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*Attorneys at Law*

A PROFESSIONAL LIMITED LIABILITY COMPANY

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KNOXVILLE  
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August 12, 2008

**VIA E-MAIL AND HAND DELIVERY**

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

filed electronically in docket office on 08/13/08

**Re: *Petition of Tennessee American Water Company To Change And Increase Certain Rates And Charge So As To Permit It To Earn A Fair And Adequate Rate Of Return On Its Property Used And Useful In Furnishing Water Service To Its Customers***  
***Docket No. 08-00039***

Dear Chairman Hargett:

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

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

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

With kindest regards, I remain

Very truly yours,



Adam Futrell

Enclosures

Chairman Tre Hargett  
August 12, 2008  
Page 2

cc: Hon. Ron Jones (*w/o enclosure*)  
Hon. Sara Kyle (*w/o enclosure*)  
Hon. Eddie Roberson, PhD (*w/o enclosure*)  
Ms. Darlene Standley, Chief of Utilities Division (*w/o enclosure*)  
Richard Collier, Esq. (*w/o enclosure*)  
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division (*w/o enclosure*)  
Ms. Pat Murphy (*w/o enclosure*)  
Timothy C. Phillips, Esq. (*w/enclosure*)  
David C. Higney, Esq. (*w/enclosure*)  
Henry M. Walker, Esq. (*w/enclosure*)  
Michael A. McMahan, Esq. (*w/enclosure*)  
Frederick L. Hitchcock, Esq. (*w/enclosure*)  
Mr. John Watson (*w/o enclosure*)  
Mr. Michael A. Miller (*w/o enclosure*)

**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 08-00039  
SECOND DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE AND PROTECTION DIVISION**

**Responsible Witness:** Michael A. Miller/Others

**Discovery Request No. 4:**

Please identify any person you intend to call as a fact or expert witness, the subject matter of the witness' testimony, the substance of the facts and opinions to be expressed and the basis and reasons therefore, the data, documents, materials or other information shown to, relied upon, created by or considered by the witness as part of this case and/or as a basis in forming his or her opinions, any exhibits to be used as a summary of or support for each such opinion, the qualifications of the witness, including a full resume, a list of all publications authored by the witness, the compensation to be paid for the study and testimony, and a listing of any other cases in which the witness has testified at trial or by deposition.

**Response:**

The Company objects to this question on the grounds that the requested information is unduly burdensome, overly broad, and contains information subject to attorney/client privilege and protected according to the attorney work product doctrine.

Notwithstanding the objections above the Company provides the following response. All responsive information is readily available in the direct testimony and exhibits of the Company's witnesses filed in this docket. Please see the responses to Questions 1, 2 and 3 for a description of the data on which TAWC will rely to support its filing, a list of the witnesses and subject matter for rebuttal. The Company reserves the right to call additional expert witnesses for rebuttal testimony. If and when a decision is made to file rebuttal testimony from any yet-undisclosed witness, the Company will supplement this response in a timely fashion.

The Company will supplement this response as required.

**August 12, 2008 Supplemental Response:**

Mark Manner, a shareholder with the law firm of Harwell, Howard, Hyne, Gabbert, and Manner, was retained on August 6, 2008 to serve as a consultant regarding the Sarbanes-Oxley issues raised by Mr. Majoros and Dr. Brown. On August 11, 2008, the Company determined that Mr. Manner should submit expert testimony to rebut testimony offered by the Intervenor's witnesses. Mr. Manner is expected to offer testimony that refutes allegations made by the Intervenor's witnesses by establishing that American Water Works is compliant with Sarbanes-Oxley and that the management audit sponsored by Mr. Van den Berg is compliant with the requirements of Sarbanes-Oxley.

Mr. Manner has considered documents previously filed in this docket and in Docket No. 06-00290 in forming his opinions. A copy of Mr. Manner's engagement letter and a biography from his law firm's website is attached hereto.

Additionally, attached are exhibits to be relied upon by Michael Miller, Sheila Miller and Edward Spitznagel as part of their rebuttal testimony.

The Company will supplement this response as required.



HARWELL HOWARD HYNE  
GABBERT & MANNER, P. C.

JONATHAN HARWELL  
LIN S. HOWARD \*  
ERNEST E. HYNE II  
CRAIG V. GABBERT, JR.  
MARK MANNER  
GLEN ALLEN CIVITTS  
GLENN B. ROSE  
JOHN N. POPHAM IV

JOHN M. BRITTINGHAM  
SUSAN V. SIDWELL  
JOHN F. BLACKWOOD  
D. ALEXANDER FARDON  
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KENNETH S. BYRD  
JEFFREY J. MILLER  
J. DAVID McDOWELL  
D. MATTHEW FOSTER  
JACOB A. FELDMAN

\*Of Counsel

August 6, 2008

Michael A. Miller, Treasurer  
American Water Works Company, Inc.  
P.O. Box 1906  
Charleston, West Virginia 25327

**Re: Petition of Tennessee American Water Company, before the Tennessee  
Regulatory Authority, Docket No. 08-00039 ("Petition").**

Dear Mr. Miller:

We are pleased that you have asked our firm to serve as a rebuttal witness in connection with the Petition. This letter will confirm our discussion with your attorneys regarding engagement of this firm and will describe the basis on which our firm will provide legal services to you.

Accordingly, we submit for your approval the following provisions governing our engagement. If you are in agreement, please sign the enclosed copy of this letter in the space provided below. If you have any questions about these provisions, or if you would like to discuss possible modifications, do not hesitate to call.

1. *Client; Scope of Representations.* Our client in this matter will be American Water Works Company, Inc. ("American Water") and its affiliate, Tennessee American Water Company ("Company"). We will be engaged to provide our firm's services before the Tennessee Regulatory Authority ("TRA"), to include preparation of written materials to be filed with the TRA, as well as an appearance before a panel established by the TRA to support the written materials and otherwise give testimony relevant to the Petition. Of course, you may limit or expand the scope of our representation from time to time, provided that any substantial expansion must be agreed to by us.

2. *Term of Engagement.* Either of us may terminate the engagement at any time for any reason by written notice, subject on our part to applicable rules of professional conduct. In the event that we terminate the engagement, we will take such steps as are reasonably practicable to protect your interest in the above matter.

3. *Conclusion of Representation; Retention and Disposition of Documents.* Unless previously terminated, our representation will terminate upon completion of our appearance before the Panel, and following the submission of any materials requested during such appearance. Following such termination, any otherwise non-public information you have

supplied to us which is retained by us will be kept confidential in accordance with applicable rules of professional conduct, and at your request, your papers and property will be returned to you promptly. Our own files pertaining to the matter will be retained by the firm. These firm files include, for example, firm administrative records, time and expense reports, personnel and staffing materials, and credit and accounting records; and internal lawyers' work product such as drafts, notes, internal memoranda, and legal and factual research, including investigative reports, prepared by or for the internal use of lawyers. All such documents retained by the firm will be transferred to the person responsible for administering our records retention program. For various reasons, including the minimization of unnecessary storage expenses, we reserve the right to destroy or otherwise dispose of any such documents or other materials retained by us within a reasonable time after the termination of the engagement.

4. *Fees and Expenses.* Our fees are based on the billing rate for each attorney and legal assistant devoting time to this matter. Our billing rates for attorneys currently range from \$130 per hour for new associates to \$500 per hour for senior partners. Time devoted by legal assistants is charged at billing rates ranging from \$125 to \$155 per hour. These billings rates are subject to change from time to time. The primary attorneys assigned to this matter will include Mark Manner, with an hourly rate of \$500, David Cox, with an hourly rate of \$420 and Kris Kemp, with an hourly rate of \$350.

We will include on our statements separate charges for performing services such as photocopying, messenger and delivery service, computerized research, travel, long-distance telephone and telecopy, word processing, and search and filing fees. Fees and expenses of others (such as consultants, appraiser, and local counsel) generally will not be paid by us, but will be billed directly to you.

Statements normally will be rendered monthly for work performed and expenses recorded on our books during the previous month. Payment is due promptly upon receipt of our statement. If any statement remains unpaid for more than 20 days, we may suspend performing services for you until arrangements satisfactory to us have been made for payment of outstanding statements and the payment of future fees and expenses. Upon termination of our engagement, all outstanding fees and costs will be immediately paid.

5. *Client Responsibilities.* You agree to cooperate fully with us and to provide promptly all information known or available to you relevant to our representation. You also agree to pay our statements for services and expenses in accordance with paragraph 4 above.

6. *Conflicts.* You are aware that the firm represents many other companies and individuals. It is possible that during the time that we are representing you, some of our present or future clients will have disputes or transactions with American Water or the Company. You agree that we may continue to represent or may undertake in the future to represent existing or new clients in any matter that is not substantially related to our work for you even if the interests of such clients in those other matters are directly adverse.

August 6, 2008

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It is understood that our client for purposes of this representation is American Water and the Company, and not any of its or their individual officers, directors or control persons or any other persons or entities who are affiliates of them. By accepting this, you agree that our representation in the matter described in paragraph 1 above does not give rise to an attorney-client relationship between the firm and any other person or entity. You also agree that the firm, during the course of its representation, will not be given any confidential information which does not relate to the matter upon which we are engaged.

Once again, we are pleased to have this opportunity to work with you. Please call me if you have any questions or comments during the course of our representation.

Sincerely,

HARWELL HOWARD HYNE  
GABBERT & MANNER, P.C.



Mark Manner

Agreed to and accepted this  
6th day of August, 2008.

**AMERICAN WATER WORKS COMPANY, INC.**

By: Michael A. Miller  
Name: Michael A. Miller  
Title: Director of Rates  
SE Region AWWSC



our business is business law.



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PRACTICE AREAS  
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IN THE NEWS  
JOIN OUR FIRM  
ABOUT US  
CONTACT

SEARCH H3GM:



**Mark Manner**  
Shareholder

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✉ [mark.manner@h3gm.com](mailto:mark.manner@h3gm.com)

**MARK MANNER** is H<sup>3</sup>GM's managing shareholder and represents private and public business clients in securities law, mergers and acquisitions, healthcare law, biotechnology, information technology and venture capital investments. He is a member of the Securities, Mergers and Acquisitions, Private Equity, Life Sciences and Biotechnology, Healthcare and General Business and Corporate practice areas. He has substantial experience in structuring and negotiating complex mergers and acquisitions, advising companies on capital formation and securities offerings, and advising boards of directors of public companies.

For over 10 years, Mark has been recognized in *Best Lawyers in America*®. In the 2008 edition, he was recognized in the areas of corporate law, mergers and acquisitions, securities law and healthcare law. Mark also was recognized by *Chambers USA* in its publication of "America's Leading Business Lawyers" based upon client surveys which praised him as "a striking senior corporate lawyer who is exceptionally good at dealing with tricky matters." Additionally, Mark has been ranked in *Mid-South Super Lawyers*, *Nashville Business Journal's* "Best of the Bar," *Nashville Business Journal's*

#### Related Links

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"Healthcare 100," and *Business Tennessee's* "Top 150 Lawyers."

Mark is a member of the American Health Lawyers Association. He serves on the board of directors of the Tennessee Technology Development Corporation and the Tennessee Biotechnology Association. Mark has been a guest lecturer at a variety of seminars on legal issues for business entities.

Prior to joining the firm, Mark worked in the Antitrust Division of the United States Department of Justice and as a special assistant U.S. attorney in Alexandria, Virginia. Mark received his LLM from Yale Law School and his JD from Memphis State University where he was the editor-in-chief of the *Memphis State University Law Review* and graduated first in his class. He received his BA in chemistry from Vanderbilt University.

#### **News**

Business Tennessee recognizes Craig Gabbert and Mark Manner in its Best 150 Lawyers 2007

Nine H3GM Attorneys Named to Best Lawyers In America 2008

H3GM Attorneys Named to Mid-South Super Lawyers

H3GM Advises BioMimetic in Sale of Dental Business

**Tennessee American Water Company  
Embedded Cost of LT Debt for AWW - Parent Stand-alone  
At 12-31-2007**

Portfolio Name	Issuance	Maturity	Int Rate	Original Amount	Ending Amount	Annual Issuance Expense	Annual Int Exp	Annual Debt Expense	Unamortized Debt Expense	Carrying Value	Embedded Cost Rate
American Water Works Company	10/22/2007	10/15/2037	6.59	302,750,000	302,750,000	209,328	19,951,225	20,160,553	6,209,855	296,540,145	
	10/22/2007	10/15/2017	6.09	750,000,000	750,000,000	81,888	45,676,000	45,756,888	805,426	749,194,574	
	3/29/2007	3/29/2019	5.62	40,000,000	40,000,000	10,882	2,248,000	2,258,882	122,427	39,877,573	
	1/31/2007	12/21/2013	5.39	1,000,000	1,000,000	482	53,900	54,382	2,893	997,107	
	2/15/2007	12/21/2021	5.77	4,000,000	4,000,000	894	230,800	231,694	12,522	3,987,478	
	1/31/2007	12/21/2018	5.62	500,000	500,000	139	28,100	28,239	1,532	498,468	
	12/21/2006	12/21/2021	5.77	66,000,000	66,000,000	14,597	3,808,200	3,822,797	204,355	65,795,645	
American Water Works Company Total	12/9/2005	3/29/2011	6.87	30,000,000	24,000,000	0	1,648,800	1,648,800	0	24,000,000	
				1,194,250,000	1,188,250,000	318,211	73,644,025	73,962,236	7,359,010	1,180,890,990	<b>6.26%</b>

**Tennessee American Water**  
**Comparison of Authorized ROE's - American Water Subsidiaries & Other Water Utilities**

<u>Company:</u>	<u>Order</u>	<u>Authorized</u>	<u>Value Line</u>		<u>Spread</u>
	<u>Date</u>	<u>ROE</u>	<u>"A" Utility</u>	<u>Bonds</u>	<u>over "A"</u>
				<u>Date</u>	<u>Util. Bonds</u>
New York - Am.	3/5/2008	9.50%		6.13% Jan. 08	3.37%
New Mexico - Am.	6/19/2007	9.72%		6.03% Apr. 07	3.69%
California-Am. - Felton	3/13/2008	9.95%		6.13% Jan. 08	3.82%
Ohio-Am.	3/7/2007	10.00%		5.79% DEC. 06	4.21%
New Jersey-Am.	4/2/2007	10.00%		5.88% Jan. 07	4.12%
Missouri-Am.	10/4/2007	10.00%		6.22% Aug. 07	3.78%
Indiana-Am.	10/10/2007	10.00%		6.22% Aug. 07	3.78%
Kentucky-Am.	11/27/2007	10.00%		6.22% Sep. 07	3.78%
California-Am. - Los Angeles	3/13/2008	10.00%		6.13% Jan. 08	3.87%
West Virginia-Am.	3/18/2008	10.00%		6.13% Jan. 08	3.87%
Virginia-Am.	6/15/2004	10.10%		6.18% JUN. 04	3.92%
California-Am. - Monterey	3/13/2008	10.10%		6.13% Jan. 08	3.97%
California-Am. - Coronado	3/13/2008	10.15%		6.13% Jan. 08	4.02%
California-Am. - Larkfield	3/13/2008	10.15%		6.13% Jan. 08	4.02%
California-Am. - Sacramento	3/13/2008	10.15%		6.13% Jan. 08	4.02%
California-Am. - Village	3/13/2008	10.15%		6.13% Jan. 08	4.02%
Tennessee-Am.	5/15/2007	10.20%		5.99% Mar. 07	4.21%
Illinois-Am.	8/8/2008	10.35%		6.24% Jul. 08	4.11%
Arizona-Am.	3/13/2007	10.40%		5.74% FEB. 07	4.66%
Iowa-Am.	1/23/2008	10.40%		6.03% Nov. 08	4.37%
Aqua Illinois	12/20/2006	10.45%		5.94% Oct. 06	4.51%
Maryland-Am.	8/1/2007	10.50%		6.36% Jun. 07	4.14%
Hawaii-Am.	5/6/2004	10.60%		5.49% MAR. 04	5.11%
Pennsylvania-Am.	11/29/2007	10.60%		6.22% Sep. 07	4.38%
Aqua Pennsylvania	7/31/2008	11.00%		6.25% Jun. 08	4.75%
SW Utilities, Inc. (AWWC)	2/1/2004	12.00%		5.77% DEC. 04	6.23%

<b>Averages</b>	<b>10.25%</b>	<b>6.07%</b>	<b>4.18%</b>
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CAD witness opinion of proper ROE	7.50%	6.35% Aug. 08	1.15%
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<b>CAD variance from average</b>	<b>2.75%</b>		<b>3.03%</b>
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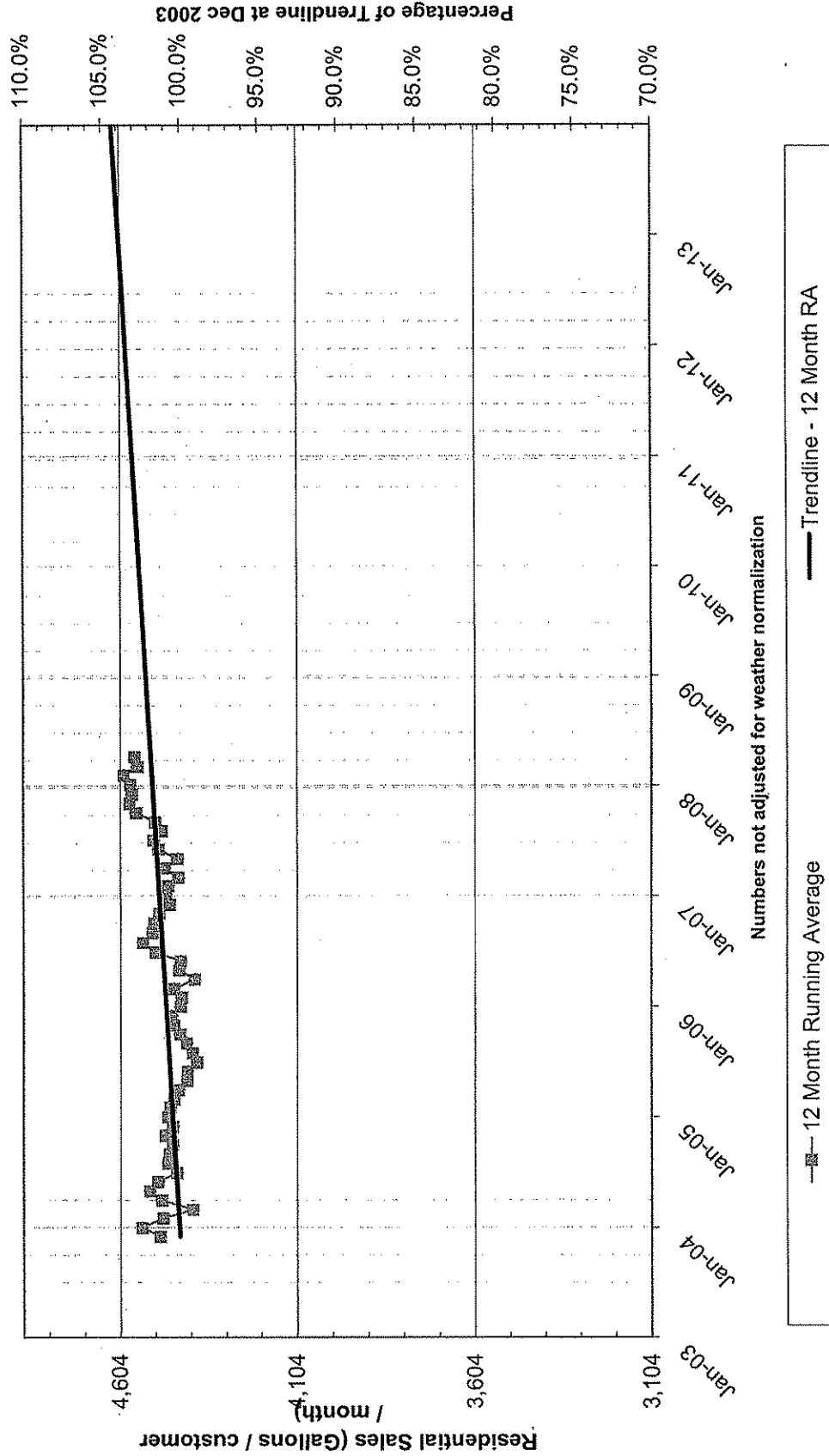
<u>Conclusion:</u>	<u>4 Quarter</u>	<u>2 Quarter</u>	<u>Latest 1</u>
	<u>Average</u>	<u>Average</u>	<u>Qtr. Avg.</u>
Current Bond Rates per Rebuttal Exhibit MAM-5, page 3 of 3	6.16%	6.14%	6.19%
Average Spread of AWW Companies	4.18%	4.18%	4.18%
ROE Calculated on Average Spread	10.34%	10.32%	10.37%

