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A PROFESSIONAL LIMITED LIABILITY COMPANY

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June 29, 2009

**HAND DELIVER**

Ms. Sharla Dillon, Docket Room Manager  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

RECEIVED  
2009 JUN 29 PM 1:00  
T.R.A. DOCKET ROOM

**Re: Docket 09-00073: Petition of Tennessee-American Water Company for approval of and Authority to Borrow Up to \$45,000,000 to Refinance Additions and Improvements to Facilities and Acquisitions and to Repay Short-Term Indebtedness—Response to Data Request No. 1**

Dear Ms Dillon:

In response to a letter dated June 22, 2009 from Mr. Jerry Kettles, Chief Economic Analysis & Policy Division of the Tennessee Regulatory Authority, please find enclosed the original and thirteen copies of the responses of Tennessee-American Water Company to the Data Request No. 1.

Please contact Dale Grimes (742-6244) or me if you have questions about this response.

Thank you.

Very truly yours,



George H. Masterson

cc: Mr. Jerry Kettles  
Mr. Michael A. Miller  
Mr. A.W. Turner, Jr.  
Mr. R. Dale Grimes

Enclosure  
GHM:ch

**TENNESSEE AMERICAN WATER COMPANY**  
**Docket No. 09-00073**  
**Tennessee Regulatory Authority Staff Data Request No. 1**

**Responsible Witness: Michael A. Miller**

**Question:**

1. How much of the requested \$45,000,000 in debt does the Company expect to use for refinancing existing debt? Does Tennessee-American expect to refinance short-term debt or long-term debt? How much does the company expect to use for acquiring additional facilities?

**Response:**

1. As of May 30, 2009, TAWC has outstanding short-term debt of \$18.274 million, which will be financed with long-term debt once this petition is approved by the TRA. The Company has two long-term debt issues that mature between now and December 31, 2013 as follows:
  - \$5.100 million, 6.87% series matures on March 29, 2011
  - \$15.000 million, 5.39% series matures on December 21, 2013

The Company expects to refinance those two long-term debt issues with new long-term debt at maturity. The total of the current short-term debt balance and the two long-term debt maturities is \$38.374 million. The remaining balance of the \$45.000 million borrowing authority requested in this case is \$6.626 million and represents the internal cash requirement of the Company, which will be primarily driven by capital improvement spending for utility plant additions.

**TENNESSEE AMERICAN WATER COMPANY**  
**Docket No. 09-00073**  
**Tennessee Regulatory Authority Staff Data Request No. 1**

**Responsible Witness:** Michael A. Miller

**Question:**

2. The *Petition* indicates that the expected interest rate on notes will bear an interest rate spread of 450 to 500 basis points above Treasury bills. In the financing request approved in Docket No. 06-00305 the spread over Treasuries was expected to be approximately 200 basis points. Explain why the expected interest rate spread over Treasuries has increased since Tennessee-American's last financing request.

**Response:**

2. For purposes of the petition, TAWC estimated a spread over treasuries consistent with the actual spreads per the Value Line at the time of filing. Attached to this response is a recap of the Value Line information since January 2009. AWW/AWCC's current S&P rating is "BBB". As shown on the attached schedule the spreads between 30-year BBB rated utility bonds and 30-year treasury bonds had been running between 340-400 basis points, and the spread between 10-year corporate bonds and 10-year treasury bonds had been running between 470-585 basis points. This information leads TAWC to conclude that the current market conditions and the credit crisis have driven the spreads much higher than TAWC had reflected in its 2008 rate case filing.

Recent market based rates for both the 30-year BBB utility bonds and corresponding treasury bonds have declined in the last few weeks.

The 450-500 basis point spreads utilized in the petition were based on the market conditions at the time of filing this petition. The actual spreads received by AWCC and ultimately TAWC will reflect what the market conditions are at the time of issuance of the new long-term debt, and the Company is hopeful that the worst of the credit crisis is behind us. The Company will make every effort to time its long-term debt financing to take advantage of the market conditions, and the decision whether to take 30-year or 10-year terms will be determined by the treasury curves present at the time of financing.

