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January 4, 2010

VIA EMAIL AND HAND DELIVERY

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

**Re: Tennessee American Water Company's Request for Proposal for a
Management Audit, Docket No. 09-00086**

Dear Chairman Kyle:

Enclosed please find an original and five (5) copies of Tennessee American Water Company's Notice of Filing of the executed contract for a management audit between Tennessee American and Schumaker & Company. An electronic copy of the filing has also been transmitted via email to the Tennessee Regulatory Authority Docket Manager, Sharla Dillon. Please stamp one copy as "filed" and return to me by way of our courier.

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

Sincerely,



Erin M. Everitt

Enclosure

cc: Hon. Eddie Roberson, Ph.D.
Hon. Mary W. Freeman
Ms. Darlene Standley, Chief of Utilities Division
Gary Hotvedt, Esq.
Mr. Ryan McGehee, Esq.
Kelly Cashman-Grams, Esq.
Rebecca Montgomery, Esq.

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Richard Collier, Esq.
Mr. John Watson
Mr. Michael A. Miller
Mr. A.W. Turner

8345298

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

IN RE:)	
)	
TENNESSEE AMERICAN WATER)	
COMPANY'S REQUEST FOR)	Docket No. 09-00086
PROPOSAL FOR A MANAGEMENT)	
AUDIT)	

**NOTICE OF FILING AND REQUEST FOR APPROVAL
OF TENNESSEE AMERICAN WATER COMPANY'S MANAGEMENT AUDIT
CONTRACT WITH SCHUMAKER & COMPANY**

Pursuant to the Authority's December 14, 2009 approval of Schumaker & Company ("Schumaker") to perform a management audit, Tennessee American Water Company ("Tennessee American") hereby provides for the Tennessee Regulatory Authority's approval, the proposed contract between Tennessee American and Schumaker & Company (hereinafter "Contract," attached as Exhibit 1).¹ In accordance with Director Freeman's motion at the December 14, 2009 conference, the proposed Contract has been fully executed by Schumaker and Tennessee American and is contingent on the Authority's approval.²

Tennessee American respectfully requests that the Authority schedule this matter for consideration at the January 11, 2010 TRA Directors Conference, and that the Authority approve the contract so that Schumaker may immediately proceed with the management audit.

Respectfully submitted this 4th day of January, 2010.

¹ The Contract references multiple exhibits, some of which are voluminous in size and all of which have been previously filed in this Docket. Accordingly, Tennessee American is contemporaneously filing only the 10-page Contract and not the exhibits A-E of the Contract. The exhibits available on the TRA dockets are: Exhibit A- January 13, 2009 TRA Order in Docket No. 08-00039; Exhibit B – TAWC RFP filed in this Docket March 23, 2009; Exhibit C – Clarification Letter approved by the TRA September 11, 2009; Exhibit D – Schumaker & Company Response to RFP filed under seal October 27, 2009; and Exhibit E – Attachment 1 submitted by Director Roberson at the December 14, 2009 TRA Directors Conference.

² See Contract, Ex. 1 at Section N.

R. Dale Grimes

R. Dale Grimes (#006332) / EME by permission

Ross I. Booher (#019304)

BASS, BERRY & SIMS, PLC

315 Deaderick Street, Suite 2700

Nashville, Tennessee 37238-3001

(615) 742-6244

Attorneys for Tennessee American Water Company

EXHIBIT 1

Tennessee American Water Company's Contract with Schumaker & Company

**Contract Agreement Between Tennessee American Water Company and
Schumaker & Company
for a
Management Audit of American Water Works Service Company charges to
Tennessee American Water Company**

RECITALS

WHEREAS, following Tennessee American Water Company's ("TAWC") last general rate case (Docket No. 08-00039), the Tennessee Regulatory Authority ("TRA") sought a management audit of specific costs related to charges from American Water Works Service Company, Inc. ("AWWSC") to TAWC. Specifically, the TRA "ordered the Company to develop a Request For Proposal ("RFP") for a comprehensive management audit by an independent certified public accountant." The TRA specified that "[t]he RFP for the audit shall include, but not be limited to, an investigation of AWWSC's management performance and decisions relating to internal processes and internal controls with an attestation and recommendations of any management process changes needed for those controls and implementation thereof. Further, the audit shall evaluate and attest to the charges allocated to TAWC, including the efficiency of processes and/or functions performed on behalf of TAWC, as well as the accuracy and reasonableness of the allocation factors utilized."¹

WHEREAS, thereafter TAWC worked with TRA staff to develop a mutually acceptable RFP, attached hereto as Exhibit B, to accomplish this directive. On August 4, 2009, the TRA approved the RFP which was distributed to invited bidders on August 19, 2009.

WHEREAS, after receiving the RFP, multiple invited bidders expressed concerns regarding inconsistencies between the TRA Order and the RFP for terms such as "independent CPA" (Order) and "independent CPA Firm" (RFP), as well as the applicability of Generally Accepted Auditing Standards (GAAS) and "attestation" requirements to management audit engagements. As a result of those concerns, TAWC drafted, and the TRA approved, a "Clarification Letter" (attached as Exhibit C) which was sent to the invited RFP bidders. The Clarification Letter clarified the requirements set forth in the RFP for the management audit and invited proposers to propose standards applicable to a management audit engagement (the RFP as clarified by the Clarification Letter, collectively referred to hereinafter as "RFP").

WHEREAS, in response to the RFP, TAWC received three vendor proposals, which TAWC evaluated using the four criteria set forth in the RFP: 1) Qualifications, 2) Work Plan, 3) Key Personnel, and 4) Price. The proposal submitted by Schumaker & Company, teaming with the sub-contracted CPA firm Work & Greer PC (collectively referred to hereinafter as "Schumaker"), attached hereto as Exhibit D, received the highest overall ranking using the aforementioned RFP criteria. Accordingly, on October 27, 2009, TAWC moved the TRA for authorization to award the management audit contract to Schumaker to perform the management audit.

¹ Order at 21 (dated Jan. 13, 2009) (relevant excerpt attached as Exhibit A) ("TRA Order").

WHEREAS, on December 14, 2009, the TRA approved TAWC's request to award the management audit contract to Schumaker. Further, the TRA: (i) directed that the TAWC-Schumaker management audit contract include an addendum, which is attached hereto as Exhibit E, and (ii) authorized TAWC to submit a fully signed management audit contract for ratification by the TRA.

ACCORDINGLY, IN CONSIDERATION OF THE COVENANTS SET FORTH BELOW, THE PARTIES HEREBY AGREE AS FOLLOWS:

A. Definitions

Recitals, terms and documents above are hereby incorporated by reference into this Contract.

B. Management Audit Scope of Work

Schumaker agrees to perform a management audit as set forth in Schumaker's proposal (Exhibit D) as modified by Exhibit E,² (hereinafter referred to as "management audit") including:

1. The management audit will be conducted in accordance and compliance with (1) NARUC Consultant Standards and Ethics of Performance of Management Analysis, (2) the U.S. Government Accountability Office (Yellow Book) Standards for Audit of Government Organizations, Programs, Activities, and Functions as applicable to public utilities, or (3) GAAS to the extent they apply to management audits.³ The Management Audit Report (as defined below) will conform to performance audit principles (in content and format) and will include an introduction and summary, a background and perspective section, a findings and conclusions section and a recommendations section. The Management Audit Report will be based on our work plan and our professional judgment in application of that plan in which the report will specifically indicate such wording. The Management Audit Report will also include wording stating that the findings and recommendations contained in this audit report are Schumaker-Work & Greer's findings and recommendations and not necessarily agreed to by TAWC or TRA.⁴
2. The management audit report will:

² For the avoidance of all doubt and consistent with the TRA-approved Letter of Clarification, an "assessment/attestation" as used in Exhibit E and herein, shall mean a signed statement by a CPA that the portion of the management audit to which such "assessment/attestation" applies was performed in compliance with the management audit standard(s) cited in such "assessment/attestation" (e.g., NARUC, GAO-Yellow Book, GAAS if applicable, or any other standard utilized in performing the management audit).

³ Ex. D, at 5, "Audit Standards on Project."

⁴ Ex. D, at 5, "Audit Standards on Project." Schumaker may apply one or more of these standards and may choose not to apply a standard that Schumaker determines would not be applicable or best.

- a. Assess/attest the status and sufficiency of AWWSC's management performance and decisions relating to internal control processes and internal controls. This will include a review of the Sarbanes-Oxley review work performed for American Water Works Co. Inc. by the accounting firms Ernst & Young ("E&Y") and Price Water House ("PwC") which will be provided to Schumaker during the course of the management audit.
 - b. Assess/attest the efficiency of operating procedures and communication between TAWC and AWWSC.
 - c. Assess/attest the AWWSC performance with industry standards and best management practices.
 - d. Assess/attest the appropriateness of organizational structure of AWWSC/TAWC and reporting alignment.
 - e. Assess/attest the development of AWWSC's long-range and short-range operational plans to assure the effective and efficient performance of the functions.
 - f. Assess/attest the appropriateness of AWWSC's staffing and skill sets.
 - g. Assess/attest TAWC's controls and systems to analyze and control costs from AWWSC.
 - h. Evaluate and provide an opinion⁵ of the accuracy and reasonableness of total AWWSC charges (including expenses) allocated to TAWC.
 - i. Evaluate and provide an opinion of the necessity, reasonableness/prudence and efficiency of processes and/or functions performed by AWWSC on behalf of TAWC.
 - j. Evaluate and provide an opinion of the accuracy and reasonableness of the allocation factors utilized to allocate AWWSC charges to regulated and non-regulated subsidiaries, and allocated regulated AWWSC charges to TAWC, including review of work previously performed regarding allocation methods, which will be supplied by AWW.⁶
3. The management audit will also address audit steps and audit standards used to conduct the following processes:
- a. Perform the necessary audit steps, including random, statistically valid sampling, to determine whether the time and expenses charged or

⁵ For the avoidance of any doubt and consistent with the Letter of Clarification, an "opinion," as used herein and in Exhibit E, shall mean an "opinion" as that term is defined by a management audit standard (e.g., NARUC, GAO-Yellow Book, etc.).

⁶ See Ex. B, Sec. A, "Specific Requirements of the Management Audit." See also Ex. E.

allocated to TAWC are accurate, reasonable and necessary and are accurately allocated to TAWC through the AWWSC accounting system.

