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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 Consumer Advocate and Protection Division. 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*)
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*)
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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*)

**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 CONSUMER ADVOCATE AND PROTECTION DIVISION OF
THE ATTORNEY GENERAL FOR THE STATE OF TENNESSEE**

Petitioner Tennessee American Water Company ("Petitioner" or "TAWC") serves this second set of discovery requests to the Consumer Advocate and Protection Division of the Attorney General for the State of Tennessee ("CAPD"), and asks that the CAPD provide responses to each request separately, fully, and in writing. The CAPD is also called upon to produce all documents and evidence requested herein. Furthermore, the CAPD 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 has 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:

Produce a copy of all CAPD witness work papers and exhibits in their native format with any formulas intact.

RESPONSE:

DISCOVERY REQUEST NO. 2:

With respect to page 24, line 19 of Terry Buckner's direct testimony, please explain what Terry Buckner means by the "correctness" of the allocation method between AWWSC and TAWC.

RESPONSE:

DISCOVERY REQUEST NO. 3:

With respect to page 24, line 20 of Terry Buckner's direct testimony, please explain what Mr. Buckner means by the "regulatory correctness" of the total amount generated by AWWASC before it is allocated.

RESPONSE:

DISCOVERY REQUEST NO. 4:

With respect to page 25, line 3 of Terry Buckner's direct testimony, please list the "other recent dockets" involving Tennessee utilities to which Mr. Buckner refers.

RESPONSE:

DISCOVERY REQUEST NO. 5:

With respect to page 25, line 3 of Terry Buckner's testimony, please state whether Mr. Buckner believes that all Tennessee utilities should use the same approach or cost allocation methodology for allocating indirect costs. If so, please explain why. If not, please explain why not.

RESPONSE:

DISCOVERY REQUEST NO. 6:

With respect to page 27, line 3 of Terry Buckner's testimony, please provide the reference or calculation that supports Mr. Buckner's statement that the Analysis ends up with "over 70%" of the costs subject to allocation being allocated to customers.

RESPONSE:

DISCOVERY REQUEST NO. 7:

With respect to page 27, line 5 of Terry Buckner's testimony, please state whether it is Mr. Buckner's opinion that a single factor allocation method (e.g., number of customers) should never be used as a general allocator for allocating indirect costs. Please explain why or why not.

RESPONSE:

DISCOVERY REQUEST NO. 8:

Please state all facts that support the qualifications of each CAPD witness to testify as to the following topics: Service Company Fees, Cost of Service, Weather Normalization, Revenue Requirement, Taxes, Test Period, Cost of Equity and Capital Structure.

RESPONSE:

DISCOVERY REQUEST NO. 9:

With respect to page 30, line 19 of Terry Buckner's testimony, please explain why Mr. Buckner believes an allocation factor consisting of an equal weighting of Plant in Service, Direct Operations and Maintenance Expense and Number of Customers is the appropriate method for TAWC to allocate indirect costs.

RESPONSE:

DISCOVERY REQUEST NO. 10:

With respect to page 30, line 19 of Terry Buckner's testimony, please state whether Mr. Buckner considered any other cost allocation factors for allocating TAWC's indirect costs. If no, explain why not.

RESPONSE:

DISCOVERY REQUEST NO. 11:

With respect to page 31, line 3 of Terry Buckner's testimony, please provide the "composite allocation factor" used by Chattanooga Gas Company for "many of the services" provided by its service company and identify: (a) the services allocated using the composite allocation factor; (b) the other services that are not allocated using the composite allocation factor referred to by Mr. Buckner; and (c) the allocation factors used to allocate such costs.

RESPONSE:

DISCOVERY REQUEST NO. 12:

Please state whether the CAPD believes that IRS regulations require timing differences between book and tax depreciation to be normalized for rate recovery.

RESPONSE:

DISCOVERY REQUEST NO. 13:

With respect to Terry Buckner's testimony, please state whether the CAPD considered any over/under capex spending due to timing in arriving at their determination of the attrition year utility plant balances embedded in the CAPD rate base calculation.

RESPONSE:

DISCOVERY REQUEST NO. 14:

Please explain in detail the CAPD's understanding of SFAS 109 accounting for income taxes and state whether the SFAS 109 accounting for income taxes is required under U. S. GAAP accounting guidelines.

RESPONSE:

DISCOVERY REQUEST NO. 15:

Please explain in detail the purpose of rate base in the rate setting process.

RESPONSE:

DISCOVERY REQUEST NO. 16:

Please state whether the CAPD believes that TAWC's books and records are required to be maintained in compliance with U. S. GAAP and explain your answer.

RESPONSE:

DISCOVERY REQUEST NO. 17:

Please state whether the CAPD believes that SFAS 109 requires the gross amount of ADITs related to book/tax timing differences to be reflected on the balance sheet as temporarily contributed capital and/or as regulatory assets to be covered in future rates of a utility and explain your answer.

RESPONSE:

DISCOVERY REQUEST NO. 18:

With respect to Terry Buckner's testimony, in the CAPD's recommendation regarding the rate base reduction for ADITs related to book tax timing differences, please explain whether the CAPD reduced the Company's per book balance sheet ADITs (gross ADITs) by the regulatory assets related to book/tax timing differences?