Analysis of Interest Rates - July 16, 2008  
Prepared by Michael Miller

Value Line Publication Date	As of Market Date	"A" Rated Utility Bonds	30-year Treasury Bonds	Spread	"BBB" Rated Utility Bonds	30-year Treasury Bonds	Spread	10-year Corporate Bonds	10-year Treasury Bonds	Spread	13-Week Treasury Bills	Federal Reserve Rate
4/13/2007	4/4/2007	5.980%	4.840%	1.140%	6.150%	4.840%	1.310%	5.540%	4.650%	0.890%	5.030%	5.250%
4/20/2007	4/11/2007	6.110%	4.910%	1.200%	6.280%	4.910%	1.370%	5.670%	4.730%	0.940%	5.010%	5.250%
4/27/2007	4/18/2007	6.010%	4.820%	1.190%	6.190%	4.820%	1.370%	5.630%	4.650%	0.980%	4.970%	5.250%
5/4/2007	4/25/2007	6.030%	4.830%	1.200%	6.180%	4.830%	1.350%	5.620%	4.650%	0.970%	4.850%	5.250%
5/11/2007	5/2/2007	6.010%	4.820%	1.190%	6.170%	4.820%	1.350%	5.610%	4.640%	0.970%	4.870%	5.250%
5/18/2007	5/9/2007	6.040%	4.840%	1.200%	6.180%	4.840%	1.340%	5.630%	4.660%	0.970%	4.850%	5.250%
5/25/2007	5/16/2007	6.070%	4.880%	1.190%	6.210%	4.880%	1.330%	5.690%	4.710%	0.980%	4.730%	5.250%
6/1/2007	5/23/2007	6.180%	5.000%	1.180%	6.340%	5.000%	1.340%	5.800%	4.850%	0.950%	4.890%	5.250%
6/8/2007	5/30/2007	6.180%	5.000%	1.180%	6.310%	5.000%	1.310%	5.840%	4.870%	0.970%	4.830%	5.250%
6/15/2007	6/6/2007	6.240%	5.080%	1.160%	6.400%	5.080%	1.320%	5.920%	4.960%	0.960%	4.780%	5.250%
6/22/2007	6/13/2007	6.430%	5.280%	1.150%	6.580%	5.280%	1.300%	6.210%	5.200%	1.010%	4.640%	5.250%
6/29/2007	6/20/2007	6.410%	5.240%	1.170%	6.580%	5.240%	1.340%	6.160%	5.130%	1.030%	4.720%	5.250%
7/6/2007	6/27/2006	6.360%	5.190%	1.170%	6.590%	5.190%	1.340%	6.090%	5.080%	1.010%	4.770%	5.250%
Quarterly Average		6.158%	4.979%	1.178%	6.315%	4.979%	1.336%	5.801%	4.829%	0.972%	4.849%	5.250%
7/13/2007	7/3/2007	6.310%	5.140%	1.170%	6.470%	5.140%	1.330%	6.040%	5.040%	1.000%	4.950%	5.250%
7/20/2007	7/11/2007	6.370%	5.190%	1.180%	6.540%	5.190%	1.350%	6.150%	5.090%	1.060%	4.940%	5.250%
7/27/2007	7/18/2007	6.250%	5.120%	1.130%	6.440%	5.120%	1.320%	6.080%	5.030%	1.050%	4.950%	5.250%
8/3/2007	7/25/2007	6.140%	5.020%	1.120%	6.300%	5.020%	1.280%	5.970%	4.900%	1.070%	4.970%	5.250%
8/10/2007	8/1/2007	6.130%	4.920%	1.210%	6.250%	4.920%	1.330%	5.950%	4.790%	1.160%	4.880%	5.250%
8/17/2007	8/8/2007	6.210%	5.040%	1.170%	6.370%	5.040%	1.330%	6.070%	4.880%	1.190%	4.940%	5.250%
8/24/2007	8/15/2007	6.280%	5.030%	1.250%	6.410%	5.030%	1.380%	6.000%	4.720%	1.280%	4.090%	5.250%
8/31/2007	8/22/2007	6.280%	4.960%	1.320%	6.440%	4.960%	1.480%	6.040%	4.650%	1.390%	3.650%	5.250%
9/7/2007	8/29/2007	6.220%	4.880%	1.340%	6.360%	4.880%	1.480%	6.140%	4.560%	1.580%	4.000%	5.250%
9/14/2007	9/5/2007	6.110%	4.770%	1.340%	6.270%	4.770%	1.500%	5.990%	4.470%	1.520%	4.390%	5.250%
9/21/2007	9/12/2007	6.050%	4.770%	1.280%	6.190%	4.770%	1.420%	5.820%	4.470%	1.350%	4.380%	5.250%
9/28/2007	9/19/2007	6.310%	4.840%	1.470%	6.440%	4.840%	1.600%	6.010%	4.550%	1.460%	3.900%	4.750%
10/5/2007	9/28/2007	6.310%	4.890%	1.420%	6.490%	4.890%	1.600%	6.090%	4.620%	1.470%	3.690%	4.750%
Quarterly Average		6.228%	4.967%	1.262%	6.382%	4.967%	1.415%	6.027%	4.752%	1.275%	4.441%	5.173%
10/12/2007	10/3/2007	6.220%	4.800%	1.420%	6.310%	4.800%	1.510%	5.970%	4.560%	1.410%	3.940%	4.750%
10/19/2007	10/10/2007	6.270%	4.870%	1.400%	6.340%	4.870%	1.470%	5.970%	4.650%	1.320%	4.040%	4.750%
10/26/2007	10/17/2007	6.210%	4.830%	1.380%	6.270%	4.830%	1.440%	5.930%	4.550%	1.380%	3.980%	4.750%
11/2/2007	10/24/2007	6.030%	4.640%	1.390%	6.090%	4.640%	1.430%	5.680%	4.340%	1.340%	3.870%	4.750%
11/9/2007	10/31/2007	6.130%	4.750%	1.380%	6.220%	4.750%	1.470%	5.880%	4.470%	1.410%	3.910%	4.500%
11/16/2007	11/7/2007	6.070%	4.650%	1.420%	6.150%	4.650%	1.500%	5.810%	4.310%	1.500%	3.440%	4.500%
11/23/2007	11/14/2007	6.090%	4.600%	1.490%	6.180%	4.600%	1.580%	5.950%	4.250%	1.700%	3.390%	4.500%
11/30/2007	11/20/2007	6.040%	4.500%	1.540%	6.140%	4.500%	1.640%	6.010%	4.100%	1.910%	3.280%	4.500%
12/7/2007	11/27/2007	6.030%	4.420%	1.610%	6.110%	4.420%	1.690%	5.940%	4.040%	1.900%	3.030%	4.500%
12/14/2007	12/5/2007	6.070%	4.400%	1.670%	6.220%	4.400%	1.820%	5.920%	3.960%	1.960%	3.050%	4.500%
12/21/2007	12/12/2007	6.250%	4.400%	1.710%	6.350%	4.400%	1.810%	6.260%	4.090%	2.170%	2.860%	4.250%
12/28/2007	12/12/2007	6.140%	4.450%	1.690%	6.240%	4.450%	1.790%	6.010%	4.030%	1.980%	2.890%	4.250%
1/4/2008	12/26/2007	6.280%	4.670%	1.610%	6.420%	4.670%	1.750%	6.270%	4.280%	1.990%	3.310%	4.250%

Quarterly Average		6.141%	4.625%	1.516%	6.234%	4.625%	1.609%	5.969%	4.279%	1.690%	3.462%	4.519%
1/11/2008	1/2/2008	5.940%	4.350%	1.590%	6.110%	4.350%	1.760%	5.860%	3.900%	1.960%	3.250%	4.250%
1/18/2008	1/9/2008	5.990%	4.340%	1.650%	6.170%	4.340%	1.830%	5.790%	3.820%	1.970%	3.230%	4.250%
1/25/2008	1/16/2008	6.070%	4.340%	1.730%	6.220%	4.340%	1.880%	5.790%	3.740%	2.050%	3.130%	4.250%
2/1/2008	1/23/2008	6.130%	4.310%	1.820%	6.200%	4.310%	1.890%	5.860%	3.600%	2.220%	3.000%	3.500%
2/8/2008	1/30/2008	6.060%	4.380%	1.680%	6.150%	4.380%	1.770%	5.600%	3.670%	1.930%	2.150%	3.000%
2/15/2008	2/6/2008	6.020%	4.360%	1.660%	6.200%	4.360%	1.840%	5.540%	3.590%	1.950%	2.090%	3.000%
2/22/2008	2/13/2008	6.200%	4.540%	1.660%	6.350%	4.540%	1.810%	5.780%	3.730%	2.050%	2.260%	3.000%
2/29/2008	2/20/2008	6.150%	4.610%	1.540%	6.330%	4.610%	1.720%	5.820%	3.890%	1.930%	2.220%	3.000%
3/1/2008	2/27/2008	6.200%	4.650%	1.550%	6.480%	4.650%	1.830%	5.810%	3.850%	1.960%	1.960%	3.000%
3/14/2008	3/5/2008	6.260%	4.600%	1.680%	6.390%	4.600%	1.790%	5.960%	3.670%	2.290%	1.490%	3.000%
3/21/2008	3/12/2008	6.080%	4.410%	1.670%	6.270%	4.410%	1.860%	6.050%	3.460%	2.590%	1.410%	3.000%
3/28/2008	3/19/2008	5.960%	4.210%	1.750%	6.140%	4.210%	1.930%	5.890%	3.300%	2.590%	0.560%	2.250%
4/4/2008	3/26/2008	6.030%	4.310%	1.720%	6.240%	4.310%	1.930%	6.060%	3.460%	2.600%	1.270%	2.250%
Quarterly Average		6.084%	4.416%	1.668%	6.250%	4.416%	1.834%	5.832%	3.668%	2.164%	2.095%	3.212%
4/11/2008	4/2/2008	6.160%	4.410%	1.750%	6.250%	4.410%	1.840%	6.300%	3.600%	2.700%	1.370%	2.250%
4/18/2008	4/9/2008	6.140%	4.320%	1.820%	6.280%	4.320%	1.960%	6.060%	3.480%	2.580%	1.300%	2.250%
4/25/2008	4/16/2008	6.280%	4.490%	1.790%	6.400%	4.490%	1.910%	6.110%	3.690%	2.420%	1.120%	2.250%
5/2/2008	4/23/2008	6.150%	4.490%	1.660%	6.270%	4.490%	1.780%	6.030%	3.730%	2.300%	1.210%	2.250%
5/9/2008	4/30/2008	6.120%	4.470%	1.650%	6.310%	4.470%	1.840%	5.910%	3.730%	2.180%	1.380%	2.000%
5/16/2008	5/7/2008	6.390%	4.610%	1.780%	6.390%	4.610%	1.780%	5.740%	3.850%	1.890%	1.660%	2.000%
5/23/2008	5/14/2008	6.100%	4.610%	1.490%	6.410%	4.610%	1.800%	5.660%	3.910%	1.770%	1.820%	2.000%
5/30/2008	5/21/2008	6.040%	4.540%	1.500%	6.360%	4.540%	1.820%	5.540%	3.810%	1.730%	1.860%	2.000%
6/6/2008	5/28/2008	6.130%	4.690%	1.440%	6.470%	4.690%	1.780%	5.720%	4.000%	1.720%	1.880%	2.000%
6/13/2008	6/4/2008	6.230%	4.700%	1.530%	6.500%	4.700%	1.800%	5.740%	3.980%	1.760%	1.840%	2.000%
6/20/2008	6/11/2008	6.230%	4.690%	1.540%	6.500%	4.690%	1.810%	5.860%	4.070%	1.790%	1.940%	2.000%
6/27/2008	6/18/2008	6.270%	4.710%	1.560%	6.500%	4.710%	1.790%	6.100%	4.140%	1.960%	1.920%	2.000%
7/4/2008	6/25/2008	6.250%	4.640%	1.610%	6.480%	4.640%	1.840%	6.220%	4.100%	2.120%	1.790%	2.000%
Quarterly Average		6.192%	4.567%	1.625%	6.394%	4.567%	1.827%	5.924%	3.853%	2.071%	1.622%	2.077%
Current Bond Rates												
		30 Yr.	May 23 Value Line 30 Yr.		30 Yr.	May 23 Value Line 30 Yr.		10 Yr.	May 23 Value Line 30 Yr.			
		"A" Rated 2009 Bond Rate	T-Bond Forecast Avg. Spread		"BBB" Rated 2009 Bond Rate	T-Bond Forecast Avg. Spread		"A" Rated 2009 Bond Rate	T-Bond Forecast Avg. Spread			
Latest 4 qtr. Avg.		6.161%	4.644%	1.518%	6.315%	4.644%	1.671%	5.938%	4.138%	1.800%		
Latest 2 Qtr. Avg.		6.138%	4.492%	1.646%	6.322%	4.492%	1.830%	5.878%	3.760%	2.117%		
Latest Qtr.		6.192%	4.567%	1.625%	6.394%	4.567%	1.827%	5.924%	3.853%	2.071%		

**Tennessee American Water  
Comparison of Historic Trend in  
Residential Sales Per Customer  
(Trend from Dec. 2003)**



**TENNESSEE AMERICAN WATER****Climate Data**

	Temperature Data for the Summer (June - August) 1998 - 2007	Precipitation Data for the Summer (June - August) 1998 - 2007
1998		
1999		
2000		
2001		
2002		
2003		
2004		
2005		
2006		
2007		

**Precipitation Key:**

Record Wettest (wettest period on record)	Much Above Normal (one of 11 wettest periods on record)	Above Normal (one of the 38 wettest periods on record)	Near Normal (not one of the 38 wettest or 38 driest on record)	Below Normal (one of the 38 driest periods on record)	Much Below Normal (one of the 11 driest periods on record)	Record Driest (driest period on record)

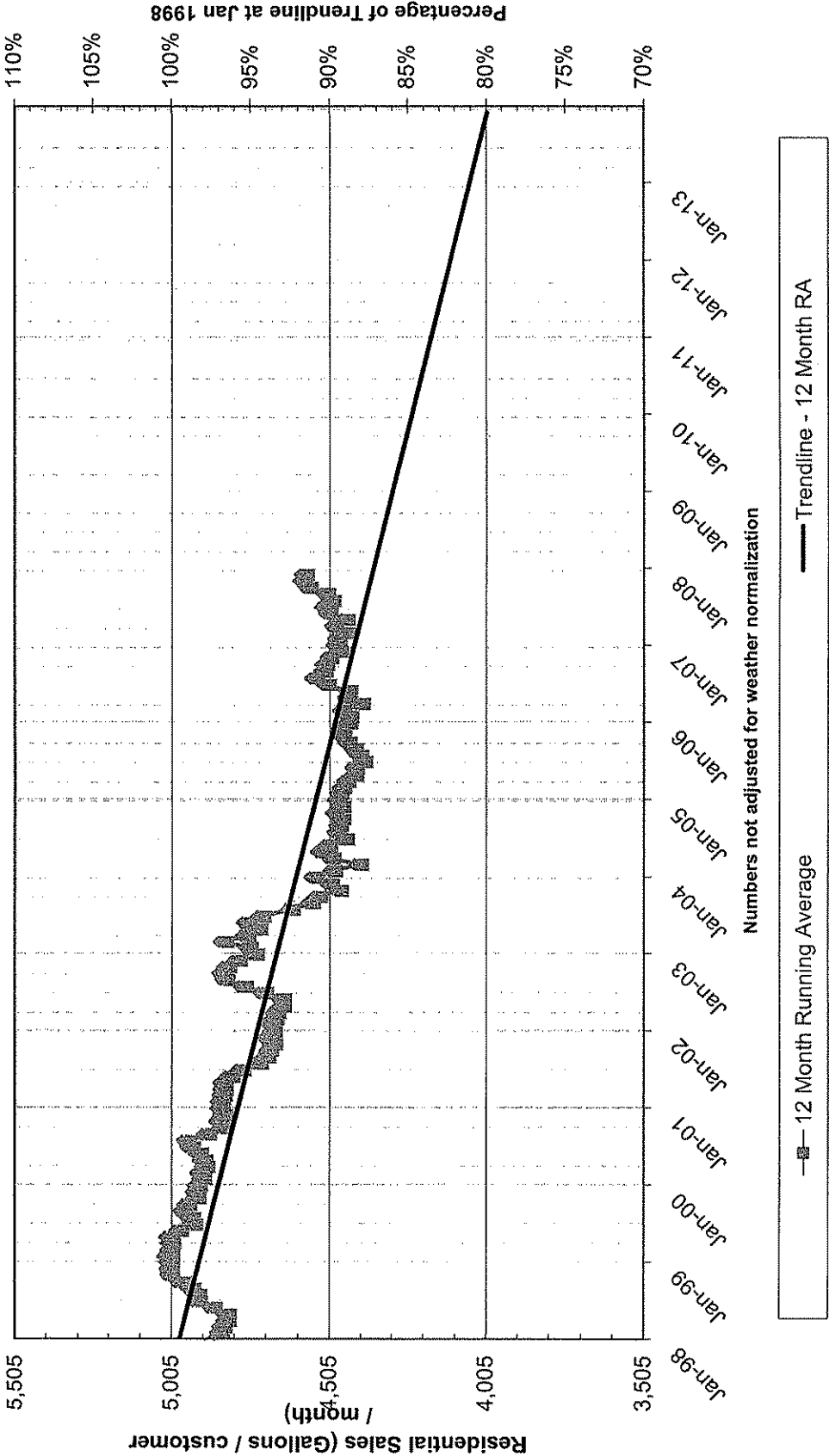
**Temperature Key:**

Record Coldest (coldest period on record)	Much Below Normal (one of 11 coolest periods on record)	Below Normal (one of the 38 coolest periods on record)	Near Normal (not one of 38 warmest or 38 coolest on record)	Above Normal (one of the 38 warmest periods on record)	Much Above Normal (one of 10 warmest periods on record)	Record Warmest (warmest period on record)

**Note:**

\* Climate data was obtained from the National Oceanic and Atmospheric Administration (NOAA) whose records cover a 114 year period from 1895 to 2007.

**Tennessee American Water  
Comparison of Historic Trend in  
Residential Sales Per Customer  
(Trend from Jan. 1998)**





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Data 1: U.S. Weekly Retail

	MG_RCO_US	MG_FR_US	MG_RT_US	MG_MCO_US	MG_MR_US	MG_MT_US	MG_PCO_US	MG_PR_US	MG_PT_US	MG_TCO_US	MG_TR_US	MG_TT_US
	U.S. Regular Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Regular Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Regular Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. Premium Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Premium Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Premium Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades Formulations Retail Gasoline Prices (Cents per Gallon)
Jan 01, 2007	229.8	241.4	233.4	238.2	254	254	244.2	250.5	262.4	254.7	234	238.2
Jan 08, 2007	225.8	240.6	230.6	235.7	253.4	253.4	241.8	247.3	261.4	252.3	230.4	235.4
Jan 15, 2007	223.8	234.8	222.9	232.9	248	248	238.4	239.4	256.1	245.3	222	228
Jan 22, 2007	210.7	221.3	216.5	221.3	242.4	242.4	223.5	232.9	250.7	238.1	215.5	221.6
Jan 29, 2007	211.8	222.1	217.5	222.1	243.2	243.2	224.7	233.2	251.3	239.1	216.4	221.3
Feb 05, 2007	215.1	227.5	224.4	224.4	247.7	247.7	230	235	248.1	239.6	218.4	223.7
Feb 12, 2007	219.8	233.2	224.1	229.2	246.3	246.3	235	239.5	248.1	238.2	224	228.7
Feb 19, 2007	225.1	239.9	229.8	233.3	252	252	240.1	244.6	256.5	249.5	228.2	234.1
Feb 26, 2007	233.8	247.7	238.3	242.0	260.8	260.8	248.8	253.3	267	258.1	237.9	242.8
Mar 05, 2007	246	259.8	250.5	254.9	272.6	272.6	260.9	266.7	278.0	265.4	250.4	254.8
Mar 12, 2007	249.9	268.6	255.9	258.9	281.7	281.7	266.7	270.4	283.3	275.3	254.2	260.5
Mar 19, 2007	251.1	271.6	257.7	260.5	284.9	284.9	268.8	271.4	285.5	278.1	255.4	262.3
Mar 26, 2007	254	275.5	261	262.8	288.7	288.7	271.6	274	284.8	281.2	258.2	265.5
Apr 02, 2007	263.6	285.5	270.7	272.5	293.9	293.9	281.4	283.6	290.8	281.2	267.8	275.3
Apr 09, 2007	274.6	292	280.2	283.8	304.7	304.7	288.9	293.3	310.8	288.9	268.4	280.4
Apr 16, 2007	282.2	298.8	287.8	291.6	311.5	311.5	298.3	303.4	317.4	298.3	279	286.6
Apr 23, 2007	281.1	298.8	288.9	290.8	312	312	298	302.6	318.1	298.7	286.6	292.2
May 07, 2007	282.2	307.3	297.1	301.8	319.9	319.9	307.9	312.8	326.2	317.5	285.7	292.2
May 14, 2007	300.2	316.2	305.4	308.8	328.4	328.4	315.5	324.4	334.5	324.7	294.6	301.7
May 21, 2007	306.9	317.3	310.3	314.6	329.5	329.5	318.7	324.4	335.9	324.7	294.6	301.7
May 28, 2007	321.1	323.3	321.8	328.6	335.2	335.2	330.8	335.5	342.2	324.7	310.8	314.3
Jun 04, 2007	316.5	323.8	320.9	327.4	337.7	337.7	333.5	337.7	342.9	324.7	328	325.8
Jun 11, 2007	313.2	320.8	315.7	321.8	332.8	332.8	325.5	332.3	340.5	317.2	325.7	320
Jun 18, 2007	304	308.3	307.6	313.8	327.7	327.7	318.5	324.1	335.5	312.2	325.7	320
Jun 25, 2007	297.4	305.1	300.9	306.8	320.9	320.9	311.6	318.2	326.7	312.2	325.7	320
Jul 02, 2007	296.3	304.6	298.2	304.6	317.3	317.3	308.9	316.6	326.2	312.2	325.7	320
Jul 09, 2007	283.1	301.2	288.2	301.2	314.1	314.1	298.3	306.3	318.6	313.5	308.9	302.8
Jul 16, 2007	287.1	307.1	288.1	307.1	318.2	318.2	301.7	309.7	318.6	308.6	300.5	302.8
Jul 23, 2007	304.6	317.3	304.9	314.6	327.7	327.7	318.7	324.4	332.4	301	305.9	302.8
Jul 30, 2007	305.5	318.2	305.8	315.5	328.9	328.9	318.7	324.4	332.4	301	305.9	302.8
Aug 06, 2007	300.1	312.5	302.9	313.8	322.5	322.5	305.9	312.5	318.6	305.9	305.8	300.5
Aug 13, 2007	283.4	294.4	283.4	294.4	305.9	305.9	288.4	294.4	298.4	288.4	289	288.8
Aug 20, 2007	283.6	293.6	283.6	293.6	305.9	305.9	288.4	294.4	298.4	288.4	289	288.8
Aug 27, 2007	281.5	288.5	281.5	288.5	302.1	302.1	285.1	291.6	295.1	285.1	284.3	288.8
Sep 03, 2007	277.1	283.1	277.1	283.1	298.2	298.2	285.6	292.1	295.6	285.6	284.3	288.8
Sep 10, 2007	278.5	284.3	278.5	284.3	298.2	298.2	285.6	292.1	295.6	285.6	284.3	288.8
Sep 17, 2007	279.6	285.7	279.6	285.7	298.2	298.2	285.6	292.1	295.6	285.6	284.3	288.8
Sep 24, 2007	281.8	287.7	281.8	287.7	298.2	298.2	285.6	292.1	295.6	285.6	284.3	288.8
Oct 01, 2007	276.2	282.2	276.2	282.2	291	291	281.2	286.2	289.2	281.2	282.2	285.3
Oct 08, 2007	280.4	286.2	280.4	286.2	291	291	281.2	286.2	289.2	281.2	282.2	285.3
Oct 15, 2007	278.8	285.7	278.8	285.7	293.4	293.4	283.4	288.4	291.4	283.4	284.3	286.6
Oct 22, 2007	277.6	284.6	277.6	284.6	293.4	293.4	283.4	288.4	291.4	283.4	284.3	286.6
Oct 29, 2007	276.2	283.4	276.2	283.4	293.4	293.4	283.4	288.4	291.4	283.4	284.3	286.6
Nov 05, 2007	285.9	287.2	285.9	287.2	293.4	293.4	283.4	288.4	291.4	283.4	284.3	286.6
Nov 12, 2007	300.7	304.5	300.7	304.5	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Nov 19, 2007	310.1	311.1	310.1	311.1	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Nov 26, 2007	307.7	308.9	307.7	308.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Dec 03, 2007	307.2	308.9	307.2	308.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Dec 10, 2007	305.1	306.9	305.1	306.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Dec 17, 2007	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Dec 24, 2007	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Jan 07, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Jan 14, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Jan 21, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Jan 28, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Feb 04, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Feb 11, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Feb 18, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Feb 25, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Mar 03, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Mar 10, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Mar 17, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Mar 24, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Apr 01, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4
Apr 07, 2008	302.9	303.9	302.9	303.9	303.9	303.9	301.1	306.1	309.1	301.1	289.4	294.4