- b. Make specific recommendations and provide the estimated remediation costs regarding the findings of the management audit, if any.
- c. Consider the work and avoid duplicating the work, analysis, findings, and/or certifications of PwC and E&Y to the extent deemed possible to keep the cost of the management audit and the cost to TAWC customers as low as possible while formulating an opinion in conformance with the management audit requirements.
- d. Provide a draft Management Audit Report for review by TAWC prior to providing the final Management Audit Report. The Report should describe the methods and/or sources used and work undertaken to develop the information upon which the findings, conclusions and recommendations described above are based. The Report must include affirmation by the Independent Management Auditor that its management audit complies with: (i) one or more cited auditing standards (e.g., GAO Yellow Book, NARUC, GAAS, etc.) related to issues of management economy, efficiency, and effectiveness as applicable to public utilities; or, (ii) as set forth in GAAP.⁷ The successful bidder shall be "independent" as set forth by GAAS and a "certified public accounting firm."⁸
- e. Upon completion of the management audit, the Auditor shall deliver to TAWC two sets of working papers, indexed, bound and in orderly form, supporting the development of all calculations and recommendations by the Auditor and summarizing the procedures used in analyzing and evaluating all data including proper treatment of any confidential information so designated during the development of the Management Audit Report. The Company shall be responsible for filing one set of working papers with the TRA, concurrent with the Management Audit Report. For purposes of this project, audit interview notes shall be deemed part of the auditor's work papers.
- f. Nothing in the final written Contract will preclude the Auditor from performing tests, checks or other audit procedures if the Auditor does not deem the work of the predecessor audits mentioned above adequate.⁹

⁷ See Ex. C (clarifying that GAAS Standards may not apply to certain or all aspects of a management audit and that one or more RFP definitions or standards are not identified in GAAP). See also *infra* Sec. B(1).

⁸ See Ex. C (clarifying the term "certified public accounting firm"). See also Ex. D, at 5-6, "CPA Involvement" ("As Engagement Manager for the audit, Patricia Schumaker (CPA) will attest to the findings, conclusions, and recommendations to the audit. Ms. Schumaker's involvement in the management audit as Engagement Manager will be considered to have met this audit requirement of the RFP as amended in the Clarification Letter.").

⁹ Ex. B, Sec. A, "Specific Requirements of the Management Audit."

4. The Management Audit Report will be accompanied by a letter signed by the licensed CPA responsible for the management audit which includes:
 - a. A statement that the Management Audit Report (i.e., introduction and summary section, background and perspective section, findings and conclusions section, and recommendations section) and accompanying work papers (i) accurately reflect the opinions of the Auditor and (ii) that the Auditor is "independent" as that term is defined by GAAS; and
 - b. An "assessment/attestation" for each portion of the management audit as set forth in Exhibit E. Consistent with the Letter of Clarification and for the avoidance of all doubt, the phrase "assessment/attestation" as used in Exhibit E and in this Contract shall mean a signed statement by a CPA that the portion of the management audit to which such "assessment/attestation" applies was performed in compliance with the management audit standard(s) cited in such "assessment/attestation" (e.g., NARUC, GAO-Yellow Book, GAAS if applicable, or any other standard utilized in performing the management audit).
5. To the extent the requirements expressly set forth in sub-paragraphs 1-4 of Section B above conflict with or are inconsistent with the requirements of any requirement in any Exhibit to this Contract, the requirements of sub-paragraphs 1-4 of Section B shall control.

C. Other Representations & Warranties; Proof of Licensure

Schumaker hereby makes the following representations and warranties:

1. The representations regarding Schumaker & Company and Work & Greer PC in this Contract and Exhibit D are accurate and complete. Schumaker agrees to promptly notify TAWC in writing if at any time any such representations materially change.
2. Schumaker & Company and Work & Greer PC are and will remain "independent" of the TRA, AWWSC, American Water Works Company ("AWWC"), any AWWC subsidiaries, and the parties to the 2008 TAWC Rate case, as the term "independent" is defined by GAAS, until at least 18 months after the delivery of the completed management audit to TAWC.
3. All management audit work performed under this Contract shall at all times be under Schumaker & Company's exclusive direction and control and shall be performed by employees or consultants of Schumaker & Company, including those employees of Work & Greer PC identified in Exhibit D.
4. Patricia Schumaker and all individuals listed as CPAs in Exhibit D hold a valid and active CPA license as defined under the law of Tennessee or another U.S. state. Work & Greer PC is a certified public accounting firm under Tennessee law.

D. On-Site Space

TAWC and AWWSC agree to provide Schumaker with adequate on-site office space; high speed internet access; access to fax machines, copy machines and land line phone service as required; and file cabinets as required to accommodate the management audit team for the duration of the management audit field work.¹⁰

E. Cost, Invoicing, Billing & Completion Date of Management Audit

Schumaker agrees to the following terms regarding the Management Audit:

1. TAWC agrees to pay Schumaker the cost of the management audit or \$184,964, whichever is less.¹¹
2. Schumaker shall submit monthly invoices to TAWC based on the all-inclusive hourly billing rates and appropriate travel expenses, which shall be subject to verification upon request by TAWC. TAWC agrees to pay those invoices, barring any disputed amounts, within 30 days. If Schumaker does not receive payment of undisputed invoice amounts within thirty days, TAWC will be subject to a 2% late payment fee on the unpaid invoice amount.
3. Schumaker shall complete the Management Audit and deliver the final Management Audit Report to TAWC no later than 180 days of the approval of this Contract by the TRA, and will make every effort to provide the final report within 150 days of the approval of the Contract by the TRA.

F. Insurance Requirements; Payment of Taxes; Application of Laws & Regulation; Hold Harmless

1. Schumaker shall provide to TAWC a current certificate of liability insurance, with coverage equal to levels customary in this type of management audit engagement and shall maintain such coverage throughout the duration of this Contract.
2. Nothing in this Contract creates an employment relationship, partnership or joint venture between Schumaker and TAWC or any other entity. Schumaker & Company is an independent contractor of TAWC. Schumaker & Company represents and warrants that Work & Greer PC is an independent contractor of Schumaker & Company. Schumaker shall pay all lawfully due taxes, including but not limited to any applicable employment related taxes, Schumaker incurs in the performance of this Contract.
3. Schumaker agrees to perform this Contract in compliance with all applicable laws and regulations.

¹⁰ See Ex. D, Sec. III(D)-(E).

¹¹ Ex. D, Sec. III(A)-(C).

4. Schumaker agrees to hold TAWC, AWWSC, AWWC and the TRA harmless for any claims or liability that results from any violations by Schumaker during the period of time in which this Contract is in effect of any applicable laws, regulations or duties.

G. Assignment, Subletting

Schumaker may not assign, transfer, or sublet this Contract, by operation of law or otherwise, without the prior written consent of TAWC and the TRA.

H. Information & Confidentiality

1. Upon request of Schumaker, the Company shall furnish any and all documentation or information requested which is related to TAWC and AWWSC and is relevant to the scope of the management audit.
2. Obligation of Confidentiality. All Confidential Information (defined below) that TAWC, any of its employees, officers, agents or representatives furnishes to Schumaker or any of its employees, officers, agents or representatives (individually and collectively referred to herein as a "Schumaker Representative"), shall be held in strict confidence and trust, and shall be used by Schumaker solely as approved by TAWC in connection with the management audit that is the subject of this Contract. Neither Schumaker nor any Schumaker Representative shall disclose any Confidential Information to any third party without TAWC's prior written consent. In addition, Schumaker shall take all necessary steps to prevent unauthorized disclosure of, or access to, Confidential Information. Schumaker shall disclose Confidential Information only to those Schumaker Representatives with a need to know such Confidential Information in order to assist Schumaker in preparing its audit, and, prior to such disclosure, Schumaker shall inform such Schumaker Representatives of the confidential nature of such Confidential Information and shall obtain from such Schumaker Representatives a written acknowledgement of their understanding and acceptance of the terms of this Contract.
3. Definition of Confidential Information. As used herein, Confidential Information means: (a) all documents and information, in whatever form or medium, including, without limitation, electronic files, diskettes, electronic mail, oral communications or visual observation, provided by TAWC and designated as Confidential to Schumaker or Schumaker Representatives as part of, or in connection with, the audit process, other than documents or information that (i) are or become public other than through an unauthorized act or omission on the part of Schumaker or any person to whom Schumaker discloses such items, (ii) was already in the possession of Schumaker at the time of disclosure by TAWC, or (iii) is also disclosed to Schumaker by a third party who is under no obligation to TAWC to hold that information confidential.

4. Return of Confidential Information. Upon the written request of TAWC at any time, Schumaker shall promptly deliver to TAWC all Confidential Information, in whatever form or medium, and shall cause all copies, summaries, synopses, or derivations thereof to be destroyed. Said destruction shall be confirmed in writing by Schumaker to TAWC within 30 days following the date of the notice described above. Notwithstanding the foregoing, Schumaker may retain one copy of its work product, subject to the confidentiality obligations contained herein.
5. Disclosure Pursuant To Applicable Law. If Schumaker is required by a valid order of any governmental agency, court or other quasi-judicial or regulatory body with jurisdiction and authority to so order to disclose Confidential Information received under this Contract, Schumaker agrees to: (a) as promptly as reasonably possible give written notice to TAWC of the order; (b) takes reasonable steps to stay and oppose the production of the Confidential Information; (c) takes reasonable steps to maintain confidential treatment for such Confidential Information; (d) cooperates with TAWC's reasonable efforts to obtain confidential treatment for such Confidential Information; and (e) limits the scope of any disclosure as narrowly as permitted by the terms of the applicable order.

I. Remedies

Schumaker agrees that it would be impossible or inadequate to measure or calculate TAWC's damages from any breach of the covenants set forth in this Contract. Accordingly, Schumaker agrees that if it breaches or threatens to breach any of such covenants, TAWC will have available to it, in addition to any other rights or remedies, the right to obtain an injunction from a court of competent jurisdiction restraining such breach or threatened breach, and to specific performance of any such provision of this Contract, without posting any bond or other security.

J. No License Granted

Nothing contained herein shall be construed, either expressly or implicitly, to grant to Schumaker any rights to technology or license under any patent, copyright, trademark or other proprietary information now or hereafter owned or controlled by TAWC, AWWC or AWWSC.

K. Jurisdiction & Choice of Law, Venue, Dispute Resolution & Third-Party Beneficiaries

This Contract shall be governed by the laws of the State of Tennessee, without regard to the conflict of laws. Further:

1. The parties consent that the jurisdiction and venue for any dispute between the parties shall exclusively be in Nashville, Tennessee. Schumaker and TAWC may, upon mutual agreement, consent to binding confidential arbitration under the rules of the AAA.

2. Schumaker and TAWC agree that there are no third-party beneficiaries to this Contract.

L. Survival, Termination

The provisions set forth in Sections H, I, J, and K of this Contract shall survive the completion of the audit process or any termination of this Contract.

