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March 14, 2007

**VIA HAND-DELIVERY**

Chairman Sara Kyle  
c/o Sharla Dillon  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

***Re: 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; Docket No. 06-00290***

Dear Chairman Kyle:

Enclosed please find an original and sixteen (16) copies of Tennessee American Water Company's Discovery Requests to Consumer Advocate and Protection Division of the Attorney General for the State of Tennessee.

Please return three copies of the Discovery Requests, which I would appreciate your stamping as "filed," and returning to me by way of our courier.

Should you have any questions concerning any of the enclosed, please do not hesitate to contact me.

With kindest regards, I remain

Yours very truly,



R. Dale Grimes

RDG/ms  
Enclosures

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Chairman Sara Kyle  
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cc: Hon. Pat Miller (*w/o enclosure*)  
Hon. Ron Jones (*w/o enclosure*)  
Hon. Eddie Roberson (*w/o enclosure*)  
Ms. Darlene Standley, Chief of Utilities Division (*w/o enclosure*)  
Richard Collier, Esq. (*w/o enclosure*)  
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division (*w/o enclosure*)  
Ms. Pat Murphy (*w/o enclosure*)  
Michael A. McMahon, Esq. (*w/enclosure*)  
Frederick L. Hitchcock, Esq. (*w/enclosure*)  
Vance Broemel, Esq. (*w/enclosure*)  
Henry Walker, Esq. (*w/enclosure*)  
David Higney, Esq. (*w/enclosure*)  
Mr. John Watson (*w/o enclosure*)  
Mr. Michael A. Miller (*w/o enclosure*)

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

**IN RE:**

**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 )**

**Docket No. 06-00290**

**TENNESSEE AMERICAN WATER COMPANY'S DISCOVERY REQUESTS TO  
CONSUMER ADVOCATE AND PROTECTION DIVISION OF THE ATTORNEY  
GENERAL FOR THE STATE OF TENNESSEE**

Petitioner Tennessee American Water Company ("Petitioner" or "TAWC") serves these Discovery Requests on the Consumer Advocate and Protection Division of the Attorney General for the State of Tennessee ("CAPD"), and asks that CAPD provide responses to each request separately, fully, and in writing. CAPD is also called upon to produce all documents and evidence requested herein. Furthermore, CAPD is called upon to fulfill its duty to supplement its answers as far in advance of the beginning of any hearing as is reasonably possible if it has learned that any response is in any material respect incomplete, incorrect or has changed.

In these discovery requests, the terms "document" or "documents" or "documentation" refers to all written, reported, recorded or graphic matter (including all drafts, originals and nonconforming copies that contain deletions, insertions, handwritten notes or comments, and the like) however produced or reproduced to any tangible or intangible, permanent or temporary record and, without limitation, shall include the following: all letters, correspondence, records of

conferences or meetings, memoranda, notes, printed electronic mail ("e-mail"), telegrams, telephone logs, teletypes, telexes, banking records, notices of wire transfer of funds, canceled checks, books of account, budgets, financial records, contracts, agreements, invoices, speeches, transcripts, depositions, press releases, affidavits, communications with government bodies, interoffice communications, working papers, newspaper or magazine articles, computer data, tax returns, vouchers, papers similar to any of the foregoing, and any other writings of every kind and description (whether or not actually used) and any other records from which information can be obtained and translated into reasonably usable form, including without limitation, e-mail, voice recordings, video and audio recordings, photographs, films, tapes and other data compilations.

**DISCOVERY REQUEST NO. 1:**

State each fact that you rely on to support your contention(s), position(s) or belief(s) that any of the request(s) for relief, including any increase in rates, made by TAWC in TRA Docket No. 06-00290 should not be approved by the Tennessee Regulatory Authority ("TRA").

**RESPONSE:**

**DISCOVERY REQUEST NO. 2:**

Identify all persons known to you, your attorney, or other agent who have knowledge, information or possess any document(s) or claim to have knowledge, information or possess any document(s) which support your answer to Interrogatory number one (1) above.

**RESPONSE:**

**DISCOVERY REQUEST NO. 3:**

Identify each document, photograph, or any other article or thing whatsoever, which you rely on to corroborate any part of your contention(s), position(s) or belief(s) that any of the request(s) for relief, including any increase in rates, made by TAWC in TRA Docket No. 06-00290 should not be approved, whether as to the issues of credibility or any other issue, or which is adverse to these same contention(s), position(s) or belief(s).

