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June 29, 2009

Via Hand-Delivery

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

filed electronically in docket office on 06/29/09

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

Dear Chairman Roberson:

Enclosed please find an original and five (5) copies of Tennessee American Water Company's Comments in the above-referenced docket. Please return one (1) copy of this document, which I would appreciate your stamping as "filed," and returning to me by way of our courier.

Please note that this material also has been transmitted electronically to the Tennessee Regulatory Authority today.

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

With kindest regards, I remain

Very truly yours,



R. Dale Grimes

RDG/smb
Enclosures

cc: Hon. Sara Kyle
Hon. Mary W. Freeman
Ms. Darlene Standley, Chief of Utilities Division

Chairman Eddie Roberson

June 29, 2009

Page 2

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

IN RE:

**TENNESSEE AMERICAN WATER
COMPANY'S REQUEST FOR PROPOSAL)
FOR A MANAGEMENT AUDIT)**

**) Docket No. 09-00086
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**TENNESSEE AMERICAN WATER COMPANY'S COMMENTS REGARDING THE
PROPOSED REQUEST FOR PROPOSAL**

On June 15, 2009, the Tennessee Regulatory Authority (the "Authority") approved Chairman Roberson's motion, as amended, which: (i) ordered that this new docket be opened to consider the Request for Proposal ("RFP") for the management audit ordered by the Authority in its January 13, 2009 Order in Docket No. 08-00039; (ii) directed Authority staff to contact other state regulatory agencies in states served by companies owned by American Water Works Company ("AWWC") to determine any interest in participation in a multi-state audit; (iii) appointed the General Counsel or his designee to handle any preliminary matters and prepare the matter for final deliberations as expeditiously as possible; and (iv) allowed any interested parties to file comments regarding the Authority Staff's requested changes to the Proposed RFP no later than June 29, 2009.

Tennessee American Water Company ("Tennessee American") respectfully submits the following comments for the Authority's consideration. Tennessee American requests that the RFP process be completed as soon as possible; that the Authority staff remain involved in the

RFP selection process to ensure the conduct of a management audit that will meet the Authority's expectations; and that the concept of a multi-state management audit be declined due to the excessive costs and delays that would result from such an extensive undertaking.

I. The RFP And Audit Process Should Be Completed As Soon As Practicable To Avoid Further Impairment To Tennessee American's Financial Condition.

In the 2008 rate case filed in Docket No. 08-00039, Tennessee American projected attrition period management fees of \$4,335,190 to be paid to its service company affiliate, American Water Works Service Company ("AWWSC") – an increase of \$355,365 over the amount of management fees authorized by the Authority panel in Docket No. 06-00290. As discussed in greater detail in Section II below, the Authority panel in Docket No. 08-00039 determined that the management audit conducted by Booz Allen Hamilton ("BAH") and filed in the 2008 rate case did not meet the Authority's expectations and therefore did not support Tennessee American's management fee request. Instead, a majority of the panel authorized management fees in the amount of \$3,529,933 – which reduced management fees to approximately \$450,000 *less* than the amount the Authority found reasonable and authorized in the 2006 rate case.¹ Tennessee American is now operating under this deficit, which adversely impacts its financial condition. Accordingly, the expeditious completion of a management audit conducted in a manner acceptable to the Authority is critical to enabling the Authority to determine the proper amount of management fees that should be allocated to Tennessee American.

As then-Director Roberson noted in presenting the motion that was ultimately adopted as the majority position on management fees in Docket No. 08-00039:

¹ Director Freeman did not vote with the majority. Instead, she found that management fees should have remained at the level set in the 2006 rate case. *See* Order at n.67.

Regarding the amount of management fees allowed, there is no doubt in my mind that legitimate expenses are incurred from the service company. The problem I had is in determining whether the amount requested by the company to pay its service company is a just and reasonable amount based on prudent expenditures.

The management audit ordered in 06-290 could have answered this important question if conducted properly....

I am anxious for the conclusion of the comprehensive audit ordered in 06-290 and restated in my motion for this docket. I want to stress that if the management audit ultimately shows that the fees being allocated for services are prudent, the authority can on its own motion or the motion of a party revisit the issue of management fees.

