

BEFORE THE TENNESSEE REGULATORY AUTHORITY

Nashville, Tennessee

August 30, 1996

IN RE: PETITION OF TENNESSEE-AMERICAN)
WATER COMPANY FOR APPROVAL OF)
AND AUTHORITY TO: (1) EXECUTE AND)
DELIVER A THIRTEENTH SUPPLEMENTAL)
INDENTURE TO ITS INDENTURE OF)
MORTGAGE DATED AS OF MAY 1, 1968,)
FOR THE PURPOSE OF CREATING ITS)
GENERAL MORTGAGE BONDS, 7.84%)
SERIES, DUE AUGUST 1, 2026; (2) ISSUE)
AND SELL \$5,700,000 PRINCIPAL AMOUNT)
OF THE BONDS OF THE 7.84% SERIES,)
AND (3) ISSUE AND SELL 990,991)
ADDITIONAL SHARES OF ITS COMMON)
STOCK, \$2.22 PER BOOK VALUE PER)
SHARE FOR \$2,000,000 FOR THE)
PURPOSES AND TO THE BUYERS AS SET)
OUT HEREIN, PURSUANT TO T.C.A.)
§ 65-4-109.)

DOCKET NO. 96-01175

ORDER

This matter is before the Tennessee Regulatory Authority ("Authority") upon Petition of Tennessee-American Water Company ("Company") filed July 24, 1996, wherein the Company seeks approval of and authority to: (1) execute and deliver a Thirteenth Supplemental Indenture to its Indenture Mortgage of May 1, 1968 for the purpose of creating its general mortgage bonds, 7.84% Series, due August 1, 2026; (2) issue and sell \$5,700,000 principal amount of the bonds of the 7.84% Series; and, (3) issue and sell 990,991 additional shares of its common stock, \$2.22 per Book Value per share for \$2,000,000 for the purposes and to the buyers as set out in the Petition, all pursuant to T.C.A. § 65-4-109.

The Authority considered this matter at a regular Authority Conference on August 28, 1996. After consideration of the entire record, including the Staff's memorandum and supplemental memorandum recommending approval of the Company's request as set out in its Petition, which is made a part of the record in this cause, and the applicable laws and statutes, and particularly the requirements of T.C.A. § 65-4-109, the Authority makes the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

1. The Company is a Tennessee corporation with its principal office and place of business in the city of Chattanooga, Hamilton County, Tennessee. It is a public utility as defined in T.C.A. § 65-4-101 and is engaged in the business of rendering water utility services in and adjacent to the City of Chattanooga and in other municipalities in Hamilton and Marion Counties in Tennessee, and in certain areas in Catoosa, Dade and Walker Counties, Georgia. The Company is a wholly owned subsidiary of American Water Works Company, Inc. (AWWC). Like all other operating subsidiaries of AWWC, the Company's ability to obtain debt and equity financing is based upon its investment in operating facilities and the results of its operations in the areas it serves.

2. The Company owns, operates, manages and controls plants, property, equipment and facilities within and adjacent to the City of Chattanooga which are used and useful in the collection, purification, pumping, distribution and furnishing of potable water to the public. The Company currently serves approximately 67,744 customers in Tennessee and Georgia. The

Company is subject to the jurisdiction, regulation and supervision of the Authority pursuant to Chapter 4 of Title 65 of the Tennessee Code Annotated.

3. The capitalization of the Company at June 30, 1996 amounted to \$69,386,603, and consisted of long-term debt and a lease obligation outstanding in the aggregate principal amount of \$35,162,089 (including the current portions thereof, in the principal amount of \$80,969, to be redeemed through sinking funds within twelve months of June 30, 1996, preferred stock in the amount of \$2,639,500 (excluding 255 shares with an aggregate par value of \$25,000 which were redeemed June 1, 1996, and including 660 shares with an aggregate par value of \$66,000 which are to be redeemed on December 1, 1996), short-term bank debt in the amount of \$4,912,000 and common equity in the amount of \$26,673,014.

4. At June 30, 1996, the Company had no outstanding indebtedness beyond the aforesaid general mortgage bonds and capital lease, except current liabilities (including short-term bank debt), deferred credits and contributions in aid of construction.

5. The Company's authorized capital stock by the terms of its present Charter consists of 70,000 shares of Cumulative Preferred Stock of the par value of \$100.00 per share and 20,000,000 shares of Common Stock of the par value of \$1.00 per share.

