

WALDEN'S RIDGE UTILITY DISTRICT

3900 Taft Highway
Signal Mountain, Tennessee 37377

RECEIVED

Commissioners:
FRANK GROVES, JR., PRESIDENT
J. ROBERT MCKENZIE, VICE PRESIDENT
DAVID J. FULTON, SECRETARY

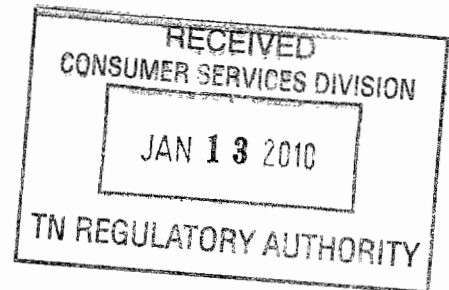
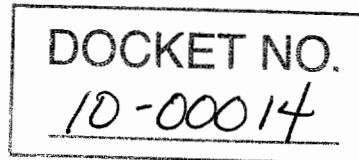
2010 JAN 28 PM 2:35

General Manager
RONALD WEST

T.R.A. DOCKET ROOM

January 7, 2010

Lisa Cooper, Chief
Consumer Services Division
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505



RE: Complaint against Tennessee-American Water Company by Walden's Ridge Utility District

Dear Ms. Cooper:

I am the General Manager of Walden's Ridge Utility District. Walden's Ridge Utility District purchases water from Tennessee-American Water Company pursuant to a Water Purchase Contract entered into between the parties dated July 14, 2003. A copy of this Water Purchase Contract is enclosed.

By letter dated June 1, 2009, John Watson, President of Tennessee-American Water Company, informed the District that it would be implementing a 12.77% rate increase to the District pursuant to an Order of the Tennessee Regulatory Authority (TRA) dated January 13, 2009, in Docket No. 08-00039. In this Order the TRA provided that Tennessee-American implement a "12.77% increase to the rates for Walden's Ridge at the earliest date allowed by the contract." Section III (A) of the Water Purchase Contract between the District and Tennessee-American only permits Tennessee-American to change its rate to the District after Tennessee-American provides the District with cost of service information to support a rate change, and the District has an opportunity to either agree to the new rate proposed or suggest an alternative. This contractual procedure was not completed until the District agreed to the new rate at its August 25, 2009 Board meeting. Therefore, the District takes the position that Tennessee-American was not entitled to implement the 12.77% rate increase ordered by the TRA until August 25, 2009 under the terms of the Water Purchase Contract.

I have enclosed correspondence between the District's attorney and Tennessee-American which explains the District's position on the date Tennessee-American was contractually allowed to implement the 12.77% rate increase to the District.

(423) 886-2683 Office (423) 886-1940 Fax
Office Hours: 8:00 a.m. – 4:30 p.m. Monday through Friday

WALDEN'S RIDGE UTILITY DISTRICT

3900 Taft Highway
Signal Mountain, Tennessee 37377

Commissioners:

FRANK GROVES, JR., PRESIDENT
J. ROBERT MCKENZIE, VICE PRESIDENT
DAVID J. FULTON, SECRETARY

General Manager
RONALD WEST

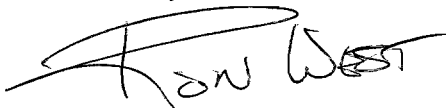
Lisa Cooper, Chief
2010 January 07
Page 2

The rate which Tennessee-American charges the District for water purchased has never been a rate included in the Tennessee-American tariff on file with the TRA. Prior to the entry of the TRA's Order in Docket No. 08-00039, the Tennessee-American rate to the District was established by the terms of the special contract between the District and Tennessee-American approved by the TRA on July 14, 2003. Even after the TRA approved new rates for Tennessee-American in Docket No. 08-00039, the rate sheets filed by Tennessee-American on September 26, 2008 to become effective October 1, 2008 did not include a new rate for Walden's Ridge Utility District. The new tariff rate sheets did not include a new rate for the District because the rate increase ordered by the TRA was not to be put into effect until the "earliest date allowed by the contract." The District contends this date was August 25, 2009 for the reasons set forth in this letter.

Tennessee-American arbitrarily chose to implement the 12.77% increase to the District on June 1, 2009. Nothing in the TRA's Order or the Water Purchase Contract authorized this rate increase to the District effective June 1, 2009. Tennessee-American did not have the right to implement the 12.77% rate increase to the District until August 25, 2009; therefore, Tennessee-American breached the Water Purchase Contract with the District by implementing the rate increase effective June 1, 2009 rather than August 25, 2009. The District requests that your Division investigate this matter and demand that Tennessee-American reimburse to the District the difference in the amount of money the District has paid for water purchased under the parties Water Purchase Contract from June 1, 2009 through August 25, 2009 and any late penalties imposed and the amount the District should have paid at the contract rate during this time period of \$1.25 per 1,000 gallons.

If I can provide further information to you to assist in your investigation, please do not hesitate to contact me. Normal business hours are Monday through Friday 8:00 – 4:30 Eastern Time. I can be reached by telephone at 423.886.2683, by fax at 423.886.1940 or by email at ron.wrud@comcast.net.

