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April 27, 2007

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

Re: Docket No. 06-00290

Dear Chairman Kyle:

I have enclosed ten (10) courtesy copies of the materials displayed in my closing argument. These are not provided for the purpose of filing. A copy has also been sent via email to those listed below.

If there are any questions, please do not hesitate to call me.

With best regards, I am

Sincerely yours,

Frederick L. Hitchcock

FLH/sjw
Enclosures
cc: The Honorable Pat Miller, Director (w/encls.) (via FedEx c/o The Honorable Sara Kyle)
The Honorable Sara Kyle, Chairman (w/encls.)
The Honorable Ben Jones, Director (w/encls.) (via FedEx c/o The Honorable Sara Kyle)
Mr. J. Richard Collier (w/encls.)
Mr. Jerry Kettles (w/encls.)
Mr. R. Dale Grimes (w/encls.)
Mr. J. Davidson French (w/encls.)
Mr. Robert E. Cooper, Jr. (w/encls.)
Mr. Vance L. Broemel (w/encls.)
Mr. Stephen R. Butler (w/encls.)
Mr. David C. Higney (w/encls.)
Mr. Henry W. Walker (w/encls.)
Mr. Michael A. McMahan (w/encls.)
Mr. Harold L. North (w/encls.)

02423_00/0702/SJW-002137_1

The burden of proof to show that the increase, change, or alteration is just and reasonable **shall be upon the public utility** making the same.

In determining whether such increase, change or alteration is just and reasonable, the authority shall take into account the safety, adequacy and efficiency or lack thereof of the service or services furnished by the public utility.

T.C.A. § 65-5-103(a) (emphasis supplied)

<u>The Tennessee regulatory authority has the power</u> after hearing upon notice, by order in writing, to fix just and reasonable individual rates, joint rates, tolls, fares, charges or schedules thereof, . . . which shall be imposed, observed, and followed thereafter by any public utility . . . **<u>whenever the authority shall determine</u>** any existing individual rate, joint rate, toll, fare, charge, or schedule thereof . . . to be unjust, unreasonable, excessive, insufficient, or unjustly discriminatory or preferential, **<u>howsoever the same may have heretofore been fixed or established</u>**.

In fixing such rates, joint rates, tolls, fares, charges or schedules, . . . the authority shall take into account the safety, adequacy and efficiency or lack thereof of the service or services furnished by the public utility.

T.C.A. § 65-5-101(a) (emphasis supplied)

Exhibit 7

Call Volume

	2003	2004	2005	2006
Call Center Volume (a)	55,910	64,791	78,272	101,363
% Change between 2003 and 2006				81.3%
Number of Accounts (b)	71,059	72,013	72,660	73,567
% Change between 2003 and 2006				3.5%

(a) TN-COC-01-Q017-ATTACHMENT.pdf (2003 extrapolated for full year)
(b) TN-TRA-01-Q020-ATTACHMENT.pdf

RFC

Exhibit 5

Call Center Costs/Savings

	2003	2004	2005	2006
TAWC Call Center Costs Eliminated (a)	$748,642	$ 771,101	$ 794,234	$ 818,061
National Call Center Allocated to TAWC (b)	616,858	782,034	773,218	866,606
Amortized Start-up Costs(c)	87,262	87,262	87,262	87,262
Total	$704,120	$ 869,296	$ 860,480	$ 953,868
Additional Cost (Savings)	$ (44,522)	$ 98,195	$ 66,246	$ 135,807

(a) TN-COC-01-Q01 CCC cost savings.xls for 2003; projected using 3% escalation
(b) TN-COC-01-Q01 CCC cost projection in 2003; TN-COC-01-Q001,2,13.doc for 2004-2006
(c) TN-COC-01-Q01 CCC

RFC

REAL COST OF CALL CENTER

	2005	2006	Test Year *
TAWC Costs Eliminated	$ 794,234	$ 818,061	$ 806,148
NCC Costs Allocated to TAWC	$ 860,480	$ 953,868	$ 907,174
Additional Cost	$ 66,246	$ 135,807	**$ 101,027**
Depreciation of Mainframe Software **			562,074
Return on Mainframe Software ***			~~273,260~~ 177,000
Additional Software Costs			~~835,334~~ 739,074

