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A PROFESSIONAL LIMITED LIABILITY COMPANY

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OTHER OFFICES

KNOXVILLE
MEMPHIS

August 18, 2008

VIA E-MAIL AND HAND DELIVERY

Chairman Tre Hargett
c/o Ms. Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: *Petition of Tennessee American Water Company To Change And Increase Certain Rates And Charge 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 an original and seven (7) sets of copies of Tennessee American Water Company's Response to TRA Data Requests dated August 14, 2008. Hard copies of this submission will be provided to the TRA officers in person at the hearing.

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

Sincerely



Erin M. Everitt

Enclosures

Chairman Tre Hargett
August 18, 2008
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cc: Hon. Mary W. Freeman (*w/o enclosure*)
Hon. Sara Kyle (*w/o enclosure*)
Hon. Eddie Roberson, PhD (*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*)
Timothy C. Phillips, Esq. (*w/enclosure*)
David C. Higney, Esq. (*w/enclosure*)
Henry M. Walker, Esq. (*w/enclosure*)
Michael A. McMahan, Esq. (*w/enclosure*)
Frederick L. Hitchcock, Esq. (*w/enclosure*)
Mr. John Watson (*w/o enclosure*)
Mr. Michael A. Miller (*w/o enclosure*)

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 18th day of August, 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**

IN RE:

**PETITION OF TENNESSEE AMERICAN)
WATER COMPANY TO CHANGE AND)
INCREASE CERTAIN RATES AND)
CHARGES SO AS PERMIT IT TO EARN)
A FAIR AND ADEQUATE RATE OF)
RETURN ON ITS PROPERTY USED AND) Docket No. 08-00039
USEFUL IN FURNISHING WATER)
SERVICE TO ITS CUSTOMERS)**

AFFIDAVIT

**STATE OF TENNESSEE
COUNTY OF HAMILTON**

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

DATED this 18th day of August, 2008.



Sworn to and subscribed before me this 18th day of August, 2008.



NOTARY PUBLIC

My commission expires:

June 25, 2011



**My Commission
Expires
June 25, 2011**

TENNESSEE AMERICAN WATER COMPANY
Docket No. 08-00039
Tennessee Regulatory Authority Staff Data Request (8/14/08)

Responsible Witness: Michael A. Miller

Question:

1. Exhibits provided on August 5, 2008 list a total for the following taxes of \$1,769,034. Please provide the individual amounts for each which total to \$1,769,034.

- a. State Excise Tax at Current Rates
- b. Federal Income Tax at Current Rates

Response:

- a. State Excise Tax at Current Rates is a combination of the following:

State Income Tax Current	\$155,311
Deferred SIT	\$ 59,441
Deferred SIT-FAS 109 Reg Assets/Liabilities	\$ 53,028
Deferred SIT Other	<u>\$138,905</u>
	\$406,685

- b. Federal Income Tax at Current Rates is a combination of the following:

Federal Income Tax Current	\$882,654
Deferred FIT	(\$ 32,958)
Deferred FIT FAS 109 Reg Assets/Liabilities	\$454,755
Deferred FIT Other	\$134,265
Investment Tax Credit	<u>(\$ 76,368)</u>
	\$1,362,348

Total \$1,769,033

TENNESSEE AMERICAN WATER COMPANY
Docket No. 08-00039
Tennessee Regulatory Authority Staff Data Request (8/14/08)

Responsible Witness: Sheila Miller

Question:

2. Exhibits provided on August 5th list a total for the following of \$964,900. Please provide the individual amounts for each which total to \$964,900.
- a. Gross Receipts Tax on Revenue at Current Rates
 - b. TRA Inspection Fee on Revenue at Current Rates
 - c. Franchise Tax at Current Rates

Response:

- a. \$546,466
- b. \$ 74,414
- c. \$344,020

TENNESSEE AMERICAN WATER COMPANY
Docket No. 08-00039
Tennessee Regulatory Authority Staff Data Request (8/14/08)

Responsible Witness: John Watson

Question:

3. In response to TRA Staff request you responded that Purchased Water-Outside "includes water purchased from other municipalities or water authorities that are not affiliates of American Water Works Company, Inc.". For what purposes is this water purchased?