Sincerely,




Ron West
General Manager

Enclosure

cc: John Watson, Tennessee American Water Company

WATER PURCHASE AGREEMENT

 COPY

THIS AGREEMENT, made this 14th day of July 2003 by and between

Tennessee-American Water Company ("Tennessee-American"), located at 1101 Broad Street, Chattanooga, Tennessee

and

Walden's Ridge Utility District ("Walden's Ridge"), located at 3900 Taft Highway, Signal Mountain, Tennessee

WHEREAS, Tennessee-American, a Tennessee corporation, is a public utility which owns and operates a water utility system in and around the City of Chattanooga, Tennessee including the contiguous cities of Red Bank, East Ridge, Ridgeside, and Lookout Mountain, plus the cities of Rossville and Lookout Mountain, Georgia and areas in the Georgia counties of Dade, Walker and Catoosa; and

WHEREAS, Walden's Ridge wishes to purchase all of its water supply from Tennessee-American; and

WHEREAS, Tennessee-American has the capability to provide all of the water supply currently required by Walden's Ridge and is willing to construct a water supply pipeline and booster station, which will provide a sufficient volume of water in order to serve as WRUD's sole source of supply; and

WHEREAS, Walden's Ridge and Tennessee-American are desirous of establishing an Agreement for the purchase and sale of water for a fixed period of time; and

WHEREAS, the parties have reached an Agreement for the sale and purchase of water which they now desire to record in writing;

NOW THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

SECTION I
EXCLUSIVE SUPPLIER

Tennessee-American agrees to sell and Walden's Ridge agrees to buy, during the term of this Agreement and any extension hereof, all of the potable and raw water requirements of Walden's Ridge, as it now exists or may hereafter be expanded, in conformity with the provisions hereof.

SECTION II
CONSTRUCTION OF FACILITIES

(A) Tennessee-American shall construct, at an estimated cost of \$2.4 million, a water supply pipeline and booster station from its existing distribution system to the Walden's Ridge water tank near Taft Highway, which will provide a sufficient volume of water in order to serve as Walden's Ridge sole source of supply. This water supply pipeline will be capable of delivering up to 2.9 million gallons of water per day at the top of the mountain. The estimated construction time, from the time of a final non-appealable order from the Tennessee Regulatory Authority ("TRA") granting approval of the project, until the connection to the system and delivery of water, is eighteen (18) months. In the event that the construction bid price exceeds \$2.4 million by 5% or more, Tennessee-American shall have the right to negotiate an adjustment in the price for the sale of water as provided in Section III hereof or terminate this Agreement.

(B) If any conditions or requirements are imposed by any regulatory authority, or court, which make this project economically unfeasible, Tennessee-American has the right to withdraw and terminate the Agreement.

(C) As part of this consideration, Walden's Ridge agrees that Tennessee-American will be the sole and exclusive supplier of potable and raw water to Walden's Ridge, as it now exists or

hereafter be changed, except as noted below in this Section, and that Walden's Ridge will not, without prior written consent of Tennessee-American, receive potable or raw water service from any person or entity (including Walden's Ridge and its own customers), for the period of time under the Agreement including any extensions or renewals. The parties agree that the approximately eighty (80) current Walden's Ridge customers in the Falling Water Community located on Levi Road, Ferry Road, Pickett Gulf Road, Levi Cemetery Road, Courtney Road and Godsey Road, will be an exception, which allows Walden's Ridge to seek an alternative source for these customers.

(D) In the event Walden's Ridge terminates the Agreement prior to the expiration of forty (40) years from the Date of Service, as defined below, or fails to renew the agreement for a period of time adequate to allow Tennessee-American an opportunity to recover its investment, or if Tennessee-American is no longer the sole and exclusive provider of potable and raw water to Walden's Ridge, or fails to pay Tennessee-American as provided herein, then Walden's Ridge, and its successors and assigns, agree to pay Tennessee-American, within thirty (30) days following such termination or event, the balance of the undepreciated costs, on a straight-line basis, of Tennessee-American's pipeline and all other facilities that are constructed to serve Walden's Ridge.

(E) Walden's Ridge will decommission and terminate its existing source of supply and treatment facilities upon completion of the Tennessee-American water supply pipeline extension and connection to the Walden's Ridge system and no later than ninety (90) days following the Date of Service, as defined below. As part of this consideration, and upon completion of the Tennessee-American water supply pipeline and booster station, Walden's Ridge agrees to exclusively lease to Tennessee-American, for a period of forty (40) years from the Date of Service as defined below, the 6" and 8" welded steel water supply lines, along with perpetual easements, from its Mountain Station at the end of Levi Cemetery Road to top of the mountain.

SECTION III
SALE OF WATER

(A) The water from the Tennessee-American pipeline shall be provided to Walden's Ridge at a rate of \$1.25/1000 gallons, except for the pass-through cost as identified in Section III (B) herein, for the first three (3) years, beginning with the date that water service is first taken from these facilities ("Date of Service"). Any proposed change in the rate after this initial period will be accompanied by supporting data and computations, which will be based on industry accepted cost of service methodology. Walden's Ridge has the right to agree to this rate or to propose an alternative rate with the understanding that the TRA will be the ultimate authority in determining the rate.

(B) From the date this Agreement is executed and during the first three (3) years from the Date of Service under this Agreement, in the event that electric costs, which can be directly identified with this project, increase, Walden's Ridge agrees to meet with Tennessee-American to discuss an equitable pass-through of those cost increases if so requested by Tennessee-American.