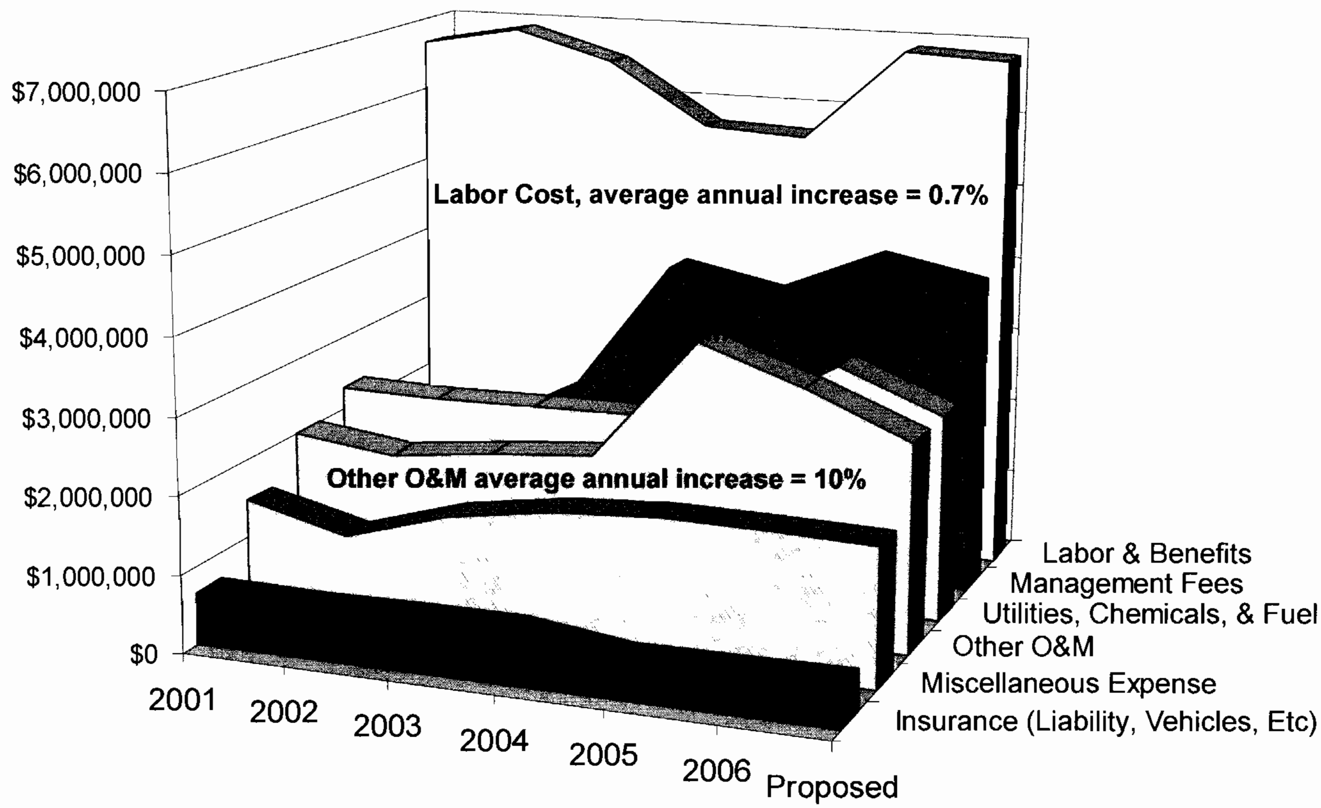
Real Additional Cost of Call Center $\boxed{\$ \ \cancel{936,361}}$

840,101

* Exhibit 5 to H.Smith Testimony: Test year figure is average of 2005 and 2006
** Undepreciated cost at 6/30/06 = $3,535,059 per TAWC Exhibit 2, Schedule 4
*** Rate of Return 7.73% per Final Order in Docket 03-00118

