

BASS

BERRY • SIMS_{PLC}

150 Third Avenue South, Suite 2800
Nashville, TN 37201
(615) 742-6200

David Killion

PHONE: (615) 742-7718
FAX: (615) 742-0414
E-MAIL: dkillion@bassberry.com

December 17, 2010

VIA HAND DELIVERY

filed electronically in docket office on 12/17/10

Chairman Mary W. Freeman
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: Docket No. 10-00189: *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*

Dear Chairman Freeman:

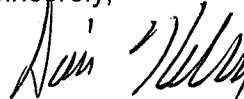
Enclosed please find an original and five (5) sets of copies of Tennessee American Water Company's December 17th Supplemental Responses to the Consumer Advocate and Protection Division's Discovery Requests.

A compact disk has been provided for each set which contains copies of the responses and attachments in their native file formats. In addition, we are including a disk marked "Docket Manager Disk," which contains the entire filing in PDF format.

Please file the original and four copies of these Responses and stamp the additional copy as "filed." Then please return the stamped copy to me by way of our courier.

Should you have any questions concerning this matter, please do not hesitate to contact me at the email address or telephone number listed above.

Sincerely,



David Killion

Enclosures

December 17, 2010
Page 2

cc: Mr. David Foster, Chief of Utilities Division (w/o enclosure)
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division (w/o enclosure)
Ryan McGehee, Esq. (w/enclosure)
Mary L. White, Esq. (w/enclosure)
David C. Higney, Esq. (w/enclosure)
Henry M. Walker, Esq. (w/enclosure)
Michael A. McMahan, Esq. (w/enclosure)
Valerie L. Malueg, Esq. (w/enclosure)
Frederick L. Hitchcock, Esq. (w/enclosure)
Harold L. North, Jr., Esq. (w/enclosure)
Mark Brooks, Esq. (w/enclosure)
Scott H. Strauss, Esq. (w/enclosure)
Katharine M. Mapes, Esq. (w/enclosure)
Donald L. Scholes, Esq. (w/enclosure)

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**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 10-00189
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE AND PROTECTION DIVISION**

PART II: QUESTIONS & REQUESTS REGARDING COST OF CAPITAL & MISCELLANEOUS

Question:

9. Provide the historical risk premium of common stocks (S&P 500) over one-year, five-year, ten-year, and twenty-year Treasury Bonds or Bills as reported in Morningstar's *Stocks, Bonds, Bills, and Inflation, 2010 Valuation Yearbook* referenced by Dr. Vander Weide in his Direct Testimony of pages 36, 38, and 39.

Response:

Dr. Vander Weide does not reference the historical risk premium of common stocks (S&P 500) over one-year, five-year, or ten-year Treasury bonds or bills in his testimony. The historical risk premium of common stocks over 20-year Treasury bonds as reported in *2010 Ibbotson[®] SBBI[®] Stocks, Bonds, Bills, and Inflation[®] Valuation Yearbook* is 6.7 percent, as Dr. Vander Weide states on pp. 38 – 39.

December 17, 2010 Supplemental Response:

The information requested does not appear in the format requested in *2010 Ibbotson[®] SBBI[®] Stocks, Bonds, Bills, and Inflation[®] Valuation Yearbook*. (“SBBI”) Attached as TN-CAPD-01-PART III-Q09-SUPPLEMENTAL ATTACHMENT is page 23 from SBBI, which contains the historical risk premium of common stocks over 20-year Treasury bonds upon which Dr. Vander Weide relied. The title “Government Bonds” refers to 20-year Treasury bonds and the title “Large Company Stocks” refers to the S&P 500.

Table 2-1: Total Returns, Income Returns, and Capital Appreciation of the Basic Asset Classes: Summary Statistics of Annual Returns

