

**IN THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**PETITION OF TENNESSEE
AMERICAN WATER COMPANY TO
CHANGE AND INCREASE CERTAIN
RATES AND CHARGES SO AS TO
PERMIT IT TO EARN A FAIR AND
ADEQUATE RATE OF RETURN ON
ITS PROPERTY USED AND USEFUL IN
FURNISHING WATER SERVICE TO
ITS CUSTOMERS**

DOCKET NO. 10-00189

**SUPPLEMENTAL DISCOVERY REQUEST OF THE CONSUMER ADVOCATE AND
PROTECTION DIVISION TO TENNESSEE AMERICAN WATER COMPANY**

To: Tennessee American Water Company, Inc.
c/o R. Dale Grimes, Esq.
Bass, Berry & Sims PLC
AmSouth Center
315 Deaderick Street, Suite 2700
Nashville, TN 37238

This Discovery Request is hereby served upon Tennessee American Water Company, ("TAWC", "Tennessee-American", or "Company"), pursuant to Rules 26, 33, 34 and 36 of the Tennessee Rules of Civil Procedure and Tenn. Comp. R. & Reg. 1220-1-2-.11, and filed contemporaneously with the Consumer Advocate's *Motion for Leave to Issue More Than Eighty Discovery Requests* and *Memorandum* in support. We request that full and complete responses be provided pursuant to the Tennessee Rules of Civil Procedure. The responses are to be produced at the Office of the Tennessee Attorney General and Reporter, Consumer Advocate and Protection Division, 425 Fifth Avenue North, Nashville, Tennessee 37243, c/o T. Jay Warner, on or before 4:00 p.m. (CDT), November 29, 2010.

PRELIMINARY MATTERS AND DEFINITIONS

Each discovery request calls for all knowledge, information and material available to TAWC as a party, including any of TAWC's parent companies, affiliates, agents, or assigns, whether it be TAWC's, in particular, or in the form of knowledge, information or material possessed or available to TAWC, it's attorney or other representative.

These discovery requests are to be considered continuing in nature, and are to be supplemented from time to time as information is received by TAWC which would make a prior response inaccurate, incomplete, or incorrect. In addition, the Attorney General requests that TAWC supplement responses hereto with respect to any question directly addressed to the identity and location of persons having knowledge of discoverable matters, and the identity of each person expected to be called as an expert at hearing, the subject matter on which the expert is expected to testify, and the substance of the expert's testimony.

These discovery requests are to be interpreted broadly to fulfill the benefit of full discovery. The singular of any discovery request includes the plural and the plural includes the singular. To assist you in providing full and complete discovery, the Attorney General provides the following definitional guidelines.

The terms "and" and "or" shall be construed conjunctively or disjunctively as necessary to include any information that might otherwise be construed outside the scope of these requests.

The term "communication" means any transmission of information by oral, graphic, pictorial or otherwise perceptible means, including but not limited to personal conversations, telephone conversations, letters, memoranda, telegrams, electronic mail, newsletters, recorded or handwritten messages, or otherwise.

For purposes of these discovery requests, the term "you" shall mean and include: Tennessee American Water Company and all employees, agents and representatives thereof, as well as any subsidiary, affiliate or parent companies associated with TAWC.

The term "person" or "persons" as used herein refers to any natural person, corporation, firm, company, sole proprietorship, partnership, business, unincorporated association, or other entity of any sort whatsoever. Where a company or organization is the party being served, all responses must include the company's response. Moreover, the company's designated person for responding must assure that the company provides complete answers. *A complete answer must provide a response which includes all matters known or reasonably available to the company.*

The term "identity" and "identify" as used herein, with respect to any person, means to provide their name, date of birth, current residence address, current residence telephone number, current business address, current business telephone number, and the occupation or job title of that person; with respect to an entity, those terms mean to provide the name by which said entity is commonly known, the current address of its principal place of business, and the nature of business currently conducted by that entity; with respect to any document, those terms mean to provide the date of the document, the nature of the document, the title of the document, the reference number (if any) of the document, and the current location of the document, including the identity of the person or entity in possession of the document.

