

NOTICE OF PROPOSED WATER RATE CHANGE

Texas-American Water Company

(formerly doing business as Southwest Utilities, Inc. and Walker Water Works, Inc.)¹

Company Name

13114

CCN No.

NOTICE OF PROPOSED WATER RATE CHANGE

Texas-American Water Company

(formerly doing business as Southwest Utilities, Inc. and Walker Water Works, Inc.)

Company Name

13114

CCN No.

Texas Commission on Environmental Quality

Water Supply Division

Utilities & Districts Section, MC 153

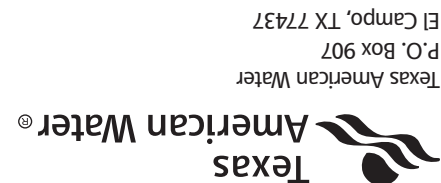
P. O. Box 13087

Austin, Texas 78711-3087

Unless protests are received from 10 percent of the ratepayers or the Commission staff requests a hearing, no hearing will be held and rates will be effective as proposed. Please read the following information carefully:

Subdivisions or Systems Affected by Rate Change:

| Water System Name | TCEQ PWS ID # | Water System Name | TCEQ PWS ID # |
|--------------------------------|---------------|----------------------------|---------------|
| Airport Heights | 1700006 | Meadowlark | 0200271 |
| Aldine Meadows | 1010092 | Meadowview | 0200189 |
| Arrowhead Lake & Frontier Lake | 1700171 | Moreland 1&2 | 0200226 |
| Ashley Oaks | 0200415 | Moreland 3&4 | 0200227 |
| Bergville Addition | 1010099 | Oak Bend Estates | 0200146 |
| Bernard Acres | 0200065 | Oak Hollow Subdivision | 1610031 |
| Bertrand Water System | 1010100 | Palmetto | 0200242 |
| Calico Farms | 0200152 | Pine Vista M.H. Village | 1700078 |
| Centennial Place | 0200190 | Piney Point Subdivision | 1700061 |
| Colonial Hills | 1010116 | Pleasant Meadows | 0200223 |
| Country Creek Estates | 0200337 | Pleasantdale | 0200248 |
| Dorsett Place | 1010122 | Quail Meadows | 0200219 |
| Enchanted Forest | 1700040 | Sandy Ridge | 0200255 |
| Flora Section 6 | 0200153 | Sharondale | 0200258 |
| Flora Section 7 | 0200151 | South Meadows | 0200413 |
| Forest Woods Subdivision | 1700106 | Spring Creek Forest | 1010334 |
| Greenwood Village | 1010011 | Sterling Estates | 0200363 |
| Hastings | 0200218 | Stetner Addition | 1010216 |
| Heights Country | 0200349 | Tidewater Oaks Subdivision | 1610033 |
| Hidden Forest Estates | 1700173 | Tres Palacios Oaks | 1610017 |
| Kenwood Subdivision | 1010163 | Village Trace | 0200341 |
| Laird Estates | 1700015 | Wellborn Acres | 0200211 |
| Lake Conroe West | 1700041 | Westwood | 0200254 |
| Las Playas | 0200067 | Weybridge | 0200019 |
| Maywood Acres | 1460033 | WindSong | 0200229 |
| Meadowland | 0200347 | | |



PRESORTED
First Class
U.S. Postage
PAID
Royersford, PA
Permit #539

¹ On June 25, 2007 TCEQ approved the merger of Southwest Utilities, Inc. and Walker Water Works, Inc. into Texas-American Water Company.

Notice of Proposed Water Rate Change (contd.)

| | | | | |
|--------------------------|----------|---|-------|--------------|
| P.O. Box 907 | El Campo | TX | 77437 | 979-543-5244 |
| Company Address | City | State | Zip | Telephone |
| \$680,876 (33.86%) | | February 21, 2008 | | |
| Annual Revenue Increase | | Date Customer Notice Mailed | | |
| December 17, 2006 | | 13 cycles throughout the first three weeks of the month | | |
| Date of Last Rate Change | | Date Meters Typically Read | | |

EFFECTIVE DATE OF PROPOSED INCREASE: April 22, 2008

REQUEST FOR RECOVERY OF POSITIVE ACQUISITION ADJUSTMENT: In this rate change application, the Company is requesting recovery of a positive acquisition adjustment under Commission rules at 30 Tex. Admin. Code Sec. 291.31(d) for utility plant, property and equipment acquired by the Company in a purchase from another retail public utility. The justification for the acquisition adjustment under the Commission rules is set forth in the application.

TEXAS-AMERICAN WATER COMPANY CUSTOMERS INSIDE THE CITY OF PEARLAND: Please note that the City of Pearland's City Council has original ratemaking jurisdiction over your rates. An identical rate change application has been filed with the City of Pearland's City Secretary. All protests and hearing requests from customers inside the City of Pearland must be filed with: **City Secretary, City of Pearland City Hall, 3519 Liberty Drive, Pearland, Texas 77581.** The application is a public record at the City. Unless protests are received from 10 percent of the affected ratepayers or the City staff requests a hearing, no hearing will be held. The same statements herein concerning Commission action on the rate change application filed with the Commission also apply to the City of Pearland City Council regarding the in-city rate change application filed with the City Secretary of the City of Pearland.