Hrg. Tr. at 8-9, Docket No. 08-00039 (Sept. 22, 2008). Tennessee American respectfully submits that the proposed management audit that is the subject of this Docket will confirm that the amount of management fees that it costs to provide the level of quality service that the Authority and consumers expect is certainly not less than it was in 2006. As a result, every day that passes without the management audit and management fee reassessment results in a growing difference between what Tennessee American must pay in management fees to provide the required level of quality service and what the Company is allowed to recover in revenue. Time is of the essence as every day of delay in the completion of the management audit is resulting in a growing impairment to Tennessee American's financial health.

Accordingly, Tennessee American respectfully proposes a RFP and management audit schedule that ensures that Tennessee American can issue a RFP not later than July 15, 2009. This proposed deadline will increase the likelihood that the Authority is able to re-examine the management fee issue with the benefit of new management audit results within a reasonable period of time.

II. Authority Staff Should Remain Directly Involved In The Management Audit Process So That The Auditor And Authority Can Better Ensure That Completed Audit Results Will Be Deemed Independent, Thorough, Useful And Reliable By The Authority.

Tennessee American respectfully requests that the Authority's staff ("Staff") remain directly involved in the management audit through its completion and that the RFP be revised to include explicit references to the Staff's involvement. Although the RFP provides criteria for the management audit, a project of this complexity and scope will necessarily involve unforeseeable situations and questions. It is crucial that the Auditor's decisions be guided by the Staff's involvement to ensure that the management audit is performed in a manner consistent with the Authority's expectations.

Tennessee American's previous management audit illustrates the critical need for the Staff's involvement in the RFP and audit process. In Docket No. 06-00290, the assigned Authority panel ordered Tennessee American to cause a management audit to be conducted. Tennessee American issued an RFP and retained BAH – a highly respected and experienced consulting firm whose management audits have been relied on by multiple state regulatory authorities. Tennessee American then submitted the BAH management audit as the basis for its management fees in Docket No. 08-00039.

The BAH management audit, however, became the subject of much dispute in Docket No. 08-00039. Specifically, the intervening parties contested whether BAH's understanding of and judgments regarding the management audit criteria and methodology were consistent with the intent of the Authority panel that had ordered the management audit.² Further, BAH and Tennessee American were criticized for not involving Authority staff during the management

² A majority of the Authority panel in Docket No. 08-00039 and the BAH auditor apparently had different understandings of such fundamental concepts as the applicable definition of the word "independent" and even whether BAH's work was a management "audit." Order at 20-21.

audit process to ensure that the audit was completed in a manner consistent with the Authority's intent. *See, e.g.*, Statement of Director Roberson, Vol. XIV, Tr. 1510:18-23 (Docket No. 08-00039) ("I'm a great Monday-morning quarterback, and I just wish that the company, you know, since it was important to meet the requirements of the TRA, that there had been some discussion with the staff.").

Ultimately, a majority of the Authority panel in Docket No. 08-00039 "determined that the Company had not complied" with the Authority panel's management audit directive in Docket No. 06-00290, in part because, in the Authority's view, the BAH audit was not sufficiently independent. Order at 21 (dated January 13, 2009), Docket No. 08-00039 ("Order"). Consequently, the Authority panel did not rely on the management audit's findings and completely disallowed the cost of the management audit (totaling approximately \$250,000). Order at 18-22. In addition, the Authority panel: (i) ordered the undertaking of a new management audit that is the subject of the RFP; and (ii) expressly determined "that the Company should contact Authority staff in the event the Company has questions regarding the scope of the audit." Order at 21-22, n.68.