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	MG_RCO_US	MG_RR_US	MG_RT_US	MG_MCO_US	MG_MR_US	MG_MT_US	MG_PCO_US	MG_PR_US	MG_PT_US	MG_TCO_US	MG_TR_US	MG_TT_US
	U.S. Regular Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Regular Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Regular All Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Midgrade All Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. Premium Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. Premium Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. Premium All Formulations Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades Conventional Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades Reformulated Retail Gasoline Prices (Cents per Gallon)	U.S. All Grades All Formulations Retail Gasoline Prices (Cents per Gallon)
Apr 14, 2008	335	346.9	338.8	345	350.4	350.2	357.4	356.9	360.7	359.7	359.7	352
Apr 21, 2008	346.7	359.5	350.8	358.9	372.2	362.1	368.3	378.5	372.9	368.3	372.9	364.5
Apr 28, 2008	358.8	368.1	360.3	368.8	380.7	371.6	378.7	388.8	382.9	378.7	382.9	385.7
May 05, 2008	357.1	369.8	361.3	367.3	382.5	372.5	380.4	391.1	384.2	380.4	384.2	385.3
May 12, 2008	360.4	378.1	372.2	378.1	389.4	383	381.9	398.2	394.4	381.9	394.4	377.1
May 19, 2008	376.2	385.1	379.1	386	397	388.7	398.1	405.6	401.7	388.1	401.7	384
May 26, 2008	391.3	398.9	393.7	401.1	411	404.5	413.6	420.1	415.9	398	415.9	398.6
Jun 02, 2008	393.2	408.8	397.6	403.2	418.1	408.6	416.1	427.6	420.1	398	420.1	402.6
Jun 09, 2008	397.9	416.5	403.9	407.7	429.7	415.2	421	437.2	428.7	402.7	428.7	409
Jun 16, 2008	400.7	424	408.2	410.5	438.2	419.9	424.2	444.8	431.4	405.6	428.3	413.4
Jun 23, 2008	402.7	423.8	409.5	412.1	438.4	419.7	423.6	445.3	431.2	405.1	428.5	413.1
Jun 30, 2008	403.1	424.7	411.4	414.8	438.7	420.9	428.3	445.9	434.4	407.5	428.2	414.6
Jul 07, 2008	405.4	423.5	411.3	415.3	437.4	422.8	428.3	444.9	434.1	410.2	428.1	416.5
Jul 14, 2008	400.5	419	408.4	410.9	433.7	418.8	424.2	441.6	430.3	405.4	424.8	418.4
Jul 21, 2008	395.6	407.7	395.5	400.5	423	414.5	414.5	431.7	420.5	394.8	413.7	401
Jul 28, 2008	382.8	398.8	388	393.7	414.1	400.6	407.5	423.1	413	388	404.8	393.5
Aug 04, 2008	152.2	157.4	154.6	154.5	180.1	158.4	157	180.7	158.3	154	158.3	155.3
	66.72%	65.20%	66.24%	64.59%	63.03%	64.05%	62.87%	61.24%	62.15%	65.81%	64.22%	65.20%

0921-1 - TN Object Account

Functions Options Tools Help

Object/Sub	RRR	Thru Date/Period	07/31/08
Subledger	*	Company	00026
		Ledger Type	RR
		Scaling Factor	
		Cum/Period(C/P)	C

Account Number	Description	Balance
260205.110110	Acc Amort UP Cap Leas	1,078,005.42-
	** TOTAL	1,078,005.42-
.114000	Utility Plant Acq Adj	
	** TOTAL	
260305.114300	UPRR Post 1/1/05	74,850.17
	** TOTAL	74,850.17
.120000	Other Property and In	

Opt: 1=Acct Ledger Inq 2=Acct Bal by Period F2=All Format F24=More MW

Rebuttal Exhibit SAM-2

Tennessee American Water Company  
Sale for Resale Billing Determinants & Revenues

Information from Docket No. 06-00290

	Billing determinants per 06 rate case				Per CAD usage from 06 RC		Per filing		Per Cad		growth in billing determinants per CO		growth in billing determinants per CAD	
	BILL Det.	ADJ	Adj BILL Det		usage	from 06 RC	usage	revenues	usage	revenues	filing		filing	
Ft. Oglethorpe	481,088	(41,858)	439,440		799,383		489,860	438,881	494,658	443,173	11.47%		494,658	12.54%
Catoosa Co	387,954	0	387,954		162,740		501,762	449,620	529,187	474,206	26.08%		529,187	32.98%
Signal Mt*	486,747	(30,037)	428,710		304,001		515,804	470,680	563,910	449,872	20.32%		563,910	31.64%
Walden's Ridge	173,844	(173,844)							501,818	470,649				
	1,511,643	(245,539)	1,266,104		1,266,104		1,507,416	1,299,181	2,089,574	1,836,799				

As shown on Bill Determinants working paper from Docket No. 06-00290 TN-TRA-01-Q013-REVENUES Page 75 of 133

841,021 includes billing determinants for all of Ft. Oglethorpe, & Catoosa & Signal Mtn thru Sept billed at a rate of \$.766

162,740 includes billing determinants for Catoosa after October when rate changed to \$.796

334,038 includes billing determinants for Signal Mtn after October  
173,844 eliminated from filing

1,511,643

\*Signal Mtn includes an extra month of billing. This results in additional usage of 32, 827 and additional revenues of \$26,971 in the historical test period ending March 2008 used by CAD.

FL Oglethorpe-Catoosa-Signal Mtn thru Sept

Catoosa Co

Signal Mt

Walden's Ridge

## Usage

Dec 2006	29,590.50	24,298.70	31,548.66	25,528.13	Dec	37,174	30,526	39,634	27,230
	City of Fort Oglethorpe	Town of Signal Mountain	Catoosa County	Waldens Ridge		City of Fort Oglethorpe	Town of Signal Mountain	Catoosa County	Waldens Ridge
Jan 2007	36,117.13	23,626.08	16,095.92	24,590.63	Jan	44,117.00	29,681.00	20,221.00	26,230.00
Feb	29,982.93	23,897.51	4,478.30	27,830.63	Feb	37,667.00	30,022.00	5,626.00	29,686.00
Mar	29,232.30	25,971.09	11,472.75	25,434.38	Mar	36,724.00	32,627.00	14,413.00	27,130.00
Apr	30,383.32	26,998.73	33,293.50	33,214.69	Apr	38,170.00	33,918.00	41,826.00	35,429.00
May	31,106.09	33,494.09	28,006.46	34,974.38	May	39,078.00	42,078.00	35,184.00	37,306.00
June	38,197.65	51,396.13	44,526.65	49,898.44	June	47,987.00	64,568.00	55,938.00	53,225.00
July	33,815.67	37,320.46	58,847.15	41,542.50	July	42,482.00	46,885.00	70,537.00	44,312.00
Aug	34,964.30	43,620.80	45,697.52	46,479.38	Aug	43,925.00	54,800.00	50,996.00	49,578.00
Sept	36,924.85	42,511.18	61,670.50	47,431.88	Sept	46,388.00	53,406.00	68,821.00	50,594.00
Oct	31,972.14	48,166.76	49,224.57	45,815.63	Oct	40,166.00	60,511.00	54,932.00	48,870.00
Nov	28,641.67	29,278.47	39,091.47	32,089.06	Nov	35,982.00	36,782.00	43,624.00	34,207.00
Dec	35,757.12	27,844.08	41,563.81	31,770.94	Dec	44,921.00	34,980.00	46,383.00	33,889.00
	396,095.17	414,125.38	433,968.60	441,052.64		497,607.00	520,258.00	508,501.00	470,456.00
Jan 2008	28,722.86	29,742.54	24,456.36	36,979.69	Jan 2008	36,084.00	37,365.00	27,292.00	39,445.00
Feb	30,528.99	24,604.36	17,951.57	32,985.94	Feb	38,353.00	30,910.00	20,033.00	35,185.00
Mar	32,653.51	27,923.68	12,206.67	37,386.56	Mar	41,022.00	35,080.00	13,622.00	39,879.00
Apr	31,363.99	25,047.73	1,907.80	31,699.69	Apr	39,402.00	31,467.00	2,129.00	33,813.00
May	30,757.44	26,992.36	15,898.61	33,614.06	May	38,640.00	33,910.00	17,742.00	35,855.00
June	39,879.55	38,123.62	50,305.26	48,651.56	June	46,552.00	47,894.00	56,138.00	51,895.00
July	42,736.00	42,039.15		48,152.81	July	47,692.00	52,813.00		51,363.00
Aug					Aug				
Sept					Sept				
Oct					Oct				
Nov					Nov				
Dec					Dec				
Total 2008	236,642.34	214,473.44	122,726.27	269,470.31		287,745.00	269,439.00	136,956.00	287,435.00
12 mo @ Nov 07	438,981.00	410,580.00	449,619.97	449,619.97		489,860.00	515,804.00	501,752.00	463,797.00
12 mo @ Mar 08	393,668.17	422,901.28	456,536.23	470,549.09		494,558.00	531,283.00	529,188.00	501,919.00
12 mo @ June 08	395,982.09	401,176.04	418,821.29	466,426.89		493,917.00	503,990.00	472,249.00	497,522.00
Per CAD	443,173.00	448,872.00	474,205.00	470,549.00		494,558.00	563,910.00	529,188.00	501,919.00
					extra mo billing	-	(32,627.00)	-	
					CAD revenues @ present rates	443,173	448,872	474,205	470,549
					adj Signal Mtn revenues		422,901		
					variance in Signal Mtn rev		25,971		

**Tennessee American Water Company**  
**Calculation of 2008 Excise Tax**

1 Federal income or loss	3,231,565
Additions:	
2 Any depreciation under the provision of IRC Section 168 not permitted for excise tax purposes due to Tennessee permanently decoupling from federal bonus depreciation and any expense/depreciation deducted as a result of "safe Harbor" lease elections	4,968,088
3 Any deduction for domestic production activities under the provisions of IRC Section 199	
4 Any gain on the sale of an asset sold within twelve months after the date of distribution to a non taxable entity	
5 Tennessee excise tax expense (to the extent reported for federal purposes)	448,777
6 Gross premiums tax deducted in determining federal income and used as an excise tax credit	
7 Interest income on obligations of states and their political subdivisions, less allowable amortization	
8 Depletion not based on actual recovery of cost	
9 Contribution carryover from prior periods	
10 Capital gains offset by capital loss carryover or carry back	
11 Excess fair market value over book value of property donated	
12 Total additions	5,416,865
Deductions:	
13 Any depreciation under the provisions of IRC Section 168 permitted for excise tax purposes due to Tennessee permanently decoupling from federal bonus depreciation	5,206,126
14 Any excess gain (or loss) from the basis adjustment resulting from Tennessee permanently decoupling from federal bonus depreciation	
15 Any loss on the sale of an asset sold within twelve months after the date of distribution to a nontaxable entity	
16 Dividends received from corporations, at least 80% owned (attach schedule)	
17 Contributions in excess of amount allowed by federal government	
18 Donations to Qualified Public School Support Groups and nonprofit organizations	
19 Portion of current year's capital loss not included in federal taxable income	
20 Any expense other than income taxes, not deducted in determining federal taxable income for which a credit against the federal income tax is allowable	
21 Any income included for federal tax purposes and any depreciation or other expense that could have been deducted for "safe harbor" lease elections. (attach schedule)	
22 Nonbusiness earnings - Schedule M, Line 8	
23 Intangible expense to an affiliated business entity (intangible expense disclosure from MUST be completed to avoid the adjustment provided in T>C>A> Section 67-4-2008 (d) (3))	
24 Intangible income from an affiliated business entity if the corresponding intangible expense has not been disclosed or has been disallowed	
25 TOTAL deductions - Add lines 13 through 24	(5,206,126)
COMPUTATION OF TAXABLE INCOME	
26 Total Business Income (Loss) - Add lines 1 and 12, less Line 25 (if loss, complete Schedule K)	3,442,304
27 Apportionment Ratio (Schedules N, O, P, or R if applicable or 100%)	96.4322%
28 apportioned business income (Loss) (Line 26 multiplied by Line 27)	3,319,489
29 Add: Nonbusiness earnings directly allocated to Tennessee (From Schedule M, Line 9)	
30 Deduct: Loss carryover from prior years (From Schedule U)	
31 Subject to excise tax (6.5%) (Line 28 plus Line 29, less Line 30) (enter here and on Schedule B, Line 4)	3,319,489
32 Excise tax (6.5%)	215,767
33 Add: Recapture of excise tax credit from Schedule T, Part 2	
34 Net Excise tax due	215,767

TENNESSEE-AMERICAN WATER COMPANY  
CALCULATION OF REVENUE CONVERSION FACTOR  
AND PROPOSED RATE INCREASE

RATE BASE REQUESTED	119,881,506
RATE OF RETURN REQUESTED	8.514%
WTD DEBT COST	3.405%
UNCOLLECTIBLE RATIO	1.489%
GROSS RECEIPTS TAXES	2.876%

REVENUES:	1.00000000
EXPENSES:	
UNCOLLECTIBLES @	0.01489000
	<hr/> 0.98511000
GROSS RECEIPTS TAXES	0.02833275
	<hr/> 0.95677725
STATE INCOME TAX RATE	0.06219052
	<hr/> 0.89458673
FEDERAL INCOME TAX RATE	35.00% 0.31310536
	<hr/> 0.58148137
REVENUE CONVERSION	<hr/> <hr/> 1.71974555

RATE BASE REQUESTED	119,881,506
RATE OF RETURN REQUESTED	8.514%
REQUIRED UOI	<hr/> 10,206,711
UOI AT PRESENT RATES	5,761,368
UOI DEFICIENCY	<hr/> 4,445,343

REVENUE INCREASE	7,644,859
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Additional late payment penalty	64,211
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REVENUE INCREASE water only	7,580,648
ADDITIONAL UNCOLLECTIBLES	113,834
ADDITIONAL GROSS RECEIPTS	216,600
SIT	475,438
FIT	2,393,645

Tennessee American Water 2009 Chemical Prices										
Part Description	Brenntag		Brenntag		Nalco		Nalco		Carus	
	2009 Price Quote 1 Year Effective 1-1-2009-12-31-2009	2009 Price Quote 90 Day Effective 1-1-2009-3-31-2009	2009 Price Quote 1 Year Effective 1-1-2009-12-31-2009	2009 Price Quote 90 Day Effective 1-1-2009-3-31-2009	2009 Price Quote 1 Year Effective 1-1-2009-12-31-2009	2009 Price Quote 90 Day Effective 1-1-2009-3-31-2009	2009 Price Quote 1 Year Effective 1-1-2009-12-31-2009	2009 Price Quote 90 Day Effective 1-1-2009-3-31-2009	2009 Price Quote 1 Year Effective 1-1-2009-12-31-2009	2009 Price Quote 90 Day Effective 1-1-2009-3-31-2009
Carbon - PAC,Lignite-Bulk										
Chlorine, 100%-2000LB	\$	0.2230	\$	0.2230						
HFS Acid,23%-Bulk										
PACL,80% basicity-Bulk										
Polymer,Non-Pol-EZ 552 50LB					\$	2.9900	\$	3.1500		
Sodium Hydrox,50%-Bulk	\$0.411/ wet lb									
Zn Ortho(Sulfate) (1:10)-Bulk							\$	1.3100	\$	0.9400



Tennessee American Water 2008 Chemical Prices										
Part Description	LCI		LCI		Southern Water		Southern Water		Univar	
	2008 Price Quote 1 Year Effective 1-1-2009-12-31-2009	2008 Price Quote 80 Day Effective 1-1-2009-3-31-2009	2008 Price Quote 1 Year Effective 1-1-2009-12-31-2009	2008 Price Quote 80 Day Effective 1-1-2009-3-31-2009	2008 Price Quote 1 Year Effective 1-1-2009-12-31-2009	2008 Price Quote 80 Day Effective 1-1-2009-3-31-2009	2008 Price Quote 1 Year Effective 1-1-2009-12-31-2009	2008 Price Quote 80 Day Effective 1-1-2009-3-31-2009	2008 Price Quote 1 Year Effective 1-1-2009-12-31-2009	2008 Price Quote 80 Day Effective 1-1-2009-3-31-2009
Carbon - PAC, Lighter-Bulk	NO BID	NO BID		NB				No Bid		No Bid
Chlorine 100%-2000LB	NO BID	NO BID		NB				No Bid		No Bid
HFS Acid 23%-Bulk	**\$0.3075/LB, 45,000LB Minimum	**\$0.3075/LB, 45,000LB Minimum	NB	NB				No Bid		No Bid
PACL 80% basicity-Bulk	NO BID	NO BID		\$0.2748/lb Delivered		\$0.2848/lb Delivered		No Bid		No Bid
Polymr, Non-Pol- EZ 852 50LB	NO BID	NO BID		NB				No Bid		No Bid
Sodium Hydrox 50%-Bulk	NO BID	NO BID		NB				No Bid		No Bid
Zn Ortho(Sulfate) (1:10)-Bulk	NO BID	NO BID		NB				No Bid		No Bid

Tennessee American Water  
2009 Chemical Prices

Part Description	Norit		Norit	
	2009 Price Quota 1 Year Effective 1-1-2009-12-31-2009		2009 Price Quota 90 Day Effective 1-1-2009-3-31-2009	
Carbon - PAC, Lignite-Bulk	\$	0.6500	\$	0.6000
Chlorine, 100%-2000LB	No Bid		No Bid	
HFS Acid, 23%-Bulk	No Bid		No Bid	
PAC, 80% basicity-Bulk	No Bid		No Bid	
Polymr, Non, Pot- EZ 652 50LB	No Bid		No Bid	
Sodium Hydrox, 50%-Bulk	No Bid		No Bid	
Zn Ortho(Sulfate) (1:10)-Bulk	No Bid		No Bid	

coal and gas supplies. But over time, TVA must absorb the higher market price as the older, lower-priced contracts expire, Mr. Kilgore said.

The drought also has dried up much of TVA's cheapest source of power — electricity generated at the utility's 29 power-generating dams. To replace its reduced hydro generation, TVA is buying 12 percent more power from other providers than a year ago and is paying more than three times as much for the purchased power this year over last, officials said.

"This drought has really hurt TVA, but even more unbelievable has been the jump in coal prices by some of the biggest amounts since the 1970s," said Jack Simmons, president of the Tennessee Valley Public Power Association, the Chattanooga-based trade group that represents the 159 municipalities and co-ops that distribute TVA's power. "It makes my heart hurt to see how much what is happening in Brazil, Russia, India and China (pushes) up our costs."

Mr. Simmons and others expect electricity sales are likely to flatten in the year ahead. Mr. Kilgore, who urged consumers to conserve power, especially during peak demand periods, said TVA is reducing its growth forecasts in the year ahead because of anticipated higher electric rates and a slower economy.

TVA is just the latest in a group of other U.S. electric utilities also raising their rates, Mr. Kilgore said.

Progress Energy of North Carolina, Appalachian Power of West Virginia, Rockland Electric of New Jersey and Florida Power & Light and Energy have proposed or been granted double-digit rate increases this spring or summer because of rising coal and natural gas prices.

"Relatively speaking, we are still in pretty good position," Mr. Kilgore said. "In the valley and at TVA we think we are still going to be below most everybody else."