M. Entire Agreement; Amendments, Cancellation; Notice

1. This Contract sets forth the entire agreement and understanding of the parties with respect to the subject matter hereof. To the extent that the text of this contract conflicts with or is inconsistent with the text of any exhibit to this Contract, the text of this Contract shall control. Upon approval of this Contract by the TRA, this Contract supersedes all prior TRA orders, the RFP, proposals or any other requirements not set forth herein, expressly including the TRA Order and the RFP.
2. This Contract may not be amended, cancelled or modified except by a writing signed by both parties and approved by the TRA. It is understood and agreed that no failure or delay by either party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege hereunder.
3. Notices and communications under this Contract shall be provided in writing via FedEx (or its equivalent) and via email to the undersigned Authorized Representatives.

N. Effective Date, Enforceability, Severability

Schumaker and TAWC agree that this Contract shall become binding upon its execution by all parties. However, the parties shall have no obligation to fulfill the terms of this Contract set forth in sections B, D and E (and such sections shall be unenforceable) unless and until this Contract is fully ratified and approved by the TRA. This contract may be executed in faxed counter-parts. If any portion of this Contract is deemed unenforceable, such portion shall be severed and the remaining portions of this Contract shall remain in force.

ACCORDINGLY, each of the parties have caused this Contract to be executed by a duly authorized representative on the dates entered herein below.

SCHUMAKER & COMPANY, INC.

TENNESSEE-AMERICAN WATER CO.

By: Patricia H. Schumaker
Authorized Signature

By: Michael A. Miller
Authorized Signature

Patricia H. Schumaker
(Typed Name)

Michael A. Miller
(Typed Name)

President
(Typed Title)

Treasurer and Comptroller
(Typed Title)

December 30, 2009
Date Signed

12-31-09
Date Signed

Mailing address
Schumaker & Company, Inc.
3101 Walnut Ridge Drive
Ann Arbor, MI 48103

Mailing address
American Water Works Service Company
P.O. Box 1906
Charleston, WV 25327

Email: solutions@schuco.com

Email: mike.miller@amwater.com

Phone: 734-998-5550

Phone: 304-340-2009

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CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing has been mailed to the following, postage prepaid, on this 4th day of January, 2010:

Richard Collier, General Counsel
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Ryan McGehee, Esq.
Office of the Attorney General
Consumer Advocate and Protection Division
P. O. Box 2027
Nashville, TN 37202

A handwritten signature in cursive script, reading "Erin M. Everett", is written over a horizontal line.

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The panel voted to adopt the Company's attrition period forecast of \$179,088 because this amount reflected the actual increases in rates from the City of Chattanooga Sanitary Board.

V(b)6. MANAGEMENT FEES⁵¹

The Company projected attrition period Management Fees of \$4,335,190. This amount is based on the historical test period expenses of \$4,789,601 and the elimination of non-recurring expenses of \$729,713.⁵² In addition, the Company eliminated salary and salary-related overheads for the Non-Revenue Water ("NRW") Manager.⁵³ To the normalized historical test period amount, the Company applied an inflation factor of 3.5% per year to reflect the expected salary and salary-related overhead increases for the attrition period.⁵⁴ An additional adjustment was made to the attrition period forecast to reflect the difference between the FAS 87 pension expense billed to TAWC by AWWSC during the test period and the pension expense under ERISA.⁵⁵

The Company also stated that it had retained the services of the firm of Booz Allen Hamilton ("Booz Allen") to perform the management audit of the charges allocated by the service company to TAWC, as directed by the Authority in Docket No. 06-00290. The Company asserted that the audit report (the "Booz Allen Report") attests that the allocated costs were prudent, that they were allocated to TAWC by a reasonable methodology, and that they

⁵¹ Management fees are the charges from American Water Works Service Company ("AWWSC") for services provided under the 1989 Service Company contract. Those services consist of services related to accounting, administration, communication, corporate secretarial, engineering, finance, human resources, information systems, operations, rates and revenue, risk management, water quality and other services as agreed to by the Company. These services are billed at cost to TAWC. See Michael A. Miller, Pre-filed Direct Testimony, p. 13 (March 14, 2008).

⁵² Non-recurring expenses include the STEP project, the STAR project, the Business Change project, the Divestiture, and implementation costs related to Sarbanes-Oxley compliance.

⁵³ The Non-Revenue Manager has been transferred to Tennessee American and therefore his cost has been added to the direct employee cost at Tennessee American.

⁵⁴ Michael A. Miller, Pre-filed Direct Testimony, p. 11 (March 14, 2008).

⁵⁵ ERISA utilizes a cash basis for recording pension expense and is the method historically used by the TRA in the regulation of TAWC. The pension amount is based on the minimum contribution amount per the 2008 American Water Actuarial Study performed by the firm Towers/Perrin for the pension year ended June 30, 2008. Michael A. Miller, Pre-filed Direct Testimony, p. 12 (March 14, 2008).

were very reasonable when compared to other utilities.⁵⁶ The Booz Allen Report was filed in this docket along with the Company's *Petition*.

The Consumer Advocate forecasted Management Fees of \$3,453,223 for the attrition period. The Consumer Advocate used the 2005 forecasted Management Fees of \$3,062,940 from TRA Docket No. 04-00288 as its base. This amount was then grown at an annual inflation/growth rate of 3.87% in 2006, 3.23% in 2007, and 3.05% for 2008 and 2009, to arrive at its forecasted amount for the attrition period.⁵⁷ The Consumer Advocate argued that the growth in TAWC's management fees has far out-stripped inflation and has not produced the synergy in savings that the Company claimed would result by using the service company.⁵⁸

The City retained the services of a consultant to review the Booz Allen Report filed in this case. The objective of this review was to form an opinion whether the management audit met the Sarbanes-Oxley ("SOX") requirements of the audit ordered by the Authority in Docket No. 06-00290. Based on its evaluation, the City recommended disallowance of all costs related to the Booz Allen Report and all AWWSC management fees and allocated costs until the Company obtains an audit that conforms to the specifications of the TRA and the new audit report is examined in a later proceeding.⁵⁹ The City claimed, in part, that Booz Allen is not an independent public accounting firm; Booz Allen did not conduct an "audit" as required by the TRA or SOX; and Booz Allen did not conduct an audit in conformance with the rules of the Public Accounting Oversight Board.⁶⁰ The CMA did not offer testimony on this issue, but stated that it supported the positions of the Consumer Advocate and the City relative to management fees.⁶¹

⁵⁶ Michael A. Miller, Pre-filed Direct Testimony, pp. 11-14 (March 14, 2008).

⁵⁷ Terry Buckner, Pre-filed Direct Testimony, CAPD work papers, p. 189 (July 18, 2008).

⁵⁸ Transcript of Proceedings, v. XVI, p. 1649 (August 26, 2008).

⁵⁹ Michael J. Majoros, Pre-filed Direct Testimony, p. 3 (July 18, 2008).

⁶⁰ Michael J. Majoros, Pre-filed Direct Testimony, pp. 8-9 (July 18, 2008).

⁶¹ *Chattanooga Manufacturers Association's Post Hearing Memorandum of Law*, p. 1 (September 2, 2008).

Because of unresolved questions regarding management fees assessed by the service company and requested by TAWC in Docket No. 06-00290, the TRA ordered TAWC to perform a management audit to determine whether all costs allocated to TAWC were incurred as a result of prudent or imprudent management decisions by TAWC's parent and to address the reasonableness of the methodology used to allocate costs to TAWC.⁶² During the Hearing in this docket, the Company's witness testified, "The purpose here was very specific to provide an independent assessment of the costs incurred by TAWC of the service company costs that have been allocated and directly charged to Tennessee American from the service company."⁶³ In order to compare the costs incurred by AWWC and charged to TAWC, the Company stated that a set of peer companies was established for comparison. The Company asserted that, because there were no strictly water companies that could be used for comparison, the Company looked beyond and formulated a set of companies as peers for comparison. The study looked at the services performed by the parent to ensure there was no duplication or overlap of the services provided by TAWC. Further, the study reviewed the allocation factors, to determine whether the functions performed were necessary, budget and control mechanisms were in place and costs were benchmarked. The Company argued that the management audit was in compliance with SOX and similar to accepted audits performed in other states.⁶⁴

A majority of the panel found that the management audit performed did not adequately address the issue of prudence of the management fees, and that the audit was not an independent audit as ordered in Docket No. 06-00290. The Booz Allen witness, Joe Van den Berg, who

⁶² The Authority's June 10, 2008 Order in Docket No. 06-00290 stated at pages 26-27:

Additionally, the panel concluded that TAWC should have a management audit performed in compliance with Sarbanes-Oxley requirements and submit the results to the Authority in one year or, if the audit is not complete in one year, submit a status report on the audit in one year. This audit should determine whether all costs allocated to TAWC were incurred as a result of prudent or imprudent management decisions by TAWC's parent and should address the reasonableness of the methodology used to allocate costs.

⁶³ Transcript of Public Hearing, v. 7, p. 840 (August 20, 2008).

⁶⁴ Transcript of Public Hearing, v. 7, pp. 841-856 (August 20, 2008).

performed the management audit required by the TRA also provided testimony on behalf of TAWC in other dockets, both before the TRA and other utility commissions. For this reason, the panel determined that the independence of the selected audit firm was impaired.⁶⁵ Further, the audit did not address the primary concerns of the Authority that the costs were the result of prudent management decisions. By admission of the Company's witness, the audit report was an "assessment" or review of the costs incurred by the American Water Works Service Company subject to potential allocation to TAWC.⁶⁶ The panel did not find a sufficient basis in the Company's testimony to support the Company's request that management fees should be increased by \$355,365.

The record shows that from 2004 to the Company's forecasted attrition period in this docket, management fees have increased seventy-three percent during the five and one-half year time period. There was a fifty-nine percent increase between the 2004 fees and the fees approved in Docket No. 06-00290. Therefore, a majority of the panel⁶⁷ voted to set the Management Fee attrition year expense amount at \$3,529,933. This amount was based on the Company's forecasted 2005 Management Fee amount from Docket No. 04-00288 as used by the Consumer Advocate in this docket. The majority of the panel voted to change the growth factor to include all customer growth instead of one-half of customer growth, as used by the Consumer Advocate.

Because the panel determined that the Company had not complied with the Authority's directive in Docket No. 06-00290, the panel ordered the Company to develop a Request For Proposal ("RFP") for a comprehensive management audit by an independent certified public

⁶⁵ The Booz Allen witness testified for the Company in the last rate case.

⁶⁶ Joe Van den Berg, Pre-filed Direct Testimony, pp. 2-3 (March 14, 2008).

