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January 14, 2011

Via Hand-Delivery

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

filed electronically in docket office on 01/14/11

**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

Dear Chairman Freeman:

Enclosed you will find an original and five (5) copies of Tennessee American Water Company's Second Set of Discovery Requests to the City of Chattanooga. This document is being filed today by way of email to the Tennessee Regulatory Authority Docket Manager, Sharla Dillon also.

Please file the original and four copies of this material and stamp the additional copy as "filed". Then please return the stamped copies 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.

With kindest regards, I remain

Very truly yours,



R. Dale Grimes

RDG:smb
Enclosures

Chairman Mary Freeman

January 14, 2011

Page 2

cc: Hon. Sara Kyle (*w/o enclosure*)
Hon. Eddie Roberson (*w/o enclosure*)
Mr. David Foster, Chief of Utilities Division (*w/o enclosure*)
Richard Collier, Esq. (*w/o enclosure*)
Mr. Jerry Kettles, Chief of Economic Analysis & Policy Division (*w/o enclosure*)
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**BEFORE 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

**TENNESSEE AMERICAN WATER COMPANY'S SECOND SET OF DISCOVERY
REQUESTS TO THE CITY OF CHATTANOOGA**

Petitioner Tennessee American Water Company ("Petitioner" or "TAWC") serves this second set of discovery requests to the City of Chattanooga (the "City"), and asks that the City provide responses to each request separately, fully, and in writing. The City is also called upon to produce all documents and evidence requested herein. Furthermore, the City is called upon to fulfill its duty to supplement its answers as far in advance of the beginning of any hearing as is reasonably possible if it is learned that any response is in any material respect incomplete, incorrect or has changed.

In these discovery requests, the terms "document" or "documents" or "documentation" refers to all written, reported, recorded or graphic matter (including all drafts, originals and nonconforming copies that contain deletions, insertions, handwritten notes or comments, and the like) however produced or reproduced to any tangible or intangible, permanent or temporary record and, without limitation, shall include the following: all letters, correspondence, records of conferences or meetings, memoranda, notes, printed electronic mail ("e-mail"), telegrams, telephone logs, teletypes, telexes, banking records, notices of wire transfer of funds, canceled checks, books of account, budgets, financial records, contracts, agreements, invoices, speeches,

transcripts, depositions, press releases, affidavits, communications with government bodies, interoffice communications, working papers, newspaper or magazine articles, computer data, tax returns, vouchers, papers similar to any of the foregoing, and any other writings of every kind and description (whether or not actually used) and any other records from which information can be obtained and translated into reasonably usable form, including without limitation, e-mail, voice recordings, video and audio recordings, photographs, films, tapes, data compilations and any other electronically stored information.

As used herein, the term “identify” in reference to any individual requires you to provide that individual's name, occupation, current and last known residential and business addresses, and current or last known residential and business telephone numbers. In reference to any other place, thing, concept, fact, or occurrence, the term “identify” requires you to provide all significant information concerning the subject matter of the interrogatory or request, in clear and unambiguous terms, to the fullest extent reasonably calculated to convey the requested information.

Pursuant to the Procedural Schedule in this matter, please respond to all discovery requests by January 24, 2011.

DISCOVERY REQUEST NO. 1:

List each consulting assignment Ms. Dismukes has performed directly for a regulated utility or a utility service company and for each such assignment please provide: (a) the name of the utility; (b) the name, position, and title of her client contact; (c) the project description; and (d) the project duration (including start and completion dates).

RESPONSE:

DISCOVERY REQUEST NO. 2:

Please state all facts that support Ms. Dismukes' qualifications to testify as an expert witness with respect to management fees and provide a detailed listing in the tabular format below for each docket or case in which Ms. Dismukes has testified specifically to the prudence or imprudence of management fees charged by the service company of an investor-owned, multi-jurisdictional utility.

State of Jurisdiction	Year	Docket (case)#	Name of Parent Co.	Name of Subsidiary	Summary Of MJM position	Was MJM position upheld by Commission

RESPONSE:**DISCOVERY REQUEST NO. 3:**

Please state all facts that support Ms. Dismukes' qualifications to testify as an expert witness with respect to utility-affiliate transactions and provide a detailed listing in the tabular format below for each docket or case in which Ms. Dismukes has testified specifically regarding utility-affiliate transactions for investor-owned, multi-jurisdictional utility.

