

**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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April 25, 2007

**VIA HAND-DELIVERY**

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

filed electronically in docket office on 04/25/07

***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 Filing in Response to Director's Questions at Hearing.

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

RDG/ms  
Enclosures

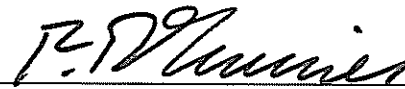
Chairman Sara Kyle

April 25, 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/enclosure*)  
Mr. Michael A. Miller (*w/enclosure*)

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)

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*

### 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 25th day of April, 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	425 5th Avenue North, 2 <sup>nd</sup> Floor
	Nashville, TN 37243
<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	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 <sup>th</sup> 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



**Tennessee-American Water Company**  
**Docket Number 06-00290**

**Filing in Response to Director's Questions at Hearing -- Exhibit No. 3**  
**ORCOM and ACCENTURE CONSULTING CONTRACTS**

Director Jones at the hearing on April 20, 2007 requested that the Company provide a detailed explanation of \$78.639 million of miscellaneous expense shown on the American Water Works Service Company income statement for the year 2004. The 2004 income statement is attached to this response along with two schedules providing a detailed breakdown of those costs. The Summary schedule provides explanations of two components of this expense, contracting services and IMO costs. As explained on the schedule the IMO costs related to the transition costs to RWE ownership and the costs related to the merger of AWW and Thames Water Holding Inc. (E-town). Consistent with the commitments made by AWW and RWE in the 2003 Change of Control proceedings before numerous regulatory commissions, these costs were written off in 2005 and are not part of the filing of TAWC in this case. In addition, a significant portion of the 2004 miscellaneous expense related to contract services for initiatives (STEP, Procurement and Business Change) were canceled and written off in 2005. These costs were also written off in 2005 and to the extent any of those costs remained in the historical test-year ended June 30, 2006 they were eliminated from the filing of TAWC in this case as outlined on page 13 of the Direct Testimony of Sheila Miller.

81500 American Water Works Company I  
 074000000 American Water Works Co. 01/18/07  
 0501 Total Company (USGAAP) 10.10.46  
 Income Statement YTD  
 For the Period Ending 12/19/2004

American Water Works Serv Co.

Description		Yr to Date December Actual	Yr to Date December Prior Year
1	OPERATING REVENUES		
2	Water		
3	Sewer		
4	Other		
5	Management	198,745,390	120,662,138
6	Total Revenue	198,745,390	120,662,138
7	OPERATIONS & MAINTENANCE EXPENSE		
8	Labor	64,132,762	51,569,080
9	Purchased Water		
10	Fuel & Power	376,916	54,582
11	Chemicals		
12	Waste Disposal		
13	Management Fees	11,054,347	9,079,442
14	Group Insurance	1,842,658	690,685
15	Pensions		
16	Regulatory Expense	760,150	457,906
17	Insurance Other Than Group		
18	Customer Accounting		
19	Rents	5,615,403	5,394,492
20	General Office Expense	15,758,509	9,815,039
21	Miscellaneous	78,639,917	30,805,634
22	Maintenance	2,974,494	2,139,985
23	Total Maintenance & Operations Expense	184,555,156	109,907,852
24	Depreciation	5,922,701	4,891,097
25	Amortization		
26	General Taxes	6,600,389	4,161,698
27	State Income Taxes	39,679	79,444
28	Federal Income Taxes	166	234,172
29	Tax Savings Acquisition Adjustment		
30	Total Operating Expenses	196,936,111	118,975,919
31	Utility Operating Income	1,807,179	1,686,410
32	OTHER INCOME & DEDUCTIONS		
33	Non-Operating Rental Income		
34	Dividend Income-Common		
35	Dividend Income-Preferred		
36	Interest Income		
37	AFUDC-Debt		
38	AFUDC-Equity		
39	Miscellaneous Income		
40	Gain/Loss on Disposition		
41	Total Other Income	3,726	14,242
42	Miscellaneous Amortization		
43	Tax Savings Acquisition Adjustment		
44	Misc. Other Deductions		
45	General Taxes	59,320	12,675
46	State Income Taxes		
47	Federal Income Taxes		
48	Total Other Deductions	59,320	12,675
49	Total Other Income	55,594	4,812
50	Income Before Interest Charges	1,751,985	1,691,211
51	INTEREST CHARGES		
52	Interest-Long Term Debt	1,607,158	1,688,334
53	Interest-Short Term Debt		
54	Interest-Short Term Bank Debt	140,165	
55	Other Interest Expense	4,262	2,897
56	AFUDC-Debt		
57	Total Interest Charges	1,751,585	1,691,231
58	Net Income		
59	Preferred Dividend Declared		
60	Net Income to Common Stock		

