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A PROFESSIONAL LIMITED LIABILITY COMPANY

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OTHER OFFICES

KNOXVILLE
MEMPHIS

May 28, 2008

VIA HAND DELIVERY

filed electronically in docket office 5/28/2008

Chairman Eddie Roberson, PhD
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 Charge 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 seven (7) sets of copies of Tennessee American Water Company's Responses to the First Set of Data Requests filed by the Chattanooga Manufacturers Association, dated May 12, 2008. In addition, two compact disks have been provided. The first disk contains all of the Company's responses in Word or Excel to data requests filed May 12, 2008. The second disk contains all such responses in pdf format.

Please return three (3) copies of these responses to me, which I would appreciate your stamping as "filed," 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

Very truly yours,

R. Dale Grimes

Enclosures

cc: Hon. Ron Jones (*w/o enclosure*)
Hon. Sara Kyle (*w/o enclosure*)
Hon. Tre Hargett (*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*)
Timothy C. Phillips, Esq. (*w/enclosure*)
David C. Higney, Esq. (*w/enclosure*)
Henry M. Walker, Esq. (*w/enclosure*)
Michael A. McMahan, Esq. (*w/enclosure*)
Frederick L. Hitchcock, Esq., (*w/enclosure*)
Mr. John Watson (*w/o enclosure*)
Mr. Michael A. Miller (*w/o enclosure*)

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF TENNESSEE AMERICAN WATER COMPANY TO CHANGE AND INCREASE CERTAIN RATES AND CHARGES SO AS 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**

TENNESSEE AMERICAN WATER COMPANY'S RESPONSES TO THE CHATTANOOGA MANUFACTURERS ASSOCIATION'S FIRST SET OF DATA REQUESTS TO TENNESSEE AMERICAN WATER COMPANY

The Tennessee American Water Company ("TAWC") hereby responds as follows to the Chattanooga Manufacturers Association's ("CMA") First Set of Data Requests to the TAWC:

GENERAL OBJECTIONS

(1) TAWC objects to all requests that seek information protected by the attorney-client privilege, the work product doctrine and/or any other applicable privilege or restriction on disclosure.

(2) TAWC objects to the definitions and instructions accompanying requests to the extent definitions and instructions contradict, are inconsistent with, or impose any obligations beyond those required by applicable provisions of the Tennessee Rules of Civil Procedure or the rules, regulations or orders of the Tennessee Regulatory Authority.

(3) TAWC objects to the definitions of the words "document," "you," "person," "persons," "affiliate," "affiliated," "identify," "identifying," "identification," and "referring or relating to," that accompany the data requests because such definitions are overbroad and unduly burdensome.

(4) The specific responses set forth below are based upon information now available to TAWC, and TAWC reserves the right at any time to revise, correct, add to or clarify the objections or responses and supplement the information and/or documents produced.

(5) TAWC is providing its responses herein without wavier of, or prejudice to, its right at any later time to raise objections to: (a) the competence, relevance, materiality, privilege, or admissibility of the response, or the subject matter thereof; and (b) the use of any response, or subject matter thereof, in any subsequent proceedings.

(6) TAWC objects to each request to the extent that it is unreasonably cumulative or duplicative, or seeks information obtainable from some other source that is more convenient, less burdensome or less expensive.

(7) TAWC objects to each request to the extent it is premature such that it seeks information concerning matters about which discovery is ongoing and/or seeks information to be provided by expert witnesses.

(8) TAWC objects to each request to the extent it seeks information outside TAWC's custody or control.

(9) TAWC objects to the CMA's requests to the extent that they have exceeded the number of discovery requests authorized by the Tennessee Regulatory Authority in contested case proceedings pursuant to Rule 1220-1-2-.11(5)(a). As such, the TAWC has responded to the CMA's first 40 requests (inclusive of subparts). The TAWC reserves all of its objections with respect to the discovery propounded by the CMA that is in excess of the limit.

(10) TAWC objects to requests that call upon TAWC to create, categorize, manipulate, customize or otherwise organize data regarding time periods outside of TAWC's historical test

year. TAWC objects to all such requests because they are unduly burdensome, seek to have TAWC create work product and seek information that is not relevant to this rate case.

(11) TAWC's specific objections to each request are in addition to the General Objections set forth in this section. These General Objections form a part of each discovery response, and they are set forth here to avoid the duplication and repetition of restating them for each discovery response. The absence of a reference to a General Objection in response to a particular request does not constitute a waiver of any General Objection with respect to that discovery request. All responses are made subject to and without waiver of TAWC's general and specific objections.

Respectfully Submitted,

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Counsel for Petitioner
Tennessee American Water Company

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

1. Please provide complete copies of any and all documents referred to or relied upon in responding to any and all of CMA's, the City of Chattanooga (the "City"), the Tennessee Attorney General's Consumer Advocate and Protection Division (the "CAPD"), the Tennessee Regulatory Authority Staff's and/or any other person or entity's discovery and data requests in this proceeding.

Response:

The Company objects to this question on the grounds that it is overbroad and unduly burdensome. Subject to and without waiving its objections, TAWC is providing the responses to all discovery responses to all parties to this case.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

2. Please provide complete copies of all data requests issued to the Company in this proceeding by other parties, and complete copies of any and all documents referred to or relied upon in responding to said (whether ultimately produced in response or not).

Response:

The Company objects to this question on the grounds that the requested information is overbroad and unduly burdensome. Subject to and without waiving these objections, please see the response to CMA, Question 1.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

3. Please identify all persons known to you, your attorney(s) or other agent(s), who have knowledge, information or possess any document(s) or claim to have knowledge, information or possess any document(s) which support or contradict each or any fact you rely upon to support your petitions, contentions and request(s) for relief in this docket, or any published materials by (or for) the Company, AWW, AWWC, or RWE, and any Affiliate thereto.

Response:

TAWC objects to this question on the grounds that it is vague, overbroad and seeks work product and attorney client privileged information. Subject to and without waiving its objections, the Company responds that the persons with relevant knowledge of the issues in this case are those who have provided direct testimony filed with the petition. The Company reserves the right to supplement this response as discovery as the case progresses. Please see the response to TN-CAPD-01-Part I-Q001.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

4. Please identify and produce a copy of all articles, journals, books or speeches written by or co-written in the past ten (10) years by any expert witness(es) or other witness(es) of the Company, whether published or not, relative to any issue raised in this proceeding.

Response:

The Company objects to this request on the grounds that it is vague and to the extent in certain instances it may be unduly burdensome. Subject to and without waiving these objections, TAWC provides the following response. The Company's testimony provides or provides reference to much, if not all, of the information requested above. The Company reserves the right to supplement this response if additional responsive materials or references become available as the rate case progresses.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

5. For the period 2002 through 2007, provide copies of RWE, AWW, AWWC and/or TAWC's Annual Report to Shareholders, the annual reports(s) filed with the Tennessee Regulatory Authority or provided to members of the TRA or its Staff, and all annual and quarterly report documents filed with the Federal Securities and Exchange Commission. To the extent you allege a final annual report does not exist, produce the most recent quarterly report(s) and any summary of "year-to-date" information for the year allegedly not finalized.

   To the extent you contend that any such documents relative to the Company do not exist, produce such report(s) for any parent or affiliate in which the Company is included or reported, and produce any and all workpapers and communications to and from said parent or affiliate regarding or related to the Company's financial statements.

Response:

For the unaudited balance sheets and income statements for AWWSC and AWCC see the response to TN-COC-01-Q12. Please refer to the response to TN-TRA-01-Q05 for the TAWC and AWW audited financial statements for 2005-2007.

The Company objects to the request for information related to AWW and TAWC for 2002-2004 on the grounds that it is unduly burdensome and not relevant to this proceeding. The information for 2003/2004 was previously supplied to the parties in this case in response to TN-TRA-01-Q05 in case number 06-00290. Accordingly, the CMA already possesses such information.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

The Company objects to the request for TRA reports for 2002-2005 on the grounds that it is unduly burdensome and not relevant to this proceeding. The TRA reports for the 2001-2005 periods were provided to the CMA in case number 06-00290 in response to TN-CMA-01-Q4. Accordingly, the CMA already possesses such information. Copies of the 2006 and 2007 TRA reports are provided on the CD included with these responses labeled as TN-CMA-01-Q005-attachment 1.pdf and TN-CMA-01-Q0005-attachment 2.pdf.

The Company objects to the request for the production of the RWE Annual Reports on the grounds that the request is unduly burdensome, and seeks information that is irrelevant to this proceeding. Subject to and without waiving these objections, the RWE annual reports for 2006 and 2007 are provided on the CD included with these responses labeled as TN-CMA-01-Q005-attachment 3.pdf and TN-CMA-01-Q005-attachment 4.pdf.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: John Watson/Mike Miller/Sheila Miller

Question:

6. Concerning the Company's proposed capital additions from the November 30, 2007 test year up to the attrition year ending August 31, 2009, please provide the following:
   a. A reconciliation of actual to budgeted capital expenditures after the end of the test year up to the most current point available.
   b. Please provide a copy of the Company's five-year capital expenditure plan, with a complete explanation of all planned capital expenditures after year-end 2007.
   c. A detailed description of each of the capital expenditure programs through the end of August 2009 with an assessment of the certainty that each capital expenditure will actually be made.
   d. Please explain the adjustment to accumulated depreciation between the end of the November 2007 test year up through August 31, 2009.
   e. Please provide workpapers showing the adjustment to accumulated deferred income taxes from the end of the test year up through August 31, 2009.

Response:

a. Please see the attached schedules.

b. The Company objects to this request on the grounds that information past the end of the attrition year in this case, August 2009, is not relevant to this proceeding. Subject to and without waiving its objection, please see the response to TN-TRA-01-Q18. Please see the responses to TN-TRA-01- Q52 & Q53 for information concerning the additions included from the end of the historical test-year through the end of the attrition year.

c. The Company expects to expend the funds to complete the capital additions included in the attrition year. Please refer to the documents attached to the response to TN-COC-01-Q26. Those schedules indicate that TAWC has spent at or above its capital spending budget for the years 2005-2007.

d. The depreciation expense was calculated on a monthly basis from the end of November 2007 through August 2008 utilizing the current depreciation rates and forecasted net additions to August 2008. The total of the depreciation expense for this entire period was credited to accumulated depreciation as of August 2008. The depreciation expense was calculated on a monthly basis from September 2008 through August 2009 utilizing the depreciation rates proposed by Mr. Spanos and forecasted net additions from September 2008 to the end of August 2009. The monthly depreciation expense was credited to the accumulated depreciation previously calculated through August 2008. A thirteen month average of the accumulated depreciation balances from August 2008 through August 2009 was calculated which was the accumulated depreciation balance used to reduce rate base for the attrition year. The work papers relating to this calculation can be found in the response filed to the TRA's first data request question 13 and labeled as TN-TRA-01-Q013-RATEBASE BACK-UP Pages 47 through 52 of 52.

e. The workpapers detailing the adjustment to accumulated deferred income taxes from the end of the test year through August 31, 2009, can be found in response to TRA DR 1 question 13 and labeled as TN-TRA-01-Q013-INCOME TAXES PAGE 15 to 20.

