filed electronically in docket office on 08/08/08

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 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**

SUPPLEMENTAL RESPONSES AND OBJECTIONS OF THE CONSUMER ADVOCATE AND PROTECTION DIVISION TO THE SECOND DISCOVERY REQUEST OF TENNESSEE AMERICAN WATER COMPANY

Robert E. Cooper, Jr., Attorney General and Reporter for the State of Tennessee, by and through the Consumer Advocate and Protection Division of the Office of the Attorney General ("Consumer Advocate"), hereby submits its responses and objections to the first discovery request of Tennessee American Water Company ("TAWC" or "Company").

GENERAL OBJECTIONS

1. The Consumer Advocate objects to the definitions and instructions contained in the Company's interrogatories to the extent that the definitions and instructions attempt to impose on the Consumer Advocate a burden or obligation greater than that required by the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

2. The Consumer Advocate objects to the interrogatories to the extent they call for information and the production of documents which are protected from disclosure by the attorney-client privilege, the attorney work product doctrine or any other applicable privilege or protection. The Consumer Advocate objects to the data requests to the extent that the Company is attempting to impose on the Consumer Advocate obligations with regard to identification of privileged documents beyond those required by the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

3. The Consumer Advocate objects to the Company's interrogatories to the extent they seek information not related to the subject matter involved in this litigation or to the extent they are not reasonably calculated to lead to the discovery of admissible evidence. By providing information in response to these requests, the Consumer Advocate does not concede that such information is relevant, material or admissible in evidence. The Consumer Advocate reserves all rights to object to the use of such information as evidence.

4. The Consumer Advocate objects to the Company's interrogatories to the extent that the Company is attempting to impose on the Consumer Advocate obligations to supplement its responses beyond those required by the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

5. The Consumer Advocate objects to the Company's interrogatories to the extent that the Company is attempting to require the Consumer Advocate to provide information and produce documents beyond those in its possession, custody or control as that phrase is used in the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

6. The Consumer Advocate objects to the Company's data requests to the extent they seek information and documents that are readily available through public sources or are in

the Company's own possession, custody or control. It is unduly burdensome and oppressive to require the Consumer Advocate to respond or produce documents that are equally available to the Company.

7. The Consumer Advocate's objections and responses to these requests are based on information now known to it. The Consumer Advocate reserves the right to amend, modify or supplement its objections and responses if it learns of new information.

8. The Consumer Advocate's responses to these requests are made without waiving or intending to waive the right to object to the use of any information provided in response to any subsequent proceeding or trial of this or any other action. The Consumer Advocate's responses to these requests are also not a waiver of any of the foregoing objections or any objections it has made or may make with respect to any similar, related, or future data request, and the Consumer Advocate specifically reserves the right to interpose any objection to further requests notwithstanding any response or lack of objection made in this response.

9. The Consumer Advocate will supplement its responses in accordance with the requirements of state law.

10. The Consumer Advocate expressly incorporates these general objections into its responses set forth below.

Subject to and without waiving any objections stated above the Consumer Advocate responds to the specific requests as follows:

DISCOVERY REQUEST NO. 9: Provide all source documents, notes of interviews, and any other data supporting Mr. Buckner's testimony, including but not limited to: any workpapers supporting all adjustments made to the TAWC rate filing; any documents related to all adjustments; data and calculations related to the test period ending November 30, 2007 (and for any other periods used by CAPD including a 12 month period ending March 31, 2008).

RESPONSE:

Consistent with the General Objections restated above, as well as previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of such documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: On July 31, 2008, the Consumer Advocate inadvertently mislabeled responsive materials to this discovery request as responsive material to Discovery Request 12. See enclosed documents. See also documents posted at

http://www.state.tn.us/tra/dockets/0300118.htm

http://www.state.tn.us/tra/dockets/0400288.htm

http://www.state.tn.us/tra/orders/2007/0700105k.pdf T. Peterson exhibit page 24 of 61.

http://www.state.tn.us/tra/orders/2006/0600175g.pdf M. Morley testimony, Page 11 of 22.

The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 12: On Pages 28-31 of his direct testimony, Mr. Buckner discusses operating revenues for the Sale for Resale classification. Provide all workpapers, notes of interviews, e-mails and other documents that support or form the basis for each conclusion asserted.

RESPONSE:

Consistent with the General Objections restated above, as well as previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of such documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: On July 31, 2008, the Consumer Advocate inadvertently mislabeled responsive materials to this discovery request as responsive material to Discovery Request 9. See enclosed documents. The Consumer Advocate reserves the right to further supplement this response.

RESPECTFULLY SUBMITTED,

RYAN L. McGEHEE
Assistant Attorney General
Office of the Attorney General and Reporter
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202-0207
Tel: (615) 532-5512

Dated:

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing is being served via U.S. Mail and/or electronic mail upon:

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This the 8th day of August, 2008.

Ryan L. McGehee

RYAN L. McGEHEE
Assistant Attorney General

122069

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Wednesday, July 30, 2008 , 9:48 a.m.

Chattanooga: Group makes waves over water rate hike

By: Dave Flessner
(Contact)

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A coalition of local government and business leaders brought their fight against a proposed rate increase by Tennessee-American Water Co. to the utility's source on Tuesday.

Standing on the north shore of the Tennessee River that supplies Chattanooga's water, Mayor Ron Littlefield described the utility's request to raise water rates for the second year in a row as "excessive." For consumers already struggling with higher energy costs, the increase is "something we cannot accept," he said.

Chattanooga and Hamilton County governments are joining with members of the Chattanooga Manufacturers Association and other citizens in a new group called "Fight the Hike."

Tennessee-American was granted a 12.3 percent increase last year, and the company is asking the Tennessee Regulatory Authority to boost rates another 20.58 percent this year.

The Tennessee Regulatory Authority is scheduled to decide in September how much, if any, of a rate increase to allow Tennessee-American to implement in October.

John Watson, general manager for Tennessee-American, said the higher rates are needed to keep pace with soaring energy and chemical costs to pump and treat water from the river.

Even if the Tennessee Regulatory Authority approves all of the request, "water will still be the cheapest utility" with monthly costs under $20 for most Chattanooga households, Mr. Watson said.

"This rate increase would cost the average customer only 12 cents a day," he said. "That's far less than the increases we have seen in other utilities in recent years."

But utility critics said such comparisons are unfair,

Article: Chattanooga: Group makes waves over water rate hike

PDF: Re: Filing

PDF: Supplemental Response and Objections

Article: City, state want water rates set 'correctly,' not quickly

PDF: Order from the Tennessee regulatory authority in Tennessee-American water rate case

Article: Tennessee Regulatory Authority limited in scope of power

Article: State, city won't use disputed consultant in Tennessee-American rate case

Article: Resume in water company case removed from Web

since the basic commodity sold by Tennessee-American is derived for free from the Tennessee River. Chattanooga businessman Randy Baker, a North Chattanooga resident who is heading the new "Fight the Hike" coalition — whose motto is "Fight the hike because it's our water" — said he cannot understand the justification for a combined 35.1 percent of rate increases in just over a year.

"How can Tennessee-American justify an increase of this magnitude when the average family is struggling to scrape together money to keep gas in their car, food on their table and mortgage payments current?" Mr. Baker asked.

Since the start of last year, the average price of gasoline, natural gas, electricity and water all have risen by double-digit amounts in Chattanooga, or more than double the average increase in worker's paychecks during the past year and a half, according to utility and government figures.

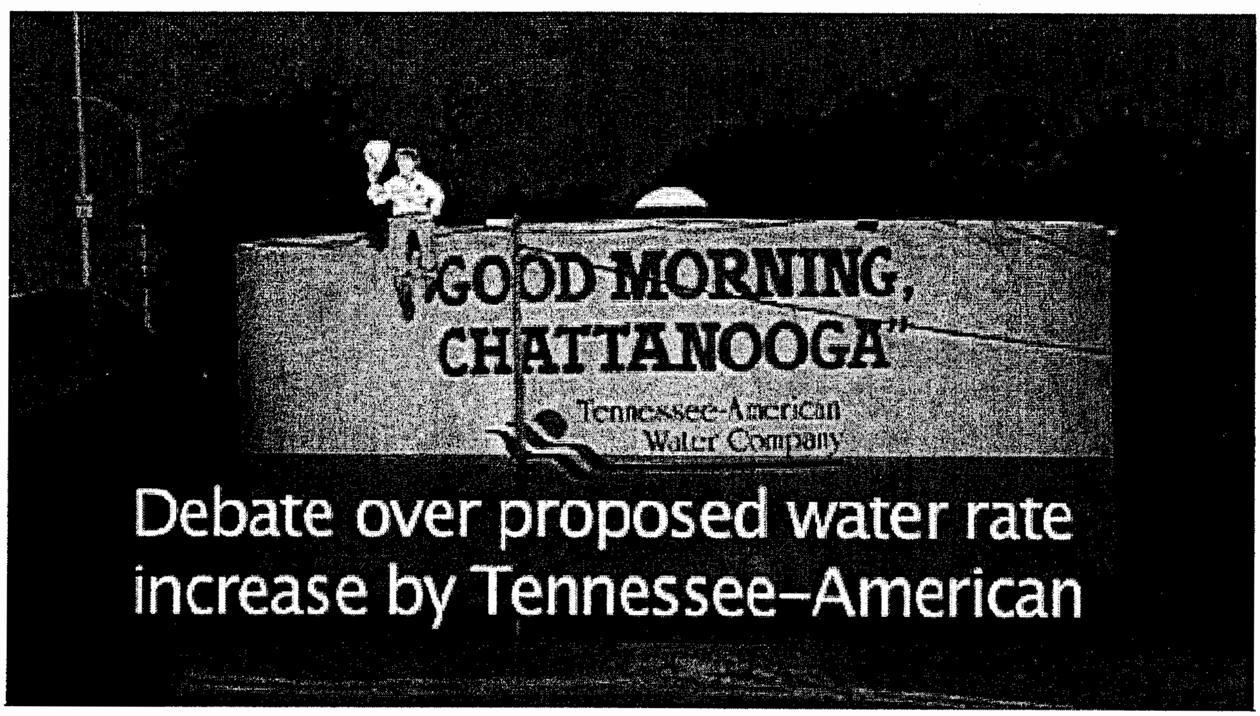
Ray Childers, president of the Chattanooga Manufacturers Association, also complained about the frequency and complexity of water company rate requests in recent years. Since filing its latest rate request in March, Tennessee-American has filed more than 60,000 pages of legal documents with the Tennessee Regulatory Authority in Nashville.

The utility also has asked for financial information about manufacturers who are objecting to the water rate increase and details of how the city and Eastside Utility District negotiated water rates for the upcoming new Volkswagen plant, Mr. Childers said.

"Their strategy seems to be to flood us with repeated rate requests," he said. "Even when they only get some of what they ask, they still end up with more money."

Mr. Watson said Tennessee-American must justify all of its expenses and costs with state regulators and their accountants.

"This is a very open and transparent process that other businesses don't have to go through," Mr. Watson said.



Debate over proposed water rate increase by Tennessee-American

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WEDNESDAY, JULY 30TH, 2008

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Tuesday, July 29, 2008 , 12:01 p.m.

Chattanooga: Coalition to fight water rate increase

By: Dave Flessner
(Contact)

Local government and business leaders announced today they are forming a coalition to "Fight the Hike" in water rates proposed by the Tennessee-American Water Co.

The city of Chattanooga and Hamilton County governments along with members of the Chattanooga Manufacturers Association will fund the campaign urging state regulators to cut the 20.4 percent increase in water rates requested by the utility.

Mayor Ron Littlefield called the latest rate request by Tennessee-American "excessive" following another double-digit rate increase last year.

Chattanooga businessman Randy Baker, chair of the "Fight the Hike" campaign, said if the latest rate increase is adopted water costs will have jumped by 35.1 percent in just over a year.

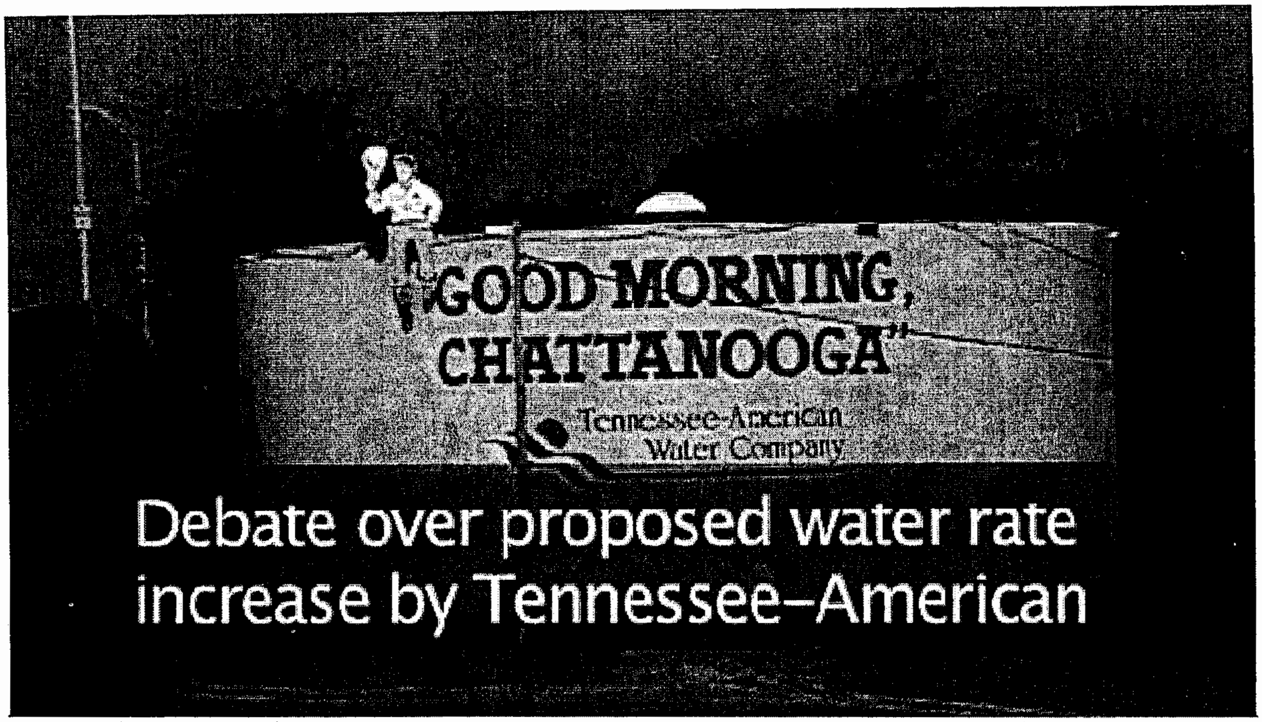
"How can Tennessee-American justify an increase of this magnitude when the average family is struggling to scrape together money to keep gas in their car, food on their table and mortgage payments current?" Mr. Baker asked during a news conference on the banks of the Tennessee River.

Staff Photo by Meghan Brown
Chattanooga mayor Ron Littlefield, left, speaks today at a press conference to fight the water rate hike from Tennessee American Water Company. Also pictured is Randy Baker, the chair of the Fight the Hike campaign, at right, during the media event held at Coolidge Park.

But John Watson, general manager for Tennessee-American, said those rising costs for electricity, natural gas and commodities are also pushing up costs for Tennessee-American to treat and pump water throughout Chattanooga.

The proposed increase, even if fully adopted by the Tennessee Regulatory Authority, would still cost the typical Chattanooga household only $3.65 more a month, Mr. Watson said. That will still leave the cost of a gallon of water under a penny, he said.

Read more in tomorrow's Times Free Press



Debate over proposed water rate increase by Tennessee-American

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WEDNESDAY, JULY 30TH, 2008

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Tuesday, July 29, 2008 , 12:01 a.m.

Tennessee-American rate hearing set Aug. 18 in Chattanooga

By: Andy Sher
(Contact)

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NASHVILLE — Tennessee-American Water Co. officials agreed Monday to delay implementing any of their proposed 20.58 percent rate increase until Oct. 1 so that state officials adequately can hear and consider the case.

The move came as a result of a request by Tennessee Regulatory Authority directors, who also on Monday set the rate proceeding to be heard in Chattanooga from Aug. 18 through Aug. 22.

"The directors asked us for the time to properly consider the merits of the case, and giving them this time is the right thing to do," Tennessee-American spokeswoman Kim Dalton later said.

Regulatory authority directors hope to decide the case by Sept. 22. But a provision in state law allows utilities to proceed temporarily with an increase if the TRA has not acted within six months of the rate petition.

In the Tennessee-American case that date would be Sept. 15. The increase, however, is subject to being fully or partially overturned and the money given back to ratepayers depending on how TRA directors ultimately rule.

The issue came up during TRA directors' regular meeting in Nashville on Monday. Directors agreed to start the hotly contested rate case, which has drawn fierce opposition from the state, city of Chattanooga and Chattanooga Manufacturers Association, on Aug. 18 and hold the proceedings in the Scenic City.

"I believe that holding the hearing in Chattanooga will provide the maximum opportunity for public participation," said TRA Director Eddie Roberson, who is from Chattanooga.

The proceedings will include a public period for ordinary Chattanooga ratepayers to comment on the increase, which Tennessee-American argues is justified in terms of higher operating costs and the

Article: Chattanooga: Group makes waves over water rate hike

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Article: Resume in water company case removed from Web

need to make ongoing infrastructure improvements.

The $7.6 million rate increase, which would average about $3.65 a month for an average residential user, comes on top of a 12.3 percent increase approved by the TRA last year. The state's consumer advocate argues Chattanoogans actually deserve a $1.6 million cut in the company's existing rates.

Among other things, the company in its filings seeks an 11.75 percent return on equity.

But complications arose over whether both sides should present post-hearing arguments in the form of oral arguments or be allowed to present written briefs through Aug. 29.

State Consumer Advocate Tim Phillips, assistant city of Chattanooga attorney Mike McMahan and manufacturers association attorney Henry Walker all expressed a preference to submit written briefs and asked for a week to do so.

As officials begin discussing the six-month deadline and how to shoehorn in post-hearing petitions, the TRA staff's need to examine the case and TRA directors eventual ruling, TRA Chairman Tre' Hargett sought reassurances from the utility it would not unilaterally implement a rate increase.

"I want us to do this correctly and not quickly. I'd like for those to happen together," Mr. Hargett said. "If we need an extra week to make that happen, let's by all means take a week."

Noting he would have to speak with Tennessee-American officials, the company's attorney, Dale Grime, said, "it is a matter of significance to us when the rates go into effect. Based on the case as we have filed it, we believe that it would cost us about a half million dollars a month for every month the rates don't go up ... we're talking about a two-week period there, we're talking about half of that roughly."

But after a recess in which he consulted with Tennessee-American President John Watson by phone, Mr. Grimes later told TRA directors that "in the spirit of continued cooperation, Tennessee-American in this case is willing to have the proposed time frame go into effect."

As a result, attorneys on all sides will have from Aug. 22 to Aug. 29 to prepare briefs. TRA directors would deliberate, and no rate increases would go into effect until Oct. 1.

In the meantime, a group of elected officials, civic leaders and businessmen appear ready to go on a public-relations offensive today with a 10 a.m. news conference at Coolidge Park where they are expected to denounce the rate increase.

"The ones (local people) that I've talked to are a little bit upset about it," said Randy Baker, a local real estate developer who is chairman of a citizen's group "fighting the hike."

"I think all we're going to ask for is some accountability," Mr. Baker said, noting that if the latest increase is granted, Tennessee-American's revenues will have soared 35 percent since early May 2007.

Tennessee-American's Ms. Dalton said officials "look forward to the hearings in Chattanooga for the chance to demonstrate that our $3.65-per-month rate increase that we've asked for is reasonably based on the $21 million investment that we've made into the system here, into the community."

Comments

My comment is very simple....Don't be part of those that are deliberately crippling the tax payers. Stop this rate increase. The way that they figure their bill is totally wrong. I am an animal rescurer, and I have yet been able to teach my animals to urinate in the toliet; therefore, the water that they drink is NOT going into the sewer system. I have a small garden, and none of that water is going into the sewer system.

I have a beautiful yard, w/lots of flowers & trees, and none of the water is going into the sewer system. TAW company has found a way to make HUGH profits and cripple the little people, and if you allow them this increase, you are as guilty as they are at trying to destroy the taxpayers!!!!

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WEDNESDAY, JULY 30TH, 2008

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Monday, July 28, 2008 , 12:01 a.m.

Foes of water rate hike push for hearings in Chattanooga

By: Andy Sher
(Contact)

NASHVILLE — A state agency could decide today whether to make it easier for Chattanoogans to weigh in on Tennessee-American Water Co.'s proposed 20.58 percent rate increase.

Tennessee Regulatory Authority directors, who likely will hear the rate case later this summer, are expected to discuss holding all or part of their hearings in Chattanooga as they did during Tennessee-American's rate request in 2007.

"They may make a decision," said Kelly Grams, an Authority attorney. "They will at least be discussing it."

The city of Chattanooga and Chattanooga Manufacturers Association, which have filed as intervenors in the rate case, oppose Tennessee-American's request this year, which follows a 10.3 percent increase granted to the investor-owned water utility last year.

The Hamilton County Commission on April 10 adopted a resolution opposing the increase and officially asked the regulatory authority to "hold public hearings within Hamilton County during its consideration."

Tennessee-American justifies the increase, which amounts to $7.6 million annually, citing increased treatment, fuel and other costs as well as infrastructure needs. But the state's consumer advocate argues consumers deserve a $1.6 million cut in the company's existing rates.

Rick Hitchcock, who is part of the city's legal team, said the city "would be very grateful" if the hearings were held in Chattanooga.

"We realize there are administrative burdens associated with that, but I think everybody would be appreciative to have at least part of the hearing in Chattanooga," he said.

Spokeswoman Kim Dalton said Tennessee-American has no objection to holding all or part of the hearing in Chattanooga.

"It's an open and transparent process," she said. "We'll be ready to present our case wherever the hearing is located."

In a rare move, regulatory authority directors last year held the hearing in Chattanooga, allowing ordinary citizens a chance to address officials about the increase.

Among the three regulatory authority directors hearing the rate case is Eddie Roberson, formerly of Chattanooga.

Chattanooga Manufacturers Association President Ray Childers said he would like to make it easier for local consumers to have their say.

"We'd like to have it here," he said. "I think what's more likely to happen, they could have a public hearing here where they set aside half a day where they convene and hear comments from the public. That would be more realistic."

Both sides, meanwhile, continue to file requests for information from each other. One request filed Tuesday by Tennessee-American's law firm, Nashville-based Bass, Berry & Sims, dealt with Chattanooga's newest business, Volkswagen.

Volkswagen officials on July 15 announced they would locate the German automaker's U.S. assembly plant at the Enterprise South industrial park.

The Bass, Berry & Sims request asks for all documents, proposals or "other communications" in which city officials or their representatives communicated with Volkswagen or affiliated companies "concerning water use or wastewater requirements for the planned Volkswagen manufacturing facility in the Chattanooga area."

Volkswagen is not getting its water from Tennessee-American but from the Eastside Utility District, which operates its water filtration plant on the same former U.S. Army munitions plant site that the city and county used to carve out Enterprise South.

Mr. Hitchcock appeared puzzled as to why Tennessee-American would be asking questions about Volkswagen.

"I don't know," he said, but noted any response to the request would come through the regulatory authority process.

Tennessee-American's Ms. Dalton downplayed the request, noting the water company is "just gathering information. It's just regulatory process to gather the information related to any case."

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WEDNESDAY, JULY 30TH, 2008

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Friday, July 18, 2008 , 12:00 a.m.

Tennessee: State seeks water rate cut

By: Andy Sher
(Contact)

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NASHVILLE — State Attorney General Robert Cooper's office said Monday that instead of hiking water rates by $7.6 million, Tennessee-American Water Co. should slash its charges to Chattanooga customers by $1.6 million.

In a filing with the Tennessee Regulatory Authority, the state's Advocate and Protection Division said the water company "has overstated its need for more income in regulated revenue by more than $9.2 million, which means that the water rates charged to TAWC (company) customers should actually be reduced by $1.6 million."

The filing represents the consumer advocate division's first specific objections to Tennessee-American's proposed 20.58 percent rate increase.

"The filing will have to speak for itself," said Sharon Curtis-Flair, a spokeswoman for the attorney general's office.

Tennessee-American spokeswoman Kim Dalton on Thursday evening downplayed the consumer advocate's call for a rate reduction, noting that the office did so last year. TRA directors last year ignored the consumer advocate's call for a rate reduction and approved a 12.3 percent increase.

"We believe the evidence submitted in this case will fully support the request we've made to the TRA, and this is really nothing unusual," Ms. Dalton said in a voice mail message.

In asking for the increase, company officials have cited higher costs of water treatment and gasoline as well as critical infrastructure improvement needs. The increase would raise the average ratepayer's bill by $3.65 a month, officials have said.

The consumer advocate's objections to the rate increase are on pages 6 and 7 of a 17-page response objecting to some of Tennessee-American's discovery requests in the rate case. The state, joined by Chattanooga and the Chattanooga Manufacturers Association, officially has intervened in the rate case.

In the filing, Assistant Attorney General Ryan

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Article: State, city won't use disputed consultant in Tennessee-American rate case

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McGehee outlines six reasons why state officials believe the requested increase is too much and that current rates should be cut.

For example, the state says one of its witnesses, economist Dr. Stephen N. Brown, will testify that the return on investment the water company wants for shareholders "is too high" and has the "effect of unreasonably inflating" the rate increase by $3.7 million.

The company is seeking an 11.75 percent return on equity.

Tennessee-American, the state argues, is asking for $9.2 million "more in customer rates than the company actually needs to meet its expenses and provide a fair return to its shareholders while providing quality water service to its customers."

Accompanying testimony from state witnesses was placed at least temporarily under seal due to a special protective order issued by Richard Collier, the regulatory agency's general counsel, acting on demands by Tennessee-American attorneys.

Directors from the regulatory authority are expected to hear the rate case later this summer.

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WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Sunday, April 27, 2008 , 12:00 a.m.

Chattanooga: Water rate hike won't immediately trickle down to municipalities

By: Matt Wilson
(Contact)

Though Tennessee-American Water Co. is proposing to raise its rates by 20 percent, the jurisdictions that buy water from the utility won't have to raise rates until their contracts expire, officials said.

Walden's Ridge Utility District and Signal Mountain buy water from Tennessee-American and resell it to their local customers, according to Tennessee-American President John Watson.

The other utilities in the county get water elsewhere.

There are seven other water utilities in the county. The county's 10 water utilities serve about 137,000 customers, according to a report by County Auditor Bill McGriff's office.

Extra water costs from Tennessee American's rate increase, if approved by the Tennessee Regulatory Authority, could affect those water utilities once the contracts expire, Mr. Watson said.

Signal Mountain residents won't see an increase until next year, said Vice Mayor Herschel Dick, who previously oversaw the town's water system. The town's contract with the Tennessee-American began in July 2006 and lasts until July 2009, he said.

"We don't know what 2009 is going to bring us," he said.

The audit report shows that Signal Mountain's water is generally cheaper than the water Tennessee-American provides to its own residential customers.

For a residential customer buying 5,000 gallons of water from the Signal Mountain district, it costs $19.47 a month as of mid-2007, the auditor's report shows. For a Tennessee-American customer, it was $20.42 a month at the end of 2006.

Article: Chattanooga: Group makes waves over water rate hike

PDF: Re: Filing

PDF: Supplemental Response and Objections

Article: City, state want water rates set 'correctly,' not quickly

PDF: Order from the Tennessee regulatory authority in Tennessee-American water rate case

Article: Tennessee Regulatory Authority limited in scope of power

Article: State, city won't use disputed consultant in Tennessee-American rate case

Article: Resume in water company case removed from Web

The reduced cost comes from the fact that Signal Mountain foots the bill to pump its water to customers, Mr. Dick said. Signal Mountain also gets a reduced rate from Tennessee-American based on the volume of water it buys, he said.

At the end of 2006, for residential customers who use 5,000 gallons, Tennessee-American had the sixth most-expensive water out of the 10 water utilities in the county, according to the auditor's report. But with the company's 12 percent increase in May of last year and its proposed 20 percent increase, it would become the fourth most expensive.

For commercial customers, the company is about second most expensive, according to the auditor's report, and would stay in that spot after the increase.

Mr. Watson has argued that the rate increase is necessary to maintain and improve Tennessee-American equipment such as pipes, meters and water-storage facilities.

It is "very difficult to compare rates of service" among water utilities, he said, because some utilities have tap fees — charges for turning on water service — and other charges not included in the rate itself. He also noted that geography and the location of the water source can greatly affect the cost of providing water.

Gene Hoffine, general manager of the Hixson Utility District, the cheapest water system in the county for residential customers, agreed.

"We have an excellent water source," Mr. Hoffine said, which keeps rates cheaper for its customers.

In Hixson, 5,000 gallons per month would cost $9.78, according to the auditor's report.

Hixson's water comes from at "true groundwater source," he said, which means it does not have to be treated before it goes to the tap. Chlorine to kill bacteria and an additive to keep out phosphates are all that go in, he said.

Size matters, too, Mr. Huffine said. Hixson Utility District is the second-largest water provider in the county, serving about 24,500 customers.

Conversely, Sale Creek Utility District, Hamilton County's most-expensive and smallest water provider for residential customers, serves just more than 700 customers, said Jim Reavley, chairman of the board for the utility. A monthly bill for 5,000 gallons in Sale Creek is $40.87, according to the auditor's report.

While small, Sale Creek has "the same expense as the larger companies," he said, which contributes to higher rates. Part of that debt comes from the widening several years ago of Dayton Pike, Mr. Reavley said.

"We had to move over 50 percent of our 10-inch mains," he said. "We're still paying on that."

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WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Wednesday, April 16, 2008 , 12:00 a.m.

Council authorizes city attorney to intervene in water rate hike

By: Michael Davis

(Contact)

The Chattanooga City Council on Tuesday night voted unanimously to authorize the city to legally intervene in Tennessee-American Water Company's attempt to raise water rates more than 20 percent.

"If it's something that you oppose, then you need to be willing to get in the fray and say 'you know, we really do not support this,'" Council Chairman Linda Bennett said after the meeting. "It's not something that we have a lot of control over, so ... that's one of the things that we can do."

The council's vote to authorize filing of a "petition to intervene" came five days after the Hamilton County Commission approved a measure opposing the water company's proposal to the Tennessee Regulatory Authority.

The city's resolution calls the 20.58-percent rate hike "exorbitant" and asserts that the increase negatively would impact users on the heels of a 12.3-percent rate jump approved by the state regulatory authority last May.

"Such back-to-back increases will adversely effect all of the businesses and citizens of this community and may make this community less competitive with respect to economic development opportunities," the city resolution states.

Tennessee-American officials have said the company needs new revenue to pay for infrastructure improvements, operating and maintenance expenses and other costs.

Mike McMahan, with the city attorney's office, said intervention is "like a trial" in which opponents of the rate hike would argue against the water company's reasons for the increase.

"The water company said 'we need to increase our rates for a half dozen different reasons,'" Mr. McMahan said after Tuesday afternoon committee meetings. "We have to test their justification."

He said the Chattanooga Manufacturers Association and the consumer advocate with the state attorney general's office are joining the city in litigation.

Meanwhile, Councilman Dan Page asked that Hamilton County formally be invited to join in the petition.

Kim Dalton, spokeswoman for Tennessee-American, said after Tuesday's committee meetings that the water company is not surprised by the push for intervention.

"That's part of the process, and we understand it," she said. "That's the good thing about the process. It's an open forum. As I said, we have to prove our case."

Ms. Dalton said state regulators will make their decision in September.

In other business Tuesday, the City Council approved EPB using $5.4 million in federal loan funds from the U.S. Department of Housing and Urban Development to provide "fiber-to-home" infrastructure to Alton Park, Clifton Hills, Park City, Piney Woods and South Chattanooga.

The council also approved two appointments to the city's new transportation board: Jill Veron, director of planning with the Chattanooga Area Regional Transportation Authority, and Andrea Anderson, with Courtyard By Marriott.

Ms. Veron fills an open seat on the nine-member panel, while Ms. Anderson fills the opening created by Bob Doak's resignation, said Dan Johnson, chief of staff to Mayor Ron Littlefield.

Mr. Doak, president and CEO of the Chattanooga Area Convention & Visitors Bureau, tendered his resignation effective Tuesday. According to a letter addressed to Mayor Ron Littlefield, Mr. Doak, who was chairman of the panel, could not give the amount of time needed for board service.

Meanwhile, during committee time Tuesday afternoon, Mr. Johnson briefed the council on an upcoming city software system that city officials said will increase efficiency and track things such as inventory and employee payroll information.

The council next week is expected to consider a measure to increase the consulting contract for Duley Hopkins & Associates on this consolidated system.

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Friday, April 11, 2008 , 12:00 a.m.

Hamilton County Commission unanimously opposes water rate hike

 By: Jason Reynolds (Contact)  By: Matt Wilson (Contact)

After stinging Tennessee-American Water Co. officials with questions about the financial motives of its parent companies, the Hamilton County Commission voted 7-0 Thursday to oppose the utility's requested 20.58-percent rate increase.

The rate increase would add about $3.65 per month to a residential customer's bill.

"This is a great asset, but here recently y'all haven't done a very good job running that asset," said Commissioner John Allen Brooks. "I think it's an asset that should be in control of the people."

Mr. Brooks, as well as commissioners Jim Coppinger and Warren Mackey, suggested the water company should be sold to the city of Chattanooga.

John Watson, president of Tennessee-American, said his utility is not for sale. He said Tennessee-American's parent company, American Water Works Co., is moving from private ownership to the New York Stock Exchange.

Commissioners accused the water utility of trying to increase its value leading up to the initial public offering of American Water Works. They also accused the company of wanting to use the proposed rate increase to pay off the debt of American Water Works' parent company, Germany-based RWE.

"Are you telling me that this money that you borrowed, that you didn't pay back, did the tooth fairy bring you money?" asked Commissioner Fred

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Tennessee-American Water Co. officials Mike Miller and John Watson discuss their company's rate proposals with the Times Free Press editorial board. - Download MP3 -

Hamilton County Commission agenda session -- April 10, 2008 - Download MP3 -

Article: Chattanooga: Group makes waves over water rate hike

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PDF: Order from the Tennessee regulatory authority in Tennessee-American water rate case

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Article: State, city won't use disputed consultant

Skillern. "Or did you get it from the rate of the customers?"

Before commissioners passed the resolution opposing the increase, County Mayor Claude Ramsey asked that it be amended to ask the Tennessee Regulatory Authority to hold public hearings in Hamilton County on the issue.

Three Chattanooga mayors in four decades have discussed trying to buy the water company, but those efforts failed because of lack of public support.

Later, at a meeting with editors and reporters at the Chattanooga Times Free Press, Mike Miller, treasurer for Tennessee-American, denied the rate increase is tied to American Water's IPO, which federal documents say could generate up to $1.9 billion.

"There is absolutely no correlation," Mr. Miller said. "That is not the reason we're filing this rate case."

If approved in full, the rate increase would generate an extra $7.6 million in revenue, Tennessee-American officials estimate, and help the utility recover $21.4 million in capital investments and higher operating costs.

"We are not going to apologize for the rate increase because it is what we need to do to operate this business responsibly," Mr. Watson said.

The water company's last rate increase, 12.3 percent, occurred in May 2007. That increase helped Tennessee-American spend $27 million on infrastructure, Mr. Watson said. Infrastructure includes such items as pipes, meters and water-storage facilities.

Mr. Miller said the rate increase is needed for a federally mandated $1.36 million contribution to the company's pension plan, for $2.4 million in capital improvements, which include $529,000 in property taxes, and $2.9 million in increased operating and maintenance costs.

The operating-cost increase includes an additional $627,000 in higher fuel prices and a rate increase by EPB and the Tennessee Valley Authority, Mr. Miller said. Also, the cost of water treatment chemicals has risen, he said.

Aging infrastructure is an issue across the nation for municipal and private water providers, Mr. Miller and Mr. Watson said.

"We are not serving customers if we put off capital costs in the long run," Mr. Miller said.

A 2005 report by the U.S. Environmental Protection Agency showed Tennessee's water infrastructure was inadequate and needed an investment of more than $2.7 billion to meet federal standards, Mr. Watson said. The study did not apply to Chattanooga because of Tennessee-American's investments in the infrastructure, he said.

ABOUT TENNESSEE-AMERICAN

* Tennessee-American Water Co. is the largest investor-owned water utility in the state, providing water and/or wastewater services to more than 391,000 people in Tennessee and North Georgia.

* The company has about 74,540 residential and business customers.

* Tennessee-American has 1,277 miles of water mains, about the distance from Chattanooga to Denver.

* The average residential customer pays $17.23 per month for 4,487 gallons.

Source: Tennessee-American Water Co.

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WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Friday, April 4, 2008 , 12:00 a.m.

Tennessee-American to be spun off in IPO

By: Jason Reynolds
(Contact)

The parent of Tennessee-American Water Co. is being spun off as a separate company in a stock sale that's expected to generate up to $1.9 billion for its German owner.

Germany-based RWE Group has filed documents to make an initial public offering of shares in American Water Works Co. Inc., the U.S. parent of Tennessee-American. No date for stock offering has been set, according to Securities and Exchange Commission prospectus documents.

"We had speculated for some time that it was coming," said Ray Childers, president of the Chattanooga Manufacturers Association. "There were quite a few people who were convinced that the impending spinoff was connected in some way to the rate increase."

Tennessee-American three weeks ago filed a request with Tennessee regulators for a 20.58 percent rate increase. The last increase was 12.3 percent in May 2007. The average residential customer pays $17.23 per month, and if the increase is approved in full it would add $3.65 per month.

Kim Dalton, Tennessee-American spokeswoman, said the company had an IPO attempt last year that failed after a missed deadline. She confirmed that American Water has filed a new IPO proposal, but declined further comment, saying SEC regulations prevent company officials from discussing public offerings.

RWE decided in November 2007 to cancel the previous stock offering because "unfavorable conditions" in U.S. capital markets meant the IPO could not generate enough money, according to the company's Web site.

American Water expects individual shares to debut from $24 to $26, documents show, and 64 million shares will be offered through the New York Stock Exchange under the symbol "AWK." The underwriting banks have the option of buying an extra 9.6 million shares.

American Water serves 15.6 million customers in 32 states and Ontario, Canada, according to SEC filings.

A decade ago former Chattanooga Mayor Jon Kinsey failed in an attempt to seize Tennessee-American facilities by eminent domain following a lawsuit and intense public relations campaign by the utility.

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WEDNESDAY, JULY 30TH, 2008

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Chattanooga Times Free Press

Thursday, April 3, 2008 , 12:00 a.m.

Water rate hike protest planned

By: Matt Wilson
(Contact)

PDF: Water Utility

Hamilton County Mayor Claude Ramsey on Wednesday said he wants city and county officials to pass a joint resolution opposing a proposed Tennessee-American Water Co. rate increase.

"There will be a process where I hope we could intervene," he said. "I know the manufacturers association is very concerned about it, and a lot of our citizens are concerned about it."

At Wednesday's Hamilton County Commission meeting, Mr. Ramsey asked County Attorney Rheubin Taylor to meet with City Attorney Randy Nelson to draft the resolution. No commissioners voiced objections.

The water company is asking for its second rate increase in less than a year. The company has filed a request with state regulators to increase rates by about 20 percent, or about 12 cents per day for the average residential customer.

"We recognize the responsibility that Mayor Ramsey and the commission have in representing the interest of the county residents," John Watson, president of Tennessee-American Water, said in an e-mail statement. "We look forward to presenting the details of the rate filing and to answering the commission's questions before they consider the resolution. We hope to do the same thing with the City Council."

The added revenue would go to infrastructure improvements in the system, company officials said.

Richard Beeland, a spokesman for Chattanooga Mayor Ron Littlefield, said city officials plan to contest the rate increase.

"We welcome the county's shared concern on this issue," he said.

Commissioner Richard Casavant suggested that officials attach to the resolution a copy of a county auditor's analysis of water utilities throughout the county.

That analysis found that a Tennessee-American residential water bill for 10,000 gallons of usage was the sixth most expensive out of the county's 10 water utilities.

County Commission Chairman Bill Hullander said the commission could vote on a resolution to oppose the increase by its April 10 meeting.

Also on Wednesday, the commission unanimously passed a resolution to provide $54,400 to the Chattanooga-Hamilton County Health Department for tuberculosis prevention.

Dr. Casavant asked department Administrator Becky Barnes how much of a problem tuberculosis has been in Hamilton County.

"Any time there's any TB in our community there's a problem," she said.

Ms. Barnes said the county records about 13 to 14 cases of the illness each year. She also noted that there have been no instances of tuberculosis strains entirely resistant to drugs.

Last year, a former employee at Chattanooga's Pilgrim's Pride chicken processing plant was diagnosed with tuberculosis, causing the company and local health officials to warn employees about possible exposure. A company nurse sent about 30 workers home after they received a warning letter.

Tests showed that there was no evidence of the illness spreading among workers.

WHAT HAPPENED

Tennessee-American Water last raised its rates in May 2007, when it instituted a 12.3 percent increase. The utility then had asked the Tennessee Regulatory Authority for a 19.7 percent increase. The 20.6 percent increase the utility now is requesting would be the largest in the company's 138 years.

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Wednesday, April 2, 20

City in rate race

By: Jason Reynolds
(Contact)

Chattanooga has the highest average residential water rate among Tennessee's major cities even without a proposed increase.

The average customer of Tennessee-American Water Co. pays $17.23 a month, the company estimates. That's higher than Memphis, Nashville and Knoxville, figures show.

However, in July Memphis is slated to increase its rate 15 percent, thereby putting the average homeowner's water bill at $19.68, well ahead that of Chattanooga.

But Memphis' being the price leader may not last long.

Tennessee-American, a privately owned utility in Chattanooga, has asked state regulators to approve a 20.58 percent raise, following a 12.3 percent hike last May.

"We need this increase to continue to serve our customers and give them the quality of service they've come to expect," said Tennessee-American spokeswoman Kim Dalton.

Memphis residents pay $17.11 per month and the water provider there is increasing rates 15 percent in July, said Chris Stanley, spokesman for Memphis Light, Gas and Water Division, a city utility.

Nashville's water company, which is owned by city government, last changed its rates in 1999, which was a 5 percent decrease, said Shannon Frye, customer service assistant manager for Metro Water Services. Prior to that, the last increase was 6 percent in 1992, she said.

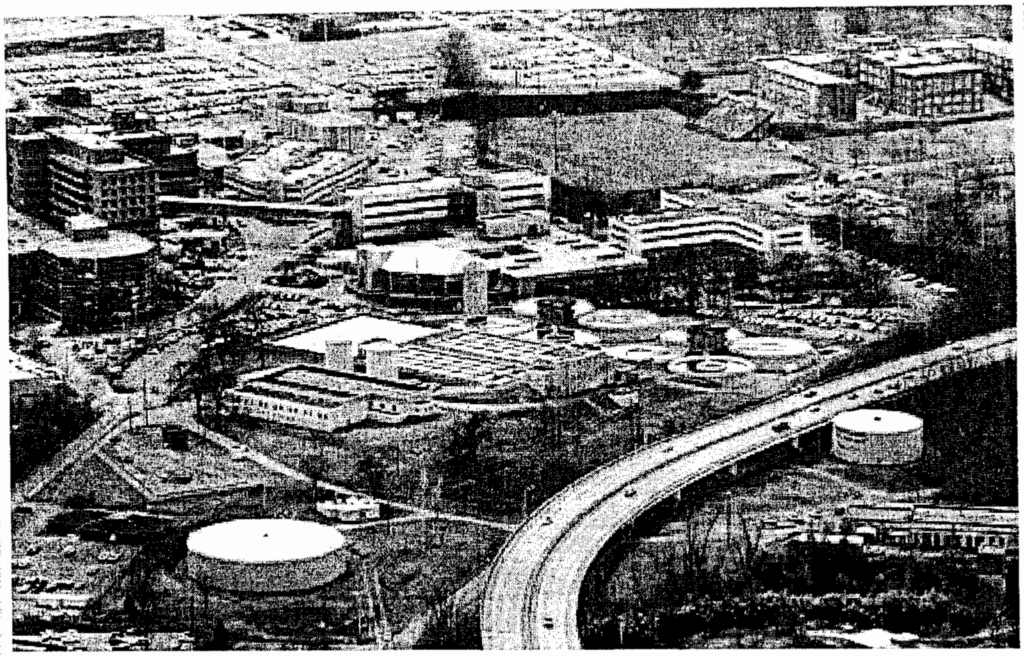
Knoxville Utilities Board, also a municipal utility, increased its rates in October 2007 by 10 percent, said spokeswoman Jennifer Fern.

The average residential bill does not include sewer charges.

One Tennessee-American customer Tuesday said he isn't fazed by the company's requested rate increase.

"Water is cheaper than cable and electricity," said downtown Chattanooga resident Steve Cantrell. "Water is probably the most limited resource coming into your home."

Another customer, Duane Kapp, estimates his average water bill is $40 per month. While the rate hike wouldn't "mean a whole lot" to his monthly bill, Mr. Kapp said, he is concerned whether another increase is needed after last year's increase.



Staff File Photo by John Rawlston-- Tennessee-American Water Co. facilities near downtown Chattanooga appear in the center of this aerial photo. In the background are T.C. Thompson Children's Hospital and the Hamilton County Health Department.

He said he also is curious what Tennessee-American officials earn and what type of government oversight is involved.

The Tennessee Regulatory Authority, which oversees utilities, has until Sept. 14 to raise rates by the full amount, approve a partial increase or deny the petition. The authority's directors Monday will appoint an official to hear the water company's request for an increase, said Phil West, TRA spokesman.

Tennessee-American would use the extra funds to make $8.8 million in improvements to its Citico water treatment plant as well as do maintenance on water mains and hydrants, Ms. Dalton said.

The company also has been hit by higher gasoline costs for its service vehicles. And, Tennessee-American's electricity bill last year was $2 million, Ms. Dalton said, and an electricity increase this month by the Tennessee Valley Authority will likely tack on an additional $225,000 to Tennessee-American's annual power bill.

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WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Sunday, March 30, 2008 , 12:00 a.m.

Water rate hike makes waves with lawmakers

By: Andy Sher
(Contact)

NASHVILLE — Tennessee-American Water Co.'s request for a 20.58 percent increase in water rates is churning up waves among some members of Hamilton County's legislative delegation.

Rep. Richard Floyd, R-Chattanooga, said he may go before the Tennessee Regulatory Authority to oppose the increase, which comes on top of last year's 12.3 percent increase.

"You can make numbers say anything you want to," Rep. Floyd, a retired businessman, said after a presentation last week by Tennessee-American President John S. Watson to local lawmakers.

PDF: Tennessee-American Water's filing

Article: Tennessee-American Water seeks highest rate hike in history

The investor-owned company on March 14 filed documents with the regulatory authority seeking an overall increase of $7.645 million to help recover what company officials say is $21.4 million in increased capital costs and operating costs.

Mr. Watson said rates paid by the average residential customer who uses 4,305 gallons a month would rise $3.65 per month to $20.19.

"As a regulated water utility that serves customers here in Chattanooga, we think it's very important that, one, we make improvements and continue to provide good, quality service," Mr. Watson said of the increase.

He said costs in areas ranging from replacing water mains to fuel continue to soar.

When delegation members pointed out the company gets its water free from the Tennessee River, Mr. Watson agreed, but he said no one wants to drink untreated water and few want personally to tote the 140 gallons of water each residential customer uses on average.

"We don't really sell water quite frankly, in my opinion," Mr. Watson said. "We sell service. We provide the treatment of water. We provide the transportation of water."

Mr. Watson said labor, energy and water treatment chemicals account for the bulk of operational costs. He said the company is spending millions of dollars to replace water mains and other capital expenses.

"I understand your argument about fuel and everything else, but the consumer has the same pressures," said Sen.

Bo Watson, R-Hixson.

Sen. Watson and Tennessee-American's Mr. Watson are not related.

In response to questions from Rep. Floyd, Mr. Watson said the regulatory authority last year approved a 9.63 percent return on equity. But he said because the company's expenses increased faster than anticipated, the actual return was 5.7 percent.

"Of that, as I say, roughly $2.6 million was the net income to the common stockholders," Mr. Watson told the lawmakers.

"Which is not bad, since they've got a monopoly," interjected Rep. Gerald McCormick, R-Chattanooga, the delegation's chairman. "They don't have any competitors."

This year's 970-page filing with the Tennessee Regulatory Authority proposes an 11.75 percent return on equity to holders of the company's common stock for their investments.

Sen. Andy Berke, D-Chattanooga, told Mr. Watson that "I'm not sure that I understand this regulatory scheme that you operate under where you spend the money first and go afterward to ask to recover the costs."

He said he is "not sure what your incentives are to contain costs or time the expending of those costs."

Mr. Watson said "the real answer is we have to demonstrate each and every penny of that."

He said the filings are forward projections based on current-year expenses.

Noting last year's rate increase was based on expectations of paying $2.40 a gallon for fuel, Mr. Watson noted regular gas was running $3.09 per gallon in February and diesel now is priced about $3.94.

Rep. Floyd represents an area of Lookout Valley at Raccoon Mountain that he says has no water service at all.

"My problem with it (is) there's nothing in there that's going to help get some water to people who need it," said Rep. Floyd, who also blames Chattanooga and Hamilton County officials for the problem.

"The bottom line is we got people that don't have water from the river at the foot of the mountain and is there anything in the future that's going to address that?" Rep. Floyd told Mr. Watson. "If there's not, I'm going to the TRA with you, and I'm going to oppose this as heavily as I can."

Mr. Watson said about 17 homes are affected and the cost of providing the service would be $2 million. That drew strong disagreement from Rep. Floyd, who said he and residents believe they have gotten the costs down to below $700,000.

"What you've also got to realize is we can't go out and spend money on new customers instead of our current customers," Mr. Watson said. "And we're not allowed to speculate."

Rep. JoAnne Favors, D-Chattanooga, said "most of my constituents who have contacted me have been very disturbed" about the proposed increase.

She said she hopes the regulators look at the proposal "very carefully because I look askance at that, coming in less than a year I think from the last rate increase."

Rep. Jim Cobb, R-Spring City, said that it "hasn't been proven to me yet that a rate increase is necessary."

Last year, the water company sought a 19.7 percent rate increase. The Tennessee attorney general's consumer office objected and recommended the regulatory authority actually cut Chattanoogans' rates by 2 percent.

TRA directors ignored the recommendation and approved the 12.3 percent increase — the largest in Chattanooga history.

Chattanooga Mayor Ron Littlefield, some Hamilton County commissioners and the Chattanooga Manufacturers Association already have criticized the proposed increase.

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Saturday, March 15, 2008 , 12:00 a.m.

No drought for water prices

By: Jason Reynolds
(Contact)

PDF: Tennessee American's filing

Chattanooga residents can add water to the list of commodities such as fuel and electricity that are going up in price.

Tennessee-American Water Co. on Friday afternoon filed a request with the Tennessee Regulatory Authority to raise residential water bills by an average of $3.65 per month, or 20.58 percent. The increase would be the largest in the company's 138 years.

"There have been a lot of utility rate increases in the community," Tennessee-American President John Watson said. "That says there are costs being incurred by utilities. Our filing is based on what our needs are."

The Tennessee Regulatory Authority has up to six months to approve the increase in the full amount, deny the increase, or approve a partial increase.

Mr. Watson said Tennessee-American, which had revenue of $37.5 million last year, wants to raise an additional $21.4 million to pay for infrastructure improvements.

"I'm very disappointed they're asking for such a large increase after receiving the 12.3 percent increase (in May 2007)," Chattanooga Mayor Ron Littlefield said. "We contested that one. I'm confident we'll contest this request as well."

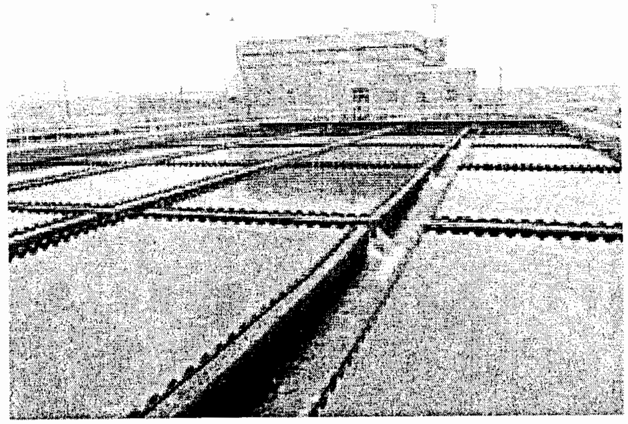
Manufacturing leader Ray Childers echoed Mr. Littlefield's opposition to the proposed rate hike.

"That's terrible," said Mr. Childers, president of the Chattanooga Manufacturers Association. "I'm amazed they would do that. It seems like every time we turn around someone is raising prices. Prices are not being raised by normal amounts."

The average cost of a regular gallon of gasoline in Chattanooga on Friday was $3.16, according to AAA's Daily Fuel Gauge Report. A year ago a regular gallon cost $2.40, records show.

EPB and other regional power providers in April will begin passing through a 9 percent rate increase by the

Tennessee Valley Authority, EPB President Harold DePriest said. The increase includes a 6 percent increase in the base rate that TVA charges utilities, he said, and 3 percent more for higher fuel costs. EPB and other utilities simply are passing along the increased rate and are not gaining additional revenue, he said.



Staff Photo by Angela Lewis -- Tennessee American Water Co., is requesting to raise residential rates to cover needed improvements. Flocculators would be added to the settling basins with the money gained through the increase, along with many other renovations.

Mr. Watson said water bills also include state sales tax and municipal sewer charges and, in some areas such as Red Bank, garbage collection fees.

Typically, the Tennessee Regulatory Authority, which oversees utilities, approves a lower amount than the water company requests. The last increase was 12.3 percent in May 2007, the highest single increase up to this time. The utility had asked for a 19.7 percent hike then.

The proposed rate hike would provide $8.8 million for improvements to the company's Citico Water Treatment Plant on Riverfront Parkway, including replacing a 92-year-old sedimentation basin. The hike also would allocate $6.6 million for maintenance on water mains and hydrants as well as installing electronic water meters.

Tennessee-American's 2007 rate increase generated $27 million in additional revenue that the company invested in infrastructure, Mr. Watson said.

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WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Friday, March 14, 2008 , 3:32 p.m.

Tennessee-American Water seeks highest rate hike in history

By: Jason Reynolds
(Contact)

PDF: Tennessee American's filing

Tennessee-American Water Co. filed a motion this afternoon with state regulators to raise residential water bills an average of $3.65 per month, a 20.58 percent increase.

"The filing is based on what our needs are," said John Watson, president of Tennessee-American. "Based on the evidence and public input, a decision will be made" within 180 days.

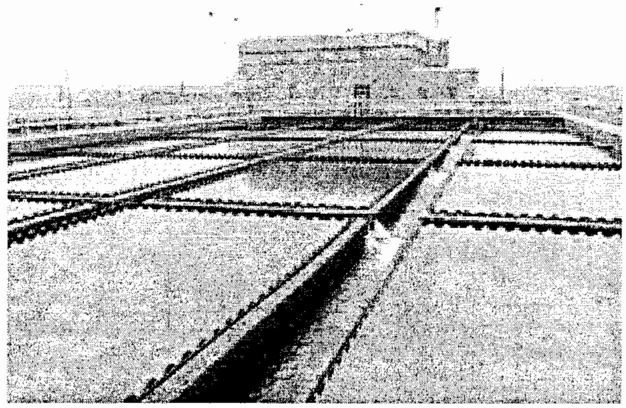
The water company filed its request this afternoon with the Tennessee Regulatory Authority. Tennessee-American wants to increase rates to raise an additional $21.4 million to pay for infrastructure improvements, Mr. Watson said. That would be the largest increase in the company's 138-year history.

"I'm very disappointed they're asking for such a large increase after receiving the 12.3 percent increase," Chattanooga Mayor Ron Littlefield said. "We contested that one. I'm confident we'll contest this request as well."

Mr. Watson said that Tennessee-American isn't the only utility facing rising costs for materials, including fuel.

"There have been a lot of utility rate increases in the community," said Tennessee-American President John Watson. "That says there are costs being incurred by utilities."

EPB and other regional power providers in April will begin passing through a 9 percent rate increase by the Tennessee Valley Authority, said EPB President Harold DePriest. The increase includes a



Staff Photo by Angela Lewis -- Tennessee American Water Co., is requesting to raise residential rates to cover needed improvements. Flocculators would be added to the settling basins with the money gained

6 percent increase in the base rate that TVA charges utilities, he said, and 3 percent more for higher fuel costs. EPB and other utilities are simply passing through the increased rate, and are not gaining additional revenue, he said.

through the increase, along with many other renovations.

Typically, the Tennessee Regulatory Authority, which oversees utilities, approves a lower amount than the water company requests. The last increase was May 2007, 12.3 percent, the highest single increase up to this time. The utility had asked for a 19.7 percent hike at the time.

The proposed rate hike would provide $8.8 million for improvements to the company's Citico treatment facility on Riverfront Parkway, including replacing a 92-year-old sedimentation basin. The hike also would allocate $6.6 million for maintenance on water mains and hydrants, as well as installing electronic water meters.

For complete coverage, see tomorrow's Chattanooga Times Free Press.

Comments

They get their raw material for free so how can they justify this except for greed?

We should have let the city take this over when we had the chance.

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WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Tuesday, May 22, 2007 , 12:00 a.m.

Water bills slosh upward

By Jason M. Reynolds

Staff Writer

The owner of Hamilton Place Car Wash said he expects he won't pass on an extra $184 to $221 a month in higher costs to his customers once he gets his next water bill.

"I try not to raise my prices too often," said owner Jared Smith, who estimates he spends $1,500 to $1,800 per month on water. "I'll probably absorb that cost."

As of Tuesday, Mr. Smith's Gunbarrel Road business was one of 74,000 customers of Tennessee-American Water Co. paying an extra 12.3 percent for water.

The Tennessee Regulatory Authority last week approved the rate increase instead of the 19.7 percent Tennessee-American had requested. Still, the rate hike is Tennessee-American's highest ever in Chattanooga.

The water company asked for the rate increase to cover $26 million in upgrades the company has made in the past two years, said spokeswoman Kim Dalton.

"We've already invested this money to bring people the quality of water they deserve," Ms. Dalton said.

The upgrades include new water towers near U.S. Xpress Enterprises near Interstate 75 and on Corridor J, Ms. Dalton said, plus maintaining the city's water distribution system.

The storage tanks were needed to keep pace with Chattanooga's growth, said Tennessee-American's vice president, John Watson. It takes a water company 3 1/2 years to recoup the costs of hooking up a new customer, on average, he said.

While Tennessee-American gets water for free from the Tennessee River, the utility must pay to treat and distribute the water, Mr. Watson said. Some of the chemicals used to treat water have risen in price between 50 percent to 60 percent in the last three years, he said.

Tennessee-American, as other Chattanooga businesses, will start paying 4 percent more for electricity starting in July, Mr. Watson said, following a rate increase by EPB. The water company will pay about $175,000 more for electricity, a cost that wasn't factored into Tennessee-American's rate increase, he said.

Higher water costs, coupled with rising prices of other commodities, makes it harder for manufacturers to do business as well, said Ray Childers, president of the Chattanooga Manufacturers Association.

"Manufacturers are resourceful and will look for ways to deal with this huge increase," Mr. Childers said. "Such increases cannot continue."

Mr. Smith said he is tackling water expenses with a new car wash which opens in July in East Ridge.

Shur Shine Express Wash will be a drive-through car wash that uses a $45,000 water-reclamation system to purify and reuse the facility's water, Mr. Smith said. It will cut water us age to a quarter of that of a typical car wash, he said.

E-mail Jason M. Reynolds at jreynolds@timesfreepress.com

Staff Photo by Ashlie White

Brian Berry, left, and Leah Peluso finish cleaning the interior of a customer's car at Hamilton Place Car Wash on Tuesday.

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Tuesday, May 15, 2007 , 12:00 a.m.

State approves 12% water rate hike for Chattanooga

By Jason M. Reynolds

Staff Writer

A drink of water will cost more in Chattanooga on May 22, with Tennessee-American Water Co. receiving state regulators' approval to raise the average residential bill by about $1.83 per month, a 12.3 percent increase.

"That's certainly an outrageous increase," said Dan Johnson, chief of staff for Chattanooga Mayor Ron Littlefield. "We know the rate increase will go to people in Germany."

The Tennessee Regulatory Authority ruled Tuesday afternoon to give Tennessee-American nearly $4.1 million more per year from the utility's 74,000 customers. The company had asked for nearly $6.4 million more per year, a 19.7 percent increase. The rate increase is the highest ever for water in Chattanooga. The last residential increase, 3.8 percent, was in 2005.

Tennessee-American officials believe the regulatory hearing was a fair process, said John Watson, the company's vice president.

"While we believe our rate request was justified. We understand the TRA faced a great challenge," Mr. Watson said. "We want our customers to know we are committed to providing them with the high quality of water and service they are accustomed to."

Tennessee-American will have to "live within the parameters" of the lower-than-requested increase, Mr. Watson said.

The Chattanooga Manufacturers Association had petitioned against the increase. The association argued that a Tennessee-American study showed industrial water users were being asked to pay a disproportionate share of the increase, said Ray Childers, president of the association.

"We're disappointed with the results of this hearing," Mr. Childers said. "We think ... large-volume industrial users are paying more than their share of the cost."

Mr. Childers said the manufacturers association will talk to city and Hamilton County leaders about exploring any possible legal options.

Mr. Johnson said city officials have not had time to decide whether to take further action. The rate hike will cost city government between $75,000 and $80,000 more for water annually, officials said.

Tennessee-American is a subsidiary of American Water Works, which was bought in 2001 by RWE Group in Germany. RWE plans to sell American Water in a stock offering later this year, according to company officials. However, Mr. Watson said the offering had nothing to do with the rate increase.

E-mail Jason M. Reynolds at jreynolds@timesfreepress.com

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

Wednesday, March 28, 2007 , 12:00 a.m.

Paying more at the tap

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The June 2006 - Allen & Hoshall Tennessee Rate Study

By Dave Flessner

Staff Writer

Eastside Utility District is using part of Chattanooga's past to prepare for its future.

And like water users elsewhere, the customers of the Ooltewah utility soon may have to pay a price for upcoming changes.

By May, utility workers hope to bring out of retirement another portion of a 65-year-old water filtration system originally built by the U.S. Army to help win World War II. The $4 million project, designed to help Chattanooga win new industry and keep pace with residential growth around Ooltewah, also could bring higher water rates by this fall, the utility's manager said Wednesday.

"It's been over 10 years since we had a rate increase, but we're having to in

vest more now to upgrade our system, and we're going to have to soon raise our rates," Eastside General Manager Don Stafford said.

Mr. Stafford, who also is chairman of the Hamilton County Water Utilities Association, said water utilities everywhere are facing higher operating and investment costs from rising energy and labor expenses and stricter water-quality rules.

As a result, many Tennesseans soon may be paying more at the tap.

"Historically, we as a culture have put a lot of pressure on keeping water as cheap as possible," said Bill Dobbins, executive director of the Tennessee Association of Utilities, which represents the state's 185 water utility districts. "But we're cheating ourselves. To meet our future needs for abundant, clean water, we're going to have to be willing to pay more for our water."

Last year, the Savannah Valley Utility District in northern Hamilton County adopted its first overall water rate increase in 11 years. Walden's Ridge Utility District on Signal Mountain is preparing to more than triple its tapping fee charged to new customers from $900 to $3,500 in May.

Hamilton County commissioners are expected today to hear a similar message from Chattanooga's biggest water system.

Tennessee-American Water Co., the state's biggest private water utility, is seeking a rate increase of nearly 20 percent this spring in the utility's biggest dollar rate proposal ever.

"The costs of pipes, pumps and people continue to rise, and in order to make the type of investment we need to maintain and improve our system. We need to raise our rates," said John Watson, general manager for Tennessee-American, which has invested more than $26 million in Chattanooga in the past two years.

The Tennessee Regulatory Authority, the state agency that governs private utilities, will conduct a hearing on Tennessee-American's proposed rate hike next month. But the County Commission wanted to hear about the rate increase at its agenda meeting today.

Mr. Watson said the proposed rate increase would cost the typical water user another $3 a month and will be the first rate increase since March 2005 when Tennessee-American was granted about a 1 percent increase by the TRA.

comparing water rates

A water rate survey last year by the Memphis consulting firm of Allen & Hoshall found that water charges for the biggest water providers in Southeast Tennessee -- Tennessee-American; the cities of Cleveland, Athens and South Pittsburg; and the Hixson and Eastside Utility Districts -- were all below the statewide average of $22.84 a month per residential customer.

Some smaller water utilities, especially those in rocky, mountainous terrain, have water rates that are much higher, according to the survey.

Tennessee-American water rates are higher than either the Hixson or Eastside Utility districts, which are the biggest of the public water systems in Hamilton County.

Mr. Watson said the private water company is the only local water supplier that does not impose a meter charge to tap into its system. Additionally, Tennessee-American pays back to developers some or all of their water system investments made in new subdivisions as homes are built and hook onto Tennessee-American. The public water utility districts require all such expenses to be paid by developers.

Unlike Tennessee-American, which is regulated by the TRA, the rest of Hamilton County is served by water utility districts governed by board members appointed by the county mayor.

Water utility districts are self-governed and may adjust water rates as they choose, although the state's Utility Management Review Board oversees district finances.

David Norton, a Hixson Utility District director who is chairman of the state oversight board, said Hamilton County water utilities are in good financial condition.

"Our industry is certainly much healthier than when the management review board began in 1987," Mr. Norton said. "There were probably five to 10 times more utility districts then that were financially distressed."

Among the gas and water utility districts audited by the Utility Management Review committee, only four were still under the jurisdiction of the board because of financial problems at the end of 2006, according to the board's annual report.

improving liquidity

Mr. Dobbins and other industry leaders said Tennessee water systems have made significant progress in both their fiscal and environmental health over the past two decades. Nonetheless, the U.S. Environmental Protection Agency still has warned about "an infrastructure gap" that could cost consumers billions of dollars nationwide to fill.

"Many water and waste-water systems are in need of a lot of investment to meet water-quality standards and to maintain and repair networks that were built decades ago," said Jan Beecher, director of the Institute of Public Utilities at Michigan State University. "Water rates and water issues in many communities are going to continue to be a challenge."

Dr. Beecher's studies indicate water rates nationwide have risen faster than inflation in the past five years.

But in dollar terms, Mr. Watson said the typical Chattanooga consumer has faced bigger monthly increases in recent years from electricity, natural gas and cable TV rates.

Despite the upward pressure on rates at many utilities, however, Hixson Utility District expects to be able to hold the line on its costs.

Gene Huffine, general manager for the Hixson utility, said underground aquifers still are clean and plentiful enough in Hixson to supply water for more than 22,000 customers at some of the lowest rates in Tennessee.

"We are blessed with a very high-quality water source," he said.

Eastside, the county's second-biggest water utility district, relied upon wells until the early 1990s when turbidity problems forced the utility to convert to surface water from the Tennessee River.

Eastside acquired the former Army water filtration plant, which supplies 16 million gallons of water a day. The expansion will boost that capacity to 20 million gallons a day, said David Hudson, assistant district manager.

The former military plant could be retrofitted to produce up to 32 million gallons of water a day if major water-using manufacturers locate at the adjacent Enterprise South industrial park, Mr. Stafford said.

E-mail Dave Flessner at dflessner@timesfreepress.com

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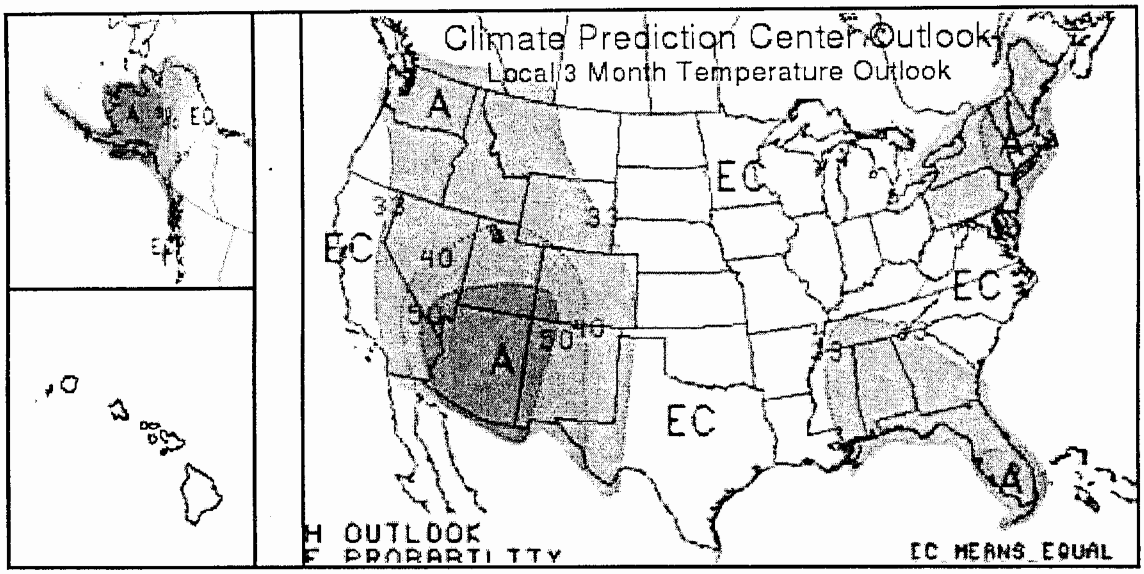

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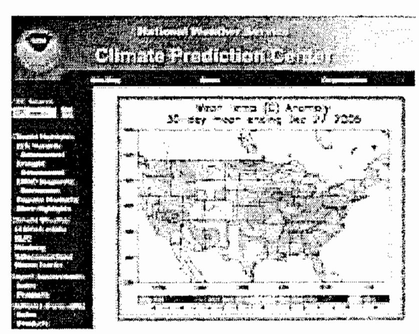

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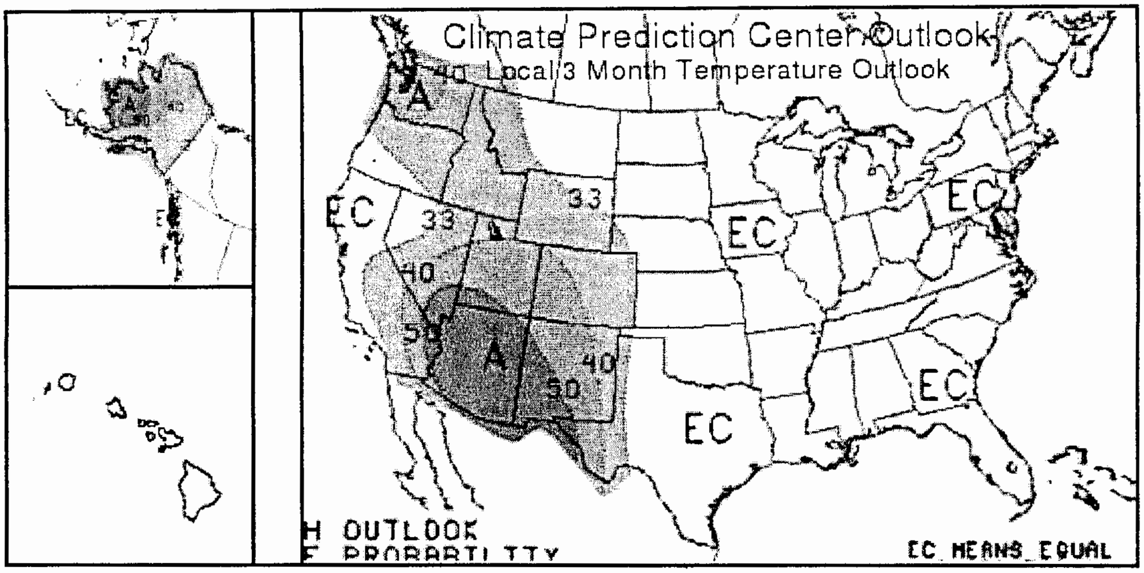

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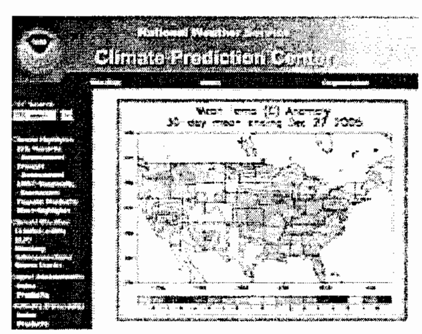

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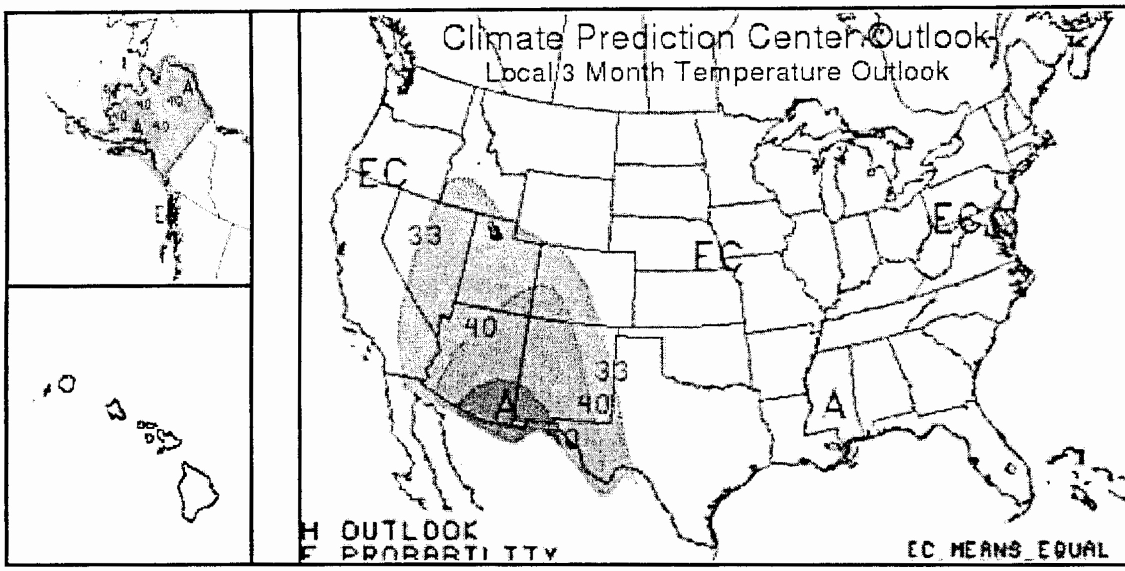

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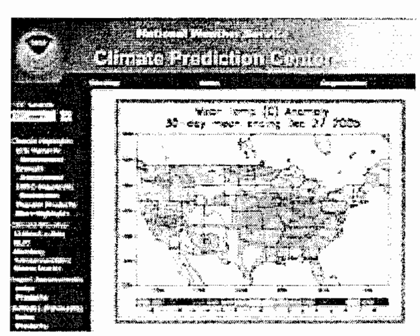

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  - MOS Prod
  - GFS-LAMP Prod

Climate
- Past Weather
- Predictions

Weather Safety
- Weather Radio
- Hazard Assmt...
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Education/Outreach

Information Center
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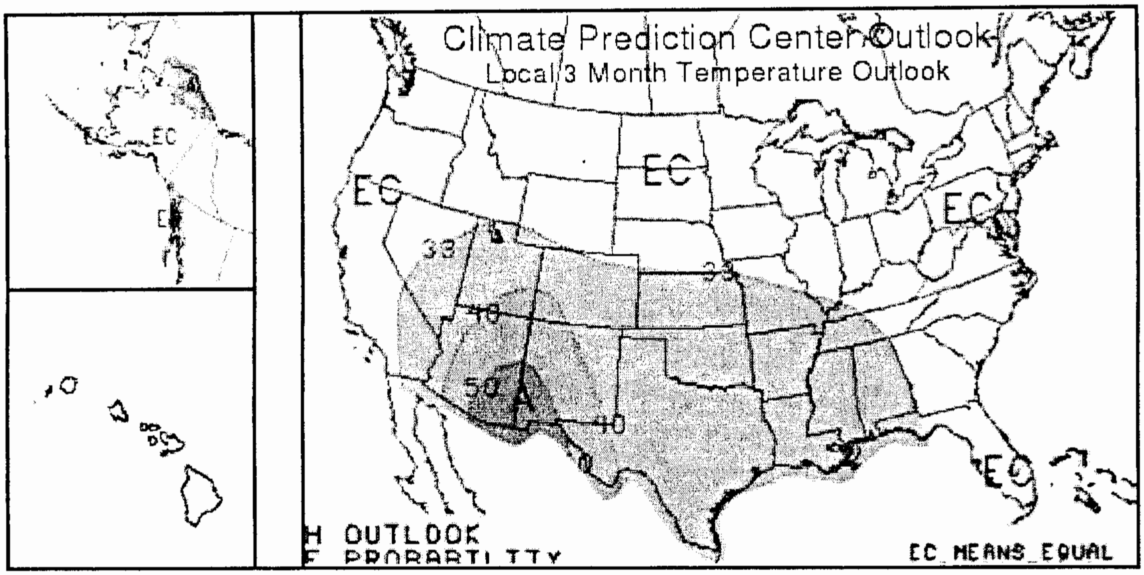

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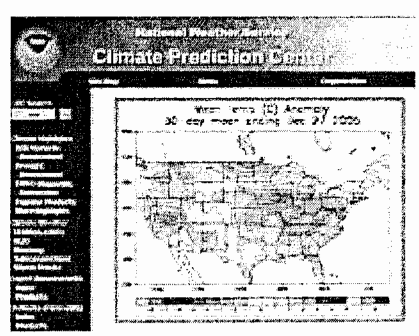

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Local forecast by "City, St"

City, St | Go

RSS Feeds

Warnings
- Current
- By State/County...
- UV Alerts

Observations
- Radar
- Satellite
- Snow Cover
- Surface Weather...
- Observed Precip

Forecasts
- Local
- Graphical
- Aviation
- Marine
- Hurricanes
- Severe Weather
- Fire Weather

Text Messages
- By State
- By Message Type
- National

Forecast Models
- Numerical Models
- Statistical Models...
  - MOS Prod
  - GFS-LAMP Prod

Climate
- Past Weather
- Predictions

Weather Safety
- Weather Radio
- Hazard Assmt...
- StormReady / TsunamiReady
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Education/Outreach

Information Center
- Tsunamis
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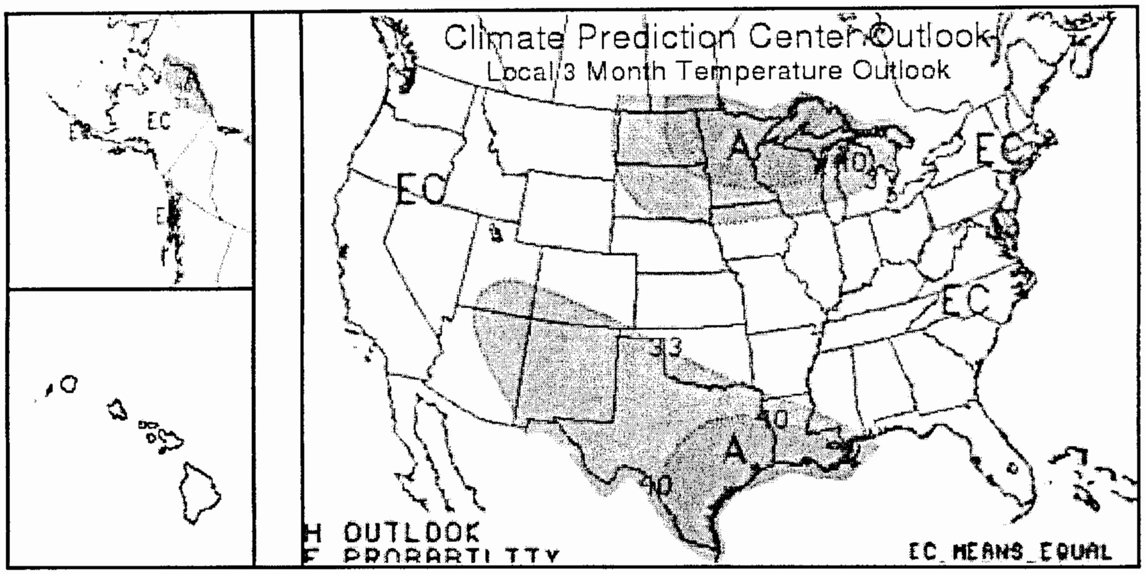

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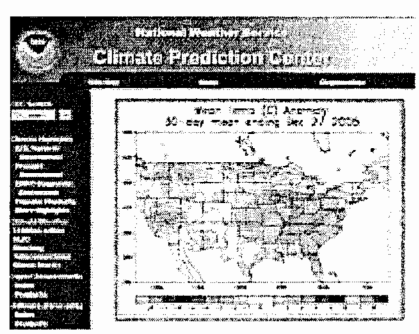

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City, St Go

RSS Feeds

Warnings
- Current
- By State/County...
- UV Alerts

Observations
- Radar
- Satellite
- Snow Cover
- Surface Weather...
- Observed Precip

Forecasts
- Local
- Graphical
- Aviation
- Marine
- Hurricanes
- Severe Weather
- Fire Weather

Text Messages
- By State
- By Message Type
- National

Forecast Models
- Numerical Models
- Statistical Models...
  - MOS Prod
  - GFS-LAMP Prod

Climate
- Past Weather
- Predictions

Weather Safety
- Weather Radio
- Hazard Assmt...
- StormReady / TsunamiReady
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Education/Outreach

Information Center
- Tsunamis
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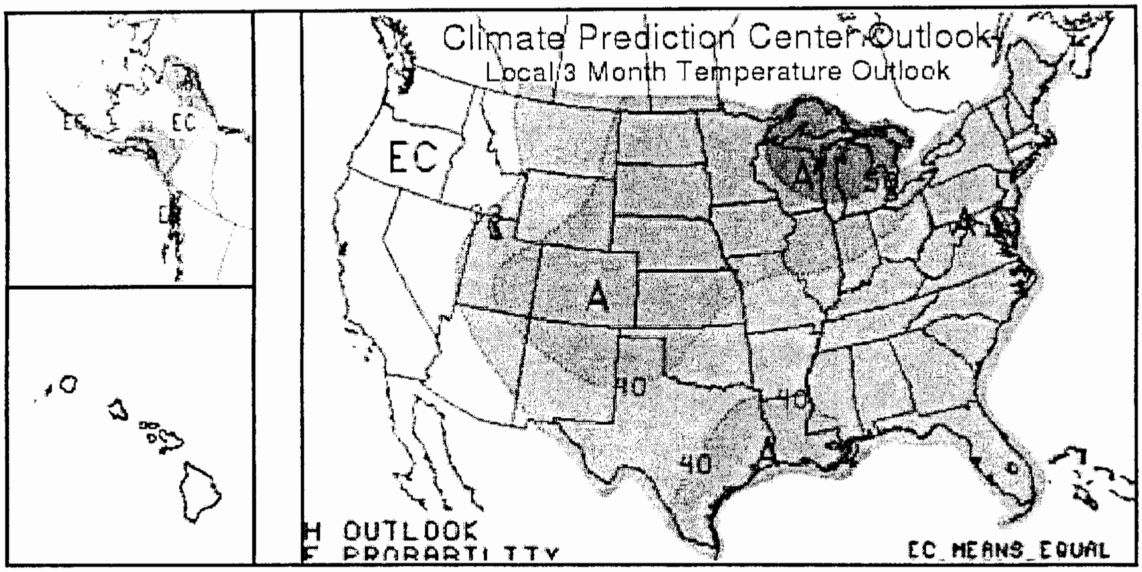

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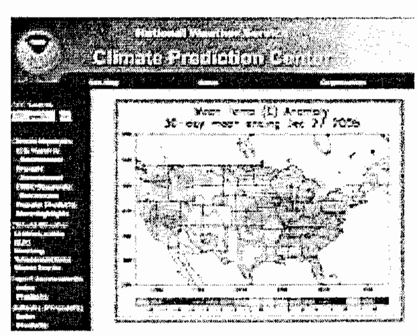

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Local forecast by "City, St"

City, St Go

RSS Feeds

Warnings
- Current
- By State/County...
- UV Alerts

Observations
- Radar
- Satellite
- Snow Cover
- Surface Weather...
- Observed Precip

Forecasts
- Local
- Graphical
- Aviation
- Marine
- Hurricanes
- Severe Weather
- Fire Weather

Text Messages
- By State
- By Message Type
- National

Forecast Models
- Numerical Models
- Statistical Models...
  - MOS Prod
  - GFS-LAMP Prod

Climate
- Past Weather
- Predictions

Weather Safety
- Weather Radio
- Hazard Assmt...
- StormReady / TsunamiReady
- Skywarn™

Education/Outreach

Information Center
- Tsunamis
- Publications...