(C) Walden's Ridge will permit Tennessee-American to use the Walden's Ridge distribution system as a conduit through which Tennessee-American may wheel water to other water utility districts and other customers as agreed to by the parties, which agreement by Walden's Ridge shall not be unreasonably withheld. The parties agree to meet within ninety (90) days after execution of this Agreement to define the territory that will be served by Walden's Ridge. The wheeling charge from Walden's Ridge to Tennessee-American shall be at a rate of \$.39/1000 gallons. This rate is guaranteed for three (3) years from the Date of Service. Any proposed change in the rate after this initial period will be accompanied by supporting data and computations, which will be based on industry accepted

cost of service methodology. Tennessee-American has the right, within ninety (90) days, to agree to this rate or to propose an alternative rate. If the Parties do not agree on the rate change, then the Parties will refer the matter to a neutral mediator. If mediation does not resolve the matter, either of the Parties may take the matter to the TRA, if applicable, or Utility Management Review Board or seek Judicial Review as necessary for resolution. As part of the consideration under this agreement, Tennessee-American shall have the right, at the cost specified above or at a rate that may change from time to time as agreed by the parties, even after termination of the agreement, to transfer water through Walden's Ridge facilities.

(D) Walden's Ridge will not be charged by Tennessee-American for any water supplied through its system that is transferred to other water utility districts and/or customers outside the Walden's Ridge service area. Tennessee-American shall install a meter or meters on the Walden's Ridge distribution system where appropriate in order to measure the volume of water that is transferred. Walden's Ridge will have reasonable access to such meters at all times.

SECTION IV **FLUORIDATION OF WATER SUPPLY**

Tennessee-American will fluoridate the water supply to Walden's Ridge, in accordance with the Tennessee Department of Environment and Conservation Rule 1200-5-1-17 (20), which requires the maintenance of a monthly average concentration of fluoride between 0.9 mg/l and 1.3 mg/l, unless required to do otherwise by applicable law or regulations.

SECTION V **OPERATIONAL REQUIREMENTS**

(A) In order to minimize utilization of the peaking capacity of Tennessee-American, Walden's Ridge will provide, by the Date of Service, adequate storage to provide for its own

maximum hour needs. Walden's Ridge shall maintain a minimum of one-day of water supply storage on its distribution system.

(B) Walden's Ridge agrees to cooperate with Tennessee-American in making improvements as needed to its distribution system in order to efficiently facilitate the wheeling of water through its system to other water utility district customers of Tennessee-American or other customers of Tennessee-American outside the Walden's Ridge service area. Any such improvements, which are deemed necessary by Tennessee-American to adequately wheel water through the Walden's Ridge system for the benefit of Tennessee-American, shall be done at Tennessee American's expense.

(C) Tennessee-American will conduct a one-time comprehensive leak survey along Walden's Ridge transmission mains that are located in Taft Highway between Walden's Ridge twin storage tanks (located at the old Walden's Ridge office) and the end of the line near Grandview subdivision. This leak survey will be at no cost to Walden's Ridge. However, Walden's Ridge will be responsible for uncovering and repairing any identified leaks. The purpose of the survey will be to identify and locate leaks to help Walden's Ridge reduce its unaccounted for water.

SECTION VI **CUSTOMERS AT BOTTOM OF MOUNTAIN**

In the event that Walden's Ridge, at any time in the future, decides to divest itself of the approximately eighty (80) customers, and as that number of customers may change from time to time, at the base of the mountain near the Soddy-Daisy system, Tennessee-American will be granted the right of first refusal to purchase from Walden's Ridge the facilities necessary to serve these customers at a price not to exceed the actual, bona fide offer made to Walden's Ridge for the facilities.

SECTION VII

METERING

Metering of the water sold under this Agreement shall be at the point where Tennessee-American's water supply pipeline is connected to the Walden's Ridge water tank near Taft Highway.

SECTION VIII

BILLING

During its normal billing cycle each month, Tennessee-American will issue an invoice to Walden's Ridge for Walden's Ridge metered usage during the prior month. Payment of such invoice will be made by Walden's Ridge on or before eighteen (18) days after receipt of the invoice. Interest and penalties shall accrue on the unpaid balance at the rate and amounts provided in Tennessee-American's filed tariff for its customers.

SECTION IX

APPROVALS BY TENNESSEE REGULATORY AUTHORITY

It is understood and agreed that this Agreement is conditioned on approval by the TRA. Promptly upon execution of this Agreement, Tennessee-American shall file an application for approval with the TRA and take such action in good faith as may be necessary to obtain the appropriate approval. Service provided hereunder will be pursuant to the rules and regulations of the TRA as may be changed from time to time during the term of this Agreement. Walden's Ridge agrees to provide all reasonable support for such regulatory approval.

SECTION X

TERM OF AGREEMENT

The term of this Agreement shall be for a period of forty (40) years, beginning on the Date of Service. In consideration of the requirement for Walden's Ridge to have a

reliable source of supply at all times, if the Company should desire to terminate this Agreement after the Date of Service and prior to the end of the term, except for breach of this Agreement by Walden's Ridge, the Company will provide Walden's Ridge with three (3) years advance written notice of such desire to terminate.

SECTION XI **FORCE MAJEURE**

Neither Walden's Ridge or Tennessee-American shall be liable for damages to the other for any act, omission, or circumstance occasioned by or in consequence of strikes, lockouts, acts of the public enemy, wars, blockades, insurrections, riots, acts of terrorism, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, civil disturbances, explosions, breakage, or accident to machinery or lines of pipe, and any other cause, whether of the kind herein enumerated or otherwise, not reasonably within the control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome. Failure to prevent or settle any strike or strikes shall not be considered to be a matter within the control of the party claiming suspension. Such causes or contingencies affecting such performance shall not relieve Walden's Ridge from its obligation to make payment of amounts due hereunder.