Response:

Water is purchased from Walden's Ridge Utility District and wheeled to Lone Oak District and then onto Suck Creek District to provide an additional supply to customers in these districts. Water is purchased from Hixson Utility District to provide water to a few customers on the north end of TAWC's system. These customers are located at a higher elevation and are not connected to TAWC's system. Water is purchased from Eastside Utility District to supply service to one customer, US Express.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 08-00039
Tennessee Regulatory Authority Staff Data Request (8/14/08)

Responsible Witness: Sheila Miller/Michael A. Miller

Question:

4. The amended testimony of Sheila Miller was filed on August 8, 2008 to reflect the responses to an Authority data request of May 12, 2008. The amended testimony summarizes changes and provides updated exhibits to the testimony. No amendment was made to the verbiage in the original testimony requesting \$7.65 million additional revenue (page 3 of Sheila Miller's testimony). To clarify the record, is TAWC requesting a \$7.65 million or \$7.93 million revenue increase.

Response:

TAWC's original request was for a \$7.65 million increase. In the original filing, TAWC based its chemical expense for the attrition year on 2008 contract chemical prices. In TRA Discovery Request TRA-05-Q1, the TRA requested that the Company update its accounting exhibit to reflect an error the Company had made in its original filing regarding the inflation factor. The Company had also become aware of other known and measurable adjustments that impacted the Company's attrition year expense levels and believed the TRA should also be aware of those known and measurable adjustments. Those known and measurable changes included in the amendment include:

- Eliminated the average cash balance from its working capital calculation (\$214,257 lower rate base)
- Eliminated prepaid insurance from its working capital calculation (\$97,506 lower rate base)
- Eliminated unamortized debt expense from its working capital calculation (\$290,559 lower rate base)

- Adjusted the CWIP to reflect a 13-month average, a mistake in the Company's original filing (\$1,086,539 lower rate base)
- Adjusted the inflation factor to cover the 21 month period from the end of the historical test-year to the end of the attrition year (increased expense \$53,420)
- Adjusted the fuel and power expense to reflect the actual April 2008 tariffs of Chattanooga EPB, actual EPB fuel adjustment tariff as of July 1, 2008, and an average percent increase to the fuel adjustment clause for the attrition year (lowered expense by \$64,216)
- Adjusted the attrition year chemical expense to reflect the 2009 contract prices obtained by competitive bidding (\$509,950 increase in expense)

The net revenue requirement change from these known and measurable changes to the attrition year was to increase the revenue requirement by \$285,192 above the \$7.645 million requested by the Company in the original filing, all other factors being equal to the original filing. The Company is not asking the TRA to award the Company more than the \$7.645 million it requested in its filing. The Company is asking the TRA to utilize the known and measurable changes identified in its amended filing and the response to TRA-05-Q1 in determining the cost of service and revenue deficiency in this proceeding.

The Company believes that these adjustments (both those that lower or increase revenue requirement), particularly adjustments to reflect actual Chattanooga EPB tariffs and chemical contract prices that impact the attrition year certainly meet the known and measurable test which is a well established regulatory principle. The Company believes it is common practice to amend rate case filings for known errors and omissions, and adjustments to expenses that were based on estimates in the original filing once more firm information becomes available.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 08-00039
Tennessee Regulatory Authority Staff Data Request (8/14/08)

Responsible Witness: Michael A. Miller

Question:

5. Provide a copy of American Water Works Company, Inc's Form 10-Q for the period ended June 30, 2008 as filed with the SEC.

Response:

The Company previously produced American Water Works Company's Form 10-Q for the period ended June 30, 2008 as part of its supplemental response to TRA Data Request No. 5, filed on August 12, 2008.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 08-00039
Tennessee Regulatory Authority Staff Data Request (8/14/08)

Responsible Witness: Michael A. Miller/Sheila Miller

Question:

6. In its calculation of construction work in progress, TAWC starts with the ending balance of November 30, 2007 of \$2,829,032¹ and adds forecasted CWIP by month through the attrition period to arrive at an average attrition CWIP balance of \$7,996,461. TAWC forecasts a CWIP ending balance at March 31, 2008 of \$4,510,222². Consumer Advocate witness, Terry Buckner, begins his calculation by taking the actual CWIP balance per company books at March 31, 2008 of \$1,798,540³. Please reconcile the March 31, 2008 CWIP balance used by Mr. Buckner and the forecasted amount proposed by the Company.