The term "document" as used herein, means any medium upon which intelligence or information can be recorded or retrieved, such as any written, printed, typed, drawn, filmed, taped, or recorded medium in any manner, however produced or reproduced, including but not limited to any writing, drawing, graph, chart, form, work paper, spreadsheet, note, photograph, tape recording, computer disk or record, or other data compilation in any form without limitation. Produce the original and each copy, regardless of origin or location, of any book, pamphlet, periodical, letter, note, report, memorandum (including memoranda, note or report of a meeting or conversation), spreadsheet, photograph, videotape, audio tape, computer disk, e-mail, or any other written, typed, reported, transcribed, punched, taped, filmed, or graphic matter,

however produced or reproduced, which is in your possession, custody or control or which was, but is no longer, in your possession, custody, or control. If any such document was, but no longer is, in your possession or control, state what disposition was made of it and when. If a document exists in different versions, including any dissimilar copies (such as a duplicate with handwritten notes on one copy), each version shall be treated as a different document and each must be identified and produced.

If you produce documents in response to these discovery requests, produce the original of each document or, in the alternative, produce a copy of each document and identify the location of the original document. If the "original" document is itself a copy, that copy should be produced as the original.

If any objections are raised on the basis of privilege or immunity, include in your response a complete explanation concerning the privilege asserted.

If you contend that you are entitled to refuse to fully answer any of this discovery, state the exact legal basis for each such refusal.

If any of the interrogatories are not answered on the basis of privilege or immunity, include in your response to each such interrogatory a written statement evidencing:

- (a) the nature of the communication;
- (b) the date of the communication;
- (c) the identity of the persons present at such communication; and
- (d) a brief description of the communication sufficient to allow the Authority to rule on a motion to compel.

If, for any reason, you are unable to answer a discovery request fully, submit as much information as is available and explain why your answer is incomplete. If precise information cannot be supplied, submit 1) your best estimate, so identified, and your basis for the estimate and 2) such information available to you as comes closest to providing the information

requested. If you have reason to believe that other sources of more complete and accurate information exist, identify those sources.

If any information requested is not furnished as requested, state where and how the information may be obtained or extracted, the person or persons having knowledge of the procedure and the person instructing that the information be excluded.

SUPPLEMENTAL DISCOVERY REQUESTS

81. Identify each and every person whom the company expects to call as an expert, fact, or other witness at the hearing on the merits of this matter, or for whom the company expects to file Direct or Rebuttal Testimony. For each expert identified, please identify and produce:

a. the subject matter on which the expert is expected to testify, any data, documents, materials, or other information shown to, relied upon, created by or considered by the witness as part of this case, any exhibits to be used by the witness, a full resume for the witness, the compensation to be paid for the testimony or, if a permanent employee of the company, the salary paid to the witness, and a listing of any other cases in which the witness has testified at trial, by deposition, or submitted written testimony.

b. any and all engagement letters, expert reports and work papers (including drafts, if found to be discoverable and not overly broad or unduly burdensome by the TRA) created by or provided to any expert, fact or other witness.

c. a copy of any and all trade articles, journals, treatises, speeches and publications of any kind in any way utilized or relied upon by any of the company's proposed witnesses in evaluating, reaching conclusions or formulating an opinion in this matter, as well as articles, journals speeches, or books written by any company witness.

RESPONSE:

82. Please identify and produce any and all documentation, items, reports, data, communications, and evidence of any kind that the company intends to offer as evidence at the hearing or to refer to in any way at the hearing. In answering this response, it is not necessary to re-file, or reproduce any items that have already been filed with the Tennessee Regulatory Authority in Docket 10-00189.