SECTION XII **RENEWAL OF AGREEMENT**

This agreement may be renegotiated for additional periods of time beyond the term of this Agreement. Negotiations to extend the term of this Agreement shall commence no later than six (6) months prior to the expiration date of this Agreement.

However, the rates to be charged during any renewal period shall also be subject to prior approval by the Tennessee Regulatory Authority.

SECTION XIII

MISCELLANEOUS PROVISIONS

(A) Assignment

This Agreement shall be binding on the successors and assigns of Tennessee-American. Upon obtaining written approval from Tennessee-American, which will not be unreasonably withheld, this Agreement may be assigned by Walden's Ridge to any successor in the operation of the distribution facilities currently owned by Walden's Ridge.

(B) Notices

Any notice required or permitted to be given by one of the parties to this Agreement shall be given by U.S. mail, personal delivery or by overnight carrier to the other party at the address set forth below:

Tennessee-American Water Company
1101 Broad Street
P. O. Box 6338,
Chattanooga, Tennessee 37377
Attn: President

Walden's Ridge Utility District
3900 Taft Highway
Signal Mountain, Tennessee 37377
Attn: General Manager

Any notice so given shall be deemed given upon its deposit in the U.S. mail, upon personal delivery or upon its delivery to the overnight carrier.

(C) Governing Law

This Agreement shall be governed by the laws of the State of Tennessee.

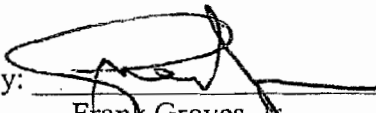
(D) Severability

In the event that any provision hereof is found to be invalid or unenforceable, such invalidity or unenforceability shall not impair or limit the validity or enforceability of any other provision hereof, each of which shall continue in full force and effect, and this Agreement shall be construed as if such invalid or unenforceable provisions were omitted from the Agreement.

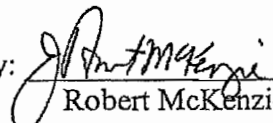
(E) Entire Agreement

This Agreement constitutes the entire Agreement between Walden's Ridge and Tennessee-American with respect to the subject matter contained in the Agreement, except that Walden's Ridge is subject to the rules, regulations and other applicable conditions and provisions set forth in Tennessee-American's tariff on file with the Tennessee Regulatory and as from time to time amended. This Agreement shall not be amended without the prior written consent of both parties. No modification of this Agreement or waiver of any of its terms and conditions will be effective unless set forth in a written document signed by both parties.

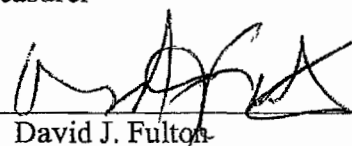
WALDEN'S RIDGE UTILITY DISTRICT

By: 
Frank Groves, Jr.

Its: President

By: 
Robert McKenzie

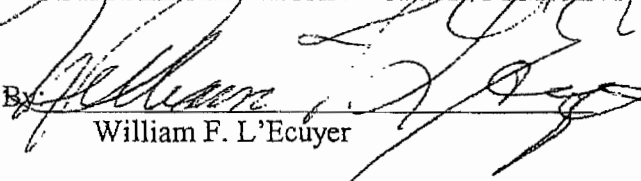
Its: Treasurer

By: 
David J. Fulton

Its: Secretary

District Seal Here

TENNESSEE-AMERICAN WATER COMPANY

By: 
William F. L'Ecuier

Its: President

ACKNOWLEDGEMENT
FOR WALDEN'S RIDGE UTILITY DISTRICT

STATE OF TENNESSEE)
)
COUNTY OF Hamilton)

The foregoing instrument was acknowledged before me this 14 day of July
_____, 2003, by **Frank Groves, Jr.**, as President of Walden's Ridge Utility District.

My Commission expires: July 11, 2005
Katherine Lonergan
NOTARY PUBLIC, Chattanooga, TN

STATE OF TENNESSEE)
)
COUNTY OF Hamilton)

The foregoing instrument was acknowledged before me this 14th day of July
_____, 2003, by **Robert McKenzie**, as Treasurer of Walden's Ridge Utility District.

My Commission expires: March 11, 2006
Nancy A. King
NOTARY PUBLIC, Chattanooga, TN

STATE OF TENNESSEE)
)
COUNTY OF Hamilton)

The foregoing instrument was acknowledged before me this 14th day of July
_____, 2003, by **David J. Fulton**, as Secretary of Walden's Ridge Utility District.

My Commission expires: March 11, 2006
Nancy A. King
NOTARY PUBLIC, Chattanooga, TN

ACKNOWLEDGEMENT
FOR TENNESSEE-AMERICAN WATER COMPANY

STATE OF TENNESSEE)
)
COUNTY OF Hamilton)

The foregoing instrument was acknowledged before me this 14th day of July
 , 2003, by **William F. L'Ecyer, as President**, of Tennessee-American Water Company.

My Commission expires: April 7, 2004

Virginia Boshears Searp
NOTARY PUBLIC, Chattanooga, TN

WALDEN'S RIDGE UTILITY DISTRICT

3900 TAFT HIGHWAY

SIGNAL MOUNTAIN, TENNESSEE 37377

COMMISSIONERS:

FRANK GROVES, JR., PRESIDENT

ROBERT MCKENZIE, TREASURER

DAVID J. FULTON, SECRETARY

DAVID STREET, MANAGER
DEE HOLDS, ATTORNEY

WATER PURCHASE AGREEMENT

AMENDMENT A

This is an amendment to the Water Purchase Agreement between Tennessee-American Water Company and Walden's Ridge Utility District signed the 14th day of July 2003. This Amendment (the "Amendment") to the Agreement is, made this 14th day of January, 2004, between and among WALDEN'S RIDGE UTILITY DISTRICT (hereinafter "WRUD"), and TENNESSEE-AMERICAN WATER COMPANY (hereinafter "TAWC").