In accordance with the Authority's directives, on March 23, 2009, Tennessee American submitted its proposed RFP, which was prepared in consultation with Staff designated specifically for this purpose.³ The Staff's extensive involvement in the RFP filed by Tennessee American on March 23, 2009 was essential to the preparation of the RFP. Continued Staff involvement in the management audit process is equally important and is the most effective way to ensure that the management audit is completed efficiently and prepared in a manner consistent with the Authority's expectations. For example, Staff involvement increases the likelihood of

³ TAWC was advised that the designated staff members were walled-off from the Directors and other Authority staff.

early identification and correction of any aspect of the management audit process that the Authority might otherwise deem an impairment of the audit. Early identification and correction of potential impairments will reduce the cost of the audit and better ensure that the Authority finds the audit results reliable, complete, independent and useful to the Authority.

The proposed RFP filed with Chairman Roberson's motion on June 11, 2009, however, would reduce the involvement of the Authority staff in a number of ways, including:

1. On page 4, under Section A (lines 2-14), the section discussing the role of the TRA in the RFP process was deleted.⁴ This provision provided as follows:

The Role Of The TRA Staff

The role of the TRA Staff in the management audit process will be to ensure that the general and Company specific requirements are fully addressed in the management audit, in accordance with the directives specified in the TRA Order issued on January 13, 2009. Further, it shall be understood that the TRA and/or its Staff shall not be liable for any acts committed by the Auditor or its agents in the preparation and presentation of the Management Audit Report. TRA Staff personnel will be copied and informed of all requests and replies for information between the Auditor and the Company and shall be given five working days notice of all meetings and interviews between the Company and the Auditor. The TRA Staff may take an active part in the management audit and the Auditor should be prepared to work with the TRA Staff throughout the course of the audit.

The role of the Staff, and the parties' obligations to it, are critical to the success of the management audit and should therefore be clearly defined within the RFP. The deleted section is necessary to provide Tennessee American and the Auditor with clear guidance and parameters in the management audit process.

2. Also on page 4, under Section A's "Scope of Work" discussion (lines 20-22), the provision requiring that "[c]onsultants employed by the independent CPA firm selected,

⁴ All pages and line numbers referenced in this discussion refer to the black-line comparison attached hereto as Exhibit 2, which shows the changes TAWC proposes to be made to the proposed RFP filed with Chairman Roberson's motion on June 11, 2009.

if any, will be disclosed to TAWC and the TRA Staff as soon as that arrangement is known” has been deleted. By including this provision, the Staff is able to consider whether it finds any consultants not sufficiently independent or if their involvement would otherwise in any way be expected to impair the Authority’s reliance on the management audit. By including this provision, the Staff will have the ability to identify early any area of concerns so that they may be addressed.

3. On page 5, under Section A’s “Contact Information” discussion of the key role of the Project Leader (lines 30-36), the provision regarding the interaction between the Project Leader, the Auditor and the Staff was excised as shown in redline below:

~~The Auditor will be responsible for maintaining contact with the Project Leader and taking the lead from him/her and TRA Staff, as necessary. The Project Leader will work with necessary TRA Staff in order to complete work under the project and the Project Leader will work with the TRA Staff to further define any change in project scope as may be required by the TRA Staff. Weekly communication (written and via on-site meetings or telephone) shall be required at the request of the TRA Staff. More or less frequent communication may be required or permitted by the TRA Staff.~~

As amended, the RFP omits language that makes it clear that the Auditor and Project Leader may receive guidance from the Staff throughout the audit process. Without the Staff’s ongoing and active participation in the audit process, the Auditor and Project Leader will be deprived of valuable real-time input that could otherwise enable ongoing adjustments to better ensure that the management audit process is deemed acceptable to the Authority.

4. On page 6, under Item 4 of the “Specific Requirements of the Management Audit” discussion on processes to be followed (lines 33-34), the language from the RFP that would have allowed the TRA to review a draft of the Management Audit Report before the Auditor submitted the final Report has been removed:

Provide both a draft Management Audit Report for review by TAWC and the TRA Staff, prior to providing the final Management Audit Report.

Absent such pre-completion Staff review, the Auditor will not have the opportunity to receive guidance from the Staff until after the audit has been completed. In contrast, by involving the Staff at the drafting stage, Staff will have the opportunity to offer guidance while the project is still ongoing. The earlier areas of concern can be identified by the Staff, the earlier and more cost effectively these areas can be addressed.