RESPONSE:

83. Provide a detailed line item for every amount included in Benefits Overhead of \$978,790 per TRA-01-Q013-MANAGEMENT FEES, Page 10 of 12. Include in your response, payee, amount per payee, and business reason for payee. Also, include in your response the amounts, which were directly incurred in support of TAWC or allocated to TAWC by formula.

RESPONSE:

84. Provide all amounts for Incentive Payroll ("AIP") by AIP component: Financial, Operational, and Individual allocated and or directly charged to TAWC since April 2008 through September 2010 by month for expense amounts in the following format:

Expense Amounts:

(1)	(2)	(3)	(4)	(5)
		NARUC	Account	
<u>Year</u>	<u>Month</u>	<u>Acct #</u>	<u>Description</u>	<u>Amount</u>

RESPONSE:

85. Provide documentation of any and all initiatives by TAWC to “opt out” of services from AWWSC for a more efficient TAWC operation. (Schumaker & Company, Management Audit Report, August 2010, page 45)

RESPONSE:

86. Indicate whether Government Affairs Specialist (Kino Becton) will be a registered lobbyist or will be engaged in lobbying activities in Tennessee now or in the future on behalf of TAWC. If so, provide the percentage of time the Government Affairs Specialist has been or will be engaged in lobbying activities. (Mr. John Watson, direct testimony, page 23 and TN-TRA-01-Q002A)

RESPONSE:

87. Provide the Consumer Price Index (“CPI”) for the years 2005-2011 exclusive of group insurance and pensions. Include in your response the independent source for CPI, supporting work papers documenting the calculation of CPI net of growth in group insurance and pensions. (Mr. Mike Miller, Direct Testimony, Exhibit MAM-4, Page 2 of 2)

RESPONSE:

88. Provide the amounts of Total Operating Revenue, Total Operation and Maintenance Expenses, Total Depreciation Expense, Total Taxes Other than Income, Total Income Taxes, Total NOI, and Total Rate Base by year to calculate the achieved returns reported as shown in Exhibit MAM-1, Page 1 of 2. (Mr. Mike Miller, Direct Testimony)

RESPONSE:

89. Provide a detailed line item for every amount included in General Overhead of \$1,119,663 per TRA-01-Q013-MANAGEMENT FEES, Page 10 of 12. Include in your response, payee, amount per payee, and business reason for payee. Also, include in your response the amounts, which were directly incurred in support of TAWC or allocated to TAWC by formula.

RESPONSE:

90. Provide all work papers, documentation, and calculations for each amount on Exhibit MAM-11, Page 1 of 2. (Mr. Mike Miller, Direct Testimony)

RESPONSE:

91. Provide the amounts from the "Annual Business Plan" included in the Company's Exhibits in this docket. (Mr. John Watson, direct testimony, page 6, Lines 24-26)

RESPONSE:

92. Given that the Company has requested: a 19% increase in TRA Docket #06-00290, a 21% increase in TRA docket #08-00039, and a 28% increase in this docket, does the Company intend to file for a rate increase in 2012? Also, what was the initial start date by the Company in preparation for this rate petition?

RESPONSE:

93. In TRA Docket #08-00039, Mr. John Watson stated in his direct testimony, "Complete construction of the Phase I improvements to the Citico Water Treatment Improvements at a cost

of \$1.800 million for flocculation equipment and rehabilitation of the Aldrich Units #3 and #4. Additionally, the Company will expend nearly \$7.0 million dollars in 2008/2009 for the Phase II improvements to the Citico Treatment Plant which will replace sedimentation basins, flocculation equipment, chlorination improvements, electrical improvements including provision for a stand-by generator and to improve the hydraulic capacity of the Citico plant.”

(Page 14, Lines 10-21) Now in this docket, “TAWC’s rate base will include significant additions to utility plant for the Citico Treatment Plant upgrade, Phase 1A....Project costs are estimated to total approximately \$8.7 million.” (Mr. John Watson, direct testimony, page 5, Lines 8-20) Was the \$8.7 million in TRA Docket #08-00039 expended on the Citico Water Treatment plant in 2008/2009? If not, why not? Is the \$6.7 million in this docket the same planned amount as in TRA Docket #08-00039? If not, why not?

