

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

June 14, 2007

IN RE:)	
)	
PETITION OF TENNESSEE-AMERICAN WATER)	DOCKET NO.
COMPANY FOR APPROVAL OF AND AUTHORITY)	06-00305
TO BORROW UP TO \$44,900,000)	

ORDER APPROVING FINANCING TRANSACTION

This matter came before Chairman Sara Kyle, Director Pat Miller and Director Ron Jones of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on February 5, 2007 for consideration of the petition of Tennessee-American Water Company for approval of and authority to borrow up to \$44,900,000 (“*Petition*”) pursuant to Tenn. Code Ann. § 65-4-109 (2004).

The *Petition*

Tennessee-American Water Company (“TAWC” or “Company”), a Tennessee corporation with principal offices in Chattanooga, Tennessee, provides water utility services to municipalities in Hamilton and Marion Counties, Tennessee, and certain areas in Catoosa, Dade and Walker Counties, Georgia. TAWC has a rate case proceeding pending before the Authority in Docket No. 06-00290

On December 7, 2006, TAWC filed its *Petition* requesting authorization to borrow up to \$44,900,000 to refinance outstanding indebtedness and finance additions and improvements to

its facilities and acquisitions. Specifically, TAWC requests approval to issue up to an aggregate of \$44,900,000 in securities to American Water Capital Corporation ("AWCC"). Both TAWC and AWCC are wholly-owned subsidiaries of American Water Works Company, Inc. ("AWWC").

On October 10, 2000, TAWC obtained Authority approval in Docket No. 00-00637 to enter into a non-exclusive Financial Services Agreement with AWCC pursuant to which AWCC periodically solicits from TAWC estimates of its needs for long-term financing. On the basis of that information, AWCC registers its debt securities for sale in the US public/private capital markets.

From time to time thereafter, as TAWC needs a portion of its long term financing needs funded, AWCC sells portions of its securities in the capital markets or to an investor or lender, and loans the proceeds of the sale to TAWC. The loans from AWCC to TAWC are on terms identical to the terms of the securities sold in public markets by AWCC and are evidenced by written notes. The Financial Services Agreement obligates TAWC to pay all of AWCC's costs related to the AWCC securities issued to fund loans to TAWC. The Company will also bear its proportionate share of AWCC's overhead, along with other participating operating subsidiaries. The Agreement is non-exclusive and provides TAWC with cash management and short-term debt financing services.

Pursuant to the October 10, 2000 Authority Order in Docket No. 00-00637, the Authority approved the issuance by TAWC to AWCC of notes or debentures in an aggregate outstanding principal amount of \$30,100,000 from time to time prior to December 31, 2005. The proceeds were used to refinance outstanding general mortgage bonds, finance additions and improvements to the company's plants, equipment and facilities and to repay short term borrowings.

In the present *Petition*, TAWC proposes to continue its participation in the AWCC program and issue Company securities in an aggregate principal amount of up to \$44,900,000 from time to time to refinance outstanding indebtedness and to finance the acquisition of additional facilities.

The February 5, 2006 Authority Conference

Tenn. Code Ann. § 65-4-109 (2004) states:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof, until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

On February 2, 2007, the City of Chattanooga, a municipal corporation, filed a petition to intervene in this docket. At a regularly scheduled Authority Conference held on February 5, 2007, staff advised that some issues raised in this docket overlap issues pending in Docket No. 06-00290. The panel recessed the docket in order for TAWC representatives and City of Chattanooga representatives (“Parties”) to discuss the issues. Upon reconvening the docket, the panel was advised that the Parties had agreed to the following:


1. Any questions regarding the reasonableness and cost of refinancing of the total debt of TAWC still remains an open issue in Docket No. 06-00290.
2. An approval for the issuance of this debt will have no res judicata, claim preclusion or issue preclusion, with respect to any concerns the City of Chattanooga may desire to raise in the ratemaking case, Docket No. 06-00290.
3. The City of Chattanooga will withdraw its request to intervene and pursue the issues of concern in Docket No. 06-00290.

Thereafter, the panel voted unanimously to approve the *Petition* and made the following findings:


1. the proposed financing transaction is subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109 (2004);
2. the transaction is being made in accordance with laws enforceable by this agency; and
3. the purpose of this transaction is in the public interest because it allows TAWC to finance additions and improvements to its water system.

IT IS THEREFORE ORDERED THAT:

1. Tennessee-American Water Company is authorized to enter into the financing transaction as described in the *Petition* and discussed herein.
2. The authorization and approval given hereby shall not be used by any party for the purpose of inferring an analysis or assessment of the risks involved nor is this decision intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee or any political subdivision thereof.


Sara Kyle, Chairman


Pat Miller, Director


Ron Jones, Director