

BASS, BERRY & SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

R. DALE GRIMES
TEL: (615) 742-6244
FAX: (615) 742-2744
dgrimes@bassberry.com

AMSOUTH CENTER
315 DEADERICK STREET, SUITE 2700
NASHVILLE, TN 37238-3001
(615) 742-6200

www.bassberry.com

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March 19, 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 Objections to Second Discovery Requests by the Consumer Advocate and Protection Division.

Please return three copies of the Response, 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 by permission
R. Dale Grimes

RDG/ms
Enclosures

Allen F. ...

Chairman Sara Kyle
March 19, 2007
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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)	Docket No. 06-00290
EARN A FAIR AND ADEQUATE RATE)	
OF RETURN ON ITS PROPERTY USED)	
AND USEFUL IN FURNISHING WATER)	
SERVICE TO ITS CUSTOMERS)	

**TENNESSEE AMERICAN WATER COMPANY’S OBJECTIONS TO SECOND
DISCOVERY REQUESTS BY THE CONSUMER ADVOCATE AND PROTECTION
DIVISION**

Tennessee American Water Company (“TAWC”) makes the following objections to the Consumer Advocate and Protection Division’s Second Discovery Requests:

GENERAL OBJECTIONS

(1) TAWC objects to all requests that seek information protected by the attorney-client privilege, the work product doctrine and/or any other applicable privilege or restriction on disclosure.

(2) TAWC objects to the definitions and instructions accompanying requests to the extent definitions and instructions contradict, are inconsistent with, or impose any obligations beyond those required by applicable provisions of the Tennessee Rules of Civil Procedure or the rules, regulations or orders of the Tennessee Regulatory Authority.

(3) TAWC objects to the definitions of the words “document,” “you,” “person,” “persons,” identity,” “identify,” and “communication,” that accompany the data requests because such definitions are overbroad and unduly burdensome.

(4) The specific objections set forth below are based upon information now available to TAWC, and TAWC reserves the right at any time to revise, correct, add to or clarify the objections.

(5) TAWC is providing its responses herein without waiver of, or prejudice to, its right at any later time to raise objections to: (a) the competence, relevance, materiality, privilege, or admissibility of the response, or the subject matter thereof; and (b) the use of any response, or subject matter thereof, in any subsequent proceedings.

(6) TAWC objects to each request to the extent that it is unreasonably cumulative or duplicative, or seeks information obtainable from some other source that is more convenient, less burdensome or less expensive.

(7) TAWC objects to each request to the extent it is premature such that it seeks information concerning matters about which discovery is ongoing and/or seeks information to be provided by expert witnesses.

(8) TAWC objects to request to the extent it seeks information outside TAWC’s custody or control.

(9) TAWC’s specific objections to each request are in addition to the General Objections set forth in this section. These General Objections form a part of each discovery response, and they are set forth here to avoid the duplication and repetition of restating them for each discovery response. The absence of a referenced to a General Objection in response to a particular request does not constitute a waiver of any General Objection with respect to that

discovery request. All responses are made subject to and without waiver of TAWC's general and specific objections.

(10) TAWC objects to the Consumer Advocate and Protection Division's requests in their entirety on the grounds that the second round of discovery of which these requests purport to be a part was intended solely as an opportunity for TAWC to seek information from the intervenors in this matter.

Specific Objections

1. Provide the billing determinates in the format as shown on Exhibit No. 4 Schedule 2 for the normalized 12 months ended December 31, 2005 and the normalized 12 months ended December 31, 2006 (These amounts should reconcile to the total revenue amounts previously provided). Also, provide all documentation supporting any normalization adjustments for these test periods.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

2. Provide the amount of Goodwill impairment charges allocated, directly charged, or booked to Tennessee American for the twelve months ended October 31, 2006 and the twelve months ended December 31, 2006 by month, by JDE Account. Also, provide the amount of forecasted Goodwill impairment charges for Tennessee American for the attrition year.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

3. Provide a narrative for the accounting of Goodwill impairment as disclosed in Footnote 16 of the PricewaterhouseCoopers LLP audit report of Thames Water Aqua US

Holdings, Inc. and Subsidiary Companies dated January 11, 2007. Specifically, document who pays for the costs of Goodwill impairment as “recorded in Impairment charges in the Company’s statement of operations.”

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

4. Provide all E-CIS amounts for the Alton, Illinois Call center allocated to Tennessee American’s books by account (Gross and Net Book Value) as of December 31, 2006.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

5. Provide the total E-CIS investment amount for the Alton, Illinois Call Center, a historical narrative for the origination of the E-CIS investment amounts and the basis for allocating the amounts to Tennessee American Water Company.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

6. Provide the total operating expenses allocated by JDE account to Tennessee American for the Alton, Illinois Call Center for the last three years ended December 31, 2006. Include in your response detailed documentation and the basis for allocating the costs.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

7. Provide the total operating expenses subject to allocation for the Alton, Illinois Call Center for the last three years ended December 31, 2006.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

8. Provide the amounts as shown on Exhibit No. 2 Schedule 2 for the 12 months ended December 31, 2005 and December 31, 2006 in the same format. These amounts should tie to the TRA 3.06 Surveillance Reports. Provide all documentation supporting any normalization adjustments for these test periods.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