5. Similarly, on page 10, under Section B's discussion of "Independence" (lines 4-5), language was removed that provided for the "TRA in its reasonable discretion [to] determine a firm's independence." In Docket No. 08-00039, the Authority panel did not credit the BAH management audit, in part, because the panel determined that BAH's independence was impaired. Unfortunately, this determination did not occur until after the costly BAH audit had been completed and until after the audit had been the subject of months of expensive litigation. To the extent that the Authority has reason to be concerned that an impairment of the independence of the Auditor exists or may be imminent, efficiencies can be gained if the Auditor and Tennessee American learn of any such concern as early as possible – especially where any potential impairment can still be avoided or corrected.
6. Finally, on page 10, under Section C's discussion of "Selection Process & Evaluation Criteria" (line 31), the requirement that "TAWC may enter directly into a contract with said firm subsequent to TRA approval," was eliminated. This omitted provision incorporates an important safeguard into the management audit process. By making it clear that the Authority is approving Tennessee American's Auditor selection before any

Auditor contract is consummated, Tennessee American can avoid the unnecessary expenditure of substantial time, money, and resources.

For the reasons set forth above, Tennessee American respectfully requests that the Authority restore the language listed above to the RFP so that the Auditor has (and is required to take advantage of) the benefit of the Staff's involvement throughout the management audit process. A copy of the RFP filed with Chairman Roberson's motion, amended to include the language which Tennessee American respectfully requests be restored, is attached hereto as Exhibit 1. A black-line comparing Exhibit 1 to the RFP filed with Chairman Roberson's motion on Friday, June 11, 2009, filed is attached hereto as Exhibit 2.

III. A Multi-State Audit Is Impractical, Especially Considering The Need For The Management Audit To Be Completed As Expeditiously As Possible, And Raises Significant Due Process Concerns.

The prospect of coordinating with other state agencies in conducting the audit is likewise undesirable. Plainly stated, a multi-state management audit is unworkable from a practical perspective, will lead to unnecessary and unconscionable delay, and could result in significant additional costs not only for Tennessee American and its customers, but for American Water subsidiaries and customers in other states as well. For example:

- The application of the *ex parte* rules to this docket would mean that any communications with other regulatory agencies would require: (i) advance notice to all parties and the opportunity for all parties to participate in the communication, Tenn. Code Ann. § 4-5-304; (ii) that all communications be placed on record; or (iii) that the Staff tasked with such outreach be walled-off from the Directors and other Authority staff advising the Directors. These cumbersome procedures, while required by law and necessary to protect the due process rights of regulated entities from unfair process and intervenors, would likely result in repeated notices and ensuing hearings that would introduce undue delay in this process.

▪ Before another state commission is able to participate in a multi-state management audit of AWWSC, that agency would likely need to engage in some formal process, such as opening a docket, a Rule To Show Cause, or convening a contested case involving the American Water subsidiary over which the agency has jurisdiction. Then it will likely seek public comments or another form of input. This will impose costs on the utility in that state. Inevitable questions involving recovery mechanisms will likely trigger interventions, which may lead to contested case proceedings. These proceedings would have to run their course before the agency could reach a decision on whether to participate and how to fund its participation in a multi-state audit. This process can be expected to consume many months and involve significant additional costs.

▪ As AWWC has operating subsidiaries that are regulated in approximately 17 other states, undergoing the above-described process multiple times to assemble a multi-state audit would be challenging and time-consuming in the extreme. If one or more state commissions become interested in participating in a multi-state audit, they and other interested parties would need to reach agreement on the scope and methodology of the multi-state audit, how the audit costs would be allocated among the states, and the language of a multi-state audit RFP. The RFP process in this Docket has already been underway for months and is nearing completion. Pursuing a multi-state audit at this point will likely paralyze the Tennessee RFP process for a very long time. Such paralysis is not in the best interests of this Authority, the Company or the ratepayers. While the question of whether the management fees allocated to Tennessee American are prudent remains outstanding, Tennessee American is faced with further impairment of its financial health, a reduction in investment in the system, and an inability to recover the legitimate cost of service to which it is entitled as a regulated entity.