Graph 1

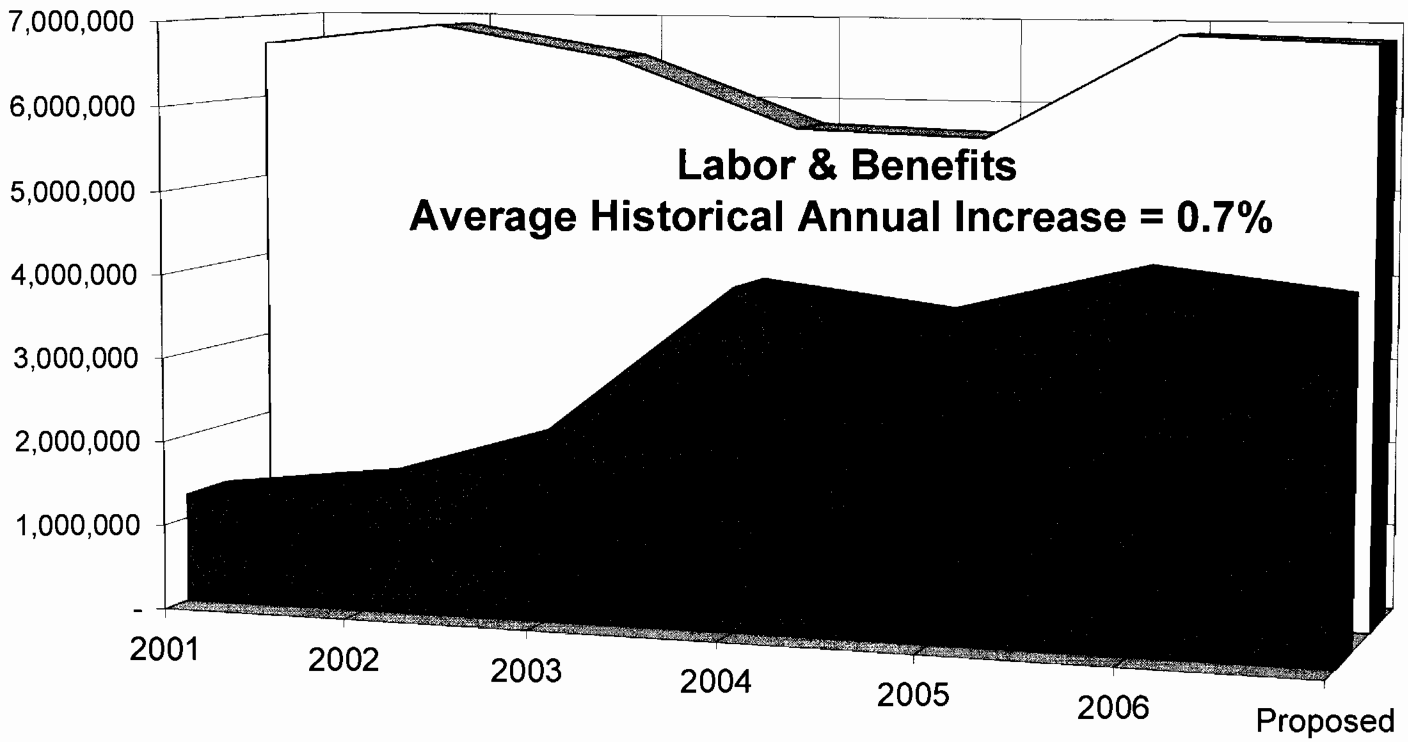
TAWC Operating and Maintenance Costs, by Category



RFC

Graph 2

TAWC Management Fees and Labor Costs



RFC

Examples of Unjustified Costs

Service Company Category per the response to City's Q19*	July 2005-June 2006 Costs Charged to TAWC
CORP-Business Change	$106,974
CORP-HR Talent Development	28,951
CORP-Non-Departmental Costs	99,218
CORP-CEO	19,973
CORP-Marketing and Sales	24,266
CORP-Chief Growth Officer	12,686**
SE-Operational Risk	36,345

* TN-COC-01-Q18 & Q19 supplemental SCB 2005.pdf; and TN-COC-01-Q18 & Q19 supplemental SCB Jan June 06.pdf
** January-December 2006

RFC

AWWSC INCOME STATEMENT (Exhibit 17)

		TEST YEAR
Total Revenue	$	243,787,672
Labor	$	102,812,931
Miscellaneous	**$**	**61,048,554**
Maintenance & Operations Expense	$	58,581,392
Maintenance & Operations Expense	$	222,442,877
Other Operating Expense	$	18,981,502
Total Operating Expense	$	241,424,379
Utility Operating Income	$	2,363,293
Other Income	$	847
Other Deductions	$	(42,154)
Total Other Income/Deductions	$	(41,307)
Income Before Interest Charges	$	2,321,986
Total Interest Charges	$	2,321,727
Net Income to Common Stock	$	259

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

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

HIGHLY CONFIDENTIAL DOCUMENTS USED IN CLOSING ARGUMENT ON BEHALF OF INTERVENOR CITY OF CHATTANOOGA

The following documents, identified by Petitioner as "Highly Confidential Documents" were used and referenced by the City of Chattanooga in closing argument presented April 26, 2007.

TAWC-HC-01113

TAWC-HC-01114

TAWC-HC-00182

TAWC-HC-01147