STRATEGIC CAPITAL EXPENDITURE PLAN
Actual to Budget
Tennessee
Units = $

Project Code	Brief Description of Proposed Expenditures	(IP, RP, PNI, PIA,	Period 12 Actual with accruals (2)	Year to Date Actual (4)	Period 12 Q3 Budget (5)	Period 12 Q3 Variance (2-5)	Year to Date Q3 Budget (6)	Year to Date Q3 Variance (4-6)	Board Approved Budget 2006 Q3RF	Total 2007 Q1RF Budget	Total 2007 Q2 RF Budget	Total 2007 Q3RF Budget
DV	Projects Funded by Others (Contrib. /Adv./ Refunds)	PIA	288,696	1,381,192	239,114	49,582	2,000,000	-618,809	$2,000,000	1,999,999	1,999,999	2,000,000
A	Mains - New	PIA	23,716	93,406	-11,476	35,193	300,000	-206,594	$200,000	202,300	202,300	300,000
B	Mains - Replaced / Restored	PIA	167,940	2,529,570	29,340	138,600	2,300,000	229,570	$2,800,000	2,135,995	2,215,122	2,300,000
C	Mains - Unscheduled		127,678	303,117	-25,044	152,721	150,000	153,117		88,099	103,527	150,000
D	Mains - Relocated		13,951	172,335	33,625	-19,675	170,000	2,335		527,903	370,352	170,000
E	Hydrants, Valves, and Manholes - New	PIA	7,719	223,247	37,007	-29,288	200,000	23,247	$200,000	200,000	200,000	200,000
F	Hydrants, Valves, and Manholes - Replaced	PIA	10,672	90,850	-1,172	11,844	76,000	14,850	$80,000	54,000	54,000	76,000
G	Services and Laterals - New	PIA	113,670	385,589	-110,830	224,499	400,000	-14,411	$750,000	750,145	750,145	400,000
H	Services and Laterals - Replaced	PIA	11,828	35,948	-17,736	29,564	50,000	-14,052	$150,000	93,300	93,300	50,000
I	Meters - New	PIA	77,425	434,637	73,627	3,798	400,000	34,637	$500,000	299,990	299,990	400,000
J	Meters - Replaced	PIA	548	1,300,622	-388,716	389,264	900,000	400,622	$1,000,000	1,500,032	1,500,032	900,000
K	ITS Equipment and Systems	PIA	33,981	114,419	5,665	28,316	100,250	14,170	$100,000	100,250	100,251	100,250
L	SCADA Equipment and Systems		0	0	10,220	-10,220	50,000	-50,000		0	0	50,000
M	Security Equipment and Systems		86,318	178,960	-37,524	123,842	50,000	128,959		0	0	50,000
N	Offices and Operations Centers	PIA	6,793	31,842	692	6,102	187,000	-155,158	$100,000	100,447	100,447	187,000
O	Vehicles	PIA	270,280	564,779	-49,075	319,354	810,000	-245,221	$0	738,075	738,075	810,000
P	Tools and Equipment	PIA	41,384	107,523	-30,966	72,350	180,000	-72,477	$350,000	160,250	160,250	180,000
Q	Process Plant Facilities and Equipment	PIA	161,055	266,834	58,277	102,778	500,000	-233,166	$500,000	500,000	500,000	500,000
R	Capitalized Tank Rehabilitation / Painting	PIA	94,793	841,258	-39,513	134,305	500,000	341,258	$600,000	600,000	600,000	500,000
S	Engineering Studies	PIA	30,582	190,013	6,023	24,559	150,000	40,013	$100,000	50,000	100,000	150,000
	TOTAL RECURRING PROJECTS 80 - 97		1,569,028	9,246,139	-218,462	1,787,490	9,473,250	-227,111	9,430,000	10,100,784	10,087,789	9,473,250
	TOTAL RECURRING PROJECTS 81 - 97		1,280,332	7,864,948	-457,576	1,737,908	7,473,250	391,698	7,430,001	8,100,785	8,087,790	7,473,250
26020003	East Ridge Zone Storage and Piplines		1,954	709,535	0	1,954	814,267	-104,732	$200,000	372,955	816,914	814,267
26020205	TDOT Highway Projects - 175, Signal Mt. Rd. Hickory Valley F		2,438	-9,233	596	1,842	-9,778	545	$0	4,130	-11,961	-9,778
26020501	TDOT Highway Projects - non refundable 2007	PIP	-8,057	139,706	19,913	-27,970	197,827	-58,121	$500,000	0	-3,743	197,827
26020503	Citico WTP Improvements	PNR	50,342	287,578	28,170	22,172	225,962	61,616	$0	500,000	500,000	225,962
26020701	NRW Pressure Reduction	PNI	0	0	0	0	0	0	$250,000	194,199	194,199	0
26020702	Missionary Ridge Storage Tank and Mains	PNI	0	0	-50,000	50,000	50,000	-50,000	$300,000	300,000	300,000	50,000
26020703	SCADA Equipment and Systems	PNI	539	90,339	0	539	115,253	-24,914		116,880	116,880	115,253
26020704	Security Equipment and Systems	PNI	10,809	8,603	0	10,809	-9,170	17,773	$106,400	106,400	106,400	-9,170
26029804	Replace Lookout Mountain Supply Mains	#N/A	5,703	5,703	15,199	-9,496	50,000	-44,297	$300,000	300,000	300,000	50,000
B-12	WTP Improvments, DBP (Ammoniation)	#N/A		0	0	0	0	0	$70,000	0	0	0
	Pretreatment Facility Improvements	#N/A		0		0	0	0	$550,000	0	0	0
	Enterprise Wide System Enhancement 2007	#N/A		$0					$117,154	117,154	117,154	0
	Unbudgeted		-18,180	954,075	10,000	-28,180	1,093,607	-139,532	$0	9,772	9,961	1,093,607
										79,187		
	TOTAL INVESTMENT PROJECTS		45,548	2,186,307	23,878	21,670	2,527,969	-341,663	2,393,554	2,100,677	2,445,805	2,527,969
											-332,133	0
	TOTAL GROSS		1,614,576	11,432,446	-194,583	1,809,159	12,001,220	-568,774	11,823,554	12,201,461	12,201,461	12,001,220
	Acquisitions			0	0	0	0	0				
	Net Advances, Refunds, and Contributions		-226,803	-526,599	13,000	-239,803	-1,000,000	473,401	-$1,000,000	-1,000,000	-1,000,000	-1,000,000
									$0	0	0	
	Net US GAAP		1,387,773	10,905,847	-181,583	1,569,357	11,001,220	-95,373	10,823,554	11,201,461	11,201,461	11,001,220
	Adjustments to CAPEX after 1.14.07		-20,794	-20,794								
	Final Net US GAAP		1,366,980	10,885,053								

STRATEGIC CAPITAL EXPENDITURE PLAN
Actual to Budget
Tennessee
Units = $

Project Code	Brief Description of Proposed Expenditures	(IP, RP, PNI, PIA,	Period 1 Budget (1)	Period 1 Actual with accruals (2)	Period 1 Variance (2-1)	Board Approved Budget 2008
DV	Projects Funded by Others (Contrib. /Adv./ Refunds)	PIA	93	711,107	711,014	**2,000,000**
A	Mains - New	PIA	0	0	0	**300,249**
B	Mains - Replaced / Restored	PIA	200,000	145,982	(54,018)	**1,600,000**
C	Mains - Unscheduled		0	**(0)**	(0)	**80,000**
D	Mains - Relocated		0	71	71	**220,000**
E	Hydrants, Valves, and Manholes - New	PIA	6,500	0	(6,500)	**99,500**
F	Hydrants, Valves, and Manholes - Replaced	PIA	0	3,472	3,472	**67,200**
G	Services and Laterals - New	PIA	7,392	59,773	52,381	**614,100**
H	Services and Laterals - Replaced	PIA	4,800	13,396	8,596	**119,700**
I	Meters - New	PIA	14,748	53,212	38,463	**590,045**
J	Meters - Replaced	PIA	3,611	176,030	172,419	**1,007,952**
K	ITS Equipment and Systems	PIA	0	0	0	**171,500**
L	SCADA Equipment and Systems		0	0	0	**75,000**
M	Security Equipment and Systems		0	0	0	**75,000**
N	Offices and Operations Centers	PIA	0	1,009	1,009	**80,581**
O	Vehicles	PIA	0	143,919	143,919	**468,785**
P	Tools and Equipment	PIA	4,000	**(8,157)**	(12,157)	**120,683**
Q	Process Plant Facilities and Equipment	PIA	6,000	8,061	2,061	**330,000**
R	Capitalized Tank Rehabilitation / Painting	PIA	0	**(243,384)**	(243,384)	**390,000**
S	Engineering Studies	PIA	0	19,060	19,060	**40,000**
	TOTAL RECURRING PROJECTS 80 - 97		**247,145**	**1,083,551**	**836,406**	**8,450,295**
	TOTAL RECURRING PROJECTS 81 - 97		**247,052**	**372,443**	**125,392**	**6,450,295**
26020501	TN DOT Relocations	PIA	0	**(71)**	**(71)**	**200,000**
IP-2602-4	Ringold Rd @ I-75	PIA	0	0	0	**1,260,000**
26020503	Citico WTP Pretreatment Phase 1	PIA	0	**(19,814)**	**(19,814)**	**3,323,538**
26020702	Missionary Ridge Storage Tank	PIA	0	0	0	**225,000**
26029804	CHAT-Replace Lkt Mtn Supp Mai	PIA	0	954	954	**30,000**
26020701	NRW Pressure Reduction	PIA	0	0	0	**200,000**
		New	0		0	**0**
		New			0	**0**
		New			0	**0**
		New			0	**0**
	Unbudgeted			17,940	17,940	**0**
	TOTAL INVESTMENT PROJECTS		0	(991)	(991)	**5,238,538**
	TOTAL GROSS		**247,145**	**1,082,560**	**835,415**	**13,688,833**
	Acquisitions				0	
	Net Advances, Refunds, and Contributions		**(2,000)**	**(732,732)**	**(730,732)**	**(1,149,000)**
	Net US GAAP		**245,145**	**349,828**	**104,683**	**12,539,833**

STRATEGIC CAPITAL EXPENDITURE PLAN
Actual to Budget
Tennessee
Units = $

Project Code	Brief Description of Proposed Expenditures	(IP, RP, PNI, PIA,	Period 2 Budget (1)	Period 2 Actual with accruals (2)	Period 2 Variance (2-1)	Year to Date Budget (3)	Year to Date Actual (4)	Year to Date Variance (4-3)	**Board Approved Budget 2008**
DV	Projects Funded by Others (Contrib. /Adv./ Refunds)	PIA	74,652	78,948	4,296	74,745	790,055	715,310	**2,000,000**
A	Mains - New	PIA	28,148	28,148	0	28,148	28,148	0	**300,249**
B	Mains - Replaced / Restored	PIA	100,000	(34,643)	(134,643)	300,000	111,339	(188,661)	**1,600,000**
C	Mains - Unscheduled		0	21,338	21,338	0	21,338	21,338	**80,000**
D	Mains - Relocated		10,000	10,000	0	10,000	10,071	71	**220,000**
E	Hydrants, Valves, and Manholes - New	PIA	3,000	2,000	(1,000)	9,500	2,000	(7,500)	**99,500**
F	Hydrants, Valves, and Manholes - Replaced	PIA	0	11,632	11,632	0	15,104	15,104	**67,200**
G	Services and Laterals - New	PIA	7,392	68,108	60,716	14,785	127,882	113,097	**614,100**
H	Services and Laterals - Replaced	PIA	9,300	4,393	(4,907)	14,100	17,789	3,689	**119,700**
I	Meters - New	PIA	14,748	50,875	36,127	29,497	104,087	74,590	**590,045**
J	Meters - Replaced	PIA	235,604	86,154	(149,450)	239,215	262,184	22,970	**1,007,952**
K	ITS Equipment and Systems	PIA	0	7,023	7,023	0	7,023	7,023	**171,500**
L	SCADA Equipment and Systems		0	0	0	0	0	0	**75,000**
M	Security Equipment and Systems		0	0	0	0	0	0	**75,000**
N	Offices and Operations Centers	PIA	0	7,039	7,039	0	8,049	8,049	**80,581**
O	Vehicles	PIA	0	(102,313)	(102,313)	0	41,606	41,606	**468,785**
P	Tools and Equipment	PIA	8,000	0	(8,000)	12,000	(8,157)	(20,157)	**120,683**
Q	Process Plant Facilities and Equipment	PIA	24,000	3,908	(20,092)	30,000	11,970	(18,030)	**330,000**
R	Capitalized Tank Rehabilitation / Painting	PIA	0	10,685	10,685	0	(232,700)	(232,700)	**390,000**
S	Engineering Studies	PIA	0	327	327	0	19,387	19,387	**40,000**
	TOTAL RECURRING PROJECTS 80 - 97		**514,845**	**253,624**	**(261,221)**	**761,990**	**1,337,175**	**575,185**	**8,450,295**
	TOTAL RECURRING PROJECTS 81 - 97		**440,193**	**174,676**	**(265,517)**	**687,245**	**547,120**	**(140,125)**	**6,450,295**
26020501	TN DOT Relocations	PIA		2,514	2,514	0	2,444	2,444	**200,000**
IP-2602-4	Ringold Rd @ I-75	PIA		0	0	0	0	0	**1,260,000**
26020503	Citico WTP Pretreatment Phase 1	PIA	150,000	160,158	10,158	150,000	140,343	(9,657)	**3,323,538**
26020702	Missionary Ridge Storage Tank	PIA		0	0	0	0	0	**225,000**
26029804	CHAT-Replace Lkt Mtn Supp Mai	PIA	15,000	1,086	(13,914)	15,000	2,040	(12,960)	**30,000**
26020701	NRW Pressure Reduction	PIA		0	0	0	0	0	**200,000**
		New			0	0	0	0	**0**
		New			0	0	0	0	**0**
		New			0	0	0	0	**0**
		New							**0**
	Unbudgeted			667	667	0	18,607	18,607	**0**
	TOTAL INVESTMENT PROJECTS		165,000	164,425	(575)	165,000	163,434	(1,566)	**5,238,538**
	TOTAL GROSS		**679,845**	**418,049**	**(261,796)**	**926,990**	**1,500,609**	**573,619**	**13,688,833**
	Acquisitions				0	0	0	0	
	Net Advances, Refunds, and Contributions		26,000	23,156	(2,844)	24,000	(709,576)	(733,576)	**(1,149,000)**
	Net US GAAP		**705,845**	**441,205**	**(264,640)**	**950,990**	**791,033**	**(159,956)**	**12,539,833**