Contact Us
- FAQ
- Comments...

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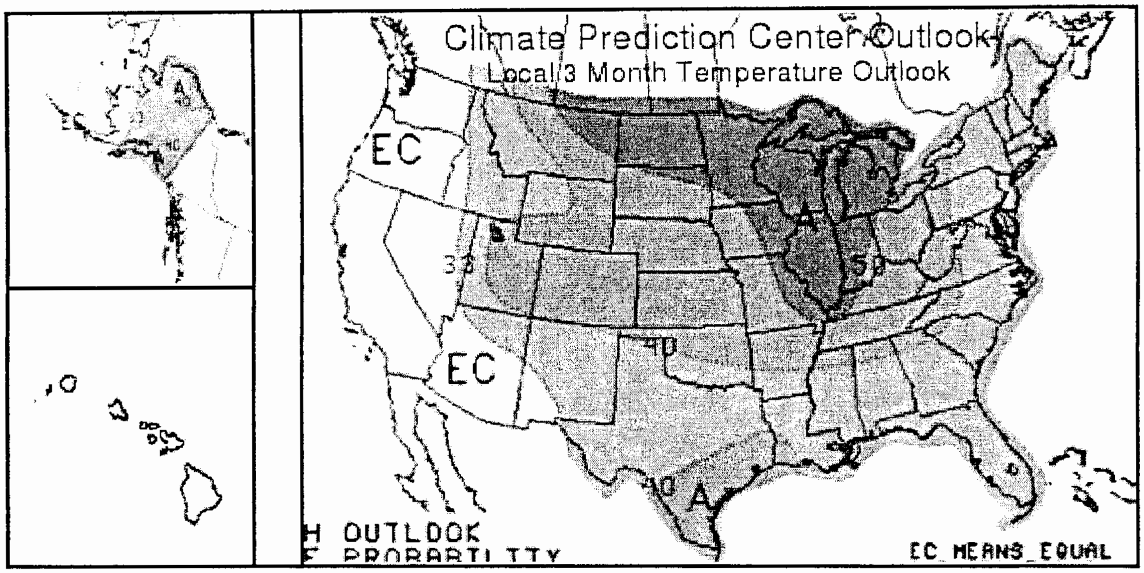

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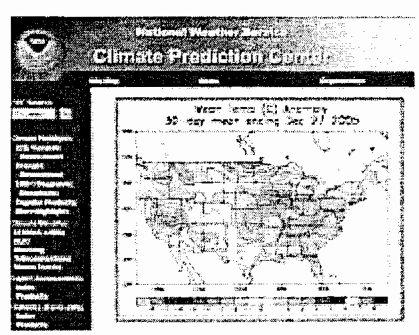

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Warning: ini_set() has been disabled for security reasons in **/mnt/www/www/html/climate/config.php** on line **10**

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Local forecast by "City, St"

City, St Go

XML RSS Feeds

Warnings
Current
By State/County...
UV Alerts

Observations
Radar
Satellite
Snow Cover
Surface Weather...
Observed Precip

Forecasts
Local
Graphical
Aviation
Marine
Hurricanes
Severe Weather
Fire Weather

Text Messages
By State
By Message Type
National

Forecast Models
Numerical Models
Statistical Models...
MOS Prod
GFS-LAMP Prod

Climate
Past Weather
Predictions

Weather Safety
Weather Radio
Hazard Assmt...
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Education/Outreach

Information Center
Tsunamis
Publications...

Contact Us
FAQ
Comments...

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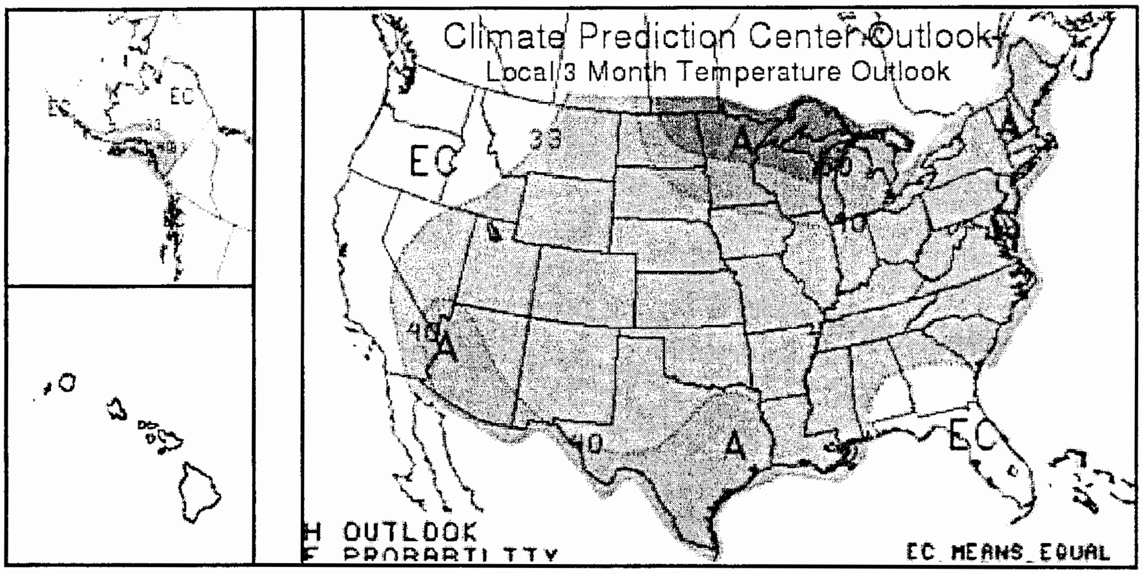

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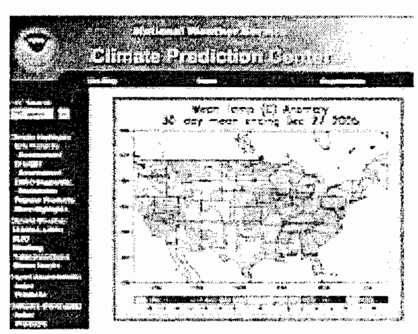

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Local forecast by "City, St"

City, St   Go

RSS Feeds

Warnings
- Current
- By State/County...
- UV Alerts

Observations
- Radar
- Satellite
- Snow Cover
- Surface Weather...
- Observed Precip

Forecasts
- Local
- Graphical
- Aviation
- Marine
- Hurricanes
- Severe Weather
- Fire Weather

Text Messages
- By State
- By Message Type
- National

Forecast Models
- Numerical Models
- Statistical Models...
  - MOS Prod
  - GFS-LAMP Prod

Climate
- Past Weather
- Predictions

Weather Safety
- Weather Radio
- Hazard Assmt...
- StormReady / TsunamiReady
- Skywarn™

Education/Outreach

Information Center
- Tsunamis
- Publications...

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- FAQ
- Comments...

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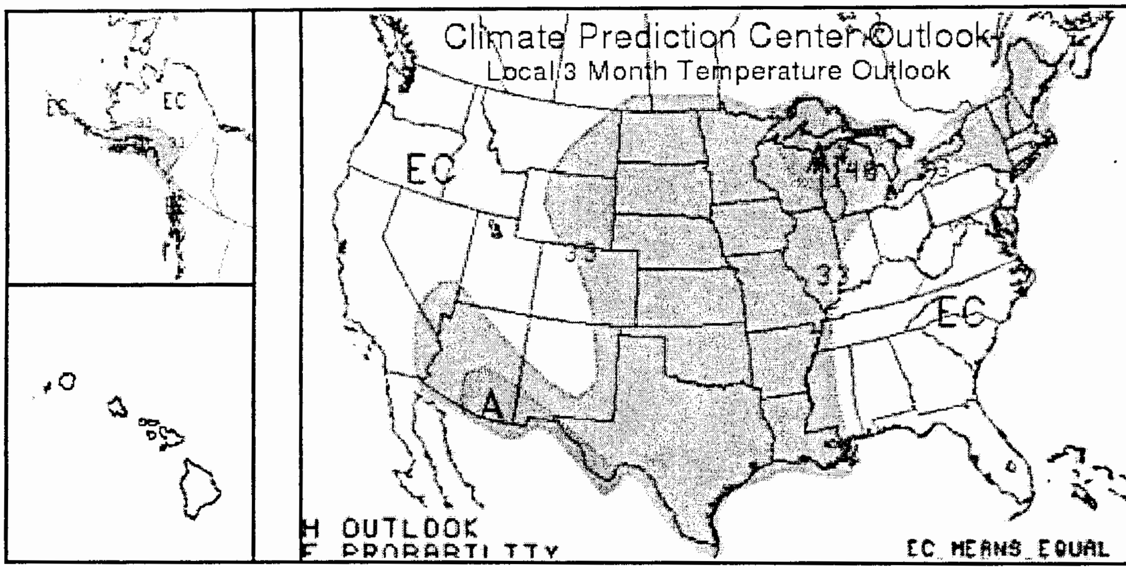

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Help

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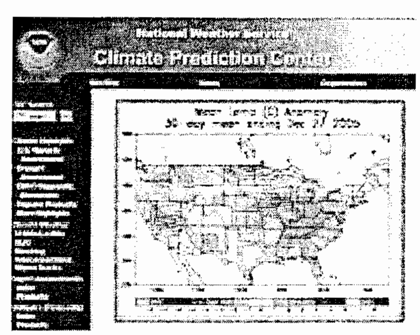

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Site Map News Organization Search NWS All NOAA Go

Local forecast by "City, St"

City, St Go

RSS Feeds

Warnings
- Current
- By State/County...
- UV Alerts

Observations
- Radar
- Satellite
- Snow Cover
- Surface Weather...
- Observed Precip

Forecasts
- Local
- Graphical
- Aviation
- Marine
- Hurricanes
- Severe Weather
- Fire Weather

Text Messages
- By State
- By Message Type
- National

Forecast Models
- Numerical Models
- Statistical Models...
  - MOS Prod
  - GFS-LAMP Prod

Climate
- Past Weather
- Predictions

Weather Safety
- Weather Radio
- Hazard Assmt...
- StormReady / TsunamiReady
- Skywarn™

Education/Outreach

Information Center
- Tsunamis
- Publications...

Contact Us
- FAQ
- Comments...

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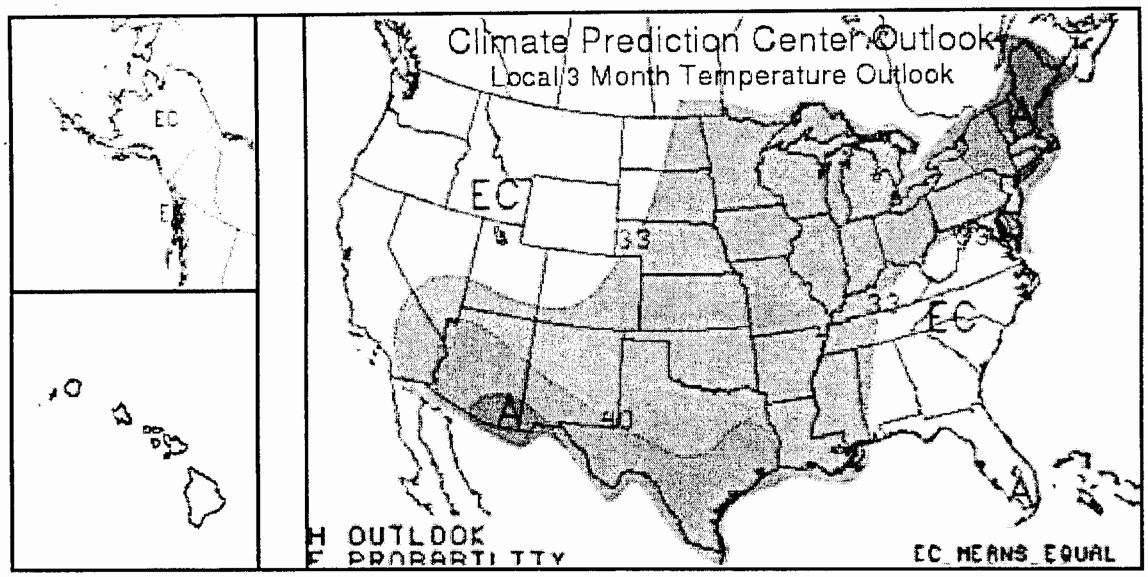

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Help

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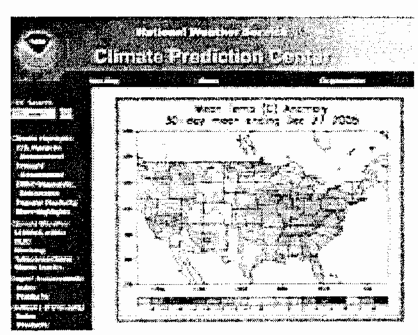

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Site Map News Organization Search NWS All NOAA Go

Local forecast by "City, St"

City, St Go

RSS Feeds

Warnings
- Current
- By State/County...
- UV Alerts

Observations
- Radar
- Satellite
- Snow Cover
- Surface Weather...
- Observed Precip

Forecasts
- Local
- Graphical
- Aviation
- Marine
- Hurricanes
- Severe Weather
- Fire Weather

Text Messages
- By State
- By Message Type
- National

Forecast Models
- Numerical Models
- Statistical Models...
  - MOS Prod
  - GFS-LAMP Prod

Climate
- Past Weather
- Predictions

Weather Safety
- Weather Radio
- Hazard Assmt...
- StormReady / TsunamiReady
- Skywarn™

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Information Center
- Tsunamis
- Publications...

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- FAQ
- Comments...

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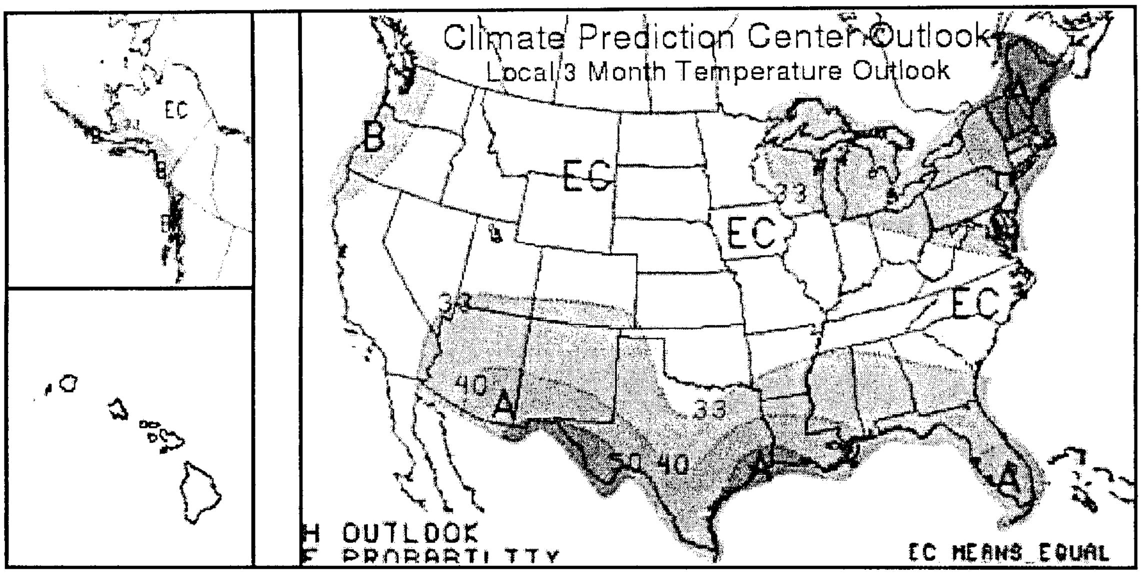

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Help

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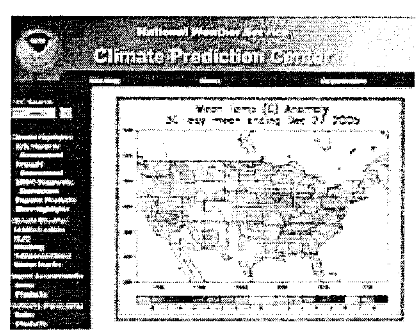

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ANNUAL CLIMATOLOGICAL SUMMARY
(2008)

National Climatic Data Center
Federal Building
151 Patton Avenue
Asheville, North Carolina 28801

Station: **401656/13882, CHATTANOOGA LOVELL AP, Tennessee** Elev. 671 ft. above sea level Lat. 35°02'N, Lon. 85°12'W

Date	Temperature (° F)														Precipitation (inches)								
Elem->	MMXT	MMNT	MNTM	DPNT	HTDD	CLDD	EMXT		EMNP		DT90	DX32	DT32	DT00	TPCP	DPNP	EMXP		TSNW	MXSD		DP01	DP
											Number of Days						Greatest Observed		Snow, Sleet			Number	
2008 Month	Mean Max.	Mean Min.	Mean	Depart. from Normal	Heating Degree Days	Cooling Degree Days	Highest	High Date	Lowest	Low Date	Max >=90°	Max <=32°	Min <=32°	Min <=0°	Total	Depart. from Normal	Day	Date	Total Fall	Max Depth	Max Date	>=.10	>=.
1	50.2	30.0	40.1	0.7	763	0	71	7	14	20	0	2	18	0	3.18	-2.22	1.30	10	1.6	0T	17	5	
2	56.4	33.6	45.0	1.6	571	0	74	5	21	28	0	0	13	0	4.44	-0.41	1.16	6	0.0T	0T	15	7	
3	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M	
4	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M	
5	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M	
6	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M	
7	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M	
8	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M	
9	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M	
10	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M	
11	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M	
12	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M	
Annual	M	M	M	M	M	M	M	Feb	M	Jan	M	M	M	M	M	M	M	Jan	M	M	Feb	M	

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\+ Occurred on one or more previous dates during the month. The date in the Date field is the last day of occurrence. Used through December 1983 only.

A Accumulated amount. This value is a total that may include data from a previous month or months or year (for annual value).

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M Used to indicate data element missing.

T Trace of precipitation, snowfall, or snowdepth. The precipitation data value will = zero.

Elem-> Element Types are included to provide cross-reference for users of the NCDC CDO System.

Station Station is identified by: CoopID/WBAN, Station Name, State.

S Precipitation amount is continuing to be accumulated. Total will be included in a subsequent monthly or yearly value. Example: Days 1-20 had 1.35 inches of precipitation, then a period of accumulation began. The element TPCP would then be 00135S and the total accumulated amount value appears in a subsequent monthly value. If TPCP = "M" there was no precipitation measured during the month. Flag is set to "S" and the total accumulated amount appears in a subsequent monthly value.

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Data provided from the NCDC CDO System
Additional documentation can be found at http://www5.ncdc.noaa.gov/cdo/3220doc.txt

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1	53.0	34.2	43.6	4.2	655	0	72	14	16	31	0	0	15	0	2.91	-2.49	1.42	7	0.0	0		4	
2	53.0	30.5	41.8	-1.6	644	0	73	28	19	16	0	0	18	0	1.65	-3.20	0.80	25	2.1	0T	18	4	
3	72.2	46.5	59.4	8.0	214	46	88	25	27	5	0	0	3	0	1.74	-4.45	0.74	15	0.0	0		4	
4	70.5	46.3	58.4	-1.2	234	41	88	30	27	7	0	0	2	0	4.19	-0.04	1.03	26	0.0	0		8	
5	84.7	57.9	71.3	3.6	6	209	92	31	45	19	4	0	0	0	1.34	-2.94	0.93	5	0.0	0		2	
6	91.6	66.2	78.9	3.5	0	426	97	24	59	22	22	0	0	0	2.16	-1.83	0.83	25	0.0	0		5	
7	87.7	69.0	78.4	-1.2	0	421	93	9	62	21	9	0	0	0	7.18	2.45	2.74	28	0.0	0		9	
8	97.4	73.9	85.7	7.2	0	645	105	23	71	4	30	0	0	0	1.83	-1.76	0.94	28	0.0	0		3	
9	88.1	64.5	76.3	4.2	0	345	97	5	51	30	14	0	0	0	1.93	-2.38	1.11	14	0.0	0		4	
10	77.9	54.6	66.3	5.9	79	125	91	7	37	30	3	0	0	0	3.63	0.37	2.31	23	0.0	0		4	
11	63.9	38.8	51.4	1.1	401	0	76	21	28	24	0	0	8	0	6.56	1.68	2.43	26	0.0	0		7	
12	58.5	39.5	49.0	6.6	489	0	77	11	25	17	0	0	11	0	3.50	-1.31	1.37	28	0.0T	0T	13	7	
Annual	74.9	51.8	63.4	3.4	2722	2258	105	Aug	16	Jan	82	0	57	0	38.62	-15.90	2.74	Jul	2.1	0	Dec	61	

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U.S. Department of Commerce
National Oceanic & Atmospheric Administration

ANNUAL CLIMATOLOGICAL SUMMARY
(2006)

National Climatic Data Center
Federal Building
151 Patton Avenue
Asheville, North Carolina 28801

Station: **401656/13882, CHATTANOOGA LOVELL AP, Tennessee**   Elev. 671 ft. above sea level   Lat. 35°02'N, Lon. 85°12'W

Date	Temperature (° F)													
Elem->	MMXT	MMNT	MNTM	DPNT	HTDD	CLDD	EMXT		EMNP		DT90	DX32	DT32	DT00
											Number of Days			
2006 Month	Mean Max.	Mean Min.	Mean	Depart. from Normal	Heating Degree Days	Cooling Degree Days	Highest	High Date	Lowest	Low Date	Max >=90°	Max <=32°	Min <=32°	Min <=0°
1	56.8	37.2	47.0	7.6	552	0	69	10	27	7	0	0	10	0
2	51.9	32.4	42.2	-1.2	634	0	72	16	22	19	0	1	17	0
3	64.5	41.6	53.1	1.7	372	10	81	12	28	27	0	0	4	0
4	77.7	52.9	65.3	5.7	73	89	88	17	39	10	0	0	0	0
5	78.3	56.8	67.6	-0.1	57	142	92	29	44	1	4	0	0	0
6	88.4	64.9	76.7	1.3	0	359	98	22	54	6	12	0	0	0
7	91.3	70.1	80.7	1.1	0	493	97	20	63	8	20	0	0	0
8	92.4	73.0	82.7	4.2	0	554	100	4	66	24	23	0	0	0
9	81.5	60.5	71.0	-1.1	11	199	89	17	46	29	0	0	0	0
10	70.9	48.6	59.8	-0.6	204	50	88	5	32	24	0	0	1	0
11	62.5	39.7	51.1	0.8	414	4	78	10	28	4	0	0	3	0
12	58.3	34.1	46.2	3.8	575	0	73	18	16	9	0	0	13	0
Annual	72.9	51.0	62.0	1.9	2892	1900	100	Aug	16	Dec	59	1	48	0

Date	Precipitation (inches)								
Elem->	TPCP	DPNP	EMXP		TSNW	MXSD		DP01	DP
			Greatest Observed		Snow, Sleet			Number	
2006 Month	Total	Depart. from Normal	Day	Date	Total Fall	Max Depth	Max Date	>=.10	>=.
1	5.19	-0.21	1.27	17	0.0T	0T	3	8	
2	2.05	-2.80	0.76	3	0.2	0T	20	5	
3	1.94	-4.25	1.04	20	0.0	0		3	
4	5.93	1.70	1.76	19	0.0T	0T	25	8	
5	3.48	-0.80	0.73	7	0.0T	0T	5	9	
6	2.20	-1.79	1.11	26	0.0	0		3	
7	4.47	-0.26	1.45	13	0.0	0		9	
8	4.74	1.15	1.11	20	0.0	0		11	
9	4.10	-0.21	1.43	23	0.0T	0T	18	8	
10	5.67	2.41	2.03	17	0.0	0		5	
11	3.48	-1.40	1.93	15	0.0T	0T	18	3	
12	3.42	-1.39	1.36	22	0.0T	0T	31	6	
Annual	46.67	-7.85	2.03	Oct	0.2	0	Dec	78	

Notes

(blank) Not reported.

\+ Occurred on one or more previous dates during the month. The date in the Date field is the last day of occurrence. Used through December 1983 only.

A Accumulated amount. This value is a total that may include data from a previous month or months or year (for annual value).

B Adjusted Total. Monthly value totals based on proportional available data across the entire month.

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X Monthly means or totals based on incomplete time series. 1 to 9 days are missing. Annual means or totals include one or more months which had 1 to 9 days that were missing.

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T Trace of precipitation, snowfall, or snowdepth. The precipitation data value will = zero.

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Station Station is identified by: CoopID/WBAN, Station Name, State.

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U.S. Department of Commerce
National Oceanic & Atmospheric Administration

ANNUAL CLIMATOLOGICAL SUMMARY
(2005)

National Climatic Data Center
Federal Building
151 Patton Avenue
Asheville, North Carolina 28801

Station: **401656/13882, CHATTANOOGA LOVELL AP, Tennessee** Elev. 689 ft. above sea level Lat. 35°02'N, Lon. 85°12'W

Date	Temperature (° F)														Precipitation (inches)								
Elem->	MMXT	MMNT	MNTM	DPNT	HTDD	CLDD	EMXT		EMNP		DT90	DX32	DT32	DT00	TPCP	DPNP	EMXP		TSNW	MXSD		DP01	DP
											Number of Days						Greatest Observed		Snow, Sleet			Number	
2005 Month	Mean Max.	Mean Min.	Mean	Depart. from Normal	Heating Degree Days	Cooling Degree Days	Highest	High Date	Lowest	Low Date	Max >=90°	Max <=32°	Min <=32°	Min <=0°	Total	Depart. from Normal	Day	Date	Total Fall	Max Depth	Max Date	>=.10	>=.
1	55.4	35.6	45.5	6.1	598	0	71	4	16	24	0	1	11	0	2.80	-2.60	0.87	13	0.0T	0T	7	6	
2	56.4	37.3	46.9	3.5	501	0	70	22	23	11	0	0	8	0	5.46	0.61	2.10	21	0.0T	0T	9	7	
3	61.4	39.5	50.5	-0.9	446	1	81	26	23	2	0	0	6	0	4.27	-1.92	0.97	31	0.0T	0T	25	8	
4	71.7	47.2	59.5	-0.1	167	8	81	20	33	25	0	0	0	0	3.56	-0.67	1.08	30	0.0	0		7	
5	77.2	53.7	65.5	-2.2	69	93	89	12	41	4	0	0	0	0	1.99	-2.29	0.85	10	0.0	0		5	
6	85.6	66.9	76.3	0.9	0	344	93	30	59	18	7	0	0	0	7.05	3.06	2.02	28	0.0	0		9	
7	88.5	71.5	80.0	0.4	0	472	97	26	66	7	13	0	0	0	6.05	1.32	1.65	11	0.0	0		10	
8	89.7	71.5	80.6	2.1	0	492	96	20	66	31	17	0	0	0	5.00	1.41	1.36	15	0.0	0		10	
9	87.2	63.7	75.5	3.4	0	320	92	20	51	30	12	0	0	0	1.92	-2.39	0.98	16	0.0	0		2	
10	74.2	51.3	62.8	2.4	155	94	87	2	31	30	0	0	1	0	0.75	-2.51	0.38	6	0.0	0		2	
11	64.4	40.2	52.3	2.0	383	11	84	8	25	19	0	0	8	0	3.57	-1.31	1.66	21	0.0	0		5	
12	48.5	29.5	39.0	-3.4	800	0	65	28	20	23	0	0	22	0	3.85	-0.96	1.22	15	0.0	0		9	
Annual	71.7	50.7	61.2	1.2	3119	1835	97	Jul	16	Jan	49	1	56	0	46.27	-8.25	2.10	Feb	0.0	0	Mar	80	

Notes

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U.S. Department of Commerce
National Oceanic & Atmospheric Administration

National Climatic Data Center
Federal Building
151 Patton Avenue
Asheville, North Carolina 28801

ANNUAL CLIMATOLOGICAL SUMMARY

(2004)

Station: **401656/13882, CHATTANOOGA LOVELL AP, Tennessee**

Elev. 689 ft. above sea level

Lat. 35°02'N, Lon. 85°12'W

Date	Temperature (° F)														Precipitation (inches)								
Elem->	MMXT	MMNT	MNTM	DPNT	HTDD	CLDD	EMXT		EMNP		DT90	DX32	DT32	DT00	TPCP	DPNP	EMXP		TSNW	MXSD		DP01	DP
											Number of Days						Greatest Observed		Snow, Sleet			Number	
2004 Month	Mean Max.	Mean Min.	Mean	Depart. from Normal	Heating Degree Days	Cooling Degree Days	Highest	High Date	Lowest	Low Date	Max >=90°	Max <=32°	Min <=32°	Min <=0°	Total	Depart. from Normal	Day	Date	Total Fall	Max Depth	Max Date	>=.10	>=.
1	49.8	29.7	39.8	0.4	777	2	71	3	17	7	0	0	23	0	3.60	-1.80	2.10	25	0.0T	0T	10	5	
2	51.0	33.5	42.3	-1.1	655	0	65	19	22	1	0	0	12	0	4.88	0.03	3.11	6	0.4	0T	16	6	
3	67.5	44.0	55.8	4.4	284	6	83	28	28	23	0	0	4	0	4.36	-1.83	1.62	6	0.0	0		7	
4	72.6	47.7	60.2	0.6	180	40	86	24	37	15	0	0	0	0	1.93	-2.30	0.74	12	0.0T	0T	11	6	
5	82.7	61.0	71.9	4.2	34	255	90	30	39	4	2	0	0	0	3.92	-0.36	1.09	2	0.0	0		7	
6	84.5	67.7	76.1	0.7	0	338	95	12	58	5	4	0	0	0	4.16	0.17	0.89	15	0.0	0		9	
7	87.7	68.5	78.1	-1.5	0	414	94	24	63	19	8	0	0	0	7.47	2.74	2.34	31	0.0	0		9	
8	85.4	66.2	75.8	-2.7	0	342	92	4	54	14	7	0	0	0	2.74	-0.85	1.03	20	0.0	0		5	
9	81.4	62.9	72.2	0.1	2	223	90	6	51	21	1	0	0	0	8.28	3.97	5.24	16	0.0	0		5	
10	75.2	56.7	66.0	5.6	44	80	83	2	44	17	0	0	0	0	4.62	1.36	2.17	19	0.0	0		7	
11	63.2	45.6	54.4	4.1	321	10	80	1	31	26	0	0	2	0	7.61	2.73	2.39	24	0.0	0		11	
12	52.4	31.2	41.8	-0.6	713	0	72	7	16	20	0	1	19	0	6.60	1.79	3.69	6	0.0T	0T	21	6	
Annual	71.1	51.2	61.2	1.2	3010	1710	95	Jun	16	Dec	22	1	60	0	60.17	5.65	5.24	Sep	0.4	0	Dec	83	

Notes

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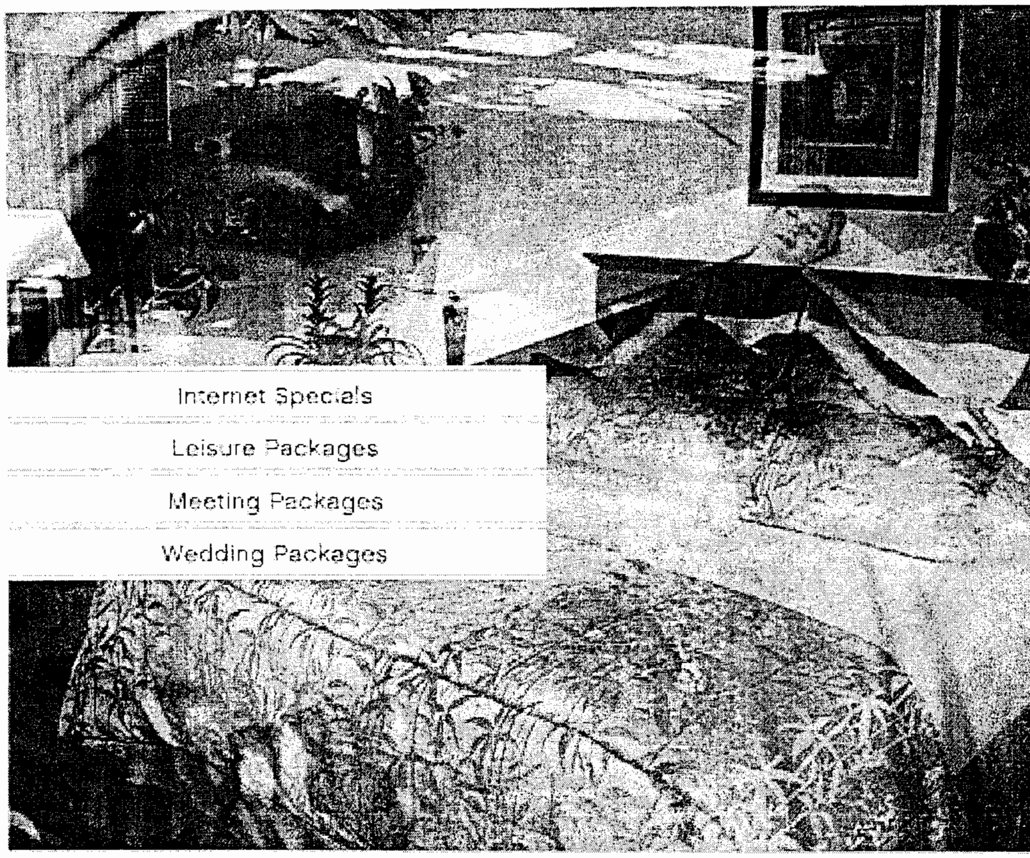

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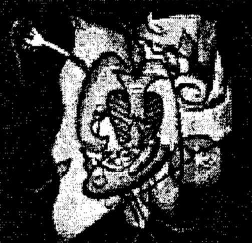

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Phil Stefani's 437 Rush

437 N. Rush St.
Chicago, IL 60611
(312) 222-0101

RESERVE NOW

Phil's Stefani's 437 Rush is the latest Phil Stefani Signature Restaurant. Located at 437 N. Rush St. the new location inhabits the former Riccardo's restaurant space at the corner of Rush and Hubbard Streets. 437 Rush truly echoes the feel of a classic Italian steakhouse. The design's intent, by architect Randy Pruyn, was not to recreate Riccardo's, but to bring back the spirit of when the restaurant was in its prime.

The restaurant shines through the use of rich mahogany colored flooring and wainscots, black and white tiled floors, stainless steel railings and ribbed glass partitions. The décor package highlights the neighborhood's strong newspaper and advertising ties. The finale is the energetic mural that hangs above the original Riccardo's bar. The main dining room features items including prime steaks and chops, succulent lobster tails and enticing pasta specialties.

For preferred seating call: 312-222-0101.

Take the Virtual Dining Room Tour.

Take the Virtual Bar Tour.

Menus

437 Restaurant Menus

To view a menu, click on one of the links below:

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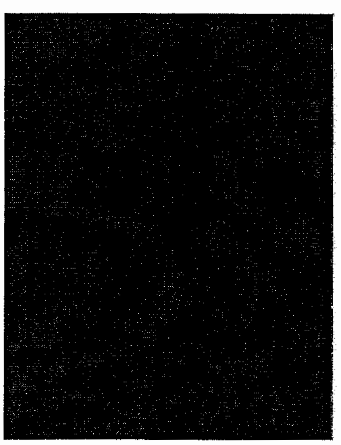
Dining Room

Bar

Private Dining


Newsroom


437 Exterior



- 437 Daily Drink Special
- 437 Signature Cocktails
- 437 Bar Bites Menu
- 437 Lunch Menu
- 437 Dinner Menu
- 437 Private Dining Menus

You will need to have the Adobe Acrobat Reader program in order to view and print the menus. To download and install a copy of this program click on the icon below.

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Phil Stefani's 437 Rush Facts

ADDRESS: 437 N. Rush Street, Chicago IL 60611 (former site of Riccardo's)

PHONE: 312-222-0101

HOURS OF OPERATION:
Lunch: Monday - Friday, 11am - 4pm
Dinner: Monday - Thursday 5pm-10pm / Friday & Saturday 5pm-11pm / Sunday - Closed

PRIVATE DINING CONTACT: Michael Dyb - call 312-222-0101 or send an email to mdyb@stefanigroup.com

EXECUTIVE CHEF: Federico Comacchio

CUISINE: Italian Steakhouse

RESERVATIONS: Strongly Recommended

CAPACITY: 400

PRIVATE DINING FACILITIES:
Accommodate 20 to 200

PARKING: Valet Parking

CREDIT CARDS: All Major

HANDICAP ACCESS: Yes

SMOKING: No smoking allowed

RESTAURANTS

Tuscany |Tuscany Cafe | Poplar Creek Country Club | 437 Rush
Harborside International | Tavern on Rush | Riva Restaurant
Riva Naperville | Crystal Garden | Beer Garden | Castaways

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Philadelphia, PA 19107
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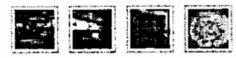

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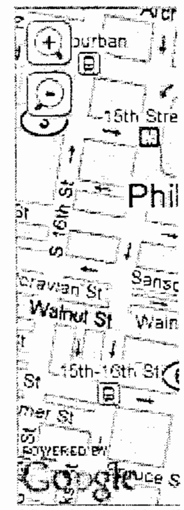

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Price Range: $$
Good for Groups: Yes
Delivers: No
Outdoor Seating: No
Happy Hour: Yes

Accepts Credit Cards: Yes
Good for Kids: No
Waiter Service: Yes
Good for: Late Night
Alcohol: Full Bar

Attire: Casual
Takes Reservations: Yes
Wheelchair Accessible: Yes
Best Nights: Thu, Fri, Sat
Smoking: No

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16
Lauren H.
Philadelphia, PA

4 star rating *07/06/2008*

I've never been to a bowling alley like this one before. Here, you dress up like you're going over to old city to bar hop the night away. They serve food a step above bar food, salads and light foods like that. There is a full bar that makes decent drinks, I had a lemon amaretto and a cranberry vodka, and both were strong. Before 9pm, anyone can come and bowl, but after 9, it's 21+.

People thought this was: Useful (4) Cool (3)

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Elite '08
19
108
Karen F.
Philadelphia, PA

3 star rating *07/25/2008*

We went here - believe it or not- for our neighbor'd 5 year old daughter's birthday party.
Um - OK - a 5 year old. FIVE.

F.I.V.E.

OK. We brought our 3 year old. There were about 14 kids from ages 3 - 12 and their assorted parents. It was a Saturday during the afternoon.

This place is really neat - but it's more like a club-slash-bowling alley.

It is NOT where I would have a kids party - but surprisingly it all worked. The adults had drinks and lots of fried-bad-for-you apps.
The kids ate a grocery-store cake that they brought and Lucky Strikes made little cheese pizzas for each kid.

People Who Vi

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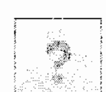

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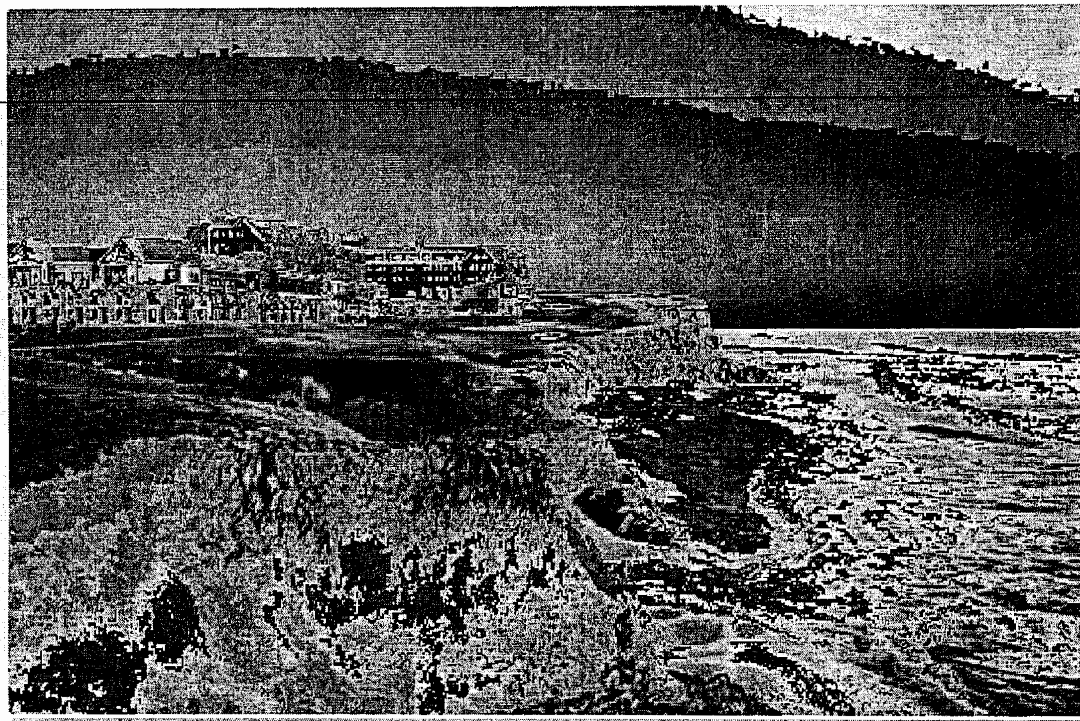

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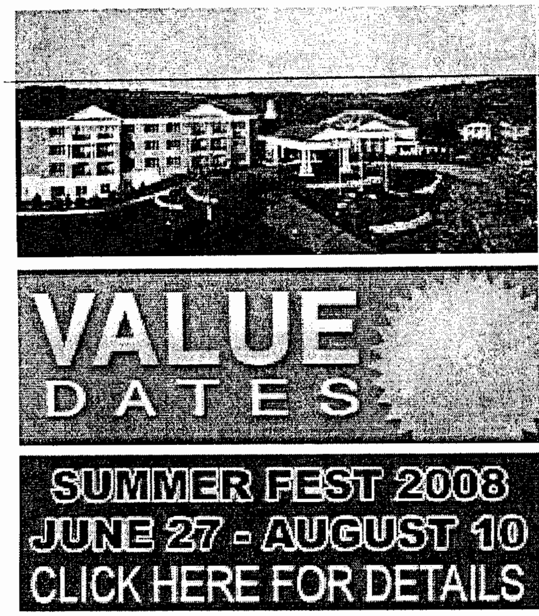

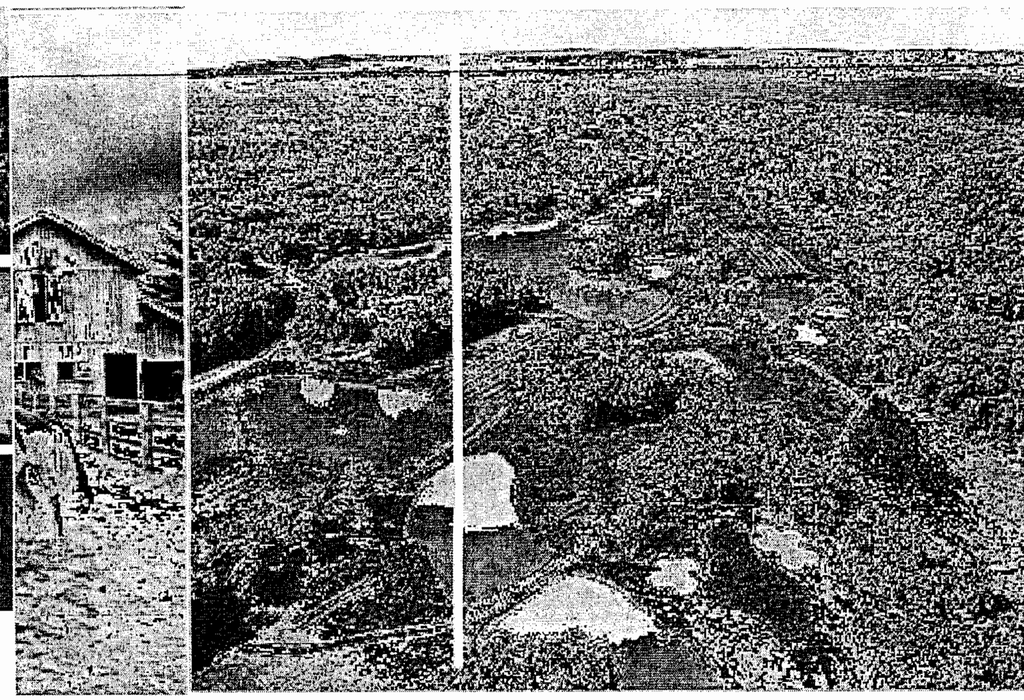

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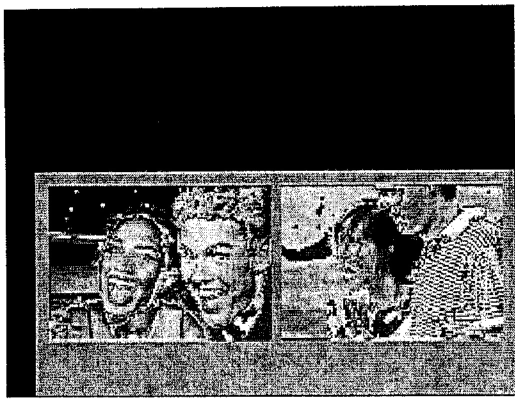

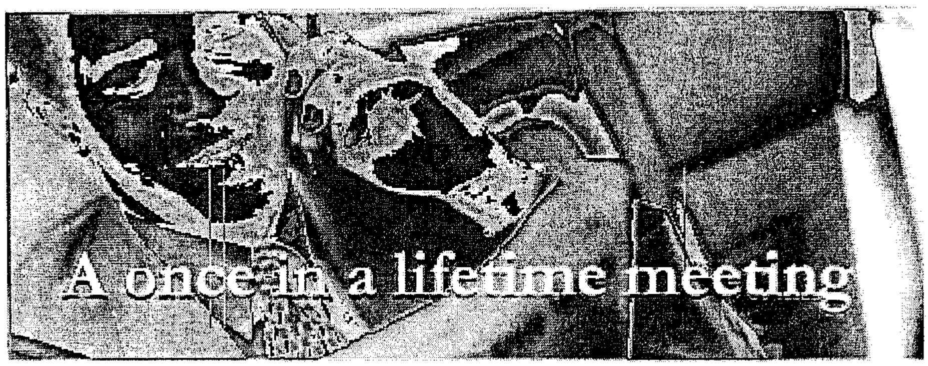

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Public Utility Accounting: Theory and Application

by

James E. Suelflow

1973

MSU Public Utilities Studies
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Graduate School of Business Administration
Michigan State University

ciate them on an item-by-item basis. It is doubtful that such reasoning is as valid today, since methods and tools are available which allow the utility to do this. Electronic data processing equipment can perform the necessary calculations required for unit depreciation with very little effort. The question that must be asked, however, is how much more accurate is unit depreciation versus a group method. The point should be clear: If accuracy is not sacrificed under a group method and may, in fact, be greater than under a single unit method, the use of group depreciation is not only proper and expedient, but also almost a requirement. Whether or not group depreciation is used is certainly a management decision. The utility manager, however, must be aware of the shortcomings as well as the advantages of the method to ensure that within the legal confines and uniform accounting systems prescribed no more or less than the cost of the assets should be reflected through depreciation accounting.

Accounting for Depreciation

The procedure of accounting for depreciation involves a systematic converting of unexpired asset costs into periodic expenses. Expressed another way, it is the appropriate matching of revenues with expenses—depreciation expense representing the extinguishing of an asset's useful life to produce revenues for the particular accounting period. Accounting for depreciation expense recognizes that: (1) the cost of the asset less salvage value is the amount to be systematically allocated as depreciation; (2) no more nor no less than the cost of the asset is depreciable; and (3) by considering this cost only depreciation will keep the initial investment of nominal dollars intact. The asset remains on the utility's accounting records until it is either retired or replaced, and only then are the accounting records relieved of a particular item.

The journal entries involved in the life of an asset are presented below.

(1) To record the asset placed into utility service:

Dr. Electric Plant in Service
Cr. Accounts Payable, Cash, Construction Work in Process, or Materials and Supplies

§ 1.01 Public Utilities Defined

The major portion of U.S. commercial business is conducted by shareholder-owned corporations operating for profit-motivated purposes. Three basic categories of shareholder-owned corporations conduct the majority of this business:

(1) private corporations engaged in manufacturing and related wholesale and retail operations;

(2) financial institutions engaged basically in banking and insurance activities; and

(3) public service corporations or public utilities.

There have been many attempts to define a public utility. Essentially, a public utility is an organization that has been designated by law as a business affected with a significant public interest, *and* that also possesses all of the following characteristics:

(1) The business is essentially free from direct competition, i.e., it operates in a monopolistic environment.

(2) The business is required by law to charge rates for its services that are reasonable and not unjustly discriminatory.

(3) The business is allowed to earn (but not guaranteed) a "reasonable" profit.

(4) The business is obligated to provide adequate service to its customers, on demand.

The above concepts are discussed in detail later in this chapter.

§ 1.02 Development of the Utility Industry

The historical development of the public utility industry is not clearly delineated. What a public utility is has long been the subject of debate. This issue has been further clouded by the fact that society has, at different times, changed its perception of the industries that public utility systems comprise. The historical development of public utilities is also complicated by the fact that technological development of the various utility services began at different times and progressed at different rates.

Two noted commentators, however, identify five basic stages through which most utilities have at least partially passed.[1] These stages are:

(1) the promotional stage;

(2) the competitive stage;

[1] Adapted from M Farris and R Sampson, *Public Utilities: Regulation, Management, and Ownership* 9–16 (Houghton Mifflin 1973).

CHAPTER 7

Test Period Cost of Service

SYNOPSIS

§ 7.01 Introduction

In the traditional cost of service approach to ratemaking, it has been generally assumed that utilities have a right to charge rates that will provide a reasonable opportunity to recover costs prudently incurred in the process of providing utility services. There is little challenge to the position that recovery of these costs is justified, and that the objective of the ratemaking process is to produce rates that will do so. The primary difficulty in meeting this objective is in determining the levels of costs to be incurred and the rate levels required to maintain cost recovery.

The approach most often used by regulators has been to measure the total costs incurred in conducting operations over a twelve-month period (i.e., the test period cost of service) and to fix rates that will produce revenues to match costs of that period. Two distinct concepts are embedded in the term "test period cost of service." "Test period" addresses the period of time used to determine ongoing rate level requirements; a period deemed representative (for the levels of investment, revenues, operating costs, and capital costs) of the future period of time in which rates are to be in use. "Cost of service" addresses the total costs incurred in providing service during the test period and measures the costs to be recovered through rates at the sales levels of the test period.

Since the test period is the basis for setting rates, the development of adequate test period data is obviously crucial to the outcome of the regulatory process. If the data do not accurately express operating conditions for the period in which rates are applied to recover costs, the rates will not function as intended. If rates were retrospective and past costs were recoverable through current charges, the process would be somewhat less controversial. The known costs for the past period would be determined from actual operating results and any excesses or deficiencies in rates charged would be adjusted accordingly. This is rarely the case, however. The normal approach measures test period costs, which may be adjusted historic costs or forecasted costs, assumes such costs to be representative of costs to be incurred in the future, and designs rates for prospective use to recover costs at the levels anticipated. Because of the use of test period operations as a measure of future operations to establish future rates, the need to focus on the quality of the test period data cannot be overemphasized.

§ 7.02 Test Year Function

Although the terms test *year* and test *period* are most often used interchangeably, a useful distinction may be made between the two in properly focusing on the role of the test period in the rate-making process. The test *year* is a measure of the operations and investment from some specified twelve-month period. The test *period* is a measure of, or is representative of, conditions during the period of new rates.

A twelve-month period (past, present, or future) is selected as a test *year* and is then restated, to the extent necessary (or permitted), to produce the test *period* data considered reflective of conditions during the period in which rates are to be in effect. The test *year* provides the data foundation upon which the rate case is built. It is the starting point for developing investment and operating results that are presumed to be representative of future conditions so that future rate needs may be reasonably estimated. The test *year* is the raw material, and the test *period* is the finished product.

The two sets of data may express the same time period (and may be identical in value), or they may express different time periods (with the test year restated to create test period results). Furthermore, while the test *year* may express data from the past, present, or future, *the test period is always a forecast* when rates are being set thereon for prospective use. This point was eloquently expressed by Professor Alfred Kahn in a 1975 article.[1] Dr. Kahn, at the time serving as Chairman of the New York Public Service Commission, observed:

> "No tradition in public utility regulation is more sanctified than the use of an historic test period. Since the purpose of the exercise is to set rates for the future, the parties try in various ways to adjust the 'test year' experience for later, 'known changes'. . . ."

He further stated:

> "The system works moderately well, as long as the period during which the new rates are in effect are not dramatically different from the test period. Double digit inflation has obviously changed all that."

He concluded:

> "The fact is . . . regulatory commissions have always been in the business of projecting, whether they knew it or not. When they used historic test year statistics, fully verifiable and verified, graven in stone, as the basis of future rates, they were in fact projecting. They were assuming that the future would be similar to the past. It is no more speculative, then, to make the best possible estimate of future costs when setting future rates; and honesty compels it."

As stated, rates are normally set prospectively and are normally based on test period data that are presumed to be representative of

[1] A Kahn, "Between Theory and Practice: Reflections of a Neophyte Public Utility Regulator," *Public Utilities Fornightly* 29 (Jan 2, 1975).

prospective conditions when rates will be in use. Whether using pure historic data with actual events as reported or pure forecast data using the best available assumptions, as so well expressed by Dr. Kahn, the test period necessarily assumes the posture of a projection of future events when it is used to set future rates.

For many years, regulators relied primarily upon historic test year data with pro forma adjustments to recognize known and measurable changes in the events as recorded. In recent years, a number of state and federal regulators have acknowledged the deficiencies inherent in historic data and have adopted the projected test year approach to anticipate rapidly changing conditions more effectively and to accommodate the rate-making objective of setting prospective rates that will adequately cover prospective costs. They have recognized that test period data must be structured to accommodate the future, because the future will not develop to accommodate test period assumptions.

§ 7.03 Selection of the Test Year

Test period conditions are typically based upon one of the following test year selections:

(1) historic data;

(2) current data (partial historic and partial projected); or

(3) projected data.

The selection of the timing of the test year may be the most significant single factor in the rate-making process. The more outdated the test year levels of operations, the more critical is the need for significant restatement to produce representative levels of future conditions. As the test year selection moves from historic data toward projected data, the restatement problem moderates and the level of pro forma adjustments to restate the test year is reduced.

The historic test year approach may function reasonably well when economic conditions are stable and did so under conditions during the 1950s and 1960s. In recent years, however, it has consistently proven to be inadequate. Under the inflationary conditions of the 1970s, with the impact of rapidly changing costs of providing service, historic data became increasingly more difficult to utilize effectively. With declining inflation in the 1980s and 1990s, the problem has moderated, but still exists.

The idea that historic data express factual conditions has sometimes led to the conclusion that those data are the most reliable data available for estimating future conditions. The factual nature of the events as recorded has apparently imbued the data with a degree of soundness and quality that appears to exceed a forecast approach for test year purposes. When conditions are in a state of change, historic results are likely to be the most unreliable of the sources of test period data as a basis for measuring future rate needs. While projected data, using standard forecasting techniques, may miss the mark, historic data, with a patchwork of updating, will surely miss the mark. As imprecise as forecasting may be, projected test year data based on reasonable forecasts should consistently come closer to expressing future conditions than will historic data as traditionally used.

§ 7.04 Average and Year-End Measures

When using forecasted data, most often the rate base investment is averaged over a 12-month period and related to the results of operations for the period. This averaging concept produces a matching of the rate base investment with the revenues generated by the investment and the costs incurred in the process. If the period forecasted coincides with the period in which the new rates will be in effect, the matching of investment levels to operating results should produce the earnings levels authorized. Any deviation should be solely due to the inability to forecast with perfect foresight.

It is worth repeating, however, that the test period, as a measure of future conditions, is by nature a forecast, whether based primarily on past events or on forecasts. Reasonable assumptions should produce more accurate and more useful results than will the use of historic data with limited adjustments.

The average outstanding investment and the operating results of the test year are also most often used in conjunction with a "current" test year (i.e., part historic, part forecast) in order to match the outstanding investment with the operations related thereto. In most instances, however, the rates do not begin until after the test year's end even though it is based partly on forecasted data. As a result, unless the current test year data are adjusted to recognize changing conditions, the rates will not be properly established. When conditions are rapidly changing, substantial pro forma adjustments (i.e., the restatement of test year events or conditions to measure future conditions more accurately) to current test year operating results may be required.

Average results for the period are also measured in a number of jurisdictions when an historic test year is used. Using average historic data, coupled with several months of delay in processing a case and establishing new rates, can severely undermine the adequacy of rates produced in the process. For example, a utility may file its rate case in the spring of 19X1, using 19X0 as a test year with rates going in effect in 19X2. The 19X0 average costs data will be eighteen months old (i.e., 19X0 average costs represent a midpoint, or June/July cost levels) when initiated. By the time they have been used for 12 months, they are 30 months old. This results in two years of change between the midpoint of the test year (19X0) and the midpoint of the year of new rates (19X2). The traditional pro forma adjustments have not been sufficient to span this gap, and in periods of rising costs, utilities' earnings have repeatedly fallen below targeted levels.

Some regulatory commissions using historic data have reduced the impact of this lag by expediting the hearing process and the implementation of new rates. Others have permitted interim rate relief pending the final decision on new rates (and although this does not assist in setting adequate final rates, it does minimize losses experienced during a lengthy hearing process). In fairness to many commissions, controlling statutes may inhibit the shift to forecasted data or the ability to allow interim rates. In other situations, commissions simply have not recognized the basic merits of these positions.

Many commissions, tied to historic data by statute or by an unwillingness to accept forecasted data, have adopted historic end-of-year test years. The year-end approach has been applied in two major forms. First, some commissions have used a year-end rate base, year-end capital cost data, and annualized revenues and costs at a year-end level. This approach has the effect of moving the test year forward by a full six months (i.e., the average historic test year approach effectively uses midperiod levels, while the year-end data pushes these levels forward to year-end—a six-month update). The time gap problem is moderated, but gaps of 12 to 18 months may still exist between the test period and the time that new rates go into effect.

Other commissions, also committed to historic test year data, have gone a step further. They have coupled end-of-period investment data (i.e., the year-end rate base and capital costs) with the operating results (revenues and costs) of the preceding 12 months. This "mismatch" has frequently been justified as necessary to overcome the problem of increased levels of earnings deterioration (i.e., attrition) between the historic test year and the subsequent year of rate use.

An example of the potential impact of the various methods is given in simplified form as follows:

	Test Year Approach			
	Average	Year-End	Current	Forecast
Rate base	$1,600	$1,700	$1,800	$2,000
Net operating income as measured for rate purposes	$ 120	$ 125	$ 130	$ 140
Rate of return:				
Realized	7.5%	7.4%	7.2%	7.0%
Required	10.0%	10.1%	10.2%	10.3
Deficiency	2.5%	2.7%	3.0%	3.3%

The example illustrates a common condition in which plant is increasing at a faster pace than operating income, thereby creating a pattern of declining rates of return. At the same time, new capital costs are above embedded capital cost levels, and the required rate of return increases. This condition, discussed at length in the chapter on attrition (Chapter 8), obviously should be considered, because rates set to remedy the shortfall indicated by the 2.5 percent deficiency in the historic average measure will not suffice to produce an adequate return under prospective conditions.

§ 7.05 Pro Forma Adjustments to the Test Year Data

Under conditions of sustained periods of inflation, especially in an expanding system, the use of a test year, other than one based on fully forecasted data, will create a critical need for pro forma adjustments. Even in stable conditions, historic data will likely require restatement for actual occurrences not expected to recur or for events that are expected to occur but did not exist (in whole or in part) in the test year. Further, there may be events that did occur and are expected to continue but the related costs are not deemed the customers' responsibility. The pro forma adjustments that are normally utilized fit into one of the following categories:

(1) normalizing adjustments (to restate the period data for abnormal conditions);

(2) annualizing adjustments (to extend over the period, or to eliminate from the period, events that had partial period effects and are either recurring or have terminated);

(3) out-of-period adjustments (to assign properly events of the period to the period);

(4) attritional adjustments (to recognize changing conditions, including annualizing of conditions, updating of conditions, or adjusting for any known and measurable changes in events or conditions that will affect future cost or revenue levels); or

(5) reclassified items (to add or remove items for purposes of rate recovery).

Normalization adjustments are usually made to revenues or to expenses to compensate for unusual levels of operations as recorded during the period. The events that lead to normalizing adjustments are often extraordinary and nonrecurring. For example—

(1) Extreme weather conditions can create abnormal levels of sales and/or costs during the period;

(2) Normal levels of operations may be delayed or may be accelerated during the period;

(3) Employee strikes may cause changes in levels of activities; or

(4) Extended plant outages may create unusual costs.

(Text continued on page 7–9)

Such events, when of an abnormal or nonrecurring nature, require restating the test year to a normal, ongoing level of operation.

One consideration in identifying extraordinary and nonrecurring events that justify normalizing adjustments is whether the event actually has an extraordinary and nonrecurring impact on operations. Many events, if viewed in isolation, might be considered extraordinary or nonrecurring, but if viewed from an overall operating perspective, might be a part of the routine cost of doing business. For example, a car owner may have an unexpected and costly generator failure at one point in the car's lifetime. A battery failure may, however, occur at some other time, or a starter failure may occur, and so on. Any one of these failures may be a one-time, nonrecurring event, but a different one may occur each year. Any one of the specific problems may be nonrecurring but will be replaced by other problems, and the annual cost of operating the car may therefore be normal. It is in this context that the normalizing adjustments should be considered.

Annualizing adjustments recognize that some conditions existing during segments of the period are ongoing and must be spread over the entire period. One common annualizing adjustment is for wage increases that occur during the test year. Since wage costs will be greater on an ongoing basis than as recorded, the adjustment is necessary to improve the prospective status of the test year data. The key ingredient in the annualizing adjustment considerations is the changing level of costs (or revenues) for the same level of operations. If the change expands or reduces operations, the investment/revenue/cost relationships may all change equally and an adjustment may not be needed. For example, a growing system will be adding new investment, new employees, and new sales. The changes related to growth may not require annualization to maintain the interrelationships between investment levels, revenues, and costs.

Out-of-period adjustments are required when an event is recorded in one period but applies to another period. One common out-of-period adjustment is income tax expense which may include prior period tax assessments or rebates from prior periods. When using recorded test year income taxes, any out-of-period amounts in the tax expense accounts should be eliminated.

Attritional adjustments restate conditions as recorded during the test year to levels that may be reasonably anticipated for test period purposes (i.e., representative of future conditions). Since this category of pro forma adjustments includes any restating of conditions from those recorded to those anticipated, it could include most, probably all, of the annualization adjustments already discussed above. In addition, and sometimes most significantly, this category includes those events that will occur but have not been included in the typical pro forma adjustments to the test year data. The general role of attritional adjustments are of such import that the subject is discussed in detail in Chapter 8.

Attritional adjustments are most limited by the "known and measurable" standard. Many commissions have permitted adjustments for conditions that come into being subsequent to the test year, but only when they are known with an almost absolute finality and measurable by some explicit test year activity. A good example is the contractual obligation for post-test-year wage adjustments. The problem inherent in the explicit selection of adjustments is that many areas of change that could be identified and measured as to their impact are ignored. For example, inflationary conditions will result in higher costs for materials and supplies used in operations, but such changes often are not considered to be known and measureable.

The idea of a known change in the ratemaking framework should not be that the change is in an absolute or unchangeable form, but rather that there is a known condition or a known pattern of change in the operations. While the term "known change" may suggest something in the past, it is generally not so limited by regulators. For example, the rationale for allowing adjustments for prospective wage increases which are under a contractual arrangement is that contractual agreements have a high probability of occurring. The problem of inflation and its impact on a company's various operating costs has just as high a degree of probability as has the wage agreement. In basic character, no difference exists. Regulators "know" that the wages will be increased. They should "know" that various noncontractual areas of costs incurred by the utility will also increase. There is no reason to believe that wage contracts will not be fulfilled, and similarly there may be no reason to believe that inflation patterns are going to change significantly in the time frame used for setting rates. The "known" quality applies equally to activities with contracted price adjustments and those activities faced with general price changes.

In addition, the measurable aspects of most areas of costs are quite similar. The impact of past or prospective wage increases is measured in the test year and adjusted accordingly. Also, various other costs in the test year are adjusted for the impact of the changes that are occurring.

There is a strong similarity between adjusting for the traditional items which are prominent and easily isolated and a variety of other items which are less prominent and less easily isolated, but which have equally adverse effects. Many of the costs that are often excluded from the pro forma adjustments fit properly into the known and measurable criterion.

Reclassified items generally concern activities that are included in operating accounts under the uniform systems of accounts directives but are disallowed for purposes of fixing rates on the premise that the costs do not benefit ratepayers. The most common adjustments include the disallowance of various advertising costs, charitable contributions, and company involvement in civic affairs, which, although designated as operating expenses, are frequently assessed against the equity holders rather than the ratepayers through reclassification adjustments.

§ 7.06 Test Period Function

The test period, by nature and by design, is a surrogate for conditions of the period of rate use and, to repeat, is presumed to be representative of future conditions. Since future conditions must be accommodated, the mechanical approach to developing test year data is significant only in how well it serves to express those conditions. Whether the approach in estimating costs is based upon historic test year data, with adequate adjustments thereto, or upon fully projected test year data, the required rate levels indicated should be the same. If the alternative periods are properly scrutinized and restated to reflect future events, no difference should result.

In practice, the historic test year approach has proven to be inadequate during periods of rapid change. In many instances, the quality of the results using historic data has been severely undermined by the limitations placed on the pro forma adjustments permitted. When the approach is thus hampered, rates will not function as intended due to the unrealistic limitations placed on the restatement of data by the traditional known and measurable change criterion. If greater flexibility were allowed in pro forma adjustments for reasonably assumed changes in conditions, historic data performance would be substantially improved. Few businesses or governmental agencies would willingly adopt the traditional historic test year approach (with adjustments limited to items traditionally deemed to be known and measurable such as contractual wage adjustments) in planning for subsequent periods.

[1] Setting Rates for Prospective Use

Considerable judgment is involved in looking from the past, through the present, and into the future to set rates for future use. In these circumstances, reasonable parties may disagree; however, the basic framework of ratemaking principles should create little controversy. Some significant points may be summarized as follows:

(1) Rates are set for the future.

(2) Rates are based on test period data.

(3) The test period is presumed to reflect future conditions.

- (a) The test period is therefore a forecast, whether based upon historic data or projections.
- (b) In periods of rapid change, historic data may require substantial restatement to produce acceptable results.

§ 7.07 Test Period Data

The significant equation in the test period data is:

revenues required = cost of service incurred.

The revenues are a product of the test period sales or service levels and the rates as applied. Since setting the rate levels is the ultimate step in the ratemaking process, determining the test period sales volume is one of the critical measures in the test period data. When using historic test year data, the sales volumes must be examined for conditions that are not representative of the period. The conditions that may produce recorded sales that are not representative include the following:

(1) abnormal consumption levels (e.g., extreme weather conditions);

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American Water Appoints Walter Lynch and John Young to New Leadership Roles

VOORHEES, N.J., Jul 28, 2008 (BUSINESS WIRE) -- American Water Works Company, Inc. (NYSE:AWK), the largest investor-owned U.S. water and wastewater utility company, announced today that Walter Lynch has been appointed to the newly created position of president of regulated operations and John Young has been appointed as president of American Water Services, a new entity that will support the company's growth initiatives and service offerings. Young will also continue to serve as president of American Water Works Service Company, providing operating support to all aspects of the business. Both Lynch and Young will report to president and CEO, Don Correll.

"Walter and John are key leaders in this company," said Don Correll, president and CEO of American Water. "These changes were made to continue to strengthen American Water, to support our growth and to drive performance. Walter and John have vast experience in this industry and I have every confidence that through these new positions, they will help this company achieve its full potential."

In his new role, Lynch will be responsible for the successful performance of American Water's 20 regulated states, serving approximately 1,625 communities. All of the state presidents will now report to him. In addition, Lynch will lead the company's two national customer call centers.

As president of American Water Services, Young will work to align the organization's capabilities to support various growth opportunities like the company's recent successes with the Tampa Bay desalination project in Florida and the Lake Pleasant Water Treatment Plant in Arizona.

Young will also continue to lead multiple operational functions, as well as lead the business transformation of the company's information technology effort. This critical effort will ensure the company employs the proper technology to execute its key strategies.

Lynch joined American Water in 2001 and most recently served as the executive vice president of business operations for the company's Eastern Division. The division encompasses eight states stretching from Tennessee to New York and has approximately 2, 600 employees. Prior to that, he was president of American Water's Northeast Region. In this role, he oversaw more than 1,000 employees and was responsible for operations that provided more than 2 million people in New Jersey and New York with water and wastewater services. Lynch also served as president of American Water Products and Services Group. In this capacity, he led and developed 10 non-regulated business lines with more than $500 million in revenue and 1,500 employees. Before joining American Water, he was involved in various start-up and growth organizations in the environmental industry. He also worked for Mobil Oil Corp. A graduate of the U.S. Military Academy at West Point, Lynch holds a Bachelor of Science degree in general engineering and attained the rank of Captain before his departure from the U.S. Army in 1990.

Young joined American Water in 1977 and has held a variety of operations, engineering and executive positions, including chief operating officer, vice president of engineering, vice president of technical services, and vice president of operations and investment performance. He is an active member of several professional organizations, including the Design/Build Institute of America (board member), the American Water Works Association (board member, section chair and Fuller awardee), and the American Society of Civil Engineers. He also serves on the U.S. Environmental Protection Agency's (EPA) National Drinking Water Advisory Council and several EPA working groups. A registered professional engineer in a number of states, Young holds a bachelor's degree in civil engineering from Duke University and a master's in environmental engineering from the University of North Carolina.

About American Water

Founded in 1886, American Water is the largest investor-owned U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs nearly 7,000 dedicated professionals who provide drinking water, wastewater and other related services to approximately 15.6 million people in 32 states and Ontario, Canada.

SOURCE: American Water Works Company, Inc.

American Water Works Company, Inc.
Maureen Duffy
Director, Communications
856-309-4546
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Close window | Back to top

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file: number 001-34028

AMERICAN WATER WORKS COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**51-0063696** (I.R.S. Employer Identification No.)
1025 Laurel Oak Road, Voorhees, NJ (Address of principal executive offices)	**08043** (Zip Code)

(856) 346-8200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☐ Yes ☒ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

☐ Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 14, 2008
Common Stock, $0.01 par value per share	160,000,000 shares

Table of Contents

TABLE OF CONTENTS

**AMERICAN WATER WORKS COMPANY, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2008
INDEX**

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets
(In thousands, except per share data)

	(Unaudited) March 31, 2008	December 31, 2007
ASSETS		
Property, plant and equipment		
Utility plant - at original cost, net of accumulated depreciation of $2,829,045 at March 31 and $2,776,950 at December 31	$ 9,296,315	$ 9,199,909
Nonutility property, net of accumulated depreciation of $63,207 at March 31 and $60,587 at December 31	119,740	118,052
Total property, plant and equipment	9,416,055	9,317,961
Current assets		
Cash and cash equivalents	9,202	13,481
Restricted funds	2,149	3,258
Utility customer accounts receivable	136,261	147,640
Allowance for uncollectible accounts	(17,576)	(20,923)
Unbilled utility revenues	122,431	134,326
Non-regulated trade and other receivables, net	62,812	66,540
Taxes receivable, including federal income	23,111	23,111
Materials and supplies	28,961	27,458
Other	47,523	35,463
Total current assets	414,874	430,354
Regulatory and other long-term assets		
Regulatory assets	626,093	628,039
Restricted funds	8,997	10,252
Goodwill	1,706,952	2,456,952
Other	95,033	90,514
Total regulatory and other long-term assets	2,437,075	3,185,757
TOTAL ASSETS	$12,268,004	$12,934,072

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets
(In thousands, except per share data)

	(Unaudited) March 31, 2008	December 31, 2007
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stockholder's equity	$ 3,809,423	$ 4,542,046
Preferred stock without mandatory redemption requirements	4,568	4,568
Long-term debt		
Long-term debt	4,642,315	4,674,837
Redeemable preferred stock at redemption value	24,296	24,296
Total capitalization	8,480,602	9,245,747
Current liabilities		
Short-term debt	368,137	220,514
Current portion of long-term debt	90,188	96,455
Accounts payable	119,209	168,886
Taxes accrued, including federal income	56,536	56,002
Interest accrued	85,248	50,867
Other	152,156	181,765
Total current liabilities	871,474	774,489
Regulatory and other long-term liabilities		
Advances for construction	652,536	655,375
Deferred income taxes	644,343	638,918
Deferred investment tax credits	34,957	35,361
Regulatory liability-cost of removal	202,019	192,650
Accrued pension expense	275,536	290,722
Accrued postretirement benefit expense	156,178	158,552
Other	116,596	123,871
Total regulatory and other long-term liabilities	2,082,165	2,095,449
Contributions in aid of construction	833,763	818,387
Commitments and contingencies	—	—
TOTAL CAPITALIZATION AND LIABILITIES	$12,268,004	$12,934,072

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Operations (Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Operating revenues	$ 506,815	$ 468,544
Operating expenses		
Operation and maintenance	311,261	282,613
Depreciation and amortization	63,916	64,627
General taxes	52,066	47,880
(Gain) loss on sale of assets	(70)	106
Impairment charge	750,000	—
Total operating expenses, net	1,177,173	395,226
Operating (loss) income	(670,358)	73,318
Other income (deductions)		
Interest, net	(69,968)	(72,207)
Allowance for other funds used during construction	2,541	1,658
Allowance for borrowed funds used during construction	1,368	1,093
Amortization of debt expense	(1,318)	(1,219)
Preferred dividends of subsidiaries	(56)	(56)
Other, net	1,205	1,572
Total other income (deductions)	(66,228)	(69,159)
(Loss) income from continuing operations before income taxes	(736,586)	4,159
Provision for income taxes	(4,102)	1,730
(Loss) income from continuing operations	(732,484)	2,429
Income from discontinued operations, net of tax	—	256
Net (loss) income	$ (732,484)	$ 2,685
Basic earnings per common share:		
(Loss) income from continuing operations	$ (4.58)	$ 0.02
Income from discontinued operations, net of tax	$ —	$ 0.00
Net (loss) income	$ (4.58)	$ 0.02
Diluted earnings per common share:		
(Loss) income from continuing operations	$ (4.58)	$ 0.02
Income from discontinued operations, net of tax	$ —	$ 0.00
Net (loss) income	$ (4.58)	$ 0.02
Average common shares outstanding during the period:		
Basic	160,000	160,000
Diluted	160,000	160,000

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows (Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$(732,484)	$ 2,685
Adjustments		
Depreciation and amortization	63,916	64,627
Impairment charge	750,000	—
Amortization of removal costs net of salvage	10,553	9,018
Provision for deferred income taxes	5,474	4,736
Amortization of deferred investment tax credits	(404)	(406)
Provision for losses on utility accounts receivable	836	2,657
Allowance for other funds used during construction	(2,541)	(1,658)
(Gain) loss on sale of assets	(70)	106
Gain on early extinguishment of debt	—	(7,064)
Other, net	(31,033)	(15,579)
Changes in assets and liabilities		
Receivables and unbilled utility revenues	22,819	18,950
Other current assets	(13,563)	(24,370)
Accounts payable	(13,595)	(17,122)
Taxes accrued, including federal income	485	5,039
Interest accrued	34,381	11,375
Other current liabilities	(9,383)	1,217
Net cash provided by operating activities	85,391	54,211
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(188,437)	(166,115)
Proceeds from sale of assets and securities	82	1,145
Removal costs from property, plant and equipment retirements, net	(1,714)	(1,880)
Net restricted funds released	2,364	1,633
Net cash used in investing activities	(187,705)	(165,217)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	—	617,253
Repayment of long-term debt	(35,915)	(266,553)
Net borrowings (repayments) under short-term debt agreements	166,740	(555,578)
Advances and contributions for construction, net of refunds	(13,673)	13,097
Change in cash overdraft position	(19,117)	—
Capital contributions	—	550,000
Debt issuance costs	—	(3,054)
Redemption of preferred stock	—	(150)
Net cash provided by financing activities	98,035	355,015
Net (decrease) increase in cash and cash equivalents	(4,279)	244,009
Cash and cash equivalents at beginning of period	13,481	29,754
Cash and cash equivalents at end of period	$ 9,202	$ 273,763
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid at quarter-end	$ 58,848	$ 40,378
Non-cash financing activity:		
Advances and contributions	$ 11,283	$ 17,434
Capital contribution	$ —	$ 100,000

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Changes in Common Stockholder's Equity and Comprehensive Income (Loss)
(Unaudited)
(In thousands, except per share data)

	Common Stock, $.01 Par Value: 500,000 Shares Authorized and 160,000 Shares Issued and Outstanding						
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stockholder's Equity	Comprehensive Income (Loss)
Balance at December 31, 2007	160,000	$ 1,600	$5,637,947	$(1,079,118)	$ (18,383)	$4,542,046	
Net loss	—	—	—	(732,484)	—	(732,484)	$ (732,484)
Pension plan amortized to periodic benefit cost:							
Prior service cost	—	—	—	—	6	6	6
Foreign currency translation	—	—	—	—	(145)	(145)	(145)
Total comprehensive loss							$ (732,623)
Balance at March 31, 2008	160,000	$ 1,600	$5,637,947	$(1,811,602)	$ (18,522)	$3,809,423	

	Common Stock, $.01 Par Value: 500,000 Shares Authorized and 160,000 Shares Issued and Outstanding						
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stockholder's Equity	Comprehensive Income (Loss)
Balance at December 31, 2006	160,000	$ 1,600	$4,570,855	$ (736,292)	$ (18,766)	$3,817,397	
Net income	—	—	—	2,685	—	2,685	$ 2,685
Equity investment by RWE	—	—	650,000	—	—	650,000	
Pension plan amortized to periodic benefit cost:							
Prior service cost	—	—	—	—	9	9	9
Actuarial loss	—	—	—	—	18	18	18
Foreign currency translation	—	—	—	—	(222)	(222)	(222)
Total comprehensive income							$ 2,490
Balance at March 31, 2007	160,000	$ 1,600	$5,220,855	$ (733,607)	$ (18,961)	$4,469,887	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)

Note 1: Basis of Presentation

The accompanying consolidated balance sheet of American Water Works Company, Inc. and Subsidiary Companies (the "Company") at March 31, 2008, the consolidated statements of operations for the three months ended March 31, 2008 and 2007, the consolidated statements of cash flows for the three months ended March 31, 2008 and 2007, and the consolidated statements of changes in common stockholder's equity and comprehensive income (loss) for the three months ended March 31, 2008 and 2007, are unaudited, but reflect all adjustments, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated changes in common stockholder's equity, the consolidated results of operations, and the consolidated cash flows for the periods presented. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Because they cover interim periods, the unaudited consolidated financial statements and related notes to the consolidated financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's consolidated financial statements and related notes included in the Company's annual consolidated financial statements for the year ended December 31, 2007. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, due primarily to the seasonality of the Company's operations.

