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A PROFESSIONAL LIMITED LIABILITY COMPANY

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August 8, 2008

VIA E-MAIL AND HAND DELIVERY

Chairman Tre Hargett
c/o Ms. Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

filed electronically in docket office on 08/08/08

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 Hargett:


Enclosed please find an original and seven (7) sets of copies of Tennessee American Water Company's Supplemental Responses to Second Discovery Requests by the Chattanooga Manufacturing Association. In addition, TAWC includes two compact disks. The first compact disk contains TAWC's Supplemental Responses in their native Word format. The second compact disk contains a pdf image of TAWC's Supplemental Responses.

Please return three (3) copies of this Supplemental Response to me by way of our courier, which I would appreciate your stamping as "filed."

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,


Ross Booher

Enclosures

Chairman Tre Hargett
August 8, 2008
Page 2

cc: Hon. Ron Jones (*w/o enclosure*)
Hon. Sara Kyle (*w/o enclosure*)
Hon. Eddie Roberson, PhD (*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*)

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 8th day of August, 2008, upon the following:

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



**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 Supplemental Discovery Responses 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 7th day of August, 2008.

Michael A. Miller
(signature)

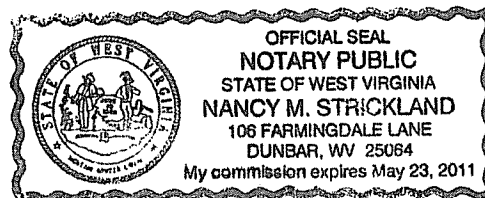
Michael A. Miller
(printed name)

Sworn to and subscribed before me this 7th day of August, 2008.

Nancy M. Strickland
NOTARY PUBLIC

My Commission Expires:

May 23, 2011



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

Responsible Witness: Michael A. Miller/John Watson

Question:

7. The Company's Petition filed in this docket, at paragraph 7, states: "the earnings situation of the Company has deteriorated to a level that, without rate relief, the Company cannot meet demands for service in an orderly and economical fashion." Specifically identify each aspect of the demand(s) for service that the Company does not or cannot meet in an orderly and economical fashion, and provide the grounds and/or bases, including any facts and/or documents, the Company contends support those claims.

Response:

The Company is currently authorized by the TRA a return on equity of 10.2%. In 2007, the Company achieved an ROE of 6.28%. Without rate relief from this case, the Company forecasts achieved ROE to be approximately 4.2% for 2008 and for 2009 achieved ROE to be approximately 3.3%. The Company does not believe achieved ROE at approximately 600-700 basis points below the authorized cost of equity is acceptable.

The Company in its petition indicates that a rate increase is necessary if it is to avoid the difficult decisions it would face in the absence of appropriate rate relief; specifically, which investments it should consider delaying or which portions of its cost of service that would have to be reviewed for consideration as to continuation. The Company would be concerned about the potential impact those decisions could have on its service obligations to the residents of the Chattanooga area. The Company believes that such decisions might have potential long-term impacts on service quality, service reliability, infrastructure reliability and water quality regulations.

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

The Company has not developed a specific plan to address those potential decisions. Instead it did what all utilities do when revenues are not sufficient to cover the cost of service, it petitioned for increased rates. This is the very essence of the regulatory compact regarding the Company's requirement to provide adequate and reliable service under its public service obligation, and the TRA's authority to set rates sufficient to cover the cost of that service. That is what this rate case is all about, asking the TRA to set rates sufficient to permit TAWC to cover that cost of service and allow the Company to continue its long standing record of providing excellent service at a fair price to its customers.

The Company will supplement this response as required.

Supplemental Response:

See Supplemental Response to CMA-02-009.

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

Responsible Witness: Michael A. Miller/John Watson

Question:

8. The Company's Petition filed in this docket, at paragraph 7, states that a rate increase: "is essential to . . . make the necessary improvements and to meet the expansion needs of the customers it serves." Specifically identify (including by type, street address, or district) each improvement and expansion "need" the Company has identified as "necessary," and provide the grounds and/or bases, including any facts and/or documents, the Company contends support those claims.