STRATEGIC CAPITAL EXPENDITURE PLAN
Actual to Budget
Tennessee
Units = $

Project Code	Brief Description of Proposed Expenditures	(IP, RP, PNI, PIA,	Period 3 Actual with accruals (2)	Year to Date Actual (4)	Period 3 Q1 Budget (5)	Period 3 Q1 Variance (2-5)	Year to Date Q1 Budget (6)	Year to Date Q1 Variance (4-6)	Board Approved Budget 2008
DV	Projects Funded by Others (Contrib. /Adv./ Refunds)	PIA	189,954	980,009	881,076	(691,122)	1,671,131	(691,122)	**2,000,000**
A	Mains - New	PIA	12,965	41,113	75,062	(62,098)	103,211	(62,098)	**300,249**
B	Mains - Replaced / Restored	PIA	100,000	211,339	400,000	(300,000)	511,338	(300,000)	**1,600,000**
C	Mains - Unscheduled		15,000	36,338	30,000	(15,000)	51,338	(15,000)	**80,000**
D	Mains - Relocated		24,675	34,746	30,000	(5,325)	40,071	(5,325)	**220,000**
E	Hydrants, Valves, and Manholes - New	PIA	7,000	9,000	9,000	(2,000)	11,000	(2,000)	**99,500**
F	Hydrants, Valves, and Manholes - Replaced	PIA	6,382	21,485	20,874	(14,492)	35,977	(14,492)	**67,200**
G	Services and Laterals - New	PIA	66,301	194,183	145,518	(79,217)	273,400	(79,217)	**614,100**
H	Services and Laterals - Replaced	PIA	9,249	27,038	27,021	(17,772)	44,810	(17,772)	**119,700**
I	Meters - New	PIA	55,530	159,617	126,274	(70,744)	230,361	(70,744)	**590,045**
J	Meters - Replaced	PIA	192,603	454,787	270,101	(77,498)	532,285	(77,498)	**1,007,952**
K	ITS Equipment and Systems	PIA	6,000	13,023	7,023	(1,023)	14,046	(1,023)	**171,500**
L	SCADA Equipment and Systems		20,000	20,000	20,000	0	20,000	0	**75,000**
M	Security Equipment and Systems		25,352	25,352	0	25,352	0	25,352	**75,000**
N	Offices and Operations Centers	PIA	(200)	7,849	8,049	(8,249)	16,097	(8,249)	**80,581**
O	Vehicles	PIA	0	41,606	50,440	(50,440)	92,047	(50,440)	**468,785**
P	Tools and Equipment	PIA	0	(8,157)	5,843	(5,843)	(2,314)	(5,843)	**120,683**
Q	Process Plant Facilities and Equipment	PIA	15,920	27,890	90,969	(75,049)	102,939	(75,049)	**330,000**
R	Capitalized Tank Rehabilitation / Painting	PIA	42	(232,658)	(232,699)	232,741	(465,399)	232,741	**390,000**
S	Engineering Studies	PIA	0	19,387	19,387	(19,387)	38,775	(19,387)	**40,000**
	TOTAL RECURRING PROJECTS 80 - 97		**746,771**	**2,083,945**	**1,983,938**	**(1,237,168)**	**3,321,113**	**(1,237,168)**	**8,450,295**
	TOTAL RECURRING PROJECTS 81 - 97		**556,817**	**1,103,936**	**1,102,862**	**(546,046)**	**1,649,982**	**(546,046)**	**6,450,295**
26020501	TN DOT Relocations	PIA	17	2,460	2,443	(2,426)	4,887	(2,426)	**200,000**
IP-2602-4	Ringold Rd @ I-75	PIA	0	0	20,000	(20,000)	20,000	(20,000)	**1,260,000**
26020503	Citico WTP Pretreatment Phase 1	PIA	178,578	318,921	325,000	(146,422)	465,343	(146,422)	**3,323,538**
26020702	Missionary Ridge Storage Tank	PIA	0	0	25,000	(25,000)	25,000	(25,000)	**225,000**
26029804	CHAT-Replace Lkt Mtn Supp Mai	PIA	223	2,263	17,040	(16,817)	19,080	(16,817)	**30,000**
26020701	NRW Pressure Reduction	PIA	0	0	0	0	0	0	**200,000**
		New	0	0	0	0	0	0	**0**
		New	0	0	0	0	0	0	**0**
		New	0	0	0	0	0	0	**0**
		New	0	0	0	0	0	0	**0**
	Unbudgeted		2,459	21,065		2,459	18,607	2,459	**0**
	TOTAL INVESTMENT PROJECTS		181,276	344,710	389,483	(208,207)	552,917	(208,207)	**5,238,538**
	TOTAL GROSS		**928,046**	**2,428,655**	**2,373,421**	**(1,445,375)**	**3,874,030**	**(1,445,375)**	**13,688,833**
	Acquisitions			0		0	0		
	Net Advances, Refunds, and Contributions		(177,598)	(887,174)	(719,661)	542,063	(1,429,236)	542,063	**(1,149,000)**
	Net US GAAP		**750,448**	**1,541,482**	**1,653,761**	**(903,312)**	**2,444,794**	**(903,312)**	**12,539,833**

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Sheila Miller

Question:

7. Concerning the Company's revenue adjustments from the end of the test year through the attrition year, please provide the following:
   a. On electronic spreadsheet with all formulae intact, provide all workpapers showing the development of the normalization in test year numbers.
   b. An adjustment to revenues based on changes in number of customers between the test year and the end of the attrition year.
   c. Provide a five-year historical summary of the change in number of customers on each Tennessee-American rate schedule and how that information was used in projecting changes in number of customers through the end of the attrition year.
   d. Identify all subsidiaries of AWW that charge fees to Tennessee-American and identify the test year and attrition year cost, and explain how the fee is assessed.

Response:

a. See the work papers provided in response to TRA DR 2 Question 2 as provided on the enclosed CD in the folder labeled as TRA DR 2. The adjustments are broken out by line number as shown on the revenue adjustment recap schedule. These work papers detail all normalized and attrition year adjustments.

b. See response to a. Also see the work papers provided in response to TRA DR 1 Question 13 labeled as TN-TRA-01-Q013-REVENUES Pages 75 & 76 of 99.

c. See the attached schedule. The Company calculated the average change in residential and commercial customers over a 21 year period and applied that percentage to the December 2007 customer count to arrive at the monthly number of customers to add for growth. The Company used 29 per month for residential and 5 per month for commercial. The overall total for commercial customers calculated to 10 per month but it is evident that in the last 5 years there have been fluctuations in the change of commercial customers per year and there has been a loss of commercial customers in two of the last five years.

The five year summary of the other customer classifications is shown below:

	Industrial	OPA
2003	139	630
2004	135	627
2005	130	635
2006	129	659
2007	125	670

As you can see the Company has continually lost industrial customers. Therefore, growth was not applied to the industrial customer classification.

d. Please see the response to TN-TRA-01-Q14.

The fees to TAWC from AWWSC are assessed in accordance with the 1989 Service Company Agreement. The charges from AWCC are for the actual interest costs on the LT and ST debt obtained by TAWC from AWCC. The charges from AWC related to Carbon Lease Agreements.

Tennessee American Water
Residential Customer Count

Year	Customers	Chg in Cust.	
1986	57,277		
1987	57,771	494	0.86%
1988	57,997	226	0.39%
1989	57,864	(133)	-0.23%
1990	57,807	(57)	-0.10%
1991	57,939	132	0.23%
1992	58,472	533	0.92%
1993	58,840	368	0.63%
1994	59,208	368	0.63%
1995	59,501	293	0.49%
1996	59,501	69	0.12%
1997	59,570	69	0.12%
1998	59,784	214	0.36%
1999	60,141	357	0.60%
2000	60,242	101	0.17%
2001	60,063	(179)	-0.30%
2002	60,344	281	0.47%
2003	60,951	607	1.01%
2004	61,688	737	1.21%
2005	62,328	640	1.04%
2006	63,356	1,028	1.65%
2007	64,078	722	1.14%
Total		6,870	11.39%
Avg		327.14	0.54%
Dec-07	64,078	0.54%	348
	per month		29

Tennessee American Water
Commercial Customer Count

Year	Customers	Chg in Cust.	
1986	6,024		
1987	6,155	131	2.17%
1988	6,262	107	1.74%
1989	6,335	73	1.17%
1990	6,380	45	0.71%
1991	6,393	13	0.20%
1992	6,438	45	0.70%
1993	6,495	57	0.89%
1994	6,588	93	1.43%
1995	6,696	108	1.64%
1996	6,696	-	0.00%
1997	7,003	307	4.58%
1998	7,334	331	4.73%
1999	7,588	254	3.46%
2000	7,863	275	3.62%
2001	7,924	61	0.78%
2002	8,192	268	3.38%
2003	8,260	68	0.83%
2004	8,189	(71)	-0.86%
2005	8,208	19	0.23%
2006	8,168	(40)	-0.49%
2007	8,246	78	0.95%
Total		2,222	31.88%
Avg		105.81	1.52%
Dec-07	8,246	1.52%	125
			10

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

8. Concerning management fees included in the Company's test year filing, please provide the following:
   a. Please identify the total American Water Works Corporation (AWW) and all associates' management fees and the percentage of those fees allocated to Tennessee-American in this proceeding.
   b. Please identify the methodology for allocating total parent company management fees to Tennessee-American.
   c. Please show the change in American Water Works total company management fees over the last five years.
   d. Please show the change in the allocation of total company management fees to Tennessee-American over the last five years.
   e. Please provide an explanation of how the Company plans to manage its management fees and to keep them competitive with alternative non-affiliate suppliers of comparable services.
   f. Please explain the impact on Tennessee operations if the number of customers at other American Water Works affiliates are reduced through municipalization, loss of load, or other events that might cause a reduction in the number customers in the total system, and the relative increase in Tennessee-American customers relative to total AWW system.

Response:

a. The total AWWSC management fees (expense only) for the 12 month period ending 11/30/2007 were $255,365,754. The total AWWSC management fee allocated to Tennessee-American was $4,789,601. The percentage of fees allocated to Tennessee-American is 1.88%.

b. The parent company (AWW) does not allocate charges to TAWC.

c. The Company objects to this request on the grounds that the information prior to 2006 is not relevant to this proceeding, and this request is also unduly burdensome with respect to 2004 information as such information is not readily available for 2004 due to a change in accounting systems that occurred for AWWSC beginning in 2005. Subject to and without waiving its the objections, the Company provides the following response.

The changes in costs from 2005-07 are as follows:

	Total Expense	Change	
2007	$229,622,215	2006-2007	($9,326,566)
2006	$238,948,781	2005-2006	$47,830,058
2005	$191,118,723		

Please note that divestiture and Sox implementations impact these changes from year to year. TAWC has eliminated all Divestiture, SOX implementation and STEP costs from the historical test-year, and thus the attrition year expenses, included in this case

d. The Company renews the objections made to part c. above in regards to this subpart of the request. Subject to and without waiving its objections, the Company responds:

The total AWWSC management fees (expense only) for the 12 month period ending 12/31/2007 allocated to Tennessee-American:

	Allocated to TAWC	Change	
2007	$4,725,529	2006-2007	$413,001
2006	$4,312,528	2005-2006	$559,911
2005	$3,752,617		

e. AWW continually evaluates its operations to determine the most cost effective structure to meet the needs of its subsidiaries and customers regarding new and/or more efficient operations, changing conditions, changes in regulation, and customer expectations. These efforts have included movement to a national 24/7 customer service call operation, a national shared service center to address transactional accounting and accounting uniformity, a national procurement process, Service First initiatives, up to date and efficient IT operations, and SOX compliant operational and financial reporting. Information obtained from customers including TAWC customers indicates a consistently high ratio of satisfaction with the service level provided.

TAWC has consistently been able to demonstrate that these efforts have and will continue to show that AWWSC services provided at cost in accordance with the 1989 Service Company Agreement are competitive with other alternatives. The water industry, financial and operational expertise obtained by TAWC through AWWSC on a shared basis could not be obtained locally or through third party providers in a cost effective manner (See the testimony of Pat Baryenbruch in case number 06-00290 and the testimony of Michael Miller (including rebuttal exhibit MAM-15) in case number 06-00290). The competitiveness of the costs from AWWSC are further confirmed in the independent management audit provided by the firm of Booz Allen in this case.

f. The Company objects to this request on the grounds that it is vague, ambiguous, and overly broad.

Subject to and without waiving its objections, the Company generally responds as follows: hypothetically, all other factors being equal, a material reduction in the number of customers at other subsidiaries of AWW due to municipalization or other events would, absent any change in AWWSC labor, expenses or other overheads, result in decreased economies of scale and therefore increased management fee amount to TAWC. However, if a reduction of AWWSC customer base occurred as hypothesized, there would also likely be a reduction in labor, overheads and expenses at AWWSC if that customer base reduction was material. The American Water Works Service Company formulas are based on the number of customers and are adjusted each year or when an acquisition or loss of a company occurs during the year.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael J. Vilbert

Question:

9. Please provide complete copies of any and all workpapers supporting or contradicting Tennessee-American witness Michael J. Vilbert's testimony in this proceeding.