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Clothes sizes that are a moving target

TN-CAPD-02-Q004, Attachment

# Palmer Drought Severity Index, 1895-2007

## Sorted from Driest to Wettest

Year	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Yearly Average	May-Dec Average	Yearly Average	Year Average	Year	May-Dec Average
2007	-1.27	-2.13	-2.89	-2.34	-3.05	-3.07	-2.67	-3.91	-4.25	-4.32	-4.38	-4.46	-3.2283	-3.7638	-3.2283	-3.7638	1986	-3.7842
2006	-1.05	-1.56	-2.12	1.02	0.92	0.85	0.39	0.67	1.82	2.58	2.51	-0.80	0.4358	1.1175	0.4358	1.1175	1941	-3.6892
2005	3.90	3.35	2.62	3.02	2.53	2.33	2.85	2.63	-0.48	-1.06	-1.00	-1.18	1.6258	0.8275	1.6258	0.8275	1914	-3.6775
2004	3.90	3.52	3.00	2.48	2.18	3.06	3.03	2.93	4.29	4.12	4.71	4.84	3.5050	3.6450	3.5050	3.6450	2007	-3.2283
2003	1.47	3.02	1.72	2.57	4.13	4.38	4.94	5.36	5.93	5.02	5.35	4.77	4.0550	4.9850	4.0550	4.9850	1914	-3.6313
2002	-0.03	-1.01	0.86	-0.96	-0.56	-1.11	-1.25	-1.83	0.71	1.20	1.99	2.27	0.0233	0.1775	0.0233	0.1775	1954	-3.5463
2001	-1.87	-1.18	-1.49	-2.11	-0.03	0.27	1.06	1.18	1.56	-0.34	-0.96	-0.94	-0.4042	0.2250	-0.4042	0.2250	1987	-2.7975
2000	-2.10	-2.46	-2.57	-1.28	-1.35	-1.01	-1.14	-1.32	-1.18	-2.17	-1.83	-2.07	-1.7067	-1.5088	-1.7067	-1.5088	1988	-2.7425
1999	1.10	0.74	0.52	0.21	0.32	1.11	1.50	-0.79	-1.32	-1.38	-1.68	-2.42	-0.1742	-0.5825	-0.1742	-0.5825	1930	-2.6942
1998	1.70	1.22	0.96	3.37	2.92	3.93	-0.30	-0.84	-1.71	-2.32	-2.91	0.54	0.5467	-0.0863	0.5467	-0.0863	1931	-2.6442
1997	3.06	2.73	2.94	3.16	3.53	4.17	3.48	2.61	2.80	2.68	2.26	1.68	2.9250	2.9013	2.9250	2.9013	1940	-2.6008
1996	1.82	1.25	1.32	1.45	1.68	1.48	1.78	2.04	2.60	2.05	3.04	3.09	1.9667	2.2200	1.9667	2.2200	1925	-2.5742
1995	-0.36	-0.25	-0.67	-1.41	-0.55	-0.04	-1.02	-1.42	0.08	0.53	1.45	0.87	-0.2325	-0.0125	-0.2325	-0.0125	1953	-2.5383
1994	1.19	2.23	3.82	4.51	3.93	4.57	4.75	4.82	4.26	4.06	-0.18	-0.87	3.0908	3.1675	3.0908	3.1675	1904	-2.3150
1993	-0.27	-0.70	0.65	-0.03	-0.08	-0.71	-1.79	-1.53	-1.30	-1.45	-1.56	0.66	-0.6758	-0.9700	-0.6758	-0.9700	1955	-2.2883
1992	-0.36	-0.72	-0.85	-1.40	0.12	0.95	1.08	1.60	1.64	2.06	2.40	2.81	0.7775	1.5825	0.7775	1.5825	1985	-2.0275
1991	2.17	2.59	2.95	2.60	2.02	2.45	1.99	2.23	2.03	1.09	1.09	2.49	2.1417	1.9238	2.1417	1.9238	1905	-1.8917
1990	3.55	3.93	3.63	2.87	3.37	2.47	2.21	2.17	1.89	2.53	1.91	3.10	2.8025	2.4563	2.8025	2.4563	1952	-1.8208
1989	0.40	0.89	0.54	0.24	1.05	2.94	2.81	2.78	4.33	4.11	4.40	3.69	2.3483	3.2638	2.3483	3.2638	2000	-1.7067
1988	-3.82	-3.99	-4.39	-4.19	-4.15	-4.76	-4.45	-4.26	0.27	0.18	0.49	0.16	-2.7425	-2.0650	-2.7425	-2.0650	1926	-1.2667
1987	-2.35	-1.90	-2.42	-2.04	-2.24	-2.13	-2.68	-3.36	-2.97	-3.38	-3.97	-4.13	-2.7975	-3.1075	-2.7975	-3.1075	1939	-1.2300
1986	-2.85	-2.73	-3.45	-4.22	-4.11	-4.68	-5.14	-4.66	-4.22	-3.58	-3.07	-2.70	-3.7842	-4.0200	-3.7842	-4.0200	1968	-1.2158
1985	-1.63	-1.36	-2.32	-2.72	-2.91	-2.23	-2.36	-1.38	-1.94	-1.88	-1.48	-2.12	-2.0275	-2.0375	-2.0275	-2.0375	1947	-1.1017
1984	-0.60	-0.53	-0.78	0.20	2.07	1.69	2.81	-0.36	-0.92	-0.84	-0.68	-1.39	0.0558	0.2975	0.0558	0.2975	1980	-1.0492
1983	-0.74	-0.98	-1.72	1.10	1.98	-0.16	-0.93	-1.34	-1.80	-1.68	0.31	0.92	-0.4200	-0.3375	-0.4200	-0.3375	1959	-1.0142
1982	1.63	1.96	1.46	1.19	0.78	0.74	1.05	1.57	1.76	1.79	2.55	2.62	1.5917	1.6075	1.5917	1.6075	1999	-1.0033
1981	-3.50	-3.16	-3.37	0.06	0.32	0.63	0.37	0.36	0.72	1.11	0.99	0.94	-0.3775	0.6800	-0.3775	0.6800	1911	-0.9592
1980	-0.40	-1.21	1.47	1.35	-0.11	-0.83	-1.62	-2.10	-1.99	-2.13	-2.14	-2.88	-1.0492	-1.7250	-1.0492	-1.7250	1896	-0.9083
1979	1.20	1.15	0.83	1.29	2.07	1.98	3.27	2.95	3.42	3.19	3.81	-0.69	2.0392	2.5000	2.0392	2.5000	1913	-0.8125
1978	3.12	-1.16	-1.13	-1.22	-0.68	-0.36	-0.65	-0.09	-0.69	-1.29	-1.44	0.53	-0.4217	-0.5838	-0.4217	-0.5838	1900	-0.7892
1977	-0.57	-1.42	0.24	1.28	0.56	1.38	-0.70	0.34	1.91	2.72	3.62	3.09	1.0375	1.6150	1.0375	1.6150	1921	-0.7858
1976	-0.02	-0.75	-0.80	-1.99	0.73	1.44	-0.38	-0.65	0.37	1.40	-0.05	0.15	-0.0458	0.3763	-0.0458	0.3763	1902	-0.7375
1975	2.42	2.26	4.18	3.23	2.97	2.92	2.08	1.54	2.38	2.68	-0.02	-0.04	2.2167	1.8138	2.2167	1.8138	1898	-0.6975
1974	4.66	4.42	3.99	3.92	4.86	4.21	3.07	2.89	2.84	2.36	2.39	2.51	3.5100	3.1413	3.5100	3.1413	1993	-0.6758
1973	3.06	2.22	3.43	3.59	4.59	4.54	4.10	3.59	3.29	2.97	3.66	4.13	3.5975	3.8588	3.5975	3.8588	1936	-0.5625
1972	1.48	1.43	1.28	1.18	1.65	1.95	2.27	1.56	2.16	3.13	3.21	3.77	2.0892	2.4625	2.0892	2.4625	1965	-0.5558
1971	0.26	0.48	0.41	0.27	0.64	0.60	1.71	1.35	1.33	1.27	0.79	0.84	0.8292	1.0663	0.8292	1.0663	1908	-0.5533
1970	-0.50	-0.87	-1.36	1.14	-0.80	-0.58	-1.30	0.36	0.04	0.44	-0.50	-0.58	-0.3758	-0.3650	-0.3758	-0.3650	1943	-0.5467
1969	-2.13	-1.50	-1.81	-2.06	-2.46	0.56	0.39	0.52	0.77	0.36	0.12	1.12	-0.5100	0.1725	-0.5100	0.1725	1969	-0.5100

# Palmer Drought Severity Index, 1895-2007

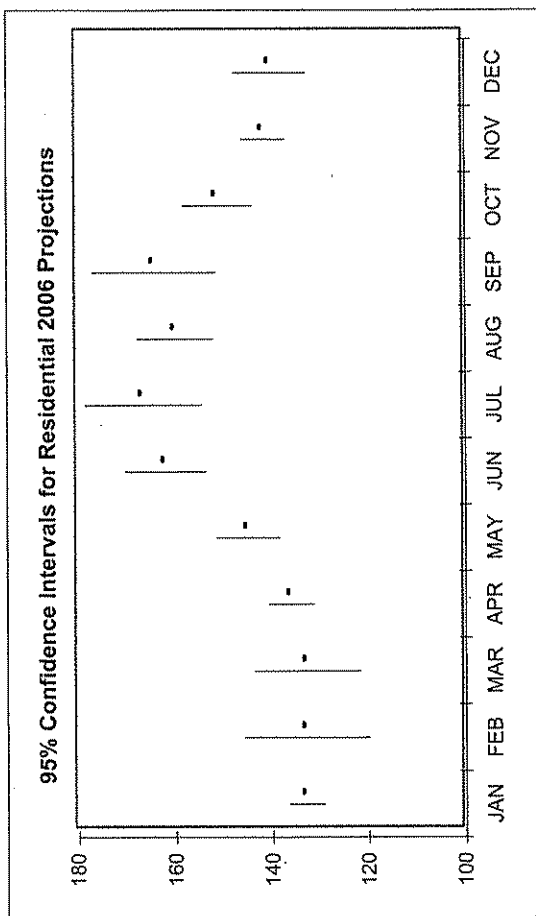
## Sorted from Driest to Wettest

Year	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Yearly Average	May-Dec Average	Yearly Average	Year Average	May-Dec Average
1968	0.02	-1.20	-1.27	-0.81	-0.63	-0.68	-0.93	-1.54	-1.75	-1.63	-2.01	-2.16	-1.2158	-1.4163	1895	1908	-0.5725
1967	-0.79	-0.67	-1.21	-1.65	0.98	1.01	2.84	3.08	3.00	2.96	3.33	3.78	1.3883	2.6225	1903	1943	-0.5613
1966	-2.53	-1.98	-2.52	0.47	-0.14	-0.60	0.10	1.16	1.93	2.67	2.94	-0.26	0.1033	0.9750	1944	1958	-0.5438
1965	-0.38	-0.63	1.24	-0.04	-0.54	-0.33	-0.26	-0.52	-0.55	-0.85	-1.31	-2.50	-0.5558	-0.8575	1978	1946	-0.5288
1964	0.11	0.18	0.70	1.67	-0.49	-1.27	-1.23	0.77	0.56	1.27	-0.11	-0.17	0.1658	-0.0838	1983	1935	-0.4750
1963	-0.36	-0.84	1.66	1.22	1.18	1.48	1.91	-0.33	-0.71	-1.81	-1.39	-1.76	0.0208	-0.1788	2001	1926	-0.4425
1962	2.75	3.42	-0.05	0.14	-1.00	-0.46	-0.39	-1.01	0.69	0.58	1.02	-0.13	0.4633	-0.0875	1981	1970	-0.3650
1961	-1.04	0.84	0.87	0.84	0.91	1.56	1.44	1.67	0.86	0.86	0.65	2.38	0.9867	1.2913	1970	1896	-0.3550
1960	-0.39	-0.66	-0.46	-1.25	-1.55	0.45	0.22	0.61	0.67	1.13	-0.19	-0.48	-0.1583	0.1075	1910	1948	-0.3525
1959	-1.71	-1.87	-1.92	-1.34	-1.44	-1.65	-1.85	-1.63	-1.85	0.69	1.23	1.17	-1.0142	-0.6663	1956	1983	-0.3375
1958	-0.66	-0.79	-1.09	0.89	0.93	-0.35	-0.10	-0.05	-0.40	-1.06	-1.47	-1.85	-0.5000	-0.5438	1942	1937	-0.2588
1957	1.43	2.09	-0.92	-0.62	-0.97	-0.23	-1.29	-1.64	1.46	1.62	3.08	3.07	0.5900	0.6375	1935	1963	-0.1788
1956	-2.63	1.29	1.14	2.03	-0.42	-0.76	-0.54	-0.96	-0.78	-1.11	-1.59	0.30	-0.3358	-0.7325	1948	1898	-0.0900
1955	-3.83	-2.94	-1.93	-1.70	-1.83	-1.63	-1.81	-2.17	-2.51	-2.41	-2.25	-2.45	-2.2883	-2.1325	1897	1962	-0.0875
1954	-1.96	-2.51	-2.10	-2.62	-2.32	-2.70	-3.25	-3.66	-4.23	-4.41	-4.35	-3.45	-3.1300	-3.5463	1995	1998	-0.0863
1953	-2.64	-1.78	-1.98	-1.80	-1.53	-1.62	-1.69	-2.71	-2.74	-3.56	-4.28	-4.13	-2.5383	-2.7825	1999	1964	-0.0838
1952	1.81	-0.89	-0.53	-1.09	-1.26	-2.22	-3.14	-2.63	-2.82	-3.29	-2.95	-2.84	-1.8208	-2.6438	1933	1919	-0.0750
1951	1.88	1.63	2.16	2.26	1.47	2.01	1.52	0.67	1.03	0.68	1.37	1.89	1.5475	1.3300	1960	1924	-0.0325
1950	2.81	2.75	2.88	1.74	2.24	2.45	3.20	3.64	3.90	3.12	2.68	2.18	2.7992	2.9263	1946	1995	-0.0125
1949	2.69	1.84	1.43	1.83	1.25	1.45	2.20	2.41	2.21	3.24	2.55	1.93	2.0858	2.1550	1938	1927	0.0237
1948	-1.89	1.04	1.17	-0.60	-0.98	-1.29	-1.08	-1.05	-1.34	-1.62	2.16	2.38	-0.2583	-0.3525	1937	1922	0.0963
1947	1.65	-0.53	-0.84	-1.53	-1.68	-1.25	-1.32	-1.15	-1.42	-1.78	-1.45	-1.92	-1.1017	-1.4963	1976	1960	0.1075
1946	2.05	2.03	-0.66	-0.73	-0.22	-0.37	-0.60	-0.71	-0.58	-0.40	-0.67	-0.68	-0.1283	-0.5288	1918	1900	0.1575
1945	-1.03	-0.20	-0.99	-0.96	0.47	0.64	0.88	0.94	0.64	0.71	0.77	1.17	0.2533	0.7775	1919	1969	0.1725
1944	-1.87	1.46	1.88	1.78	-0.78	-1.61	-2.60	-3.06	1.00	-0.36	-0.64	-0.50	-0.4417	-1.0688	1963	1910	0.1725
1943	-0.53	-0.77	-0.35	-0.42	-0.89	-1.06	0.72	-0.63	-0.24	-0.26	-0.83	-1.30	-0.5467	-0.5613	2002	2002	0.1775
1942	4.37	-4.18	-3.85	-4.74	0.06	0.18	1.03	2.49	2.64	2.45	1.74	3.04	-0.2925	1.7038	1924	2001	0.2250
1941	-2.90	-3.75	-3.55	-3.64	-4.50	-4.26	-2.87	-2.95	-3.54	-3.77	-4.10	-4.44	-3.6892	-3.8038	1984	1918	0.2325
1940	-4.02	-3.72	-3.48	-3.15	-3.21	-2.60	-2.07	-1.15	-1.67	-1.65	-2.04	-2.45	-2.6008	-2.1050	1915	1938	0.2950
1939	-1.21	1.24	-0.30	-0.37	-0.93	-0.77	-0.69	-0.83	-1.64	-2.46	-3.20	-3.60	-1.2300	-1.7650	1906	1984	0.2975
1938	-0.79	-1.65	-1.53	0.55	1.10	1.61	2.68	-0.05	-0.17	-1.06	-0.66	-1.09	-0.0883	0.2950	1966	1923	0.3300
1937	1.62	1.52	-0.94	-0.74	-0.84	-1.08	-1.12	0.71	0.35	1.32	-0.58	-0.83	-0.0508	-0.2588	1964	1976	0.3763
1936	1.34	1.38	1.93	2.38	-1.07	-2.22	-1.90	-2.21	-2.26	-1.90	-2.49	0.27	-0.5625	-1.7225	1934	1909	0.4100
1935	-0.78	-0.81	0.75	1.18	1.24	1.20	-0.16	-0.43	-1.35	-1.58	-1.02	-1.70	-0.2883	-0.4750	1945	1920	0.5888
1934	-2.65	-2.67	1.22	0.90	0.53	0.59	0.73	1.54	1.40	1.74	-0.07	-0.59	0.2225	0.7338	1922	1957	0.6375
1933	1.87	2.32	-0.31	-0.45	0.46	-0.68	0.11	0.96	-0.48	-1.27	-2.01	-2.43	-0.1592	-0.6675	1909	1981	0.6800
1932	1.04	1.48	1.63	1.62	1.20	1.87	-0.64	-0.84	-1.27	1.18	1.42	2.69	0.9483	0.7013	1907	1932	0.7013
1931	-3.52	-3.63	-3.79	-2.86	-2.48	-3.26	-2.67	-1.72	-2.34	-2.76	-3.52	0.82	-2.6442	-2.2413	2006	1934	0.7338
1930	-1.22	-1.59	-1.58	-2.49	-2.48	-2.69	-3.47	-3.89	-3.51	-3.30	-3.07	-3.04	-2.6942	-3.1813	1927	1945	0.7775

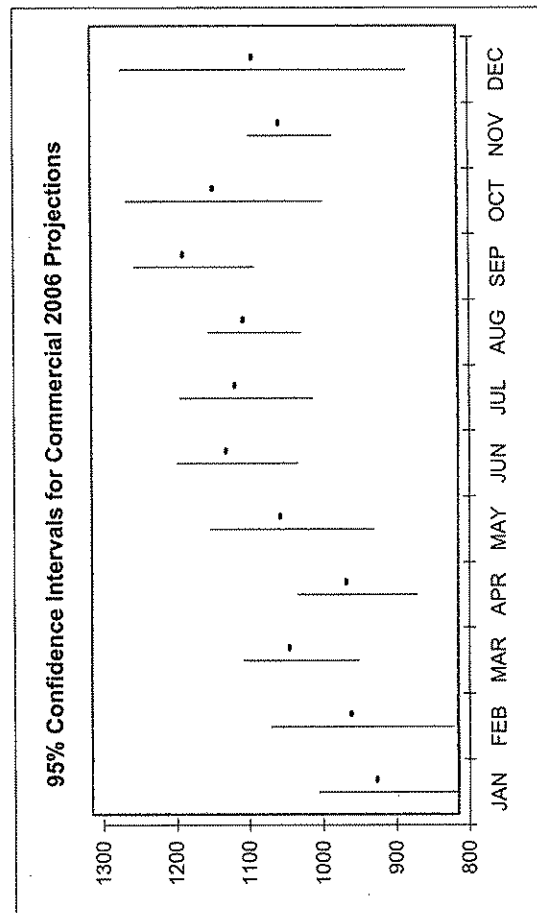
# Palmer Drought Severity Index, 1895-2007

