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March 21, 2008

**VIA HAND-DELIVERY TO:**

Chairman Eddie Roberson, Ph.D  
c/o Ms. Sharla Dillon  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243

***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. 08-00039***

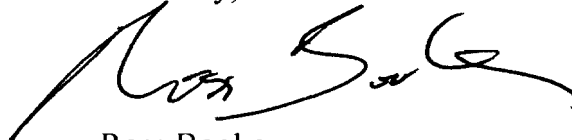
Dear Chairman Roberson:

Enclosed please find an original and sixteen (16) copies of the Tennessee American Water Company's March 20, 2008 letter enclosing a courtesy copy of community relations information sent on March 14, 2008.

Please return three copies, 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.

Sincerely,



Ross Booher

RIB:ms  
Enclosures

Chairman Eddie Roberson

March 21, 2008

Page 2

cc: Hon. Ron Jones (*w/enclosure*)  
Hon. Sara Kyle (*w/enclosure*)  
Hon. Tre Hargett (*w/enclosure*)  
Ms. Darlene Standley, Chief of Utilities Division (*w/enclosure*)  
Richard Collier, Esq. (*w/enclosure*)  
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division (*w/enclosure*)  
Ms. Pat Murphy (*w/enclosure*)  
Timothy C. Phillips, Esq. (*w/enclosure*)  
Mr. John Watson (*w/enclosure*)  
Mr. Michael A. Miller (*w/enclosure*)

**John S. Watson  
President**

March 14, 2008

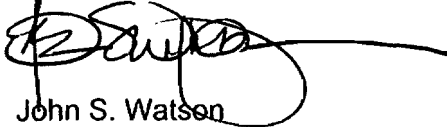
The Honorable Eddie Roberson  
Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Dear Chairman Roberson:

Enclosed is a courtesy copy of a letter and community relations information that Tennessee American recently sent to local officials regarding Tennessee American's rate case and is furnished as background information.

We appreciate your leadership and service to the state of Tennessee. Should you or your staff have questions about this information, we stand available to assist. Please contact us as you deem appropriate.

Sincerely,



John S. Watson  
President

Enclosures

American Water  
1101 Broad Street  
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I [www.tawc.com](http://www.tawc.com)

**John S. Watson  
President**

March 14, 2008

· County Mayor Claude Ramsey  
Hamilton County Commission  
Chattanooga, TN 37407

Dear Mayor Ramsey:

Tennessee American Water will file an application with the Tennessee Regulatory Authority (TRA) on Friday, March 14, for an increase in our water rates. If granted in full, the average residential customer's bill will increase \$3.65 a month, or 12 cents a day, and the average monthly water bill will increase from \$16.54 to \$20.19. Despite the need to increase rates, water remains one of the best values consumers in Chattanooga receive each month.

The review by the TRA will take approximately six months to complete and no adjustment in water rates will take place until September 2008. The TRA process is comprehensive, transparent and ensures a high level of scrutiny on our request by the TRA staff and parties that participate in the process like the City of Chattanooga.

Tennessee American Water has served customers for 138 years and is one of the oldest businesses in Hamilton County. Our company is a good employer, invests annually in the water system in Chattanooga and invests annually in our community. Our customers are satisfied with the quality of our water and the reliability of our service. We currently serve approximately 394,000 people.

There is a true cost to providing water, just as there is for electricity, natural gas and sanitary sewer services. Since 1995, Tennessee American Water has invested \$106.222 million to improve and enhance water service for our customers. In this filing with the TRA, the water company is requesting that costs associated with \$21.4 million in water system improvements be included in rates. Like other businesses, we have experienced significant increases in energy costs and other materials while continuing to provide for our employees. Our rate filing requests recovery in rates of those costs.

Enclosed is a document to brief you on the background of the filing and answer frequently-asked-questions. As this comprehensive process begins, we want to make sure you are informed and your questions answered.