Response:

All workpapers related to the testimony of Dr. Vilbert were submitted with the testimony. A summary list of tables can be found in Table No. MJV-1.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

10. Please provide copies of all credit reports issued by major credit rating agencies on American Water Works, American Water Capital Corporation, and Tennessee-American Water Company over the last two years (2006-2008).

Response:

Please see attached files "S&P 2006-08 Reports" and "Moody's 2006 & 2007 reports."

Research Update:

American Water Works, Sub Ratings Remain On CreditWatch; IPO Timing Still Uncertain

Rationale

On Jan. 29, 2008, Standard & Poor's Ratings Services said that its 'A-' corporate credit rating on water and wastewater utility company American Water Works Co. Inc. (AWW) and its funding subsidiary, American Water Capital Corp. (AWCC) will remain on CreditWatch with negative implications. Standard & Poor's placed the ratings on CreditWatch on Nov. 15, 2007, after parent RWE AG (A+/Negative/A-1) postponed AWW's equity offering. The reaffirmation of the CreditWatch listing follows recent statements by RWE's management that the AWW spin-off could still be delayed beyond April and possibly occur in late 2008. We still believe the postponement of the IPO distracts AWW's management and could stall necessary improvements to the company's financial profile, which depends on the successful execution of a number of rate cases across several states. Additional delays to the IPO or AWW's inability to achieve improved financial performance in 2008 is likely to result in a downgrade.

As of Sept. 30, 2007, AWW's pro forma total debt, including capitalized operating leases and tax-effected pension and postretirement obligations, was $5.7 billion.

The ratings on the Voorhees, N.J.-based AWW reflect our assessment of the company's stand-alone credit quality based on its proposed post-IPO business plan, which includes improvements in the utility's financial profile above current levels. AWW has received all regulatory approvals necessary for its divestiture from RWE AG. The ratings are also based on our expectation of regulatory support to fund the company's sizable capital-spending requirements through rate cases or supportive policies, such as infrastructure surcharges, forward-looking test years, and single tariff pricing.

AWW's excellent business risk profile is characterized by an excellent competitive position with high barriers to entry; a diverse and supportive regulatory environment that provides reasonably allowed ROEs, incentives for infrastructure improvements and support for acquiring small water companies; an above-average service territory that provides some market, cash flow, and regulatory diversification; a stable customer base that is predominantly residential and commercial; and the relatively low operating risk of regulated and nonregulated operations. AWW's aggressive financial profile, uncertainties associated with its planned equity and equity unit offerings, elevated capital-spending requirements for infrastructure replacement, increased compliance costs with water-quality standards, and the company's reliance on acquisitions to provide growth partly offset these strengths.

RWE indirectly owns AWW. Through RWE's regulated subsidiaries, AWW provides water and wastewater services to more than 3.3 million customers in 20 states. AWW's regulated utility subsidiaries represent almost 90% of total revenues, but have provided almost 100% of adjusted EBIT for the past three years. The company's nonregulated subsidiaries consist of water and wastewater facility management and maintenance, as well as design and construction consulting services related to water and wastewater plants. We view these nonregulated segments as having modest incremental risk to AWW due to their lack of cash flow contribution and modest expected capital requirements.

AWW's financial metrics are weak for the rating and partly result from agreements with some state regulators not to file rate cases for up to three years. This was a condition of RWE's acquisition of AWW. As evidenced by the filing of 11 rate cases in 2007, we expect AWW to actively pursue additional rate cases as determined by its rising operating costs, capital-spending plans, and pension and other postretirement obligations. We anticipate that current rate case activity may lead to annual revenue increases of up to $175 million, if granted. Another reason for the weak performance is AWW's significant goodwill impairments over the past three years. The impairments, which have totaled more than $1 billion, were based on slower-than-expected growth in RWE's North American water segment, privatization of water utilities in North America, and valuation of its nonregulated businesses. Based on indicative market values, an impairment of up to $300 million could be reported in fourth-quarter 2007.

Adjusted funds from operations (FFO) to total debt is still below 10%, which is weak for the rating. In addition, significant rate relief is necessary for the company to earn its authorized rate of return of about 10%. We expect adjusted FFO, which is subpar at $475 million for the 12 months ended Sept. 30, 2007, to benefit from continued customer growth and rate increases in several key states. After AWW issued $1.5 billion of senior notes, which the company used to redeem RWE intercompany preferred stock, adjusted debt to capital increased to 56% as of Sept. 30, 2007, from 48% as of June 30, 2007. The increase in leverage is partly due to the intermediate equity treatment of the preferred stock, compared with the 100% debt treatment of the newly issued debt.

As a condition of the regulatory approvals for the sale, RWE has agreed that AWW's capital structure will consist of at least 45% common equity at the time of the IPO. As of Sept. 30, 2007, common equity consisted of 47% of AWW's total book capitalization. RWE must infuse additional cash equity if leverage increases from current levels.

Short-term rating factors

The 'A-2' short-term ratings on AWW and AWCC reflect sizable borrowing capacity under the company's revolving credit facility and stable cash flows from regulated subsidiaries. However, AWW's cash uses include high levels of capital spending, substantial upcoming debt maturities, and expectations that the company will institute a common stock dividend after it completes the proposed IPO. Capital expenditures are projected at $4 billion to $4.5 billion during the next five years for infrastructure replacements, new facility construction, maintenance of water-quality and environmental standards, and system reliability.

With cash from operations for the past 12 months of only $390 million, AWW's cash flow generation is insufficient to meet its ongoing operating and capital needs, and will require additional access to the capital markets over the intermediate term. Scheduled debt maturities of $196 million in 2008, $55 million in 2009, and $54 million in 2010 are fairly sizable. AWW is expected to implement a dividend policy with its equity issuance, roughly matching the average dividend yield of other companies in its peer group, which is about 2%. As such, annual dividend payments could exceed $100 million.

As of Sept. 30, 2007, AWW had $151 million in unrestricted cash, about $415 million available under its $800 million revolving credit facility, which matures on Sept. 15, 2011, and a $10 million short-term working-capital line of credit. Financial covenants include a maximum debt to capital (with adjustments) of 70% and restrictions on liens, distributions, debt incurred at AWW, and asset sales.

Ratings List

Ratings Remain On CreditWatch Negative

American Water Works Co. Inc.	
Corp. credit rating	A-/Watch Neg
American Water Capital Corp.	
Corp. credit rating	A-/Watch Neg
Senior unsecured debt	A-/Watch Neg
Preferred stock	BBB/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings referenced herein can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

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November 15, 2007

Research Update:

American Water Works 'A-' Long-Term Ratings Placed On Watch Negative After Postponing IPO

Primary Credit Analyst:
Kenneth L Farer, New York (1) 212-438-1679;kenneth_farer@standardandpoors.com

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Research Update:

American Water Works 'A-' Long-Term Ratings Placed On Watch Negative After Postponing IPO

Rationale

On Nov. 15, 2007, Standard & Poor's Ratings Services placed its long-term ratings on American Water Works Co. Inc. (AWW) and its funding subsidiary American Water Capital Corp. (AWCC) on CreditWatch with negative implications, including its 'A-' corporate credit ratings. The 'A-2' short-term ratings were not placed on CreditWatch.

The CreditWatch placement follows an announcement by AWW's parent, RWE AG (A+/Negative/A-1), that it has postponed AWW's equity offering, which will delay financial improvements and will likely result in a downgrade if the IPO is not completed prior to the end of the first quarter of 2008. Ratings could be affirmed and removed from CreditWatch if the equity offering is completed prior to that time and financial performance improves in line with management's forecast. RWE stated that the timing of the IPO has not yet been determined, because the company expects the current value paid for AWW will not be sufficient to fund RWE's planned dividend payments and share repurchase program.

The 'A-' corporate credit rating on the Voorhees, N.J.-based water and wastewater utility company reflects our assessment of AWW's stand-alone credit quality based on its proposed post-IPO business plan, which includes improvements in the financial profile. The ratings are also based on our expectation of regulatory support to fund the company's sizable capital-spending requirements through rate cases or supportive policies such as infrastructure surcharges, forward-looking test years, and single tariff pricing.

As of June 30, 2007, AWW's pro-forma total debt, including capitalized operating leases and tax-effected pension and postretirement obligations, was about $5.3 billion.

AWW's excellent business risk profile of '2' (utility business profiles are categorized from '1' (excellent) to '10' (vulnerable)) is characterized by:

- An excellent competitive position with high barriers to entry;
- A supportive regulatory environment;
- An above-average service territory in terms of size and interconnections;
- A stable customer base that is predominantly residential and commercial; and
- The relatively low operating risk of regulated and nonregulated operations.

The partly offsetting factors are AWW's weak financial profile, uncertainties associated with its planned equity and equity unit offerings, elevated capital-spending requirements for infrastructure replacement, increased compliance costs with water quality standards, and the company's reliance on acquisitions to provide growth.

AWW, indirectly owned by RWE and through its regulated subsidiaries, provides water and wastewater services to more than 3.3 million customers in 20 states. The company's regulated utility subsidiaries represent almost 90% of total revenues, but have provided almost 100% of adjusted EBIT for the past three years. The company's nonregulated subsidiaries consist of the management and maintenance of water and wastewater facilities as well as the design and construction consulting services related to water and wastewater plants. We view these nonregulated segments as having modest incremental risk to AWW due to their lack of cash flow contribution and modest expected capital requirements.

AWW's financial metrics are weak for the rating and are partly attributed to agreements not to file rate cases with some state regulators for up to three years as a condition of RWE's acquisition of the company. All of the regulatory stay-out provisions expired on June 30, 2007, and AWW is expected to pursue rate cases actively in all jurisdictions as determined by its rising operating costs, capital-spending plans, and pension and other postretirement obligations. Another reason for the weak performance is AWW's goodwill impairments of more than $700 million recorded during the past three years. The impairments were based on slower-than-expected growth in RWE's North American water segment, privatization of water utilities in North America, and valuation of its nonregulated businesses.

Adjusted FFO to total debt was 9%, which is well below the minimum expectation of 12% for the 'A' rating category. In addition, significant rate relief is necessary for the company to earn its authorized rate of return, which is about 10%. We expect adjusted FFO, which was subpar at $460 million in 2006, to benefit from continued customer growth and rate increases in several key states. Adjusted debt to capital of 53% and FFO interest coverage of 2.6x are appropriate for the rating.

Although AWW's subsidiaries recover underfunded pension and postretirement benefit obligations through regulatory deferrals, AWW's consolidated pension and other postretirement obligations were underfunded by $459 million as of Dec. 31, 2006, the last reported date.

Short-term credit factors

The 'A-2' short-term ratings on AWW and AWCC reflect sizeable borrowing capacity under the company's revolving credit facility and stable cash flows from regulated subsidiaries. However, AWW's uses of cash include high levels of capital spending, substantial upcoming debt maturities, and expectations that the company will institute a common stock dividend on completion of its proposed IPO. Capital expenditures are projected at $4 billion to $4.5 billion during the next five years for infrastructure replacements, construction of new facilities, maintenance of water quality and environmental standards, and system reliability.

For 2007, the company has forecast capital spending of between $740 million and $780 million. Despite the current debt and equity issuances, AWW's cash flow generation is insufficient to meet its ongoing operating and capital needs, and will require additional access to the capital markets over the intermediate term. Before the IPO and refinancing of its debt obligations, AWW's scheduled debt maturities of $287 million and $196 million in 2007 and 2008, respectively, are fairly sizable. Proceeds from the company's $1.5 billion debt issue completed in October 2007 were used to repay a portion of the intercompany debt owed to RWE. AWW is expected to implement a dividend policy with its equity issuance, roughly matching the average dividend yield of other companies in its peer group, which is about 2%. As such, annual dividend payments could exceed $100 million.

As of June 30, 2007, AWW had $51 million in cash, about $740 million available under its $800 million revolving credit facility, which matures on Sept. 15, 2011, and a $10 million short-term working capital line of credit, which matures on Dec. 31, 2007, unless extended. Financial covenants include a maximum debt to capital (with adjustments) of 70% and restrictions on liens, distributions, debt incurred at AWW, and asset sales. As a condition to the regulatory approvals for the sale, AWW has agreed that its capital structure must be comprised of at least 45% common equity at the time of the IPO. The change-of-control provision is more restrictive than most revolving credit agreements, as a change of control is defined as one entity owning 25% or more of the post-IPO outstanding common stock or certain majority changes to the membership of the board of directors.