⁶⁷ Director Freeman did not vote with the majority. Instead, she found that management fees should be held to the same amount as that adopted in Docket No. 06-00290, \$3,979,825. In support of her position, Director Freeman stated that the Company's audit of management fees that was ordered by the Authority in Docket No. 06-00290 did not provide evidence to support an increase in management fees. She further noted that numerous calculations in determining the Company's revenue deficiency would be impacted by her adoption of this figure.

accountant. The RFP for the audit shall include, but not be limited to, an investigation of AWWSC's management performance and decisions relating to internal processes and internal controls with an attestation and recommendation of any needed management changes and implementation thereof. Further, the audit shall evaluate and attest to the charges allocated to TAWC, including the efficiency of processes and/or functions performed on behalf of TAWC, as well as the accuracy and reasonableness of the allocation factors utilized.⁶⁸ This RFP should be filed in this docket no later than six months from September 22, 2008, for approval by the Authority. The issuance of the RFP shall occur subsequent to an approval of the RFP by the Authority.

Further, the panel determined that if, during the bidding process, the RFP results in a bid which might not yield a benefit to TAWC customers, the Authority could order that the management audit not be performed. In this regard, the panel discussed other alternatives available to the Authority, including the participation in a multi-state audit which may be authorized by regulatory agencies in those states served by companies owned by American Water Works Company.

V(b)7. GROUP INSURANCE

The Company projected Group Insurance Expense of \$1,714,550.⁶⁹ This amount was calculated by applying the November 30, 2007 insurance rates to the employee coverage, based upon salary and wage information, and subtracting the employee contribution toward employee healthcare coverage. Consistent with a percentage of labor not charged to expense (20.28%, see

⁶⁸ The panel determined that the Company should contact Authority staff in the event the Company has any questions regarding the scope of the audit.

⁶⁹ Sheila A. Miller, TN-TRA-02-Q001-Group Insurance-Summary (May 28, 2008).

REQUEST FOR PROPOSAL

Management Audit
of Tennessee American Water

PROPOSAL DUE: September 18, 2009

BACKGROUND

Tennessee-American Water Company (“TAWC”), a wholly owned subsidiary of American Water Works Company, Inc. (“AWW”) requires a comprehensive management audit by an independent, certified public accounting (“CPA”) firm of the affiliate relationship between TAWC and American Water Works Service Company (“AWWSC”). The referenced management audit is to be prepared for filing with the Tennessee Regulatory Authority (“Authority” or “TRA”). The management audit shall include, but not be limited to, an investigation of AWWSC’s management performance and decisions relating to internal processes and internal controls with an attestation¹ and recommendations of any management process changes needed for those controls and implementation thereof. Further, the management audit shall evaluate and render an opinion with an attestation regarding the charges allocated to TAWC, including the efficiency of processes and/or functions performed on behalf of TAWC, as well as the accuracy and reasonableness of the allocation factors utilized. Attached is: (i) a copy of the relevant portion of the TRA Order from Docket No. 08-00039 that requires TAWC to conduct this management audit and (ii) the two most recent management audits performed for TAWC, the most recent of which is discussed in the TRA Order.

AWW is a publicly traded utility holding Company subject to the guidelines and requirements of the U.S. Securities and Exchange Commission (“SEC”) and the New York Stock Exchange (“NYSE”). AWW owns and operates 73 subsidiaries, including regulated water and wastewater utilities in 20 states, and 46 non-regulated subsidiaries including AWWSC. AWWSC through affiliated interest agreements with the regulated subsidiaries that were approved by the state regulatory commissions provides services to the regulated subsidiaries. AWWSC also provides services to the non-regulated subsidiaries. Those services provided to the regulated subsidiaries, including TAWC, are defined in the 1989 Service Company Agreements. AWWSC is comprised of a number of offices and locations to address the services provided to the AWW subsidiaries in the most efficient manner possible. AWWSC corporate functions are located in Voorhees, NJ; the national Shared Services Center is located in Woodcrest, NJ; the national customer call centers are located in Alton, IL, and Pensacola, FL; the national Water Quality Lab is located in Belleville, IL; and other offices are located in Hershey, PA, Charleston, WV, St. Louis, MO, Chula Vista, CA, Phoenix, AZ, and Woodcrest, NJ.

AWW’s financial audit is performed by PricewaterhouseCoopers (“PwC”). AWW’s Sarbanes-Oxley compliance work is performed by Ernst & Young (“E&Y”). The financial audit includes issuance of certified financial statements for AWW on a consolidated basis as required by GAAP. As a publicly traded company, AWW files a quarterly 10-Q report with the SEC and the annual SEC 10-K report, including the annual certified financial reports of AWW on a consolidated basis. Audited annual financial statements are also issued for certain regulated subsidiaries, including TAWC. The financial audit of AWW on a consolidated basis includes the necessary review of all AWW subsidiary information, including AWWSC, required to conform to Generally Accepted Auditing Standards (“GAAS”) and the issuance of the auditor’s opinion on the consolidated financial information of AWW. The successful bidder (“Independent

¹ Hereinafter, the terms “attest” and “attestation” for purposes of this RFP and proposed management audit shall be defined as: an opinion letter in accordance with Generally Accepted Auditing Standards (GAAS) concerning the Management Audit (report, findings and recommendations) signed by the independent licensed CPA in charge of the proposed engagement herein.

management auditor” or “Auditor”), will make best efforts not to duplicate the financial auditing functions already performed by AWW’s financial auditor. Instead, the Independent management auditor may rely on AWW’s audited financials and any financial auditing work already performed by PwC. Likewise, the successful bidder shall not duplicate the functions of AWW’s SOX compliance testing. Instead, the Independent Management Auditor may rely on the work already performed by E&Y and PwC. If the Independent Management Auditor is not provided sufficient information from the PwC financial audit and E&Y internal control evaluation, the Auditor may perform such additional work as required to formulate their opinion.

To conduct the required management audit, TAWC and AWWSC will provide the Auditor with total AWWSC costs for 2008 for each functional area, and those AWWSC costs charged to TAWC. In addition to analysis and reports, TAWC and AWWSC will also make employees, officers, or other such personnel available for interview, as deemed necessary by the Auditor to form a comprehensive understanding of the costs incurred by AWWSC, and the basis for assignment and/or allocations of costs to TAWC and the other regulated and non-regulated subsidiaries. The review of the allocations will include limited testing at the level appropriate to test the reliability of the allocation methodology.

For costs charged to TAWC, TAWC/AWWSC will provide TAWC’s supporting documents of (i) costs assigned directly to TAWC and (ii) costs allocated to TAWC, with an explanation of the allocation process. For each category of expense, AWWSC/TAWC will provide a discussion of the nature of the service provided, and an explanation of the benefits received by TAWC and its customers for each service. The Auditor will be authorized to communicate with AWWSC, TAWC and their affiliates as deemed necessary by the Auditor, including seeking responses or clarification to a draft of the Management Audit Report and draft of tentative findings, assessments and recommendations developed during the management audit.

Portions of the above referenced information may include business sensitive information and/or non-public information that would require appropriate confidential protection. An appropriate non-disclosure/confidential protection agreement will be made part of the final contract applicable to any successful bidder.

If recipients of this RFP are interested in preparing the management audit, please provide a proposal by September 18, 2009.

SECTION A:

ROLE OF THE AUDITOR

Any Auditor who is selected to perform the management audit expressly agrees to perform the management audit as an independent contractor. Any conclusions, results, or recommendations formulated by the Auditor may be examined by any participant to the proceeding for which the management audit report was generated.

SCOPE OF WORK

TAWC is soliciting the services of a qualified independent CPA firm to conduct a management audit as set forth below. Given the nature of this engagement, the independent CPA

firm may employ consultants with management audit experience to assist in conducting the management audit if that would minimize the cost of the management audit. The proposer shall identify any contemplated consulting arrangement in its response to this RFP. Any consultants used by the Auditor shall be subject to the same independence provisions included in Section B of this RFP. The management audit is to be performed in accordance with the provisions contained in the Order issued by the TRA on January 13, 2009 and detailed in this RFP and shall at a minimum be conducted under the supervision of an independent CPA firm who may direct the audit in order to issue a report, opinion and attestation.

The TRA has required TAWC to conduct an independent management audit to determine AWWSC's management performance and decisions relating to internal processes and internal controls, evaluate the charges allocated to TAWC, the efficiency of processes and/or functions performed on behalf of TAWC, and the accuracy and reasonableness of the allocation factors utilized.² The purpose of this management audit is to provide an independent, objective and comprehensive review of TAWC and the management fees paid to AWWSC. The Auditor shall develop findings and make appropriate conclusions and recommendations for specific areas with potential for improvement.

In addition to the scope of the work above, the Independent Management Auditor may be required to participate, as an independent party (not on behalf of any individual party) in a proceeding before the TRA concerning the management audit. Appearance for such proceeding before the TRA would include responding to data requests relating to the management audit, preparing pre-filed direct and rebuttal testimony, and testifying before the TRA if required. The cost estimate for completion of the requirements set forth in Section B below should be segregated to clearly identify the cost of the management audit from the subsequent costs that would be required for participation in a proceeding before the TRA. The hourly rates submitted under Section B shall be the basis for billing services performed beyond the filing of the management audit.

The Auditor shall be expected to enter into a contract with TAWC for performing the services outlined herein in order to deliver a complete and comprehensive Management Audit Report. Proposer shall cause to be delivered to TAWC a sealed bid to be inspected. TAWC shall have no contact with the bidders regarding price. TAWC shall review the bids and submit proposal (with a copy of all bids) to the TRA for consideration within sixty (60) days of bid closing date.

² By Order dated January 13, 2009 in Docket No. 08-00039, the TRA ordered the Company to develop a Request for Proposal ("RFP") for a comprehensive management audit by an independent certified public accountant. Pursuant to the Order, the issuance of the RFP shall occur subsequent to an approval of the RFP by the Authority.

CONTACT INFORMATION

The Auditor's principal contacts with TAWC will be Michael A. Miller and John Watson, or a designated representative, who will coordinate any assistance to be provided by TAWC/AWWSC. Michael A. Miller will have the primary responsibility for briefing any necessary parties during the management audit process.

TAWC's Project Leader is:

Michael A. Miller
P.O. Box 1906
Charleston, WV, 25327
E-mail: mike.miller@amwater.com

The Project Leader will serve as the Auditor's main point of contact within TAWC, its parent and affiliates, and will be responsible for providing all background materials, policies and procedures, reports and information that will be necessary for the completion of project work.

The Auditor will be responsible for maintaining contact with the Project Leader and taking the lead from him/her, as necessary. The Project Leader will work to further define any change in project scope as may be required.