Note 2: New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115" ("SFAS 159"). This standard permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for years beginning January 1, 2008. The Company has not elected to exercise the fair value irrevocable option. Therefore, the adoption of SFAS 159 did not have an impact on the Company's results of operations, financial position or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. In February 2008, the FASB issued FASB Staff Position FAS 157-2 which allows a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities (such as intangible assets, property, plant and equipment and goodwill) that are required to be measured at fair value on a periodic basis (such as at acquisition or impairment). The Company elected to use this deferral option and accordingly, only partially adopted SFAS 157 on January 1, 2008. SFAS 157 will be adopted for the Company's nonfinancial assets and liabilities valued on a non-recurring basis on January 1, 2009.

On January 1, 2008, the Company adopted the provisions of SFAS 157 for financial assets and liabilities, and nonfinancial assets and liabilities with recurring measurements. The Company's assets and liabilities measured at fair value on a recurring basis during the period were cash and cash equivalents, restricted funds and short-term debt. These assets and liabilities were measured at fair value on the balance sheet date using quoted prices in active markets (level 1 inputs, as defined by SFAS 157). The adoption of SFAS 157 for the Company's financial assets and liabilities did not have a material effect on the Company's results of operations, financial position or cash flows. The Company will be required to measure the assets of its defined benefit pension and other post retirement welfare plans pursuant to SFAS 157 at the next measurement date, which will be December 31, 2008.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)

Note 3: Goodwill

In April of 2008, as a result of the pricing of the Company's initial public offering ("IPO") (See Note 13), management determined that an interim triggering event occurred and that it was appropriate to update its valuation analysis before the next scheduled annual test.

Based on this assessment, the Company performed an interim impairment test as of March 31, 2008. The Company concluded that the carrying value of its goodwill was impaired as a result of the current market price and trading levels of its common stock. The Company believes the offering price was indicative of the value of the Company at March 31, 2008 and accordingly, based on those factors, the Company recorded an impairment charge to goodwill related to its Regulated Businesses of $750,000. The Company has reflected the tax effect of the impairment as a discrete item for purposes of calculating its tax provision as the charge is considered an infrequently occurring or unusual item. The impairment charge was primarily due to the market price of the Company's common stock (both the IPO price and the market price during subsequent trading) being less than what was anticipated during the Company's 2007 annual test. Also contributing to the impairment was a decline in the fair value of the Company's debt (due to increased market interest rates).

In developing the estimated fair value of the Company's reporting units, significant judgment was required. The Company determined the estimated fair value of the reporting units utilizing a methodology consistent with its 2007 annual test. Whenever possible, market information including the initial public offering price of the Company's common stock and subsequent trading price was used to update the Company's assumptions. The methodology utilized a combination of the trading price of the Company's common stock, an estimated control premium, trading price market multiples of peer companies (regulated water utilities) and the Company's discounted cash flow analysis based on the Company's five-year business plan, each of which has differing weights. The majority of the weighting is applied to the traded price as this represents the market objective evidence of fair value with minimal weight applied to the discounted cash flow analysis.

The following table summarizes the changes in the Company's goodwill by reporting unit:

	Regulated Unit	Non-regulated Units	Consolidated
Balance at December 31, 2007	$2,327,270	$ 129,682	$2,456,952
Impairment	(750,000)	—	(750,000)
Balance at March 31, 2008	$1,577,270	$ 129,682	$1,706,952

The Company may be required to recognize additional impairments in the future, depending on, among other factors, a decline over a period of time in the valuation multiples of comparable water utilities, a decline over a period of time of the Company's stock price or the lack of appreciation of the Company's stock price to a level consistent with peer companies or increases in equity value. A decline in the forecasted results in the Company's business plan, such as changes in rate case results or capital investment budgets or changes in the Company's interest rates may also result in an incremental impairment charge.

As a result of the impairment RWE transferred $245,000 to the Company on May 13, 2008. This cash will be used to reduce debt.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)

Note 4: Long-Term Debt

The Company primarily incurs long-term debt to fund capital expenditures at the regulated subsidiaries. The components of long-term debt at March 31, 2008 and December 31, 2007 were:

	Rate	Maturity Date	March 31, 2008	December 31, 2007
Long-term debt of American Water Capital Corp. ("AWCC")				
Private activity bonds and government funded debt				
Floating rate (a)	2.55%-3.20%	2018-2032	$ 86,860	$ 86,860
Senior notes				
Fixed rate	5.39%-6.87%	2011-2037	2,684,000	2,712,000
Long-term debt of other subsidiaries				
Private activity bonds and government funded debt				
Fixed rate	0%-6.88%	2009-2038	941,439	942,941
Floating rate (b)	2.40%-10.00%	2015-2032	178,145	178,145
Mortgage bonds				
Fixed rate	6.31%-9.71%	2008-2034	725,300	731,340
Senior debt				
Fixed rate	5.60%-9.10%	2008-2025	45,386	45,473
Mandatory redeemable preferred stock	4.60%-9.75%	2013-2036	24,644	24,644
Notes payable and other (c)	5.76%-11.77%	2008-2026	3,156	3,442
Long-term debt			4,688,930	4,724,845
Unamortized debt discount, net (d)			67,869	70,743
Total long-term debt			$4,756,799	$4,795,588

(a) Tax-exempt bonds which are remarketed as money market bonds for periods up to 270 days (1 to 119 days during 2008 and 1 to 127 days during 2007). These bonds may be converted to other short-term variable-rate structures, a fixed-rate structure or subject to redemption.
(b) $169,585 of the total represents tax-exempt bonds which are sold at auction rates that are reset every 7 to 35 days. These bonds may be converted to other short-term variable-rate structures, a fixed-rate structure or subject to redemption. (See Note 13) The remaining $8,560 represents tax-exempt bonds remarketed as money market bonds. See (a) above.
(c) Includes capital lease obligations of $1,946 and $1,982 at March 31, 2008 and December 31, 2007, respectively.
(d) Includes fair value adjustments from acquisition purchase accounting.

The following debt was retired through optional redemption or payment at maturity during 2008:

Company	Type	Interest Rate	Maturity	Amount
Long-term debt				
American Water Capital Corp.	Senior notes - fixed rate	6.87%	2011	$28,000
Other subsidiaries		0%-9.87%	2008-2034	7,879
Total retirements & redemptions				$35,879

Gains from early extinguishment of debt included in Interest, net amounted to $0 and $7,064 at March 31, 2008 and 2007, respectively.

Interest, net includes interest income of approximately $1,658 and $1,821 at March 31, 2008 and 2007, respectively.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)

Note 5: Short-Term Debt

The components of short-term debt are as follows:

	March 31, 2008	December 31, 2007
Commercial paper, net of $381 and $680 discount	$338,619	$ 169,267
Book overdraft	23,081	42,198
Other short-term debt	6,437	9,049
Total short-term debt	$368,137	$ 220,514

Note 6: Income Taxes

The Company's estimated annual effective tax rate for the three months ended March 31, 2008 is 39.1% compared to 41.1%, excluding various discrete items, for the three months ended March 31, 2007. The change is primarily attributable to the favorable impact of tax permanent income and expense items in 2008 as compared to 2007. The Company recorded an effective rate for the first quarter 2008 of (0.6%) which reflects the tax effect of the goodwill impairment as a discrete item as the Company considers this charge an infrequently occurring or unusual event.

Note 7: Employee Benefits

The following table provides the components of net periodic benefit costs:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Components of net periodic pension benefit cost		
Service cost	$ 6,551	$ 6,403
Interest cost	14,549	13,322
Expected return on plan assets	(12,925)	(11,763)
Amortization of:		
Prior service cost	45	32
Actuarial loss	1	66
Periodic pension benefit cost	8,221	8,060
Special termination pension benefit charge	—	93
Net periodic pension benefit cost	$ 8,221	$ 8,153

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Components of net periodic other postretirement benefit cost		
Service cost	$ 3,106	$ 3,171
Interest cost	7,049	6,346
Expected return on plan assets	(5,751)	(5,266)
Amortization of:		
Transition obligation	43	43
Prior service credit	203	(295)
Actuarial loss	(295)	—
Net periodic other postretirement benefit cost	$ 4,355	$ 3,999

The Company contributed $23,000 to its defined benefit pension plan in the first three months of 2008 and expects to contribute $53,000 during the balance of 2008. In addition, the Company contributed $6,838 for the funding of its other postretirement plans in the first three months of 2008 and expects to contribute $20,514 during the balance of 2008.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)

Note 8: Contingencies

OMI/Thames Water Stockton, Inc. ("OMI/TW") is a 50/50 joint venture between a subsidiary of the Company and Operations Management International, Inc. ("OMI"). In February 2003, OMI/TW and the City of Stockton California (the "City") entered into a 20-year service contract for capital improvements and management services of water, wastewater and storm water utilities. By mutual agreement, OMI/TW and the City of Stockton terminated the contract effective February 29, 2008 (the "Termination Date"). Upon termination, responsibility for management and operation of the system was returned to the City. OMI/TW has agreed to provide a limited twelve month warranty relating to certain components of the facilities that OMI/TW constructed (the "WW39 Plant"), committed to pay for certain employee transition costs and assumed financial responsibility for regulatory fines levied through the Termination Date, if any, resulting from OMI/TW's failure to comply with applicable National Pollutant Discharge Elimination System permit requirements and/or design defects in the WW39 Plant. Also, during 2007, the California State Water Resources Control Board issued a notice of violation and a corresponding Settlement Communication related to a discharge into an adjacent river. OMI/TW is responsible for any fines that may result from the Settlement Communication. Given the uncertainties related to resolving the remaining issues described above, the Company has a loss reserve of approximately $4,000 at March 31, 2008 and December 31, 2007.

In 2007, the Company, through a subsidiary and an indirect 50% owned joint venture, completed construction of two water filtration plants for total construction costs of approximately $229,000 and $32,000, respectively. As part of the general contractual terms of the construction contracts, the Company provides a one-year construction warranty period. As of March 31, 2008, no claims have been made related to these warranties.

The Company is also routinely involved in condemnation proceedings and legal actions incident to the normal conduct of its business. At March 31, 2008, the Company had accrued approximately $5,000 as probable losses and it is reasonably possible that additional losses could range up to $31,000 for these matters. For certain matters, the Company is unable to estimate any possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such claims or actions will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

Note 9: Guarantees

A subsidiary holds a 50% interest in American Water-Pridesa LLC ("AW-Pridesa"), a Delaware limited liability company. Acciona Agua Corporation also holds a 50% interest. AW-Pridesa has contracted with Tampa Bay Water ("Tampa Bay"), an interlocal governmental agency of the State of Florida, to remedy and operate the Tampa Bay Seawater Desalination Plant. The Company entered into a guarantee with Tampa Bay in November 2004 for the full and prompt performance of certain contractual obligations limited to a total aggregate liability of $35,000. Contractual obligations call for certain construction activities and management services to be completed satisfactorily. AW-Pridesa took over operation of the plant in January 2005. At December 31, 2007, the plant was fully operational and successful performance testing of the construction activities had been completed.

The Company provides financial guarantees or deposits to ensure performance of certain of its obligations on its non-regulated military agreements and Operations & Maintenance agreements. These guarantees and deposits totaled $474,727 and $475,278 at March 31, 2008 and December 31, 2007, respectively.

Note 10: Environmental Matters

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection and as such the Company periodically becomes subject to environmental claims in the normal course of business. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to approximately $11,000 at March 31, 2008 and December 31, 2007. At March 31, 2008, $10,100 of the reserve relates to a conservation agreement entered

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)

into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates.

Note 11: Stockholder's Equity and Net Income (Loss) per Common Share

Basic net income (loss) per common share, income (loss) from continuing operations per common share and income (loss) from discontinued operations, net of tax per common share are based on the weighted average number of common shares outstanding. Diluted net income (loss) per common share, income (loss) from continuing operations per common share and income (loss) from discontinued operations, net of tax per common share are based on the weighted average number of common shares outstanding and potentially dilutive shares. The Company had no potentially dilutive shares at March 31, 2008 or December 31, 2007. All common shares at March 31, 2008 and December 31, 2007 were held by a wholly-owned subsidiary of RWE. (See Note 13)

Effective the first quarter of 2008, the Company's Board of Directors' authorized 50,000 shares of par value $0.01 per share preferred stock. As of March 31, 2008 there are no shares outstanding.

Note 12: Segment Information

The Company has two operating segments which are also the Company's two reportable segments referred to as the Regulated Businesses and Non-regulated Businesses segments.

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)

The following table includes the Company's summarized segment information:

	As of or for the Three Months Ended March 31, 2008			
	Regulated	Non-regulated	Other	Consolidated
Net operating revenues	$ 449,534	$ 61,172	$ (3,891)	$ 506,815
Depreciation and amortization	60,292	1,408	2,216	63,916
Impairment charges	—	—	750,000	750,000
Total operating expenses, net	378,215	57,525	741,433	1,177,173
Adjusted EBIT (1)	71,900	4,582		
Total assets	10,238,503	269,265	1,760,236	12,268,004
Capital expenditures	187,655	782	—	188,437

	As of or for the Three Months Ended March 31, 2007			
	Regulated	Non-regulated	Other	Consolidated
Net operating revenues	$ 419,276	$ 53,301	$ (4,033)	$ 468,544
Depreciation and amortization	61,571	2,653	403	64,627
Impairment charges	—	—	—	—
Total operating expenses, net	351,191	50,771	(6,736)	395,226
Adjusted EBIT (1)	69,114	3,701		
Total assets	9,549,539	284,419	3,290,563	13,124,521
Capital expenditures	165,146	969	—	166,115

(1) Management evaluates the performance of its segments and allocates resources based on several factors, of which the primary measure is Adjusted EBIT. Adjusted EBIT does not represent cash flow for periods presented and should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity. Adjusted EBIT as defined by the Company may not be comparable with Adjusted EBIT as defined by other companies.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)

The following table reconciles Adjusted EBIT, as defined by the Company, to (loss) income from continuing operations before income taxes:

	For the Three Months Ended March 31, 2008		
	Regulated	Non-regulated	Total Segments
Adjusted EBIT	$ 71,900	$ 4,582	$ 76,482
Add:			
Allowance for other funds used during construction	2,541	—	2,541
Allowance for borrowed funds used during construction	1,368	—	1,368
Less:			
Interest, net	(56,736)	636	(56,100)
Preferred dividends of subsidiaries	(56)	—	(56)
Amortization of debt expense	(1,318)	—	(1,318)
Segments' income from continuing operations before income taxes	$ 17,699	$ 5,218	22,917
Impairment charges			(750,000)
Interest, net			(13,868)
Other			4,365
Loss from continuing operations before income taxes			$(736,586)

	For the Three Months Ended March 31, 2007		
	Regulated	Non-regulated	Total Segments
Adjusted EBIT	$ 69,114	$ 3,701	$ 72,815
Add:			
Allowance for other funds used during construction	1,658	—	1,658
Allowance for borrowed funds used during construction	1,093	—	1,093
Less:			
Interest, net	(54,390)	(3,096)	(57,486)
Preferred dividends of subsidiaries	(56)	—	(56)
Amortization of debt expense	(1,219)	—	(1,219)
Segments' income from continuing operations before income taxes	$ 16,200	$ 605	16,805
Interest, net			(14,721)
Other			2,075
Income from continuing operations before income taxes			$ 4,159

Note 13: Subsequent Events

On April 28, 2008, the Company completed the initial public offering of its common stock ("IPO"). RWE Aqua Holdings GmbH, the Company's selling stockholder, sold 58,000 shares of its common stock at a price of $21.50 per share. The selling stockholder granted the underwriters a 30 day option to purchase up to an additional 8,700 shares of the Company's stock at a price of $21.50. The Company did not receive any proceeds from the sale of shares. Prior to the IPO, the Company was a wholly-owned subsidiary of RWE. After the IPO, and assuming no exercise of the underwriters' option, RWE owns approximately 64% of the Company's common shares (or approximately 58% if the underwriters' option to purchase additional shares is exercised in full).

On April 22, 2008, RWE contributed 90 shares of the Company's common stock to the Company and the Company granted 90 restricted stock awards, 269 restricted stock units and 2,078 unvested stock options. The awards were issued to the Company's employees and certain non-employee directors under its 2007 Omnibus Equity Compensation Plan.

In April and May 2008, the Company redeemed $144,725 of long-term auction rate debt of subsidiaries with interest rates ranging from 6.48% to 10.00% and maturities ranging from 2021 to 2032. These redemptions were financed through the issuance of additional commercial paper.

In May 2008, AWCC plans to issue in private placements additional senior notes in the principal amounts of $110,000 at 6.25% due in 2018 and $90,000 at 6.55% due in 2023. The Company intends to use the proceeds to repay outstanding short-term indebtedness of AWCC.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)

On May 12, 2008, the Company commenced an offer to exchange $750,000 principal amount of its 6.085% Senior Notes due in 2017 and $750,000 principal amount of its 6.593% Senior Notes due in 2037 which are both registered under the Securities Act of 1933 (the "Exchange Notes") for all $750,000 of its currently outstanding 6.085% Senior Notes due in 2017 and all $750,000 of its currently outstanding 6.593% Senior Notes due in 2037, which have not been registered under the Securities Act of 1933 (the "Original Notes"). The Company will not receive any proceeds from the exchange offer, nor will the Company's debt level change as a result of the exchange offer. The terms of the Exchange Notes and the Original Notes are substantially identical in material respects.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain matters within this Quarterly Report on Form 10-Q include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included in this Form 10-Q, other than statements of historical fact, may constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future" and "intends" and similar expressions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance to differ from those projected in the forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those items discussed in the "Risk Factors" section or other sections in the Company's Form 424(b)(4) prospectus filed April 24, 2008 with the Securities and Exchange Commission, as well as in Item IA of Part II of this Quarterly Report. All forward-looking statements are expressly qualified in their entirety by such risk factors. We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

GENERAL

American Water Works Company, Inc. (herein referred to as "American Water" or the "Company") is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers. The businesses that provide these services are generally subject to economic regulation by state regulatory agencies in the states in which they operate. We report these results in our Regulated Businesses segment. We also provide services that are not subject to regulation by the state commissions. We report these results in our Non-regulated Businesses segment. For further description of our businesses see the "Business" section found in our Form 424(b)(4) prospectus filed on April 24, 2008 with the Securities and Exchange Commission.

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Prospectus filed with the SEC on April 24, 2008 and with the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 424(b)(4) prospectus filed with the Securities and Exchange Commission on April 24, 2008.

OVERVIEW

Financial Results. American Water had net loss of $732.5 million for the first quarter of 2008, compared to net income of $2.7 million for the first quarter of 2007. Loss from continuing operations was $732.5 million for the first quarter of 2008, compared to income from continuing operations of $2.4 million for the first quarter of 2007. Revenues for the first quarter of 2008 increased by $38.3 million compared to the same period in the prior year primarily due to increased revenues in our Regulated Businesses of $30.3 million which is largely attributable to rate increases and higher revenues in our Non-regulated Businesses of $7.9 million. Offsetting the increased revenues were $781.9 million higher operating expenses for the three months ended March 31, 2008. These expenses primarily resulted from the impairment charge of $750.0 million which is discussed below, increased expenses in our Regulated Businesses of $27.0 million in first quarter of 2008 compared to 2007, mainly driven by higher employee related costs due to an increase in the number of employees, as well as higher wages and benefits and increased operating expenses in our Non-regulated Businesses of $6.8 million which corresponds with their increased revenues.

Table of Contents

Other items affecting income from continuing operations for the three months ended March 31, 2008 as compared to the same period in the prior year include lower interest expense of $2.2 million, as a result of the repayment of outstanding debt, and lower income tax expense of $5.8 million.

Financing Activities. During the three months ended March 31, 2008, we met our capital resource requirements primarily with internally generated cash as well as funds from external sources, primarily commercial paper.

Regulatory Developments. In the first three months of 2008 we received authorizations for additional annualized revenues from general rate cases of $26.0 million, assuming constant sales volumes. As of March 31, 2008 we were awaiting final orders for one general rate case that was filed in 2006, requesting $7.0 million in total additional annual revenues and five general cases that were filed in 2007, requesting $58.2 million in total additional annual revenues. We filed general rate cases in five additional states in the first quarter of 2008 that would provide $231.1 million of additional revenues, if approved as filed. There is no assurance that the filed amount, or any portion thereof, of any requested increases will be granted.

Initial Public Offering. On April 28, 2008, the Company completed its initial public offering ("IPO"). RWE Aqua Holdings GmbH, the Company's selling stockholder, sold 58.0 million shares of the Company's common stock at a price of $21.50 per share. The selling stockholder granted the underwriters a 30 day option to purchase up to an additional 8.7 million shares of the Company's stock at a price of $21.50. The Company did not receive any proceeds from the sale of shares. Prior to the IPO, the Company was a wholly-owned subsidiary of RWE. After the IPO, and assuming no exercise of the underwriters' option, RWE owns approximately 64% of the Company's common shares (or approximately 58% if the underwriters' option to purchase additional shares is exercised in full).

On April 22, 2008, RWE contributed approximately 89.9 thousand shares of the Company's common stock to the Company and the Company granted approximately 89.9 thousand restricted stock awards, 269.3 thousand restricted stock units and 2.1 million unvested stock options. The awards were issued to the Company's employees and certain non-employee directors under our 2007 Omnibus Equity Compensation Plan.

Impairment Charge. As previously disclosed in our free writing and final prospectuses, filed April 22, 2008 and April 24, 2008, respectively, the Company determined that it was reasonably likely based in large part on an initial public offering price of our common stock of $21.50, that the current carrying value of our goodwill which the Company recorded as a result of the 2003 acquisition of American Water by RWE and acquisition of E'Town Corporation in 2001, was impaired. At the time the Company's initial public offering price of $21.50 was established, we were unable to determine if there was any goodwill impairment or to provide a reliable estimate of the amount of any goodwill impairment, if any.

In light of the initial public offering price and trading levels in our stock since the date of IPO, we performed an interim impairment test and on May 9, 2008, we concluded that the current carrying value of our goodwill was impaired as a result of the current market price and trading levels of our common stock. We believe the offering price was indicative of the value of the Company at March 31, 2008 and accordingly, based on those factors, we recorded an impairment charge to goodwill related to our Regulated Businesses of $750.0 million in our financial statements as of and for the fiscal quarter ended March 31, 2008. The impairment charge was primarily due to the market price of our common stock (both the initial public offering price and the price during subsequent trading) being less than what was anticipated during our 2007 annual test. Also contributing to the impairment was a decline in the fair value of our debt (due to increased market interest rates).

In developing our estimated fair value of the Company's reporting units, significant judgment was required. We determined the estimated fair value of the reporting units utilizing a methodology consistent with its 2007 annual test. Whenever possible, market information including the initial public offering price of the Company's common stock and subsequent trading price was used to update our modeling assumptions. Our methodology utilized a combination of the trading price of the Company's common stock, an estimated control premium, trading price market multiples of peer companies (regulated water utilities) and the Company's discounted cash flow analysis based on our five-year business plan were used, each of which has differing weights. The majority of the weighting is applied to the traded price as this represents the market objective evidence of fair value with minimal weight applied to the discounted cash flow analysis.

Table of Contents

We may be required to recognize additional impairments in the future, depending on, among other factors, a decline over a period of time in valuation multiples of comparable water utilities, a decline over a period of time of the Company's stock price or the lack of appreciation of the Company's stock price to a level consistent with peer companies or increases in equity value. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, may also result in an incremental impairment charge. Further recognition of impairments of a significant portion of goodwill would negatively affect our results of operations and total capitalization, the effect of which could be material and could make it more difficult for us to secure financing on attractive terms and maintain compliance with our debt covenants.

As a result of the impairment, RWE transferred $245.0 million on May 13, 2008. This cash will be used to reduce debt.

Results of Operations

Three Months Ended March 31, 2008 Compared To Three Months Ended March 31, 2007

(Dollars in thousands)	For the three months ended March 31, 2008 (unaudited)	2007 (unaudited)	Favorable (Unfavorable) Change
Operating revenues	$ 506,815	$468,544	$ 38,271
Operating expenses			
Operation and maintenance	311,261	282,613	(28,648)
Depreciation and amortization	63,916	64,627	711
General taxes	52,066	47,880	(4,186)
(Gain) loss on sale of assets	(70)	106	176
Impairment charge	750,000	—	(750,000)
Total operating expenses, net	1,177,173	395,226	(781,947)
Operating (loss) income	(670,358)	73,318	(743,676)
Other income (deductions)			
Interest, net	(69,968)	(72,207)	2,239
Allowance for other funds used during construction	2,541	1,658	883
Allowance for borrowed funds used during construction	1,368	1,093	275
Amortization of debt expense	(1,318)	(1,219)	(99)
Preferred dividends of subsidiaries	(56)	(56)	—
Other, net	1,205	1,572	(367)
Total other income (deductions)	(66,228)	(69,159)	2,931
Income (loss) from continuing operations before income taxes	(736,586)	4,159	(740,745)
Provision for income taxes	(4,102)	1,730	5,832
Income (loss) from continuing operations	(732,484)	2,429	(734,913)
Income (loss) from discontinued operations, net of tax	—	256	(256)
Net income (loss)	$ (732,484)	$ 2,685	$ (735,169)

Table of Contents

The following table summarizes certain financial information for our Regulated and Non-regulated Businesses for the periods indicated (without giving effect to inter-segment eliminations):

	For the three months ended March 31,			
	2008		2007	
	Regulated Businesses	Non-regulated Businesses	Regulated Businesses	Non-regulated Businesses
	(In thousands)			
Operating revenues	$449,534	$ 61,172	$419,276	$ 53,301
Adjusted EBIT [1]	$ 71,900	$ 4,582	$ 69,114	$ 3,701

(1) Adjusted EBIT is defined as earnings before interest and income taxes from continuing operations. Management evaluates the performance of its segments and allocates resources based on several factors, of which the primary measure is Adjusted EBIT. Adjusted EBIT does not represent cash flow for the periods presented and should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity. Adjusted EBIT as defined by the Company may not be comparable with Adjusted EBIT as defined by other companies.

Operating revenues Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers. As such, our results of operations are significantly impacted by rates authorized by the state regulatory commissions in the states in which we operate. The table below details the annualized revenues (assuming constant sales volumes) resulting from rate authorizations, including infrastructure charges, which were granted and became effective in 2008.

	Annualized Rate Increases Granted (*) (In millions)
State	
New York	$ 4.6
Iowa	4.3
Arizona	2.4
West Virginia	14.5
Illinois	1.1
Other	0.2
Total	$ 27.1

(*) Includes infrastructure charges

Operating revenues increased by $38.3 million, or 8.2% for the three months ended March 31, 2008 compared to the three months ended March 31, 2007. Regulated Businesses revenues increased by $30.3 million, or 7.2% for the three months ended March 31, 2008 compared to the same period in the prior year. The Non-regulated Businesses' revenues for the three months ended March 31, 2008 increased by $7.9 million, or 14.8% compared to the three months ended March 31, 2007.

The increase in the Regulated Businesses revenues for the three months ended March 31, 2008 compared to the three months ended March 31, 2007 was primarily due to rate increases obtained through general rate cases in New Jersey, Pennsylvania, Missouri and Indiana (which were granted and became effective in 2007) as well as other states totaling approximately $33.0 million. This increase was offset by a $4.7 million decrease in revenues related to customer consumption, mainly in our states in the Western region of the United States, for the three months ended March 31, 2008 compared to the same period in the prior year.

Table of Contents

The following table sets forth the percentage of Regulated Businesses' revenues and water sales volume by customer class:

	For the three months ended March 31,			
	Operating Revenues		Water Sales Volume	
Customer Class	2008	2007	2008	2007
Water service:				
Residential	57.2%	57.4%	51.7%	52.0%
Commercial	18.4%	18.8%	21.8%	21.7%
Industrial	5.3%	5.3%	10.9%	11.4%
Public and other	12.9%	12.9%	15.6%	14.9%
Other water revenues	2.0%	1.2%	—	—
Total water revenues	95.8%	95.6%	100.0%	100.0%
Wastewater service	4.2%	4.4%		
	100.0%	100.0%		

Water Services - Water service operating revenues from residential customers for the three months ended March 31, 2008 totaled $257.2 million, a $16.6 million increase, or 6.9%, over the same period of 2007, mainly due to rate increases offset by a decrease in sales volume. The volume of water sold to residential customers decreased by 2.4% for the three months ended March 31, 2008 to 45.2 billion gallons, from 46.3 billion gallons for the same period in 2007, largely as a result of wetter weather conditions in California.

Water service operating revenues from commercial water customers for the three months ended March 31, 2008 increased by $4.2 million, or 5.4%, to $82.9 million mainly due to rate increases offset by decreases in sales volume compared to the same period in 2007. The volume of water sold to commercial customers decreased by 3.1% for the three months ended March 31, 2008, to 18.9 billion gallons, from 19.5 billion gallons for the three months ended March 31, 2007.

Water service operating revenues from industrial customers totaled $23.8 million for the three months ended March 31, 2008, an increase of $1.5 million, or 6.7%, over those recorded for the same period of 2007 mainly due to rate increases and increased sales volume. The volume of water sold to industrial customers totaled 9.9 billion gallons in the three months ended March 31, 2008, an increase of 1.0% over the 9.8 billion gallons for the three months ended March 31, 2007.

Water service operating revenues from public and other customers increased $3.8 million, or 7.0%, for the three months ended March 31, 2008 to $57.8 million from $54.1 million for the three months ended March 31, 2007 mainly due to rate increases. Revenues from municipal governments for fire protection services and customers requiring special private fire service facilities totaled $25.7 million for the three months ended March 31, 2008, an increase of $1.1 million over the same period of 2007. Revenues generated by sales to governmental entities and resale customers for the three months ended March 31, 2008 totaled $32.2 million, an increase of $2.7 million from the three months ended March 31, 2007.

Wastewater services - Our subsidiaries provide wastewater services in 11 states. Revenues from these services increased by $0.2 million, or 1.1%, to $18.8 million for the three months ended March 31, 2008, from $18.6 million for the same period of 2007. The increase was attributable to increases in rates charged to customers in states where we have wastewater operations (principally Arizona, Hawaii, and New Jersey).

Non-regulated Businesses operating revenues increased by $7.9 million, or 14.8% for the three months ended March 31, 2008 compared to the same period in 2007. The net increase was primarily attributable to higher revenues of $8.7 million in our Contract Operations Group and $1.7 million in our Homeowner Services Group, partially offset by decreased revenues of $3.0 million in our Applied Water Group. The increase in Contract Operations Group revenues was primarily due to both new contracts and incremental revenues associated with design and build contracts, as well as increased military project revenues. The increase from our Homeowner Service Group represented expansion into new geographic markets. Applied Water Group revenues were lower due to the decline in design and build activity resulting from the downturn in new home construction.

Table of Contents

Operation and maintenance. Operation and maintenance expense increased $28.6 million, or 10.1%, for the three months ended March 31, 2008 compared to the same period in the prior year.

Operation and maintenance expenses for the three months ended March 31, 2008 and 2007, by major expense category, were as follows:

	For the three months ended March 31,	
	2008	2007
	(In thousands)	
Production costs	$ 64,228	$ 61,144
Employee-related costs	126,833	109,767
Operating supplies and services	69,495	63,809
Maintenance materials and services	34,947	30,149
Customer billing and accounting	7,410	8,269
Other	8,348	9,475
Total	$ 311,261	$ 282,613

Production costs, including fuel and power, purchased water, chemicals and waste disposal increased by $3.1 million, or 5.0%, for the three months ended March 31, 2008 compared to the same period in 2007. The increase was primarily the result of increased costs in our Regulated Businesses of $2.7 million. Fuel and power costs were higher by $1.6 million which can be attributed to increases in electricity prices. Chemical costs also increased by $0.5 million primarily due to rising chemical costs and waste disposal costs were also higher by $0.6 million.

Employee-related costs including wage and salary, group insurance, and pension expense increased $17.1 million or 15.5%, for the three months ended March 31, 2008 compared to the same period in the prior year. These costs represented 40.7% and 38.8% of operation and maintenance expenses for the three months ended March 31, 2008 and 2007, respectively. The increase was due to higher wage and salary expenses of $10.2 million and $2.2 million in our Regulated and Non-regulated Businesses, respectively, primarily resulting from an increase in the number of employees and wage rate increases. In addition, our Regulated Businesses' pension expense increased by 33.9% for the three months ended March 31, 2008 compared to the same period in the prior year. Pension expense in excess of the amount contributed to the pension plans is deferred by certain of our regulated subsidiaries pending future recovery in rates as contributions are made to the plans. Although our pension expense in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS 87) remained relatively unchanged, pension expense increased for the three months ended March 31, 2008 due to increased contributions in certain of our regulated operating companies whose costs are recovered based on the Company's funding, rather than the SFAS 87 expense.

Operating supplies and services include the day-to-day expenses of office operation, legal and other professional services, as well as information systems and other office equipment rental charges. For the three months ended March 31, 2008, these costs increased by $5.7 million or 8.9%, compared to the same period in 2007. Factors contributing to this increase include an overall increase in general office costs of $1.0 million mainly due to inflation, higher legal costs of $0.7 million in one of our operating companies in the Midwest region of the United States due to eminent domain proceedings, increased materials and supplies of $0.5 million and higher fuel and other transportation costs of $0.5 million. Partially offsetting these increases was a decrease of $1.8 million in remediation costs in connection with the Sarbanes-Oxley Act. Corresponding with the increase in revenues, the Non-regulated Businesses operating supplies and service expenses increased by $2.7 million for the three months ended March 31, 2008 compared to the same period in the prior year. The increase is mainly attributable to additional expense in the Contract Operations group associated with several operating contracts (including a design, build and operate project in Fillmore, California), partially offset by lower contracted services costs in the Applied Water Management Group due to the downturn in new home construction.

Table of Contents

Maintenance materials and services, which include emergency repairs as well as costs for preventive maintenance, increased $4.8 million or by 15.9%, for the three months ended March 31, 2008 compared to the same period in the prior year. Regulated Businesses' maintenance materials and service costs increased by $4.4 million in the first quarter of 2008 due to costs of $2.8 million associated with a project in Illinois to maintain valves and higher cost of removal expenses in certain of our operating companies. These increases were offset by lower main break costs in 2008 compared to higher than normal main breaks in a number of our operating companies due to winter weather conditions in the first quarter of 2007.

Customer billing and accounting expenses decreased by $0.9 million or 10.4%, for the three months ended March 31, 2008 compared to the same period in the prior year. The decrease was the result of lower uncollectible accounts expense by our regulated subsidiaries as a result of an increased focus on collection of past due accounts.

Other operation and maintenance expenses include casualty and liability insurance premiums and regulatory costs. These costs decreased by $1.1 million or 11.9%, in 2008 primarily due to decreased insurance costs of $0.7 million for the three months ended March 31, 2008 due to more favorable claims experience compared to the three months ended March 31, 2007, as well as decreased regulatory expenses of $0.4 million.

Depreciation and amortization. Depreciation and amortization expense decreased by $0.7 million, or 1.1%, for the three months ended March 31, 2008 compared to the same period in the prior year. This decrease was primarily due to depreciation rate adjustments, particularly in our Pennsylvania subsidiary offset by increased expense due to additional utility plant placed in service.

General taxes. General taxes expense, which includes taxes for property, payroll, gross receipts, and other miscellaneous items, increased by $4.2 million, or 8.7%, in the first quarter of 2008 compared to the first quarter of 2007. This increase is primarily due to increased gross receipts taxes of $1.9 million in New Jersey and higher property taxes expense in Ohio of $1.4 million.

(Gain) loss on sale of assets. Our gain on sale of assets was $0.1 million for the three months ended March 31, 2008 compared to a loss of $0.1 million for the three months ended March 31, 2007 due to non-recurring sales of assets not needed in our utility operations.

Impairment charge. Our impairment charge was $750.0 million for the three months ended March 31, 2008. The first quarter 2008 impairment charge was primarily due to the market price of the Company's common stock (both the initial public offering price and the price during subsequent trading) being less than what was anticipated during our 2007 annual test. Also contributing to the impairment was a decline in the fair value of the Company's debt (due to increased interest rates). There was no impairment charge for the three months ended March 31, 2007.

Other income (deductions). Interest, the primary component of our other income (deductions), decreased by $2.2 million, or 3.1% for the three months ended March 31, 2008 compared to the same period in the prior year. The decline is primarily due to the repayment of outstanding debt with the 2007 equity contributions from RWE that were made to establish a capital structure that is consistent with other regulated utilities and also to meet the capital structure expectations of various state regulatory commissions.

Provision for income taxes. Our consolidated provision for income taxes decreased $5.8 million or 337.1%, to a tax benefit of $4.1 million for the three months ended March 31, 2008 from a tax expense of $1.7 million for the three months ended March 31, 2007. The Company recorded an effective tax rate for the first quarter 2008 of (0.6%) which reflects the tax effect of the goodwill impairment as a discrete item as we consider this charge an infrequently occurring or unusual event.

Net income (loss). Net income decreased $735.2 million, to a net loss of $(732.5) million for the three months ended March 31, 2008 from net income of $2.7 million for the three months ended March 31, 2007. The decrease is the result of the aforementioned changes.

Table of Contents

Liquidity and Capital Resources

Our business is capital intensive and requires considerable capital resources. A portion of these capital resources are provided by internally generated cash flows from operations. When necessary we obtain funds from external sources in the capital markets and through bank borrowings. Our access to external financing on reasonable terms depends on our credit ratings and current business conditions, including that of the water utility industry in general as well as conditions in the debt or equity capital markets. If these business and market conditions deteriorate to the extent that we no longer have access to the capital markets at reasonable terms, we have access to revolving credit facilities with aggregate bank commitments of $810.0 million that we currently utilize to support our commercial paper programs and to issue letters of credit. See the "Credit Facilities and Short-Term Debt" section below for further discussion.

In addition, our regulated utility subsidiaries receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods, which vary according to state regulations, as new customers begin to receive service or other contractual obligations are fulfilled. Amounts which are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from rate base. Generally, we depreciate contributed property and amortize contributions at the composite rate of the related property. Some of our subsidiaries do not depreciate contributed property, based on regulatory guidelines.

We use capital resources, including cash, to fund capital requirements, including construction expenditures, pay off maturing debt, pay dividends, fund pension and postretirement welfare obligations and invest in new and existing businesses. We spend a significant amount of cash on construction projects that have a long-term return on investment. Additionally, we operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as our recovery is subject to regulatory lag. As a result of these factors, our working capital, defined as current assets less current liabilities, was in a net deficit position at March 31, 2008.

We expect to fund future maturities of long-term debt through a combination of external debt and cash flow from operations. We have no plans to reduce debt significantly.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and due to the seasonality of operations are weighted toward the third quarter of each fiscal year. Our future cash flows from operating activities will be affected by changes in the rate regulatory environments; infrastructure investment; inflation; compliance with environmental, health and safety standards; production costs; customer growth; declining per customer usage of water; and weather and seasonality. Cash flows from operating activities for the three months ended March 31, 2008 were $85.4 million compared to $54.2 million for the three months ended March 31, 2007.

The following table provides a summary of the major items affecting our cash flows from operating activities for the three months ended March 31, 2008 and 2007:

	For the three months ended March 31,	
	2008	2007
	(In thousands)	
Net income (loss)	$(732,484)	$ 2,685
Add (subtract):		
Non-cash operating activities (1)	826,569	81,890
Changes in working capital (2)	21,144	(4,911)
Pension and postretirement healthcare contributions	(29,838)	(25,453)
Net cash flows provided by operations	$ 85,391	$ 54,211

(1) Includes depreciation and amortization, impairment charges, removal costs net of salvage, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on utility accounts receivable, allowance for other funds used during construction, (gain) loss on sale of assets, and other non-cash items, net less pension and postretirement healthcare contributions.

(2) Changes in working capital include changes to accounts receivable and unbilled utility revenue, taxes receivable (including federal income), other current assets, accounts payable, taxes accrued (including federal income), interest accrued and other current liabilities.

Table of Contents

Cash Flows from Investing Activities

Cash flows used in investing activities for the three months ended March 31, 2008 and 2007 were $187.7 million and $165.2 million, respectively. Construction expenditures increased $22.3 million to $188.4 million for the three months ended March 31, 2008 from $166.1 million for the three months ended March 31, 2007 as a result of continuing to increase our investment in regulated utility plant projects. Construction expenditures for the periods noted above included customer advances and contributions for construction (net of refunds) of ($13.7) million and $13.1 million for the three months ended March 31, 2008 and 2007, respectively.

Our construction program consists of both infrastructure renewal programs, where we replace infrastructure, as needed, and construction of facilities to meet new customer growth. Also, an integral aspect of our strategy is to seek growth through tuck-ins and other acquisitions which are complementary to our existing business and support the continued geographical diversification and growth of our operations. Generally, acquisitions will be funded initially with short-term debt and later refinanced with the proceeds from long-term debt or equity offerings.

Included in the 2008 planned construction expenditures is an amount to construct a new water treatment plant on the Kentucky River of approximately $26 million. On April 25, 2008, the Kentucky Public Service Commission approved Kentucky American Water's application for a certificate of convenience and necessity to construct a 20.0 to 25.0 million gallon per day treatment plant on the Kentucky River and a 30.6 mile pipeline to meet Central Kentucky's water supply deficit. The Kentucky project is expected to be completed by 2010 with an estimated cost of between $162 million and $168 million.

On December 21, 2007, New Jersey-American Water, our subsidiary, signed an agreement with the City of Trenton, New Jersey to purchase the assets of the city's water system located in Ewing, Hamilton, Hopewell and Lawrence townships for $100.0 million. The agreement was approved by the Trenton City Council but requires approval by various regulatory agencies, including the New Jersey Board of Public Utilities. We can provide no assurances that the agreement will be approved.

Cash Flows from Financing Activities

Our financing activities include the issuance of long-term and short-term debt, primarily through our wholly-owned financing subsidiary, American Water Capital Corp. ("AWCC"). In addition, we have received capital contributions from RWE and intend to issue equity in the future to maintain an appropriate capital structure, subject to any restrictions in our registration right agreement with RWE. In order to finance new infrastructure, we received customer advances and contributions for construction (net of refunds) of ($13.7) million and $13.1 million for the three months ended March 31, 2008 and 2007, respectively. In connection with the RWE divestiture, we have made and will continue to make significant changes to our capital structure through debt refinancing and equity offerings.

The following long-term debt was retired through optional redemption or payment at maturity during the first quarter of 2008:

Company	Type	Interest Rate	Maturity	Amount (In Thousands)
American Water Capital Corp.	Senior notes-fixed rate	6.87%	2011	$ 28,000
Other subsidiaries		0%-9.87%	2008-2034	7,879
Total retirements & redemptions				$ 35,879

Table of Contents

In April and May 2008, the Company redeemed $144.7 million of long-term auction rate debt of subsidiaries with interest rates ranging from 6.48 % to 10.00% and maturities ranging from 2021 to 2032. These redemptions were financed through the issuance of additional commercial paper.

In May 2008, AWCC plans to issue in private placements additional Senior Notes in the principal amount of $110.0 million at 6.25% due in 2018 and $90.0 million at 6.55% due in 2023. The Company intends to use the proceeds to repay outstanding short-term indebtedness of AWCC.

On May 12, 2008, the Company commenced an offer to exchange $750,000 principal amount of its 6.085% Senior Notes due in 2017 and $750,000 principal amount of its 6.593% Senior Notes due in 2037 which are both registered under the Securities Act of 1933 (the "Exchange Notes") for all $750,000 of its currently outstanding 6.085% Senior Notes due in 2017 and all $750,000 of its currently outstanding 6.593% Senior Notes due in 2037, which have not been registered under the Securities Act of 1933 (the "Original Notes"). The Company will not receive any proceeds from the exchange offer, nor will the Company's debt level change as a result of the exchange offer. The terms of the Exchange Notes and the Original Notes are substantially identical in all material respects.

From time to time and as market conditions warrant, we may engage in long-term debt retirements via tender offers, open market repurchases or other viable alternatives to strengthen our balance sheet.

Dividends. There were no dividend payments made for the three months ended March 31, 2008 or 2007. Our board of directors has adopted a dividend policy, effective upon the consummation of the IPO, to distribute to our stockholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. Our policy will be to distribute 50% to 70% of our annual net income.

Contributions from RWE. There were no contributions from RWE for the three months ended March 31, 2008. Contributions from RWE were $650.0 million for the three months ended March 31, 2007.

As a result of the impairment charges recorded for the three months ended March 31, 2008, RWE transferred $245.0 million on May 13, 2008. This cash will be used to reduce debt.

Credit Facilities and Short Term Debt

The components of short-term debt were as follows:

	March 31,2008
	(In Thousands)
Commercial paper	$ 338,619
Book overdraft	23,081
Other short-term debt	6,437
Total short-term debt	$ 368,137

Our access to external financing on reasonable terms depends on our credit ratings and current business conditions, including that of the water utility industry in general as well as conditions in the debt or equity capital markets. If these business and market conditions deteriorate to the extent that we no longer have access to the capital markets at reasonable terms, we have access to revolving credit facilities with aggregate bank commitments of $810.0 million that we currently utilize to support our commercial paper programs and to issue letters of credit.

AWCC has entered into a one-year $10.0 million committed revolving line of credit with PNC Bank, N.A. This line of credit will terminate on December 31, 2008 unless extended and is used primarily for short-term working capital needs. Interest rates on advances under this line of credit are based on either the prime rate of PNC Bank, N.A. or the applicable LIBOR for the term selected plus 25 basis points. As of March 31, 2008, $6.4 million was outstanding under this revolving line of credit.

Table of Contents

On September 15, 2006, AWCC entered into an $800.0 million unsecured revolving credit facility syndicated among a group of ten banks. This revolving credit facility, which terminates on September 15, 2012 unless extended, is principally used to support the $700 million commercial paper program at AWCC and to provide up to $150.0 million in letters of credit. AWCC had no loans outstanding under the net $800.0 million unsecured revolving credit facility as of March 31, 2008.

At March 31, 2008, AWCC had the following sub-limits and available capacity under the revolving credit facility and indicated amounts of outstanding commercial paper.

Letter of Credit Sublimit (In thousands)	Available Capacity (In thousands)	Outstanding Commercial Paper (In thousands)
$ 150,000	$ 71,219	$ 338,619

Interest rates on advances under the revolving credit facility are based on either prime or LIBOR plus an applicable margin based upon our credit ratings, as well as total outstanding amounts under the agreement at the time of the borrowing. The maximum LIBOR margin is 55 basis points.

The revolving credit facility requires us to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. As of March 31, 2008, our ratio was 0.53 and therefore we were in compliance with the ratio.

The average interest rate on commercial paper for the three months ended March 31, 2008 was approximately 4.2 %.

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we or our subsidiaries may be restricted in our ability to pay dividends, issue debt or access our revolving credit lines. We were in compliance with our reporting covenants as of March 31, 2008.

Security Ratings

Our access to the capital markets, including the commercial paper market, and their respective financing costs in those markets depend on the securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we do issue debt at our regulated subsidiaries, primarily in the form of tax exempt securities, to lower our overall cost of debt. The following table shows the Company's securities ratings as of March 31, 2008:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa2	A–
Commercial paper	P2	A2

The Standard & Poor's ratings on American Water and AWCC remain on CreditWatch with negative implications. Moody's rating outlook for both American Water and AWCC is stable.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating.

None of our borrowings are subject to default or prepayment as a result of a downgrading of securities although such a downgrading could increase fees and interest charges under our credit facilities.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on our net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company's situation at the time of the demand. If we can reasonably claim that we are willing and financially able to perform our obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future payments should be sufficient.

Current Credit Market Position

The liquidity crisis that began in 2007 as a result of the collapse of the subprime mortgage market has adversely impacted global credit markets and, if it continues, could increase our cost of capital or impair our ability to access the capital markets.

Table of Contents

As of March 31, 2008, the Company had issued $169.6 million of auction rate tax-exempt long-term debt (including $24.9 million of variable rate demand bonds, which are periodically repriced to reflect auction rates) that are insured by AAA-rated insurers Ambac Assurance Corporation and MBIA Insurance Corporation. Due to the exposure that these bond insurers have in connection with recent developments in the subprime credit market, rating agencies have put these insurers on review for possible downgrade. Fitch has lowered the credit rating of Ambac Assurance Corporation from AAA to AA. While these debt instruments are long-term in nature, and only the variable rate demand bonds can be put back to the Company prior to maturity, the interest rates on these instruments are designed to reset periodically through an auction process. In late February 2008, the Company began to experience failed auctions for a portion of these instruments, which had interest rates of 3.65% to 4.90% as of December 31, 2007. When a failed auction occurs on a series of this debt, the Company is required to begin paying a failed-auction rate on the instruments. The failed auction interest rate for the majority of the auction rate debt is 10%. Payment of the failed-auction rate interest rates will continue until the Company is able to either successfully remarket these instruments through the auction process or refund and refinance the existing debt through the issuance of an equivalent amount of tax exempt bonds. In April and May 2008, the Company redeemed $144.7 million of long-term auction rate debt of subsidiaries with interest rates ranging from 6.48 % to 10.00% and maturities ranging from 2021 to 2032.

At this time, the Company does not believe recent market developments significantly impact its ability to obtain financing and expects to have access to liquidity in the capital markets on favorable terms. In addition, the Company has access to unsecured revolving credit facilities, which are not as dependent upon general market conditions, with aggregate bank commitments of $810 million, of which a portion is currently committed primarily to backstop the Company's commercial paper program and letters of credit.

Market Risk

We are exposed to market risk associated with changes in commodity prices, equity prices and interest rates. We use a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. As of March 31, 2008 a hypothetical 10% increase in interest rates associated with variable rate debt would result in $1.1 million decrease in our pre-tax earnings. Our risks associated with price increase for chemicals, electricity and other commodities are reduced through long-term contracts and the ability to recover price increases through rates.

Our common stock began trading on the New York Stock Exchange on April 23, 2008. The market price of our common stock may experience fluctuations, many of which are unrelated to our operating performance. In particular, our stock price may be affected by general market movements as well as developments specifically related to the water and wastewater industry. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts and governmental or regulatory actions. This volatility may make it difficult for us to access the capital markets in the future through additional offerings of our common stock, regardless of our financial performance, and such difficulty may preclude us from being able to take advantage of certain business opportunities or meet business obligations.

Application of Critical Accounting Policies and Estimates

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See Management's Discussion and Analysis of Financial Condition and Results of Operations— Critical Accounting Policies and Estimates," in our Form 424(b)(4) prospectus filed on April 24, 2008 with the Securities and Exchange Commission for a discussion of the critical accounting policies.

Recent Accounting Pronouncements

See Part I, Item 1 *Financial Statements (Unaudited)- Note 2- New Accounting Pronouncements* in this Quarterly Report on Form 10-Q for a discussion of new accounting standards recently adopted or pending adoption.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. For further discussion of market risks see "Market Risk" in Part I, Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to the Company's management including its principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company's management evaluated the effectiveness of the design and operation of disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act. This evaluation was done under the supervision and with the participation of management, including our President and Chief Executive Officer and our Chief Financial Officer.

Based on this evaluation and because of the material weaknesses described below, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2008. Notwithstanding these material weaknesses, management concluded that the financial statements included in this Form 10-Q for the period ended March 31, 2008 fairly present in all material respects their financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

Material Weaknesses in Internal Control over Financial Reporting

A material weakness is a control deficiency or a combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. However, from 2003 to April 28, 2008, we were an indirect wholly-owned subsidiary of RWE and, as a privately owned company, were not required to maintain a system of internal control consistent with the requirements of the SEC and the Sarbanes-Oxley Act, or to prepare our own financial statements. As a public reporting company, we will be required, among other things, to maintain a system of effective internal control over financial reporting suitable to prepare our publicly reported financial statements in a timely and accurate manner, and also to evaluate and report on such system of internal control. In particular, we are required to certify our compliance with Section 404 of the Sarbanes-Oxley Act for the year ended December 31, 2009, which will require us to perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting.

In connection with the preparation of our consolidated financial statements as of December 31, 2006, we and our independent registered public accountants identified the following material weaknesses in our internal control over financial reporting:

- Inadequate internal staffing and skills;
- Inadequate controls over financial reporting processes;
- Inadequate controls over month-end closing processes, including account reconciliations;
- Inadequate controls over maintenance of contracts and agreements;
- Inadequate controls over segregation of duties and restriction of access to key accounting applications; and
- Inadequate controls over tax accounting and accruals.

Table of Contents

Remediation of Material Weaknesses

Since joining the Company in 2006, Donald L. Correll, our Chief Executive Officer, and Ellen C. Wolf, our Chief Financial Officer, have assigned a high priority to the evaluation and remediation of our internal controls, and have taken numerous steps to remediate these material weaknesses and to evaluate and strengthen our other internal controls over financial reporting. Some of the actions taken include:

- Increasing our internal financial staff numbers and skill levels, and using external resources to
- supplement our internal staff when necessary;
- Implementing detailed processes and procedures related to our period end financial closing processes,
- key accounting applications and our financial reporting processes;
- Implementing or enhancing systems used in the financial reporting processes and month-end close processes;
- Conducting extensive training on existing and newly developed processes and procedures as well as explaining to employees Sarbanes-Oxley Act requirements and the value of internal controls;
- Enhancing our internal audit staff;
- Hiring a director of internal control and a director of taxes;
- Implementing a tracking mechanism and new policy and procedure for approval of all contracts and agreements; and
- Retaining a nationally recognized accounting and auditing firm to assist management in developing policies and procedures surrounding internal controls over financial reporting, to evaluate and test these internal controls and to assist in the remediation of internal control deficiencies.

With respect to the material weaknesses described above, we have initiated a process to clearly delineate our control weaknesses and formulated a remediation plan. We believe that we have made significant progress in remediating several of the identified material weaknesses; however, as our testing procedures have not yet been completed, we can make no assurances as to the success of our remediation efforts. As of March 31, 2008, the Company had incurred $54.9 million to remediate these material weaknesses and to document and test key financial reporting controls. We will need to allocate additional resources to enhance the quality of our staff and to carry out the remediation of these material weaknesses. Based upon our current assessment, we expect to complete the remediation of these material weaknesses during 2008 with an estimated additional cost of approximately $3.4 million. The Company cannot indicate with certainty that the material weaknesses will be remediated or what additional costs may be incurred. The Company needs to initiate additional controls and test the effectiveness of controls prior to concluding controls are effective. As a condition to state Public Utility Commissions' approval of the RWE Divestiture, we agreed that costs incurred in connection with our initial internal control and remediation initiatives would not be recoverable in rates charged to our customers. Elements of our remediation activities can only be accomplished over time, and our initiatives provide no assurances that they will result in an effective internal control environment. Our board of directors, in coordination with our audit committee, will continually assess the progress and sufficiency of these initiatives and make adjustments, as necessary.

The Company believes the additional control procedures as designed, when implemented, will fully remediate the above material weaknesses.

Changes in Internal Control Over Financial Reporting

Except as described above, there were no changes in internal control over financial reporting during the quarter ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Previously reported under "Business – Legal Proceedings" in the Company's Form 424(b)(4) prospectus filed April 24, 2008.

ITEM 1A. RISK FACTORS

There have been no material changes from risk factors previously disclosed in "Risk Factors" in the Company's Form 424(b)(4) prospectus filed April 24, 2008, other than as described below.

We have recorded a significant amount of goodwill, and we may never realize the full value of our intangible assets causing us to record impairments that may negatively affect our results of operations.

Our total assets include substantial goodwill. At March 31, 2008, our goodwill totaled $1,707.0 million. The goodwill is associated primarily with the acquisition of American Water by an affiliate of RWE in 2003 and the acquisition of E'Town Corporation in 2001. Goodwill represents the excess of the purchase price the purchaser paid over the fair value of the net tangible and intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and, in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," or SFAS No. 142, is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. Annual impairment reviews are performed in the fourth quarter and interim reviews are performed when management determines that a triggering event has occurred. We have been required to reflect, as required by SFAS No. 142 and other applicable accounting rules, a non-cash charge to operating results for goodwill impairment in the amounts of $396.3 million, $227.8 million, and $509.3 million for the years ended December 31, 2005, 2006 and 2007, respectively. These amounts include impairments relating to discontinued operations. Also, for the three months ended March 31, 2008 we recorded a goodwill impairment in the amount of $750.0 million.

Our annual goodwill impairment test is conducted during the fourth quarter. We have processes to monitor for interim triggering events. During the third quarter of 2007 management determined that it was appropriate to update its valuation analysis as a result of our debt being placed on review for a possible downgrade and the anticipated sale of a portion of the Company in the IPO. As a result of that update, we recorded an impairment charge to goodwill of our Regulated Businesses in the amount of $243.3 million in the third quarter of 2007. That decline in the value of our goodwill was primarily due to a slightly lower long-term earnings forecast caused by updated customer demand and usage expectations and expectations for timing of capital expenditures and rate recovery.

When we completed our annual goodwill impairment test for 2007 we determined that an impairment had occurred based upon new information regarding our market value. We incorporated this indicated market value into our valuation methodology and, based on those results, recorded an additional goodwill impairment charge to the Regulated Businesses reporting unit in the amount of $266.0 million during the fourth quarter of 2007.

In April of 2008, we determined that it was probable based in large part on the initial public offering price of our common stock of $21.50, that the current carrying value of our goodwill which the Company recorded as a result of the 2003 acquisition of American Water by RWE and acquisition of E'Town Corporation in 2001 was impaired. At the time the Company's initial public offering price of $21.50 was established, we were unable to determine if there was any goodwill impairment or to provide a reliable estimate of the amount of goodwill impairment, if any. In light of the initial public offering price and trading levels in our stock since the date of the IPO, we performed an interim impairment test and on May 9, 2008, we concluded that the current carrying value of our goodwill was impaired as a result of the current market price and trading levels of our common stock. We believe the offering price was indicative of the value of the Company at March 31, 2008 and accordingly, based on those factors, recorded an impairment charge to goodwill related to our Regulated Businesses in the amount of $750.0 million in our financial statements as of and for the fiscal quarter ended March 31, 2008. The impairment charge was primarily due to the market price of our common stock (both the initial public offering price and the price during subsequent trading) being less

Table of Contents

than what was anticipated during our 2007 annual test. Also contributing to the impairment was a decline in the fair value of our debt (due to increased market interest rates).

We may be required to recognize additional impairments in the future, depending on, among other factors, a decline over a period of time in valuation multiples of comparable water utilities, a decline over a period of time of the Company's stock price or the lack of appreciation of the Company's stock price to a level consistent with peer companies or increases in equity value. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, may also result in an incremental impairment charge. Further recognition of impairments of a significant portion of goodwill would negatively affect our results of operations and total capitalization, the effect of which could be material and could make it more difficult for us to secure financing on attractive terms and maintain compliance with our debt covenants.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 26, 2008).
10.1	Employment Agreement between Donald L. Correll and American Water Works Company, Inc., dated February 15, 2008 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
10.2	Employment Agreement between Ellen C. Wolf and American Water Works Company, Inc., dated February 15, 2008 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).

Table of Contents

10.3	2008 American Water Senior Management Annual Incentive Plan (incorporated by reference to Exhibit 10.25 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed April 15, 2008).
*31.1	Certification of Donald L. Correll, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*31.2	Certification of Ellen C. Wolf, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*32.1	Certification of Donald L. Correll, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
*32.2	Certification of Ellen C. Wolf, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act

* filed herewith.

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	American Water Works Company, Inc. (Registrant)
May 14, 2007 (Date)	/s/ Donald L. Correll Donald L. Correll President and Chief Executive Officer (Principal Executive Officer)
May 14, 2007 (Date)	/s/ Ellen C. Wolf Ellen C. Wolf Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 26, 2008).
10.1	Employment Agreement between Donald L. Correll and American Water Works Company, Inc., dated February 15, 2008 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
10.2	Employment Agreement between Ellen C. Wolf and American Water Works Company, Inc., dated February 15, 2008 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
10.3	2008 American Water Senior Management Annual Incentive Plan (incorporated by reference to Exhibit 10.25 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed April 15, 2008).
*31.1	Certification of Donald L. Correll, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*31.2	Certification of Ellen C. Wolf, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*32.1	Certification of Donald L. Correll, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
*32.2	Certification of Ellen C. Wolf, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act

* filed herewith.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Donald L. Correll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2008

By: /s/ Donald L. Correll
Donald L. Correll
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER AND CHIEF ACCOUNTING OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Ellen C. Wolf, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2008

By: /s/ Ellen C. Wolf
Ellen C. Wolf
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald L. Correll , President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Donald L. Correll
Donald L. Correll
President and Chief Executive Officer
(Principal Executive Officer)

May 14, 2008

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ellen C. Wolf, Senior Vice President and Chief Financial Officer, of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Ellen C. Wolf
Ellen C. Wolf
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

May 14, 2008

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 109—ACCOUNTING FOR INCOME TAXES

SUMMARY

This Statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting for income taxes. This Statement supersedes FASB Statement No. 96, *Accounting for Income Taxes*, and amends or supersedes other accounting pronouncements listed in Appendix D.

Objectives of Accounting for Income Taxes

The objectives of accounting for income taxes are to recognize (a) the amount of taxes payable or refundable for the current year and (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an enterprise's financial statements or tax returns.

Basic Principles of Accounting for Income Taxes

The following basic principles are applied in accounting for income taxes at the date of the financial statements:

a. A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year.

b. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards.

c. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated.

d. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

Temporary Differences

The tax consequences of most events recognized in the financial statements for a year are included in determining income taxes currently payable. However, tax laws often differ from the recognition and measurement requirements of financial accounting standards, and differences can arise between (a) the amount of taxable income and pretax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements.

APB Opinion No. 11, *Accounting for Income Taxes*, used the term *timing differences* for differences between the years in which transactions affect taxable income and the years in which they enter into the determination of pretax financial income. Timing differences create differences (sometimes accumulating over more than one year) between the tax basis of an asset or liability and its reported amount in financial statements. Other events such as business combinations may also create differences between the tax basis of an asset or liability and its reported amount in financial statements. All such differences collectively are referred to as *temporary differences* in this Statement.

Deferred Tax Consequences of Temporary Differences

Temporary differences ordinarily become taxable or deductible when the related asset is recovered or the related liability is settled. A deferred tax liability or asset represents the increase or decrease in taxes payable or refundable in future years as a result of temporary differences and carryforwards at the end of the current year.

Deferred Tax Liabilities

A deferred tax liability is recognized for temporary differences that will result in taxable amounts in future years. For example, a temporary difference is created between the reported amount and the tax basis of an installment sale receivable if, for tax purposes, some or all of the gain on the installment sale will be included in the determination of taxable income in future years. Because amounts received upon recovery of that receivable will be taxable, a deferred tax liability is recognized in the current year for the related taxes payable in future years.

Deferred Tax Assets

A deferred tax asset is recognized for temporary differences that will result in deductible amounts in future years and for carryforwards. For example, a temporary difference is created between the reported amount and the tax basis of a liability for estimated expenses if, for tax purposes, those estimated expenses are not deductible until a future year. Settlement of that liability will result in tax deductions in future years, and a deferred tax asset is recognized in the current year for the reduction in taxes payable in future years. A valuation allowance is recognized if, based on the weight of available evidence, it is *more likely than not* that some portion or all of the deferred tax asset will not be realized.

Measurement of a Deferred Tax Liability or Asset

This Statement establishes procedures to (a) measure deferred tax liabilities and assets using a tax rate convention and (b) assess whether a valuation allowance should be established for deferred tax assets. Enacted tax laws and rates are considered in determining the applicable tax rate and in assessing the need for a valuation allowance.

All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a deferred tax asset. Judgment must be used in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists (a) the more positive evidence is necessary and (b) the more difficult it is to support a conclusion that a valuation allowance is not needed.

Changes in Tax Laws or Rates

This Statement requires that deferred tax liabilities and assets be adjusted in the period of enactment for the effect of an enacted change in tax laws or rates. The effect is included in income from continuing operations.

Effective Date

This Statement is effective for fiscal years beginning after December 15, 1992. Earlier application is encouraged.

CONTENTS

INTRODUCTION

1. This Statement addresses financial accounting and reporting for the effects of **income taxes**[1] that result from an enterprise's activities during the current and preceding years.

2. FASB Statement No. 96, *Accounting for Income Taxes*, which was issued in December 1987, superseded APB Opinion No. 11, *Accounting for Income Taxes*. The effective date of Statement 96 was delayed to fiscal years that begin after December 15, 1992. In March 1989, the Board began consideration of requests to amend Statement 96 to (a) change the criteria for recognition and measurement of deferred tax assets and various other requirements of Statement 96 and (b) reduce complexity. This Statement is the result of that reconsideration.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

3. This Statement establishes standards of financial accounting and reporting for income taxes that are currently payable and for the tax consequences of:

a. Revenues, expenses, gains, or losses that are included in **taxable income** of an earlier or later year than the year in which they are recognized in financial income

b. Other **events** that create differences between the tax bases of assets and liabilities and their amounts for financial reporting

c. Operating loss or tax credit **carrybacks** for refunds of taxes paid in prior years and **carryforwards** to reduce taxes payable in future years.

This Statement supersedes Statement 96 and supersedes or amends other accounting pronouncements listed in Appendix D.

4. The principles and requirements of this Statement are applicable to:

a. Domestic federal (national) income taxes (U.S. federal income taxes for U.S. enterprises) and foreign, state, and local (including franchise) taxes based on income

b. An enterprise's[2] domestic and foreign operations that are consolidated, combined, or accounted for by the equity method

c. Foreign enterprises in preparing financial statements in accordance with U.S. generally accepted accounting principles.

5. This Statement does not address:

a. The basic methods of accounting for the U.S. federal investment tax credit (ITC) and for foreign, state, and local investment tax credits or grants (The deferral and flow-through methods as set forth in APB Opinions No. 2 and No. 4, *Accounting for the "Investment Credit,"* continue to be acceptable methods to account for the U.S. federal ITC.)

b. Discounting (Paragraph 6 of APB Opinion No. 10, *Omnibus Opinion—1966*, addresses that subject.)

c. Accounting for income taxes in interim periods (other than the criteria for recognition of tax benefits and the effect of enacted changes in tax laws or rates and changes in valuation allowances). (APB Opinion No. 28, *Interim Financial Reporting*, and other accounting pronouncements address that subject.)

Objectives and Basic Principles

6. One objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year. A second objective is to recognize **deferred tax liabilities and assets** for the future **tax consequences** of events[3] that have been recognized in an enterprise's financial statements or tax returns.

7. Ideally, the second objective might be stated more specifically to recognize the *expected* future tax consequences of events that have been recognized in the financial statements or tax returns. However, that objective is realistically constrained because (a) the tax payment or refund that results from a particular tax return is a joint result of all the items included in that return, (b) taxes that will be paid or refunded in future years are the joint result of events of the current or prior years and events of future years, and (c) information available about the future is limited. As a result, attribution of taxes to individual items and events is arbitrary and, except in the simplest situations, requires estimates and approximations.

8. To implement the objectives in light of those constraints, the following basic principles (the only exceptions are identified in paragraph 9) are applied in accounting for income taxes at the date of the financial statements:

a. A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year.

b. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to **temporary differences** and carryforwards.

c. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated.

d. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

9. The only exceptions in applying those basic principles are that this Statement:

a. Continues certain exceptions to the requirements for recognition of deferred taxes for the areas addressed by APB

[1] Words that appear in the glossary are set in **boldface type** the first time they appear.

[2] The term *enterprise* is used throughout this Statement because accounting for income taxes is primarily an issue for business enterprises. However, the requirements of this Statement apply to the activities of a not-for-profit organization that are subject to income taxes.

[3] Some events do not have tax consequences. Certain revenues are exempt from taxation and certain expenses are not deductible. In the United States, for example, interest earned on certain municipal obligations is not taxable and fines are not deductible.

Opinion No. 23, *Accounting for Income Taxes—Special Areas*, as amended by this Statement (paragraphs 31-34)

b. Provides special transitional procedures for temporary differences related to deposits in statutory reserve funds by U.S. steamship enterprises (paragraph 32)

c. Does not amend accounting for leveraged leases as required by FASB Statement No. 13, *Accounting for Leases*, and FASB Interpretation No. 21, *Accounting for Leases in a Business Combination* (paragraphs 256-258)

d. Prohibits recognition of a deferred tax liability or asset related to goodwill (or the portion thereof) for which amortization is not deductible for tax purposes (paragraph 30)

e. Does not amend Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, for income taxes paid on intercompany profits on assets remaining within the group, and prohibits recognition of a deferred tax asset for the difference between the tax basis of the assets in the buyer's tax jurisdiction and their cost as reported in the consolidated financial statements

f. Prohibits recognition of a deferred tax liability or asset for differences related to assets and liabilities that, under FASB Statement No. 52, *Foreign Currency Translation*, are remeasured from the local currency into the functional currency using historical exchange rates and that result from (1) changes in exchange rates or (2) indexing for tax purposes.

Temporary Differences

10. Income taxes currently payable[4] for a particular year usually include the tax consequences of most events that are recognized in the financial statements for that year. However, because tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains, and losses, differences arise between:

a. The amount of taxable income and pretax financial income for a year

b. The tax bases of assets or liabilities and their reported amounts in financial statements.

11. An assumption inherent in an enterprise's statement of financial position prepared in accordance with generally accepted accounting principles is that the reported amounts of assets and liabilities will be recovered and settled, respectively. Based on that assumption, a difference between the tax basis of an asset or a liability and its reported amount in the statement of financial position will result in taxable or deductible amounts in some future year(s) when the reported amounts of assets are recovered and the reported amounts of liabilities are settled. Examples follow:

a. *Revenues or gains that are taxable after they are recognized in financial income.* An asset (for example, a receivable from an installment sale) may be recognized for revenues or gains that will result in future taxable amounts when the asset is recovered.

b. *Expenses or losses that are deductible after they are recognized in financial income.* A liability (for example, a product warranty liability) may be recognized for expenses or losses that will result in future tax deductible amounts when the liability is settled.

c. *Revenues or gains that are taxable before they are recognized in financial income.* A liability (for example, subscriptions received in advance) may be recognized for an advance payment for goods or services to be provided in future years. For tax purposes, the advance payment is included in taxable income upon the receipt of cash. Future sacrifices to provide goods or services (or future refunds to those who cancel their orders) will result in future tax deductible amounts when the liability is settled.

d. *Expenses or losses that are deductible before they are recognized in financial income.* The cost of an asset (for example, depreciable personal property) may have been deducted for tax purposes faster than it was depreciated for financial reporting. Amounts received upon future recovery of the amount of the asset for financial reporting will exceed the remaining tax basis of the asset, and the excess will be taxable when the asset is recovered.

e. *A reduction in the tax basis of depreciable assets because of tax credits.*[5] Amounts received upon future recovery of the amount of the asset for financial reporting will exceed the remaining tax basis of the asset, and the excess will be taxable when the asset is recovered.

f. *ITC accounted for by the deferral method.* Under Opinion 2, ITC is viewed and accounted for as a reduction of the cost of the related asset (even though, for financial statement presentation, deferred ITC may be reported as deferred income). Amounts received upon future recovery of the reduced cost of the asset for financial reporting will be less than the tax basis of the asset, and the difference will be tax deductible when the asset is recovered.

g. *An increase in the tax basis of assets because of indexing whenever the local currency is the functional currency.* The tax law for a particular tax jurisdiction might require adjustment of the tax basis of a depreciable (or other) asset for the effects of inflation. The inflation-adjusted tax basis of the asset would be used to compute future tax deductions for depreciation or to compute gain or loss on sale of the asset. Amounts received upon future recovery of the local currency historical cost of the asset will be less than the remaining tax basis of the asset, and the difference will be tax deductible when the asset is recovered.

h. *Business combinations accounted for by the purchase method.* There may be differences between the assigned values and the tax bases of the assets and liabilities recognized in a business combination accounted for as a purchase under APB Opinion No. 16, *Business Combinations*. Those differences will result in taxable or deductible amounts when the reported amounts of the assets and liabilities are recovered and settled, respectively.

12. Examples (a)-(d) in paragraph 11 illustrate revenues, expenses, gains, or losses that are included in taxable income of an earlier or later year than the year in which they are recognized in pretax financial income. Those differences between taxable income and pretax financial income also create differences (sometimes accumulating over more than one year) between the tax basis of an asset or liability and its reported amount in the financial statements. Examples (e)-(h) in paragraph 11 illustrate other events that create differences between the tax basis of an asset or liability and its reported amount in the financial statements. For all eight examples, the differences result in taxable or deductible amounts when the reported amount of an asset or liability in the financial statements is recovered or settled, respectively.

13. This Statement refers collectively to the types of differences illustrated by those eight examples and to the ones described in paragraph 15 as *temporary differences*. Temporary differences that will result in taxable amounts in future

[4]References in this Statement to income taxes currently payable and (total) **income tax expense** are intended to include also **income taxes currently refundable** and (total) **income tax benefit,** respectively.

[5]The Tax Equity and Fiscal Responsibility Act of 1982 provided taxpayers with the choice of either (a) taking the full amount of Accelerated Cost Recovery System (ACRS) deductions and a reduced tax credit (that is, investment tax credit and certain other tax credits) or (b) taking the full tax credit and a reduced amount of ACRS deductions.

years when the related asset or liability is recovered or settled are often referred to in this Statement as **taxable temporary differences** (examples (a), (d), and (e) in paragraph 11 are taxable temporary differences). Likewise, temporary differences that will result in deductible amounts in future years are often referred to as **deductible temporary differences** (examples (b), (c), (f), and (g) in paragraph 11 are deductible temporary differences). Business combinations accounted for by the purchase method (example (h)) may give rise to both taxable and deductible temporary differences.

14. Certain basis differences may not result in taxable or deductible amounts in future years when the related asset or liability for financial reporting is recovered or settled and, therefore, may not be temporary differences for which a deferred tax liability or asset is recognized. One example under current U.S. tax law is the excess of cash surrender value of life insurance over premiums paid. That excess is a temporary difference if the cash surrender value is expected to be recovered by surrendering the policy, but is not a temporary difference if the asset is expected to be recovered without tax consequence upon the death of the insured (there will be no taxable amount if the insurance policy is held until the death of the insured).

15. Some temporary differences are deferred taxable income or tax deductions and have balances only on the income tax balance sheet and therefore cannot be identified with a particular asset or liability for financial reporting. That occurs, for example, when a long-term contract is accounted for by the percentage-of-completion method for financial reporting and by the completed-contract method for tax purposes. The temporary difference (income on the contract) is deferred income for tax purposes that becomes taxable when the contract is completed. Another example is organizational costs that are recognized as expenses when incurred for financial reporting and are deferred and deducted in a later year for tax purposes. In both instances, there is no related, identifiable asset or liability for financial reporting, but there is a temporary difference that results from an event that has been recognized in the financial statements and, based on provisions in the tax law, the temporary difference will result in taxable or deductible amounts in future years.

Recognition and Measurement

16. An enterprise shall recognize a deferred tax liability or asset for all temporary differences[6] and operating loss and tax credit carryforwards in accordance with the provisions of paragraph 17. **Deferred tax expense or benefit** is the change during the year in an enterprise's deferred tax liabilities and assets.[7] For deferred tax liabilities and assets acquired in a purchase business combination during the year, it is the change since the combination date. Total income tax expense or benefit for the year is the sum of deferred tax expense or benefit and income taxes currently payable or refundable.

Annual Computation of Deferred Tax Liabilities and Assets

17. Deferred taxes shall be determined separately for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction. That determination includes the following procedures:

a. Identify (1) the types and amounts of existing temporary differences and (2) the nature and amount of each type of operating loss and tax credit carryforward and the remaining length of the carryforward period

b. Measure the total deferred tax liability for taxable temporary differences using the applicable tax rate (paragraph 18)

c. Measure the total deferred tax asset for deductible temporary differences and operating loss carryforwards using the applicable tax rate

d. Measure deferred tax assets for each type of tax credit carryforward

e. Reduce deferred tax assets by a **valuation allowance** if, based on the weight of available evidence, it is *more likely than not* (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized.

18. The objective is to measure a deferred tax liability or asset using the enacted tax rate(s) expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. Under current U.S. federal tax law, if taxable income exceeds a specified amount, all taxable income is taxed, in substance, at a single flat tax rate. That tax rate shall be used for measurement of a deferred tax liability or asset by enterprises for which graduated tax rates are not a significant factor. Enterprises for which graduated tax rates are a significant factor shall measure a deferred tax liability or asset using the average graduated tax rate applicable to the amount of estimated annual taxable income in the periods in which the deferred tax liability or asset is estimated to be settled or realized (paragraph 236). Other provisions of enacted tax laws should be considered when determining the tax rate to apply to certain types of temporary differences and carryforwards (for example, the tax law may provide for different tax rates on ordinary income and capital gains). If there is a phased-in change in tax rates, determination of the applicable tax rate requires knowledge about when deferred tax liabilities and assets will be settled and realized.

19. In the U.S. federal tax jurisdiction, the applicable tax rate is the regular tax rate, and a deferred tax asset is recognized for alternative minimum tax credit carryforwards in accordance with the provisions of paragraph 17(d) and (e) of this Statement. If alternative tax systems exist in jurisdictions other than the U.S. federal jurisdiction, the applicable tax rate is determined in a manner consistent with the tax law after giving consideration to any interaction (that is, a mechanism similar to the U.S. alternative minimum tax credit) between the two systems.