## Sorted from Driest to Wettest

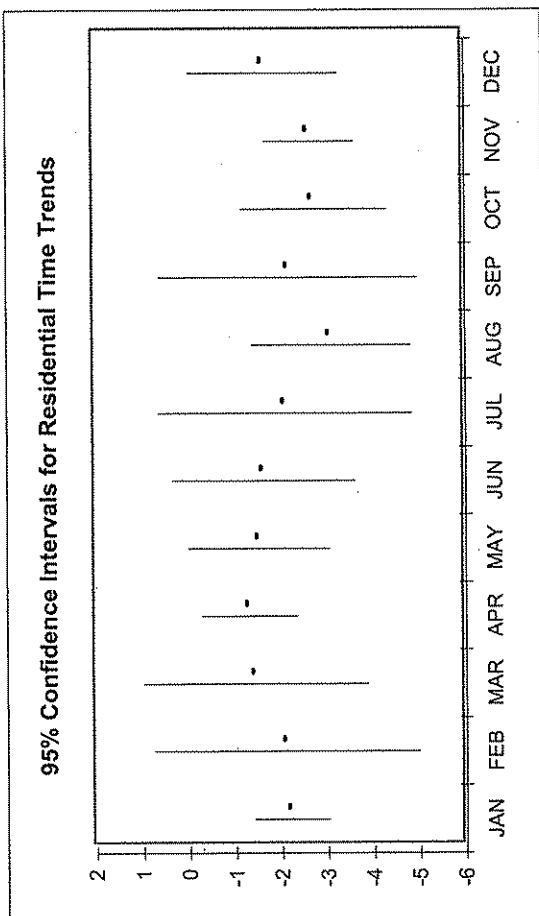
Year	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Yearly Average	May-Dec Average	Yearly Average	Year	May-Dec Average
1929	1.17	1.44	2.01	1.54	2.81	3.06	2.70	2.07	2.77	3.05	4.03	-0.55	2.1750	2.4925	0.4633	2005	0.8275
1928	-0.95	-1.55	-1.56	0.77	1.24	3.27	2.56	2.73	2.83	3.14	2.78	1.52	1.3983	2.5088	0.4958	1966	0.9750
1927	1.08	1.03	1.43	1.57	1.61	1.90	-0.35	-0.16	-0.68	-0.85	-0.94	-0.34	0.4417	0.0237	0.5075	1971	1.0663
1926	-2.73	-2.95	-2.94	-3.04	-3.26	-2.69	-2.82	0.79	0.66	0.32	0.97	2.49	-1.2667	-0.4425	0.5467	1906	1.0975
1925	-1.04	-1.13	-1.78	-2.10	-2.22	-2.46	-3.17	-3.93	-4.54	-3.07	-2.53	-2.92	-2.5742	-3.1050	0.5900	1907	1.1163
1924	0.47	0.56	-0.53	0.41	1.39	1.39	-0.13	-0.68	0.82	-0.71	-1.44	-0.90	0.0542	-0.0325	0.7692	2006	1.1175
1923	0.52	0.36	1.15	1.42	1.69	1.58	1.26	1.67	0.40	-0.79	-0.95	-1.42	0.5075	0.3300	0.7775	1917	1.2138
1922	0.33	0.16	1.33	1.03	1.14	1.18	1.35	-0.06	-0.57	-1.12	-1.86	0.71	0.3017	0.0963	0.8292	1961	1.2913
1921	-0.48	-0.07	-0.42	-0.40	-0.59	-1.16	-1.20	-0.95	-0.91	-1.07	-0.69	-1.49	-0.7858	-1.0075	0.9483	1951	1.3300
1920	-0.69	0.04	0.25	1.64	1.04	1.03	0.68	1.66	1.93	-0.76	-0.70	-0.17	0.4958	0.5888	0.9867	1915	1.3938
1919	0.37	-0.41	0.51	0.11	1.09	1.11	-0.36	-0.17	-0.89	-0.37	-0.30	-0.71	-0.0017	-0.0750	1.0375	1901	1.4500
1918	-0.18	-0.97	-2.03	0.77	0.63	0.64	-0.09	-0.60	0.47	1.22	-0.04	-0.37	-0.0458	0.2325	1.3883	1992	1.5825
1917	1.75	1.23	2.71	2.03	1.85	2.06	2.58	2.38	2.77	0.00	-0.62	-1.31	1.4525	1.2138	1.3983	1982	1.6075
1916	2.16	1.59	1.03	0.56	0.92	1.48	3.45	3.37	2.89	2.46	1.78	1.49	1.9317	2.2300	1.4525	1977	1.6150
1915	-2.06	-2.27	-2.68	-3.46	0.48	0.53	0.52	1.51	1.76	1.71	2.25	2.39	0.0567	1.3938	1.5050	1942	1.7038
1914	-4.05	-4.01	-3.77	-3.25	-3.75	-4.22	-4.28	-3.69	-3.51	-3.42	-3.64	-2.54	-3.6775	-3.6313	1.5475	1975	1.8138
1913	1.58	1.53	2.18	-0.58	-0.39	-0.49	-1.20	-1.84	-1.96	-2.04	-3.02	-3.52	-0.8125	-1.8075	1.5917	1991	1.9238
1912	0.12	0.11	0.56	1.85	1.94	2.19	2.49	2.23	2.32	1.80	1.16	1.29	1.5050	1.9275	1.6258	1912	1.9275
1911	-1.22	-1.53	-1.80	1.48	-0.96	-1.38	-1.54	-1.38	-1.84	-1.96	0.09	0.53	-0.9592	-1.0550	1.9317	1949	2.1550
1910	-1.49	-1.40	-2.82	0.29	0.86	1.71	2.30	-0.04	-0.31	-0.55	-1.24	-1.35	-0.3367	0.1725	1.9667	1996	2.2200
1909	-1.09	0.46	0.32	0.85	1.49	2.00	2.08	-0.19	0.26	-0.14	-0.89	-1.33	0.3183	0.4100	2.0392	1916	2.2300
1908	-0.39	-0.34	-0.59	-0.74	-0.86	-0.67	-0.68	-0.09	-0.45	-0.62	-0.78	-0.43	-0.5533	-0.5725	2.0858	1990	2.4563
1907	-1.78	-1.64	-1.98	0.35	0.95	1.40	1.21	0.90	1.56	1.19	1.75	-0.03	0.3233	1.1163	2.0892	1972	2.4625
1906	-1.59	-2.29	-1.72	-2.34	-2.53	0.28	1.19	1.47	2.44	2.69	3.43	-0.19	0.0700	1.0975	2.1417	1929	2.4925
1905	-2.79	-2.25	-2.74	-2.92	-1.98	-1.52	-1.78	-1.25	-1.48	-0.86	-1.59	-1.54	-1.8917	-1.5000	2.1750	1979	2.5000
1904	-1.95	-2.35	-1.79	-2.21	-1.99	-2.02	-2.12	-2.15	-2.50	-3.00	-3.06	-2.64	-2.3150	-2.4350	2.2167	1928	2.5088
1903	-2.18	1.02	1.17	1.94	-0.54	0.61	-0.47	-0.69	-1.38	-1.73	-1.55	-1.69	-0.4575	-0.9300	2.3483	1967	2.6225
1902	1.87	1.73	1.97	-0.33	-0.98	-0.76	-2.20	-2.44	-1.89	-2.04	-1.98	-1.80	-0.7375	-1.7613	2.7992	1997	2.9013
1901	-0.58	-1.39	-1.57	1.17	1.78	1.68	-1.04	1.89	2.31	1.76	1.08	2.14	0.7692	1.4500	2.8025	1950	2.9263
1900	-3.11	-2.54	-2.50	-2.58	-2.78	1.60	1.18	0.23	0.18	0.40	1.02	-0.57	-0.7892	0.1575	2.9250	1974	3.1413
1899	-0.77	1.05	2.43	0.00	-0.33	-0.91	-1.09	-1.70	-2.31	-2.49	-3.05	-2.87	-1.0033	-1.8438	3.0908	1994	3.1675
1898	-1.39	-2.32	-2.24	-1.70	-1.84	-1.96	0.43	0.58	0.62	0.96	1.11	-0.62	-0.6975	-0.0900	3.5050	1989	3.2638
1897	-1.86	0.28	1.67	2.39	2.22	-0.22	-0.02	-0.36	-1.27	-1.79	-2.21	-1.83	-0.2500	-0.6850	3.5100	2004	3.6450
1896	-2.49	-1.96	-1.56	-2.05	-1.92	0.36	1.64	-0.70	-0.69	-1.17	0.71	-1.07	-0.9083	-0.3550	3.5975	1973	3.8588
1895	0.30	-0.76	0.12	0.87	0.83	-0.44	-0.23	-0.52	-1.11	-1.24	-1.72	-1.83	-0.4775	-0.7825	4.0550	2003	4.9850



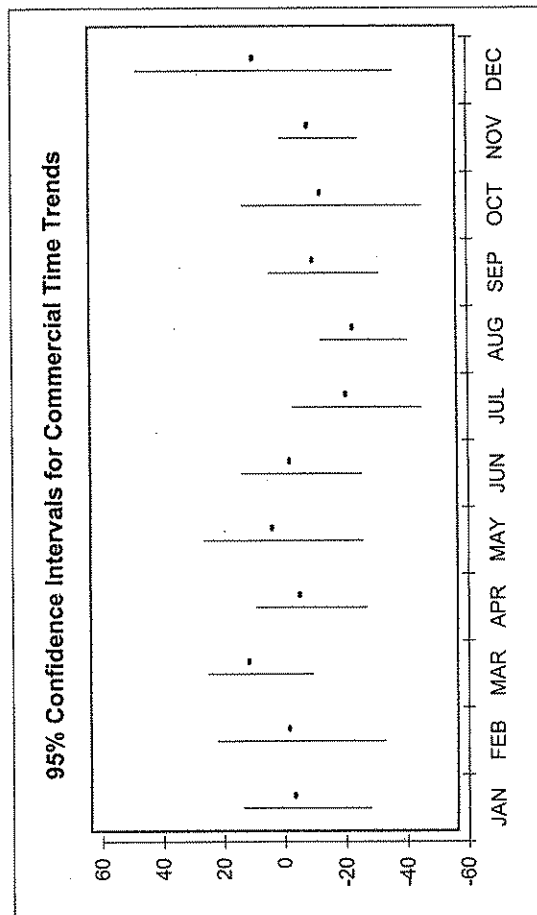
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APR	131.331	140.744	136.038
MAY	138.386	151.486	144.936
JUN	153.535	170.375	161.955
JUL	154.580	178.421	166.501
AUG	152.165	167.643	159.904
SEP	151.480	176.863	164.172
OCT	143.992	158.447	151.220
NOV	137.221	146.140	141.681
DEC	132.726	147.727	140.227



JAN	816.950	1005.890	911.420
FEB	821.770	1070.650	946.210
MAR	951.120	1107.690	1029.405
APR	870.510	1034.010	952.260
MAY	930.670	1153.340	1042.005
JUN	1032.230	1198.960	1115.595
JUL	1013.040	1194.260	1103.650
AUG	1028.020	1155.050	1091.535
SEP	1092.340	1255.730	1174.035
OCT	998.750	1266.170	1132.460
NOV	984.520	1099.210	1041.865
DEC	883.410	1273.340	1078.375



JAN	-3.026	-1.396	-2.211
FEB	-4.978	0.758	-2.110
MAR	-3.872	1.000	-1.436
APR	-2.346	-0.267	-1.307
MAY	-3.047	0.011	-1.518
JUN	-3.607	0.364	-1.622
JUL	-4.849	0.661	-2.094
AUG	-4.823	-1.351	-3.087
SEP	-4.973	0.631	-2.171
OCT	-4.290	-1.122	-2.706
NOV	-3.595	-1.633	-2.614
DEC	-3.255	-0.018	-1.636

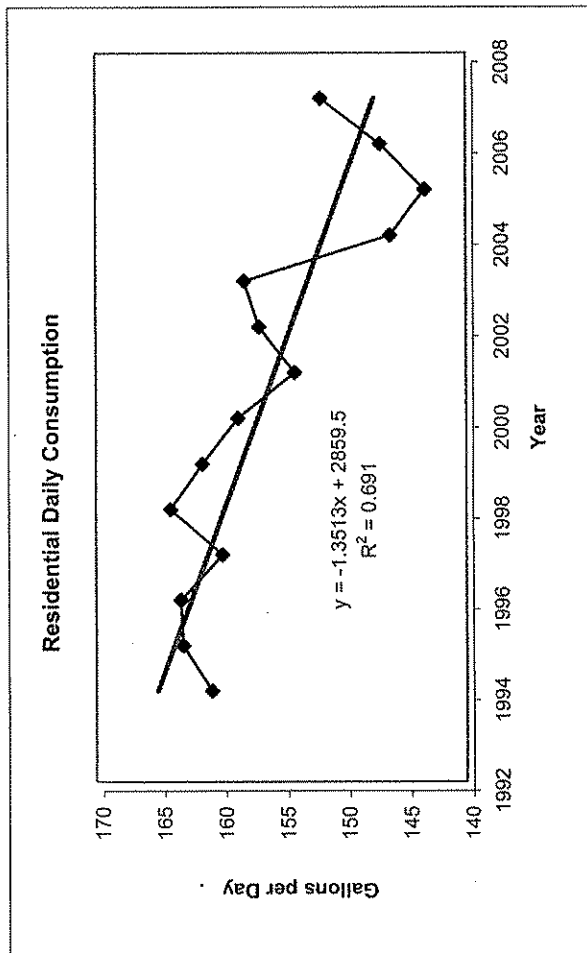


JAN	-27.946	13.785	-7.080
FEB	-32.664	22.304	-5.180
MAR	-9.172	25.408	8.118
APR	-26.728	9.384	-8.672
MAY	-25.542	26.438	0.448
JUN	-25.130	14.182	-5.474
JUL	-44.784	-2.907	-23.845
AUG	-40.410	-11.920	-26.165
SEP	-31.251	4.823	-13.214
OCT	-45.155	13.463	-15.846
NOV	-24.323	0.907	-11.708
DEC	-36.043	48.111	6.034

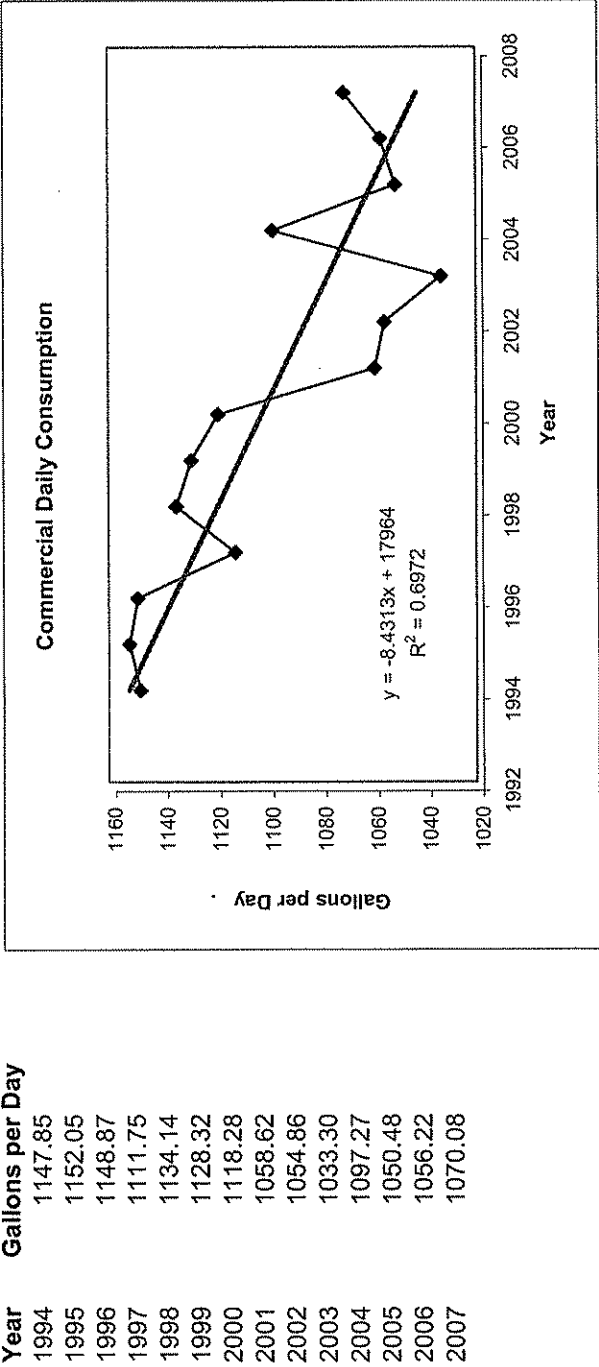


# Residential Daily Consumption by Year

Year	Gallons per Day
1994	160.63
1995	162.98
1996	163.12
1997	159.74
1998	163.93
1999	161.36
2000	158.47
2001	153.86
2002	156.75
2003	157.95
2004	146.11
2005	143.30
2006	146.90
2007	151.72



Commercial Daily Consumption by Year



**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 08-00039  
SECOND DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE AND PROTECTION DIVISION**

**Responsible Witness:** Michael A. Miller/Others

**Discovery Request No. 6:**

Please provide any and all engagement letters and all expert reports and work papers (including drafts) which have been obtained from, created by or provided to any expert or witness.

**Response:**

The Company objects to this question on the grounds that the requested information is unduly burdensome, overly broad, and contains information subject to attorney/client privilege and protected according to the attorney work product doctrine.

Notwithstanding the objections above the Company provides the following response. The engagement letter for Joseph Van den Berg was provided in response to TN-CAPD-01-Part IV-Q053-Attachment 1. The additional engagement letters are attached. The remaining responsive information to this request has been supplied in the Petition, accounting exhibits, testimony and responses to discovery referred to in the responses to questions 1-5.

**August 12, 2008 Supplemental Response:**

Attached is the engagement letter for Mark Manner.



HARWELL HOWARD HYNE  
GABBERT & MANNER, P. C.

JONATHAN HARWELL  
LIN S. HOWARD \*  
ERNEST E. HYNE II  
CRAIG V. GABBERT, JR.  
MARK MANNER  
GLEN ALLEN CIVITTS  
GLENN B. ROSE  
JOHN N. POPHAM IV

JOHN M. BRITTINGHAM  
SUSAN V. SIDWELL  
JOHN F. BLACKWOOD  
D. ALEXANDER FARDON  
MICHAEL R. HILL  
DAVID COX  
CURTIS CAPELING  
BARBARA D. HOLMES

ALIX COULTER CROSS  
KRIS KEMP  
J. GREG GIFFEN  
LESLIE B. WILKINSON, JR.  
DAVID P. CAÑAS  
DAVID SIMCOX  
TRACY M. LUJAN  
JONATHAN STANLEY

KENNETH S. BYRD  
JEFFREY J. MILLER  
J. DAVID MCDOWELL  
D. MATTHEW FOSTER  
JACOB A. FELDMAN

\*Of Counsel

August 6, 2008

Michael A. Miller, Treasurer  
American Water Works Company, Inc.  
P.O. Box 1906  
Charleston, West Virginia 25327

**Re: Petition of Tennessee American Water Company, before the Tennessee  
Regulatory Authority, Docket No. 08-00039 ("Petition").**

Dear Mr. Miller:

We are pleased that you have asked our firm to serve as a rebuttal witness in connection with the Petition. This letter will confirm our discussion with your attorneys regarding engagement of this firm and will describe the basis on which our firm will provide legal services to you.

Accordingly, we submit for your approval the following provisions governing our engagement. If you are in agreement, please sign the enclosed copy of this letter in the space provided below. If you have any questions about these provisions, or if you would like to discuss possible modifications, do not hesitate to call.

1. *Client; Scope of Representations.* Our client in this matter will be American Water Works Company, Inc. ("American Water") and its affiliate, Tennessee American Water Company ("Company"). We will be engaged to provide our firm's services before the Tennessee Regulatory Authority ("TRA"), to include preparation of written materials to be filed with the TRA, as well as an appearance before a panel established by the TRA to support the written materials and otherwise give testimony relevant to the Petition. Of course, you may limit or expand the scope of our representation from time to time, provided that any substantial expansion must be agreed to by us.

2. *Term of Engagement.* Either of us may terminate the engagement at any time for any reason by written notice, subject on our part to applicable rules of professional conduct. In the event that we terminate the engagement, we will take such steps as are reasonably practicable to protect your interest in the above matter.

3. *Conclusion of Representation; Retention and Disposition of Documents.* Unless previously terminated, our representation will terminate upon completion of our appearance before the Panel, and following the submission of any materials requested during such appearance. Following such termination, any otherwise non-public information you have

supplied to us which is retained by us will be kept confidential in accordance with applicable rules of professional conduct, and at your request, your papers and property will be returned to you promptly. Our own files pertaining to the matter will be retained by the firm. These firm files include, for example, firm administrative records, time and expense reports, personnel and staffing materials, and credit and accounting records; and internal lawyers' work product such as drafts, notes, internal memoranda, and legal and factual research, including investigative reports, prepared by or for the internal use of lawyers. All such documents retained by the firm will be transferred to the person responsible for administering our records retention program. For various reasons, including the minimization of unnecessary storage expenses, we reserve the right to destroy or otherwise dispose of any such documents or other materials retained by us within a reasonable time after the termination of the engagement.

4. *Fees and Expenses.* Our fees are based on the billing rate for each attorney and legal assistant devoting time to this matter. Our billing rates for attorneys currently range from \$130 per hour for new associates to \$500 per hour for senior partners. Time devoted by legal assistants is charged at billing rates ranging from \$125 to \$155 per hour. These billings rates are subject to change from time to time. The primary attorneys assigned to this matter will include Mark Manner, with an hourly rate of \$500, David Cox, with an hourly rate of \$420 and Kris Kemp, with an hourly rate of \$350.

We will include on our statements separate charges for performing services such as photocopying, messenger and delivery service, computerized research, travel, long-distance telephone and telecopy, word processing, and search and filing fees. Fees and expenses of others (such as consultants, appraiser, and local counsel) generally will not be paid by us, but will be billed directly to you.

Statements normally will be rendered monthly for work performed and expenses recorded on our books during the previous month. Payment is due promptly upon receipt of our statement. If any statement remains unpaid for more than 20 days, we may suspend performing services for you until arrangements satisfactory to us have been made for payment of outstanding statements and the payment of future fees and expenses. Upon termination of our engagement, all outstanding fees and costs will be immediately paid.

5. *Client Responsibilities.* You agree to cooperate fully with us and to provide promptly all information known or available to you relevant to our representation. You also agree to pay our statements for services and expenses in accordance with paragraph 4 above.


6. *Conflicts.* You are aware that the firm represents many other companies and individuals. It is possible that during the time that we are representing you, some of our present or future clients will have disputes or transactions with American Water or the Company. You agree that we may continue to represent or may undertake in the future to represent existing or new clients in any matter that is not substantially related to our work for you even if the interests of such clients in those other matters are directly adverse.

It is understood that our client for purposes of this representation is American Water and the Company, and not any of its or their individual officers, directors or control persons or any other persons or entities who are affiliates of them. By accepting this, you agree that our representation in the matter described in paragraph 1 above does not give rise to an attorney-client relationship between the firm and any other person or entity. You also agree that the firm, during the course of its representation, will not be given any confidential information which does not relate to the matter upon which we are engaged.

Once again, we are pleased to have this opportunity to work with you. Please call me if you have any questions or comments during the course of our representation.

Sincerely,

HARWELL HOWARD HYNE  
GABBERT & MANNER, P.C.

  
Mark Manner

Agreed to and accepted this  
6<sup>th</sup> day of August, 2008.

**AMERICAN WATER WORKS COMPANY, INC.**

By: Michael A. Miller  
Name: Michael A. Miller  
Title: Director of Rates  
SE Region AWWSC

**TENNESSEE AMERICAN WATER COMPANY  
DOCKET NO. 08-00039  
SECOND DISCOVERY REQUEST OF THE  
CONSUMER ADVOCATE AND PROTECTION DIVISION**

**Responsible Witness:** Michael A. Miller

**Discovery Request No. 14:**

Please provide a copy of the 2007 Towers Perrin Actuarial Valuation Report for American Water Works Company, Inc. Pension Plan.

**Response:**

Please see Exhibit MAM-6 attached to the direct testimony of Michael A. Miller, previously filed with the TRA on March 14, 2008, and supplied to the parties to this case.

**August 12, 2008 Supplemental Response:**

Attached is a copy of an Actuarial Valuation Report dated May 2007.