## Svc Company P&L line 21 transactions

object	object description	2004 amount	
535000	contract svc's-other	\$ 38,681,793	(2)
575000	Misc. Operation Expenses	\$ 27,091,289	(1)
504500	other welfare	\$ 5,877,120	
533000	contract svc's-legal	\$ 1,858,043	
507100	401k	\$ 881,688	
508100	EIP	\$ 823,617	
550000	transportation	\$ 539,260	
504670	training	\$ 472,627	
504660	tuition aid	\$ 415,892	
535001	contract svc's-temp employ	\$ 381,231	
575030	advertising	\$ 368,491	
532000	contract svc's-acct	\$ 231,368	
575240	co dues / memberships	\$ 224,523	
575625	shipping/postage	\$ 217,401	
various	other	\$ 575,571	
	<b>TOTAL</b>	<b>\$ 78,639,916</b>	

(1) IMO makes up \$23.8m of the acct 575000 balance. These costs were deferred in 2003 & 2004 related to the transition to RWE ownership, and the merger of AWW and ThamesWater Holding Inc.. These costs were written off in 2005 and were not included in the historical or attrition test-year in TAWC's filing in this case. Consistent with the various regulatory commission orders in the 2003 Change of Control proceedings the costs related to the Change of Control would not be passed to the rate payers of the AWW regulated subsidiaries.

(2) Break-down of 535000 acct: [see "2004 by acct & formula" tab]

reorg / severance	\$ 8,750,002
bus chg / best practice	\$ 7,562,079
service first	\$ 4,633,196
procurement initiative	\$ 3,193,325
other	\$ 14,543,191
	<u>\$ 38,681,793</u>

A significant portion of the contract services were related to initiatives that were canceled prior to completion. In 2005 \$24.6 million of the contract services were written-off. As indicated in the testimony of Sheila Miller, on page 13, to the extent any non-recurring expenses were written-off after the end of historical test-year they were eliminated from TAWC's filing.