Ratings List

Ratings Placed On CreditWatch

	To	From
American Water Works Co. Inc.		
Corp. credit rating	A-/Watch Neg	A-/Negative
American Water Capital Corp.		
Corp. credit rating	A-/Watch Neg	A-/Negative
Senior unsecured debt	A-/Watch Neg	A-
Preferred stock	BBB/Watch Neg	BBB

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

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RATINGSDIRECT®

September 19, 2007

Research Update:

American Water Works 'A-' Corp Rating Is Affirmed, Off Watch, Outlook Neg; Debt Issues Rated

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Research Update:

American Water Works 'A-' Corp Rating Is Affirmed, Off Watch, Outlook Neg; Debt Issues Rated

Rationale

On Sept. 19, 2007, Standard & Poor's Ratings Services affirmed its 'A-' corporate credit rating on American Water Works Co. Inc. (AWW) and its funding subsidiary, American Water Capital Corp. (AWCC). The ratings were removed from CreditWatch with negative implications. The outlook is negative.

The rating action reflects the stand-alone credit quality of AWW, which has received all regulatory approvals necessary for its parent RWE AG (A+/Negative/A-1) to sell the company via an IPO in late 2007. The rating action also reflects our reassessment of AWW's financial risk profile, based on the company's post-IPO business plan and proposed capital structure.

At the same time, Standard & Poor's assigned its 'A-' senior unsecured debt rating to AWCC's proposed $1.5 billion debt and 'BBB' preferred stock rating to AWCC's $500 million proposed equity unit offering. The specific amount of five-year, 10-year, and 30-year notes has not yet been determined.

AWW's subsidiary debt of $2.1 billion is less than 20% of the company's assets, after adjusting for goodwill. Therefore, the senior unsecured debt issued by the holding company does not merit a lower rating due to structural subordination. However, there is little cushion for additional subsidiary obligations before the 20% threshold would be breached.

The equity unit consists of a debtlike component, the payment of quarterly interest, and a forward common stock purchase contract with the number of shares dependent on AWW's stock price at maturity. We treat the equity units as two financings rather than a single "net" equity financing. Although the transaction incorporating the equity issuance could theoretically be applied to repaying the debt, there is no legal or in-substance defeasance, or any other basis to expect that this will be the case, as there are also remarketing provisions available for the debt portion of the security.

AWW's excellent business risk profile of '2' (Utility business profiles are categorized from '1' (excellent) to '10' (vulnerable)) is characterized by:

- An excellent competitive position with high barriers to entry;
- A supportive regulatory environment;
- An above-average service territory in terms of size and interconnections;
- A stable customer base that is predominantly residential and commercial; and
- The relatively low operating risk of regulated and nonregulated operations.

These strengths are partly offset by uncertainties associated with AWW's weak financial profile, planned IPO and debt offerings, elevated capital-spending requirements for infrastructure replacement, increased compliance costs with water quality standards, and the company's reliance on acquisitions to provide growth partly offset its strengths.

AWW is currently indirectly owned by RWE, and through its regulated subsidiaries, provides water and wastewater services to more than 3.3 million customers in 20 states. The company's regulated utility subsidiaries represent almost 90% of total revenues and have provided almost 100% of adjusted EBIT for the past three years. The company's nonregulated subsidiaries include the management and maintenance of water and wastewater facilities, and the design and construction consulting services related to water and wastewater plants. We view these nonregulated segments as having modest incremental risk to AWW due to their limited revenue and cash flow contribution, modest expected capital requirements, and contractual terms, which are largely with a municipal or governmental entity.

AWW's financial metrics are weak for the current rating. The weak financial measures are partly attributed to agreements not to file rate cases with some state regulators for up to three years as a condition of RWE's acquisition of the company. Another reason for the weak performance is AWW's goodwill impairments of more than $700 million recorded over the past three years. The impairments were based on downward adjustments to the growth expectations in RWE's North America water segment, slower-than-expected privatization of water utilities in North America, and valuation of its nonregulated businesses. All of the stay-out provisions expired on June 30, 2007, and AWW is expected to actively pursue rate cases in all jurisdictions as determined by its rising operating costs, capital-spending plans, and pension and other postretirement obligations. As of June 30, 2007, AWW's pro forma total debt, including capitalized operating leases and tax-effected pension and postretirement obligations, was about $5.3 billion, with adjusted debt to capital of 53%. For the 12 months ended Dec. 31, 2006, adjusted funds from operations (FFO) was $460 million and FFO interest coverage was 2.6x, which are appropriate figures for the current rating. However, adjusted FFO to total debt of 9% is well below the minimum expectation of 12% for the 'A' category. In addition, significant rate relief is necessary for the company to earn its authorized rate of return, which is about 10%.

Although AWW's subsidiaries recover underfunded pension and postretirement benefit obligations through regulatory deferrals, AWW's consolidated pension and other postretirement obligations were underfunded by $459 million as of Dec. 31, 2006, the last reported date.

Short-term credit factors

The 'A-2' short-term rating on AWW and AWCC reflects:

- Adequate liquidity sources;
- Stable cash flows from regulated subsidiaries;
- The expectation of regulatory support to fund the company's sizable capital-spending requirements through rate cases or supportive policies such as infrastructure surcharges, forward-looking test years, and single tariff pricing; and
- Meaningful debt maturities over the next few years.

As of June 30, 2007, AWW had $51 million in cash, about $740 million available under its $800 million revolving credit facility, which matures on

Sept. 15, 2011, and a $10 million short-term working capital line of credit, which matures on Dec. 31, 2007, unless extended. Financial covenants in the revolving credit facility include a maximum debt to capital (with adjustments) of 70% and restrictions on liens, distributions, debt incurred at AWW, and asset sales. The change-of-control provision is more restrictive than most revolving credit agreements, as a change of control is defined as one entity owning 25% or more of the post-IPO outstanding common stock or certain majority changes to the membership of the board of directors.

Over the past three years, cash flow has steadily declined due to the regulatory stay-out provisions implemented after the company's acquisition by RWE. We expect adjusted FFO, which was subpar at $460 million in 2006, to benefit from continued customer growth and rate increases in several key states. AWW's uses of cash include high levels of capital spending, substantial upcoming debt maturities, and expectations that the company will institute a common stock dividend on completion of its proposed IPO. Capital expenditures are projected at $4 billion to $4.5 billion for the next five years for infrastructure replacements, construction of new facilities, maintenance of water quality and environmental standards, and system reliability. For 2007, the company has forecast capital spending of between $740 million and $780 million. Despite the current debt and equity issuances, AWW's cash flow generation is insufficient to meet its ongoing operating and capital needs, and will require additional access to the capital markets over the intermediate term. Before the IPO and refinancing of its debt obligations, AWW's scheduled debt maturities of $287 million and $196 million in 2007 and 2008, respectively, are fairly sizable. We expect AWW's dividend policy to roughly match the average dividend yield of other companies in its peer group, which is about 2%, and, therefore, annual dividend payments could exceed $100 million.

Outlook

The outlook on AWW is negative. The negative outlook reflects the company's current weak financial profile. A downgrade could occur if the pending rate cases, particularly in New Jersey and Pennsylvania, do not allow for adequate rate relief to improve the company's financial profile, the company is unable to complete its planned debt and equity offerings and achieve its stated leverage target in the near term, or if debt leverage steadily increases over the intermediate term. Conversely, we could revise the outlook to stable if AWW's financial profile improves through favorable regulatory rate increases at current ROEs, with limited additional debt leverage.

Ratings List

Ratings Affirmed, Off Watch, Outlook Negative

	To	From

American Water Works Co. Inc.		
Corp. credit rating	A-/Negative/A-2	A-/Watch Neg/A-2
American Water Capital Corp.		
Corp. credit rating	A-/Negative/A-2	A-/Watch Neg/A-2
Senior unsecured debt	A-	BBB+/Watch Neg

Ratings Assigned

Preferred Stock	
$500 million equity units	BBB
Senior unsecured debt	
$1.5 billion senior unsecured debt	A-

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

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RESEARCH

Research Update:

American Water Works Assigned 'A-' Corporate Credit Rating, On Watch Neg

Publication date: 13-Oct-2006
Primary Credit Analyst: Kenneth L Farer, New York (1) 212-438-1679; kenneth_farer@standardandpoors.com

Rationale

On Oct. 13, 2006, Standard & Poor's Ratings Services assigned its 'A-/A-2' corporate credit rating to American Water Works Co. Inc. At the same time, Standard & Poor's affirmed its 'A-' rating on American Water Capital Corp., a wholly owned subsidiary of American Water Works, that serves as the funding vehicle for American Water Works' regulated water utility subsidiaries. Standard & Poor's also assigned its 'A-2' rating to American Water Capital's $700 million commercial paper program.

The ratings on American Water Works were placed on CreditWatch with negative implications. The ratings on American Water Capital are also on CreditWatch with negative implications, where they were placed on Nov. 7, 2005.

The ratings on the companies will remain on CreditWatch until the completion of the sale of American Water Works by parent RWE AG (A+/Negative/A-1), which is expected in 2007. The CreditWatch listing reflects continued uncertainty surrounding the extensive regulatory process associated with approving the sale, the need for an updated business plan, and completion of significant debt and equity offerings.

The ratings on American Water Works and America Water Capital reflect the stand-alone credit quality of American Water Works. American Water Works' stand-alone business risk profile is '2' (excellent). (Utility business profiles are categorized from '1' (excellent) to '10' (vulnerable)). The strength of the business profile stems from insulation from competition, geographically diverse and largely residential markets, supportive regulatory environment, and the relatively low operating risk of managing groundwater and water treatment facilities. Uncertainty associated with American Water Works' IPO in 2007, increasingly stringent water quality standards, and the company's reliance on acquisitions to provide growth partly offset its strengths.

American Water Works' stand-alone financial risk profile is intermediate and includes management's projected post-IPO debt-to-capital ratio of 45% to 55%. We will reassess the financial risk profile when additional information is available concerning the company's post-IPO business plan and capital structure.

Historical earnings and margins are stable, supported by healthy markets and regulatory recovery of operating and capital costs, although increased operating and capital expenses can lag regulatory recovery. For the past five years, funds from operations (FFO) to debt has been about 10% and FFO interest coverage was in the 1.5x to 2.5x area. Given the business risk profile of '2', American Water Works' cash flow metrics are somewhat weak for the 'A-' rating.

In RWE's investor presentation related to the sale of its water businesses, the company stated that its North American Water segment, which includes some operations outside of American Water Works, plans to spend $3.6 billion on capital expenditures from 2005 to 2009, compared with about $500 million per year recently. American Water Works' increased capital spending is needed to upgrade aging water systems, accommodate population and economic growth, and comply with environmental regulations. RWE projects negative free cash flow and external financing to fund the higher capital spending. Over the intermediate term, continued customer growth and regulatory rate increases could improve credit measures. However, improvements could be hindered if future regulatory rate increases do not keep pace with the company's increased capital spending.

Short-term credit factors

The 'A-2' short-term rating on American Water Works and American Water Capital reflects:

- Adequate consolidated liquidity,
- Stable cash flows from regulated subsidiaries,
- American Water Capital's $800 million revolving credit facility, which matures on Sept. 15, 2011 (excluding extensions), and
- Manageable debt maturities over the next few years.

American Water Works has maintained adequate cash balances, typically exceeding $50 million, although future levels could differ after the sale by RWE. Uses of American Water Capital's $800 million revolving credit facility, which matures on Sept. 15, 2011, are targeted for backup to the company's $700 million commercial paper program and LOCs, as needed. Financial covenants in the revolving credit facility include a maximum debt to capital (with adjustments) of 70% and restrictions on liens, distributions, debt incurred at American Water Works, and asset sales. The change of control provision is more restrictive than most revolving credit agreements as a change of control is defined as one entity owning 25% or more of the post-IPO outstanding common stock or certain majority changes to the membership of the board of directors.

Ratings List

Ratings Assigned

American Water Works Co. Inc.	
Corporate credit rating	A-/Watch Neg/A-2
American Water Capital Corp.	
Commercial paper rating	A-2

Ratings Affirmed

American Water Capital Corp.	
Corporate credit rating	A-/Watch Neg/--

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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UTILITIES

Publication date: 14-Feb-2006
Reprinted from RatingsDirect

Summary: American Water Capital Corp.

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Credit Rating:
A/Watch Neg/NR

Rationale

American Water Capital Corp. (AWCC) is a wholly owned subsidiary of American Water (unrated) and serves as the funding vehicle for American Water's regulated water utility subsidiaries. The ratings on AWCC remain on CreditWatch with negative implications. American Water is a wholly owned subsidiary of parent RWE AG (A+/Negative/A-1).

The ratings on AWCC reflect the stand-alone credit quality of American Water. In November 2005, RWE announced its intention to sell its U.K. and U.S. water businesses and focus on its electricity and gas operations in Europe. The intercompany funding support RWE has given AWCC is expected to remain until all the intercompany debt has been refinanced, which should occur sometime before the sale has been completed. The sale process will start with RWE's U.S. water operations, and then will continue with its U.K. water business, RWE Thames Water PLC (A/Watch Neg/A-1). The process will be lengthy, because it requires the approval of RWE's supervisory board, as well as several regulatory jurisdictions. The goal is to complete both transactions during 2007.