20. All available evidence, both positive and negative, should be considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Information about an enterprise's current financial position and its results of operations for the current and preceding years ordinarily is readily available. That historical information is supplemented by all currently available information about future years. Sometimes, however, historical information may not be available (for example, start-up operations) or it may not be as relevant (for example, if there has been a significant, recent change in circumstances) and special attention is required.

21. Future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback, carryforward period available under the tax law. The following four possible sources

[6] Refer to paragraph 9. A deferred tax liability shall be recognized for the temporary differences addressed by Opinion 23 in accordance with the requirements of this Statement (paragraphs 31-34) and that Opinion, as amended.

[7] Paragraph 230 addresses the manner of reporting the transaction gain or loss that is included in the net change in a deferred foreign tax liability or asset when the reporting currency is the functional currency.

of taxable income may be available under the tax law to realize a tax benefit for deductible temporary differences and carryforwards:

a. Future reversals of existing taxable temporary differences

b. Future taxable income exclusive of reversing temporary differences and carryforwards

c. Taxable income in prior carryback year(s) if carryback is permitted under the tax law

d. Tax-planning strategies (paragraph 22) that would, if necessary, be implemented to, for example:

(1) Accelerate taxable amounts to utilize expiring carryforwards

(2) Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss

(3) Switch from tax-exempt to taxable investments.

Evidence available about each of those possible sources of taxable income will vary for different tax jurisdictions and, possibly, from year to year. To the extent evidence about one or more sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, other sources need not be considered. Consideration of each source is required, however, to determine the amount of the valuation allowance that is recognized for deferred tax assets.

22. In some circumstances, there are actions (including elections for tax purposes) that (a) are prudent and feasible, (b) an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused, and (c) would result in realization of deferred tax assets. This Statement refers to those actions as *tax-planning strategies*. An enterprise shall consider tax-planning strategies in determining the amount of valuation allowance required. Significant expenses to implement a tax-planning strategy or any significant losses that would be recognized if that strategy were implemented (net of any recognizable tax benefits associated with those expenses or losses) shall be included in the valuation allowance. Refer to paragraphs 246-251 for additional guidance.

23. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Other examples of negative evidence include (but are not limited to) the following:

a. A history of operating loss or tax credit carryforwards expiring unused

b. Losses expected in early future years (by a presently profitable entity)

c. Unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis in future years

d. A carryback, carryforward period that is so brief that it would limit realization of tax benefits if (1) a significant deductible temporary difference is expected to reverse in a single year or (2) the enterprise operates in a traditionally cyclical business.

24. Examples (not prerequisites) of positive evidence that might support a conclusion that a valuation allowance is not needed when there is negative evidence include (but are not limited to) the following:

a. Existing contracts or firm sales backlog that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures

b. An excess of appreciated asset value over the tax basis of the entity's net assets in an amount sufficient to realize the deferred tax asset

c. A strong earnings history exclusive of the loss that created the future deductible amount (tax loss carryforward or deductible temporary difference) coupled with evidence indicating that the loss (for example, an unusual, infrequent, or extraordinary item) is an aberration rather than a continuing condition.

25. An enterprise must use judgment in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists (a) the more positive evidence is necessary and (b) the more difficult it is to support a conclusion that a valuation allowance is not needed for some portion or all of the deferred tax asset.

A Change in the Valuation Allowance

26. The effect of a change in the beginning-of-the-year balance of a valuation allowance that results from a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years ordinarily shall be included in income from continuing operations. The only exceptions are the initial recognition (that is, by elimination of the valuation allowance) of certain tax benefits that are allocated as required by paragraph 30 and paragraph 36 (items (c) and (e)-(g)). The effect of other changes in the balance of a valuation allowance are allocated among continuing operations and items other than continuing operations as required by paragraph 35.

An Enacted Change in Tax Laws or Rates

27. Deferred tax liabilities and assets shall be adjusted for the effect of a change in tax laws or rates. The effect shall be included in income from continuing operations for the period that includes the enactment date.

A Change in the Tax Status of an Enterprise

28. An enterprise's tax status may change from nontaxable to taxable or from taxable to nontaxable. An example is a change from a partnership to a corporation and vice versa. A deferred tax liability or asset shall be recognized for temporary differences in accordance with the requirements of this Statement at the date that a nontaxable enterprise becomes a taxable enterprise. A deferred tax liability or asset shall be eliminated at the date an enterprise ceases to be a taxable enterprise. In either case, the effect of (a) an election for a voluntary change in tax status is recognized on the approval date or on the filing date if approval is not necessary and (b) a change in tax status that results from a change in tax law is recognized on the enactment date. The effect of recognizing or eliminating the deferred tax liability or asset shall be included in income from continuing operations.

Regulated Enterprises

29. Regulated enterprises that meet the criteria for application of FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, are not exempt from the requirements of this Statement. Specifically, this Statement:

a. Prohibits net-of-tax accounting and reporting

b. Requires recognition of a deferred tax liability (1) for tax benefits that are flowed through to customers when temporary differences originate and (2) for the equity component of the allowance for funds used during construction

c. Requires adjustment of a deferred tax liability or asset for an enacted change in tax laws or rates.

If, as a result of an action by a regulator, it is probable that the future increase or decrease in taxes payable for items (b) and (c) above will be recovered from or returned to customers through future rates, an asset or liability is recognized for that probable future revenue or reduction in future revenue pursuant to paragraphs 9-11 of Statement 71. That asset or liability also is a temporary difference for which a deferred tax liability or asset shall be recognized.

Business Combinations

30. A deferred tax liability or asset shall be recognized in accordance with the requirements of this Statement for differences between the assigned values and the tax bases of the assets and liabilities (except the portion of goodwill for which amortization is not deductible for tax purposes, unallocated "negative goodwill," leveraged leases, and acquired Opinion 23 differences[8]) recognized in a purchase business combination (refer to paragraphs 259-272 for additional guidance). If a valuation allowance is recognized for the deferred tax asset for an acquired entity's deductible temporary differences or operating loss or tax credit carryforwards at the acquisition date, the tax benefits for those items that are first recognized (that is, by elimination of that valuation allowance) in financial statements after the acquisition date shall be applied (a) first to reduce to zero any goodwill related to the acquisition, (b) second to reduce to zero other noncurrent intangible assets related to the acquisition, and (c) third to reduce income tax expense.

Opinion 23 and U.S. Steamship Enterprise Temporary Differences

31. A deferred tax liability is not recognized for the following types of temporary differences unless it becomes apparent that those temporary differences will reverse in the foreseeable future:

a. An excess of the amount for financial reporting over the tax basis of an investment in a foreign subsidiary or a foreign corporate joint venture as defined in APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, that is essentially permanent in duration

b. Undistributed earnings of a domestic subsidiary or a domestic corporate joint venture that is essentially permanent in duration that arose in fiscal years beginning on or before December 15, 1992[9]

c. "Bad debt reserves" for tax purposes of U.S. savings and loan associations (and other "qualified" thrift lenders) that arose in tax years beginning before December 31, 1987 (that is, the base-year amount)

d. "Policyholders' surplus" of stock life insurance companies that arose in fiscal years beginning on or before December 15, 1992.

The indefinite reversal criterion in Opinion 23 shall not be applied to analogous types of temporary differences.

32. A deferred tax liability shall be recognized for the following types of taxable temporary differences:

a. An excess of the amount for financial reporting over the tax basis of an investment in a domestic subsidiary that arises in fiscal years beginning after December 15, 1992

b. An excess of the amount for financial reporting over the tax basis of an investment in a 50-percent-or-less-owned investee except as provided in paragraph 31(a) and (b) for a corporate joint venture that is essentially permanent in duration

c. "Bad debt reserves" for tax purposes of U.S. savings and loan associations (and other "qualified" thrift lenders) that arise in tax years beginning after December 31, 1987 (that is, amounts in excess of the base-year amount).

The tax effects of temporary differences related to deposits in statutory reserve funds by U.S. steamship enterprises that arose in fiscal years beginning on or before December 15, 1992 and that were not previously recognized shall be recognized when those temporary differences reverse or in their entirety at the beginning of the fiscal year for which this Statement is first applied.

33. Whether an excess of the amount for financial reporting over the tax basis of an investment in a more-than-50-percent-owned domestic subsidiary is a taxable temporary difference must be assessed. It is not a taxable temporary difference if the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. For example, under current U.S. federal tax law:

a. An enterprise may elect to determine taxable gain or loss on the liquidation of an 80-percent-or-more-owned subsidiary by reference to the tax basis of the subsidiary's net assets rather than by reference to the parent company's tax basis for the stock of that subsidiary.

b. An enterprise may execute a statutory merger whereby a subsidiary is merged into the parent company, the minority shareholders receive stock of the parent, the subsidiary's stock is cancelled, and no taxable gain or loss results if the continuity of ownership, continuity of business enterprise, and certain other requirements of the tax law are met.

Some elections for tax purposes are available only if the parent company owns a specified percentage of the subsidiary's stock. The parent company sometimes may own less than that specified percentage, and the price per share to acquire a minority interest may significantly exceed the per share equivalent of the amount reported as minority interest in the consolidated financial statements. In those circumstances, the excess of the amount for financial reporting over the tax basis of the parent's investment in the subsidiary is not a taxable temporary difference if settlement of the minority interest is expected to occur at the point in time when settlement would not result in a significant cost. That could occur, for example, toward the end of the life of the subsidiary, after it has recovered and settled most of its assets and liabilities, respectively. The fair value of the minority interest ordinarily will approximately equal its percentage of the subsidiary's net assets if those net assets consist primarily of cash.

34. A deferred tax asset shall be recognized for an excess of the tax basis over the amount for financial reporting of an investment in a subsidiary or corporate joint venture that is essentially permanent in duration only if it is apparent that the temporary difference will reverse in the foreseeable future. The need for a valuation allowance for that deferred tax asset and other deferred tax assets related to Opinion 23 temporary differences (for example, a deferred tax asset for foreign tax credit carryforwards or for a savings and loan association's bad-debt reserve for financial reporting) shall be assessed. Paragraph 21 identifies four sources of taxable income to be considered in determining the need for and amount of a valuation allowance for those and other deferred tax assets. One source is future reversals of temporary differences. Future reversals of taxable differences for which a deferred tax liability has not been recognized based on the exceptions cited in paragraph 31, however, shall not be considered. Another source is future taxable income exclusive of reversing temporary differences and carryforwards. Future distributions of future earnings of a subsidiary or corporate joint venture, however, shall not be considered except to the extent that a deferred tax liability has been recognized for existing undistributed earnings or earnings have been remitted in the past.

Intraperiod Tax Allocation

35. Income tax expense or benefit for the year shall be allocated among continuing operations, discontinued operations, extraordinary items, and items charged or credited directly to shareholders' equity (paragraph 36). The

[8] Acquired Opinion 23 differences are accounted for in accordance with the requirements of Opinion 23, as amended by this Statement.

[9] A last-in, first-out (LIFO) pattern determines whether reversals pertain to differences that arose in fiscal years beginning on or before December 15, 1992.

amount allocated to continuing operations is the tax effect of the pretax income or loss from continuing operations that occurred during the year, plus or minus income tax effects of (a) changes in circumstances that cause a change in judgment about the realization of deferred tax assets in future years (paragraph 26), (b) changes in tax laws or rates (paragraph 27), (c) changes in tax status (paragraph 28), and (d) tax-deductible dividends paid to shareholders (except as set forth in paragraph 36 for dividends paid on unallocated shares held by an employee stock ownership plan [ESOP] or any other stock compensation arrangement). The remainder is allocated to items other than continuing operations in accordance with the provisions of paragraph 38.

36. The tax effects of the following items occurring during the year are charged or credited directly to related components of shareholders' equity:

a. Adjustments of the opening balance of retained earnings for certain changes in accounting principles or a correction of an error

b. Gains and losses included in comprehensive income but excluded from net income (for example, translation adjustments under Statement 52 and changes in the carrying amount of marketable securities under FASB Statement No. 12, *Accounting for Certain Marketable Securities*)

c. An increase or decrease in contributed capital (for example, deductible expenditures reported as a reduction of the proceeds from issuing capital stock)

d. An increase in the tax basis of assets acquired in a taxable business combination accounted for as a pooling of interests and for which a tax benefit is recognized at the date of the business combination

e. Expenses for employee stock options recognized differently for financial reporting and tax purposes (refer to paragraph 17 of APB Opinion No. 25, *Accounting for Stock Issued to Employees*)

f. Dividends that are paid on unallocated shares held by an ESOP and that are charged to retained earnings

g. Deductible temporary differences and carryforwards that existed at the date of a quasi reorganization (except as set forth in paragraph 39).

37. The tax benefit of an operating loss carryforward or carryback (other than those carryforwards referred to at the end of this paragraph) shall be reported in the same manner as the source of the income or loss in the current year and not in the same manner as (a) the source of the operating loss carryforward or taxes paid in a prior year or (b) the source of expected future income that will result in realization of a deferred tax asset for an operating loss carryforward from the current year. The only exceptions are as follows:

a. Tax effects of deductible temporary differences and carryforwards that existed at the date of a purchase business combination and for which a tax benefit is initially recognized in subsequent years in accordance with the provisions of paragraph 30

b. Tax effects of deductible temporary differences and carryforwards that are allocated to shareholders' equity in accordance with the provisions of paragraph 36 (items (c) and (e)-(g)).

38. If there is only one item other than continuing operations, the portion of income tax expense or benefit for the year that remains after the allocation to continuing operations is allocated to that item. If there are two or more items other than continuing operations, the amount that remains after the allocation to continuing operations shall be allocated among those other items in proportion to their individual effects on income tax expense or benefit for the year. When there are two or more items other than continuing operations, the sum of the separately calculated, individual effects of each item sometimes may not equal the amount of income tax expense or benefit for the year that remains after the allocation to continuing operations. In those circumstances, the procedures to allocate the remaining amount to items other than continuing operations are as follows:

a. Determine the effect on income tax expense or benefit for the year of the total net loss for all net loss items

b. Apportion the tax benefit determined in (a) ratably to each net loss item

c. Determine the amount that remains, that is, the difference between (1) the amount to be allocated to all items other than continuing operations and (2) the amount allocated to all net loss items

d. Apportion the tax expense determined in (c) ratably to each net gain item. Refer to paragraphs 273-276 for additional guidance.

Certain Quasi Reorganizations

39. The tax benefits of deductible temporary differences and carryforwards as of the date of a quasi reorganization as defined and contemplated in ARB No. 43, Chapter 7, "Capital Accounts," ordinarily are reported as a direct addition to contributed capital if the tax benefits are recognized in subsequent years. The only exception is for enterprises that have previously both adopted Statement 96 and effected a quasi reorganization that involves only the elimination of a deficit in retained earnings by a concurrent reduction in contributed capital prior to adopting this Statement. For those enterprises, subsequent recognition of the tax benefit of prior deductible temporary differences and carryforwards is included in income and reported as required by paragraph 37 (without regard to the referenced exceptions) and then reclassified from retained earnings to contributed capital. Those enterprises should disclose (a) the date of the quasi reorganization, (b) the manner of reporting the tax benefits and that it differs from present accounting requirements for other enterprises and (c) the effect of those tax benefits on income from continuing operations, income before extraordinary items, and on net income (and on related per share amounts).

Separate Financial Statements of a Subsidiary

40. The consolidated amount of current and deferred tax expense for a group that files a consolidated tax return shall be allocated among the members of the group when those members issue separate financial statements. This Statement does not require a single allocation method. The method adopted, however, shall be systematic, rational, and consistent with the broad principles established by this Statement. A method that allocates current and deferred taxes to members of the group by applying this Statement to each member as if it were a separate taxpayer[10] meets those criteria. Examples of methods that are not consistent with the broad principles established by this Statement include:

a. A method that allocates only current taxes payable to a member of the group that has taxable temporary differences

b. A method that allocates deferred taxes to a member of the group using a method fundamentally different from the asset and liability method described in this Statement (for example, the Opinion 11 deferred method)

c. A method that allocates no current or deferred tax expense to a member of the group that has taxable income because the consolidated group has no current or deferred tax expense.

[10] In that situation, the sum of the amounts allocated to individual members of the group may not equal the consolidated amount. That may also be the result when there are intercompany transactions between members of the group. The criteria are satisfied, nevertheless, after giving effect to the type of adjustments (including eliminations) normally present in preparing consolidated financial statements.

Certain disclosures are also required (paragraph 49).

Financial Statement Presentation

41. In a classified statement of financial position, an enterprise shall separate deferred tax liabilities and assets into a current amount and a noncurrent amount. Deferred tax liabilities and assets shall be classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. A deferred tax liability or asset that is not related to an asset or liability for financial reporting (paragraph 15), including deferred tax assets related to carryforwards, shall be classified according to the expected reversal date of the temporary difference pursuant to FASB Statement No. 37, *Balance Sheet Classification of Deferred Income Taxes*. The valuation allowance for a particular tax jurisdiction shall be allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis.

42. For a particular tax-paying component of an enterprise and within a particular tax jurisdiction, (a) all current deferred tax liabilities and assets shall be offset and presented as a single amount and (b) all noncurrent deferred tax liabilities and assets shall be offset and presented as a single amount. However, an enterprise shall not offset deferred tax liabilities and assets attributable to different tax-paying components of the enterprise or to different tax jurisdictions.

Financial Statement Disclosure

43. The components of the net deferred tax liability or asset recognized in an enterprise's statement of financial position shall be disclosed as follows:

a. The total of all deferred tax liabilities measured in procedure (b) of paragraph 17

b. The total of all deferred tax assets measured in procedures (c) and (d) of paragraph 17

c. The total valuation allowance recognized for deferred tax assets determined in procedure (e) of paragraph 17.

The net change during the year in the total valuation allowance also shall be disclosed. A **public enterprise** shall disclose the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before allocation of valuation allowances). A **nonpublic enterprise** shall disclose the types of significant temporary differences and carryforwards but may omit disclosure of the tax effects of each type. A public enterprise that is not subject to income taxes because its income is taxed directly to its owners shall disclose that fact and the net difference between the tax bases and the reported amounts of the enterprise's assets and liabilities.

44. The following information shall be disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by Opinion 23 (as amended by this Statement) or for deposits in statutory reserve funds by U.S. steamship enterprises:

a. A description of the types of temporary differences for which a deferred tax liability has not been recognized and the types of events that would cause those temporary differences to become taxable

b. The cumulative amount of each type of temporary difference

c. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable

d. The amount of the deferred tax liability for temporary differences other than those in (c) above (that is, undistributed domestic earnings, the bad-debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32.

45. The significant components of income tax expense attributable to continuing operations for each year presented shall be disclosed in the financial statements or notes thereto. Those components would include, for example:

a. Current tax expense or benefit

b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)

c. Investment tax credits

d. Government grants (to the extent recognized as a reduction of income tax expense)

e. The benefits of operating loss carryforwards

f. Tax expense that results from allocating certain tax benefits either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity

g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the enterprise

h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years.

46. The amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35-39) shall be disclosed for each year for which those items are presented.

47. A public enterprise shall disclose a reconciliation using percentages or dollar amounts of (a) the reported amount of income tax expense attributable to continuing operations for the year to (b) the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations. The "statutory" tax rates shall be the regular tax rates if there are alternative tax systems. The estimated amount and the nature of each significant reconciling item shall be disclosed. A nonpublic enterprise shall disclose the nature of significant reconciling items but may omit a numerical reconciliation. If not otherwise evident from the disclosures required by this paragraph and paragraphs 43-46, all enterprises shall disclose the nature and effect of any other significant matters affecting comparability of information for all periods presented.

48. An enterprise shall disclose (a) the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes and (b) any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36).

49. An entity that is a member of a group that files a consolidated tax return shall disclose in its separately issued financial statements:

a. The aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented

b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) above are presented.

Effective Date and Transition

50. This Statement shall be effective for fiscal years beginning after December 15, 1992. Earlier application is encouraged. Financial statements for any number of consecutive fiscal years before the effective date may be restated to conform to the provisions of this Statement. Initial application of this Statement shall be as of the beginning of an enterprise's fiscal year (that is, if the Statement is adopted prior to the effective date and during an interim period other than the first interim period, all prior interim periods of that fiscal year shall be restated). Application of the requirements for recognition of a deferred tax liability or asset for a restated interim or annual period shall be based on the facts and circumstances as they existed at that prior date and without the benefit of hindsight.

51. The effect of initially applying this Statement shall be reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle (APB Opinion No. 20, *Accounting Changes*, paragraph 20) except for initially recognized tax benefits of the type required by this Statement to be excluded from comprehensive income. If the earliest year restated is not presented in the financial statements, the beginning balance of retained earnings and, if necessary, any other components of shareholders' equity for the earliest year presented shall be adjusted for the effect of the restatement as of that date. Paragraph 30 addresses the manner of reporting acquired tax benefits initially recognized subsequent to a business combination and paragraph 36 identifies five items ((c)-(g)) for which tax benefits are excluded from comprehensive income and allocated directly to contributed capital or retained earnings. Pro forma effects of retroactive application (Opinion 20, paragraph 21) are not required if statements of earnings presented for prior years are not restated.

52. When initially presented, the financial statements for the year this Statement is first adopted shall disclose:

a. The effect, if any, of adopting this Statement on pretax income from continuing operations (for example, the effect of adjustments for prior purchase business combinations and for regulated enterprises) for the year of adoption if restated financial statements for the prior year are not presented

b. The effect of any restatement on income from continuing operations, income before extraordinary items, and net income (and on related per share amounts) for each year for which restated financial statements are presented.

Prior Business Combinations

53. If financial statements for prior years are restated, all purchase business combinations that were consummated in those prior years shall be remeasured in accordance with the requirements of this Statement.

54. For a purchase business combination consummated prior to the beginning of the year for which this Statement is first applied, any balance remaining as of that date for goodwill or negative goodwill shall not be adjusted to equal the amount it would be if financial statements for the year of the combination and subsequent years were restated. However, except for leveraged leases and except as provided in paragraph 55, (a) remaining balances as of the date of initially applying this Statement for assets and liabilities acquired in that combination shall be adjusted from their net-of-tax amounts to their pretax amounts and (b) any differences between those adjusted remaining balances and their tax bases are temporary differences. A deferred tax liability or asset shall be recognized for those temporary differences pursuant to the requirements of this Statement as of the beginning of the year for which this Statement is first applied.

55. If, for a particular business combination, determination of the adjustment for any or all of the assets and liabilities referred to in paragraph 54 is impracticable, either because the necessary information is no longer available or because the cost to develop that information is excessive, none of the remaining balances of any assets and liabilities acquired in that combination shall be adjusted to pretax amounts, that is, all remaining amounts that were originally assigned on a net-of-tax basis pursuant to paragraph 89 of Opinion 16 shall not be adjusted. Any differences between those unadjusted remaining balances and their tax bases are temporary differences, and a deferred tax liability or asset shall be recognized for those temporary differences pursuant to the requirements of this Statement as of the beginning of the year for which this Statement is first applied.

56. The net effect of the adjustments required by paragraphs 54 and 55 shall be included in the effect of initially applying this Statement and reported in accordance with the provisions of paragraph 51.

Assets of Regulated Enterprises Reported on a Net-of-Tax or After-Tax Basis

57. Some regulated enterprises that apply Statement 71 have accounted for certain components of construction in progress on either a net-of-tax or after-tax basis, or both. Upon initial application of this Statement, those enterprises shall make appropriate adjustments required by this Statement to account for the net-of-tax and after-tax components of construction in progress as if the requirements of this Statement were applied to that construction in progress in all prior years. Except as provided in paragraph 58, the reported amount of plant in service at the beginning of the year for which this Statement is first applied shall be similarly adjusted.

58. If determination of the adjustment to plant in service referred to in paragraph 57 is impracticable, either because the necessary information is no longer available or because the cost to develop that information is excessive, any difference between the reported amount and the tax basis of that plant in service is a temporary difference, and a deferred tax liability shall be recognized for that temporary difference. If, as a result of an action by a regulator, it is probable that amounts required for settlement of that deferred tax liability will be recovered from customers through future rates, an asset and the related deferred tax liability for that additional temporary difference shall be recognized for that probable future revenue.

59. The net effect of the adjustments required by paragraphs 57 and 58 shall be included in the effect of initially applying this Statement and reported in accordance with the provisions of paragraph 51.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the six members of the Financial Accounting Standards Board:

DENNIS R. BERESFORD, *Chairman*
JOSEPH V. ANANIA
VICTOR H. BROWN
JAMES J. LEISENRING
A. CLARENCE SAMPSON
ROBERT J. SWIERINGA

APPENDIX B

APPLICATION OF THE STANDARDS TO SPECIFIC ASPECTS OF ACCOUNTING FOR INCOME TAXES

CONTENTS

Introduction

223. This appendix provides additional discussion and examples[14] that illustrate application of the standards to specific aspects of accounting for income taxes.

Recognition of Deferred Tax Assets and Deferred Tax liabilities

224. A deferred tax liability is recognized for all taxable temporary differences,[15] and a deferred tax asset is recognized for all deductible temporary differences and operating loss and tax credit carryforwards. A valuation allowance is recognized if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

225. The following example illustrates recognition of deferred tax assets and liabilities. At the end of year 3 (the current year), an enterprise has $2,400 of deductible temporary differences and $1,500 of taxable temporary differences.

A deferred tax liability is recognized at the end of year 3 for the $1,500 of taxable temporary differences, and a deferred tax asset is recognized for the $2,400 of deductible temporary differences. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of the deferred tax asset. If evidence about one or more sources of taxable income (refer to paragraph 21) is sufficient to support a conclusion that a valuation allowance is not needed, other sources of taxable income need not be considered. For example, if the weight of available evidence indicates that taxable income will exceed $2,400 in each future year, a conclusion that no valuation allowance is needed can be reached without considering the pattern and timing of the reversal of the temporary differences, the existence of qualifying tax-planning strategies, and so forth.

Similarly, if the deductible temporary differences will reverse within the next 3 years and taxable income in the current year exceeds $2,400, nothing needs to be known about future taxable income exclusive of reversing temporary differences because the deferred tax asset could be realized by carryback to the current year. A valuation allowance is needed, however, if the weight of available evidence indicates that some portion or all of the $2,400 of tax deductions from future reversals of the deductible temporary differences will not be realized by offsetting:

a. The $1,500 of taxable temporary differences and $900 of future taxable income exclusive of reversing temporary differences
b. $2,400 of future taxable income exclusive of reversing temporary differences
c. $2,400 of taxable income in the current or prior years by loss carryback to those years
d. $2,400 of taxable income in one or more of the circumstances described above and as a result of a qualifying tax-planning strategy (refer to paragraphs 246–251).

To the extent that evidence about one or more sources of taxable income is sufficient to eliminate any need for a valuation allowance, other sources need not considered. Detailed forecasts, projections, or other types of analyses[16] are unnecessary if expected future taxable income is more than sufficient to realize a tax benefit. Detailed analyses are not necessary, for example, if the enterprise earned $500 of taxable income in each of years 1-3 and there is no evidence to suggest it will not continue to earn that level of taxable income in future years. That level of future taxable income is more than sufficient to realize the tax benefit of $2,400 of tax deductions over a period of at least 19 years (the year(s) of the deductions, 3 carryback years, and 15 carryforward years) in the U.S. federal tax jurisdiction.

226. The following example illustrates recognition of a valuation allowance for a portion of a deferred tax asset in one year and a subsequent change in circumstances that requires adjust-

[14]The discussion and examples in this appendix assume that the tax law requires offsetting net deductions in a particular year against net taxable amounts in the 3 preceding years and then in the 15 succeeding years. Assumptions in this appendix about the tax law are for illustrative purposes only. The enacted tax law for a particular tax jurisdiction should be used for recognition and measurement of deferred tax liabilities and assets.

[15]Refer to paragraph 9.

[16]The terms *forecast* and *projection* refer to any process by which available evidence is accumulated and evaluated for purposes of estimating whether future taxable income will be sufficient to realize a deferred tax asset. Judgment is necessary to determine how detailed or formalized that evaluation process should be. Furthermore, information about expected future taxable income is necessary only to the extent positive evidence available from other sources (refer to paragraph 21) is not sufficient to support a conclusion that a valuation allowance is not needed. This Statement does not require either a *financial forecast* or *financial projection* within the meaning of those terms in the Statements on Standards for Accountants' Services on Prospective Financial Information issued by the Auditing Standards Board of the American Institute of Certified Public Accountants.

ment of the valuation allowance at the end of the following year. The assumptions are as follows:

a. At the end of the current year (year 3), an enterprise's only temporary differences are deductible temporary differences in the amount of $900.

b. Pretax financial income, taxable income, and taxes paid for each of years 1-3 are all positive, but relatively negligible, amounts.

c. The enacted tax rate is 40 percent for all years.

A deferred tax asset in the amount of $360 ($900 at 40 percent) is recognized at the end of year 3. If management concludes, based on an assessment of all available evidence (refer to guidance in paragraphs 20-25), that it is more likely than not that future taxable income will not be sufficient to realize a tax benefit for $400 of the $900 of deductible temporary differences at the end of the current year, a $160 valuation allowance ($400 at 40 percent) is recognized at the end of year 3.

Assume that pretax financial income and taxable income for year 4 turn out to be as follows:

Pretax financial loss	$ (50)
Reversing deductible temporary differences	(300)
Loss carryforward for tax purposes	$(350)

The $50 pretax loss in year 4 is additional negative evidence that must be weighed against available positive evidence to determine the amount of valuation allowance necessary at the end of year 4. Deductible temporary differences and carryforwards at the end of year 4 are as follows:

Loss carryforward from year 4 for tax purposes (see above)	$350
Unreversed deductible temporary differences ($900 – $300)	600
	$950

The $360 deferred tax asset recognized at the end of year 3 is increased to $380 ($950 at 40 percent) at the end of year 4. Based on an assessment of all evidence available at the end of year 4, management concludes that it is more likely than not that $240 of the deferred tax asset will not be realized and, therefore, that a $240 valuation allowance is necessary. The $160 valuation allowance recognized at the end of year 3 is increased to $240 at the end of year 4. The $60 net effect of those 2 adjustments (the $80 increase in the valuation allowance less the $20 increase in the deferred tax asset) results in $60 of deferred tax expense that is recognized in year 4.

Offset of Taxable and Deductible Amounts

227. The tax law determines whether future reversals of temporary differences will result in taxable and deductible amounts that offset each other in future years. The tax law also determines the extent to which deductible temporary differences and carryforwards will offset the tax consequences of income that is expected to be earned in future years. For example, the tax law may provide that capital losses are deductible only to the extent of capital gains. In that case, a tax benefit is not recognized for temporary differences that will result in future deductions in the form of capital losses unless those deductions will offset either (a) other existing temporary differences that will result in future capital gains, (b) capital gains that are expected to occur in future years, or (c) capital gains of the current year or prior years if carryback (of those capital loss deductions from the future reversal years) is expected.

Pattern of Taxable or Deductible Amounts

228. The particular years in which temporary differences result in taxable or deductible amounts generally are determined by the timing of the recovery of the related asset or settlement of the related liability. However, there are exceptions to that general rule. For example, a temporary difference between the tax basis and the reported amount of inventory for which cost is determined on a LIFO basis does not reverse when present inventory is sold in future years if it is replaced by purchases or production of inventory in those same future years. A LIFO inventory temporary difference becomes taxable or deductible in the future year that inventory is liquidated and not replaced.

229. For some assets or liabilities, temporary differences may accumulate over several years and then reverse over several years. That pattern is common for depreciable assets. Future originating differences for existing depreciable assets and their subsequent reversals are a factor to be considered when assessing the likelihood of future taxable income (paragraph 21(b)) for realization of a tax benefit for existing deductible temporary differences and carryforwards.

Change in Deferred Foreign Tax Assets and Liabilities

230. When the reporting currency (not the foreign currency) is the functional currency, remeasurement of an enterprise's deferred foreign tax liability or asset after a change in the exchange rate will result in a transaction gain or loss that is recognized currently in determining net income. Statement 52 requires disclosure of the aggregate transaction gain or loss included in determining net income but does not specify how to display that transaction gain or loss or its components for financial reporting. Accordingly, a transaction gain or loss that results from remeasuring a deferred foreign tax liability or asset may be included in the reported amount of deferred tax benefit or expense if that presentation is considered to be more useful. If reported in that manner, that transaction gain or loss is still included in the aggregate transaction gain or loss for the period to be disclosed as required by Statement 52.

Special Deductions

231. Statement 96 amended FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, to require recognition of statutory depletion that would result from generating future revenues exactly equal to the amount of the related assets (that is, the assets subject to statutory depletion) to the extent that the statutory depletion offsets a deferred tax liability for taxable temporary differences attributable to those assets. This Statement eliminates that amendment of Statement 19. The Board concluded that, under the basic approach to recognition of deferred tax benefits required by this Statement, the necessary past event for recognition of the tax benefit of statutory depletion is producing oil, mining copper, and so forth (or its subsequent sale). The tax benefit of statutory depletion and other types of special deductions such as those for Blue Cross-Blue Shield and small life insurance companies in future years should not be anticipated for purposes of offsetting a deferred tax liability for taxable temporary differences at the end of the current year.

232. As required above, the tax benefit of special deductions ordinarily is recognized no earlier than the year in which those special deductions are deductible on the tax return. However, some portion of the future tax effects of special deductions are implicitly recognized in determining (a) the average graduated tax rate to be used for measuring deferred taxes when graduated tax rates are a significant factor and (b) the need for a valuation allowance for deferred tax assets. In those circumstances, implicit recognition is unavoidable because (1) those special deductions are one of the determinants of future taxable income and (2) future taxable income determines the average graduated tax rate and sometimes determines the need for a valuation allowance.

Measurement of Deferred Tax Liabilities and Assets

233. The tax rate that is used to measure deferred tax liabilities and deferred tax assets is the enacted tax rate(s) expected to apply to taxable income in the years that the liability is expected to be settled or the asset recovered. Measurements are based on elections (for example, an election for loss carryforward instead of carryback) that are expected to be made for tax purposes in future years . Presently enacted changes in tax laws and rates that become effective for a particular future year or years must be considered when determining the tax rate to apply to temporary differences reversing in that year or years. Tax laws and rates for the current year are used if no changes have been enacted for future years. An asset for deductible temporary differences that are expected to be realized in future years through carryback of a future loss to the current or a prior year (or a liability for taxable temporary differences that are expected to reduce the refund claimed for the carryback of a future loss to the current or a prior year) is measured using tax laws and rates for the current or a prior year, that is, the year for which a refund is expected to be realized based on loss carryback provisions of the tax law.

234. The following example illustrates determination of the tax rate for measurement of a deferred tax liability for taxable temporary differences when there is a phased-in change in tax rates. At the end of year 3 (the current year), an enterprise has $2,400 of taxable temporary differences, which are expected to result in taxable amounts of approximately $800 on the future tax returns for each of years acted tax rates are 35 percent for years 1-3, 40 percent for years 4-6, and 45 percent for year 7 and thereafter.

The tax rate that is used to measure the deferred tax liability for the $2,400 of taxable temporary differences differs depending on whether the tax effect of future reversals of, those temporary differences is on taxes payable for years 1-3, years 4-6, or year 7 and thereafter. The tax rate for measurement of the deferred tax liability is 40 percent whenever taxable income is expected in years 4-6. If tax losses are expected in years 4-6, however, the tax rate is:

a. 35 percent if realization of a tax benefit for those tax losses in years 4-6 will be by loss carryback to years 1-3

b. 45 percent if realization of a tax benefit for those tax losses in years 4-6 will be by loss carryforward to year 7 and thereafter.

235. The following example illustrates determination of the tax rate for measurement of a deferred tax asset for deductible temporary differences when there is a change in tax rates. The assumptions are as follows:

a. Enacted tax rates are 30 percent for years 1-3 and 40 percent for year 4 and thereafter.

b. At the end of year 3 (the current year), an enterprise has $900 of deductible temporary differences, which are expected to result in tax deductions of approximately $300 on the future tax returns for each of years 4-6.

The tax rate is 40 percent if the enterprise expects to realize a tax benefit for the deductible temporary differences by offsetting taxable income earned in future years. Alternatively, the tax rate is 30 percent if the enterprise expects to realize a tax benefit for the deductible temporary differences by loss carryback refund.

Assume that (a) the enterprise recognizes a $360 ($900 at 40 percent) deferred tax assset to be realized by offsetting taxable income in future years and (b) taxable income and taxes payable in each of years 1-3 were $300 and $90, respectively. Realization of a tax benefit of at least $270 ($900 at 30 percent) is assured because carryback refunds totalling $270 may be realized even if no taxable income is earned in future years. Recognition of a valuation allowance for the other $90 ($360 - $270) of the deferred tax asset depends on management's assessment of whether, based on the weight of available evidence, a portion or all of the tax benefit of the $900 of deductible temporary differences will not be realized at 40 percent tax rates in future years.

Alternatively, if enacted tax rates are 40 percent for years 1-3 and 30 percent for year 4 and thereafter, measurement of the deferred tax asset at a 40 percent tax rate could only occur if tax losses are expected in future years 4-6.

236. The following example illustrates determination of the average graduated tax rate for measurement of deferred tax liabilities and assets by an enterprise for which graduated tax rates ordinarily are a significant factor. At the end of year 3 (the current year), an enterprise has $1,500 of taxable temporary differences and $900 of deductible temporary differences, which are expected to result in net taxable amounts of approximately $200 on the future tax returns for each of years 4-6. Enacted tax rates are 15 percent for the first $500 of taxable income, 25 percent for the next $500, and 40 percent for taxable income over $1,000. This example assumes that there is no income (for example, capital gains) subject to special tax rates.

The deferred tax liability and asset for those reversing taxable and deductible temporary differences in years 4-6 are measured using the average graduated tax rate for the estimated amount of annual taxable income in future years. Thus, the average graduated tax rate will differ depending on the expected level of annual taxable income (including reversing temporary differences) in years 4-6. The average tax rate will be:

a. 15 percent if the estimated annual level of taxable income in years 4-6 is $500 or less

b. 20 percent if the estimated annual level of taxable income in years 4-6 is $1,000

c. 30 percent if the estimated annual level of taxable income in years 4-6 is $2,000.

Temporary differences usually do not reverse in equal annual amounts as in the example above, and a different average graduated tax rate might apply to reversals in different future years. However, a detailed analysis to determine the net reversals of temporary differences in each future year usually is not warranted. It is not warranted because the other variable (that is, taxable income or losses exclusive of reversing temporary differences in each of those future years) for determination of the average graduated tax rate in each future year is no more than an estimate. For that reason, an aggregate calculation using a single estimated average graduated tax rate based on estimated average annual taxable income in future years is sufficient. Judgment is permitted, however, to deal with unusual situations, for example, an abnormally large temporary difference that will reverse in a single future year, or an abnormal level of taxable income that is expected for a single future year. The lowest graduated tax rate should be used whenever the estimated average graduated tax rate otherwise would be zero.

237. Deferred tax liabilities and assets are measured using enacted tax rates applicable to capital gains, ordinary income, and so forth, based on the expected type of taxable or deductible amounts in future years. For example, evidence based on all facts and circumstances should determine whether an investor's liability for the tax consequences of temporary differences related to its equity in the earnings of an investee should be measured using enacted tax rates applicable to a capital gain or a dividend. Computation of a deferred tax liability for undistributed earnings based on dividends should also reflect any related dividends received deductions or foreign tax credits, and taxes that would be withheld from the dividend.

Alternative Minimimum Tax

238. Temporary differences such as depreciation differences are one reason why TMT may exceed regular tax. Temporary differences, however, ultimately reverse and, absent a significant amount of preference items, total taxes paid over the entire life of the enterprise will be based on the regular tax system. Preference items are another reason why TMT may exceed regular tax. If preference items are large enough, an enterprise could be subject, over its lifetime, to the AMT system; and the cumulative amount of AMT credit carryforwards would expire unused. No one can know beforehand which scenario will prevail because that determination can only be made after the fact. In the meantime, this Statement requires procedures that provide a practical solution to that problem.

239. Under the requirements of this Statement, an enterprise should:

a. Measure the total deferred tax liability and asset for regular tax temporary differences and carryforwards using the regular tax rate

b. Measure the total deferred tax asset for all AMT credit carryforward

c. Reduce the deferred tax asset for AMT credit carryforward by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of that deferred tax asset will not be realized.

Paragraph 21 identifies four sources of taxable income that should be considered in determining the need for and amount of a valuation allowance. No valuation allowance is necessary if the deferred tax asset for AMT credit carryforward can be realized:

1. Under paragraph 21(a), by reducing a deferred tax liability from the amount of regular tax on regular tax temporary differences to not less than the amount of TMT on AMT temporary differences

2. Under paragraph 21(b), by reducing taxes on future income from the amount of regular tax on regular taxable income to not less than the amount of TMT on AMT income

3. Under paragraph 21(c), by loss carryback

4. Under paragraph 21(d), by a tax-planning strategy such as switching from tax-exempt to taxable interest income.

Operating Loss and Tax Credit Carryforwards and Carrybacks

Recognition of a Tax Benefit for Carrybacks

240. An operating loss, certain deductible items that are subject to limitations, and some tax credits arising but not utilized in the current year may be carried back for refund of taxes paid in prior years or carried forward to reduce taxes payable in future years. A receivable is recognized for the amount of taxes paid in prior years that is refundable by carryback of an operating loss or unused tax credits of the current year.

Recognition of a Tax Benefit for Carryforwards

241. A deferred tax asset is recognized for an operating loss or tax credit carryforward.[17] In assessing the need for a valuation allowance, provisions in the tax law that limit utilization of an operating loss or tax credit carryforward are applied in determining whether it is more likely than not that some portion or all of the deferred tax asset will not be realized by reduction of taxes payable on taxable income during the carryforward period.

242. The following example illustrates recognition of the tax benefit of an operating loss in the loss year and in subsequent carryforward years when a valuation allowance is necessary in the loss year. The assumptions are as follows:

a. The enacted tax rate is 40 percent for all years.

b. An operating loss occurs in year 5.

c. The only difference between financial and taxable income results from use of accelerated depreciation for tax purposes. Differences that arise between the reported amount and the tax basis of depreciable assets in years 1-7 will result in taxable amounts before the end of the loss carryforward period from year 5.

d. Financial income, taxable income, and taxes currently payable or refundable are as follows:

	Year 1	Years 2-4	Year 5	Year 6	Year 7
Pretax financial income (loss)	$2,000	$5,000	$(8,000)	$2,200	$7,000
Depreciation differences	(800)	(2,200)	(800)	(700)	(600)
Loss carryback	—	—	2,800	—	—
Loss carryforward	—	—	—	(6,000)	(4,500)
Taxable income (loss)	$1,200	$2,800	$(6,000)	$(4,500)	$1,900
Taxes payable (refundable)	$ 480	$1,120	$(1,120)	$ —	$ 760

e. At the end of year 5, profits are not expected in years 6 and 7 and later years, and it is concluded that a valuation allowance is necessary to the extent realization of the deferred tax asset for the operating loss carryforward depends on taxable income (exclusive of reversing temporary differences) in future years.

The deferred tax liability for the taxable temporary differences is calculated at the end of each year as follows:

	Year 1	Years 2-4	Year 5	Year 6	Year 7
Unreversed differences:					
Beginning amount	$ —	$ 800	$3,000	$3,800	$4,500
Additional amount	800	2,200	800	700	600
Total	$ 800	$3,000	$3,800	$4,500	$5,100
Deferred tax liability (40 percent)	$ 320	$1,200	$1,520	$1,800	$2,040

[17] This requirement pertains to all ITC carryforwards regardless of whether the flow-through or deferral method is used to account for ITC.

The deferred tax asset and related valuation allowance for the loss carryforward are calculated at the end of each year as follows:

	Year 1	Years 2-4	Year 5	Year 6	Year 7
Loss carryforward for tax purposes	$ —	$ —	$6,000	$4,500	$ —
Deferred tax asset (40 percent)	$ —	$ —	$2,400	$1,800	$ —
Valuation allowance equal to the amount by which the deferred tax asset exceeds the deferred tax liability	—	—	(800)	—	—
Net deferred tax asset	$ —	$ —	$1,520	$1,800	$ —

Total tax expense for each period is as follows:

	Year 1	Years 2-4	Year 5	Year 6	Year 7
Deferred tax expense (benefit):					
Increase in deferred tax liability	$320	$ 880	$ 320	$ 280	$ 240
(Increase) decrease in net deferred tax asset	—	—	(1,520)	(280)	1,800
	320	880	(1,200)	—	2,040
Currently payable (refundable)	480	1,120	(1,120)	—	760
Total tax expense (benefit)	$800	$2,000	$(2,320)	$ —	$2,800

In year 5, $2,800 of the loss is carried back to reduce taxable income in years 2-4, and $1,120 of taxes paid for those years is refunded. In addition, a $1,520 deferred tax liability is recognized for $3,800 of taxable temporary differences, and a $2,400 deferred tax asset is recognized for the $6,000 loss carryforward. However, based on the conclusion described in assumption (e), a valuation allowance is recognized for the amount by which that deferred tax asset exceeds the deferred tax liability.

In year 6, a portion of the deferred tax asset for the loss carryforward is realized because taxable income is earned in that year. The remaining balance of the deferred tax asset for the loss carryforward at the end of year 6 equals the deferred tax liability for the taxable temporary differences. A valuation allowance is not needed.

In year 7, the remaining balance of the loss carryforward is realized, and $760 of taxes are payable on net taxable income of $1,900. A $2,040 deferred tax liability is recognized for the $5,100 of taxable temporary differences.

243. An operating loss or tax credit carryforward from a prior year (for which the deferred tax asset was reduced by a valuation allowance) may sometimes reduce taxable income and taxes payable that are attributable to certain revenues or gains that the tax law requires be included in taxable income for the year that cash is received. For financial reporting, however, there may have been no revenue or gain and a liability is recognized for the cash received. Future sacrifices to settle the liability will result in deductible amounts in future years. Under those circumstances, the reduction in taxable income and taxes payable from utilization of the operating loss or tax credit carryforward gives no cause for recognition of a tax benefit because, in effect, the operating loss or tax credit carryforward has been replaced by temporary differences that will result in deductible amounts when a nontax liability is settled in future years. The requirements for recognition of a tax benefit for deductible temporary differences and for operating loss carryforwards are the same, and the manner of reporting the eventual tax benefit recognized (that is, in income or as required by paragraph 37) is not affected by the intervening transaction reported for tax purposes.

244. The following example illustrates the interaction of loss carryforwards and temporary differences that will result in net deductible amounts in future years. The assumptions are as follows:

a. The financial loss and the loss reported on the tax return for an enterprise's first year of operations are the same.

b. In year 2, a gain of $2,500 from a transaction that is a sale for tax purposes but a sale and leaseback for financial reporting is the only difference between pre-tax financial income and taxable income.

		Financial Income	Taxable Income
Year 1:	Income (loss) from operations	$(4,000)	$(4,000)
Year 2:	Income (loss) from operations	$ —	$ —
	Taxable gain on sale		2,500
	Taxable income before loss carryforward		2,500
	Loss carryforward from year 1		(4,000)
	Taxable income		$ —

The $4,000 operating loss carryforward at the end of year 1 is reduced to $1,500 at the end of year 2 because $2,500 of it is used to reduce taxable income. The $2,500 reduction in the loss carryforward becomes $2,500 of deductible temporary differences that will reverse and result in future tax deductions when lease payments are made. The enterprise has no deferred tax liability to be offset by those future tax deductions, the future tax deductions cannot be realized by loss carryback because no taxes have been paid, and the enterprise has had pretax losses for financial reporting since inception. Unless positive evidence exists that is sufficient to overcome the negative evidence associated with those losses, a valuation allowance is recognized at the end of year 2 for the full amount of the deferred tax asset related to the $2,500 of deductible temporary differences and the remaining $1,500 of operating loss carryforward.

Reporting the Tax Benefit of Operating Loss Carryforwards or Carrybacks

245. Except as noted in paragraph 37, the manner of reporting the tax benefit of an operating loss carryforward or carryback is determined by the source of the income or loss in the current year and not by (a) the source of the operating loss carryforward or taxes paid in a prior year or (b) the source of expected future income that will result in realization of a deferred tax asset for an operating loss carryforward from the current year. Deferred tax expense or benefit that results because a change in circumstances causes a change in judgment about the future realization of the tax benefit of an operating loss carryforward is allocated to continuing operations (refer to paragraph 26). Thus, for example:

a. The tax benefit of an operating loss carryforward that resulted from an extraordinary loss in a prior year and that is first recognized in the financial statements for the current year:

(1) Is allocated to continuing operations if it offsets the current or deferred tax consequences of income from continuing operations

(2) Is allocated to an extraordinary gain if it offsets the current or deferred tax consequences of that extraordinary gain

(3) Is allocated to continuing operations if it results from a change in circumstances that causes a change in judgment about future realization of a tax benefit

b. The current or deferred tax benefit of a loss from continuing operations in the current year is allocated to continuing operations regardless of whether that loss offsets the current or deferred tax consequences of an extraordinary gain that:

(1) Occurred in the current year

(2) Occurred in a prior year (that is, if realization of the tax benefit will be by carryback refund)

(3) Is expected to occur in a future year.

Tax-Planning Strategies

246. Expectations about future taxable income incorporate numerous assumptions about actions, elections, and strategies to minimize income taxes in future years. For example, an enterprise may have a practice of deferring taxable income whenever possible by structuring sales to qualify as installment sales for tax purposes. Actions such as that are not *tax-planning strategies*, as that term is used in this Statement, because they are actions that management takes in the normal course of business. For purposes of applying the requirements of this Statement, a *tax-planning strategy* is an action that management ordinarily might not take but would take, if necessary, to realize a tax benefit for a carryforward before it expires. For example, a strategy to sell property and lease it back for the expressed purpose of generating taxable income to utilize a carryforward before it expires is not an action that management takes in the normal course of business. A qualifying tax-planning strategy is an action that:

a. *Is prudent and feasible.* Management must have the ability to implement the strategy and expect to do so unless the need is eliminated in future years. For example, management would not have to apply the strategy if income earned in a later year uses the entire amount of carryforward from the current year.

b. *An enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused.* All of the various strategies that are expected to be employed for business or tax purposes other than utilization of carryforwards that would otherwise expire unused are, for purposes of this Statement, implicit in management's estimate of future taxable income and, therefore, are not tax-planning strategies as that term is used in this Statement.

c. *Would result in realization of deferred tax assets.* The effect of qualifyinig tax-planning strategies must be recognized in the determination of the amount of a valuation allowance. Tax-planning strategies need not be considered, however, if positive evidence available from other sources (refer to paragraph 21) is sufficient to support a conclusion that a valuation allowance is *not* necessary.

247. Tax-planning strategies may shift estimated future taxable income between future years. For example, assume that an enterprise has a $1,500 operating loss carryforward that expires at the end of next year and that its estimate of taxable income exclusive of the future reversal of existing temporary differences and carryforwards is approximately $1,000 per year for each of the next several years. That estimate is based, in part, on the enterprise's present practice of making sales on the installment basis and on provisions in the tax law that result in temporary deferral of gains on installment sales. A tax-planning strategy to increase taxable income next year and resize the full tax benefit of that operating loss carryforward might be to structure next year's sales in a manner that does not meet the tax rules to qualify as installment sales. Another strategy might be to change next year's depreciation procedures for tax purposes.

248. Tax-planning strategies also may shift the estimated pattern and timing of future reversals of temporary differences. For example, if an operating loss carryforward otherwise would expire unused at the end of next year, a tax-planning strategy to sell the enterprise's installment sale receivables next year would accelerate the future reversal of taxable temporary differences for the gains on those installment sales. In other circumstances, a tax-planning strategy to accelerate the future reversal of *deductible* temporary differences in time to offset taxable income that is expected in an early future year might be the only means to realize a tax benefit for those deductible temporary differences if they otherwise would reverse and provide no tax benefit in some later future year(s). Examples of actions that would accelerate the future reversal of deductible temporary differences include:

a. An annual payment that is larger than an enterprise's usual annual payment to reduce a long-term pension obligation (recognized as a liability in the financial statements) might accelerate a tax deduction for pension expense to an earlier year than would otherwise have occurred.

b. Disposal of obsolete inventory that is reported at net realizable value in the financial statements would accelerate a tax deduction for the amount by which the tax basis exceeds the net realizable value of the inventory.

c. Sale of loans at their reported amount (that is, net of an allowance for bad debts) would accelerate a tax deduction for the allowance for bad debts.

249. A significant expense might need to be incurred to implement a particular tax-planning strategy, or a significant loss might need to be recognized as a result of implementing a particular tax-planning strategy. In either case, that expense or loss (net of any future tax benefit that would result from that expense or loss) reduces the amount of tax benefit that is recognized for the expected effect of a qualifying tax-planning strategy. For that purpose, the future effect of a differential in interest rates (for example, between the rate that would be earned on installment sale receivables and the rate that could be earned on an alternative investment if the tax-planning strategy is to sell those receivables to accelerate the future reversal of related taxable temporary differences) is not considered.

250. The following example illustrates recognition of a deferred tax asset based on the expected effect of a qualifying tax-planning strategy when a significant expense would be incurred to implement the strategy. The assumptions are as follows:

a. A $900 operating loss carryforward expires at the end of next year.

b. Based on historical results and the weight of other available evidence, the estimated level of taxable income exclusive of the future reversal of existing temporary differences and the operating loss carryforward next year is $100.

c. Taxable temporary differences in the amount of $1,200 ordinarily would result in taxable amounts of approximately $400 in each of the next 3 years.

d. There is a qualifying tax-planning strategy to accelerate the future reversal of all $1,200 of taxable temporary differences to next year.

e. Estimated legal and other expenses to implement that tax-planning strategy are $150.

f. The enacted tax rate is 40 percent for all years.

Without the tax-planning strategy, only $500 of the $900 operating loss carryforward could be realized next year by offsetting (a) $100 of taxable income exclusive of reversing temporary differences and (b) $400 of reversing taxable temporary differences. The other $400 of operating loss carryforward would expire unused at the end of next year. Therefore, the $360 deferred tax asset ($900 at 40 percent) would be offset by a $160 valuation allowance ($400 at 40 percent), and a $200 net deferred tax asset would be recognized for the operating loss carryforward.

With the tax-planning strategy, the $900 operating loss carryforward could be applied against $1,300 of taxable income next year ($100 of taxable income exclusive of reversing temporary differences and $1,200 of reversing taxable temporary differences). The $360 deferred tax asset is reduced by a $90 valuation allowance recognized for the net-of-tax expenses necessary to implement the tax-planning strategy. The amount of that valuation allowance is determined as follows:

Legal and other expenses to implement the tax-planning strategy	$150
Future tax benefit of those legal and other expenses—$150 at 40 percent	60
	$ 90

In summary, a $480 deferred tax liability is recognized for the $1,200 of taxable temporary differences, a $360 deferred tax asset is recognized for the $900 operating loss carryforward, and a $90 valuation allowance is recognized for the net-of-tax expenses of implementing the tax-planning strategy.

251. Under this Statement, the requirements for consideration of tax-planning strategies pertain only to the determination of a valuation allowance for a deferred tax asset. A deferred tax liability ordinarily is recognized for all taxable temporary differences. The only exceptions are identified in paragraph 9. Certain seemingly taxable temporary differences, however, may or may not result in taxable amounts when those differences reverse in future years. One example is an excess of cash surrender value of life insurance over premiums paid (paragraph 14). Another example is an excess of the book over the tax basis of an investment in a domestic subsidiary (paragraph 33). The determination of whether those differences are taxable temporary differences does not involve a tax-planning strategy as that term is used in this Statement.

Regulated Enterprises

252. Paragraph 9 of Statement 71 requires a regulated enterprise that applies Statement 71 to capitalize an incurred cost that would otherwise be charged to expense if the following criteria are met:

a. It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.

b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs.

If the income taxes that result from recording a deferred tax liability in accordance with this Statement meet those criteria, an asset is recognized for those income taxes when the deferred tax liability is recognized. That asset and the deferred tax liability are not offset for general-purpose financial reporting; rather, each is displayed separately.

253. The following example illustrates recognition of an asset for the probable future revenue to recover future income taxes related to the deferred tax liability for the equity component of the allowance for funds used during construction (AFUDC). The assumptions are as follows:

a. During year 1, the first year of operations, total construction costs for financial reporting and tax purposes are $400,000 (exclusive of AFUDC).

b. The enacted tax rate is 34 percent for all future years.

c. AFUDC (consisting entirely of the equity component) is $26,000. The asset for probable future revenue to recover the related income taxes is calculated as follows:

34 percent of ($26,000 + A) = A (where A equals the asset for probable future revenue)

A = $13,394

At the end of year 1, the related accounts[18] are as follows:

Construction in progress	$426,000
Probable future revenue	$ 13,394
Deferred tax liability [34 percent of ($26,000 + $13,394)]	$ 13,394

254. The following example illustrates adjustment of a deferred tax liability for an enacted change in tax rates. The assumptions are the same as for the example in paragraph 253 except that a change in the tax rate from 34 percent to 30 percent is enacted on the first day of year 2. As of the first day of year 2, the related accounts are adjusted so that the balances are as follows:

Construction in progress	$426,000
Probable future revenue	$ 11,143
Deferred tax liability [30 percent of ($26,000 + $11,143)]	$ 11,143

255. The following example illustrates adjustment of a deferred tax liability for an enacted change in tax rates when that deferred tax liability represents amounts already collected from customers for the future payment of income taxes. In that case, there would be no asset for "probable future revenue." The assumptions are as follows:

a. Amounts at the end of year 1, the current year, are as follows:

Construction in progress for financial reporting	$400,000
Tax basis of construction in progress	$300,000
Deferred tax liability (34 percent of $100,000)	$ 34,000

b. A change in the tax rate from 34 percent to 30 percent is enacted on the first day of year 2. As a result of the reduction in tax rates, it is probable that $4,000 of the $34,000 (previously collected from customers for the future payment of income

[18] In this example, if AFUDC had consisted of a net-of-tax debt component in the amount of $26,000, the related accounts and their balances at the end of year 1 would be construction in progress in the amount of $439,394 and a deferred tax liability in the amount of $13,394.

taxes) will be refunded to customers, together with the tax benefit of that refund, through a future rate reduction. The liability for the future rate reduction to refund a portion of the deferred taxes previously collected from customers is calculated as follows:

$4,000 + (30 percent of R) = R (where R equals the probable future reduction in revenue)

R = $5,714

As of the first day of year 2, the related accounts are adjusted so that the balances are as follows:

Construction in progress	$400,000
Probable reduction in future revenue	$ 5,714
Deferred tax liability [30 percent of ($100,000 − $5,714)]	$ 28,286

Leveraged Leases

256. This Statement does not change (a) the pattern of recognition of after-tax income for leveraged leases as required by Statement 13 or (b) the allocation of the purchase price in a purchase business combination to acquired leveraged leases as required by Interpretation 21. Integration of the results of income tax accounting for leveraged leases with the other results of accounting for income taxes under this Statement is required when deferred tax credits related to leveraged leases are the only source (refer to paragraph 21) for recognition of a tax benefit for deductible temporary differences and carryforwards not related to leveraged leases. A valuation allowance is not necessary if deductible temporary differences and carryforwards will offset taxable amounts from future recovery of the net investment in the leveraged lease. However, to the extent that the amount of deferred tax credits for a leveraged lease as determined under Statement 13 differs from the amount of the deferred tax liability related to the leveraged lease that would otherwise result from applying the requirements of this Statement, that difference is preserved and is not a source of taxable income for recognition of the tax benefit of deductible temporary differences and operating loss or tax credit carryforwards.

257. Interpretation 21 requires that the tax effect of any difference between the assigned value and the tax basis of a leveraged lease at the date of a business combination not be accounted for as a deferred tax credit. This Statement does not change that requirement. Any tax effects included in unearned and deferred income as required by Interpretation 21 are not offset by the deferred tax consequences of other temporary differences or by the tax benefit of operating loss or tax credit carryforwards. However, deferred tax credits that arise after the date of a business combination are accounted for in the same manner as described above for leveraged leases that were not acquired in a purchase business combination.

258. The following example illustrates integration of the results of income tax accounting for leveraged leases with the other results of accounting for income taxes as required by this Statement.

a. At the end of year 1, the current year, an enterprise has two temporary differences. One temporary difference is for a leveraged lease that was entered into in a prior year. During year 1, the enacted tax rate for year 2 and thereafter changed from 40 percent to 35 percent. After adjusting for the change in estimated total net income from the lease as a result of the change in tax rates as required by Statement 13, the components of the investment in the leveraged lease at the end of year 1 are as follows:

Net rentals receivable plus residual value less unearned pretax income		$150,000
Reduced by:		
Deferred ITC	$ 9,000	
Deferred tax credits	39,000	48,000
Net investment in leveraged lease for financial reporting		$102,000

b. The other temporary difference is for a $120,000 estimated liability for warranty expense that will result in a tax deduction in year 5 when the liability is expected to be paid. Absent consideration of the deferred tax credits attributable to the leveraged lease, the weight of available evidence indicates that a valuation allowance is needed for the entire amount of the deferred tax asset related to that $120,000 deductible temporary difference.

c. The tax basis of the investment in the leveraged lease at the end of year 1 is $41,000. The amount of the deferred tax liability for that leveraged lease that would otherwise result from the requirements of this Statement is determined as follows:

Net rentals receivable plus residual value less unearned pretax income	$150,000
Temporary difference for deferred ITC	9,000
	141,000
Tax basis of leveraged lease	41,000
Temporary difference	$100,000
Deferred tax liability (35 percent)	$ 35,000

d. Loss carryback (to year 2) and loss carryforward (to year 20) of the $120,000 tax deduction for warranty expense in year 5 would offset the $100,000 of taxable amounts resulting from future recovery of the net investment in the leveraged lease over the remainder of the lease term.

e. At the end of year 1, the enterprise recognizes a $42,000 ($120,000 at 35 percent) deferred tax asset and a related $7,000 valuation allowance. The effect is to recognize a $35,000 net deferred tax benefit for the reduction in deferred tax credits attributable to the leveraged lease. Deferred tax credits attributable to the leveraged lease determined under the requirements of Statement 13 are $39,000. However, the deferred tax liability determined under the requirements of this Statement is only $35,000. The $4,000 difference is not available for offsetting.

Business Combinations

259. This Statement requires recognition of deferred tax liabilities and deferred tax assets (and related valuation allowances, if necessary) for the deferred tax consequences of differences between the assigned values and the tax bases of the assets and liabilities recognized in a business combination accounted for as a purchase under Opinion 16. A deferred tax liability or asset is not recognized for a difference between the reported amount and the tax basis of goodwill or the portion thereof for which amortization is not deductible for tax purposes (paragraphs 262 and 263), unallocated "negative" goodwill, and leveraged leases (paragraphs 256-258). Acquired Opinion 23 differences are accounted for in accordance with the requirements of Opinion 23, as amended by this Statement (paragraphs 31-34).

Nontaxable Business Combinations

260. The following example illustrates recognition and measurement of a deferred tax liability and asset in a nontaxable business combination. The assumptions are as follows:

a. The enacted tax rate is 40 percent for all future years, and amortization of goodwill is not deductible for tax purposes.
b. An enterprise is acquired for $20,000, and the enterprise has no leveraged leases.
c. The tax basis of the net assets acquired is $5,000, and the assigned value (other than goodwill) is $12,000. Future recovery of the assets and settlement of the liabilities at their assigned values will result in $20,000 of taxable amounts and $13,000 of deductible amounts that can be offset against each other. Therefore, no valuation allowance is necessary.
The amounts recorded to account for the purchase transaction are as follows:

Assigned value of the net assets (other than goodwill) acquired	$12,000
Deferred tax liability for $20,000 of taxable temporary differences	(8,000)
Deferred tax asset for $13,000 of deductible temporary differences	5,200
Goodwill	10,800
Purchase price of the acquired enterprise	$20,000

Taxable Business Combinations

261. In a taxable business combination, the purchase price is assigned to the assets and liabilities recognized for tax purposes as well as for financial reporting. However, the amounts assigned to particular assets and liabilities may differ for financial reporting and tax purposes. A deferred tax liability and asset are recognized for the deferred tax consequences of those temporary differences in accordance with the recognition and measurement requirements of this Statement. For example, a portion of the amount of goodwill for financial reporting may be allocated to some other asset for tax purposes, and amortization of that other asset may be deductible for tax purposes. If a valuation allowance is recognized for that deferred tax asset at the acquisition date, recognized benefits for those tax deductions after the acquisition date should be applied (a) first to reduce to zero any goodwill related to that acquisition, (b) second to reduce to zero other noncurrent intangible assets related to that acquisition, and (c) third to reduce income tax expense.

262. Amortization of goodwill is deductible for tax purposes in some tax jurisdictions. In those tax jurisdictions, the reported amount of goodwill and the tax basis of goodwill are each separated into two components as of the combination date for purposes of deferred tax calculations. The first component of each equals the lesser of (a) goodwill for financial reporting or (b) tax-deductible goodwill. The second component of each equals the remainder of each, that is, (1) the remainder, if any, of goodwill for financial reporting or (2) the remainder, if any, of tax-deductible goodwill. Any difference that arises between the book and tax basis of that first component of goodwill in future years is a temporary difference for which a deferred tax liability or asset is recognized based on the requirements of this Statement. No deferred taxes are recognized for the second component of goodwill. If that second component is an excess of tax-deductible goodwill over the reported amount of goodwill, the tax benefit for that excess is recognized when realized on the tax return, and that tax benefit is applied first to reduce to zero the goodwill related to that acquisition, second to reduce to zero other noncurrent intangible assets related to that acquisition, and third to reduce income tax expense.

263. The following example illustrates accounting for the tax consequences of goodwill when amortization of goodwill is deductible for tax purposes. The assumptions are as follows:
a. At the combination date, the reported amount and tax basis of goodwill are $600 and $800, respectively.
b. For tax purposes, amortization of goodwill will result in tax deductions of $400 in each of years 1 and 2. Those deductions result in a current tax benefit in years 1 and 2.
c. For financial reporting, amortization of goodwill is straight-line over years 1-4.
d. For purposes of simplification, the consequences of other temporary differences are ignored for years 1-4.
e. Income before amortization of goodwill and income taxes in each of years 1-4 is $1,000.
f. The tax rate is 40 percent for all years.

Income taxes payable for years 1-4 are:

	Year			
	1	2	3	4
Income before amortization of goodwill	$1,000	$1,000	$1,000	$1,000
Amortization of goodwill	400	400	—	—
Taxable income	$ 600	$ 600	$1,000	$1,000
Income taxes payable (40 percent)	$ 240	$ 240	$ 400	$ 400

At the combination date, goodwill is separated into two components as follows:

	Reported Amount	Tax Basis
First component	$600	$600
Second component	—	200
Total goodwill	$600	$800

A deferred tax liability is recognized at the end of years 1-3 for the excess of the reported amount over the tax basis of the first component of goodwill. A deferred tax asset is not recognized for the second component of goodwill; the tax benefit is allocated to reduce goodwill when realized on the tax returns for years 1 and 2.

The second component of goodwill is deductible $100 per year in years 1 and 2. Those tax deductions provide $40 (100 at 40 percent) of tax benefits that are realized in years 1 and 2. Allocation of those realized tax benefits to reduce the first component of goodwill produces a deferred tax benefit by reducing the taxable temporary difference related to that component of goodwill. Thus, the total tax benefit allocated to reduce the first component of goodwill in each of years 1 and 2 is the sum of (a) the $40 realized tax benefit allocated to reduce goodwill and (b) the deferred tax benefit from reducing the deferred tax liability related to goodwill. That total tax benefit (TTB) is determined as follows:

TTB = realized tax benefit plus (tax rate times TTB)
TTB = $40 + (.40 × TTB)
TTB = $67

Goodwill for financial reporting for years 1-4 is:

	Year			
	1	2	3	4
Balance at beginning of year	$600	$383	$188	$94
Amortization:				
$600 ÷ 4 years	150			
$383 ÷ 3 years		128		
$188 ÷ 2 years			94	94
Total tax benefit allocated to reduce goodwill	67	67	—	—
Balance at end of year	$383	$188	$ 94	$—

The deferred tax liability for the first component of goodwill and the related amount of deferred tax expense (benefit) for years 1-4 are:

	Year 1	Year 2	Year 3	Year 4
Reported amount of goodwill at end of year	$383	$188	$ 94	$ —
Tax basis of goodwill (first component)	300	—	—	—
Taxable temporary difference	$ 83	$188	$ 94	$ —
Deferred tax liability:				
At end of year (40 percent)	$ 33	$ 75	$ 38	$ —
At beginning of year	—	33	75	$ 38
Deferred tax expense (benefit) for the year	$ 33	$ 42	$(37)	$(38)

Income for financial reporting for years 1-4 is:

	Year 1	Year 2	Year 3	Year 4
Income before amortization of goodwill and income taxes	$1,000	$1,000	$1,000	$1,000
Amortization of goodwill	150	128	94	94
Pretax income	850	872	906	906
Income tax expense (benefit):				
Current	240	240	400	400
Deferred	33	42	(37)	(38)
Benefit applied to reduce goodwill	67	67	—	—
Income tax expense	340	349	363	362
Net income	$ 510	$ 523	$ 543	$ 544

Carryforwards—Purchase Method

264. Accounting for a business combination should reflect any provisions in the tax law that restrict the future use of either of the combining enterprises' deductible temporary differences or carryforwards to reduce taxable income or taxes payable attributable to the other enterprise subsequent to the business combination. For example, the tax law may limit the use of the acquired enterprise's deductible temporary differences and carryforwards to subsequent taxable income of the acquired enterprise in a consolidated tax return for the combined enterprise. In that circumstance, or if the acquired enterprise will file a separate tax return, the need for a valuation allowance for some portion or all of the acquired enterprise's deferred tax assets for deductible temporary differences and carryforwards is assessed based on the acquired enterprise's *separate* past and expected future results of operations.

265. The following example illustrates (a) recognition of a deferred tax asset and the related valuation allowance for acquired deductible temporary differences at the date of a nontaxable business combination and in subsequent periods when (b) the tax law limits the use of an acquired enterprise's deductible temporary differences and carryforwards to subsequent taxable income of the acquired enterprise in a consolidated tax return. The assumptions are as follows:

a. The enacted tax rate is 40 percent for all future years.

b. The purchase price is $20,000, and the assigned value of the net assets acquired is also $20,000.

c. The tax basis of the net assets acquired is $60,000. The $40,000 ($60,000 − $20,000) of deductible temporary differences at the combination date is primarily attributable to an allowance for loan losses. Provisions in the tax law limit the use of those future tax deductions to subsequent taxable income of the acquired enterprise.

d. The acquired enterprise's actual pretax results for the two preceding years and the expected results for the year of the business combination are as follows:

Year 1	$(15,000)
Year 2	(10,000)
Year 3 to the combination date	(5,000)
Expected results for the remainder of year 3	(5,000)

e. Based on assessments of all evidence available at the date of the business combination in year 3 and at the end of year 3, management concludes that a valuation allowance is needed at both dates for the entire amount of the deferred tax asset related to the acquired deductible temporary differences.

The acquired enterprise's pretax financial income and taxable income for year 3 (after the business combination) and year 4 are as follows:

	Year 3	Year 4
Pretax financial income	$15,000	$10,000
Reversals of acquired deductible temporary differences	(15,000)	(10,000)
Taxable income	$ —	$ —

At the end of year 4, the remaining balance of acquired deductible temporary differences is $15,000 ($40,000 − $25,000). The deferred tax asset is $6,000 ($15,000 at 40 percent). Based on an assessment of all available evidence at the end of year 4, management concludes that no valuation allowance is needed for that $6,000 deferred tax asset. Elimination of the $6,000 valuation allowance results in a $6,000 deferred tax benefit that is reported as a reduction of deferred income tax expense because there is no goodwill or other noncurrent intangible assets related to the acquisition. For the same reason, tax benefits realized in years 3 and 4 attributable to reversals of acquired deductible temporary differences are reported as a zero current income tax expense. The consolidated statement of earnings would include the following amounts attributable to the acquired enterprise for year 3 (after the business combination) and year 4:

	Year 3	Year 4
Pretax financial income	$15,000	$10,000
Income tax expense (benefit):		
Current	—	—
Deferred	—	(6,000)
Net income	$15,000	$16,000

266. The tax law in some tax jurisdictions may permit the future use of either of the combining enterprises' deductible temporary differences or carryforwards to reduce taxable income or taxes payable attributable to the other enterprise subsequent to the business combination. If the combined enterprise expects to file a consolidated tax return, a deferred tax asset (net of a valuation allowance, if necessary) is recognized for deductible temporary differences or carryforwards of either combining enterprise based on an assessment of the *combined* enterprise's past and expected future results of operations as of the acquisition date. This either reduces goodwill or noncurrent assets (except long-term investments in marketable securities) of the acquired enterprise or creates or increases negative goodwill.

267. The following example illustrates (a) elimination of the need for a valuation allowance for the deferred tax asset for an acquired loss carryforward based on offset against taxable temporary differences of the acquiring enterprise in a nontaxable business combination when (b) the tax law permits use of an acquired enterprise's deductible temporary differences and carryforwards to reduce taxable income or taxes payable attributable to the acquiring enterprise in a consolidated tax return. The assumptions are as follows:

a. The enacted tax rate is 40 percent for all future years.

b. The purchase price is $20,000. The tax basis of the identified net assets acquired is $5,000, and the assigned value is $12,000, that is, there are $7,000 of taxable temporary differences. The acquired enterprise also has a $16,000 operating loss carryforward, which, under the tax law, may be used by the acquiring enterprise in the consolidated tax return.

c. The acquiring enterprise has temporary differences that will result in $30,000 of net taxable amounts in future years.

d. All temporary differences of the acquired and acquiring enterprises will result in taxable amounts before the end of the acquired enterprise's loss carryforward period.

In assessing the need for a valuation allowance, future taxable income exclusive of reversing temporary differences and carryforwards (paragraph 21(b)) need not be considered because the $16,000 operating loss carryforward will offset (a) the *acquired* enterprise's $7,000 of taxable temporary differences and (b) another $9,000 of the *acquiring* enterprise's taxable temporary differences. The amounts recorded to account for the purchase transaction are as follows:

Assigned value of the identified net assets acquired	$12,000
Deferred tax liability recognized for the acquired company's taxable temporary differences ($7,000 at 40 percent)	(2,800)
Deferred tax asset recognized for the acquired loss carryforward based on offset against the acquired company's taxable temporary differences ($7,000 at 40 percent)	2,800
Deferred tax asset recognized for the acquired loss carryforward based on offset against the acquiring company's taxable temporary differences ($9,000 at 40 percent)	3,600
Goodwill	4,400
Purchase price of the acquired enterprise	$20,000

Subsequent Recognition of Carryforward Benefits—Purchase Method

268. If a valuation allowance is recognized for some portion or all of an acquired enterprise's deferred tax asset for deductible temporary differences and operating loss or tax credit carryforwards at the acquisition date, tax benefits for those items recognized in financial statements for a subsequent year(s) are:

a. First applied to reduce to zero any goodwill related to the acquisition

b. Second applied to reduce to zero other noncurrent intangible assets related to the acquisition

c. Third applied to reduce income tax expense.

Additional amounts of deductible temporary differences and operating loss or tax credit carryforwards may arise after the acquisition date and before recognition of the tax benefit of amounts existing at the acquisition date. Tax benefits are recognized in later years as follows:

a. The tax benefit of amounts existing at the acquisition date is first applied to reduce goodwill and other noncurrent intangible assets to zero. Any additional tax benefit reduces income tax expense.

b. The tax benefit of amounts arising after the acquisition date is recognized as a reduction of income tax expense.

Whether a tax benefit recognized in later years is attributable to an amount (for example, an operating loss carryforward) existing at or arising after the acquisition date is determined for financial reporting by provisions in the tax law that identify the sequence in which those amounts are utilized for tax purposes. If not determinable by provisions in the tax law, a tax benefit recognized for financial reporting is prorated between a reduction of (a) goodwill and other noncurrent intangible assets and (b) income tax expense.

269. The following example illustrates recognition of tax benefits subsequent to a business combination. The assumptions are as follows:

a. A nontaxable business combination occurs on the first day of year 1. Before considering any acquired deferred tax assets, the purchase transaction is summarized as follows:

	Assigned Value	Tax Basis
Net assets acquired	$5,000	$6,000
Excess of purchase price over the fair value of the net assets acquired*	1,500	
Purchase price	$6,500	

*There are no other noncurrent intangible assets.

b. The only difference between pretax financial income and taxable income (amortization of goodwill is disregarded for this example) for years 1-3 is a $1,000 loss for tax purposes in year 1 from disposal of the acquired identified net assets at amounts equal to their $5,000 assigned value on the acquisition date.

	Year 1	Year 2	Year 3
Pretax financial income (loss)	$(3,000)	$2,500	$1,500
Disposal of acquired identified net assets	(1,000)	—	—
Taxable income (loss) before loss carryforward	(4,000)	2,500	1,500
Loss carryforward (loss carryback not permitted)	4,000	(2,500)	(1,500)
Taxable income after loss carryforward	$ —	$ —	$ —

c. The tax rate is 40 percent for all years.

d. Based on an assessment of all available evidence, management reaches the following conclusions at the acquisition date and at the end of years 1 and 2:

(1) At the acquisition date, the portion of the $1,000 of deductible temporary differences ($6,000 − $5,000) for which it is more likely than not that a tax benefit will not be realized is $500.

(2) At the end of year 1, the portion of the $4,000 loss carryforward for which it is more likely than not that a tax benefit will not be realized is $1,750.
(3) At the end of year 2, it is more likely than not that a tax benefit will be realized for all of the remaining $1,500 of loss carryforward.

At the acquisition date, a $400 ($1,000 at 40 percent) deferred tax asset and a $200 ($500 at 40 percent) valuation allowance are recognized. The $200 net tax benefit reduces the excess of purchase price over the fair value of the net assets acquired from $1,500 to $1,300. Thus, the amount of goodwill recognized at the acquisition date is $1,300.

During year 1, the $1,000 of net deductible temporary differences at the acquisition date reverse and are part of the $4,000 loss carryforward for tax purposes at the end of year 1. An analysis of the components of that $4,000 loss carryforward follows:

	Acquired Deductions	Loss in Year 1	Total
Total loss carryforward	$1,000	$3,000	$4,000
Portion for which a tax benefit was recognized at the acquisition date	500	—	500
Remainder available for recognition of a tax benefit at the end of year 1	$ 500	$3,000	$3,500

Provisions in the tax law do not distinguish between those two components of the $3,500, and the component that is used first for tax purposes is indeterminable. However, the $500 of acquired deductions for which a tax benefit has not been recognized is one-seventh of the $3,500 total, and the $3,000 loss in year 1 is six-sevenths of the $3,500 total. The tax benefit of that $3,500 is prorated one-seventh to reduce goodwill and six-sevenths to reduce income tax expense when recognized in years 1 and 2.

At the end of year 1, a $1,600 ($4,000 at 40 percent) deferred tax asset and a $700 ($1,750 at 40 percent) valuation allowance are recognized. The tax benefit for the $700 increase in the net deferred tax asset (from $200 at the acquisition date to $900 at the end of year 1) is prorated as follows:
a. One-seventh or $100 to reduce goodwill
b. Six-sevenths or $600 to reduce tax expense.

During year 2, $1,000 ($2,500 at 40 percent) of the deferred tax asset recognized at the end of year 1 is realized. In addition, a tax benefit is recognized for the remaining $1,750 of future tax deductions by eliminating the $700 valuation allowance. That tax benefit is prorated $100 to reduce goodwill and $600 to reduce tax expense. The combined effect of the changes in the deferred tax asset and the related valuation allowance during year 2 is illustrated below:

	Deferred Tax Asset		Tax Expense
	Year 1	Year 2	or (Benefit)
Deferred tax asset	$1,600	$600	$1,000
Valuation allowance	(700)	—	(700)
	$ 900	$600	300
Portion of $700 tax benefit allocated to reduce goodwill			100
Deferred tax expense for year 2			$ 400

The $600 deferred tax asset at the end of year 2 is realized in year 3, resulting in $600 of deferred tax expense for year 3. The consolidated statement of earnings would include the following amounts attributable to the acquired enterprise:

	Year 1	Year 2	Year 3
Pretax financial income (loss)	$(3,000)	$2,500	$1,500
Net deferred tax expense (benefit)	(600)	400	600
Net income (loss)	$(2,400)	$2,100	$ 900

Carryforwards—Pooling-of-Interests Method

270. The separate financial statements of combining enterprises for prior periods are restated on a combined basis when a business combination is accounted for by the pooling-of-interests method. For restatement of periods prior to the combination date, a combining enterprise's operating loss carryforward does not offset the other enterprise's taxable income because consolidated tax returns cannot be filed for those periods. However, provisions in the tax law may permit an operating loss carryforward of either of the combining enterprises to offset combined taxable income subsequent to the combination date.