Accordingly, Tennessee American requests that the Authority not pursue a multi-state audit. At a minimum, if the Authority remains interested in pursuing that concept, it should ensure that any inquiries regarding any future multi-state audit will not in any way delay the approval of the RFP, or the commencement and completion of the management audit in this docket, nor otherwise undermine the Authority's reliance on any management audit that is completed in response to the RFP.

IV. Conclusion

For the reasons set forth above, Tennessee American respectfully requests that a RFP and management audit process be completed as soon as possible, that the proposed RFP attached hereto as Exhibit 1 be approved, and that the Authority proceed with a management audit that is conducted solely under the auspices of the Authority and able to be completed in a timely manner.

Respectfully submitted,



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Nashville, TN 37238-3001
(615) 742-6200

*Attorneys for Tennessee American Water
Company*

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served via the method(s) indicated, on this the 29th day of June, 2009, upon the following:

<input type="checkbox"/> Hand-Delivery	Ryan McGehee, Esq.
<input checked="" type="checkbox"/> U.S. Mail	Consumer Advocate and Protection Division
<input type="checkbox"/> Facsimile	Office of Attorney General
<input type="checkbox"/> Overnight	2nd Floor
<input checked="" type="checkbox"/> Email	425 5th Avenue North
	Nashville, TN 37243-0491
<input type="checkbox"/> Hand-Delivery	David C. Higney, Esq.
<input checked="" type="checkbox"/> U.S. Mail	Counsel for Chattanooga Manufacturers Association
<input type="checkbox"/> Facsimile	Grant, Konvalinka & Harrison, P.C.
<input type="checkbox"/> Overnight	633 Chestnut Street, 9th Floor
<input checked="" type="checkbox"/> Email	Chattanooga, TN 37450
<input type="checkbox"/> Hand-Delivery	Henry M. Walker, Esq.
<input checked="" type="checkbox"/> U.S. Mail	Counsel for Chattanooga Manufacturers Association
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	801 Broad Street
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<input type="checkbox"/> Hand-Delivery	Frederick L. Hitchcock, Esq.
<input checked="" type="checkbox"/> U.S. Mail	Counsel for City of Chattanooga
<input type="checkbox"/> Facsimile	Chambliss, Bahner & Stophel, P.C.
<input type="checkbox"/> Overnight	1000 Tallan Building
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	Chattanooga, TN 37402



REQUEST FOR PROPOSAL

Management Audit of Tennessee American Water

PROPOSAL DUE: __, 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

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.

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 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 _____, 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.

THE ROLE OF THE TRA STAFF

The role of the TRA Staff in the management audit process will be to ensure that the general and Company specific requirements are fully addressed in the management audit, in accordance with the directives specified in the TRA Order issued on January 13, 2009. Further, it shall be understood that the TRA and/or its Staff shall not be liable for any acts committed by the Auditor or its agents in the preparation and presentation of the Management Audit Report. TRA Staff personnel will be copied and informed of all requests and replies for information between the Auditor and the Company and shall be given five working days notice of all meetings and interviews between the Company and the Auditor. The TRA Staff may take an active part in the management audit and the Auditor should be prepared to work with the TRA Staff throughout the course of the audit.

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. Consultants employed by the independent CPA firm selected, if any, will be disclosed to TAWC and the TRA Staff as soon as that arrangement is known. 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.

The Auditor shall develop findings and make appropriate conclusions and recommendations for specific areas with potential for improvement.

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.

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.

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 and TRA Staff, as necessary. The Project Leader will work with necessary TRA Staff in order to complete work under the project and the Project Leader will work with the TRA Staff to further define any change in project scope as may be required by the TRA Staff. Weekly communication (written and via on-site meetings or telephone) shall be required at the request of the TRA Staff. More or less frequent communication may be required or permitted by the TRA Staff.

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 both a draft Management Audit Report for review by TAWC and the TRA Staff, 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 set 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 and TRA Staff 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, CST on _____, 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. The TRA in its reasonable discretion shall determine a firm's independence.