RESPONSE:

94. In TRA Docket #08-00039, Mr. John Watson stated in his direct testimony, “Replace the Lookout Supply Mains costing \$.910 million.” (Page 14, Line 1) Now in this docket, “TAWC’s Lookout Mountain service area, which includes replacing the mains that provide the entire supply of drinking waterThe estimated cost of this project is \$1.6 million.” (Mr. John Watson, direct testimony, page 5, Lines 21-27 and page 6, Lines 1-6) Was the \$.910 million in TRA Docket #08-00039 expended on replacing the Lookout Supply Mains in 2008/2009? If not, why not? Is the \$1.6 million in this docket the same planned amount as in TRA Docket #08-00039? If not, why not?

RESPONSE:

95. Provide the supporting documentation for “our operating and maintenance costs have increased only 2.5% per year on average, compared to an inflation rate of 2.59% during the same timeframe.” (Mr. John Watson, direct testimony, page 7, Lines 21-23) Also, please reconcile this statement with TAWC’s total operations and maintenance expense increasing 53% from December 2003 to December 2009 per filed TRA 3.06 surveillance reports.

RESPONSE:

96. Provide the actual AWWSC management fee monthly invoices approved by Mr. John Watson for the twelve months ended September 30, 2010.

RESPONSE:

97. Quantify the cost savings resulting from parking a portion of the vehicle fleet. (Mr. John Watson, direct testimony, page 33) Include documentation supporting any quantified savings.

RESPONSE:

98. Provide the cost, the account charged, the date the cost was incurred for the study, *Analysis of Non-Revenue Water: Technical Memoranda*. (Mr. John Watson, direct testimony, Page 42, Lines 13-15)

RESPONSE:

99. Does the Company maintain separate subaccounts corresponding with the depreciable plant accounts, in which the accumulated depreciation is segregated as required by NARUC USOA?

If not, why not?

RESPONSE:

100. Provide a voucher summary for any expense amount paid by TAWC or charged to TAWC by AWWSC and other affiliated utility service companies exceeding \$1,000 for the period from April 1, 2008 through September 30, 2010 in the following format:

(1) (2) (3) (4) (5) (6)

Month Year Payee Amount USOA Account Business Reason

RESPONSE:

101. Provide all NARUC accounts 601-through 675 by month, by account and show the actual or forecasted gross amount and net expense after deducting salaries and wages for the 36 months ended December 2011.

RESPONSE:

102. Provide the amounts from Attachment 3-1 in the format below from the Overland Consulting regulatory audit of California American Water Company for TAWC by business unit number, budget account, and object account detail amount for the test periods ending March 2010, September 2010, and the attrition year 2011. The term "National" in this request means "AWWSC"

National (Before Allocation)

Belleville Lab

Customer Service

Finance

Human Resources

Information Technology

“NSC Functions”

Operations

Shared Services

Procurement

Total NSC

After Allocation to TAWC

Belleville Lab

Customer Service

Finance

Human Resources

Information Technology

“NSC Functions”

Operations

Shared Services

Procurement

Total TAWC

RESPONSE:

103. Provide the amounts, dates, and JDE and NARUC accounts for legal fees incurred by the Company before the State of Tennessee Court of Appeals for the 2006 and 2008 rate cases.

RESPONSE:

104. Provide all of the Business Transformation Initiative (per 2009 SEC Form 10-K, pages 33 and 63) "incremental expenses" by JDE and NARUC accounts, by company for the test periods ending March 2010 and September 2010.

RESPONSE:

105. Provide all of the contracted services amounts to remediate internal control weaknesses (per 2009 SEC Form 10-K, page 41) by JDE and NARUC accounts, by company for the test periods ending March 2010 and September 2010.