State of Jurisdiction	Year	Docket (case)#	Name of Parent Co.	Name of Subsidiary	Summary Of MJM position	Was MJM position upheld by Commission

RESPONSE:

DISCOVERY REQUEST NO. 4:

Please identify, and to the extent not previously produced, provide all information reviewed by Ms. Dismukes and any analysis performed by Ms. Dismukes prior to the filing of her testimony in this docket that addresses how organization changes at AWW, AWWSC, or TAWC have impacted or caused the changes in management fees for 2000 through present, including but not limited to: the creation of the national customer service facility, the creation of the centralized shared service transactional accounting facility, the creation of the centralized national procurement group, or any other organization change that has occurred at AWW, AWWSC, or TAWC.

RESPONSE:

DISCOVERY REQUEST NO. 5:

Please provide all information reviewed by Ms. Dismukes (or analysis performed by Ms. Dismukes) prior to the filing of her pre-filed testimony in this docket that addresses the impact that changes in ERISA pension expense and OPEB expenses have had on management fees charged to TAWC on an annual basis from 2000 to 2011.

RESPONSE:

DISCOVERY REQUEST NO. 6:

Please provide a list of all sources and individuals that Ms. Dismukes consulted with in developing her testimony in this proceeding.

RESPONSE:

DISCOVERY REQUEST NO. 7:

Produce all source documents that Ms. Dismukes referred to or relied on to substantiate her statement that electric utilities have a higher skilled workforce than water utilities.

RESPONSE:

DISCOVERY REQUEST NO. 8:

Identify, and to the extent not previously produced, provide all work papers or spreadsheets in native form (e.g., excel, word) with formulas intact, annual reports and all other source documents referred to, relied upon or used by Ms. Dismukes to create the schedules attached to her testimony.

RESPONSE:

DISCOVERY REQUEST NO. 9:

For every management audit conducted or performed by Ms. Dismukes, provide a copy of the audit report and for each audit report that was filed with any commission identify the state, docket number, year, company name and parent company name for which the management audit was conducted, and any related RFPs or contracts.

RESPONSE:

DISCOVERY REQUEST NO. 10:

Identify “all Class A water and combination water/waste water utilities operating in the South,” referred to by Ms. Dismukes on page 40, line 6 of her direct testimony.

RESPONSE:

DISCOVERY REQUEST NO. 11:

State the criteria used to “determine which reports contained the data necessary to conduct the analysis,” as testified to by Ms. Dismukes on page 40, line 14 of her direct testimony.

RESPONSE:

DISCOVERY REQUEST NO. 12:

Provide any analysis regarding Ms. Dismukes’ comparison of the “salaries and wages, pensions and benefits, materials and supplies, all contractual services, rental of buildings, and miscellaneous expenses” of TAWC to expenses in the same accounts of each comparative Class A water and combination water/wastewater company, as described on pages 40, line 22 through page 41, line 8 of Ms. Dismukes’ direct testimony.

RESPONSE:

DISCOVERY REQUEST NO. 13:

Please identify all increases in City of Chattanooga rates for electricity, wastewater/sewer and property taxes since 2008 or projected for the attrition year and for each increase identify all facts that were relied upon to justify each increase.

RESPONSE:

DISCOVERY REQUEST NO. 14:

Produce a copy of the current uniform system of accounts, as published by the regulatory commissions of Arkansas, Florida, Kentucky, Missouri, South Carolina and Virginia.

RESPONSE:

DISCOVERY REQUEST NO. 15:

With respect to Ms. Dismukes' testimony at page 41 lines 9-10, please state why Ms. Dismukes chose to include the referenced accounts and provide any supporting documentation for this decision.

RESPONSE:

DISCOVERY REQUEST NO. 16:

Please state each and every basis for Ms. Dismukes' statement on page 44, lines 14-17 that "the length of calls, on average, for an electric company would be longer than a water company," and provide any documents referred to or relied upon by Ms. Dismukes in support of this statement.

RESPONSE:

DISCOVERY REQUEST NO. 17:

With respect to page 47, lines 5 to 9 of Ms. Dismukes' direct testimony, provide the percent discount that Ms. Dismukes believes a third party provider of management and professional services would provide to TAWC for outsourcing services it receives from AWWSC and provide any documents referred to or relied upon by Ms. Dismukes in support of this statement.

RESPONSE:

DISCOVERY REQUEST NO. 18:

With respect to page 7, lines 8 through 12 of Ms. Dismukes' direct testimony, please provide all evidence, studies, or any other information in the possession of Ms Dismukes that supports her assertion that American Water or American Water Works Service Company may be incentivized "to misallocate or shift costs to regulated companies so that the non-regulated companies can reap the benefits" and reference any portion of the independent Schumaker Management Audit performed for the TRA that found evidence of misallocation or shifts of costs to the regulated companies.

