

BASS, BERRY & SIMS PLC
Attorneys at Law

A PROFESSIONAL LIMITED LIABILITY COMPANY

Adam B. Futrell
PHONE: (615) 742-7822
FAX: (615) 742-0431
E-MAIL: afutrell@bassberry.com

315 Deaderick Street, Suite 2700
Nashville, Tennessee 37238-3001
(615) 742-6200

July 31, 2008

VIA HAND DELIVERY

Chairman Tre Hargett
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

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. 08-00039

Dear Chairman Hargett:

Enclosed please find Tennessee American Water Company's Responses to the Second Set of Discovery Requests by the Chattanooga Manufacturers Association. Copies are being served on each of the Intervenor today.

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

Sincerely,



Adam B. Futrell

ABF:jgl
Enclosures

Chairman Tre Hargett
July 31, 2008
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cc: Hon. Eddie Roberson, PhD (*w/o enclosure*)
Hon. Mary Freeman (*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*)
Timothy C. Phillips, Esq. (*w/enclosure*)
David C. Higney, Esq. (*w/enclosure*)
Henry M. Walker, Esq. (*w/enclosure*)
Michael A. McMahan, Esq. (*w/enclosure*)
Ryan McGehee, Esq. (*w/enclosure*)
Frederick L. Hitchcock, Esq., (*w/enclosure*)
Mr. John Watson (*w/o enclosure*)
Mr. Michael A. Miller (*w/o enclosure*)

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**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)	Docket No. 08-00039
PROPERTY USED AND USEFUL IN)	
FURNISHING WATER SERVICE TO ITS)	
CUSTOMERS)	

**TENNESSEE AMERICAN WATER COMPANY'S RESPONSES TO THE SECOND
DISCOVERY REQUEST OF THE CHATTANOOGA MANUFACTURERS
ASSOCIATION TO TENNESSEE AMERICAN WATER COMPANY**

The Tennessee American Water Company ("TAWC") hereby responds as follows to the First Discovery Request of the Chattanooga Manufacturers Association ("CMA") to the TAWC:

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," "affiliate," "affiliated," "identify," "identifying," "identification," and "referring or relating to," that accompany the data requests because such definitions are overbroad and unduly burdensome.

(4) The specific responses 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 or responses and supplement the information and/or documents produced.

(5) TAWC is providing its responses herein without wavier 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 each request to the extent it seeks information outside TAWC's custody or control.

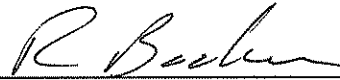
(9) TAWC reserves all of its objections with respect to the discovery propounded by the CAPD that is in excess of the limit.

(10) TAWC objects to requests that call upon TAWC to create, categorize, manipulate, customize or otherwise organize data regarding time periods outside of TAWC's historical test year. TAWC objects to all such requests because they are unduly burdensome, seek to have TAWC create work product and seek information that is not relevant to this rate case.

(11) 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 reference 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.

Respectfully Submitted,



R. Dale Grimes (#6223)

Ross I. Booher (#019304)

BASS, BERRY & SIMS PLC

315 Deaderick Street, Suite 2700

Nashville, TN 37238-3001

(615) 742-6200

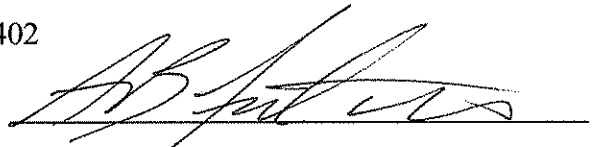
Counsel for Petitioner

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 31st day of July, 2008, upon the following:

<input checked="" type="checkbox"/> Hand-Delivery	Timothy C. Phillips, Esq.
<input type="checkbox"/> U.S. Mail	Consumer Advocate and Protection Division
<input type="checkbox"/> Facsimile	Office of Attorney General
<input type="checkbox"/> Overnight	2nd Floor
<input checked="" type="checkbox"/> Email	425 5th Avenue North
	Nashville, TN 37243-0491
<input type="checkbox"/> Hand-Delivery	David C. Higney, Esq.
<input type="checkbox"/> U.S. Mail	Counsel for Chattanooga Manufacturers Association
<input type="checkbox"/> Facsimile	Grant, Konvalinka & Harrison, P.C.
<input checked="" type="checkbox"/> Overnight	633 Chestnut Street, 9th Floor
<input checked="" type="checkbox"/> Email	Chattanooga, TN 37450
<input checked="" type="checkbox"/> Hand-Delivery	Henry M. Walker, Esq.
<input type="checkbox"/> U.S. Mail	Counsel for Chattanooga Manufacturers Association
<input type="checkbox"/> Facsimile	Boult, Cummings, Conners & Berry, PLC
<input type="checkbox"/> Overnight	Suite 700
<input checked="" type="checkbox"/> Email	1600 Division Street
	Nashville, TN 37203
<input type="checkbox"/> Hand-Delivery	Michael A. McMahan, Esq.
<input type="checkbox"/> U.S. 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 type="checkbox"/> Hand-Delivery	Frederick L. Hitchcock, Esq.
<input type="checkbox"/> U.S. Mail	Harold L. North, Jr., Esq.
<input type="checkbox"/> Facsimile	Counsel for City of Chattanooga
<input checked="" type="checkbox"/> Overnight	Chambliss, Bahner & Stophel, P.C.
<input checked="" type="checkbox"/> Email	1000 Tallan Building
	Two Union Square
	Chattanooga, TN 37402



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. 08-00039

AFFIDAVIT

STATE OF WEST VIRGINIA

COUNTY OF KANAWHA

I, MICHAEL MILLER, Treasurer/Comptroller for Tennessee American Water Company, do hereby certify that the foregoing responses to the Chattanooga Manufacturers Association's Second Set of Data Requests to Tennessee American Water Company were prepared by me or under my supervision and are true and accurate to the best of my knowledge and information.

DATED this 31st day of July, 2008.

Michael A. Miller
(signature)

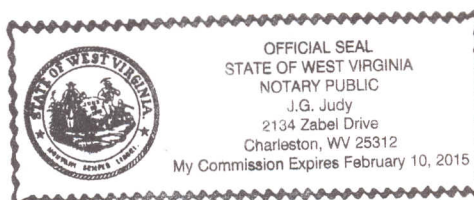
Michael A. Miller
(printed name)

Sworn to and subscribed before me this 31st day of July, 2008.

J.G. Judy
NOTARY PUBLIC

My Commission Expires:

February 10, 2015



**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: John Watson

Question:

1. Please provide the in-service date for the Citico WTP Pretreatment Phase I Capital Addition included in construction work in progress (CWIP).

Response:

The in-service date for the Citico WTP Pretreatment Phase I is scheduled for December 31, 2010.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: Michael A. Miller

Question:

2. Please provide what TAWC contends to be any support, authority or basis (if any) authorizing the Authority to include CWIP in rate base and the authorization to earn a current rate of return on such balance.

Response:

Please see the following TRA Orders:

1. Tennessee American Water Company – Docket Number 06-00290 – at page 40, subtitled – V(e)2. Construction Work in Progress (“CWIP”).
2. Tennessee American Water Company – Docket Number 04-00288 – at page 7, which states, “By acceptance of the Settlement Agreement the Authority determined the rate base to be \$87,611,390”. Please see Exhibit CAPD-RTB, Schedule 2 attached to the Settlement Agreement (at line 2-Construction Work in Progress).
3. Tennessee American Water Company – Docket Number 03-00118, at page 16, subtitle “Rate Base.”

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: John Watson

Question:

3. In reference to Mr. John Watson's direct testimony, please identify the amount of dollars received or projected to be received by Tennessee-American as a form of reimbursement for project relocation(s), specifically identifying where (if at all) TAWC contends these funds are included in the Company's revenue requirement calculation.

Response:

There are currently three projects that will be reimbursable by the Tennessee Department of Transportation (TDOT). The following is a list of those projects and the amounts expended thus far for design work.

Lee Highway	\$9,972.53
Lookout Creek	\$19,461.67
East Brainard Rd	\$8,052.14

TAWC expects to receive the reimbursement for these projects by December 2008.

The amounts for these reimbursements are included in the contributions for aid of construction (CIAC) as a deduction to rate base.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: Michael A. Miller/John Watson

Question:

4. Please provide what TAWC contends to be any support, authority or basis (if any) authorizing the Authority to exclude the Walden Ridge Utility District's special contract from this current contested rate case.