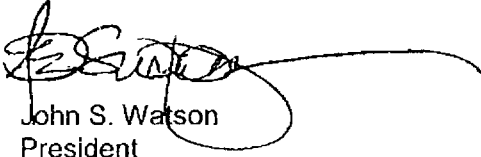
My team and I would like to sit down with you and go through the rate case filing and make sure your questions are answered. I have also offered to Chairman Bill Hullander to have the Tennessee American Water team present the details of the rate filing to the Commission, as we did in our last rate filing. We will follow-up with

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you in the coming days to schedule a meeting or answer your questions. In the interim, please do not hesitate to call me at 755-7607 or Kim Dalton at 755-7613 if you have questions.

Thank you for your leadership and service to Hamilton County. I look forward to talking with you soon.

Regards,

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

John S. Watson  
President

Enclosures:

John S. Watson  
President

March 14, 2008

Representative Gerald McCormick  
Post Office Box 4741  
Chattanooga, TN 37405

Dear Representative McCormick:

Tennessee American Water will file an application with the Tennessee Regulatory Authority (TRA) on Friday, March 14, for an increase in our water rates. If granted in full, the average residential customer's bill will increase \$3.65 a month, or 12 cents a day, and the average monthly water bill will increase from \$16.54 to \$20.19. Despite the need to increase rates, water remains one of the best values consumers in Chattanooga receive each month.

The review by the TRA will take approximately six months to complete and no adjustment in water rates will take place until September 2008. The TRA process is comprehensive, transparent and ensures a high level of scrutiny on our request by the TRA staff and parties that participate in the process like the City of Chattanooga.

Tennessee American Water has served customers for 138 years and is one of the oldest businesses in Chattanooga. Our company is a good employer, invests annually in the water system in Chattanooga and invests annually in our community. Our customers are satisfied with the quality of our water and the reliability of our service. We currently serve approximately 394,000 people.

There is a true cost to providing water, just as there is for electricity, natural gas and sanitary sewer services. Since 1995, Tennessee American Water has invested \$106.222 million to improve and enhance water service for our customers. In this filing with the TRA, the water company is requesting that costs associated with \$21.4 million in water system improvements be included in rates. Like other businesses, we have experienced significant increases in energy costs and other materials while continuing to provide for our employees. Our rate filing requests recovery in rates of those costs.

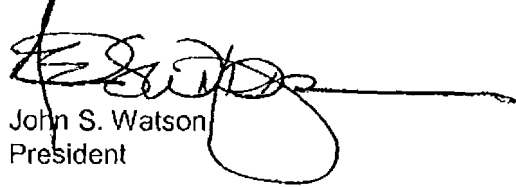
Enclosed is a document to brief you on the background of the filing and answer frequently-asked-questions. As this comprehensive process begins, we want to make sure you are informed and your questions answered.

My team and I will be glad to meet with you to further discuss the rate request. If you would like to schedule a meeting, please give me (755-7607) or Kim Dalton (755-7613) a call and we will schedule a time that is convenient. If you have questions, please do not hesitate to call either Kim or myself.

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Thank you for your leadership and service to Hamilton County and the State of Tennessee. We look forward to talking with you.

Regards,

A handwritten signature in black ink, appearing to read 'J. S. Watson', with a long horizontal line extending to the right.

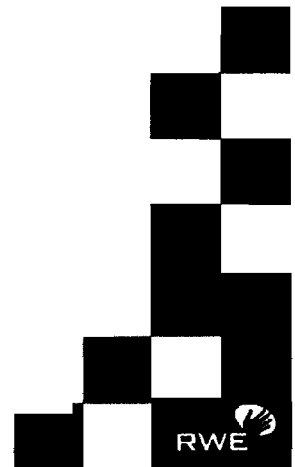
John S. Watson  
President

Enclosure:



Tennessee  
American Water

**MARCH 2008 RATE FILING**



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## INTRODUCTION

On March 14, 2008, Tennessee American Water filed a general rate case application with the Tennessee Regulatory Authority (TRA) requesting an overall increase in revenue of \$7.645 million.

Under Tennessee American Water's overall proposal, the bill for the average residential customer using 4,305 gallons of water a month would increase \$3.65 per month to \$20.19, or less than 12 cents a day. On a percentage basis, Tennessee American Water's filing amounts to an overall increase of 20.58 percent. If the proposed rate increase is approved in full, Tennessee American Water customers will continue to receive a gallon of water delivered to their homes for less than a penny.