**RESPONSE:**

**DISCOVERY REQUEST NO. 4:**

With respect to each person you expect to call as a witness, including any expert witness, regarding this matter, state or provide:

- a. the witness's full name and work address;

**RESPONSE:**

- b. each subject matter about which such witness is expected to testify;

**RESPONSE:**

- c. the substance of the facts and opinions to which any expert is expected to testify;

**RESPONSE:**

- d. a summary of the grounds or basis of each opinion to which any such expert witness is expected to testify;

**RESPONSE:**

- e. whether or not the expert has prepared a report, letter or memorandum of his findings, conclusions, or opinions;

**RESPONSE:**

- f. the witness's complete background information, including current employer, educational, professional and employment history, and qualifications within the field in which the witness is expected to testify, and identify all publications written or presentations made in whole or in part by the witness;

**RESPONSE:**

g. an identification of any matter in which the expert has testified (through deposition or otherwise) by specifying the name, docket number and forum of each case, the dates of the prior testimony and the subject of the prior testimony, and identify the transcripts of any such testimony;

**RESPONSE:**

h. the identity of any person with whom the witness consulted or otherwise communicated in connection with his expected testimony;

**RESPONSE:**

i. the terms of the retention or engagement of each expert including but not limited to the terms of any retention or engagement letters or agreements relating to his/her engagement, testimony, and opinions as well as the compensation to be paid for the testimony and opinions;

**RESPONSE:**

j. the identity of all documents or things shown to, delivered to, received from, relied upon, or prepared by any expert witness, which are related to the witness' expected testimony in this case, whether or not such documents are supportive of such testimony, including without limitation all documents or things provided to that expert for review in connection with testimony and opinions; and

**RESPONSE:**

k. the identity of any exhibits to be used as a summary of or support for the testimony or opinions provided by the expert.

**RESPONSE:**

**DISCOVERY REQUEST NO. 5:**

Provide any and all documents identified or specified in your answers or responses to the discovery requests served upon you in this matter.

**RESPONSE:**

**DISCOVERY REQUEST NO. 6:**

Provide any and all documents and things relied upon by any CAPD witness in providing testimony in this matter.

**RESPONSE:**

**DISCOVERY REQUEST NO. 7:**

Provide any and all expert reports which have been obtained from any expert.

**RESPONSE:**



**DISCOVERY REQUEST NO. 8:**

Provide each document, photograph, or any other article or thing whatsoever, upon which you rely in support of your contention(s), position(s) or belief(s) that any of the request(s) for relief, including any increase in rates, made by TAWC in TRA Docket No. 06-00290 should not be approved.

**RESPONSE:**

**DISCOVERY REQUEST NO. 9:**

Provide in electronic media (Word, Excel, or other Microsoft Office compatible format) and in hard copy all workpapers and other documents, generated by or relied upon by all CAPD witnesses.

**RESPONSE:**

**DISCOVERY REQUEST NO. 10:**

Please produce a copy of all trade articles, journals, treatises and publications of any kind in any way utilized or relied upon by any of CAPD's proposed expert witnesses in evaluating, reaching conclusions or formulating an opinion in the captioned matter.

**RESPONSE:**

**DISCOVERY REQUEST NO. 11:**

Please produce a copy of all articles, journals, books or speeches written by or co-written by any of CAPD's expert witnesses, whether published or not.

**RESPONSE:**

**DISCOVERY REQUEST NO. 12:**

Please produce any and all documentation, items, reports, data, communications, and evidence of any kind that CAPD intends to offer as evidence at the hearing or to refer to in any way at the hearing.

**RESPONSE:**

**DISCOVERY REQUEST NO. 13:**

Please produce copies of any and all documents referred to or relied upon in responding to these discovery requests.

**RESPONSE:**

**DISCOVERY REQUEST NO. 14:**

Please identify each person who provided information or participated in the preparation of the responses to each of these discovery requests, and for each such person specify the

responses to which he or she provided information or participated in preparing, and describe the information provided or the participation in preparation.

**RESPONSE:**

**DISCOVERY REQUEST NO. 15:** Reference p. 10, lines 10-12.

“Mr. Miller warned all parties that if AWW became a public company, it would, at its discretion, deplete TAWC’s equity.”

Questions:

- a. In what way does Dr. Brown believe that AWW would “deplete TAWC’s equity?”
- b. What does Dr. Brown believe would be AWW’s incentive to deplete TAWC’s equity?

**DISCOVERY REQUEST NO. 16:** Reference p. 11, lines 27-36.

Also, AWW’s equity ratios were well below the equity ratios of most other publicly-traded water companies. These facts are presented in my Schedules 1, 2 and 3. Furthermore, I provided direct testimony in TRA Dockets Nos. 03-00118 and 04-00288 regarding the equity ratio of TAWC’s ultimate owner, RWE. At the time RWE’s equity ratios were about 11% and 27%.

Questions:

- a. The testimony claims that “RWE’s equity ratios were about 11% and 27%.” Are those book value or market value capital structure ratios?
- b. If book value ratios, please confirm that the accounting books are not based upon U.S. Generally Accepted Accounting Procedures (GAAP).