RESPONSE:

DISCOVERY REQUEST NO. 19:

With respect to page 13, line 26 to page 14, line 1 of Ms. Dismukes' direct testimony, please state whether, based on the information presented in the American Water 10-K provided to Ms. Dismukes, the non-regulated segment of American Water produces more net income than the regulated segment.

RESPONSE:

DISCOVERY REQUEST NO. 20:

With respect to page 18, line 22 to page 19, line 5; page 24, lines 4 - 23; and page 55, lines 18 to 21 of Ms. Dismukes' direct testimony, does Ms. Dismukes advocate a benefit based system of cost allocation? If so, provide all studies, analyses, publications, testimony, briefs, orders or any other documents or information referred to or relied upon to support this position.

RESPONSE:

DISCOVERY REQUEST NO. 21:

With respect to page 18, line 22 to page 19, line 5; page 24, lines 4 - 23; and page 55, lines 18 to 21 of Ms. Dismukes' direct testimony, does Ms. Dismukes believe that the metrics used for Tier 1 allocations are inappropriate? If so, provide all studies, analyses, publications, testimony, briefs, orders or any other information referred to or relied upon to support this position.

RESPONSE:

DISCOVERY REQUEST NO. 22:

Please provide any studies, reports, correspondence, City Council minutes, committee minutes, ordinances, resolutions, or other documents of any kind created from January 1, 2008 to the present that reflect discussions with or requests to TAWC related to planning, proposing, or making capital improvements for reasons including, but not limited to: fire protection, downtown revitalization, service problems, economic development, or transportation improvements.

RESPONSE:

DISCOVERY REQUEST NO. 23:

With respect to page 27, line 20 to page 30, line 7 of Ms. Dismukes' direct testimony, please provide a list of all water utilities used by Ms. Dismukes for comparison in schedules KHD-15 and KHD-16, and for each utility identified, state whether the water is produced or purchased, and if produced, the source of the water. If there is more than one type of source of water, list annual amounts from each source and provide the type of treatment system utilized to produce finished drinking water.

RESPONSE:

DISCOVERY REQUEST NO. 24:

With respect to page 27, line 20 to page 30, line 7 of Ms. Dismukes' direct testimony, list all affiliates for each water company listed by Ms. Dismukes in schedules KHD-15 and KHD-16, and identify the states in which they operate. For each affiliate, indicate: (a) whether the affiliate is regulated or non-regulated; (b) whether tariff rates are metered rates, flat rate, or some combination; and (c) list the number of residential, commercial, industrial, governmental, public authority, fire service and other classes of customer for each affiliate.

RESPONSE:

DISCOVERY REQUEST NO. 25:

With respect to page 30, lines 8-11 of Ms. Dismukes' direct testimony, please provide all studies, analyses, publications, testimony, briefs, orders or any other information referred to, or relied upon by Ms. Dismukes to support her contention that there are minimal seasonal differences in demand for water utilities, and provide all comparative studies performed by Ms. Dismukes of the relative demand differentials of electric and/or gas utilities and water utilities.

RESPONSE:

DISCOVERY REQUEST NO. 26:

With respect to page 44, lines 3-8 of Ms. Dismukes' direct testimony, please provide all studies, analyses, publications, or other information referred to or relied upon by Ms. Dismukes to support her statement that "Underground facilities cause fewer safety concerns and therefore fewer calls to water call centers than to electric company call centers."

RESPONSE:

DISCOVERY REQUEST NO. 27:

With respect to page 44, lines 3-8 of Ms. Dismukes' direct testimony, please provide all studies, analyses, publications, or other information referred to or relied upon by Ms. Dismukes to support her statement that "... due to their more complicated operations and seriousness of outages, the length of calls, on average, for an electric company, would be longer than a water company."

RESPONSE:

DISCOVERY REQUEST NO. 28:

With respect to page 48, lines 19 and 20 of Ms. Dismukes' direct testimony, please state whether Ms. Dismukes contends that AWWSC provides public utility water service to customers of Tennessee American or any other state utility subsidiary of American Water. If not, please state whether Ms. Dismukes contends that water service is provided by the comparative water utilities shown on KHD-16 at a lower cost than the cost of water service provided by Tennessee American to its customers.

RESPONSE:

DISCOVERY REQUEST NO. 29:

With respect to page 6, lines 10-13 of Ms. Dismukes' direct testimony, identify by page and line number in Ms. Dismukes' testimony each alleged problem and flaw identified with respect to the Baryenbruch report that is "equally applicable" to the Schumaker audit and leads her to the conclusion that the TRA should reject the Schumaker audit.