SPECIFIC REQUIREMENTS OF THE MANAGEMENT AUDIT

The management audit should include along with the Management Audit Report and working papers, the independent CPA's opinion and attestation to the following areas:

1. Assess the status and sufficiency of AWWSC's management performance and decisions relating to internal processes and internal controls;
2. Assess the efficiency of operating procedures and communication between TAWC and AWWSC;
3. Assess the AWWSC performance with industry standards and best management practices;
4. Assess the appropriateness of organizational structure of AWWSC/TAWC and reporting alignment;
5. Assess the development of AWWSC's long-range and short-range operational plans to assure the effective and efficient performance of the functions;
6. Assess the appropriateness of AWWSC's staffing and skill sets;
7. Assess TAWC's controls and systems to analyze and control costs from AWWSC;
8. Evaluate the accuracy and reasonableness of total AWWSC charges (including expenses) allocated to TAWC;
9. Evaluate the necessity, reasonableness/prudence, and efficiency of processes and/or functions performed by AWWSC on behalf of TAWC; and
10. Evaluate the accuracy and reasonableness of the allocation factors utilized to allocate AWWSC charges to regulated and non-regulated subsidiaries, and allocated regulated AWWSC charges to TAWC, including review of work previously performed regarding allocation methods which will be supplied by AWW.

The management audit will also address the following processes:

1. Perform the necessary audit steps, including random, statistically valid sampling, to determine whether the time and expenses charged or allocated to TAWC are accurate, reasonable and necessary and are accurately allocated to TAWC through the AWWSC accounting system;
2. Make specific recommendations and the estimated remediation costs regarding the findings of the management audit, if any;
3. Consider the work and avoid duplicating the work, analysis, findings, and/or certifications of PWC and E&Y to the extent deemed possible to keep the cost of the management audit and the cost to TAWC customers as low as possible while formulating an opinion in conformance with the management audit requirements;
4. Provide a draft Management Audit Report for review by TAWC prior to providing the final Management Audit Report. The Report should describe the methods and/or sources used and work undertaken to develop the information upon which the findings, conclusions and recommendations described above are based. The Report must include affirmation by the Independent Management Auditor that its management audit complies with: (i) generally accepted auditing standards (GAAS) related to issues of management economy, efficiency, and effectiveness as applicable to public utilities; and/or, (ii) as set forth in GAAP. The successful bidder shall be “independent” as set forth by GAAS and a “certified public accounting firm” as defined by GAAP;
5. Upon completion of the management audit, the Auditor shall deliver to TAWC two sets of working papers, indexed, bound and in orderly form, supporting the development of all calculations and recommendations by the Auditor and summarizing the procedures used in analyzing and evaluating all data including proper treatment of any confidential information so designated during the development of the Management Audit Report. The Company shall be responsible for filing one set of working papers with the TRA, concurrent with the Management Audit Report. For purposes of this project, audit interview notes shall be deemed part of the auditor’s work papers;
6. Upon request of the Auditor, the Company shall furnish any and all documentation or information requested which is related to TAWC and AWWSC and is relevant to the scope of the management audit. The Company may conspicuously mark such documentation or information as being confidential if this data is closely held; and
7. Nothing in the final written Contract will preclude the Auditor from performing tests, checks or other audit procedures if the Auditor does not deem the work of the predecessor audits mentioned above adequate.

PROPOSAL INFORMATION, CONDITIONS, INSTRUCTIONS & FORMAT

Proposers shall promptly notify TAWC of any ambiguity, inconsistency, conflict or error which they may discover upon examination of this RFP document. Verbal inquiries regarding this RFP are not permitted. All inquiries must be made in writing and received by the TAWC/AWWSC Project Leader who will provide copies of all such inquiries to the TRA in this docket.

After review and approval by the TRA, TAWC will respond to all or part of the written inquiries received by issuing a written Addendum to the RFP, if in the opinion of TAWC an Addendum to this RFP is deemed necessary for Proposers to submit proposals or if the lack of such addendum would be prejudicial to prospective Proposers. Any Proposer who attempts to make inquiries outside the process described in the previous paragraph may be disqualified.

PROPOSAL SUBMISSION DEADLINE

Sealed proposals must be received by TAWC no later than 3 pm. EST on September 18, 2009 at:

Tennessee-American Water Company
1101 Broad Street
Chattanooga, TN 37401

Proposers are to submit an original and five (5) copies of each proposal.

Proposals received after the time and date set forth above shall be rejected. All proposals submitted in response to this RFP must be signed by an individual with the legal authority to submit the offer on behalf of the Proposer.

SECTION B:

RESPONSE TO THE RFP

The response to the RFP should include the following:

1. Total estimated cost “not to exceed” for work defined in Section A of this Request for Proposal. The cost estimate for this project should be broken down into as much detail as possible, including segregation of billable hours, hourly rates, travel costs, lodging and meals, printing, other incidentals, etc.;
2. Hourly rates for any and all employees and consultants who would provide service to the Company during the course of the preparation of the management audit;
3. An outline and narrative discussion of the scope of the services that will be provided in order to satisfy the project’s requirements. The proposal should set forth a work plan, including an estimated timeframe to complete the services required of this RFP and to issue the final Management Audit Report and work papers. In developing the work plan, reference should be made to such sources of information as enabling legislation, bylaws, interviews, prior management audits organizational charts, manuals and programs, financial and other management information systems, and other related materials. The work plan should also identify any proposed segmentation or phasing of the project and the level of staff and number of hours to be assigned to each proposed segment of the engagement;
4. Identification in specific detail of the methodologies that the Proposer will use (including the manner in which the Proposer will incorporate, utilize and rely on the sources described in Section A, SPECIFIC REQUIREMENTS, Paragraph 13 above to avoid

- duplication of effort). The Auditor will perform all requisite procedures to attest and render an opinion;
5. A definition section specifically defining all key terms used in the response to this RFP;
 6. A discussion of additional steps and costs associated with Section A, SPECIFIC REQUIREMENT, Paragraph 17, if required;
 7. A list of industry consultants who will work on the project in order to reduce cost, along with their qualifications;
 8. A description of the resources that Proposer will utilize or make available for the project;
 9. A description of the prior experience of the firm and individuals in preparing management audits that are related to or similar to this requested management audit, specifically addressing experience with regulated utility management audits during the last five years. Specifically, identify all management audit experience involving utility holding companies with service organizations that provide services to both regulated and non-regulated subsidiaries, service company organizations that direct charge or allocate costs among regulated and non-regulated companies, and publicly traded companies. Please indicate whether the Proposer has offered or given testimony before regulatory commissions and include reference to regulatory commission case numbers, orders, etc.; and
 10. Identification of the principal in charge of the management audit (who must be a licensed certified public accountant), who shall attest to the management audit as set forth above and provide testimony to support the accuracy and validity of the analyses undertaken and conclusions and recommendations reached during the management audit, if required.

COST OF THE RFP

Each Proposer shall be solely responsible for all costs and expenses associated with the preparation and/or submission of its proposal, and TAWC shall have no responsibility or liability whatsoever for any such costs and expenses in the preparation of same. TAWC, its directors, officers, employees and authorized agents shall not be liable for any claims or damages resulting from the solicitation or collection of proposals. By submitting a proposal, a Proposer expressly waives (i) any claim(s) for such costs and expenses, and (ii) any other related claims or damages.

Pursuant to the language in the Order issued by the TRA on January 13, 2009 in docket number 08-00039, the TRA panel may determine during the bidding process that the RFP results in a bid that might not yield a benefit to TAWC customers, and the Authority can order that a management audit not be performed. By submitting a bid, a Proposer expressly acknowledges that it understands there is no guaranteed or implied promise that a contract will be awarded and any costs incurred in preparing the bid are and shall remain the sole responsibility of the Proposer.

PURCHASE OBLIGATION

TAWC and responding firms expressly acknowledge and agree that TAWC has made no expressed or implied promises to expend any certain dollar amounts with respect to the services addressed by this RFP. Submitting a proposal in response to this RFP, and/or any subsequent communication by TAWC in the selection process, shall not vest any right, privilege, or right of action in any Proposer.

QUALIFICATION OF PROPOSERS

Proposers will be evaluated by TAWC and also reviewed by the TRA based on their experience in performing the services requested, financial stability, appropriate personnel, responsiveness, technical knowledge and general organization, prior to being approved.

Proposers may be disqualified and their Proposals rejected for any reason deemed appropriate by TAWC or the TRA, including, but not limited to, the following:

1. Evidence of collusion between a Proposer and any other Proposer;
2. An unsatisfactory performance record on prior projects for TAWC, or any other organization;
3. The appearance of financial instability and or evidence that the Proposer may not be financially able to complete the work required by the Scope of Work in a satisfactory manner;
4. Evidence of the Proposer having failed to complete one or more public contracts in the past; and
5. The Proposer or its agents or employees, have been convicted of a crime arising from illegal accounting practices associated with previous public contracts.

INDEPENDENCE

The firm, including any consultant used on this project, must provide an affirmative statement that it is independent of TAWC, AWWSC, AWW, the TRA, the Attorney General of Tennessee, the City of Chattanooga, and the Chattanooga Manufacturers Association as defined by Generally Accepted Auditing Standards (GAAS) and that firm will warrant in the engagement contract that they will not undertake an engagement that will impair their affirmation of independence during the term of the audit.

SECTION C:

SELECTION PROCESS & EVALUATION CRITERIA

The selection of the Independent Management Auditor will be based on the following criteria: widely recognized expertise in the utility management auditing field, the proposed scope, cost, adequacy and availability of resources to complete the project on schedule and the Auditor's experience and qualifications in conducting similar management audits with particular weight given to the experience related to regulated utilities and experience in regulated utility work involving utility holding company service organizations and publicly traded companies. The selection will be made by TAWC with the approval of the TRA.

The following evaluation criteria category weights will be used for all proposals submitted:

Qualifications and Experience:	35%
Proposed Approach and Work Plan	25%
Proposed Key Personnel	15%
Pricing	25%

The selected Proposer will be required to meet all time requirements and deadlines for completion of the management audit as described above.

TAWC, with the approval of the TRA reserves the right to select the top ranked firm based solely on the scoring of the written proposals. At the discretion of the TRA panel, two or more of the highest ranked firms may be invited to make an oral presentation of their respective Proposal concurrently to TAWC and the TRA. The selected firms will have an opportunity to summarize the information provided in their written proposals, expand on their capabilities, experience, proposed approach, work plan and answer questions from the TRA. If firms invited to appear before the Authority do not appear, their bid may be set aside and not considered.

During the evaluation process, TAWC reserves the right subsequent to TRA approval, where it may serve TAWC's best interest, to request additional information or clarifications in written communications approved by the TRA from Proposers, or to allow corrections of errors or omissions.

