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T.R.A. DOCKET ROOM

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September 17, 2010

Director Kenneth C. Hill  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

10-00189

Dear Director Hill:

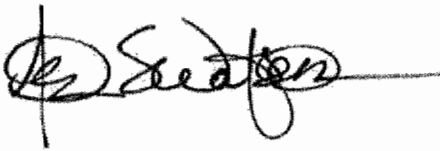
Tennessee American Water is committed to using all appropriate means possible to educate and inform our customers about the rate case filed today, and I wanted you to be aware of our efforts. We want to educate and inform our customers while enabling them to communicate with us. Tennessee American Water is preparing to take the following steps to communicate with our customers:

1. Accompanying this memorandum is a summary booklet on the rate case we are making available to the public by posting to our website. We are also providing this document to elected officials and media. We have worked to provide our customers and local leaders with clear and accurate information related to the rate case.
2. We have launched a web site ([www.ChattanoogaWaterFacts.com](http://www.ChattanoogaWaterFacts.com)) devoted to informing customers about the rate case as well as specific information about their drinking water service. This website will be regularly updated throughout the rate case to address issues or concerns that may arise with our customers. This web site will provide appropriate links to the TRA's web site to ensure our customers have access to decisions, orders and actions. We welcome your suggestions and thoughts on how we can make this website effective.
3. We have contacted state and local elected leaders as well as our large users and local media outlets to inform them that we were filing a rate request. We will be scheduling meetings with all of these stakeholders in the near future to brief them on the details of the rate case, inform them of the website and respond to their questions.
4. We are using social media outlets, Facebook and Twitter, as another way to communicate with our customers.
5. Next week our residential customers will receive a letter informing them about the rate case, what the increase (or decrease) means to them and updating them on

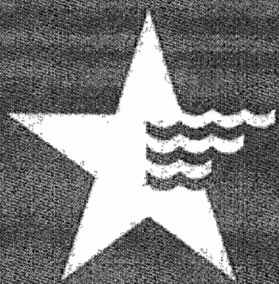
other issues relating to their drinking water service. These letters will also promote the new website and social media outlets.

Thank you for reviewing our communication efforts. Please let me know if there are additional thoughts or suggestions on how we can better communicate with our customer and community.

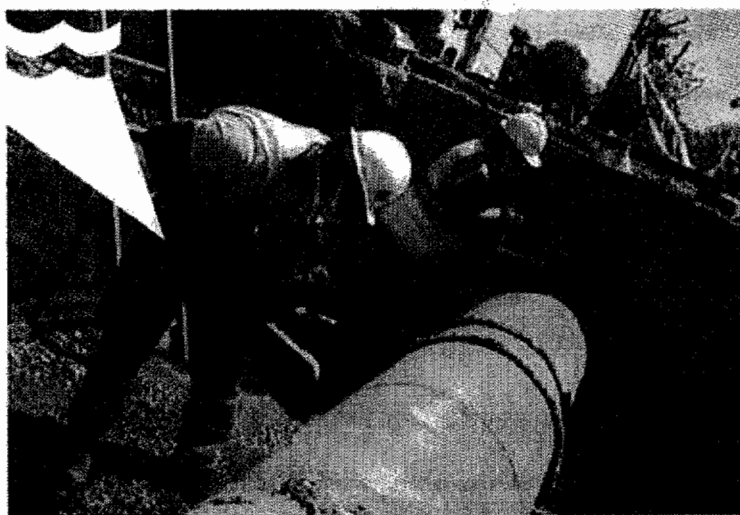
Sincerely,

A handwritten signature in black ink, appearing to read "John Watson", with a long horizontal line extending to the right.

John Watson  
President



TENNESSEE  
AMERICAN WATER



## **Rate Case Background, Summary & Frequently Asked Questions**

**We Care About Water. It's What We Do.**

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# INTRODUCTION

## Executive Summary

On September 17, Tennessee American Water filed a general rate case application with the Tennessee Regulatory Authority (TRA) requesting an overall increase in revenue of \$9.984 million.

If the company's application is approved in full, the monthly bill for a residential customer using 4,153 gallons of drinking water will:

- Increase in the Chattanooga service area (59,743 residential customers) by \$4.68, or about 15 cents per day, to \$21.30.
- Increase in the Lookout Mountain service area (1,900 residential customers) by \$4.70, or about 16 cents per day, to \$26.27.
- Increase in the Lakeview service area (2,701 residential customers) by \$7.14, or about 24 cents per day, to \$26.27.
- Decrease in the Suck Creek service area (214 residential customers) by \$4.47, or about 15 cents per day, to \$31.56.
- Decrease in the Lone Oak service area (118 residential customers) by \$4.10, or about 14 cents per day, to \$40.47.