*American Water Works Company, Inc.*  
*Pension Plan*

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**Actuarial Valuation Report**

**Pension Cost for Fiscal Year Ending December 31, 2007**

**Employer Contributions for Plan Year Beginning July 1, 2006**

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*May 2007*

This report is confidential and intended solely for the information and benefit of the immediate recipient thereof. It may not be distributed to a third party unless expressly allowed under the "Actuarial Certification, Reliances and Distribution" section herein.





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## ***Management Summary of Valuation Results***

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<b><i>FAS 87 Pension Cost and Funded Position.....</i></b>	<b><i>MS-7</i></b>
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## Financial Results

This report summarizes financial results for the American Water Works Company, Inc. Pension Plan based on actuarial valuations as of January 1, 2007 and January 1, 2006 for determination of pension accounting cost, and valuations as of July 1, 2006 and July 1, 2005 for determination of plan contributions.

	January 1, 2007 <sup>(1)</sup>	January 1, 2006
<b>FAS 87 Pension Cost<sup>(2)</sup></b>		
Amount	\$ 38,968,697	\$ 40,327,960
Percent of covered pay <sup>(3)</sup>	13.5%	16.7%
<b>FAS 87 Funded Position</b>		
Accumulated benefit obligation [ABO]	\$ 749,311,739	\$ 656,997,683
Fair value of assets [FV]	578,280,462	443,880,146
ABO funded percentage [FV ÷ ABO]	77.2%	67.6%
Prepaid (accrued) pension cost	\$ (102,302,391)	\$ (113,275,901)
	July 1, 2006	July 1, 2005
<b>Employer Contributions<sup>(4)</sup></b>		
Minimum required	\$ 0	\$ 0
Percent of covered pay <sup>(3)</sup>	0.0%	0.0%
Maximum deductible	\$ 539,127,891	\$ 135,276,937
Percent of covered pay	186.7%	55.9%
<b>ERISA Funded Position<sup>(5)</sup></b>		
Actuarial accrued liability [AAL]	\$ 556,822,415	\$ 506,998,446
Actuarial value of assets [AV]	518,247,375	465,911,015
AAL funded percentage [AV ÷ AAL]	93.1%	91.9%
Current liability funded percentage:		
▶ Selected interest rate	80.0%	80.7%
▶ Highest allowable interest rate	80.0%	80.7%
▶ Maximum deductible interest rate	80.0%	80.7%

- (1) Pension cost for fiscal year 2007 reflects the merger of the Elizabethtown Water Company Pension Plan into the American Water Pension Plan. Results are prior to FAS 158.
- (2) All FAS 87 results shown in this report were prepared before application of purchase accounting due to the sale of American Water to RWE.
- (3) For fiscal year 2007, covered pay is based on the most recent valuation data received from the client (Elizabethtown covered compensation of \$22,483,921 expected in fiscal year 2006 and American Water covered compensation of \$266,216,479 expected in plan year 2006).
- (4) For July 1, 2006, reflects the merger of Elizabethtown Water Company Pension Plan into the American Water Pension Plan as of January 1, 2007.
- (5) As of July 1, 2006 before the merger of Elizabethtown Water Company pension plan.

## **Discussion of Financial Results**

The financial results of American Water Works Company, Inc.'s Pension Plan were affected by the following factors:

- ▶ The Elizabethtown Water Company Pension Plan merged into the American Water Pension Plan as of December 31, 2006.
- ▶ Investment returns during the prior fiscal year were higher than expected, which increased the funded percentage and decreased the pension cost.
- ▶ Long-term bond yields increased during the prior year resulting in a higher FAS 87 discount rate, which decreased the pension cost.
- ▶ The benefits valued were changed for contribution purposes as described on page SI-27. The minimum required contribution remained \$0 due to a large credit balance.
- ▶ On August 17, 2006, the Pension Protection Act (PPA) was signed into law. Among other provisions, the PPA:
  - ▶ Extended interest rate relief for calculating the current liability for the 2006 and 2007 plan years.
  - ▶ Modified several aspects of the calculation of the maximum tax deductible contribution for the 2006 and 2007 tax years
  - ▶ Beginning with the 2008 plan year made extensive changes in the determination of both the minimum required contribution and the maximum tax deductible limit.

## Highlights

### Economic Assumptions

The discount rate for pension cost purposes is the rate at which the pension obligations could be effectively settled. This rate is developed from yields on available high-quality bonds and reflects the plan's expected cash flows. The following bond yields provide information on the general interest rate environment:

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
30-year Treasury	4.81%	4.54%
Merrill Lynch 10+ High Quality	5.85%	5.68%
Moody's Aa	5.72%	5.41%
Moody's Baa	6.35%	5.74%

The assumed rate of return on assets for pension cost purposes is the weighted average of expected long-term asset return assumptions. The salary increase rate is a long-term rate based on current expectations of future pay increases. The assumptions for pension cost purposes are:

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Discount rate	5.90%	5.65%
Rate of return on assets	8.00%	8.25%
Salary increase rate	Age-graded scale averaging 4.25%	Age-graded scale averaging 4.25%

Assumptions used to determine statutory contribution limits must be reasonable taking into account the experience of the plan and reasonable expectations. The discount rate used to determine the normal cost and actuarial accrued liability is based on the long-term expected return on assets. The current liability interest rates must be within permissible ranges as issued by the IRS. These ranges and assumptions for contribution purposes are:

	<b>July 1, 2006</b>	<b>July 1, 2005</b>
Discount rate for normal cost and actuarial accrued liability	8.25%	8.25%
Current liability interest rates:		
▶ Permissible range	5.19% to 5.77%	4.47% to 5.90%
▶ Selected rate	5.77%	5.90%
Salary increase rate	Age-graded scale averaging 4.25%	Age-graded scale averaging 5.00%



**Assets**

In fiscal 2006, the fund recorded a 11.1% investment return, while the capital markets performed as follows:

Large equities [S&P 500]	15.79%
Intermediate/small equities [Russell 2500]	16.17%
Non-U.S. equities [EAFE]	26.86%
Bonds [Lehman Brothers Aggregate]	4.33%
Cash equivalents [Citi 3 Month T-Bill]	4.76%

**Demographic Assumptions**

The cost of providing plan benefits depends on demographic factors such as retirement, mortality, and turnover. Demographic assumptions used in the valuation were selected to reflect the experience of the covered population and reasonable expectations. If actual experience is more favorable than assumed, future plan costs will be lower. Alternatively, if actual experience is less favorable than assumed, future plan costs will be higher.

An assumption study was performed during 2005. As a result, certain demographic assumptions were changed as of January 1, 2006 for 2006 accounting purposes. The changes in demographic assumptions are reflected for ERISA funding purposes as of July 1, 2006. These changes are described beginning on page SI-13.

American Water Works Company, Inc. had 4,745 active participants covered under this pension plan as of July 1, 2006 versus 4,564 for the prior year. Covered payroll increased 9.9% from the prior year.

The average compensation increase for the participants who remained active since July 1, 2005 was about 6.8%.

## **Changes in Benefits Valued**

The following plan changes are effective January 1, 2006. These changes are first reflected in the 2006 accounting results and the July 1, 2006 funding results.

- ▶ The pension plan is closed for most union and all nonunion employees hired on or after January 1, 2006.
- ▶ For most union employees hired on or after January 1, 2001, their accrued benefits as of December 31, 2005 are frozen, and this benefit is payable as a lump sum at termination or retirement.
- ▶ Long Island union employees have negotiated an update to the career pay benefit as of December 31, 2005 for any employee that retires between January 1, 2006 and December 31, 2007.
- ▶ Single employees can elect non-spouse beneficiary.

## **Special Events**

Effective December 31, 2006, the assets and liabilities associated with the Elizabethtown Water Company Pension Plan were merged into the American Water Pension Plan. The mergers are reflected in the January 1, 2007 valuation for pension cost and the July 1, 2006 valuation for contributions.

## **Legislative Changes**

On August 17, 2006, the Pension Protection Act (PPA) was signed into law. Among other provisions, the PPA:

- ▶ Extended interest rate relief for the 2006 and 2007 plan years.
- ▶ Modified several aspects of the calculation of the maximum tax deductible contribution for 2006 and 2007 (most notably, increased the maximum deductible amount from 100% of the plan's unfunded current liability to 150%)
- ▶ Beginning with the 2008, made extensive changes in the determination of both the minimum required contribution and the maximum tax deductible limit.

Note that there is some uncertainty regarding how the 25% of pay combined deductible limit for DB and DC plans is to be applied for 2006 and 2007. In addition, there is uncertainty regarding the effective date for changes in the maximum deductible contribution when the plan year and tax year differ. Maximum amounts contained in this report may require modification when regulations are issued which clarify these uncertainties.

**PBGC Reporting Requirements**

Participants must be notified of the plan's funded position if the plan is required to pay a PBGC variable premium and the funded percentage is below a specified "gateway" percentage. No participant notice is required for 2006 because although the plan is expected to pay a PBGC variable premium for 2006, the plan's current liability funded percentage is above the "gateway" percentage for 2006.

Additional financial and actuarial information must be provided to the PBGC if, at the end of the year, all defined benefit plans within the controlled group have an unfunded vested liability of \$50 million or more using assumptions mandated by the PBGC. As of June 30, 2006, unfunded vested liabilities for all defined benefit plans within the controlled group were more than \$50 million. Consequently, additional financial and actuarial information will be provided to the PBGC.

For plan years beginning in 2007, the PPA eliminated the PBGC notification requirements for plans that are required to pay a PBGC variable premium and have a funded percentage below a specified "gateway" percentage. The PPA stipulates that all defined benefit plans are required to issue annual funding notices (due 120 days after the end of the plan year) for plan years beginning in 2008.

## **FAS 87 Pension Cost and Funded Position\***

Pension cost is the amount recognized in AW's financial statement as the cost of the pension plan and is determined in accordance with Financial Accounting Standard No. 87. The fiscal 2007 pension cost for the plan is \$38,968,697, or 13.5% of covered pay.

Under FAS 87, one measure of funded position is a comparison of the fair value of assets to the accumulated benefit obligation (ABO). The ABO is the present value of accumulated benefits based on service and pay as of the measurement date.

American Water's ABO funded percentage is 77.2% as of January 1, 2007, based on the fair value of assets of \$578,280,462 and an ABO of \$749,311,739. Prior to reflection FAS 158, AW's balance sheet must reflect a minimum liability equal to the unfunded ABO for each pension plan with a funded percentage (fair value of assets divided by ABO) under 100%. To the extent that the minimum liability exceeds the accrued pension cost, an additional liability is recorded together with an offsetting intangible asset and/or a reduction in shareholder' equity (accumulated other comprehensive income).

The January 1, 2007 valuation results shown on the 2006 year-end disclosure indicate an additional minimum liability of \$68,728,886 and accumulated other comprehensive income of \$65,628,138 before reflecting FAS 158.

### **Change in Pension Cost and Funded Position**

The pension cost decreased from \$40,327,960 in fiscal 2006 to \$38,968,697 in fiscal 2007 because:

- ▶ Expected changes, based on prior year's assumptions, methods, plan provisions, and contributions, decreased the pension cost \$3,311,116.
- ▶ Noninvestment experience increased the pension cost \$2,363,761.
- ▶ The return on the fair value of plan assets was 11.1% in fiscal 2006, which decreased the pension cost \$2,251,203.
- ▶ Assumption changes decreased the pension cost \$1,811,472.
- ▶ The merger of the Elizabethtown Water Company Pension Plan increased the pension cost \$3,650,767.

The ABO funded percentage increased from 67.6% to 77.2%.

- \* Reflects the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

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**History of Pension Cost and ABO Funded Percentage**

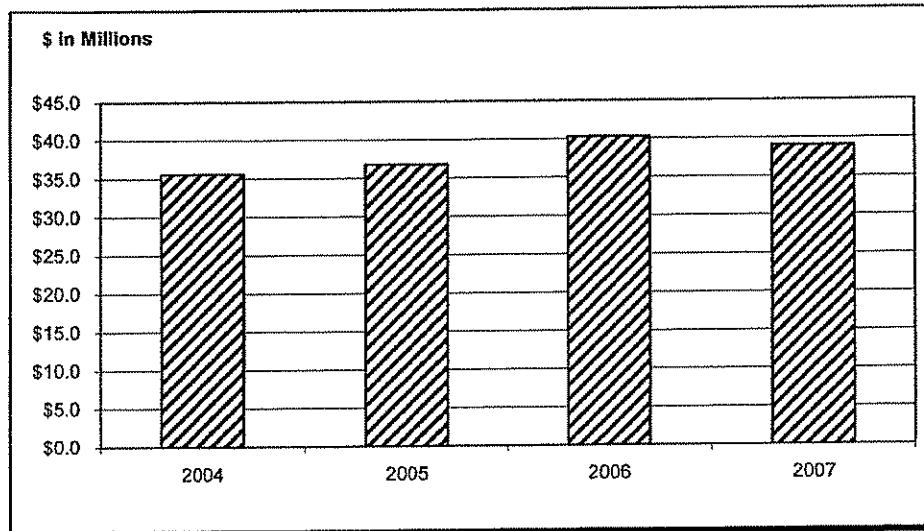
<i>Fiscal year</i>	<i>----- Pension cost -----</i>			
	<i>Amount</i>	<i>Percent of covered pay</i>	<i>ABO funded percentage</i>	<i>Discount rate</i>
2007*	\$ 38,968,697	13.5%	77.2%	5.90%
2006	40,327,960	16.7	67.6	5.65
2005	36,845,672	15.5	78.9	6.00
2004	35,623,816	14.9	80.8	6.25

\* All 2007 values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

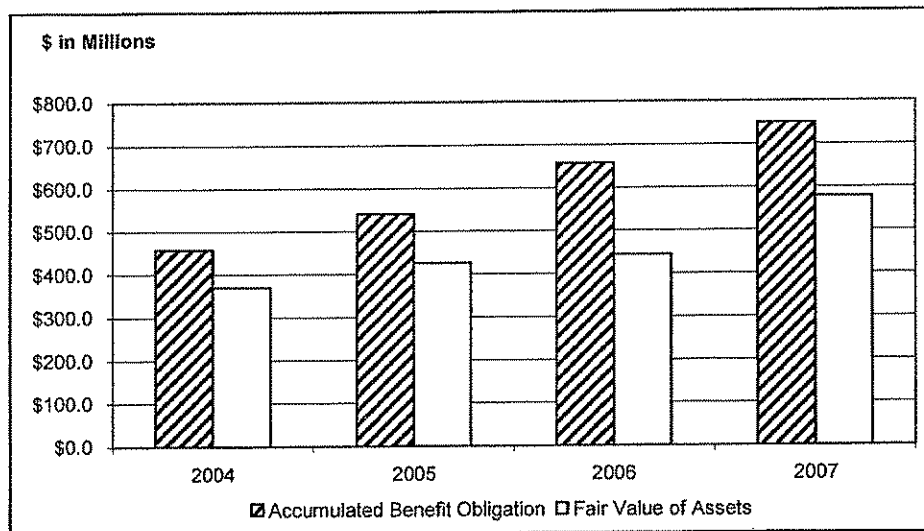
### History of Pension Cost and Funded Position

The following charts show the history of the plan's pension cost and ABO funded position:

**History of Pension Cost\***



**History of the Accumulated Benefit Obligation and Fair Value of Assets\***



\* All 2007 values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

## **Employer Contributions and ERISA Funded Position\***

American Water's funding policy is to contribute an amount equal to the minimum required contribution under ERISA. American Water may increase its contribution above the minimum if appropriate to its tax and cash position and the plan's funded position. For 2006, the minimum required contribution is \$0. The maximum deductible contribution under the Internal Revenue Code is \$539,127,891, or 186.7% of covered pay.

The funded position, on a contribution basis, is measured by comparing the actuarial value of assets with the actuarial accrued liability (AAL). The actuarial value of assets is a smoothed value that recognizes investment gains and losses over time. The AAL is the funding target, under ERISA, on which the employer contribution limits are based. As the funded percentage for a plan approaches or exceeds 100%, contributions to the plan may be restricted.

The plan's funded percentage (actuarial value of assets divided by AAL) is 93.1% as of July 1, 2006. This percentage is based on an actuarial value of assets of \$518,247,375 and an AAL of \$556,822,415.

## **Change in Contribution Requirements and Funded Position**

The minimum required contribution remained \$0 for 2006.

## **Current Liability**

An alternative measure of funded position compares the actuarial value of assets with the plan's current liability. The current liability is the present value of benefits accrued to the valuation date reflecting IRS restrictions on interest and mortality assumptions.

If the current liability funded percentage is below 100%, quarterly contributions may be required in the following plan year. The plan's current liability funded percentage is 80.0% as of July 1, 2006.

If the current liability funded percentage using the highest allowable interest rate is below 90%, additional funding requirements, as well as employee notification requirements, may be triggered.

## **Timing of Contributions**

There is no minimum required contribution for the 2006 plan year.

- \* The assets and liabilities shown above are before the Elizabethtown Water Company Pension Plan merger, and include only the American Water Pension Plan amounts. The contribution amounts reflect the merger of the Elizabethtown Water Company Pension Plan as of December 31, 2006.

## Actuarial Certification, Reliances and Distribution

American Water Works Company, Inc. retained Towers Perrin to perform a valuation of its pension plan for the purpose of determining (1) the value of benefit obligations and its pension cost in accordance with FAS 87 and (2) the minimum required and maximum tax-deductible contributions in accordance with ERISA and allowed by the Internal Revenue code. This valuation has been conducted in accordance with generally accepted actuarial principles and practices.

The consulting actuaries are members of the Society of Actuaries and other professional actuarial organizations and meet their "General Qualification Standard for Prescribed Statements of Actuarial Opinions" relating to pension plans.

In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information.

The actuarial assumptions and the accounting policies and methods employed in the development of the pension cost have been selected by the plan sponsor, with the concurrence of Towers Perrin. FAS 87 requires that each significant assumption "individually represent the best estimate of a particular future event."

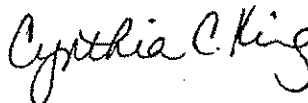
The actuarial assumptions and methods employed in the development of the contribution limits have been selected by Towers Perrin, with the concurrence of the plan sponsor. The Internal Revenue Code requires the use of assumptions "each of which is reasonable (taking into account the experience of the plan and reasonable expectations)" and "which, in combination, offer the actuary's best estimate of anticipated experience under the plan."

The results shown in this report have been developed based on actuarial assumptions that are considered to be reasonable and within the "best-estimate range" as described by the Actuarial Standards of Practice. Other actuarial assumptions could also be considered to be reasonable and within the best-estimate range. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The information contained in this report was prepared for the internal use of American Water Works Company, Inc. and its auditors in connection with our actuarial valuation of the pension plan. It is neither intended nor necessarily suitable for other purposes. American Water Works Company, Inc. may also distribute this actuarial valuation report to the appropriate authorities who have the legal right to require American Water Works Company, Inc. to provide them this report, in which case American Water Works Company, Inc. will use best efforts to notify Towers Perrin in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Perrin's prior written consent.



Roy Costa, FSA, EA



Cynthia C. King, FSA, EA

Towers Perrin  
May 2007





## ***Supplemental Information***

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<i>Pension Cost.....</i>	<i>SI-4</i>
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## Asset Values

### Asset Values for Calculating Pension Cost

Fair value, excluding  
contributions receivable:

▶ As of January 1, 2006	\$ 443,880,146
▶ Contributions	50,450,000
▶ Disbursements	(22,733,961)
▶ Investment return	50,856,333
▶ Elizabethtown transfer (asset value as of December 31, 2006)	<u>55,827,944</u>
▶ As of January 1, 2007	\$ 578,280,462
▶ Rate of return	11.1%

Market-related value:

▶ As of January 1, 2006	\$ 443,880,146
▶ As of January 1, 2007	578,280,462
▶ Rate of return	11.1%

### Asset Values for Calculating Employer Contributions<sup>(1)</sup>

Market value, including  
contributions receivable:

▶ As of July 1, 2005	\$ 453,486,776
▶ Contributions	54,000,000
▶ Disbursements	(25,520,751)
▶ Investment return	<u>29,622,259</u>
▶ As of July 1, 2006	\$ 511,588,284
▶ Rate of return	6.3%

Actuarial value:

▶ As of July 1, 2005	\$ 465,911,015
▶ As of July 1, 2006	518,247,375
▶ Rate of return	5.0%
▶ Rate of return (assuming mid-year cash flow) for Schedule B of Form 5500	5.0%

(1) The assets at July 1, 2006 used for calculating employer contributions do not reflect the Elizabethtown Water Company Pension Plan merger.

## Basic Results for Pension Cost

	January 1, 2007 <sup>(1)</sup>	January 1, 2006
<b>Service Cost</b>	\$ 25,214,558	\$ 21,951,921
<b>Obligations</b>		
Accumulated benefit obligation [ABO]:		
▸ Participants currently receiving benefits	\$ 295,371,687	\$ 252,290,000
▸ Deferred inactive participants	79,720,120	74,150,708
▸ Active participants	<u>374,219,932</u>	<u>330,556,975</u>
Total ABO	\$ 749,311,739	\$ 656,997,683
Obligation due to future salary increases	<u>114,781,487</u>	<u>104,552,154</u>
Projected benefit obligation [PBO]	\$ 864,093,226	\$ 761,549,837
<b>Assets</b>		
Fair value [FV]	\$ 578,280,462	\$ 443,880,146
Unrecognized investment losses (gains)	<u>0</u>	<u>0</u>
Market-related value	\$ 578,280,462	\$ 443,880,146
<b>Funded Position</b>		
Unfunded PBO	\$ 285,812,764	\$ 317,669,691
Minimum liability [ABO – FV, minimum zero] <sup>(2)</sup>	171,031,277	213,117,537
<b>Key Economic Assumptions</b>		
Discount rate	5.90%	5.65%
Rate of return on assets	8.00%	8.25%
Salary increase rate	Age-graded scale averaging 4.25%	Age-graded scale averaging 4.25%

(1) All values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

(2) Does not reflect FAS 158.

