-scheduled basis. The loss of an employee can be absorbed on a short-term basis by taking these measures, but that approach is not sustainable over the long-term. It certainly is not appropriate on in compliance with established regulatory principles to reduce the employee levels and not provide the overtime expense required to absorb the functions performed by those now vacant positions.

The “headcount” adjustment downward by Mr. Buckner is also contradictory to the direct testimony of CAPD witness Michael Chrysler, wherein he had complimented Tennessee American Water for the service metrics reporting and the level of service those metrics illustrate. If Mr. Buckner had performed a closer examination of the TAWC workforce levels he would find that the TAWC headcount during the period from May 2006 through January 2007 has been equal to or greater than the employee level Mr. Buckner recommends for this case. He recommends that three union positions be eliminated, and three management positions be eliminated. The vacancies in the three union positions have occurred since October 2006 and have been addressed and those positions have now been replaced. The management positions are additional positions to fill operational gaps which have been identified. Those positions need to be filled and offers have been accepted to fill those positions. One of my duties at TAWC is to act in the best interest of TAWC’s employees by offering existing employees an opportunity to advance within the company which can become a lengthy process of bidding prescribed by the TAW union contracts. This is the reason for the six vacancies at January 31, 2007 not the speculative reasons that Mr. Buckner claims.

Q. Mr. Buckner asserts that the Company’s employee level is speculative. Is he correct?

A. No. The level of 111 employees included in the Company’s petition is the result of a tremendous amount of thought and work to determine the level of employees necessary to meet the Company’s mission of service. The Company has been

working diligently to fill these positions once we were able to complete the lengthy union bidding process. The employee level of 111 reflects the number of employees which are needed and required to meet the service levels during the attrition year in this case. I have described below TAWC's efforts to fill those positions and the current status. In summary, offers have been extended and accepted to fill the additional management positions included in the filing, and the vacant union positions. Those new hires have completed pre-employment physical exams and other final screening and most have already reported to work.

Q. Mr. Buckner makes the statement that "TAWC's employment history also demonstrates that the current employee level are sufficient for operation of the Company". Would you comment on that?

A. I do not believe that Mr. Buckner in his capacity at the CAPD is qualified to make that judgment. The service metric reporting was the result of agreement by TAWC to provide the TRA Staff and CAPD this information as included in the settlement agreement and TRA Order in Case # 2004-00388. The 106 employee level included in that settlement agreement was based on TAW having 29 hourly personnel in the meter shop department and with the recent events since November 2006 the meter shop employment levels has declined to only 26 hourly employees. The Company has now replaced those three employees because it needs those employees to maintain the level of service. Mr. Buckner's recommendation is inaccurate and should not be considered because it misrepresents the work that is being assigned daily. The illogical conclusion embedded in Mr. Buckner recommendation suggests that Field Service Representatives who must complete the service orders would have to absorb the function of reading the meters for all required work in the department to be completed. While TAWC has struggled through this situation by transferring employees from other department and using additional overtime, we can not continue to complete those critical functions in this manner for any prolonged period. The Company's employee levels must be established in this case to provide for this gaping hole in our meter shop employee level and the expenses associated with those hires should be appropriately recognized for recovery in rates. The critical functions of service order execution, meter reading, and the other functions of the meter shop

and field service representatives must be performed without interference with the network and production departments by continually robbing those areas to cover for vacancies. This scenario would be what results from Mr. Buckner's recommendation and misplaced justification for that recommendation. Tennessee American employees are directly responsible for successes in delivering the work underlying these service metrics during 2005 and 2006 which demonstrates that it takes people, planning, objectives, and training in order for the Company to continue to provide excellent customer service. TAWC must have adequate employee levels if all those important operational areas are properly performed and this requires the additional personnel as I have explained above..