Upon reviewing our records, it appears that WRUD and TAWC did not formally recognize the renegotiated purchase rate for which WRUD will charge TAWC for water purchased by TAWC from WRUD during the interim period (approximately 18 months) until TAWC has the new water transmission main installed to deliver water to WRUD.

At this time, the only detail found omitted is that WRUD will charge \$2.05 per 1000 gallons for all water sold to TAWC to supply the Lone Oak and Suck Creek Utility District areas and other areas as TAWC may expand its system in the future.

If for any reason TAWC exercises their option to withdraw from the planned water transmission main installation, then, WRUD reserves the right to bill at the original \$2.98 per 1000 gallons retroactive to the activation of water supply to the Lone Oak and Suck Creek Utility District areas and other areas as TAWC may have expanded its system up to the time of withdrawal.

IN WITNESS WHEREOF, WRUD and TAWC, have agreed to this Amendment A to be signed by the proper officers thereunto duly authorized, all as of the day and year first above written.

WALDEN'S RIDGE UTILITY DISTRICT

3900 TAFT HIGHWAY

SIGNAL MOUNTAIN, TENNESSEE 37377

COMMISSIONERS:

FRANK GROVES, JR., PRESIDENT

ROBERT MCKENZIE, TREASURER

DAVID J. FULTON, SECRETARY

DAVID STREETER, MANAGER

DEE HOBBS, ATTORNEY

WALDEN'S RIDGE UTILITY DISTRICT

BY: _____

Frank Groves, Jr.

Its: President

WITNESS:

BY: _____

David Streeter

Its: General Manager

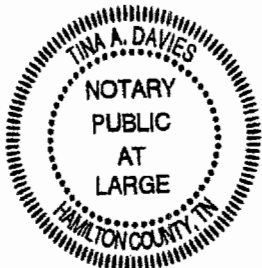
Acknowledgment for Walden's Ridge Utility District

STATE OF TENNESSEE)

COUNTY OF Hamilton)

The foregoing instrument was acknowledged before me this 09 day of January, 2004, by Frank Groves, Jr., as President of Walden's Ridge Utility District.

My Commission expires: 12 August 2007



Tina A. Davies

NOTARY PUBLIC, Chattanooga, TN.

(423) 886-2683 OFFICE • (423) 886-1940 FAX

WALDEN'S RIDGE UTILITY DISTRICT
3900 TAFT HIGHWAY
SIGNAL MOUNTAIN, TENNESSEE 37377

COMMISSIONERS:
FRANK GROVES, JR., PRESIDENT
ROBERT MCKENZIE, TREASURER
DAVID J. FULTON, SECRETARY

DAVID STREETER, MANAGER
DEE HOBBS, ATTORNEY

TENNESSEE-AMERICAN WATER COMPANY

BY: David B. Schultz
David Schultz
Its: President

Acknowledgment for Tennessee-American Water Company

STATE OF TENNESSEE)
)
COUNTY OF Hamilton)

The foregoing instrument was acknowledged before me this 14th day of January, 2004, by David Schultz, as President of Tennessee-American Water Company.

My Commission expires: April 7, 2004

Virginia B. Searf
NOTARY PUBLIC, Chattanooga, TN.

BRANSTETTER, STRANCH & JENNINGS, PLLC

ATTORNEYS AT LAW
227 SECOND AVENUE NORTH
FOURTH FLOOR

NASHVILLE, TENNESSEE 37201-1631
TELEPHONE (615) 254-8801
FACSIMILE (615) 250-3937

CECIL D. BRANSTETTER, SR.
C. DEWEY BRANSTETTER, JR.
RANDALL C. FERGUSON
R. JAN JENNINGS *
JOE P. LENISKI, JR.
DONALD L. SCHOLES
JAMES G. STRANCH, III
J. GERARD STRANCH, IV
JANE B. STRANCH

*ALSO ADMITTED IN GA

ASSOCIATES:
B. DENARD MICKENS
STEVEN J. SIMERLEIN *
STACEY K. SKILLMAN **
MIKE STEWART
J. D. STUART
MICHAEL J. WALL

OF COUNSEL:
ROBERT J. RICHARDSON, JR. ***

*ALSO ADMITTED IN CA
**ALSO ADMITTED IN KY
***ONLY ADMITTED IN OH

July 1, 2009

John S. Watson, President
Tennessee-American Water Company
1101 Broad Street
Chattanooga, TN 37402

Re: Notice of Rate Increase Effective June 1, 2009 for Walden's Ridge Utility District

Dear Mr. Watson:

I represent Walden's Ridge Utility District (the District). The District is in receipt of your letter dated June 1, 2009 in which you notify that District that effective June 1, 2009, the water rate charged to the District by Tennessee-American Water Company (the Company) will be increased 12.77% making the new rate \$1.41 per 1,000 gallons. I understand that the Company is implementing this rate increase in accordance with an order issued by the Tennessee Regulatory Authority (TRA) on January 13, 2009, in Tennessee-American's most recent rate case.