## Svc Company P&amp;L line 21 transactions

2004		
formula description	amount	
blank [no formula / exp to mgmt fees]	\$ 16,355,892	on-going
Allct AU0304 Project Mgmt	\$ 3,884,912	on-going
Curr Call Center Cust Support	\$ 3,401,998	on-going
License to manage	\$ 1,186,457	on-going
TAX/FIXED ASSET MGMT	\$ 1,106,314	on-going
Project management office	\$ 801,704	on-going
Water div business svc optim	\$ 743,425	on-going
REG/CCS	\$ 561,979	on-going
Ongoing operations	\$ 548,093	on-going
Allct AU0307 Compensation/Bfts	\$ 398,941	on-going
Grow the business program	\$ 346,756	on-going
Allct AU0311 Internal Communic	\$ 288,267	on-going
Allct AU0322 Business Plan	\$ 186,061	on-going
2003 survey follow-up	\$ 165,346	on-going
Internal communications	\$ 129,502	on-going
HRIS	\$ 117,646	on-going
BUSINESS INFORMATION	\$ 114,501	on-going
Capital Prog Mgt & Asset Plan	\$ 112,728	on-going
Reputation management	\$ 96,809	on-going
MATERIALS MANAGEMENT	\$ 87,743	on-going
OTHER MISC FORMULAS	\$ 877,770	on-going
Compensation & benefits	\$ (1,226,276)	on-going
		\$ 30,286,569
Allct AU0315 Procurement Int	\$ 10,595,956	one-time
SERVICE FIRST	\$ 4,762,553	one-time
Phase 3 reorganization	\$ 3,779,046	one-time
Procurement initiative	\$ 3,170,426	one-time
Severance	\$ 3,146,234	one-time
Business model and change prog	\$ 2,423,225	one-time
Phase 4 reorganization	\$ 2,335,456	one-time
Allct AU0194 Blueprinting Tobe	\$ 2,065,461	one-time
Allct AU0306 Best Practice Imp	\$ 1,608,865	one-time
Allct AU0317 Investment Review	\$ 1,446,383	one-time
Voice Recognition Project	\$ 1,212,382	one-time
Project Seal	\$ 974,750	one-time
"As Is" blueprinting	\$ 896,713	one-time
Allct AU0130 Blueprinting Asis	\$ 826,009	one-time
Restocking - other	\$ 651,291	one-time
2nd Call Center Project	\$ 620,116	one-time
Tampa Desalination	\$ 507,874	one-time
Integration team	\$ 497,658	one-time
Atlanta conference 2004	\$ 491,550	one-time
EAM2 (T&D) MAXIMO	\$ 475,438	one-time
Allct AU0335 Quick Wins	\$ 466,121	one-time
Allct AU0355 Office Space	\$ 420,000	one-time
Perf,stay bonus,asset sale,inc	\$ 394,165	one-time
Allct AU0107 Ideas into Action	\$ 383,708	one-time
Allct AU0309 HR Intergration	\$ 377,472	one-time
Cap Supp Chain-Srcing Cap Cat	\$ 370,337	one-time
GIS	\$ 361,911	one-time
PORTAL	\$ 305,912	one-time
E'town integration	\$ 297,727	one-time
BUSINESS INTELLEGEENCE	\$ 296,794	one-time
Business change team	\$ 261,419	one-time
Accenture phase I	\$ 248,237	one-time
Restructuring misc people cost	\$ 214,652	one-time
EAM1 (PLANT) MAXIMO	\$ 213,678	one-time
MDSI PHASE III (SERVICE FIRST)	\$ 208,927	one-time
Allct AU0314 Reputation Mgmt	\$ 204,586	one-time
EAI	\$ 181,212	one-time
Knowledge share project	\$ 168,003	one-time
Northeast Special Resource Fun	\$ 159,759	one-time
Job pricing	\$ 158,860	one-time
Allct AU0303 Mobile Dispatch	\$ 155,483	one-time
Ideas Into Action	\$ 145,235	one-time
"To Be" blueprinting	\$ 144,163	one-time
Allct AU0312 Regional Comm	\$ 143,691	one-time
FICO	\$ 136,838	one-time
Restocking BD positions	\$ 131,301	one-time
Central Special Resource Fund	\$ 131,061	one-time
NYC UV	\$ 109,825	one-time
Serv Co Special Resource Fund	\$ 91,983	one-time
HR integration team	\$ 89,989	one-time
Video/communications	\$ 68,665	one-time
Products & services	\$ (1,498,594)	one-time
Best practice implement & perf	\$ 322,845	
	\$ 78,639,917	\$ 48,353,348
on-going	\$ 30,286,569	
one-time project costs	\$ 48,353,348	
total	\$ 78,639,917	\$ 78,639,917



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

**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**

**AFFIDAVIT**

STATE OF WEST VIRGINIA

COUNTY OF KANAWHA

I, MICHAEL A. MILLER, Treasurer/Comptroller for Tennessee American Water Company, do hereby certify that the foregoing responses was prepared by me or under my supervision and are true and accurate to the best of my knowledge and information.

DATED this 25<sup>th</sup> day of April, 2007.

Michael A. Miller  
(signature)

Michael A. Miller  
(printed name)

Sworn to and subscribed before me this 25th day of April, 2007.

J. G. Judy  
NOTARY PUBLIC

My Commission Expires:

February 10, 2015

