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To Our Valued Customer:

Tennessee American Water is proud to be your water provider. Generations of employees have served customers in Chattanooga for 138 years. Our history is important, but I realize what's most important to you is receiving high-quality water and reliable service. That is our only focus.

In fact, we are investing \$21.4 million to improve our water system and ensure you receive the high-quality water you expect from us. The largest single project is an \$8.8 million upgrade to the main water treatment plant to replace sedimentation basins, upgrade the chlorine treatment facilities and improve the electrical systems. The investment also includes replacement of 5,066 water meters, upgrading 9,321 meters with new radio-read technology, \$3 million to support TDOT improvements and \$2.5 million to replace 27,200 feet of water main. That is a lot of investment, but regular, annual investment in the water system is something all water utilities need to do to maintain high-quality water and reliable service. These projects create work for local companies and jobs for local residents.

As an investor-owned utility, our rates and service quality are regulated by the Tennessee Regulatory Authority (TRA), an agency of state government. The professional oversight of the TRA is a benefit for our customers that does not exist for some of your other utilities. Recently, we have requested that the TRA consider a rate adjustment. The request is largely driven by our investments in water facilities, but also by increases we have experienced for fuel, electricity, pensions and the petroleum-based chemicals we use to treat your water.

For the average customer using 4,305 gallons of water a month, the increase would be \$3.65 if the full rate request is approved. The average bill would rise from \$16.54 to \$20.19 a month. I realize a 20.58 percent increase is significant, and our company has taken steps to control expenses while continuing to renew and improve our facilities. For example, we have equipped our field service vehicles with computers to improve service efficiency, and are installing radio-read meters to reduce estimated bills and improve meter-reading efficiency.

Let me show you what currently makes up the average Tennessee American Water bill.

	\$	%
Cost to take water out of the river	0.90	5.42%
Treatment cost	0.81	4.89%
Distribution to home	2.40	14.50%
Customer billing	2.74	16.58%
Employee labor & related benefit costs	5.23	31.61%
Materials, supplies, rent, etc.	1.48	8.96%
City, county and state taxes	1.38	8.36%
Income taxes	<u>1.60</u>	<u>9.69%</u>
	16.54	100.00%

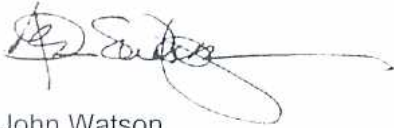
Some customers have expressed concerns about sewer rate increases. Tennessee American Water is a billing agent for the City of Chattanooga, but I want to emphasize that the sewer charges you pay are not related to your water rates. Your sewer bill has increased four times in the last 22 months – October 2006, April 2007, October 2007 and April 2008 – because of **City-imposed sewer rate increases** that are not related to Tennessee American Water. What you pay for sewer is based on rates set by the Chattanooga City Council and is based on the amount of water you use.

It is important to examine the bill you receive and evaluate the cost for water service separately from the cost for sewer service. I believe the value of the water service we provide is the best of any utility service our customers receive.

The Chattanooga Manufacturers Association (CMA) and the City of Chattanooga seem to think differently, and they have started a campaign against Tennessee American Water. While the TRA process invites interested parties to professionally participate in the regulatory review, the CMA and the City have gone beyond constructive participation in the process. They have sought to move the rate review from the hearing room to the media while, regrettably, doing more to misinform than inform customers like you. These efforts appear to be nothing more than a veiled attempt to build support for a future attempt to use eminent domain to take over our company rather than legitimately engaging in the regulatory process.

The TRA will hold rate case hearings in Chattanooga on August 18-22 where witnesses will testify under oath and TRA Directors will hear all sides. After the hearings, the TRA Directors will take about a month to reach a final decision in the case. We will update you once the final decision is made.

Sincerely,

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

John Watson
President

Not paid for at customer expense