Series	Geometric Mean (%)	Arithmetic Mean (%)	Standard Deviation (%)	Serial Correlation
Large Company Stocks				
Total Returns	9.8	11.8	20.5	0.02
Income	4.1	4.1	1.6	0.90
Capital Appreciation	5.5	7.4	19.8	0.01
Ibbotson Small Company Stocks				
Total Returns	11.9	16.6	32.8	0.06
Mid-Cap Stocks*				
Total Returns	10.9	13.7	25.0	-0.04
Income	3.9	4.0	1.7	0.90
Capital Appreciation	6.7	9.5	24.3	-0.05
Low-Cap Stocks*				
Total Returns	11.3	15.2	29.4	0.02
Income	3.6	3.6	2.0	0.89
Capital Appreciation	7.5	11.4	28.7	0.01
Micro-Cap Stocks*				
Total Returns	12.1	18.2	39.2	0.07
Income	2.5	2.5	1.7	0.91
Capital Appreciation	9.5	15.6	38.6	0.06
Long-Term Corporate Bonds				
Total Returns	5.9	6.2	8.3	0.08
Long-Term Government Bonds				
Total Returns	5.4	5.8	9.6	-0.12
Income	5.1	5.2	2.7	0.96
Capital Appreciation	0.1	0.4	8.4	-0.26
Intermediate-Term Government Bonds				
Total Returns	5.3	5.5	5.7	0.13
Income	4.7	4.7	2.9	0.96
Capital Appreciation	0.5	0.6	4.5	-0.18
Treasury Bills				
Total Returns	3.7	3.7	3.1	0.91
Inflation				
	3.0	3.1	4.2	0.64

Data from 1926–2009. Total return is equal to the sum of three component returns: income return, capital appreciation return, and reinvestment return.

*Source: Morningstar and CRSP. Calculated (or Derived) based on data from CRSP US Stock Database and CRSP US Indices Database. ©2010 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business. Used with permission.

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 10-00189
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE AND PROTECTION DIVISION**

PART II: QUESTIONS & REQUESTS REGARDING COST OF CAPITAL & MISCELLANEOUS

Question:

10. Provide a copy of and a citation for the source document for Dr. Vander Weide's I/B/E/S growth rates.

Response:

The I/B/E/S growth rates used in Dr. Vander Weide's studies and shown in his schedules are downloaded electronically directly from Thomson Reuters. There is no source document.

December 17, 2010 Supplemental Response:

The I/B/E/S growth rates used in Dr. Vander Weide's studies are shown in Schedule 1-1 to his testimony and are downloaded electronically directly from Thomson Reuters. The information from Thomson Reuters upon which Dr. Vander Weide relied is included on the enclosed CD in the Excel file labeled TN-CAPD-01-PART III-Q010-SUPPLEMENTAL ATTACHMENT.xls.

This file has been produced natively on the accompanying disk:

TN-CAPD-01-PART III-Q010-SUPPLEMENTAL ATTACHMENT.XLS

**TENNESSEE AMERICAN WATER COMPANY
DOCKET NO. 10-00189
FIRST DISCOVERY REQUEST OF THE
CONSUMER ADVOCATE AND PROTECTION DIVISION**

Responsible Witness: **Michael A. Miller**

PART III: EXPENSES

Question:

48. Provide documentation from Tower/Watson supporting the projected FAS 106 costs for 2011, as well as the minimum ERISA contribution to the Defined Benefit Pension Plan for 2011. (Mr. Mike Miller, Direct Testimony, Page 55, Lines 15-16).

Response:

Please refer to the attached document labeled as TN-CAPD-01-PART III-Q48-CONFIDENTIAL ATTACHMENT 1 which was supplied by Towers Watson actuaries and used by the Company to determine the amount of FAS 106 (OPEB) expense and ERISA minimum pension expense for the 2011 attrition year. Subsequent to the Company's filing of the petition to increase rates in this proceeding the Company has received from its actuaries Towers Watson revised FAS 106 and ERISA minimum contribution amounts for 2010 and 2011. Please see the attached document labeled as TN-CAPD-01-PART III-Q48-CONFIDENTIAL ATTACHMENT 2. The attached table, identified as TN-CAPD-01-PART III-Q48-ATTACHMENT 3 provides the latest, revised 2011 FAS 106 and ERISA pension costs compared to the Company amount requested in its filing in this proceeding.

The above mentioned Confidential Documents are being submitted pursuant to the Protective Order entered in this matter.

December 17, 2010 Supplemental Response:

The Company's initial response contained a typographical error. The last sentence of the first paragraph should read as follows:

The attached table, identified as TN-CAPD-01-PART III-Q48-CONFIDENTIAL ATTACHMENT 3 provides the latest, revised 2011 FAS 106 and ERISA pension costs compared to the Company amount requested in its filing in this proceeding.

Attachment 3 contained a confidential designation and was produced with the Company's confidential attachments on November 19, 2010.

Attachment 3 also inadvertently included an incorrect amount for the TAWC cost per filing for the ERISA minimum pension contribution. Accordingly, please see the corrected schedule on the attachment identified as TN-CAPD-01-PART III-Q48-SUPPLEMENTAL CONFIDENTIAL ATTACHMENT 3.

