

January 26, 2011

**Via E-Mail and USPS**

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

filed electronically in docket office on 01/26/11

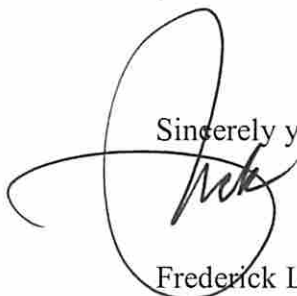
**Re: Petition of Tennessee American Water Company  
Docket No. 10-00189**

Dear Chairman Freeman:

Enclosed please find an original and five (5) copies of the City of Chattanooga's Letter to Tennessee American Water Company Memorializing the Agreements Reached at the January 24, 2011 Status Conference. I would appreciate you stamping the extra copy of the document as "filed," and returning it to me in the enclosed, self-addressed, stamped envelope.

With best regards, I am

Sincerely yours,



Frederick L. Hitchcock

FLH:pgh  
Enclosures

Chairman Mary Freeman  
c/o Ms. Sharla Dillon  
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cc: Mr. J. Richard Collier (w/encl.)  
Mr. R. Dale Grimes (w/encl.)  
Mr. Robert E. Cooper, Jr., Attorney General (w/encl.)  
Mr. Vance L. Broemel (w/encl.)  
Mr. Ryan L. McGehee  
Ms. Mary L. White  
Mr. David C. Higney (w/encl.)  
Mr. Henry M. Walker (w/encl.)  
Mr. Michael A. McMahan (w/enc.)  
Ms. Valerie L. Malueg  
Mr. Mark Brooks (w/encl.)  
Mr. Scott H. Strauss (w/encl.)  
Ms. Katharine M. Mapes  
Mr. Donald L. Scholes (w/encl.)  
Ms. Kelly Cashman-Grams (via email)  
Ms. Monica Smith-Ashford (via email)  
Ms. Shilina Chatterjee Brown (via email)

January 26, 2011

Mr. E. Steele Clayton, IV  
Bass Berry Sims, PLC  
150 Third Avenue South  
Suite 2800  
Nashville, TN 37201

**Re: Petition of Tennessee American Water Company  
Docket No. 10-00189**

Dear Steele:

This letter sets forth our understanding of the resolution of the issues that we discussed yesterday concerning the City's Responses to TAWC's Second Discovery Requests and TAWC's Responses to the City's Second Discovery Requests. Please let me know if I have misunderstood any of our agreements concerning these topics, so that we may attempt to resolve any disagreements before we file letters memorializing these matters with the Authority.

We have agreed that our respective agreements to make further inquiries and/or to supplement responses are made without waiving any of the objections stated in our respective responses.

**CITY'S RESPONSES TO TAWC'S SECOND DISCOVERY REQUEST**

We are collecting and organizing the material to be included in the attachments identified in the City's Responses, and will forward them electronically and on CD-ROM. We recognize that TAWC has not yet received these attachments. Should you believe any of the attachments to be incomplete or otherwise objectionable, please call me. If we are not able to resolve the issue, we understand that TAWC reserves the right to object and move to compel with respect to such attachments or related requests.

Following the inquiries described in this letter, we will promptly produce any supplemental information or confirm that no further responsive information exists.

**Requests Nos. 4 and 5.** We agreed to inquire of Ms. Dismukes whether she has copies of any additional information she reviewed or analysis she performed on the specific subjects listed in requests Nos. 4 and 5 beyond the workpapers and other materials included in the City's Third Supplemental Response to the First Discovery Requests.

**Request No. 14.** You advised that different states use different versions of the NARUC system of accounts and that you did not have this information for the states of Arkansas, Florida, and South Carolina. We agreed to inquire whether Ms. Dismukes has this information.

**Request No. 21.** We noted that our response was based upon our belief that the portions of the testimony referenced in the request focused upon discussions of allocations for regulated companies, not for non-regulated companies. You pointed out that the second testimony excerpt referenced in the request makes a reference to non-regulated companies. You disagreed with our conclusion. As a compromise, I will consult with Ms. Dismukes and will respond further to the request and will provide any studies or analyses referred to or relied upon to support her position or confirm that there are none.

**Request No. 22.** We advised you that City Fire Department officials have indicated that they have had no communications with TAWC concerning fire hydrants, and Mr. Watson confirmed this. We also advised that Public Works is looking for documents relating to communications with TAWC on other subjects, and Mr. Watson identified sewer relocations on M.L. King as one example. The City will continue its efforts to identify any relevant documents and will supplement its Response with any responsive documents.

**Request No. 23.** You noted that the request asked for information concerning the source and manner of production and treatment of water by the comparative water utilities studied by Ms. Dismukes. I will consult with Ms. Dismukes to determine whether she has that information.

**Request No. 24.** I will inquire whether Ms. Dismukes knows which if any of the comparative utilities identified in KHD-15 and KHD-16 have affiliates. For those affiliates known to her, we will provide the information requested to the extent Ms. Dismukes knows the answers. If Ms. Dismukes does not have this knowledge or information, we will so state.

**Request No. 25.** I will inquire whether Ms. Dismukes has prepared, referred to, or relied upon any comparative studies of the seasonal demand differentials of electric and/or gas utilities compared to water utilities. We will provide copies of any studies or state that there are none.

**Request No. 28.** Although Ms. Dismukes focused on administrative and general expenses, I will inquire whether Ms. Dismukes did a study that compared the overall rates of the comparative utility group to TAWC.

**Request No. 34.** I agreed that I will inquire whether Ms. Dismukes has completed any analysis other than that referred to at pages 49 through 55 of her testimony concerning business development costs charged to TAWC.

**Request No. 35.** I agreed to inquire (a) whether she contends in this case that allocations of time and expenses made during the service company accounting process should be made at the account level or the transaction level and (b) about Ms. Dismukes' understanding of how AWWSC overhead costs are allocated at the transaction or account level. We will supplement the response to state her response.

**Request No. 38.** I agreed to inquire whether Ms. Dismukes has any studies concerning disproportionate benefits to "relatively new acquisitions."

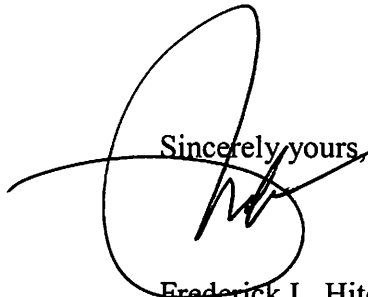
**TAWC RESPONSES TO CITY'S SECOND DISCOVERY REQUESTS**

**Request No. 26.** TAWC confirmed that Mr. Doherty and Mr. Joyner were the only two officials of Huron Consulting that were involved in discussion with TAWC concerning the management audit.

**Request No. 27.** We understand that the only documents responsive to this request that have been withheld are those listed on the TAWC Privilege Log that referenced Huron Consulting.

Please give me a call so that we can discuss any aspect of this letter as to which we may have disagreement.

With best regards, I am

Sincerely yours,  
  
Frederick L. Hitchcock

FLH:pgh

cc: Mr. Mike McMahan  
Mr. Dale Grimes