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. TAWC may enter directly into a contract with said firm subsequent to TRA approval

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

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;
10. subletting;
11. confidentiality;
12. enforceability/severability;

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, Order at 22 (January 13, 2009).

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,

Michael A. Miller
Director, Rates and Regulations

1 ~~REQUEST FOR PROPOSAL~~

2

3

4 REQUEST FOR PROPOSAL

5

6

7 Management Audit

8 of Tennessee American Water

9

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14 PROPOSAL DUE: _____, 2009

15

16 PROPOSAL DUE: ____, 2009

17

18

19

20

21 Exhibit 1

1 BACKGROUND

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

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

32 AWW’s financial audit is performed by PricewaterhouseCoopers (“PwC”).
33 AWW’s Sarbanes-Oxley compliance work is performed by Ernst & Young (“E&Y”). The
34 financial audit includes issuance of certified financial statements for AWW on a consolidated
35 basis as required by GAAP. As a publicly traded company, AWW files a quarterly 10-Q report
36 with the SEC and the annual SEC 10-K report, including the annual certified financial reports of
37 AWW on a consolidated basis. Audited annual financial statements are also issued for certain
38 regulated subsidies, including TAWC. The financial audit of AWW on a consolidated basis
39 includes the necessary review of all AWW subsidiary information, including AWWSC, required

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.

1 to conform to Generally Accepted Auditing Standards ("GAAS") and the issuance of the
2 auditor's opinion on the consolidated financial information of AWW. The successful bidder
3 ("Independent management auditor" or "Auditor"), will make best efforts not to duplicate the
4 financial auditing functions already performed by AWW's financial auditor. Instead, the
5 Independent management auditor may rely on AWW's audited financials and any financial
6 auditing work already performed by PwC. Likewise, the successful bidder shall not duplicate the
7 functions of AWW's SOX compliance testing. Instead, the Independent Management Auditor
8 may rely on the work already performed by E&Y and PWC. If the Independent Management
9 Auditor is not provided sufficient information from the PwC financial audit and E&Y internal
10 control evaluation, the Auditor may perform such additional work as required to formulate their
11 opinion.

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

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

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

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

34 **SECTION A:**

35 **ROLE OF THE AUDITOR**

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

1
2 THE ROLE OF THE TRA STAFF
3

4 ~~The role of the TRA Staff in the management audit process will be to ensure that~~
5 ~~the general and Company specific requirements are fully addressed in the management~~
6 ~~audit, in accordance with the directives specified in the TRA Order issued on January~~
7 ~~13, 2009. Further, it shall be understood that the TRA and/or its Staff shall not be liable~~
8 ~~for any acts committed by the Auditor or its agents in the preparation and presentation~~
9 ~~of the Management Audit Report. TRA Staff personnel will be copied and informed of~~
10 ~~all requests and replies for information between the Auditor and the Company and shall~~
11 ~~be given five working days notice of all meetings and interviews between the Company~~
12 ~~and the Auditor. The TRA Staff may take an active part in the management audit and~~
13 ~~the Auditor should be prepared to work with the TRA Staff throughout the course of the~~
14 ~~audit—~~

15 SCOPE OF WORK

16 TAWC is soliciting the services of a qualified independent CPA firm to conduct a
17 management audit as set forth below. Given the nature of this engagement, the independent
18 CPA firm may employ consultants with management audit experience to assist in conducting the
19 management audit if that would minimize the cost of the management audit. The proposer shall
20 identify any contemplated consulting arrangement in its response to this RFP. ~~Consultants~~
21 ~~employed by the independent CPA firm selected, if any, will be disclosed to TAWC and~~
22 ~~the TRA Staff as soon as that arrangement is known.~~ Any consultants used by the Auditor
23 shall be subject to the same independence provisions included in Section B of this RFP. The
24 management audit is to be performed in accordance with the provisions contained in the Order
25 issued by the TRA on January 13, 2009 and detailed in this RFP and shall at a minimum be
26 conducted under the supervision of an independent CPA firm who may direct the audit in order
27 to issue a report, opinion and attestation.

