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<u>**VIA HAND DELIVERY**</u>

filed electronically in docket office on 04/04/11

Chairman Mary W. Freeman
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: Docket No. 10-00189: ***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***

Dear Chairman Freeman:

This letter is in response to the City of Chattanooga's Supplemental Brief to Post Hearing Brief filed on or about Wednesday. Given the timing of the filing and the upcoming deliberations, TAWC is responding by letter. The two issues that TAWC raised with the City regarding its brief related to two statements that TAWC believed were not accurate.

First, in the City's discussion of Return on Equity, the City represents that Mr. Michael Miller "acknowledged, based on AWWC's stock price, that investors in AWWC are willing to accept a rate of return of only about 5.5%." City of Chattanooga's Post Hearing Brief, at 30. However, Mr. Miller plainly refuted such a statement:

> Q: And if people are willing to buy American Water Works stock at 27.55, and American Water Works Company has earnings annually of $1.53, you calculated that American Water Works Company stock is attracted (sic) to investors at 5.55 percent; correct?
>
> A: <u>No, that's not what I testified to. As a matter of fact, that's not what I said at all.</u> I said the 5.5 percent was current earnings, and I believe Dr. Vander Weide and others here this week have said stock price is driven, and under the discounted cash flow method it's the future earnings that they're looking at. But there's lot of other influences that could come into bear for that.

Michael A. Miller, Vol. VIB, at 137:1 – 137:11 (March 7, 2011) (emphasis added).

In addition, the City represents that Mr. Miller "justified AWWC's decision to deprive TAWC of needed capital by asserting that it was reasonable to send capital to better performing subsidiaries." City of Chattanooga's Post Hearing Brief, at 31. Mr. Miller was very clear in his testimony that there was a distinction between needed capital and discretionary capital, and AWWC had not deprived TAWC of needed capital. Mr. Miller's actual testimony was as follows:

> Q. So you acknowledge that American Water Works Company, in making its decision on where to invest capital, is not investing it based upon the need of the ratepayers served by its subsidiaries, it's doing it based upon what the rate of return is in a particular study; correct?
>
> A. <u>No. I don't agree with that at all.</u> I think it's two parts. First of all, there's such a thing as capital improvements that are "have to be" if there's -- there's no doubt in my 34 years of working for American Water Works, <u>if there was a need in a state that a water quality issue was present, or a 10 service-related issue, I am sure that American Water Works would find a way to get the capital there.</u>
>
> <u>But there's also discretionary capital.</u> You don't have to do everything every year. Some things you need to do, some things you have to do. And I do think there's a difference in that. And <u>I do not want to in any way indicate American Water Works would not keep its systems of its subsidiaries to the extent it was possible to do that, to make sure that the public's health and safety was kept intact.</u>
>
> <u>But to the extent it's discretionary or can be delayed and there's -- there's just not unlimited capital out there</u>. I mean, this capital has to be attracted into the markets.

Michael A. Miller, Vol. VIB, at 132:23 – 133:23 (March 7, 2011) (emphasis added).

TAWC sent an e-mail to the City requesting that these misstatements be corrected and the City filed the referenced Supplement to Post Hearing Brief. However, it does not appear to TAWC that these statements were addressed specifically but instead the City took the opportunity to raise new arguments well after the briefing deadline.

Regardless, the new arguments set forth by the City are without merit and do not change the testimony of Dr. Vander Weide, Mr. Miller and the record as a whole, all of which clearly refute the City's argument that a return on equity of 5.5% is adequate or reasonable. TAWC's post hearing brief discussed at length an appropriate return on equity for TAWC and the need to attract capital and will not rehash those points again here other than to say that the City's arguments do not hold up to scrutiny against the evidence presented by TAWC.

Sincerely,

E. Steele Clayton

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by SMB

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