Any changes to the water rate the Company charges the District is governed by Section III of the parties' Water Purchase Agreement dated July 14, 2003 (the Contract). Section III provides, "Any proposed change in the rate after this initial period will be accompanied by supporting data and computations, which will be based on industry accepted cost of service methodology. Walden's Ridge has the right to agree to this rate or to propose an alternative rate with the understanding that the TRA will be the ultimate authority in determining the rate." The Company has not complied with this provision in implementing the proposed rate of \$1.41 per 1,000 gallons. While the District understands that the TRA has the ultimate authority in determining the rate provided to the District, this authority does not relieve the Company from following the procedures set forth in Section III for implementing a rate increase. The procedures set forth in Section III clearly contemplate that the Company will propose a new rate based upon an industry accepted cost of service methodology. If no agreement can be reached after the rate is proposed, then and only then, is it appropriate for the TRA to become involved in approving a new rate. This procedure was approved the TRA when it originally approved the July 14, 2003 Contract.

Tennessee Law requires that parties to the Contract act in good faith in carrying out their obligations implied by the agreement. The Company has not done this.

John S. Watson, President
July 1, 2009
Page 2

Therefore, the District requests that the Company provide it with the cost of service study performed by the Company to support the rate increase from \$1.25 per 1,000 gallons to \$1.41 per 1,000 gallons. The District will review this cost of service study and determine whether it is in agreement with the proposed rate or not. Please forward the cost of service study to the District as soon as you can.

In your June 1, 2009, letter, you indicate that the District will be charged the new rate per hundred cubic feet rather than per thousand gallons as the existing rate. You state that the conversion factor which will be used is one cubic foot being equivalent to 7.5 gallons. In support of your position, you state that Rule 8.12 of the Company's rules and regulations in its tariff provide for this conversion factor. The District disagrees with your position. The District asserts that the proper conversion factor should be 7.48 gallons. The rate the Company is charging the District is not a tariff rate. The rate is a rate set by the terms and provisions of a special contract. Therefore, the 7.5 gallon conversion factor set forth the Company's rules and regulations in its tariff has no application to the District.

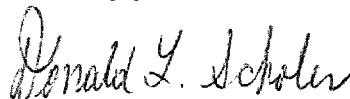
Please be advised that the District expects to propose an increase in the wheeling charge set forth in Section III to the Contract in the near future for cost increases since the wheeling charge was initially adopted. Currently, the District is paying the Company for water which is transported through the District's system to Lone Oak Utility District. Because the District has a significant water loss, the current wheeling charge does not adequately compensate the District for the cost associated with this water loss.

In the Contract, the Company agreed to perform a water leak survey of the water main lines on Taft Highway. The Company has never performed the water leak survey it agreed to perform. Please advise the District of the date the Company will begin the water leak survey.

If you need to discuss any of these issues with me or the District further before the Company provides its cost of service study to support the \$1.41 per 1,000 gallons rate, please let me know. The District will continue to pay the old rate of \$1.25 per 1,000 gallons until these issues are resolved.

You may contact the District's office during normal business hours, Monday through Friday between the hours of 8:00 – 12:00 and 12:45 – 4:30 by telephone at 423.886.2683, by fax at 423.886.1940 or by email at ron.wrud@comcast.net.

Sincerely yours,



DONALD L. SCHOLES

c: Ron West

BRANSTETTER, STRANCH & JENNINGS, PLLC

ATTORNEYS AT LAW

227 SECOND AVENUE NORTH

FOURTH FLOOR

NASHVILLE, TENNESSEE 37201-1631

TELEPHONE (615) 254-8801

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August 10, 2009

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OF COUNSEL:

ROBERT J. RICHARDSON, JR. ***

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***ONLY ADMITTED IN OH

John S. Watson, President
Tennessee-American Water Company
1101 Broad Street
Chattanooga, TN 37402

Re: Disconnection Notice to Walden's Ridge Utility District

Dear Mr. Watson:

I am writing you on behalf of Walden's Ridge Utility District regarding the enclosed disconnection notice dated July 29, 2009, which it received from Tennessee-American Water Company. This notice provides that unless the District pays the past-due amount of \$4,134.25, water service will be disconnected on August 12, 2009.

When we spoke on July 29, 2009, I understood that you would be sending to me the cost of service study which supports the rate increase of 12.77% which the Tennessee Regulatory Authority stated in its January 13, 2009 Order the Company should implement to Walden's Ridge Utility District. The District made this request because the District's position is that the Company must still follow the procedure set forth in Section 3 of the Water Purchase Contract between the Company and the District to implement this rate change. This procedure has not been followed to date.

In our conversation Mr. Turner requested that the District go ahead and pay the full amount the District owed the Company "under protest" rather than continue to pay at the old rate. I told you that I would convey the request to the District. The District is not willing to go ahead and pay the new rate the Company is trying to implement "under protest."

I have enclosed page 52 of the TRA's Order which states that the 12.77% increase to Walden's Ridge be implemented "at the earliest date allowed by the contract." The District's position is that the earliest date allowed by the Water Purchase Contract is after the Company provides the cost of service study, and the District has an opportunity to either agree to the new rate proposed or suggest an alternative. This date has not yet occurred.

In addition, I have enclosed a copy of T.C.A. § 68-221-711(9) which provides that termination by a supplier of water cannot occur without providing 60 days notice to all interested persons, including the Tennessee Department of Environment and Conservation and all

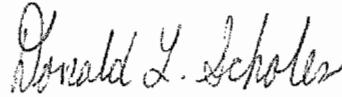


John S. Watson, President
August 10, 2009
Page 2

customers served by the public water system. The enclosed disconnection notice does not meet this requirement, and the August 12, 2009, disconnection date does not meet the 60-day requirement. Tennessee-American Water Company is a public water system under this section of the Tennessee Safe Drinking Water Act.