Prior to approval of a bid, the TRA panel may determine during the bidding process that the RFP results in a bid that does not yield a benefit to TAWC customers and the Authority may order that a management audit not be performed.³ TAWC may enter directly into contract with said firm subsequent to TRA approval.

CONTRACT CLAUSES AND PROVISIONS

Upon acceptance of the winning bid, the Proposer will be required to enter into a written contract with TAWC. The contract will be provided in its entirety to the winning Proposer including but not limited to, clauses pertaining to:

1. the scope of work, cost;
2. billing;
3. insurance requirements;
4. hold harmless;
5. cancelation/termination;
6. assignment;
7. payment of taxes;
8. application of laws and regulations;
9. jurisdiction and choice of law;

³ 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 Property Used and Useful in Furnishing Water Service to Its Customers, Docket No. 08-00039, p. 22 (January 13, 2009).

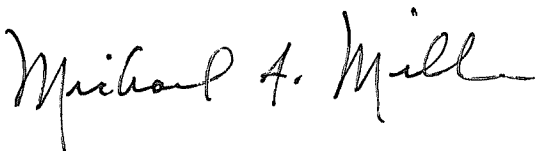
10. subletting;
11. confidentiality;
12. enforceability/severability;
13. proof of licensure (i.e., valid CPA license, etc.); and
14. completion date of audit.

After the written contract and terms are developed by TAWC and the Proposer, the Contract will be submitted to the TRA for ratification prior to the contract being signed by the parties and considered enforceable.

INDEPENDENT CONTRACTOR

The Auditor's and any consultant's relationship to TAWC in performing the contract is that of an independent contractor and nothing herein shall be construed as creating an employer/employee relationship, partnership, joint venture or other business group or concerted action. The personnel performing services under this contract shall at all times be under the Auditor's exclusive direction and control and shall be employees or consultants of the Auditor and not TAWC.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Miller". The signature is fluid and cursive, with the first name "Michael" and last name "Miller" clearly legible.

Michael A. Miller
Director Rates and Regulation

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

September 11, 2009

IN RE:

TENNESSEE AMERICAN WATER
COMPANY'S REQUEST FOR PROPOSAL FOR
MANAGEMENT AUDIT

)
)
)
)
)

DOCKET NO.
09-00086

ORDER APPROVING PROPOSED CLARIFICATION LETTER

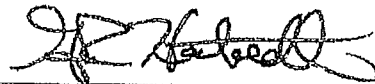
This matter came before the Hearing Officer upon the September 8, 2009 filing of *Tennessee American Water Company's Request for Approval of Proposed Clarification Letter Regarding Request for Proposal* ("Letter"), which due to the timeframe involved also requested expedited consideration. In its July 16, 2009 *Order Moving Request for Proposal to New Docket*, the panel directed the Hearing Officer to handle preparation of this matter as expeditiously as possible. At the regularly scheduled Authority Conference held on August 4, 2009, the panel voted unanimously to approve the Request for Proposal ("RFP") filed in this docket on June 11, 2009, with some minor changes. The panel also directed the Company to issue the RFP as soon as possible and to file the RFP with the service list associated with this docket file.

Authority Staff has reviewed the Letter, and has found that such proposed clarification is warranted and acceptable. Therefore, the Hearing Officer approves the immediate issuance of the Letter. Due to the timeframe involved with the Letter and the underlying RFP, Tennessee American Water Company, in its discretion, may extend the due date of the responses to the RFP for one additional week, from September 18, 2009 until September 25, 2009.

IT IS THEREFORE ORDERED:

1. *Tennessee American Water Company's Request for Approval of Proposed Clarification Letter Regarding Request for Proposal* filed in this docket on September 8, 2009 is approved for immediate issuance.

2. Tennessee American Water Company, in its discretion, may extend the due date of the responses to the RFP for one additional week, from September 18, 2009 until September 25, 2009.



Gary Hotvedt, Hearing Officer

BASS, BERRY & SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

ROSS BOOHER
TEL: (615) 742-7764
rboohar@bassberry.com

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

www.bassberry.com

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OTHER OFFICES

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KNOXVILLE
MEMPHIS

T.R.A. DOCKET ROOM

September 8, 2009

Via Hand-Delivery and E-Mail

Hon. Sara Kyle, Chairman
c/o Ms. Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

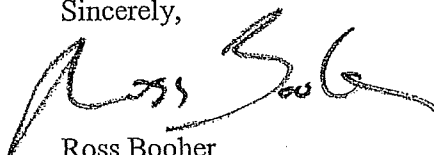
*Re: Tennessee American Water Company's
Request for Proposal for a Management Audit
Docket No. 09-00086*

Dear Chairman Kyle:

Please find enclosed an original and five (5) copies of Tennessee American Water Company's Request for Approval of Proposed Clarification Letter Regarding Request for Proposal. Please note that expedited consideration of this filing is requested. I request that one (1) file-stamped copy of this filing be returned with our courier.

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

Sincerely,



Ross Booher

Enclosures

cc: Hon. Eddie Roberson, Ph.D.
Hon. Mary W. Freeman
Ms. Darlene Standley, Chief of Utilities Division
Gary Hotvedt, Esq.
Mr. Ryan McGehee, Esq.
Kelly Cashman-Grams, Esq.
Rebecca Montgomery, Esq.
Richard Collier, Esq.
Mr. John Watson
Mr. Michael A. Miller

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:)
)
TENNESSEE AMERICAN WATER)
COMPANY'S REQUEST FOR PROPOSAL) Docket No. 09-00086
FOR A MANAGEMENT AUDIT)
)
) EXPEDITED CONSIDERATION
) REQUESTED
)
)

TENNESSEE AMERICAN WATER COMPANY'S
REQUEST FOR APPROVAL OF PROPOSED CLARIFICATION LETTER
REGARDING REQUEST FOR PROPOSAL

On January 19, 2009, the Tennessee Regulatory Authority (the "Authority") issued its final order in Docket No. 08-00039 ("2008 Final Order"), which required Tennessee American Water Company ("Tennessee American") to issue a Request for Proposal ("RFP") "for a comprehensive management audit by an independent certified public accountant"¹ In consultation with Authority staff, Tennessee American developed the requisite RFP, which was filed with the Authority on March 23, 2009. In early August, after a hearing before Hearing Officer Gary Hotvedt and the consideration of amendments proposed by Director Roberson and Tennessee American, the Authority authorized Tennessee American to issue the RFP.² Tennessee American subsequently issued the Authority-approved RFP, which was filed on August 21, 2009 in this Docket.³ Pursuant to the terms of the RFP,⁴ Tennessee American hereby seeks approval of the attached proposed letter of clarification ("Proposed Clarification Letter") to be sent to all those invited to submit bids in response to the RFP ("Invited Proposers"). *See*

¹ 2008 Final Order, Docket No. 08-00039, at 52, ¶ 10 (Jan. 19, 2009).

² *See* Tr. 5:22-8:2, Authority Conference (Aug. 4, 2009).

³ *See* Tennessee American's Notice of Filing of Request for Proposal, Docket No. 09-00086 (Aug. 21, 2009).

⁴ *See* RFP at 5-6, § A ("Proposal Information, Conditions, Instructions & Format").

Proposed Clarification Letter, attached as Exhibit 1. Because the RFP response deadline is September 18, 2009, Tennessee American requests expedited consideration of this request.⁵

Basis for Request

Tennessee American, in consultation with Authority staff, identified twelve prospective proposers to invite to respond to the RFP.⁶ At the recommendation of Authority staff, the Invited Proposers included four management consulting firms that are on the approved management auditor bid list of the New Jersey Board of Public Utilities ("NJBPU").

Recently, Tennessee American has received multiple communications regarding the RFP from prospective proposers which suggest to Tennessee American that a written clarification of the RFP would likely assist all Invited Proposers in better understanding the RFP. Specifically, several Invited Proposers that are management consulting firms have communicated to Tennessee American that they currently do not intend to submit bids because of the RFP's "certified public accounting firm" criteria. *See* Communications by Invited Proposers, attached as Exhibit 2.⁷ Additionally, one Invited Proposer, Schumaker & Company, Inc. ("Schumaker"), submitted a detailed written inquiry ("Schumaker Inquiry") raising questions regarding the RFP, including about the RFP's use of the term "certified public accounting firm" and the application

⁵ Tennessee American is providing a copy of this Request to all Invited Proposers.

⁶ Copies of Tennessee American's letters to each such Invited Proposer have been filed in this Docket. *See supra* note 3; Tennessee American's Notice of Filing of An Additional Invitation Letter Regarding Request for Proposal, Docket No. 09-00086 (Aug. 26, 2009).

⁷ Such communications, which suggest varied interpretations of the RFP's requirements related to the term "certified public accounting firm," were received from Accenture, Protiviti, and Black & Veatch Corporation. Additionally, Huron Consulting Services ("Huron") initially indicated an intent not to directly bid, but instead to team with Thompson, Cobb, Brazilio & Associates, Inc. ("TCBA"). Shortly thereafter, however, a Huron representative called Tennessee American to advise that Huron would not submit a bid due to a conflict. Huron subsequently confirmed its withdrawal in writing. TCBA then informed Tennessee American that it would instead be partnering with NorthStar Consultants to submit a bid. *See* Exhibit 2.

of Generally Accepted Auditing Standards (“GAAS”), attestation and CPA Opinion to the management audit. *See* Schumaker Inquiry, attached as Exhibit 3.⁸

Based on these communications, it appears likely that multiple Invited Proposers, including one or more of the management consulting firms on the NJBPU approved list, may not respond to the RFP absent further clarification regarding how proposers may address the RFP’s use of the term “certified public accounting firm,” application of GAAS, attestation and the independent CPA opinion to the management audit.

The Authority’s 2008 Final Order directed that a RFP be issued “for a comprehensive management audit by an independent certified public accountant”⁹ Likewise, the Authority’s subsequent July 16, 2009 Order regarding the requirements of the RFP reiterates that the contemplated management audit is to be performed by a “certified public accountant.”¹⁰ Neither order defines or requires the management auditor to be a “certified public accounting firm.” The terms “CPA,” and “certified public accounting *firm*” (including its abbreviated form, “CPA firm”), however, appear repeatedly in the RFP. The RFP states that “[t]he successful bidder shall be. . . ‘a certified public accounting firm’ as defined by GAAP.”¹¹ The RFP also states that each RFP response should include, “[a] definition section specifically defining all key terms used in the response to this RFP.”¹²

⁸ Tennessee American initially responded to the Schumaker Inquiry but, upon the realization that such response was inconsistent with the process set forth in the RFP for processing inquiries, Tennessee American advised Schumaker to disregard Tennessee American’s response. *See* Exhibit 3. Similarly, Tennessee American also responded to a verbal inquiry from PMC Management Consultants, Inc. (“PMC”) regarding the same issue raised by Schumaker; Tennessee American likewise advised PMC to disregard TAWC’s response and to submit any inquiry in writing.

