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April 11, 2007

**VIA HAND-DELIVERY**

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

filed electronically in docket office on 04-12-07

***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 Tennessee American Water Company's Third Supplemental Response to the Consumer Advocate and Protection Division's Discovery Request Number One, Part III, Question 8. The documents referenced in the Response were filed under seal in a separate, contemporaneous, filing.

Please return three copies of the Response, 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,

A handwritten signature in dark ink, appearing to read "R. Dale Grimes", followed by the letters "ms" in a smaller, cursive script.

R. Dale Grimes

RDG/ms  
Enclosures

Chairman Sara Kyle  
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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**  
**Docket No. 06-00290**  
**Consumer Advocate and Protection Division Discovery Request No. 1**

**Third Supplemental Response**

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

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

**Question:**

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

**Response:**

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

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

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

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

**Supplemental Response:**

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

**Further Supplemental Response:**

8(a)(b) Attached is the most recent Pro-forma capital structure for the consolidated AWWC at December 31, 2006 and at March 31, 2007 (unaudited). Also attached is the AWWC standalone capital structure for the same two periods. Attachments to this response are designated Highly Confidential, pursuant to the Amended Supplement Protective Order of March 30, 2007, and filed under seal. TAWC incorporates by reference the comments set forth in the Supplemental Response immediately above.

## 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 11th day of April, 2007, upon the following:

<input type="checkbox"/> Hand	Michael A. McMahan
<input type="checkbox"/> Mail	Special Counsel
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