Finally, it is important to understand that TAWC has made service improvements since the 2004 rate case due largely to the increased employment level. The improvements in service metrics and in the quantity of work performed have been accomplished in the business has increased and the Company has made great strides in improved service when compared to the service levels prior to the previous rate case and the levels which caused the CAPD witness to address that issue in the previous case. The dedication of the Company's employees, and the Company's commitment to make the investment in people, as well as in the capital investment it has made, have driven the increased service and service metric results, however, our work is not done.

When I began working for Tennessee American Water in late July 2004, it became very apparent to me over a short time based on my experience of 28 years in water utility business, that TAWC, particularly the Company's field operations component, was not staffed adequately to accomplish all the tasks that are absolutely critical to meeting customer expectations. We committed to raise service levels and to address the needs of the business and those of our customers by effectively utilizing motivated people and technological advances, such as on-line mobile computers for field service employees, to collect the information timely in the field and transmit the results of that service call immediately to the Call Center. This significant

improvement permits the Company to be much more responsive and timely in responding to our customers requests and meeting the customer expectations. In 2004 estimated meter readings averaged nearly 10% and there was no coverage available when a Field Service Representative was on sick leave or vacation. In order to provide relief for meter reading and to execute service orders on schedule other department's employees were constantly being drafted to fill those needs. The Company made significant efforts to balance the priorities of service order types to complete critical service orders, and so any backlog of service orders which had not been worked were prioritized into those which were most urgent and those which could wait. The priority of turning on and off water was accomplished and billing changes were accomplished, but other service orders such as meter replacement were cancelled or rescheduled in order to address the many priorities. However, we identified that additional personnel in those areas were key to reducing estimates, to addressing the increasing trend in service order requests, and the Company's meter replacement and testing program was on target as of 12./31/2006, as well. As has been identified in City of Chattanooga First Discovery Data Request #17 the number of service orders has increased substantially over the past three and one-half years from 55,910 in 2003 to 101,363 orders in 2006, or an 82 % increase. This has been accomplished partially through additional investment in technology, but also through adding personnel and establishing baseline goals with improvements on those goals. We have created a measurable way to document service order tracking and through extraordinary efforts of our employees, and effective use of technology have completed this work on time over 99.5% of the time. Overtime was initially part of the answer in 2004-2006; however because many of these orders needed to be completed during regular daylight work shifts and overtime into evening hours or weekends is not always appropriate, additional overtime was not the cure all. The Company has instituted the new technology referred to by the company as the "Service First" system which first began at TAWC on September 27, 2004 and continues to be utilized today, with enhanced reporting capabilities, more efficient service order assignment, and enhanced information handling and reporting. The process benefits our employees' ability to do their jobs. Tracking of orders

completed in the field by the Field Service Representative on new “Tough Book” laptop computers mounted in each service truck has allowed the company to measure the workflow, to determine the resources required, and to return the results of that service visit back to the Centralized Call Service Center where the call handlers, the billing staff, and the collection personnel are better able to respond to the customer as soon as the order is completed.

In retrospect, as I consider our organization in 2004, I realize that the reorganization of personnel at TAWC and AWWC in some respects resulted in a restructuring plan which cut too deeply into the personnel level in some areas and was not conducive to meeting ever increasing demands for service. As a result, we have found there were operational gaps at TAWC which we have worked to correct and are eliminating. This has been accomplished by identifying key positions in the workforce in both hourly and management personnel that are absolutely necessary in providing quality water and water service. Once we identified these operational gaps, I have proactively moved ahead in working with our local managers to employ the resources to move the business to achieve its goals by assuring service levels are maintained.

These overall service goals at TAWC in this regard were and continue to be focused on; 1) obtaining the necessary personnel in critical areas that are managed locally to meet the service requirements of customers, 2) achieve those business goals which are focused directly on compliance with the rules and regulations for the provision of water service, 3) to meet or exceed federal and state water quality regulations, and finally, but just as importantly, 4) to assure that TAW provides operational excellence in the water service it provides by the most efficient means it could make available.

The following union positions have been impacted by events occurring on or after November 1, 2006. The Company has filled these positions and the HR Department has completed the hiring process to fill all the bargaining unit positions. The result is a full complement of 86 bargaining unit employees in the TAW workforce which is consistent with the Company’s filing.