- c. Please specify the accounting standards relied upon.
- d. If the answer to part b) is confirmed, how does the difference in accounting procedures affect the reported equity percentages in the capital structure?

**DISCOVERY REQUEST NO. 17:** Reference p. 12, lines 11-17.

In addition, my opinion is that AWW's post-IPO capital structure, whatever level it may be initially, will not be sustainable without additional rounds of rate cases for the subsidiary, despite TAWC having filed rate cases 2003, 2004, and November 2006.

Questions:

- a) In what way is the capital structure of TAWC "not sustainable without additional rounds of rate cases?"
- b) Please explain fully why the capital structure percentages of debt and equity in TAWC capital structure would necessarily change because of a future rate case.

**DISCOVERY REQUEST NO. 18:** Reference p. 12, lines 25-28.

At page 18 he notes that AWW will have to provide \$1.75 billion to redeem AWW's preferred stock held by an RWE affiliate.

Questions:

- a) If investors know that AWW will have "to redeem \$1.75 billion of AWW's preferred stock held by an RWE affiliate", why wouldn't investors in AWW's IPO pay RWE \$1.75 *less* for the IPO than if the preferred were redeemed prior to the IPO? Please explain fully

- b) Does Dr. Brown agree that the book value of AWW's common stock after the IPO will equal the book value of AWW's assets minus the book value of debt and preferred allocated to AWW? If not, please explain fully.

**DISCOVERY REQUEST NO. 19:** Reference p. 21, lines 16-18.

"...but in 2007 Dr. Vilbert's respective estimates are 6.5% and 13%"

Questions:

- a) Please confirm that the 6.5% referenced in the citation is Dr. Vilbert's estimate of the long-term market risk premium? If not confirmed, please explain fully why not.
- b) Please confirm that the 13% referenced in the citation is the expected return on the market.
- c) Please confirm that Dr. Vilbert used an estimate of 5.0% for the long-term risk-free rate. If not confirmed, please explain fully why not.
- d) Please confirm that using the 5.0% risk-free rate with a 6.5% MRP results in an estimate of 11.5% for the market, not the 13% in the citation. If not confirmed, please explain fully why not.

**DISCOVERY REQUEST NO. 20:** Reference p. 27, lines 16-18.

In addition, for seven out of eight companies, price growth from 2003 to 2007 was much larger than the price growth from 2000 to 2003.

Questions:

- a) What was the return on the S&P 500 during 2000 to May 2003 compared to May 2003 to December 2006?
- b) Given the return differences on the market, wouldn't Dr. Brown expect the prices of the water companies to grow more rapidly in the latter period? If not, please explain fully why not.

**DISCOVERY REQUEST NO. 21:** Reference p. 30, lines 25-27.

I use historical growth rates, and I shed light on the effect of the tax cut.

Questions:

Please provide all references on which Dr. Brown relies that documents the superiority of using historical dividend growth rates over use of analysts' forecasts of growth rates in the DCF model.

**DISCOVERY REQUEST NO. 22:** Reference p. 33, lines 29-33.

The former Chairman of the Federal Reserve Board singled out I/B/E/S as a data source of exaggeration. The NYSE NAD joint report says that conflicts of-interest still exist.

Questions:

- a) Please provide a citation to the publication quoting the Chairman of the Federal Reserve Board.
- b) Please confirm that I/B/E/S serves as a collection and distribution source for stock analysts' forecasts. If Dr. Brown cannot confirm, please explain fully why not.
- c) Given that I/B/E/S merely collects the forecasts of analysts, please specify how I/B/E/S is a "source of exaggeration"?

**DISCOVERY REQUEST NO. 23:** Reference p. 35, lines 14-16.

In a FERC docket where he testified as a witness Dr. Vilbert relied on the DCF model.

Questions:

- a) Has Dr. Brown ever testified before the FERC on the cost of capital?
- b) If so, please provide citations to all such proceedings.
- c) Please provide a copy of Dr. Brown's testimony in the three most recent proceedings before the FERC.

**DISCOVERY REQUEST NO. 24:** Reference p. 17.

Questions: Please provide any and all the back-up material referenced including the sources for

- a) Bank of America's ROE of 8.5% in October of 2006.
- b) Roger Ibbotson's ROE of 9.0% in October of 2006.
- c) Vanguard Group's ROE of 8.0% in May of 2006.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "R. Dale Grimes", written over a horizontal line.

R. Dale Grimes (#6223)

J. Davidson French (#15442)

BASS, BERRY & SIMS PLC

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*Counsel for Petitioner*

*Tennessee American Water Company*



**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing has been served via the method(s) indicated, on this the 14 day of March, 2007, upon the following:

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<input type="checkbox"/> Mail	Special Counsel
<input type="checkbox"/> Facsimile	City of Chattanooga (Hamilton County)
<input checked="" type="checkbox"/> Overnight	Office of the City Attorney
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	801 Broad Street
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