

TENNESSEE REGULATORY AUTHORITY

Eddie Roberson, Ph.D.
Chairman



460 James Robertson Parkway
Nashville, TN 37243-0505

June 19, 2009

Chairman Michael A. Albert
Public Service Commission of West Virginia
PO Box 812
Charleston, WV 25323

**Re: Multi-State Management Audit of American Water Company, Inc. and
Its Subsidiaries**

Dear Chairman Albert:

Tennessee American Water Company ("TAWC"), a subsidiary of American Water Company, Inc., currently provides water service in Tennessee. American Water Company, Inc. operates in your state, as well as 31 others, and its subsidiaries are regulated by state PUCs in Arizona, California, Hawaii, Illinois, Indiana, Iowa, Kentucky, Maryland, Michigan, Missouri, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Tennessee, Texas, Virginia and West Virginia.

Over the past several years, TAWC has filed multiple rate increase requests with the Tennessee Regulatory Authority ("Authority"), partly due to the steadily increasing expense of its service company affiliate. In order to ensure that these affiliate expenses are prudent and assist the Authority in determining the appropriate amount of management fees to be included in future rate cases, it was determined by the Authority that a management audit should be conducted.

In the latest rate case of Tennessee American Water Company (TRA Docket No. 08-00039), the Authority ordered TAWC to perform a management audit to determine whether all costs allocated to the Company from the parent (American Water Company, Inc.) were the result of prudent management decisions at the Service Company level and to assess the reasonableness of the methodology used to allocate costs to TAWC. Specifically, the Authority's order states:

The RFP for the audit shall include, but not be limited to, an investigation of AWWSC's management performance and decisions relating to internal processes and internal controls with an attestation and recommendation of any needed management changes and implementation thereof. Further, the audit shall evaluate and attest to the charges allocated to TAWC, including the efficiency of processes and/or functions performed on behalf of TAWC, as well as the accuracy and reasonableness of the allocation factors utilized.

Eddie.Roberson@state.tn.us
Office (615) 741-0917 Fax (615) 741-5015
www.state.tn.us

Page 2

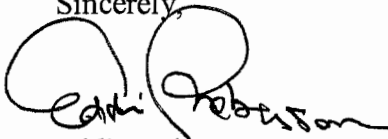
Chairman Michael A. Albert

June 19, 2009

TAWC has submitted and the Authority is in the process of reviewing a Request for Proposal ("RFP") for a comprehensive management audit performed by an independent certified public accountant. As part of this review, the Authority is contacting other state regulatory agencies regulating subsidiaries of American Water Company, Inc. to determine any interest in participating in a multi-state audit. The advantage of a multi-state audit is the potential cost savings derived from economies of scale.

If your agency is interested in discussing a multi-state audit approach please contact Darlene Standley, Chief of Utilities Division at Darlene.Standley@tn.gov or 615.741.2904, ext. 149. I appreciate your prompt attention to this matter and we look forward to hearing from you.

Sincerely,

A handwritten signature in black ink, appearing to read "Eddie Roberson". The signature is fluid and cursive, with the first name "Eddie" and last name "Roberson" clearly distinguishable.

Eddie Roberson
Chairman

c: Director Sara Kyle
Director Mary W. Freeman
Darlene Standley

Tennessee American Water Company
Multi-State Audit Letter Mail List

Chairman Kristin K. Mayes
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

President Michael R. Peevey
California Public Utilities Commission
California State Building
505 Van Ness Ave
San Francisco, CA 94102-3298

Chairman Carlito P. Caliboso
Hawaii Public Utilities Commission
465 South King Street
Kekuanao'a Building
Honolulu, HI 96813

Chairman Charles E. Box
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601

Chairman David Lott Hardy
Indiana Utility Regulatory Commission
National City Center
101 West Washington St., Ste. 1500 East
Indianapolis, IN 46204

Chair Rob Berntsen
Iowa Utilities Board
350 Maple Street
Des Moines, IA 50319-0069

Chairman David Armstrong
Kentucky Public Service Commission
PO Box 615
Frankfort, KY 40602

Chairman Douglas R. M. Nazarian
Maryland Public Service Commission
6 St. Paul Street, 16th Floor
Baltimore, MD 21202-6806

Chairman Orjiakor N. Isiogu
Michigan Public Service Commission
PO Box 30221
Lansing, MI 48909

Chairman Robert M. Clayton III
Missouri Public Service Commission
PO Box 360
Jefferson City, MO 65102

President Jeanne M. Fox
New Jersey Board of Public Utilities
44 South Clinton Avenue, CN-350
Trenton, NJ 08625

Chairman Sandy Jones
New Mexico Public Regulation Commission
PO Box 1269
Santa Fe, NM 87504

Chairman Garry A. Brown
New York State Public Service Commission
Three Empire State Plaza
295 Main Street
Albany, NY 12223-1350

Chairman Alan R. Schriber
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215-3793

Chairman James H. Cawley
Pennsylvania Public Utility Commission
PO Box 3265
Harrisburg, PA 17105

Chairman Barry T. Smitherman
Public Utility Commission of Texas
PO Box 13326
Austin, TX 78701

Chairman Mark C. Christie
Virginia State Corporation Commission
PO Box 1197
Richmond, VA 23218

Chairman Michael A. Albert
Public Service Commission of West
Virginia
PO Box 812
Charleston, WV 25323