In its filing the company asked the TRA to recover the costs related to \$21.4 million in capital investment and increased operating costs. Key factors in the need to file for a rate increase include:

- Ongoing infrastructure investments in Chattanooga and the surrounding service area
- Increased energy and chemical costs
- Increased costs of employee labor and related expenses
- Federally mandated increase in employee pension plan costs

The TRA, which regulates the rates and service of Tennessee American Water, will undertake a comprehensive and open review of the rate request. Parties such as the Consumer Advocate's Office and the City of Chattanooga may be part of the regulatory process that can take up to several months.

If you have additional questions, please contact Kim Dalton, External Affairs Specialist for Tennessee American Water, at 423-755-7613, or email at [kim.dalton@amwater.com](mailto:kim.dalton@amwater.com).



## Press Release

Kim Dalton  
Tennessee  
American Water  
1-423-785-7611  
1-800-720-1700  
[kim.dalton@amwater.com](mailto:kim.dalton@amwater.com)

### FOR IMMEDIATE RELEASE

#### **TENNESSEE AMERICAN WATER FILES TO RAISE RATES 12 CENTS A DAY** *Investments of \$21.4 Million to Ensure Reliability; Rising Energy Costs Key Factors in Rate Filing*

**CHATTANOOGA, Tenn. (March 14, 2008)** – Tennessee American Water today filed a general rate case application with the Tennessee Regulatory Authority (TRA) requesting an increase in water rates that, if approved in full, would raise the average residential water bill by 12 cents a day. Customers of Tennessee American Water will continue to receive a gallon of water for less than a penny.

Tennessee American Water is asking the TRA to reflect on our rates the increased operating costs and expenses related to approximately \$21.4 million in capital improvements that will be made between now and August 2009. Included in those projects will be an \$8.8 million upgrade to the main water treatment plant at Riverside Drive; and \$6.6 million for water main, meter and hydrant replacement.

Tennessee American Water, which has served customers for 138 years and is one of the city's oldest businesses, asked the TRA for an increase in revenue of \$7.645 million. Overall, the filing requests a 20.58 percent increase in rates, which amounts to \$3.65 a month. The average household water bill will rise from \$16.54 a month to \$20.19 a month.

"If the total increase is approved, water will remain one of the best values residents of Chattanooga receive every month when they pay utility bills," said John Watson, president of Tennessee American Water. "Like other businesses, Tennessee American Water has seen a significant increase in energy expenses as well as a government-mandated increase in pension costs for the company."

The review of the rate request before the TRA can take up to six months and includes a comprehensive and transparent process where the TRA, the Attorney General's Office of Consumer Protection and other parties such as the City of Chattanooga scrutinize thousands of pages of documents that are part of the rate filing.

-more-

"Our customers benefit from the scrutiny our rate filings receive, and we welcome that scrutiny," said Watson.

"Tennessee American Water continues to make significant investments in our water system to ensure we provide reliable service and water quality that is as good as or better than state and federal standards," said Watson. "Even during the current drought, we continue -- without any restrictions -- to deliver excellent service that our customers depend upon at an exceptional value"

Since 1995, Tennessee American Water has invested \$106.222 million in capital expenditures. These investments have provided new or improved water service to more than 394,000 people. Among the investments completed in the past two years are:

- **Water main replacement and reinforcement projects**

This program replaces pipes that have reached the end of their useful lives. This main replacement program targets aging pipes which were not adequate to meet current water demands. In 2006 and 2007, Tennessee American Water replaced 52,860 feet -- or approximately 10 miles -- of pipe in various locations across the city totaling \$5.3 million. All of these projects were done to enhance water service, reliability, efficiency and in some cases provide or improve fire protection.

- **Installation and replacement of customer meters**

The program ensures the balance between the accuracy of the customer's bill and the company's efficiency. Since the last rate case, approximately \$3 million was spent to replace 16,000 meters and 9,000 meters were upgraded to radio read meters to improve meter reading efficiency throughout the system, and reduce the cases where an estimated read is necessary.

- **Rehabilitation and repainting of storage facilities**

In the last two years, approximately \$1.4 million was required to extend the useful life of storage facilities and purification units throughout the system.