The CreditWatch listing on AWCC is not expected to be resolved until the completion of the sale, because of the greater amount of uncertainty regarding the future plans for the American Water operations versus those of RWE Thames Water. This uncertainty is the result of the extensive regulatory approval process that will be required, due to American Water's large and geographically diverse operations.

American Water's stand-alone credit quality is supported by its '2' (excellent) business risk profile. (Utility business risk profiles are categorized from '1' (excellent) to '10' (vulnerable)). The company's business risk profile benefits from geographic and regulatory diversity, a large customer base that is mostly residential and commercial, and a generally supportive regulatory environment. These strengths are slightly offset by the somewhat increased risk from American Water's nonregulated water and wastewater operations.

American Water's excellent business risk profile is partly countered by the company's intermediate, stand-alone financial risk profile, which is weak for the rating. Debt leverage has improved dramatically since the merger with RWE, dropping to 47.5% from 69.1% at year-end 2002, due to RWE's $3 billion infusion of preferred stock and common equity in 2003. However, for the 12-months ended Sept. 30, 2005, adjusted funds from operations (FFO) to average total debt was just 13%, which is low, but a significant improvement from 7.5% in fiscal 2003. Adjusted FFO interest coverage and adjusted EBIT interest coverage have also improved since 2003, to 3.6x and 2.2x, respectively. The company's ROE was a mere 1.4%, but is expected to improve due to the continued filing of rate cases.

Liquidity
AWCC's liquidity position is adequate. American Water has received previous support from RWE in the form of intercompany loans, but this support will lessen going forward. Leading up to the completion of the sale of RWE's U.S. water operations, American Water will most likely need to start sourcing its own funding. However, Standard & Poor's expects RWE's continued, although diminished, support to American Water until the sale has been completed to alleviate any near-term liquidity constraints.

Capital-spending needs for American Water will be partially funded internally, with the balance funded through tax-exempt debt issuances in the capital markets or through intercompany loans from RWE. American Water has $1,219.9 million of long-term debt maturing in 2006, nearly all of which is in the form of RWE intercompany loans.

As of Sept. 30, 2005, American Water had $51.6 million in cash and cash equivalents. AWCC also has a $550 million, 364-day revolving credit agreement with RWE. AWCC had $239.9 million in availability from these credit lines as of Dec. 31, 2004. Borrowing under the credit agreement is based on LIBOR, and AWCC pays a commitment fee of 6.575 basis points on the entire amount. For 2004, the weighted-average interest rate on the outstanding lines was 1.43%.

Moody's Investors Service

Global Credit Research
Credit Opinion
17 OCT 2007

Credit Opinion: American Water Works Company, Inc.

American Water Works Company, Inc.

New Jersey, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2

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Key Indicators

American Water Works Company, Inc. (New)

	2004	2005	2006	LTM 6-2007
Funds from Operations / Adjusted Debt [1][2]	7.0%	6.7%	6.9%	7.9%
Retained Cash Flow / Adjusted Debt [2]	7.0%	6.7%	6.9%	7.9%
Common Dividends / Net Income Available for Common	0.0%	0.0%	0.0%	0.0%
Funds from Operations + Adjusted Interest / Adjusted Interest [3]	2.6x	2.4x	2.2x	2.4x
Adjusted Debt / Adjusted Capitalization [2][4]	67.0%	68.8%	59.3%	53.5%
Net Income Available for Common / Common Equity	-2%	-12%	-4%	-3%

[1] FFO includes add-back of 2/3 annual operating lease expense [2] Debt is adjusted to include preferred stock, 6X rent, and underfunded pension obligation [3] Interest is adjusted to include 1/3 rent and preferred stock dividends [4] Adjusted capitalization reflects the adjustments made to debt

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

Headquartered in Voorhees, New Jersey, American Water Works Company, Inc. ("American Water"), is an indirect wholly-owned subsidiary of RWE AG and is the largest investor-owned provider of water, wastewater and related services in North America. It is the parent company of numerous regulated water utility subsidiaries in the United States and reported revenue in 2006 of $2.1 billion. American Water is multiples larger than other investor owned water utility companies within its peer group in the U. S. Assets supporting this revenue base include its operations in 32 states serving a population of approximately 16.2 million. Although American Water has non-regulated businesses (approximately 12% of revenues) it is primarily viewed, on a consolidated basis, as a regulated water utility company.

American Water is a parent holding company with no direct debt obligations. Its primary financing vehicle is American Water Capital Corp. ("Capital"), a finance subsidiary. American Water also incurs debt at the regulated subsidiary level.

Recent Developments

On October 12, 2007, Moody's downgraded to Baa2 from Baa1 the senior unsecured issuer rating of Capital. Moody's also confirmed Capital's P-2 short-term rating. At the same time, Moody's assigned a (P) Baa2 senior unsecured rating to Capital's planned $1.5 billion note offering and a Baa2 senior unsecured issuer rating to Capital's parent, American Water.

The downgrade of Capital's long-term rating was prompted by RWE AG's planned divestiture of the company, via initial public offering. The initial sale of RWE's interest in American Water is expected to happen in late-2007; however, preceding that transaction, Capital is expected to issue $1.5 billion of senior unsecured notes in order to substantially repay approximately $2.0 billion of inter-company debt currently owed to RWE. These notes are expected to be issued in October 2007. It is Moody's understanding that the company will also issue $500 million of "equity units" concurrent with the IPO that will fund out the balance of inter-company debt owed to RWE.

The one-notch downgrade of Capital's senior unsecured issuer rating, and the assignment of a Baa2 issuer rating to its parent, American Water, reflects the loss of implied support from RWE following the IPO, historically weak consolidated credit metrics, and the increase in financial and operating risk going forward as a publicly traded, stand-alone company. Moody's has also taken this opportunity to equalize the new rating for American Water, a holding company, with its finance subsidiary, Capital, due to the existence of a "support agreement" between the two entities that effectively backstops Capital's timely payment of principal and interest, as needed.

Rating Rationale

American Water has a number of positive rating factors contributing to its investment grade rating including geographic diversity of operations and a mostly regulated rate structure which provides stability to cash flows over time (approximately 88% of revenues were derived from regulated operations in 2006). The importance of water to the communities it serves is also an important rating consideration. The ratings also reflect the company's current soft consolidated credit metrics, large capital spending forecast, and risks surrounding the company's transition to a stand-alone publicly traded company.

The key factor's influencing American Water's rating and outlook include:

GEOGRAPHIC DIVERSITY AND REGULATED OPERATIONS

With operations in 32 states and areas of Canada, American Water's operating reach is considerable. On the regulated side, American Water operates in 20 states including its largest operations in New Jersey, Pennsylvania, and Illinois, which together accounted for nearly 50% of consolidated revenues in 2006. Although there can be differences in the level of profitability at each subsidiary jurisdiction, the regulated nature of the business should ensure a relatively stable and healthy return over time. Barriers to entry in this business are also very high given the importance of water and the constraints related to collection and distribution of water. The geographic diversity can also provide a balancing effect on the company's cash flows due to seasonal weather effects or timing of rate filings.

SOFT CREDIT METRICS

American Water's cash flow derived credit metrics have exhibited weakness for some time and are considered somewhat soft for the Baa2 rating (funds from operations (FFO) to total adjusted debt was approximately 7.9% for the trailing twelve month period ended June 30, 2007). Moody's believes there is capacity for improvement as the company has either filed or is planning to file for rate increases in many of the jurisdictions in which it operates after a long period following RWE's acquisition where the company's ability to increase rates was limited due to stay-out provisions agreed to in some jurisdictions. Going forward as a public company, we expect American Water will also be under pressure to initiate and continually pay dividends on its common stock.

CAPITAL INTENSIVE INDUSTRY

The regulated water utility business is highly capital intensive. Capital spending rates for American Water have averaged 240% of depreciation from 2004-06 and this level of expenditures often leads to negative free cash flow, which is not uncommon for regulated water and electric utilities. This funding is often financed with debt until "rate-base" is established and factored into allowed returns. This typically requires equity contributions to maintain the targeted balance of debt and equity in the capital structure. Timely rate increases and the ability to attract new equity capital will be two key drivers for maintaining the rating going forward as the water utility industry remains capital intensive with infrastructure spending often a multiple of depreciation. American Water is facing a sizeable capital spending plan and will need to finance additional rate base with debt and equity at levels appropriate for the rating category to avoid future downward pressure on the rating or outlook given the magnitude of the planned expenditures.

SUPPORT AGREEMENT WITH AMERICAN WATER CAPITAL CORP

Capital, a Delaware corporation, is the wholly-owned finance subsidiary of American Water and whose purpose is to streamline the financing function, create cash management efficiency, and lower the cost of capital for American Water's regulated water utility subsidiaries. Capital's senior unsecured Baa2 rating is now equalized with its parent, American Water. We note that American Water has provided credit enhancement through a support agreement between American Water and Capital. American Water will continue to own, during the term of the support agreement, all of the voting stock of Capital. American Water has also committed to ensure that a positive tangible net worth at Capital will be maintained at all times. In addition, if Capital is unable to make timely payment of interest, principal, or premium on any debt issued and outstanding, American Water has committed to provide immediate and timely funds to Capital.

Moody's effectively views this structure a guarantee and has made no notching differentiation between the two entities. Nevertheless, we note that approximately 60% of American Water's consolidated debt will be borrowed at Capital, with the balance at the various regulated operating subsidiaries where the material cash flows are generated. We note that debt at Capital does not benefit from any explicit upstream guarantees from the regulated utility operations nor does the debt obligations of the subsidiaries, including Capital, benefit from any explicit downstream guarantee from American Water. Also important to note is that American Water's primary source of cash to service debt at Capital comes from the company's regulated utility operations. Although Moody's believes the current ratings capture the cash generating ability of those subsidiary operations, we note that dividends will be limited to the retained, undistributed or current earnings of each jurisdiction.

NON-REGULATED OPERATIONS

We note that American Water also has a much smaller non-regulated water-related services segment (approximately 12% of fiscal 2006 revenues) that will remain a part of its business model going forward. While this business segment is considered a growth area and is less capital intensive, it is also less profitable. We note the segment reported negative EBIT in 2005 and 2006. Consequently, the regulated operating subsidiaries will continue to be the primary source of funds to service debt and to pay the expected dividends to its public shareholders.

Liquidity

In terms of internal liquidity, Moody's generally expects American Water to generate at least $500 million in FFO per year, with a weighting towards the second half of the year due to seasonality. In addition to internally generated cash flows, Moody's expects that American Water will fund some short-term capital needs with commercial paper borrowings. The $700 million commercial paper program established at Capital is backstopped by a five-year $800 million revolving credit agreement that expires in September 2012. There is a relatively balanced maturity schedule for existing debt. Although currently lightly utilized, Moody's expects the company may moderately increase its utilization of commercial paper borrowings over the balance of 2007. Despite the modest negative free cash flow expected over the next four quarters, American Water's liquidity appears to be sufficient to meet the company's needs.

Rating Outlook

The rating outlook is stable. Moody's considers the company's current weak cash flow driven credit metrics but also the room for improvement as the company files for additional rate increases across many of its operating jurisdictions. Although Moody's does not expect a material increase in leverage post-IPO, there are number of other potential cash flow uncertainties to consider, including possible dividend pressure as new publicly traded company.

What Could Change the Rating - Up

The ratings for American Water are not likely to be upgraded in the near-term given the credit metrics and the planned large capital spending program. Levels that would be seen as appropriate for the category include consolidated FFO to adjusted debt in the mid teens with retained cash flow (FFO - dividends) to adjusted debt measuring near 10%.

What Could Change the Rating - Down

There are a number of considerations that Moody's would take into account and likely see as placing negative pressure on American Water or Capital's rating. These considerations include any changes to the existing support agreement between Capital and American Water as well as any significant deterioration in credit metrics due to fundamental business pressure. A prolonged period of financial results leading to FFO to adjusted debt in the low-to-mid single digits for an extended period would place severe pressure on the rating.

relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Moody's Investors Service

Global Credit Research
Rating Action
12 OCT 2007

Rating Action: American Water Capital Corp. (New)

Moody's Downgrades American Water to Baa2; Confirms P-2 Short-Term Rating

New York, October 12, 2007 -- Moody's Investors Service today downgraded to Baa2 from Baa1 the senior unsecured issuer rating of American Water Capital Corp ("Capital"). Moody's also confirmed Capital's P-2 short-term rating. At the same time, Moody's assigned a (P) Baa2 senior unsecured rating to Capital's planned $1.5 billion note offering and a Baa2 senior unsecured issuer rating to Capital's parent, American Water Works Company, Inc ("American Water"). The rating outlook for both issuers is stable. Today's rating action concludes the review for possible downgrade initiated on August 28, 2007.