6. The outstanding capital stock of the Company at June 30, 1996 is represented by:

- (a) 14,000 shares of 5% Cumulative Preferred Stock, with an aggregate par value of \$1,400,000;
- (b) 2,295 shares of 4-1/2% Cumulative Preferred Stock, with an aggregate par value of \$229,500;
- (c) 10,100 shares of 9% Cumulative Preferred Stock, with an aggregate par value of \$1,010,000,
- and (d) 11,912,179 shares of Common Stock, with an aggregate par value of \$11,912,179.

7. All issues of general mortgage bonds and all classes of capital stock of the Company outstanding at June 30, 1996 were duly authorized by Orders of the Tennessee Public Service Commission heretofore entered on the basis of previous proceedings conducted by it relative thereto.

8. The Company proposes, subject to the necessary authorization of this Authority, and to the provisions of the Indenture relating to the issuance of additional bonds thereunder, to:

(a) execute and deliver to the Trustee a Thirteenth Supplemental Indenture to the Indenture ("Thirteenth Supplemental Indenture"), for the purpose of creating the new series of general mortgage bond to be issued by the Company thereunder, to be respectively designated "General Mortgage Bonds, 7.84% Series, due August 1, 2026" (7.84% Bonds), and to have such other characteristics as hereafter shall be determined by the Company's Board of Directors in accordance with the terms and provisions of the Indenture;

(b) execute and issue under and pursuant to the Indenture and the Thirteenth Supplemental Indenture, \$5,700,000 aggregate principal amount of the 7.84% Bonds, all such bonds to be dated as of the date of the delivery thereof, and bearing interest at the rate of 7.84% per annum from the date thereof, payable semiannually;

(c) sell through a private placement arranged by First Union National Bank, Charlotte, North Carolina \$5,700,000 aggregate principal amount of the 7.84% Bonds to an institutional investor, First Colony Life Insurance Company ("First Colony"), for cash at the face value thereof, in accordance with a sale and purchase agreement to be entered into; and

(d) issue and sell to its parent company, American Water Works Company, Inc. 990,991 shares of its Common Stock, book value \$2.22 per share (the "additional Common Stock"), for an aggregate price of \$2,000,000.

9. Issuance and sale of the 7.84% Bonds and the additional Common Stock as proposed by the Company, will be in accordance with the applicable provisions of the Indenture, are necessary in the operation and management of the business of the Company and are in the best interests of the Company and the customers it serves and, therefore, should be approved by the Authority.

10. The Indenture provides that, subject to compliance with all other applicable terms thereof and upon authorization by the Authority and the Company's Board of Directors, additional general mortgage bonds may be issued so long as the aggregate principal amount of such additional bonds and all other outstanding "Long-Term Debt" of the Company does not exceed 65% of the "Total Capitalization" of the Company, as such terms are defined in the Indenture.

11. The issuance of additional general mortgage bonds is also subject to covenants contained in certain supplemental indentures to the Indenture which prohibit the issuance of such additional bonds unless the income of the Company, before income taxes, equals or exceeds 150% of the aggregate annual interest charges on all "Long-Term Debt" to be outstanding following issuance of the additional bonds, as defined in the Indenture.

12. The Company proposes to use the proceeds from the sale of the 7.84% Bonds and additional common stock, net of the cost of issuance, to: (a) repay or reduce outstanding short-term bank debt incurred, or to be incurred, in the construction of additional facilities and to meet

sinking fund obligations on the Company's cumulative preferred stock; and (b) fund the construction of additional facilities.

13. The Company has filed a pro forma income statement, Exhibit B, which discloses that on the basis of the data contained therein, the Company is warranted in estimating that its future operations will produce revenues sufficient to enable it to meet all interest payments on its outstanding general mortgage bonds and on the 7.84% Bonds after payment of, or making provisions for, all operating and maintenance expenses, depreciation, amortization, taxes and other miscellaneous expenses, and to permit the payment of fixed dividends on its outstanding preferred stock.

14. As set out in the Petition and the Exhibits thereto, the Authority finds that the \$5,700,000 aggregate principal amount of the 7.84% Bonds, with a coupon rate of 7.84% will be sold through a private placement arranged by First Union National, Charlotte, North Carolina to an institutional investor, First Colony Life Insurance Company, for cash, at face value thereof, in accordance with Bond Purchase Agreement to be entered into. The Company in its Petition represented that these rates were the best rates available in the market at that time and the proposed financing was also recommended by the Staff.

The Authority finds that the terms of the 7.84% Bonds are fair and reasonable and in the best interest of the customers it serves and therefore should be authorized and approved. The Company has determined that the terms of the 7.84% Bonds are in its best interests.

