

**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. 08-00039
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 FIRST 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, data compilations and any other electronically stored information.

As used herein, the term “identify” in reference to any individual requires you to provide that individual's name, occupation, current and last known residential and business addresses, and current or last known residential and business telephone numbers. In reference to any other place, thing, concept, fact, or occurrence, the term “identify” requires you to provide all significant information concerning the subject matter of the interrogatory or request, in clear and unambiguous terms, to the fullest extent reasonably calculated to convey the requested information.

DISCOVERY REQUEST NO. 1: On page 6, line 1 of his direct testimony, Dr. Brown puts forth the Parent Capital Structure. Are the capital structure amounts book values or market values?

RESPONSE:

DISCOVERY REQUEST NO. 2: On page 4, lines 4-5 of his direct testimony, Dr. Brown states that the overall cost of capital is 6.65%. How does Dr. Brown define the cost of capital?

RESPONSE:

DISCOVERY REQUEST NO. 3: On page 4, lines 27-28 of his direct testimony, Dr. Brown states that the parent's cost of equity is 7.50 percent. Please define cost of equity as it is used in this sentence.

RESPONSE:

DISCOVERY REQUEST NO. 4: On page 15 of his direct testimony, Dr. Brown uses the DCF method and the Capital Asset Pricing Model (CAPM) to estimate the equity return. How does Dr. Brown define equity return? Is equity return different than the cost of equity?

RESPONSE:

DISCOVERY REQUEST NO. 5: On page 15, lines 14-15 of his direct testimony, in discussing the DCF method, Dr. Brown states, “This method does not assume there are capital gains or capital losses.” Please provide any academic references to support this statement.

RESPONSE:

DISCOVERY REQUEST NO. 6: On page 18, line 27 of his direct testimony, Dr. Brown states that he took the current dividend yield from the NASDAQ web site. Please state what method is used to determine the price for the calculation, *e.g.*, is it the price as of a certain day, an average over some period? Also specify what the corresponding dividend is, *e.g.*, is it the last quarterly dividend annualized or is it the total amount of dividends for the entire year?

RESPONSE:

DISCOVERY REQUEST NO. 7: On page 19 of his direct testimony, Dr. Brown presents his DCF calculation for his sample of water companies. Dr. Brown’s dividend growth is based on dividend growth rates for the past five years.

- a. Please provide all references on which Dr. Brown relies that document the superiority of using historical dividend growth rates over use of analysts’ forecasts of growth rates in the DCF model.
- b. Please provide the underlying data to support the calculation of the growth rates in each year for each company.

RESPONSE:

DISCOVERY REQUEST NO. 8: In his direct testimony, Dr. Brown cites an article about Canadian pension plans titled “An Examination of the Equity Risk Premium Assumed by Canadian Pension Plan Sponsors” (page 38) and displays a portion of an article published in the October 2005 issue of the California Broker magazine (page 40). Please provide copies of both of these articles in their entirety.

RESPONSE:

DISCOVERY REQUEST NO. 9: Provide all source documents, notes of interviews, and any other data supporting Mr. Buckner’s testimony, including but not limited to: any workpapers supporting all adjustments made to the TAWC rate filing; any documents related to all adjustments; data and calculations related to the test period ending November 30, 2007 (and for any other periods used by CAPD including a 12 month period ending March 31, 2008).

RESPONSE:

DISCOVERY REQUEST NO. 10: On page 41 of his direct testimony, Dr. Brown states that his implementation of the Capital Asset Pricing Model uses betas published on the NASDAQ website. Please provide a description of the data and methodology employed by NASDAQ in computing the stock betas that Dr. Brown relied upon. Include:

- a. The frequency of stock returns (daily, weekly or monthly). If weekly, include the day of the week used to obtain prices;
- b. Whether the returns include dividends or only price changes;
- c. The period over which the betas are computed, and the number of observations;
- d. Whether the regression equation includes an intercept term or not;
- e. Whether any adjustment is made to the estimated beta.

RESPONSE:

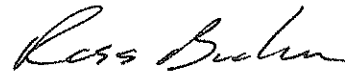
DISCOVERY REQUEST NO. 11: On page 84 of his direct testimony, Dr. Brown provides a single slide from a presentation by the American Gas Association to the Federal Energy Regulatory Commission. Please provide a copy of the entire presentation.

RESPONSE:

DISCOVERY REQUEST NO. 12: On Pages 28-31 of his direct testimony, Mr. Buckner discusses operating revenues for the Sale for Resale classification. Provide all workpapers, notes of interviews, e-mails and other documents that support or form the basis for each conclusion asserted.

RESPONSE:

Respectfully submitted,



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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 24th day of July, 2008, upon the following:

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