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

36 In addition to the scope of the work above, the Independent Management Auditor may be
37 required to participate, as an independent party (not on behalf of any individual party) in a
38 proceeding before the TRA concerning the management audit. Appearance for such proceeding
39 before the TRA would include responding to data requests relating to the management audit,
40 preparing pre-filed direct and rebuttal testimony, and testifying before the TRA if required. The

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.

1 cost estimate for completion of the requirements set forth in Section B below should be
2 segregated to clearly identify the cost of the management audit from the subsequent costs that
3 would be required for participation in a proceeding before the TRA. The hourly rates submitted
4 under Section B shall be the basis for billing services performed beyond the filing of the
5 management audit.

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

12
13 ~~_____ The Auditor shall develop findings and make appropriate conclusions and~~
14 ~~recommendations for specific areas with potential for improvement.~~

15 CONTACT INFORMATION

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

20 TAWC's Project Leader is:

21
22 Michael A. Miller
23 P.O Box 1906
24 Charleston, WV, 25327
25 E-mail: mike.miller@amwater.com
26

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

30 The Auditor will be responsible for maintaining contact with the Project Leader and
31 taking the lead from him/her ~~and TRA Staff~~, as necessary. The Project Leader will work ~~with~~
32 ~~necessary TRA Staff in order to complete work under the project and the Project Leader~~
33 ~~will work with the TRA Staff~~ to further define any change in project scope as may be required
34 ~~by the TRA Staff. Weekly communication (written and via on-site meetings or~~
35 ~~telephone) shall be required at the request of the TRA Staff. More or less frequent~~
36 ~~communication may be required or permitted by the TRA Staff.~~

37 SPECIFIC REQUIREMENTS OF THE MANAGEMENT AUDIT

38 The management audit should include along with the Management Audit Report and working
39 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;~~ 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 ~~both~~ a draft Management Audit Report for review by TAWC ~~and the TRA Staff,~~ 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 ~~set 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

- 1 any confidential information so designated during the development of the Management
2 Audit Report. The Company shall be responsible for filing one set of working papers
3 with the TRA, concurrent with the Management Audit Report. For purposes of this
4 project, audit interview notes shall be deemed part of the auditor's work papers;
- 5 6. Upon request of the Auditor, the Company shall furnish any and all documentation or
6 information requested which is related to TAWC and AWWSC and is relevant to the
7 scope of the management audit. The Company may conspicuously mark such
8 documentation or information as being confidential if this data is closely held; and
- 9 7. Nothing in the final written Contract will preclude the Auditor from performing tests,
10 checks or other audit procedures if the Auditor does not deem the work of the
11 predecessor audits mentioned above adequate.
12

13 PROPOSAL INFORMATION, CONDITIONS, INSTRUCTIONS & FORMAT

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

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

25 PROPOSAL SUBMISSION DEADLINE

26 Sealed proposals must be received by TAWC no later than 3 pm₇ CST on
27 _____, 2009 at:

28 Tennessee American Water Company
29 1101 Broad Street
30 Chattanooga, TN 37401
31

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

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

36 SECTION B:

38 RESPONSE TO THE RFP

39 The response to the RFP should include the following:

8. 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.;
9. 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;
10. 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;
11. 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;
12. A definition section specifically defining all key terms used in the response to this RFP;
13. A discussion of additional steps and costs associated with Section A, SPECIFIC REQUIREMENT, Paragraph 17, if required;
14. A list of industry consultants who will work on the project in order to reduce cost, along with their qualifications;
15. A description of the resources that Proposer will utilize or make available for the project;
16. 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
17. 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,

1 officers, employees and authorized agents shall not be liable for any claims or damages resulting
2 from the solicitation or collection of proposals. By submitting a proposal, a Proposer expressly
3 waives (i) any claim(s) for such costs and expenses, and (ii) any other related claims or damages.