271. If the combined enterprise expects to file consolidated tax returns, a deferred tax asset is recognized for either combining enterprise's operating loss carryforward in a prior period. A valuation allowance is necessary to the extent it is more likely than not that a tax benefit will not be realized for that loss carryforward through offset of either (a) the other enterprise's deferred tax liability for taxable temporary differences that will reverse subsequent to the combination date or (b) combined taxable income subsequent to the combination date. Determined in that manner, the valuation allowance may be less than the sum of the valuation allowances in the separate financial statements of the combining enterprises prior to the combination date. That tax benefit is recognized as part of the adjustment to restate financial statements on a combined basis for prior periods. The same requirements apply to deductible temporary differences and tax credit carryforwards.

272. A taxable business combination may sometimes be accounted for by the pooling-of-interests method. The increase in the tax basis of the net assets acquired results in temporary differences. The deferred tax consequences of those temporary differences are recognized and measured the same as for other temporary differences. As of the combination date, recognizable tax benefits attributable to the increase in tax basis are allocated to contributed capital. Tax benefits attributable to the increase in tax basis that become recognizable after the combination date (that is, by elimination of a valuation allowance) are reported as a reduction of income tax expense.

Intraperiod Tax Allocation

273. If there is only one item other than continuing operations, the portion of income tax expense or benefit for the year that remains after the allocation to continuing operations is allocated to that item. If there are two or more items other than continuing operations, the amount that remains after the allocation to continuing operations is allocated among those other items in proportion to their individual effects on income tax expense or benefit for the year.

274. The following example illustrates allocation of income tax expense if there is only one item other than income from contin-

uing operations. The assumptions are as follows:
a. The enterprise's pretax financial income and taxable income are the same.
b. The enterprise's ordinary loss from continuing operations is $500.
c. The enterprise also has an extraordinary gain of $900 that is a capital gain for tax purposes.
d. The tax rate is 40 percent on ordinary income and 30 percent on capital gains. Income taxes currently payable are $120 ($400 at 30 percent).
Income tax expense is allocated between the pretax loss from operations and the extraordinary gain as follows:

Total income tax expense	$120
Tax benefit allocated to the loss from operations	(150)
Incremental tax expense allocated to the extraordinary gain	$270

The effect of the $500 loss from continuing operations was to offset an equal amount of capital gains that otherwise would be taxed at a 30 percent tax rate. Thus, $150 ($500 at 30 percent) of tax benefit is allocated to continuing operations. The $270 incremental effect of the extraordinary gain is the difference between $120 of total tax expense and the $150 tax benefit from continuing operations.

275. The following example illustrates allocation of the tax benefit of a tax credit carryforward that is recognized as a deferred tax asset in the current year. The assumptions are as follows:
a. The enterprise's pretax financial income and taxable income are the same.
b. Pretax financial income for the year comprises $300 from continuing operations and $400 from an extraordinary gain.
c. The tax rate is 40 percent. Taxes payable for the year are zero because $330 of tax credits that arose in the current year more than offset the $280 of tax otherwise payable on $700 of taxable income.
d. A $50 deferred tax asset is recognized for the $50 ($330 −$280) tax credit carryforward. Based on the weight of available evidence, management concludes that no valuation allowance is necessary.

Income tax expense or benefit is allocated between pretax income from continuing operations and the extraordinary gain as follows:

Total income tax benefit		$ (50)
Tax expense (benefit) allocated to income from continuing operations:		
Tax (before tax credits) on $300 of taxable income at 40 percent	$120	
Tax credits	(330)	(210)
Tax expense allocated to the extraordinary gain		$160

APPENDIX E

GLOSSARY

289. This appendix contains definitions of certain terms or phrases used in this Statement.

Carrybacks
Deductions or credits that cannot be utilized on the tax return during a year that may be carried back to reduce taxable income or taxes payable in a prior year. An operating loss carryback is an excess of tax deductions over gross income in a year; a tax credit carryback is the amount by which tax credits available for utilization exceed statutory limitations. Different tax jurisdictions have different rules about whether excess deductions or credits may be carried back and the length of the carryback period.

Carryforwards
Deductions or credits that cannot be utilized on the tax return during a year that may be carried forward to reduce taxable income or taxes payable in a future year. An operating loss carryforward is an excess of tax deductions over gross income in a year; a tax credit carryforward is the amount by which tax credits available for utilization exceed statutory limitations. Different tax jurisdictions have different rules about whether excess deductions or credits may be carried forward and the length of the carryforward period. The terms *carryforward, operating loss carryforward,* and *tax credit carryforward* refer to the amounts of those items, if any, reported in the tax return for the current year.

Current tax expense or benefit
The amount of income taxes paid or payable (or refundable) for a year as determined by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues for that year.

Deductible temporary difference
Temporary differences that result in deductible amounts in future years when the related asset or liability is recovered or settled, respectively. Also refer to **Temporary difference.**

Deferred tax asset
The deferred tax consequences attributable to deductible temporary differences and carryforwards. A deferred tax asset is measured using the applicable enacted tax rate and provisions of the enacted tax law. A deferred tax asset is reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Deferred tax consequences
The future effects on income taxes as measured by the applicable enacted tax rate and provisions of the enacted tax law resulting from temporary differences and carryforwards at the end of the current year.

Deferred tax expense or benefit
The change during the year in an enterprise's deferred tax liabilities and assets. For deferred tax liabilities and assets acquired in a purchase business combination during the year, it is the change since the combination date. Income tax expense or benefit for the year is allocated among continuing operations, discontinued operations, extraordinary items, and items charged or credited directly to shareholders' equity.

Deferred tax liability
The deferred tax consequences attributable to taxable temporary differences. A deferred tax liability is measured using the applicable enacted tax rate and provisions of the enacted tax law.

Event
A happening of consequence to an enterprise. The term encompasses both transactions and other events affecting an enterprise.

Gains and losses included in comprehensive income but excluded from net income
Under present practice, gains and losses included in comprehensive income but

Absent the extraordinary gain and assuming it was not the deciding factor in reaching a conclusion that a valuation allowance is not needed, the entire tax benefit of the $330 of tax credits would be allocated to continuing operations. The presence of the extraordinary gain does not change that allocation.

276. Income taxes are sometimes allocated directly to shareholders' equity. The following example illustrates the allocation of income taxes for translation adjustments under Statement 52 directly to shareholders' equity.

a. A foreign subsidiary has earnings of FC600 for year 2. Its net assets (and unremitted earnings) are FC1,000 and FC1,600 at the end of years 1 and 2, respectively.

b. The foreign currency is the functional currency. For year 2, translated amounts are as follows:

	Foreign Currency	Exchange Rate	Dollars
Unremitted earnings, beginning of year	1,000	FC1 = $1.20	1,200
Earnings for the year	600	FC1 = $1.10	660
Unremitted earnings, end of year	1,600	FC1 = $1.00	1,600

c. A $260 translation adjustment ($1,200 + $660 – $1,600) is charged to the cumulative translation adjustment account in shareholders' equity for year 2.

d. The U.S. parent expects that all of the foreign subsidiary's unremitted earnings will be remitted in the foreseeable future, and under Opinion 23, a deferred U.S. tax liability is recognized for those unremitted earnings.

e. The U.S. parent accrues the deferred tax liability at a 20 percent tax rate (that is, net of foreign tax credits, foreign tax credit carryforwards, and so forth). An analysis of the net investment in the foreign subsidiary and the related deferred tax liability for year 2 is as follows:

	Net Investment	Deferred Tax Liability
Balances, beginning of year	$1,200	$240
Earnings and related taxes	660	132
Translation adjustment and related taxes	(260)	(52)
Balances, end of year	$1,600	$320

f. For year 2, $132 of deferred taxes are charged against earnings, and $52 of deferred taxes are credited directly to the cumulative translation adjustment account in shareholders' equity.

excluded from net income include certain changes in market values of investments in marketable equity securities classified as noncurrent assets, certain changes in market values of investments in industries having specialized accounting practices for marketable securities, adjustments from recognizing certain additional pension liabilities, and foreign currency translation adjustments. Future changes to generally accepted accounting principles may change what is included in this category.

Income taxes
Domestic and foreign federal (national), state, and local (including franchise) taxes based on income.

Income taxes currently payable (refundable)
Refer to **Current tax expense or benefit.**

Income tax expense (benefit)
The sum of current tax expense (benefit) and deferred tax expense (benefit).

Nonpublic enterprise
An enterprise other than one (a) whose debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), or (b) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

Public enterprise
An enterprise (a) whose debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), or (b) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

Taxable income
The excess of taxable revenues over tax deductible expenses and exemptions for the year as defined by the governmental taxing authority.

Taxable temporary difference
Temporary differences that result in taxable amounts in future years when the related asset or liability is recovered or settled, respectively. Also refer to **Temporary difference.**

Tax consequences
The effects on income taxes—current or deferred—of an event.

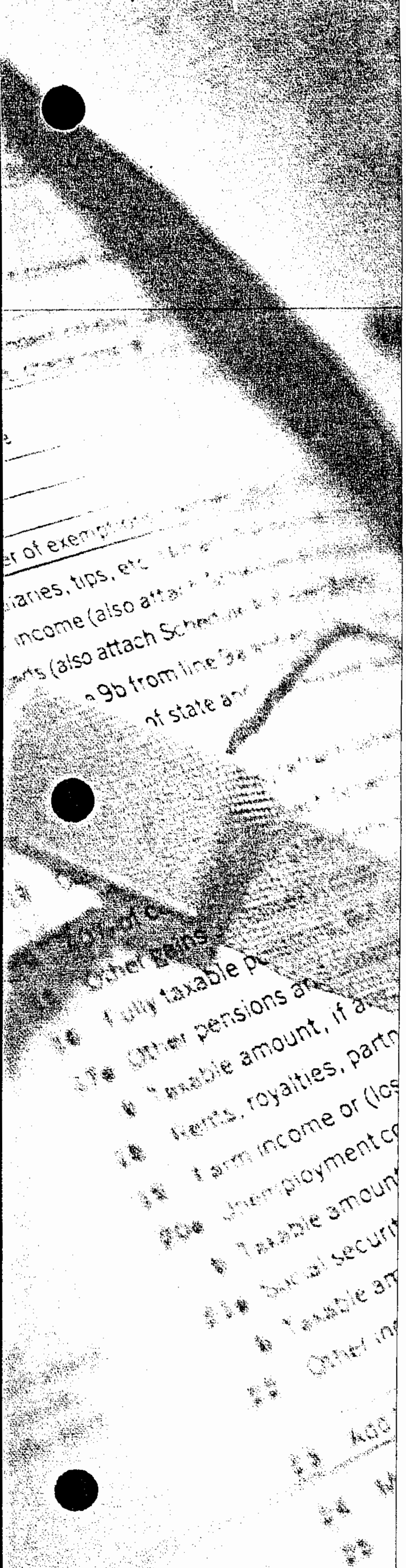
Tax-planning strategy
An action (including elections for tax purposes) that meets certain criteria (paragraph 22) and that would be implemented to realize a tax benefit for an operating loss or tax credit carryforward before it expires. Tax-planning strategies are considered when assessing the need for and amount of a valuation allowance for deferred tax assets.

Temporary difference
A difference between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. Paragraph 11 cites 8 examples of temporary differences. Some temporary differences cannot be identified with a particular asset or liability for financial reporting (paragraph 15), but those temporary differences (a) result from events that have been recognized in the financial statements and (b) will result in taxable or deductible amounts in future years based on provisions of the tax law. Some events recognized in financial statements do not have tax consequences. Certain revenues are exempt from taxation and certain expenses are not deductible. Events that do not have tax consequences do not give rise to temporary differences.

Valuation allowance
The portion of a deferred tax asset for which it is more likely than not that a tax benefit will not be realized. ■

Worksheet Model for Deferred Income Tax Accounting

By Joyce Allen, CPA, and John Surdick, Ph.D., CPA



Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, require significant disclosures for deferred tax assets and liabilities. For publicly-held companies, adequately documenting the deferred tax accruals that are reported in the financial statements is crucial for meeting auditor and regulatory expectations under the Sarbanes-Oxley Act. Even for privately-held firms that follow GAAP, there are also increasing expectations that companies will have in place enhanced internal control processes and thorough documentation that support financial statement reporting. This article will illustrate a worksheet-based model that can serve as transparent documentation for meeting the accounting requirements of SFAS No. 109.

Statement 109 Accounting Requirements

For balance sheet reporting, SFAS No. 109 requires an enterprise to separate deferred tax liabilities and assets into a current amount and a non-current amount as follows:

- The current amount of the deferred tax assets and liabilities must be netted and presented as a single amount.
- The non-current amount of the deferred tax assets and liabilities must also be netted and presented as a single amount.

In addition, the notes to the financial statements shall disclose the following deferred tax components:

- The total of all deferred tax liabilities,
- The total of all deferred tax assets and
- The total valuation allowance (if any) recognized for deferred tax assets.

SFAS 109 results in deferred tax asset and liability account balances that represent the tax effects of temporary differences between the GAAP basis and the tax basis of assets and liabilities. The GAAP basis of an asset or liability is its reported amount in the financial statements (after adjustment for any nontaxable amounts). The tax basis of an asset or liability is a function of the rules and regulations of the taxing jurisdiction(s). Temporary differences that arise between the book and tax bases of assets and liabilities result in taxable or deductible amounts in future years when the related asset is recovered or liability is settled. SFAS No. 130, Reporting Comprehensive Income, requires that components of other comprehensive income (OCI) also be reported net of related tax effects. Consequently, these OCI-related tax effects also impact the amount of deferred tax assets and liabilities reported in the balance sheet.

Deferred tax amounts are measured by using the enacted tax rates that are expected to apply to taxable income (capital gains, ordinary income, etc.) in the periods in which the deferred tax asset or liability is expected to be recovered or settled. As enacted tax rates or laws change, the balances in the deferred tax asset and liability accounts are adjusted accordingly. If it is more likely than not that a portion of the tax benefits will not be realized, a valuation allowance should be established to reduce the deferred tax asset. Two worksheets will be presented in this article to illustrate the required documentation of the deferred tax amounts to be reported in the financial statements.

Worksheet 1: Tax-basis and Book-basis Comparison

The starting point for developing the deferred income tax disclosures is to identify enterprise assets and liabilities that have a difference in their tax basis and book basis. For illustration purposes, the following five balance sheet accounts will be used:

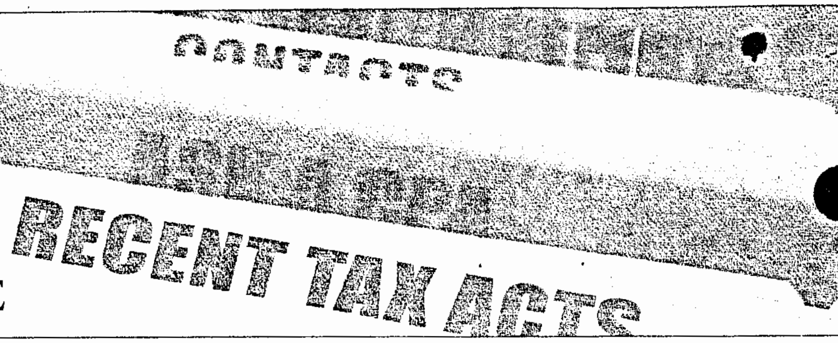
- Available-for-Sale Securities (current asset),
- Accounts Receivable (current asset),
- Property, Plant and Equipment (noncurrent asset),
- Estimated Warranty Liability (current and noncurrent liability) and
- Postretirement Benefits Other Than Pensions (noncurrent liability).

These five asset and liability accounts are assumed to have been combined with any related contra or adjunct accounts to yield a net tax basis and a net book basis. To compute the amount of the deferred tax asset and deferred tax liability, an average graduated tax rate of 35 percent was used. The five asset and liability accounts are listed in column 1 of Worksheet 1.

Available-for-Sale Securities

In Worksheet 1, the first account is available-for-sale securities, classified as a current asset (rows 3, 4 and 5). The $3.3 million net tax basis (row 5) in column 2 is the historical cost of the securities. In column 3, the $3 million net book basis of the securities was measured using the fair value requirements of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Since the book basis is less than the tax basis, a $300,000 future deductible amount has been created and displayed in column 4. Assuming a 35 percent average graduated tax rate, this will yield a $105,000 deferred tax asset (column 6).

TAX RESOURCES AVAILABLE



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TSCPA Dives Into Tax Season to Promote the Profession

As another tax season gets underway, TSCPA will be stepping up media efforts throughout the state by forming media partnerships with television stations, radio stations and newspapers to provide tax hot lines, Q&A columns and timely press releases in all of the major media markets throughout the season. However, in order for our tax season efforts to be successful, we will need your help by participating in the tax hot lines and writing the Q&A columns for local newspapers. We know this is an extremely busy time for all of our tax CPAs, but it's also one of the best opportunities all yea[r] for promoting all the profession can offer to the public. If you are interested in volunteering, or if you have any questions, please contact the TSCPA Communications Department at 1-800/762-0272. ■

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For more in depth information on these topics and much more, visit our online Tax Resource Cen[ter] at *www.tscpa.com/publicinfo/taxinformation.aspx*.

Worksheet 1

Asset and Liability Accounts	Tax Basis 12/31/07	Book Basis 12/31/07	Future Deductible (Taxable) Amount	Tax Rate	Deferred Tax Asset (Liability) 12/31/07
Current Assets					
Available-for-Sale Securities	$3,300,000	$3,300,000			
Fair Value Adjustment	$0	($300,000)			
Securities at Fair Value (Net)	$3,300,000	$3,000,000	$300,000	35%	$105,000
Accounts Receivable	$9,000,000	$9,000,000			
Less: Allowance for Doubtful Accounts	$0	($200,000)			
Accounts Receivable (Net)	$9,000,000	$8,800,000	$200,000	35%	$70,000
Noncurrent Assets					
Property, Plant, and Equipment	$120,000,000	$120,000,000			
Less: Accumulated Depreciation	$55,000,000	($30,000,000)			
Property, Plant, and Equipment (Net)	$65,000,000	$90,000,000	($25,000,000)	35%	($8,750,000)
Current Liabilities					
Estimated Warranty Liability	$0	$1,000,000	$1,000,000	35%	$350,000
Noncurrent Liabilities					
Estimated Warranty Liability	$0	$4,000,000	$4,000,000	35%	$1,400,000
Postretirement Benefits Other Than Pensions	$0	$7,000,000	$7,000,000	35%	$2,450,000

Accounts Receivable

The second current asset from Worksheet 1 is accounts receivable (rows 6 and 8). For the amount presented in column 2 (row 8), it was assumed that the enterprise used the direct write-off method when determining the $9 million tax basis of the receivables. The $8.8 million book basis (column 3) is the net realizable value computed using the allowance method. Because the book basis is less than the tax basis, this results in a $200,000 future deductible amount (column 4) and a deferred tax asset of $70,000 (column 6).

Property, Plant and Equipment

The third account is a non-current asset – property, plant and equipment (rows 10, 11 and 12). The $65 million net tax basis (column 2 of row 12) was computed using the Modified Accelerated Cost Recovery System (MACRS) and the $90 million net book basis of the equipment (column 3) was computed using straight-line depreciation. Since the book basis exceeds the tax basis, a $25 million future taxable amount (column 4) has been created which yields a deferred tax liability of $8.75 million as reported in column 6.

Estimated Warranty Liability

The estimated warranty liability account has a portion that is classified as a current liability (row 14) and the remainder is classified as a non-current liability (row 16). The tax basis for both the current and non-current portions of the estimated warranty liability is assumed to be zero (column 2) based on non-accrual of warranty obligations under tax regulations. For tax purposes, only current period actual warranty expenditures are deductible. The book basis in both cases was measured using the accrual basis of accounting. Since the $1million book basis of the current liability portion (row 14, column 3) exceeds the tax basis of zero, a $1 million future deductible amount has been created (column 4), generating a deferred tax asset of $350,000 (column 6). Likewise, the $4 million book basis of the non-current liability portion (row 16, column 3) yielded a $4 million future deductible amount (column 4), resulting in a deferred tax asset of $1.4 million (column 6).

Postretirement Benefits Other Than Pensions

The final account (row 17) listed in Worksheet 1 is a non-current liability, postretirement benefits other than pensions (OPEB). Tax regulations do not permit accrual of OPEB costs but require that deductions be based only on actual funding during the period. Therefore, the tax basis is zero (column 2). The $7 million book basis (column 3) was accrued using the guidance of SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. Since the book basis of the liability exceeds the tax basis, a $7 million future deductible amount has been created (column 4), yielding a deferred tax asset of $2.45 million (column 6).

Worksheet 2: Deferred Tax Accounts

Column 6 of Worksheet 1 lists the six deferred tax asset or liability account balances that were created as of Dec. 31, 2007. These six deferred tax account balances must now be appropriately classified, combined and netted in order to satisfy the disclosure and financial statement presentation requirements of SFAS No. 109. To document these financial statement disclosures, a deferred tax disclosure model was developed and is presented as Worksheet 2.

The four deferred tax account categories specified by SFAS No. 109 and their location in Worksheet 2 are:

- Current Deferred Tax Assets, Row 2
- Deferred Tax Liabilities, Row 7
- Non-Current Deferred Tax Assets, Row 12
- Non-Current Deferred Tax Liabilities, Row 17

These four categories are displayed in column 1 of Worksheet 2. Column 2 of Worksheet 2 contains the deferred tax account balances at Dec. 31, 2007 that were transferred from column 6 of Worksheet 1.

When transferring the deferred tax account ending balances from Worksheet 1 (column 6) to Worksheet 2 (column 2), a two-step process must take place. First, if the dollar amount is not in parentheses, it is categorized as a deferred tax asset account. On the other hand, if there are parentheses around the dollar amount, it will be categorized as a deferred tax liability account. Second, for each deferred tax asset and liability listed in column F of Worksheet 1, the classification of the balance sheet account in column 1 must be noted. If the account was a current asset or liability, then the resulting deferred tax account will be classified as current. Alternatively, if the account was a non-current asset or liability, the deferred tax account will likewise be classified as non-current. Column 3 of Worksheet 2 contains the assumed deferred tax account balances at Dec. 31, 2006 that were carried forward from last year's worksheet.

continued on page 22

continued from page 21

Worksheet 2

Deferred Tax Accounts	Deferred Tax Account Balances at 12/31/07	Deferred Tax Account Balances at 12/31/06	Debit or (Credit) Change in Deferred Tax Accounts	Debit or (Credit) to Income Tax Expense-- Deferred	Debit or (Credit) to Other Comprehensive Income
Current Deferred Tax Assets					
Securities at Fair Value (Net)	$105,000	$0	$105,000		($105,000)
Accounts Receivable (Net)	$70,000	$65,000	$5,000	($5,000)	
Estimated Warranty Liability	$350,000	$310,000	$40,000	($40,000)	
Total Current Deferred Tax Assets	$525,000	$375,000			
Current Deferred Tax Liabilities					
Securities at Fair Value (Net)	$0	($37,000)	$37,000		($37,000)
Total Current Deferred Tax Liabilities	$0	($37,000)			
Net Current Deferred Tax Assets (Liabilities)	$525,000	$338,000			
Noncurrent Deferred Tax Assets					
Estimated Warranty Liability	$1,400,000	$1,220,000	$180,000	($180,000)	
Postretirement Benefits Other Than Pensions'	$2,450,000	$2,880,000	($430,000)	$430,000	
Less: Valuation Allowance	($750,000)	($800,000)	$50,000	($50,000)	
Total Noncurrent Deferred Tax Assets	$3,100,000	$3,300,000			
Noncurrent Deferred Tax Liabilities					
Property, Plant, and Equipment (Net)	($8,750,000)	($7,350,000)	($1,400,000)	$1,400,000	______
Total Noncurrent Deferred Tax Liabilities	($8,750,000)	($7,350,000)			
Net Noncurrent Deferred Tax Assets (Liabilities)	($5,650,000)	($4,050,000)			
Total Deferred Tax Assets	$3,625,000	$3,675,000			
Total Deferred Tax Liabilities	($8,750,000)	($7,387,000)			
Total Net Deferred Tax Assets (Liabilities)	($5,125,000)	($3,712,000)	($1,413,000)	$1,555,000	($142,000)

Tax Accrual Journal Entry

Based on the documentation developed in the worksheets, the data needed for preparing the tax accrual journal entry can be readily found in columns 4, 5 and 6 of Worksheet 2. This worksheet provides the detailed documentation to support the preparation of the tax accrual journal entry that is needed for financial reporting disclosure of deferred taxes and related elements of comprehensive income. Column 4 represents the change in the deferred tax accounts which is determined by subtracting column 3 from column B. If the amount in column 4 is not in parentheses, it will result in a debit to a deferred tax account and a corresponding credit to either Income Tax Expense – Deferred (column 5) or Other Comprehensive Income (column 6). On the other hand, if the amount in column D is in parentheses, it will result in a credit to a deferred tax account and a corresponding debit to either Income Tax Expense – Deferred (column 5) or Other Comprehensive Income (column 6). Row 24 of Worksheet 2 displays the aggregate amounts that will be used in the tax accrual journal entry and would appear as follows:

- Income Tax Expense - Deferred (column 5) $1,555,000
- Deferred Tax Liability (column 4) $1,413,000
- Other Comprehensive Income (column 5) $142,000

The presentation in Worksheet 2 is generalizable to a variety of accounting information system designs. Consequently, for those accountants that prefer not to prepare one aggregate journal entry, appropriate deferred tax journal entries can be generated that correspond to any level of detail that is found in the general ledger chart of accounts.

The choice between debiting or crediting Income Tax Expense – Deferred or Other Comprehensive Income depends on the guidance contained in FASB statements and other authoritative literature comprising generally accepted accounting principles. For the examples presented in this article, it was presumed that any uncertain tax positions have met the "more likely than not" recognition criteria specified by FASB Interpretation No. 48 and will be sustained upon examination.

Summary

SFAS No. 109 requires significant disclosures in the financial statements related to the reporting of deferred income taxes. This article illustrated a worksheet model that can serve as detailed documentation to support transparent disclosure of deferred tax assets and liabilities. In addition, the data developed in the worksheets easily facilitates the preparation of the tax accrual journal entry.

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Statement of Financial Accounting Standards No. 71

FAS71 Status Page
FAS71 Summary

Accounting for the Effects of Certain Types of Regulation

December 1982

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

Statement of Financial Accounting Standards No. 71

Accounting for the Effects of Certain Types of Regulation

December 1982

CONTENTS

FAS 71: Accounting for the Effects of Certain Types of Regulation

FAS 71 Summary

This Statement provides guidance in preparing general purpose financial statements for most public utilities. Certain other companies with regulated operations that meet specified criteria are also covered.

In general, the type of regulation covered by this Statement permits rates (prices) to be set at levels intended to recover the estimated costs of providing regulated services or products, including the cost of capital (interest costs and a provision for earnings on shareholders' investments).

For a number of reasons, revenues intended to cover some costs are provided either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, this Statement requires companies to capitalize those costs. If current recovery is provided for costs that are expected to be incurred in the future, this Statement requires companies to recognize those current receipts as liabilities.

This Statement also requires recognition, as costs of assets and increases in net income, of two types of allowable costs that include amounts not usually accepted as costs in the present accounting framework for nonregulated enterprises, as follows:

- If rates are based on allowable costs that include an allowance for the cost of funds used during construction (consisting of an equity component and a debt component), the company should capitalize and increase net income by the amount used for rate-making purposes—instead of capitalizing interest in accordance with FASB Statement No. 34, *Capitalization of Interest Cost.*
- If rates are based on allowable costs that include reasonable intercompany profits, the company should not eliminate those intercompany profits in its financial statements.

Pending completion of the Board's current project on accounting for income taxes, this Statement continues current practices of most utilities with respect to accounting for deferred income taxes. Accordingly, if the current income tax benefits (or costs) of timing differences are passed through to customers in current prices and it is probable that any resulting income taxes payable in future years will be recovered through future rates, the company should not record deferred income taxes resulting from those timing differences. However, the company should disclose the cumulative net amounts of timing differences for which deferred taxes have not been recorded.

This Statement may require that a cost be accounted for in a different manner from that required by another authoritative pronouncement. In that case, this Statement is to be followed because it reflects the economic effects of the rate-making process—effects not considered in other authoritative pronouncements. All other provisions of that other authoritative pronouncement apply to the regulated enterprise.

This Statement clarifies the application of certain other authoritative pronouncements, which is expected to result in at least two changes in general-purpose financial statements of certain public utilities. First, expected refunds of revenue collected in prior years will be charged to income in the period in which those refunds are first recognized. Second, leases will be classified (as capital or operating leases) in accordance with FASB Statement No. 13, *Accounting for Leases,* as amended. Because Statement 13 has not been applied by some utilities in the past, this Statement provides a four-year transition period before retroactive application of lease capitalization is required. Statement 13 provided a similar transition period for unregulated enterprises.

INTRODUCTION

1. Regulation of an enterprise's prices (hereinafter referred to as *rates*) is sometimes based on the enterprise's costs. Regulators use a variety of mechanisms to estimate a regulated enterprise's allowable costs,[1] and they allow the enterprise to charge rates that are intended to produce revenue approximately equal to those allowable costs. Specific costs that are allowable for rate-making purposes result in revenue approximately equal to the costs.

2. In most cases, allowable costs are used as a means of estimating costs of the period during which the rates will be in effect, and there is no intent to permit recovery of specific prior costs. The process is a way of setting prices—the results of the process are reported in general-purpose financial statements in accordance with the same accounting principles that are used by unregulated enterprises.

3. Regulators sometimes include costs in allowable costs in a period other than the period in which the costs would be charged to expense by an unregulated enterprise. That procedure can create assets (future cash inflows that will result from the rate-making process), reduce assets (reductions of future cash inflows that will result from the rate-making process), or create liabilities (future cash outflows that will result from the rate-making process) for the regulated enterprise. For general-purpose financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract.

4. Accounting requirements that are not directly related to the economic effects of rate actions may be imposed on regulated businesses by orders of regulatory authorities and occasionally by court decisions or statutes. This does not necessarily mean that those accounting requirements conform with generally accepted accounting principles. For example, a regulatory authority may order an enterprise to capitalize[2] and amortize a cost that would be charged to income currently by an unregulated enterprise. Unless capitalization of that cost is appropriate under this Statement, generally accepted accounting principles require the regulated enterprise to charge the cost to income currently.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

5. This Statement applies to general-purpose external financial statements of an enterprise that has regulated operations that meet all of the following criteria:

a. The enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.[3]
b. The regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products.
c. In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

6. If some of an enterprise's operations are regulated and meet the criteria of paragraph 5, this Statement shall be applied to only that portion of the enterprise's operations.

7. Authoritative accounting pronouncements that apply to enterprises in general also apply to regulated enterprises. However, enterprises subject to this Statement shall apply it instead of any conflicting provisions of standards in other authoritative pronouncements.[4]

8. This Statement does not apply to accounting for price controls that are imposed by governmental action in times of emergency, high inflation, or other unusual conditions. Nor does it cover accounting for contracts in general. However, if the terms of a contract between an enterprise and its customer are subject to regulation and the criteria of paragraph 5 are met with

respect to that contract, this Statement shall apply.

General Standards of Accounting for the Effects of Regulation

9. Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise shall capitalize all or part of an incurred cost [5] that would otherwise be charged to expense if both of the following criteria are met:

a. It is probable [6] that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

10. Rate actions of a regulator can reduce or eliminate the value of an asset. If a regulator excludes all or part of a cost from allowable costs and it is not probable that the cost will be included as an allowable cost in a future period, the cost cannot be expected to result in future revenue through the rate-making process. Accordingly, the carrying amount of any related asset shall be reduced to the extent that the asset has been impaired. Whether the asset has been impaired shall be judged the same as for enterprises in general.

11. Rate actions of a regulator can impose a liability on a regulated enterprise. Such liabilities are usually obligations to the enterprise's customers. The following are the usual ways in which liabilities can be imposed and the resulting accounting:

a. A regulator may require refunds to customers.[7] Refunds that meet the criteria of paragraph 8 (accrual of loss contingencies) of FASB Statement No. 5, *Accounting for Contingencies*, shall be recorded as liabilities and as reductions of revenue or as expenses of the regulated enterprise.
b. A regulator can provide current rates intended to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred future rates will be reduced by corresponding amounts. If current rates are intended to recover such costs and the regulator requires the enterprise to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose,[8] the enterprise shall not recognize as revenues amounts charged pursuant to such rates. Those amounts shall be recognized as liabilities and taken to income only when the associated costs are incurred.
c. A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods. That would be accomplished, for rate-making purposes, by

amortizing the gain or other reduction of net allowable costs over those future periods and reducing rates to reduce revenues in approximately the amount of the amortization. If a gain or other reduction of net allowable costs is to be amortized over future periods for rate-making purposes, the regulated enterprise shall not recognize that gain or other reduction of net allowable costs in income of the current period. Instead, it shall record it as a liability for future reductions of charges to customers that are expected to result.

12. Actions of a regulator can eliminate a liability only if the liability was imposed by actions of the regulator.

13. Appendix B illustrates the application of the general standards of accounting for the effects of regulation.

Specific Standards Derived from the General Standards

14. The following specific standards are derived from the general standards in paragraphs 9-12. The specific standards shall not be used as guidance for other applications of those general standards.

Allowance for Funds Used during Construction

15. In some cases, a regulator requires an enterprise subject to its authority to capitalize, as part of the cost of plant and equipment, the cost of financing construction as financed partially by borrowings and partially by equity. A computed interest cost and a designated cost of equity funds are capitalized, and net income for the current period is increased by a corresponding amount. After the construction is completed, the resulting capitalized cost is the basis for depreciation and unrecovered investment for rate-making purposes. In such cases, the amounts capitalized for rate-making purposes as part of the cost of acquiring the assets shall be capitalized for financial reporting purposes instead of the amount of interest that would be capitalized in accordance with FASB Statement No. 34, *Capitalization of Interest Cost.*[9] The income statement shall include an item of other income, a reduction of interest expense, or both, in a manner that indicates the basis for the amount capitalized.

Intercompany Profit [10]

16. Profit on sales to regulated affiliates shall not be eliminated in general-purpose financial statements [11] if both of the following criteria are met:

a. The sales price is reasonable.
b. It is probable that, through the rate-making process, future revenue approximately equal to the sales price will result from the regulated affiliate's use of the products.

17. The sales price usually shall be considered reasonable if the price is accepted or not challenged by the regulator that governs the regulated affiliate. Otherwise, reasonableness shall

be considered in light of the circumstances. For example, reasonableness might be judged by the return on investment earned by the manufacturing or construction operations or by a comparison of the transfer prices with prices available from other sources.

Other Specific Standards

Accounting for Income Taxes

18. Items of revenue and expense are sometimes taxable or deductible in periods other than the periods in which those items are recognized for financial reporting purposes. In some cases, a regulator does not include the income tax effect of certain transactions in allowable costs in the period in which the transactions are reported but includes income taxes related to those transactions in allowable costs in the period in which the taxes become payable. In such cases, if it is probable that income taxes payable in future years because of net reversal of timing differences will be recovered through rates based on taxes payable at that time, the enterprise shall record neither the deferred income taxes [12] that result from those timing differences nor the related asset (the probable future benefits that will result from payment of the taxes). However, the enterprise shall disclose the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided. That disclosure supplements the requirements of paragraph 63 of Opinion 11 for disclosure of operating loss carryforwards, significant amounts of other unused deductions or credits, and reasons for significant variations in the customary relationships between income tax expense and pretax accounting income. Except as provided in this paragraph, regulated enterprises shall apply the requirements of Opinion 11.

Other Disclosure

19. For refunds that are recognized in a period other than the period in which the related revenue was recognized and that have a material effect on net income, the enterprise shall disclose the effect on net income and indicate the years in which the related revenue was recognized. Such effect may be disclosed by including it, net of related income taxes, as a line item in the income statement. However, that item shall not be presented as an extraordinary item.

20. In some cases, a regulator may permit an enterprise to include a cost that would be charged to expense by an unregulated enterprise as an allowable cost over a period of time by amortizing that cost for rate-making purposes, but the regulator does not include the unrecovered amount in the rate base. That procedure does not provide a return on investment during the recovery period. If recovery of such major costs is provided without a return on investment during the recovery period, the enterprise shall disclose the remaining amounts of such assets and the remaining recovery period applicable to them.

Amendments to Existing Pronouncements

21. Appendix A lists the amendments to existing pronouncements that result from this Statement.

Effective Date and Transition

22. This Statement shall be effective for fiscal years beginning after December 15, 1983. Earlier application is encouraged. Accounting changes adopted to conform to the provisions of this Statement shall be applied retroactively, except that:

a. Previously issued financial statements shall not be restated for changes in accounting for refunds.
b. Leases for which the inception [13] is after December 31, 1982 shall be classified in accordance with FASB Statement No. 13, *Accounting for Leases,* in financial statements commencing with initial application of this Statement. Leases for which the inception of the lease is before January 1, 1983 may be classified as they would have been classified before this Statement was issued until fiscal years beginning after December 15, 1986. Commencing no later than the first fiscal year beginning after December 15, 1986, those leases shall be retroactively classified in accordance with Statement 13 as amended.

23. If leases are not retroactively classified in accordance with Statement 13 in financial statements for fiscal years beginning after December 15, 1983 and before December 15, 1986 as permitted by paragraph 22(b), lessees shall disclose the amounts of additional capitalized leased assets and lease obligations that would be included in each balance sheet presented if Statement 13 had been applied retroactively.

24. In the year that this Statement is first applied, the financial statements shall disclose the nature of any restatement and its effect on income before extraordinary items, net income, and related per-share amounts [14] for each year restated. If retroactive restatement of all years presented is not practicable, the financial statements shall be restated for as many consecutive years as is practicable, and the cumulative effect of applying this Statement shall be included in determining net income of the earliest year restated (not necessarily the earliest year presented). If it is not practicable to restate any prior year, the cumulative effect shall be included in net income in the year in which this Statement is first applied. (See paragraph 20 of APB Opinion No. 20, *Accounting Changes.*) The effect on income before extraordinary items, net income, and related per-share amounts [15] of applying this Statement in a year in which the cumulative effect is included in determining that year's net income shall be disclosed for that year.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of four members of the Financial Accounting Standards Board. Messrs. Block, Kirk, and Sprouse dissented.

Mr. Block dissents to the issuance of this Statement. He believes that the regulatory environment as it exists today does not provide the necessary assurance of realization of future revenues to justify the standards in this Statement.

In his opinion, the creation of an asset by a regulator requires, at a minimum, an exclusive franchise to deliver goods and services for which demand is insensitive to price. This means that the goods and services must be necessities and that no alternative goods and services exist as competition. Further, the creation of long-lived assets requires assurance that the regulatory environment will remain unchanged for long periods. The nature of assets created by a regulator (future amounts receivable from customers) would appear to require assurance that the customers will exist, the goods and services will be delivered to customers, and the customers will pay the decreed rates. Mr. Block does not believe that rate regulators can provide such assurances in the industries to which this Statement is likely to be applied. Because of those beliefs, Mr. Block concludes that the rate-making process should have no bearing on principles for cost capitalization and loss recognition. Those principles should be the same for rate-regulated enterprises as they are for unregulated enterprises.

Mr. Block further believes that the assets created by regulation under this Statement are merely future accounts receivable for future sales. While he is opposed to recognizing such receivables, he notes that APB Opinion No. 21, *Interest on Receivables and Payables,* requires discounting of long-term receivables on which there is no stated interest rate or the stated rate is unreasonable. Thus, in his view, if such receivables are to be recognized, discounting at market rates of return should be required.

Mr. Kirk dissents to the issuance of this Statement because he believes the immediate increases in income resulting from the capitalization of costs imputed for equity funds used during construction (paragraph 15) and intercompany profit (paragraphs 16 and 17) are not valid reflections of the economics of rate regulation or in accordance with other generally accepted accounting principles. Unlike other allowable costs, imputed costs have not been incurred. In Mr. Kirk's opinion, even if capitalization is deemed appropriate for financial reporting purposes, income should not be recognized. The income related to allowable but imputed costs should be recognized when the rates covering the costs are charged to customers, not before.

Mr. Sprouse dissents primarily because he does not agree with the thrust of paragraph 11 related to liabilities. He agrees that a regulator can impose a liability on a regulated enterprise by requiring the enterprise to make refunds to its customers (paragraph 11(a)). In his opinion, however, "refunds" involve reductions in existing assets—either cash settlements or lump-sum deductions from the amounts due from customers. Reductions in future rates do not "refund" anything and, therefore, do not create a liability. Indeed, reductions in future rates do not obligate a regulated enterprise to transfer assets or use them in any way that would not be required in the absence of those reductions. Of course, a sufficiently severe reduction in future rates might trigger the need to recognize impairment of assets.

In Mr. Sprouse's view, paragraph 11(b) tends to confuse the use of a formula that a regulator might properly use to set reasonably stable rates with real, often sporadic, economic events, the effects of which should be recognized in financial statements if and when they have actually occurred. In setting rates, a regulator may include a "provision for noninsurance" among the allowable costs, but that does not create a present obligation to repair unusual storm damage that has not yet occurred (paragraphs 11(b), 38, and 39). If over a period of time the amounts of uninsured losses are sufficiently less than the "provisions for noninsurance" included in allowable costs, the regulator may reduce or eliminate future allowed provisions and reduce rates accordingly. As explained in the previous paragraph, however, possible future rate reductions do not create a liability. The possibility that sometime in the future the regulator might require cash refunds to customers to reduce or eliminate the cumulative "provision for noninsurance" is too remote to be recognized as a liability.

Similarly, in a formula designed to maintain reasonably stable rates, a regulatory agency may wish to spread a gain on early extinguishment of debt over some arbitrary period, but that does not create a present obligation for the regulated enterprise to transfer assets or to use them in any way that would not be required in the absence of such a gain (paragraphs 11(c) and 35-37).

Mr. Sprouse does agree that, to the extent that there is adequate evidence that the rates set by a regulator will cause a specific cost or other amount to be recovered through future incremental revenues, the regulated enterprise has an asset or asset enhancement (a quasi-receivable) that is properly measured by that incurred cost or other amount. Accordingly, he agrees that those circumstances may call for capitalizing (a) unusual storm losses, property abandonments, plant conversions, and similar costs that have occurred (paragraph 9); (b) an imputed cost of equity funds (paragraph 15); and (c) intercompany profits included in transfer prices to affiliates (paragraphs 16 and 17).

Messrs. Kirk and Sprouse also dissent because they believe the amendment to APB Opinion 30 in paragraph 19 of this Statement that suggests that refunds be reported in income net of taxes but not as extraordinary items is unrelated to the economics of rate regulation and therefore inappropriate. They see no reason why a potentially recurring charge to income should be singled out from all other recurring or even unusual items for this special treatment.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
John W. March
Robert A. Morgan
David Mosso
Robert T. Sprouse
Ralph E. Walters

Appendix A: AMENDMENTS TO EXISTING PRONOUNCEMENTS

25. This Statement supersedes the Addendum, *Accounting Principles for Regulated Industries,* to APB Opinion 2.

26. Paragraph 7 provides for this Statement to be applied by enterprises that are subject to it instead of conflicting provisions of other authoritative pronouncements. The Board sees no need for references to this Statement in either existing pronouncements or future authoritative pronouncements. That conclusion requires the following amendments to existing pronouncements:

a. ARB No. 44 (Revised), *Declining-Balance Depreciation,* as amended by APB Opinion No. 6, *Status of Accounting Research Bulletins.* Delete paragraphs 8 and 9.
b. ARB 51. Delete the last sentence of paragraph 6.
c. APB Opinion No. 1, *New Depreciation Guidelines and Rules.* Delete paragraph 7.
d. APB Opinion No. 2, *Accounting for the "Investment Credit."* Delete paragraph 17.
e. APB Opinion 11. In the second sentence of paragraph 6, delete the words "(a) to regulated industries in those circumstances where the standards described in the Addendum (which remains in effect) to APB Opinion No. 2 are met and (b)."
f. APB Opinion No. 16, *Business Combinations.* Delete paragraph 6.
g. APB Opinion No. 17, *Intangible Assets.* Delete paragraph 7.
h. APB Opinion 20. Delete the last two sentences of paragraph 3.
i. APB Opinion No. 23, *Accounting for Income Taxes—Special Areas.* Delete paragraph 4.
j. APB Opinion No. 24, *Accounting for Income Taxes.* Delete paragraph 3.
k. APB Opinion No. 26, *Early Extinguishment of Debt.* Delete the last sentence of paragraph 2.
l. APB Opinion No. 29, *Accounting for Nonmonetary Transactions.* In the first sentence following subparagraph 4(d), delete the words "applies to regulated companies in accordance with the Addendum to APB Opinion No. 2, *Accounting for the Investment Credit,* 1962 and it."
m. FASB Statement No. 2, *Accounting for Research and Development Costs.* Delete paragraph 14.
n. FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt.* Delete paragraph 7.
o. FASB Statement 5. Delete paragraph 13.
p. FASB Statement No. 7, *Accounting and Reporting by Development Stage Enterprises.* Delete the second sentence of paragraph 5.
q. FASB Statement 13. Delete paragraph 3.
r. FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings.* Delete paragraph 9.

s. FASB Statement No. 16, *Prior Period Adjustments*. Delete paragraph 9.

t. FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. Delete paragraph 9.

u. FASB Statement No. 22, *Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt*. Delete paragraph 11.

v. FASB Statement 34. Delete paragraph 5.

w. FASB Statement No. 43, *Accounting for Compensated Absences*. Delete paragraph 3.

x. FASB Statement No. 49, *Accounting for Product Financing Arrangements*. Delete paragraph 7.

y. FASB Statement No. 51, *Financial Reporting by Cable Television Companies*. Delete paragraph 2.

z. FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*. Delete paragraph 4.

aa. FASB Interpretation No. 22, *Applicability of Indefinite Reversal Criteria to Timing Differences*. Delete paragraph 8.

bb. FASB Interpretation No. 25, *Accounting for an Unused Investment Tax Credit*. Delete paragraph 9.

Appendix B: APPLICATION OF GENERAL STANDARDS TO SPECIFIC SITUATIONS

27. This appendix provides guidance for application of this Statement to some specific situations. The guidance does not address all possible applications of this Statement. All of the examples assume that the enterprise meets the criteria in paragraph 5 of this Statement; thus, recovery of any cost is probable if that cost is designated for future recovery by the regulator. The examples also assume that the items addressed are material. The provisions of this Statement need not be applied to immaterial items.

28. Specific situations discussed in this appendix are:

	Paragraph Numbers
Intangible assets	29–30
Accounting changes	31–32
Recovery of costs without return on investment	33–34
Early extinguishment of debt	35–37
Accounting for contingencies	38–39
Accounting for leases	40–43
Revenue collected subject to refund	44–45
Refunds to customers	46–47
Accounting for compensated absences	48–49

Intangible Assets

29. Opinion 17 requires that the cost of an intangible asset acquired after October 30, 1970 be amortized over the shorter of its estimated useful life or 40 years. That Opinion also requires that a company continually evaluate the period of amortization to determine whether later events and circumstances warrant a revised estimate of the useful life and whether the unamortized cost should be reduced significantly by a charge to income. For rate-making purposes, a regulator may permit an enterprise to amortize purchased goodwill over a specified period. In other cases, a regulator may direct an enterprise not to amortize goodwill acquired in a business combination after October 30, 1970 or to write off that goodwill.

30. If the regulator permits the goodwill to be amortized over a specific time period as an allowable cost for rate-making purposes, the regulator's action provides reasonable assurance of the existence of an asset (paragraph 9). The goodwill would then be amortized for financial reporting purposes over the period during which it will be allowed for rate-making purposes. If the regulator excludes amortization of goodwill from allowable costs for rate-making purposes, either by not permitting amortization or by directing the enterprise to write off the goodwill, the value of the goodwill may be reduced or eliminated (paragraph 10). If there is no indication that the amortization will be allowed in a subsequent period, the goodwill would be amortized for financial reporting purposes and continually evaluated to determine whether the unamortized cost should be reduced significantly by a charge to income in accordance with Opinion 17.

Accounting Changes

31. Opinion 20 defines various types of accounting changes and establishes guidelines for reporting each type. Other authoritative pronouncements specify the manner of reporting initial application of those pronouncements.

32. If a regulated enterprise changes accounting methods and the change does not affect costs that are allowable for rate-making purposes, the regulated enterprise would apply the change in the same manner as would an unregulated enterprise. Capitalization of leases with no income statement effect (paragraphs 40-43) is an example of that type of change. If a regulated enterprise changes accounting methods and the change affects allowable costs for rate-making purposes, the change generally would be implemented in the way that it is implemented for regulatory purposes. A change in the method of accounting for research and development costs, either from a policy of capitalization and amortization to one of charging those costs to expense as incurred or vice versa, is an example of that type of change.

Recovery of Costs without Return on Investment

33. In some cases, a regulator may approve rates that are intended to recover an incurred cost over an extended period without a return on the unrecovered cost during the recovery period.

34. The regulator's action provides reasonable assurance of the existence of an asset (paragraph 9). Accordingly, the regulated enterprise would capitalize the cost and amortize it over the period during which it will be allowed for rate-making purposes. That cost would not be recorded at discounted present value. If the amounts are material, the disclosures specified in paragraph 20 of this Statement would be furnished.

Early Extinguishment of Debt

35. Opinion 26 requires recognition in income of a gain or loss on an early extinguishment of debt in the period in which the debt is extinguished. For rate-making purposes, the difference between the enterprise's net carrying amount of the extinguished debt and the reacquisition price may be amortized as an adjustment of interest expense over some future period.

36. If the debt is reacquired for an amount in excess of the enterprise's net carrying amount, the regulator's decision to increase future rates by amortizing the difference for rate-making purposes provides reasonable assurance of the existence of an asset (paragraph 9). Accordingly, the regulated enterprise would capitalize the excess cost and amortize it over the period during which it will be allowed for rate-making purposes.

37. If the debt is reacquired for an amount that is less than the enterprise's net carrying amount, the regulator's decision to reduce future rates by amortizing the difference for rate-making purposes imposes a liability on the regulated enterprise (paragraph 11(c)). Accordingly, the enterprise would record the difference as a liability and amortize it over the period during which permitted rates will be reduced.

Accounting for Contingencies

38. Statement 5 specifies criteria for recording estimated losses from loss contingencies. A regulator may direct a regulated enterprise to include an amount for a contingency in allowable costs for rate-making purposes even though the amount does not meet the criteria of Statement 5 for recording. For example, a regulator may direct a regulated enterprise to include an amount for repairs of expected future uninsured storm damage.

39. If the regulator requires the enterprise to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose, the resulting increased charges to customers create a liability (paragraph 11(b)). If a cost to repair storm damage is not subsequently incurred, the increased charges will have to be refunded to customers through

future rate reductions. Accordingly, the regulated enterprise would recognize the amounts charged pursuant to such rates as liabilities rather than as revenues. If a cost to repair storm damage is subsequently incurred, the enterprise would charge that cost to expense and reduce the liabilities at that time by recognizing income in amounts equal to the cost.

Accounting for Leases

40. Statement 13, as amended, specifies criteria for classification of leases and the method of accounting for each type of lease. For rate-making purposes, a lease may be treated as an operating lease even though the lease would be classified as a capital lease under the criteria of Statement 13. In effect, the amount of the lease payment is included in allowable costs as rental expense in the period it covers.

41. For financial reporting purposes, the classification of the lease is not affected by the regulator's actions. The regulator cannot eliminate an obligation that was not imposed by the regulator (paragraph 12). Also, by including the lease payments as allowable costs, the regulator sets rates that will provide revenue approximately equal to the combined amount of the capitalized leased asset and interest on the lease obligation over the term of the lease and, thus, provides reasonable assurance of the existence of an asset (paragraph 9). Accordingly, regulated enterprises would classify leases in accordance with Statement 13 as amended.

42. The nature of the expense elements related to a capitalized lease (amortization of the leased asset and interest on the lease obligation) is not changed by the regulator's action; however, the timing of expense recognition related to the lease would be modified to conform to the rate treatment. Thus, amortization of the leased asset would be modified so that the total of interest on the lease obligation and amortization of the leased asset would equal the rental expense that was allowed for rate-making purposes.

43. The Board notes that generally accepted accounting principles do not require interest expense or amortization of leased assets to be classified as separate items in an income statement. For example, the amounts of amortization of capitalized leased nuclear fuel and interest on the related lease obligation could be combined with other costs and displayed as "fuel cost." However, the disclosure of total interest cost incurred, required by Statement 34, would include the interest on that lease obligation; and the disclosure of the total amortization charge, required by Statement 13, would include amortization of that leased asset.

Revenue Collected Subject to Refund

44. In some cases, a regulated enterprise is permitted to bill requested rate increases before the regulator has ruled on the request.

45. When the revenue is originally recorded, the criteria in paragraph 8 of Statement 5 would determine whether a provision for estimated refunds should be accrued as a loss contingency.

That provision would be adjusted subsequently if the estimate of the refund changes (paragraph 11(a)).[16]

Refunds to Customers

46. Statement 16 limits prior period adjustments (other than those that result from reporting accounting changes) to corrections of errors, adjustments that result from realization of income tax benefits of preacquisition operating loss carryforwards of purchased subsidiaries, and adjustments related to prior interim periods of the current fiscal year.

47. In accordance with Statement 16, estimated refunds that were not previously accrued would be charged to income in the first period in which they meet the criteria for accrual (paragraph 8 of Statement 5). If the amounts are material, the disclosures specified in paragraph 19 of this Statement would be furnished.

Accounting for Compensated Absences

48. Statement 43 specifies criteria for accrual of a liability for employees' compensation for future absences. For rate-making purposes, compensation for employees' absences may be included in allowable costs when the compensation is paid.

49. The liability, if any, would be accrued in accordance with Statement 43 because rate actions of the regulator cannot eliminate obligations that were not imposed by the regulator (paragraph 12). By including the accrued compensation in future allowable costs on an as-paid basis, the regulator provides reasonable assurance of the existence of an asset. The asset is the probable future benefit (increased revenue) that will result from the regulatory treatment of the subsequent payment of the liability (paragraph 9). Accordingly, the enterprise also would record the asset that results from the regulator's actions.

Appendix C

BASIS FOR CONCLUSIONS

CONTENTS

Appendix C: BASIS FOR CONCLUSIONS

Introduction

50. This appendix discusses factors deemed significant by members of the Board in reaching the conclusions in this Statement. It includes descriptions of the various alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

Relationship of Regulatory-Prescribed Accounting to Generally Accepted Accounting Principles

51. The FASB Discussion Memorandum, *Effect of Rate Regulation on Accounting for Regulated Enterprises,* presented a threshold issue: "Should accounting prescribed by regulatory authorities be considered in and of itself generally accepted for purposes of financial reporting by rate-regulated enterprises?"

52. Virtually all respondents to the Discussion Memorandum indicated that accounting prescribed by regulatory authorities should not be considered in and of itself generally accepted for purposes of financial reporting by rate-regulated enterprises. Respondents noted that the function of accounting is to report economic conditions and events. Unless an accounting order indicates the way a cost will be handled for rate-making purposes, it causes no economic effects that would justify deviation from the generally accepted accounting principles applicable to business enterprises in general. The mere issuance of an accounting order not tied to rate treatment does not change an enterprise's economic resources or obligations. In other words, the economic effect of regulatory decisions—not the mere existence of regulation—is the pervasive factor that determines the application of generally accepted accounting principles.

53. Respondents also noted that regulatory-prescribed accounting has not been considered generally accepted per se in the past.

54. The Board concluded that regulatory-prescribed accounting should not be considered generally accepted per se, but rather that the Board should specify how generally accepted accounting principles apply in the regulatory environment.

55. Some respondents to the FASB Exposure Draft, *Accounting for the Effects of Regulation of an Enterprise's Prices Based on Its Costs,* suggested that the Board clarify the relationship of this Statement to an enterprise's regulatory accounting and to regulators' actions. This Statement does not address an enterprise's regulatory accounting. Regulators may require regulated enterprises to maintain their accounts in a form that permits the regulator to obtain the information needed for regulatory purposes. This Statement neither limits a regulator's actions

nor endorses them. Regulators' actions are based on many considerations. Accounting addresses the effects of those actions. This Statement merely specifies how the effects of different types of rate actions are reported in general-purpose financial statements.

Economic Effects of Regulation

56. The second threshold issue in the Discussion Memorandum was: "Does rate regulation introduce an economic dimension in some circumstances that should affect the application of generally accepted accounting principles to rate-regulated enterprises?"

57. Most respondents to the Discussion Memorandum indicated that rate regulation does introduce such an economic dimension in some circumstances. Respondents cited the cause-and-effect relationship of costs and revenues as the principal economic effect of regulation that affects accounting for regulated enterprises. They noted that cost might be one factor used by unregulated enterprises to establish prices, but it would often not be the most important factor. Usually, prices are limited by the market. An unregulated enterprise might desire to price its goods or services at a level that would recover all costs and a reasonable profit; however, the market might not permit that price. Alternatively, an unregulated enterprise might be able to increase its prices and its profit if competition does not limit its prices. In either case, cost often is not the principal determinant of prices. In contrast, for an enterprise with prices regulated on the basis of its costs, allowable costs are the principal factor that influences its prices.

58. The economic effect cited by most respondents is the ability of a regulatory action to create a future economic benefit—the essence of an asset. For example, consider a regulated enterprise that incurs costs to repair damage caused by a major storm. If the regulator approves recovery of the costs through rates over some future period or is expected to do so, the rate action of the regulator creates a new asset that offsets the reduction in the damaged asset. The enterprise has probable future economic benefits—the additional revenue that will result from including the cost in allowable costs for rate-making purposes. The future benefits are obtained or controlled by the enterprise as a result of a past event—incurring the cost that results in the rate order. Thus, the criteria of Concepts Statement 3 for an asset are met.

59. Most respondents that opposed special accounting for the effects of regulation cited the need for comparability between regulated and unregulated enterprises. Paragraph 119 of FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* indicates that ". . . the purpose of comparison is to detect and explain similarities and differences." The Board concluded that comparability would not be enhanced by accounting as though regulation had no effect. Regulation creates different circumstances that require different accounting.

Scope

60. The Discussion Memorandum discussed regulation of various industries, and it asked

whether a Board pronouncement should identify specific industries that are affected. Most respondents indicated that applicability of an FASB Statement on rate regulation should be specified by clearly describing the nature of the regulated operations to which it applies rather than by attempting to delineate specific industries. Some noted that changes in the political environment can cause changes in the nature of regulation. Accordingly, whether an industry meets the criteria for applicability might change over time. The Board agreed with those respondents and, accordingly, specified criteria that focus on the nature of regulation rather than on specific industries.

61. This Statement specifies the economic effects that result from the cause-and-effect relationship of costs and revenues in the rate-regulated environment and how those effects are to be accounted for. The nature of those effects led to the criteria for applicability of this Statement (paragraph 5).

62. The first criterion is the existence of third-party regulation. That criterion is intended to exclude contractual arrangements in which the government, or another party that could be viewed as a "regulator," is a party to a contract and is the enterprise's principal customer. For example, the normal Medicare and Medicaid arrangements are excluded from the scope of this Statement because they are contractual-type arrangements between the provider and the governmental agency that is responsible for payment for services provided.

63. Some respondents to the Exposure Draft indicated that cooperative utilities should be included in the scope of this Statement. They observed that some cooperative utilities' rates are subject to third-party regulation, but others' rates are set by their own governing board. The governing board is elected by the members of the cooperative, and it has the same authority as an independent, third-party regulator. In their view, the difference between cooperative utilities that are subject to third-party regulation and those that are not does not justify different accounting. The Board agreed with those respondents, and modified the first criterion to include enterprises with rates established by their own governing board providing that board is empowered by statute or by contract to establish rates that bind customers.

64. A number of governmental utility respondents to the Exposure Draft asked that governmental utilities be included within the scope of this Statement. They noted that many governmental utilities have been guided by the same accounting practices and standards as investor-owned utilities in their general-purpose financial statements, and they expressed the view that users' emphasis on comparability supports continuation of that practice. In their view, the Board's decision not to address governmental utilities in this Statement should not preclude them from applying it. The Board agreed with those respondents and modified paragraph 5(a) so as not to preclude application by governmental utilities with rates set by their own governing board.

65. The second criterion is that the regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products. If rates are based on industry

costs or some other measure that is not directly related to the specific enterprise's costs, there is no cause-and-effect relationship between the enterprise's costs and its revenues. In that case, costs would not be expected to result in revenues approximately equal to the costs; thus, the basis for the accounting specified in this Statement is not present under that type of regulation. That criterion is intended to be applied to the substance of the regulation, rather than its form. If an enterprise's regulated rates are based on the costs of a group of companies and the enterprise is so large in relation to the group of companies that its costs are, in essence, the group's costs, the regulation would meet the second criterion for that enterprise.

66. The last criterion requires that it be reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. Regardless of the actions of the regulator, if the market for the enterprise's regulated services or products will not support a price based on cost, the enterprise's rates are at least partially controlled by the market. In that case, the cause-and-effect relationship of costs and revenues that is the basis for the accounting required by this Statement cannot be assumed to exist, and this Statement would not apply.

67. The Board does not intend the last criterion as a requirement that the enterprise earn a fair return on shareholders' investment under all conditions; an enterprise can earn less than a fair return for many reasons unrelated to the ability to bill and collect rates that will recover allowable costs.[17] For example, mild weather might reduce demand for energy utility services. In that case, rates that were expected to recover an enterprise's allowable costs might not do so. The resulting decreased earnings do not demonstrate an inability to charge and collect rates that would recover the enterprise's costs; rather, they demonstrate the uncertainty inherent in estimating weather conditions.

68. The last criterion also requires reasonable assurance that the regulated environment and its economic effects will continue. That requirement must be evaluated in light of the circumstances. For example, if the enterprise has an exclusive franchise to provide regulated services or products in an area and competition from other services or products is minimal, there is usually a reasonable expectation that it will continue to meet the other criteria. Exclusive franchises can be revoked, but they seldom are. If the enterprise has no exclusive franchise but has made the very large capital investment required to provide either the regulated services or products or an acceptable substitute, future competition also may be unlikely.

69. Some respondents to the Discussion Memorandum questioned whether, in light of recent events, it would ever be reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. They cited recent developments—such as the use of solar devices as alternatives to certain energy utility services, increasing competition in the telecommunications industry, and deregulation of various transportation industries—as evidence that the environment of a regulated enterprise can change rapidly. The Board concluded that users of financial statements should be aware of the possibility of rapid, unanticipated changes in an industry, but accounting should not be based on

such possibilities unless their occurrence is considered probable. However, changes of a long-term nature could modify the demand for an enterprise's regulated services sufficiently to affect its qualifying under the criterion of subparagraph 5(c).

70. The first scope limitation of paragraph 8—excluding accounting for price controls imposed by governmental action in times of emergency, high inflation, or other unusual conditions—was included in the Discussion Memorandum. Price controls imposed in periods of unusual conditions are not expected to be applied consistently over an extended period. Indeed, their duration usually is limited by statute. In that environment, assurance of future benefits cannot be provided by probable future actions of the price control regulator because that regulator may not exist at a given future date.

71. Accounting for contracts in general was also excluded from the scope of the Discussion Memorandum. The economic effects of cost reimbursement contracts are in some respects similar to the economic effects of the type of regulation addressed by this Statement. However, most contracts tend to be relatively short-term, whereas regulation of enterprises covered by this Statement is expected to continue beyond the foreseeable future. The Board noted that other authoritative literature addresses contract accounting and concluded that it should exclude the general issue of contract accounting from the scope of this Statement.

72. The Discussion Memorandum described rate-making processes in several industries and asked whether each process justified the application of this Statement. As noted in paragraph 60, the Board concluded that applicability of this Statement should be specified by describing the nature of the regulated operations and the type of rate making to which it applies rather than by attempting to delineate specific industries.

73. In view of the nature of comments received, the Board concluded that the possible application of this Statement to the health care industry should be discussed. The Board does not intend to preclude application of the provisions of this Statement to the health care industry or to any other industry. Rather, application of this Statement is limited to regulated operations that meet the specified criteria for application.

74. In general, rates for services in the health care industry are not regulated based on the provider's costs. The federal Medicare and Medicaid programs usually are applied through a contractual-type arrangement (paragraph 62). Some states are applying comprehensive, prospective rate making to health care providers. In some cases, the rates set by state regulatory agencies are accepted for Medicare and Medicaid reimbursement purposes. There is some disagreement about the extent to which such rates are based on a provider's costs. If regulatory agencies in those states base rates on the provider's costs and adopt a permanent system of regulation, health care providers in those jurisdictions could be subject to the provisions of this Statement. However, the criterion in subparagraph 5(c) also would have to be considered to determine whether the Statement applies to the enterprise.

General Standards of Accounting for the Effects of Regulation

75. The Board concluded that, for general-purpose financial reporting, the principal economic effect of the regulatory process is to provide assurance of the existence of an asset or evidence of the diminution or elimination of the recoverability of an asset. The regulator's rate actions affect the regulated enterprise's probable future benefits or lack thereof. Thus, an enterprise should capitalize a cost if it is probable that future revenue approximately equal to the cost will result through the rate-making process.

76. A number of respondents to the Exposure Draft asked for clarification of the types of costs addressed by paragraph 9. Those respondents expressed the view that tangible assets should be capitalized based on the criteria used by unregulated companies; paragraph 9 should be limited to other assets. Paragraph 9 was intended to address only accounting for costs that would be charged to expense by an unregulated enterprise, and the Board modified the paragraph to so indicate.

77. The regulatory process, as usually practiced, has two aspects. First, either historical or projected test period costs are used to compute the revenues necessary to provide for similar costs during the period in which the rates will be in force. Second, test period costs are adjusted to provide for recovery or to prevent recovery of costs that are considered unusual or unpredictable. If unusual or unpredictable costs are not provided for in advance, they may be recovered after their incurrence through increased rates provided for that purpose. In some cases, rate orders do not specify whether costs are (a) included as normal test period costs, used to compute rates that are intended to provide for similar future costs, or (b) incurred costs designated for specific recovery. The Board concluded that costs should be capitalized only if the future revenue is expected to be provided to permit recovery of the previously incurred cost rather than merely to provide for recovery of higher levels of similar future costs.

78. If rates are designed to be adjusted automatically for changes in operating expenses (e.g., costs of purchased fuel), the regulator's intent could be either to permit recovery of the incurred cost or merely to provide for recovery of similar future costs. Normal operating expenses such as fuel costs usually are provided for in current rates. In that case, the presumption is that the rate increase is intended to permit recovery of similar future costs. That presumption, which would preclude capitalizing the incurred cost, can be overcome only if it is clear that the regulator's intent is to provide recovery of the incurred cost.

79. Rate actions of a regulator can also impose a liability on a regulated enterprise in the following ways:

a. A regulator can order a regulated enterprise to refund previously collected revenues.
b. A regulator can provide rates intended to recover costs that are expected to be incurred in the future. Paragraphs 38 and 39 illustrate that possibility. The resulting increased charges

to customers are liabilities and not revenues for the enterprise—the enterprise undertakes to provide the services for which the increased charges were collected, and it is obligated to return those increased charges if the future cost does not occur. The obligation will be fulfilled either by refunding the increased charges through future rate reductions or by paying the future costs with no corresponding effect on future rates. The resulting increases in charges to customers are unearned revenues until they are earned by their use for the intended purpose.

c. For rate-making purposes, a regulator can recognize a gain or other reduction of overall allowable costs over a period of time. Paragraphs 35-37 illustrate that possibility. By that action, the regulator obligates the enterprise to give the gain or other reduction of overall allowable costs to customers by reducing future rates. Accordingly, the amount of the gain or cost reduction is the appropriate measure of the obligation.

80. A number of respondents to the Exposure Draft asked the Board to clarify whether paragraph 11(b), discussed in paragraph 79(b) above, was intended to apply to costs such as nuclear plant decommissioning costs. Decommissioning costs are incurred costs in the current accounting framework. Those costs and the related liabilities are imposed by regulation or statute, similar to the liability to restore the land after strip mining, discussed in paragraph 142 of Concepts Statement 3. Accordingly, paragraph 11(b) does not address those costs.

Specific Standards Derived from the General Standards

81. The specific standards derived from the general standards deal with recognition, as assets and increases in net income, of allowable costs that are not usually accepted as incurred costs in the present accounting framework. For the reasons explained below, the Board concluded that recognition is appropriate for those allowable costs. However, the Board does not intend them to be used as guidance for other applications of the general standards in paragraphs 9-12.

Allowance for Funds Used during Construction

82. Most respondents to the Discussion Memorandum supported the present practices of public utilities in accounting for the allowance for funds used during construction. They noted that the current income statement display reflects the regulatory process used in determining the amount to be capitalized and, thus, aids the user in understanding the regulatory environment. They cited the regulator's determination of the "cost" of equity capital as a basis for accepting that amount as a cost, and they noted that unregulated enterprises do not have a similar basis. They also noted that most utilities have an obligation to construct the facilities necessary to provide regulated services. Thus, there is no option of not obtaining the required funds or using accumulated funds to retire debt instead of investing in construction, and there is no available "avoidable cost" to use as the measure of the cost of the funds used.

83. Respondents who opposed present practices of accounting for the allowance for funds used during construction indicated that the cost of equity funds should be excluded from that

allowance. Those respondents cited paragraph 49 of Statement 34, which states that ". . . recognition of the cost of equity capital does not conform to the present accounting framework." However, the arguments presented by those respondents supported capitalization of interest in accordance with Statement 34. Capitalization of interest in accordance with Statement 34 would be based on actual interest rates on outstanding debt and limited to the total amount of interest cost incurred during the period. In most cases, the effect on net income would be similar to capitalizing an allowance that included a cost of equity funds.

84. Some Board members believe that the allowances for funds used during construction, computed under current utility practices, are appropriate measures of the costs of financing construction and that the regulators' actions provide reasonable assurance of the existence of assets that should be measured by the amount on which rates will be based. Other Board members believe that those amounts are acceptable substitutes for the amount of interest that would be capitalized in accordance with Statement 34 and that, absent a change in regulatory practices, the cost of a change in those accounting practices would exceed any perceived benefits. The Board concluded that the amounts capitalized for rate-making purposes also should be capitalized for financial reporting purposes.

Intercompany Profit

85. Most respondents to the Discussion Memorandum indicated that enterprises should not eliminate intercompany profits on sales to regulated affiliates if it is probable that, through the rate-making process, future revenues in amounts approximately equal to the intercompany transfer price will be provided. That revenue would result from inclusion of the intercompany profits in the amount used by the regulator as allowable cost for purposes of depreciation and return on investment. They noted that an enterprise does not recognize profits on sales to unregulated affiliates because the profits are not validated by transactions with outside parties. According to those respondents, however, an enterprise should recognize profits on sales to a regulated affiliate to the extent that the profits are included in allowable costs in the rate-making process because the profits are validated by the rate actions of the regulator. The regulator's acceptance of the transfer price provides evidence of recoverability. For rate-making purposes, the intercompany profits will be included in the depreciation used as an allowable cost, and the undepreciated amount will be included in the investment on which a return is provided as an allowable cost. Those respondents noted that ARB 51 did not require elimination of intercompany profits on sales to regulated affiliates.

86. The Board concluded that intercompany profits on sales of assets to regulated affiliates should not be eliminated in consolidated financial statements if the transfer price is reasonable and it is probable that, through the rate-making process, future revenue approximately equal to the transfer price will result from the regulated affiliate's use of those assets. In view of existing regulatory practices, the Board further concluded that the transfer price usually should be considered reasonable if the price is accepted or not challenged by the regulator that governs the regulated affiliate. Otherwise, reasonableness should be considered in light of the

circumstances. For example, reasonableness might be judged by the return on investment earned by the manufacturing or construction operations or by a comparison of the transfer prices with prices available from other sources.

Other Specific Standards

Accounting for Income Taxes

87. In the past, enterprises generally have not provided for deferred income taxes if regulated rates to customers were based on taxes currently payable. Most respondents to the Discussion Memorandum supported that practice based on the rationale of Opinion 11. Opinion 11 indicates that deferred taxes are the result of comprehensive interperiod allocation of income taxes to achieve a proper "matching" of revenues and expenses. Those respondents indicated that a provision for deferred income taxes does not achieve a proper "matching" if rates to customers are based on taxes currently payable. In that situation, the income tax expense should be recorded in the future periods in which the taxes become payable and the regulator grants a resulting rate increase. Those respondents also noted that Concepts Statement 3 concluded that deferred taxes computed under the deferred method that is prescribed by Opinion 11 do not meet the definition of a liability. They expressed the view that the Board should not require utilities to commence to apply Opinion 11 when the Board may reconsider that Opinion in the near future.

88. Other respondents indicated that deferred income taxes should be recorded in all cases. However, if rates charged to customers are based on taxes currently payable, the recorded deferred taxes should also result in an asset—the future benefit that will result from treatment of the taxes as allowable costs for regulatory purposes in the period in which those taxes become payable.

89. Some Board members believe that the general standards (paragraphs 9-12) would require a regulated enterprise to record deferred income taxes. If it is probable that income taxes payable in future years because of net reversal of timing differences will be recovered through rates based on taxes payable at that time, the enterprise also would record an asset in an amount equal to the deferred income taxes. Offsetting those deferred income taxes against the related asset normally would not be appropriate because the asset will be realized through collections from customers and the deferred income taxes will not be paid to the customers. However, the Board concluded that any possible benefits of commencing to record deferred income taxes and an offsetting asset at this time probably would not exceed the cost. Accordingly, if rates are based on income taxes currently payable and it is probable that income taxes payable in future years because of net reversal of timing differences will be recovered through rates based on income taxes payable at that time, this Statement does not permit deferred income taxes to be computed or recorded in accordance with Opinion 11. However, it does require disclosure of the cumulative amount of timing differences for which deferred income taxes have not been provided. Approximate amounts of cumulative timing differences can be estimated without the

complex calculations required by Opinion 11. That information, together with the disclosures required by Opinion 11, should help users in estimating the possible future income tax and rate effects of those timing differences. The Board will reconsider its conclusions on this matter in the course of its project on accounting for income taxes, which was added to the agenda in January 1982.

90. A number of respondents to the Exposure Draft indicated that the disclosures required by this Statement would be misunderstood by users. In their view, users might attempt to estimate unrecorded deferred taxes as a charge to current income. The Board believes that users will understand the required disclosures if affected companies explain that deferred taxes are not provided because the method of rate making assures future recovery of future taxes. The Board believes that it is important to disclose those costs which have to be recovered from future customers through future rates.

Other Specific Accounting Matters

Recovery of Cost without Return on Investment

91. The Discussion Memorandum asked whether the recoverability criterion for capitalization of costs should be based on recovery of cost (which excludes a return on equity capital) or on recovery of cost of service (which includes a return on equity capital). In some cases, a regulator may provide rates intended to recover an incurred cost over an extended period without a return on the unrecovered cost during the recovery period. That issue was intended to elicit comments on whether the capitalized costs should be carried at the present value of the amount to be recovered in those cases. Most respondents interpreted that issue as asking whether any capitalization of costs was justified if the enterprise would recover its cost but would not realize a return on the unrecovered cost during the recovery period. Thus, many of the responses did not address the valuation of the resulting asset.

92. The Board concluded that capitalized costs not related to a tangible asset provide a measure of an intangible asset. Generally accepted accounting principles do not necessarily require the carrying amount of an intangible asset to be its discounted present value, nor do they necessarily require an enterprise to consider a return on investment when evaluating possible impairment of an intangible or depreciable asset. Accordingly, the Board concluded that it should not impose such a requirement on regulated enterprises.

93. Some respondents to the Exposure Draft indicated that disclosure should be required for capitalized costs that are recovered over an extended period without a return on investment during the recovery period. Those respondents indicated that regulated enterprises should provide the same types of disclosure for a given item as unregulated enterprises do.

94. The situations in question usually result from a problem encountered by a regulated

enterprise—an abandoned plant, major storm damage, or a similar event. For troubled debt restructurings, which are similar to the events in question, Statement 15 requires creditors that agree to forego interest on outstanding loans to disclose the amounts of nonearning assets included in the balance sheet. The Board agreed that regulated enterprises with capitalized costs that are recovered over an extended period without a return on investment during the recovery period should provide similar disclosure and, thus, added the requirements of paragraph 20.

Accounting for Leases

95. Statement 13, as amended, specifies criteria for classification of leases and the method of accounting for each type of lease. For rate-making purposes, a regulator may include lease payments in allowable costs as rental expense even though the lease would be classified as a capital lease under the criteria of Statement 13. The Discussion Memorandum asked for views on the economic effects of that regulatory treatment and how to account for those effects.

96. A number of respondents indicated that the classification of a lease is not affected by the regulator's actions. In their view, rate actions of the regulator cannot eliminate obligations to third parties unless the obligations were created by the regulator. Also, they observed that, over the term of a capital lease, the aggregate lease payments are equal to aggregate amortization of the leased asset and aggregate interest on the lease obligation. Thus, the regulator, by including the lease payments in allowable costs, establishes the existence of probable future benefits approximately equal to the combined amount of the capitalized leased asset and interest on the lease obligation over the term of the lease. In their view, regulated enterprises should classify leases in accordance with Statement 13 as amended. The Board agrees with that view.

97. Other respondents indicated that the regulator's action establishes that there is no asset related to the lease. They indicated that an income statement display consisting of amortization and interest would mislead users if the regulatory process based rates on rental expense. In their view, regulated enterprises should classify leases in accordance with their classification for rate-making purposes. The Board concluded that such a view focuses on the mechanics of the rate-making process rather than on the economic effects of the process. This Statement requires that regulated enterprises account for the economic effects of the rate-making process; it does not attempt to portray the mechanics of that process in financial statements.

98. The Board concluded that the nature of the expense elements for a capitalized lease (amortization and interest) are not changed by the regulator's action; however, the timing of expense recognition related to the lease should be modified to conform with the rate treatment. Thus, amortization of the leased asset would be modified so that the total interest and amortization recognized during a period would equal the rental expense included in allowable cost for rate-making purposes during that period. Although this Statement requires the expense elements of a capitalized lease to consist of amortization and interest regardless of the regulatory treatment, the Board notes that generally accepted accounting principles do not require interest expense or amortization expense to be shown as such in an income statement.

Revenue Collected Subject to Refund

99. In some jurisdictions, regulated enterprises are permitted to bill and collect requested rate increases before the regulator has ruled on the request.

100. Some respondents opposed reducing net income by the amount expected to be disallowed prior to the final rate action. In their view, if the enterprise requests the increase, the increase must be supported by the evidence. In that case, management could not take the position that some portion of the request is likely to be disallowed without providing the regulator a possible basis for disallowance. Other respondents supported application of the loss contingency provisions of Statement 5 to those rate increases. They indicated that utilities usually can predict the outcome of a rate hearing by considering recent actions of the regulator. They also indicated that it is misleading to include in net income revenue that is expected to be refunded.

101. The Board concluded that regulation does not have a unique economic effect that requires special accounting for anticipated refunds of revenue. Rather, regulation results in a contingency that should be accounted for in accordance with Statement 5, the same as other contingencies.

Refunds to Customers

102. The Discussion Memorandum asked whether the effects of rate-making transactions applicable to prior periods should be charged to income in the year in which they become estimable, as required by Statement 16 for other adjustments applicable to prior periods, or accounted for as prior period adjustments.

103. Some respondents opposed applying Statement 16 to utility refunds. Most of those respondents indicated that Statement 16 is not presently applied to significant refunds that could not be estimated in advance. They indicated that including refunds in a year other than that in which the amount refunded was included in income misstates both years, because the financial statements would not accurately reflect permitted rates of return, trends, etc. They also noted that current earnings could be reduced to a level at which existing covenants or state regulations governing investments by certain institutional investors could preclude necessary financing.