Even with the proposed increase, high-quality, reliable drinking water service delivered to the tap will still cost less than a penny per gallon. In areas where there is a decrease, water will be an even greater value.

In its filing, the company is seeking a fair and reasonable return on approximately \$23 million of capital invested in facilities required to provide reliable drinking water service, in addition to recovery of the day-to-day costs of operating and maintaining the utility system. The rate filing reflects about \$23 million of investments made between September 2009 and December 2011.

Specific drivers of this case include:

- Increased operating and maintenance costs
  - Includes electric rate increase and new City of Chattanooga paving ordinance requiring flowable fill along with City sewer increases, stormwater fee increases and a property tax increase,
- Increased employee benefit costs
- Lower water sales
- Increased capital investment
- Increased cost of capital

The TRA, which regulates the rates and service of Tennessee American Water, will undertake a comprehensive and open review of the rate request. The process will take about six months, so rates will not change until about March 2011.

## **Public Involvement**

Tennessee American Water customers with questions about the general rate case application may call Kim Dalton, external affairs manager, at 423-755-7613 or E-mail her at [Kim.Dalton@amwater.com](mailto:Kim.Dalton@amwater.com) to get questions answered or up-to-date information. Tennessee American Water is informing local and state officials in its service area about the rate filing either in writing or through personal visits.

Customers will be able to review the rate filing in its entirety during regular business hours at the TRA office in Nashville at:

Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37423

or at:

Tennessee American Water  
1101 Broad Street  
Chattanooga, TN 37402

In addition, Tennessee American Water has created a new website, [www.ChattanoogaWaterFacts.com](http://www.ChattanoogaWaterFacts.com), that will provide information about the general rate case application as well as other timely and relevant information about your drinking water service and the company.

# PRESS RELEASE



September 17, 2010

Kim Dalton  
Kim.Dalton@amwater.com  
423-755-7613  
423-280-1250  
[www.amwater.com](http://www.amwater.com)

## Tennessee American Water Files Rate Request

*Investments and rising operating costs drive increase;  
Cost of drinking water service to remain less than a penny per gallon*

**Chattanooga, Tenn. (September 17, 2010)** – Tennessee American Water today filed a general rate case application with the Tennessee Regulatory Authority (TRA) requesting an increase in drinking water rates for customers in the Chattanooga, Lookout Mountain and Lakeview service areas. Customers in the Suck Creek and Lone Oak service areas would receive a decrease in water rates as part of the company's proposal to consolidate tariffs for service areas requiring added pumping. Rates will not change until the spring of 2011, which will be about two and a half years since the last increase on Oct. 1, 2008.

Tennessee American Water's investments to renew and replace water treatment facilities, pumps and pipelines are one of the drivers for the rate request. The ongoing \$6.7 million upgrade to the Citico Water Treatment Plant is a visible example of the investments being made. Increased costs for energy, street paving and permits, taxes and employee pension and healthcare costs are also driving today's request.

Even with the requested increase customers served by Tennessee American Water will continue to receive high-quality, reliable drinking water service for less than a penny per gallon. According to the company's request, the drinking water rates for a residential customer that uses 4,153 gallons of drinking water per month would:

- Increase in the Chattanooga service area by \$4.68, or about 15 cents per day, to \$21.30.

-- more --

- Increase in the Lookout Mountain service area by \$4.70, or about 16 cents per day, to \$26.27.
- Increase in the Lakeview service area by \$7.14, or about 24 cents per day, to \$26.27.
- Decrease in the Suck Creek service area by \$4.47, or about 15 cents per day, to \$31.56.
- Decrease in the Lone Oak service area by \$4.10, or about 14 cents per day, to \$40.47.

"Tennessee American Water is focused on providing cost-effective, high-quality and reliable drinking water service to our customers" said John Watson, president of Tennessee American Water. "The company has invested \$121 million over the past 15 years to ensure the reliability of the water system. Periodic rate increases are necessary to reflect the cost of investments in customer rates and to account for rising costs. However, drinking water remains a great value in our service area and is likely the lowest utility bill our customers pay each month."

The water company cannot raise rates on its own. The TRA will conduct an extensive review of Tennessee American Water's rate application that includes thousands of pages of documentation to demonstrate that the request is just and reasonable. The process, which will include public input, takes about six months. Any increase granted by the TRA in this case would be effective about March 2011.

"The regulatory process considers the needs of the customer and the company's ability to reinvest in the community and to deliver dependable water service," said Watson.

"Tennessee American Water is widely recognized for meeting or surpassing all water quality standards established by both the U.S. Environmental Protection Agency and the Tennessee Department of Environment and Conservation (TDEC)."