⁹ 2008 Final Order, at 52, ¶ 10 (emphasis added).

¹⁰ Order Moving Request for Proposal to New Docket, at 2, Docket No. 08-00039 (July 16, 2009).

¹¹ *See* RFP at 5, ¶ 4 (emphasis added).

¹² *See* RFP at 7, ¶ 5.

After considering the Schumaker Inquiry and communications from multiple other Invited Proposers,¹³ Tennessee American has determined that all proposers would likely benefit if the RFP's use of the term "certified public accounting firm" (or "CPA firm") was clarified. Tennessee American has determined that a definition of the term "certified public accounting firm" is not reasonably ascertainable in the GAAP. Additionally, many highly experienced management consulting firms, including one or more of the management consulting firms that Authority staff recommended and/or which are on the approved management auditor proposer list of the NJBPU, may employ qualified certified public accountants but do not hold themselves out to be a "certified public accounting firm" – this term can have specific legal meaning under certain circumstances.

As used in the RFP, however, the term "certified public accounting firm" is effectively undefined because the RFP requires a specific definition that does not appear to be reasonably ascertainable. Given this circumstance and other guidance in the RFP regarding defining terms, Tennessee American submits that proposers would benefit from guidance that clarifies that the term "certified public accounting firm" may be defined consistent with the manner in which the term is used in such proposer's RFP response.¹⁴ Likewise, Tennessee American submits that the circumstances under which a management consulting firm could meet the letter and intent of the requirement in the 2008 Final Order "for a comprehensive management audit by an independent certified public accountant"¹⁵ (and therefore the intent of the term "certified public accounting firm" ("CPA firm") in the RFP), should and does include where such management consulting firm:

¹³ See Exhibits 2 & 3.

¹⁴ See RFP at 7, ¶ 5 (stating each RFP response should include "[a] definition section specifically defining all key terms used in the response to this RFP").

¹⁵ 2008 Final Order at 52, ¶ 10.

(1) employs or retains the “principal in charge of the management audit” as described in the RFP, and such principal is an “independent certified public accountant” who is qualified to provide the independent CPA attestation described in the 2008 Final Order; or

(2) teams with a “certified public accounting firm” (as such term is defined in the team’s RFP Response) which provides the “principal in charge of the management audit” as described in the RFP and, where such principal is an “independent certified public accountant” who is qualified to provide the independent attestation described in the 2008 Final Order.

The communications from Invited Proposers also suggest to Tennessee American that one or more Invited Proposers may have determined that a literal reading of the language in the RFP may require the application of one or more terms, standards or actions in a context in which such application cannot reasonably or possibly apply. For this reason, the Proposed Clarification Letter also includes language encouraging Invited Proposers to take particular care to thoroughly address and explain their proposed approaches to the RFP provisions that have raised questions (e.g., the role of the CPA in the management audit, attestation, the independent CPA’s opinion and the application of the GAAS to the management audit, etc.),¹⁶ including as follows:

(1) specify the manner, method and/or approach the proposer will take to determine whether the management audit complies with GAAS; and,

(2) to the extent a proposer determines one or more standards, terms, or actions (e.g., GAAS, attestation, an independent CPA’s opinion, etc.) cannot reasonably or possibly apply to an aspect of the management audit where the RFP’s language appears to require the application of such standard, term, or action, proposers are encouraged to specifically explain any such determination and such proposer’s alternate approach to any such aspect of the management audit, setting forth any specific alternate standard(s) such proposer proposes to apply (e.g., U.S. Government Accountability Office’s Yellow Book standards, NARUC standards, etc.).

Proposed Clarification Letter.¹⁷

¹⁶ See Schumaker Inquiry (Exhibit 3).

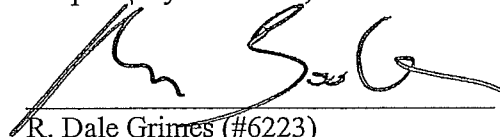
¹⁷ The Proposed Clarification Letter also addresses questions raised by the Schumaker Inquiry regarding other aspects of the RFP. See Schumaker Inquiry. For example, the Schumaker Inquiry requested guidance regarding the

If approved by the Authority, the Proposed Clarification Letter will address the Schumaker Inquiry and will likely assist all Invited Proposers in better understanding several of the expectations that apply to the RFP responses and the management audit. Accordingly, Tennessee American requests approval of the Proposed Clarification Letter.

Conclusion

For the reasons set forth above, Tennessee American respectfully requests that the Proposed Clarification Letter be approved. Because the RFP responses are due on September 18, 2009, Tennessee American also respectfully requests the expedited consideration and approval of this Request.

Respectfully submitted,



R. Dale Grimes (#6223)
Ross I. Booher (#19304)
BASS, BERRY & SIMS PLC
315 Deaderick Street, Suite 2700
Nashville, TN 37238-3001
(615) 742-6200

*Attorneys for Tennessee American Water
Company*

reference in "Section B, Response to the RFP, No. 4," to "Paragraph 13 in Section A, Specific Requirements" since the RFP does not contain a Paragraph 13 in the referenced section. *Id.* at ¶ 5.

CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing has been mailed to the following, postage prepaid, on this 8th day of September, 2009:

Richard Collier, General Counsel
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Ryan McGehee, Esq.
Office of the Attorney General
Consumer Advocate and Protection Division
P. O. Box 2027
Nashville, TN 37202

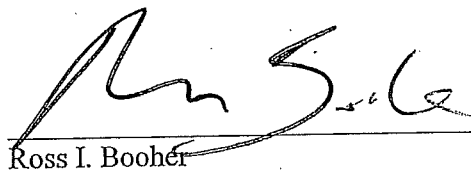

Ross I. Booher

Exhibit 1

[PROPOSED CLARIFICATION LETTER]

September __, 2009

XXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXX

Re: Request for Proposal

Dear XXXXXXXXXXXX,

I write to you to regarding the Request for Proposal ("RFP") for a management audit of American Water Works Service Company ("AWWSC") which I sent to you and other invited proposers last month on behalf of Tennessee American Water Company ("Tennessee American"). Tennessee American has received questions regarding aspects of the RFP, including the use of the term "certified public accounting firm" (sometimes abbreviated as "CPA firm") in the RFP. This letter of clarification regarding the RFP has been approved by the Tennessee Regulatory Authority ("Authority").

The Authority ordered that the RFP be issued "for a comprehensive management audit by an independent certified public accountant..." Authority Order, Docket No. 08-00039, at 52, ¶ 10 (Jan. 13, 2009) (emphasis added) ("2008 Final Order"). Likewise, the Authority's subsequent July 16, 2009 Order regarding the requirements of the RFP reiterates that the contemplated management audit is to be performed by a "certified public accountant." Authority Order, Docket No. 08-00039, at 2 (July 16, 2009). Neither order defines or requires the management auditor to be a "certified public accounting *firm*." The terms "CPA" and "certified public accounting *firm*," however, appear repeatedly in the RFP, which states that "[t]he successful bidder shall be... 'a certified public accounting firm' as defined by GAAP." RFP at 5, ¶ 4 (emphasis added). The RFP also states that each RFP response ("RFP Response") should include "[a] definition section specifically defining all key terms used in the response to this RFP." RFP at 7, ¶ 5.

After considering questions raised by the RFP's use of the term "certified public accounting firm," Tennessee American has determined that the definition of the term "certified public accounting firm" is not reasonably ascertainable in the GAAP. Accordingly, the RFP's use of the term "certified public accounting firm" (including its abbreviated form, "CPA firm") is hereby clarified as follows:

Each proposer is permitted to define the term "certified public accounting firm" consistent with the manner in which such proposer uses the term in such proposer's RFP response. *See* RFP at 7, ¶ 5 (stating each RFP response should include "[a] definition section specifically defining all key terms used in the response to this RFP").

Furthermore, a management consulting firm could meet the letter and intent of the 2008 Final Order's requirement "for a comprehensive management audit by an independent certified public accountant" (and therefore the intent of the term "certified public accounting firm" ("CPA firm") in the RFP), where such management consulting firm:

(1) employs or retains the "principal in charge of the management audit" as described in the RFP, and such principal is an "independent certified public accountant" who is qualified to provide the independent CPA attestation described in the 2008 Final Order; or

(2) teams with a "certified public accounting firm" (as such term is defined in the team's RFP Response) which provides the "principal in charge of the management audit" as described in the RFP and, where such principal is an "independent certified public accountant" who is qualified to provide the independent attestation described in the 2008 Final Order.

Similarly, proposers are encouraged to thoroughly address their proposed approaches to the RFP's provisions regarding the role of the certified public accountant, attestation, the independent CPA's opinion and the application of the GAAS to the management audit, including as follows:

(1) specify the manner, method and/or approach the proposer will take to determine whether the management audit complies with GAAS; and,

(2) to the extent a proposer determines one or more standards, terms, or actions (e.g., GAAS, attestation, an independent CPA's opinion, etc.) cannot reasonably or possibly apply to an aspect of the management audit where the RFP's language appears to require the application of such standard, term, or action, proposers are encouraged to specifically explain any such determination and such proposer's alternate approach to any such aspect of the management audit, setting forth any specific alternate standard(s) such proposer proposes to apply (e.g., U.S. Government Accountability Office's Yellow Book standards, NARUC standards, etc.).

All RFP Responses are also encouraged to include:

(1) if the proposer was unable to ascertain the GAAP definition of "certified public accounting firm," a clear statement to that effect;

(2) in the "definition section" referenced in "Section B, Response to the RFP, No. 4," the term "certified public accounting firm" should be defined in the manner in which the proposer uses such term in its Response. This "definition section," which may be presented in the form of a glossary of terms, should also include the definitions of other key terms used by the proposer in its RFP Response (e.g., Yellow Book Standards,

independence, attestation, CPA, NARUC, certified public accountant, etc.);

(3) a description of how the “principal in charge of the management audit” is an independent certified public accountant who is qualified and certified to supervise the management audit and to provide the independent CPA’s opinion and attestation to each of the areas set forth in the RFP;

(4) a clear and specific plan of how the “principal in charge of the management audit” will supervise the management audit and may direct the audit in order to provide the independent CPA’s opinion and attestation to each of the areas set forth in the RFP; and

(5) an explanation of the proposer’s approach to attestation, the independent CPA’s opinion and the application of GAAS, including how, in what manner, to what, and by whom they will be applied and the definition of and explanation of any other standards (e.g., Yellow Book, NARUC, etc.) or approaches that will be applied to the management audit. For example, if some standards will be applied by a CPA and others by a management consultant, a RFP Response would be improved by delineating which standards will be applied to what aspects of the project, how they will be applied and how such roles will be allocated.