RESPONSE:

106. Provide the Operating Revenues and the Adjusted Earnings Before Income Taxes ("EBIT") for the twelve months ended September 30, 2010 for Regulated Businesses and Non-Regulated Businesses as shown on Page 49 of the 2009 SEC Form 10-K.

RESPONSE:

107. Provide the amount of subsidized financing under the American Recovery and Reinvestment Act of 2009 applied for on behalf of TAWC per Page 61 of the 2009 SEC Form 10-K.

RESPONSE:

108. Provide the amounts, dates, and JDE and NARUC accounts for legal and accounting fees incurred by the Company for the change in tax accounting method as approved by the IRS for the test years ended March 2010 and September 2010 per Page 62 of the 2009 SEC Form 10-K.

RESPONSE:

109. Provide the amounts, dates, and JDE and NARUC accounts for stock based compensation expense also known as the Equity Compensation Plan for the test years ended March 2010, September 2010 and the attrition year ended December 2011.

RESPONSE:

110. Provide the study for TAWC “to determine how the allocation of costs from AWWSC to PAWC and TAWC under the current customer allocation methodology compares to cost allocations determined on a number of different cost causative factors applicable to the different functional areas of AWWSC.” (Per Rebuttal Testimony, Mr. Mike Miller, Page 47, Lines 5-8, Virginia American Water Company, Case No. PUE-2010-00001)

RESPONSE:

111. Provide the analysis “that addresses changes in terminology, changes in functions performed by AWWSC, changes in allocations to non-regulated subsidiaries, results of the customer versus cost causative allocation methodology study, and updated corporate structure and organization charts that would provide the TRA with a current view and analysis of the AWWSC organization at the time of the 1989 Service Company Agreement. That analysis will be completed in the next month, at which time it will be filed with the TRA for review.” (Per Rebuttal Testimony, Mr. Mike Miller, Page 47, Lines 27-31, Page 48, Lines 1-3, Virginia American Water Company, Case No. PUE-2010-00001). Include in your response all work papers utilized in the study in excel format with all formulas intact, a description of the methodology or methodologies utilized in the study, identify the authors and contributors to the study, and identify what witness will sponsor the study as evidence in this matter and all facts underlying the expert’s opinion.

RESPONSE:

112. Provide a breakdown of the business transformation project amount of \$.972 million (Direct Testimony, Mr. John Watson, Page 20, Lines 25-26) as to (1) Hardware costs; (2) Software costs; and (3) capitalized labor costs. Include in your response the basis for allocating costs to TAWC.

RESPONSE:

113. Page 18 of the 2009 audit report indicates that the “Company recorded state net operating loss carryforwards (“NOLs”), which will reduce future taxable income. The NOLs will begin to expire in 2024 if not utilized.” What is the Company’s position on the appropriate amount of

NOLs to be utilized of NOLs for the attrition year? Include in your response all documentation and work papers and the amount of NOLs available at the end of 2009.

RESPONSE:

114. Referencing TRA Docket #09-00086, specifically TAWC's letter of September 27, 2010 and notice of filing confidential and proprietary work papers, provide an electronic copy of the confidential and proprietary work papers filed in that docket.

RESPONSE:

115. For the purpose of responding to questions 115, 116, and 117, "decoupling mechanism" shall be defined as a system in which:

Revenue per customer would be calculated for a customer class based upon attrition year revenues and meters. Each year, actual revenue per customer (meter) would be compared to benchmark revenue per customer (meter). If the revenue per customer declines, then rates would be adjusted to bring the revenue per customer back up to the benchmark. If the revenue per customer increases, then customer rates would be adjusted to reduce the revenue per customer back to the benchmark.

Also, for this request, assume TRA Staff Data Request 109 describes a "decoupling mechanism." Referencing TRA Staff Data Requests 109-111, provide the jurisdictions in which a regulated American Water Works Company subsidiary has implemented a decoupling mechanism and provide copies of public utility commission orders approving the implementation.