Hopefully, the Company will not disconnect water service to the District as threatened in the enclosed disconnection notice. I would suggest that the Company provide the cost of service study supporting the rate increase to the District as soon as possible so the rate modification procedure in the Water Purchase Contract can be met in a timely fashion.

Sincerely yours,



DONALD L. SCHOLES

Enclosures

c: Ron West

LEXSTAT TCA 68-221-711

TENNESSEE CODE ANNOTATED

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*** CURRENT THROUGH THE 2006 SESSION ***

*** ANNOTATIONS CURRENT THROUGH FEBRUARY 6, 2007 ***

Title 68 Health, Safety and Environmental Protection

Environmental Protection

Chapter 221 Water and Sewerage

Part 7 -Safe Drinking Water Act

Go to the Tennessee Code Archive Directory

Tenn. Code Ann. § 68-221-711 (2007)

68-221-711. Prohibited acts.

The following acts are prohibited:

(1) Failure by a supplier of water to comply with this part, any order issued hereunder, or the drinking water regulations;

(2) Failure by a supplier of water to comply with the requirements of §§ 68-221-706 and 68-221-707 or the dissemination by such supplier of any false or misleading information with respect to remedial actions being undertaken to achieve compliance with the drinking water regulations;

(3) Refusal by a supplier of water to allow an authorized representative of the department or any local health department to inspect any public water system as provided for in § 68-221-705;

(4) The defiling by any person of any water supply of a public water system or the damaging of any pipe or other part of a public water system, unless due to an act of God;

(5) The discharge by any person of sewage or any other waste or contaminant at such proximity to the intake, well or spring serving a public water system in such a manner or quantity that it will, or will likely, endanger the health or safety of customers of the system or cause damage to the system;

(6) The installation, allowing the installation, or maintenance of any cross connection, auxiliary intake, or bypass, unless the source and quality of water from the auxiliary supply, the method of connection, and the use and operation of such cross connection, auxiliary intake, or bypass has been approved by the department;

(7) The return of drinking water to a public water distribution system after it has been used for cooling or any other purpose;

(8) The heavy pumping or other heavy withdrawal of water from a public water system or its water supply source in a manner that would either interfere with existing customers' normal and reasonable needs or threaten existing customers' health and safety; and

(9) The abandonment or other termination of water services by a supplier of water, without providing at least

sixty (60) days' notice to all interested parties, including the department and all customers served by the public water system.

HISTORY: [Acts 1983, ch. 324, § 12; T.C.A., § 68-13-711; Acts 2002, ch. 602, §§ 2, 3.]

NOTES:

NOTES TO DECISIONS

NOTES TO DECISIONS

1. Negligence Per Se.

1. Negligence Per Se.

Operator of industrial manufacturing site was not entitled to *Fed. R. Civ. P. 12(b)(6)* dismissal of heating and air conditioning manufacturer's action alleging negligence per se pursuant to the Tennessee Safe Drinking Water Act and pursuant to the Tennessee Hazardous Waste Management Act arising from the operator's alleged chromium contamination of municipal water wells; the manufacturer properly alleged that it was a member of the class of persons intended to be protected by both acts and it also alleged that its injury was of the type that both acts were intended to prevent. *Carrier Corp. v. Piper*, - F. Supp. 2d -, 2006 U.S. Dist. LEXIS 80098 (W.D. Tenn. Sept. 30, 2006).

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

January 13, 2009

IN RE:

PETITION OF TENNESSEE AMERICAN WATER
COMPANY TO CHANGE AND INCREASE CERTAIN
RATES AND CHARGES SO AS TO PERMIT IT TO
EARN A FAIR AND ADEQUATE RATE OF RETURN
ON ITS PROPERTY USED AND USEFUL IN
FURNISHING WATER SERVICE TO ITS CUSTOMERS

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DOCKET NO.
08-00039

ORDER

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9. The Revenue Deficiency shall be addressed by new rates reflecting a 4.37% increase to the overall revenues in each class allocated as follows:

- (1) 4.37% increase to each base and volumetric rate for each customer class, with the exception of the Other Water Utilities class;
- (2) 4.37% increase to the rates for Catoosa and Fort Oglethorpe;
- (3) 12.77% increase to the rates for Signal Mountain at the earliest date allowed by the contract;
- (4) 12.77% increase to the rates for and Walden's Ridge at the earliest date allowed by the contract; and
- (5) decrease to commercial revenues of approximately \$75,000 effective September 2009, to account for the additional revenue recovered by annualizing the Signal Mountain and Walden's Ridge rate increase.

10. Tennessee American Water Company shall develop a Request For Proposal ("RFP") for a comprehensive management audit by an independent certified public accountant and file the RFP in this docket no later than six months from September 22, 2008 for approval by the Authority before issuing the RFP.

11. Tennessee American Water Company is directed to file tariffs with the Authority that are designed to produce an increase of \$1,655,541 in incremental revenues for service rendered and any tariffs necessary to be consistent with this Order.

12. The tariffs shall be filed within thirty days of the date of decision, September 22, 2008.

13. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen days from the date of this Order.

IMPORTANT! READ THIS IMMEDIATELY!