Moody's review of Capital's short and long-term ratings was prompted by American Water's planned recapitalization of the company in advance of the divestment, via initial public offering, from its current parent, RWE AG (A1 stable). The initial sale of RWE's interest in American Water is expected to happen in late-2007; however, preceding that transaction, Capital is expected to issue $1.5 billion of senior unsecured notes in order to substantially repay approximately $2.0 billion of inter-company debt currently owed to RWE. These notes are expected to be issued in October 2007. It is Moody's understanding that the company will also issue $500 million of "equity units" concurrent with the IPO that will fund out the balance of inter-company debt owed to RWE.

The one-notch downgrade of Capital's senior unsecured issuer rating, and the assignment of a Baa2 issuer rating to its parent, American Water, reflects the loss of implied support from RWE following the IPO, historically weak consolidated credit metrics, and the increase in financial and operating risk going forward as a publicly traded stand-alone company. Moody's has also taken this opportunity to equalize the new rating for American Water, a holding company, with its finance subsidiary, Capital, due to the existence of a "support agreement" between the two entities that effectively backstops Capital's timely payment of principal and interest, as needed. Nevertheless, an additional concern is that approximately 60% of American Water's consolidated debt will be borrowed at Capital, with the balance at the various regulated operating subsidiaries where the material cash flows are generated. We note that debt at Capital does not benefit from any upstream guarantees from the regulated utility operations nor does the debt obligations of the subsidiaries, including Capital, benefit from any downstream guarantee from American Water.

Moody's considers American Water's position as the largest investor-owned water utility in the U.S. and geographic diversity with regulated operations in 20 states as being positive credit qualities. Moody's views investor-owned water utilities in the U.S. as having greater long-term stability and supportive regulatory treatment than most of their electric utility counterparts which has resulted good levels of historical cash flow from such regulated operations. Although American Water's cash flow derived credit metrics have exhibited weakness for some time and are considered somewhat soft for the Baa2 rating (funds from operations (FFO) to total adjusted debt was approximately 7.5% for the trailing twelve month period ended June 30, 2007), Moody's believes there is capacity for improvement as the company has either filed or is planning to file for rate increases in all of the jurisdictions in which it operates after a long period following RWE's acquisition where the company's ability to increase rates was limited due to stay-out provisions agreed to in some jurisdictions. Timely rate increases and the ability to attract new equity capital will be two key drivers for maintaining the rating going forward as the water utility industry remains capital intensive with infrastructure spending often times at a multiple of depreciation. American Water is facing a sizeable capital spending plan and will need to finance additional rate base with debt and equity at levels appropriate for the rating category to avoid future downward pressure on the rating or outlook given the magnitude of the planned expenditures.

We note that American Water also has a much smaller non-regulated water-related services segment (approximately 12% of fiscal 2006 revenues) that will remain a part of its business model going forward. While this business segment is considered a growth area and is less capital intensive, it is also less profitable. Consequently, the regulated operating subsidiaries will continue to be the primary source of funds to service debt and to pay the expected dividends to its public shareholders.

The stable outlook reflects Moody's expectations that going forward there will be no material change to the currently envisioned capital structure. The refinancing will likely have a negative impact on American Water's financial flexibility going forward as the company terminates its historical reliance on funding from its larger and more financially secure parent and switches to meeting those capital needs from the public debt and equity markets as a standalone entity. Moody's expects the company to maintain adequate liquidity for its operations primarily through Capital's $700 million commercial paper program which is currently back-stopped by a committed multi-year $800 million revolving bank facility expiring in September 2012. Although currently lightly drawn, Moody's expects the company may moderately increase its utilization of commercial paper borrowings over the balance of 2007.

Headquartered in Voorhees, New Jersey, American Water Works Company, Inc. is an indirect wholly-owned subsidiary of RWE AG and is the largest investor-owned provider of water, wastewater and related services in North America. It is the parent company of numerous water utilities in the United States and reported revenue in 2006 of $2.1 billion.

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Moody's Investors Service

Global Credit Research
Rating Action
28 AUG 2007

Rating Action: American Water Capital Corp.

Moody's Places American Water on Review for Possible Downgrade

New York, August 28, 2007 -- Moody's Investors Service has placed both the long-term and short-term ratings of American Water Capital Corporation (Capital: Baa1, senior unsecured - Prime-2 and VMIG-2 short-term ratings) on review for possible downgrade. Capital is the finance subsidiary of American Water Works Company, Inc. (American Water). Today's rating action is in advance of Capital's planned $1.5 billion senior unsecured note offering. The notes are a component of American Water's strategy to recapitalize the company as it prepares to spin off, via initial public offering, from its current parent, RWE AG (A1 stable).

The review will primarily focus on the anticipated loss of its funding support from RWE following the full or partial sale of its equity interest in American Water. We note the proceeds from the note offering will in part be used to refinance approximately $2.0 billion of existing inter-company debt and preferred stock of American Water currently held by RWE. The refinancing will likely have a negative impact on American Water's financial flexibility going forward as the company terminates its historical reliance on funding from its larger and more financially secure parent and switches to meeting those needs from the public debt and equity markets as a standalone entity. The company has advised that they expect the IPO transaction to take place sometime in late-2007 and that all state regulatory approvals needed for RWE's divestiture have now been received.

American Water's cash flow derived credit metrics have also exhibited weakness for some time and are below what is commensurate with a Baa1 rating. For example, funds from operations (FFO) to total adjusted debt was approximately 7.5% for the trailing twelve month period ended June 30, 2007. Moody's would generally expect to see this measure at or near 10% for the Baa rating category for regulated water utilities. We note as well that the water utility industry remains capital intensive with infrastructure spending often times at a multiple of depreciation. As such, the review will focus on the extent and pace to which American Water can improve its credit profile through expected rate increases across its service areas given the ongoing need for substantial capital investment and usual regulatory lag. Moody's will also assess the profitability and level of contributions made by American Water's non-regulated subsidiaries (approximately 12% of fiscal 2006 revenues) and how these businesses fit into the company's strategy going forward. The factors noted above notwithstanding, Moody's will continue to consider the long-term stability associated with investor-owned water utilities in the U.S. and, in an environment of supportive regulatory treatment, the good level of cash flow historically generated from such regulated operations. As such, any potential downgrade to the long-term rating would likely be limited to no more than two rating notches.

Moody's will also focus on American Water's liquidity during this process and the extent to which any potential delays, with respect to the senior note offering or the IPO, due to market conditions can be accommodated. Capital currently has a $700 million commercial paper program backed by a committed multi-year $800 million revolving bank facility. Although currently lightly drawn, Moody's expects the company to increase its utilization of commercial paper borrowings over the balance of 2007 to serve as bridge financing prior to the IPO.

Headquartered in Voorhees, New Jersey, American Water Works Company, Inc. is an indirect wholly-owned subsidiary of RWE AG and is the largest investor-owned provider of water, wastewater and related services in North America. It is the parent company of numerous water utilities in the United States and reported revenue in 2006 of $2.1 billion.

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Moody's Investors Service

Global Credit Research
Issuer Comment
12 DEC 2006

Issuer Comment: American Water Capital Corp.

Moody's Comments on American Water's $500 million Private Placement

American Water Works Company Inc.'s (American Water) planned $500 million senior unsecured bond offering will have no immediate impact on Moody's rating of the company's financial conduit, American Water Capital Corp. (Baa1, negative outlook). The notes are expected to be placed privately and will have American Water Capital Corp. as the sole obligor. As Moody's understands the transaction, proceeds will be used to refinance existing inter-company advances from RWE AG, its current parent, and will become a more permanent component of its capital structure going forward. Both Moody's and American Water have historically considered this inter-company class of obligations as debt. Consequently, for ratio calculation purposes this debt financing is not viewed as being incremental. However, it will remove a certain level of flexibility on the part of American Water as this obligation becomes a more defined contractual debt obligation with a stated maturity rather than an obligation that could, in effect, be rolled over indefinitely at the discretion of RWE. American Water is targeting the completion of this financing by year-end 2006.

Moody's will continue to monitor the ratings of American Water as its plan to be divested from its current owner, via initial public offering, progresses; along with any developments related to the company's future strategy, business risk profile, and the ultimate level of debt to be employed in its capital structure post IPO. We note that Moody's current negative outlook for senior unsecured obligations of American Water Capital reflects both the relatively weak credit metrics for its rating category as well as the future elimination of support from its financially stronger parent, RWE, post IPO, which is expected to occur sometime in mid-2007.

Headquartered in Voorhees, New Jersey, American Water Works Company, Inc. is an indirect wholly-owned subsidiary of RWE AG and is the largest investor-owned provider of water, wastewater and related services in North America. It is the parent company of numerous water utilities in the United States and reported revenues of approximately $2.0 billion for the last twelve months ended September 30, 2006.

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Moody's Investors Service

Global Credit Research
Rating Action
17 OCT 2006

Rating Action: American Water Capital Corporation

Moody's assigns P-2 short-term rating to American Water Capital

Approximately $700 million of debt securities affected

New York, October 17, 2006 -- Moody's Investors Service assigned a Prime-2 short term rating to American Water Capital Corp. (Capital) in connection with its new $700 million commercial paper (CP) program. At the same time, Moody's affirmed Capital's existing Baa1 long-term senior unsecured rating and VMIG-2 short term rating. The outlook remains negative.

The P-2 rating considers Capital's position as a financial conduit of American Water Works Company, Inc. (Water Works), and reflects the understanding that the existing support agreement between the two entities will continue to be maintained. Water Works has committed to ensure that a positive tangible net worth at Capital will be maintained at all times. In addition, if Capital is unable to make timely payment of interest, principal, or premium on any debt issued and outstanding, Water Works has committed to provide immediate and timely funds to Capital.

Capital's commercial paper program is fully backstopped by an $800 million five-year committed revolving credit facility. Use of proceeds under the program includes general corporate purposes and refinancing of existing credit lines. The backstop facility, which was signed on September 15, 2006, terminates in five years (2011), has same-day borrowing availability and one financial covenant permitting a maximum level of debt to capitalization at Water Works of 70%. The credit agreement contains a material adverse change clause only at the initial extension of credit; an event that occurred at the closing of the facility with the issuance of L/C's.

Moody's long-term rating of Baa1 for Capital's existing senior unsecured obligations reflects the relatively stable nature of the cash flows expected from Water Works' regulated water utility businesses. Also considered in the rating is Water Work's plan to be divested, via initial public offering, from its current owner, RWE AG (A1 stable), of Germany. Moody's anticipates the company's capital structure following the spin-off, expected by mid-2007, will reflect a partial refinancing of Water Works' existing debt that should not result in a material increase in leverage but will require a significant amount of refinancing of inter-company debt with RWE.

At this time, the long-term rating is constrained by the uncertainty surrounding the liquidity and capital structure of American Water Works post IPO. Although RWE has no obligation to guarantee payments on securities issued by Capital or other subsidiaries of Water Works, Moody's has historically considered the financial strength of RWE and its ownership of Water Works in Capital's rating. The elimination of this relationship will likely be viewed negatively with respect to the company's overall credit profile which could possibly result in a reassessment of the long and short term ratings, following the planned change of ownership. Apart from the anticipated IPO transaction, the negative outlook also reflects the continuing uncertainty surrounding prospects for rate recovery and the ability of Water Works to strengthen credit ratios over time. We note as well that Water Works will soon be operating as a stand alone entity following its spin-off from RWE, with all the financial and operating responsibilities attached thereto as a publicly traded company.

Headquartered in Voorhees, New Jersey, American Water Works Company, Inc. is an indirect wholly-owned subsidiary of RWE AG and is the largest investor-owned provider of water, wastewater and related services in North America. It is the parent company of numerous water utilities in the United States and reported revenue in 2005 of $2.0 billion.

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TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller/Others

Question:

11. Please provide complete copies of all presentations made to the credit analysts and equity analysts by or on behalf of American Water Works, American Water Capital Corporation, and Tennessee-American Water Company over the last two years.

Response:

The Company objects to this request on the grounds that it is unduly burdensome, seeks information that is not relevant to this proceeding and seeks Highly Confidential Information. The Company objects to the production of this highly confidential data without the entry of a protective order that includes heightened protections sufficient to protect highly confidential information.

Subject to and without waiving its objections, the Company states that public information about AWK can be found at the following web sites: www.sec.gov and www.amwater.com (investor relations). Furthermore, please see the response to TN-COC-01-Q002.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

12. Concerning the Company's development of cash working capital included in rate base, please provide the following:
    a. A description of the purpose of including cash working capital in rate base.
    b. Identify all previous Tennessee Regulatory Authority precedent for developing cash working capital in the manner proposed by the Company in this proceeding.
    c. Please describe the purpose of a lead-lag study in estimating an appropriate amount of cash working capital for regulated utility operations.
    d. Please provide a comparison on [*sic.*] Tennessee-American's method for estimating an appropriate amount of cash working capital for Tennessee operations relative to the methodology used by affiliated AWW water utilities in other jurisdictions.