104. Respondents who favored applying Statement 16 to refunds indicated that the regulatory process does not introduce unique economic effects that warrant different accounting. In their view, the arguments supporting prior period adjustments for regulated enterprises are the same arguments that were made by unregulated enterprises before Statement 16 was issued.

105. The Board concluded that regulation does not have a unique economic effect that requires special accounting for refunds. Rather, regulation results in resolution of a previous contingency that should be accounted for the same as resolution of contingencies by unregulated enterprises. Reconsideration of Statement 16 was not within the scope of this Statement.

106. The Exposure Draft would have required disclosure of the pro forma effect of refunds on net income of each period presented, computed as though the refunds were retroactively recorded in the prior periods in which the revenue was recognized. A number of respondents objected to that requirement on the basis that the proposed disclosure indicates a need for restatement.

107. The Board believes that users are interested in two aspects of refunds. They are concerned about the impact of the refund in the year of the refund, and they also are concerned about the effect of the refund on trends of permitted earnings. Neither prior period adjustment nor current income charge provides all of the needed information. The Board concluded that users' needs could be satisfied by disclosure of (a) the effect of the refund on net income of the current year and (b) the years in which the refunded revenue was recognized.

108. In making its determination, the Board considered whether the amount disclosed should be net of related taxes. APB Opinion No. 30, *Reporting the Results of Operations,* prohibits net-of-tax disclosure of unusual or infrequently occurring items that are not extraordinary items. The Board concluded that users would not be confused by a net-of-tax disclosure of the effect of refunds. Users understand that refunds occur from time to time in public utilities—and they are concerned with the net effect rather than the gross amounts refunded. Accordingly, the Board concluded that refunds should be disclosed net of their related tax effects. Based on comments received and its deliberations, the Board decided that a narrow amendment of Opinion 30 for utility refunds was justified. However, the Board's action is limited to utility refunds, and it is not intended to otherwise modify or question the requirements of Opinion 30.

Rate Making Based on a Fair Value Rate Base

109. Some state regulatory commissions use a "fair value rate base" for determining allowable return *on* invested capital. Normally, those commissions do not permit recovery *of* the fair value of the enterprise's assets by including depreciation of the fair value in allowable cost; rather, depreciation is based on historical cost. The Discussion Memorandum asked whether that procedure provides a basis for accounting for utility plant at its "fair value" in financial statements prepared in accordance with generally accepted accounting principles.

110. Virtually all respondents opposed the use of fair value in financial statements. Respondents indicated that fair value would present the enterprise's assets at an amount in excess of the recoverable amount of those assets. The use of depreciation based on historical cost for rate-making purposes limits recovery to that historical cost. Respondents also noted that the realized rate of return based on historical cost is not proportionately greater in jurisdictions that base rates on a fair value rate base than in other jurisdictions; thus, they question whether there is substance to that special treatment.

111. The Board concluded that if the return on investment permitted in a jurisdiction is based on fair value but recovery of cost is based on historical cost, the fair value of the assets should not be recognized in general-purpose financial statements. The Board did not need to address

the accounting implications if a commission were to use fair value to determine both recovery of cost and return on capital invested because that practice currently is not used by regulators.

Acquisition Adjustments

112. A number of respondents to the Exposure Draft asked the Board to address accounting for *acquisition adjustments*. Those adjustments are the differences between the amounts paid for an acquired utility and the acquired utility's book value of its assets and liabilities. Those respondents indicated that utilities do not have goodwill because a utility cannot realize excess profits. Thus, they considered the example of goodwill in Appendix B unnecessary.

113. Opinion 16 describes how the amount paid in a business combination is allocated to the assets obtained and the liabilities assumed. Acquisition adjustments are values in excess of book value of identifiable assets obtained, valuation adjustments applicable to liabilities assumed, or goodwill or a combination of those items. Opinion 16 does not allow another possibility. The example of accounting for intangibles in Appendix B of this Statement indicates the appropriate accounting for goodwill. Additional guidance should not be needed about accounting for any portions of acquisition adjustments that represent amounts allocable to identifiable assets or liabilities such as property and equipment or intangibles amortizable over specific benefit periods.

Evidence

114. Several issues in the Discussion Memorandum identified types of evidence that might be available before a rate order is received and asked whether each would provide sufficient assurance to warrant capitalizing costs. A number of respondents indicated that judgment is needed to determine the adequacy of available evidence. In their view, all of the available evidence has to be evaluated, and the resulting decision cannot be standardized. Other respondents indicated that specific items did or did not provide adequate evidence; however, their responses appeared to differ based on the regulator involved and on their assumptions about other related circumstances.

115. The Board concluded that it should not attempt to categorize types of evidence and the reliance that should be based on each. Rather, this Statement indicates the degree of assurance required, and judgment must be exercised to evaluate whether that degree of assurance is present in various circumstances. In general, the Board concluded that costs should be capitalized only if (a) it is probable that future revenue in an amount at least equal to the cost will result from inclusion of that cost in allowable costs for rate-making purposes and (b) the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs.

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: June 2007

PSC--3.06

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,740,012	1,519,318	7,148,774	6,517,734	14,225,457	13,410,823
2. Commercial Sales	1,138,053	1,101,937	5,072,349	4,938,954	10,355,334	10,055,049
3. Industrial Sales	380,191	415,150	1,755,318	1,741,612	3,690,703	3,478,301
4. Other Sales	699,185	751,365	3,206,492	3,036,566	6,675,609	6,079,340
5. Total Operating Revenues (Item 1-4)	3,957,442	3,787,770	17,182,933	16,234,866	34,947,103	33,023,513
Operating Expenses						
6. Source of Supply Expense	12,437	6,222	74,659	79,344	187,487	212,282
7. Pumping and Water Treatment Expense	463,335	435,908	2,431,932	2,157,105	5,154,552	4,235,557
8. Transmission and Distribution-Operation	57,993	56,067	357,941	393,152	724,905	722,878
9. Transmission and Distribution-Maintenance	110,758	100,348	845,877	713,716	1,586,366	1,327,884
10. Customer Accounts and Sales Expense	110,299	153,807	785,346	812,070	1,709,542	1,714,441
11. Administrative and General Expense	927,141	1,069,901	5,430,948	5,178,633	11,222,224	10,532,804
12. Depreciation and Amortization	392,645	358,070	2,265,154	2,123,805	4,595,410	4,137,702
13. Taxes Other Than Income Taxes	306,716	291,929	1,926,822	1,739,153	3,853,423	3,466,735
14. Income Taxes	540,474	437,732	537,791	633,919	885,253	2,198,691
15. Total Operating Expenses (Item 6-14)	2,921,797	2,909,984	14,656,470	13,830,897	29,919,162	28,548,974
16. Net Operating Income (Item 5 less 15)	1,035,645	877,786	2,526,463	2,403,969	5,027,941	4,474,539
17. Other Income	66,315	1,046	71,248	6,625	68,972	(1,620)
18. Miscellaneous Income Deductions	28,191	6,150	43,283	19,849	52,291	33,254
19. Interest Charges	372,043	291,963	1,924,373	1,591,378	3,642,089	3,022,373
20. Net Income	701,727	580,719	630,055	799,367	1,402,533	1,417,292

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	192,838,206	177,013,297	186,090,519	169,461,998
22. Construction Work in Progress	2,730,672	1,136,656	2,146,933	3,234,868
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	55,705,683	51,354,529	53,656,710	50,176,392
26. Materials and Supplies	311,007	300,509	327,468	301,925
27. Unamortized Investment Credit	1,154,448	1,230,819	1,189,450	1,272,185
28. Deferred Income Tax	18,643,485	17,870,833	17,838,344	17,178,479
29. Contributions in Aid of Construction	8,285,789	7,263,938	7,851,744	7,016,102
30. Customer Advances for Construction	5,985,705	4,732,027	5,550,903	4,575,543
31. Preferred Stock	1,381,600	1,382,100	1,381,725	1,382,100
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	8,288,918	4,788,768	6,830,535	4,788,768
34. Retained Earnings	20,103,503	19,837,921	19,749,907	19,577,572
35. Long Term Debt..........(1)	53,802,292	39,932,230	44,628,977	40,256,852

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JUNE 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$189,391,155	$184,500,019
3	Plant Under Construction	1,948,397	2,146,933
4	Property Held For Future Use	0	0
5	Materials and Supplies	314,770	327,468
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	168
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	194,630,027	189,950,293
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	54,760,097	53,656,710
16	Accumulated Deferred Income Taxes	18,223,713	17,838,344
17	Unamortized Investment Credit - Pre 1971	39,928	40,702
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,252,545	7,851,744
21	Customer Advances for Construction	5,865,090	5,550,903
22	All Other A/	(271,106)	(261,914)
23			
24			
25			
26	Total Deductions	86,870,267	84,676,489
27			
28	Rate Base	$107,759,760	$105,273,804
29			
30	Net Operating Income	$1,035,645	$5,027,941
31	Adjustments to NOI		
32	Allowance for funds used during construction	7,576	162,853
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,226	141,673
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$1,055,447	$5,332,467
40			
41			
42	Rate of return B/	11.75%	5.07%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	14,130	53,825
Unpaid for materials and supplies	50,906	50,084
Taxes on CIAC-DEF. FIT & SIT	(336,142)	(365,823)
	($271,106)	($261,914)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

August 29, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – June 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$242,775

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 06/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	64,016	5,382	23	183	69,604
37. 3/4"	139	137	2	12	290
38. 1"	301	1,402	25	150	1,878
39. 1 1/2"	22	332	7	71	432
~~40. 2"~~	~~13~~	~~1,042~~	~~84~~	~~298~~	~~1,437~~
41. 3"		53		4	57
42. 4"&Over		30	27	41	98
43. Totals	64,491	8,378	168	737	73,796

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 9-04-07, 20___ (Signed) Michael A. [signature]

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: May 2007

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,149,546	918,272	4,259,216	4,998,416	14,004,764	13,117,911
2. Commercial Sales	829,051	774,903	3,105,244	3,837,017	10,319,217	9,922,968
3. Industrial Sales	259,654	237,347	1,115,472	1,326,462	3,725,661	3,371,426
4. Other Sales	561,584	434,058	1,945,722	2,285,201	6,727,788	5,834,238
5. Total Operating Revenues (Item 1-4)	2,799,836	2,364,580	10,425,654	12,447,096	34,777,430	32,246,543
Operating Expenses						
6. Source of Supply Expense	17,103	13,149	45,118	73,122	181,272	226,246
7. Pumping and Water Treatment Expense	417,545	379,858	1,551,053	1,721,197	5,127,125	4,162,299
8. Transmission and Distribution-Operation	53,282	67,953	246,666	337,085	722,979	747,781
9. Transmission and Distribution-Maintenance	130,463	132,033	604,656	613,368	1,575,955	1,366,041
10. Customer Accounts and Sales Expense	223,430	159,387	451,618	658,263	1,753,051	1,701,402
11. Administrative and General Expense	1,022,785	742,963	3,481,022	4,108,732	11,364,983	10,097,055
12. Depreciation and Amortization	392,356	352,893	1,480,154	1,765,735	4,560,836	4,103,186
13. Taxes Other Than Income Taxes	309,924	292,871	1,310,182	1,447,225	3,838,636	3,460,968
14. Income Taxes	(34,097)	(11,546)	31,414	196,187	782,511	2,099,528
15. Total Operating Expenses (Item 6-14)	2,532,791	2,129,561	9,201,883	10,920,914	29,907,348	27,964,506
16. Net Operating Income (Item 5 less 15)	267,044	235,019	1,223,771	1,526,182	4,870,082	4,282,037
17. Other Income	(2,128)	5,849	7,061	5,580	3,703	711
18. Miscellaneous Income Deductions	7,577	(285)	7,515	13,700	30,250	24,816
19. Interest Charges	318,425	264,208	1,233,905	1,299,416	3,562,009	2,988,462
20. Net Income	(61,085)	(23,055)	(10,588)	218,646	1,281,526	1,269,470

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	192,508,675	174,710,232	184,771,777	168,004,178
22. Construction Work in Progress	1,878,222	1,967,829	2,014,098	3,642,050
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	55,307,243	51,112,691	53,294,114	49,956,258
26. Materials and Supplies	365,883	292,350	326,593	302,094
27. Unamortized Investment Credit	1,160,812	1,313,551	1,195,814	1,278,549
28. Deferred Income Tax	18,526,657	17,577,531	17,773,957	17,090,748
29. Contributions in Aid of Construction	8,280,380	7,252,770	7,766,590	6,967,779
30. Customer Advances for Construction	5,959,523	4,851,103	5,446,430	4,474,805
31. Preferred Stock	1,381,600	1,382,100	1,381,767	1,382,100
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	8,288,918	4,788,768	6,538,856	4,788,768
34. Retained Earnings	19,399,957	19,263,043	19,727,776	19,553,642
35. Long Term Debt..........(1)	53,812,199	39,939,875	43,473,138	40,265,837

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MAY 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$189,019,845	$183,181,277
3	Plant Under Construction	1,791,942	2,014,098
4	Property Held For Future Use	0	0
5	~~Materials and Supplies~~	315,522	326,593
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	281
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	194,103,014	188,497,954
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	54,570,980	53,294,114
16	Accumulated Deferred Income Taxes	18,139,759	17,773,957
17	Unamortized Investment Credit - Pre 1971	40,057	40,960
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,245,897	7,766,590
21	Customer Advances for Construction	5,840,967	5,446,430
22	All Other A/	(267,091)	(266,860)
23			
24			
25			
26	Total Deductions	86,570,569	84,055,191
27			
28	Rate Base	$107,532,445	$104,442,763
29			
30	Net Operating Income	$267,044	$4,870,082
31	Adjustments to NOI		
32	Allowance for funds used during construction	10,122	155,194
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,201	139,432
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$289,367	$5,164,708
40			
41			
42	Rate of return B/	3.23%	4.95%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	16,225	53,825
Unpaid for materials and supplies	52,826	50,084
Taxes on CIAC-DEF. FIT & SIT	(336,142)	(370,769)
	($267,091)	($266,860)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

July 17, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – May 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$257,177

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 05/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,959	5,372	23	182	69,370
37. 3/4"	138	138	2	14	279
38. 1"	298	1,399	25	150	1,844
39. 1 1/2"	22	332	7	71	432
40. 2"	13	1,043	84	298	1,429
41. 3"		49		4	44
42. 4"&Over		28	28	41	96
43. Totals	64,430	8,361	169	760	73,494

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 7/27, 20 07 (Signed) Michael A. Miller /cb

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: April 2007

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,212,792	1,161,101	4,259,216	4,080,144	13,773,489	13,383,658
2. Commercial Sales	867,267	759,214	3,105,244	3,062,114	10,265,069	10,016,167
3. Industrial Sales	306,391	311,966	1,115,472	1,089,114	3,703,354	3,428,062
4. Other Sales	543,243	533,983	1,945,722	1,851,142	6,600,262	5,931,814
5. Total Operating Revenues (Item 1-4)	2,929,694	2,766,264	10,425,654	10,082,514	34,342,174	32,759,701
Operating Expenses						
6. Source of Supply Expense	8,283	11,847	45,118	59,973	177,317	224,209
7. Pumping and Water Treatment Expense	404,060	334,061	1,551,053	1,341,339	5,089,439	4,103,888
8. Transmission and Distribution-Operation	48,803	58,462	246,666	269,132	737,650	723,130
9. Transmission and Distribution-Maintenance	106,596	104,030	604,656	481,335	1,577,526	1,334,294
10. Customer Accounts and Sales Expense	89,051	151,356	451,618	498,876	1,689,008	1,665,574
11. Administrative and General Expense	922,610	892,637	3,481,022	3,365,769	11,085,161	10,157,242
12. Depreciation and Amortization	391,987	351,977	1,480,154	1,412,842	4,521,373	4,074,761
13. Taxes Other Than Income Taxes	305,419	311,476	1,310,182	1,154,354	3,821,583	3,335,657
14. Income Taxes	154,362	131,597	31,414	207,734	805,062	2,432,321
15. Total Operating Expenses (Item 6-14)	2,431,171	2,347,443	9,201,883	8,791,354	29,504,119	28,051,076
16. Net Operating Income (Item 5 less 15)	498,523	418,821	1,223,771	1,291,160	4,838,055	4,708,625
17. Other Income	(969)	(1,818)	7,061	(269)	11,680	(10,401)
18. Miscellaneous Income Deductions	12	(5,333)	7,515	13,985	22,388	23,462
19. Interest Charges	314,905	263,897	1,233,905	1,035,208	3,507,793	2,970,589
20. Net Income	182,637	158,439	(10,588)	241,698	1,319,554	1,704,173

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service.........(1)	192,248,713	173,842,759	183,288,573	166,708,954
22. Construction Work in Progress	930,414	2,172,690	2,021,566	3,954,438
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	54,897,149	50,837,252	52,944,568	49,735,350
26. Materials and Supplies	341,950	273,360	320,465	302,829
27. Unamortized Investment Credit	1,167,176	1,243,547	1,208,543	1,278,549
28. Deferred Income Tax	18,509,031	17,314,515	17,694,863	17,009,860
29. Contributions in Aid of Construction	8,236,196	7,238,490	7,680,956	6,919,221
30. Customer Advances for Construction	5,911,187	4,866,318	5,354,062	4,379,357
31. Preferred Stock	1,381,600	1,382,100	1,381,808	1,382,100
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	8,288,918	4,788,768	6,247,177	4,788,768
34. Retained Earnings	19,456,682	19,285,736	19,716,366	19,581,878
35. Long Term Debt...........(1)	53,822,029	39,948,818	42,317,111	40,542,996

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED APRIL 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$188,545,263	$181,698,073
3	Plant Under Construction	1,770,372	2,021,566
4	Property Held For Future Use	0	0
5	Materials and Supplies	302,932	320,465
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	421
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	193,594,272	187,016,230
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	54,386,914	52,944,568
16	Accumulated Deferred Income Taxes	18,043,034	17,694,863
17	Unamortized Investment Credit - Pre 1971	40,186	41,218
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,237,276	7,680,956
21	Customer Advances for Construction	5,811,328	5,354,062
22	All Other A/	(263,597)	(271,807)
23			
24			
25			
26	Total Deductions	86,255,141	83,443,860
27			
28	Rate Base	$107,339,131	$103,572,370
29			
30	Net Operating Income	$498,523	$4,838,055
31	Adjustments to NOI		
32	Allowance for funds used during construction	9,440	151,192
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,178	138,312
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$520,140	$5,127,559
40			
41			
42	Rate of return B/	5.81%	4.95%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	17,637	53,825
Unpaid for materials and supplies	54,908	50,084
Taxes on CIAC-DEF. FIT & SIT	(336,142)	(375,716)
	($263,597)	($271,807)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

May 22, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – April 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$271,579

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 04/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,774	5,391	23	182	69,370
37. 3/4"	132	133	2	12	279
38. 1"	288	1,382	25	149	1,844
39. 1 1/2"	22	332	7	71	432
40. 2"	13	1,037	86	293	1,429
41. 3"		40		4	44
42. 4"&Over		29	28	39	96
43. Totals	64,229	8,344	171	750	73,494

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 6/06, 20 07 (Signed) Michael A. Miller /

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

1b

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: February 2007

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	966,123	967,025	2,018,993	1,996,007	13,617,403	13,269,659
2. Commercial Sales	714,781	736,526	1,429,261	1,507,348	10,143,852	10,027,236
3. Industrial Sales	280,876	269,173	524,840	539,942	3,661,894	3,372,580
4. Other Sales	468,359	427,061	907,286	828,418	6,584,550	5,936,250
5. Total Operating Revenues (Item 1-4)	2,430,139	2,399,786	4,880,380	4,871,715	34,007,699	32,605,725
Operating Expenses						
6. Source of Supply Expense	12,718	21,783	25,550	38,986	178,736	223,700
7. Pumping and Water Treatment Expense	377,083	315,267	758,716	657,647	4,980,795	4,006,407
8. Transmission and Distribution-Operation	71,886	58,796	138,733	156,564	742,285	718,757
9. Transmission and Distribution-Maintenance	239,160	110,458	382,774	287,767	1,549,211	1,374,931
10. Customer Accounts and Sales Expense	125,329	110,557	233,894	224,545	1,745,615	1,618,037
11. Administrative and General Expense	856,767	981,285	1,791,577	1,565,242	11,196,243	10,247,154
12. Depreciation and Amortization	360,683	356,597	723,086	709,114	4,468,033	3,927,848
13. Taxes Other Than Income Taxes	296,069	247,883	601,440	563,729	3,703,466	2,876,394
14. Income Taxes	(89,092)	(25,549)	(161,530)	68,278	751,574	2,655,336
15. Total Operating Expenses (Item 6-14)	2,250,602	2,177,077	4,494,240	4,271,872	29,315,958	27,648,564
16. Net Operating Income (Item 5 less 15)	179,536	222,709	386,140	599,843	4,691,741	4,957,161
17. Other Income	467	(134)	7,457	940	10,866	(7,343)
18. Miscellaneous Income Deductions	890	10,045	4,303	10,337	22,823	24,197
19. Interest Charges	303,975	252,855	609,016	510,286	3,407,824	2,927,097
20. Net Income	(124,862)	(40,325)	(219,722)	80,160	1,271,960	1,998,524

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	188,872,625	175,107,190	180,369,713	164,157,908
22. Construction Work in Progress	2,219,487	369,821	2,065,468	4,580,817
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	54,241,236	50,384,396	52,294,314	49,263,284
26. Materials and Supplies	305,137	303,442	315,554	313,740
27. Unamortized Investment Credit	1,179,904	1,256,275	1,221,271	1,291,277
28. Deferred Income Tax	17,602,962	17,386,103	17,499,178	16,855,723
29. Contributions in Aid of Construction	8,239,059	7,118,946	7,514,232	6,815,226
30. Customer Advances for Construction	5,649,193	4,977,428	5,172,050	4,196,729
31. Preferred Stock	1,381,600	1,382,100	1,381,892	1,385,017
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	8,288,918	4,788,768	5,663,818	4,788,768
34. Retained Earnings	19,236,497	19,123,548	19,690,248	19,578,156
35. Long Term Debt...........(1)	54,861,457	39,966,494	41,161,010	41,093,990

(1) Includes Capital Lease

April 9, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – February 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$129,003

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 02/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,464	5,358	23	182	69,027
37. 3/4"	123	132	2	12	269
38. 1"	273	1,361	25	147	1,806
39. 1 1/2"	21	329	7	70	427
40. 2"	15	1,026	85	290	1,416
41. 3"		35		4	39
42. 4"&Over		29	29	37	95
43. Totals	63,896	8,270	171	742	73,079

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 4/28, 20 07 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: March 2007

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,027,431	923,036	3,046,424	2,919,043	13,721,799	13,273,293
2. Commercial Sales	808,716	795,552	2,237,977	2,302,901	10,157,015	10,003,102
3. Industrial Sales	284,242	237,206	809,081	777,148	3,708,929	3,315,403
4. Other Sales	495,193	488,742	1,402,479	1,317,160	6,591,001	5,853,230
5. Total Operating Revenues (Item 1-4)	2,615,581	2,444,536	7,495,961	7,316,252	34,178,744	32,445,028
Operating Expenses						
6. Source of Supply Expense	11,285	9,141	36,835	48,127	180,881	218,067
7. Pumping and Water Treatment Expense	388,277	349,632	1,146,993	1,007,279	5,019,440	4,051,337
8. Transmission and Distribution-Operation	59,129	54,105	197,863	210,669	747,309	716,579
9. Transmission and Distribution-Maintenance	115,286	89,538	498,060	377,304	1,574,960	1,351,922
10. Customer Accounts and Sales Expense	128,672	122,974	362,567	347,520	1,751,313	1,644,590
11. Administrative and General Expense	766,835	907,890	2,558,412	2,473,132	11,055,189	10,297,734
12. Depreciation and Amortization	365,080	351,751	1,088,166	1,060,865	4,481,362	4,046,385
13. Taxes Other Than Income Taxes	403,323	279,149	1,004,763	842,878	3,827,640	3,317,681
14. Income Taxes	38,582	7,859	(122,948)	76,137	782,297	2,293,372
15. Total Operating Expenses (Item 6-14)	2,276,471	2,172,039	6,770,711	6,443,911	29,420,391	27,937,667
16. Net Operating Income (Item 5 less 15)	339,110	272,497	725,250	872,341	4,758,353	4,507,361
17. Other Income	572	608	8,029	1,548	10,831	(11,698)
18. Miscellaneous Income Deductions	3,200	8,981	7,503	19,318	17,043	30,093
19. Interest Charges	309,985	261,024	919,001	771,311	3,456,785	2,947,102
20. Net Income	26,497	3,101	(193,225)	83,260	1,295,356	1,518,468

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	190,986,422	174,366,052	181,754,744	165,466,808
22. Construction Work in Progress	1,578,516	863,075	2,125,089	4,232,059
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	54,492,688	50,749,532	52,606,244	49,509,548
26. Materials and Supplies	291,867	301,519	314,749	308,781
27. Unamortized Investment Credit	1,173,540	1,249,911	1,214,907	1,284,913
28. Deferred Income Tax	18,464,214	17,310,512	17,595,320	16,929,706
29. Contributions in Aid of Construction	8,234,959	7,231,973	7,597,814	6,867,407
30. Customer Advances for Construction	5,996,469	4,857,189	5,266,989	4,287,866
31. Preferred Stock	1,381,600	1,382,100	1,381,850	1,383,558
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	8,288,918	4,788,768	5,955,498	4,788,768
34. Retained Earnings	19,270,362	19,127,888	19,702,121	19,572,774
35. Long Term Debt..........(1)	39,957,691	39,957,691	41,161,010	40,818,553

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MARCH 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$187,840,946	$180,164,244
3	Plant Under Construction	2,050,358	2,125,089
4	Property Held For Future Use	0	0
5	Materials and Supplies	289,926	314,749
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	589
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	193,156,935	185,580,376
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	54,216,836	52,606,244
16	Accumulated Deferred Income Taxes	17,887,702	17,595,320
17	Unamortized Investment Credit - Pre 1971	40,315	41,476
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,237,636	7,597,814
21	Customer Advances for Construction	5,778,042	5,266,989
22	All Other A/	(261,653)	(276,754)
23			
24			
25			
26	Total Deductions	85,898,878	82,831,089
27			
28	Rate Base	$107,258,057	$102,749,287
29			
30	Net Operating Income	$339,110	$4,758,353
31	Adjustments to NOI		
32	Allowance for funds used during construction	13,124	146,920
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,169	137,210
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$364,404	$5,042,483
40			
41			
42	Rate of return B/	4.08%	4.91%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	13,883	53,825
Unpaid for materials and supplies	60,606	50,084
Taxes on CIAC-DEF. FIT & SIT	(336,142)	(380,663)
	($261,653)	($276,754)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

May 17, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – March 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes) .	$158,421

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 03/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,627	5,376	23	182	69,208
37. 3/4"	125	133	2	12	272
38. 1"	276	1,373	25	147	1,821
39. 1 1/2"	21	329	7	71	428
~~40. 2"~~	~~15~~	~~1,031~~	~~85~~	~~289~~	~~1,420~~
41. 3"		34		4	38
42. 4"&Over		29	29	38	96
43. Totals	64,064	8,305	171	743	73,283

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: May 22, 2007 (Signed) ____________

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: January 2007

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,052,870	1,028,982	1,052,870	1,028,982	13,618,306	13,159,586
2. Commercial Sales	714,480	770,822	714,480	770,822	10,165,597	9,908,843
3. Industrial Sales	243,964	270,769	243,964	270,769	3,650,192	3,315,789
4. Other Sales	438,927	401,357	438,927	401,357	6,543,252	5,936,232
5. Total Operating Revenues (Item 1-4)	2,450,241	2,471,929	2,450,241	2,471,930	33,977,347	32,320,450
Operating Expenses						
6. Source of Supply Expense	12,832	17,203	12,832	17,203	187,801	226,908
7. Pumping and Water Treatment Expense	381,634	342,380	381,634	342,380	4,918,979	3,970,075
8. Transmission and Distribution-Operation	66,847	97,768	66,847	97,768	729,195	730,970
9. Transmission and Distribution-Maintenance	143,614	177,309	143,614	177,309	1,420,509	1,355,490
10. Customer Accounts and Sales Expense	108,565	113,988	108,565	113,988	1,730,844	1,666,465
11. Administrative and General Expense	934,809	583,957	934,809	583,957	11,320,761	10,056,801
12. Depreciation and Amortization	362,403	352,517	362,403	352,517	4,463,946	4,010,381
13. Taxes Other Than Income Taxes	305,371	315,846	305,371	315,846	3,655,280	2,920,108
14. Income Taxes	(72,438)	93,826	(72,438)	93,826	815,118	2,575,563
15. Total Operating Expenses (Item 6-14)	2,243,638	2,094,794	2,243,637	2,094,794	29,242,433	27,512,761
16. Net Operating Income (Item 5 less 15)	206,604	377,135	206,604	377,136	4,734,914	4,807,689
17. Other Income	6,990	1,074	6,990	1,074	10,266	(3,704)
18. Miscellaneous Income Deductions	3,413	292	3,413	292	31,978	14,594
19. Interest Charges	305,041	257,431	305,041	257,431	3,356,705	2,912,105
20. Net Income	(94,860)	120,486	(94,860)	120,487	1,356,497	1,877,286

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	188,435,291	173,943,115	179,222,593	162,758,391
22. Construction Work in Progress	2,353,071	2,018,206	1,911,330	4,915,656
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort. (1)	53,916,586	50,019,258	51,972,911	49,180,262
26. Materials and Supplies	272,775	303,617	315,412	326,490
27. Unamortized Investment Credit	1,186,268	1,262,639	1,227,635	1,297,641
28. Deferred Income Tax	17,595,928	17,481,935	17,481,106	16,651,895
29. Contributions in Aid of Construction	8,238,889	7,118,994	7,420,889	6,763,962
30. Customer Advances for Construction	5,688,465	5,006,286	5,116,069	4,084,256
31. Preferred Stock	1,381,600	1,382,100	1,381,933	1,386,475
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	8,288,918	4,788,768	5,372,139	4,788,768
34. Retained Earnings	19,351,690	19,163,300	19,680,835	19,598,637
35. Long Term Debt..........(1)	39,871,057	43,277,632	39,919,764	41,369,312

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JANUARY 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$187,099,395	$177,632,093
3	Plant Under Construction	1,966,746	1,911,330
4	Property Held For Future Use	0	0
5	Materials and Supplies	282,463	315,412
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	1,007
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	192,324,309	182,835,547
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	53,658,291	51,972,911
16	Accumulated Deferred Income Taxes	17,587,407	17,481,106
17	Unamortized Investment Credit - Pre 1971	40,702	41,992
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,249,860	7,420,889
21	Customer Advances for Construction	5,683,346	5,116,069
22	All Other A/	(179,282)	(286,647)
23			
24			
25			
26	Total Deductions	85,040,324	81,746,320
27			
28	Rate Base	$107,283,985	$101,089,227
29			
30	Net Operating Income	$206,604	$4,734,914
31	Adjustments to NOI		
32	Allowance for funds used during construction	11,512	131,702
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,172	135,060
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$230,288	$5,001,676
40			
41			
42	Rate of return B/	2.58%	4.95%

A/ All Other

	Average Monthly Balance	Average for 12 MTD
Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	134,313	53,825
Unpaid for materials and supplies	52,228	50,084
Taxes on CIAC-DEF. FIT & SIT	(365,823)	(390,556)
	($179,282)	($286,647)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 01/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,364	5,355	23	184	68,926
37. 3/4"	123	133	2	12	270
38. 1"	274	1,357	25	147	1,803
39. 1 1/2"	20	328	7	70	425
40. 2"	15	1,021	85	290	1,411
41. 3"		33		4	37
42. 4"&Over		30	29	36	95
43. Totals	63,796	8,257	171	743	72,967

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 4-13-, 20 07 (Signed) Michael A. Mell

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: December 2006

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	992,783	1,207,467	13,594,417	13,213,682	13,594,417	13,213,682
2. Commercial Sales	768,357	912,734	10,221,939	9,895,304	10,221,939	9,895,304
3. Industrial Sales	289,121	377,045	3,676,996	3,309,689	3,676,996	3,309,689
4. Other Sales	525,135	476,378	6,505,682	6,063,473	6,505,682	6,063,473
5. Total Operating Revenues (Item 1-4)	2,575,397	2,973,625	33,999,034	32,482,148	33,999,034	32,482,148
Operating Expenses						
6. Source of Supply Expense	11,314	14,120	192,172	219,943	192,172	219,943
7. Pumping and Water Treatment Expense	343,248	369,726	4,879,725	3,836,347	4,879,725	3,836,347
8. Transmission and Distribution-Operation	56,030	64,342	760,116	709,555	760,116	709,555
9. Transmission and Distribution-Maintenance	177,799	84,452	1,454,204	1,269,126	1,454,204	1,269,126
10. Customer Accounts and Sales Expense	126,450	180,771	1,736,266	1,666,401	1,736,266	1,666,401
11. Administrative and General Expense	1,209,801	1,314,003	10,969,909	10,171,620	10,969,909	10,171,620
12. Depreciation and Amortization	366,136	358,857	4,454,061	3,939,761	4,454,061	3,939,761
13. Taxes Other Than Income Taxes	286,185	352,337	3,665,755	2,922,584	3,665,755	2,922,584
14. Income Taxes	231,089	569,202	981,382	2,731,709	981,382	2,731,709
15. Total Operating Expenses (Item 6-14)	2,808,052	3,307,808	29,093,590	27,467,046	29,093,590	27,467,046
16. Net Operating Income (Item 5 less 15)	(232,655)	(334,183)	4,905,444	5,015,102	4,905,444	5,015,102
17. Other Income	(1,863)	(1,391)	4,350	(21,652)	4,350	(21,652)
18. Miscellaneous Income Deductions	2,996	(918)	28,857	14,189	28,857	14,189
19. Interest Charges	309,650	261,449	3,309,095	2,894,038	3,309,095	2,894,038
20. Net Income	(547,163)	(596,105)	1,571,842	2,085,223	1,571,842	2,085,223

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	188,944,500	173,947,962	178,014,912	161,434,828
22. Construction Work in Progress	1,580,421	1,022,155	1,883,424	5,083,737
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	53,399,996	49,655,974	51,648,133	49,094,339
26. Materials and Supplies	292,151	297,113	317,983	336,223
27. Unamortized Investment Credit	1,192,632	1,269,003	1,234,000	1,304,005
28. Deferred Income Tax	17,578,886	17,462,754	17,471,607	16,427,636
29. Contributions in Aid of Construction	8,260,830	7,059,987	7,327,564	6,707,041
30. Customer Advances for Construction	5,678,228	5,191,657	5,059,221	3,974,887
31. Preferred Stock	1,381,100	1,382,100	1,381,975	1,387,933
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	8,288,918	4,788,768	5,080,460	4,788,768
34. Retained Earnings	19,440,795	19,045,502	19,665,136	19,628,776
35. Long Term Debt..........(1)	39,880,582	39,985,954	40,203,645	41,369,312

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED DECEMBER 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$176,424,412	$176,424,412
3	Plant Under Construction	1,883,424	1,883,424
4	Property Held For Future Use	0	0
5	Materials and Supplies	317,983	317,983
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	1,255	1,255
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	181,602,779	181,602,779
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	51,648,133	51,648,134
16	Accumulated Deferred Income Taxes	17,471,607	17,471,607
17	Unamortized Investment Credit - Pre 1971	42,250	42,250
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,327,564	7,327,564
21	Customer Advances for Construction	5,059,221	5,059,221
22	All Other A/	(241,784)	(241,784)
23			
24			
25			
26	Total Deductions	81,306,991	81,306,992
27			
28	Rate Base	$100,295,788	$100,295,787
29			
30	Net Operating Income	($232,655)	$4,905,444
31	Adjustments to NOI		
32	Allowance for funds used during construction	18,032	123,261
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,379	133,986
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	($203,244)	$5,162,691
40			
41			
42	Rate of return B/	-2.43%	5.15%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	53,825	53,825
Unpaid for materials and supplies	50,084	50,084
Taxes on CIAC-DEF. FIT & SIT	(345,693)	(345,693)
	($241,784)	($241,784)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 12/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,143	5,356	24	188	68,711
37. 3/4"	118	133	1	12	264
38. 1"	273	1,349	25	141	1,788
39. 1 1/2"	17	313	7	68	405
40. 2"	12	966	79	276	1,333
41. 3"		35		4	39
42. 4"&Over		29	31	34	94
43. Totals	63,563	8,181	167	723	72,634

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: Feb. 21, 20 07 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

February 9, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – December 2006

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$70,169

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: November 2006

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,254,177	1,087,922	12,601,634	12,006,215	13,809,101	13,364,033
2. Commercial Sales	946,770	832,538	9,453,581	8,982,570	10,366,316	10,106,889
3. Industrial Sales	303,222	285,478	3,387,875	2,932,644	3,764,920	3,249,666
4. Other Sales	691,656	489,576	5,980,547	5,587,095	6,456,925	6,221,475
5. Total Operating Revenues (Item 1-4)	3,195,825	2,695,513	31,423,637	29,508,524	34,397,262	32,942,063
Operating Expenses						
6. Source of Supply Expense	24,039	4,317	180,858	205,824	194,977	175,512
7. Pumping and Water Treatment Expense	399,818	308,207	4,536,477	3,466,621	4,906,203	3,835,031
8. Transmission and Distribution-Operation	65,556	59,558	704,086	645,213	768,428	697,753
9. Transmission and Distribution-Maintenance	90,649	107,328	1,276,405	1,184,675	1,360,857	1,273,049
10. Customer Accounts and Sales Expense	230,706	153,767	1,609,816	1,485,631	1,790,587	1,588,507
11. Administrative and General Expense	1,050,744	845,543	9,760,107	8,857,618	11,074,110	10,045,472
12. Depreciation and Amortization	350,489	339,024	4,087,926	3,580,905	4,446,782	3,852,617
13. Taxes Other Than Income Taxes	299,365	272,626	3,379,570	2,570,247	3,731,907	2,865,732
14. Income Taxes	104,162	164,569	750,292	2,162,506	1,319,495	2,554,307
15. Total Operating Expenses (Item 6-14)	2,615,527	2,254,941	26,285,537	24,159,240	29,593,346	26,887,980
16. Net Operating Income (Item 5 less 15)	580,298	440,572	5,138,100	5,349,284	4,803,916	6,054,083
17. Other Income	1,237	(7,108)	6,213	(20,262)	4,822	(4,715)
18. Miscellaneous Income Deductions	(481)	2,807	25,862	15,107	24,944	15,670
19. Interest Charges	292,716	239,807	2,999,445	2,632,589	3,260,894	2,871,848
20. Net Income	289,299	190,850	2,119,006	2,681,326	1,522,900	3,161,850

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service ....(1)	181,434,793	163,986,139	176,765,200	160,093,679
22. Construction Work in Progress	3,469,458	6,626,502	1,836,902	5,287,939
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	52,960,183	50,169,090	51,336,132	49,015,245
26. Materials and Supplies	646,621	304,853	318,396	345,159
27. Unamortized Investment Credit	1,198,996	1,275,367	1,240,364	1,310,369
28. Deferred Income Tax	17,291,002	16,749,434	17,461,929	16,162,392
29. Contributions in Aid of Construction	7,312,160	6,871,208	7,227,494	6,653,648
30. Customer Advances for Construction	5,409,523	4,827,735	5,018,673	3,837,974
31. Preferred Stock	1,381,600	1,382,100	1,382,058	1,389,392
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,918	4,788,768	4,788,781	4,788,768
34. Retained Earnings	20,663,222	20,214,123	19,632,195	19,641,155
35. Long Term Debt..........(1)	39,890,031	39,994,552	40,212,426	41,644,224

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED NOVEMBER 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$175,430,813	$175,174,700
3	Plant Under Construction	1,910,970	1,836,902
4	Property Held For Future Use	0	0
5	Materials and Supplies	320,331	318,396
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	1,370	1,532
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	180,639,189	180,307,235
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	51,488,873	51,336,132
16	Accumulated Deferred Income Taxes	17,461,854	17,461,929
17	Unamortized Investment Credit - Pre 1971	42,379	42,508
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,242,722	7,227,494
21	Customer Advances for Construction	5,002,947	5,018,673
22	All Other A/	(261,104)	(246,485)
23			
24			
25			
26	Total Deductions	80,977,671	80,840,251
27			
28	Rate Base	$99,661,518	$99,466,984
29			
30	Net Operating Income	$580,298	$4,803,916
31	Adjustments to NOI		
32	Allowance for funds used during construction	24,004	150,312
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,307	133,080
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$615,609	$5,087,308
40			
41			
42	Rate of return B/	7.41%	5.11%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	34,298	53,825
Unpaid for materials and supplies	51,159	50,084
Taxes on CIAC-DEF. FIT & SIT	(346,561)	(350,394)
	($261,104)	($246,485)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

January 24, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – November 2006

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$40,752

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 11/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,269	5,381	24	188	68,862
37. 3/4"	123	131	2	12	268
38. 1"	283	1,358	25	144	1,810
39. 1 1/2"	20	329	7	70	426
~~40. 2"~~	~~15~~	~~1,023~~	~~86~~	~~289~~	~~1,413~~
41. 3"		37		4	41
42. 4"&Over		29	31	36	96
43. Totals	63,710	8,288	175	743	72,916

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 2-2, 2007 (Signed) Michael A. Mull

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: October 2006

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	936,497	1,166,297	11,347,456	10,918,293	13,642,845	13,107,247
2. Commercial Sales	757,765	853,046	8,506,812	8,150,032	10,252,084	9,853,520
3. Industrial Sales	316,038	309,161	3,084,653	2,647,166	3,747,176	3,166,576
4. Other Sales	453,372	479,146	5,288,892	5,097,519	6,254,845	6,295,559
5. Total Operating Revenues (Item 1-4)	2,463,671	2,807,650	28,227,813	26,813,010	33,896,950	32,422,902
Operating Expenses						
6. Source of Supply Expense	2,912	44,003	156,819	201,507	175,256	177,414
7. Pumping and Water Treatment Expense	367,723	295,667	4,136,659	3,158,414	4,814,592	3,829,537
8. Transmission and Distribution-Operation	52,225	46,810	638,530	585,654	762,431	697,251
9. Transmission and Distribution-Maintenance	99,580	120,377	1,185,757	1,077,347	1,377,536	1,234,400
10. Customer Accounts and Sales Expense	161,805	192,031	1,379,110	1,331,864	1,713,648	1,518,458
11. Administrative and General Expense	944,618	791,752	8,709,364	8,012,074	10,868,910	9,902,367
12. Depreciation and Amortization	351,938	334,514	3,737,436	3,241,880	4,435,317	3,803,267
13. Taxes Other Than Income Taxes	326,544	276,085	3,080,205	2,297,621	3,705,168	2,888,694
14. Income Taxes	(284,796)	211,104	646,130	1,997,937	1,379,902	2,453,438
15. Total Operating Expenses (Item 6-14)	2,022,549	2,312,342	23,670,010	21,904,298	29,232,760	26,504,826
16. Net Operating Income (Item 5 less 15)	441,123	495,308	4,557,803	4,908,712	4,664,190	5,918,076
17. Other Income	(3,470)	1,752	4,976	(13,153)	(3,523)	3,898
18. Miscellaneous Income Deductions	5,188	(1,470)	26,343	12,300	28,232	12,407
19. Interest Charges	281,211	240,784	2,706,729	2,392,782	3,207,985	2,867,013
20. Net Income	151,255	257,745	1,829,707	2,490,477	1,424,450	3,042,554

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service (1)	181,125,770	163,693,851	175,311,146	159,325,622
22. Construction Work in Progress	3,023,591	5,542,090	2,099,989	5,181,658
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	52,762,903	49,916,858	51,103,540	48,881,541
26. Materials and Supplies	273,964	327,956	289,915	352,870
27. Unamortized Investment Credit	1,205,360	1,281,731	1,246,728	1,316,733
28. Deferred Income Tax	17,222,957	16,665,821	17,416,798	15,906,267
29. Contributions in Aid of Construction	7,287,070	6,877,444	7,190,748	6,591,244
30. Customer Advances for Construction	5,411,118	4,275,205	4,970,191	3,717,558
31. Preferred Stock	1,382,100	1,382,100	1,382,100	1,390,850
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,788,768
34. Retained Earnings	20,355,677	19,998,063	19,594,770	19,584,566
35. Long Term Debt (1)	39,899,407	40,003,839	40,221,136	41,919,020

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED OCTOBER 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$174,989,465	$173,720,646
3	Plant Under Construction	1,755,121	2,099,989
4	Property Held For Future Use	0	0
5	Materials and Supplies	287,702	289,915
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	1,507	1,836
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	180,009,500	179,088,091
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	51,341,742	51,103,541
16	Accumulated Deferred Income Taxes	17,478,939	17,416,798
17	Unamortized Investment Credit - Pre 1971	42,508	42,766
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,235,778	7,190,748
21	Customer Advances for Construction	4,962,290	4,970,191
22	All Other A/	(264,568)	(251,187)
23			
24			
25			
26	Total Deductions	80,796,689	80,472,857
27			
28	Rate Base	$99,212,811	$98,615,234
29			
30	Net Operating Income	$441,123	$4,664,190
31	Adjustments to NOI		
32	Allowance for funds used during construction	19,077	157,276
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,256	132,177
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$471,456	$4,953,643
40			
41			
42	Rate of return B/	5.70%	5.02%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	28,565	53,825
Unpaid for materials and supplies	54,471	50,084
Taxes on CIAC-DEF. FIT & SIT	(347,604)	(355,096)
	($264,568)	($251,187)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

December 18, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – October 2006

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$260,244

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 10/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,386	5,406	24	186	69,002
37. 3/4"	129	125	2	12	268
38. 1"	291	1,364	25	146	1,826
39. 1 1/2"	20	328	7	70	425
40. 2"	15	1,024	86	289	1,414
41. 3"	1	39		4	44
42. 4"&Over		29	31	36	96
43. Totals	63,842	8,315	175	743	73,075

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: Jan. 4, 2007 (Signed) Michael D. Miller sm

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: September 2006

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,577,388	1,019,416	10,410,959	9,751,997	13,872,644	12,928,148
2. Commercial Sales	1,115,565	804,321	7,749,047	7,296,986	10,347,365	9,886,295
3. Industrial Sales	379,264	226,085	2,768,615	2,338,005	3,740,300	3,119,984
4. Other Sales	699,592	519,716	4,835,520	4,618,373	6,280,619	6,274,592
5. Total Operating Revenues (Item 1-4)	3,771,808	2,569,538	25,764,141	24,005,361	34,240,928	32,209,019
Operating Expenses						
6. Source of Supply Expense	36,365	731	153,907	157,504	216,347	146,366
7. Pumping and Water Treatment Expense	534,412	357,473	3,768,936	2,862,747	4,742,536	3,869,203
8. Transmission and Distribution-Operation	76,491	51,683	586,305	538,844	757,016	698,628
9. Transmission and Distribution-Maintenance	153,986	114,528	1,086,177	956,970	1,398,333	1,197,235
10. Customer Accounts and Sales Expense	155,234	121,376	1,217,305	1,139,833	1,743,873	1,419,129
11. Administrative and General Expense	863,614	817,922	7,764,746	7,220,322	10,716,044	9,761,491
12. Depreciation and Amortization	360,782	332,414	3,385,499	2,907,366	4,417,893	3,745,845
13. Taxes Other Than Income Taxes	454,098	276,047	2,753,662	2,021,536	3,654,709	2,908,029
14. Income Taxes	38,527	116,708	930,926	1,786,834	1,875,801	2,484,859
15. Total Operating Expenses (Item 6-14)	2,673,508	2,188,883	21,647,463	19,591,956	29,522,552	26,230,785
16. Net Operating Income (Item 5 less 15)	1,098,300	380,656	4,116,678	4,413,405	4,718,376	5,978,234
17. Other Income	3,844	245	8,447	(14,905)	1,700	4,255
18. Miscellaneous Income Deductions	(2,903)	7,704	21,155	13,770	21,574	16,874
19. Interest Charges	286,224	237,273	2,425,518	2,151,998	3,167,559	2,865,155
20. Net Income	818,823	135,923	1,678,452	2,232,732	1,530,943	3,100,460

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	180,026,613	162,683,113	173,858,486	158,525,920
22. Construction Work in Progress	2,690,507	4,994,649	2,309,864	5,152,553
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	52,407,426	49,612,289	50,866,370	48,756,280
26. Materials and Supplies	281,277	275,028	294,415	358,012
27. Unamortized Investment Credit	1,211,724	1,288,095	1,253,092	1,323,097
28. Deferred Income Tax	17,583,148	16,728,307	17,370,370	15,685,260
29. Contributions in Aid of Construction	7,291,432	6,718,425	7,156,612	6,527,920
30. Customer Advances for Construction	5,294,529	4,160,289	4,875,531	3,642,406
31. Preferred Stock	1,382,100	1,382,100	1,382,100	1,392,308
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,788,768
34. Retained Earnings	20,184,104	19,723,726	19,564,969	19,539,326
35. Long Term Debt..........(1)	39,904,759	40,013,017	40,229,839	42,193,638

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED SEPTEMBER 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$174,484,376	$172,267,986
3	Plant Under Construction	1,614,180	2,309,864
4	Property Held For Future Use	0	0
5	Materials and Supplies	289,228	294,415
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	1,674	2,168
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	179,365,163	177,850,138
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	51,183,835	50,866,370
16	Accumulated Deferred Income Taxes	17,507,382	17,370,370
17	Unamortized Investment Credit - Pre 1971	42,637	43,024
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,230,079	7,156,612
21	Customer Advances for Construction	4,912,420	4,875,531
22	All Other A/	(263,236)	(255,806)
23			
24			
25			
26	Total Deductions	80,613,117	80,056,101
27			
28	Rate Base	$98,752,046	$97,794,037
29			
30	Net Operating Income	$1,098,300	$4,718,376
31	Adjustments to NOI		
32	Allowance for funds used during construction	15,407	160,549
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,204	131,301
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$1,124,911	$5,010,226
40			
41			
42	Rate of return B/	13.67%	5.12%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	30,850	53,825
Unpaid for materials and supplies	54,680	50,084
Taxes on CIAC-DEF. FIT & SIT	(348,766)	(359,715)
	($263,236)	($255,806)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

November 9, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – September 2006

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$305,456

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 09/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,353	5,418	24	186	68,981
37. 3/4"	130	124	2	11	267
38. 1"	290	1,368	25	146	1,829
39. 1 1/2"	20	326	7	70	423
40. 2"	15	1,025	87	285	1,412
41. 3"		39		4	43
42. 4"&Over		29	30	36	95
43. Totals	63,808	8,329	175	738	73,050

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 11/30/06, 20 ___ (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

13

Company Name: Tennessee-American Water Co.
Month of Report: August 2006

PSC--3.06

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,145,328	1,205,909	8,833,571	8,732,581	13,314,673	12,987,941
2. Commercial Sales	900,054	887,817	6,633,482	6,492,666	10,036,121	9,799,774
3. Industrial Sales	395,639	260,726	2,389,352	2,111,920	3,587,121	3,198,910
4. Other Sales	606,797	514,419	4,135,928	4,098,657	6,100,744	6,405,200
5. Total Operating Revenues (Item 1-4)	3,047,817	2,868,871	21,992,333	21,435,824	33,038,659	32,391,825
Operating Expenses						
6. Source of Supply Expense	18,224	45,511	117,542	156,772	180,713	147,313
7. Pumping and Water Treatment Expense	485,363	385,518	3,234,525	2,505,274	4,565,598	3,823,157
8. Transmission and Distribution-Operation	58,502	49,972	509,814	487,161	732,208	698,026
9. Transmission and Distribution-Maintenance	111,083	99,654	932,191	842,442	1,358,876	1,164,467
10. Customer Accounts and Sales Expense	101,596	128,425	1,062,071	1,018,458	1,710,015	1,453,880
11. Administrative and General Expense	868,726	829,962	6,901,132	6,402,400	10,670,352	9,576,951
12. Depreciation and Amortization	356,567	324,371	3,024,716	2,574,952	4,389,526	3,690,541
13. Taxes Other Than Income Taxes	279,687	275,709	2,299,563	1,745,489	3,476,658	2,928,953
14. Income Taxes	212,882	217,480	892,399	1,670,126	1,953,982	2,662,623
15. Total Operating Expenses (Item 6-14)	2,492,630	2,356,603	18,973,953	17,403,074	29,037,928	26,145,911
16. Net Operating Income (Item 5 less 15)	555,187	512,268	3,018,380	4,032,750	4,000,731	6,245,914
17. Other Income	(1,878)	23	4,602	(15,150)	(1,900)	2,098
18. Miscellaneous Income Deductions	0	(1,120)	24,058	6,065	32,181	15,337
19. Interest Charges	283,493	247,490	2,139,295	1,914,725	3,118,608	2,873,486
20. Net Income	269,817	265,921	859,629	2,096,810	848,042	3,359,189

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	178,113,354	160,396,458	172,413,194	157,793,620
22. Construction Work in Progress	1,815,581	5,971,609	2,501,876	5,116,008
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	52,062,568	49,279,366	50,633,442	48,633,659
26. Materials and Supplies	270,179	342,094	293,894	368,973
27. Unamortized Investment Credit	1,218,088	1,294,459	1,259,457	1,329,461
28. Deferred Income Tax	17,578,393	16,748,187	17,299,134	15,456,926
29. Contributions in Aid of Construction	7,284,370	6,714,615	7,108,862	6,473,755
30. Customer Advances for Construction	4,867,468	3,680,878	4,781,012	3,580,139
31. Preferred Stock	1,382,100	1,382,100	1,382,100	1,393,767
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,788,768
34. Retained Earnings	19,905,802	20,215,863	19,526,604	19,489,850
35. Long Term Debt...........(1)	39,913,988	40,022,123	40,238,860	42,468,082

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED AUGUST 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$173,990,408	$170,822,694
3	Plant Under Construction	1,479,639	2,501,876
4	Property Held For Future Use	0	0
5	Materials and Supplies	290,222	293,894
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	1,841	2,499
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	178,737,815	176,596,668
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	51,030,887	50,633,442
16	Accumulated Deferred Income Taxes	17,497,911	17,299,134
17	Unamortized Investment Credit - Pre 1971	42,766	43,282
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,222,410	7,108,862
21	Customer Advances for Construction	4,864,657	4,781,012
22	All Other A/	(280,179)	(260,424)
23			
24			
25			
26	Total Deductions	80,378,452	79,605,308
27			
28	Rate Base	$98,359,363	$96,991,360
29			
30	Net Operating Income	$555,187	$4,000,731
31	Adjustments to NOI		
32	Allowance for funds used during construction	11,144	165,661
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,160	130,454
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$577,492	$4,296,846
40			
41			
42	Rate of return B/	7.05%	4.43%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	18,630	53,825
Unpaid for materials and supplies	51,411	50,084
Taxes on CIAC-DEF. FIT & SIT	(350,220)	(364,333)
	($280,179)	($260,424)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

October 10, 2006

<u>CONTINUING SURVEILLANCE CONSIDERATIONS – August 2006</u> Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$350,668

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 08/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,371	5,437	24	185	69,017
37. 3/4"	128	124	2	11	265
38. 1"	294	1,361	26	141	1,822
39. 1 1/2"	21	325	7	70	423
40. 2"	15	1,019	87	286	1,407
41. 3"		39		3	42
42. 4"&Over		29	31	36	96
43. Totals	63,829	8,334	177	732	73,072

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 10/26, 2006 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: July 2006

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,170,510	1,206,078	7,688,244	7,526,671	13,375,254	12,835,190
2. Commercial Sales	794,475	825,640	5,733,428	5,604,849	10,023,884	9,754,602
3. Industrial Sales	252,101	278,193	1,993,713	1,851,194	3,452,209	3,164,171
4. Other Sales	492,566	563,539	3,529,131	3,584,238	6,008,367	6,407,593
5. Total Operating Revenues (Item 1-4)	2,709,651	2,873,451	18,944,516	18,566,952	32,859,714	32,161,556
Operating Expenses						
6. Source of Supply Expense	19,975	24,255	99,319	111,261	208,001	131,205
7. Pumping and Water Treatment Expense	592,056	361,861	2,749,162	2,119,757	4,465,752	3,842,276
8. Transmission and Distribution-Operation	58,160	57,359	451,312	437,189	723,678	694,909
9. Transmission and Distribution-Maintenance	107,392	87,829	821,108	742,787	1,347,447	1,137,215
10. Customer Accounts and Sales Expense	148,405	126,002	960,475	890,033	1,736,844	1,409,095
11. Administrative and General Expense	853,773	754,989	6,032,406	5,572,438	10,631,588	9,457,819
12. Depreciation and Amortization	544,345	324,717	2,668,150	2,250,581	4,357,330	3,642,891
13. Taxes Other Than Income Taxes	280,723	274,778	2,019,876	1,469,780	3,472,680	2,953,467
14. Income Taxes	45,597	285,708	679,517	1,452,645	1,958,580	2,661,392
15. Total Operating Expenses (Item 6-14)	2,650,426	2,297,499	16,481,325	15,046,471	28,901,900	25,930,269
16. Net Operating Income (Item 5 less 15)	59,225	575,951	2,463,191	3,520,481	3,957,814	6,231,287
17. Other Income	(146)	(1,765)	6,480	(15,172)	0	1,364
18. Miscellaneous Income Deductions	4,209	6,401	24,058	7,185	31,062	10,113
19. Interest Charges	264,424	204,192	1,855,802	1,667,236	3,082,604	2,851,007
20. Net Income	(209,554)	363,593	589,811	1,830,888	844,148	3,371,531

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	177,551,267	159,853,805	170,936,786	157,214,301
22. Construction Work in Progress	1,493,254	6,133,139	2,848,211	5,153,496
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	51,726,866	49,025,463	50,401,508	48,515,133
26. Materials and Supplies	276,805	301,263	299,887	377,517
27. Unamortized Investment Credit	1,224,452	1,300,823	1,265,821	1,335,825
28. Deferred Income Tax	17,463,466	16,845,812	17,229,950	15,229,079
29. Contributions in Aid of Construction	7,269,797	6,726,440	7,061,382	6,420,552
30. Customer Advances for Construction	4,759,433	3,480,403	4,682,129	3,551,647
31. Preferred Stock	1,382,100	1,382,100	1,382,100	1,395,225
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,788,768
34. Retained Earnings	19,630,599	19,932,150	19,552,443	19,418,899
35. Long Term Debt...........(1)	39,932,230	40,040,004	40,247,871	42,743,040

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JULY 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$173,628,630	$169,346,286
3	Plant Under Construction	1,431,647	2,848,211
4	Property Held For Future Use	0	0
~~5~~	~~Materials and Supplies~~	~~293,086~~	~~299,887~~
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	2,008	2,830
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	178,331,076	175,472,919
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	50,883,503	50,401,508
16	Accumulated Deferred Income Taxes	17,486,414	17,229,950
17	Unamortized Investment Credit - Pre 1971	42,895	43,540
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,213,558	7,061,382
21	Customer Advances for Construction	4,864,255	4,682,129
22	All Other A/	(280,090)	(265,044)
23			
24			
25			
26	Total Deductions	80,210,535	79,153,465
27			
28	Rate Base	$98,120,541	$96,319,454
29			
30	Net Operating Income	$59,225	$3,957,814
31	Adjustments to NOI		
32	Allowance for funds used during construction	7,990	178,068
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,133	129,639
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$78,348	$4,265,521
40			
41			
42	Rate of return B/	0.96%	4.43%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	20,533	53,825
Unpaid for materials and supplies	51,467	50,084
Taxes on CIAC-DEF. FIT & SIT	(352,090)	(368,953)
	($280,090)	($265,044)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

September 11, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – July 2006 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$395,879

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 07/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,188	5,434	24	184	68,830
37. 3/4"	125	124	2	10	261
38. 1"	286	1,362	26	141	1,815
39. 1 1/2"	20	324	7	70	421
40. 2"	15	1,012	87	287	1,401
41. 3"		42		4	46
42. 4"&Over		29	31	36	96
43. Totals	63,634	8,327	177	732	72,870

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 9.27, 20 06 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

1/3

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: June 2006

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,519,318	1,226,406	6,517,734	6,320,593	13,410,823	12,910,869
2. Commercial Sales	1,101,937	969,855	4,938,954	4,779,209	10,055,049	9,814,981
3. Industrial Sales	415,150	308,276	1,741,612	1,573,000	3,478,301	3,107,911
4. Other Sales	751,365	506,263	3,036,566	3,020,698	6,079,340	6,415,193
5. Total Operating Revenues (Item 1-4)	3,787,770	3,010,800	16,234,866	15,693,500	33,023,513	32,248,954
Operating Expenses						
6. Source of Supply Expense	6,222	20,187	79,344	87,005	212,282	129,879
7. Pumping and Water Treatment Expense	435,908	362,650	2,157,105	1,757,896	4,235,557	3,833,847
8. Transmission and Distribution-Operation	56,067	80,971	393,152	379,829	722,878	689,108
9. Transmission and Distribution-Maintenance	100,348	138,505	713,716	654,958	1,327,884	1,120,959
10. Customer Accounts and Sales Expense	153,807	140,768	812,070	764,031	1,714,441	1,450,033
11. Administrative and General Expense	1,069,901	634,151	5,178,633	4,817,449	10,532,804	9,456,838
12. Depreciation and Amortization	358,070	323,554	2,123,805	1,925,864	4,137,702	3,594,489
13. Taxes Other Than Income Taxes	291,929	286,161	1,739,153	1,195,002	3,466,735	2,979,390
14. Income Taxes	437,732	338,569	633,919	1,166,937	2,198,691	2,686,163
15. Total Operating Expenses (Item 6-14)	2,909,983	2,325,517	13,830,897	12,748,971	28,548,974	25,940,706
16. Net Operating Income (Item 5 less 15)	877,787	685,283	2,403,969	2,944,529	4,474,539	6,308,248
17. Other Income	1,046	3,376	6,625	(13,407)	(1,620)	(11,883)
18. Miscellaneous Income Deductions	6,150	(2,288)	19,849	784	33,254	(3,779)
19. Interest Charges	291,963	258,052	1,591,378	1,463,043	3,022,373	2,883,361
20. Net Income	580,720	432,895	799,367	1,467,295	1,417,292	3,416,783

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	177,013,297	159,519,461	169,461,998	156,669,432
22. Construction Work in Progress	1,136,656	6,022,838	3,234,868	5,103,285
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	51,354,529	48,712,925	50,176,392	48,394,880
26. Materials and Supplies	300,509	302,529	301,925	387,675
27. Unamortized Investment Credit	1,230,819	1,307,187	1,272,185	1,342,189
28. Deferred Income Tax	17,870,833	16,818,063	17,178,479	14,992,890
29. Contributions in Aid of Construction	7,263,938	6,684,062	7,016,102	6,366,137
30. Customer Advances for Construction	4,732,027	3,523,171	4,575,543	3,541,107
31. Preferred Stock	1,382,100	1,382,100	1,382,100	1,396,683
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,788,768
34. Retained Earnings	19,837,921	19,550,762	19,577,572	19,347,845
35. Long Term Debt...........(1)	39,932,230	40,040,046	40,256,852	43,016,507

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JUNE 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$173,239,941	$167,871,498
3	Plant Under Construction	1,421,379	3,234,868
4	Property Held For Future Use	0	0
5	Materials and Supplies	295,799	301,925
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	2,174	3,161
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	177,934,998	174,387,157
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	50,742,943	50,176,391
16	Accumulated Deferred Income Taxes	17,490,238	17,178,479
17	Unamortized Investment Credit - Pre 1971	43,024	43,798
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,204,185	7,016,102
21	Customer Advances for Construction	4,881,725	4,575,543
22	All Other A/	(289,546)	(269,662)
23			
24			
25			
26	Total Deductions	80,072,569	78,720,651
27			
28	Rate Base	$97,862,429	$95,666,506
29			
30	Net Operating Income	$877,787	$4,474,539
31	Adjustments to NOI		
32	Allowance for funds used during construction	(84)	193,631
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,103	128,841
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$888,806	$4,797,011
40			
41			
42	Rate of return B/	10.90%	5.01%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	14,130	53,825
Unpaid for materials and supplies	50,906	50,084
Taxes on CIAC-DEF. FIT & SIT	(354,582)	(373,571)
	($289,546)	($269,662)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

August 15, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – June 2006 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$441,091

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 06/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,016	5,440	24	182	68,662
37. 3/4"	124	123	2	10	259
38. 1"	286	1,359	26	139	1,810
39. 1 1/2"	20	324	7	69	420
40. 2"	15	1,012	89	287	1,403
41. 3"		46		4	50
42. 4"&Over		29	31	36	96
43. Totals	63,461	8,333	179	727	72,700

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 7 - 22, 20 06 (Signed) Michael S. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: May 2006

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	918,272	1,184,019	4,998,416	5,094,187	13,117,911	12,876,845
2. Commercial Sales	774,903	868,102	3,837,017	3,809,353	9,922,968	9,705,088
3. Industrial Sales	237,347	293,983	1,326,462	1,264,725	3,371,426	3,156,007
4. Other Sales	434,058	531,634	2,285,201	2,514,436	5,834,238	6,569,337
5. Total Operating Revenues (Item 1-4)	2,364,580	2,877,739	12,447,096	12,682,701	32,246,543	32,307,277
Operating Expenses						
6. Source of Supply Expense	13,149	11,112	73,122	66,819	226,246	116,376
7. Pumping and Water Treatment Expense	379,858	321,447	1,721,197	1,395,245	4,162,299	3,857,053
8. Transmission and Distribution-Operation	67,953	43,302	337,085	298,858	747,781	666,971
9. Transmission and Distribution-Maintenance	132,033	100,286	613,368	516,454	1,366,041	1,081,569
10. Customer Accounts and Sales Expense	159,387	123,559	658,263	623,263	1,701,402	1,462,269
11. Administrative and General Expense	742,963	803,150	4,108,732	4,183,297	10,097,055	9,618,840
12. Depreciation and Amortization	352,893	324,468	1,765,735	1,602,310	4,103,186	3,351,765
13. Taxes Other Than Income Taxes	292,871	167,560	1,447,225	908,841	3,460,968	3,005,661
14. Income Taxes	(11,546)	321,248	196,187	828,369	2,099,528	2,743,871
15. Total Operating Expenses (Item 6-14)	2,129,561	2,216,132	10,920,914	10,423,456	27,964,506	25,904,375
16. Net Operating Income (Item 5 less 15)	235,019	661,607	1,526,182	2,259,245	4,282,037	6,402,902
17. Other Income	5,849	(5,262)	5,580	(16,784)	711	(33,485)
18. Miscellaneous Income Deductions	(285)	(1,639)	13,700	3,072	24,816	(8,533)
19. Interest Charges	264,208	246,335	1,299,416	1,204,991	2,988,462	2,864,920
20. Net Income	(23,055)	411,649	218,646	1,034,398	1,269,470	3,513,030

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	174,710,232	159,167,540	168,004,178	156,123,282
22. Construction Work in Progress	1,967,829	5,716,485	3,642,050	5,021,417
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	51,112,691	48,461,797	49,956,258	48,282,621
26. Materials and Supplies	292,350	301,173	302,094	396,695
27. Unamortized Investment Credit	1,313,551	1,313,551	1,278,549	1,348,553
28. Deferred Income Tax	17,577,531	16,606,879	17,090,748	14,734,870
29. Contributions in Aid of Construction	7,252,770	6,670,068	6,967,779	6,315,592
30. Customer Advances for Construction	4,851,103	3,705,719	4,474,805	3,530,936
31. Preferred Stock	1,382,100	1,382,100	1,382,100	1,398,142
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,788,768
34. Retained Earnings	19,263,043	19,601,879	19,553,642	19,274,128
35. Long Term Debt...........(1)	39,939,875	43,265,788	40,265,837	43,290,496

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MAY 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$172,803,370	$166,413,678
3	Plant Under Construction	1,478,324	3,642,050
4	Property Held For Future Use	0	0
~~5~~	~~Materials and Supplies~~	~~294,857~~	~~302,094~~
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	2,340	3,491
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	177,554,596	173,337,018
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	50,620,626	49,956,258
16	Accumulated Deferred Income Taxes	17,414,119	17,090,748
17	Unamortized Investment Credit - Pre 1971	43,153	44,056
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,192,234	6,967,779
21	Customer Advances for Construction	4,911,665	4,474,805
22	All Other A/	(289,020)	(274,281)
23			
24			
25			
26	Total Deductions	79,892,777	78,259,365
27			
28	Rate Base	$97,661,819	$95,077,653
29			
30	Net Operating Income	$235,019	$4,282,037
31	Adjustments to NOI		
32	Allowance for funds used during construction	6,120	214,269
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,081	128,061
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$252,220	$4,624,367
40			
41			
42	Rate of return B/	3.10%	4.86%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	16,225	53,825
Unpaid for materials and supplies	52,826	50,084
Taxes on CIAC-DEF. FIT & SIT	(358,071)	(378,190)
	($289,020)	($274,281)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

'2

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: April 2006

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,161,101	1,050,736	4,080,144	3,910,168	13,383,658	12,779,958
2. Commercial Sales	759,214	746,149	3,062,114	2,941,252	10,016,167	9,673,031
3. Industrial Sales	311,966	199,307	1,089,114	970,741	3,428,062	3,089,226
4. Other Sales	533,983	455,399	1,851,142	1,982,802	5,931,814	6,554,008
5. Total Operating Revenues (Item 1-4)	2,766,264	2,451,590	10,082,514	9,804,963	32,759,701	32,096,223
Operating Expenses						
6. Source of Supply Expense	11,847	5,704	59,973	55,707	224,209	159,612
7. Pumping and Water Treatment Expense	334,061	281,509	1,341,339	1,073,798	4,103,888	3,810,182
8. Transmission and Distribution-Operation	58,462	51,910	269,132	255,556	723,130	655,602
9. Transmission and Distribution-Maintenance	104,030	121,659	481,335	416,167	1,334,294	1,036,225
10. Customer Accounts and Sales Expense	151,356	130,373	498,876	499,704	1,665,574	1,439,933
11. Administrative and General Expense	892,637	1,033,129	3,365,769	3,380,147	10,157,242	9,711,475
12. Depreciation and Amortization	351,977	323,601	1,412,842	1,277,842	4,074,761	3,429,312
13. Taxes Other Than Income Taxes	311,476	293,500	1,154,354	741,281	3,335,657	3,126,735
14. Income Taxes	131,597	(7,353)	207,734	507,121	2,432,321	2,545,657
15. Total Operating Expenses (Item 6-14)	2,347,443	2,234,033	8,791,354	8,207,323	28,051,076	25,914,733
16. Net Operating Income (Item 5 less 15)	418,821	217,557	1,291,160	1,597,640	4,708,625	6,181,490
17. Other Income	(1,818)	(3,115)	(269)	(11,521)	(10,401)	(39,618)
18. Miscellaneous Income Deductions	(5,333)	1,298	13,985	4,711	23,462	4,904
19. Interest Charges	263,897	240,410	1,035,208	958,657	2,970,589	2,864,047
20. Net Income	158,439	(27,266)	241,698	622,751	1,704,173	3,272,921

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	173,842,759	158,937,009	166,708,954	155,588,427
22. Construction Work in Progress	2,172,690	5,504,144	3,954,438	4,866,657
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	50,837,252	48,127,631	49,735,350	48,186,856
26. Materials and Supplies	273,360	344,783	302,829	399,538
27. Unamortized Investment Credit	1,243,547	1,319,915	1,278,549	1,354,917
28. Deferred Income Tax	17,314,515	16,352,661	17,009,860	14,463,105
29. Contributions in Aid of Construction	7,238,490	6,616,720	6,919,221	6,260,559
30. Customer Advances for Construction	4,866,318	3,768,433	4,379,357	3,496,885
31. Preferred Stock	1,382,100	1,399,600	1,382,100	1,401,506
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,788,321
34. Retained Earnings	19,285,736	19,176,480	19,581,878	19,160,061
35. Long Term Debt...........(1)	39,948,818	43,255,495	40,542,996	43,296,195

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED APRIL 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$172,724,279	$165,118,454
3	Plant Under Construction	1,355,948	3,954,438
4	Property Held For Future Use	0	0
5	Materials and Supplies	295,484	302,829
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	2,504	3,821
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	177,353,920	172,355,247
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	50,497,610	49,735,350
16	Accumulated Deferred Income Taxes	17,373,266	17,009,860
17	Unamortized Investment Credit - Pre 1971	43,282	44,314
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,177,100	6,919,221
21	Customer Advances for Construction	4,926,805	4,379,357
22	All Other A/	(290,761)	(278,900)
23			
24			
25			
26	Total Deductions	79,727,302	77,809,202
27			
28	Rate Base	$97,626,618	$94,546,045
29			
30	Net Operating Income	$418,821	$4,708,625
31	Adjustments to NOI		
32	Allowance for funds used during construction	5,168	227,133
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,076	127,288
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$435,065	$5,063,046
40			
41			
42	Rate of return B/	5.35%	5.36%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	17,637	53,825
Unpaid for materials and supplies	54,908	50,084
Taxes on CIAC-DEF. FIT & SIT	(363,306)	(382,809)
	($290,761)	($278,900)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 04/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,646	5,423	24	180	68,273
37. 3/4"	119	122	2	10	253
38. 1"	272	1,347	26	138	1,783
39. 1 1/2"	22	324	7	68	421
40. 2"	14	1,009	88	278	1,389
41. 3"		41		4	45
42. 4"&Over		31	29	37	97
43. Totals	63,073	8,297	176	715	72,261

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: ________________, 20 ____ (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

'B

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: March 2006

PSC--3.06

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	923,036	919,402	2,919,043	2,859,432	13,273,293	12,757,984
2. Commercial Sales	795,552	819,687	2,302,901	2,195,103	10,003,102	9,647,315
3. Industrial Sales	237,206	294,384	777,148	771,435	3,315,403	3,129,516
4. Other Sales	488,742	571,762	1,317,160	1,527,403	5,853,230	6,644,841
5. Total Operating Revenues (Item 1-4)	2,444,536	2,605,234	7,316,252	7,353,373	32,445,028	32,179,656
Operating Expenses						
6. Source of Supply Expense	9,141	14,773	48,127	50,003	218,067	168,855
7. Pumping and Water Treatment Expense	349,632	304,702	1,007,279	792,289	4,051,337	3,827,768
8. Transmission and Distribution-Operation	54,105	56,283	210,669	203,646	716,579	652,861
9. Transmission and Distribution-Maintenance	89,538	112,547	377,304	294,508	1,351,922	987,236
10. Customer Accounts and Sales Expense	122,974	96,422	347,520	369,331	1,644,590	1,412,346
11. Administrative and General Expense	907,890	857,310	2,473,132	2,347,018	10,297,734	9,510,588
12. Depreciation and Amortization	351,751	233,213	1,060,865	954,241	4,046,385	3,506,989
13. Taxes Other Than Income Taxes	279,149	(162,138)	842,878	447,781	3,317,681	3,134,913
14. Income Taxes	7,859	369,824	76,137	514,474	2,293,372	2,659,927
15. Total Operating Expenses (Item 6-14)	2,172,039	1,882,935	6,443,911	5,973,291	27,937,667	25,861,483
16. Net Operating Income (Item 5 less 15)	272,497	722,299	872,341	1,380,082	4,507,361	6,318,173
17. Other Income	608	4,963	1,548	(8,406)	(11,698)	(28,616)
18. Miscellaneous Income Deductions	8,981	3,085	19,318	3,413	30,093	(1,558)
19. Interest Charges	261,024	241,019	771,311	718,247	2,947,102	2,847,918
20. Net Income	3,101	483,158	83,260	650,016	1,518,468	3,443,197

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	174,366,052	158,659,251	165,466,808	155,024,191
22. Construction Work in Progress	863,075	5,048,163	4,232,059	4,694,134
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	50,749,532	47,794,357	49,509,548	48,086,325
26. Materials and Supplies	301,519	361,032	308,781	402,707
27. Unamortized Investment Credit	1,249,911	1,326,279	1,284,913	1,361,281
28. Deferred Income Tax	17,310,512	16,422,725	16,929,706	14,223,636
29. Contributions in Aid of Construction	7,231,973	6,605,809	6,867,407	6,209,576
30. Customer Advances for Construction	4,857,189	3,763,543	4,287,866	3,458,382
31. Preferred Stock	1,382,100	1,399,600	1,383,558	1,404,456
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,787,873
34. Retained Earnings	19,127,888	19,192,474	19,572,774	19,067,099
35. Long Term Debt...........(1)	39,957,691	43,262,932	40,818,553	43,303,883

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MARCH 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$172,881,619	$163,876,308
3	Plant Under Construction	1,083,701	4,232,059
4	Property Held For Future Use	0	0
5	Materials and Supplies	302,859	308,781
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	2,666	4,150
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	177,246,550	171,397,003
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	50,384,395	49,509,549
16	Accumulated Deferred Income Taxes	17,392,850	16,929,706
17	Unamortized Investment Credit - Pre 1971	43,411	44,572
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,156,637	6,867,407
21	Customer Advances for Construction	4,946,968	4,287,866
22	All Other A/	(297,540)	(283,518)
23			
24			
25			
26	Total Deductions	79,626,721	77,355,582
27			
28	Rate Base	$97,619,829	$94,041,421
29			
30	Net Operating Income	$272,497	$4,507,361
31	Adjustments to NOI		
32	Allowance for funds used during construction	6,999	239,127
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,076	126,528
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$290,572	$4,873,016
40			
41			
42	Rate of return B/	3.57%	5.18%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	13,883	53,825
Unpaid for materials and supplies	60,606	50,084
Taxes on CIAC-DEF. FIT & SIT	(372,029)	(387,427)
	($297,540)	($283,518)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

May 17, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – March 2006 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	($47,861)
(2)	Revenues due to 3-9-05 rate increase	$86

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 03/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,503	5,406	23	176	68,108
37. 3/4"	116	124	2	10	252
38. 1"	255	1,338	26	139	1,758
39. 1 1/2"	21	322	7	68	418
40. 2"	16	1,011	88	278	1,393
41. 3"		36		4	40
42. 4"&Over		31	29	37	97
43. Totals	62,911	8,268	175	712	72,066

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 5-22, 2006 (Signed) Michael A. Mill

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

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MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: February 2006

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	967,025	856,953	1,996,007	1,940,031	13,269,659	12,913,761
2. Commercial Sales	736,526	618,133	1,507,348	1,375,416	10,027,236	9,648,256
3. Industrial Sales	269,173	212,382	539,942	477,051	3,372,580	3,079,059
4. Other Sales	427,061	427,043	828,418	955,641	5,936,250	6,663,672
5. Total Operating Revenues (Item 1-4)	2,399,786	2,114,511	4,871,715	4,748,139	32,605,725	32,304,748
Operating Expenses						
6. Source of Supply Expense	21,783	24,991	38,986	35,229	223,700	163,851
7. Pumping and Water Treatment Expense	315,267	278,935	657,647	487,587	4,006,407	3,884,917
8. Transmission and Distribution-Operation	58,796	71,009	156,564	147,363	718,757	656,221
9. Transmission and Distribution-Maintenance	110,458	91,016	287,767	181,962	1,374,931	988,495
10. Customer Accounts and Sales Expense	110,557	158,985	224,545	272,909	1,618,037	1,429,476
11. Administrative and General Expense	981,285	790,932	1,565,242	1,489,708	10,247,154	9,447,091
12. Depreciation and Amortization	356,597	439,130	709,114	721,028	3,927,848	3,674,669
13. Taxes Other Than Income Taxes	247,883	291,598	563,729	609,919	2,876,394	3,614,516
14. Income Taxes	(25,549)	(105,323)	68,278	144,650	2,655,336	2,435,224
15. Total Operating Expenses (Item 6-14)	2,177,077	2,041,273	4,271,872	4,090,355	27,648,564	26,294,460
16. Net Operating Income (Item 5 less 15)	222,709	73,238	599,843	657,784	4,957,161	6,010,288
17. Other Income	(134)	3,506	940	(13,369)	(7,343)	(20,403)
18. Miscellaneous Income Deductions	10,045	442	10,337	328	24,197	(4,298)
19. Interest Charges	252,855	237,863	510,286	477,228	2,927,097	2,845,702
20. Net Income	(40,325)	(161,561)	80,160	166,859	1,998,524	3,148,481

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	175,107,190	158,312,986	164,157,908	154,463,936
22. Construction Work in Progress	369,821	4,387,895	4,580,817	4,528,452
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	50,384,396	49,388,133	49,263,284	47,985,268
26. Materials and Supplies	303,442	456,438	313,740	405,375
27. Unamortized Investment Credit	1,256,275	1,332,643	1,291,277	1,367,645
28. Deferred Income Tax	17,386,103	14,940,157	16,855,723	13,964,254
29. Contributions in Aid of Construction	7,118,946	6,503,776	6,815,226	6,159,214
30. Customer Advances for Construction	4,977,428	3,627,753	4,196,729	3,400,306
31. Preferred Stock	1,382,100	1,399,600	1,385,017	1,407,406
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,787,426
34. Retained Earnings	19,123,548	19,369,317	19,578,156	18,960,911
35. Long Term Debt...........(1)	39,966,494	43,270,368	41,093,990	43,310,952

(1) Includes Capital Lease

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 02/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,477	5,406	23	176	68,082
37. 3/4"	116	124	2	10	252
38. 1"	255	1,338	26	139	1,758
39. 1 1/2"	21	322	7	68	418
40. 2"	16	1,011	88	278	1,393
41. 3"		36		4	40
42. 4"&Over		31	29	37	97
43. Totals	62,885	8,268	175	712	72,040

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 4-20, 20 06 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, ...

WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: January 2006

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,028,982	1,083,077	1,028,982	1,083,077	13,159,586	12,854,350
2. Commercial Sales	770,822	757,283	770,822	757,283	9,908,843	9,717,800
3. Industrial Sales	270,769	264,669	270,769	264,669	3,315,789	3,122,724
4. Other Sales	401,357	528,598	401,357	528,598	5,936,232	6,713,344
5. Total Operating Revenues (Item 1-4)	2,471,929	2,633,627	2,471,930	2,633,627	32,320,450	32,408,218
Operating Expenses						
6. Source of Supply Expense	17,203	10,238	17,203	10,238	226,908	141,800
7. Pumping and Water Treatment Expense	342,380	208,652	342,380	208,652	3,970,075	3,924,655
8. Transmission and Distribution-Operation	97,768	76,353	97,768	76,353	730,970	627,747
9. Transmission and Distribution-Maintenance	177,309	90,946	177,309	90,946	1,355,490	997,803
10. Customer Accounts and Sales Expense	113,988	113,924	113,988	113,924	1,666,465	1,378,492
11. Administrative and General Expense	583,957	698,776	583,957	698,776	10,056,801	9,526,673
12. Depreciation and Amortization	352,517	281,898	352,517	281,898	4,010,381	3,636,018
13. Taxes Other Than Income Taxes	315,846	318,322	315,846	318,322	2,920,108	3,627,129
14. Income Taxes	93,826	249,972	93,826	249,972	2,575,563	2,498,860
15. Total Operating Expenses (Item 6-14)	2,094,794	2,049,081	2,094,794	2,049,081	27,512,761	26,359,177
16. Net Operating Income (Item 5 less 15)	377,135	584,546	377,136	584,546	4,807,689	6,049,041
17. Other Income	1,074	(16,874)	1,074	(16,874)	(3,704)	(41,584)
18. Miscellaneous Income Deductions	292	(113)	292	(113)	14,594	(11,438)
19. Interest Charges	257,431	239,364	257,431	239,364	2,912,105	2,782,332
20. Net Income	120,486	328,421	120,487	328,421	1,877,286	3,236,563

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	173,943,115	158,060,359	162,758,391	153,912,724
22. Construction Work in Progress	2,018,206	4,035,178	4,915,656	4,375,086
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	50,019,258	48,988,181	49,180,262	47,718,481
26. Materials and Supplies	303,617	420,418	326,490	398,059
27. Unamortized Investment Credit	1,262,639	1,339,007	1,297,641	1,374,009
28. Deferred Income Tax	17,481,935	14,790,833	16,651,895	13,771,869
29. Contributions in Aid of Construction	7,118,994	6,435,942	6,763,962	6,116,272
30. Customer Advances for Construction	5,006,286	3,693,857	4,084,256	3,339,512
31. Preferred Stock	1,382,100	1,399,600	1,386,475	1,410,356
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,786,978
34. Retained Earnings	19,163,300	19,524,975	19,598,637	18,898,099
35. Long Term Debt..........(1)	43,277,632	43,277,632	41,369,312	41,734,627

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JANUARY 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$172,355,038	$161,167,891
3	Plant Under Construction	1,520,181	4,915,656
4	Property Held For Future Use	0	0
5	Materials and Supplies	300,365	328,490
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	3,152	4,811
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	177,154,441	169,390,553
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	49,837,616	49,180,262
16	Accumulated Deferred Income Taxes	17,472,345	16,651,895
17	Unamortized Investment Credit - Pre 1971	43,798	45,088
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,089,491	6,763,962
21	Customer Advances for Construction	5,098,971	4,084,256
22	All Other A/	(204,233)	(288,353)
23			
24			
25			
26	Total Deductions	79,337,988	76,437,110
27			
28	Rate Base	$97,816,453	$92,953,443
29			
30	Net Operating Income	$377,135	$4,807,689
31	Adjustments to NOI		
32	Allowance for funds used during construction	3,071	250,128
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,098	124,885
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$391,304	$5,182,702
40			
41			
42	Rate of return B/	4.80%	5.58%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	134,313	53,825
Unpaid for materials and supplies	52,228	50,084
Taxes on CIAC-DEF. FIT & SIT	(390,774)	(392,262)
	($204,233)	($288,353)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

March 9, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – January 2006 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$72,829
(2)	Revenues due to 3-9-05 rate increase	$18,276

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 01/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,210	5,416	23	177	67,826
37. 3/4"	115	123	2	11	251
38. 1"	249	1,336	26	139	1,750
39. 1 1/2"	21	319	7	68	415
40. 2"	16	1,026	88	280	1,410
41. 3"		42		4	46
42. 4"&Over		31	28	35	94
43. Totals	62,611	8,293	174	714	71,792

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 3-15, 2006 (Signed) Michael A. Mell

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: December 2005

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,207,467	1,357,818	13,213,682	12,551,935	13,213,682	12,551,935
2. Commercial Sales	912,734	1,124,319	9,895,304	9,563,971	9,895,304	9,563,971
3. Industrial Sales	377,045	317,022	3,309,689	3,038,889	3,309,689	3,038,889
4. Other Sales	476,378	634,380	6,063,473	6,700,925	6,063,473	6,700,925
5. Total Operating Revenues (Item 1-4)	2,973,625	3,433,539	32,482,148	31,855,720	32,482,148	31,855,720
Operating Expenses						
6. Source of Supply Expense	14,120	(30,311)	219,943	135,000	219,943	135,000
7. Pumping and Water Treatment Expense	369,726	368,410	3,836,347	3,989,361	3,836,347	3,989,361
8. Transmission and Distribution-Operation	64,342	52,541	709,555	633,541	709,555	633,541
9. Transmission and Distribution-Maintenance	84,452	88,374	1,269,126	1,037,344	1,269,126	1,037,344
10. Customer Accounts and Sales Expense	180,771	102,877	1,666,401	1,393,399	1,666,401	1,393,399
11. Administrative and General Expense	1,314,003	1,187,854	10,171,620	9,394,639	10,171,620	9,394,639
12. Depreciation and Amortization	358,857	271,712	3,939,761	3,754,329	3,939,761	3,754,329
13. Taxes Other Than Income Taxes	352,337	295,485	2,922,584	3,548,142	2,922,584	3,548,142
14. Income Taxes	569,202	391,801	2,731,709	2,267,446	2,731,709	2,267,446
15. Total Operating Expenses (Item 6-14)	3,307,808	2,728,742	27,467,046	26,153,201	27,467,046	26,153,201
16. Net Operating Income (Item 5 less 15)	(334,183)	704,797	5,015,102	5,702,519	5,015,102	5,702,519
17. Other Income	(1,391)	15,547	(21,652)	(39,244)	(21,652)	(39,244)
18. Miscellaneous Income Deductions	(918)	563	14,189	(7,074)	14,189	(7,074)
19. Interest Charges	261,449	239,259	2,894,038	2,735,172	2,894,038	2,735,172
20. Net Income	(596,105)	480,522	2,085,223	2,935,177	2,085,223	2,935,177

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	173,947,962	157,854,177	161,434,828	153,371,399
22. Construction Work in Progress	1,022,155	3,472,579	5,083,737	4,232,108
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	49,655,974	48,706,851	49,094,339	47,452,879
26. Materials and Supplies	297,113	404,342	336,223	393,010
27. Unamortized Investment Credit	1,269,003	1,345,371	1,304,005	1,380,373
28. Deferred Income Tax	17,462,754	14,279,826	16,427,636	13,612,715
29. Contributions in Aid of Construction	7,059,987	6,419,265	6,707,041	6,079,157
30. Customer Advances for Construction	5,191,657	3,548,703	3,974,887	3,268,745
31. Preferred Stock	1,382,100	1,399,600	1,387,933	1,413,306
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,786,531
34. Retained Earnings	19,045,502	19,194,044	19,628,776	18,828,679
35. Long Term Debt...........(1)	39,985,954	43,284,896	41,369,312	40,158,252

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED DECEMBER 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$159,844,328	$159,844,328
3	Plant Under Construction	5,083,737	5,083,737
4	Property Held For Future Use	0	0
~~5~~	~~Materials and Supplies~~	~~336,223~~	~~336,223~~
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	5,143	5,143
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	168,245,136	168,245,136
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	49,094,339	49,094,338
16	Accumulated Deferred Income Taxes	16,427,636	16,427,636
17	Unamortized Investment Credit - Pre 1971	45,346	45,346
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,707,041	6,707,041
21	Customer Advances for Construction	3,974,887	3,974,887
22	All Other A/	(158,180)	(158,180)
23			
24			
25			
26	Total Deductions	76,091,069	76,091,068
27			
28	Rate Base	$92,154,067	$92,154,068
29			
30	Net Operating Income	($334,183)	$5,015,102
31	Adjustments to NOI		
32	Allowance for funds used during construction	237,038	255,458
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,456	124,026
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	($86,689)	$5,394,586
40			
41			
42	Rate of return B/	-1.13%	5.85%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	53,825	53,825
Unpaid for materials and supplies	50,084	50,084
Taxes on CIAC-DEF. FIT & SIT	(262,089)	(262,089)
	($158,180)	($158,180)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

February 10, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – December 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$133,175
(2)	Revenues due to 3-9-05 rate increase	$ 33,940

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 12/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,195	5,437	23	178	67,833
37. 3/4"	117	122	2	11	252
38. 1"	257	1,339	26	138	1,760
39. 1 1/2"	21	318	7	68	414
40. 2"	17	1,029	88	281	1,415
41. 3"	1	46		4	51
42. 4"&Over		30	29	35	94
43. Totals	62,608	8,321	175	715	71,819

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: February 24, 2006 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

'B

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: November 2005

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,087,922	831,136	12,006,215	11,194,117	13,364,033	12,767,372
2. Commercial Sales	832,538	579,169	8,982,570	8,439,652	10,106,889	9,641,735
3. Industrial Sales	285,478	202,388	2,932,644	2,721,867	3,249,666	3,129,742
4. Other Sales	489,576	563,660	5,587,095	6,066,545	6,221,475	6,672,575
5. Total Operating Revenues (Item 1-4)	2,695,513	2,176,353	29,508,524	28,422,181	32,942,063	32,211,424
Operating Expenses						
6. Source of Supply Expense	4,317	6,219	205,824	165,311	175,512	167,065
7. Pumping and Water Treatment Expense	308,207	302,713	3,466,621	3,620,951	3,835,031	4,051,869
8. Transmission and Distribution-Operation	59,558	59,056	645,213	581,000	697,753	623,620
9. Transmission and Distribution-Maintenance	107,328	68,680	1,184,675	948,970	1,273,049	1,024,540
10. Customer Accounts and Sales Expense	153,767	83,718	1,485,631	1,290,523	1,588,507	1,279,662
11. Administrative and General Expense	845,543	702,438	8,857,618	8,206,785	10,045,472	8,901,249
12. Depreciation and Amortization	339,024	289,675	3,580,905	3,482,617	3,852,617	3,950,618
13. Taxes Other Than Income Taxes	272,626	295,588	2,570,247	3,252,657	2,865,732	3,592,005
14. Income Taxes	164,569	63,700	2,162,506	1,875,645	2,554,307	2,549,344
15. Total Operating Expenses (Item 6-14)	2,254,941	1,871,787	24,159,240	23,424,459	26,887,980	26,139,972
16. Net Operating Income (Item 5 less 15)	440,572	304,566	5,349,284	4,997,722	6,054,083	6,071,452
17. Other Income	(7,108)	1,504	(20,262)	(54,791)	(4,715)	51,196
18. Miscellaneous Income Deductions	2,807	(456)	15,107	(7,637)	15,670	36,779
19. Interest Charges	239,807	234,972	2,632,589	2,495,913	2,871,848	2,708,624
20. Net Income	190,850	71,554	2,681,326	2,454,655	3,161,850	3,377,245

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	163,986,139	154,769,448	160,093,679	152,844,236
22. Construction Work in Progress	6,626,502	5,351,128	5,287,939	4,116,547
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	50,169,090	48,564,646	49,015,245	47,179,547
26. Materials and Supplies	304,853	397,389	345,159	387,460
27. Unamortized Investment Credit	1,275,367	1,351,735	1,310,369	1,386,737
28. Deferred Income Tax	16,749,434	13,675,932	16,162,392	13,506,491
29. Contributions in Aid of Construction	6,871,208	6,122,358	6,653,648	6,040,023
30. Customer Advances for Construction	4,827,735	3,382,735	3,837,974	3,203,415
31. Preferred Stock	1,382,100	1,399,600	1,389,392	1,416,256
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,786,083
34. Retained Earnings	20,214,123	19,535,053	19,641,155	18,784,925
35. Long Term Debt...........(1)	39,994,552	43,292,102	41,644,224	38,581,823

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED NOVEMBER 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$158,706,770	$158,503,179
3	Plant Under Construction	5,452,972	5,287,939
4	Property Held For Future Use	0	0
5	Materials and Supplies	339,779	345,159
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	5,309	5,475
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	167,480,535	167,117,457
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	49,043,281	49,015,245
16	Accumulated Deferred Income Taxes	16,333,534	16,162,392
17	Unamortized Investment Credit - Pre 1971	45,475	45,604
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,674,955	6,653,648
21	Customer Advances for Construction	3,864,272	3,837,974
22	All Other A/	(178,530)	(173,309)
23			
24			
25			
26	Total Deductions	75,782,987	75,541,554
27			
28	Rate Base	$91,697,548	$91,575,903
29			
30	Net Operating Income	$440,572	$6,054,083
31	Adjustments to NOI		
32	Allowance for funds used during construction	237,038	219,519
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,404	123,725
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$688,014	$6,397,327
40			
41			
42	Rate of return B/	9.00%	6.99%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	34,298	53,825
Unpaid for materials and supplies	51,159	50,084
Taxes on CIAC-DEF. FIT & SIT	(263,987)	(277,218)
	($178,530)	($173,309)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

January 17, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – November 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$193,520
(2)	Revenues due to 3-9-05 rate increase	$ 49,605

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 11/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,326	5,443	23	178	67,970
37. 3/4"	119	122	2	11	254
38. 1"	265	1,343	26	140	1,774
39. 1 1/2"	21	318	7	68	414
40. 2"	18	1,032	88	281	1,419
41. 3"	1	45		4	50
42. 4"&Over		30	29	35	94
43. Totals	62,750	8,333	175	717	71,975

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 1-19, 2006 (Signed) Michael A. Mell

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

WATER COMPANIES

PSC–3.06

Company Name: Tennessee-American Water Co.
Month of Report: October 2005

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,166,297	987,197	10,918,293	10,362,981	13,107,247	12,756,159
2. Commercial Sales	853,046	885,821	8,150,032	7,860,483	9,853,520	9,659,122
3. Industrial Sales	309,161	262,569	2,647,166	2,519,479	3,166,576	3,137,990
4. Other Sales	479,146	458,179	5,097,519	5,502,885	6,295,559	6,579,191
5. Total Operating Revenues (Item 1-4)	2,807,650	2,593,766	26,813,010	26,245,828	32,422,902	32,132,462
Operating Expenses						
6. Source of Supply Expense	44,003	12,955	201,507	159,093	177,414	163,929
7. Pumping and Water Treatment Expense	295,667	335,333	3,158,414	3,318,238	3,829,537	4,080,360
8. Transmission and Distribution-Operation	46,810	48,188	585,654	521,944	697,251	613,618
9. Transmission and Distribution-Maintenance	120,377	83,211	1,077,347	880,291	1,234,400	1,041,807
10. Customer Accounts and Sales Expense	192,031	92,702	1,331,864	1,206,805	1,518,458	1,298,402
11. Administrative and General Expense	791,752	650,876	8,012,074	7,504,346	9,902,367	8,750,820
12. Depreciation and Amortization	334,514	277,092	3,241,880	3,192,942	3,803,267	4,056,623
13. Taxes Other Than Income Taxes	276,085	295,420	2,297,621	2,957,069	2,888,694	3,599,812
14. Income Taxes	211,104	242,524	1,997,937	1,811,945	2,453,438	2,530,414
15. Total Operating Expenses (Item 6-14)	2,312,342	2,038,301	21,904,298	21,552,673	26,504,826	26,135,785
16. Net Operating Income (Item 5 less 15)	495,308	555,465	4,908,712	4,693,155	5,918,076	5,996,677
17. Other Income	1,752	2,109	(13,153)	(56,295)	3,898	40,094
18. Miscellaneous Income Deductions	(1,470)	2,997	12,300	(7,181)	12,407	38,285
19. Interest Charges	240,784	238,926	2,392,782	2,260,941	2,867,013	2,648,723
20. Net Income	257,745	315,651	2,490,477	2,383,100	3,042,554	3,349,763

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	163,693,851	154,097,435	159,325,622	152,438,733
22. Construction Work in Progress	5,542,090	5,192,826	5,181,658	3,883,738
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	49,916,858	48,413,725	48,881,541	46,884,808
26. Materials and Supplies	327,956	389,651	352,870	385,033
27. Unamortized Investment Credit	1,281,731	1,358,099	1,316,733	1,399,465
28. Deferred Income Tax	16,665,821	14,013,739	15,906,267	13,351,168
29. Contributions in Aid of Construction	6,877,444	6,117,558	6,591,244	6,021,713
30. Customer Advances for Construction	4,275,205	3,373,388	3,717,558	3,149,145
31. Preferred Stock	1,382,100	1,399,600	1,390,850	1,419,206
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,785,636
34. Retained Earnings	19,998,063	19,455,185	19,584,566	18,597,582
35. Long Term Debt...........(1)	40,003,839	43,299,253	41,919,020	37,005,339

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED OCTOBER 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$158,337,883	$157,735,122
3	Plant Under Construction	5,335,619	5,181,658
4	Property Held For Future Use	0	0
5	Materials and Supplies	343,271	352,870
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	5,475	5,806
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	166,997,953	166,251,161
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	48,930,700	48,881,541
16	Accumulated Deferred Income Taxes	16,291,945	15,906,267
17	Unamortized Investment Credit - Pre 1971	45,604	45,862
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,655,330	6,591,244
21	Customer Advances for Construction	3,767,925	3,717,558
22	All Other A/	(183,228)	(188,437)
23			
24			
25			
26	Total Deductions	75,508,276	74,954,035
27			
28	Rate Base	$91,489,677	$91,297,126
29			
30	Net Operating Income	$495,308	$5,918,076
31	Adjustments to NOI		
32	Allowance for funds used during construction	237,038	202,692
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,380	123,467
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$742,726	$6,244,235
40			
41			
42	Rate of return B/	9.74%	6.84%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	28,565	53,825
Unpaid for materials and supplies	54,471	50,084
Taxes on CIAC-DEF. FIT & SIT	(266,264)	(292,346)
	($183,228)	($188,437)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 10/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,485	5,458	23	177	68,143
37. 3/4"	120	121	2	11	254
38. 1"	277	1,351	27	139	1,794
39. 1 1/2"	21	316	7	68	412
~~40. 2"~~	~~18~~	~~1,027~~	~~88~~	~~279~~	~~1,412~~
41. 3"	1	45		4	50
42. 4"&Over		30	29	35	94
43. Totals	62,922	8,348	176	713	72,159

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 12-27, 20 05 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

'8

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: September 2005

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,019,416	1,079,209	9,751,997	9,375,784	12,928,148	12,787,194
2. Commercial Sales	804,321	717,799	7,296,986	6,974,662	9,886,295	9,573,318
3. Industrial Sales	226,085	305,011	2,338,005	2,256,910	3,119,984	3,166,669
4. Other Sales	519,716	650,324	4,618,373	5,044,706	6,274,592	6,715,243
5. Total Operating Revenues (Item 1-4)	2,569,538	2,752,343	24,005,361	23,652,062	32,209,019	32,242,424
Operating Expenses						
6. Source of Supply Expense	731	1,678	157,504	146,138	146,366	153,583
7. Pumping and Water Treatment Expense	357,473	311,427	2,862,747	2,982,905	3,869,203	4,102,413
8. Transmission and Distribution-Operation	51,683	51,081	538,844	473,756	698,628	644,400
9. Transmission and Distribution-Maintenance	114,528	81,760	956,970	797,079	1,197,235	1,059,091
10. Customer Accounts and Sales Expense	121,376	156,127	1,139,833	1,114,104	1,419,129	1,337,801
11. Administrative and General Expense	817,922	633,382	7,220,322	6,853,471	9,761,491	8,772,749
12. Depreciation and Amortization	332,414	277,110	2,907,366	2,915,850	3,745,845	4,091,834
13. Taxes Other Than Income Taxes	276,047	296,971	2,021,536	2,661,649	2,908,029	3,613,417
14. Income Taxes	116,708	294,472	1,786,834	1,569,421	2,484,859	2,539,139
15. Total Operating Expenses (Item 6-14)	2,188,883	2,104,008	19,591,956	19,514,373	26,230,785	26,314,427
16. Net Operating Income (Item 5 less 15)	380,656	648,335	4,413,405	4,137,689	5,978,234	5,927,997
17. Other Income	245	(1,912)	(14,905)	(58,404)	4,255	43,409
18. Miscellaneous Income Deductions	7,704	6,168	13,770	(10,178)	16,874	39,274
19. Interest Charges	237,273	245,604	2,151,998	2,022,015	2,865,155	2,586,432
20. Net Income	135,923	394,651	2,232,732	2,067,448	3,100,460	3,345,700

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	162,683,113	153,895,512	158,525,920	151,746,812
22. Construction Work in Progress	4,994,649	4,556,116	5,152,553	3,941,576
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	49,612,289	48,140,828	48,756,280	46,571,036
26. Materials and Supplies	275,028	406,561	358,012	382,241
27. Unamortized Investment Credit	1,288,095	1,364,463	1,323,097	1,405,829
28. Deferred Income Tax	16,728,307	13,988,302	15,685,260	13,215,977
29. Contributions in Aid of Construction	6,718,425	6,068,443	6,527,920	5,999,010
30. Customer Advances for Construction	4,160,289	3,413,080	3,642,406	3,094,290
31. Preferred Stock	1,382,100	1,399,600	1,392,308	1,422,156
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,785,188
34. Retained Earnings	19,723,726	19,130,023	19,539,326	18,511,038
35. Long Term Debt...........(1)	40,013,017	43,306,347	42,193,638	35,422,006

(1) Includes Capital Lease

November 21, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – September 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$397,082
(2)	Revenues due to 3-9-05 rate increase	$ 80,428

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 09/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,551	5,477	23	177	68,228
37. 3/4"	122	119	3	11	255
38. 1"	277	1,351	27	139	1,794
39. 1 1/2"	21	315	7	68	411
40. 2"	18	1,035	88	281	1,422
41. 3"	1	43		4	48
42. 4"&Over		30	29	35	94
43. Totals	62,990	8,370	177	715	72,252

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 12-1, 2005 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: August 2005

PSC--3.06

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,205,909	1,053,159	8,732,581	8,296,575	12,987,941	12,925,783
2. Commercial Sales	887,817	842,645	6,492,666	6,256,863	9,799,774	9,791,703
3. Industrial Sales	260,726	225,987	2,111,920	1,951,899	3,198,910	3,163,194
4. Other Sales	514,419	516,812	4,098,657	4,394,382	6,405,200	6,768,331
5. Total Operating Revenues (Item 1-4)	2,868,871	2,638,603	21,435,824	20,899,719	32,391,825	32,649,011
Operating Expenses						
6. Source of Supply Expense	45,511	29,404	156,772	144,460	147,313	155,118
7. Pumping and Water Treatment Expense	385,518	404,636	2,505,274	2,671,477	3,823,157	4,192,238
8. Transmission and Distribution-Operation	49,972	46,856	487,161	422,676	698,026	709,196
9. Transmission and Distribution-Maintenance	99,654	72,402	842,442	715,319	1,164,467	1,100,513
10. Customer Accounts and Sales Expense	128,425	83,640	1,018,458	957,977	1,453,880	1,296,719
11. Administrative and General Expense	829,962	710,831	6,402,400	6,220,089	9,576,951	8,886,506
12. Depreciation and Amortization	324,371	276,721	2,574,952	2,638,740	3,690,541	4,126,813
13. Taxes Other Than Income Taxes	275,709	300,223	1,745,489	2,364,678	2,928,953	3,625,354
14. Income Taxes	217,480	216,250	1,670,126	1,274,949	2,662,623	2,610,579
15. Total Operating Expenses (Item 6-14)	2,356,603	2,140,963	17,403,074	17,410,365	26,145,911	26,703,036
16. Net Operating Income (Item 5 less 15)	512,268	497,640	4,032,750	3,489,354	6,245,914	5,945,975
17. Other Income	23	(712)	(15,150)	(56,492)	2,098	50,578
18. Miscellaneous Income Deductions	(1,120)	(6,344)	6,065	(16,346)	15,337	41,480
19. Interest Charges	247,490	225,010	1,914,725	1,776,411	2,873,486	2,512,641
20. Net Income	265,921	278,262	2,096,810	1,672,797	3,359,189	3,442,432

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	160,396,458	153,444,634	157,793,620	151,057,764
22. Construction Work in Progress	5,971,609	6,421,469	5,116,008	4,022,062
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	49,279,366	47,857,053	48,633,659	46,259,169
26. Materials and Supplies	342,094	444,622	368,973	377,604
27. Unamortized Investment Credit	1,294,459	1,370,827	1,329,461	1,412,193
28. Deferred Income Tax	16,748,187	14,014,018	15,456,926	13,068,957
29. Contributions in Aid of Construction	6,714,615	6,076,186	6,473,755	5,958,490
30. Customer Advances for Construction	3,680,878	3,338,974	3,580,139	3,040,315
31. Preferred Stock	1,382,100	1,399,600	1,393,767	1,425,106
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,784,741
34. Retained Earnings	20,215,863	19,364,443	19,489,850	18,422,637
35. Long Term Debt...........(1)	40,022,123	43,321,613	42,468,082	33,845,415

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED AUGUST 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$157,522,859	$156,203,120
3	Plant Under Construction	5,352,431	5,116,008
4	Property Held For Future Use	0	0
5	Materials and Supplies	353,716	368,973
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	5,806	6,470
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	166,210,517	164,670,276
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	48,722,232	48,633,659
16	Accumulated Deferred Income Taxes	16,190,665	15,456,926
17	Unamortized Investment Credit - Pre 1971	45,862	46,378
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,619,679	6,473,755
21	Customer Advances for Construction	3,655,470	3,580,139
22	All Other A/	(202,484)	(218,693)
23			
24			
25			
26	Total Deductions	75,031,424	73,972,164
27			
28	Rate Base	$91,179,093	$90,698,112
29			
30	Net Operating Income	$512,268	$6,245,914
31	Adjustments to NOI		
32	Allowance for funds used during construction	23,551	187,830
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,345	122,988
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$546,164	$6,556,732
40			
41			
42	Rate of return B/	7.19%	7.23%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	18,630	53,825
Unpaid for materials and supplies	51,411	50,084
Taxes on CIAC-DEF. FIT & SIT	(272,525)	(322,602)
	($202,484)	($218,693)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

October 21, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – August 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$458,251
(2)	Revenues due to 3-9-05 rate increase	$ 95,587

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 08/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,461	5,486	23	177	68,147
37. 3/4"	121	115	3	11	250
38. 1"	274	1,353	27	141	1,795
39. 1 1/2"	21	314	7	68	410
40. 2"	18	1,029	88	280	1,415
41. 3"	1	40		4	45
42. 4"&Over		29	29	35	93
43. Totals	62,896	8,366	177	716	72,155

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 10-30, 2005 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: July 2005

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,206,078	1,281,757	7,526,671	7,243,416	12,835,190	12,837,917
2. Commercial Sales	825,640	886,019	5,604,849	5,414,218	9,754,602	9,697,793
3. Industrial Sales	278,193	221,934	1,851,194	1,725,912	3,164,171	3,188,171
4. Other Sales	563,539	571,140	3,584,238	3,877,570	6,407,593	6,692,976
5. Total Operating Revenues (Item 1-4)	2,873,451	2,960,850	18,566,952	18,261,116	32,161,556	32,416,857
Operating Expenses						
6. Source of Supply Expense	24,255	22,929	111,261	115,056	131,205	126,141
7. Pumping and Water Treatment Expense	361,861	353,432	2,119,757	2,266,841	3,842,276	4,133,688
8. Transmission and Distribution-Operation	57,359	51,558	437,189	375,820	694,909	743,978
9. Transmission and Distribution-Maintenance	87,829	71,573	742,787	642,917	1,137,215	1,132,215
10. Customer Accounts and Sales Expense	126,002	166,940	890,033	874,337	1,409,095	1,317,166
11. Administrative and General Expense	754,989	754,008	5,572,438	5,509,258	9,457,819	8,806,609
12. Depreciation and Amortization	324,717	276,315	2,250,581	2,362,019	3,642,891	4,162,288
13. Taxes Other Than Income Taxes	274,778	300,701	1,469,780	2,064,455	2,953,467	3,638,735
14. Income Taxes	285,708	310,479	1,452,645	1,058,699	2,661,392	2,538,059
15. Total Operating Expenses (Item 6-14)	2,297,499	2,307,935	15,046,471	15,269,402	25,930,269	26,598,879
16. Net Operating Income (Item 5 less 15)	575,951	652,915	3,520,481	2,991,714	6,231,287	5,817,978
17. Other Income	(1,765)	(15,012)	(15,172)	(55,780)	1,364	47,124
18. Miscellaneous Income Deductions	6,401	(7,491)	7,185	(10,002)	10,113	48,212
19. Interest Charges	204,192	236,547	1,667,236	1,551,401	2,851,007	2,475,244
20. Net Income	363,593	408,847	1,830,888	1,394,535	3,371,531	3,341,646

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	159,853,805	153,315,366	157,214,301	150,398,059
22. Construction Work in Progress	6,133,139	5,530,606	5,153,496	3,882,405
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	49,025,463	47,582,434	48,515,133	45,948,381
26. Materials and Supplies	301,263	423,157	377,517	374,447
27. Unamortized Investment Credit	1,300,823	1,377,191	1,335,825	1,418,557
28. Deferred Income Tax	16,845,812	14,011,550	15,229,079	12,905,146
29. Contributions in Aid of Construction	6,726,440	6,073,460	6,420,552	5,915,206
30. Customer Advances for Construction	3,480,403	3,353,923	3,551,647	2,992,872
31. Preferred Stock	1,382,100	1,399,600	1,395,225	1,427,389
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,784,293
34. Retained Earnings	19,932,150	19,079,510	19,418,899	18,313,829
35. Long Term Debt...........(1)	40,040,004	43,321,613	42,743,040	32,267,552

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JULY 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$157,339,559	$155,623,801
3	Plant Under Construction	5,263,977	5,153,496
4	Property Held For Future Use	0	0
5	~~Materials and Supplies~~	~~355,377~~	~~377,517~~
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	5,972	6,802
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	165,940,590	164,137,321
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	48,642,641	48,515,133
16	Accumulated Deferred Income Taxes	16,111,018	15,229,079
17	Unamortized Investment Credit - Pre 1971	45,991	46,636
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,606,117	6,420,552
21	Customer Advances for Construction	3,651,840	3,551,647
22	All Other A/	(204,998)	(233,822)
23			
24			
25			
26	Total Deductions	74,852,609	73,529,225
27			
28	Rate Base	$91,087,981	$90,608,096
29			
30	Net Operating Income	$575,951	$6,231,287
31	Adjustments to NOI		
32	Allowance for funds used during construction	23,553	176,701
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,335	122,775
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$609,839	$6,530,763
40			
41			
42	Rate of return B/	8.03%	7.21%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	20,533	53,825
Unpaid for materials and supplies	51,467	50,084
Taxes on CIAC-DEF. FIT & SIT	(276,998)	(337,731)
	($204,998)	($233,822)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 07/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,204	5,486	23	178	67,891
37. 3/4"	120	111	3	11	245
38. 1"	274	1,349	27	141	1,791
39. 1 1/2"	21	313	7	68	409
40. 2"	18	1,031	88	280	1,417
41. 3"	1	33		4	38
42. 4"&Over		29	29	35	93
43. Totals	62,638	8,352	177	717	71,884

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 10-4-, 20 05 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: June 2005

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,226,406	1,192,382	6,320,593	5,961,659	12,910,869	12,574,456
2. Commercial Sales	969,855	859,963	4,779,209	4,528,199	9,814,981	9,528,880
3. Industrial Sales	308,276	356,371	1,573,000	1,503,978	3,107,911	3,206,043
4. Other Sales	506,263	660,406	3,020,698	3,306,430	6,415,193	6,563,257
5. Total Operating Revenues (Item 1-4)	3,010,800	3,069,122	15,693,500	15,300,266	32,248,954	31,872,636
Operating Expenses						
6. Source of Supply Expense	20,187	6,684	87,005	92,127	129,879	103,337
7. Pumping and Water Treatment Expense	362,650	385,856	1,757,896	1,913,409	3,833,847	4,107,573
8. Transmission and Distribution-Operation	80,971	58,834	379,829	324,262	689,108	791,152
9. Transmission and Distribution-Maintenance	138,505	99,115	654,958	571,344	1,120,959	1,142,022
10. Customer Accounts and Sales Expense	140,768	153,004	764,031	707,397	1,450,033	1,313,770
11. Administrative and General Expense	634,151	796,153	4,817,449	4,755,250	9,456,838	8,575,370
12. Depreciation and Amortization	323,554	80,830	1,925,864	2,085,704	3,594,489	4,198,153
13. Taxes Other Than Income Taxes	286,161	312,432	1,195,002	1,763,754	2,979,390	3,647,171
14. Income Taxes	338,569	396,276	1,166,937	748,220	2,686,163	2,412,745
15. Total Operating Expenses (Item 6-14)	2,325,517	2,289,184	12,748,971	12,961,467	25,940,706	26,291,293
16. Net Operating Income (Item 5 less 15)	685,283	779,938	2,944,529	2,338,799	6,308,248	5,581,343
17. Other Income	3,376	(18,225)	(13,407)	(40,768)	(11,883)	56,544
18. Miscellaneous Income Deductions	(2,288)	(7,042)	784	(2,511)	(3,779)	53,058
19. Interest Charges	258,052	239,611	1,463,043	1,314,854	2,883,361	2,416,384
20. Net Income	432,895	529,144	1,467,295	985,688	3,416,783	3,168,445

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	159,519,461	152,965,672	156,669,432	149,745,081
22. Construction Work in Progress	6,022,838	5,040,412	5,103,285	3,761,244
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	48,712,925	47,365,821	48,394,880	45,639,025
26. Materials and Supplies	302,529	410,771	387,675	370,960
27. Unamortized Investment Credit	1,307,187	1,383,555	1,342,189	1,424,921
28. Deferred Income Tax	16,818,063	13,721,826	14,992,890	12,727,227
29. Contributions in Aid of Construction	6,684,062	6,077,516	6,366,137	5,867,893
30. Customer Advances for Construction	3,523,171	3,401,124	3,541,107	2,947,668
31. Preferred Stock	1,382,100	1,399,600	1,396,683	1,429,673
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,788,768	4,788,768	4,783,846
34. Retained Earnings	19,550,762	18,666,151	19,347,845	18,212,296
35. Long Term Debt..........(1)	40,040,046	43,327,917	43,016,507	30,690,752

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JUNE 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$157,185,601	$155,078,932
3	Plant Under Construction	5,119,117	5,103,285
4	Property Held For Future Use	0	0
5	~~Materials and Supplies~~	~~364,396~~	~~387,675~~
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	6,138	7,133
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	165,650,957	163,552,730
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	48,578,837	48,394,880
16	Accumulated Deferred Income Taxes	15,988,553	14,992,890
17	Unamortized Investment Credit - Pre 1971	46,120	46,894
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,586,063	6,366,137
21	Customer Advances for Construction	3,680,413	3,541,107
22	All Other A/	(217,926)	(248,950)
23			
24			
25			
26	Total Deductions	74,662,060	73,092,958
27			
28	Rate Base	$90,988,897	$90,459,772
29			
30	Net Operating Income	$685,283	$6,308,248
31	Adjustments to NOI		
32	Allowance for funds used during construction	20,555	163,559
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,323	122,543
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$716,161	$6,594,350
40			
41			
42	Rate of return B/	9.45%	7.29%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	14,130	53,825
Unpaid for materials and supplies	50,906	50,084
Taxes on CIAC-DEF. FIT & SIT	(282,962)	(352,859)
	($217,926)	($248,950)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

August 17, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – June 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$580,587
(2)	Revenues due to 3-9-05 rate increase	$126,915

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 06/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,116	5,487	24	177	67,804
37. 3/4"	118	111	3	11	243
38. 1"	272	1,348	27	141	1,788
39. 1 1/2"	21	311	7	68	407
40. 2"	18	1,028	88	280	1,414
41. 3"		38		4	42
42. 4"&Over		29	29	35	93
43. Totals	62,545	8,352	178	716	71,791

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 8/25, 20 05 (Signed) ______________________

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

18

Company Name: Tennessee-American Water Co.
Month of Report: May 2005

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,184,019	1,087,132	5,094,187	4,769,277	12,876,845	12,318,217
2. Commercial Sales	868,102	836,044	3,809,353	3,668,236	9,705,088	9,377,069
3. Industrial Sales	293,983	227,203	1,264,725	1,147,607	3,156,007	3,170,719
4. Other Sales	531,634	516,305	2,514,436	2,646,024	6,569,337	6,397,446
5. Total Operating Revenues (Item 1-4)	2,877,739	2,666,684	12,682,701	12,231,144	32,307,277	31,263,451
Operating Expenses						
6. Source of Supply Expense	11,112	54,348	66,819	85,443	116,376	96,729
7. Pumping and Water Treatment Expense	321,447	274,576	1,395,245	1,527,553	3,857,053	4,107,713
8. Transmission and Distribution-Operation	43,302	31,933	298,858	265,428	666,971	886,875
9. Transmission and Distribution-Maintenance	100,286	54,943	516,454	472,229	1,081,569	1,184,514
10. Customer Accounts and Sales Expense	123,559	101,223	623,263	554,393	1,462,269	1,304,013
11. Administrative and General Expense	803,150	895,786	4,183,297	3,959,097	9,618,840	8,322,014
12. Depreciation and Amortization	324,468	402,015	1,602,310	2,004,874	3,351,765	4,429,466
13. Taxes Other Than Income Taxes	167,560	288,634	908,841	1,451,322	3,005,661	3,647,919
14. Income Taxes	321,248	123,034	828,369	351,944	2,743,871	2,139,398
15. Total Operating Expenses (Item 6-14)	2,216,132	2,226,492	10,423,456	10,672,283	25,904,375	26,118,641
16. Net Operating Income (Item 5 less 15)	661,607	440,192	2,259,245	1,558,861	6,402,902	5,144,810
17. Other Income	(5,262)	(11,396)	(16,784)	(22,543)	(33,485)	70,834
18. Miscellaneous Income Deductions	(1,639)	11,798	3,072	4,531	(8,533)	68,662
19. Interest Charges	246,335	245,461	1,204,991	1,075,243	2,864,920	2,359,826
20. Net Income	411,649	171,537	1,034,398	456,544	3,513,030	2,787,156

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	159,167,540	152,749,271	156,123,282	149,101,618
22. Construction Work in Progress	5,716,485	3,859,370	5,021,417	3,670,234
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	48,461,797	47,312,616	48,282,621	45,322,658
26. Materials and Supplies	301,173	335,291	396,695	367,733
27. Unamortized Investment Credit	1,313,551	1,389,919	1,348,553	1,431,285
28. Deferred Income Tax	16,606,879	13,345,690	14,734,870	12,563,443
29. Contributions in Aid of Construction	6,670,068	6,009,673	6,315,592	5,819,598
30. Customer Advances for Construction	3,705,719	3,297,107	3,530,936	2,890,573
31. Preferred Stock	1,382,100	1,422,470	1,398,142	1,431,956
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,788,768	4,783,398
34. Retained Earnings	19,601,879	18,233,081	19,274,128	18,123,862
35. Long Term Debt...........(1)	43,265,788	43,334,170	43,290,496	29,113,952

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MAY 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$157,036,929	$154,532,782
3	Plant Under Construction	4,938,373	5,021,417
4	Property Held For Future Use	0	0
5	~~Materials and Supplies~~	376,769	396,695
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	6,304	7,465
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	165,334,080	162,934,064
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	48,552,020	48,282,622
16	Accumulated Deferred Income Taxes	15,822,651	14,734,870
17	Unamortized Investment Credit - Pre 1971	46,249	47,152
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,566,463	6,315,592
21	Customer Advances for Construction	3,711,861	3,530,936
22	All Other A/	(218,312)	(262,434)
23			
24			
25			
26	Total Deductions	74,480,932	72,648,738
27			
28	Rate Base	$90,853,148	$90,285,326
29			
30	Net Operating Income	$661,607	$6,402,902
31	Adjustments to NOI		
32	Allowance for funds used during construction	18,984	152,424
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,308	122,300
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$690,899	$6,677,626
40			
41			
42	Rate of return B/	9.13%	7.40%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	16,225	53,825
Unpaid for materials and supplies	52,826	50,084
Taxes on CIAC-DEF. FIT & SIT	(287,363)	(366,343)
	($218,312)	($262,434)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

July 19, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – May 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	$641,755
(2)	Revenues due to 3-9-05 rate increase (March, April & May)	$472,709

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 05/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,952	5,482	23	177	67,634
37. 3/4"	113	109	3	11	236
38. 1"	263	1,332	27	141	1,763
39. 1 1/2"	21	310	7	67	405
40. 2"	18	1,019	88	280	1,405
41. 3"		37		4	41
42. 4"&Over		30	29	35	94
43. Totals	62,367	8,319	177	715	71,578

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: July 28, 2005 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

(8)

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: April 2005

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,050,736	1,028,762	3,910,168	3,682,145	12,779,958	12,190,821
2. Commercial Sales	746,149	720,433	2,941,252	2,832,192	9,673,031	9,336,689
3. Industrial Sales	199,307	239,596	970,741	920,404	3,089,226	3,178,776
4. Other Sales	455,399	546,232	1,982,802	2,129,719	6,554,008	6,339,150
5. Total Operating Revenues (Item 1-4)	2,451,590	2,535,023	9,804,963	9,564,460	32,096,223	31,045,436
Operating Expenses						
6. Source of Supply Expense	5,704	14,947	55,707	31,095	159,612	42,436
7. Pumping and Water Treatment Expense	281,509	299,096	1,073,798	1,252,977	3,810,182	4,123,026
8. Transmission and Distribution-Operation	51,910	49,169	255,556	233,495	655,602	958,977
9. Transmission and Distribution-Maintenance	121,659	72,669	416,167	417,286	1,036,225	1,226,826
10. Customer Accounts and Sales Expense	130,373	102,786	499,704	453,170	1,439,933	1,306,154
11. Administrative and General Expense	1,033,129	832,242	3,380,147	3,063,311	9,711,475	8,033,323
12. Depreciation and Amortization	323,601	401,278	1,277,842	1,602,859	3,429,312	4,339,126
13. Taxes Other Than Income Taxes	293,500	301,678	741,281	1,162,688	3,126,735	3,659,230
14. Income Taxes	(7,353)	106,917	507,121	228,910	2,545,657	2,207,077
15. Total Operating Expenses (Item 6-14)	2,234,033	2,180,782	8,207,323	8,445,791	25,914,733	25,896,175
16. Net Operating Income (Item 5 less 15)	217,557	354,241	1,597,640	1,118,669	6,181,490	5,149,261
17. Other Income	(3,115)	7,887	(11,521)	(11,147)	(39,618)	104,915
18. Miscellaneous Income Deductions	1,298	(5,164)	4,711	(7,267)	4,904	56,999
19. Interest Charges	240,410	224,281	958,657	829,782	2,864,047	2,337,189
20. Net Income	(27,266)	143,011	622,751	285,007	3,272,921	2,859,988

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	158,937,009	152,166,186	155,588,427	148,469,504
22. Construction Work in Progress	5,504,144	3,433,865	4,866,657	3,658,785
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	48,127,631	46,921,258	48,186,856	45,000,099
26. Materials and Supplies	344,783	382,811	399,538	370,523
27. Unamortized Investment Credit	1,319,915	1,396,283	1,354,917	1,437,649
28. Deferred Income Tax	16,352,661	13,479,041	14,463,105	12,424,944
29. Contributions in Aid of Construction	6,616,720	6,004,930	6,260,559	5,776,700
30. Customer Advances for Construction	3,768,433	3,306,393	3,496,885	2,842,301
31. Preferred Stock	1,399,600	1,435,000	1,401,506	1,434,578
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,788,321	4,783,278
34. Retained Earnings	19,176,480	18,060,930	19,160,061	18,074,762
35. Long Term Debt...........(1)	43,255,495	43,347,757	43,296,195	28,287,152

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED APRIL 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$156,901,901	$153,997,927
3	Plant Under Construction	4,743,845	4,866,657
4	Property Held For Future Use	0	0
5	Materials and Supplies	395,668	399,538
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	6,470	7,797
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	165,023,589	162,247,624
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	48,574,576	48,186,857
16	Accumulated Deferred Income Taxes	15,626,594	14,463,105
17	Unamortized Investment Credit - Pre 1971	46,378	47,410
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,540,562	6,260,559
21	Customer Advances for Construction	3,713,397	3,496,885
22	All Other A/	(221,021)	(275,785)
23			
24			
25			
26	Total Deductions	74,280,486	72,179,031
27			
28	Rate Base	$90,743,103	$90,068,593
29			
30	Net Operating Income	$217,557	$6,181,490
31	Adjustments to NOI		
32	Allowance for funds used during construction	17,162	140,018
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,296	122,030
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$245,015	$6,443,538
40			
41			
42	Rate of return B/	3.24%	7.15%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	17,637	53,825
Unpaid for materials and supplies	54,908	50,084
Taxes on CIAC-DEF. FIT & SIT	(293,566)	(379,694)
	($221,021)	($275,785)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	$1,385,205

May 18, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – April 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	$702,923

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 04/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,836	5,492	22	177	67,527
37. 3/4"	110	108	3	11	232
38. 1"	254	1,329	27	139	1,749
39. 1 1/2"	21	308	7	67	403
40. 2"	18	1,017	89	281	1,405
41. 3"		39		4	43
42. 4"&Over		30	29	35	94
43. Totals	62,239	[illegible]3	177	714	71,453

INSTR ONS

1. This report is required of all water companies had operating revenues for the proceeding year in excess of $1,500,000 as provided in th nission's rules. Prepare on a typewriter and file within 60 days after the end of the mo ered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs mat om that for the previous month or the same month a year ago and the difference is not lanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in th ieters in service section under "Remarks".

REMAI

N/A

I certify that to the b my knowledge and belief thi correct report:

Date: 0 (Signed)
Title and Address:

ates & Revenues
Street, P. O. Box 6338
TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: March 2005

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	919,402	1,075,178	2,859,432	2,653,383	12,757,984	12,127,672
2. Commercial Sales	819,687	820,628	2,195,103	2,111,759	9,647,315	9,355,086
3. Industrial Sales	294,384	243,927	771,435	680,808	3,129,516	3,227,599
4. Other Sales	571,762	590,593	1,527,403	1,583,487	6,644,841	6,269,902
5. Total Operating Revenues (Item 1-4)	2,605,234	2,730,326	7,353,373	7,029,437	32,179,656	30,980,259
Operating Expenses						
6. Source of Supply Expense	14,773	9,769	50,003	16,148	168,855	29,501
7. Pumping and Water Treatment Expense	304,702	361,850	792,289	953,881	3,827,768	4,051,476
8. Transmission and Distribution-Operation	56,283	59,643	203,646	184,326	652,861	1,002,542
9. Transmission and Distribution-Maintenance	112,547	113,806	294,508	344,617	987,236	1,247,872
10. Customer Accounts and Sales Expense	96,422	113,552	369,331	350,384	1,412,346	1,274,394
11. Administrative and General Expense	857,310	793,813	2,347,018	2,231,069	9,510,588	7,939,063
12. Depreciation and Amortization	233,213	400,893	954,241	1,201,581	3,506,989	4,249,881
13. Taxes Other Than Income Taxes	(162,138)	317,465	447,781	861,010	3,134,913	3,656,669
14. Income Taxes	369,824	145,121	514,474	121,993	2,659,927	2,271,742
15. Total Operating Expenses (Item 6-14)	1,882,935	2,315,912	5,973,291	6,265,009	25,861,483	25,723,140
16. Net Operating Income (Item 5 less 15)	722,299	414,414	1,380,082	764,428	6,318,173	5,257,119
17. Other Income	4,963	13,176	(8,406)	(19,034)	(28,616)	75,784
18. Miscellaneous Income Deductions	3,085	345	3,413	(2,103)	(1,558)	63,000
19. Interest Charges	241,019	238,803	718,247	605,501	2,847,918	2,334,975
20. Net Income	483,158	188,442	650,016	141,996	3,443,197	2,934,928

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	158,659,251	151,936,183	155,024,191	147,871,720
22. Construction Work in Progress	5,048,163	3,059,985	4,694,134	3,668,060
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	47,794,357	46,581,675	48,086,325	44,686,750
26. Materials and Supplies	361,032	393,049	402,707	368,483
27. Unamortized Investment Credit	1,326,279	1,402,647	1,361,281	1,444,013
28. Deferred Income Tax	16,422,725	13,310,142	14,223,636	12,273,716
29. Contributions in Aid of Construction	6,605,809	6,001,464	6,209,576	5,738,427
30. Customer Advances for Construction	3,763,543	3,066,640	3,458,382	2,784,464
31. Preferred Stock	1,399,600	1,435,000	1,404,456	1,436,157
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,787,873	4,783,158
34. Retained Earnings	19,192,474	17,918,214	19,067,099	18,018,002
35. Long Term Debt...........(1)	43,262,932	43,347,758	43,303,883	27,459,710

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MARCH 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$156,753,699	$153,433,691
3	Plant Under Construction	4,490,412	4,694,134
4	Property Held For Future Use	0	0
5	Materials and Supplies	412,630	402,707
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	6,636	8,129
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	164,821,795	161,697,079
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	48,723,557	48,086,325
16	Accumulated Deferred Income Taxes	15,384,571	14,223,636
17	Unamortized Investment Credit - Pre 1971	46,507	47,668
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,515,176	6,209,576
21	Customer Advances for Construction	3,695,051	3,458,382
22	All Other A/	(217,993)	(286,280)
23			
24			
25			
26	Total Deductions	74,146,869	71,739,307
27			
28	Rate Base	$90,674,926	$89,957,772
29			
30	Net Operating Income	$722,299	$6,318,173
31	Adjustments to NOI		
32	Allowance for funds used during construction	12,538	128,527
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,288	121,783
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$745,125	$6,568,483
40			
41			
42	Rate of return B/	9.86%	7.30%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	13,883	53,825
Unpaid for materials and supplies	60,606	50,084
Taxes on CIAC-DEF. FIT & SIT	(292,482)	(390,189)
	($217,993)	($286,280)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

April 29, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – March 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($42,102)

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 03/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,751	5,487	22	177	67,437
37. 3/4"	107	108	3	11	229
38. 1"	250	1,320	28	139	1,737
~~39. 1 1/2"~~	~~21~~	~~308~~	~~7~~	~~67~~	~~403~~
40. 2"	18	1,017	89	280	1,404
41. 3"		40		4	44
42. 4"&Over		30	30	35	95
43. Totals	62,147	8,310	179	713	71,349

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: May 25, 20 05 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS

WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: February 2005

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	856,953	797,543	1,940,031	1,578,205	12,913,761	11,966,707
2. Commercial Sales	618,133	687,677	1,375,416	1,291,131	9,648,256	9,234,874
3. Industrial Sales	212,382	256,047	477,051	436,881	3,079,059	3,294,006
4. Other Sales	427,043	476,715	955,641	992,894	6,663,672	6,132,199
5. Total Operating Revenues (Item 1-4)	2,114,511	2,217,982	4,748,139	4,299,111	32,304,748	30,627,786
Operating Expenses						
6. Source of Supply Expense	24,991	2,941	35,229	6,379	163,851	20,946
7. Pumping and Water Treatment Expense	278,935	318,673	487,587	592,031	3,884,917	3,959,598
8. Transmission and Distribution-Operation	71,009	42,536	147,363	124,683	656,221	1,051,692
9. Transmission and Distribution-Maintenance	91,016	100,324	181,962	230,811	988,495	1,261,374
10. Customer Accounts and Sales Expense	158,985	108,000	272,909	236,832	1,429,476	1,301,375
11. Administrative and General Expense	790,932	870,513	1,489,708	1,437,256	9,447,091	7,994,977
12. Depreciation and Amortization	439,130	400,479	721,028	800,688	3,674,669	4,158,733
13. Taxes Other Than Income Taxes	291,598	304,210	609,919	543,545	3,614,516	3,641,406
14. Income Taxes	(105,323)	(41,686)	144,650	(23,128)	2,435,224	2,152,931
15. Total Operating Expenses (Item 6-14)	2,041,274	2,105,990	4,090,355	3,949,097	26,294,460	25,543,032
16. Net Operating Income (Item 5 less 15)	73,237	111,992	657,784	350,014	6,010,288	5,084,754
17. Other Income	3,506	(17,676)	(13,369)	(32,210)	(20,403)	66,743
18. Miscellaneous Income Deductions	442	(6,699)	328	(2,448)	(4,298)	70,405
19. Interest Charges	237,863	174,494	477,228	366,698	2,845,702	2,321,718
20. Net Income	(161,562)	(73,479)	166,859	(46,446)	3,148,481	2,759,374

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	158,312,986	151,698,443	154,463,936	147,284,243
22. Construction Work in Progress	4,387,895	2,547,501	4,528,452	3,696,097
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	49,388,133	46,186,686	47,985,268	44,379,192
26. Materials and Supplies	456,438	368,647	405,375	364,586
27. Unamortized Investment Credit	1,332,643	1,409,011	1,367,645	1,450,377
28. Deferred Income Tax	14,940,157	12,631,530	13,964,254	12,110,482
29. Contributions in Aid of Construction	6,503,776	5,988,467	6,159,214	5,700,193
30. Customer Advances for Construction	3,627,753	2,898,217	3,400,306	2,742,746
31. Preferred Stock	1,399,600	1,435,000	1,407,406	1,439,615
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,787,426	4,783,038
34. Retained Earnings	19,369,317	18,615,581	18,960,911	17,988,399
35. Long Term Debt...........(1)	43,270,368	24,354,471	43,310,952	26,632,755

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED FEBRUARY 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$156,596,172	$152,873,436
3	Plant Under Construction	4,211,536	4,528,452
4	Property Held For Future Use	0	0
5	Materials and Supplies	438,428	405,375
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	6,802	8,461
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	164,411,356	160,974,142
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	49,188,157	47,985,268
16	Accumulated Deferred Income Taxes	14,865,495	13,964,254
17	Unamortized Investment Credit - Pre 1971	46,636	47,926
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,469,859	6,159,214
21	Customer Advances for Construction	3,660,805	3,400,306
22	All Other A/	(228,472)	(296,936)
23			
24			
25			
26	Total Deductions	74,002,480	71,260,032
27			
28	Rate Base	$90,408,876	$89,714,110
29			
30	Net Operating Income	$73,237	$6,010,288
31	Adjustments to NOI		
32	Allowance for funds used during construction	11,794	120,207
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,258	121,556
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$95,289	$6,252,051
40			
41			
42	Rate of return B/	1.26%	6.97%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	8,313	53,825
Unpaid for materials and supplies	54,500	50,084
Taxes on CIAC-DEF. FIT & SIT	(291,285)	(400,845)
	($228,472)	($296,936)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

April 7, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – February 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($52,520)

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 02/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,719	5,487	22	177	67,405
37. 3/4"	107	108	3	11	229
38. 1"	248	1,320	28	139	1,735
39. 1 1/2"	21	307	7	67	402
40. 2"	18	1,017	89	280	1,404
41. 3"		38	1	4	43
42. 4"&Over		30	30	35	95
43. Totals	62,113	8,307	180	713	71,313

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 4/28, 20 05 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

13

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: January 2005

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,083,077	780,663	1,083,077	780,663	12,854,350	12,303,560
2. Commercial Sales	757,283	603,454	757,283	603,454	9,717,800	9,381,255
3. Industrial Sales	264,669	180,834	264,669	180,834	3,122,724	3,295,373
4. Other Sales	528,598	516,179	528,598	516,179	6,713,344	6,091,468
5. Total Operating Revenues (Item 1-4)	2,633,628	2,081,130	2,633,627	2,081,130	32,408,218	31,071,656
Operating Expenses						
6. Source of Supply Expense	10,238	3,438	10,238	3,438	141,800	19,182
7. Pumping and Water Treatment Expense	208,652	273,358	208,652	273,358	3,924,655	3,934,794
8. Transmission and Distribution-Operation	76,353	82,146	76,353	82,146	627,747	1,108,331
9. Transmission and Distribution-Maintenance	90,946	130,487	90,946	130,487	997,803	1,284,281
10. Customer Accounts and Sales Expense	113,924	128,832	113,924	128,832	1,378,492	1,302,670
11. Administrative and General Expense	698,776	566,743	698,776	566,743	9,526,673	7,759,033
12. Depreciation and Amortization	281,898	400,209	281,898	400,209	3,636,018	4,069,311
13. Taxes Other Than Income Taxes	318,322	239,334	318,322	239,334	3,627,129	3,640,055
14. Income Taxes	249,972	18,558	249,972	18,558	2,498,860	2,438,184
15. Total Operating Expenses (Item 6-14)	2,049,082	1,843,105	2,049,081	1,843,105	26,359,177	25,555,841
16. Net Operating Income (Item 5 less 15)	584,546	238,025	584,546	238,025	6,049,041	5,515,815
17. Other Income	(16,874)	(14,534)	(16,874)	(14,534)	(41,584)	83,007
18. Miscellaneous Income Deductions	(113)	4,251	(113)	4,251	(11,438)	77,389
19. Interest Charges	239,364	192,204	239,364	192,204	2,782,332	2,369,811
20. Net Income	328,420	27,036	328,421	27,036	3,236,563	3,151,622

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	158,060,359	151,564,464	153,912,724	146,696,927
22. Construction Work in Progress	4,035,178	2,319,445	4,375,086	3,754,133
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	48,988,181	45,800,950	47,718,481	44,079,173
26. Materials and Supplies	420,418	359,831	398,059	362,824
27. Unamortized Investment Credit	1,339,007	1,415,375	1,374,009	1,456,741
28. Deferred Income Tax	14,790,833	12,880,991	13,771,869	12,037,424
29. Contributions in Aid of Construction	6,435,942	5,990,564	6,116,272	5,658,951
30. Customer Advances for Construction	3,693,857	2,844,652	3,339,512	2,719,464
31. Preferred Stock	1,399,600	1,435,000	1,410,356	1,443,073
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,786,978	4,782,918
34. Retained Earnings	19,524,975	18,668,998	18,898,099	17,896,175
35. Long Term Debt...........(1)	43,277,632	24,361,132	41,734,627	27,389,057

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JANUARY 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$156,366,768	$152,322,224
3	Plant Under Construction	3,753,878	4,375,086
4	Property Held For Future Use	0	0
5	Materials and Supplies	412,380	398,059
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	7,133	8,792
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	163,698,577	160,262,579
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	48,847,516	47,718,481
16	Accumulated Deferred Income Taxes	14,535,329	13,771,869
17	Unamortized Investment Credit - Pre 1971	46,894	48,184
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,427,603	6,116,272
21	Customer Advances for Construction	3,621,280	3,339,512
22	All Other A/	(170,593)	(307,911)
23			
24			
25			
26	Total Deductions	73,308,029	70,686,407
27			
28	Rate Base	$90,390,548	$89,576,172
29			
30	Net Operating Income	$584,546	$6,049,041
31	Adjustments to NOI		
32	Allowance for funds used during construction	8,401	111,510
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,256	121,375
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$603,203	$6,281,926
40			
41			
42	Rate of return B/	8.01%	7.01%

A/ All Other

	Average Monthly Balance	Average for 12 MTD
Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	134,313	53,825
Unpaid for materials and supplies	52,228	50,084
Taxes on CIAC-DEF. FIT & SIT	(357,134)	(411,820)
	($170,593)	($307,911)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 01/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,379	5,482	23	174	67,058
37. 3/4"	107	107	3	11	228
38. 1"	245	1,310	29	138	1,722
39. 1 1/2"	20	307	7	65	399
40. 2"	18	1,014	89	281	1,402
41. 3"		36		3	39
42. 4"&Over		30	30	35	95
43. Totals	61,769	8,286	181	707	70,943

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 3-29, 20 05 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

13

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: December 2004

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,357,818	1,573,255	12,551,935	12,108,737	12,551,935	12,108,737
2. Commercial Sales	1,124,319	1,202,083	9,563,971	9,227,658	9,563,971	9,227,658
3. Industrial Sales	317,022	407,875	3,038,889	3,289,109	3,038,889	3,289,109
4. Other Sales	634,380	606,030	6,700,925	5,916,258	6,700,925	5,916,258
5. Total Operating Revenues (Item 1-4)	3,433,539	3,789,243	31,855,720	30,541,762	31,855,720	30,541,762
Operating Expenses						
6. Source of Supply Expense	(30,311)	1,753	135,000	16,755	135,000	16,755
7. Pumping and Water Treatment Expense	368,410	430,918	3,989,361	3,956,670	3,989,361	3,956,670
8. Transmission and Distribution-Operation	52,541	42,620	633,541	1,124,145	633,541	1,124,145
9. Transmission and Distribution-Maintenance	88,374	75,569	1,037,344	1,256,410	1,037,344	1,256,410
10. Customer Accounts and Sales Expense	102,877	(10,860)	1,393,399	1,321,646	1,393,399	1,321,646
11. Administrative and General Expense	1,187,854	694,465	9,394,639	7,590,799	9,394,639	7,590,799
12. Depreciation and Amortization	271,712	468,001	3,754,329	3,912,004	3,754,329	3,912,004
13. Taxes Other Than Income Taxes	295,485	339,349	3,548,142	3,664,656	3,548,142	3,664,656
14. Income Taxes	391,801	673,699	2,267,446	2,356,627	2,267,446	2,356,627
15. Total Operating Expenses (Item 6-14)	2,728,742	2,715,514	26,153,201	25,199,712	26,153,201	25,199,712
16. Net Operating Income (Item 5 less 15)	704,797	1,073,729	5,702,519	5,342,050	5,702,519	5,342,050
17. Other Income	15,547	105,987	(39,244)	100,041	(39,244)	100,041
18. Miscellaneous Income Deductions	563	44,416	(7,074)	73,536	(7,074)	73,536
19. Interest Charges	239,259	212,711	2,735,172	2,354,670	2,735,172	2,354,670
20. Net Income	480,522	922,589	2,935,177	3,013,885	2,935,177	3,013,885

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	157,854,177	151,528,217	153,371,399	146,111,309
22. Construction Work in Progress	3,472,579	2,085,839	4,232,108	3,814,565
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	48,706,851	45,426,870	47,452,879	43,784,744
26. Materials and Supplies	404,342	337,743	393,010	365,192
27. Unamortized Investment Credit	1,345,371	1,421,739	1,380,373	1,463,105
28. Deferred Income Tax	14,279,826	13,005,137	13,612,715	11,928,772
29. Contributions in Aid of Construction	6,419,265	5,949,653	6,079,157	5,617,503
30. Customer Advances for Construction	3,548,703	2,764,749	3,268,745	2,707,559
31. Preferred Stock	1,399,600	1,435,000	1,413,306	1,446,532
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,786,531	4,782,798
34. Retained Earnings	19,194,044	18,668,998	18,828,679	17,773,360
35. Long Term Debt...........(1)	43,284,896	24,367,740	40,158,252	28,145,282

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED DECEMBER 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$151,780,941	$151,780,941
3	Plant Under Construction	4,232,108	4,232,108
4	Property Held For Future Use	0	0
5	Materials and Supplies	393,010	393,010
6	Other Additions:		
7	Leased Utility Plant	1,590,458	1,590,458
8	Unamortized Painting - net	9,124	9,124
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	159,573,559	159,573,559
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	47,452,879	47,452,878
16	Accumulated Deferred Income Taxes	13,612,715	13,612,715
17	Unamortized Investment Credit - Pre 1971	48,442	48,442
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,079,157	6,079,157
21	Customer Advances for Construction	3,268,745	3,268,745
22	All Other A/	(395,640)	(395,640)
23			
24			
25			
26	Total Deductions	70,066,298	70,066,297
27			
28	Rate Base	$89,507,261	$89,507,262
29			
30	Net Operating Income	$704,797	$5,702,519
31	Adjustments to NOI		
32	Allowance for funds used during construction	9,143	104,970
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,155	121,212
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$724,095	$5,928,701
40			
41			
42	Rate of return B/	9.71%	6.62%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	53,825	53,825
Unpaid for materials and supplies	50,084	50,084
Taxes on CIAC-DEF. FIT & SIT	(499,549)	(499,549)
	($395,640)	($395,640)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

February 4, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – December 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($73,356)

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 12/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,497	5,501	24	176	67,198
37. 3/4"	107	108	3	11	229
38. 1"	248	1,315	29	138	1,730
39. 1 1/2"	20	308	6	65	399
40. 2"	18	1,006	90	281	1,395
41. 3"		46		3	49
42. 4"&Over		30	30	35	95
43. Totals	61,890	8,314	182	709	71,095

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 3-1, 2005 (Signed) Michael A. Mill

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: November 2004

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	831,136	819,923	11,194,117	10,535,482	12,767,372	11,463,990
2. Commercial Sales	579,169	596,556	8,439,652	8,025,575	9,641,735	8,677,034
3. Industrial Sales	202,388	210,636	2,721,867	2,881,234	3,129,742	3,075,050
4. Other Sales	563,660	470,275	6,066,545	5,310,227	6,672,575	5,724,652
5. Total Operating Revenues (Item 1-4)	2,176,353	2,097,390	28,422,181	26,752,518	32,211,424	28,940,726
Operating Expenses						
6. Source of Supply Expense	6,219	3,083	165,311	15,002	167,065	16,083
7. Pumping and Water Treatment Expense	302,713	331,204	3,620,951	3,525,751	4,051,869	3,846,452
8. Transmission and Distribution-Operation	59,056	49,054	581,000	1,081,525	623,620	1,182,755
9. Transmission and Distribution-Maintenance	68,680	85,947	948,970	1,180,841	1,024,540	1,297,635
10. Customer Accounts and Sales Expense	83,718	102,458	1,290,523	1,332,507	1,279,662	1,433,209
11. Administrative and General Expense	702,438	552,009	8,206,785	6,896,334	8,901,249	7,360,073
12. Depreciation and Amortization	289,675	395,681	3,482,617	3,444,004	3,950,618	3,770,607
13. Taxes Other Than Income Taxes	295,588	303,394	3,252,657	3,325,307	3,592,005	3,626,757
14. Income Taxes	63,700	44,770	1,875,645	1,682,928	2,549,344	1,797,199
15. Total Operating Expenses (Item 6-14)	1,871,787	1,867,600	23,424,459	22,484,199	26,139,972	24,330,770
16. Net Operating Income (Item 5 less 15)	304,566	229,790	4,997,722	4,268,319	6,071,452	4,609,956
17. Other Income	1,504	(9,598)	(54,791)	(5,946)	51,196	(1,916)
18. Miscellaneous Income Deductions	(456)	1,050	(7,637)	29,120	36,779	29,290
19. Interest Charges	234,972	175,071	2,495,913	2,141,959	2,708,624	2,368,374
20. Net Income	71,554	44,071	2,454,655	2,091,294	3,377,245	2,210,376

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	154,769,448	149,903,412	152,844,236	145,527,667
22. Construction Work in Progress	5,351,128	2,557,421	4,116,547	3,884,684
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	48,564,646	45,027,777	47,179,547	43,500,623
26. Materials and Supplies	397,389	368,261	387,460	366,860
27. Unamortized Investment Credit	1,351,735	1,504,471	1,386,737	1,469,469
28. Deferred Income Tax	13,675,932	11,812,051	13,506,491	11,808,112
29. Contributions in Aid of Construction	6,122,358	5,902,646	6,040,023	5,552,038
30. Customer Advances for Construction	3,382,735	2,731,498	3,203,415	2,699,174
31. Preferred Stock	1,399,600	1,435,000	1,416,256	1,449,990
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,786,083	4,782,678
34. Retained Earnings	19,535,053	18,474,952	18,784,925	17,757,190
35. Long Term Debt...........(1)	43,292,102	24,374,297	38,581,823	28,908,227

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED NOVEMBER 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$151,373,420	$151,253,778
3	Plant Under Construction	4,301,157	4,116,547
4	Property Held For Future Use	0	0
5	Materials and Supplies	391,980	387,460
6	Other Additions:		
7	Leased Utility Plant	1,590,455	1,590,458
8	Unamortized Painting - net	9,290	9,456
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	159,234,220	158,925,617
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	47,338,881	47,179,547
16	Accumulated Deferred Income Taxes	13,552,069	13,506,491
17	Unamortized Investment Credit - Pre 1971	48,571	48,700
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,048,238	6,040,023
21	Customer Advances for Construction	3,243,294	3,203,415
22	All Other A/	(418,422)	(385,992)
23			
24			
25			
26	Total Deductions	69,812,631	69,592,184
27			
28	Rate Base	$89,421,589	$89,333,433
29			
30	Net Operating Income	$304,566	$6,071,452
31	Adjustments to NOI		
32	Allowance for funds used during construction	14,141	99,236
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,146	121,155
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$328,853	$6,291,843
40			
41			
42	Rate of return B/	4.41%	7.04%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	34,298	53,825
Unpaid for materials and supplies	51,159	50,084
Taxes on CIAC-DEF. FIT & SIT	(503,879)	(489,901)
	($418,422)	($385,992)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

January 24, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – November 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($83,774)

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 11/04

Meter Size (a)		Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36.	5/8"	61,607	5,500	24	176	67,307
37.	3/4"	110	111	3	11	235
38.	1"	253	1,322	29	137	1,741
39.	1 1/2"	20	309	6	65	400
40.	2"	18	1,011	90	281	1,400
41.	3"		45		4	49
42.	4"&Over		30	30	35	95
43.	Totals	62,008	8,328	182	709	71,227

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: Jan. 31, 20 05 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

• 8

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: October 2004

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	987,197	1,018,232	10,362,981	9,715,559	12,756,159	11,553,286
2. Commercial Sales	885,821	800,017	7,860,483	7,429,019	9,659,122	8,774,775
3. Industrial Sales	262,569	291,248	2,519,479	2,670,598	3,137,990	3,126,339
4. Other Sales	458,179	594,231	5,502,885	4,839,952	6,579,191	5,687,057
5. Total Operating Revenues (Item 1-4)	2,593,766	2,703,728	26,245,828	24,655,128	32,132,462	29,141,457
Operating Expenses						
6. Source of Supply Expense	12,955	2,608	159,093	11,919	163,929	14,646
7. Pumping and Water Treatment Expense	335,333	357,386	3,318,238	3,194,547	4,080,360	3,829,067
8. Transmission and Distribution-Operation	48,188	78,969	521,944	1,032,472	613,618	1,229,516
9. Transmission and Distribution-Maintenance	83,211	100,496	880,291	1,094,894	1,041,807	1,336,325
10. Customer Accounts and Sales Expense	92,702	132,100	1,206,805	1,230,049	1,298,402	1,449,198
11. Administrative and General Expense	650,876	672,805	7,504,346	6,344,325	8,750,820	7,333,671
12. Depreciation and Amortization	277,092	312,303	3,192,942	3,048,323	4,056,623	3,699,222
13. Taxes Other Than Income Taxes	295,420	309,026	2,957,069	3,021,913	3,599,812	3,623,619
14. Income Taxes	242,524	251,249	1,811,945	1,638,158	2,530,414	1,871,690
15. Total Operating Expenses (Item 6-14)	2,038,300	2,216,942	21,552,673	20,616,600	26,135,785	24,386,954
16. Net Operating Income (Item 5 less 15)	555,466	486,786	4,693,155	4,038,528	5,996,677	4,754,503
17. Other Income	2,109	5,424	(56,295)	3,652	40,094	9,271
18. Miscellaneous Income Deductions	2,997	3,986	(7,181)	28,070	38,285	37,240
19. Interest Charges	238,926	176,635	2,260,941	1,966,888	2,648,723	2,416,428
20. Net Income	315,652	311,589	2,383,100	2,047,222	3,349,763	2,310,106

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	154,097,435	145,794,383	152,438,733	144,931,048
22. Construction Work in Progress	5,192,826	5,886,879	3,883,738	4,018,054
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	48,413,725	44,648,469	46,884,808	43,242,538
26. Materials and Supplies	389,651	356,155	385,033	364,402
27. Unamortized Investment Credit	1,358,099	1,434,467	1,399,465	1,469,469
28. Deferred Income Tax	14,013,739	12,391,450	13,351,168	11,773,478
29. Contributions in Aid of Construction	6,117,558	5,845,121	6,021,713	5,490,512
30. Customer Advances for Construction	3,373,388	2,715,123	3,149,145	2,692,149
31. Preferred Stock	1,399,600	1,435,000	1,419,206	1,453,448
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,785,636	4,782,558
34. Retained Earnings	19,455,185	18,416,651	18,597,582	17,723,763
35. Long Term Debt...........(1)	43,299,253	24,380,803	37,005,339	29,664,302

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED OCTOBER 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$151,192,867	$150,848,275
3	Plant Under Construction	4,196,159	3,883,738
4	Property Held For Future Use	0	0
5	Materials and Supplies	391,439	385,033
6	Other Additions:		
7	Leased Utility Plant	1,590,450	1,590,458
8	Unamortized Painting - net	9,456	9,788
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	158,948,289	158,285,210
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	47,216,305	46,884,808
16	Accumulated Deferred Income Taxes	13,539,683	13,351,168
17	Unamortized Investment Credit - Pre 1971	48,700	48,958
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,040,826	6,021,713
21	Customer Advances for Construction	3,229,350	3,149,145
22	All Other A/	(423,848)	(374,517)
23			
24			
25			
26	Total Deductions	69,651,016	69,081,275
27			
28	Rate Base	$89,297,273	$89,203,935
29			
30	Net Operating Income	$555,466	$5,996,677
31	Adjustments to NOI		
32	Allowance for funds used during construction	15,335	105,290
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,132	121,096
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$580,933	$6,223,063
40			
41			
42	Rate of return B/	7.81%	6.98%

A/ All Other

	Average Monthly Balance	Average for 12 MTD
Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	28,565	53,825
Unpaid for materials and supplies	54,471	50,084
Taxes on CIAC-DEF. FIT & SIT	(506,884)	(478,426)
	($423,848)	($374,517)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

November 16, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – October 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($22,017)

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 10/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,872	5,513	24	176	67,585
37. 3/4"	113	111	3	11	238
38. 1"	259	1,332	29	138	1,758
39. 1 1/2"	20	308	6	65	399
40. 2"	18	1,012	91	281	1,402
41. 3"		46		4	50
42. 4"&Over		30	30	35	95
43. Totals	62,282	8,352	183	710	71,527

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 12/17, 20 04 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: September 2004

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,079,209	1,217,798	9,375,784	8,697,327	12,787,194	11,558,479
2. Commercial Sales	717,799	936,184	6,974,662	6,629,002	9,573,318	8,771,797
3. Industrial Sales	305,011	301,536	2,256,910	2,379,350	3,166,669	3,115,288
4. Other Sales	650,324	703,412	5,044,706	4,245,721	6,715,243	5,594,584
5. Total Operating Revenues (Item 1-4)	2,752,343	3,158,930	23,652,062	21,951,400	32,242,424	29,040,148
Operating Expenses						
6. Source of Supply Expense	1,678	3,213	146,138	9,310	153,583	15,536
7. Pumping and Water Treatment Expense	311,427	401,252	2,982,905	2,837,161	4,102,413	3,826,062
8. Transmission and Distribution-Operation	51,081	115,877	473,756	953,502	644,400	1,274,361
9. Transmission and Distribution-Maintenance	81,760	123,182	797,079	994,398	1,059,091	1,350,403
10. Customer Accounts and Sales Expense	156,127	115,045	1,114,104	1,097,949	1,337,801	1,431,213
11. Administrative and General Expense	633,382	747,138	6,853,471	5,671,520	8,772,749	7,265,834
12. Depreciation and Amortization	277,110	312,089	2,915,850	2,736,020	4,091,834	3,688,479
13. Taxes Other Than Income Taxes	296,971	308,908	2,661,649	2,712,887	3,613,417	3,614,568
14. Income Taxes	294,472	365,912	1,569,421	1,386,909	2,539,139	1,822,124
15. Total Operating Expenses (Item 6-14)	2,104,008	2,492,616	19,514,373	18,399,656	26,314,427	24,288,580
16. Net Operating Income (Item 5 less 15)	648,335	666,314	4,137,689	3,551,744	5,927,997	4,751,568
17. Other Income	(1,912)	5,257	(58,404)	(1,772)	43,409	2,823
18. Miscellaneous Income Deductions	6,168	8,374	(10,178)	24,084	39,274	43,153
19. Interest Charges	245,604	171,813	2,022,015	1,790,253	2,586,432	2,471,332
20. Net Income	394,651	491,384	2,067,448	1,735,635	3,345,700	2,239,906

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	153,895,512	145,626,931	151,746,812	144,659,809
22. Construction Work in Progress	4,556,116	5,521,954	3,941,576	3,871,319
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	48,140,828	44,398,424	46,571,036	42,991,656
26. Materials and Supplies	406,561	350,905	382,241	366,480
27. Unamortized Investment Credit	1,364,463	1,440,831	1,405,829	1,475,833
28. Deferred Income Tax	13,988,302	10,885,677	13,215,977	10,610,677
29. Contributions in Aid of Construction	6,068,443	5,582,201	5,999,010	5,434,062
30. Customer Advances for Construction	3,413,080	2,765,380	3,094,290	2,686,865
31. Preferred Stock	1,399,600	1,435,000	1,422,156	1,456,907
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,785,188	4,782,438
34. Retained Earnings	19,130,023	18,069,212	18,511,038	17,681,648
35. Long Term Debt..........(1)	43,306,347	24,387,257	35,422,006	30,420,303

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED SEPTEMBER 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$151,046,859	$150,156,354
3	Plant Under Construction	4,085,419	3,941,576
4	Property Held For Future Use	0	0
5	Materials and Supplies	391,638	382,241
6	Other Additions:		
7	Leased Utility Plant	1,590,444	1,590,458
8	Unamortized Painting - net	9,622	10,120
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	158,691,900	157,648,667
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	47,083,258	46,571,037
16	Accumulated Deferred Income Taxes	13,487,010	13,215,977
17	Unamortized Investment Credit - Pre 1971	48,829	49,216
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,032,301	5,999,010
21	Customer Advances for Construction	3,213,345	3,094,290
22	All Other A/	(425,026)	(363,044)
23			
24			
25			
26	Total Deductions	69,439,717	68,566,486
27			
28	Rate Base	$89,252,183	$89,082,181
29			
30	Net Operating Income	$648,335	$5,927,997
31	Adjustments to NOI		
32	Allowance for funds used during construction	12,673	131,621
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,126	121,158
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$671,134	$6,180,776
40			
41			
42	Rate of return B/	9.02%	6.94%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	30,850	53,825
Unpaid for materials and supplies	54,680	50,084
Taxes on CIAC-DEF. FIT & SIT	(510,556)	(466,953)
	($425,026)	($363,044)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 09/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,728	5,524	24	178	67,454
37. 3/4"	113	111	3	11	238
38. 1"	260	1,329	29	139	1,757
39. 1 1/2"	20	306	6	65	397
40. 2"	18	1,011	91	280	1,400
41. 3"		43		5	48
42. 4"&Over		30	30	35	95
43. Totals	62,139	8,354	183	713	71,389