RESPONSE:

DISCOVERY REQUEST NO. 19:

With respect to Terry Buckner's testimony, please state whether the CAPD's recommendation regarding ADITs recognizes any future recovery of book/tax timing differences as they reverse.

RESPONSE:

DISCOVERY REQUEST NO. 20:

Is it the position of the CAPD that Mr. Buckner's recommendation to not net the regulatory asset for book-tax depreciation timing differences (the turn around once the tax life expires) is an IRS normalization violation? If the CAPD contends this is not an IRS normalization violation, please explain in detail why not.

RESPONSE:

DISCOVERY REQUEST NO. 21:

Please provide a reconciliation of the total capital of TAWC on which the CAPD is basing its cost of service calculation in this case to the CAPD rate base, with detailed explanations for each item of the variance.

RESPONSE:

DISCOVERY REQUEST NO. 22:

Please provide a detailed reconciliation of the CAPD's recommended ADITs in this case to the ADITs utilized in the Commission Order in docket number 08-00039, with a detailed explanation of each element of the ADITs that decreased in this case, including any financial literature, accounting principles, FASB pronouncements and regulatory commission orders that support the CAPD's approach or were referred to or relied upon in this case.

RESPONSE:

DISCOVERY REQUEST NO. 23:

Please state whether the CAPD agrees that any change in the allocation method of AWWSC costs would add costs to some AWWC subsidiaries and lower the cost to other subsidiaries and explain your answer.

RESPONSE:

DISCOVERY REQUEST NO. 24:

With respect to Terry Buckner's testimony, please provide any studies and/or analysis that Mr. Buckner has performed to determine that his allocation factors shown on page 21 of his work papers represent the cost causative drivers for each function of AWWSC. Also provide any studies or analysis performed by Mr. Buckner that demonstrate those allocation factors are more appropriate than customer allocations.

RESPONSE:

DISCOVERY REQUEST NO. 25:

With respect to Terry Buckner's testimony, please provide any studies or analysis that Mr. Buckner performed to determine which other regulated subsidiaries of AWW should pay more for AWWSC costs as the result of Mr. Buckner's proposed allocation formulas shown on page 21 of the work papers, and explain why this result is appropriate.

RESPONSE:

DISCOVERY REQUEST NO. 26:

With respect to Terry Buckner's testimony, please provide any studies or analysis on which the CAPD developed, referred to or relied upon to support their position that plant in service is a cost causative driver for the HR, call center, treasury, information technology, accounts payable or payroll functions provided by AWWSC.

RESPONSE:

DISCOVERY REQUEST NO. 27:

Please provide any studies or analysis that the CAPD developed, referred to, or relied upon to support its position that O&M expenses (which include power, chemicals, waste disposal, insurance and customer accounting expenses) at the regulated subsidiary are a cost causative driver for the HR, call center, treasury, information technology, accounts payable or payroll functions provided by AWWSC.

RESPONSE:

DISCOVERY REQUEST NO. 28:

With respect to Terry Buckner's testimony, provide any studies and/or analysis to support the conclusion that the average of plant in service, customers and operation & maintenance expense are more accurate cost causative drivers for AWWSC costs rather than customers, employees, number of invoices, revenues, etc.

RESPONSE:

DISCOVERY REQUEST NO. 29:

With respect to Terry Buckner's testimony, please state whether the CAPD agrees or disagrees that developing a cost causative driver for each of the various functions of AWWSC would be more accurate than the three element allocation used in work paper 21 and explain your answer.

RESPONSE:

DISCOVERY REQUEST NO. 30:

With respect to Terry Buckner's testimony, please provide any studies and/or analysis performed by the CAPD that addresses the additional administrative costs and capital costs associated with multifaceted formulas for each function.

RESPONSE:

DISCOVERY REQUEST NO. 31:

With respect to Terry Buckner's testimony, if results of a detailed study to determine the cost causative factors of each function of AWWSC resulted in a minimal difference from the customer allocations, please state whether the CAPD would agree or disagree that the additional administrative and capital costs to develop and maintain the accounting system required to process the data in that manner for the multifaceted formulas should be recovered in rates.

RESPONSE:

DISCOVERY REQUEST NO. 32:

Produce a copy of all documents, information and material that Chris Klein relied upon or referenced in arriving at his opinions and conclusions.

RESPONSE:

DISCOVERY REQUEST NO. 33:

Please provide all documents that support the statement on page 11 of Mr. Novak's testimony that all TAWC rate cases from 1991-2005 were resolved by "Black Box" settlements?

RESPONSE:

DISCOVERY REQUEST NO. 34:

Please provide Mr. Novak's explanation of the purpose of a weather normalization adjustment ("WNA") in setting the rates of a utility.

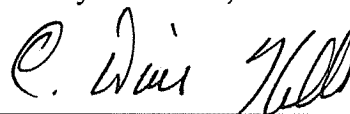
RESPONSE:

DISCOVERY REQUEST NO. 35:

Please state whether the CAPD contends that a WNA is meant to determine the exact level of sales during the attrition year.

RESPONSE:

Respectfully submitted,

A handwritten signature in black ink, appearing to read "C. David Killion", written over a horizontal line.

R. Dale Grimes (#006332)

E. Steele Clayton (#017298)

C. David Killion (#026412)

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Counsel for Petitioner

Tennessee American Water Company

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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