Tennessee American Water customers with questions about the general rate case application may call Kim Dalton, external affairs manager, at 423-755-7613 or email her at [Kim.Dalton@amwater.com](mailto:Kim.Dalton@amwater.com) to get questions answered or up-to-date information. In addition,

-- more --



Tennessee American Water has created a new website, **[www.ChattanoogaWaterFacts.com](http://www.ChattanoogaWaterFacts.com)**, which will provide information about the general rate case application as well as other timely and relevant information about your drinking water service and the company.

*Tennessee American Water, a wholly owned subsidiary of American Water (NYSE: AWK), is the largest investor-owned water utility in the state, providing high-quality and reliable water services to more than 350,000 people in Tennessee and northern Georgia. Founded in 1886, American Water is the largest investor-owned U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs more than 7,000 dedicated professionals who provide drinking water, wastewater and other related services to approximately 16 million people in 35 states, as well as Ontario and Manitoba, Canada. More information can be found by visiting [www.amwater.com](http://www.amwater.com).*

###

## **GENERAL INFORMATION ABOUT RATES AND RATEMAKING PROCESS**

- Tennessee American Water can not change rates on its own. Rates are determined and fixed by the Tennessee Regulatory Authority (TRA), an agency of state government.
- The efficiencies of private ownership combined with expert oversight by an agency of state government provide significant benefits to customers. The public oversight by the TRA ensures that requests to increase water rates are rigorously examined in an open and transparent public process. The TRA process is a benefit for customers.
- The regulatory process takes about six months, and involves experts from the TRA staff and the Tennessee Consumer Advocate Division. The Consumer Advocate's role is to ensure that residential customers' best interests are represented in this open and transparent process. Other interested parties including the City of Chattanooga are allowed to participate as interveners.
- Financial data and other information are supplied once the rate case is filed. The TRA conducts public hearings, and the company must prove it is entitled to a rate change. The TRA reviews the testimony and evidence, asks questions and enters an order based on the evidence that determines what the company's rates will be.
- Tennessee American Water's rate request reflects the full cost of providing water service. The company continually looks for economies of scale and other opportunities to contain costs. However, necessary investments to replace and renew water utility facilities places upward pressure on customer rates.
- Drinking water rates are based on the day-to-day costs needed to operate the water system in compliance with state and federal guidelines. Drinking water rates also are determined based on investments the water company makes to renew and replace or expand the water system to ensure the delivery of high-quality, reliable drinking water to customer homes and businesses each day.

# **Information about the Rate Case Request**

## **Q: WHEN DID TENNESSEE AMERICAN WATER LAST FILE A RATE CASE?**

A: The last rate case was filed on March 14, 2008, based on a historical test year that ended November 2007. The TRA approved an increase of \$1.655 million in that case. The increase went into effect on October 1, 2008.

## **Q. WHAT IS THE ANNUAL INCREASE IN REVENUE BEING SOUGHT IN THIS FILING?**

A. Tennessee American Water is requesting \$9.984 million in additional annual revenues.

## **Q. WHAT DOES THE PROPOSED RATE INCREASE MEAN FOR THE AVERAGE WATER BILL?**

A. If the company's application is approved in full, the monthly bill for a residential customer in the Chattanooga service area using 4,153 gallons of water will increase by \$4.68, or about 15 cents per day to \$21.30. The company has five service areas, and distinct rates for each. The proposed increase will have slightly different impacts on customers in each area as shown below. If the entire rate increase request is approved by the TRA, customers will still receive high-quality, reliable drinking water service for less than a penny per gallon. Compare this to other consumable items, such as \$0.99 for a gallon of spring water, \$4.59 for a gallon of milk and \$2.52 for a gallon of gasoline.

If the company's application is approved in full, the monthly bill for a residential customer using 4,153 gallons in the four smaller service areas will:

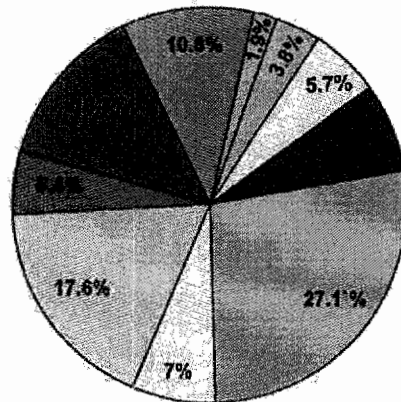
- Increase in the Lookout Mountain service area by \$4.70, or about 16 cents per day to \$26.27.
- Increase in the Lakeview service area by \$7.14, or about 24 cents per day, to \$26.27.
- Decrease in the Suck Creek service area by \$4.47, or about 15 cents per day, to \$31.56.
- Decrease in the Lone Oak service area by \$4.10, or about 14 cents per day, to \$40.47.