FINAL NOTICE PRIOR TO DISCONNECTION

NOTICE DATE: 07/29/2009

Your bill for \$4,134.25 is overdue. Because your bill is overdue we will shut off water on Wednesday, August 12, 2009.

*** TO STOP THE SHUT OFF, YOU MUST DO ONE OF THE FOLLOWING AT ONCE. ***

Pay the total amount overdue or contact our office at 1-866-641-2109 if your payment has been made or if you have any questions concerning your service bill.

For authorized payment agent locations, call Customer Service at:
1-866-641-2109

If your water service is shut-off, a disconnect/reconnect charge of \$15.00 in addition to the amount due above, is required before your service will be restored.

If you have any questions or need more information, please call us. Our customer service representatives are on duty 24 hours a day, 7 days a week to assist you.

Sincerely Yours,
Tennessee American Water

Office hours: 24 hours a day, 7 days a week
Customer Service: 1-866-641-2109
Visit us on the INTERNET at: <http://www.tawc.com>

BRANSTETTER, STRANCH & JENNINGS, PLLC

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October 26, 2009

John S. Watson, President
Tennessee-American Water Company
1101 Broad Street
Chattanooga, TN 37402

Re: Late Charges to Walden's Ridge Utility District

Dear Mr. Watson:

I am writing you on behalf of Walden's Ridge Utility District. I understand that at the District's August 25, 2009 Board meeting, the District's Board voted to accept the new rates proposed by Tennessee-American Water Company which resulted in 12.77% increase in the District's water rate from Tennessee-American. At this Board meeting the District agreed to pay the late charges on the unpaid portion only of its June 24, 2009 and July 24, 2009 bills, totaling \$ 206.71 for June and \$ 313.48 for July. The District also paid the August current water charges in full. The District has continued to get a bill with the late charges on the full amount of the June, July and August bills.

The District's Manager, Ron West, called me and told me that he has been trying to get in touch with you to discuss this issue but has not been able to talk to you. On behalf of the District, I request that the late charges related to the amounts the District timely paid on the June, July and August bills be waived. The District has computed this amount to be \$6,647.39. I do not believe that the District is legally obligated to pay these late charges.

As you know, the District's position in this dispute was that under the parties' water purchase contract, the new rate for water which Tennessee-American sought to implement for the District effective June 1, 2009 could not be put into effect until Tennessee-American provided the District with cost of service information to support this increase, and the District had an opportunity to either agree to the new rate proposed or suggest an alternative. This contractual procedure was not completed until the District agreed to the new rate at its August 25, 2009 Board meeting. Therefore, the District can make a very strong case that it was not delinquent in paying any of the late charges for water service rendered before August 25, 2009.

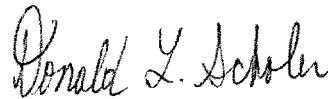
John S. Watson, President
October 26, 2009
Page 2

Because the District and Tennessee-American appear to have resolved the dispute about the new rate to be charged the District by following the terms of the parties' water service contract, any further dispute about the payment of late charges is not productive for either utility.

I would appreciate you letting Ron West and me know that Tennessee-American will be waiving the late charges related to the amounts actually paid on the June, July and August bills in the amount of \$ 6,647.39.

The District appreciates your prompt consideration of this request.

Sincerely yours,

A handwritten signature in cursive script that reads "Donald L. Scholes".

DONALD L. SCHOLES

c: Ron West



A. W. Turner, Jr.
1101 Broad Street
Chattanooga, TN 37402
a.turner@amwater.com

P 859.268.6339
F 859.268.6327

November 13, 2009

Mr. Donald Scholes
Branstetter, Stranch & Jennings, PLLC
227 Second Avenue North, Fourth Floor
Nashville, TN 37201-1631

RE: Late Charges to Walden's Ridge Utility District

Dear Mr. Scholes:

This letter is in response to your October 26, 2009, letter to John Watson. On behalf of Walden's Ridge Utility District (WRUD), you have asked for a waiver of the late charges WRUD has accrued for failure to pay its full bills from this summer. I do not believe that claim has any merit, and Tennessee American Water (TAW) denies your request.

As I understand WRUD's position, the bills were in dispute until the Board agreed to the new rate at its August 25 meeting. The basis for this claim is that, under our contract with you, TAW could not put the increase into effect until we "provided the District with cost of service information to support this increase, and the District had an opportunity to either agree to the new rate proposed or suggest an alternative." This position is not supported by the contractual language. Section III recites the initial rate set in the contract and then states, "Any proposed change in the rate after this initial period will be supported by accompanying data and computations, which will be based on industry accepted cost of service methodology. Walden's Ridge has the right to agree to this rate or propose an alternative rate with the understanding that the TRA will be the ultimate authority in determining the rate."

That language does not require that TAW provide WRUD with the cost of service information, simply that the rate increase be supported with that kind of information. As John Watson explained in his August 14, 2009, letter to you, TAW provided this information to the TRA in our rate case application. WRUD chose not to intervene or otherwise participate in this proceeding. The TRA reviewed TAW's application and ordered the rate increase. As the contract plainly states, the TRA is the "ultimate authority in determining the rate" regardless of WRUD Board action. Because TAW satisfied all its contractual obligations in this matter, the rate increase was not in dispute at any time after the TRA's order; hence the WRUD Board's subsequent action had no impact on its validity.

Please feel free to contact me if you have questions. In the meantime, please urge WRUD to pay its outstanding bill. Late charges will continue to accrue until it is current.

Yours truly,



A. W. Turner, Jr.
Corporate Counsel

Cc: John Watson