15. The Authority finds that the proposal as set out in the Petition and Exhibits thereto, to issue and sell to its parent company, American Water Works Company, Inc. 990,991 shares of its Common Stock, book value \$2.22 per share for an aggregate price of \$2,000,000 is fair and

reasonable and, therefore, should be authorized and approved. The Company has determined that the terms of the stock are in the best interests of the Company.

16. The Authority further finds that the program for financing set out in the Petition and Exhibits thereto: (a) has been approved by the Company's Board of Directors; (b) is necessary and proper and the expansion and improvements of the Company's facilities and other purposes for which the funds derived therefrom will be used are in the best interests of the Company and the customers that it serves: and (c) is in accordance with and within the authority of the Commission pursuant to T.C.A. § 65-4-109 and should, therefore, be approved.

CONCLUSIONS OF LAW

1. The Company is subject to regulation and supervision by the Authority pursuant to Chapter 4, Title 65 of Tennessee Code Annotated and the Petition filed by the Company and the relief sought is pursuant to T.C.A. § 65-4-109.

2. The proposed issue of \$5,700,000 principal amount of the 7.84% Bonds, to be dated on the date of delivery thereof, due August 1, 2026 and bearing interest at the rate of 7.84% per annum from the date thereof, payable semi-annually, all as set out in the Petition and the Exhibits thereto, is fair, just and reasonable and is comparable to alternative long-term debt cost available from other sources and is necessary and in the best interest of the Company and its customers and, therefore, the Authority should approve this loan and authorize the Company to take all the necessary steps as set out in its Petition and Exhibits thereto pursuant to T.C.A. § 65-4-109.

3. The proposed issue and sale of 990,991 shares of its Common Stock, book value \$2.22 per share, for an aggregate price of \$2,000,000, as set out in the Petition and Exhibits thereto, is necessary and proper and in the best interest of the Company and its customers, and, therefore, the Authority should approve same and authorize the Company to take all necessary steps as set out in its Petition and Exhibits thereto pursuant to T.C.A. § 65-4-109.

IT IS, THEREFORE, ORDERED:

1. That the Company is hereby authorized to make, execute and deliver the Thirteenth Supplemental Indenture to the Indenture for the purpose, among others, of creating the 7.84% Bonds and specifying the characteristics thereof as shall be determined by the Company's Board of Directors in accordance with the Indenture;

2. That the Company is hereby authorized to execute and issue \$5,700,000 principal amount of the 7.84% Bonds, dated the date of delivery thereof, due August 1, 2026, and bearing interest at the rate of 7.84% per annum from the date thereof, payable semiannually;

3. That the Company is hereby authorized to sell the 7.84% Bonds to an institutional investor, First Colony Life Insurance Company, for cash at the face value thereof;

4. That the Company is hereby authorized to issue, sell and deliver to its parent company, American Water Works Company, Inc., 990,991 shares of its Common Stock, book value \$2.22 per share, for \$2,000,000;

5. That the Company is hereby authorized to use the cash proceeds arising from the sale of the 7.84% Bonds and the Common Stock for the purposes set forth in this Petition and Exhibits thereto;

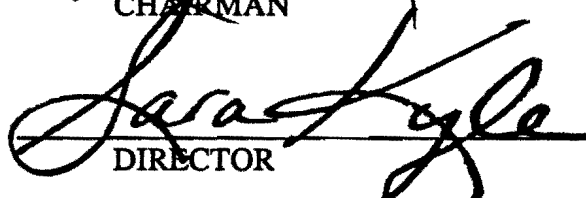
6. That the Company file with the Executive Secretary of the Authority to be made a part of the permanent file in this matter an executed copy of: (a) the Thirteenth Supplemental Indenture; (b) executed copies of the Bond Purchase Agreement between the purchaser and the Company when the same are available for the permanent records of the Authority.

7. That any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from and after the date of this Order.

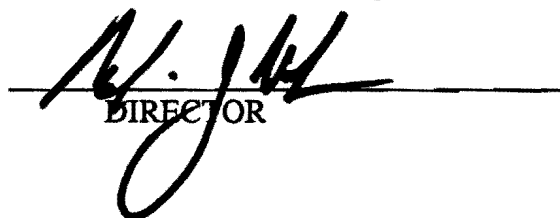
8. That any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.



CHAIRMAN



DIRECTOR



DIRECTOR

ATTEST:



INTERIM EXECUTIVE SECRETARY