Response:

The Water Purchase Agreement with Walden's Ridge Utility District approved by the TRA by Order dated March 16, 2004 in docket number 03-00452 states at page 4, "The rate is guaranteed for three (3) years from the Date of Service." The initial date of service was March 2006. Because the Walden's Ridge rate is not subject to increase in this case, per the approved contract, the Company believes it proper rate making to eliminate all cost of service elements related to providing service to Walden's Ridge in this proceeding.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: John Watson

Question:

5. Please provide what TAWC contends to be any support, authority or basis (if any) to reconcile the testimony of Mr. Watson, where he testifies to the inclusion of Phase I and II improvements to the Citico treatment plant, and the balances included in CWIP in the amounts of \$7,837,500 and \$300,000.

Response:

The testimony of John Watson referred to “completed construction of the Phase I improvements to the Citco Water Treatment Improvements at an estimated cost of \$1.8 million” on page 14 beginning on line 10. The \$1.8 million is referring to portions of the CITICO Phase I project that will be completed and placed in service during the attrition year in this case. The Company included the \$1.8 in the utility plant requested in this case. Mr. Watson further indicates that “the Company will expend nearly \$7.0 million for Phase II improvements” on page 14, line 15. This was a typographical error and should read as “**\$7.8** million (based on the Company’s approved capital spending plan) for **Phase I** improvements”. This coincides with the CWIP that the Company included in the filing of this case for Phase I of the Project. The \$300,000 relates to Phase II of the project to be spent in the attrition year and was also included in the CWIP included in the Company’s filing.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: Michael Miller

Question:

6. Please provide what TAWC contends to be any support, authority or basis (if any) to reconcile the amounts included in the lead lag study for Group Insurance and Insurance Other Than Group and the amount included in the Company's working capital balance labeled Prepaid Insurance, specifically identifying whether the Company contends these balances are for the same insurance and, if not, please explain the alleged differences.

Response:

Group insurance and Insurance other are entirely separate expenses as defined in the Company's accounting records and the documents included in the Company's accounting exhibits. Group insurance is not prepaid nor does it have any bearing on the working cash item identified as Prepaid Insurance.

Prepaid Insurance is comprised of the various payments related to general liability, property all risk, auto liability, directors and officer's liability type insurance premiums. The Company agrees that inclusion of the insurance other (not group insurance) in the lead/lag study and inclusion of prepaid insurance in working capital is a partial duplication. The Company believes it appropriate to exclude the prepaid insurance from its working capital.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: Michael A. Miller/John Watson

Question:

7. The Company's Petition filed in this docket, at paragraph 7, states: "the earnings situation of the Company has deteriorated to a level that, without rate relief, the Company cannot meet demands for service in an orderly and economical fashion." Specifically identify each aspect of the demand(s) for service that the Company does not or cannot meet in an orderly and economical fashion, and provide the grounds and/or bases, including any facts and/or documents, the Company contends support those claims.

Response:

The Company is currently authorized by the TRA a return on equity of 10.2%. In 2007, the Company achieved an ROE of 6.28%. Without rate relief from this case, the Company forecasts achieved ROE to be approximately 4.2% for 2008 and for 2009 achieved ROE to be approximately 3.3%. The Company does not believe achieved ROE at approximately 600-700 basis points below the authorized cost of equity is acceptable.

The Company in its petition indicates that a rate increase is necessary if it is to avoid the difficult decisions it would face in the absence of appropriate rate relief; specifically, which investments it should consider delaying or which portions of its cost of service that would have to be reviewed for consideration as to continuation. The Company would is concerned about the potential impact those decisions could have on its service obligations to the residents of the Chattanooga area. The Company believes that such decisions might have

potential long-term impacts on service quality, service reliability, infrastructure reliability and water quality regulations.

The Company has not developed a specific plan to address those potential decisions. Instead it did what all utilities do when revenues are not sufficient to cover the cost of service, it petitioned for increased rates. This is the very essence of the regulatory compact regarding the Company's requirement to provide adequate and reliable service under its public service obligation, and the TRA's authority to set rates sufficient to cover the cost of that service. That is what this rate case is all about, asking the TRA to set rates sufficient to permit TAWC to cover that cost of service and allow the Company to continue its long standing record of providing excellent service at a fair price to its customers.