Maintenance Mechanic - J. Cooke - 11/1/2006 Master Maintenance Mechanic A. Chronologer bid on this position and was required to submit to pre-testing to be considered to occupy the position on November 30, 2006 and was ultimately assigned to this position effective 12/25/2006.

Field Service Representative –Adam Chronologer vacated position to accept Master Maintenance Mechanic position on 12/25/2006. Bid was posted December 18, 2006 and was removed on December 26, 2006. Will O'Donnell held the position of Meter Repair and was the successful bidder, however, after being notified that he was the successful bidder, he rescinded bid and remained in the Meter Repair position. Company then immediately advertised in Chattanooga Times Free Press and noticed area agencies and employment services for the Field Services Representative position we wanted to hire.

On the morning of Monday, December 11, 2006, Mr. Gary Odmann, a 35 year veteran of Tennessee American and a Process Technician at the Citico Station suddenly died of a massive heart attack following a brief illness during the preceding week of December 7, 2006. Due to Mr. Odmann's untimely death, and due to the nearness of being upon the eve of the Christmas holidays, a relief employee was posted in the shift, and a bid was posted as soon as practical on January 5, 2007 for personnel desiring the position to be submitted by January 12, 2007. The successful bidder was Debbie Camp, a Laborer/1st Relief Process Technician. She was awarded this position effective on January 29, 2007. The bidding continued with the Laborer/1st Relief Process Technician being bid on January 12, 2007 and the bids were submitted by January 19, 2007. Charlotte Hutsell, the Laborer/2nd Relief Process Technician was awarded this position effective on January 29, 2007, which was followed by bidding the resulting vacancy on January 25, 2007 which became due on February 1, 2007, however, no existing employees bid on this vacancy. The Company prepared the appropriate advertisement for newspaper and external agencies publication and began interviewing applicants on March 15, 2007. Upon

completion of the interviews, an offer was made, and the offer was accepted subject to physical exam and background check to James E. Beets, who began employment on April 9, 2007.

The company also identified in a review of the work demand in the Distribution Department in May 2006, determined it was necessary to inspect and maintain approximately 5000 fire hydrants it owns no less than once annually. In accordance with that goal, the company found it could only meet that required schedule by hiring one additional position which was needed in the classification of Truck Driver/Utility Worker. The position was budgeted in the company's business plan to be effective in January 2007. The Company in accordance with the bargaining unit agreement posted the bid for this position on December 8, 2006 to be effective in January 2007. Mr. Erich Haws a Field Service Representative was ultimately the successful bidder and was awarded the position and assigned the work effective January 29, 2007 .

The resulting Field Service Representative vacancy of Erich Hawes was bid on January 29, 2007, however, no existing bargaining unit employee bid on the position, which then resulted in the company pursuing external advertising for this position as previously described, as well.

In another instance, James Baggett, a field services representative advised the Human Resources Department on January 15, 2007 that due to the serious health condition of his 93 year old mother he needed to immediately notify the company and submit a request for early retirement effective March 1, 2007. The Company posted a bid for internal candidates to apply for the position in late January, however no internal candidates bid for the position. The position was externally advertised, as well. Interviews were then conducted promptly in response to that vacancy on March 7, March 12 and March 13, 2007.

Offers were made to the following individuals, these offers were accepted, physical exams performed, and background checks were ordered and start dates scheduled by

the Human Resources Department and the individuals were given an opportunity to give notice to their current employers. As described above, in each of those cases where a vacancy occurred, within approximately six to eight weeks from date of the vacancy the Human Resources Department was able to hire a new employee to fill that vacancy, and as such, has filled each Field Service Representative position and I am now supplying the names of those personnel, as well as the date employment that began or is beginning, as follows.