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

**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

AFFIDAVIT

STATE OF WEST VIRGINIA

COUNTY OF KANAWHA

I, MICHAEL A. MILLER, Treasurer/Comptroller for Tennessee American Water Company, do hereby certify that the foregoing responses to the First Supplemental Response to the Consumer Advocate and Protection Division's Data Request #48 and Second Supplemental Responses to #9 and 10 were prepared by me or under my supervision and are true and accurate to the best of my knowledge and information.

DATED this 17th day of December, 2010.

Michael A. Miller
(signature)

Michael A. Miller
(printed name)

Sworn to and subscribed before me this 17th day of December, 2010.

Lisa A. Brooks
NOTARY PUBLIC

My Commission Expires:

September 7, 2019



CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served by way of the method(s) indicated, on this the 17th day of December, 2010, upon the following:

<input checked="" type="checkbox"/> Hand-Delivery	Ryan McGehee, Esq.
<input type="checkbox"/> U.S. Mail	Mary L. White, Esq.
<input type="checkbox"/> Facsimile	Counsel for the Consumer Advocate
<input type="checkbox"/> Overnight	and Protection Division
<input checked="" type="checkbox"/> Email	OFFICE OF THE ATTORNEY GENERAL
	425 5th Avenue North, 2nd Floor
	Nashville, TN 37243-0491
<input type="checkbox"/> Hand-Delivery	David C. Higney, Esq.
<input type="checkbox"/> U.S. Mail	Counsel for Chattanooga Regional
<input type="checkbox"/> Facsimile	Manufacturers Association
<input checked="" type="checkbox"/> Overnight	GRANT, KONVALINKA & HARRISON, P.C.
<input checked="" type="checkbox"/> Email	633 Chestnut Street, 9th Floor
	Chattanooga, TN 37450
<input checked="" type="checkbox"/> Hand-Delivery	Henry M. Walker, Esq.
<input type="checkbox"/> U.S. Mail	Counsel for Chattanooga Regional
<input type="checkbox"/> Facsimile	Manufacturers Association
<input type="checkbox"/> Overnight	BRADLEY, ARANT, BOULT, CUMMINGS, PLC
<input checked="" type="checkbox"/> Email	1600 Division Street, Suite 700
	Nashville, TN 37203
<input type="checkbox"/> Hand-Delivery	Michael A. McMahan, Esq.
<input type="checkbox"/> U.S. Mail	Valerie L. Malueg, Esq.
<input type="checkbox"/> Facsimile	City of Chattanooga (Hamilton County)
<input checked="" type="checkbox"/> Overnight	OFFICE OF THE CITY ATTORNEY
<input checked="" type="checkbox"/> Email	100 East 11 th Street, Suite 200
	Chattanooga, TN 37402
<input type="checkbox"/> Hand-Delivery	Frederick L. Hitchcock, Esq.
<input type="checkbox"/> U.S. Mail	Harold L. North, Jr., Esq.
<input type="checkbox"/> Facsimile	Counsel for City of Chattanooga
<input checked="" type="checkbox"/> Overnight	CHAMBLISS, BAHNER & STOPHEL, P.C.
<input checked="" type="checkbox"/> Email	1000 Tallan Building
	Two Union Square
	Chattanooga, TN 37402

☒ Hand-Delivery
☐ U.S. Mail
☐ Facsimile
☐ Overnight
☒ Email

Mark Brooks, Esq.
Counsel for Utility Workers Union of America,
AFL-CIO and UWUA Local 121
521 Central Avenue
Nashville, TN 37211

☐ Hand-Delivery
☐ U.S. Mail
☐ Facsimile
☒ Overnight
☒ Email

Scott H. Strauss, Esq.
Katharine M. Mapes, Esq.
Counsel for UWUA, AFL-CIO and UWUA Local 121
SPIEGEL & MCDIARMID LLP
1333 New Hampshire Avenue, NW
Washington, DC 20036

☒ Hand-Delivery
☐ U.S. Mail
☐ Facsimile
☐ Overnight
☒ Email

Donald L. Scholes, Esq.
Counsel for Walden's Ridge Utility District and Signal Mountain
BRANSTETTER, STRANCH & JENNINGS PLLC
227 Second Avenue North
Fourth Floor
Nashville, TN 37201