Response:

See reconciliation below. The Company had a typographical error in the beginning balance for November 2007 (see TN-TRA-05-Q001-ATTACHMENT 2 Page 1 of 1).

	<u>Actual</u>	<u>TAWC Estimated</u>	<u>Variance</u>
CWIP bal @ 11/07	2,829,032	4,829,032	(2,000,000)
Less: Net additions	3,696,819	2,809,919	886,900
Add: Capital spending	2,666,326	2,789,675	(123,349)
Less: Adv/contr	-	298,766	(298,766)
Net CWIP @ Mar 08	<u>1,798,539</u>	<u>4,510,022</u>	<u>(2,711,483)</u>

TAWC had incorrect beginning balance on backup spreadsheet TN-TRA-05-Q001-ATTACHMENT 2, Page 1 of 1

¹ TAWC Amended Exhibit No. 1 filed August 5, 2008, Schedule 2, page 1.

² TN-TRA-05-Q001-ATTACHMENT 2, Page 1 of 1.

³ RB-CWIP, filed July 18, 2008.

TENNESSEE AMERICAN WATER COMPANY
Docket No. 08-00039
Tennessee Regulatory Authority Staff Data Request (8/14/08)

Responsible Witness: Michael A. Miller/Sheila Miller/John Watson

Question:

7. Has TAWC revised its monthly CWIP forecast for April 2008 through August 2009?
If so, please provide a revised schedule.

Response:

The Company utilized the actual CWIP balance as of July 2008, deducted the original projected net additions to utility plant, and added the capital spending from the forecasted capital investment plan for 2008 and 2009. There is a lag in spending from the original projections which relates primarily to two projects and the expenditures for vehicle purchases. The vehicles have been ordered and will be delivered in September so the \$396,000 previously projected for this expense April 2008 through July 2008 has been moved to September 2008. The Ringold Rd project (total project cost \$810,000) that was to begin in March 2008 was delayed and will begin in August to be completed by January 2009. The expenditures for this project have been reallocated to August 2008 through January 2009. The contracts for painting the Alridge units #3 and #4 (total project cost \$750,000) were signed in July and work will begin in August with this project being completed in November. Those costs have been reallocated to August 2008 through November 2008. As a result, the 13 month average CWIP balance is calculated per the attached.

The Company would note that while the CAPD used the actual March balance the CAPD's CWIP picked up only the capital expenditures for the CITICO Treatment Plant and no readjustments to the capital spending plan due to minor project delays.

	Net Additions	Capital Spending	Add projects orig est earlier in 2008	CWIP Bal 2,829,032	Bal @ 11/07
7-Dec	1,576,771	531,714		1,783,975	Actual
8-Jan	1,683,860	1,044,933		1,145,048	Actual
8-Feb	195,962	418,049		1,367,135	Actual
8-Mar	240,226	671,631		1,798,540	Actual
8-Apr	935,561	762,790		1,625,769	Actual
8-May	1,016,801	1,105,666		1,714,634	Actual
8-Jun	213,827	403,919		1,904,726	Actual
8-Jul	538,007	587,709		1,954,428	Actual
8-Aug	1,675,075	1,333,000	385,000	1,997,353	
8-Sep	838,875	1,428,100	781,000	3,367,578	
8-Oct	859,962	1,306,700	260,000	4,074,316	
8-Nov	612,445	1,821,100	260,000	5,542,971	
8-Dec	1,912,842	797,676	135,000	4,427,805	
9-Jan	316,035	1,664,500	135,000	5,776,270	
9-Feb	534,901	1,664,500		6,905,869	
9-Mar	492,522	1,681,166		8,094,513	
9-Apr	641,186	1,681,166		9,134,493	
9-May	802,284	1,706,166		10,038,375	
9-Jun	964,560	1,706,170		10,779,985	
9-Jul	1,071,903	1,564,500		11,272,582	
9-Aug	3,655,075	1,564,500		9,182,007	Bal @ 8/09
			1,956,000		90,594,122
				13 mo avg	6,968,779