Dustin L. Talley (Adam Chronologer's replacement) - Field Service Representative – employment began April 2, 2007

Chase N. Layne (James Baggett's replacement)–Field Service Representative–employment begins April 16, 2007

William Blevins (Erich Haws replacement)-Field Services Representative – employment begins April 17, 2007

In addition, the Company identified through discussions with the Health and Safety Function and other local managers, an operational gap which required the company to add the position of Loss Control Specialist which was required to properly maintain, update and review the local safety programs of Tennessee American Water and assure compliance with OSHA regulations as well as make improvements to employee safety training and respond to general liability claims and auto accidents that involve the public and the company fleet. There are numerous other duties assigned to this important staff position. We further had determined that the earliest this position could be budgeted was January 1, 2007 in accordance with Company's fiscal year budget plan. The Company internally posted this position on the American Water System-Wide Staffing website by the Human Resources function. An existing TAW management employee, Kevin Highsmith, applied for the position, interviewing on March 15, 2007 and was then offered this position on March 19, 2007. Mr. Highsmith accepted the offer on March 28, 2007. He will vacate his existing position of Network Supervisor, and the company is currently posting his former position. The position will be posted on the American Water System-Wide Staffing website by

the Human Resources function the week of April 9, 2007. The Human Resource Department will make selection of an individual to fill that supervisory position right away.

The Environmental Compliance Function and I recently identified an important operational gap for an additional Laboratory Analyst due to the need to respond more promptly to customer service requests regarding water quality at a customer's home and in recognition that there are an increasing number of water quality inquiries as the size of the customer base continues to grow, however resolution by phone with existing staff has proven to be less than satisfactory to the customer. Also, there is now an additional workload created by the USEPA's new regulation known as the Initial Distribution System Evaluation (IDSE) which is included in the Stage II Disinfection By-Product/Disinfection Rule and the attendant requirements for additional sampling in the company's distribution system, plus reoccurring three year requirement in 2007 to conduct lead and copper, customer education, and sample collection and analysis of at least 90 TAW customers water at the tap in the summer of 2007. The Company realizes that there is a significant importance to responding in person to the ever increasing number of customers accounts, and with additional regulatory requirements it necessitates the one additional Lab Analyst which needs to be hired by the end of the 1st Quarter 2007. The position was posted on the American Water System-Wide Staffing website by the Human Resources function. No applicants were available internally. The company then advertised and conducted interviews and offered a position to a qualified applicant who accepted, subject to the physical exam and background check. Unfortunately, the applicant was unable to pass the pre-employment requirements, and due to a limited number of qualified applicants, Tennessee American Water needed to advertised again for the position of Lab Analyst to find additional qualified applicants for the position and continued again to interview to fill the job. The company has offered this position to Kim Durham, previously employed by Tennessee American and who will begin her employment on or before April 20, 2007.

In the Production Department, I became aware and concerned that there was need to have a lead manager over the two (2) Production Supervisors and all of the Production facilities and processes, a manager focusing on planning and performance was essential to current and upcoming plant operations. Also, as part of the capital investment plan we have recently kicked off the design project for the Citico Station Water Treatment Plant Upgrade and Improvements Project which began in the 1st Quarter of 2007 and it is important to have a lead manager would provide local management support of the resulting construction in 2008 and 2009. We determined that the earliest we could budget this key management position was in Tennessee American's 2007 annual business plan. The Regional Production functional group also agreed with the operational gap and supported the requirement to bring this manager on-board as soon as possible in early 2007. The Production Superintendent position was posted internally across American Water utilizing the American Water System-Wide Staffing website by the Human Resources function. Resumes were reviewed and two existing management employees within American Water were identified, and first interviews were conducted on March 8, 2007 with a second interview on March 30, 2007 with each applicant. The Company has offered the position of Production Superintendent to existing Production Supervisor Mark Zinnanti. Assuming the offer is accepted he will be assigned to the position immediately. The Company is certain to fill the Production Supervisor position by April 30, 2007.

Q. Mr. Watson, would you please comment on Tennessee American Water regarding the importance and the advantages of the services and support provided by American Water Work Service Company and it's personnel. Also, please describe an example or two illustrating the benefit Tennessee American Water receives and the value it provides to Tennessee American Water customers by making use of the American Water Works Service Company.