## **Q. DOES THE U. S. GOVERNMENT HAVE A STANDARD TO DETERMINE THE AFFORDABILITY OF WATER?**

A. Yes. The USEPA has established an affordability benchmark of 2.5% of median household income for water. Today, the average water bill from Tennessee American Water is 0.48% of the median household income for our service area. If the full rate increase requested in this case is approved, the average residential bill would equal 0.62% of the median household income in Tennessee, still well below the national standard.

As shown in the exhibit below, the cost for utilities, fuels and public services represents about 7% of average household expenses, and the cost for drinking water in the Chattanooga region represents about 6% of the total utility cost.

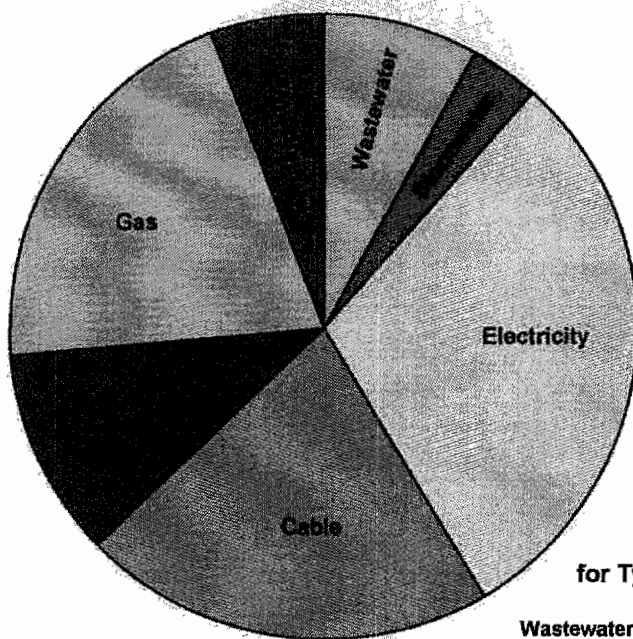
## Utility Costs and Average Household Expenses



### Average Household Expenses

- Food
- Insurance, Pensions
- Education
- Apparel and Services
- Healthcare
- Miscellaneous
- Housing
- Utilities, Fuels and Public Services
- Transportation
- Entertainment

Source: Consumer Expenditures  
(U.S. Bureau of Labor Statistics, April 2009)



### Chattanooga Utility Costs for Typical Residential Customer Usage

Wastewater <sup>1</sup>	22.55	8.1
Stormwater <sup>2</sup>	9.60	3.4
Electricity <sup>3</sup>	83.05	29.8
Cable <sup>4</sup>	59.99	21.5
Telephone <sup>5</sup>	29.99	10.8
Gas <sup>3</sup>	56.80	20.4
Drinking Water (TAW - current)	16.62	6.0
<b>Total:</b>	<b>\$278.60</b>	<b>100%</b>

1. Source: City of Chattanooga Residential Sewer Tariff, effective Oct. 10, 2010
2. Source: City of Chattanooga Residential Stormwater Fee, Sept. 1, 2010
3. Source: Memphis Light & Gas and Water Division, 2010 Utility Bill Comparisons
4. Source: Electric Power Board's FI TV Expanded Rate, Sept. 1, 2010
5. Source: Electric Power Board's FI Phone LD 120 Rate, Sept. 1, 2010

**Q. WHAT ARE THE MAJOR FACTORS CAUSING THE REQUESTED RATE INCREASE?**

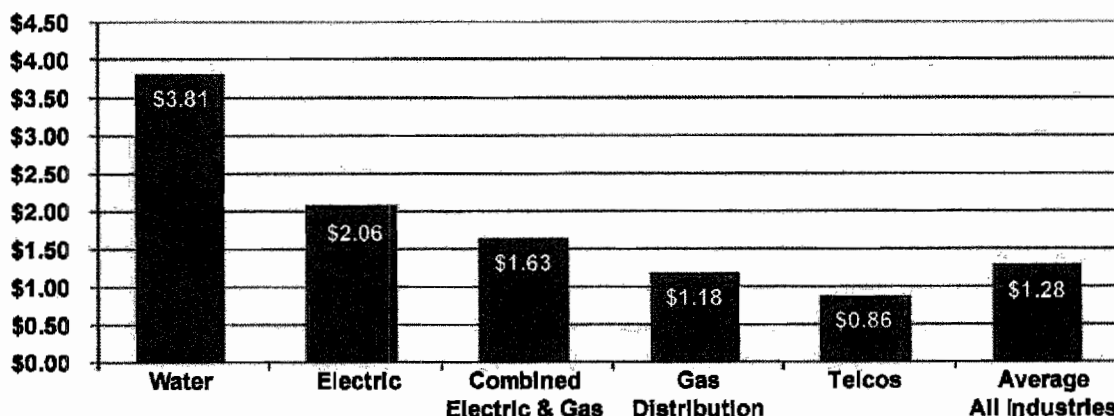
	<u>Required Revenue</u>
• Increased operating and maintenance	
○ Includes power rate increase,	\$ 627,000
new city paving ordinance requiring flowable fill,	\$ 206,000
sewer increases,	\$ 18,000
property tax increase	\$ 28,000
• Increased employee and benefit costs	\$3,162,000
• Lower water sales	\$3,293,000
• Increased cost of capital	\$1,513,000
• Increased Capital Investment	\$1,137,000
<u>Total increase</u>	<u>\$9,984,000</u>