Response:

a. Cash working capital should be included in rate base because there is a lag between when the Company incurs expenses and when the Company receives the cash from its customers in the form of payment of water bills. The lag between the payment of expenses for service rendered and receipt of the cash is called cash working capital and included in rate base by most regulatory commissions (including the TRA) in order to provide a return on the Company's investment related to the cash lag.

b. The Company objects to this request on the grounds that is overly broad, unduly burdensome and not readily available to the Company. Subject to and without waiving the objection, the Company states that a review of all TAWC rate case filings from 1995 to present (the readily available data) indicates this method was utilized by the Company in each of those five TAWC rate filings. In the Company's judgment that method for establishing cash working capital as a rate base element has never been an issue. Please see the Motion of Director Miller in case number 06-00290, which was approved by the TRA. That Motion indicates recognition of a working cash component of rate base.

c. To determine the amount of cash provided by the Company to pay its operating costs until it receives the cash in the form of payment for the customer's water bill related to that service.

d. The Company objects to this request on the grounds that it is overly broad and unduly burdensome. The Company further objects to this request to the extent that it seeks information that is not relevant to this proceeding. Subject to and without waiving the objection, it is Mr. Miller's belief that each AWW regulated subsidiary for the six states where he has been involved with rate filings utilizes lead/lag information to determine the level of cash working capital appropriate for inclusion in its rate filings.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller/John Watson

Question:

13. Please provide a comparison of Tennessee-American's residential commercial and industrial water rates, to those of other water utilities within a 500-mile radius of the Chattanooga, Tennessee service area.

Response:

The Company objects to this request on the grounds that it is overly broad, unduly burdensome, and the information is not readily available to the Company. The Company does not have the requested information at this time.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

14. Please provide an assessment of why the cost of water utility service in the Chattanooga, Tennessee area would be higher or lower than the cost of water utility service in each surrounding area as defined in question 13, above.

Response:

The Company objects to this request on the grounds that it is overly broad, unduly burdensome, and the requested information is not readily available to the Company. The Company does not have this information at this time.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

15. To the extent not already provided to CMA, either in response to the initial data request by the Tennessee Regulatory Authority Staff in this proceeding, or in response to others in this proceeding, please provide copies of all responses which Tennessee-American made to all other parties' data request in this proceeding with all workpapers on electronic spreadsheet and in hard copy format, along with copies of all documents, reference material(s) and other sources relied upon by all witnesses for the Company in this proceeding.

Response:

Please see the Company's responses to TN-CMA-01-Questions 1 and 2.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: John Watson/Michael Miller

Question:

16. Please provide a copy of TAWC's five-year and ten-year capital expenditure and operating expense budgets, and any documents reflecting any discussion, consideration, order, directive or vote (or similar instruction) to adjust, alter, manipulate, or deviate from the same.

Response:

The Company objects to this request on the grounds that it calls upon TAWC to create or otherwise organize data regarding time periods outside of TAWC's historical test year, and as such, is unduly burdensome, seeks to have TAWC create work product and seeks information that is not relevant to this rate case, and because information past the end of the attrition year in this case, August 2009, is not relevant to this proceeding. Subject to and without waiving this objection, please see the Company's response to TN-TRA-01-Q18. Furthermore, please see the Company's responses to TN-TRA-01-Q52 & Q53 for information concerning the additions included from the end of the historical test-year through the end of the attrition year.

No directive or vote exists to adjust, alter, manipulate or deviate from the Plan provided in response to TN-TRA-01-Q18.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

17. Please provide a tabulation of the authorized rates of return in orders from around the country (if any), reviewed by or referred to or regarding any RWE, AWW, or TAWC affiliated entity, that supports or contradicts TAWC's opinion that an 11.75% return on common equity is fair, just, reasonable, or representative of current investor expectations for a water utility. Please include, but do not limit your response to, the jurisdiction, docket number, authorized return, number of customers served and dates of issue of the order(s) surveyed by Tennessee-American or its affiliate(s).

Response:

TAWC objects to this request as unduly burdensome and to the extent it requests that TAWC create work product. Dr. Vilbert's direct testimony, exhibits and work papers have been produced. Dr. Vilbert's testimony, work papers and exhibits speak for themselves as to the data he reviewed and relied on in recommending a range of returns for the appropriate cost of equity in this case.

At this time Mr. Miller has made no tabulations or reviews of the authorized ROE's of other AWW regulated subsidiaries, or other comparable utilities. Mr. Miller is aware that the 11.75% cost of equity (the mid point of Dr. Vilbert's range of a fair and reasonable cost of equity capital) included in the Company's weighted cost of capital calculation is similar to those cost of equity capital requests being made in current AWW regulated subsidiary and other utility rate cases.

Dependent on the positions taken by the other parties in this case as to the cost of equity capital and/or double leverage calculations, Dr. Vilbert and/or Mr. Miller may in fact undertake such an analysis for use in rebuttal testimony.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Michael Miller

Question:

18. Please identify the credit rating for all affiliates that work with TAWC to access external debt markets and, if different, copies of credit rating reports issued for the TAWC affiliates referenced above by all credit rating agencies issued since January 1, 2006.

Response:

American Water Works Company, Inc.

S&P – A-	Moodys – Baa2

American Water Capital Corporation, Inc.

S&P – A-	Moodys – Baa2

The CMA requested the Credit Agency reports for the same period in TN-CMA-01-Q10. Copies of the reports were provided with that response.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Paul Herbert

Question:

19. Provide any and all documents, calculations or workpapers created, used or referred to in determining the revenue effect(s) of the proposed rate structure.

Response:

Please refer to the response and attachments to TRA DR 1, Questions 13, labeled as TN-TRA-01-Q03-REVENUES pages 1 through 15 of 99.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Paul Herbert

Question:

20. Provide on electronic spreadsheet the cost of service model prepared and/or relied on by TAWC in this proceeding, and provide all workpapers on electronic spreadsheet and in hard copy supporting or contradicting this cost of service model referred to in this data request.

Response:

The cost of service study was provided with the testimony of Paul Herbert in the original filing. The electronic version of the cost of service study is included on the enclosed CD and labeled as TN-CMA-01-Q020-ATTACHMENT.xls.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Paul Herbert

Question:

21. Provide any calculations or workpapers created, used or referred to rate class impacts or customer impacts, individually for each and every tariff to which any change is proposed, resulting from the proposed rate structure.

Response:

Please see the response to CMA-19.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Paul Herbert

Question:

22. With reference to Mr. Herbert's Direct Testimony, please identify the other allegedly similar system (if any) that were used to determine the relationship between maximum day and maximum hour ratios and produce any and all documents identifying, regarding or relating to such "other similar systems."

Response:

The relationship between a system's maximum hour ratio to its maximum day ratio typically ranges between a factor of 1.3 to 1.5, as follows:

	Max Day Ratio	Max Hour Ratio	Ratio of Max Hour To Max Day
The York Water Company	1.44	1.84	1.3
Pennsylvania American	1.40	2.10	1.5
Aqua Pennsylvania	1.40	2.00	1.4
West Virginia American	1.30	1.80	1.4
Kentucky American	1.65	2.50	1.5

For Tennessee American, a factor of 1.3 was used (1.90 max hour ratio ÷ 1.45 max day ratio = 1.3) to estimate the system max hour ratio because of the similar size and customer mix as The York Water Company.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Paul Herbert

Question:

23. With reference to Mr. Herbert's Direct Testimony, please state the authority used as a source for the equivalent meter and service line ratios (Classification Factors 10 and 11).

Response:

The AWWA water rates manual discusses the use of meter capacity ratios and actual unit costs by size to determine the appropriate allocation factors for meters and services.

References in the AWWA Water Rates Manual can be found on page 67 and in Appendix B on pages 305 through 307.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Paul Herbert

Question:

24. Please provide an electronic copy of the 2007 Cost of Service Study prepared by Mr. Herbert for the Tennessee-American Water Company in 2007, and a list of trials, court actions, or agency regulatory proceedings (dockets or contested cases) in which Mr. Herbert has participated in the past ten (10) years.

Response:

Please see response to CMA-20. A list of cases which Mr. Herbert has testified is attached to his direct testimony.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Responsible Witness: Paul Herbert

Question:

25. Please identify in tabular format and provide a copy of all cost of service studies prepared by Mr. Herbert, or those working with him, for any other rate cases involving affiliates of TAWC or its parent(s) for the past five (5) years including, but not limited to, a summary of the conclusion(s) of each such study, whether such study recognized any subsidy by one rate class benefiting another class of customers, whether his proposed rate design requested an increase "across the board" (*i.e.* allocated proportionally among the various customer classes so that each class, as a whole, would receive the same percentage increase as the other classes) or an increase that called for differential increases amongst customer classes (identifying the differential increases), whether his rate design was opposed, and whether his design was adopted.

Response:

TAWC objects to this question on the grounds that this question is overly broad, unduly burdensome, and not relevant to this proceeding. Without waiving and subject to its objections, TAWC provides the following response. Mr. Herbert specializes in cost of service studies in his consulting work. He has appeared before regulatory bodies across the country as an expert in this field. Attached to his testimony is a substantial list of docket (case) numbers where he has appeared as a witness, and this testimony and cost of service studies appear on the various regulatory web sites for those cases.

A table showing the Company name, year of study and whether the proposed rate design was based on an across-the-board increase or was based on class specific increases is provided on the following page.

TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
FIRST SET OF DATA REQUESTS

Company	Year of Study	Proposed Rate Design
Kentucky American	2001	Class Specific
	2004	Across the Board
	2007	Across the Board
York Water	2001	Across the Board
	2003	Class Specific
	2004	Across the Board
	2006	Across the Board
	2008	Across the Board
West Virginia American	2000	Across the Board
	2003	Across the Board
	2007	Across the Board
Virginia American	2001	Across the Board
	2002	Across the Board
	2004	Class Specific
	2008	Class Specific
Pennsylvania American	2001	Class Specific
	2003	Class Specific
	2007	Class Specific
New Jersey American	2003	Class Specific
	2006	Class Specific
	2008	Class Specific
New Mexico American	2006	Class Specific
Missouri American	2003	Class Specific
	2006	Across the Board
	2008	Class Specific
Iowa American	2001	Class Specific
Aqua Pennsylvania	2001	Class Specific
	2003	Class Specific
	2005	Class Specific
	2007	Class Specific
Bethlehem, City of	2005	Across the Board
	2007	Across the Board
Ohio American	2007	Class Specific
Artesian Water Co.	2008	Class Specific
Arizona American	2008	Class Specific

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 28th day of May, 2008, upon the following:

[x] Hand-Delivery [ ] U.S. Mail [ ] Facsimile [ ] Overnight [x] Email	Timothy C. Phillips, Esq. Consumer Advocate and Protection Division Office of Attorney General 2nd Floor 425 5th Avenue North Nashville, TN 37243-0491
[ ] Hand-Delivery [ ] U.S. Mail [ ] Facsimile [x] Overnight [x] Email	David C. Higney, Esq. Counsel for Chattanooga Manufacturers Association Grant, Konvalinka & Harrison, P.C. 633 Chestnut Street, 9th Floor Chattanooga, TN 37450
[x] Hand-Delivery [ ] U.S. Mail [ ] Facsimile [ ] Overnight [x] Email	Henry M. Walker, Esq. Counsel for Chattanooga Manufacturers Association Boult, Cummings, Conners & Berry, PLC Suite 700 1600 Division Street Nashville, TN 37203
[ ] Hand-Delivery [ ] U.S. Mail [ ] Facsimile [x] Overnight [x] Email	Michael A. McMahan, Esq. Special Counsel City of Chattanooga (Hamilton County) Office of the City Attorney Suite 400 801 Broad Street Chattanooga, TN 37402
[ ] Hand-Delivery [ ] U.S. Mail [ ] Facsimile [x] Overnight [x] Email	Frederick L. Hitchcock, Esq. Harold L. North, Jr., Esq. Counsel for City of Chattanooga Chambliss, Bahner & Stophel, P.C. 1000 Tallan Building Two Union Square Chattanooga, TN 37402

R. Phillips

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

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**

AFFIDAVIT

STATE OF WEST VIRGINIA

COUNTY OF KANAWHA

I, MICHAEL MILLER, Treasurer/Comptroller for Tennessee American Water Company, do hereby certify that the foregoing responses to the Chattanooga Manufacturers Association's First Set of Data Requests to Tennessee American Water Company were prepared by me or under my supervision and are true and accurate to the best of my knowledge and information.

DATED this 27th day of May, 2008.

Michael A. Miller
(signature)

Michael A. Miller
(printed name)

Sworn to and subscribed before me this 27th day of May, 2008.

Vanessa S. Turner
NOTARY PUBLIC

My Commission Expires:
July 6, 2012

OFFICIAL SEAL
NOTARY PUBLIC
STATE OF WEST VIRGINIA
VANESSA S. TURNER
95 Oakwood Drive
Madison, WV 25130
My Commission Expires July 6, 2012