BILLING COMPARISON FOR WATER RATES:

| | | | | | | |
|--|-------------------------------|-------------------|--------------------------------|-------------------|--------------------------------|--------------------|
| Residential Customer Bill with 5/8" or 3/4" Meter Size Under Existing Rates: | at 3,000 gallons consumption: | \$29.99 per month | at 10,000 gallons consumption: | \$53.30 per month | at 30,000 gallons consumption: | \$119.90 per month |
| Residential Customer Bill with 5/8" or 3/4" Meter Size Under Proposed Rates: | at 3,000 gallons consumption: | \$34.49 per month | at 10,000 gallons consumption: | \$75.29 per month | at 30,000 gallons consumption: | \$214.30 per month |

Note: The proposed rates will apply to all water service rendered on or after the first day of a billing cycle occurring on or after the effective date and will be reflected on the bill you receive approximately 30 to 45 days after the effective date. In the event that the application is set for hearing, the specific rates requested by the utility may be decreased or increased by order of the Commission. If the Commission orders a lower rate to be set, the utility may be ordered to refund or credit against future bills all sums collected during the pendency of the rate proceeding in excess of the rate finally ordered plus interest. You may inspect a copy of the rate change application at your utility's office or at the Commission's office at 12015 Park 35 Circle, Building F, Suite 3101, Austin, Texas. Additional information about the application can be obtained by contacting the Utilities and Districts Section at (512) 239-4691. Information about how you can participate in the rate setting process can be obtained by contacting the Public Interest Counsel at (512) 239-6363.

CURRENT WATER RATES

Monthly base rate including 0 gallons

| | |
|---------------------------|----------|
| Meter Size: | |
| 5/8" x 3/4" (Residential) | \$ 20.00 |
| 1" | \$ 76.25 |
| 1 1/2" | \$152.50 |
| 2" | \$244.00 |
| 3" | \$457.50 |
| 4" | \$762.50 |

Gallonge Charge: \$3.33 per 1000 gals. and each additional 1,000 gals.

Mobile Home Park Class: Base rate of \$179.84 per month, incl. 0 gallons. Gallonge charge of \$2.65 per 1,000 gals. metered actual month's water consumption.

Miscellaneous Fees

| | |
|--|------------------------------|
| Tap fee | \$500.00 |
| Meter test fee | Actual cost up to \$25.00 |
| Reconnection fee | |
| For non-payment | \$25.00 |
| For customer's request | \$50.00 |
| Transfer fee | \$25.00 |
| Late charge | \$5.00 |
| Returned check charge | \$20.00 |
| Deposit (Residential) | \$50.00 |
| Deposit (Commercial and non-residential) | 1/6 of estimated Annual bill |

Regulatory Assessment of 1% is added to base rate and gallonge charges.

Groundwater Reduction Plan Fee:

This Groundwater Reduction Plan (GRP) Fee Surcharge applies only to the Greenwood Village, Colonial Hills, and Bertrand water systems and represents an automatic pass-through of actual costs levied by the City of Houston under the Groundwater Reduction Plan (GRP) required by the Harris-Galveston Coastal Subsidence District. The GRP fees charged by the City of Houston will be charged monthly based on well pumpage and will be passed through directly to each customer served by the wells affected by the GRP and shown as a separate line item on the bill. The GRP fee monthly charge amount will be set once a year. The amount collected from customers will be accounted for in a separate balancing account. At the end of one year, any overage or underage will be estimated and applied as a credit or debit to next year's GRP fee monthly charge based on the latest billing information from the City of Houston and the estimated usage per customer in each of the three subdivisions.

PROPOSED WATER RATES

Monthly base rate including 0 gallons

| | |
|---------------------------|----------|
| Meter Size: | |
| 5/8" x 3/4" (Residential) | \$22.50 |
| 1" | \$85.75 |
| 1 1/2" | \$171.50 |
| 2" | \$274.50 |
| 3" | \$514.75 |
| 4" | \$858.00 |

Gallonge Charge: \$3.996 per 1000 gals up to 3,000 gals. \$5.829 per 1000 gals between 3,001 - 10,000 gals of usage. \$6.951 per 1000 gals for usage greater than 10,000 gals.

Mobile Home Park Class (2-inch or larger meter sizes): Base Rate of \$211.04 per month, incl. 0 gallons. Gallonge charge is \$3.110 per 1000 gals. of consumption.

Miscellaneous Fees

| | |
|--|------------------------------|
| Tap Fee | \$500.00 |
| Meter test fee | Actual cost up to \$25.00 |
| Reconnection fee | |
| For non-payment | \$25.00 |
| For customer's request | \$50.00 |
| Transfer fee | \$25.00 |
| Late charge: | \$5.00 |
| Returned check charge | \$20.00 |
| Deposit (Residential) | \$50.00 |
| Deposit (Commercial and non-residential) | 1/6 of estimated Annual bill |

Groundwater Reduction Plan Fee:

This Groundwater Reduction Plan (GRP) Fee Surcharge applies only to the Greenwood Village, Colonial Hills, and Bertrand water systems and represents an automatic pass-through of actual costs levied by the City of Houston under the Groundwater Reduction Plan (GRP) required by the Harris-Galveston Coastal Subsidence District. The GRP fees charged by the City of Houston will be charged monthly based on well pumpage and will be passed through directly to each customer served by the wells affected by the GRP and shown as a separate line item on the bill. The GRP fee monthly charge amount will be set once a year. The amount collected from customers will be accounted for in a separate balancing account. At the end of one year, any overage or underage will be estimated and applied as a credit or debit to next year's GRP fee monthly charge based on the latest billing information from the City of Houston and the estimated usage per customer in each of the three subdivisions.