**Q. WHAT TYPE OF CAPITAL INVESTMENT IS THE COMPANY MAKING?**

A. Tennessee American Water is making investments to replace and renew water pipes, pumps and pump stations, valves, fire hydrants, customer service lines and water meters as well as water treatment facilities that have reached the end of their useful lives. While the company has maintained its plants and equipment, all utility facilities have a finite useful life. Regular replacement or renewal of such facilities is required to maintain service levels and meet standards. The replacement of facilities is normally at a cost that is many times the original cost. For example, installing pipe today can cost up to 100 times what it did at the turn of the 20<sup>th</sup> century.

Water utilities are the most capital intensive of all utility sectors. The graph below compares the capital intensity of water utilities to other sectors, and illustrates the significant impact that capital investment has on water utility rates.

**Capital Intensity per Dollar of Revenue**



Regular investment in the water system helps to sustain reliable, high quality drinking water service, and also benefits the economy. According to the U. S. Conference of Mayors, "For every one dollar of water and sewer infrastructure investment, it is estimated that Gross

Domestic product increases by \$6.35 in the long-term. For each additional dollar spent on operating and maintaining water and sewer industry, the increase of revenue or economic output for all industries is increased by \$2.62 in that year. In addition, for every one job added in water and sewer creates 3.68 jobs in the national economy to support that job." (SOURCE – '08 Mayors Action Forum on Infrastructure – National Action Agenda on Infrastructure for the Next President of the United States – August 2008)

The regulatory requirements imposed under the Safe Drinking Water Act have increased operating and capital costs by requiring new treatment processes, setting detection limits for certain materials in the drinking water, and causing certain plants and equipment to be modified in order to meet enhanced treatment requirements. The company owns and operates the Citico Water Treatment Plant on Riverside Drive and the Suck Creek Water Treatment Plant in Suck Creek, TN. Both plants test water quality hundreds of times a day to ensure compliance with regulatory requirements.

Tennessee American Water is widely recognized for its commitment to water quality. The Citico Water Treatment Plant is the recipient of the coveted 10-year Director's Award from the USEPA and American Water Works Association's Partnership for Safe Water. Only one other water treatment plant in Tennessee has received this award.

The Tennessee American Water Suck Creek Water Treatment Plant was recognized with the Outstanding Plant Operations Award for small treatment plants (0–5 million gallons a day) during the 2010 Water Professional Conference held in Nashville, TN. There are approximately 690 registered water systems in Tennessee.

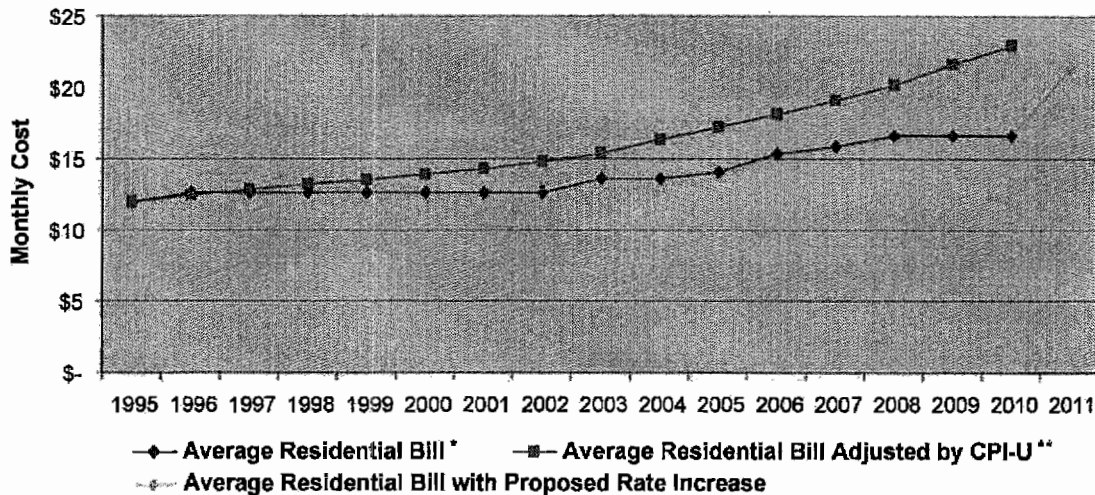
**Q. DOES THE COMPANY CONSIDER THE IMPACT OF RATE INCREASES WHEN IT DECIDES TO FILE A RATE CASE?**