**Fiscal 2006****Development of Prepaid (Accrued)  
Pension Cost as of January 1, 2007**

Prepaid (accrued) pension cost, as of January 1, 2006	\$ (113,275,901)
Change during fiscal 2006	
▶ Income (cost) recognized	(40,327,960)
▶ Employer contributions	50,450,000
▶ Effect of curtailments, settlements, and termination benefits	0
▶ Adjustment	0
▶ Merger of Elizabethtown Pension Plan <sup>(1)</sup>	<u>851,470</u>
Prepaid (accrued) pension cost as of January 1, 2007 (before FAS 158)	\$ (102,302,391)

**January 1, 2007<sup>(2)</sup>****January 1, 2006****Reconciliation of Funded Status**

Funded status [FV – PBO]	\$ (285,812,764)	\$ (317,669,691)
Unrecognized net actuarial loss (gain)	180,409,625	201,496,863
Unrecognized prior service cost (credit)	3,100,748	2,896,927
Unrecognized transition obligation (asset)	<u>0</u>	<u>0</u>
Prepaid (accrued) pension cost	\$ (102,302,391)	\$ (113,275,901)

**Balance Sheet Effects**

Prepaid pension cost	\$ 0	\$ 0
Accrued pension cost	(102,302,391)	(113,275,901)
Additional minimum liability	(68,728,886)	(99,841,636)
Intangible asset	3,100,748	2,896,927
Accumulated other comprehensive income	<u>65,628,138</u>	<u>96,944,709</u>
Balance sheet effect	\$ (102,302,391)	\$ (113,275,901)

(1) Includes fair value adjustment for Edwards acquisition.

(2) All values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

The results above do not reflect FAS 158. The accumulated other comprehensive income was developed based on FAS 87 prior to FAS 158 and has not been tax effected. Any tax effect should be separately recognized.

## Pension Cost

	Fiscal 2007 <sup>(1)</sup>	Fiscal 2006
<b>Pension Cost</b>		
Service cost	\$ 25,214,558	\$ 21,951,921
Interest cost	51,613,587	43,630,659
Expected return on assets	(47,052,194)	(37,881,728)
Amortization:		
▶ Transition obligation (asset)	0	0
▶ Prior service cost (credit)	637,931	556,199
▶ Net loss (gain)	<u>8,554,815</u>	<u>12,070,909</u>
Pension cost	\$ 38,968,697	\$ 40,327,960
Percent of covered pay <sup>(2)</sup>	13.5%	16.7%
Per active participant <sup>(3)</sup>	\$ 7,700	\$ 8,836

### Change in Pension Cost

Pension cost for fiscal 2006	\$ 40,327,960
Change from fiscal 2006 to fiscal 2007:	
▶ Expected based on prior valuation	(3,311,116)
▶ Loss (gain) from noninvestment experience	2,363,761
▶ Loss (gain) from asset experience	(2,251,203)
▶ Assumption changes	(1,811,472)
▶ Merger of Elizabethtown	3,650,767
▶ Plan amendments	<u>0</u>
Pension cost for fiscal 2007	\$ 38,968,697

(1) All values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

(2) For Fiscal 2007, covered pay is based on the most recent valuation data received from the client (Elizabethtown covered compensation of \$22,483,921 as of January 1, 2006 and American Water covered compensation of \$266,216,479 as of July 1, 2006).

(3) For Fiscal 2007, the number of active participants is based on the most recent valuation data received from the client (Elizabethtown had 316 active participants as of January 1, 2006 and American Water had 4,745 active participants as of July 1, 2006).

## Present Value of Accumulated Plan Benefits for FAS 35

	July 1, 2006 <sup>(1)</sup>	July 1, 2005
<b>Actuarial Present Value of Accumulated Plan Benefits</b>		
Vested benefits:		
‣ Participants currently receiving benefits	\$ 220,940,005	\$ 197,720,725
‣ Other participants	<u>262,001,205</u>	<u>246,473,199</u>
‣ Total vested benefits	\$ 482,941,210	\$ 444,193,924
Nonvested benefits	<u>12,220,390</u>	<u>11,088,131</u>
Total accumulated benefits	\$ 495,161,600	\$ 455,282,055
Market value of assets	511,588,284	453,486,776

### Key Assumptions

Interest rate	8.25%	8.25%
Average retirement age	62	62
Mortality	RP-2000	RP-2000

### Change in Actuarial Present Value of Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits as of July 1, 2005 \$ 455,282,055

Change from 2005 to 2006:

‣ Additional benefits accumulated (including the effect of noninvestment experience)	24,513,920
‣ Interest due to decrease in the discount period	36,698,237
‣ Benefits paid	(21,332,612)
‣ Assumption changes	0
‣ Plan amendments	<u>0</u>

Actuarial present value of accumulated plan benefits as of July 1, 2006 \$ 495,161,600

(1) The assets and liabilities as of July 1, 2006 shown above are before the Elizabethtown Water Company Pension Plan merger and include only the American Water Pension Plan.



## Basic Results for Employer Contributions

	July 1, 2006 <sup>(1)</sup>	July 1, 2005
<b>Normal Cost and Liabilities</b>		
Normal cost	\$ 14,614,358	\$ 13,986,879
Actuarial accrued liability [AAL]	556,822,415	506,998,446
Current liability [CL]:		
▶ Minimum funding	647,682,990	577,562,197
▶ Highest allowable	647,682,990	577,562,197
▶ Maximum deductible	647,682,990	577,562,197
<b>Assets</b>		
Market value	\$ 511,588,284	\$ 453,486,776
Unrecognized investment losses (gains)	<u>6,659,091</u>	<u>12,424,239</u>
Actuarial value [AV]	\$ 518,247,375	\$ 465,911,015
<b>Funded Position</b>		
Unfunded actuarial accrued liability [AAL – AV]	\$ 38,575,040	\$ 41,087,431
AAL funded percentage [AV ÷ AAL]	93.1%	91.9%
CL funded percentage:		
▶ Selected interest rate	80.0%	80.7%
▶ Highest allowable interest rate	80.0%	80.7%
▶ Maximum deductible	80.0%	80.7%
<b>Key Economic Assumptions</b>		
Discount rate for normal cost and actuarial accrued liability	8.25%	8.25%
Current liability interest rate:		
▶ Selected	5.77%	5.90%
▶ Highest allowable	5.77%	5.90%
▶ Maximum deductible interest rate	5.77%	5.90%
Salary increase rate	Age-graded scale averaging 4.25%	Age-graded scale averaging 5.00%

(1) The assets and liabilities as of July 1, 2006 shown above are before the Elizabethtown Water Company Pension Plan merger and include only the American Water Pension Plan.

## Minimum Required Employer Contribution

	July 1, 2006 <sup>(1)</sup>	July 1, 2005
<b>Minimum Required Employer Contribution</b>		
Normal cost	\$ 15,252,843	\$ 13,986,879
Amortization amounts	19,518,965	12,840,988
Interest adjustments	2,836,809	2,213,299
Additional funding charge	0	0
Credit balance with interest <sup>(2)</sup>	<u>(60,847,124)</u>	<u>(31,004,452)</u>
Minimum required contribution before full funding limit	\$ 0	\$ 0
Minimum required contribution after full funding limit	0	0

(1) The July 1, 2006 contribution amounts reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

(2) Amount and timing of receivable contributions made during the year attributable to the Elizabethtown Water Company Pension Plan for the year ending December 31, 2006 could potentially change the credit balance.

Additional details regarding the calculation of the minimum required employer contribution may be obtained from the Form 5500 Schedule B filings and attachments.

## Maximum Deductible Employer Contribution

	July 1, 2006 <sup>(1)</sup>	July 1, 2005
<b>Maximum Deductible Employer Contribution</b>		
Maximum deductible contribution before adjustments	\$ 22,418,851	\$ 21,333,259
Allowable deduction, the greatest of:		
▶ Maximum deductible contribution after full funding limit	22,418,851	21,333,259
▶ Contribution necessary to satisfy minimum funding standards	0	0
▶ Contribution necessary to fund maximum allowable percentage of current liability <sup>(2)</sup>	539,127,891	135,276,937
Maximum deductible contribution	539,127,891	135,276,937

(1) The July 1, 2006 contribution amounts reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

(2) For July 1, 2005, contribution necessary to fund 100% of current liability. For July 1, 2006, contribution necessary to fund 150% of current liability.

Deductibility of contributions to a defined contribution plan maintained for the same employees may be affected by the 25% of pay limitation for defined benefit and defined contribution plans combined.

Note that there is some uncertainty regarding how the 25% of pay combined deductible limit for DB and DC plans is to be applied for 2006 and 2007. In addition, there is uncertainty regarding the effective date for changes in the maximum deductible contribution when the plan year and tax year differ. Maximum amounts contained in this report may require modification when regulations are issued clarifying these uncertainties.

## Actuarial Assumptions and Methods

	Pension Cost	Contributions
<b>Economic Assumptions</b>		
Discount rate	5.90%	8.25%
Return on assets	8.00%	N/A
Current liability interest rate:		
▶ Minimum funding	N/A	5.77%
▶ Highest allowable	N/A	5.77%
▶ Maximum deductible contribution	N/A	5.77%
Lump sum conversion interest rate	4.90%	6.25%*
* 5.77% for current liability		
Annual rates of increase in:		
▶ Compensation		
Sample rates:		
	Age	% Increase
	25	5.85%
	35	4.45%
	40	4.15%
	45	3.95%
	55	3.65%
	Average rate	4.25%
▶ Future Social Security wage bases	3.75%	3.75%
▶ Indexed limits on compensation and benefits	3.25%	N/A

**Demographic Assumptions****Mortality**

- ▶ Pension cost For healthy participants, sex-distinct RP-2000 table projected to 2015 using scale AA with phase-out without any collar adjustment.
- ▶ Contributions For healthy participants, sex-distinct RP-2000 table projected to 2015 using scale AA with phase-out without any collar adjustment.  
For disabled participants, select and ultimate mortality rates from the PBGC disabled mortality for Social Security recipients.  
For current liability purposes, unisex GAM 83 mortality was used.

**Termination**

Rates varying by age

Sample rates:

<i>Age</i>	<u><i>Service</i></u>			<i>Ultimate</i>
	<i>0-4</i>	<i>5-9</i>	<i>10-14</i>	
25	0.100	0.090	0.080	0.060
35	0.070	0.065	0.060	0.040
40	0.065	0.055	0.050	0.040
45	0.060	0.050	0.040	0.030
55	0.000	0.000	0.000	0.000

Sample termination rates for Alton and Pensacola Call Center Employees:

<i>Age</i>	<u><i>Service</i></u>						<i>Ultimate</i>
	<i>0-1</i>	<i>2</i>	<i>3</i>	<i>4-5</i>	<i>6-7</i>	<i>8-9</i>	
25	0.35	0.30	0.25	0.20	0.15	0.10	0.05
35	0.35	0.30	0.25	0.20	0.15	0.10	0.05
40	0.35	0.30	0.25	0.20	0.15	0.10	0.05
45	0.35	0.30	0.25	0.20	0.15	0.10	0.05
55	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Sample termination rates for Elizabethtown:

Rates varying by age

Sample rates:

<i>Age</i>	<i>Rate</i>
25	0.053
35	0.047
40	0.042
45	0.035
55	0.009
60	0.001
65	0.000

## Disability

50% of 1987 CGDT (shown below)

Sample annual rates of disablement:

<i>Age</i>	<i>Male</i>	<i>Female</i>
25	.0005	.0006
35	.0007	.0012
40	.0010	.0015
45	.0018	.0023
55	.0059	.0053

None for Elizabethtown

## Retirement

Rates varying by age averaging 61; terminated vested participants, age 65

<i>Age</i>	<i>Rate</i>	<i>Age</i>	<i>Rate</i>
55	.10	61	.10
56	.07	62	.60
57	.07	63	.40
58	.07	64	.40
59	.10	65	.45
60	.10	66	1.00

Elizabethtown:

Rates varying by age averaging 63; terminated vested participants, age 65

Sample rates:

<i>Age</i>	<i>Rate</i>
55-59	.025
60-61	.075
62	.35
63	.30
64	.20
65	.60
66-69	.20
70	1.00

## Form of payment

Life annuity. Normal cost and actuarial accrued liability have been increased by .2% for the two-year "pop-up" provision.

## Administrative expense

\$300,000 is added to the plan's normal cost

## Percent married

80% males, 50% females, assumed married. For Elizabethtown, 100% males and 100% females are assumed married.

## Spouse age

Wife three years younger than husband

Valuation pay	Annualized rate of pay on prior July 1 (January 1 for Elizabethtown) plus 100% of the target incentive award  Annual rates of pay are increased 3% for salaried nonexempt employees to approximate total company overtime, and 8% for hourly employees.
Maximum benefit	For contribution purposes: \$175,000 for 2006, payable at age 62. For accounting purposes: \$175,000 for 2006, increasing with inflation.
Maximum pensionable earnings	For contribution purposes: \$220,000 for 2006 For accounting purposes: \$220,000 for 2006, increasing with inflation.

### Methods

#### Pension cost:

- ▶ Measurement date      January 1, 2007 based on July 1, 2006 participant data (January 1, 2006 participant data for Elizabethtown)
- ▶ Service cost and projected benefit obligation      Projected unit credit
- ▶ Market-related value of assets      Fair value
- ▶ Amortization of unrecognized amounts:
  - Prior service cost (credit)      Increase in PBO resulting from a plan amendment is amortized on a straight-line basis over the expected average remaining service of active participants.
  - Net loss (gain)      Net loss (gain) in excess of 10% of the greater of the PBO or the market-related value of assets is amortized on a straight-line basis over the expected average remaining service of active participants.

#### Contributions:

- ▶ Valuation date      July 1, 2006
- ▶ Normal cost and actuarial accrued liability      Projected unit credit
- ▶ Actuarial value of assets      A preliminary actuarial value of assets as of the valuation date is determined as the market value of assets as of the valuation date less the following percentage applied to investment gains (losses) from previous years:
  - 80% for the year ending on the valuation date
  - 60% for the previous year
  - 40% for the second previous year
  - 20% for the third previous year

- The preliminary actuarial value is then adjusted to be within a corridor of 80% to 120% of the market value.
- Equal to market value of assets for Elizabethtown
- Funding policy The company's funding policy is to contribute an amount at least equal to the minimum required contribution under ERISA. American Water Works may increase its contribution above the minimum, if appropriate to its tax and cash position and the plan's funded status.

### **Benefits Not Valued**

All benefits described in the Plan Provisions section of this report were valued. Towers Perrin has reviewed documentation provided by American Water Works and is not aware of any significant benefits that were not valued.

### **Change in Assumptions and Methods Since Prior Valuation**

- Pension cost The discount rate for benefit obligations was changed from 5.65% to 5.90%.
- The lump sum conversion interest rate changed from 4.65% to 4.90%.
- The expected return on asset assumption was decreased from 8.25% to 8.00%.
- The EGTRRA pay limit sunset provisions were eliminated. This change was recognized as a loss (gain).
- Contributions The current liability interest rate for minimum required funding purposes was changed from 5.90% to 5.77%, which is within the permissible range.
- The average salary increase assumption was decreased from 5.00% to 4.25% to be in line with American Water's long-term expectations regarding salary increases.
- The annual rate of increase for future Social Security wage bases was decreased from 4.50% to 3.75%.
- The healthy mortality table assumption was updated from sex-distinct 1983 GAM to sex-distinct RP-2000 projected to 2015 using scale AA with phase-out without any collar adjustment.
- For AW only, the retirement assumption was changed to better reflect plan experience
- The marriage assumption was changed from an assumption that 90% males and 60% females are expected to be married at retirement to an assumption that 80% males and 50% females are expected to be married at retirement to better reflect experience.



**Data Sources**

Towers Perrin used asset data supplied by the trustee. American Water Works furnished participant data as of July 1, 2006. Elizabethtown Water provided participant data as of January 1, 2006. In addition, accrued pension costs were furnished as of December 31, 2006. Data were reviewed for reasonableness and consistency. Towers Perrin is not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations.

## Participant Data

	July 1, 2006 <sup>(1)</sup>	July 1, 2005
<b>Active</b>		
Number	4,745	4,564
Average age	45.8	45.5
Average past service	14.5	14.9
Average future service	11.0	10.4
Covered pay:		
▸ Total	\$ 266,216,479	\$ 242,130,521
▸ Average	56,105	53,052
<b>Deferred Inactive</b>		
Number	1,801	1,779
Average age	48.8	48.4
Annual benefits:		
▸ Total	\$ 15,344,148	\$ 14,789,036
▸ Average	8,520	8,313
<b>Currently Receiving Benefits</b>		
Number	1,495	1,332
Average age	67.3	67.2
Annual benefits:		
▸ Total	\$ 23,363,331	\$ 20,759,695
▸ Average	15,628	15,585
<b>Total Participants Included in Valuation</b>		
Number	8,041	7,675

(1) The July 1, 2006 Participant Data does not reflect the Elizabethtown plan merger as of December 31, 2006. As of January 1, 2006, the Elizabethtown Pension Plan had 316 active participants, 117 deferred inactive participants and 196 participants currently receiving benefits.

**Analysis of Inactive Participant Data\*****Deferred Inactive**

<i>Age last birthday</i>	<i>Number</i>	<i>Annual benefit</i>	<i>Average annual benefit</i>
< 40	235	\$ 1,212,477	\$ 5,159
40 – 49	775	6,250,309	8,065
50 – 54	401	4,654,362	11,607
55 – 59	224	2,166,388	9,671
60 – 64	128	833,708	6,513
> 64	<u>38</u>	<u>226,904</u>	5,971
Total	1,801	\$ 15,344,148	\$ 8,520

**Currently Receiving Benefits**

<i>Age last birthday</i>	<i>Number</i>	<i>Annual benefit</i>	<i>Average annual benefit</i>
< 55	48	\$ 511,063	\$ 10,647
55 – 59	248	4,278,993	17,254
60 – 64	413	8,009,067	19,392
65 – 69	345	5,992,689	17,370
70 – 74	157	2,257,525	14,379
75 – 79	108	1,122,816	10,396
80 – 84	97	795,736	8,203
> 84	<u>79</u>	<u>395,442</u>	5,006
Total	1,495	\$ 23,363,331	\$ 15,628

\* Inactive Participant Data does not reflect the Elizabethtown Water Company pension plan merger as of December 31, 2006.

ANALYSIS OF ACTIVE PARTICIPANT DATA BY AGE, SERVICE AND EARNINGS AS OF 07/01/2006

Age Last Birth day	Completed Years of Service										Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 34			
15-19											
	Number	-	-	-	-	-	-	-	-	-	
	Tot Earnings	-	-	-	-	-	-	-	-	-	
	Avg Earnings	-	-	-	-	-	-	-	-	-	
20-24											
	Number	72	2	-	-	-	-	-	-	74	
	Tot Earnings	2,605,824	100,870	-	-	-	-	-	-	2,706,689	
	Avg Earnings	36,192	50,435	-	-	-	-	-	-	36,577	
25-29											
	Number	215	42	3	-	-	-	-	-	260	
	Tot Earnings	8,476,160	1,939,014	144,690	-	-	-	-	-	10,559,942	
	Avg Earnings	39,424	46,167	48,230	-	-	-	-	-	40,615	
30-34											
	Number	220	131	25	2	-	-	-	-	378	
	Tot Earnings	10,269,738	6,813,441	1,251,825	97,394	-	-	-	-	18,431,464	
	Avg Earnings	46,676	52,011	50,073	48,697	-	-	-	-	48,760	
35-39											
	Number	223	150	97	82	6	-	-	-	558	
	Tot Earnings	11,955,915	8,830,008	5,425,997	4,713,516	308,322	-	-	-	31,233,789	
	Avg Earnings	53,614	58,867	55,938	57,482	51,387	-	-	-	55,975	
40-44											
	Number	198	138	119	218	93	-	-	-	775	
	Tot Earnings	10,163,574	7,810,840	6,810,603	12,822,441	5,315,484	-	-	-	43,404,017	
	Avg Earnings	51,331	56,600	57,232	58,817	57,156	-	-	-	56,005	
45-49											
	Number	152	125	95	231	215	11	-	-	983	
	Tot Earnings	8,990,510	6,807,198	5,740,917	13,959,834	13,736,285	546,909	-	-	58,799,560	
	Avg Earnings	59,148	54,458	60,431	60,432	63,890	49,719	-	-	59,816	
50-54											
	Number	115	65	70	155	144	124	13	-	919	
	Tot Earnings	6,964,510	3,483,300	4,300,715	8,658,928	8,427,180	7,517,964	711,152	-	55,555,527	
	Avg Earnings	60,561	53,589	61,439	55,864	58,522	60,629	54,704	-	60,452	
55-59											
	Number	73	58	39	62	71	89	94	-	597	
	Tot Earnings	4,528,993	2,925,854	2,101,827	3,389,170	3,823,421	5,203,087	6,291,372	-	34,576,297	
	Avg Earnings	62,041	50,446	53,893	54,664	53,851	58,462	66,929	-	57,917	
60-64											
	Number	19	20	11	17	12	19	51	-	180	
	Tot Earnings	1,200,800	1,428,698	650,848	855,950	586,445	1,087,667	2,993,673	-	10,441,006	
	Avg Earnings	63,200	71,435	59,168	50,350	48,870	57,246	58,699	-	58,006	
Over 64											
	Number	5	3	3	1	-	1	7	-	21	
	Tot Earnings	397,640	77,706	101,460	-	-	-	446,005	-	508,188	
	Avg Earnings	79,528	25,902	33,820	-	-	-	63,715	-	24,199	
Total											
	Number	1,292	734	462	768	541	244	165	-	4,745	
	Tot Earnings	65,552,664	40,216,929	26,528,882	44,546,155	32,197,137	14,404,774	10,442,202	-	266,216,479	
	Avg Earnings	50,737	54,791	57,422	58,003	59,514	59,036	63,286	-	56,105	

Average Age = 45.8

Average Service = 14.5

**Reconciliation of Participant Data<sup>(1)</sup>**

	<i>Active</i>	<i>Deferred inactive</i>	<i>Currently receiving benefits</i>	<i>Total</i>
Included in July 1, 2005 valuation	4,564	1,779	1,332	7,675
Change due to:				
▶ New hire and rehire	478	0	0	478
▶ Nonvested termination	(91)	0	0	(91)
▶ Vested termination	(93)	93	0	0
▶ Retirement	(75)	(61)	136	0
▶ Disability	(14)	0	14	0
▶ Death without beneficiary	(10)	(2)	(10)	(22)
▶ Death with beneficiary	0	0	0	0
▶ Cashout	0	0	0	0
▶ Miscellaneous	(14)	(8)	23	1
▶ Net change	181	22	163	366
Included in July 1, 2006 valuation	4,745	1,801	1,495	8,041

(1) Reconciliation of Participant Data does not reflect the Elizabethtown Water Company pension plan merger as of December 31, 2006. As of January 1, 2006, the Elizabethtown Pension Plan had 316 active participants, 117 deferred inactive participants and 196 participants currently receiving benefits.

