

NASHVILLE, TENNESSEE

IN RE:

**PETITION OF TENNESSEE-AMERICAN WATER
COMPANY FOR APPROVAL OF AND AUTHORITY TO
BORROW UP TO \$60,000,000 TO REFINANCE
OUTSTANDING INDEBTEDNESS AND FINANCE
ADDITIONS AND IMPROVEMENT TO FACILITIES
AND ACQUISITIONS AND TO REPAY SHORT-TERM
INDEBTEDNESS PURSUANT TO 65-5-109**

DOCKET NO.
14-00061

ORDER APPROVING FINANCING ARRANGEMENTS

This matter came before Director Herbert H. Hilliard, Director Kenneth C. Hill and Director Robin Bennett of the Tennessee Regulatory Authority (the “Authority” or “TRA”), the voting panel assigned to this docket, at a regularly scheduled Authority Conference held on July 22, 2014, for consideration of the *Petition* filed by Tennessee American Water Company (“TAWC” or the “Company”) on June 4, 2014 seeking approval to borrow up to \$60,000,000 to refinance outstanding indebtedness, finance additions and improvements to facilities, acquisitions and to repay short-term indebtedness.

TAWC is a wholly-owned subsidiary of American Water Works Company, Inc. (“AWK”) and provides water service to approximately 75,918 customers in Chattanooga and surrounding areas. TAWC also provides water service to customers in North Georgia.

THE PETITION

On June 15, 2000, the Company entered into a nonexclusive Financial Services Agreement (the “Services Agreement”) with American Water Capital Corp. (“AWCC”), also a wholly-owned subsidiary of AWK, that registers its own debt securities (the “AWCC Securities”) for sale in the U.S. public/private capital markets. From time to time, as the Company needs additional long-term financing, AWCC sells portions of the AWCC Securities in the U.S. public/private capital markets,

or to an investor or lender, and loans the proceeds of the sale of those AWCC Securities to the Company. In addition, the Services Agreement also provides that the Company may utilize AWCC to meet its short-term (maturity of less than one year) borrowing requirements through advances funded by a syndicated credit facility arranged by AWCC and its cash management needs. The Services Agreement obligates TAWC to pay all of its allocated portion of AWCC's costs related to the AWCC Securities issued to fund the loan to the Company, plus, along with other participating operation subsidiaries, its proportionate share of AWCC's overhead. TAWC's participation in the AWCC borrowing program does not preclude it from borrowing from third parties. TAWC is not required to borrow any amount from AWCC and may terminate the Services Agreement upon ten days written notice.

TAWC proposes to continue its participation in the AWCC program and to issue Company Securities in an aggregate principal amount of up to \$60,000,000 from time to time to refinance or repay outstanding indebtedness and to finance the acquisition of additional facilities. The *Petition* states that the maturity of the Company Securities will not be more than fifty years from the nominal date of issue, with the expectation that the maturity dates will be from one to thirty-five years, depending upon market conditions. The interest rates on the Company Securities will be the same as those borne by the AWCC Securities from which the Company Securities were funded and will be determined by market conditions at the time of issuance. It is anticipated that the AWCC Securities will be sold carrying an interest rate spread of approximately 100-200 basis points above the interest rate borne by corresponding United States Treasury securities, based upon current market conditions. To reduce borrowing costs in rising interest rate environments, the Company may use hedging tools like interest rate swaps or other derivative agreements.

FINDINGS AND CONCLUSIONS

Tenn. Code Ann. § 65-4-109 (2004) provides:

No public utility shall issue any stocks, stock certificates, bonds, debentures, or other evidences of indebtedness payable in more than one (1) year from the date thereof,

until it shall have first obtained authority from the authority for such proposed issue. It shall be the duty of the authority after hearing to approve any such proposed issue maturing more than one (1) year from the date thereof upon being satisfied that the proposed issue, sale and delivery is to be made in accordance with law and the purpose of such be approved by the authority.

At a regularly scheduled Authority Conference held on July 22, 2014, the panel voted unanimously to approve the *Petition* and made the following findings:


1. The proposed financing transactions are subject to Authority approval pursuant to Tenn. Code Ann. § 65-4-109 (2004).
2. The proposed financing transactions are being made in accordance with laws enforceable by this agency.
3. The purpose of the transactions is in the public interest because it allows TAWC to finance additions and improvements to its water system.

IT IS THEREFORE ORDERED THAT:

1. Tennessee American Water Company is authorized to enter into the financing arrangements described in the *Petition*.
2. The authorization and approval given hereby shall not be used by any party, including but not limited to, any lending party for the purpose of inferring an analysis or assessment of the risks involved.
3. This decision is not intended to create any liability on the part of the Tennessee Regulatory Authority, the State of Tennessee or any political subdivision thereof.

Director Herbert H. Hilliard, Director Kenneth C. Hill and Director Robin Bennett concur.

ATTEST:



Earl R. Taylor, Executive Director