Also, please note the clarifications of the following RFP references:

(1) In Section B, Response to the RFP No. 4, the RFP references “Section A, Specific Requirements, Paragraph 13.” This quoted reference should instead be to “Section B, Qualifications of Proposers, No. 3;”

(2) In Section B, Response to the RFP No. 6, the RFP references “Section A, Specific Requirements, Paragraph 17.” Instead of Paragraph 17, this reference should be to “Section B. Qualifications of Proposers, No. 7.”

I hope this letter clarifies the RFP. I am sending this letter to all those to whom I sent the RFP. Any inquiries regarding the RFP should be submitted to Tennessee American in writing. Tennessee American will process such inquiries as set forth in the RFP. *See* RFP, Section A, Proposal Information, Conditions, Instructions & Format. The RFP response deadline is September 18, 2009. I encourage you to submit a proposal in response to the RFP.

Sincerely,

[Michael A. Miller]

Exhibit 2



"Umbach, Frederick (10170)"
<Frederick.Umbach@protiviti.
com>

09/01/2009 08:21 PM

To mike.miller@amwater.com

cc

bcc

Subject American Water RFP

Mike,

Thanks for including Protiviti on this RFP. Unfortunately, we will not be able to bid because we are not a CPA firm and do not meet your requires. If you have any questions, please contact me. Thanks again.

Regards,

Frederick S. Umbach

Protiviti

Office: 212-603-8390

Mobile: 917-304-0114

Fax: 212-399-8741

10 Woodbridge Center Drive

Woodbridge, NJ 07095

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<b.michael.riggins@accentur
e.com>

08/24/2009 10:45 AM

To <Mike.Miller@amwater.com>

cc

bcc

Subject Management Audit RFP response for Ameriacn Water Works
Services Company

Mike, per our discussion, Accenture will not be able to submit a formal response to the RFP as our firm is not allowed to provide Audit Assessment work. We certainly appreciate you including us in the RFP and we wish you much success in getting the work completed.

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"Barber, Keith D."
<barberkd@bv.com>
08/27/2009 11:07 AM

To "mike.miller@amwater.com" <mike.miller@amwater.com>
cc "Lambert, Michael S. (Shannon)" <LambertMS@bv.com>, "Peterson, Thomas R." <PetersonTR@bv.com>, "Howe, Peggy L." <HowePL@bv.com>

bcc

Subject AWWSC Management Audit RFP

Thank you for including us in your Request for Proposals concerning a management audit of American Water Works Service Company on behalf of the Tennessee-American Water Company.

We have carefully reviewed and internally discussed the RFP. Although we believe we could do the work requested, none of our CPA's are licensed in the State of Tennessee as required to provide a CPA certified opinion. In addition, it is believed that our legal and risk management staff may prohibit us from submitting a proposal since we are not a firm that provides Public Accounting services.

As the management consulting division of Black & Veatch, we primarily work for public and private utilities involving rate and regulation services, revenue bond feasibility services, asset management, customer application services and other independent management related services.

Although we can not propose on this RFP, we would like the opportunity to propose on future RFPs dealing with management related services and would appreciate being added to American Water and affiliated companies RFP list(s).

For additional information regarding the Enterprise Management Solutions division of Black & Veatch Corporation, please click on the following link: http://www.bv.com/Markets/Management_Consulting/Default.aspx

Thank You

Keith D. Barber

BLACK & VEATCH CORPORATION - Enterprise Management Solutions

Desk: (913) 458-3675

Mobile: (913) 626-4985

Fax: (913) 458-3817

E-mail: barberkd@bv.com

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wdoherty@huronconsultinggroup.com
08/25/2009 09:59 AM

To: mike.miller@amwater.com
cc
bcc
Subject: Management Audit

Mike

Thanks for sending me the RFP.

The TRA requires a CPA firm to do the audit. Since we are not a CPA firm we would not qualify and you would have the same issues you had with Booz Allen.

So we plan to enlist a CPA firm to take the lead role and Huron will be a subcontractor.

If this doesn't work, let me know.

Bill Doherty

Director, Utility Practice
Huron Consulting Services
Office: 941-224-6190
Fax: 509-472-8820
wdoherty@huronconsultinggroup.com
www.huronconsultinggroup.com

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wdoherty@huronconsultinggroup.com

09/02/2009 01:30 PM

To: mike.miller@amwater.com

cc

bcc

Subject: TAWC Management Audit

Mike

As discussed this morning, due to a potential conflict of interest, Huron will not be able to participate as a subcontractor in a proposal to perform the management audit of TAWC and AWWSC.

The lead firm, Thompson, Cobb, Bazilio & Associates, a CPA firm, plans to partner with another management consulting firm with water utility expertise.

You have Al Lucas's contact information in the event you would like to follow-up with them

Bill Doherty

Director, Utility Practice

Huron Consulting Services

Office: 941-224-6190

Fax: 509-472-8820

wdoherty@huronconsultinggroup.com

www.huronconsultinggroup.com

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"Albert Lucas" <alucas@tcba.com>

To <mike.miller@amwater.com>

cc "Douglas Bennett" <dbennett@northstarconsultants.com>

09/08/2009 10:33 AM

Subject TAWC RFP for Management Audit of American Water Works Service Company

Mr. Miller

To follow-up on my phone call to you last Friday, Thompson, Cobb, Bazilio and Associates (TCBA) and our teaming partner NorthStar Consultants intend to submit a joint proposal in response to the above referenced RFP subject to receiving an okay from you. TCBA had previously agreed to team with Huron, which had received this RFP directly from you. Due to a conflict, Huron had informed you that it was unable to bid and recommended that TCBA and NorthStar submit a joint proposal. We very much appreciate your consideration in this matter. TCBA and NorthStar look forward to submitting our response to this RFP.

Albert Lucas, Principal
Thompson, Cobb, Bazilio & Associates, PC
1101 15th NW Suite 400
Washington DC 20005
202 778 3405 (office number)
202 737 2684 (fax)

Exhibit 3

"Schumaker, Patricia H." <pschumaker@schuco.com>

To <mike.miller@amwater.com>

cc

08/27/2009 04:33 PM

Subject TAWC Management Audit Questions

Dear Mr. Miller:

1. In Section A Scope of Work, the RFP indicates that TAWC is soliciting the services of a qualified independent CPA firm to conduct the management audit, and this CPA firm may employ management consultants. However, would TAWC also consider a situation where the prime contractor is a management consulting firm whose Engagement Manager is a CPA, but whose firm is not? Would the answer change if the management consulting firm used the services of a licensed CPA firm as part of the team?
1. Please confirm that Yellow Book standards for performance audits is applicable to this project. If so, then typically such management/performance audits do not result in an "opinion" letter and a report, but simply a report with background, findings, and recommendations. Is an "opinion" letter really required? If so, why? If the latter scenario in Question #1 above is acceptable, a management consulting firm (even with a CPA as Engagement Manager and a CPA subcontractor) does not render an opinion but provides findings and recommendations. What is expected in that situation?
2. Also, in Section A, the RFP states that TAWC shall review the bids and submit proposal (with a copy of all bids) to the TRA for consideration within 60 days. Does that mean that TAWC will be making a recommendation as to whom should be awarded the bid, with the TRA making the final decision? If not, what is the likely scenario?
3. Will the resulting contract be with TAWC, TRA, or both?
4. To what extent will TRA representatives be involving during performance of the management audit?
5. In Section B, Response to the RFP #4, the RFP references Paragraph 13 in Section A, Specific Requirements; however, there was no Paragraph 13 provided in the RFP. What is this referring to?
6. In Section B, Response to the RFP #5, the RFP ask for "a definition section specifically defining all key terms used in the response to the RFP." Are you looking for a glossary of terms or something else? If something else, can you elaborate on specifically what you require and the desired format.
7. In Section B, Response to the RFP #6, the RFP references Paragraph 17 in Section A, Specific Requirements; however, there was no Paragraph 17 provided in the RFP. What is this referring to?

Thank you for your help in answering these questions in a timely manner.



Schumaker & Company, Inc.

Managing Change, Defining Solutions

Patricia H. Schumaker, CPA, CMC®, PMP®

Schumaker & Company, Inc.

pschumaker@schuco.com

734.998.5550 telephone

734.646.4986 cell telephone

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Mike Miller/WVAWC/AWWSC

09/04/2009 05:37 PM

To pschumaker@schuco.com

cc

Subject Tennessee American Management Audit

Ms. Schumaker,

It has come to my attention that TAWC responses to Proposer inquiries need to be processed through the TRA as set forth in the RFP section entitled, "Proposal Information, Conditions, Instructions & Format." My response to your inquiry was premature and should not be relied on as it was not reviewed and approved by the TRA. TAWC will proceed with processing your inquiry by seeking approval for a proposed TAWC response as set forth in the RFP. TAWC intends to provide all invited bidders a copy of its Clarification Request which I anticipate will be filed at the TRA on Tuesday morning. I am sorry for any inconvenience this has caused you.

Michael A. Miller
American Water Works Service Co.
P.O. Box 1906
Charleston, WV 25327
Office: 304-340-2009
Cell: 304-552-6419
Fax: 304-353-6332

ATTACHMENT 1

The final report will include an assessment/attestation regarding:

1. The status and sufficiency of AWWSC's management performance and decisions relating to internal processes and internal controls;
2. The efficiency of operating procedures and communication between TAWC and AWWSC;
3. AWWSC performance with industry standards and best management practices;
4. The appropriateness of organizational structure of AWWSC/TAWC and reporting alignment;
5. The development of AWWSC's long-range and short-range operational plans to assure the effective and efficient performance of the functions;
6. The appropriateness of AWWSC's staffing and skill sets; and
7. TAWC's controls and systems to analyze and control costs from AWWSC.

The final report will include an evaluation and opinion of:

1. The accuracy and reasonableness of total AWWSC charges (including expenses) allocated to TAWC;
2. The necessity, reasonableness/prudency, and efficiency of processes and/or functions performed by AWWSC on behalf of TAWC; and
3. The accuracy and reasonableness of the allocation factors utilized to allocate AWWSC charges to regulated and non-regulated subsidiaries, and allocated regulated AWWSC charges to TAWC, including review of work previously performed regarding allocation methods which will be supplied by AWW.

The final report will:

1. Make specific recommendations and the estimated remediation costs regarding the findings of the management audit, if any.