# Analysis of Interest Rates of Past Year

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
1/16/2009	1/7/2009	6.070%	3.040%	3.030%	6.720%	3.040%	3.680%	7.560%	2.490%	5.070%	0.090%	0.250%
1/23/2009	1/14/2009	5.880%	2.890%	2.990%	6.600%	2.890%	3.710%	7.150%	2.200%	4.950%	0.090%	0.250%
1/30/2009	1/21/2009	6.030%	3.160%	2.870%	6.660%	3.160%	3.500%	7.970%	2.540%	5.430%	0.110%	0.250%
2/6/2009	1/28/2009	6.100%	3.420%	2.680%	7.040%	3.420%	3.620%	7.960%	2.670%	5.290%	0.180%	0.250%
2/13/2009	2/4/2009	6.000%	3.680%	2.320%	7.270%	3.680%	3.590%	8.030%	2.940%	5.090%	0.290%	0.250%
2/20/2009	2/11/2009	5.600%	3.440%	2.160%	7.000%	3.440%	3.560%	8.090%	2.750%	5.340%	0.290%	0.250%
2/27/2008	2/18/2008	5.740%	3.550%	2.190%	7.070%	3.550%	3.520%	8.330%	2.760%	5.570%	0.300%	0.250%
3/6/2009	2/25/2009	5.950%	3.590%	2.360%	7.120%	3.590%	3.530%	8.780%	2.930%	5.850%	0.300%	0.250%
3/13/2009	3/4/2009	5.930%	3.670%	2.260%	7.160%	3.670%	3.490%	8.500%	2.970%	5.530%	0.250%	0.250%
3/20/2009	3/11/2009	6.050%	3.660%	2.390%	7.500%	3.660%	3.840%	7.380%	2.910%	4.470%	0.220%	0.250%
3/27/2009	3/18/2009	5.900%	3.530%	2.370%	7.510%	3.530%	3.980%	7.520%	2.530%	4.990%	0.200%	0.250%
4/3/2009	3/25/2009	6.280%	3.740%	2.540%	7.710%	3.740%	3.970%	7.510%	2.780%	4.730%	0.180%	0.250%
4/10/2009	4/1/2009	5.990%	3.500%	2.490%	7.410%	3.500%	3.910%	7.490%	2.650%	4.840%	0.200%	0.250%
Quarterly Average		5.963%	3.452%	2.512%	7.136%	3.452%	3.685%	7.867%	2.702%	5.165%	0.208%	0.250%
4/17/2009	4/8/2009	6.200%	3.670%	2.530%	7.630%	3.670%	3.960%	7.850%	2.860%	4.990%	0.180%	0.250%
4/24/2009	4/15/2009	6.170%	3.660%	2.510%	7.590%	3.660%	3.930%	7.610%	2.760%	4.850%	0.140%	0.250%
5/1/2009	4/22/2009	6.190%	3.800%	2.390%	7.410%	3.800%	3.610%	7.710%	2.940%	4.770%	0.130%	0.250%
5/8/2009	4/29/2009	6.330%	4.030%	2.300%	7.580%	4.030%	3.550%	7.840%	3.110%	4.730%	0.090%	0.250%
5/15/2009	5/6/2009	6.100%	4.100%	2.000%	7.540%	4.100%	3.440%	7.190%	3.160%	4.030%	0.180%	0.250%
5/22/2009	5/13/2009	6.010%	4.100%	1.910%	7.570%	4.100%	3.470%	6.940%	3.120%	3.820%	0.170%	0.250%
5/29/2009	5/20/2009	6.010%	4.140%	1.870%	7.590%	4.140%	3.450%	6.660%	3.190%	3.470%	0.170%	0.250%
6/5/2009	5/27/2009	6.410%	4.630%	1.780%	8.010%	4.630%	3.380%	7.000%	3.740%	3.260%	0.160%	0.250%
6/12/2009	6/3/2009	6.170%	4.450%	1.720%	7.830%	4.450%	3.380%	6.820%	3.540%	3.280%	0.120%	0.250%
6/19/2009	6/10/2009	6.280%	4.760%	1.520%	7.760%	4.760%	3.000%	6.820%	3.950%	2.870%		