A. Yes, and the company is committed to protecting the integrity of its water utility facilities in order to provide high-quality, reliable drinking water service at reasonable prices while complying with all water quality regulations and health requirements. Tennessee American Water has an obligation to its customers and investors to maintain a fair and reasonable return on the investment in utility facilities. Neither of these obligations is met if needed rate increases are deferred because they are not popular. When fair and adequate rates are not sought in a timely fashion, water systems can deteriorate and ultimately cost more to renew or replace. The USEPA says the nation's water utilities will need to make more than \$325 billion in infrastructure investments over the next 20 years to replace thousands of miles of pipe and for upgrades to treatment plants, storage tanks and other assets to ensure public health. Fortunately, Tennessee American Water is in better shape than many other water utilities because of the regular investments that have been made in recent years. Just like owning an older home, periodic investments are required to keep the facilities functioning as needed.

Regular investments to renew and replace infrastructure combined with prudent management of the utility are a sound combination for long-term, cost-effective service. As the graph below indicates, even though Tennessee American Water has invested more than \$121 million during the past 15 years, since 1995 the average residential drinking water bill has increased at a lower percentage than the consumer price index for the water, sewer and trash collection service group.

## Comparison of Monthly Residential Drinking Water Bill

Tennessee American Water vs. Consumer Price Index



\* Based on average water usage for residential customer in Chattanooga (4,153 gallons of water usage per month).

\*\* Consumer Price Index for all urban consumers (CPI-U), U. S. city average for the Water, Sewer and Trash Collection Service Category (1995-2010).

NOTE: The Consumer Price Index (CPI) is a measure of the average change in prices over time for goods and services purchased by households, both families and single persons living alone. The all-urban group (CPI-U) represents about 87 percent of the U.S. population. This comparison is based on the CPI data for the Household Group: Water and Sewer and Trash Collection Services category.

### Q. WON'T HIGHER WATER RATES DETER BUSINESSES FROM LOCATING IN THE AREAS THE COMPANY SERVES?

A. No. On the contrary, high-quality, reliable drinking water service plays a critical role in the health and growth of every municipality's economy. The dependability of drinking water service and the ability to offer quality drinking water service in an adequate supply at reasonable prices attracts business and encourages industry to locate in those areas. The adequacy and reliability of our facilities are equal to those in surrounding states, and we believe that rates for drinking water service constitute a relatively small part of any decision to locate a business in Tennessee American Water's service area. Solid infrastructure is vital for economic development.

### Q. DOES THE COMPANY LOOK FOR OPPORTUNITIES FOR COST SAVINGS?

A. Yes. While a significant portion of the cost of service is fixed, such as capital costs, taxes (federal, state and local) and depreciation, the company constantly attempts to streamline its operation and generate savings wherever possible. In fact, Tennessee American Water has been able to generate significant savings in personnel costs over the past several years through consolidation of offices, positions and work centers.

### Q. HOW DO THE PROPOSED RATES COMPARE WITH OTHER WATER UTILITIES?

A. Drinking water rates are based on numerous factors that can be dramatically different from one geographic area to another. These factors include distance of source water to customer, slope and elevation changes, terrain, quality of source water, and size of population served, just to name a few. In addition, the accounting basis on which rates are established is significantly and fundamentally different between an investor-owned utility

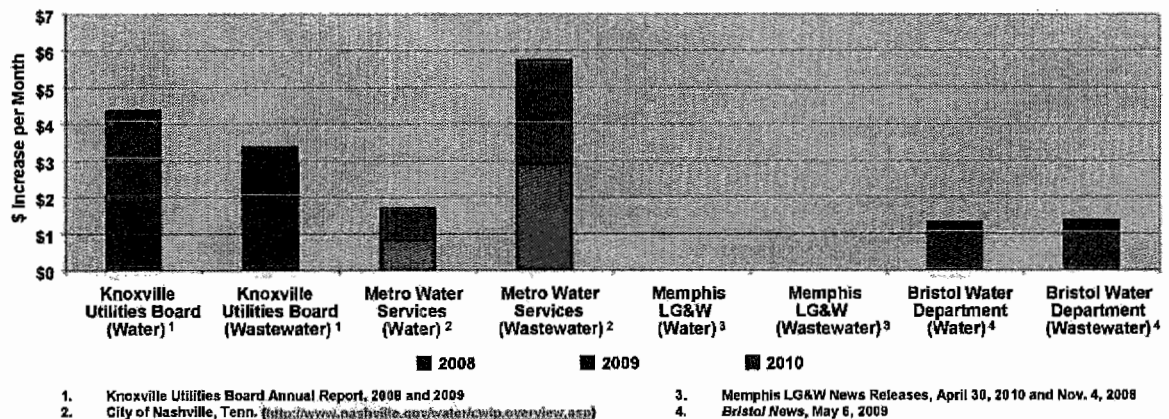
regulated by the TRA, and a government-owned utility. To make direct cost comparisons from one utility to another, without taking these varying factors into effect, would be misleading.