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 12-1, 20 04 (Signed) [signature]

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: August 2004

PSC--3.06

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,053,159	965,293	8,296,575	7,479,529	12,925,783	11,463,648
2. Commercial Sales	842,645	748,735	6,256,863	5,692,818	9,791,703	8,640,764
3. Industrial Sales	225,987	250,964	1,951,899	2,077,814	3,163,194	3,107,759
4. Other Sales	516,812	441,457	4,394,382	3,542,309	6,768,331	5,398,371
5. Total Operating Revenues (Item 1-4)	2,638,603	2,406,449	20,899,719	18,792,470	32,649,011	28,610,542
Operating Expenses						
6. Source of Supply Expense	29,404	427	144,460	6,097	155,118	14,884
7. Pumping and Water Treatment Expense	404,636	346,086	2,671,477	2,435,909	4,192,238	3,780,022
8. Transmission and Distribution-Operation	46,856	81,638	422,676	837,625	709,196	1,251,655
9. Transmission and Distribution-Maintenance	72,402	104,104	715,319	871,216	1,100,513	1,343,505
10. Customer Accounts and Sales Expense	83,640	104,087	957,977	982,904	1,296,719	1,468,289
11. Administrative and General Expense	710,831	630,934	6,220,089	4,924,382	8,886,506	7,021,672
12. Depreciation and Amortization	276,721	312,196	2,638,740	2,423,931	4,126,813	3,687,429
13. Taxes Other Than Income Taxes	300,223	313,604	2,364,678	2,403,979	3,625,354	3,606,309
14. Income Taxes	216,250	143,730	1,274,949	1,020,997	2,610,579	1,733,020
15. Total Operating Expenses (Item 6-14)	2,140,963	2,036,806	17,410,365	15,907,040	26,703,036	23,906,785
16. Net Operating Income (Item 5 less 15)	497,640	369,643	3,489,354	2,885,430	5,945,975	4,703,757
17. Other Income	(712)	(4,166)	(56,492)	(7,029)	50,578	(1,394)
18. Miscellaneous Income Deductions	(6,344)	388	(16,346)	15,710	41,480	46,364
19. Interest Charges	225,010	187,613	1,776,411	1,618,440	2,512,641	2,520,723
20. Net Income	278,262	177,476	1,672,797	1,244,251	3,442,432	2,135,276

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	153,444,634	145,528,185	151,057,764	144,396,405
22. Construction Work in Progress	6,421,469	4,745,578	4,022,062	3,731,710
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	47,857,053	44,127,586	46,259,169	42,736,010
26. Materials and Supplies	444,622	406,747	377,604	368,138
27. Unamortized Investment Credit	1,370,827	1,447,195	1,412,193	1,482,197
28. Deferred Income Tax	14,014,018	10,835,677	13,068,957	10,560,677
29. Contributions in Aid of Construction	6,076,186	5,556,774	5,958,490	5,398,780
30. Customer Advances for Construction	3,338,974	2,769,659	3,040,315	2,676,097
31. Preferred Stock	1,399,600	1,427,000	1,425,106	1,462,490
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,784,741	4,782,318
34. Retained Earnings	19,364,443	18,058,752	18,422,637	17,646,853
35. Long Term Debt...........(1)	43,321,613	48,305,131	33,845,415	29,804,427

(1) Includes Capital Lease

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 08/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,650	5,531	24	178	67,383
37. 3/4"	113	110	3	11	237
38. 1"	262	1,330	29	141	1,762
39. 1 1/2"	19	306	6	64	395
40. 2"	19	1,010	91	280	1,400
41. 3"		43		4	47
42. 4"&Over		30	30	35	95
43. Totals	62,063	8,360	183	713	71,319

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 10/20, 20 04 (Signed) Michael A. Miller

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: July 2004

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,281,757	1,018,296	7,243,416	6,514,236	12,837,917	11,741,919
2. Commercial Sales	886,019	717,106	5,414,218	4,944,083	9,697,793	8,756,511
3. Industrial Sales	221,934	239,806	1,725,912	1,826,850	3,188,171	3,164,384
4. Other Sales	571,140	441,420	3,877,570	3,100,852	6,692,976	5,498,501
5. Total Operating Revenues (Item 1-4)	2,960,850	2,416,628	18,261,116	16,386,021	32,416,857	29,161,315
Operating Expenses						
6. Source of Supply Expense	22,929	125	115,056	5,670	126,141	16,775
7. Pumping and Water Treatment Expense	353,432	327,317	2,266,841	2,089,823	4,133,688	3,878,917
8. Transmission and Distribution-Operation	51,558	98,732	375,820	755,987	743,978	1,277,759
9. Transmission and Distribution-Maintenance	71,573	81,380	642,917	767,112	1,132,215	1,368,580
10. Customer Accounts and Sales Expense	166,940	163,544	874,337	878,817	1,317,166	1,468,053
11. Administrative and General Expense	754,008	522,769	5,509,258	4,293,448	8,806,609	6,918,518
12. Depreciation and Amortization	276,315	312,180	2,362,019	2,111,735	4,162,288	3,683,268
13. Taxes Other Than Income Taxes	300,701	309,137	2,064,455	2,090,375	3,638,735	3,613,791
14. Income Taxes	310,479	185,165	1,058,699	877,267	2,538,059	1,925,677
15. Total Operating Expenses (Item 6-14)	2,307,935	2,000,349	15,269,402	13,870,234	26,598,879	24,151,338
16. Net Operating Income (Item 5 less 15)	652,915	416,279	2,991,714	2,515,787	5,817,978	5,009,977
17. Other Income	(15,012)	(5,592)	(55,780)	(2,863)	47,124	6,452
18. Miscellaneous Income Deductions	(7,491)	(2,645)	(10,002)	15,322	48,212	41,341
19. Interest Charges	236,547	177,687	1,551,401	1,430,827	2,475,244	2,565,020
20. Net Income	408,847	235,645	1,394,535	1,066,775	3,341,646	2,410,068

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	153,315,366	145,479,624	150,398,059	144,124,938
22. Construction Work in Progress	5,530,606	4,076,683	3,882,405	3,616,718
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	47,582,434	43,870,165	45,948,381	42,478,685
26. Materials and Supplies	423,157	381,312	374,447	364,407
27. Unamortized Investment Credit	1,377,191	1,453,559	1,418,557	1,488,561
28. Deferred Income Tax	14,011,550	10,785,677	12,905,146	10,510,677
29. Contributions in Aid of Construction	6,073,460	5,505,699	5,915,206	5,342,818
30. Customer Advances for Construction	3,353,923	2,811,478	2,992,872	2,663,335
31. Preferred Stock	1,399,600	1,427,000	1,427,389	1,468,740
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,784,293	4,782,198
34. Retained Earnings	19,079,510	17,861,114	18,313,829	17,636,478
35. Long Term Debt...........(1)	43,321,613	47,614,659	32,267,552	28,561,805

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JULY 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$150,751,798	$148,807,601
3	Plant Under Construction	3,684,455	3,882,405
4	Property Held For Future Use	0	0
5	Materials and Supplies	381,937	374,447
6	Other Additions:		
7	Leased Utility Plant	1,590,429	1,590,458
8	Unamortized Painting - net	9,954	10,783
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	157,986,491	156,233,612
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	46,821,634	45,948,381
16	Accumulated Deferred Income Taxes	13,340,110	12,905,146
17	Unamortized Investment Credit - Pre 1971	49,087	49,732
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,020,868	5,915,206
21	Customer Advances for Construction	3,166,865	2,992,872
22	All Other A/	(459,790)	(408,409)
23			
24			
25			
26	Total Deductions	68,938,774	67,402,928
27			
28	Rate Base	$89,047,717	$88,830,684
29			
30	Net Operating Income	$652,915	$5,817,978
31	Adjustments to NOI		
32	Allowance for funds used during construction	10,411	159,503
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,103	120,982
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$673,429	$6,098,463
40			
41			
42	Rate of return B/	9.08%	6.87%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	20,533	53,825
Unpaid for materials and supplies	51,467	50,084
Taxes on CIAC-DEF. FIT & SIT	(531,790)	(512,318)
	($459,790)	($408,409)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

September 17, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – July 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($56,218)
Revenues due to 8-7-03 rate increase	$ 27,639

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 07/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,558	5,565	24	179	67,326
37. 3/4"	113	112	3	11	239
38. 1"	261	1,331	29	140	1,761
39. 1 1/2"	18	309	6	63	396
40. 2"	19	998	91	278	1,386
41. 3"		45		4	49
42. 4"&Over		29	30	34	93
43. Totals	61,969	8,389	183	709	71,250

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: Sept. 23, 2004 (Signed) Michael A. Miller

Title and Address: Manager - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: May 2004

PSC-3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,087,132	959,736	4,769,277	4,559,797	12,318,217	12,053,005
2. Commercial Sales	836,044	795,664	3,668,236	3,518,825	9,377,069	9,016,898
3. Industrial Sales	227,203	235,260	1,147,607	1,265,997	3,170,719	3,149,970
4. Other Sales	516,305	458,009	2,646,024	2,164,836	6,397,446	5,548,071
5. Total Operating Revenues (Item 1-4)	2,666,684	2,448,669	12,231,144	11,509,455	31,263,451	29,767,944
Operating Expenses						
6. Source of Supply Expense	54,348	55	85,443	5,469	96,729	20,348
7. Pumping and Water Treatment Expense	274,576	289,889	1,527,553	1,376,510	4,107,713	3,847,966
8. Transmission and Distribution-Operation	31,933	104,035	265,428	502,698	886,875	1,228,916
9. Transmission and Distribution-Maintenance	54,943	97,255	472,229	544,125	1,184,514	1,372,974
10. Customer Accounts and Sales Expense	101,223	103,364	554,393	572,026	1,304,013	1,396,323
11. Administrative and General Expense	895,786	607,095	3,959,097	3,227,882	8,322,014	6,807,462
12. Depreciation and Amortization	402,015	311,675	2,004,874	1,487,412	4,429,466	3,677,782
13. Taxes Other Than Income Taxes	288,634	299,945	1,451,322	1,468,058	3,647,919	3,607,155
14. Income Taxes	123,034	190,713	351,944	569,173	2,139,398	2,241,982
15. Total Operating Expenses (Item 6-14)	2,226,492	2,004,026	10,672,283	9,753,353	26,118,641	24,200,908
16. Net Operating Income (Item 5 less 15)	440,192	444,643	1,558,861	1,756,102	5,144,810	5,567,036
17. Other Income	(11,396)	22,685	(22,543)	6,664	70,834	22,323
18. Miscellaneous Income Deductions	11,798	135	4,531	9,405	68,662	51,129
19. Interest Charges	245,461	222,824	1,075,243	1,070,087	2,359,826	2,675,310
20. Net Income	171,537	244,369	456,544	683,274	2,787,156	2,862,920

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service (1)	152,749,271	145,163,892	149,101,618	143,559,716
22. Construction Work in Progress	3,859,370	3,721,988	3,670,234	3,460,703
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	47,312,616	43,441,914	45,322,658	41,965,015
26. Materials and Supplies	335,291	368,767	367,733	362,198
27. Unamortized Investment Credit	1,389,919	1,466,287	1,431,285	1,501,289
28. Deferred Income Tax	13,345,690	10,685,677	12,563,443	10,410,677
29. Contributions in Aid of Construction	6,009,673	5,494,897	5,819,598	5,227,567
30. Customer Advances for Construction	3,297,107	2,717,844	2,890,573	2,643,192
31. Preferred Stock	1,422,470	1,453,940	1,431,956	1,481,240
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,783,398	4,781,958	4,783,398	4,781,958
34. Retained Earnings	18,233,081	17,643,885	18,123,862	17,556,827
35. Long Term Debt (1)	43,334,170	33,412,572	29,113,952	28,133,014

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MAY 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$150,432,509	$147,511,160
3	Plant Under Construction	3,044,033	3,670,234
4	Property Held For Future Use	0	0
5	Materials and Supplies	367,926	367,733
6	Other Additions:		
7	Leased Utility Plant	1,590,400	1,590,458
8	Unamortized Painting - net	10,286	11,447
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	157,013,072	154,718,950
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	46,560,637	45,322,658
16	Accumulated Deferred Income Taxes	13,129,479	12,563,443
17	Unamortized Investment Credit - Pre 1971	49,345	50,248
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	5,999,020	5,819,598
21	Customer Advances for Construction	3,082,602	2,890,573
22	All Other A/	(457,589)	(391,727)
23			
24			
25			
26	Total Deductions	68,363,494	66,254,793
27			
28	Rate Base	$88,649,578	$88,464,157
29			
30	Net Operating Income	$440,192	$5,144,810
31	Adjustments to NOI		
32	Allowance for funds used during construction	6,578	192,544
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,058	120,932
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$456,828	$5,458,286
40			
41			
42	Rate of return B/	6.18%	6.17%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	16,225	53,825
Unpaid for materials and supplies	52,826	50,084
Taxes on CIAC-DEF. FIT & SIT	(526,640)	(495,636)
	($457,589)	($391,727)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

July 29, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – May 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($79,019)
Revenues due to 8-7-03 rate increase	$ 307,954

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 05/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,156	5,541	24	179	66,900
37. 3/4"	112	111	3	11	237
38. 1"	252	1,319	29	139	1,739
39. 1 1/2"	17	310	6	63	396
40. 2"	18	999	92	278	1,387
41. 3"		41	1	4	46
42. 4"&Over		29	30	34	93
43. Totals	61,555	8,350	185	708	70,798

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: ________________, 20 ____ (Signed) ______________________________

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

Company Name: Tennessee-American Water Co.
Month of Report: June 2004

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,192,382	936,143	5,961,659	5,495,940	12,574,456	11,944,438
2. Commercial Sales	859,963	708,152	4,528,199	4,226,977	9,528,880	8,907,587
3. Industrial Sales	356,371	321,047	1,503,978	1,587,044	3,206,043	3,156,625
4. Other Sales	660,406	494,595	3,306,430	2,659,431	6,563,257	5,574,293
5. Total Operating Revenues (Item 1-4)	3,069,122	2,459,937	15,300,266	13,969,392	31,872,636	29,582,943
Operating Expenses						
6. Source of Supply Expense	6,684	76	92,127	5,545	103,337	20,005
7. Pumping and Water Treatment Expense	385,856	385,996	1,913,409	1,762,506	4,107,573	3,909,596
8. Transmission and Distribution-Operation	58,834	154,557	324,262	657,255	791,152	1,286,981
9. Transmission and Distribution-Maintenance	99,115	141,607	571,344	685,732	1,142,022	1,409,418
10. Customer Accounts and Sales Expense	153,004	143,247	707,397	715,273	1,313,770	1,453,800
11. Administrative and General Expense	796,153	542,797	4,755,250	3,770,679	8,575,370	6,912,371
12. Depreciation and Amortization	80,830	312,143	2,085,704	1,799,555	4,198,153	3,680,359
13. Taxes Other Than Income Taxes	312,432	313,180	1,763,754	1,781,238	3,647,171	3,624,875
14. Income Taxes	396,276	122,929	748,220	692,102	2,412,745	2,041,623
15. Total Operating Expenses (Item 6-14)	2,289,184	2,116,532	12,961,467	11,869,885	26,291,293	24,339,028
16. Net Operating Income (Item 5 less 15)	779,938	343,405	2,338,799	2,099,507	5,581,343	5,243,915
17. Other Income	(18,225)	(3,935)	(40,768)	2,729	56,544	17,628
18. Miscellaneous Income Deductions	(7,042)	8,562	(2,511)	17,967	53,058	59,461
19. Interest Charges	239,611	183,053	1,314,854	1,253,140	2,416,384	2,624,683
20. Net Income	529,144	147,855	985,688	831,129	3,168,445	2,577,399

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	152,965,672	145,244,123	149,745,081	143,846,244
22. Construction Work in Progress	5,040,412	3,948,283	3,761,244	3,538,324
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	47,365,821	43,569,419	45,639,025	42,221,844
26. Materials and Supplies	410,771	372,046	370,960	362,981
27. Unamortized Investment Credit	1,383,555	1,459,923	1,424,921	1,494,925
28. Deferred Income Tax	13,721,826	10,735,677	12,727,227	10,460,677
29. Contributions in Aid of Construction	6,077,516	5,497,981	5,867,893	5,285,539
30. Customer Advances for Construction	3,401,124	2,715,978	2,947,668	2,649,148
31. Preferred Stock	1,399,600	1,427,000	1,429,673	1,474,990
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,788,768	4,783,398	4,783,846	4,782,078
34. Retained Earnings	18,666,151	17,604,939	18,212,296	17,603,471
35. Long Term Debt...........(1)	43,327,917	24,406,318	30,690,752	27,377,305

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JUNE 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$150,589,620	$148,154,623
3	Plant Under Construction	3,376,763	3,761,244
4	Property Held For Future Use	0	0
5	Materials and Supplies	375,067	370,960
6	Other Additions:		
7	Leased Utility Plant	1,590,417	1,590,458
8	Unamortized Painting - net	10,120	11,115
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	157,509,905	155,456,318
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	46,694,834	45,639,024
16	Accumulated Deferred Income Taxes	13,228,203	12,727,227
17	Unamortized Investment Credit - Pre 1971	49,216	49,990
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,012,103	5,867,893
21	Customer Advances for Construction	3,135,689	2,947,668
22	All Other A/	(455,573)	(395,549)
23			
24			
25			
26	Total Deductions	68,664,472	66,836,253
27			
28	Rate Base	$88,845,433	$88,620,065
29			
30	Net Operating Income	$779,938	$5,581,343
31	Adjustments to NOI		
32	Allowance for funds used during construction	9,420	175,706
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,080	110,915
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$799,438	$5,867,964
40			
41			
42	Rate of return B/	10.80%	6.62%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	14,130	53,825
Unpaid for materials and supplies	50,906	50,084
Taxes on CIAC-DEF. FIT & SIT	(520,609)	(499,458)
	($455,573)	($395,549)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

August 16, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – June 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($67,619)
Revenues due to 8-7-03 rate increase	$ 170,094

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 06/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,438	5,556	24	180	67,198
37. 3/4"	113	111	3	11	238
38. 1"	257	1,327	29	140	1,753
39. 1 1/2"	17	313	6	63	399
40. 2"	19	997	92	278	1,386
41. 3"	1	43		4	48
42. 4"&Over		29	30	34	93
43. Totals	61,845	8,376	184	710	71,115

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 8-24-04, 20____ (Signed) Michael A. Mille

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

WATER COMPANIES

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: April 2004

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	1,028,762	965,613	3,682,145	3,600,061	12,190,821	12,139,229
2. Commercial Sales	720,433	738,830	2,832,192	2,723,160	9,336,689	8,982,197
3. Industrial Sales	239,596	288,419	920,404	1,030,737	3,178,776	3,202,566
4. Other Sales	546,232	476,984	2,129,719	1,706,827	6,339,150	5,584,268
5. Total Operating Revenues (Item 1-4)	2,535,023	2,469,846	9,564,460	9,060,785	31,045,436	29,908,260
Operating Expenses						
6. Source of Supply Expense	14,947	2,012	31,095	5,414	42,436	22,072
7. Pumping and Water Treatment Expense	299,096	227,546	1,252,977	1,086,621	4,123,026	3,895,175
8. Transmission and Distribution-Operation	49,169	92,734	233,495	398,663	958,977	1,238,241
9. Transmission and Distribution-Maintenance	72,669	93,715	417,286	446,870	1,226,826	1,402,131
10. Customer Accounts and Sales Expense	102,786	71,026	453,170	468,662	1,306,154	1,441,072
11. Administrative and General Expense	832,242	737,982	3,063,311	2,620,787	8,033,323	6,700,132
12. Depreciation and Amortization	401,278	312,033	1,602,859	1,175,737	4,339,126	3,675,868
13. Taxes Other Than Income Taxes	301,678	299,117	1,162,688	1,168,113	3,659,230	3,606,920
14. Income Taxes	106,917	171,582	228,910	378,460	2,207,077	2,252,620
15. Total Operating Expenses (Item 6-14)	2,180,782	2,007,747	8,445,791	7,749,327	25,896,175	24,234,231
16. Net Operating Income (Item 5 less 15)	354,241	462,099	1,118,669	1,311,458	5,149,261	5,674,029
17. Other Income	7,887	(21,244)	(11,147)	(16,021)	104,915	(2,374)
18. Miscellaneous Income Deductions	(5,164)	837	(7,267)	9,270	56,999	49,698
19. Interest Charges	224,281	222,067	829,782	847,263	2,337,189	2,739,935
20. Net Income	143,011	217,951	285,007	438,904	2,859,988	2,882,022

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	152,166,186	144,992,784	148,469,504	143,254,225
22. Construction Work in Progress	3,433,865	3,545,164	3,658,785	3,393,010
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	46,921,258	43,161,062	45,000,099	41,701,518
26. Materials and Supplies	382,811	358,334	370,523	362,166
27. Unamortized Investment Credit	1,396,283	1,472,651	1,437,649	1,507,653
28. Deferred Income Tax	13,479,041	10,635,677	12,424,944	10,360,677
29. Contributions in Aid of Construction	6,004,930	5,545,652	5,776,700	5,169,695
30. Customer Advances for Construction	3,306,393	2,612,356	2,842,301	2,635,696
31. Preferred Stock	1,435,000	1,453,940	1,434,578	1,487,370
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,783,398	4,781,958	4,783,278	4,781,958
34. Retained Earnings	18,060,930	17,379,799	18,074,762	17,492,303
35. Long Term Debt..........(1)	43,347,757	24,340,991	28,287,152	28,971,985

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED APRIL 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$150,250,944	$146,879,045
3	Plant Under Construction	2,840,199	3,658,785
4	Property Held For Future Use	0	0
5	Materials and Supplies	376,084	370,523
6	Other Additions:		
7	Leased Utility Plant	1,590,375	1,590,458
8	Unamortized Painting - net	10,452	11,779
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	156,635,972	154,078,508
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	46,372,642	45,000,099
16	Accumulated Deferred Income Taxes	13,075,426	12,424,944
17	Unamortized Investment Credit - Pre 1971	49,474	50,506
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	5,996,357	5,776,700
21	Customer Advances for Construction	3,028,975	2,842,301
22	All Other A/	(455,487)	(385,351)
23			
24			
25			
26	Total Deductions	68,067,387	65,709,199
27			
28	Rate Base	$88,568,585	$88,369,309
29			
30	Net Operating Income	$354,241	$5,149,261
31	Adjustments to NOI		
32	Allowance for funds used during construction	5,671	211,713
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,049	120,874
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$369,961	$5,481,848
40			
41			
42	Rate of return B/	5.01%	6.20%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	17,637	53,825
Unpaid for materials and supplies	54,908	50,084
Taxes on CIAC-DEF. FIT & SIT	(528,032)	(489,260)
	($455,487)	($385,351)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

June 29, 2004

~~**CONTINUING SURVEILLANCE CONSIDERATIONS – April 2004** Estimate the~~ effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($90,419)
Revenues due to 8-7-03 rate increase	$ 450,409

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 04/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,037	5,535	25	178	66,775
37. 3/4"	111	111	3	11	236
38. 1"	252	1,307	29	139	1,727
39. 1 1/2"	19	306	6	62	393
40. 2"	17	991	92	276	1,376
41. 3"		40		4	44
42. 4"&Over		29	30	34	93
43. Totals	61,436	8,319	185	704	70,644

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: July 16, 2004 (Signed) Ray L. Ferrell

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: March 2004

PSC--3.06

	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues						
1. Residential Sales	1,075,178	914,213	2,653,383	2,634,449	12,127,672	12,078,857
2. Commercial Sales	820,628	700,416	2,111,759	1,984,330	9,355,086	8,953,414
3. Industrial Sales	243,927	310,334	680,808	742,319	3,227,599	3,188,652
4. Other Sales	590,593	452,891	1,583,487	1,229,845	6,269,902	5,571,668
5. Total Operating Revenues (Item 1-4)	2,730,326	2,377,854	7,029,437	6,590,943	30,980,259	29,792,591
Operating Expenses						
6. Source of Supply Expense	9,769	1,214	16,148	14,856	29,501	20,402
7. Pumping and Water Treatment Expense	361,850	269,972	953,881	847,522	4,051,476	4,006,430
8. Transmission and Distribution-Operation	59,643	108,793	184,326	305,829	1,002,542	1,250,215
9. Transmission and Distribution-Maintenance	113,806	127,308	344,617	353,154	1,247,872	1,428,055
10. Customer Accounts and Sales Expense	113,552	140,533	350,384	385,820	1,274,394	1,477,191
11. Administrative and General Expense	793,813	849,727	2,231,069	1,894,822	7,939,063	6,453,095
12. Depreciation and Amortization	400,893	309,745	1,201,581	863,704	4,249,881	3,673,615
13. Taxes Other Than Income Taxes	317,465	302,202	861,010	868,995	3,656,669	3,607,861
14. Income Taxes	145,121	27,826	121,993	209,560	2,271,742	2,207,049
15. Total Operating Expenses (Item 6-14)	2,315,912	2,137,320	6,265,009	5,744,262	25,723,140	24,123,913
16. Net Operating Income (Item 5 less 15)	414,414	240,534	764,428	846,681	5,257,119	5,668,678
17. Other Income	13,176	4,135	(19,034)	5,223	75,784	18,277
18. Miscellaneous Income Deductions	345	6,234	(2,103)	5,750	63,000	57,918
19. Interest Charges	238,803	225,546	605,501	625,195	2,334,975	2,807,105
20. Net Income	188,442	12,889	141,996	220,959	2,934,928	2,821,932

	Balance at End of Month		Aver. for 12 Mo.-To-Date	
	This Year	Last Year	This Year	Last Year
	(h)	(i)	(j)	(k)
21. Utility Plant In Service........(1)	151,936,183	144,886,454	147,871,720	142,978,613
22. Construction Work in Progress	3,059,985	3,396,427	3,668,060	3,311,414
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	46,581,675	42,890,985	44,686,750	41,463,535
26. Materials and Supplies	393,049	346,286	368,483	362,187
27. Unamortized Investment Credit	1,402,647	1,479,015	1,444,013	1,514,017
28. Deferred Income Tax	13,310,142	11,351,324	12,273,716	10,310,677
29. Contributions in Aid of Construction	6,001,464	5,542,661	5,738,427	5,095,801
30. Customer Advances for Construction	3,066,640	2,566,024	2,784,464	2,638,772
31. Preferred Stock	1,435,000	1,476,500	1,436,157	1,493,500
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,783,398	4,781,958	4,783,158	4,781,958
34. Retained Earnings	17,918,214	17,562,978	18,018,002	17,426,593
35. Long Term Debt...........(1)	43,347,758	33,424,295	27,459,710	30,567,287

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MARCH 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$150,142,697	$146,281,262
3	Plant Under Construction	2,642,310	3,668,060
4	Property Held For Future Use	0	0
5	Materials and Supplies	373,842	368,483
6	Other Additions:		
7	Leased Utility Plant	1,590,333	1,590,458
8	Unamortized Painting - net	10,617	12,110
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	156,327,717	153,488,291
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	46,189,770	44,686,750
16	Accumulated Deferred Income Taxes	12,940,888	12,273,716
17	Unamortized Investment Credit - Pre 1971	49,603	50,764
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	5,993,499	5,738,427
21	Customer Advances for Construction	2,936,503	2,784,464
22	All Other A/	(454,537)	(401,402)
23			
24			
25			
26	Total Deductions	67,655,726	65,132,719
27			
28	Rate Base	$88,671,991	$88,355,572
29			
30	Net Operating Income	$414,414	$5,257,119
31	Adjustments to NOI		
32	Allowance for funds used during construction	4,218	231,114
33	Adjustment to reflect effective federal		
34	income tax rate (debt assigned to parent)	10,061	120,824
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$428,693	$5,609,057
40			
41			
42	Rate of return B/	5.80%	6.35%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	13,883	53,825
Unpaid for materials and supplies	60,606	50,084
Taxes on CIAC-DEF. FIT & SIT	(529,026)	(505,311)
	($454,537)	($401,402)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

May 28, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – March 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($48,978)
Revenues due to 8-7-03 rate increase	$ 588,269

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 03/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	60,901	5,553	26	177	66,657
37. 3/4"	106	111	3	11	231
38. 1"	230	1,286	29	139	1,684
39. 1 1/2"	19	306	6	62	393
~~40. 2"~~	~~14~~	~~982~~	~~92~~	~~273~~	~~1,361~~
41. 3"		39		4	43
42. 4"&Over	1	28	30	34	93
43. Totals	61,271	8,305	186	700	70,462

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that at to the best of my knowledge and belief this is a true and correct report:

Date: June 15, 2004 (Signed) [signature]

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

PSC--3.06

WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: February 2004

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	797,543	1,134,396	1,578,205	1,720,235	11,966,707	12,106,882
2. Commercial Sales	687,677	834,058	1,291,131	1,283,914	9,234,874	8,954,629
3. Industrial Sales	256,047	257,414	436,881	431,984	3,294,006	3,160,273
4. Other Sales	476,715	435,984	992,894	776,953	6,132,199	5,551,162
5. Total Operating Revenues (Item 1-4)	2,217,981	2,661,852	4,299,111	4,213,086	30,627,786	29,772,946
Operating Expenses						
6. Source of Supply Expense	2,941	1,177	6,379	2,188	20,946	19,688
7. Pumping and Water Treatment Expense	318,673	293,869	592,031	589,103	3,959,598	4,060,173
8. Transmission and Distribution-Operation	42,536	99,175	124,683	197,136	1,051,692	1,252,715
9. Transmission and Distribution-Maintenance	100,324	123,231	230,811	225,847	1,261,374	1,425,298
10. Customer Accounts and Sales Expense	108,000	109,295	236,832	257,103	1,301,375	1,485,024
11. Administrative and General Expense	870,513	634,569	1,437,256	1,033,078	7,994,977	6,077,803
12. Depreciation and Amortization	400,479	311,056	800,688	553,959	4,158,733	3,673,449
13. Taxes Other Than Income Taxes	304,210	302,859	543,545	566,794	3,641,406	3,583,723
14. Income Taxes	(41,686)	243,567	(23,128)	180,568	2,152,931	2,309,615
15. Total Operating Expenses (Item 6-14)	2,105,991	2,118,798	3,949,097	3,605,776	25,543,032	23,887,488
16. Net Operating Income (Item 5 less 15)	111,990	543,054	350,014	607,310	5,084,754	5,885,458
17. Other Income	(17,676)	(1,412)	(32,210)	1,088	66,743	12,212
18. Miscellaneous Income Deductions	(6,699)	285	(2,448)	683	70,405	58,253
19. Interest Charges	174,494	222,587	366,698	399,650	2,321,718	2,867,543
20. Net Income	(73,481)	318,770	(46,446)	208,065	2,759,374	2,971,874

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	151,698,443	144,650,655	147,284,243	142,686,731
22. Construction Work in Progress	2,547,501	3,243,929	3,696,097	3,225,796
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	46,186,686	42,586,457	44,379,192	41,223,016
26. Materials and Supplies	368,647	347,498	364,586	363,482
27. Unamortized Investment Credit	1,409,011	1,485,379	1,450,377	1,520,381
28. Deferred Income Tax	12,631,530	10,535,677	12,110,482	10,260,677
29. Contributions in Aid of Construction	5,988,467	5,493,559	5,700,193	5,008,112
30. Customer Advances for Construction	2,898,217	2,618,826	2,742,746	2,643,799
31. Preferred Stock	1,435,000	1,476,500	1,439,615	1,497,750
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,783,398	4,781,958	4,783,038	4,781,958
34. Retained Earnings	18,615,581	17,531,834	17,988,399	17,331,299
35. Long Term Debt..........(1)	24,354,471	24,354,471	26,632,755	32,162,388

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED February 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$150,041,203	$145,693,784
3	Plant Under Construction	2,433,473	3,696,097
4	Property Held For Future Use	0	0
5	~~Materials and Supplies~~	~~364,239~~	~~364,586~~
6	Other Additions:		
7	Leased Utility Plant	1,590,250	1,590,458
8	Unamortized Painting - net	10,783	12,442
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	156,007,866	152,925,285
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	45,993,818	44,379,192
16	Accumulated Deferred Income Taxes	12,756,261	12,110,482
17	Unamortized Investment Credit - Pre 1971	49,732	51,022
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	5,989,516	5,700,193
21	Customer Advances for Construction	2,871,435	2,742,746
22	All Other A/	(467,968)	(394,657)
23			
24			
25			
26	Total Deductions	67,192,794	64,588,978
27			
28	Rate Base	$88,815,072	$88,336,307
29			
30	Net Operating Income	$111,990	$5,084,754
31	Adjustments to NOI		
32	Allowance for funds used during construction	3,097	251,272
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,077	120,761
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$125,164	$5,456,787
40			
41			
42	Rate of return B/	1.69%	6.18%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	8,313	53,825
Unpaid for materials and supplies	54,500	50,084
Taxes on CIAC-DEF. FIT & SIT	(530,781)	(498,566)
	($467,968)	($394,657)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

April 29, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – February 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($62,433)
Revenues due to 8-7-03 rate increase	$ 730,724

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 02/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	60,766	5,550	27	180	66,523
37. 3/4"	105	111	3	12	231
38. 1"	221	1,267	28	140	1,656
39. 1 1/2"	19	302	6	61	388
~~40. 2"~~	~~14~~	~~981~~	~~92~~	~~273~~	~~1,360~~
41. 3"		37		4	41
42. 4"&Over		27	30	34	91
43. Totals	61,125	8,275	186	704	70,290

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: May 6, 2004 (Signed)

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: January 2004

PSC--3.06

(a)	Amount for this Month This Year (b)	Amount for this Month Last Year (c)	Year-To-Date This Year (d)	Year-To-Date Last Year (e)	12 Months-To-Date This Year (f)	12 Months-To-Date Last Year (g)
Operating Revenues						
1. Residential Sales	780,663	585,839	780,663	585,839	12,303,560	11,786,915
2. Commercial Sales	603,454	449,856	603,454	449,856	9,381,255	8,737,404
3. Industrial Sales	180,834	174,570	180,834	174,570	3,295,373	3,174,536
4. Other Sales	516,179	340,969	516,179	340,969	6,091,468	5,516,295
5. Total Operating Revenues (Item 1-4)	2,081,129	1,551,235	2,081,130	1,551,234	31,071,656	29,215,150
Operating Expenses						
6. Source of Supply Expense	3,438	1,011	3,438	1,011	19,182	18,944
7. Pumping and Water Treatment Expense	273,358	295,234	273,358	295,234	3,934,794	4,063,489
8. Transmission and Distribution-Operation	82,146	97,961	82,146	97,961	1,108,331	1,291,375
9. Transmission and Distribution-Maintenance	130,487	102,616	130,487	102,616	1,284,281	1,400,330
10. Customer Accounts and Sales Expense	128,832	147,808	128,832	147,808	1,302,670	1,494,272
11. Administrative and General Expense	566,743	398,509	566,743	398,509	7,759,033	5,849,731
12. Depreciation and Amortization	400,209	242,903	400,209	242,903	4,069,311	3,671,643
13. Taxes Other Than Income Taxes	239,334	263,935	239,334	263,935	3,640,055	3,562,990
14. Income Taxes	18,558	(62,999)	18,558	(62,999)	2,438,184	2,144,024
15. Total Operating Expenses (Item 6-14)	1,843,105	1,486,978	1,843,105	1,486,978	25,555,841	23,496,798
16. Net Operating Income (Item 5 less 15)	238,024	64,257	238,025	64,256	5,515,815	5,718,352
17. Other Income	(14,534)	2,500	(14,534)	2,500	83,007	13,743
18. Miscellaneous Income Deductions	4,251	398	4,251	398	77,389	57,968
19. Interest Charges	192,204	177,063	192,204	177,063	2,369,811	2,929,432
20. Net Income	27,035	(110,704)	27,036	(110,705)	3,151,622	2,744,695

	Balance at End of Month This Year (h)	Balance at End of Month Last Year (i)	Aver. for 12 Mo.-To-Date This Year (j)	Aver. for 12 Mo.-To-Date Last Year (k)
21. Utility Plant In Service........(1)	151,564,464	144,537,053	146,696,927	142,400,869
22. Construction Work in Progress	2,319,445	3,044,636	3,754,133	3,124,991
23. Utility Plant Acquisition Adjustment	0	0	0	0
24. Property Held for Future Use	0	0	0	0
25. Accumulated Depreciation and Amort..(1)	45,800,950	42,267,803	44,079,173	40,982,558
26. Materials and Supplies	359,831	388,248	362,824	368,858
27. Unamortized Investment Credit	1,415,375	1,491,743	1,456,741	1,526,745
28. Deferred Income Tax	12,880,991	10,485,677	12,037,424	10,210,677
29. Contributions in Aid of Construction	5,990,564	5,493,188	5,658,951	4,924,911
30. Customer Advances for Construction	2,844,652	2,701,798	2,719,464	2,642,712
31. Preferred Stock	1,435,000	1,476,500	1,443,073	1,502,000
32. Common Stock	13,754,235	13,754,235	13,754,235	13,754,235
33. Premium on Capital Stock and Other Capital	4,783,398	4,781,958	4,782,918	4,781,958
34. Retained Earnings	18,668,998	17,195,214	17,896,175	17,264,635
35. Long Term Debt...........(1)	24,361,132	24,361,132	27,389,057	33,757,290

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED January 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	$149,956,090	$145,106,469
3	Plant Under Construction	2,202,642	3,754,133
4	Property Held For Future Use	0	0
~~5~~	~~Materials and Supplies~~	~~348,787~~	~~362,824~~
6	Other Additions:		
7	Leased Utility Plant	1,590,250	1,590,458
8	Unamortized Painting - net	11,115	12,774
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	155,676,802	152,394,576
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	45,613,910	44,079,173
16	Accumulated Deferred Income Taxes	12,943,064	12,037,424
17	Unamortized Investment Credit - Pre 1971	49,990	51,280
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	5,970,109	5,658,951
21	Customer Advances for Construction	2,804,701	2,719,464
22	All Other A/	(402,628)	(387,522)
23			
24			
25			
26	Total Deductions	66,979,146	64,158,770
27			
28	Rate Base	$88,697,656	$88,235,806
29			
30	Net Operating Income	$238,024	$5,515,815
31	Adjustments to NOI		
32	Allowance for funds used during construction	1,861	272,144
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,063	120,654
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	$249,948	$5,908,613
40			
41			
42	Rate of return B/	3.38%	6.70%

A/ All Other

Acquisition adjustment	$0	$0
Accounts payable applicable to CWIP	134,313	53,825
Unpaid for materials and supplies	52,228	50,084
Taxes on CIAC-DEF. FIT & SIT	(589,169)	(491,431)
	($402,628)	($387,522)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	$1,567,918

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 01/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	60,689	5,549	27	180	66,445
37. 3/4"	105	111	3	12	231
38. 1"	222	1,265	28	140	1,655
39. 1 1/2"	19	301	6	61	387
40. 2"	14	978	92	273	1,357
41. 3"		36		4	40
42. 4"&Over		27	30	34	91
43. Totals	61,049	8,267	186	704	70,206

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of $1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.

2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".

3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: ________________, 20 ____ (Signed) ______________________________

Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

March 26, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – January 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	($75,888)
Revenues due to 8-7-03 rate increase	$ 859,393

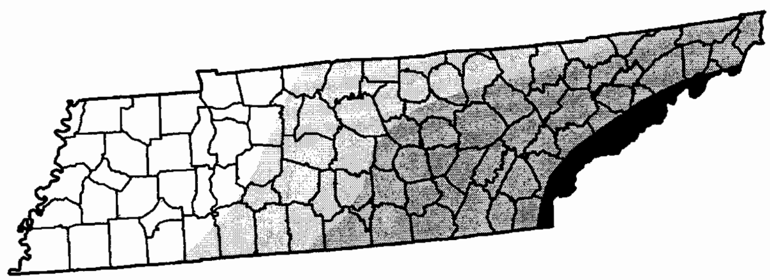
U.S. Drought Monitor

July 29, 2008
Valid 7 a.m. EST

Tennessee

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	32.5	67.5	53.3	40.8	4.4	0.0
Last Week (07/22/2008 map)	32.5	67.5	53.3	40.8	4.4	0.0
3 Months Ago (05/06/2008 map)	46.6	53.4	39.4	22.8	0.0	0.0
Start of Calendar Year (01/01/2008 map)	27.4	72.6	60.8	53.8	46.8	19.9
Start of Water Year (10/02/2007 map)	0.0	100.0	100.0	100.0	85.7	61.3
One Year Ago (07/31/2007 map)	0.0	100.0	100.0	96.4	65.0	5.9



Intensity:

- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://drought.unl.edu/dm

USDA National Drought Mitigation Center

Released Thursday, July 31, 2008

Author: B. Fuchs, NDMC, and L. Edwards, WRCC

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Three-Month Outlooks

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Jul-Aug-Sep 2009

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[UPDATED MONTHLY FORECASTS SERVICE CHANGE NOTICE]
[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions
Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks
0.5mn ASO 2008
1.5mn SON 2008
2.5mn OND 2008
3.5mn NDJ 2008 - 09
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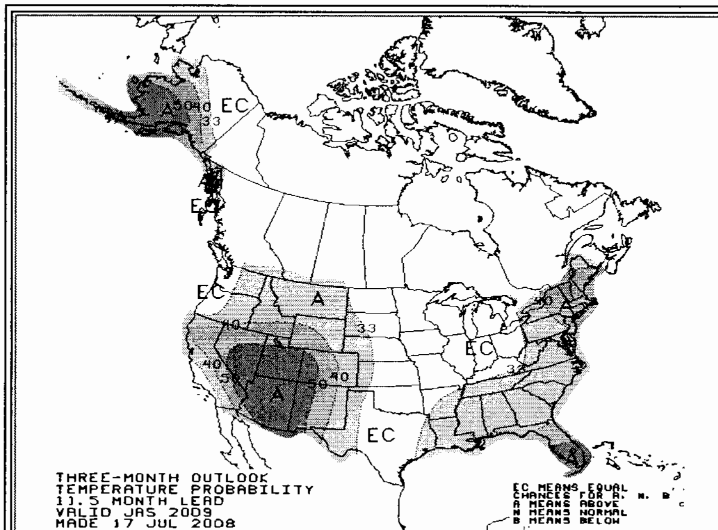

Climatological Values (1971-2000) for ASO

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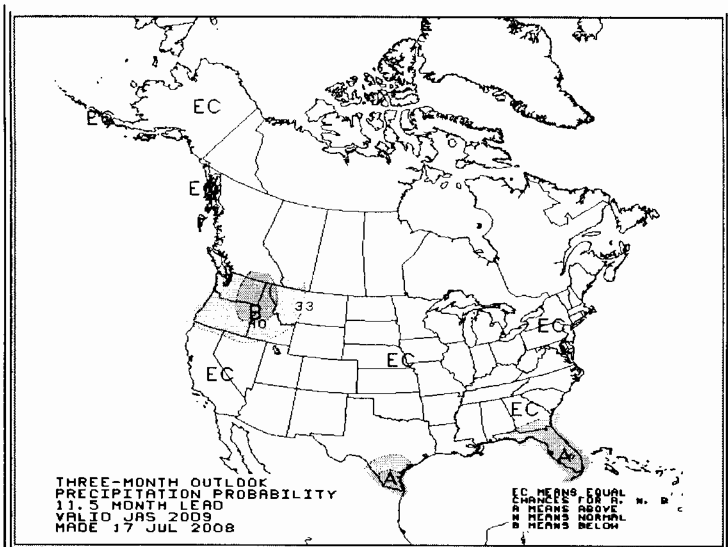
Tools Used (see Discussion for explanation)
Tools Discussion (updated as new tools are implimented) Canonical Correlation Analysis

Ensemble Canonical Correlation Analysis
Optimal Climate Normals
Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
Probability of Exceedence



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Information Quality
Credits
Glossary

Privacy Policy
Freedom of Information Act (FOIA)
About Us
Career Opportunities

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Three-Month Outlooks

OFFICIAL Forecasts

Jun-Jul-Aug 2009

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[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions
- Monthly
- Long Lead
- 30-& 90-Day Hawaiian

More Outlooks
- 0.5mn ASO 2008
- 1.5mn SON 2008
- 2.5mn OND 2008
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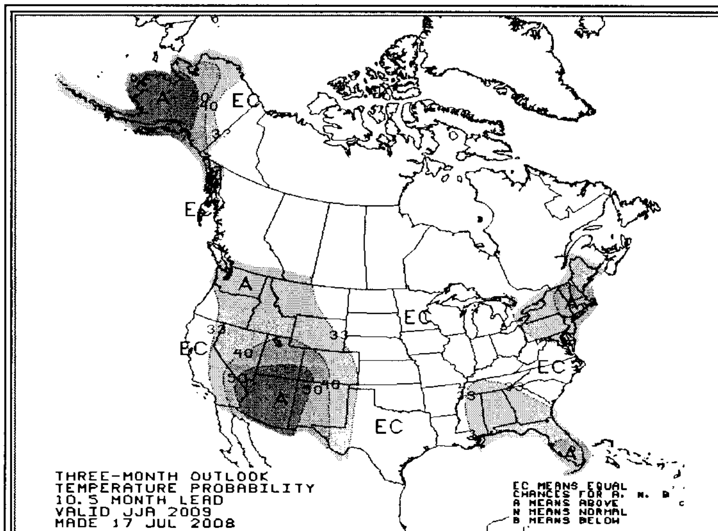

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Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
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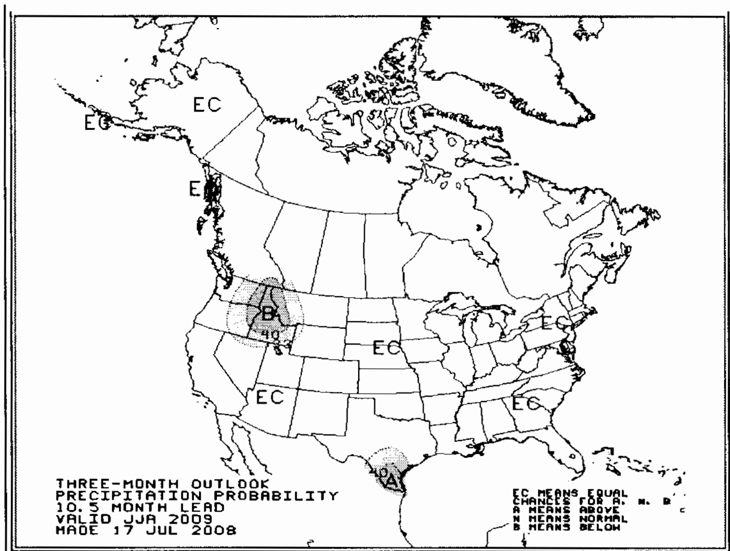

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Information Quality
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Glossary

Privacy Policy
Freedom of Information Act (FOIA)
About Us
Career Opportunities

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Three-Month Outlooks

OFFICIAL Forecasts

May-Jun-Jul 2009

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[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions
Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks
0.5mn ASO 2008
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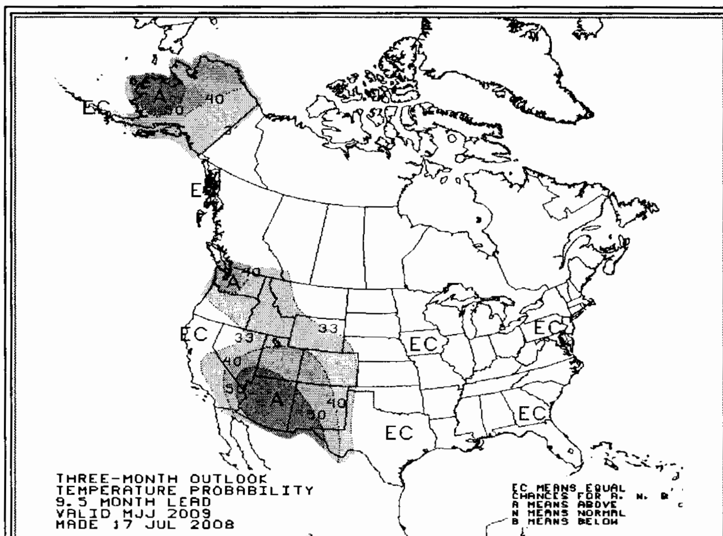

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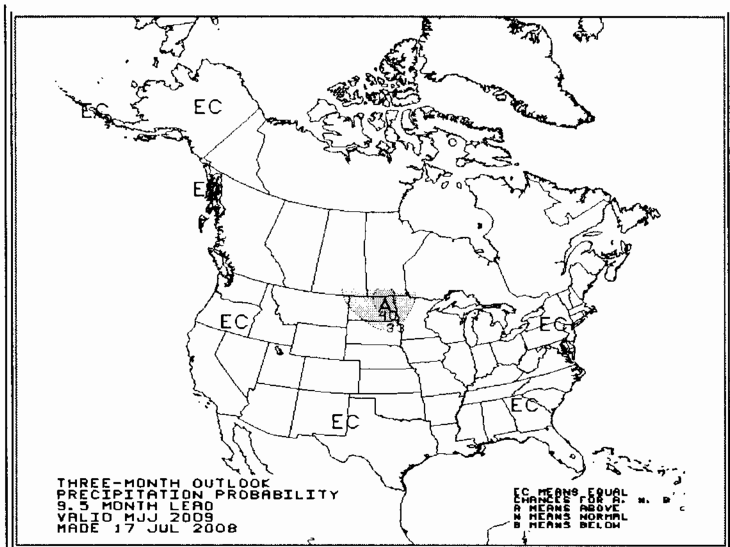
Optimal Climate Normals
Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
Probability of Exceedence



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Disclaimer
Information Quality
Credits
Glossary

Privacy Policy
Freedom of Information Act (FOIA)
About Us
Career Opportunities

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Three-Month Outlooks

OFFICIAL Forecasts

Apr-May-Jun 2009

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Text-Format Discussions
Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks
0.5mn ASO 2008
1.5mn SON 2008
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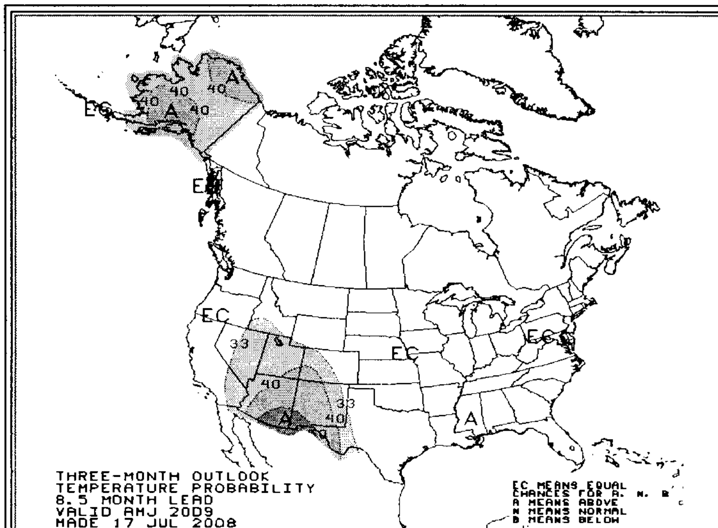

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Optimal Climate Normals
Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
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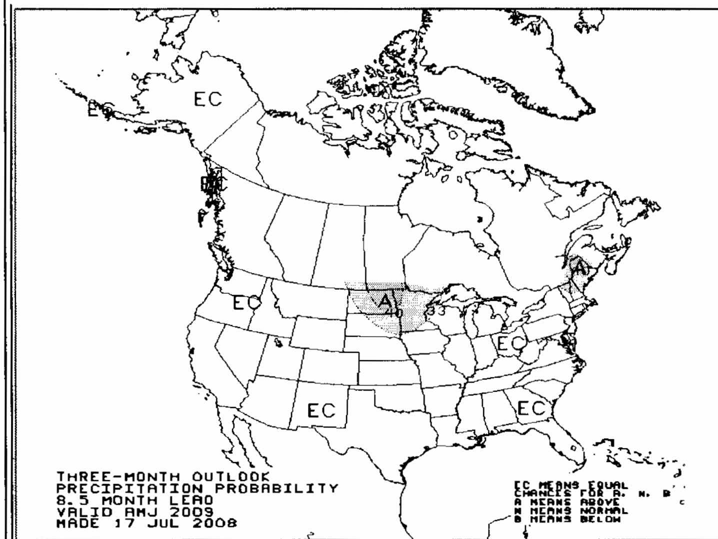

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Three-Month Outlooks

OFFICIAL Forecasts

Mar-Apr-May 2009

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[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions

Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks

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1.5mn SON 2008
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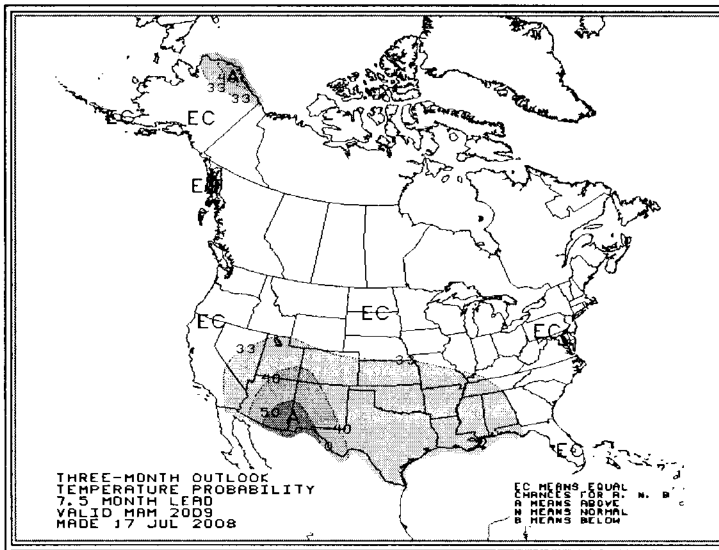

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Optimal Climate Normals
Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
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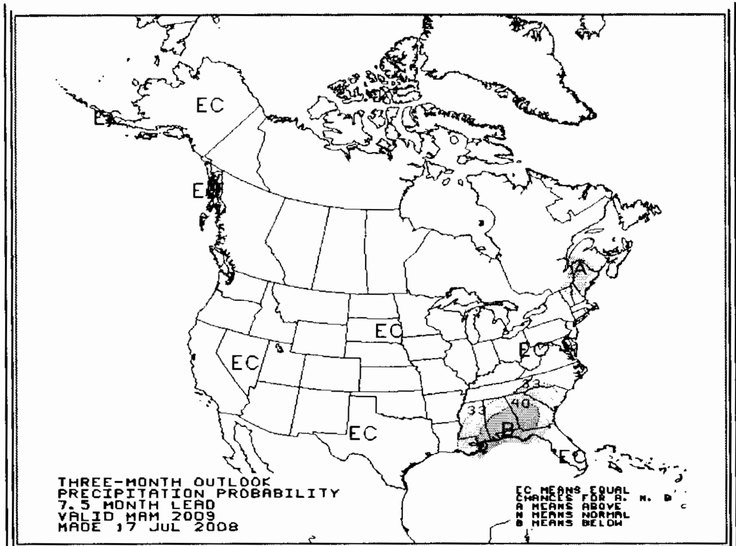

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Three-Month Outlooks

OFFICIAL Forecasts

Feb-Mar-Apr 2009

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Text-Format Discussions

Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks

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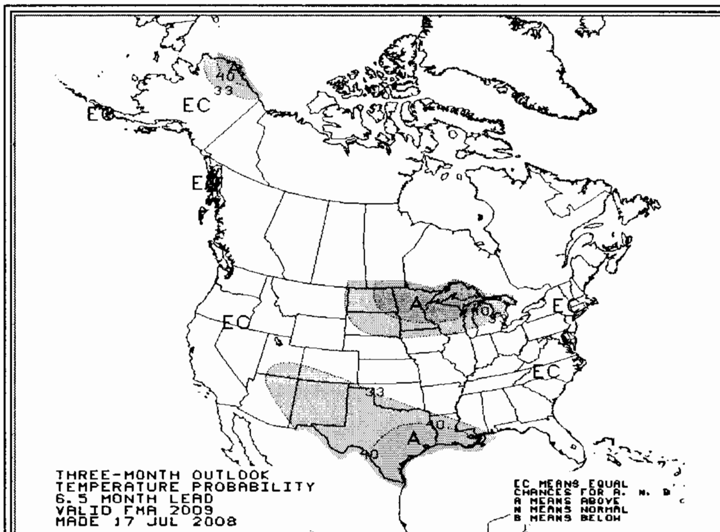

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Optimal Climate Normals
Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
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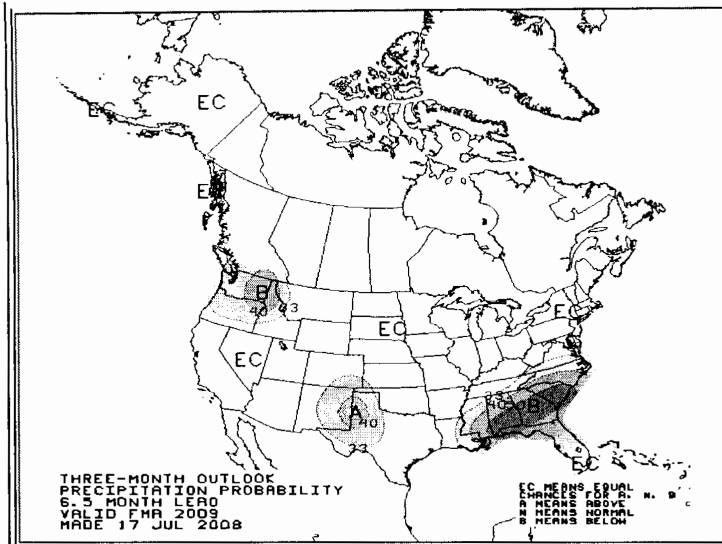

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Information Quality
Credits
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Freedom of Information Act (FOIA)
About Us
Career Opportunities

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Three-Month Outlooks

OFFICIAL Forecasts

Jan-Feb-Mar 2009

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[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions

Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks

0.5mn ASO 2008
1.5mn SON 2008
2.5mn OND 2008
3.5mn NDJ 2008 - 09
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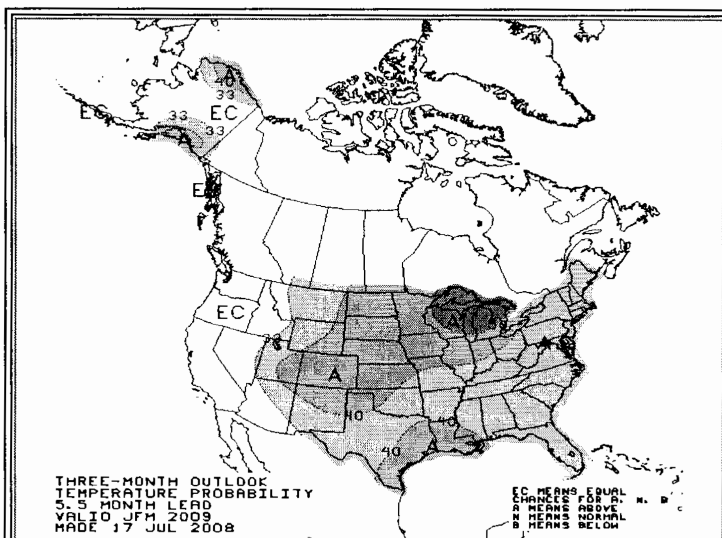

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Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
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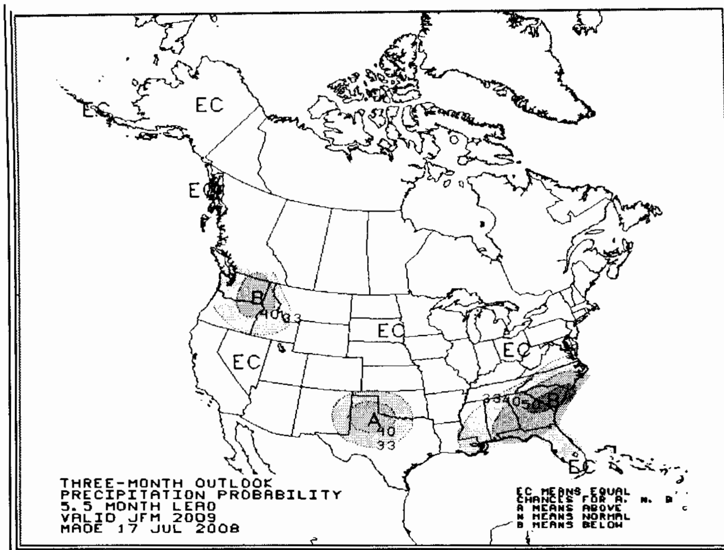

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About Us
Career Opportunities

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Three-Month Outlooks

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Dec-Jan-Feb 2008-09

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[UPDATED MONTHLY FORECASTS SERVICE CHANGE NOTICE]
[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions
Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks
0.5mn ASO 2008
1.5mn SON 2008
2.5mn OND 2008
3.5mn NDJ 2008 - 09
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Climatological Values (1971-2000) for ASO

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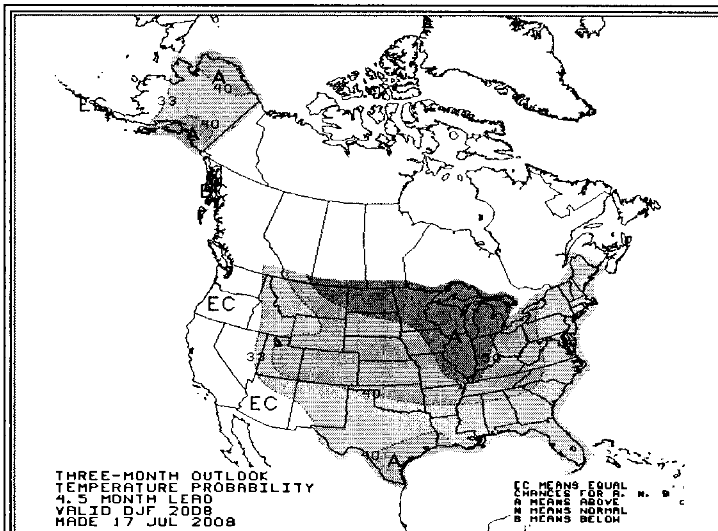

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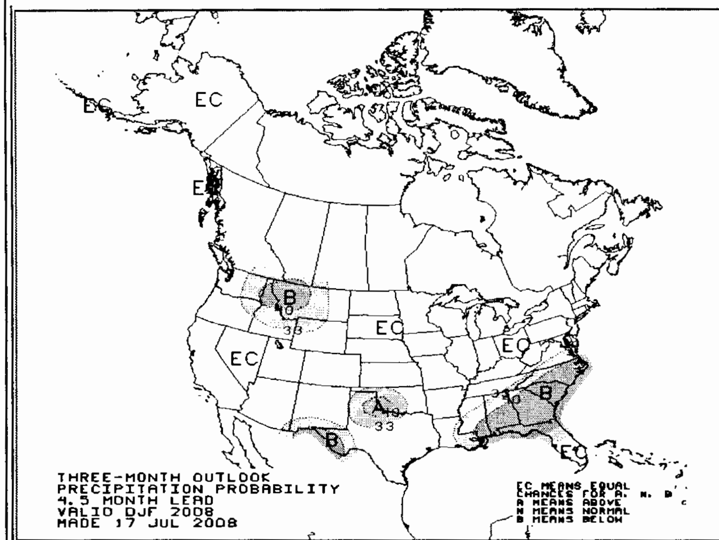
Optimal Climate Normals
Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
Probability of Exceedence



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Page last modified: December 14, 2005

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Information Quality
Credits
Glossary

Privacy Policy
Freedom of Information Act (FOIA)
About Us
Career Opportunities

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Three-Month Outlooks

OFFICIAL Forecasts

Nov-Dec-Jan 2008-09

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[UPDATED MONTHLY FORECASTS SERVICE CHANGE NOTICE]
[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions

Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks

0.5mn ASO 2008
1.5mn SON 2008
2.5mn OND 2008
3.5mn NDJ 2008 - 09
4.5mn DJF 2008 - 09
5.5mn JFM 2009
6.5mn FMA 2009
7.5mn MAM 2009
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9.5mn MJJ 2009
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11.5mn JAS 2009
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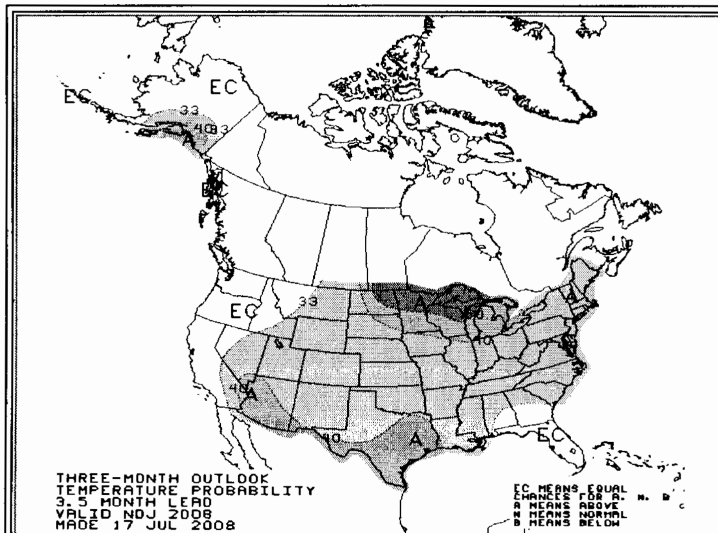

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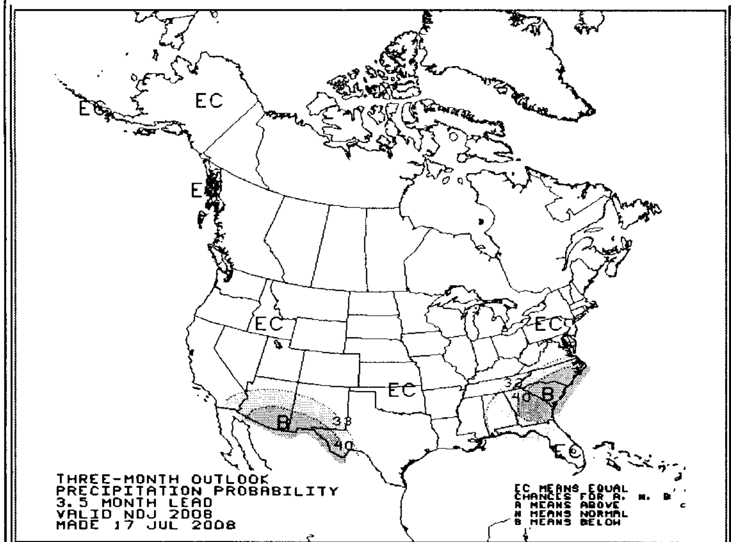
Optimal Climate Normals
Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
Probability of Exceedence



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Glossary

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Freedom of Information Act (FOIA)
About Us
Career Opportunities

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Three-Month Outlooks

OFFICIAL Forecasts

Oct-Nov-Dec 2008

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[UPDATED MONTHLY FORECASTS SERVICE CHANGE NOTICE]
[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions
Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks
0.5mn ASO 2008
1.5mn SON 2008
2.5mn OND 2008
3.5mn NDJ 2008 - 09
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5.5mn JFM 2009
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10.5mn JJA 2009
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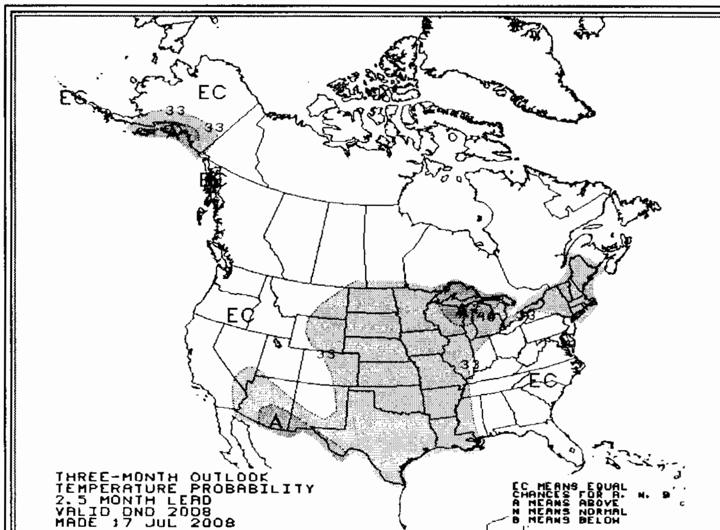

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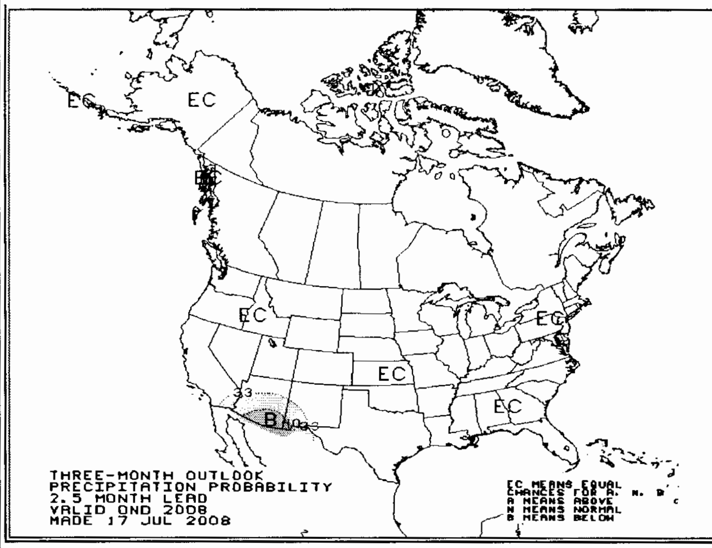
Optimal Climate Normals
Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
Probability of Exceedence



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Page last modified: December 14, 2005

Disclaimer
Information Quality
Credits
Glossary

Privacy Policy
Freedom of Information Act (FOIA)
About Us
Career Opportunities

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Three-Month Outlooks

OFFICIAL Forecasts

Sep-Oct-Nov 2008

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[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions

Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks

0.5mn ASO 2008
1.5mn SON 2008
2.5mn OND 2008
3.5mn NDJ 2008 - 09
4.5mn DJF 2008 - 09
5.5mn JFM 2009
6.5mn FMA 2009
7.5mn MAM 2009
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9.5mn MJJ 2009
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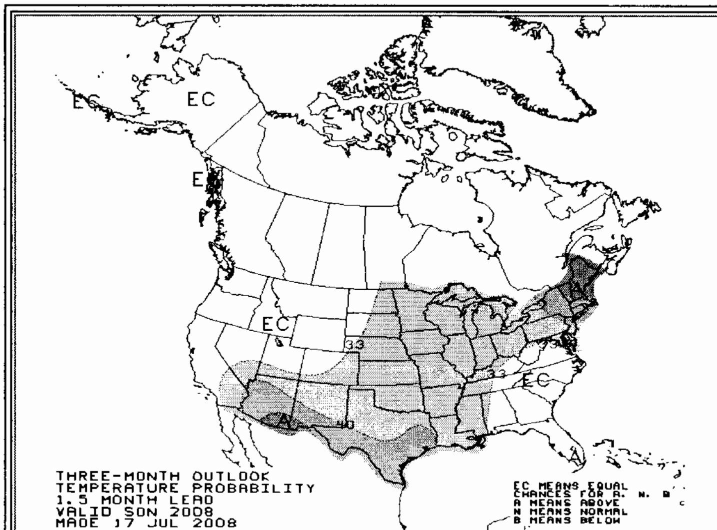

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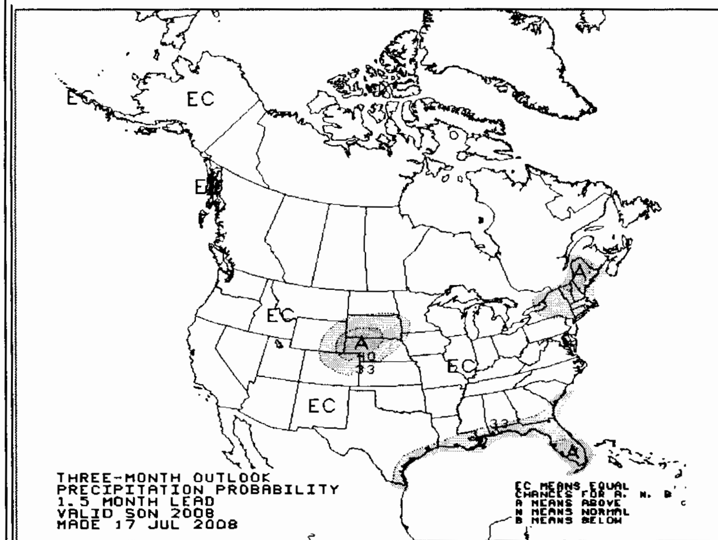
Optimal Climate Normals
Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
Probability of Exceedence



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Three-Month Outlooks

OFFICIAL Forecasts

Aug-Sep-Oct 2008

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[UPDATED MONTHLY FORECASTS SERVICE CHANGE NOTICE]
[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions
Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks
0.5mn ASO 2008
1.5mn SON 2008
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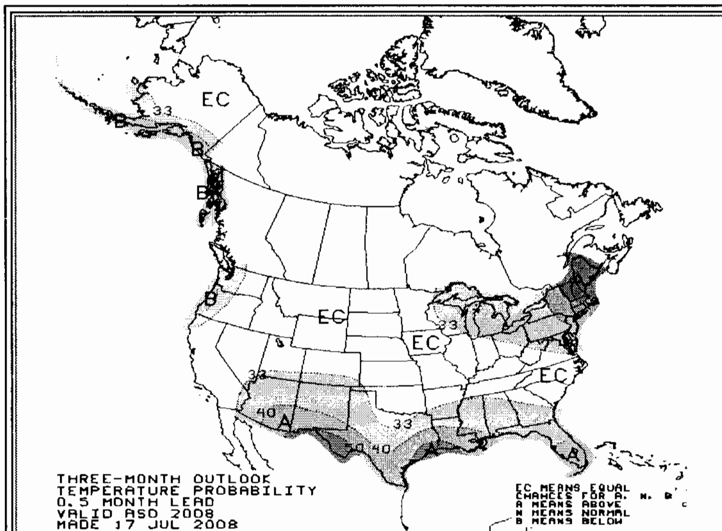

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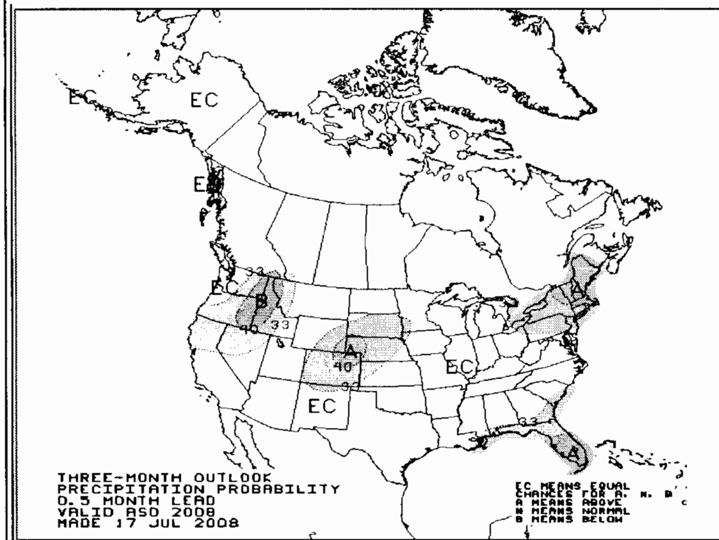

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National Centers for Environmental Prediction
Climate Prediction Center
5200 Auth Road
Camp Springs, Maryland 20746
Page Author: Climate Prediction Center Internet Team
Page last modified: December 14, 2005

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Official 90-day Outlooks are issued once each month near mid-month at 8:30am Eastern Time. Please consult the schedule of 30 & 90-day outlooks for exact release dates.

One-Month Outlook

Revised OFFICIAL Forecasts

August 2008

[UPDATED MONTHLY FORECASTS SERVICE CHANGE NOTICE]
[EXPERIMENTAL TWO-CLASS SEASONAL FORECASTS]

Text-Format Discussions

Monthly
Long Lead
30-& 90-Day Hawaiian

More Outlooks

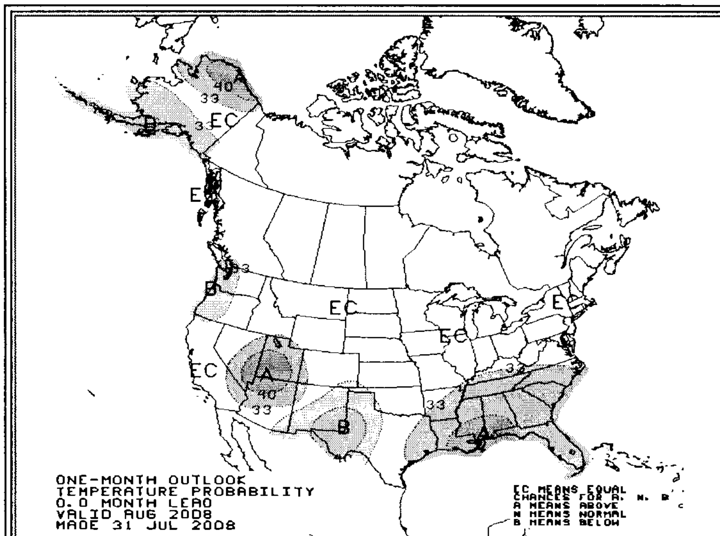
0.5mn ASO 2008
1.5mn SON 2008
2.5mn OND 2008
3.5mn NDJ 2008 - 09
4.5mn DJF 2008 - 09
5.5mn JFM 2009
6.5mn FMA 2009
7.5mn MAM 2009
8.5mn AMJ 2009
9.5mn MJJ 2009
10.5mn JJA 2009
11.5mn JAS 2009
12.5mn ASO 2009
0.5mn Aug 2008

Climatological Values (1971-2000) for Aug

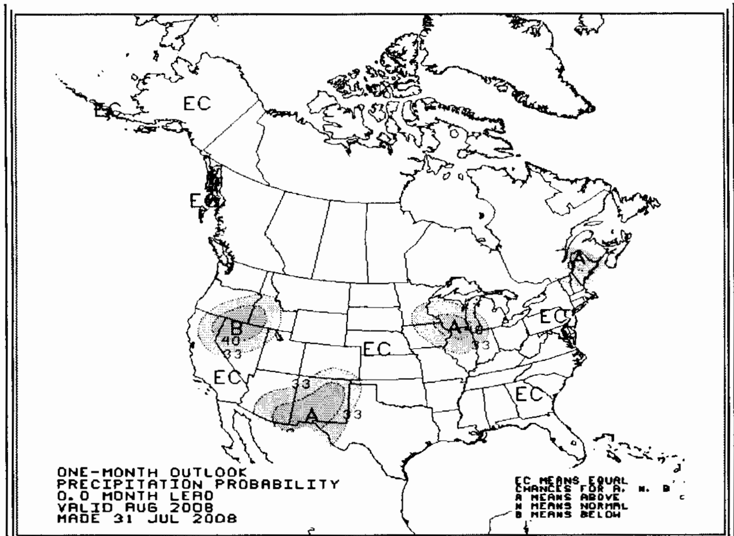
Time Series of Skill for all 0.5mn lead foreacsts

Tools Used (see Discussion for explanation)

Tools Discussion (updated as new tools are implimented)
Canonical Correlation Analysis
ECCA - Ensemble Canonical Correlation Analysis



Optimal Climate Normals
Coupled Ocean-Atmosphere Model
Soil-Moisture Tools
Probability of Exceedence



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