- **Tennessee Department of Transportation water main relocation**

Tennessee American Water works closely with the state Department of Transportation on road widening and highway improvements throughout the Chattanooga area. Approximately \$1.4 million was required to relocate mains, hydrants and services in accordance with state highway projects.

-more-

Tennessee American Water customers may request more information regarding the proposed rate increase by calling the Customer Call Center at 1-866-736-6420.

Tennessee American Water is the largest investor-owned water utility in the state, providing high-quality and reliable water service to more than 394,000 people in Tennessee and northern Georgia. Tennessee American Water is a wholly-owned subsidiary of American Water. Founded in 1886, American Water is the largest investor-owned U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs nearly 6,900 dedicated professionals who provide drinking water, wastewater and other related services to approximately 15.6 million people in 32 states and Ontario, Canada. More information can be found by visiting [www.amwater.com](http://www.amwater.com).

# # #

## **GENERAL INFORMATION: RATES AND RATEMAKING PROCESS**

- The Tennessee Regulatory Authority (TRA) sets water rates for the customers of Tennessee American Water, an investor-owned water utility business.
- The role of the TRA is to oversee the investment, rates, service, quality and operations of Tennessee American Water.
- Tennessee American Water is not free to change rates on its own. Rates are fixed and determined by the TRA. The complete process involves experts from the TRA staff, as well as the City of Chattanooga, and the Tennessee Consumer Advocate Division. The process is open and public and it can take up to several months to complete.
- Financial data and other information are supplied once the rate case is filed. The TRA conducts public hearings, and the company must prove it is entitled to a rate change. The TRA reviews the testimony and evidence, asks questions and enters an order based on the evidence that determines what the company's rates will be.
- Water rates are based on the expenses needed to operate and maintain the water system in compliance with state and federal guidelines. Water rates also are determined based on investments the water company makes to improve or expand the water system and ensure the delivery of reliable, efficient and high quality drinking water to customer homes and businesses each day.
- Tennessee American Water has invested approximately \$27 million in construction projects and treatment facilities in the past two years. Since 1995, Tennessee American Water has spent a total of \$106.222 million in capital expenditures. These investments have provided new or improved water service to more than 394,000 people. They also ensure that company's water quality is as good as or better than state and federal regulations.
- Continued investments are critical for water systems to meet U. S. Environmental Protection Agency (U.S. EPA) water quality standards. The U.S. EPA has estimated that the nation's infrastructure replacements and upgrades to be in the billions of dollars in order to provide clean and safe drinking water to consumers.

## FREQUENTLY ASKED QUESTIONS AND ANSWERS

### Q: WHEN DID TENNESSEE AMERICAN WATER LAST FILE A RATE CASE?

A: The last rate case was filed in November 2006 on an historical test year ending June 2006. The company received approximately \$4.1 million of additional revenue as a result of that case.

### Q. WHAT IS THE ANNUAL PERCENTAGE AND DOLLAR INCREASE IN REVENUE BEING SOUGHT IN THIS FILING?

A. Tennessee American Water is requesting a 20.58 percent increase that would produce \$7.645 million in additional annual revenues.

### Q. WHAT DOES THE PROPOSED RATE INCREASE MEAN FOR THE AVERAGE WATER BILL?

A. The current average monthly residential water bill for Tennessee American Water customers using 4,305 gallons is \$16.54 a month. The proposed rates will raise the monthly bill by \$3.65, increasing it to \$20.19. Including the proposed increase, customers will still receive a gallon of water for less than a penny.

### Q. WHAT ARE THE MAJOR FACTORS CAUSING THE REQUESTED INCREASE IN WATER RATES?

	(millions)
Increased investment related to \$21.4 million in water facilities .....	\$2.439
Cost of capital .....	\$1.953
Electricity, chemicals, wastewater and other routine expenses .....	\$1.222
Federally mandated increase in contributions to employee pension plan.....	\$1.161
Impact of declining customer water usage.....	\$0.370

### Q. IS TENNESSEE AMERICAN WATER CONTINUING TO FUND AND PARTICIPATE IN COMMUNITY AND CHARITABLE ACTIVITIES?

A. Yes. Tennessee American Water has a long track record of supporting community initiatives such as the United Way, local schools, Chattanooga Area Food Bank, and the Tennessee Aquarium. The water company remains committed to investing in corporate responsibility and community programs that make a sustainable impact in Chattanooga. Additionally, the employees of Tennessee American Water donate their time to many community organizations. Since 2006, Tennessee American Water and its employees donated more than \$126,000 to local charities and community organizations. **These contributions to the communities are not recovered in customer rates, but are contributed by the stockholders as support for the communities we serve.**