A. The sharing of services provided by personnel and resources of American Water Works Service Company is described in detail in the direct testimony of TAW

Witness Patrick Baryenbruch. Mr. Baryenbruch provides a description of a number of services which TAWC on it's own could not afford or would cause TAWC to absorb an increase in expenses to obtain which would adversely impact the customers of Tennessee American. For example, Tennessee American Water could not afford to hire the position of Director of Rates and Revenues solely for Tennessee American Water. If Tennessee American were forced to hire this manager, it would then it be a full-time position of the company. However, because the company does not need that position on a continuous basis since it does not file for rate adjustments on an annual basis, this would be less efficient and more costly to the company and ultimately Tennessee American customers. However, because Tennessee American Water is able to obtain the services of a Director of Rates and Revenues from American Water Works Service Company, we can share the cost of that position with other American Water operating companies, as well as other functional positions that are dedicated to American Water Works Service Company only when those services are needed. Another example is the services of the Belleville Central Laboratory operated by American Water Works Service Company, a facility totally dedicated to drinking water analysis, and provides to service to all the operating companies in 23 states that American Water has operations in, This facility has been granted certification under the Safe Drinking Water Act, and is available to Tennessee American at cost to provide technical expertise to analyze and conduct the most sophisticated water quality analyses. This results in the efficiency of sharing those costs. This avoids the cost of constructing these facilities and hiring the personnel in each state which would be duplicative and less efficient and would increase costs to our customers. Tennessee American can also obtain the services of a nationally recognized microbiologist, Dr. Mark LeChavalier, who is a highly respected and extremely talented microbiologist, who we can call upon, as needed, to review an extensive water quality database for our operations in Tennessee, and provide his expertise to address any water quality issue that we may required. This service is available to Tennessee American by placing a telephone call to his office at the Central Lab in Belleville, Illinois and requesting those services. Tennessee American could not afford to construct such a laboratory, conduct the complex water analyses, or

purchase the state-of-the art laboratory analytical equipment, employ the experienced laboratory staff, scientists, and managers, or the microbiologist on our payroll full-time or replicate the cutting-edge research capability in drinking water quality which is located within the Belleville Central Laboratory. In my opinion, Tennessee American customers are served by that knowledge, expertise, and exceptional service, and could not cost effectively replicate those services at its Chattanooga operation. Utilizing the services of the Central Laboratory and only sharing the American Water Works Service Company personnel and resources provides service at a lower cost than if Tennessee American had to do it themselves or had to contract commercially to have this service performed. This same concept can be applied to the use of personnel in a number of functions including accounting services, financial services, administrative services, legal services, rates and revenue services, the Call Centers, information technology services, supply chain functions for procurement of goods and services, water quality and environmental compliance that are all essential to Tennessee American Water's business.