For a comparison of drinking water utility rates to be meaningful there would have to be a detailed analysis of a number of conditions that exist in the service territory. The study would need to include factors such as accounting methods used to determine customer rates, the type and quality of the source water (ground water, surface water, lake, well, etc.), tariff design (are large users subsidizing residential users?), level of cost recovered by auxiliary fees (tap fees, capacity fees, system development fees, etc.), extent of cross-subsidization (e.g. from property taxes, sales taxes, etc.) economies of scale and size of system, customer density, household size, average customer usage, geography and terrain, age of system, timing of capital investments (old plant, new plant, level of maintenance), productivity and efficiency of workforce, level of service and customer satisfaction.

Tennessee American Water has completed a period of significant investment in facilities involving more than \$121 million in new construction during the past 15 years. Our rates are comparable with other water utilities serving the area that have made regular investments in their facilities and reflected the true cost of water service in their rates. The company believes this is particularly true when the elements of quality, quantity and dependability of water service are factored into the equation.

All utilities that regularly invest in renewing and improving their utility infrastructure are experiencing the need to increase rates. The graph below indicates rate increases for some major municipal water and wastewater utilities in Tennessee since 2008.

**Rates Increases for Major Tennessee Municipal Utilities  
(Water and Wastewater)**



Any direct comparisons of rates should also consider a number of other factors. These include:

- Tennessee American Water pays taxes and those taxes help support various levels of government and lower the tax burden on customers. The company is one of the top taxpayers in Hamilton County.



- The company's total cost to provide water service is reflected in rates. Many systems, most municipally owned, use charges such as tap fees, and allocate certain costs to other areas of government, so drinking water rates appear artificially lower, but a portion of the true cost for providing water service is shifted to tax bills, the cost of buying a home, etc.
- The track record of investment in the system.

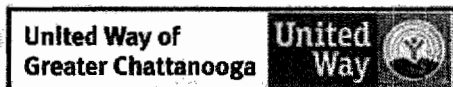
**Q. WHEN WILL THE NEW WATER RATES GO INTO EFFECT?**

A. Rates will not be effective until the TRA reviews and rules on the rates. Based on the TRA's usual approach of rate case review, there will not be a rate change until March 2011.

**Q. IS TENNESSEE AMERICAN WATER CONTINUING TO FUND AND PARTICIPATE IN COMMUNITY AND CHARITABLE ACTIVITIES?**

A. Yes. Tennessee American Water has a long track record of actively supporting civic, charitable, environmental and economic development initiatives. The water company remains committed to investing in corporate responsibility and community programs that make a sustainable impact in Chattanooga. For example, Tennessee American Water made a \$100,000 commitment to support the job creation initiatives of the Chattanooga Area Chamber of Commerce. Additionally, the employees of Tennessee American Water donate their time to many community initiatives. **These contributions to the communities are not recovered in rates charged to customers, but are contributed by the stockholders to support the communities we serve.**

What follows are a few examples of Tennessee American Water bringing value to the community beyond its commitment to high-quality, reliable drinking water service.



For 54 consecutive years, the employees of Tennessee American Water have proudly supported United Way. Since 1995, Tennessee American Water employees have contributed more than \$600,000 to United Way of Chattanooga. In past years, employees have volunteered as loaned executives and served on various UW committees.



We have been the official sponsor for the Tennessee Aquarium Education Outreach program since 2006. Approximately 115,000 students throughout the area have learned the importance of protecting the watershed and environment. This education program is designed to appeal to children and teenagers in kindergarten through 12<sup>th</sup> grade. The local school teachers contact the Tennessee Aquarium requesting someone to teach students about our environment. Education Programs called *Creepy Crawlies*, *Tropical Treasures*, *Swamp Things* and *Undersea Wonders*, and *Rainforest Shuffle* make learning fun and memorable.

We also support the River Gorge Explorer at the Tennessee Aquarium which provides tours of the Tennessee River and educates visitors on the importance of the Tennessee River in the Chattanooga community including being the drinking water supply for the community. We have also contributed \$100,000 to their capital investment budget throughout the years.



Tennessee American Water has supported Junior Achievement of Chattanooga (JA) for the last 49 years. JA is a group of volunteers passionate about educating and inspiring young people to succeed in a global economy. Funding and volunteers have supported JA In-A-Day Program for Rivermont Elementary and Hardy Elementary for the past four years.