9. Provide the amounts on the TRA 3.06 Surveillance Reports for October 2006, November, 2006 and December 2006 for Operations and Maintenance Expense by JDE Account, which are out of period, non-recurring, or should be normalized.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

10. Provide a detailed reconciliation book to taxable income of Deferred Federal Income Tax Expense for the test year ended June 30, 2006 amount of \$894,154 per Exhibit No. 2, Schedule 6. Include in your response detailed work papers of all temporary differences generating the Deferred Federal Income Tax Expense. Also, show any prior year adjustments for book to tax reconciliation, for example \$209,202 per the response to TRA Discovery Request #49, Page 1 of 2.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

11. Provide a detailed reconciliation book to taxable income of Deferred Federal Income Tax Expense for the attrition year ended February 28, 2008 amount of \$993,613 per Exhibit No. 2, Schedule 6. Include in your response detailed work papers of all temporary

differences generating the Deferred Federal Income Tax Expense. Also, show any prior year adjustments for book to tax reconciliation.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

12. Provide a detailed reconciliation book to taxable income of Deferred State Income Tax Expense for the test year ended June 30, 2006 amount of \$231,004 per Exhibit No. 2, Schedule 6. Include in your response detailed work papers of all temporary differences generating the Deferred Federal Income Tax Expense. Also, show any prior year adjustments for book to tax reconciliation.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

13. Provide a detailed reconciliation book to taxable income of Deferred Federal Income Tax Expense for the attrition year ended February 28, 2008 amount of \$231,004 per Exhibit No. 2, Schedule 6. Include in your response detailed work papers of all temporary differences generating the Deferred Federal Income Tax Expense. Also, show any prior year adjustments for book to tax reconciliation.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

14. Provide a detailed reconciliation of the effective Federal Tax Rate of 50.34%¹ to the Federal Statutory Rate of 35% for the attrition year at present rates. Refer to Note 7 of the PricewaterhouseCoopers LLP audit report of Thames Water Aqua US Holdings, Inc. and Subsidiary Companies dated January 11, 2007 for format purposes.

¹ Sum of Lines 1, 5 and 9 of Exhibit 2, Schedule 6, Page 1 of 2 totaling \$1,264,212 divided by Line 28 of Exhibit 2, Schedule 6, Page 2 of 2 amount of \$2,511,394.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

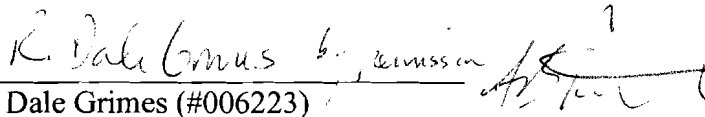
15. Provide a detailed reconciliation of the effective State Tax Rate of 10.74%² to the State Statutory Tax Rate of 6.5% for the attrition year at present rates.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

16. Provide a detailed explanation of the variances in Other Operating Revenues for Activity/New Service Fees and Late Payment Penalty from normalized 2005 to normalized 2006.

RESPONSE: TAWC reiterates and adopts its general objections and other objections previously asserted and reserved as applicable to this request.

Respectfully submitted,


R. Dale Grimes (#006223)
J. Davidson French (#015442)
Ross I. Booher (#019304)
BASS, BERRY & SIMS PLC
315 Deaderick Street, Suite 2700
Nashville, TN 37238-3001
(615) 742-6200

*Counsel for Petitioner
Tennessee American Water Company*

² Sum of Lines 3 and 7 of Exhibit 2, Schedule 6, Page 1 of 2 totaling \$269,706 divided by Line 28 of Exhibit 2, Schedule 6, Page 2 of 2 amount of \$2,511,394.

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 19th day of March, 2007, upon the following:

<input type="checkbox"/> Hand	Michael A. McMahan
<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
<input checked="" type="checkbox"/> Email	Suite 400
	801 Broad Street
	Chattanooga, TN 37402
<input checked="" type="checkbox"/> Hand	Timothy C. Phillips, Esq.
<input type="checkbox"/> Mail	Vance L. Broemel, Esq.
<input type="checkbox"/> Facsimile	Office of the Attorney General
<input type="checkbox"/> Overnight	Consumer Advocate and Protection Division
<input checked="" type="checkbox"/> Email	P.O. Box 20207
	Nashville, TN 37202
<input checked="" type="checkbox"/> Hand	Henry M. Walker, Esq.
<input type="checkbox"/> Mail	Boult, Cummings, Conners & Berry, PLC
<input type="checkbox"/> Facsimile	Suite 700
<input type="checkbox"/> Overnight	1600 Division Street
<input checked="" type="checkbox"/> Email	P.O. Box 340025
	Nashville, TN 37203
<input type="checkbox"/> Hand	David C. Higney, Esq.
<input type="checkbox"/> Mail	Grant, Konvalinka & Harrison, P.C.
<input type="checkbox"/> Facsimile	633 Chestnut Street, 9 th Floor
<input checked="" type="checkbox"/> Overnight	Chattanooga, TN 37450
<input checked="" type="checkbox"/> Email	
<input type="checkbox"/> Hand	Frederick L. Hitchcock, Esq.
<input type="checkbox"/> Mail	Chambliss, Bahner & Stophel, P.C.
<input type="checkbox"/> Facsimile	1000 Tallan Building
<input checked="" type="checkbox"/> Overnight	Two Union Square
<input checked="" type="checkbox"/> Email	Chattanooga, TN 37402