## Plan Provisions

### Plan Provisions as of July 1, 2006

1. Effective Date: July 1, 1952. Most recent amendment effective January 1, 2006.
2. Definitions:
  - (a) Average Social Security Wage Base: Average of the maximum amounts subject to Social Security taxation for the year of retirement or termination and the nine preceding years.
  - (b) Earnings: Total compensation for services paid as an annual salary or as an hourly wage (including overtime and shift differentials) plus annual incentive awards paid in cash during the period, plus amounts deferred under Sections 401(k), 125 or 132(f)(4) of the Internal Revenue Code. Earnings are subject to a maximum amount as set forth in Section 401(a)(17)(B) of the Internal Revenue Code.
  - (c) Final Average Earnings: The highest average monthly Earnings during the 60 consecutive months of the final 120 months (or lesser period of employment) preceding termination from employment or retirement.
  - (d) Year of Service:
    - (i) For periods prior to the first anniversary of employment after July 1, 1975: A Year of Service is credited for each year of continuous service during which the employee's customary employment was for more than 1,000 hours per year, subject to the following exceptions:
      - (a) California-American Water Company: Only continuous service accrued beginning December 28, 1970 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
      - (b) West Virginia Water Company and Yardley Water Company: Only service accrued beginning December 1, 1970 is credited for the purpose of determining the amount of benefits accrued under the Plan (in addition to any prior plan benefits). Service for eligibility purposes and for the schedule of early retirement factors is measured from the original date of hire.

- (ii) For periods beginning on or after the first anniversary of employment after July 1, 1975: In general, a Year of Service is credited for each 12-month period commencing on the employee's anniversary date of employment during which the employee completes 1,000 hours of service. For the purpose of determining the amount of benefits of any participant (other than a part-time employee) who completes at least 1,000 but fewer than 2,080 hours of service in this 12-month period, the participant is credited with the fraction of a Year of Service determined by dividing his actual hours of service by 2,080. The following exceptions apply:
- (a) Hershey Water Company: Employees on April 19, 1977 who were vested in benefits accrued under the prior plan receive credit only for service beginning April 19, 1977.
  - (b) Pekin Water Company: Nonunion participants who were members of the prior plan get credit for all service less any prior plan benefit. Other nonunion employees get credit for periods of service beginning January 1, 1982. Union employees' service is credited for periods beginning April 1, 1982 for the purposes of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
  - (c) Seymour Water Company: Only service accrued beginning March 16, 1982 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
  - (d) New Mexico-American: All service is credited, including periods before the August 1, 1986 acquisition. The prior plan benefit is a minimum.
  - (e) Indiana-American Terre Haute Plan: Only service accrued beginning May 11, 1987 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
  - (f) Brownsville Water Company: Only service accrued beginning July 1, 1990 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
  - (g) California Water Company: Only service accrued beginning July 1, 1990 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
  - (h) Avatar Utilities Inc: Only service accrued beginning August 31, 1993 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).

- (i) PG Energy: Only service accrued beginning February 16, 1996 is credited for the purpose of determining the amount of benefits accrued under the Plan (in addition to any prior plan benefits). Service for eligibility and vesting purposes and for the schedule of early retirement factors is measured from the original date of hire.
- (j) United Water Resources, Inc.: Dates of acquisition are shown below:

<u>Location</u>	<u>Date</u>
United Water of Indiana	February 1, 2000
United Water of West Lafayette	February 1, 2000
United Water of Virginia	February 29, 2000
United Water of Missouri	May 1, 2000
United Water of Illinois	May 31, 2000

- (i) Nonunion employees: Service for eligibility purposes and for the schedule of early retirement factors is measured from the original date of hire. Service for benefit accrual is measured from the date of acquisition.
- (ii) Union employees: Service for all purposes is measured from the original date of hire. All benefits are determined under the United Waterworks Plan formula in effect on the date of acquisition.
- (k) City of Coatesville Authority: Only service accrued beginning March 23, 2001 is credited for the purpose of determining the amount of benefits accrued under the Plan. Service for eligibility to participate, vesting and early retirement eligibility is measured from the original date of hire.
- (l) Citizens Utilities Companies: Only service accrued beginning January 15, 2002 is credited for the purpose of determining the amount of benefits payable under the Plan. Service for eligibility and vesting purpose and for the schedule of early retirement factors is measured from the original date of hire.
- (m) Cessation of Years of Service for Benefit Accrual for Certain Employee Groups: Union participants hired or rehired on or after January 1, 2001 cease to be credited with years of service for benefit accrual after December 31, 2005. Likewise, all accrued benefits for those participants are frozen as of December 31, 2005.



The following union groups are excluded from this benefit freeze provision:

- ▶ Union employees at Sterling or Alton, Illinois
- ▶ Union employees at Pensacola, Florida
- ▶ Union employees as of January 15, 2002 who were included in the Citizens Utility acquisition
- ▶ Elizabethtown Water Company employees of Local 423 hired before April 1, 2006 or Local 68 hired before May 1, 2006

Note: Years of service for purposes of determining eligibility for benefits (vesting, disability, early retirement and preretirement death benefits) continue to accrue for all union participants whose benefits are frozen as of December 31, 2005.

- (n) Recent acquisitions — service credit from dates shown below:

<u>Location</u>	<u>Date</u>
Country Place Water	June 30, 1995
Hawaii American Water	July 1, 1998
City of Florissant, MO (nonunion employees)	November 1, 2001
Texas American Water	July 1, 2002
City of Webster Groves, MO	February 8, 2002
LP Water and Sewer Company (nonunion employees)	April 3, 2002

3. Eligibility for Participation: Each employee commences participation on the first day of the calendar month next following completion of one Year of Service. The following groups of employees are not eligible to participate in the plan:

- (a) Nonunion employees hired or rehired on or after January 1, 2006
- (b) Union employees hired or rehired on or after January 1, 2006
- (c) Any employee who was not eligible to accrue a benefit as of January 1, 2006

4. Benefits:

- (a) Normal Retirement Benefit:

- (i) Normal retirement date: The first day of the calendar month next following the participant's 65th birthday.

- (ii) Basic monthly benefit: The sum of (A) and (B) below. Union employees hired on or after January 1, 2001 have their accrued benefit frozen as of December 31, 2005.

(A1) For service before July 1, 2001 for American Water employees (other than former NEI plan participants), the larger of (1) or (2) below:

(1) The sum of (a) plus (b) plus (c):

- (a) 1.85% of Final Average Earnings not in excess of the Average Social Security Wage Base multiplied by Years of Service up to 25 years.
- (b) 2.10% of Final Average Earnings in excess of the Average Social Security Wage Base multiplied by Years of Service up to 25 years.
- (c) 0.70% of Final Average Earnings multiplied by Years of Service in excess of 25 years.

(2) The benefit accrued under the Plan formula as of June 30, 1989.

(A2) For former NEI participants and Elizabethtown Water nonunion participants, the benefit formula in effect under the provisions of the former respective NEI plans using the Final Average Earnings described in 2(c) above, and service (determined under the provisions of the former plan) prior to the dates described below:

<u>Nonbargaining participants of</u>	<u>service before</u>
▶ Northern Illinois	July 1, 2001
▶ Long Island	July 1, 2001
▶ Northwest Indiana	July 1, 2001
▶ St. Louis	July 1, 2001
▶ Elizabethtown Water	January 1, 2006

<u>Bargaining participants of</u>	<u>service before</u>
▶ Northwest Indiana	January 1, 2003
▶ St. Louis	January 1, 2004
▶ Northern Illinois	July 1, 2004
▶ Long Island	July 1, 2004*

- \* The applicable benefit formula is 1.75% of Final Average Earnings as of the earlier of December 31, 2007 or termination date times credited service through June 30, 2004.

(B) For service on or after July 1, 2001 for AW participants\*, and after dates described above for former NEI participants, sum of (1) + (2) + (3):

- (1) 1.6% of Final Average Earnings not in excess of the Average Social Security Wage Base multiplied by Years of Service up to 25 years.\*\*
- (2) 2.1% (1.6% for Union Associates and former NEI participants) of Final Average Earnings in excess of the Average Social Security Wage Base multiplied by Years of Service up to 25 years.\*\*
- (3) 1.6% of Final Average Earnings multiplied by Years of Service in excess of 25 years.\*\*

\* For participants hired on or after July 1, 2001, 1.6% of Final Average Earnings multiplied by Years of Service.

\*\* The threshold of 25 years of service is based on total service, including Years of Service credited prior to July 1, 2001.

The following groups represent variances from the above benefit formulas:

- ▶ IBEW Local 51 members employed at Sterling, Illinois — the former Northern Illinois plan's benefit provisions continued unchanged. The formula is 1.33% of Final 5-year Average Earnings (based on the highest five consecutive out of the last 10 plan years, where plan years are from April 1 to March 31) multiplied by Years of Service.
- ▶ United Water (acquired in 2000) union employees previously covered under the United Waterworks Plan — the former plan's benefit provisions continue unchanged.
- ▶ Union employees of Long Island — 1.60% multiplied by Years of Service from July 1, 2004 to January 1, 2008 multiplied by final 60-month average pay as of December 31, 2007. 1.60% for each Year of Service after December 31, 2007 multiplied by average pay from January 1, 2008 to date of retirement.
- ▶ Union employees of Elizabethtown Water Company hired before the effective date of the most recent bargaining agreement — the former Elizabethtown retirement plan's provisions continue unchanged. The formula is 1.6% of Final 4-year Average Base Earnings times Years of Service (maximum 40 years).

In addition to the above amounts, benefits are payable under prior plans that have been merged into this Plan: for the Pekin, Seymour, California-American, West Virginia Water Companies and the Indiana-American Terre Haute Plan, the Brownsville Water Company, California Water Company, Avatar Utilities Inc. and PG Energy. Also, any benefits payable through a purchased annuity are subtracted from the above amounts (under Metropolitan contracts #153 and #369).

(b) Early Retirement Benefit:(i) Early retirement date:

- ▶ For American Water employees, former St. Louis County employees and Long Island employees, the first day of any month on which the employee elects to retire provided that:
  - (a) the participant has attained age 55, and
  - (b) the sum of the individual's age and Years of Service totals at least 70.
- ▶ For former non-bargaining employees of Northwest Indiana hired prior to July 1, 2001 and former bargaining employees of Northwest Indiana hired prior to January 1, 2003, the first day of any month on which the employee elects to retire provided that the participant has attained age 55 and completed five Years of Service.
- ▶ For former employees of Northern Illinois hired prior to July 1, 2001 and for all Local 51 union employees at Sterling, Illinois, the first day of any month on which the employee elects to retire provided that the employee has attained age 55.
- ▶ For former employees of Elizabethtown Water Company, the first day of any month on which an employee elects to retire after he has attained age 55 and completed 10 Years of Service.

- (ii) Basic monthly benefit: Except for those employees whose benefits continue to be determined under the provisions of their prior plan, the benefit as in (a)(ii) above based upon Earnings and Years of Service to the date of early retirement, multiplied by the appropriate factors from the Schedule of Early Retirement Factors contained in the American Water Plan document. For benefits attributable to service prior to the dates described below under the former NEI plans' provisions, the applicable early retirement factors are those set forth in the respective former plans, except for Long Island bargaining participants, whose entire benefit will be subject to the American Water early retirement factors..

<u>Nonbargaining participants of</u>	<u>service before</u>
▶ Northern Illinois	July 1, 2001
▶ Long Island	July 1, 2001
▶ Northwest Indiana	July 1, 2001
▶ St. Louis	July 1, 2001

<u>Bargaining participants of</u>	<u>service before</u>
▶ Northwest Indiana	January 1, 2003
▶ St. Louis	January 1, 2004
▶ Northern Illinois	July 1, 2004
▶ Long Island	July 1, 2004

Note: All benefits which continue to accrue under the provisions of a prior plan (e.g., United Waterworks, Elizabethtown Water, Sterling union at Northern Illinois) will be subject to the early retirement factors from those prior plans.

- (iii) Supplemental Early Retirement Income: For Long Island non-union employees hired prior to July 1, 2001 who retire and whose age plus service at retirement is at least 90 points, benefit is \$100 per month reduced by 5% for each point below 90. This benefit is available to the Long Island union employees only if they retired before July 1, 2004. This benefit is payable until age 65.
- (c) Late Retirement: Effective July 1, 2006 an active participant who works beyond age 65 shall receive a Suspension of Benefits notice. Benefits payable upon retirement will be determined based on actual earnings and service credited through the date of retirement.
- (d) Vested Benefit:
  - (i) Eligibility: Completion of five Years of Service.
  - (ii) Basic monthly benefit: The benefit as in (a)(ii), based upon Earnings and Years of Service to date of termination.
- (e) Disability Benefit:
  - (i) Disability retirement date: The first day of the month following the submission of evidence that the employee qualifies for disability benefits from the Social Security Administration, provided that the employee has completed 10 Years of Service.
  - (ii) Basic monthly benefit: The benefit in (a) below, plus any frozen benefit payable under the prior plans for former employees of Pekin Water Company, Seymour Water Company and West Virginia Water Company:
    - (a) the benefit accrued under section (4)(a)(ii) based on Earnings and Years of Service at the date of disability without reduction for early commencement.

(f) Preretirement Death Benefit:

- (i) Eligibility: Monthly benefits under (ii) depend on the status of the participant as follows:

- (a) All active and former employees eligible for early retirement as of the date of death, provided the employee is married or has designated a contingent annuitant.
- (b) All employees not eligible for early retirement with at least 10 Years of Service on the date of death, provided the employee is married or has designated a contingent annuitant.
- (c) All active employees not eligible for early retirement with at least five Years of Service but less than 10 on the date of death and all former employees who had completed at least five Years of Service but were not eligible for Early Retirement at termination and have not begun to receive retirement benefits, provided the employee is married or has designated a contingent annuitant.

(ii) Monthly benefit:

- (a) The benefit that would have been payable to the employee if the participant had retired early on the date of death and elected to receive a 100% contingent annuity (50% for Elizabethtown Water union employees).
- (b) An immediate benefit, based on the amount that would have been payable to the employee had the employee retired on the date of death and elected to receive a 100% contingent annuity. Such benefit will be based upon the Early Retirement Factor for the employee's age at death (or, if greater, age 55) and the number of Years of Service at death. Such benefit will also be based upon the 100% Contingent Annuity Factor for the employee's age at death (or, if greater, age 55) with a spouse's age that bears the same relation as to that at death. (This benefit is not applicable for Elizabethtown Water union employees.)
- (c) A benefit, equal to 50% of the amount that would have been payable to the participant had he survived to age 55 (if death is before age 55) and elected a 50% contingent annuity. Such benefit will be based upon the Early Retirement Factor and the 50% Contingent Annuity Factor for an employee age 55 (if death is before age 55), the number of Years of Service completed at death or termination, and the spouse's then attained age. Benefit is payable immediately or at the employee's age 55, if later.

- (iii) Duration of benefit: Monthly benefits are payable during the lifetime of the survivor.

(g) Special Prior Plan Preretirement Death Benefits:

- (i) California-American Water Works: All former employees not eligible for early retirement on the date of death will receive the amount of their accumulated contributions with interest.
- (ii) West Virginia Water Works: All former employees not eligible for early retirement on the date of death will have the accrued frozen benefit without reduction payable for 10 years.

5. Form of Retirement and Disability Benefits:

(a) Normal Form:

- (i) Married participants: 50% contingent annuity (with two-year "pop-up"), with monthly payment equal to the actuarial equivalent of the basic benefit.
- (ii) Single participants: Life annuity, with monthly payment equal to the basic benefit.
- (iii) For former employees of Pekin Water Company, Seymour Water Company and West Virginia Water Company, 10 years certain and continuous annuities are payable with regard to amounts due from prior plan.

- (b) Optional Forms: Life annuity; 100%, 66 2/3% or 50% contingent annuity (with two-year "pop-up"); 5-year, 10-year, or 15 year certain and continuous annuity; and a lump sum\*.

6. Maximum Benefits: Maximum benefits payable conform to those set forth in the Employee Retirement Income Security Act of 1974 and the Tax Reform Act of 1986.

- \* Effective January 1, 2006 for union employees hired on or after January 1, 2001. In addition, all Elizabethtown Water participants are eligible for a lump sum if the actuarially equivalent present value of the retirement benefit does not exceed \$15,000.

**Changes in Plan Provisions Since Prior Year**

The following plan changes are effective January 1, 2006 and are reflected in the 2006 and 2007 accounting results and the July 1, 2006 funding results.

- ▶ The pension plan is closed for most union and all nonunion employees hired on or after January 1, 2006.
- ▶ For most union employees hired on or after January 1, 2001 their accrued benefits as of December 31, 2005 are frozen and are payable as a lump sum at termination or retirement.
- ▶ Long Island union employees have negotiated an update to the career pay benefit as of December 31, 2005 for any employee that retires between January 1, 2006 and December 31, 2007.
- ▶ Single employees can elect non-spouse beneficiary.



## **Glossary of Selected Terms**

Actuarial Accrued Liability — The cost allocated to years prior to the valuation date under the plan's funding method (contribution basis).

Accumulated Benefit Obligation (ABO) — The present value of benefits earned by participants prior to the measurement date. The benefits are based on compensation earned prior to the valuation date (pension cost basis).

Accrued/Prepaid Pension Cost — Cumulative employer contributions less than/in excess of pension cost (pension cost basis).

Actuarial Asset Value — A smoothed value of assets, used in calculating the plan's contributions (contribution basis).

Current Liability Rate — The interest rate used to calculate the current liability. The rate is determined by the IRS (contribution basis).

Current Liability — The value of accrued benefits calculated using the current liability rate (contribution basis).

Discount Rate — The interest rate used to adjust liabilities and obligations for the time value of money. It is used in calculating the service cost and benefit obligations (pension cost basis).

Expected Rate of Return — The assumption as to the rate of return on plan assets reflecting the average long-term rate of earnings expected on the funds invested (pension cost basis).

Full Funding Limitation — A plan contribution is not required, nor is it deductible, if either:

- (i) the plan's expected assets exceed the plan's expected actuarial accrued liability at the end of the year, or
- (ii) the plan's expected assets exceed 90% of the expected current liability at the end of the year.

Funded Status — A comparison of the plan's assets and liabilities at a particular point in time.

Gain or Loss — A change in the value of the projected benefit obligation, actuarial accrued liability or plan assets resulting from experience different from that assumed. On the pension cost basis, a change in these values arising from a change in actuarial assumptions is also considered a gain or loss.

Market Value of Assets — The value of assets reported by the trustee, adjusted for plan receivables and payables.

Market-Related Value of Assets — At the option of the plan sponsor, a smoothed value of assets may be used in calculating the expected return on plan assets component of pension cost.

Maximum Deductible Contribution — The largest amount the plan sponsor may contribute to the plan and deduct for tax purposes without incurring a penalty.

Measurement Date — The date as of which assets and obligations are measured in determining pension cost.

Minimum Required Contribution — The smallest amount the plan sponsor may contribute to the plan without incurring a penalty.

Normal Cost — The cost allocated to the current year by the plan's funding method (contribution basis).

Pension Cost — The annual accounting cost recognized in the plan sponsor's financial statements as the cost of the pension plan. The pension cost is determined in accordance with Financial Accounting Standard No. 87.

Projected Benefit Obligation (PBO) — The present value of benefits earned by participants prior to the measurement date. The benefits are based on the employee's projected compensation (pension cost basis).

Service Cost — The present value of benefits earned by employees during the year covered by this valuation. The benefits are based on the employee's projected compensation (pension cost basis).

Valuation Date — The date as of which assets and liabilities are measured.

10% Corridor — Gains or losses that, in the aggregate, are less than 10% of the greater of the projected benefit obligation or the plan's market-related value of assets may be excluded from the determination of pension cost.

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## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served via the method(s) indicated, on this the 12<sup>th</sup> day of August, 2008, upon the following:

<input checked="" type="checkbox"/> Hand-Delivery	Timothy C. Phillips, Esq.
<input type="checkbox"/> U.S. Mail	Consumer Advocate and Protection Division
<input type="checkbox"/> Facsimile	Office of Attorney General
<input type="checkbox"/> Overnight	2nd Floor
<input checked="" type="checkbox"/> Email	425 5th Avenue North
	Nashville, TN 37243-0491
<input type="checkbox"/> Hand-Delivery	David C. Higney, Esq.
<input type="checkbox"/> U.S. Mail	Counsel for Chattanooga Manufacturers Association
<input type="checkbox"/> Facsimile	Grant, Konvalinka & Harrison, P.C.
<input checked="" type="checkbox"/> Overnight	633 Chestnut Street, 9th Floor
<input checked="" type="checkbox"/> Email	Chattanooga, TN 37450
<input checked="" type="checkbox"/> Hand-Delivery	Henry M. Walker, Esq.
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