RESPONSE:

116. For purposes of this request, assume TRA Staff Data Request 109 describes a “decoupling mechanism”. List all jurisdictions in which American Water Works Company is aware of in which decoupling mechanisms have been approved and implemented for any regulated water and wastewater utilities.

RESPONSE:

117. For purposes of this request, assume TRA Staff Data Request 109 describes a “decoupling mechanism”. Referencing TRA Staff Data Requests 109-111, provide a calculation of the rate adjustments (i.e. amount rates would be lowered or raised) under the decoupling mechanism described in TRA Staff Data Request 109 for the customer classes TAWC submits should be subject to a decoupling mechanism in response to TRA Staff Data Request 110. Start the calculation using the customer classes and rates placed into effect May, 2007 at the conclusion of TRA Docket #06-00290 through the effective date of new rates authorized in TRA Docket #08-00039 up until September 30, 2010. In the alternative if the Company objects, provide the information and data necessary to perform the calculation.

RESPONSE:

118. Provide an explanation of the calculation utilized in the response to the preceding discovery request (No. 116), as well as the work papers in excel format with formulas intact.

RESPONSE:

119. Identify the experts that will testify on any issues discussed in TRA Staff Data Requests 109-111 and the Company’s corresponding responses to TRA Staff Data Requests 109-111 and

provide all facts, documents, work papers and the underlying rationale supporting their opinion.

RESPONSE:

120. In order to ascertain the development of the calculations in Dr. Spitznagel's exhibits and work papers on the Company's proposed weather normalization adjustment, please provide a copy of Dr. Spitznagel's work papers that include a properly documented and footnoted audit trail to all calculations and source documents.

RESPONSE:

121. Provide a copy of the electronic spreadsheets (with formulas intact) in Microsoft Excel format of the Company's weather normalization exhibits and supporting work papers.

RESPONSE:

122. Provide a copy of the electronic spreadsheets (with formulas intact) in Microsoft Excel format of the Company's development of their attrition period billing determinants as shown in Company Exhibit No. 4 and summarized on Schedule A of the Company's Cost of Service Study. These spreadsheets should include the development and documentation of the Company's adjustments for weather normalization, customer growth and any other pro forma adjustments made to the test period billing determinants.

RESPONSE:

123. In testimony before the Kentucky Public Service Commission, Mr. Mike Miller testified that weather normalization had been used in Tennessee since 1989. In TAWC's appeal of Docket 08-00039, the Company utilizes pre-filed testimony from a 1991 Tennessee Public Service Commission ("TPSC") in support of its position on Dr. Spitznagel's weather normalization adjustment. The TRA does not maintain public records of TPSC dockets. Provide copies of all testimony and final orders of the rate cases, from 1985 through 1995, filed by TAWC before the TPSC that are in the company's possession.

RESPONSE:

124. Provide a list of state jurisdictions in which AWW subsidiaries have approval for weather normalization adjustments. Provide copies of the most recent public utility commission orders approving weather normalization adjustments for AWW subsidiaries.

RESPONSE:

125. Provide the balance in object account #186453 at September 2010, by payee and business reason for each amount in the account. Indicate in your response whether any of the expenses and or amounts from the Booz Allen audit report as submitted in TRA Docket #08-00039 are included in this docket.

RESPONSE:

126. Provide the achieved rate of returns for each American Water regulated company for the year ended 2009. Include in your response the calculations deriving each achieved rate of return.

RESPONSE:

RESPECTFULLY SUBMITTED,

A handwritten signature in black ink, appearing to read "T. Jay Warner", is written over a horizontal line.

T. JAY WARNER, BPR #26649
Assistant Attorney General
Office of the Attorney General and Reporter
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202-0207

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via U.S. Mail or electronic mail upon:

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on this the 15th day of November, 2010.



T. JAY WARNER