Response:

The Company believes each of the capital improvements requested in this case were thoroughly reviewed before being included in the Company's filing. The Company believes each capital improvement is necessary to maintaining its service quality and to meet water quality regulations. The street addresses and locations for the improvements referenced in this request have been previously supplied in the supplemental response to TN-COC-1-Q7. Please refer to that response. The Company believes its petition, accounting exhibits, testimony and exhibits, and the responses to previous discovery requests filed in this case fully support these investments.

The Company will supplement this response as required.

Supplemental Response:

The Company's petition, accounting exhibits, testimony and exhibits, and its previous responses to discovery requests by the intervenors and the TRA in this

docket have fully identified the necessary improvements and expansion to the Company's system. Further, those same filings have fully supported and provided adequate grounds for the Company's contentions regarding the necessary improvements and expansion.

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

Responsible Witness: Michael A. Miller/John Watson

Question:

9. The Company's Petition filed in this docket, at paragraph 9, states: "the Company cannot provide the necessary new facilities, maintain existing ones adequately, and meet the needs of its customers for the future with such an unrealistic rate of return." Specifically identify each new facility the Company has identified as "necessary" but cannot provide, each "existing" facility the Company alleges it does not or cannot adequately maintain, and the needs of its customers that TAWC does not or cannot meet/fulfill, and provide the grounds and/or bases, including any facts and/or documents, the Company contends support those claims.

Response:

Please see the response previously supplied to question 7.

Supplemental Response:

As stated in its Response to CMA-02-007, the Company has not yet specifically identified which services it would be unable to provide in the event it is denied the requested rate relief. Further, the Company has not yet identified which specific new facilities it would not be able to provide, or which existing facilities it would be unable to maintain, in the event it is denied the requested rate relief. Once the TRA has ruled on Tennessee American's Petition, the Company will then determine what actions are necessary consistent with the TRA's ruling.

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

Responsible Witness: Michael A. Miller/John Watson

Question:

10. The Company's Petition filed in this docket, at paragraph 9, states: "The Company has no other alternative but to petition this Authority to permit it to place higher rates into effect in order to: (a) avoid material impairment of damage to the Company's long range operations; and (b) to enable the Company to earn a fair rate of return on its Tennessee operations during the foreseeable future." Considering a more than \$4,000,000 rate increase was implemented in May 2007, specifically identify each "material impairment" or "damage" identified which the Company contends is going to occur, how the Company defines "long-term operations" in the context of paragraph 9, and what the Company contends is the "foreseeable future" regarding its Tennessee operations, and provide the grounds and/or bases, including any facts and/or documents, the Company contends support those claims.

Response:

Please see the responses to questions 7, 8 and 9 which address parts of this question. The Company's assertions in this regard are that the current rates of the Company, which fully embeds the rate increase granted in May 2007, are not sufficient to cover the cost of service elements for the attrition year contained in the Company's filing in this case.

The Company does not believe the regulatory compact regarding its service obligations and in return the right to just and reasonable rates is met if its achieved ROE is 600-700 basis points below the TRA authorized ROE or if that achieved ROE is 200-300 basis points below the current cost of long-term debt.

Certainly, the Company does not believe this meets the standards established in the U.S. Constitution or the landmark decisions in the Bluefield Gas and Hope Gas cases before the U.S. Supreme Court regarding fair regulation.

Again, faced with these dismal earning forecasts, the Company did what it felt was in the best interests of the Company and its customers: file a rate increase so that appropriate rates are in place to cover its cost of service, including a fair and reasonable return to its investors. Every utility faces these types of decisions and every utility requests rate increases when facing this situation. Otherwise, service will eventually suffer and needed replacement of facilities and costs of operation will be deferred.

The Company defines “long-term” in the context of this question as the next 5 to 15 years. The Company defines the “foreseeable future” in the five year planning horizon and, even more specifically, the attrition year in this case.

The Company believes the substantial documentation provided in its petition, accounting exhibits, testimony and exhibits and its responses to substantial discovery in this rate filing fully support its requested increase in rates in this case.

The Company will supplement this response as required.

Supplemental Response:

As noted in its original response to this discovery request, above, the Company believes that its right to just and reasonable rates is not met if its achieved ROE is 600-700 basis points below the TRA authorized ROE or if that achieved ROE is 200-300 basis points below the current cost of long-term debt. The Company considers this financial situation constitutes a significant “material impairment” that the Company fears may damage the Company, its shareholders, and ultimately, its customers.

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