Q. Does this conclude your testimony?

A. Yes, it does.

Tennessee American Water- Action Dates for Positions Filled													
Position	Employee	Date When Position Became Vacant/Available	Title, if Changed	Date When Position Vacancy Was Bid/Posted	Deadline to Bid on Position	Number of Bids/Postings Received	External Hiring Requirement	Existing Employee Accepting Position	If external candidate When were interviews conducted	Offer Made/ Accepted	Date Position Was Filled	Name of Person Externally Hired	
Maintenance Mechanic	J. Cooke	November 1, 2006	Master Maintenance Mechanic	November 10, 2006	November 17, 2006	2	No	A. Chronologer	N/A	Bid Accepted	December 25, 2006	N/A	
Field Service Representative	A. Chronologer	December 25, 2007	No Change in Job Title	December 4, 2006	December 11, 2006	2	Yes	Both employees rescinded bid	March 7, 12 and 13, 2007	Offer accepted	April 2, 2007	D. Talley	
Process Technician	G. Odmann	December 11, 2006	No Change in Job Title	January 5, 2007	January 12, 2007	3	No	D. Camp	N/A	Bid Accepted	January 29, 2007	N/A	
Laborer/1st Relief Process Tech	D. Camp	January 29, 2007	No Change in Job Title	January 16, 2007	January 23, 2007	1	No	C. Husbell	N/A	Bid Accepted	January 29, 2007	N/A	
Laborer/2nd Relief Process Tech	C. Husbell	January 29, 2007	No Change in Job Title	January 25, 2007	February 1, 2007	0	Yes	N/A	March 7, 12 and 13, 2007	Offer accepted	April 9, 2007	James Beets	
Field Service Representative	J Baggett	March 1, 2007	No Change in Job Title	January 22, 2007	January 29, 2007	0	Yes	N/A	March 7, 12 and 13, 2007	Offer accepted	April 19, 2007	C. Layne	
Truck Driver/Utility Worker-Hydrants-Addtl Position	N/A	January 2, 2007	No Change in Job Title	December 8, 2007	December 15, 2007	5	No	E. Hawes	N/A	Bid Accepted	January 29, 2007	N/A	
Field Service Representative	E. Hawes	January 29, 2007	No Change in Job Title	January 22, 2007	January 29, 2007	0	Yes	N/A	March 7, 12 and 13, 2007	Offer accepted	April 17, 2007	W. Blevins	
Loss Control Specialist-Addtl Position in 2007	N/A	February 1, 2007	No Change in Job Title	February 1, 2007	February 15, 2007	2	Yes	K. Highsmith	March 15, 2007	Offer accepted	March 29, 2007	N/A	
Production Superintendent-Addtl Position in 2007	N/A	January 1, 2007	No Change in Job Title	January 1, 2007	January 30, 2007	0	No	M. Zinnant	N/A	Offer Pending	April 9, 2007	N/A	
Laboratory Analyst-Addtl Position in 2007	N/A	April 1, 2007	No Change in Job Title	February	March 29, 2007	2	Yes	N/A	February	Offer Made 3/5/2007	April 20, 2007	K. Durham	
Readvertised Lab Analyst in Newspaper, etc.													
March 18, 2007-Adv													

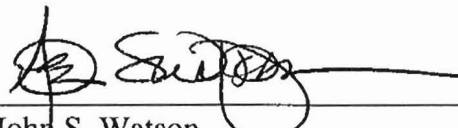
TENNESSEE REGULATORY AUTHORITY

STATE OF TENNESSEE

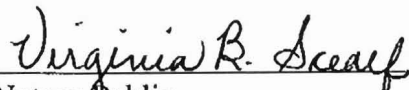
COUNTY OF HAMILTON

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared John S. Watson, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of Tennessee-American Water Company before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his rebuttal testimony would set forth in the annexed transcript consisting 17 of pages.


John S. Watson

Sworn to and subscribed before me
this 9th day of April 2007.


Notary Public

My commission expires July 30, 2008.



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 9th day of April, 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 type="checkbox"/> Hand	Timothy C. Phillips, Esq.
<input type="checkbox"/> Mail	Vance L. Broemel, Esq.
<input type="checkbox"/> Facsimile	Stephen Butler
<input checked="" type="checkbox"/> Overnight	Office of the Attorney General
<input checked="" type="checkbox"/> Email	Consumer Advocate and Protection Division
	2nd Floor
	425 5th Avenue North
	Nashville, TN 37243-0491
<input type="checkbox"/> Hand	Henry M. Walker, Esq.
<input type="checkbox"/> Mail	Boult, Cummings, Connors & Berry, PLC
<input type="checkbox"/> Facsimile	Suite 700
<input checked="" 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	
<input type="checkbox"/> Hand	Frederick L. Hitchcock, Esq.
<input type="checkbox"/> Mail	Chambliss, Bahner & Stophel, P.C.
<input type="checkbox"/> Facsimile	1000 Tallan Building
<input checked="" type="checkbox"/> Overnight	Two Union Square
<input checked="" type="checkbox"/> Email	Chattanooga, TN 37402