RESPONSE:

DISCOVERY REQUEST NO. 30:

In Appendix 1 to Ms. Dismukes' testimony Ms. Dismukes lists 29 water or water/wastewater cases in which she appeared as a witness. With respect to those cases, identify each case that involved a utility which is part of a multi-state utility holding company organization structure and for each of the utilities listed, (a) identify each case in which Ms. Dismukes provided testimony regarding affiliate agreements between a multi-state service company affiliate and the regulated utility in that case; (b) provide copies of the testimony (with exhibits) given by Ms. Dismukes in each case; and (c) provide copies of all studies, reports and exhibits referred to or relied upon to support Ms. Dismukes' position in each case.

RESPONSE:

DISCOVERY REQUEST NO. 31:

Does the City contend that the Schumaker Management Audit ordered by the TRA fails to provide the "thorough examination of the affiliate arrangement between TAWC and AWR" as recommended by Ms. Dismukes on page 3, lines 7-8? If yes, please state each fact or basis for the City's position.

RESPONSE:

DISCOVERY REQUEST NO. 32:

With respect to page 3, lines 17 through 19 of Ms. Dismukes' direct testimony, please state whether Ms. Dismukes agrees that the use of customers to allocate costs is acceptable in this case, or whether she proposes an alternative approach. If an alternative approach, please describe in detail the proposed alternative approach.

RESPONSE:

DISCOVERY REQUEST NO. 33:

Please identify each service included in AWWSC's A&G costs that are not essential to maintain adequate service, meet accounting standards, meet water quality standards, process regulatory filings, obtain low cost capital, prepare budgets, communicate with customers, and obtain and retain qualified employees. If the Company is not able to obtain the lower costs Ms. Dismukes proposes please explain in detail how setting rates at the cost of service Ms. Dismukes proposes will result in just and reasonable rates.

RESPONSE:

DISCOVERY REQUEST NO. 34:

Provide any studies which Ms. Dismukes refers to or relies upon to support: (1) the statement on page 5 of her testimony that business development costs should be eliminated and/or (2) that growth in revenue from regulated customer acquisition or regulated services does not benefit the customer.

RESPONSE:

DISCOVERY REQUEST NO. 35:

Please state whether the City contends that the allocations of time and expenses made during the service company accounting process should be made at the account level or the transaction level and explain your understanding of how overhead transactions are allocated in the service company accounting process.

RESPONSE:

DISCOVERY REQUEST NO. 36:

With respect to page 3, lines 18-19 of Ms. Dismukes' testimony, please identify all approaches that "are superior" to the use of customers for allocating costs between the regulated companies. For each approach identified: (a) explain why the listed approach is superior; (b) explain how the allocation methodology "considers usage and/or volume in the allocation formula;" and (c) referencing page 19, lines 6-7, explain how the approach listed "recognizes the benefits received by each affiliate" in the allocation formula and provide all studies, reports, etc. that support the superiority of each approach.

RESPONSE:

DISCOVERY REQUEST NO. 37:

Please state whether Ms. Dismukes has performed any studies that show there is a relationship between the type of customer (e.g., residential, commercial, industrial, other) served by a regulated water/wastewater utility and the level of support services required from an affiliate service provider to serve the specific type of customer. If so, please provide a copy of all such studies.

RESPONSE:

DISCOVERY REQUEST NO. 38:

With respect to page 19, line 9 of Ms. Dismukes' testimony, please define the term "relatively new acquisitions" and state whether Ms. Dismukes performed any studies that show that "relatively new acquisitions" may benefit disproportionately from the corporate functions that are provided by AWWSC. If so, please provide all such studies.

RESPONSE:

DISCOVERY REQUEST NO. 39:

With respect to Appendix 1 – Dismukes Qualifications page 4, line 28, Ms. Dismukes refers to “the Massachusetts Formula for cost allocations” in her qualifications. Please identify the allocation factors contained in the Massachusetts Formula and for each allocation factor identified in the Massachusetts Formula, explain whether Ms. Dismukes believes that the allocation factor is largely “size based” and explain how the factor recognizes the benefits received by each affiliate in the allocation formula.

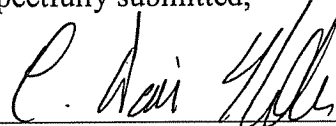
RESPONSE:

DISCOVERY REQUEST NO. 40:

Please state whether the Massachusetts Formula and the Modified Massachusetts Formula have been used and accepted to allocate costs between regulated and non regulated affiliates by various regulatory authorities and whether Ms. Dismukes has ever recommended use of Massachusetts formula or used the formula in any analysis of the appropriateness of allocations. If so, please provide the name of the regulatory commission, state, rate case number and a copy of all relevant testimony, exhibits and orders related to its use.

RESPONSE:

Respectfully submitted,



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*Counsel for Petitioner
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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 14th day of January, 2011, upon the following:

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