**Q. WHAT TYPE OF CAPITAL INVESTMENT IS THE COMPANY MAKING?**

**A.** Tennessee American Water has invested in replacing and installing new water lines, meters and hydrants, and made improvements to pumping facilities to enhance water service reliability and efficiency. While the company has maintained its plant and equipment, all plants have a finite useful life. In addition, the regulatory requirements imposed under the federally mandated Safe Drinking Water Act have involved new treatment processes causing certain plant and equipment to be modified in order to meet enhanced treatment requirements.

**Q. DOES THE COMPANY CONSIDER THE IMPACT OF RATE INCREASES WHEN IT DECIDES TO FILE A RATE CASE?**

**A.** We carefully consider any request for added cost to the customer. That is why we continually look for ways to improve our operating efficiency and effectiveness. Tennessee American Water has a public service obligation to protect the integrity of its water facilities in accordance with all regulatory and health requirements. The company has an obligation to its customers and investors to achieve a market rate of return on the investment in utility facilities. Neither of these obligations is met if rate increases are deferred.

**Q. DOES THE COMPANY BELIEVE THAT ITS WATER RATES DETER BUSINESSES FROM LOCATING IN THE AREAS IT SERVES?**

**A.** No. On the contrary, the dependability of the trusted water service provided by Tennessee American Water and the ability to offer high quality water service in an abundant supply at reasonable prices is an attractive element to encourage business and industry to locate in an area. As proven during the current drought in the surrounding areas such as Atlanta, the adequacy and reliability of Tennessee American Water's facilities are a key component to our economic development. In addition, the company implemented an Economic Development Tariff a few years ago to help with attracting new business or growing existing businesses, and the leadership team at Tennessee American Water is committed to working with local economic development officials to help promote the community.

**Q. DOES THE COMPANY LOOK AT OPPORTUNITIES FOR COST SAVINGS?**

**A.** Yes. Like any business, Tennessee American Water constantly reviews costs and looks for efficiencies through automation of treatment processes, meter reading, service orders, and customer service efforts. The water company has testified in all of its past cases about those efforts. Unfortunately, a significant portion of the cost of providing trusted water service relates to investment in pipe and other facilities. We use asset management techniques to gain the most efficient and effective life from those assets. We also continually look for ways to maximize the efficiency of our operation through national purchasing and work management programs that leverage the economies of scale and purchasing power of the entire American Water System.



**Q. HOW DO THE PROPOSED RATES COMPARE WITH OTHER WATER UTILITIES?**

A. Tennessee American Water has completed a period of significant investment in facilities involving approximately \$27 million in the two years since the last rate application, and \$57 million in new construction during the past five years. Our rates are comparable with other water utilities serving the area that have maintained their facilities and reflected the true cost of water service in their rates. The company believes this is particularly true when the elements of quality, quantity and dependability of water service are factored into the equation.

Any such comparison of rates should also consider a number of other factors. These include:

- Tennessee American Water is a tax-paying entity whose taxes help support various levels of government and lower the tax burden on customers. The company is one of the top five tax payers in Hamilton County.
- The company's total cost to provide water service is reflected in rates. Many systems, most publicly owned, use items such as tap fees, and allocate certain costs to other areas of government which make water rates appear lower than they really are.
- The track record of investment in the utility.

**Q. DOES THE GOVERNMENT HAVE STANDARDS TO DETERMINE THE AFFORDABILITY OF WATER?**

A. Yes. The U.S. EPA has established an affordability benchmark of 2.5 percent of median household income for water. Tennessee American Water's current average water bill is 0.62 percent of the median household income for its service area. If the full rate increase requested in this case is approved, the average residential bill would equal 0.76 percent of the median household income, which is still well below the national standard.

**Q. WHEN WILL THE NEW WATER RATES GO INTO EFFECT?**

A. Based on the TRA's usual practice of rate case review there will not be a rate change for several months.