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

11 PURCHASE OBLIGATION

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

17 QUALIFICATION OF PROPOSERS

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

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

23 ~~1.~~ 1. Evidence of collusion between a Proposer and any other Proposer;

24 ~~2.~~ 2. An unsatisfactory performance record on prior projects for TAWC, or any other
25 organization;

26 ~~3.~~ 3. The appearance of financial instability and or evidence that the Proposer may not be
27 financially able to complete the work required by the Scope of Work in a
28 satisfactory manner;

29 ~~4.~~ 4. Evidence of the Proposer having failed to complete one or more public contracts in
30 the past; and

31 ~~5.~~ 5. The Proposer or its agents or employees, have been convicted of a crime arising
32 from illegal accounting practices associated with previous public contracts.

33 INDEPENDENCE

34 The firm, including any consultant used on this project, must provide an affirmative
35 statement that it is independent of TAWC, AWWSC, AWW, the TRA, the Attorney General of

1 Tennessee, the City of Chattanooga, and the Chattanooga Manufacturers Association as defined
2 by Generally Accepted Auditing Standards (GAAS) and that firm will warrant in the engagement
3 contract that they will not undertake an engagement that will impair their affirmation of
4 independence during the term of the audit. ~~The TRA in its reasonable discretion shall~~
5 ~~determine a firm's independence.~~

6 **SECTION C:**

7 **SELECTION PROCESS & EVALUATION CRITERIA**

8
9 The selection of the Independent Management Auditor will be based on the following
10 criteria: widely recognized expertise in the utility management auditing field, the proposed
11 scope, cost, adequacy and availability of resources to complete the project on schedule and the
12 Auditor's experience and qualifications in conducting similar management audits with particular
13 weight given to the experience related to regulated utilities and experience in regulated utility
14 work involving utility holding company service organizations and publicly traded companies.
15 The selection will be made by TAWC with the approval of the TRA.

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

18	Qualifications and Experience:	35%
19	Proposed Approach and Work Plan	25%
20	Proposed Key Personnel	15%
21	Pricing	25%

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

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

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

1 Prior to approval of a bid, the TRA panel may determine during the bidding process that
2 the RFP results in a bid that does not yield a benefit to TAWC customers and the Authority may
3 order that a management audit not be performed.³

4 CONTRACT CLAUSES AND PROVISIONS

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

- 8 ~~4.~~1. the scope of work, cost;
- 9 ~~2.~~2. billing;
- 10 ~~3.~~3. insurance requirements;
- 11 ~~4.~~4. hold harmless;
- 12 ~~5.~~5. cancelation/termination;
- 13 ~~6.~~6. assignment;
- 14 ~~7.~~7. payment of taxes;
- 15 ~~8.~~8. application of laws and regulations;
- 16 ~~9.~~9. jurisdiction and choice of law;
- 17 ~~10.~~10. subletting;
- 18 ~~11.~~11. confidentiality;
- 19 ~~12.~~12. enforceability/severability;
- 20 ~~13.~~13. proof of licensure (i.e., valid CPA license, etc.); and
- 21 ~~14.~~14. completion date of audit.

22
23 After the written contract and terms are developed by TAWC and the Proposer, the
24 Contract will be submitted to the TRA for ratification prior to the contract being signed by the
25 parties and considered enforceable.

26 INDEPENDENT CONTRACTOR

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

33
34 Sincerely,
35
36
37

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, ~~Order at~~ 22 (January 13, 2009).

1
2 Michael A. Miller
3 Director, Rates and Regulations
4

1 Document comparison done by Workshare DeltaView on Monday, June 29, 2009
2 9:57:27 AM

Input:	
Document 1	interwovenSite://BBSLIBRARY/BBS/7914671/2
Document 2	file://C:/Documents and Settings/EverittEM/Desktop/Motion That Chairman Roberson Will Make At The June 15 2009 Authority Conference (2).DOC
Rendering set	standard

3

Legend:	
<u>Insertion</u>	
Deletion	
Moved from	
<u>Moved to</u>	
Style change	
Format change	
Moved deletion	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

4

Statistics:	
	Count
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Deletions	46
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	82

5

6