

**BASS, BERRY & SIMS PLC**  
A PROFESSIONAL LIMITED LIABILITY COMPANY  
ATTORNEYS AT LAW

R. DALE GRIMES  
TEL: (615) 742-6244  
dgrimes@bassberry.com

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

www.bassberry.com

OTHER OFFICES

KNOXVILLE  
MEMPHIS

July 2, 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

filed electronically in docket office on 07/13/09

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

Dear Chairman Kyle:

Per the request of Hearing Officer Gary Hotvedt at the conference held at the Tennessee Regulatory Authority on July 1, 2009, please find enclosed an original and five (5) copies of an additional exhibit ("Exhibit 3") to Tennessee American Water Company's ("TAWC") Comments filed in the above-referenced docket on June 29, 2009. Exhibit 3 reflects the differences between the original RFP filed by TAWC on March 23, 2009, and the revised RFP filed as Exhibit 1 to its June 29 filing. Accordingly, Exhibit 3 shows which revisions TAWC's June 29 version adopted from the version of the RFP filed as an exhibit to Director Roberson's June 11 motion.

It was also noted during the conference that Exhibit 2 to Tennessee American's Comments filing on June 29, 2009 — the blackline comparison document reflecting the differences between Tennessee American's Exhibit 1 with the version filed as Exhibit 1 to Director Roberson's June 11 motion — was not labeled with an Exhibit marker. Accordingly, to avoid any confusion, Tennessee American resubmits an original and five (5) copies of that document labeled as "Exhibit 2."

Please return one (1) copy of this filing, which I would appreciate your stamping as "filed," and returning to me by way of our courier. 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

Chairman Sara Kyle

July 2, 2009

Page 2

RDG/eme

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

1 ~~REQUEST FOR PROPOSAL~~

2  
3  
4 REQUEST FOR PROPOSAL

5  
6  
7 Management Audit  
8 of Tennessee American Water  
9  
10  
11

12  
13  
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 attestation<sup>1</sup> 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

---

<sup>1</sup> 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.<sup>2</sup> 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

---

<sup>2</sup> 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](mailto: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 pm<sub>7</sub> 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.<sup>3</sup>

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

---

<sup>3</sup> 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~~ Its Customers, Docket No. 08-00039, ~~Order at~~ 22 (January 13, 2009).

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

Document comparison done by Workshare DeltaView on Monday, June 29, 2009  
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

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

Statistics:	
	Count
Insertions	36
Deletions	46
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	82

---

## REQUEST FOR PROPOSAL

---

### Management Audit of Tennessee American Water

---

PROPOSAL DUE: \_\_, 2009

---

EXHIBIT

3

EXHIBIT 1



## 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 attestation<sup>1</sup> 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

---

<sup>1</sup> 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 and, to the extent that the TRA or participants to the proceeding for which the management audit was prepared are provided access to such confidential

~~information, the protections of the Protective Order entered in TAWC's 2008 rate case docket, or a separate new Protective Order with protections equivalent to the 2008 TAWC rate case Protective Order shall be entered in the docket if a new docket is opened by the TRA relating to the management audit.~~

If \_\_\_\_\_ ~~is~~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.<sup>2</sup> 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 the TRA TAWC a sealed bid to be inspected mutually and concurrently by the TRA Staff and TAWC. 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

---

<sup>2</sup> 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.

responsibility for briefing any necessary parties and TRA Staff 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 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 and the TRA Staff ~~one~~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. ~~These working papers must be delivered to TAWC and the TRA staff member assigned to oversee the management audit. The working papers shall be delivered concurrently with the delivery of the final~~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 Staff ~~designee~~ in this docket.

After review and approval by the TRA Staff ~~review~~, 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 ~~TRA~~ TAWC no later than 3 pm, CST on \_\_\_\_\_, 2009 at:

~~Tennessee Regulatory Authority~~ American Water Company  
~~460 James Robertson Parkway~~  
~~Nashville, TN 37243-0505~~  
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 to perform, 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. ~~Neither the TRA, TAWC, its directors, officers, employees nor~~ 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. ~~In such case, the TRA shall not be liable for any costs of preparation of responses by Proposers~~ 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, ~~which must be approved in advance by the TRA Staff 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 Staff 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 mutually appropriate by TAWC and or the TRA Staff, 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 ~~for good cause shown by TAWC to the TRA;~~
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 Staff 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.<sup>3</sup>

### 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;

---

<sup>3</sup> Order, *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. Order at 22 (January 13, 2009).

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;
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

7657745-1

Document comparison done by Workshare DeltaView on Saturday, June 27, 2009 7:07:21 PM

Input:	
Document 1	interwovenSite://BBSLIBRARY/BBS/7657745/1
Document 2	interwovenSite://BBSLIBRARY/BBS/7914671/2
Rendering set	standard

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

Statistics:	
	Count
Insertions	70
Deletions	53
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	123