Public education is priority in Chattanooga and Hamilton County. That's why Tennessee American Water has provided cash donations to local schools and provided needed materials and equipment for classrooms in the past years. We have supported professional development efforts for teachers by providing a Next Generation Science Tools CD and one-day Professional Development Session for Hamilton County Elementary Science Teachers.

Each year, we provide support to the Chattanooga Regional Science Fair by providing judges and awards for the event. In 2006, we partnered with Chattanooga State Technical Community College for the first Elementary Science and Math Olympiad for Hamilton County elementary schools. This year, we held the fourth event with participation doubling from approximately 300 students in 2006 to more than 600 students in 2010.



Mr. John Watson, President  
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September 2010

To Our Valued Customers:

Tennessee American Water has provided the Chattanooga region with high-quality drinking water service for more than 140 years. The company has also added value to this community by being one of the top tax-paying businesses, a good employer and an active supporter of civic, charitable, environmental and economic development initiatives.

Providing high-quality, reliable service year after year requires periodic investments to replace and renew portions of our water system. Just like your home, our water system requires ongoing investment and upkeep. Each year, Tennessee American Water invests money to improve its pumps, pipes, fire protection and water treatment facilities to meet existing and new water demands, comply with new quality standards and improve service reliability.

In fact, Tennessee American Water is currently investing more than \$6.7 million to upgrade our Citico Water Treatment Plant, one of only two water treatment plants in Tennessee to receive the USEPA's Directors Award for 10 straight years. The 10-Year Directors Award for the Partnership for Safe Water recognizes water treatment plants that deliver high-quality drinking water that is better than required by federal and state drinking water quality standards. It is a credit to our dedicated employees who work tirelessly around the clock to make sure you, our customer, have confidence in the quality and reliability of your drinking water service. The treatment plant project and other significant construction projects, like the replacement and upgrading of a portion of the 67-year-old and 90-year-old pipelines serving scenic Lookout Mountain also help create and sustain jobs for local businesses. These and other infrastructure investments assure that we are meeting the water service needs of our customers.

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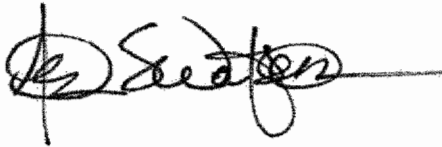
Now, you may be thinking, "my monthly water bill is not the lowest utility bill I pay." That's because the bill you receive from us each month includes charges for wastewater services provided by the City of Chattanooga and the Hamilton County Water and Wastewater Authority. Tennessee American Water bills and collects for sewer service provided by the City and the Wastewater Authority and remits those fees back to the City and the Authority for their operations. So, be sure to calculate the penny-per-gallon value of your drinking water by looking at only the Tennessee American Water portion of the bill.

We realize that the billing for these services together and the recent news reports and actions by the City Council regarding a "Water Quality Fee," which is also known as a stormwater fee, has been confusing to some of our customers and the community. Tennessee American Water is not involved with the rates or service for sanitary sewer or stormwater run-off. That's one of the reasons Tennessee American Water has created a website, [www.ChattanoogaWaterFacts.com](http://www.ChattanoogaWaterFacts.com). That site provides timely and relevant information about your drinking water service and our company. We hope you will sign-up for email updates on the website and consider "friending" us on Facebook or following us on Twitter.

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It's an honor to serve you and provide you with local drinking water service.

Sincerely,

A handwritten signature in black ink, appearing to read "John Watson", with a long horizontal line extending to the right.

John Watson  
President



Mr. John Watson, President

P 423-755-7621

P.O. Box 6338

F 423-755-7634

Chattanooga, TN 37401

[www.tawc.com](http://www.tawc.com)

September 2010

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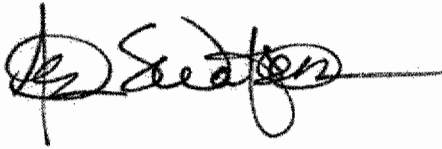
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John Watson  
President

**Paid for by the shareholder of Tennessee American Water**



Mr. John Watson, President

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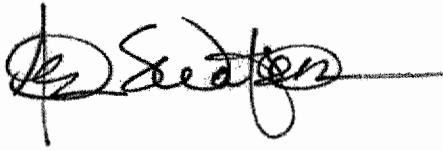
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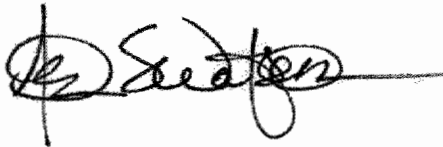
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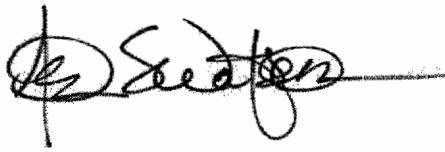
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