The Company will supplement this response as required.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: Michael A. Miller/John Watson

Question:

8. The Company's Petition filed in this docket, at paragraph 7, states that a rate increase: "is essential to . . . make the necessary improvements and to meet the expansion needs of the customers it serves." Specifically identify (including by type, street address, or district) each improvement and expansion "need" the Company has identified as "necessary," and provide the grounds and/or bases, including any facts and/or documents, the Company contends support those claims.

Response:

The Company believes each of the capital improvements requested in this case were thoroughly reviewed before being included in the Company's filing. The Company believes each capital improvement is necessary to maintaining its service quality and to meet water quality regulations. The street addresses and locations for the improvements referenced in this request have been previously supplied in the supplemental response to TN-COC-1-Q7. Please refer to that response. The Company believes its petition, accounting exhibits, testimony and exhibits, and the responses to previous discovery requests filed in this case fully support these investments.

The Company will supplement this response as required.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: Michael A. Miller/John Watson

Question:

9. The Company's Petition filed in this docket, at paragraph 9, states: "the Company cannot provide the necessary new facilities, maintain existing ones adequately, and meet the needs of its customers for the future with such an unrealistic rate of return." Specifically identify each new facility the Company has identified as "necessary" but cannot provide, each "existing" facility the Company alleges it does not or cannot adequately maintain, and the needs of its customers that TAWC does not or cannot meet/fulfill, and provide the grounds and/or bases, including any facts and/or documents, the Company contends support those claims.

Response:

Please see the response previously supplied to question 7.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: Michael A. Miller/John Watson

Question:

10. The Company's Petition filed in this docket, at paragraph 9, states: "The Company has no other alternative but to petition this Authority to permit it to place higher rates into effect in order to: (a) avoid material impairment of damage to the Company's long range operations; and (b) to enable the Company to earn a fair rate of return on its Tennessee operations during the foreseeable future." Considering a more than \$4,000,000 rate increase was implemented in May 2007, specifically identify each "material impairment" or "damage" identified which the Company contends is going to occur, how the Company defines "long-term operations" in the context of paragraph 9, and what the Company contends is the "foreseeable future" regarding its Tennessee operations, and provide the grounds and/or bases, including any facts and/or documents, the Company contends support those claims.

Response:

Please see the responses to questions 7, 8 and 9 which address parts of this question. The Company's assertions in this regard are that the current rates of the Company, which fully embeds the rate increase granted in May 2007, are not sufficient to cover the cost of service elements for the attrition year contained in the Company's filing in this case.

The Company does not believe the regulatory compact regarding its service obligations and in return the right to just and reasonable rates is met if its achieved ROE is 600-700 basis points below the TRA authorized ROE or if that achieved ROE is 200-300 basis points below the current cost of long-term debt.

Certainly, the Company does not believe this meets the standards established in the U.S. Constitution or the landmark decisions in the Bluefield Gas and Hope Gas cases before the U.S. Supreme Court regarding fair regulation.

Again, faced with these dismal earning forecasts, the Company did what it felt was in the best interests of the Company and its customers: file a rate increase so that appropriate rates are in place to cover its cost of service, including a fair and reasonable return to its investors. Every utility faces these types of decisions and every utility requests rate increases when facing this situation. Otherwise, service will eventually suffer and needed replacement of facilities and costs of operation will be deferred.

The Company defines “long-term” in the context of this question as the next 5 to 15 years. The Company defines the “foreseeable future” in the five year planning horizon and, even more specifically, the attrition year in this case.

The Company believes the substantial documentation provided in its petition, accounting exhibits, testimony and exhibits and its responses to substantial discovery in this rate filing fully support its requested increase in rates in this case.

The Company will supplement this response as required.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 08-00039
CHATTANOOGA MANUFACTURERS ASSOCIATION'S
SECOND SET OF DATA REQUESTS**

Responsible Witness: Michael A. Miller/Others

Question:

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

Response:

The Company objects to this question on the grounds that the requested information is unduly burdensome, overly broad, premature, and contains information subject to attorney/client privilege and protected according to the attorney work product doctrine.

Notwithstanding the objections above the Company provides the following response. Please see the responses to CAPD-2-Q1-8. The Company will also utilize the testimony, exhibits, workpapers and discovery responses of the intervening parties. The Company may develop additional exhibits and information to support rebuttal testimony which is not known at this time.

The Company will supplement this response as required.